

Weekly Recap

10/22/2018 – 10/28/2018

"Value investors hope to be rewarded for being so out of step with everyone else for so much of the time. But a select few can endure and even enjoy it. People of this sort could be heard, a few months into that disastrous first season, saying, 'I've been a Mets fan all my life.'"

- Buttonwood's Notebook ([Economist](#))

MARKET SUMMARY

- Markets continued to decline across the week despite recent earnings performance, and the selling of firms that met expectations is at the highest rate since 2011. Strong fundamentals were battered down by investor sentiment and concerns. Earnings misses were punished more than usual. ([WSJ](#))
 - Losses were led mainly by technology companies. Momentum stocks such as Amazon and Alphabet dragged down the indices while investors continued to price in growth. The economy grew at 3.5%, lower than the 4.2% rate in Q2. ([CNN](#))
- There is a wide split in the range of opinions as to whether this is merely a correction or a systemic start to a non-recessionary bear market. Given the continued fundamental strength, it seems that the general market views the current volatility as sentiment driven.
 - Jeffrey Gundlach, CIO of DoubleLine, has warned against risk-parity funds given the slump in US stocks and muted rebound in treasuries. ([Bloomberg](#))
 - Tom Lee, Head of Research at Fundstrat Global Advisors, believes that the divergence of bonds and VIX from the S&P 500 indicates that the selloff is ending. ([Bloomberg](#))
- Commodities dropped on a dimmer global growth outlook, sending US crude and copper prices sliding (the latter being a proxy for global growth). Government bonds and other assets that perform well during volatility faced inflows causing yields to settle above the Friday low. ([WSJ](#))

DEALS & CORPORATE ACTIONS

October 22, 2018

- Arconic is said to be weighing an \$11BN acquisition offer from Apollo. Competing bids have yet to be submitted, although interest has been expressed from a group comprising of Blackstone, Carlyle, Onex, and CPPIB. Elliott Management won board representation the past year following a proxy contest and has been instrumental in pushing the sale. ([Reuters](#))
- Fir Tree Capital Management has issued an open letter to the board of Halcon urging the company to divest more assets (potentially selling itself), de-lever its balance sheet, or repurchase equity. ([Fir Tree](#))
- Icahn's American Railcar is selling itself to ITE Rail Fund in a \$1.75BN deal for a total return of 423% and \$757MM profit since it first bought a majority stake in 2010. The \$70 per share offer is a 51% premium to American Railcar's Friday close. ([Reuters](#))
- Previously, Saudi Arabia pledged \$20BN to Blackstone's infrastructure fund. Recently released terms indicate the sovereign fund gets to pay 15% less than other investors in fees with additional management and incentive fee discounts and consultation privileges. ([Bloomberg](#))

October 23, 2018

- Bain Capital is pledging \$350MM to a new neuroscience spinoff from Pfizer. Cerevel Therapeutics will receive 10 programs from Pfizer with three in clinical trials, and Pfizer will own 25% of the new company. Both Bain and Pfizer will contribute directors, and the PE partnership will fund the costly R&D pipeline. ([CNBC](#))
- Blackstone has announced its intent to acquire majority interest in Ultrerra Drilling Technologies from American Securities. The company is the largest pure-play, independent supplier of polycrystalline diamond compact drill bits to the O&G industry with a leading position in most U.S. basins. ([BusinessWire](#))
- United Technologies seems to be acquiescing to Dan Loeb and Bill Ackman's requests to break up business segments after the Rockwell Collins acquisition. DowDuPont faced a similar situation in 2017. ([Bloomberg](#))

October 24, 2018

- Biglaw firm, Reed Smith, is considering a merger to bolster its US business and is planning an alternate business structure for its European and Middle Eastern arm. 2017 was a record year for law firm mergers, and it looks like the trend continues. ([Law](#))
- Cambridge Analytica's employees have all vanished in a "Houdini act" in which everyone involved in its US bankruptcy case disappears. The case is essentially abandoned and leaves constituents in a problematic situation. ([Bloomberg](#))
- Goldman underwrote a \$2.9BN deal for United Natural Foods' acquisition of Supervalu. While the deal struggled initially, Goldman made Supervalu a co-borrower on the new debt to increase the value of CDS contracts, helping prop up the debt raise. Previous distressed borrowers with derivative bets include Hovnian Enterprises and McClatchy. ([Bloomberg](#))
- PineBridge Investments has closed an \$880MM Secondary Opportunity Partners fund to invest in US middle market PE with focuses in industrials, consumer discretionary, financial, and information technology sectors. ([WSJ](#))

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Notable Trends

- Leveraged loans are at the epicenter of every investor's growing list of concerns. With everyone from Oaktree to Yellen pitching their opinions, there is a lot of speculation whether trade wars, rising rates, or structural weaknesses will trigger defaults. CLO demand seems ceaseless for now, and 13% of LBOs in 2018 crossed 7x leverage – a historical high. ([Bloomberg](#), [WSJ](#), [BI](#))
- Zombie companies – corporations whose profits are lower than the interest payments on debt – are at 12% globally and >16% in the US. These companies compete with healthy ones for resources, lower general productivity, and prolong time that workers spend in unproductive jobs. ([BI](#))

CSSG's Weekly Recap is a resource that provides links to news that our analysts found interesting during the week. While not proprietary in nature, we find that publishing these reports helps hold ourselves accountable and aware of the economic climate.

Important Disclosures

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October 24, 2018 (continued)

- Refinitiv is exploring selling its IFR financial media business and has been in touch with potential buyers. ([Bloomberg](#))
- Vista Equity Partners is exploring a potential \$1.5BN Mediaocean sale. It has hired Morgan Stanley and Macquarie to advise. This follows Vista's \$11.4BN raise for its seventh buyout fund and the sale of Marketo to Adobe for \$4.75BN. ([WSJ](#))

October 25, 2018

- Bill Ackman disclosed a 3.7% stake in Hilton sending shares up 5.8% on Thursday. The stake worth \$740MM and comprises 13.9% of Pershing Square Holdings, the publicly traded vehicle that tracks Pershing's main fund. ([NY Post](#))
- SpaceX is said to seek \$500MM as the leveraged loan market continues to grow. ([Bloomberg](#))
- ValueAct disclosed a new position in Hawaiian Electric. Their thesis is that the open, smart resilient grid is an Amazon-like growth opportunity in electric power infrastructure. Although an unconventional pitch for a utility company, the fund cited a study that renewable deployment in Hawaii could create 80% of current demand and save \$6.5BN. ([CNBC](#))

October 26, 2018

October 27, 2018

October 28, 2018

- IBM has struck a deal to acquire Red Hat for \$34BN / \$190 per share. This stands at a higher than 60% premium for the open source cloud software provider. J.P. Morgan advised and financed the deal while Guggenheim represented Red Hat. ([BI](#))

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