

## Briefing

### Global Economic & Credit Market

### Week 3 Ending – January 19, 2024

[www.zcq.com](http://www.zcq.com)

### Economic Calendar

- Thursday, January 25: Initial Jobless Claims
- Friday, January 26: Personal Spending

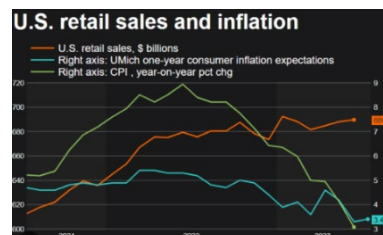
### Key Market Metrics

- S&P 500: +1.17% WoW; +1.47% YTD; +24.13% YoY; 13.4x LTM EBITDA; 13.2x NTM EBITDA
- Dow Jones: +0.72% WoW; +0.46% YTD; +14.58% YoY; 10.6x LTM EBITDA; 13.0x NTM EBITDA
- Nasdaq: +2.26% WoW; +2.00% YTD; +41.09% YoY
- Ten Year US Treasury Yield: 4.17% +19 bps YTD; +75 bps YoY
- Currency:
  - British Pound per USD: \$1.27; (0.4%) WoW; (0.2%)YTD; 2.5% YoY
  - Euro per USD: \$1.09; (0.5%) WoW; (1.4%)YTD; 0.6% YoY
  - USD per Yen: ¥148.10; 2.2% WoW; 5.1% YTD; 15.3% YoY
  - Swiss franc per EUR: 1.06 CHF; (1.3%)WoW; (1.8%)YTD; 4.9% YoY

### U.S. News

#### ■ Retail Sales

- Sales at retailers jumped 0.6% in December to cap off a fairly robust holiday-shopping season
- Sales rose 3% in December at department stores, 1.5% at internet retailers and clothing stores, and 1.1% at auto dealers
- Sales fell at stores that sell furniture and appliances, likely because of slower home buying



#### ■ Home Builders Confidence Index

- The Home Builders Confidence Index surged 8 points to 44 in January as falling mortgage rates drew in home buyers from the sidelines
- The U.S. housing market is warming up as rates stay below 7%, and buyers are eager to jump back in
- Even though rates are lower, many builders are still cutting prices to attract buyers and boost sales. About 31% of builders cut prices in January, down from 36% in December, with the average price cut at 6%

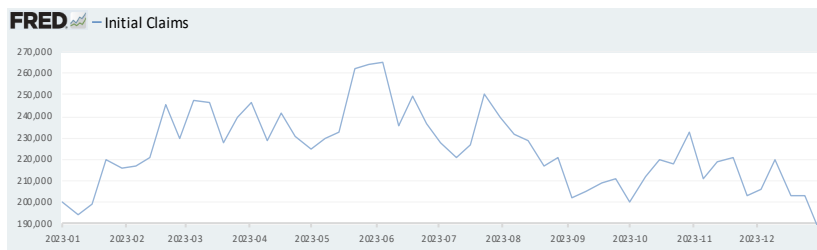


#### ■ Industrial Production

- Industrial production rose 0.1% in December, the Federal Reserve reported Wednesday
- Motor vehicles and parts output rose 1.6% after a 7.4% jump in the prior month due to the return of striking auto workers
- Excluding autos, total industrial output was flat and manufacturing output was down 0.1%

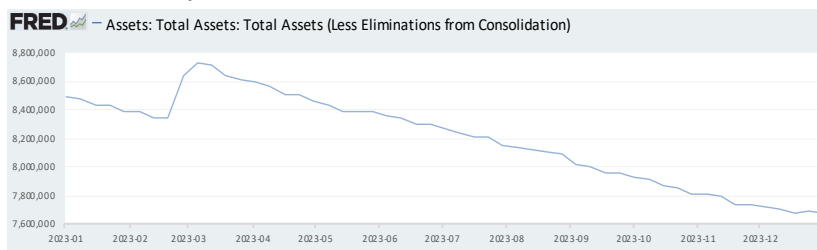
## ▪ Jobless Claims

- Initial jobless claims, a measure of how many workers were laid off across the U.S., decreased to 187,000 in the week ended January 12, down 16,000 from the prior week
- The four-week moving average was 203,250, down 4,750 from the prior week
- Continuing claims – those filed by workers unemployed for longer than a week – decreased by 26,000 to 1.806 million in the week ended January 5. This figure is reported with a one-week lag



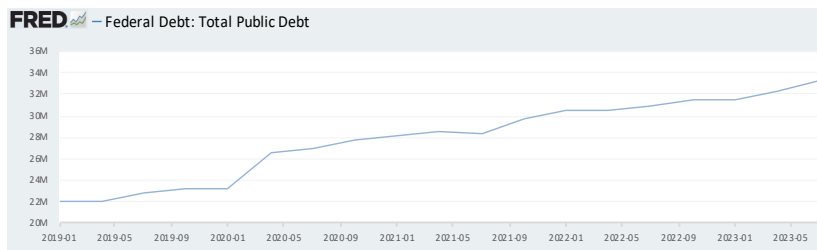
## ▪ Fed's Balance Sheet

- The Federal Reserve's assets totaled \$7.674 trillion in the week ended January 19, down \$13.0 billion from the prior week
- Treasury holdings totaled \$4.743 trillion, down \$9.0 billion from the prior week
- Holdings of mortgage-backed securities (MBS) were \$2.43 trillion in the week, down \$0.0 billion from the prior week



## ▪ Total Public Debt

- Total public debt outstanding was \$34.07 trillion as of January 19, an increase of 8.3% from the previous year
- Debt held by the public was \$24.60 trillion, and intragovernmental holdings were \$7.06 trillion

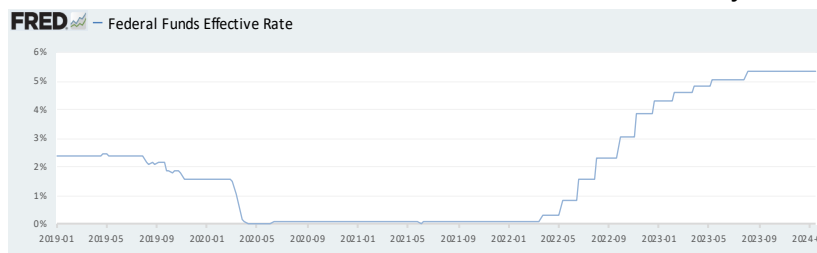


## ■ Inflation Factors

- CPI:
  - The consumer-price index rose 3.4% in December year over year
  - On a monthly basis, the CPI increased 0.3% in December on a seasonally adjusted basis, after increasing 0.1% in November
  - The index for all items less food and energy (core CPI) rose 0.3% in December, after rising 0.3% in November
  - Core CPI increased 3.9% for the 12 months ending December
- Food & Beverages:
  - The food at home index increased 1.3% in December from the same month a year earlier, and increased 0.1% in December month over month
  - The food away from home index increased 5.2% in December from the same month a year earlier, and increased 0.3% in December month over month
- Commodities:
  - The energy commodities index decreased (0.1%) in December after decreasing
  - The energy commodities index fell (2.9%) over the last 12 months
  - The energy services index 0.4% in December after increasing 0.7% in November
  - The energy services index fell (1.1%) over the last 12 months
  - The gasoline index fell (1.9%) over the last 12 months
  - The fuel oil index fell (14.7%) over the last 12 months
  - The index for electricity rose 3.3% over the last 12 months
  - The index for natural gas fell (13.8%) over the last 12 months
- Supply Chain:
  - Drewry's composite World Container Index increased to \$3,776.78 per 40ft
  - Drewry's composite World Container Index has increased by 81.7% over the last 12 months
- Housing Market:
  - The shelter index increased 0.5% in December after increasing 0.4% in November
  - The rent index increased 0.4% in December after increasing 0.5% in November
  - The index for lodging away from home decreased (1.1%) in December after decreasing (4.5%) in November

## ■ Federal Funds Rate

- The effective Federal Funds Rate is at 5.33%, flat 0.00% year to date



## World News

### ■ Israel

- Israel's prime minister Benjamin Netanyahu has told the Biden White House that he rejects any moves to establish a Palestinian state when Israel ends its offensive against Gaza, and that all territory west of the Jordan River would be under Israeli security control.
- His public statement on Thursday represents a rebuttal of US foreign policy. The White House responded by saying the US would continue working towards a two-state solution and that there could be no Israeli reoccupation of Gaza when the war concluded.

