

## Leveraged Lion Capital Equity Research – 9/4/19

## Equity Markets

Country	Market/Index	% Change	Number
US	S&P 500	(0.69)	2,906
US	DOW JONES	(1.08)	26,118
US	RUSSELL 2000	(1.51)	1,472
US	NASDAQ	(1.11)	7,874
UK	STOXX Europe 50	0.00	3,420
JPN	Nikkei 225	0.02	20,625
GER	DAX	-(0.36)	11,910

## Rates Markets

Country	Rate	% Change	Number
US	UST 2-Yr	(0.012)	1,450
US	UST 5-Yr	(0.011)	1,320
US	UST 10-Yr	(0.007)	1,450
US	UST 30-Yr	(0.003)	1,940
UK	UK 10-Yr	(0.009)	0,396
JPN	JGB 10-Yr	(0.140)	(0.279)
GER	Bund 10-Yr	0.011	(0.704)

## Commodities Markets

Commodity	% Change	Price
Gold	(0.770)	1,528.00
Silver	(0.510)	18.39
US Crude Oil	(2.840)	55.06
US Brent	(3.130)	55.19
Copper	(0.770)	5,678.00
Natural Gas	(0.520)	2.29
Corn	(1.540)	3.68
Wheat	(0.005)	4.60
Soybean	0.007	9.02
Coffee	(0.050)	0.93
Sugar	(0.620)	11.14

## FX Markets

Country	Currency	% Change	Number
US	USD/CAD	(0.03)	1.33
US	USD/MXN	(0.04)	19.90
JPN	USD/JPY	(0.08)	105.88
UK	EUR/USD	(0.01)	1.09
UK	GBP/USD	0.02	1.20
AUS	AUD/USD	(0.01)	0.67

## Overall Sector Performance

Sector	% Change	Market Cap (T)
Comm. Services	(1.03)	4.52
Consumer Discr.	(.37)	5.24
Consumer Staples	.51	3.94
Energy	(.55)	2.96
Financials	(1.11)	6.74
Health Care	(.63)	5.44
Industrials	(1.42)	3.97
IT	(1.26)	7.87
Materials	(.88)	1.77
Real Estate	1.31	1.39
Utilities	1.75	1.46

## Oil

## Supply:

- OPEC:
  - 24-nation coalition agreed to reduce output by 1.2 mm barrels a day starting in 2019
  - Total output rose by 80,000 barrels last month
  - Saudi Arabia currently leading
- Iran production is decreasing sharply due to sanctions
  - ~80% decrease in crude oil, but fuel oil & petroleum gas have remained stable

## Demand:

- US – China Trade War
- 70% of PMI ratings are below 50%

## Long term:

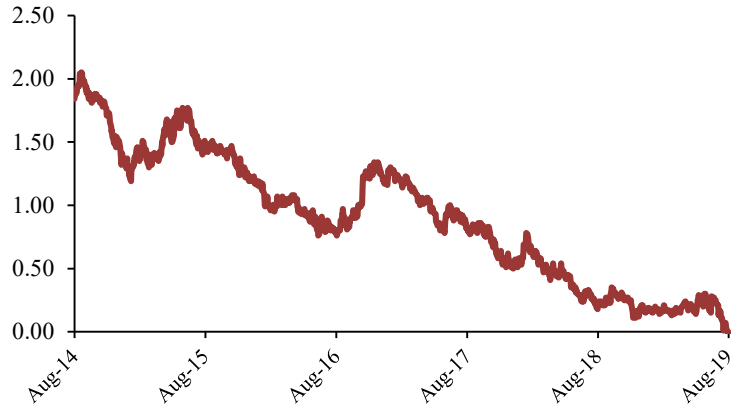
- IMO 2020: regulation that requires shipper to use low sulfur diesel from 3.5% to .5%
- Production in U.S. is expected to increase to 13 mm from 12 mm

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### Inverted Yield Curve

- An inverted yield curve is when shorter-term bonds deliver a higher yield than longer-term bonds.
- Ongoing concerns with US-China trade war, global slowdown, and overall sentiment in the market.
- Due to uncertainty in the market many investors are investing in bonds
  - Bonds seen as a safer investment.
- When investors throw money into bonds it pushes the yields lower ([due inverse relationship between price and yield](#)).
- Currently the 10-Yr US Treasury is 1.48% which is low compared to 2.8% a year ago.

