

## Real-Time Market Perspectives

- U.S. debt relative to the size of the economy reached its highest level since World War II
  - The Congressional Budget Office indicated national debt is projected to exceed the U.S. GDP in 2021, which would put the U.S. in the company of Japan, Italy and Greece as nations with debt-to-GDP ratios exceeding 100%
  - Despite this, demand for U.S. Treasuries remains strong and interest rates are expected to remain low
- The U.S. trade deficit widened in July to its highest levels since July 2008, as Americans' appetite for foreign-made goods bounced back while U.S. exports rose very modestly
  - According to the U.S. Department of Commerce, the foreign-trade gap in goods and services expanded 19% sequentially to a seasonally adjusted \$63.5 billion in July (compared to \$66.9 billion in July 2008)
- New filings for jobless claims fell at the end of August, exhibiting signs of slowing improvement despite falling by 130,000 to a seasonally adjusted 881,000, versus economist expectations of 950,000
  - The unemployment rate also fell to 8.4% in August, declining from a peak of almost 15% in April, as employers added 1.4 million jobs
    - Sectors that were among the hardest hit by the crisis have been some of the quickest to recover jobs, including retail, hospitality and healthcare

## Debt Capital Markets

- Leveraged loan activity decelerated in the week leading into the Labor Day holiday, as a number of M&A transactions inked pre-COVID recently cleared the market, leaving only a handful of underwritten deals left on the forward calendar
  - Overall market conditions remained supportive to issuers, with a number of deals upsizing and tightening pricing
- The secondary loan market held steady this week with activity remaining skewed towards deeper discounted names as sellers are making credit calls and taking profits, while buyers remain comfortable with risk levels and see more upside
  - U.S. loan funds saw a \$116.7 million net outflow during the week ending August 26<sup>th</sup>, as net outflows reached \$17.8 billion for the year
  - New-issue volume in the CLO market has slowed down over the past two weeks, with deal sizes rising, liabilities falling and reinvestment periods returning to three years
    - Current motivation for CLO managers is to lock in senior fee income for collateral managers solvency as defaults rise and impact subordinate fee income in older CLOs
- High yield bond activity in August reported a record new issuance month, representing the second busiest month this year (with June being the busiest)
  - New issuers accessed the market in the week before Labor Day for the first time since 2009
    - High yield issuance supporting acquisition activity remains depressed this year, but is anticipated to bounce back as the M&A markets return
  - September has historically been a very active month, with issuance expected to pick up after the holiday weekend, while having the potential of being another record month
- While the high grade bond market was only expected to price \$4.5 billion this week (as it historically has been one of the slower periods of the year), total issuance will finish at \$5.5 billion, exceeding estimates for the sixth consecutive week
  - After record-breaking volume in the month of August, high grade investor demand continues to be strong, with initial price talk to pricing levels and oversubscriptions averaging 24 bps and 4.5x, respectively
    - Despite just a four session week, average supply estimates next week exceed \$50.0 billion
    - Over the past decade, September has consistently ranked as the busiest month of the year, producing \$122.0 billion on average with this year's average estimates coming in at \$138.3 billion

## Equity Capital Markets

- The S&P 500, Nasdaq and the Dow jumped earlier this week as investors continued to bet on a protracted era of accommodation from the Fed and other global central banks while policymakers work to offer ongoing support
  - The S&P 500 marked its 22<sup>nd</sup> record close this year, while the tech-heavy Nasdaq marked its 43<sup>rd</sup> all-time high and the Dow topped the 29,000 level for the first time since February
  - Since late March, the S&P 500 is up more than 50%, the Nasdaq over 60% and the Dow more than 50%
- The market subsequently plunged on Thursday, giving back gains after marking off a record-setting session just days prior, driven by tech companies (the market leaders since the rebound began in late March) suffering their biggest drop in months
- Equity issuance remained strong throughout the month of August, leading to the strongest August on record as companies continued to look to bolster balance sheets and take advantage of stock price appreciation amid future economic uncertainty