### ■ Yemen

- The U.S. military said it struck Houthi weaponry in Yemen that threatened merchant and U.S. Navy vessels in the Red Sea, America's fourth strike on Houthi-held territory in recent weeks, as rising tensions across the region threaten to pull more parties into a widening war.
- A Pentagon official said it estimates that about a fourth of the Houthi arsenal has now been destroyed.
- President Biden said Thursday that the U.S. would continue to target Houthi weaponry until the group ceases its attacks on shipping vessels, after being asked whether the strikes were working.

### ■ Russia

- Russia has rejected an American proposal to reopen an arms-control dialogue with Washington, saying the U.S. was pursuing a hostile policy toward Moscow, U.S. officials said Thursday.
- The absence of talks between the two sides on reducing nuclear risks and potential arms-control steps comes during the worst downturn in U.S.-Russia relations since the end of the Cold War and has raised fears of a new arms race.
- U.S. national security adviser Jake Sullivan said in a speech in June that the U.S. was prepared to begin the talks without preconditions. And the Biden administration followed up with a confidential paper a few months later proposing such talks and outlining ideas on how to manage nuclear risks.
- But Moscow responded with its own diplomatic paper in late December, saying that it wasn't interested in resuming arms-control talks, complaining that the U.S. was seeking the strategic defeat of Russia through its support of Ukraine, U.S. officials say.

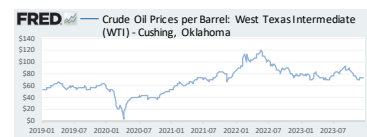
### ■ China

- Births in China dropped by more than 500,000 last year to just over 9 million in total, accelerating the decline in the country's population.
- The number of newborns has gone into free fall over the past several years. Official figures released Wednesday showed that China had fewer than half the number of births in 2023 than the country did in 2016, after China abolished the one-child policy.
- The worsening demographic gloom has taken on increasing urgency for Beijing. The country hit a historic turning point in 2022, marking the first year the population shrank since the starvation years in the early 1960s.

## Commodities

### Oil Prices

- WTI: \$73.77 per barrel
  - +1.50% WoW; +2.96% YTD; (8.17%) YoY
- Brent: \$78.82 per barrel
  - +0.68% WoW; +2.31% YTD; (8.52%) YoY



### US Production

- U.S. oil production amounted to 13.3 million bpd for the week ended January 12, up 0.1 million bpd from the prior week

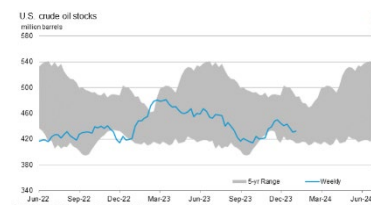
### Rig Count

- The total number of oil rigs amounted to 620, up 1 from last week

### Inventories

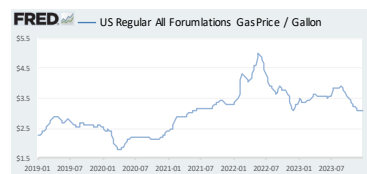
#### Crude Oil

- Total U.S. crude oil inventories now amount to 429.9 million barrels, down (4.0%) YoY
- Refiners operated at a capacity utilization rate of 92.6% for the week, down from 92.9% in the prior week
- U.S. crude oil imports now amount to 6.241 million barrels per day, down 8.1% YoY



#### Gasoline

- Retail average regular gasoline prices amounted to \$3.09 per gallon in the week of January 19, down (9.0%) YoY
  - Gasoline prices on the East Coast amounted to \$3.15, down (6.3%) YoY
  - Gasoline prices in the Midwest amounted to \$2.90, down (11.5%) YoY
  - Gasoline prices on the Gulf Coast amounted to \$2.76, down (9.6%) YoY
  - Gasoline prices in the Rocky Mountain region amounted to \$2.85, down (16.5%) YoY
  - Gasoline prices on the West Coast amounted to \$4.11, up 0.6% YoY
- Motor gasoline inventories were up by 3.1 million barrels from the prior week
- Motor gasoline inventories amounted to 248.1 million barrels, up 7.7% YoY
- Production of motor gasoline averaged 9.37 million bpd, up 5.6% YoY
- Demand for motor gasoline amounted to 8.269 million bpd, up 2.7% YoY

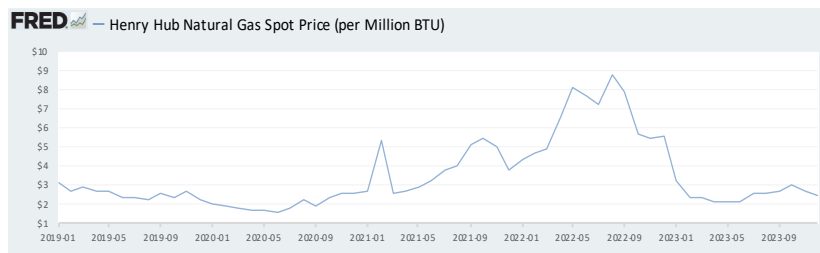


#### Distillates

- Distillate inventories decreased by 2.4 million in the week of January 19
- Total distillate inventories amounted to 134.8 million barrels, up 16.4% YoY
- Distillate production averaged 4.902 million bpd, up 6.5% YoY
- Demand for distillates averaged 3.645 million bpd in the week, down (9.4%)

○ **Natural Gas**

- Natural gas inventories decreased by 154 billion cubic feet last week
- Total natural gas inventories now amount to 3,182 billion cubic feet, up 12.8% YoY



## Geopolitical Hotspots

- **Nicaragua**
  - Nicaragua released 19 clergymen from prison, including Bishop Rolando Álvarez, the country's most prominent political prisoner, and expelled them to the Vatican.
- **Ecuador**
  - Ecuador is at war with drug gangs, President Daniel Noboa said, as troops patrolled the country's largest city, Guayaquil, a day after gunmen took over a TV studio and launched a series of attacks against the Andean nation's new government.
- **Argentina**
  - Argentines long battered by galloping inflation were hit even harder in December as food, fuel and drug prices skyrocketed during President Javier Milei's first month in office as he embarked on pro-market shock therapy to revive an economy in shambles.
- **Canada**
  - Armed with a multibillion-dollar war chest, Canada is offering money to cities to ditch zoning restrictions that thwart residential construction as the country deals with an acute housing shortage.
- **South Korea**
  - South Korea's opposition party leader was stabbed in the neck in an attack that left him hospitalized in an intensive care unit.
- **North Korea**
  - North Korea has fired more than 200 rounds of artillery shells of its west coast, towards the South Korea's Yeonpyeong Island, Seoul's military has said.
- **Indonesia**
  - At a Chinese nickel smelter in Indonesia, workers were undertaking routine maintenance at dawn when a massive explosion rocked the facility. Waste from a furnace had flowed out and hit flammable material, resulting in the deaths of at least 19 workers and injuring dozens more as hot steam hissed out and fire ripped through the building.

## Credit News

High yield bond yields increased 11bps to 7.9% and spreads widened 7bps to 372bps. Leveraged loan yields increased 5bps to 9.15% and spreads widened 2bps to 526bps. WTD Leveraged loan returns were positive 16bps. WTD high yield bond returns were negative 16bps. 10yr treasury yields increased 20bps+ during the week hurting fixed rate instruments. Loans again outperformed bonds as investors debated the timing and scale of Fed rate cuts in the face of generally better economic data.

