Industrial Investment Banking Weekly Round-Up

Real-Time Capital Markets Perspectives

Week Ending June 5th, 2020

KeyBanc Capital Markets

Real-Time Capital Markets Perspectives

- This week, attention across the country has been focused on responses to the death of George Floyd while in police custody on May 25th, including peaceful protests in several major U.S. cities, some of which escalated to clashes, looting and destruction
- On Wednesday, the Senate passed a bill to loosen the requirements around the Payment Protection Program, namely extending the loan forgiveness time frame from eight weeks to 24 weeks, extending the deadline to rehire workers to 12/31 to qualify for loan forgiveness, and reducing the portion of funds required to be used towards payroll to 60% from 75%
  - The President is expected to sign the bill into law, and has also indicated he is planning to meet with his senior advisers as soon as this week to discuss policy options for the next coronavirus relief package as the administration prepares for negotiations with Capitol Hill
- The Commerce Department announced that the U.S. trade deficit widened 16.7% sequentially to a seasonally adjusted $49.41 billion in April, representing levels in line with economist estimates
  - The IMF estimates that the U.S. and global economies would shrink 5.9% and 3.0% this year, respectively, and that global trade would shrink 11.0%
- Initial jobless claims fell below 2 million for the first time since the week ended March 14th, with 1.9 million unemployment claims registered last week, representing levels in line with economist estimates
  - Despite these staggering figures, select data also suggests improving conditions, including ADP Research Institute's report indicating that private sector employment decreased by 2.76 million jobs in May, representing meaningfully better figures than analyst estimates
    - Last Friday's report that personal income (including wages, interest and dividends) increased by 10.5% in April reflect an inflow in earnings due to the distribution of federal rescue funds and an increase in unemployment insurance payments

Debt Capital Markets

- Both the Investment Grade and High Yield bond markets have rallied substantially over the past week on enthusiasm for economic reopening and a willingness to overlook 2H20 headwinds around unemployment, potential COVID resurgence, China tensions and election uncertainty
  - Total investment grade issuance is steadily marching toward a record year as of June 30th, with a full six months of issuance remaining
  - The investment grade bond market has been characterized by very large order books, near-zero New Issue Concessions, and rapidly tightening spreads and yields
    - Recent demand appears insatiable and many corporates now can issue at pre-COVID levels
  - The high yield market continues to be exceptionally active, turbo-charged by a string of fund flows that is one of the strongest on record
    - Issuance has steadily progressing from 5-year to 7-10 year tenors, and unsecured offerings are beginning to feature prominently alongside the stream of secured offerings, while use of proceeds is beginning to diversify into refinance and acquisition financing
    - The High Yield spread index has broken through +600 as buyers of paper in secondary markets far outstrips sellers and issuers obtain improving terms and market access on an almost daily basis
- The loan market remains open for investment grade and crossover pro rata issuers, but structures typically have shorter maturities and most come with pricing premiums, while middle market primary loan activity remains quiet as issuers are focusing on obtaining amendment flexibility and bridging liquidity needs
  - The U.S. institutional market continues to favor higher rated issuers and fallen angels well known to the debt markets; and as M&A transactions continue, a second LBO transaction cleared the market
    - Investor analysis continues to focus on adjusting projections for liquidity need to restart businesses in many cases
  - The secondary loan market continues to regain momentum, with retail mutual funds seeing inflows (despite YTD net outflows of $15.0B)
  - The primary US CLO market picked up again last week with deals from four asset managers, but pressure remains on OC and WARF tests due to the volume of downgrades
    - The S&P-LSTA Leveraged Loan 100 Index stands at 92.58 with loan returns for the year falling to -5.71% as of 5/29/2020

Equity Capital Markets

- Despite social unrest throughout the U.S., the equity markets continued to rise this week, including the Dow finishing in the green on Monday through Thursday
  - Equity markets continue to be fueled by confidence that a resurgence in the coronavirus is unlikely despite the easing of lockdown measures, traction of stimulus measures offered by the Fed and Congress, and increasing likelihood of further government relief
- Last week, 26 deals priced raising $14.2 billion in capital over the holiday shortened week, a majority of the transactions (75%) to price were from Healthcare and Technology issuers
  - May 2020 marked the most active month of equity issuance on record with over $70 billion raised for U.S. companies – the surge in volume came as companies looked to raise capital off of recent stock price recoveries with the future economic environment uncertain