Sources: CNBC, WSJ, KeyBanc Capital Markets

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# Industrial Investment Banking Weekly Round-Up

## Building Products

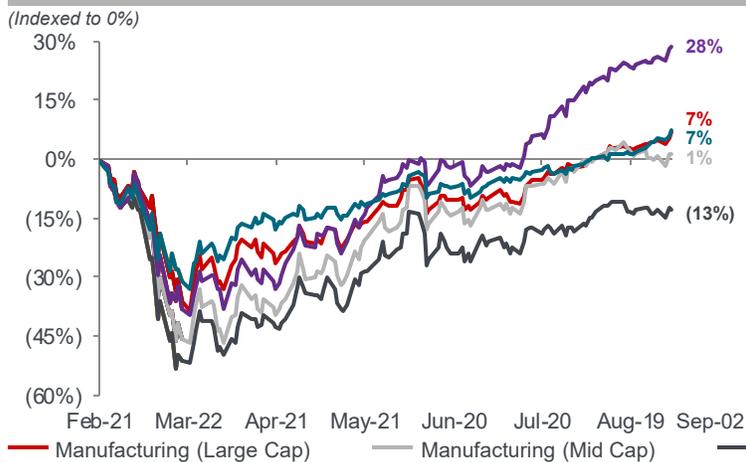
Week Ending September 4<sup>th</sup>, 2020



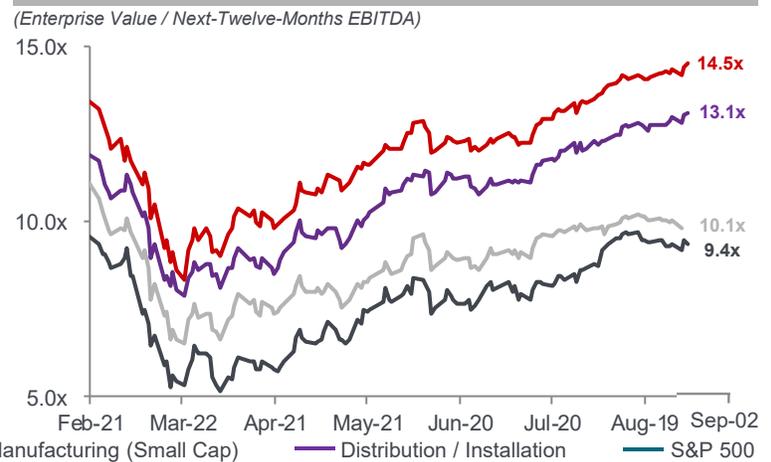
### Building Products Market Perspectives

- Employment conditions improved last week while the Labor Department recorded 881,000 new unemployment claims, lower than economists' estimates of 950,000
  - Additionally, the Labor Department recorded a significant drop in continuing unemployment claims, which decreased by 1 million this week to 13.3 million. The decrease in continuing claims paints a clear picture of economic improvement throughout the country
- The NAHB detailed the large suburban flight of homebuyers this week, highlighting COVID-19's role in shifting consumer preference away from cities and towards the more spacious suburbs and small towns
  - Despite total single family housing starts falling by 24% in the second quarter, single family housing starts in suburbs, small towns and exurbs performed exceptionally well, growing by 10.6%, 9.3% and 5.6%, respectively, during the same period
  - Market share of low density areas in the single family and multifamily homebuilding markets both grew, reaching 48.4% and 34.0%, respectively
  - Apartment construction followed the trend of exodus from large cities, seeing its largest growth in the suburbs, exurbs and low density rural areas
- The World Trade Organization released its decision over the lumber dispute between Canada and the United States, siding with Canada and further exacerbating trade issues between the two countries
  - The NAHB penned a letter to government officials two weeks ago, asking for the President to reach a new softwood lumber agreement with Canada as lumber prices continued to rapidly grow and place serious constraints on the construction supply chain
  - In 2017, the Trump administration placed a 20% tariff on Canadian softwood lumber, citing Canada's improper subsidizing of lumber production. The tariff has cost Canadian producers ~\$5 billion annually
  - Framing lumber prices have increased ~110% since mid-April and have added more than \$14,000 and \$5,000 to the final price of new single family homes and apartments, respectively