### High-yield:

Week ended 1/19/2024

#### Yields & Spreads<sup>1</sup>

Current Week		Prior Week		Δ (bps)	
Yield	Spread	Yield	Spread	Yield	Spread
7.90%	372	7.79%	365	11	7

#### Pricing & Returns<sup>1</sup>

Pricing			Returns			
Current Week	Prior Week	Δ (bps)	WTD	MTD	YTD	2023
\$92.57	\$92.93	-36	-0.21%	-0.56%	-0.56%	13.5%

#### Fund Flows<sup>2</sup>

Total Flows (\$)
\$1,000mm

#### New Issue<sup>2</sup>

Week		YTD		
# New Deals	Total (\$)	Total (\$)	Prior Year YTD	CY vs PY
10	\$7.2bn	\$12.5bn	\$2.3bn	+443%

#### Distressed Level (trading in excess of 1,000 bps)<sup>2</sup>

12/30/23	11/30/23	10/31/23
6.60%	7.80%	8.70%

#### Total HY Defaults

12/30/23	11/30/23	10/31/23
2.08%	2.08%	1.76%

<sup>1</sup> Source: Credit Suisse High Yield and Leveraged Loan Index

<sup>2</sup> Source: JP Morgan



**Leveraged loans:**

Week ended 01/19/2024

▪ **Yields & Spreads<sup>1</sup>**

Current Week		Prior Week		Δ (bps)	
Yield	Spread	Yield	Spread	Yield	Spread
9.15%	526	9.10%	524	5	2

▪ **Leveraged Loan Index<sup>1</sup>**

Pricing			Returns			
Current Week	Prior Week	Δ (bps)	WTD	MTD	YTD	2023
\$95.60	\$95.65	-4	0.16%	0.54%	0.54%	12.9%

▪ **Fund Flows<sup>2</sup>**

Total Flows (\$)
(\$3mm)

▪ **New Issue<sup>2</sup>**

Week		YTD		
# New Deals	Total (\$)	Total (\$)	Prior Year YTD	CY vs PY
37	\$39.9bn	\$60.0bn	\$0.2bn	+29900%

▪ **Distressed Level (loan price below \$80)<sup>1</sup>**

12/30/23	11/30/23	10/31/23
7.10%	7.80%	7.20%

▪ **Total Loan Defaults**

12/30/23	11/30/23	10/31/23
2.10%	2.01%	2.01%

**Default activity:**

- Most recent defaults include: Ligado Networks (\$4.2bn, 11/1/23), Air Methods (\$1.7bn, 10/24/23), WeWork (\$1.6bn, 10/15/23), Rite Aid (\$3.0bn 10/16/23)

**CLOs:**

Week ended 01/19/2024

▪ **New U.S. CLO Issuance<sup>2</sup>**

# Priced	Total (\$)	New Issue	Refis/Resets
3	\$1.3bn	\$1.3bn	\$0.0bn

▪ **New U.S. CLO YTD Issuance<sup>2</sup>**

Total U.S. CLOs	Total (\$)	New Issue	Refis/Resets	Prior Year YTD	CY vs. PY
7	\$3.0bn	\$3.0bn	\$0.0bn	\$0.0bn	N/A

**Note: High-yield and leveraged loan yields and spreads are swap-adjusted**<sup>1</sup> Source: Credit Suisse High Yield and Leveraged Loan Index<sup>2</sup> Source: JP Morgan

## Ratings activity:

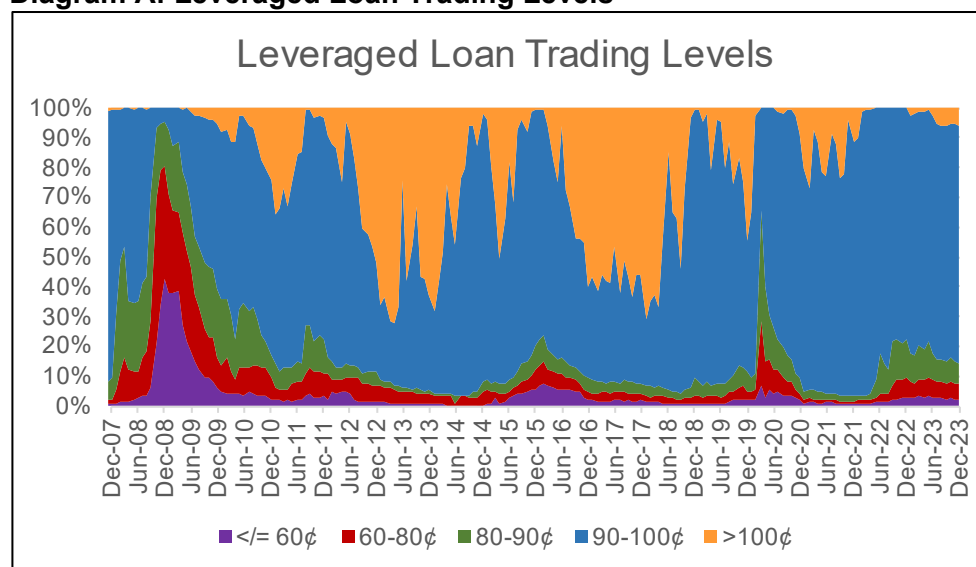
### S&P and Moody's High Yield Ratings

	S&P			Moody's		
	Downgrades	Upgrades	Ratio	Downgrades	Upgrades	Ratio
Full Year 2023	546	304	1.8x	488	288	1.7x
Week Ending 01/05/24	1	2	0.5x	0	2	0.0x
Week Ending 01/12/24	8	6	1.3x	3	7	0.4x
Week Ending 01/19/24	2	6	0.3x	12	6	2.0x
YTD 2024	11	14	0.8x	15	15	1.0x

Source: Bloomberg

## Appendix:

### Diagram A: Leveraged Loan Trading Levels



Source: Credit Suisse Leveraged Loan Index

### Diagram B: High Yield and Leveraged Loan LTM Price

High Yield and Leveraged Loan Data [1]				
	LTM Price			
	Avg. Price	High [2]	Low [3]	LTM High vs. Low Δ
High Yield	88.1	93.2	85.4	7.8
Leveraged Loans	93.9	95.7	92.0	3.7

[1] Data is from Credit Suisse High Yield Market Index and Credit Suisse Leveraged Loan Index

[2] HY high price as of 1/12/24, LL high price as of 1/11/24

[3] HY low price as of 3/15/23, LL low price as of 3/24/23

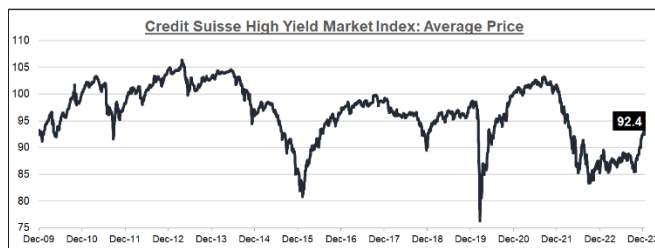
### Diagram C: Leveraged Loan and High Yield Returns

Leveraged Loan and High Yield Returns				
	Leveraged Loan Indices		High Yield Indices	
	Credit Suisse [1]	S&P/LSTA [2]	Credit Suisse [1]	S&P [2]
Weekly Return	0.16%	0.06%	(0.21%)	(0.42%)
MTD Return	0.54%	0.44%	(0.56%)	(0.16%)
YTD Return	0.54%	0.44%	(0.56%)	(0.16%)

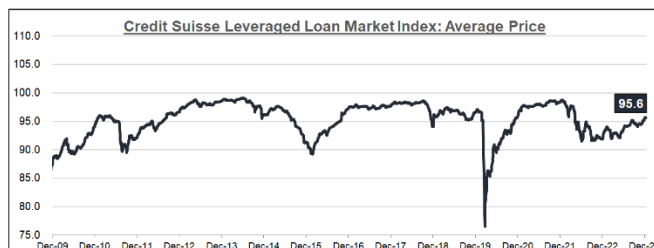
[1] Credit Suisse Total Return information is calculated weekly. Yield data is as of 01/19/2024

[2] Yield data as of 01/19/2024

### Diagram D: Average Bid Price of High Yield Bonds & Loans

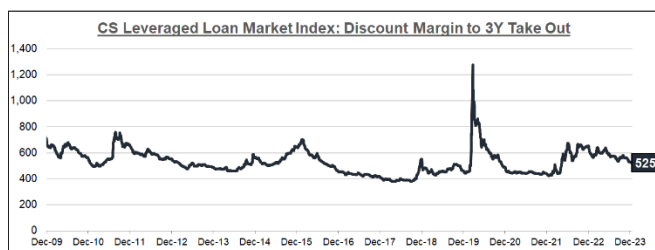


Source: CSFB High Yield Index (formerly DLJ High Yield Index) Average Price, expressed as a % of par value. Data is reported daily.

