



# Leveraged Lion Capital Equity Research Report

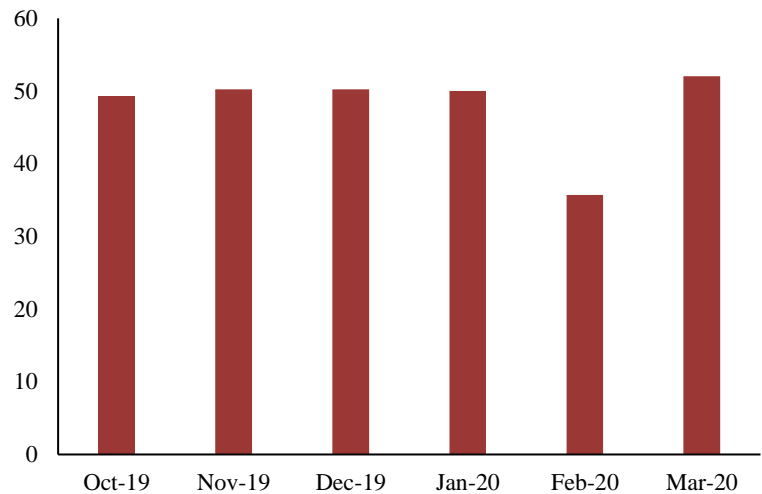
4.1.20

# Leveraged Lion Capital Equity Research – 4/1/20

## Quarter Re-balancing (?)

- U.S. markets rebounded over 10% from their monthly lows after the Fed's stimulus announcement, the \$2 trillion bill getting approved, and perhaps funds executing their quarterly rebalance
- Mutual and pension funds, among other funds, buy and sell assets to meet their target allocations
- Investors believe that these funds will rebalance by the end of quarters or months, which is partly true
- If investors expect rebalancing to happen by the end of the month, then they will try to benefit from this, so this belief might be what drives equity prices to soar
- JPM estimated that 60-40 (60% equities and 40% bonds) mutual funds would need to buy around \$300 billion to meet their target allocation
- It is also estimated that US defined benefit plans (pension funds) would need to purchase \$400 billion to rebalance
- Other more special sovereign pension funds would need to buy another \$150 billion in equities to meet their 50-70% target equity allocations
- A \$15 billion pension fund in California is deferring its quarterly balancing, and "temporarily modified its asset allocation and rebalancing policies"
- This is likely to be a trend not only in pension funds but in funds in general given the unusual market conditions
- Leo Acheson (Morningstar) said that portfolio managers may have not been waiting for quarter-end to make adjustments
- The fed buying \$75 billion of treasuries a day could have aided rebalancing efforts given that this provides liquidity

## China's March Manufacturing PMI



## China

- China reported that their Manufacturing PMI rose to 52.0 in March- beating the 44.8 expected and up from February's 35.7
- Non-manufacturing PMI was 52.3 vs 42.0 expected, and up from February's 29.6
- These results were highly unexpected, but remember these are MoM measures; 50 or above means expansionary
- Production expanded in March, but new orders, export orders, and employment all contracted
- This expansionary measure happened despite rising overdue credit card debt (+50% YoY Feb.), 8 million + new unemployed in Feb, and industrial profits down ~40%
- As of March 28<sup>th</sup>, work rate rose to 98.6% for larger industrial enterprises, and 89% of workers returned, according to their Ministry of Industry and IT

## Leveraged Lion Capital Equity Research – 4/1/20

### Roller Coaster

- From mid-February to mid-March, equity markets fell by around 34%
- Then last week, the S&P rose by 10.3%, and it had its biggest 3 day gain (17.5%) from Tuesday through Thursday
- Out of 21 trading days between February 27 and March 27, the S&P 500 rose or fell by 2%+ in 18 of the days
- Last week we saw 3.3 million in jobless claims, breaking the previous record of 695k, and beating most estimates

### U.S. Q2 GDP Estimates

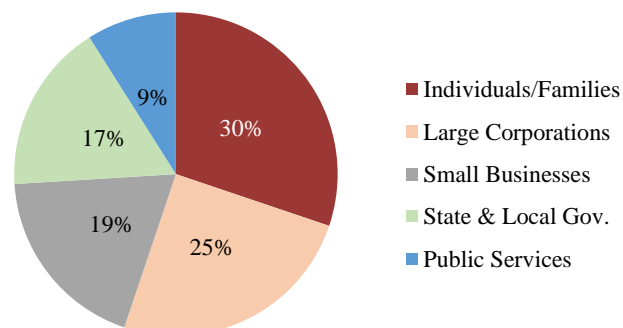
Bloomberg	-9.0%
UBS	-9.5%
Pantheon	-10.0%
Strategas	-10.0%
Cornerstone Macro	-11.0%
Oxford Economics	-11.9%
Citigroup	-12.0%
Credit Suisse	-12.0%
BAML	-12.0%
Deutsche Bank	-12.9%
HIS Markit	-13.0%
Wells Fargo	-14.7%
TSLombard	-17.7%
Evercore ISI	-20.0%
JPMorgan	-25.0%
Morgan Stanley	-30.1%
Goldman Sachs	-34.0%
Capital Economics	-40.0%