### Public Company Stock Performance Since February 21



### Public Company Trading Performance Since February 21



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Sources: NAHB, NAR, Wall Street Research

Note: Market data as of 8/5/2020; **Manufacturing (Large Cap)**: ALLE, AOS, ASX:JHX, CSL, FBHS, HUBB, IR, LII, MAS, MHK, NYSE:CNR, OC, SHW, SWK; **Manufacturing (Mid Cap)**: AAON, AMWD, AWI, AYI, BCC, CREE, CVCO, DOOR, FRTA, GFF, JELD, LPX, NYSE:LCII, PATK, ROCK, SSD, TILE, TREX, TSX:OSB, WMS; **Manufacturing (Small Cap)**: AFI, APOG, CSTE, DXYN, IIII, LYTS, NX, NYSE:SKY, PGTI, TGLS; **Distribution / Installation**: BECN, BLD, BLDR, BMCH, BXC, FBM, GMS, HDS, IBP, POOL, SIC, SITE, TSX:HDI, UFPI, WSO

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# Industrial Investment Banking Weekly Round-Up

## Chemicals and Materials

Week Ending September 4<sup>th</sup>, 2020



### Chemicals and Materials Market Perspectives

- The chemicals indexes were up strongly over the last 2 weeks with Specialties up 3.3% and Commodities / Diversifieds up 3.4%
  - Q3 / Q4 outlooks continue to show positive trends, though some industry veterans are commenting on an overheated market
- The leveraged finance markets continue to demonstrate strength with robust HY demand, continued term loan refinance demand and several acquisition finances clearing the market well
- M&A continues to re-open, with several broad auctions in full-swing and more are prepared to launch in September. Recently announced / completed M&A includes:
  - Akzo Nobel acquired the Performance Powder Coatings business of Stahl Holdings
  - BEST Engineered Surface Technologies (Sowell & Co.) acquired the Allentown facility assets of Diamonex (Morgan Advanced Materials)
  - Integrated Polymer Solutions (Arcline) acquired MAST Technologies
  - Americhem acquired Controlled Polymers
  - Chemische Fabrik Budenheim acquired QolorTech
  - SK Capital acquired a 40% stake in Venator Materials from Huntsman
  - Evonik will acquire Porocel
  - Sun Chemical / DIC acquired Seller Ink of Brazil
  - Nippon Paint will acquire a stake in 11 companies from Wuthelam Holdings in exchange for shares that will increase Wuthelam's holding in Nippon Paint from 39% to 60%
  - IMCD will acquire Siyeza Fine Chem in South Africa

### Trading Perspectives by Sector

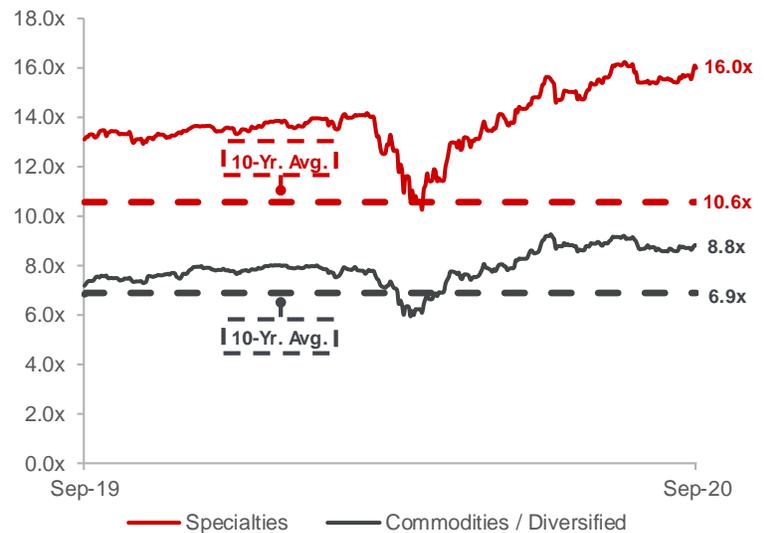
#### Share Price Performance by Sector

	10-Yr.	1-Yr.	3-Mon.	1-Mon.
Specialties	199.9%	23.3%	13.4%	2.4%
Commodities / Diversified	17.7%	(2.1%)	7.0%	6.0%
S&P 500	224.2%	23.2%	14.7%	8.6%