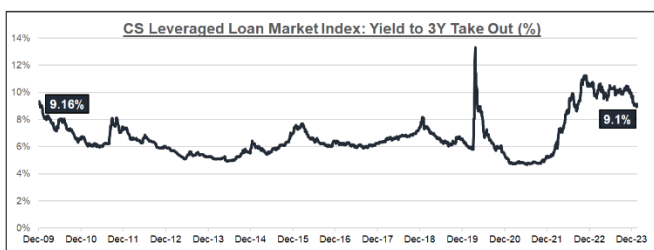


Source: CSFB Leveraged Loan Index Average Price, expressed as a % of par value. Data is reported daily.

### Diagram E: Leveraged Loans Spreads & Yields

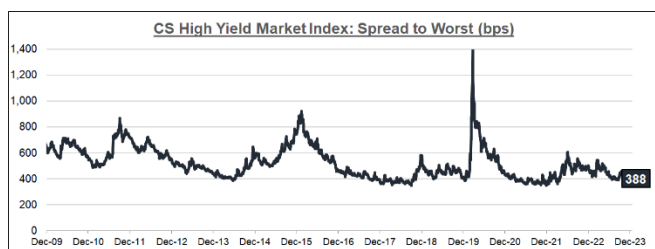


Source: CSFB Leveraged Loan Index Discount Margin to 3Y take-out, expressed in basis points. Data is reported daily.



Source: CSFB Leveraged Loan Index Yield to 3Y take-out, expressed as a percentage. Data is reported daily.

### Diagram F: High Yield Bonds Spreads & Yields

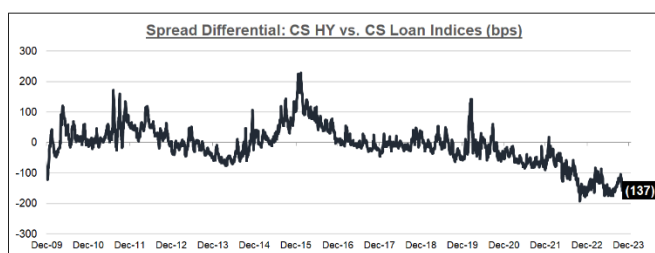


Source: CSFB High Yield Index (formerly DLJ High Yield Index) Spread-to-Worst, expressed in basis points. Data is reported daily.



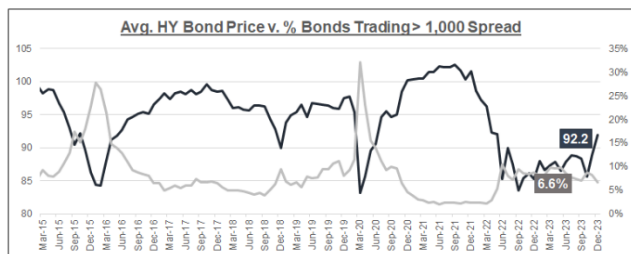
Source: CSFB High Yield Index (formerly DLJ High Yield Index) Yield-to-Worst, expressed as a percentage. Data is reported daily.

### Diagram G: Spread between High Yield Bonds and Leveraged Loans

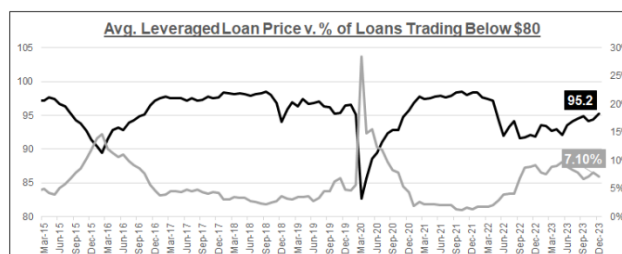


Source: CSFB HY Index and CSFB LL Index. Data is reported daily.

**Diagram H: Percentage of Leveraged Loan and High Yield Market Trading at Distressed**

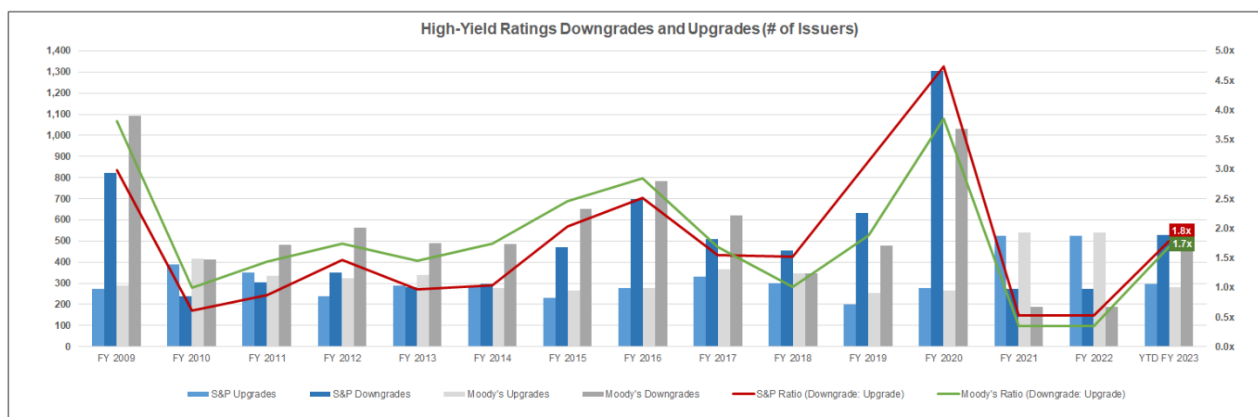


Source: CSFB. Data is reported monthly.

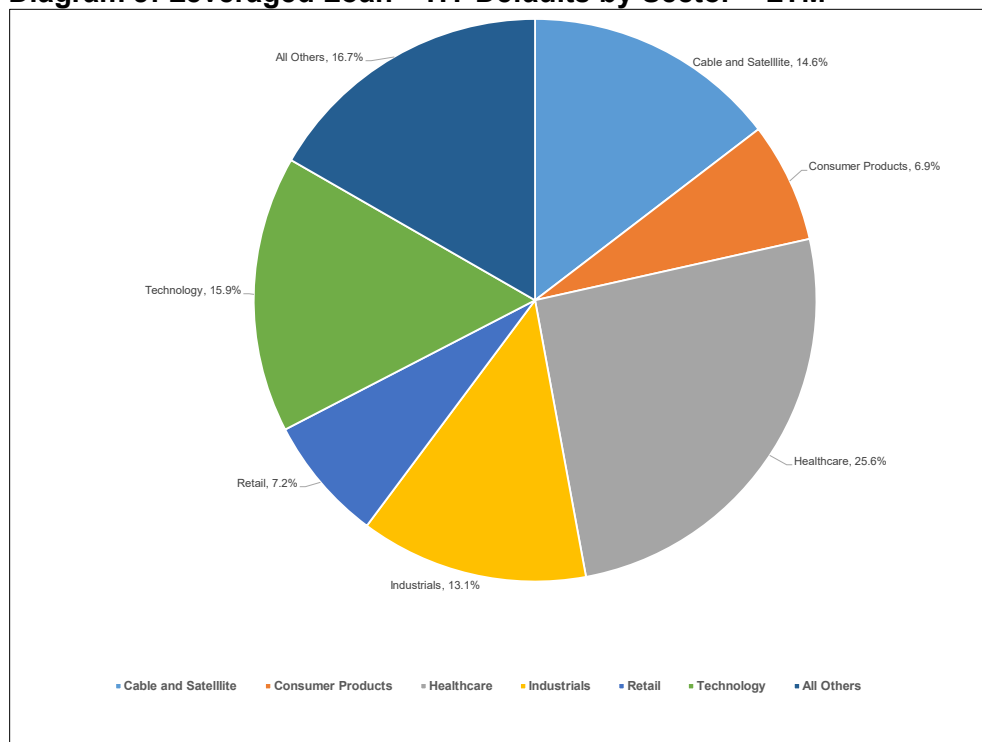


Source: JPM. Data is reported monthly.

