CAPITAL MARKETS PERSPECTIVES

FOURTH QUARTER 2020

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Angelo Gordon is a privately-held registered investment advisor dedicated to alternative investing. The firm was founded in 1988 and currently manages approximately $39 billion. We seek to generate absolute returns with low volatility by exploiting inefficiencies in selected markets and capitalizing on situations that are not in the mainstream of investment opportunities. We creatively seek out new opportunities that allow us to remain a leader in alternative investments.

We have expertise in a broad range of absolute return strategies for both institutional and high net worth investors. Our dedicated team of employees seeks to deliver consistent, positive returns in all market environments. We have built our name on our breadth of talent, intensive research, and risk averse approach to investing. Our long-term experience gives us the insight and patience to turn our vision into profitable, stable businesses.

Co-CIO Overview

In the third quarter of 2020, the recovery across credit asset classes continued. Pricing firmed though July and August amid continued capital inflows, positive COVID-19 vaccine headlines, a dovish Fed, progress on a new economic relief package, and better than expected corporate earnings. Additionally, risk-on sentiment was relatively broad-based despite rising COVID-19 cases in the U.S. and increasingly tense U.S.-China relations. This positive tone lasted until the beginning of September, when two weeks of mutual fund outflows gave pause to the market rally. In the last two weeks of the quarter, prices also turned negative amid spikes in COVID-19 cases in Europe, dimmer chances of a second round of U.S. fiscal support, and increasing concerns about a contentious U.S. presidential election.

The S&P 500 handily outperformed high yield and leveraged loan markets with an 8.93% return in the third quarter; however, credit and equity returns in Europe lagged, and the S&P 500 and Euro Stoxx 600 posted year-to-date returns of 5.57% and -13.24%, respectively.

Given the strong rebound of the primary new issuance market and return of investor appetite for credit, many issuers took advantage of the circumstances by enhancing their balance sheet liquidity or extending maturities. Although this proactive behavior will likely put off any day of reckoning for troubled issuers and decrease the probability of a near-term default rate spike, an extended period of economic stagnation could push both defaults and downgrades materially higher given the growth of leverage across corporate debt markets.

With the Fed's liquidity programs and the CARES Act providing support to U.S. consumers, fundamental performance in the RMBS and ABS markets has been in-line with or above expectations—helping investors regain comfort with the asset class—and solid inflows have led to price recovery. CMBS also continued its price recovery during the quarter, albeit at a slower rate than other credit markets. Although the commercial real estate debt markets remain challenged, we believe they represent an interesting area of focus for investors that have the capacity to underwrite CMBS securities to a granular level.

Despite a solid ongoing recovery and many credit markets being at or near their pre-pandemic levels, there is increasing dispersion under the surface of a number of those markets. With this in mind, we believe solid credit selection and avoidance of the many remaining pockets of risk will support prudent investors' efforts to identify opportunities to outperform going forward.

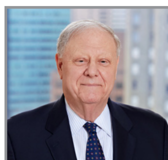
Turning to global real estate, in the face of ongoing pandemic-related uncertainty, operating fundamentals are challenged and sales activity has significantly declined. Given that real estate is an asset anchored in long-term cash flows, it is critical to have a good handle on operating fundamentals and a fairly clear view of the future, though current market dynamics have made that difficult. The path forward varies by property type, as hotels and retail assets have generally been most impacted by COVID-19, multifamily and industrial have been performing well, and the future of office remains a point of debate as companies re-evaluate the need for and size of their space. For all property types, however, there are nuances across quality levels and geographies, so a local view is paramount. Despite the uncertainty surrounding real assets, positives like near-record low interest rates, unprecedented government stimulus, and significant dry powder should support longer-term values.

In the U.S., commercial real estate transaction volume remains muted, and investor appetite has been suppressed, as underwriting is difficult at best. The shock to demand created a large bid-ask spread between buyers and sellers, and lenders are biased toward geographies and property types with more certain recovery profiles. On a positive note, vacancy rates are healthier than they were during the global financial crisis—due to limited new supply in the last cycle and conversions of excess space—and low interest rates have supported valuations.

Although government stimulus in Europe has provided support to GDP figures and employment levels, real estate activity has been slow, as evidenced in office, where transaction volume and leasing declined meaningfully year-over-year. Beyond office, European transaction activity is bifurcated, as there is high demand for multifamily and industrial properties but little to no activity in retail and hotel. In the UK, a similar dynamic exists; office investment activity decreased 40% year-over-year, while industrial activity increased 10% year-over-year.

Asia seems to be further along in its recovery than most of the world, though the recovery is uneven by country and real estate product type. For example, China's economy grew 4.9% in the third quarter after a sharp decline in the first quarter, whereas Japan's GDP declined 7.8% in the second quarter but is now showing signs of improvement. The logistics sector in Asia remained resilient through the pandemic, while the recovery of office varies by country and hospitality and retail are clearly suffering.

Through these unprecedented times, we hope that you, your families, and your colleagues are remaining safe and healthy.



Michael Gordon
Chief Executive Officer,
Co-Chief Investment Officer

Josh Baumgarten
Co-Chief Investment Officer,
Head of Credit

Adam Schwartz
Co-Chief Investment Officer,
Head of Real Estate

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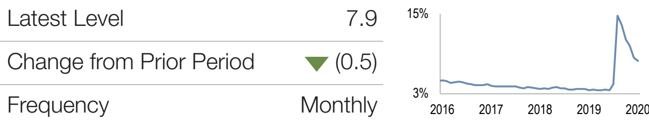
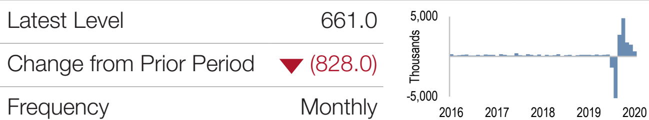
Economic Dashboard & Market Indices

JOB MARKET
Five-Year Trend

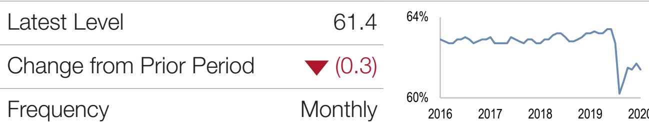
U.S.—Unemployment Rate	*As of 9/30/2020*
Latest Level	7.9
Change from Prior Period	▼ (0.5)
Frequency	Monthly



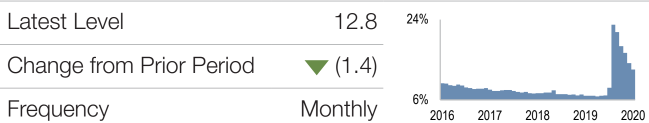
U.S.—Non-Farm Payroll	*As of 9/30/2020*
Latest Level	661.0
Change from Prior Period	▼ (828.0)
Frequency	Monthly



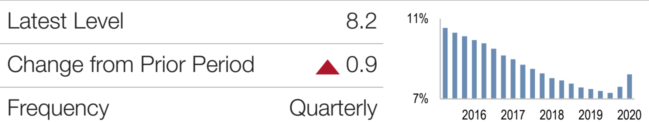
U.S.—Labor Participation Rate	*As of 9/30/2020*
Latest Level	61.4
Change from Prior Period	▼ (0.3)
Frequency	Monthly



U.S.—U-6 Unemployed & Margin & Part-Time as Percent of Labor Force & Margin	*As of 9/30/2020*
Latest Level	12.8
Change from Prior Period	▼ (1.4)
Frequency	Monthly

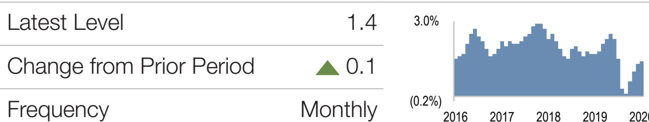


Eurozone Unemployment Rate	*As of 9/30/2020*
Latest Level	8.2
Change from Prior Period	▲ 0.9
Frequency	Quarterly



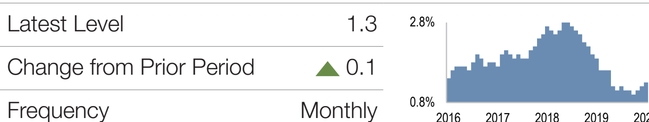
INFLATION
Five-Year Trend

U.S. Consumer Price Index (CPI) Y-o-Y (%)	*As of 9/30/2020*
Latest Level	1.4
Change from Prior Period	▲ 0.1
Frequency	Monthly



U.S. CPI Goods Less Food & Energy Y-o-Y (%)	*As of 9/30/2020*
Latest Level	1.7
Change from Prior Period	0.0
Frequency	Monthly

U.S. Producer Price Index (PPI) Y-o-Y (%)	*As of 9/30/2020*
Latest Level	1.3
Change from Prior Period	▲ 0.1
Frequency	Monthly



GDP GROWTH
Five-Year Trend

U.S.—GDP Y-o-Y (%)	*As of 9/30/2020*
Latest Level	(1.8)
Change from Prior Period	▲ 6.7
Frequency	Quarterly

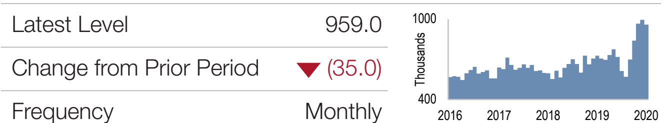
Eurozone—GDP Y-o-Y (%)	*As of 9/30/2020*
Latest Level	(4.3)
Change from Prior Period	▲ 10.5
Frequency	Quarterly

China—GDP Y-o-Y (%)	*As of 9/30/2020*
Latest Level	4.9
Change from Prior Period	▲ 1.7
Frequency	Quarterly

HOUSING
Five-Year Trend

Existing Home Sales	*As of 9/30/2020*
Latest Level	6.5
Change from Prior Period	▲ 0.6
Frequency	Monthly

New Home Sales	*As of 9/30/2020*
Latest Level	959.0
Change from Prior Period	▼ (35.0)
Frequency	Monthly



Housing Starts	*As of 9/30/2020*
Latest Level	1,415.0
Change from Prior Period	▲ 27.0
Frequency	Monthly

Case-Shiller Index of Home Value in 20 Cities	*As of 8/31/2020*
Latest Level	226.4
Change from Prior Period	▲ 1.1
Frequency	Monthly

Source: Bloomberg (All).

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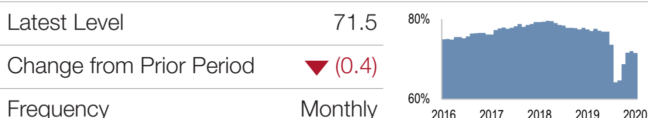
Economic Dashboard & Market Indices *(continued)*

ECONOMIC & MARKET CONFIDENCE

Five-Year Trend

Capacity Utilization as a Percent of Capacity — *As of 9/30/2020*

Latest Level	71.5
Change from Prior Period	▼ (0.4)
Frequency	Monthly



Private Fixed Investment Nonresidential SAAR — *As of 9/30/2020*

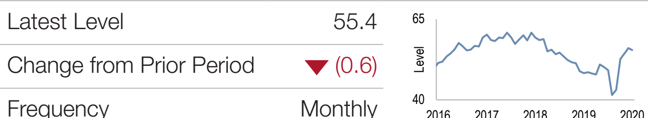
Latest Level	2,773.0
Change from Prior Period	▲ 126.2
Frequency	Quarterly

Residential Fixed Investment as a Percent of GDP — *As of 9/30/2020*

Latest Level	3.5
Change from Prior Period	▲ 0.2
Frequency	Quarterly

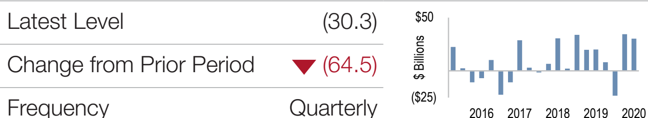
ISM Manufacturing Index — *As of 9/30/2020*

Latest Level	55.4
Change from Prior Period	▼ (0.6)
Frequency	Monthly



Manufacturing Inventory Change Q-o-Q ($) — *As of 9/30/2020*

Latest Level	(30.3)
Change from Prior Period	▼ (64.5)
Frequency	Quarterly



Exports of Goods/Services — *As of 9/30/2020*

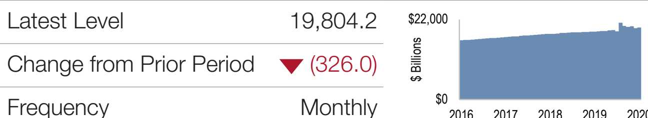
Latest Level	2,167
Change from Prior Period	▲ 239
Frequency	Quarterly

Shipping Rates — *As of 9/30/2020*

Latest Level	1,725
Change from Prior Period	▲ 237
Frequency	Quarterly

Personal Income Level — *As of 9/30/2020*

Latest Level	19,804.2
Change from Prior Period	▼ (326.0)
Frequency	Monthly



Michigan Consumer Confidence Sentiment — *As of 9/30/2020*

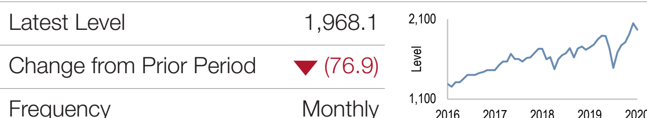
Latest Level	80.4
Change from Prior Period	▲ 6.3
Frequency	Monthly