#### Enterprise Value / NTM EBITDA

	10-Yr. Avg	1-Yr. Avg	3-Mon. Avg.	1-Mon. Avg.
Specialties	10.6x	13.9x	15.5x	15.6x
Commodities / Diversified	6.9x	7.9x	8.9x	8.7x



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Sources: Capital IQ as of 9/3/2020

Commodities / Diversified: ASIX, ENXTPA:AKE, ASH, XTRA:BAS, BOVESPA:BRKM5, CBT, SWX:CLN, CE, NYSE:CF, CINR, NYSE:CMF, XTRA:1COV, NYSE:UAN, Dow, EMN, XTRA:EVK, NYSE: FOE, HUN, IPHS, TASE: ICL, KPLUY, ENXTAM:DSM, KOP, KRA, KRO, LXS, LYB, TSX:MX, MTX, TSX:NTR, OLN, BMV:ORBIA, AVNT, SASE:2010, SOLB, LSE:SYNT, CC, NYSE:MOS, NYSE:MOS, TSE:TROX, VNTR, WLK, XTRA:WCH, OB:YAR  
 Specialty: NasdaqGS:AGFS, APD, ENXTAM:AKZA, ALB, AVD, AXTA, BCPC, CCMP, CBM, LSE:CRDA, NYSE:CTVA, NYSE:DD, ECL, ESI, ENTG, FMC, GIVN, FUL, HXL, XTRA:HEN3, NGVT, IFF, ENXTPA:AI, LIN, LONN, NEU, PPG, KWR, RPM, SXT, SY1, SHW, GRA

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## Metals & Mining

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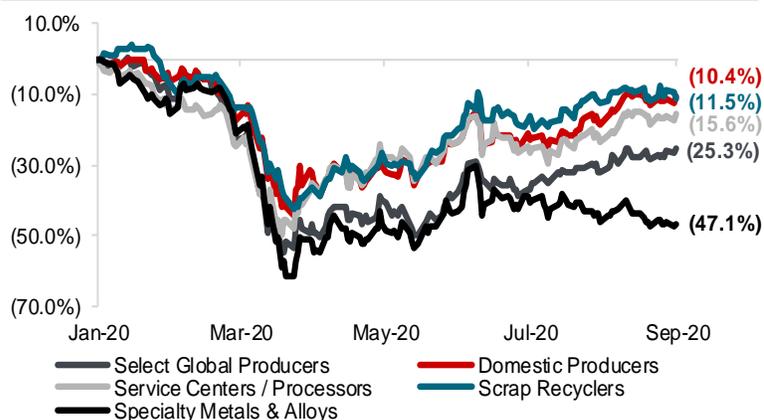
### Metals & Mining Market Perspectives

- North American ('NA') steel production capacity remains constrained, as pricing has not yet returned to 'pre-Covid' levels (see *table to the right and chart below*)
- HRC pricing is slowly recovering (see *chart below*) on normalizing demand and extended mill lead times
  - Service center inventories have been depleted as purchasing activity slowed during the 2Q
  - Lead times from domestic mills are ranging from 4 – 8 weeks
- Domestic steel production decreased for the first time in 12 weeks, as producers slowed facility ramp-ups following Covid-19 shutdowns. For the week ending August 29<sup>th</sup>, production decreased ~2.1% WoW, with mills producing ~1.42 million tons at an average capacity utilization of 61.7%
- The U.S. Copper Cathode Premium has remained steady, as pricing has been supported by a scarcity in supply, despite a slower than expected recovery in demand. Rio Tinto's force majeure at their Kennecott mine in Utah continues, as repairs to the smelting operations (impacted by an earthquake in March) are taking longer than expected. Cathode demand has been adversely affected by slower mill buying and the temporary closure of a major brass mill in the Midwest U.S. (due to recent storm damage)
- Secondary and scrap aluminum prices are improving on tightened supply and mill buyers returning to market. The UBC market has been particularly impacted by the Covid-19 pandemic, as demand for aluminum cans continues to rise. Aluminum product intended for commercial restaurant / bar use, is increasingly being diverted to use in home consumption, which has pressured supply chains and UBC prices
- Tenaris is capitalizing on the prolonged shutdown at their billet mill in Koppel, PA. The Company announced they will invest ~\$11 million to increase its bar size capabilities and upgrade its melt shop. The announcement comes as many producers are re-evaluating long-term strategies at idled facilities