**Diagram I: High Yield Upgrades and Downgrades**



**Diagram J: Leveraged Loan + HY Defaults by Sector – LTM**



Source: JP Morgan Default Monitor.

## Diagram L: CLO Economics

CLO Economics								
AAA Coupons	AAA DMs	WAC Liabilities	DM Liabilities	Leverage	Asset WAS	All In WAS [1]	IRR est.	Cash on Cash est.
L+135-150	L+135-150	L+200-240	L+220-280	9-11x	L+300-360	L+330-390	9-12%	10-14%

\*Assumptions: 2% Default / 65% Recovery / 4 year Reinvestment Period

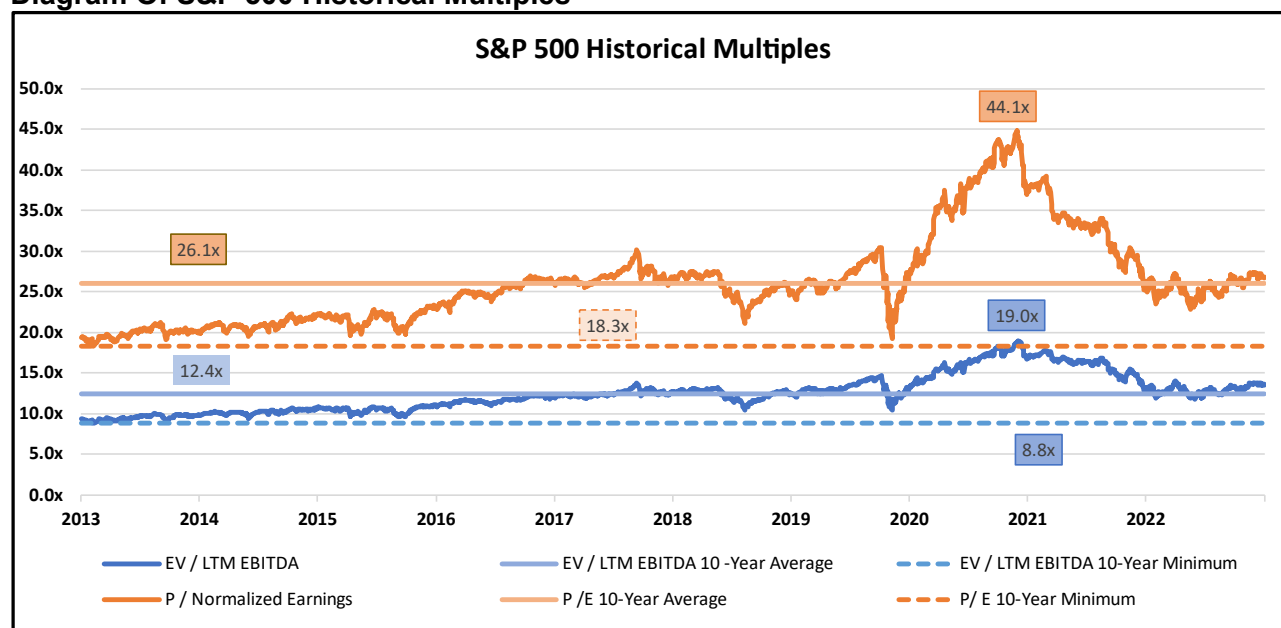
[1] Spread includes OID benefit based on 4 year repayment

## Diagram N: Developed Country GovBond Yields (%)

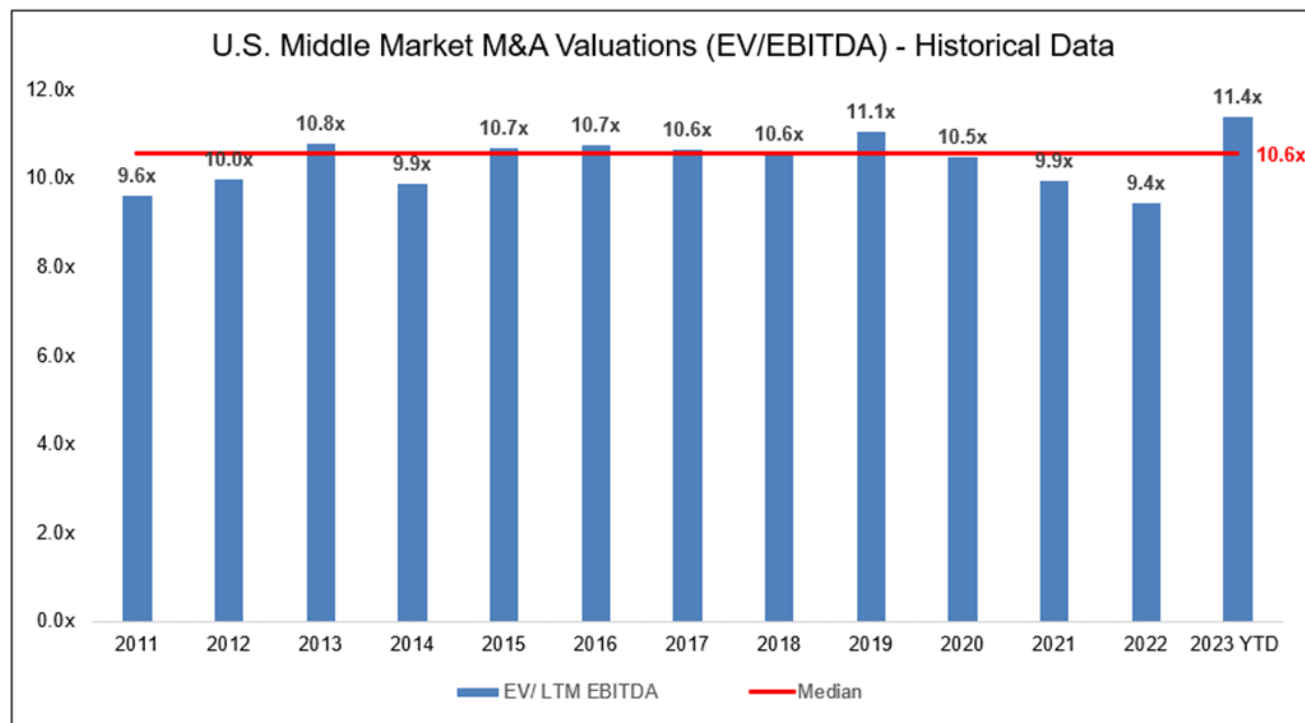
By	12/29/23	1/5/24	1/12/24	1/19/24	Weekly	Q4 2023	Change Q3 2023	Q2 2023	Q1 2023
France - 10 year	2.56%	2.70%	2.68%	2.83%	15 bps	(84 bps)	47 bps	14 bps	(32 bps)
Germany - 10 year	2.02%	2.16%	2.18%	2.34%	16 bps	(82 bps)	45 bps	10 bps	(28 bps)
Italy - 10 year	3.70%	3.85%	3.73%	3.88%	15 bps	(108 bps)	71 bps	(3 bps)	(62 bps)
Japan - 10 year	0.61%	0.61%	0.61%	0.67%	6 bps	(16 bps)	37 bps	1 bps	(3 bps)
UK - 10 year	3.54%	3.79%	3.79%	3.93%	14 bps	(90 bps)	6 bps	93 bps	(18 bps)
US									
US - 2 year	4.25%	4.38%	4.14%	4.41%	26 bps	(85 bps)	17 bps	97 bps	(46 bps)
US - 5 year	3.85%	4.01%	3.83%	4.07%	24 bps	(86 bps)	52 bps	69 bps	(50 bps)
US - 10 year	3.88%	4.05%	3.94%	4.15%	21 bps	(80 bps)	82 bps	44 bps	(46 bps)
US - 30 year	4.03%	4.20%	4.18%	4.36%	18 bps	(76 bps)	93 bps	23 bps	(33 bps)