### Indices

Index	3/20/2020	1 Week	YTD
S&P 500	2,541	10.3	(21.3)
DJIA	21,637	12.8	(24.2)
NASDAQ	7,502	9.1	(16.4)
MSCI EAFE	1,549	11.2	(23.9)
US 10-yr Yield	0.69%	-0.3%	-1.2%
Oil (\$/bbl)	21.58	(4.6)	(64.7)
Gold	1,623.5	3.67	4.41

### \$2T CARES Act

- Largest fiscal stimulus in history- twice as large as the 2009 stimulus act
- 25% will go to large corporations, where the final distribution will be determined by the Secretary of the Treasury
- However, \$58 billion has been confirmed for the airline industry
- Of the \$340 billion going into state and local governments, \$274 billion will be to respond to the Coronavirus
- Of the \$179.5 billion going into public and health services, \$100 will be to address the COVID-19 outbreak





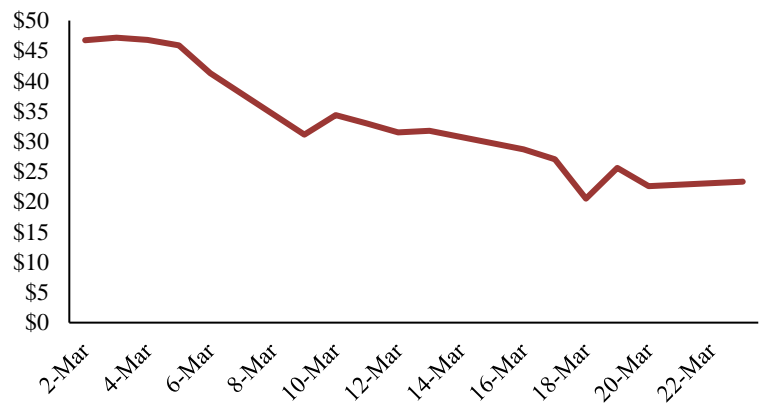
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## Oil &amp; CMBS

## Oil

- The current situation has created a supply/demand shock for oil which would cause over \$130 billion worth of energy projects to be deferred
- The industry is suffering at \$30 oil, so companies will announce capex cuts in the near future
- We are currently seeing the largest oil surplus ever, supply currently beating demand by around 6 million bpd
- Estimates show that oil demand could fall by 10 million bpd, its largest demand contraction in history
- If this rate continues, we would have an overall total of 2 billion barrels stored
- It is estimated that 76% of the world's oil storage capacity has been already met, with 7.2 billion barrels of crude oil and products stored
- Fitch cut it's WTI crude price assumption to average \$38 (base) through 2020, and in a distressed scenario to average \$33 p.b
- India's fuel demand fell by 11% over the first two weeks of March, due to Covid 19
- The U.S. has warned oil shippers, insurers and port authorities that storing Iranian crude will get sanctioned, as part of the plan to eliminate Iran's oil exports
- The share of OPEC in Chinese imports fell last year to its lowest since 2005 due to the US sanctions to Iran and Venezuela
- According to the US Energy Secretary Dan Brouillette, the US and Saudi Arabia have been discussing the idea of setting up an oil accord
- Do not forget that the virus struck at a time when markets were already worried about an oversupply

## WTI Crude- March



## CMBS Fall

- In March 2017 many investors were extremely bearish about retail properties and decided to bet against it to profit
- Investors could bet against retail by shorting the CMBX, which is an index that tracks the performance of Commercial Mortgage-Backed securities
- More specifically, they shorted the CMBX Series 6 (BBB- or BB), which had a 40% exposure to retail properties
- This bet was a failure- the index kept performing well despite store closures in the U.S. being on the rise significantly, even hitting their record high in 2019
- Hedge fund Alder Hill and Carl Icahn were shorting the CMBX, against Putnam Investments and Alliance Bernstein who were long CMBX
- Recently the BBB- tranche of index traded down from around 94.0 to 73.25, after it funds started liquidating as trade was going against them- which means that after a long wait, the short positions are getting a massive payoff

## Leveraged Lion Capital Equity Research – 4/1/20

**Economic Calendar (Week of 3/23/20)**

Date	Event	Time	Consensus
Monday, March 23, 2020	Chicago Fed National Activity Index	12:30 pm	-0.4
Tuesday, March 24, 2020	Euro Area Services PMI	4:00 am	39.0
Wednesday, March 25, 2020	U.S. Durable Good Orders (MoM)(Feb.)	7:30 am	-0.7%
Thursday, March 26, 2020	Weekly Jobless Claims	8:30 am	<b>1,000,000</b>
Friday, March 27, 2020	Michigan Consumer Sentiment	9:00 am	90.0