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Sources: WSJ, U.S. Commerce Department, Bloomberg, LCD, KeyBanc Capital Markets

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Real-Time Capital Markets Perspectives

Week Ending June 12th, 2020

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Real-Time Capital Markets Perspectives

- Following the death of George Floyd on May 25th, protests across the U.S. continue, prompting many companies to take actions internally to foster inclusion and diversity, as well as make donations to organizations that fight for racial equality
  - Advisors of the White House have recently indicated that President Trump is working with lawmakers to deliver legislation (potentially through an executive order) that addresses issues raised by protesters across the country
- The Federal Reserve indicated this week that it plans to maintain near-zero interest rates over the next few years, emphasizing a need to continue to provide support and stability to the battered U.S. economy
  - Fed officials maintained a cautious tone, projecting that the U.S. economy would contract somewhere between 4% and 10% this year, with unemployment averaging between 9% and 10% in the last three months of the year
    - Chairman Powell also reiterated that the coronavirus pandemic could inflict long-run damage on the economy by changing consumer and business behavior, and the labor market may not recover for 'some years'
- A recent uptick in coronavirus cases in Florida, Arizona, Texas and California have sparked concerns of a potential second wave of infections, and related regional shutdowns on social and business activity to curtail the spread
- Initial jobless claims fell below 2 million for the second consecutive week, with 1.5 million unemployment claims registered last week, while workers receiving benefit fell slightly to 20.9 million
  - Meanwhile, policymakers continue to debate another coronavirus stimulus bill, in addition to extending the extra $600 a week to jobless claimants (set to expire at the end of July)

Debt Capital Markets

- The Fed's announcements of keeping overnight rates to near-zero for the next 2+ years, combined with treasuries and MBS buying at $100+ billion per month, will be highly constructive for bond issuance in the investment grade and high yield markets
  - Prior to back-up in spreads in the investment grade market in the past few days, overall issuance yields are within 10 bps of record lows
    - The investment grade market hit $1 trillion of issuance at the fastest pace ever, though with an expectation for issuance at half that amount in 2H20
  - After trading in a range from April 15th to May 15th, high yield bond market rallied over 200 bps through Wednesday, then backed up with equities and entered Thursday at 6.99%, about level with early May
    - Before the recent ~25 bps backup since Friday's close, secondaries in the high yield market had improved 215 bps since May 15th
  - The high yield market has seen above average new issue volume each week for the past ten weeks – this week marked the fifth straight week of double-digit new issuance volume, with over $10 billion pricing, all of which has priced either at the tight end of talk or better
    - Cash continues to pour into mutual funds, fueling new issue demand - this week will mark the 11th straight week of inflows, totaling over $40 billion, with week-to-date high yield fund inflows tracking at $5.1 billion
    - Some issues have achieved pricing 50 bps or better than initial whisper, and new issue discounts have ranged from 0 to 50 bps
- The loan markets this week continued to make progress with another few deals finding their way through
  - The market remains open for investment grade and crossover pro rata issuers but structures continue to have shorter maturities and pricing premiums
    - The US institutional loan market continues to favor higher rated issuers and fallen angels well known to the debt markets
    - M&A transactions have been met with support, which has allowed several previously underwritten LBO transactions to follow
    - Investors have remained supportive across the ratings spectrum but are requesting enhancements, including both structural and pricing terms
  - The secondary market continues strength with retail mutual funds seeing an outflow of $40 million, as YTD net outflows total $15 billion
    - Primary CLO market also continued to see issuances from six asset managers but pressure remains on OC and WARF tests due to downgrades
  - Middle market primary activity remains quiet as issuers are focusing on obtaining amendment flexibility and bridging liquidity needs