Source: Bloomberg

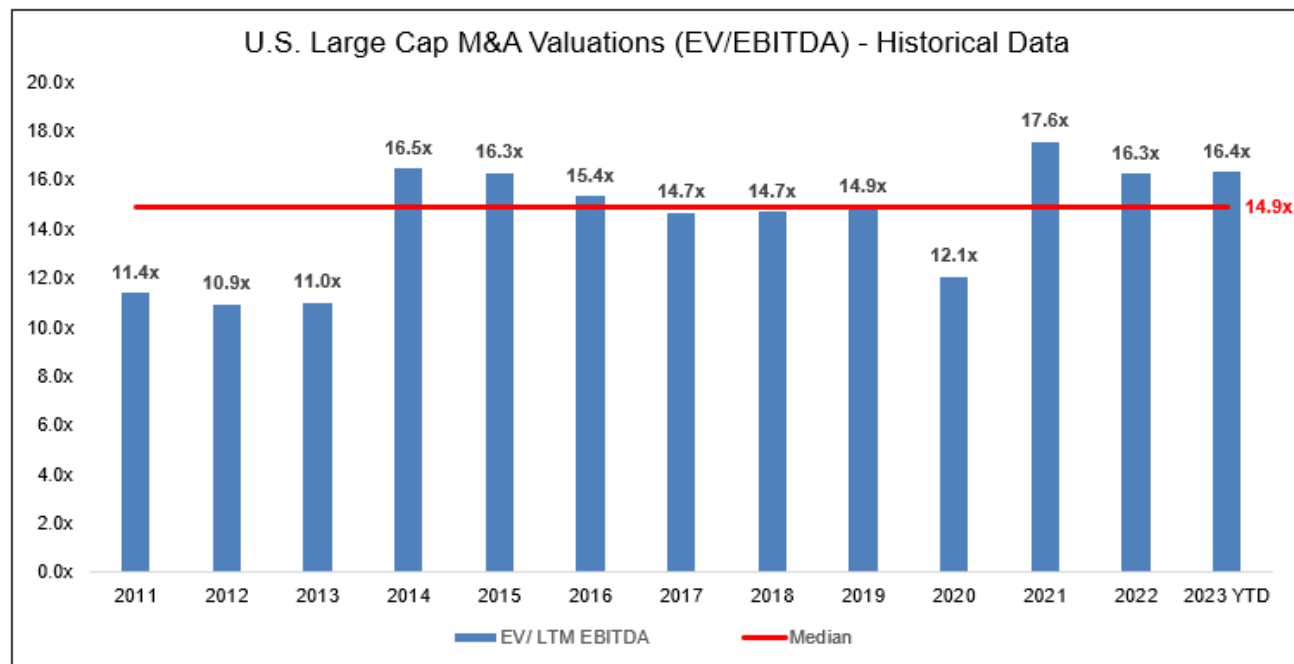
## Diagram O: S&amp;P 500 Historical Multiples

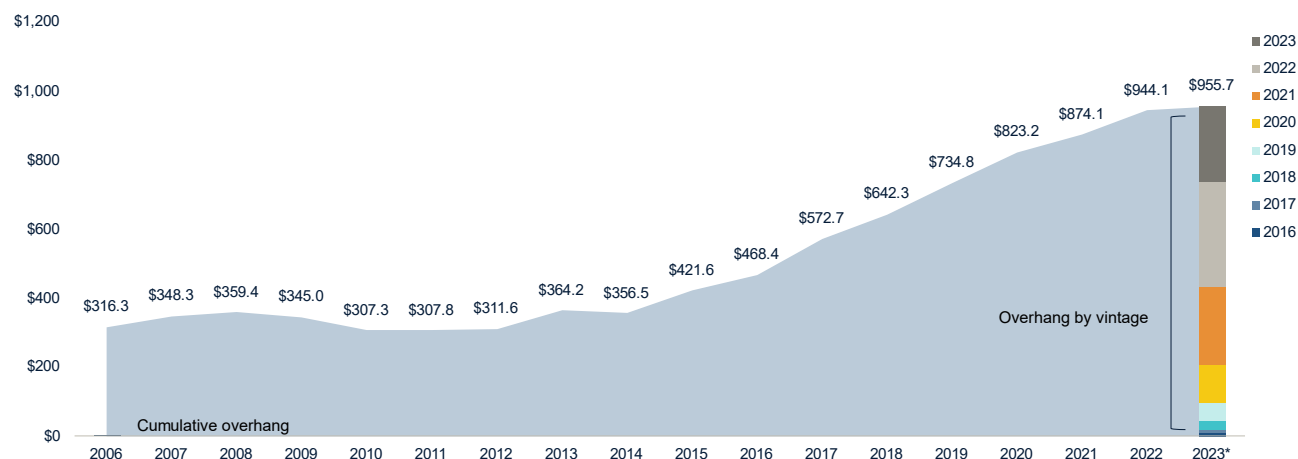


Source: S&P Capital IQ

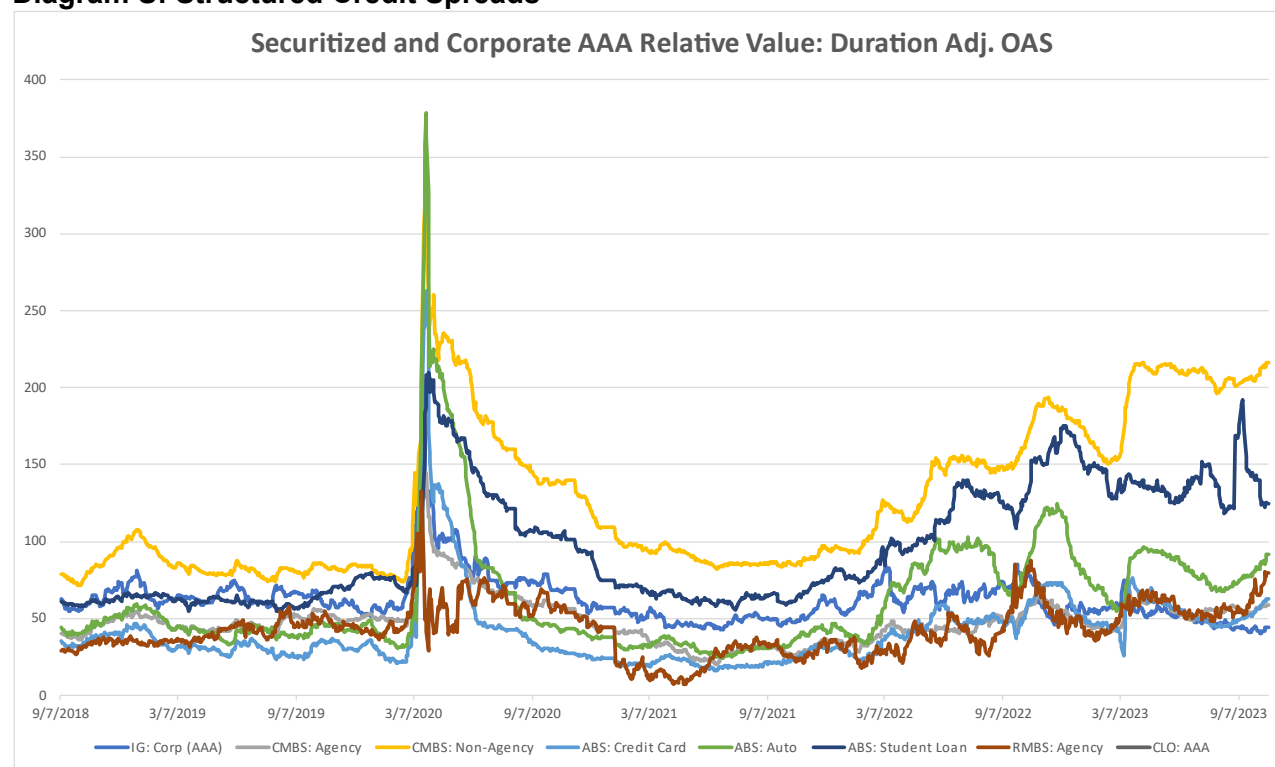
**Diagram P: U.S. Middle-Market M&A Valuations (EV/EBITDA)**