**Economic Calendar (Week of 3/16/20)**

Date	Event	Time	Consensus	Result
Monday, March 16, 2020	Empire State Manufacturing Index	7:30 am	4.4	-21.5
Tuesday, March 17, 2020	Feb. Retail Sales (MoM)	7:30 am	0.2%	-0.5%
Wednesday, March 18, 2020	Feb. Housing Starts (MoM)	7:30 am	-4.6%	-1.5%
Thursday, March 19, 2020	Weekly Jobless Claims	8:30 am	218,000	281,000
Friday, March 20, 2020	Existing Home Sales (MoM)	9:00 am	0.8%	6.5%

**Economic Calendar (Week of 3/2/20)**

Date	Event	Time	Consensus	Result
Monday, March 2, 2020	ISM Manufacturing PMI	3:00 pm	50.4	50.1
Tuesday, March 3, 2020	Fed Mester & Evans Speech	7:50 pm	-	-
Wednesday, March 4, 2020	MBA 30-yr Mortgage Rate	12:00 pm	3.73%(Prev.)	3.57%
Thursday, March 5, 2020	Weekly Jobless Claims	8:30 am	215,000	216,000
Friday, March 6, 2020	U.S. Imports Report	1:30 pm	\$257.6B	\$253.9B

**Economic Calendar (Week of 2/24/20)**

Date	Event	Time	Consensus	Result
Monday, February 24, 2020	Chicago National Activity Index	1:30 pm	-0.92	<b>-0.25</b>
Tuesday, February 25, 2020	CB Consumer Confidence	3:00 pm	132.0	130.7
Wednesday, February 26, 2020	New Home Sales (MoM)(Jan)	3:00 pm	3.5%	<b>7.9%</b>
Thursday, February 27, 2020	Weekly Jobless Claims	8:30 am	211,000	219,000
Friday, February 28, 2020	Personal Spending MoM (Jan)	1:30 pm	0.3%	0.2%

## Leveraged Lion Capital Equity Research – 4/1/20

Leveraged Lion Capital Earnings Calendar

Company	Sector	Previous Earnings Date	Upcoming Earnings Date
<b>Portfolio Holdings</b>			
Winnebago	Consumer & Retail	Friday, December 20, 2019	<b>Wednesday, March 25, 2020</b>
Cryolife	Healthcare	Thursday, February 13, 2020	Thursday, May 14, 2020
US Silica	Materials	Tuesday, February 25, 2020	Tuesday, May 26, 2020
Lattice Semiconductors	Information Technology	Tuesday, February 11, 2020	Tuesday, May 12, 2020
Yum! Brands	Consumer & Retail	Thursday, February 6, 2020	Wednesday, April 29, 2020
Chefs' Warehouse	Consumer & Retail	Wednesday, February 12, 2020	Wednesday, May 13, 2020
Ducommun	Industrials	Thursday, February 20, 2020	Thursday, May 21, 2020
MGM Resorts	REGAL-FIG	Wednesday, February 12, 2020	Wednesday, May 13, 2020
Indivior	Healthcare	Thursday, February 13, 2020	Thursday, May 14, 2020
California Resources	Energy & Utilities	Wednesday, February 26, 2020	Wednesday, May 27, 2020
Virtu Financial	REGAL-FIG	Tuesday, February 11, 2020	Tuesday, May 12, 2020
Equitrans Midstream	Energy & Utilities	Thursday, February 27, 2020	Thursday, May 28, 2020
Par Pacific	Energy & Utilities	Tuesday, February 25, 2020	Tuesday, May 26, 2020
Sprint	Media & Communications	Wednesday, January 29, 2020	Tuesday, May 5, 2020
Walker & Dunlop	REGAL-FIG	Wednesday, February 5, 2020	Wednesday, April 29, 2020
Commercial Vehicle Group	Industrials	Tuesday, March 17, 2020	Monday, June 15, 2020
Realty	REGAL-FIG	Tuesday, February 25, 2020	Tuesday, May 26, 2020
Boise Cascade	Materials	Tuesday, February 25, 2020	Monday, May 25, 2020
Lindblad Expeditions	REGAL-FIG	Tuesday, February 25, 2020	Tuesday, May 26, 2020
CenturyLink	Media & Communications	Wednesday, February 12, 2020	Wednesday, May 13, 2020
GameStop	Consumer & Retail	Tuesday, December 10, 2019	<b>Thursday, March 26, 2020</b>
Tutor Perini	Industrials	Wednesday, February 26, 2020	Wednesday, May 27, 2020
Hexion	Materials	Tuesday, November 12, 2019	Not Announced
Dell	Information Technology	Thursday, February 27, 2020	Thursday, May 28, 2020
<b>Portfolio Bench</b>			
The Container Store	Consumer & Retail	Wednesday, February 5, 2020	Tuesday, May 12, 2020
JCPenny	Consumer & Retail	Thursday, February 27, 2020	Thursday, May 28, 2020
Navistar International	Industrials	Wednesday, March 4, 2020	Wednesday, June 3, 2020
Assertio Therapeutics	Healthcare	Monday, March 9, 2020	Monday, June 8, 2020
Lannett	Healthcare	Thursday, February 6, 2020	Wednesday, May 6, 2020
Vantage Drilling International	Energy & Utilities	Thursday, November 7, 2019	Not Announced
Casa Systems	Information Technology	Thursday, February 20, 2020	Thursday, May 21, 2020