

Weekly Recap

11/19/2018 – 11/25/2018

"I think what we're currently seeing is not necessarily fears about top line growth for US corporations. I think what we're rather seeing is whether the bottom line can hold up, whether the valuations we're currently seeing in an environment of rising interest rates can hold up... We don't think we are going to head into a bear market. We're going to stabilize around current levels and probably have not to bad of a year."

- Peter Schaffrik, RBC Europe Global Macro Strategist ([Bloomberg](#))

MARKET SUMMARY

- Equities continued to drop as investors dumped large cap tech stocks. Almost \$822BN in value has been erased. ([NYT](#))
 - Blackstone's Joe Zidle argues that December's usual Christmas sales push will revive the stock market into the black. He argues that sentiment is behind the latest downturn and not warning signals from US businesses or the economy. Zidle also believes it will take the absence of a negative rather than a positive catalyst to improve equities. ([CNBC](#))
 - The Fed is expected to raise rates next month and three times thereafter according to economists. US short-term interest-rate futures imply two hikes in 2019. The uncertainty opens up opportunities and added volatility. ([CNBC](#))
 - US pharmaceuticals, unlike other stocks, are outperforming despite biotech's recent poor performance. Modest but stable has become the focus as confidence is quelled elsewhere. ([WSJ](#))
- The HY index has turned negative this year. HY junk bonds in the energy sector have contributed to the slump. Declining oil prices paired with weaker balance sheets have led to increased scrutiny as investors watch for downgrades. ([MarketWatch](#))
 - If downgrades push BBB into junk territory, conservative investors restricted to holding IG paper would have to dump the fallen angels, potentially overwhelming HY bond buyers. IG has widened the most in two years, trading volumes were up, and new bond sales struggled.
 - CDX IG index rose to the highest since November 2016. IG bond funds saw inflows drop more than 50%.
 - Leveraged loans are still outpacing the credit market, but issuers have made significant amount of concessions with increased pricing, strengthened covenants, and cuts in loan sizes. ([Bloomberg](#))
- With coordinated drops in stocks, bonds, and commodities, the dollar rose as investors flocked to safer assets, gaining most against commodity-producing countries such as Canada and Norway. Relative to the yen which has been the traditional haven asset, the dollar rose just 0.2%. ([WSJ](#))

DEALS & CORPORATE ACTIONS

November 19, 2018

- Carlos Ghosn, chairman of Nissan, is being removed for underreporting his compensation to financial authorities for several years. Before his arrest, Ghosn was said to have been planning a merger between the company and Renault, which the board opposed but seemed to be proceeding. ([FT](#))
- Colfax has announced it will be buying DJO Global for \$3.15BN from Blackstone. This represents Colfax's first foray into medical technology from industrial technology and an attempt to diversify, reduce cyclicity, and increase profitability. S&P put the company's debt on negative CreditWatch with the expectation that Colfax's debt to earnings is likely to rise. ([WSJ](#))
- David's Bridal has filed for Chapter 11 bankruptcy protection as it seeks to shed \$400MM in debt. David's has already negotiated a deal with creditors for \$60MM in new financing and a recommitment for a \$125MM revolving credit facility. David's skipped a loan payment in October and plans to exit bankruptcy in January. ([NYT](#))
- Warburg Pincus is looking to raise its second China-focused PE fund of \$4BN. Its first China fund, which raised \$2BN in 2016, saw a 27.8% net IRR as of the end of June according to the Washington State Investment Board. ([Reuters](#))

November 20, 2018

- Amazon, Blackstone, an unnamed SWF, and the NY Yankees are among some of the bidders trying to buy the 22 regional sports networks being divested by Disney in its acquisition of Fox. Amazon already has the rights to air Premier League, NFL, and NHL games; winning the bid would give Amazon a foothold in live streaming services. ([Reuters](#))
- Bain and KKR have created a \$20MM fund to compensate Toys R Us employees who lost their jobs in the bankruptcy. Facing lawsuits and initially not taking action, PE firms have given into sentiment, which might be setting an interesting precedent for later similar situations. ([Axios](#))
- Cowen has joined several other American middle market investment banks in expanding their European exposure outside of the UK through its acquisition of Quarton International. Quarton has a team of 70 professionals across ten offices in Europe and North America. ([Cowen](#))
- The CFTC Division of Enforcement released a first-ever annual report speaking to its record year. It had some of the highest number of cases filed, penalties imposed, manipulation cases, whistleblower awards, cases charging individuals, and parallel criminal investigations. ([Skadden](#))

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Notable Trends

- Quantamental strategies are on the rise forcing portfolio managers to embrace automation, algorithms, and big data. While the technology may be readily available, it will take time for these investors to adopt the behavioral changes needed to incorporate new types of data. ([FT](#))
- The increase in sponsor deals have fed into fund of funds' returns, begging the question of how sustainable the strategy might be. Dyal Capital Partners posted 26% returns net of fees versus 17.6% average for buyout firms of similar size. Dyal is a division of Neuberger Berman's alternatives arm. ([WSJ](#))

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.

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November 21, 2018

- Deutsche Bank has started issuing preferred bonds recently and buying back its traditional non-preferred. The buyback is estimated to provide an immediate gain of €60MM before tax. Default swaps on the new preferred bonds could help the struggling German bank reduce funding costs. ([WSJ](#))

November 22, 2018

November 23, 2018

- Chinese regulators have approved United Technologies acquisition of Rockwell Collins. The merger took a year to close, and it took a month to receive Chinese approval since receiving US approval. The deal is expected to close in three business days. ([WSJ](#))

November 24, 2018

November 25, 2018

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