Source: Pitchbook

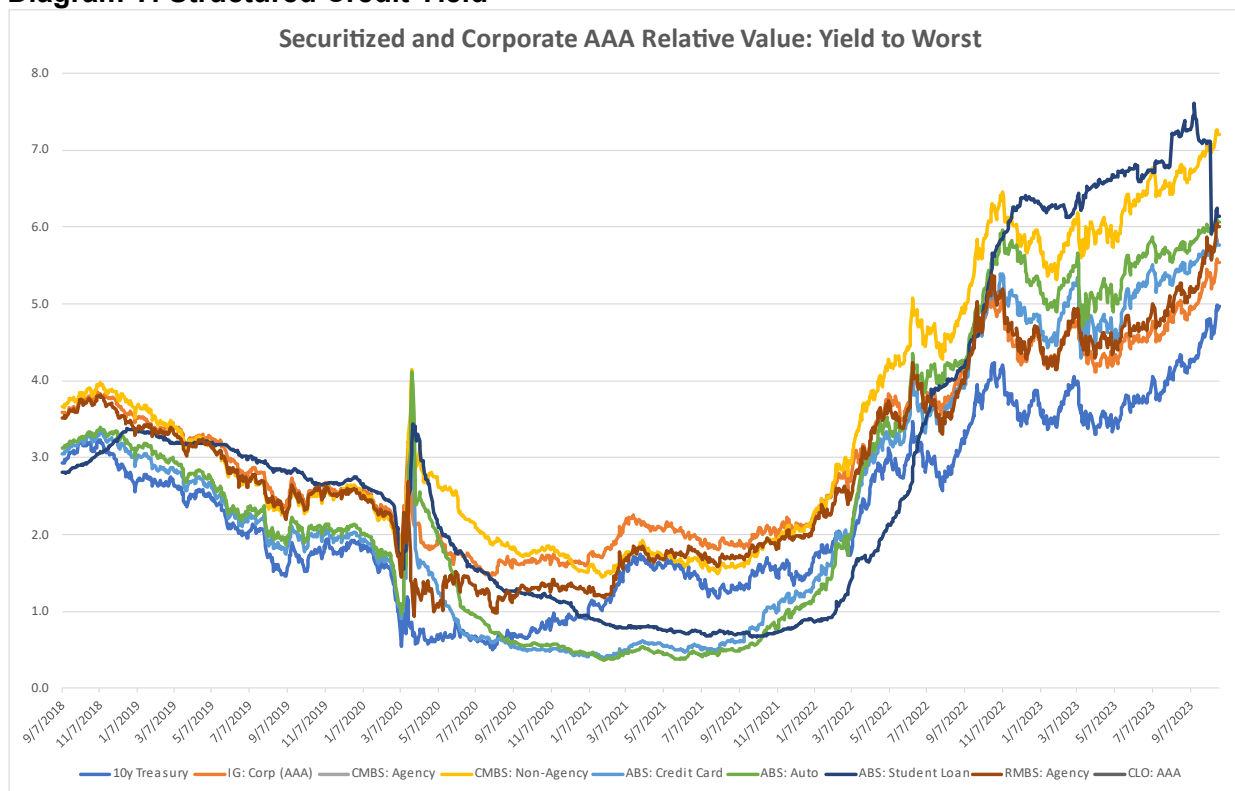
**Diagram Q: U.S. Large Cap M&A Valuations (EV/EBITDA)**