EQUITY

Five-Year Trend

U.S. Equity Markets—Russell 3000 — *As of 9/30/2020*

Latest Level	1,968.1
Change from Prior Period	▼ (76.9)
Frequency	Monthly

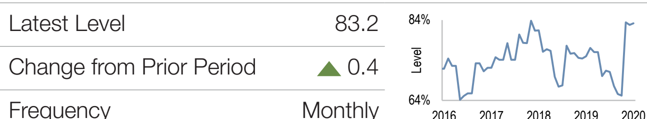


U.S. Equity—VIX — *As of 9/30/2020*

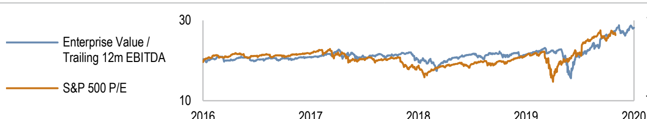
Latest Level	26.4
Change from Prior Period	0.0
Frequency	Monthly

S&P 500 Percentage Exceeding Earning Estimates — *As of 9/30/2020*

Latest Level	83.2
Change from Prior Period	▲ 0.4
Frequency	Monthly

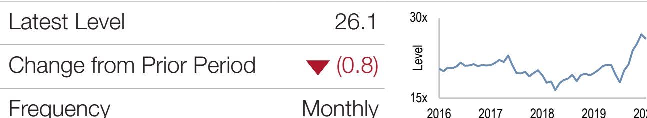


S&P 500 Historical Valuation Levels — *As of 9/30/2020*



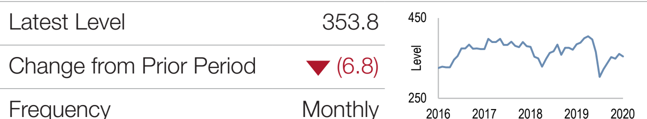
Trailing P/E on S&P 500 — *As of 9/30/2020*

Latest Level	26.1
Change from Prior Period	▼ (0.8)
Frequency	Monthly



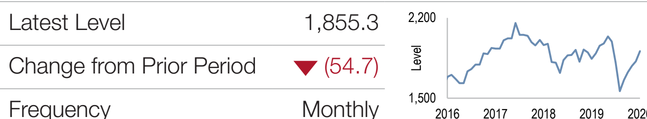
Equity Markets—Euro Stoxx — *As of 9/30/2020*

Latest Level	353.8
Change from Prior Period	▼ (6.8)
Frequency	Monthly



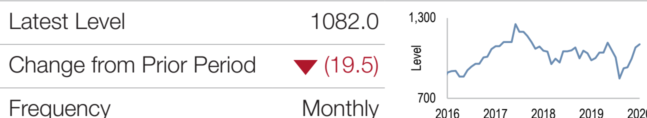
Equity Markets—MSCI EAFE — *As of 9/30/2020*

Latest Level	1,855.3
Change from Prior Period	▼ (54.7)
Frequency	Monthly

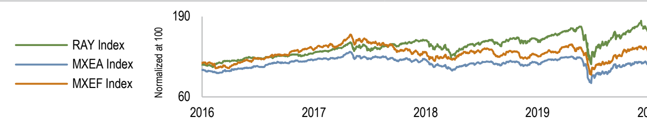


Equity Markets—MSCI EM — *As of 9/30/2020*

Latest Level	1082.0
Change from Prior Period	▼ (19.5)
Frequency	Monthly



Russell 3000 & MSCI EAFE & MSCI EM — *As of 9/30/2020*



Source: Bloomberg (All).

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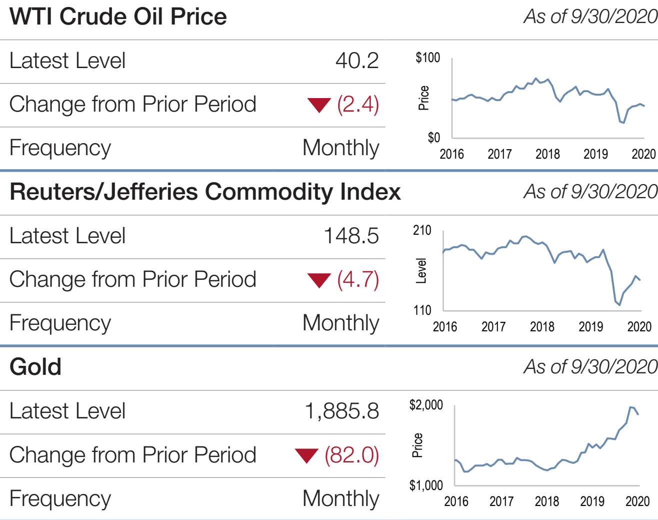
Economic Dashboard & Market Indices *(continued)*

COMMODITIES

Five-Year Trend



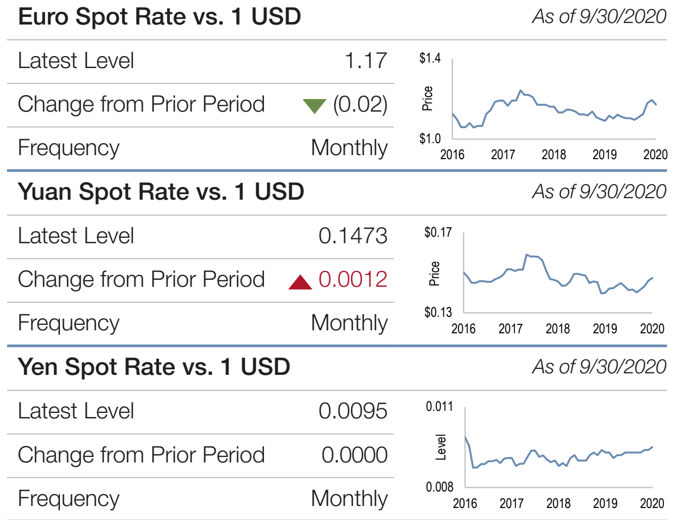
WTI Crude Oil Price	*As of 9/30/2020*
Latest Level	40.2
Change from Prior Period	▼ (2.4)
Frequency	Monthly

Reuters/Jefferies Commodity Index	*As of 9/30/2020*
Latest Level	148.5
Change from Prior Period	▼ (4.7)
Frequency	Monthly

Gold	*As of 9/30/2020*
Latest Level	1,885.8
Change from Prior Period	▼ (82.0)
Frequency	Monthly

FOREIGN EXCHANGE RATES

Five-Year Trend



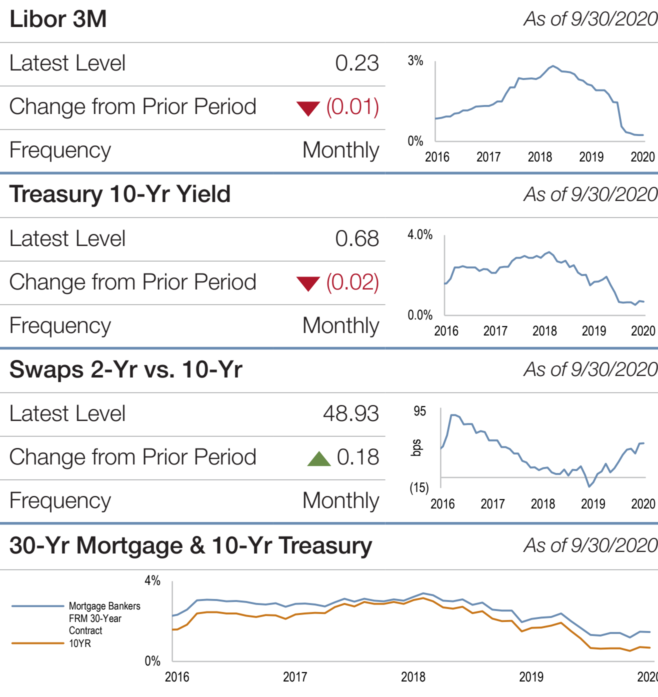
Euro Spot Rate vs. 1 USD	*As of 9/30/2020*
Latest Level	1.17
Change from Prior Period	▼ (0.02)
Frequency	Monthly

Yuan Spot Rate vs. 1 USD	*As of 9/30/2020*
Latest Level	0.1473
Change from Prior Period	▲ 0.0012
Frequency	Monthly

Yen Spot Rate vs. 1 USD	*As of 9/30/2020*
Latest Level	0.0095
Change from Prior Period	0.0000
Frequency	Monthly

RATES

Five-Year Trend



Libor 3M	*As of 9/30/2020*
Latest Level	0.23
Change from Prior Period	▼ (0.01)
Frequency	Monthly

Treasury 10-Yr Yield	*As of 9/30/2020*
Latest Level	0.68
Change from Prior Period	▼ (0.02)
Frequency	Monthly

Swaps 2-Yr vs. 10-Yr	*As of 9/30/2020*
Latest Level	48.93
Change from Prior Period	▲ 0.18
Frequency	Monthly

30-Yr Mortgage & 10-Yr Treasury *As of 9/30/2020*

Source: Bloomberg (All).

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Performing Credit

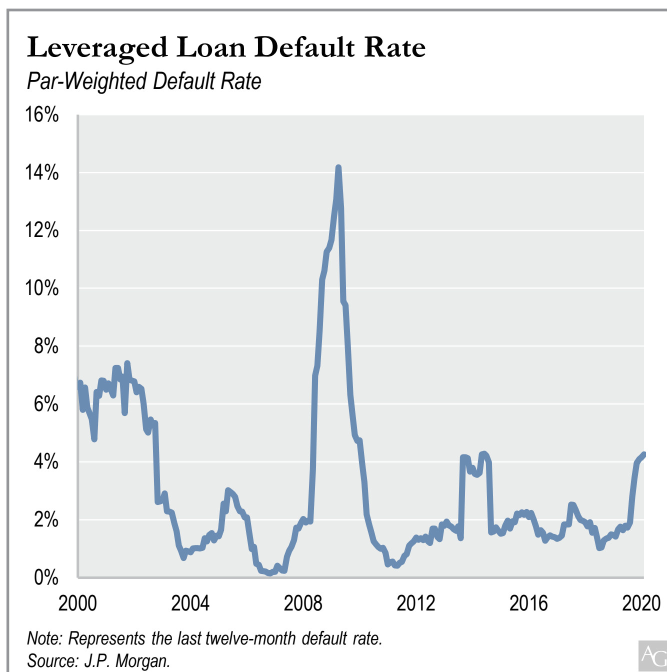
The leveraged loan market continued to recover in the third quarter of 2020, posting a 3.47% gain and pushing the year-to-date return to approximately breakeven. The loan price improvement witnessed in June continued in the third quarter and was driven by several positive factors, particularly the increase in demand from CLO buyers. A meaningful compression in AAA CLO spreads led to a sharp increase in CLO issuance, which—in September—reached the highest level seen since April 2016. Additional factors driving loan market performance during the quarter included encouraging news on COVID-19 treatment protocols and vaccine research, the Fed's push for a second round of fiscal support, and an earnings picture that proved to be less dire than feared.

The loan market recovered in the quarter, though it slightly lagged the V-shaped recovery of the high yield bond market. The J.P. Morgan U.S. Leveraged Loan Index began the second quarter at a weighted average price of $91.37 and ended the third quarter at $94.54, posting a 3.47% gain and bringing the index's year-to-date return to -0.57%. The index ended the quarter with a 575-basis point spread to a 3-year takeout, exceeding the 11-year median of 495 basis points.

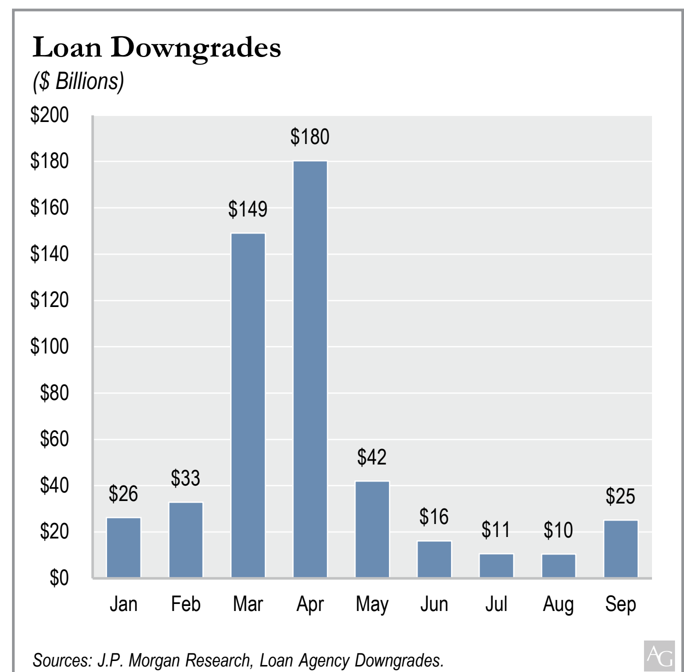
Default rates are a point of focus for both high yield and leveraged loan investors, as issuers' balance sheets may lack the flexibility needed to navigate the challenges brought on by COVID-19. In the third quarter, the par-weighted default rate in the leveraged loan market increased to 4.26% at quarter-end, up from 3.96% at the end of June and 2.84% a year ago. The pace of defaults has slowed in recent weeks, leading some sell-side research teams to lower their default rate forecasts.

The reopening of the U.S. and European CLO markets led to an increase in new issue volume in the leveraged finance market during the third quarter. In the U.S., institutional loan new issue volume totaled $330.4 billion year-to-date and $129.9 billion net of refinancing, a year-over-year increase of 25% and decrease of 17%, respectively. September's $33.7 billion of issuance was the heaviest activity since February 2020.