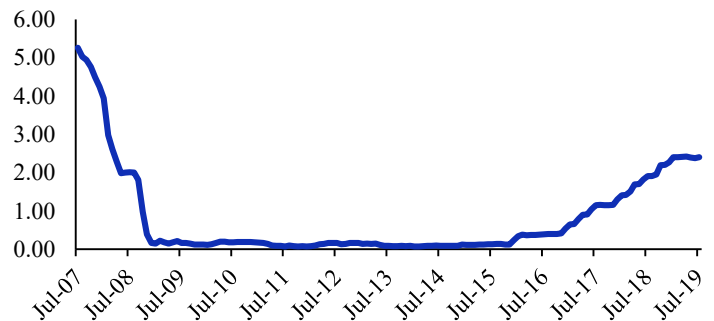
### Yield Curve



### FED Rate Cut Commentary

- Federal Reserve cut interest rates in July by quarter percentage point (.25) to set a range of **2%-2.25%**
- Powell said that the cuts were a defense act aimed to support the economy during **low inflation, weakening global growth and trade tensions**
  - Cutting rates is supposed to make money cheaper to borrow, which can be invested in companies
  - Markets have been quite volatile which means companies will tend to hold onto cash in case of downturn
  - Initial market response was positive with equities rallying

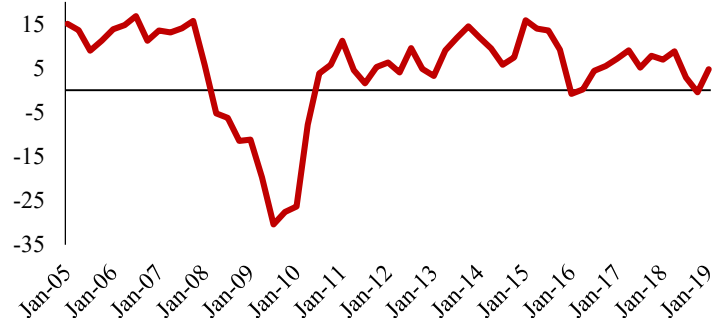
### FED Historic Rates



### U.S. Real Estate Market

- Foreign investors bought more U.S. commercial real estate for the first time since 2013
  - People think with the U.S. real estate pricing being so high that we may be close to the top of the market
  - During a recession, assets like buildings are harder to sell
  - Strong dollar means buying U.S. property is more expensive

### Commercial Real Estate Prices for U.S.



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## Trade War: Timeline

**July 6, 2018** – 25% tariff on 818 imported Chinese products

**July 10, 2018** – The United States unveils plans for **10% tariffs on \$200 billion** of Chinese imports.

**August 2, 2018** – Trump orders to increase the tariffs on \$200 billion of Chinese imports to **25%** (from the originally proposed 10%)

**August 7, 2018** – China retaliates with **25% duties on \$16 billion of U.S. goods.**

**September 24, 2018** – Trump administration says the rate will increase to 25% on Jan. 1, 2019. China answers with duties of its own on \$60 billion of U.S. goods.

**December 3, 2018** - The United States and China agree on a 90-day halt to new tariffs.

**February 24, 2019** - Trump extends the March 1 deadline, leaving the tariffs on \$200 billion of Chinese goods at 10%

**May 5, 2019** – Trump tweets that he intends to raise the tariffs rate on \$200 bn of Chinese goods to 25%

**June 4, 2019** – Trump threatened to impose **5% tariff on all imports from Mexico**

**June 18, 2019** – Trump and Xi speak and agree to talk at end of June

**June 29, 2019** - Trump agrees to no new tariffs and an easing of restrictions on Chinese telecom powerhouse Huawei Technologies Co Ltd. China agrees to unspecified new purchases of U.S. farm products.

**August 1, 2019** - Trump announces **10% tariffs on \$300 billion worth of Chinese imports**, in addition to the 25% already levied on \$250 billion worth of Chinese goods

**August 5, 2019** - China’s Commerce Ministry responds to the latest U.S. tariffs by halting purchases of U.S. agricultural products. and the Chinese

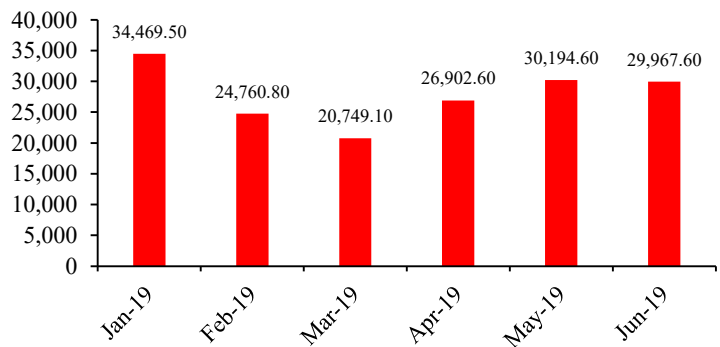
**September 1, 2019** - **\$300 bn annual goods imports** from China will be hit with a **15% tariff**