Equity Capital Markets

- The equity market rally continued early this week, followed by a sharp sell-off amid preliminary signs of coronavirus infection growth, with the Dow Jones Industrial Average losing 1,862 points on Thursday and the CBOE Volatility Index spiking to 41.3
  - Technology and healthcare continue to outperform the market (with some increasing volatility later in the week), as shares in manufacturing and financials tumble
  - Before this decline, have tended to gravitate towards value opportunities rather than growth plays
    - According to Citadel, in the Russell 2000 index, stocks trading under $1 had an average gain of 79% during the previous 5 trading days coming into Tuesday
- Last week's equity issuance remained white-hot with 37 deals to price raising $19.0B in total capital, continuing the trend from the record setting May

Sources: WSJ, U.S. Commerce Department, Bloomberg, LCD, KeyBanc Capital Markets

Industrial Investment Banking Weekly Round-Up

Real-Time Capital Markets Perspectives

Week Ending June 19th, 2020

KeyBanc Capital Markets

Real-Time Capital Markets Perspectives

- The Federal Reserve laid out its plan in greater detail to buy outstanding individual corporate bonds by deploying a $250 billion lending program to create a portfolio based on a broad, diversified market index of corporate bonds
  - The buying criteria for the bonds range from companies that were investment-grade-rated as of March 22nd to that securities can be no more than five years in duration
  - The Fed began its purchasing of debt on May 12th by buying ETFs that invest in corporate debt, and has been buying at a pace of ~$300 million a day
- The Federal Reserve also announced a proposal to include nonprofit organizations in its introduced $600 billion lending program for small and midsize businesses disrupted by the coronavirus pandemic
- More than a dozen U.S. states have seen confirmed cases increase in the past week at a pace faster than the previous week, as summer activities that create large groups increase and businesses begin to reopen across the country
  - Beijing has also raised the coronavirus alert for the city to the second-highest level and canceled a large number of flights in and out of the capital
- Federal Reserve Chairman Jerome Powell raised concerns that the recent economic improvement could be jeopardized if Congress reduced support to both workers and businesses negatively affected by the coronavirus pandemic
  - Deadlines are approaching across the stimulus spectrum including deferred tax payments being due July 15th, many state and local governments annual budgets being due June 30th and enhanced unemployment benefits expiring July 31st
- Weekly unemployment benefits applications decreased to a seasonally adjusted 1.5 million last week, marking the fewest weekly applications since mid-March
  - A majority of states saw a decrease in jobless claims last week, however some states, including Texas, New York, New Jersey and Nevada all reported an increase in initial jobless claims

Debt Capital Markets

- The loan market remains open for investment grade and crossover pro rata issuers but structures continue to have shorter maturities and pricing premiums
  - The US institutional market continues to favor higher rated issuers and fallen angels well known to the debt markets
  - M&A transactions have been met with support resulting in several being upsized and prices tightening
    - LBOs underwritten in February continue to make their way to the market with revised price talk
  - With global and US markets phasing into reopening, investor analysis focuses on adjusting projections for liquidity needs to restart businesses
- A combination of Fed ETF / bond-buying support, investor concern around decreased supply in 2H20, strong post-pricing trading performance, and general optimism around a recovery have propelled issuance of ~$1 trillion for the first half of the year
  - High-Grade issuance hit another inflection point as all-in yields dipped to a record low of 2.17% on Wednesday
- After material spread and yield widening last week, rates have tightened once again and, despite heavy issuance, secondary trading levels and fund flows have continued to be constructive for new issuance
  - This week is on track to price over $22 million of high yield paper, a new weekly record in what will be a record June issuance level
  - 5-year issuance has given way to 7-10 year issuance for the majority of tranches, signaling investors' willingness to extend tenor and issuer satisfaction with pricing levels given that longer maturities carry longer non-call periods

Equity Capital Markets

- The beginning of the week started out strong as the equity market across various sectors saw an uptick following the Fed's announcement of corporate bond purchasing on Monday
  - Stocks continue to be kept in check by the rising number of coronavirus cases being reported around the country, scaring investors of a possible second wave of coronavirus induced shutdowns
- Utilities stocks have been struggling to remain stable during the coronavirus pandemic, as they have been more volatile than the broader market and the utilities sector within the S&P 500 is down almost 10% this year
- U.S. equity issuance remained very active last week with 44 transactions to price, tied for the most weekly equity transactions this year, raising $15.8B in capital across a wide range of sectors
  - Industrial issuers had their most active week of the year last week with five transactions pricing for four issuers raising $3.2B across one IPO, three follow-ons and one convertible offering