We witnessed bullishness in the credit and equity markets in the third quarter, though this was coupled with rising concerns about new spikes in COVID-19 cases and a potentially contested U.S. presidential election—both of which persist. In this environment, we believe prudent leveraged loan investors should be focused on monitoring the liquidity runway of underlying borrowers. In the event of a prolonged shutdown, companies that can manage their cost structure and that have access to sufficient liquidity will have the flexibility needed to navigate the crisis. Furthermore, we believe a focus on avoiding challenged sectors, such as retail or energy, can help mitigate risk and improve capital preservation.



While default rates have increased, they are nowhere close to post-GFC levels.



While downgrade activity in the loan market has slowed, there is still the possibility for further downgrades in sectors with high exposure to COVID-19-related risk.

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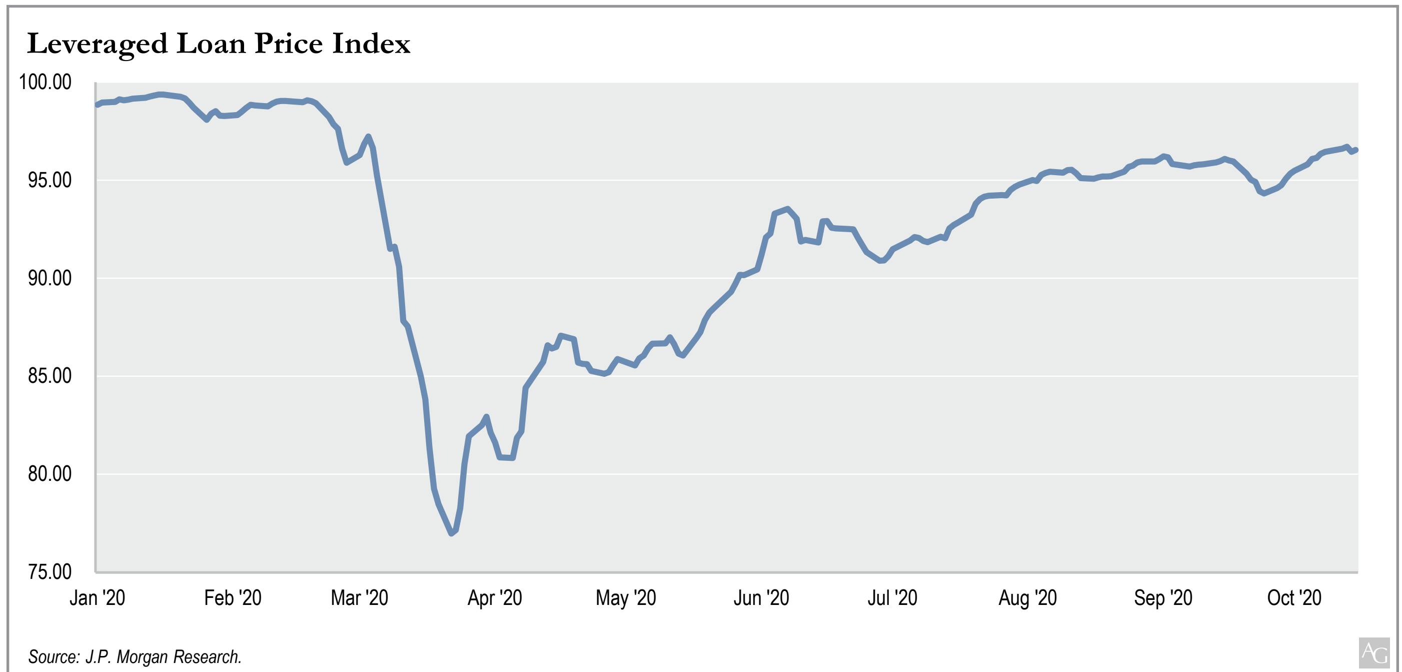
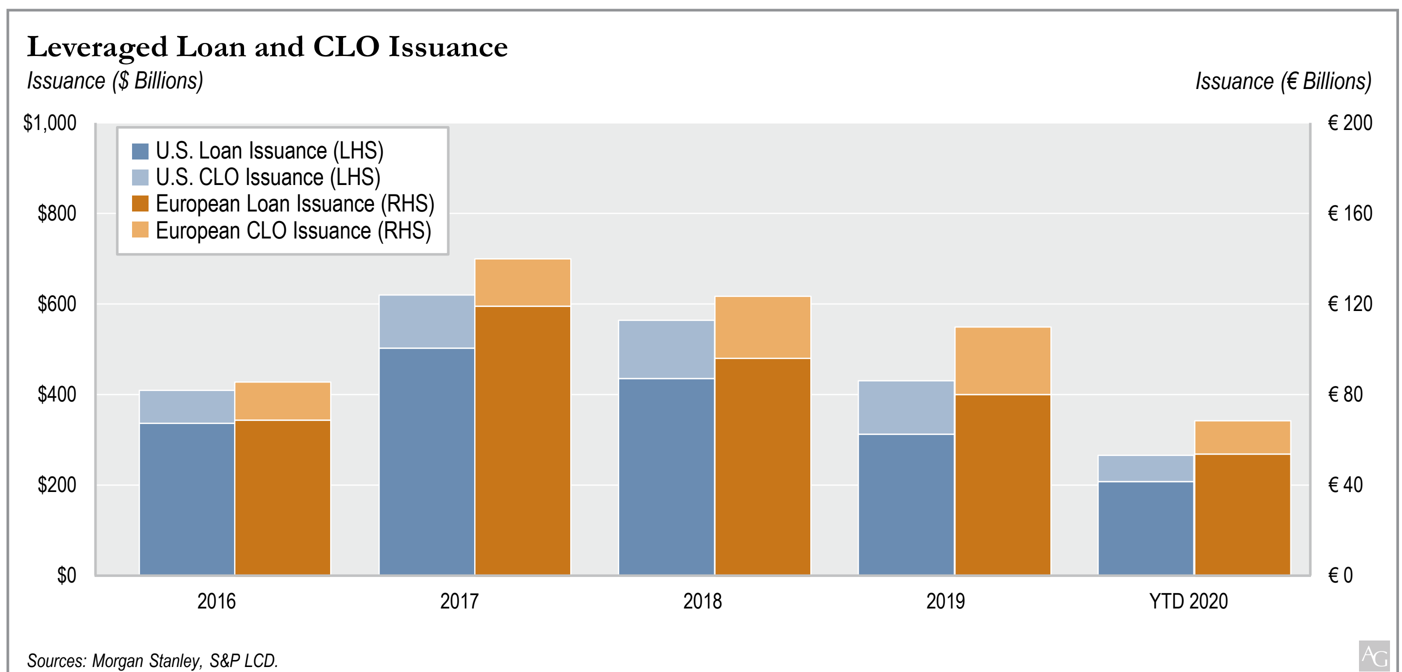
Performing Credit *(continued)*



Loans have recovered but not to pre-pandemic levels.



The reopening of the new issue CLO market is a positive catalyst for the primary leveraged loan market.

Maureen D'Alleva
Portfolio Manager

For more information on Performing Credit, visit www.angelogordon.com/strategies/credit/performing-credit/

Distressed Debt

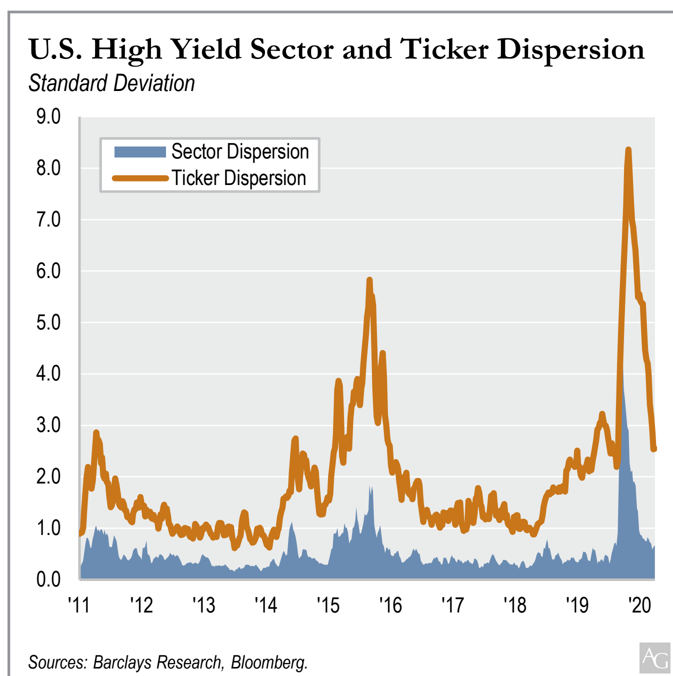
The U.S. and European high yield markets generated another quarter of strong performance, gaining 5.2% in the United States and 2.6% in Europe for the three-month period ended September 30, 2020. With these results, year-to-date performance improved to -1.3% in the U.S. and to -3.3% in euro-currency. Notably, U.S. high yield has recovered 24% since the 2020 lows on March 23rd.

High yield spreads continued to tighten in the third quarter. In the United States, spreads declined approximately 120 basis points from June to September, ending at 603 basis points, while spreads in Europe trended similarly, also compressing approximately 120 basis points to close the quarter at 488 basis points. In both markets, lower-rated CCCs outperformed higher-rated bonds during the quarter, returning 7.5% in the U.S. and 3.4% in Europe, with sectors such as retail, automotive, consumer products, and energy leading the gains in the U.S. market.

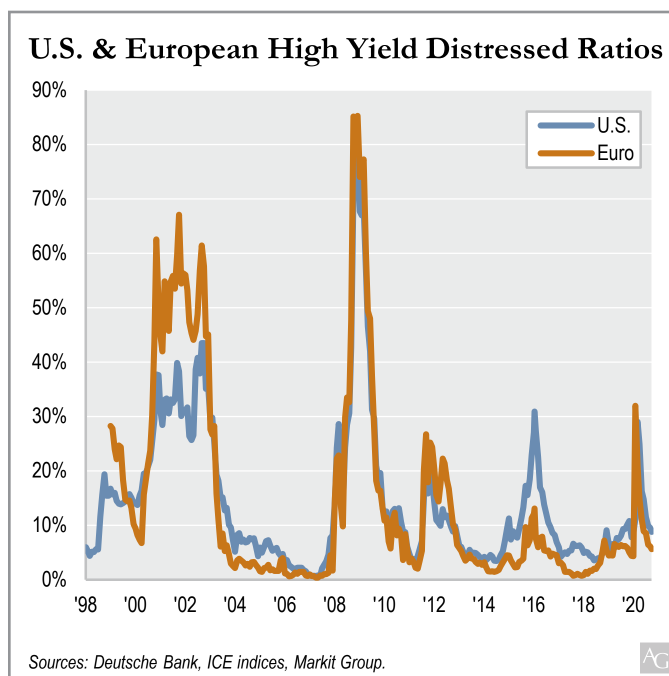
The U.S. high yield default rate was 6.4% at the end of September. Though volume was significantly lower than the previous quarter's $80 billion, 26 companies defaulted or completed a distressed exchange in the third quarter, with over $19 billion of loans and bonds affected. The year-to-date activity through September ranks as the second highest annual default level on record, trailing only 2009. Energy, retail, and consumer products accounted for more than 50% of the 92 companies that had defaulted through September. In Europe, 14 issuers and €7 billion of debt were affected during the first nine months of the year, resulting in high yield default rates increasing to 2.9% at quarter-end.

The second and third quarters of 2020 were the two largest on record for U.S. high yield new issuance, with July through September volume of $132 billion just behind the $146 billion of gross new supply in April through June. Refinancing again represented the majority of activity—accounting for approximately 80% of volume—with BB- or higher-rated issuers driving greater than 50% of new issuance, which was diversified across sectors. In Europe, third quarter issuance of €27 billion was a record, and year-to-date new supply of €70 billion is currently second to only 2014.

Following a record $44 billion of net inflows in the second quarter of 2020, U.S. high yield funds continued to draw capital from investors, with a reported $11 billion of new monies received in the third quarter. Year-to-date through September, U.S. high yield funds experienced net inflows of approximately $39 billion, well surpassing the $19 billion of inflows for all of 2019. In Europe, high yield funds took in €770 million in July through September, though the asset class experienced net outflows of approximately €2 billion for the first nine months of the year.

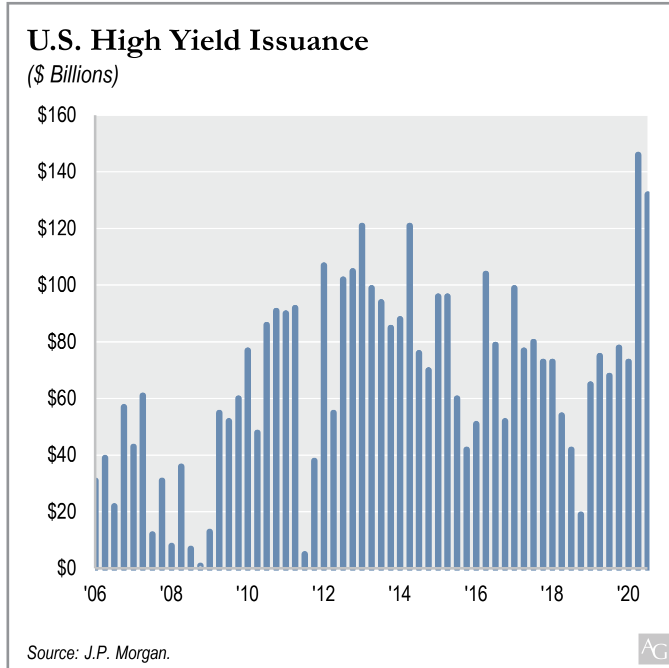


Though index prices and spreads have retraced, ticker dispersion, in particular, remains elevated.