## Trade War

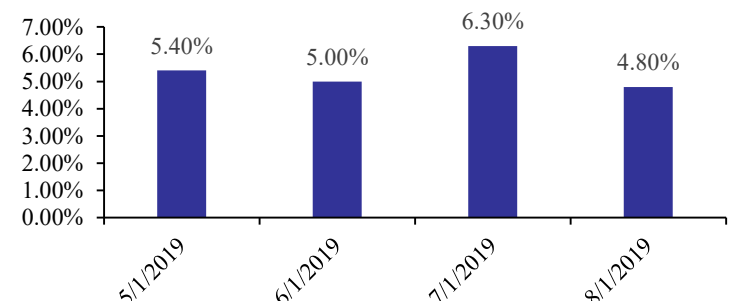
- Escalating trade war between two countries has ripped through the global economy
- Days after new tariffs went into effect on both sides of the Pacific, a closely watched index of **American manufacturing activity fell to 49.1 from 51.2**
  - Yesterday Trump tweeted that China will “crumble” if they did not agree to trade terms
  - Hurting U.S. small business, export-oriented factories in Europe
  - FED estimates that the tariffs will cost the average American ~\$1,245 a year,
  - Bankruptcies in the farm belt hit their highest level in a decade
- Global currencies have become front-and-center issue in U.S.-China trade war
  - Yuan slid 4% versus dollar in August
  - China’s industrial production increased 4.8% in July 2019, the weakest gain since 2002.

**With re-elections coming up, what is your outlook for the trade war?**

## U.S. Trade in Goods with China



## Chinese Production Levels



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**Economic Calendar**

Date	Time	Report	Consensus
Thursday, September 5, 2019	8:30 am	EIA Inventory Data, Weekly Jobless Claims	213,000
Friday, September 6, 2019	8:30 am	Unemployment Rate, Average Workweek Hours, Nonfarm payrolls	3.7%, 34.3, 170,000
Saturday, September 7, 2019	-	-	-
Sunday, September 8, 2019	-	-	-
Monday, September 9, 2019	3:00 pm	Consumer Credit	-

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## Earnings Report

Company Name	Sector	Maturity	LIBOR Spread	Facility Rating	Earnings Report Date	Q
YUM Brands, Inc	Consumer	4/03/2025	L + 175	Ba1/BBB-	8-Oct-19	Q3
Winn-Dixie	Consumer	11/08/2023	L + 350	B2/BB	19-Oct-19	Q4
Chefs' Warehouse	Consumer	6/22/2022	L + 400	B2/B+	4-Nov-19	Q3
The Container Store	Consumer	9/14/2023	L + 500	B2/B	6-Nov-19	Q2
California Resources	Energy	12/31/2022	L + 475	B2/B	6-Nov-19	Q3
Equitrans	Energy	1/31/2024	L + 450	Ba3/BB+	29-Oct-19	Q3
Cryolife	Healthcare	12/01/2024	L + 325	B2/B	29-Oct-19	Q3
Indivior	Healthcare	12/18/2022	L + 450	B3/B+	31-Oct-19	Q3
Lantheus	Healthcare	6/30/2022	L + 375	B2/BB	28-Oct-19	Q3
Travelport	Industrials	3/16/2025	L + 250	B1/B+	1-Nov-19	Q3
Transdigm	Industrials	6/09/2023	L + 250	Ba3/B+	14-Nov-19	Q4
CVGI	Industrials	4/12/2023	L + 600	B2/B	4-Nov-19	Q3
Ducommun Incorporated	Industrials	11/21/2025	L + 400	B2/B+	30-Oct-19	Q3
Lattice Semiconductor	IT	3/10/2021	L + 500	B2/B	25-Oct-19	Q3
MTS Systems Corp	IT	7/05/2023	L + 325	B1/BB-	11-Nov-19	Q4
Plantronics	IT	5/31/2023	5.50%	B1/BB-	6-Nov-19	Q2
U.S. Silica	Materials	5/01/2025	L + 400	B1/B+	30-Oct-19	Q3
Global Brass & Copper Inc	Materials	5/29/2025	L + 250	B1/BB	2-Nov-19	Q3
Boise Cascade	Materials	3/30/2026	L + 213	Ba1/BB-	23-Oct-19	Q3
Sprint	Media & Comm.	2/02/2024	L + 250	Ba2/BB-	5-Nov-19	Q2
CenturyLink	Media & Comm.	1/31/2025	L + 275	Ba3/BBB-	11-Nov-19	Q3
Beasley Broadcast	Media & Comm.	11/01/2023	L + 400	B1/BB-	1-Nov-19	Q3
Hyperion Insurance Group	REGAL-FIG	12/20/2024	L + 350	B2/B	16-Sep-19	Q3
Walker & Dunlop	REGAL-FIG	11/07/2025	L + 225	Ba2/BBB-	6-Nov-19	Q3
Lindblad Expeditions	REGAL-FIG	3/27/2025	L + 350	B1/BB	11-Nov-19	Q3
MGM Growth Properties	REGAL-FIG	6/14/2023	L + 275	Ba3/BB+	11-Nov-19	Q3
Iron Mountain Inc.	REGAL-FIG	1/02/2026	L + 175	Ba3/BB	31-Oct-19	Q3