Sources: WSJ, U.S. Commerce Department, Bloomberg, LCD, KeyBanc Capital Markets

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Week Ending June 26th, 2020

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Real-Time Capital Markets Perspectives

- New coronavirus cases have increased at a rapid rate nationwide over the last two weeks, an acceleration that isn't believed to be solely attributable to increased testing, prompting elected officials to retighten rules on social gatherings and strongly urge people to stay home and follow social distancing guidelines
  - 33 states, from Oklahoma to South Carolina and Washington, had a seven-day average of new cases on Tuesday that was higher than their average during the past two weeks
    - In Michigan, almost a quarter of the state's counties are among the top 20% nationally for both increase in unemployment from a year earlier and deaths per 1,000 residents linked to COVID-19
  - Despite the growth in cases, the CDC announced Thursday that it estimates more than 20 million Americans have contracted the virus since the start of the outbreak, reflecting a much higher figure than previously thought, as well as a large number of people that haven't exhibited symptoms
- The surge in pricing for raw materials, including oil and copper, has signaled to many investors that global growth is returning more quickly than anticipated as businesses begin to reopen
  - Companies like Freeport-McMoRan and ExxonMobil have seen recent gains after being forced to cut supply in response to industry turmoil caused by the coronavirus epidemic
- The number of workers seeking jobless benefits has held steady at ~1.5 million each week so far in June, signaling a slow recovery for the job market as states face new infections that could hinder getting people back to work

Debt Capital Markets

- The debt markets experienced some volatility throughout the week as fear that a resurgence in COVID-19 would slow the economic recovery
  - The news late in the week dampened the positive impact of the earlier news of a surge in retail sales and the Fed's announcement regarding shifting from buying ETFs to direct buying of corporate bonds
  - The U.S. institutional market continues to open as evidenced by several February-inked deals
    - Several jumbo deals have been met with support resulting in several being upsized and prices tightened
  - With global and U.S. markets continuing to phase its reopening, investor analysis focuses on adjusting projections for liquidity needs to restart businesses
  - Investors have remained supportive across the ratings spectrum but are requesting enhancements, which have included both structural and pricing terms
- Record-low yields and desire to get ahead of both a potential "second wave" of COVID-19 and election drama are incenting issuers to take advantage of investment grade bond market conditions
  - Investors are eagerly snapping up new issues ahead of a potential 50% drop in new issue volume during 2H20 as well as enthusiasm for the Fed "back-stop" to trading levels
  - Year-to-date investment grade volume exceeding $1.2 trillion is bested only by 2017 full-year volume of $1.3 trillion, a record that is expected to be toppled after next month's investment grade issuance
- June new-issue volume of nearly $55 billion marks the second heaviest month of high yield issuance on record
  - Average yields approximate 7.25% across the high yield universe, with Wednesday's 14 bps increase in spreads resulting in a range that is approximately 50% higher than pre-2/21 sell-off levels
  - 5-year issuance has given way to primarily 7-10 year issuance for the majority of tranches with the majority of recent issues being unsecured, signaling investors' accelerated willingness to accommodate issuer-friendly terms

Equity Capital Markets

- This year, major U.S. stock indexes have the widest divergence in performance in more than a decade
  - The Nasdaq's advantage over the Dow and S&P 500 is the biggest since 1983
  - The gap between the S&P 500 and the Dow is the widest since 2002, when the Dow was ahead
- Industrial trading volumes have been relatively low from an institutional standpoint this week, following one of the busiest Fridays of the year last week, as investors begin to take time off in preparation for the July 4th holiday
  - An increase in volume is expected tomorrow following the Russell 3000 Index reconstitution
- Last week there were 29 deals to price that raised $10.3 billion in total equity related capital including 5 transactions for industrial issuers
- May and June have combined for an all-time record amount of volume issuance for any two month period for U.S. companies as investors have taken advantage of stock price recovery amidst future economic uncertainty

Sources: WSJ, U.S. Commerce Department, Bloomberg, LCD, KeyBanc Capital Markets