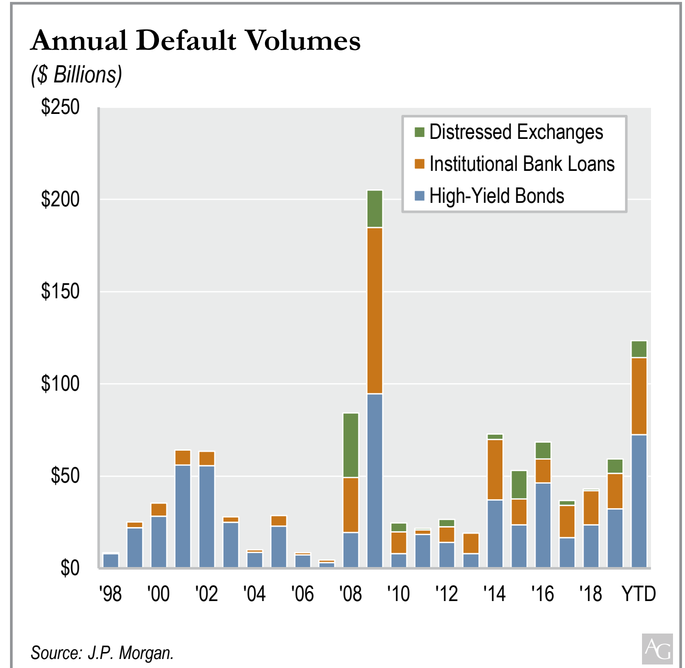
Distressed ratios (percentage of par trading >1,000 basis points) have returned to sub-10% levels.

Distressed Debt *(continued)*



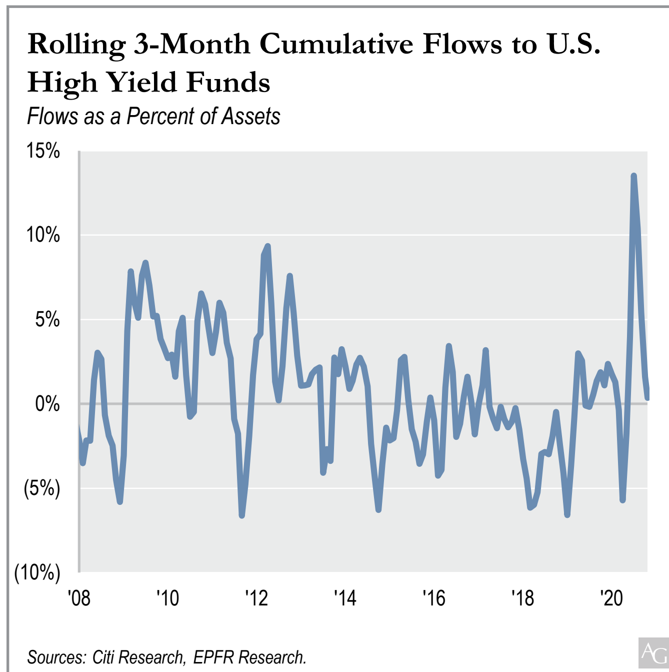
U.S. High Yield Issuance
($ Billions)
Source: J.P. Morgan.

The second and third quarters of 2020 represented record volumes of high yield issuance.



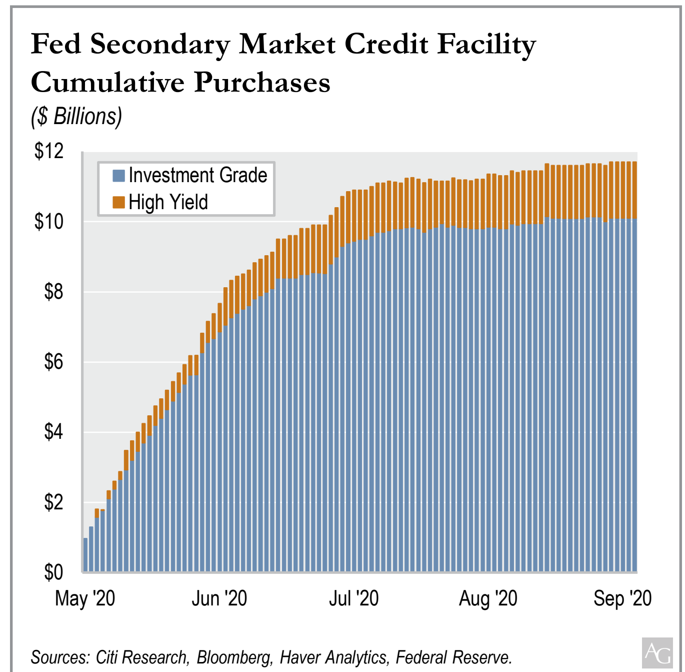
Annual Default Volumes
($ Billions)
Source: J.P. Morgan.

Year-to-date defaults through September already rank as the second-highest annual level on record.



Rolling 3-Month Cumulative Flows to U.S. High Yield Funds
Flows as a Percent of Assets
Sources: Citi Research, EPFR Research.

High yield fund flows spiked after the first quarter, as investors returned to higher-risk spread products.



Fed Secondary Market Credit Facility Cumulative Purchases
($ Billions)
Sources: Citi Research, Bloomberg, Haver Analytics, Federal Reserve.

After substantial purchases at the program's onset, the Federal Reserve's secondary market activity has leveled off.

Ryan Mollett
Global Head of Distressed & Corporate Special Situations

For more information on Distressed Debt, visit www.angelogordon.com/strategies/credit/distressed-debt/

Commercial Real Estate Debt

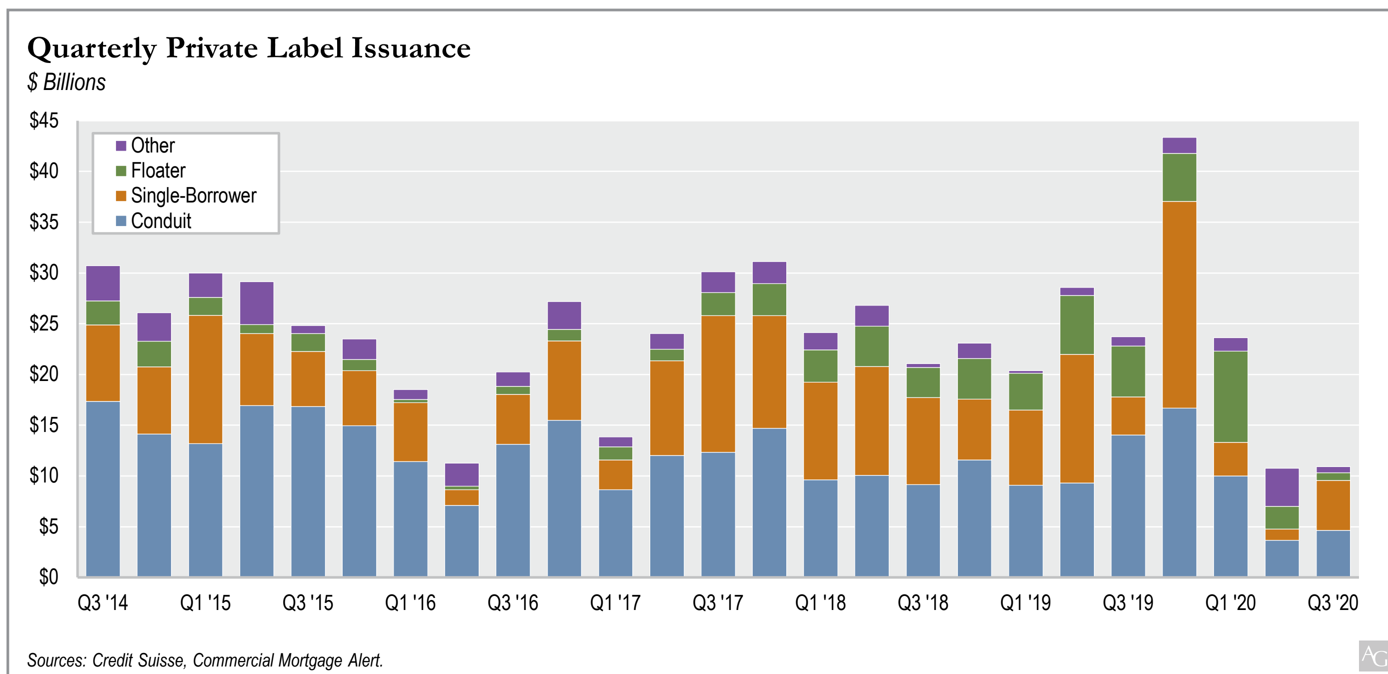
After the first quarter's dramatic sell-off and last quarter's rapid price recovery, the third quarter was a steady move towards more normalized market conditions. At the top of the capital structure, new issue AAA CMBS spreads are at pre-COVID-19 levels, while spreads remain wide to February 2020 benchmark levels further down the capital structure. Pricing in the secondary market has followed a similar path but with considerably more dispersion.

During the third quarter, seven private label conduit deals totaling $5.1 billion and 11 Single-Asset/Single-Borrower deals totaling $7.6 priced in the U.S., resulting in year-to-date volume of $42.7 billion—a 27% decline versus the first nine months of 2019. We are expecting a number of deals to price early in the fourth quarter followed by a slowdown in issuance into year-end.

Looking closer at fundamentals, the overall market recovery has been slower than optimists had hoped but quicker than pessimists had feared and should be viewed through a cautious lens, as even something as seemingly straightforward as a delinquency rate needs deeper consideration. During the third quarter, the percentage of CMBS loans categorized as 30 days or more delinquent declined from 10.32% to 8.92%. Over that same period, the percentage of loans transferred to the special servicer showed a nearly opposite trend, growing from 8.28% to 10.48%. The reason for this seeming anomaly is that borrowers that reach a forbearance agreement are typically reclassified as current even if the borrower has been granted temporary interest payment relief or is allowed to tap excess reserves to remain current on their mortgage payments. The numbers are not perfect, but we believe the specially serviced rate is a more accurate reflection of loan distress. As one would expect, loans secured by hotel properties are showing the most distress, with 26.0% of those loans specially serviced at the end of September, followed by retail, with 18.3% of all CMBS loans secured by retail properties in special servicing at the end of the quarter.

Going forward, we are closely monitoring borrowers that have been given a temporary forbearance and are now seeking a longer-term modification, reflecting the fact that—for certain assets—the recovery in performance is taking longer than expected.

With transaction volumes still at a faction of historical levels, property appraisers are forced to do their jobs with few data points. We have seen a handful of recent appraisals on distressed properties and—not surprisingly—there is a very wide dispersion, with certain properties appraised at dramatically lower values, while others actually increased over earlier assessments. On a weighted average basis, newly appraised loans are down 23%, and we expect appraisals on troubled assets to trend lower for an extended period of time.



Q3 2020 quarterly private label issuance was flat compared to last quarter's total.