**Diagram R: Dry Powder for All Private Equity Buyouts**

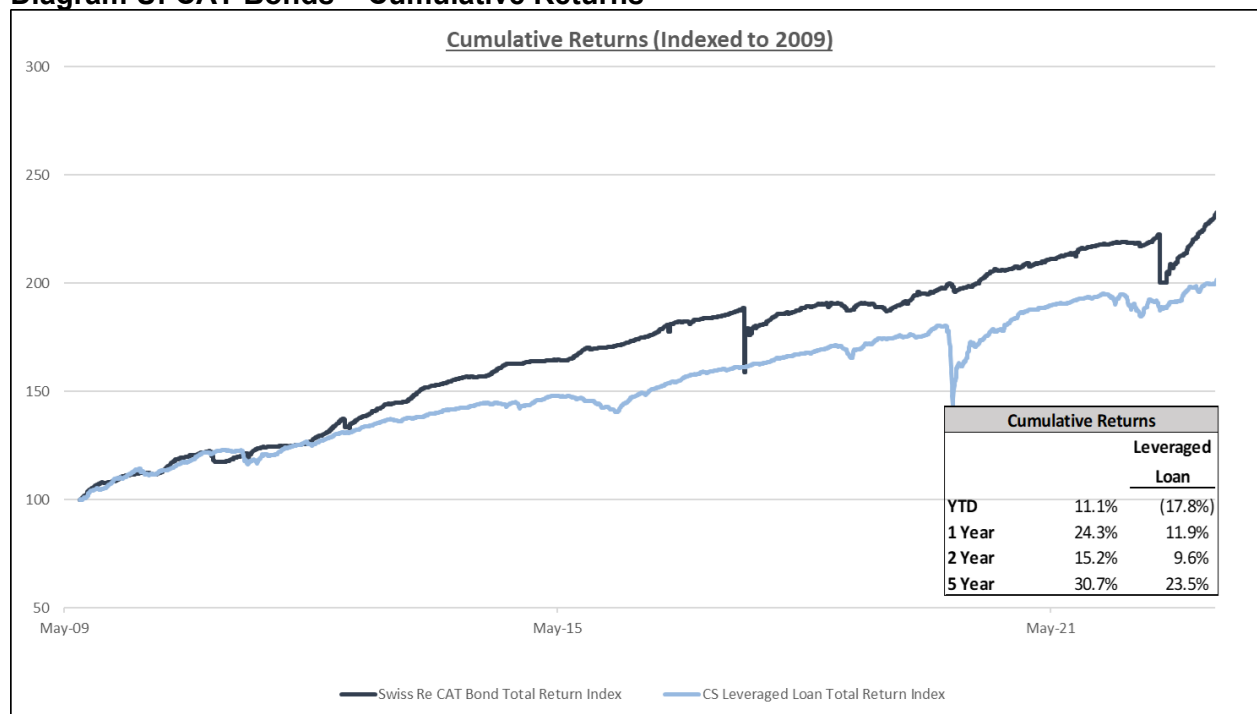
Source: Pitchbook

**Diagram S: Structured Credit Spreads**

Source: Bloomberg

**Diagram T: Structured Credit Yield**

Source: Bloomberg

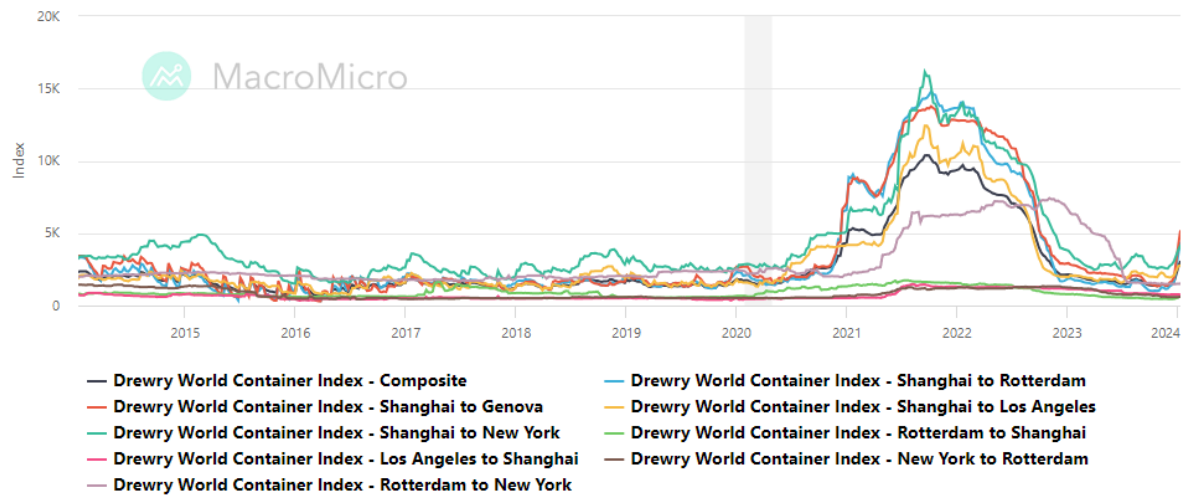
**Diagram U: CAT Bonds – Cumulative Returns**

Source: Bloomberg



## Freight Rates

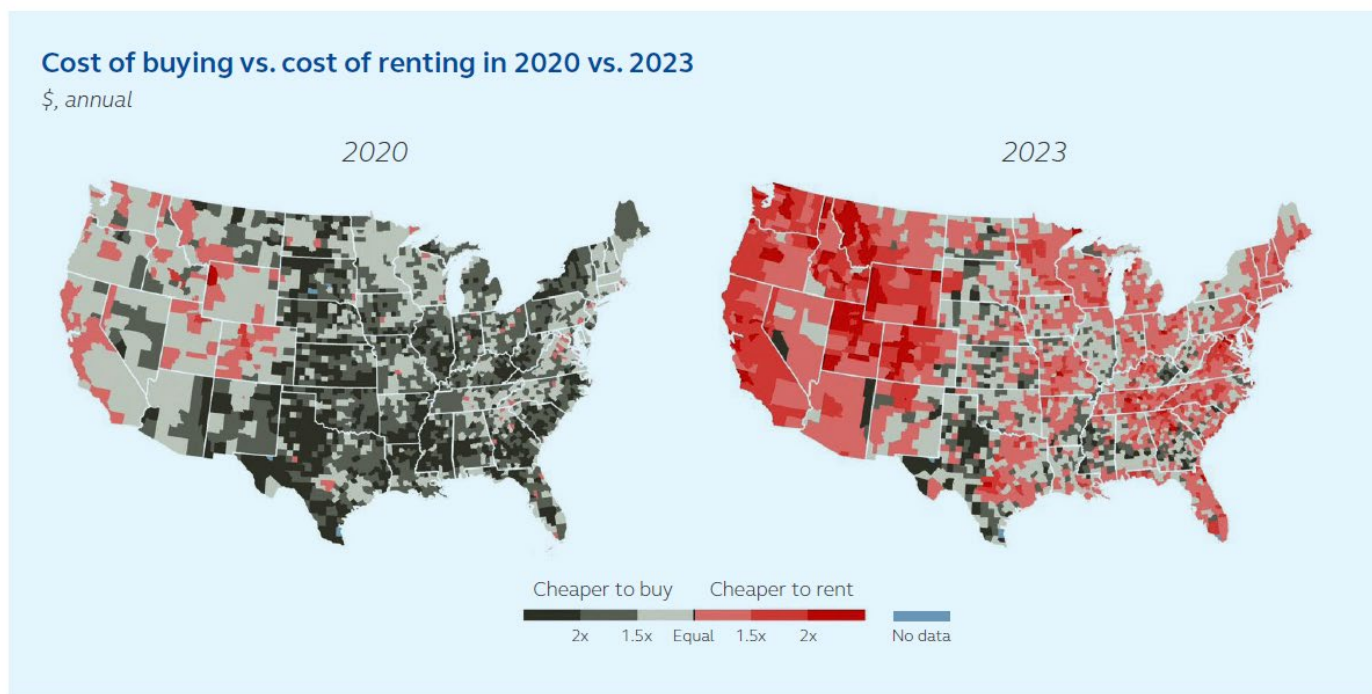
### Drewry World Container Index



### China-Global & Shanghai Export Container Freight Index



Real Estate Views & Trends:



## About Z Capital Group, L.L.C.

**Z Capital Group, L.L.C. (“ZCG”)** is a leading, privately held merchant bank comprised of private markets asset management, business consulting services, technology development and solutions.

ZCG has approximately \$7B of AUM with a global team comprised of approximately 400 professionals.  
[www.zcg.com](http://www.zcg.com)

### Asset Management

**Z Capital Partners, LLC (“ZCP”)** is the private equity fund management platform of ZCG. ZCP pursues a strategy of acquiring companies that are growth platforms, corporate carve-outs, buy & build, go-private transactions, and turn arounds.

**Z Capital Credit Partners, LLC (“ZCCP”)** is the credit fund management platform of ZCG. ZCCP invests across a range of credit investments including leveraged loans, private debt, direct lending, and opportunistic credit. ZCCP manages closed and open ended funds as well as structured vehicles of strategic debt.

Both investment platforms share ZCG common resources, including infrastructure, legal, and cross global intelligence.

### ZCG Consulting

**ZCG Consulting (“ZCGC”)**, the strategic management consulting platform of ZCG, is a team of operating professionals within various disciplines of expertise including: financial reporting & planning, technology assessment & implementation, talent acquisition & analysis, global supply chain & logistics, c-suite advisory, real estate operations & management, insurance & risk management, in support of portfolio companies. The team works closely with company management teams and investment professionals to optimize operations and financial rigor, ultimately leading to value creation and increased performance.

### Technology

**Webonise US, LLC (“Webonise”)** is a software development and technology services firm with offices across the globe.

Core technology productions and services include customizable software development, data science and business intelligence solutions, intelligent automation, digital marketing and cybersecurity advisory.

[www.weboniselab.com](http://www.weboniselab.com)

**Olympus Fintech (“Olympus”)** is a software product and platform which provides private equity, debt, and CLO managers with customizable and simplified workflows, data management, and robust reporting capabilities.

[www.olyfintech.com](http://www.olyfintech.com)

**IMPORTANT INFORMATION and DISCLAIMER:** Certain information contained in this material has been obtained from third party sources that we deem to be reliable, but we do not warrant its accuracy or completeness, and any yield referenced is indicative and subject to change. The material contained herein is intended as a general market commentary. Any opinions or statements contained herein are purely the author’s and may not reflect those of Z Capital or any affiliates. The opinions or statements expressed are for informational purposes only and are subject to change without notice. This material should not be regarded as research or a Z Capital research report or as including sufficient information to support an investment decision. Certain statements contained in this document are forward-looking statements. Forward-looking statements are inherently uncertain as they are based on expectations and assumptions concerning future events and are subject to numerous known and unknown risks and uncertainties which could cause actual events or results to differ materially from those projected. Statements in this document are not intended to be, and should not be construed as, legal, business, investment, or tax advice. This document is not intended to be relied upon as the basis for any investment decision. Past performance is not a guarantee of future results. This material is not, and is not intended as, an offer or solicitation for the purchase or sale of any financial instrument.

AUM is Gross Pro-Forma as of May 31, 2023, and reflects certain transactions set to close prior to the end of Q3 2023.