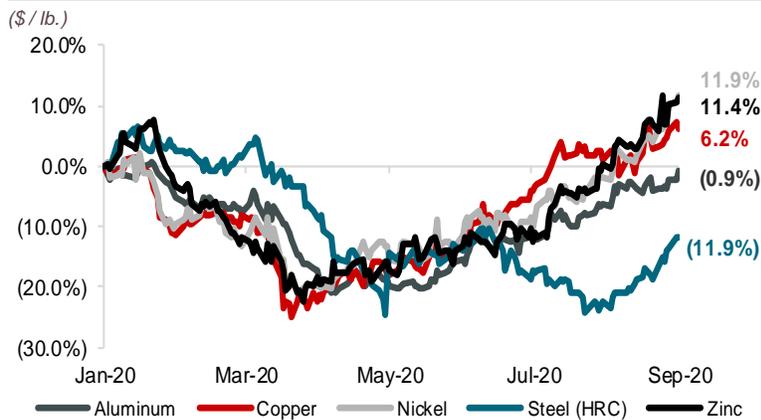
### Idled U.S. Mill Operations <sup>1</sup>

<b>ArcelorMittal</b>	- Cleveland, Blast Furnace No. 6 - Burns Harbor, Blast Furnace D	- Dofasco, Blast Furnace No. 3
<b>Big River Steel</b>	- EAF and mill in Oscoela, AR	
<b>Evrz</b>	- Seamless pipe mill in Pueblo, CO	
<b>JSW Steel</b>	- EAF and mill in Mingo Junction, OH	
<b>Liberty Steel</b>	- Wire rod mill in Georgetown, SC	
<b>Tenaris</b>	- Billet mill in Koppel, PA - Tubular operations in Ambridge, PA	- Tubular operations in Baytown, TX
<b>U.S. Steel</b>	- Granite City, Blast Furnace A - Gary Works, Blast Furnace No. 4	- Tubular operations in Lone Star, TX - Tubular operations in Lorain, OH

### 2020 YTD Metals Sector Equities Index Performance <sup>2</sup>



### 2020 YTD Pricing Performance <sup>3</sup>



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Sources: Capital IQ, American Metal Market; Note: Market data as of close 9/1/2020

<sup>1</sup> Includes capacity curtailments announced, but not yet idled

<sup>2</sup> Considers performance of Metals Sector Indices weighted by market capitalization including, **Select Global Producers:** ENXTAM:MT, BOVESPA:CSNA3, BOVESPA:GGBR3, AMEX:SIM, LSE:SVST, OM:SSAB A, 500470, XTRA:TKA; **Domestic Producers:** CMC, NUE, STLD, X; **Service Centers / Processors:** ZEUS, RS, TSX:RUS, RYI, WOR; **Scrap Recyclers:** DB:ABA, SCHN, ASX:SGM; **Specialty Metals & Alloys:** ATI, CRS, HAYN, KALU, MTRN, USAP

<sup>3</sup> Considers \$/lb. pricing of the following indices for each metal, **Aluminum:** LME Official Cash; **Copper:** Comex Copper High-Grade 1<sup>st</sup> Active; **Nickel:** LME Official Cash; **Steel (HRC):** Steel Hot-Rolled Coil Index, fob mill US; **Zinc:** LME Official Cash