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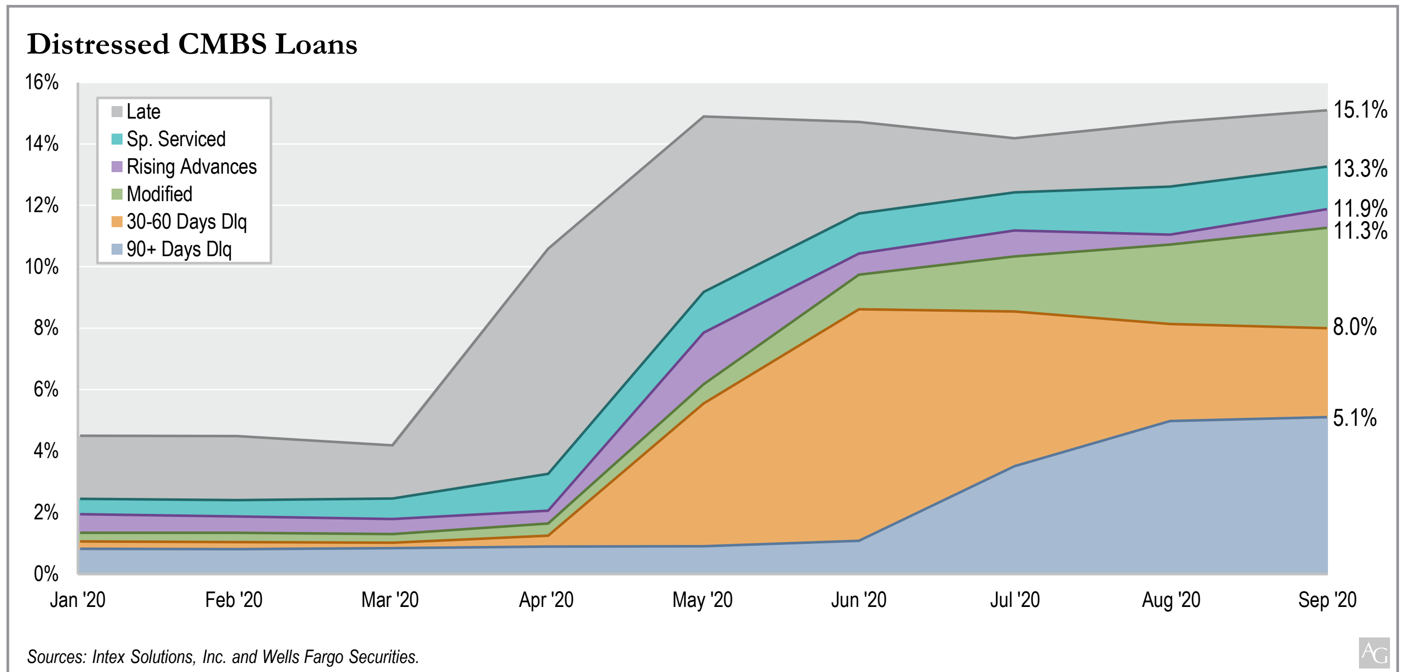
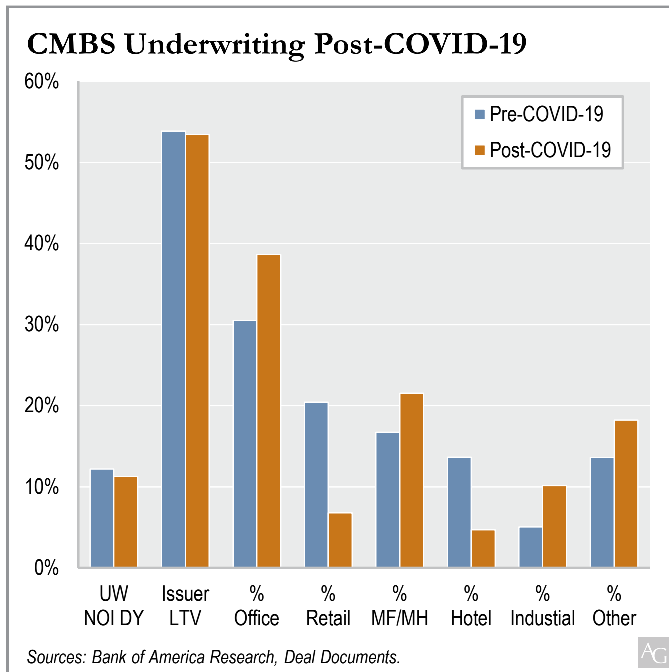
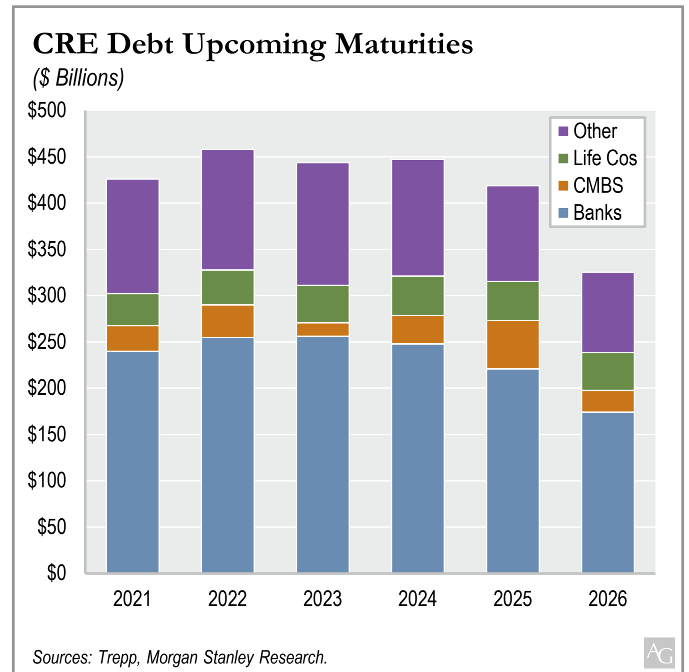
Commercial Real Estate Debt *(continued)*



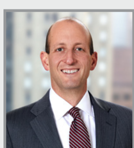
While delinquency rates have come down from their near-historic peaks, the percentage of distressed CMBS loans remains elevated.



Post-COVID-19, new issue conduit CMBS deals have significantly less retail and hotel exposure.



Over $400 billion of CRE debt is scheduled to mature in each of the next several years.



Andrew Solomon
Portfolio Manager

For more information on Commercial Real Estate Debt, visit www.angelogordon.com/strategies/credit/real-estate-debt/

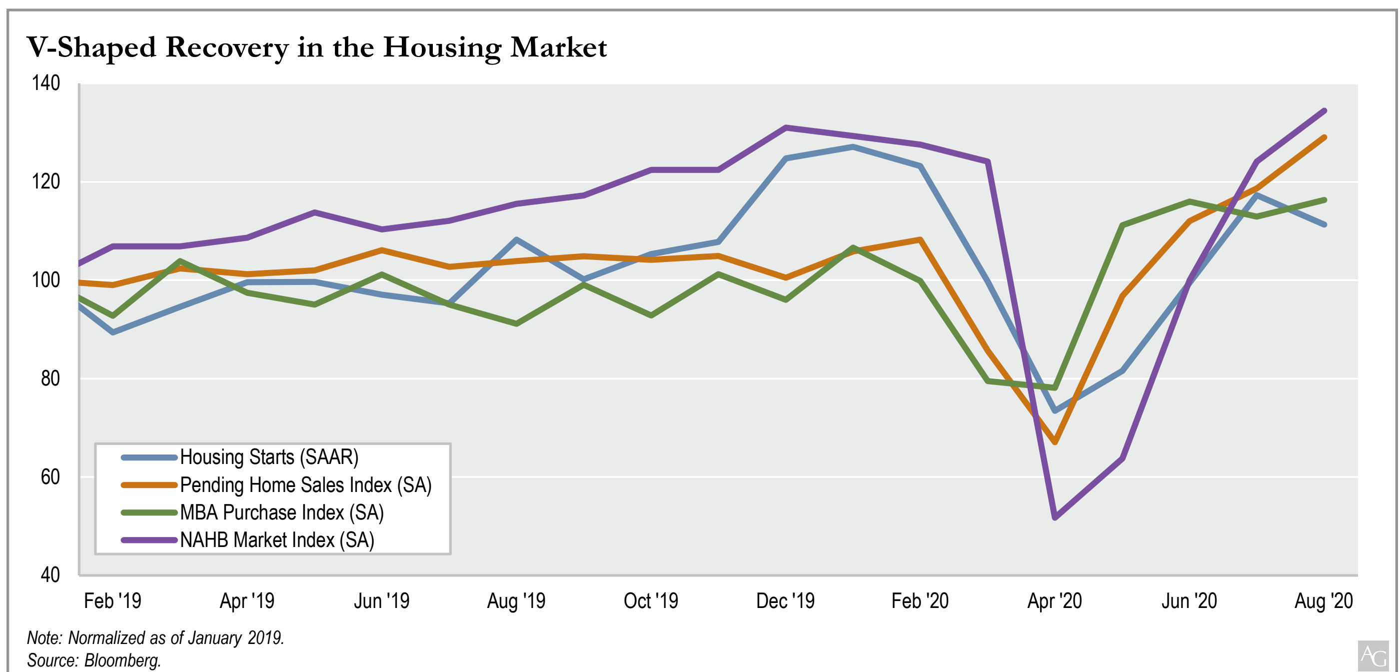
Residential & Consumer Debt (RMBS/ABS)

Spreads for mortgage- and asset-backed sectors extended their COVID-19 rebound from the second quarter. During the third quarter, Credit Risk Transfer (CRT) last cashflow and subordinate tranches were tighter by approximately 20-30 basis points. Similarly, ABS spreads were tighter for senior and subordinate tranches, as collateral fundamentals have been better than initial market expectations.

Better-than-expected data, liquidity, and relatively broad-based risk-on sentiment continued to support the rebound, yet spreads for most RMBS and ABS sub-sectors remain wider than pre-pandemic levels, as uncertainty over intertwined elements—including unemployment, stimulus, and upticks in COVID-19 cases—hang over the market. However, securitized credit is the largest asset class not directly supported by Federal Reserve purchases, which has created ongoing relative value compared to other fixed income asset classes. For example, CRT spreads remain 100-250 basis points wider than January levels, creating room for further spread tightening in the coming months.

In the third quarter, new issue RMBS activity was sharply higher at $26.8 billion, nearly doubling second quarter activity. This supply was met with strong demand, with subscription levels often multiples of the offered amounts. However, RMBS issuance is still down about 17% compared to year-ago levels—due in part to the lull in Non-QM activity following the outbreak of COVID-19—but is poised to rise in the coming quarters. ABS issuance rose 75% to $60.6 billion during the quarter, with Auto ABS accounting for over half of the third quarter's issuance. For the full year, Credit Card ABS issuance has fallen to $3 billion from $23.7 billion a year ago, as credit card issuers have been favoring deposits to fund accounts, and total ABS issuance is down 22% year-over-year, at $145.8 billion for the period.

Collateral fundamentals have largely been within or better than the market's initial expectations, supporting the ongoing spread rally in the RMBS and ABS markets. As illustrated by the chart below, the housing market has produced a V-shaped recovery by several measures due to strong demand for homes across the U.S. Additionally, the home price outlook continues to be favorable into the foreseeable future. To that end, home prices rose 4.8% in July, up from 3.2% a year ago, according to the latest report from Case-Shiller CoreLogic. Mortgage payment forbearance levels have been steadily declining, posting their largest weekly drop at the start of October, and mortgage current to delinquent roll rates are quickly approaching pre-COVID-19 levels. Consumer data also shows improving forbearance levels, though some forbearance resolutions are expected to lead to rising early delinquency rates. However, credit card data have significantly outperformed expectations, with low delinquency and robust payment rates. This performance has been attributed to stimulus from the CARES Act, but ongoing delays in additional stimulus pose risks to the sector's positive performance.



Strong demand in the housing market has outweighed other challenges and uncertainty, leading to the V-shaped recovery we see today.

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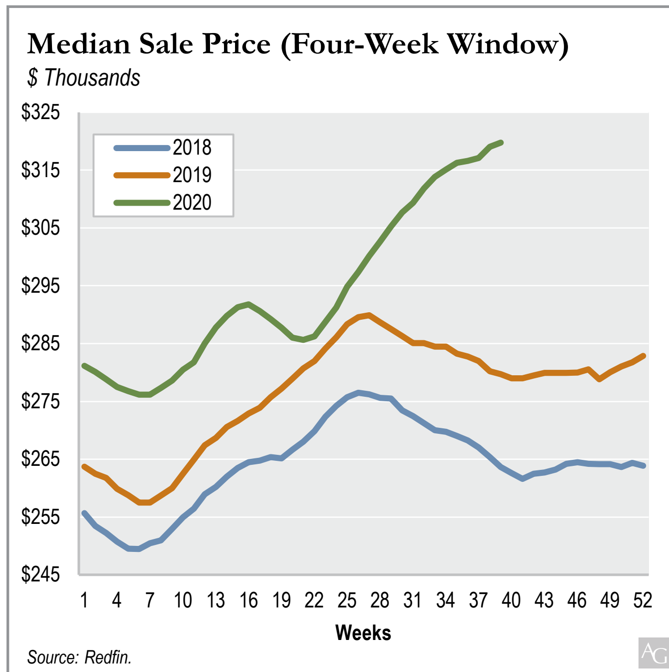
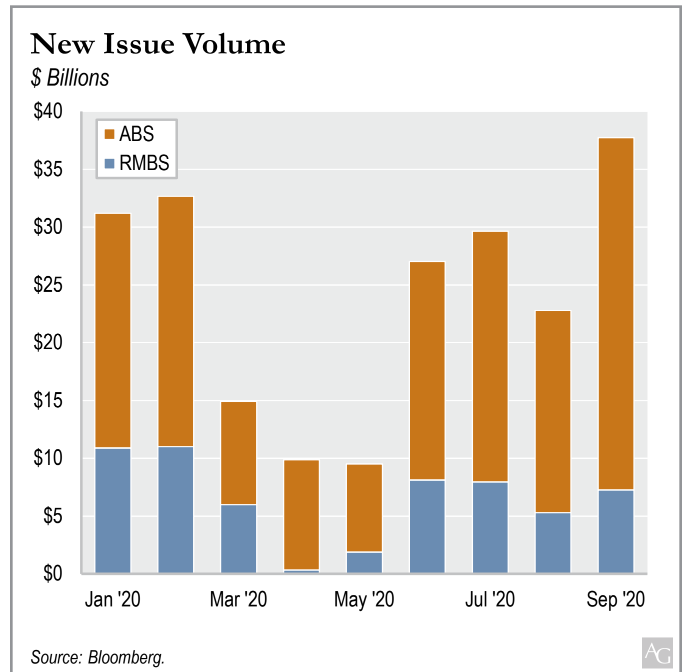
Residential & Consumer Debt *(continued)*

Historically low 30-year mortgage rates have provided support to the housing market.



The median sale price for U.S. homes reached $320,000 at the end of the quarter, over 14% higher than year-ago levels.



Strong new issuance activity seen in June continued in the third quarter, especially in ABS.

TJ Durkin
Co-Portfolio Manager

Yong Joe
Co-Portfolio Manager

For more information on Residential & Consumer Debt, visit www.angelogordon.com/strategies/credit/residential-consumer-debt/

Energy

Given weak demand but restrained supply from both OPEC and U.S. producers, crude prices have been stalled near $40 since May, exhibiting stability seldom found over the last five years. Natural gas prices have increased meaningfully given supply abatements from gas associated with declining oil production. A La Niña—a phenomenon that typically produces colder than average temperatures across the northern U.S.—has formed in advance of heating season and is giving support to a bullish case for natural gas.

The energy credit environment is one of extreme distress, complete dislocation, and an unprecedented absence of capital. The industry remains in a prolonged workout and restructuring mode, one in which bankruptcy filings are accelerating and a presumed exit may not always result in a recapitalized going concern. Long portended and much needed, widespread industry consolidation has only just begun.

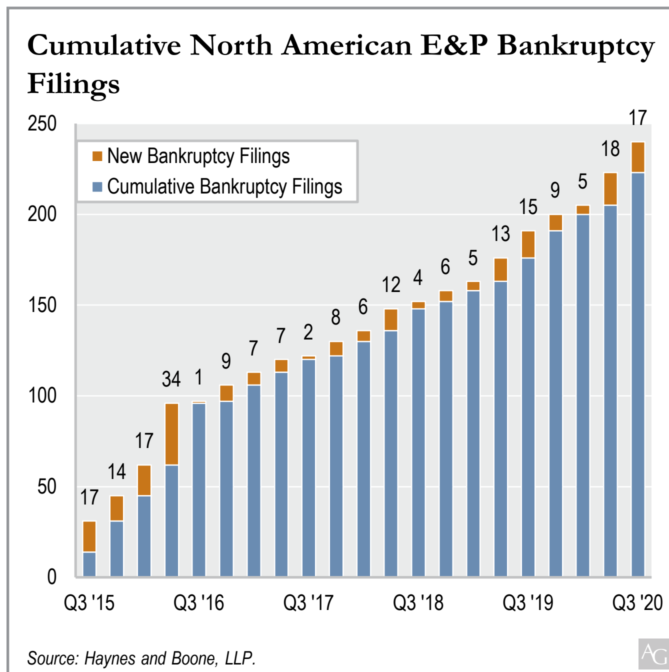
All but the largest companies fight for liquidity and survival amid valid investor questions regarding a variety of concerns about the industry, including whether it is sub-scale, will ever recover, is misaligned in terms of both compensation and governance, can adapt, is over-levered, and will ever truly embrace prudence in capital budgeting.

A major capital withdrawal is underway. Energy is now the smallest sector in the S&P 500, representing just 2% of the index. The XLE Index, which tracks the broader energy sector, has declined 50% year-to-date. Equity valuations remain near 25-year lows.

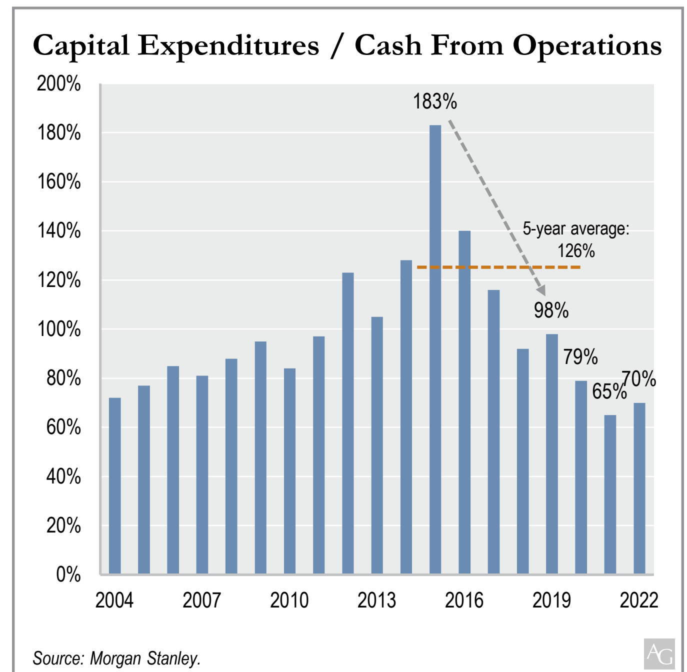
Despite a material tightening in spreads since March, the Credit Suisse High Yield Energy Index remains 375 basis points wide of the broader high yield market at a 9.3% yield. Recent issuance has been limited, with market access firmly shut to all but the largest issuers.

Bank lenders expect cuts in many fall-redetermined borrowing bases—potentially more severe than in the spring. Amid rising loan loss provisions as well as Office of the Comptroller of the Currency-criticized assets, bank exits are accelerating.

In this seemingly dire time for the industry—during which the typical, cheap capital has fled and is perhaps never to return—we believe there are opportunities to increase yields and reduce advance rates both through purchases of bonds and reserve-based loans as well as increasingly in new well-structured first lien loans and real property conveyances.

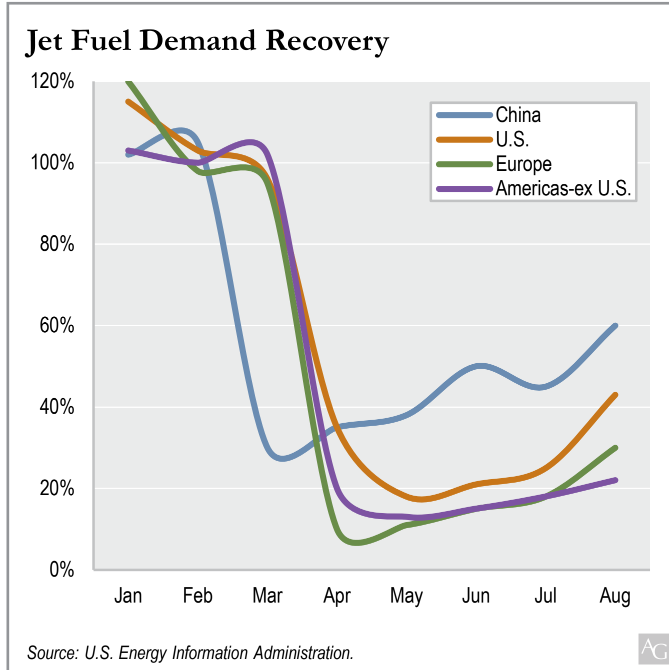


Bankruptcy filings by oil and gas producers remain elevated.

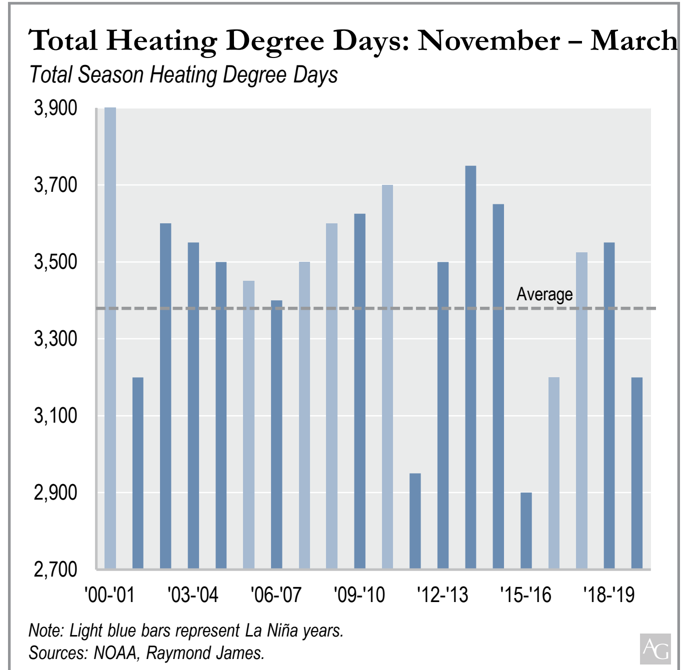


Though oil and gas producers have begun to rein in spending, the group outspent cash flow by approximately $50 billion from 2015-2019.

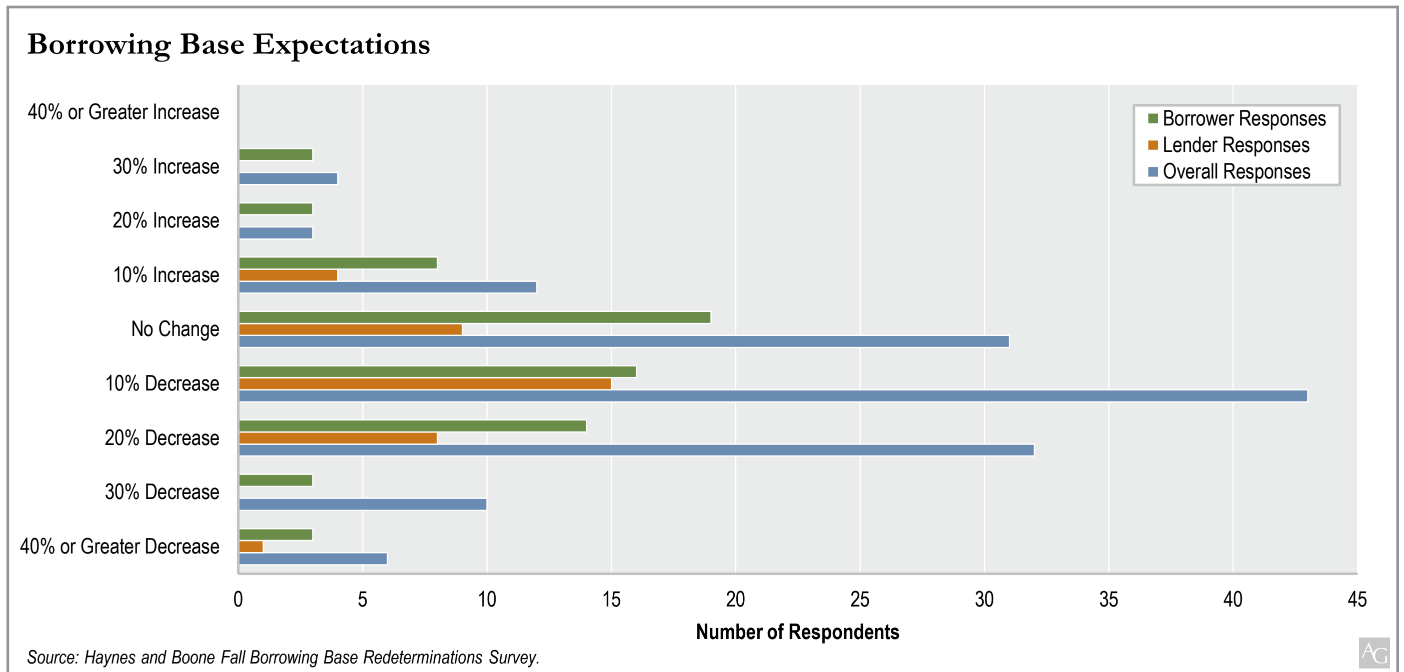
Energy *(continued)*



While demand remains depressed due to COVID-19, consumption of jet fuel by U.S. commercial passenger flights is slowly recovering.



La Niña years typically generate colder weather in the northern U.S. and result in higher-than-average heating degree days.



A recent survey of energy lenders and borrowers suggests that borrowing bases will continue to shrink during fall redeterminations.

Todd Dittmann
Portfolio Manager

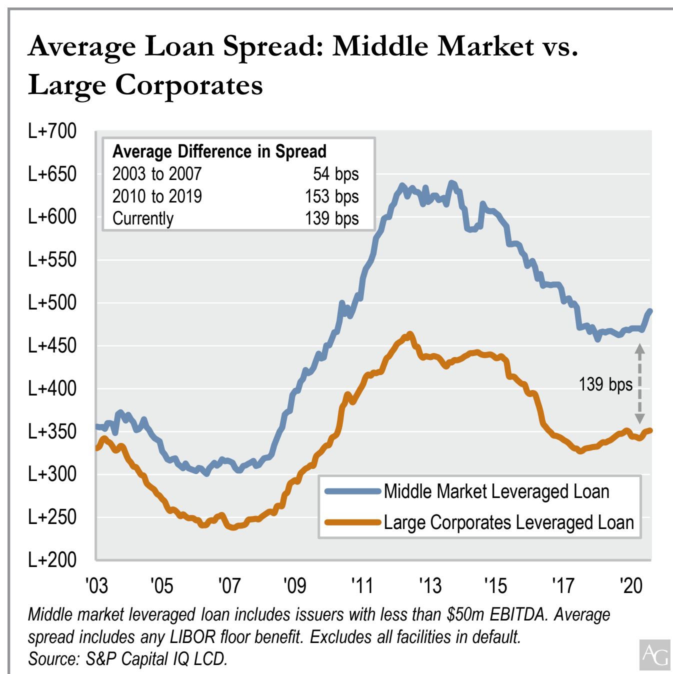
For more information on Energy, visit www.angelogordon.com/strategies/credit/energy-credit/

Middle Market Direct Lending

While quarterly syndicated middle market loan volume remained depressed at just under $16 billion, this was largely driven by the non-sponsored market, as the sponsored market enjoyed a modest increase versus the second quarter. Last quarter, many lenders expected to devote 50% or more of their time to new deal flow in the third quarter, but a recent survey indicated that nearly 60% fell short of their lending goals. Those who were able to achieve their goals did so by taking advantage of a combination of factors, including other lenders being sidelined and being able to focus on portfolio add-ons and secondary opportunities. While a small subset of lenders said their pipeline is as good as, if not better than, pre-pandemic levels, most do not expect their pipelines to return to "business as usual" until some point in 2021. We believe there is likely very significant dispersion among lenders with respect to deal flow, not only based on the EBITDA focus of the lender, but also due to sourcing channels and competitive advantages. Looking ahead, we believe that strong, established lenders will be well-positioned to grab market share from less experienced groups.

With respect to their economic outlook, lenders have varying views, with some optimistic that things will continue to improve, while others believe a more cautious, extremely selective approach is warranted. When asked what their largest concern heading into year-end is, 50% of respondents indicated the uncertainty stemming from a second wave of COVID-19 and the election, while 30% were more concerned about the quality and quantity of their deal flow. Notably, most felt that payment defaults were largely in the past. Another testament to this is the fact that the share of lenders with over 20% of their portfolio on a watchlist dropped meaningfully, from 30% last quarter to only 14% at the start of the fourth quarter. Hold sizes have started trending higher again; although the most common range for direct lenders remains $50-75 million, approximately 20% of respondents indicated a maximum of over $100 million and 10% indicated even larger, at over $200 million. With respect to unitranche loans—which have historically accounted for many of the larger middle market transactions and larger lender hold sizes—while a divergence among lenders in terms of spread tolerance for new deals remains, spreads have definitively declined from the start of the third quarter, with most lenders honing in on L+600-625.

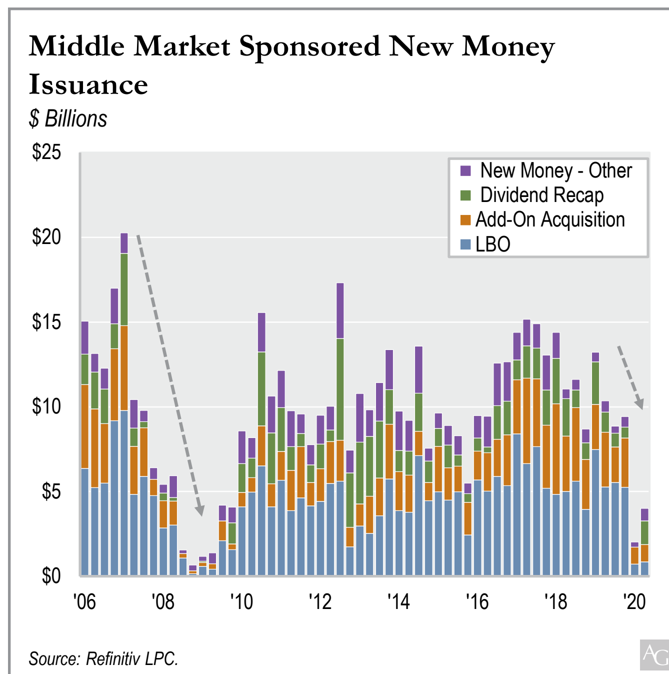
As noted in the past, we believe experienced managers that maintained their stringent underwriting standards and disciplined approach pre-pandemic entered the current cycle on stronger footing. Those that also have extensive, relevant workout expertise should be well-positioned to exit the current cycle on even stronger footing.



Average Loan Spread: Middle Market vs. Large Corporates

Middle market leveraged loan includes issuers with less than $50m EBITDA. Average spread includes any LIBOR floor benefit. Excludes all facilities in default.
Source: S&P Capital IQ LCD.

Middle market loans still offer an attractive spread premium compared to leveraged loans.



Middle Market Sponsored New Money Issuance

Source: Refinitiv LPC.

Using the global financial crisis as a guide, middle market sponsored issuance is expected to rebound into 2021 after falling to its lowest level since 2009.

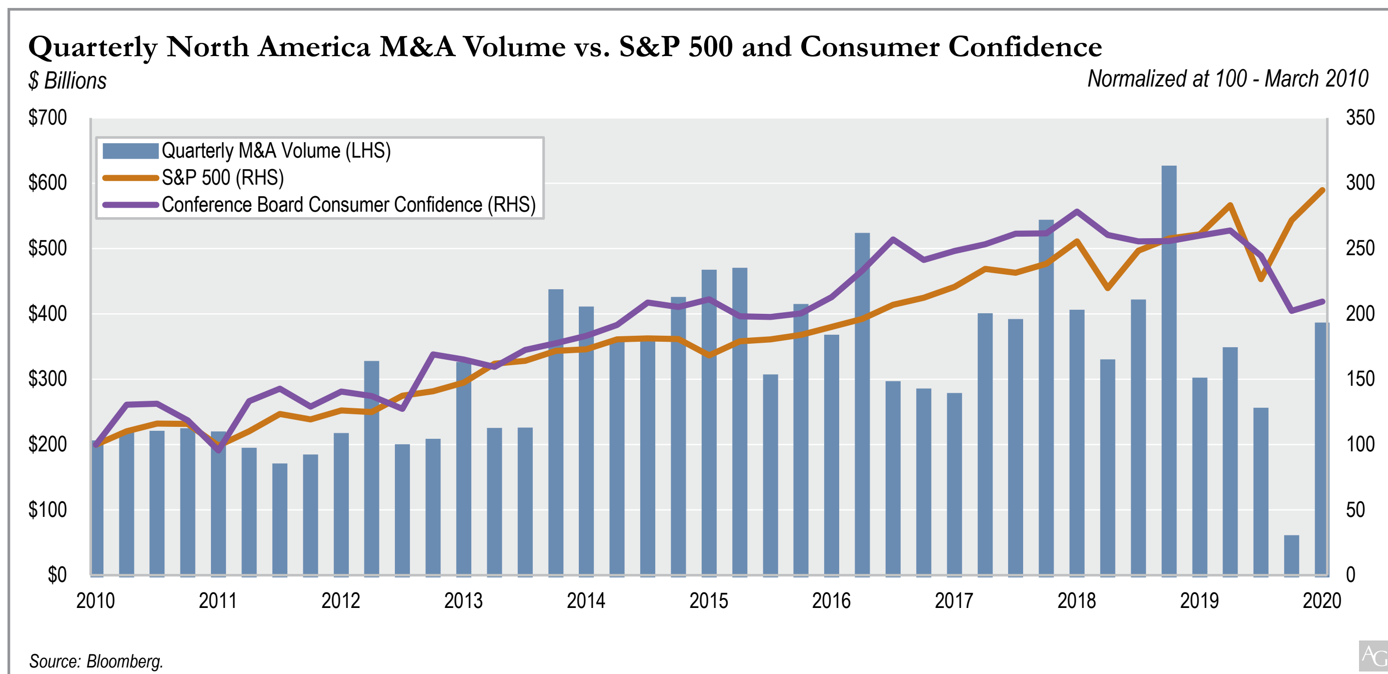
Trevor Clark
Portfolio Manager

For more information on Middle Market Direct Lending, visit www.angelogordon.com/strategies/credit/middle-market-direct-lending/

Merger Arbitrage

As companies began the transition from weathering pandemic-related shutdowns to rebuilding and growing, the summer felt almost ordinary when it came to M&A volumes. In the new "Zoom economy," it has become possible to conduct an entire deal process without a single in-person meeting. With the rise of these technology-enabled transaction processes, third quarter volumes recovered materially to typical summer levels, increasing more than 400% sequentially—albeit from a seriously depressed second quarter—and, more meaningfully, over 100% year-over-year. Unsurprising, healthcare led the way and represented over 50% of the deal value during the quarter. Looking to deals announced, six of the top ten transactions by market capitalization were in the healthcare sector, three of which were over $10 billion in equity value.

The environment continued to be a challenging one for risk arbitrage investors, even as spreads narrowed and finished the third quarter with a median annualized spread of 8%. Adverse events during the quarter were limited to Tiffany & Co. seeking special performance, as it proactively sued LVMH Moet Hennessy Louis Vuitton SE to close their agreed upon deal. As deals that were announced prior to the outbreak of COVID-19 closed, they were replaced with transactions that included pandemic-related seller protections and that carried low regulatory and duration risk. Given the upcoming U.S. presidential election and continued uncertainty about the ongoing pandemic, M&A activity in the near term may remain below historical averages despite the very bullish backdrop of the equity and credit markets. Looking past the election, M&A is likely to accelerate as clarity about the timing and rollout of COVID-19 vaccines and therapeutics increases. COVID-19 has also created additional opportunities for growth in M&A activity, as certain industries may be forced to consolidate and some companies may need to pursue a sale to ensure stability.



M&A rebounded to normal levels as economies reopened and companies turned their attention from weathering to growing during the pandemic.

Mark Wojtusiak
Head of Merger Arbitrage

For more information on Merger Arbitrage, visit www.angelogordon.com/strategies/multi-strategy/arbitrage/merger-arbitrage/

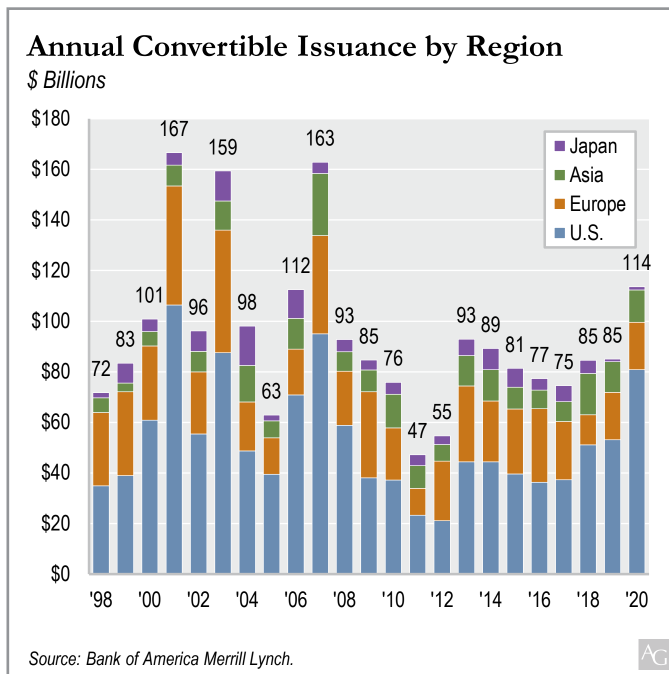
Convertible Arbitrage

The third quarter of 2020 was another period of decent returns for most asset classes, as the economic recovery from pandemic-related restrictions continued. The quarter ended on a weak note, however, as September was the worst month for global equities since March, serving as a reminder that volatility levels remain elevated. Nonetheless, the MSCI World Index added 6.29% in local currency terms in the quarter, and corporate credit also continued to perform well. Global convertible bonds fared even better, returning 9.06% in the third quarter on an outright basis, as measured by the ICE BofA Global 300 Convertible Index. Convertible arbitrage strategies were also able to capitalize on the supportive market trends, including attractive primary issuance. The HFRX Relative Value Fixed Income Convertible Arbitrage Index gained 5.57% in the third quarter.

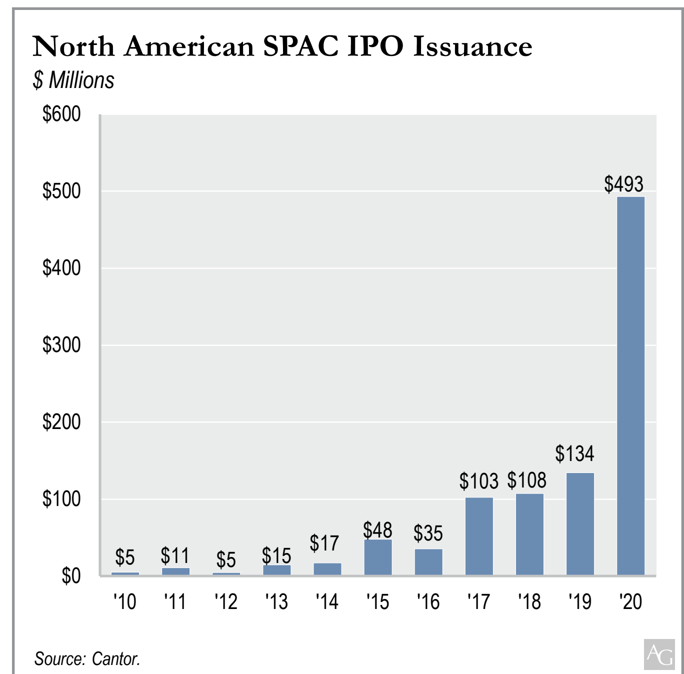
Global convertible new issuance of $33 billion in the third quarter has taken the year-to-date total above $125 billion, the most since 2007. The U.S. market continued to be the most active, pricing $20.1 billion of deals, followed by Europe with $10.5 billion. New issue valuations remained fairly attractive for investors.

In addition to heavy convertible issuance, there has been unprecedented issuance in SPACs (special purpose acquisition companies). Through the end of the third quarter, SPAC issuance exceeded $45 billion, representing approximately half of all domestic IPO proceeds year-to-date. Although SPACs have had a mixed history, notable improvements to the terms for investors, backing from more established sponsors, and widening acceptance of the vehicles as an alternative path for mid-cap companies to go public have contributed to their improved reputation.

Due to the higher volatility environment and stronger issuance, convertible arbitrage strategies have gained 8.4% year-to-date, significantly outperforming broader hedge fund strategies. We expect volatility to remain high, with the global economic rebound facing a number of serious risks in the coming months, including a resurgence of COVID-19 cases and uncertainty regarding the potential reinstatement of pandemic-related lockdown measures, a contentious U.S. presidential election with the possibility of a disputed outcome, ongoing Brexit negotiations that may still result in a disruptive no-deal exit, and a possible delay in the EU's coordinated fiscal response, among other issues. We are therefore confident that this environment will continue to provide ample opportunities for convertible arbitrage strategies.



A surge in global convertible issuance has expanded the opportunity set.



SPAC issuance is at record highs.

Gary Wolf
Head of Convertible Arbitrage

For more information on Convertible Arbitrage, visit www.angelogordon.com/strategies/multi-strategy/arbitrage/convertible-arbitrage/

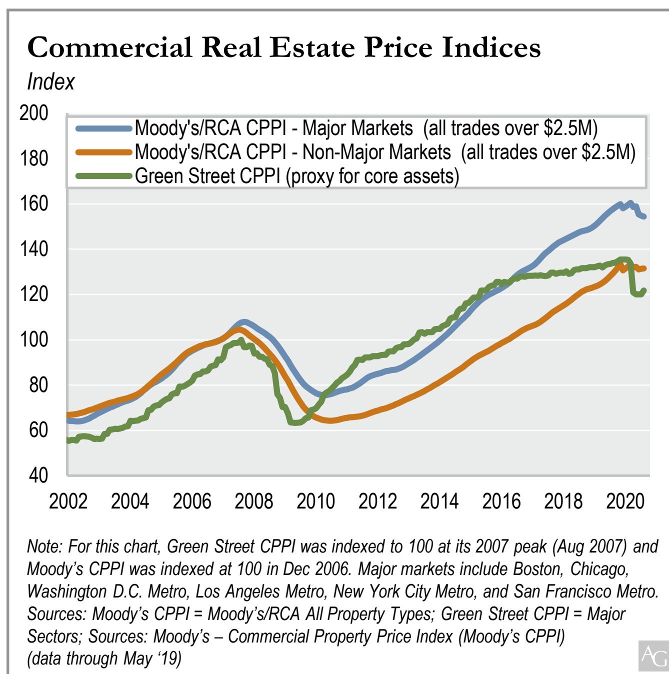
U.S. Real Estate

Commercial property transactions in the third quarter continued the trend from the second quarter, dropping 57% year-over-year, as illiquidity continues to challenge the transaction market. Once again, entity-level deals were non-existent, and sales of individual properties were down 49% year-over-year. A hazy picture on future income trends is suppressing investor appetite, though activity is picking up for property types that are less impacted on a relative basis, such as industrial and multifamily. Although investors are captivated by the industrial sector and individual industrial asset sales—excluding the challenging year-over-year comparable, which includes GLP's sale of two massive portfolios of industrial properties—posted the lowest decline across all property types, deal volume still dropped 25%. Major gateway markets and central business districts are typically a driver of transaction volumes; however, investors are questioning the outlook of urban areas and the magnitude at which households and companies might abandon the large coastal markets for more affordable secondary and tertiary markets. Refinancing activity accounted for 50% of all capital flows to commercial real estate in the first half of 2020, yet financing markets are bifurcated by the haves and have-nots, with lenders hesitant to finance asset classes with less certain recovery profiles, including retail, hotel, and office.

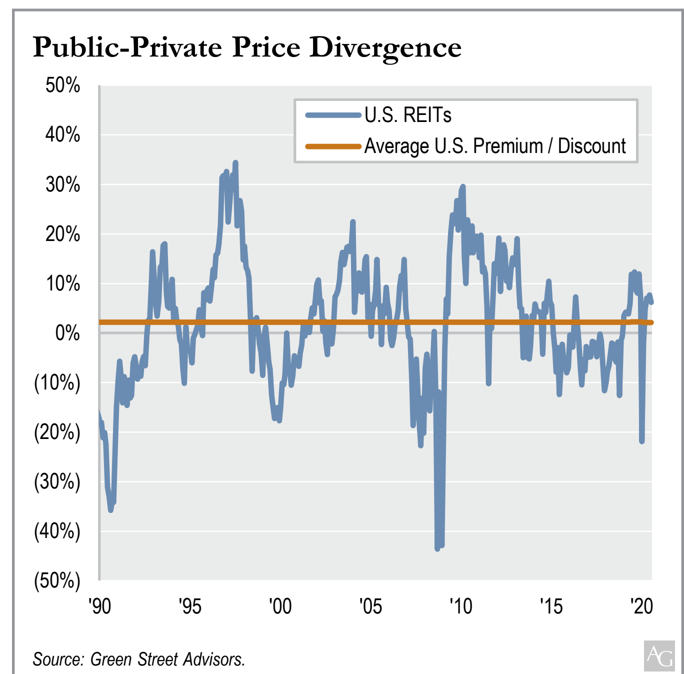
The Trepp CMBS delinquency rate declined to 8.92% in September from 10.32% in June; though with relief nearing an end for some loans, an uptick in delinquencies in the future is likely. Loans with a special servicer rose to 10.48%, while loans on servicer watchlists rose from 19.9% in August to 20.7% at quarter-end. During the global financial crisis (GFC), the peak for newly troubled loans was seen in the fourth quarter of 2009, while distressed sales peaked a year later.

The decline in transaction volume is occurring against a backdrop of investor concern over rent collections, rental rates, and growth prospects in the intermediate and long term, compounded by the potential for waning fiscal stimulus as well as multiple domestic and geopolitical uncertainties. The Federal Reserve Board has firmly anchored expectations for low interest rates, which will continue to be generally supportive for commercial real estate pricing, but the shock to demand has moved buyers and sellers far apart on pricing.

On the valuation front, the Green Street Commercial Property Price Index is 10% below pre-pandemic levels, but with significant variation by property type. Meanwhile, the REIT market oscillated between gains and losses in the third quarter, though company valuations still imply significant corrections in private market property valuations are to come. Listed REITs in core sectors ended the quarter at a discount to NAV of 19%. Green Street Advisor's model, which tracks the relative value relationship between private real estate and fixed income (investment grade and high yield), pegged real estate at about 9% undervalued.

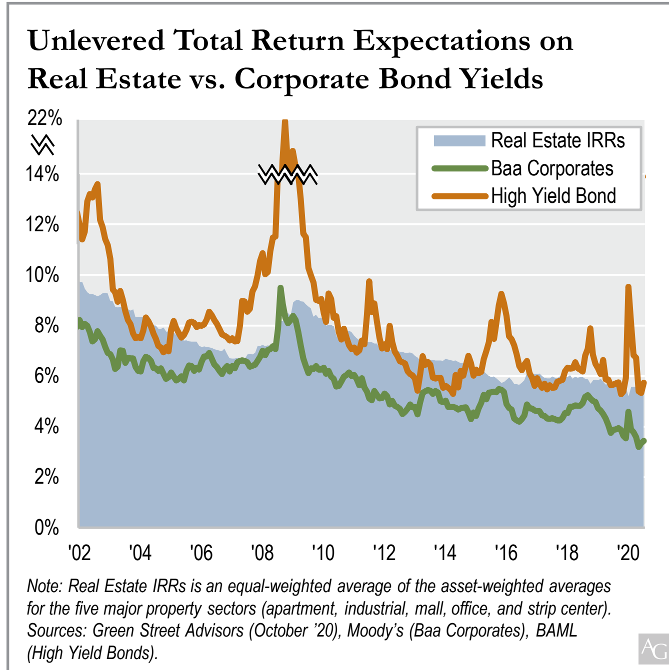


Private commercial real estate pricing has begun to correct, but with significant variation by property type.



U.S. REIT valuations imply significant corrections to come in private market valuations as a whole, with significant variation by property types.

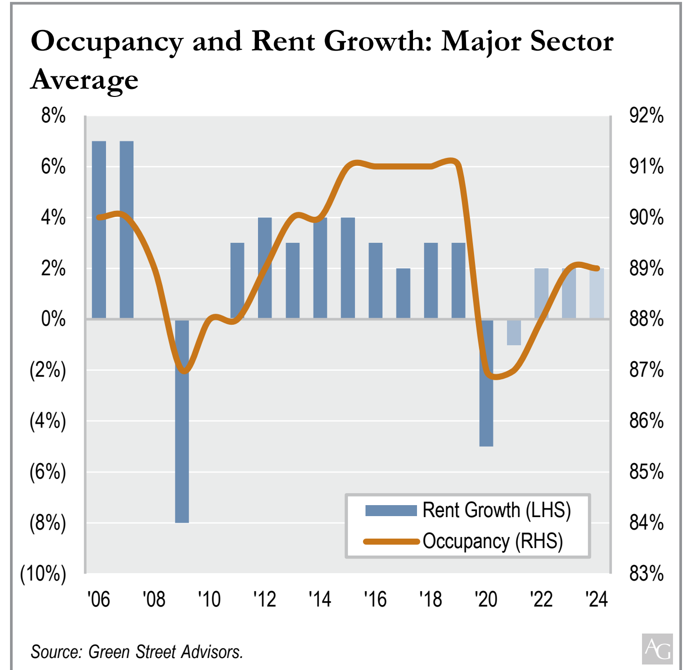
U.S. Real Estate *(continued)*



Unlevered Total Return Expectations on Real Estate vs. Corporate Bond Yields

Note: Real Estate IRRs is an equal-weighted average of the asset-weighted averages for the five major property sectors (apartment, industrial, mall, office, and strip center). Sources: Green Street Advisors (October '20), Moody's (Baa Corporates), BAML (High Yield Bonds).

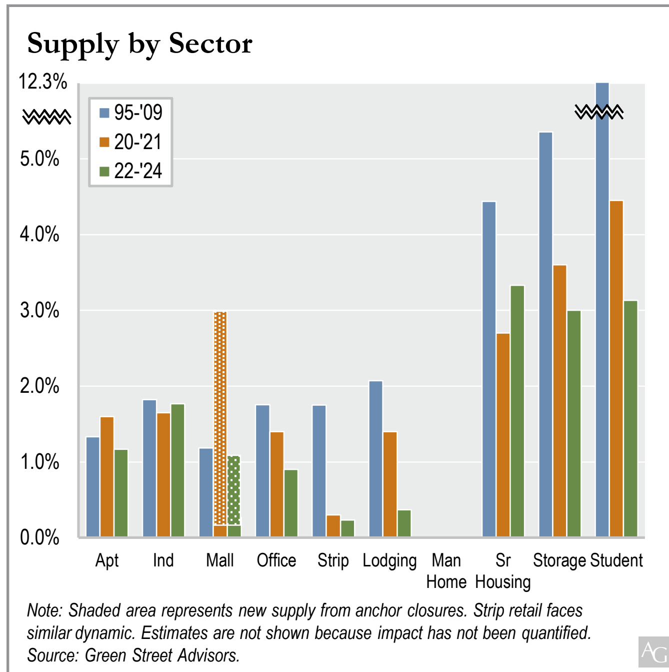
Unlevered real estate has historically offered a return between investment grade and high yield bonds. Real estate currently appears undervalued on a relative basis compared to debt.



Occupancy and Rent Growth: Major Sector Average

Source: Green Street Advisors.

The combination of development deliveries and a demand shock is driving rent and occupancy declines.



Supply by Sector

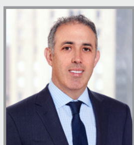
Note: Shaded area represents new supply from anchor closures. Strip retail faces similar dynamic. Estimates are not shown because impact has not been quantified. Source: Green Street Advisors.

New deliveries are generally at cycle peak and are expected to decline.

New Completions as a Percent of Existing Stock

Source: Green Street Advisors.

New deliveries for the major property types are generally at cycle peak, but apartment and industrial completions are expected to remain elevated.



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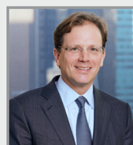

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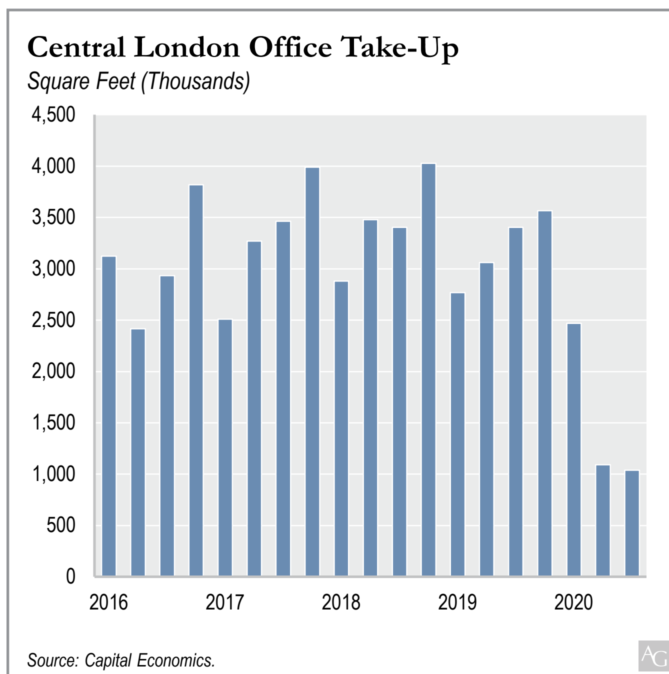
Europe Real Estate

The COVID-19 pandemic brought local, national, and global economies to a standstill, resulting in historic GDP declines. European economic activity in the third quarter likely remained 5% to 10% below its pre-COVID-19 levels, although increased restrictions amid a potential second wave may lead to further declines. The eurozone unemployment rate was officially reported as 8.1% in August—only about 1% higher than the pre-pandemic level. This relatively small change given the grim economic situation is mainly due to government furlough programs that defray employee costs. Actual unemployment figures will likely jump as these programs fade and furloughed workers become officially unemployed.

Moving to the UK, after its initial 26% drop in early 2020, GDP has somewhat rebounded during the second half of the year, with activity down about 10% compared to levels in the fourth quarter of 2019. Like continental Europe, the UK's unemployment level held relatively stable—at 4.5%—in August due to government support programs, but this figure will likely rise in 2021. The UK faces the added uncertainty of an upcoming Brexit deadline at the end of the year with no clear plan in place.

In the second quarter, European office investment activity declined about 20% year-over-year. Although demand and transaction volume for office assets have weakened, activity varies dramatically across asset classes. There is high demand for industrial and multifamily properties, which have fared relatively well during the pandemic. Activity is virtually non-existent in the retail and hotel spaces, even with growing distressed opportunities. In the third quarter, European office leasing fell approximately 50% year-over-year as businesses wait to see the full economic impact of the pandemic and re-evaluate their use of office space. Despite the slowdown, office vacancy rates in major cities like London, Dublin, Amsterdam, and Berlin remain meaningfully lower than their global financial crisis levels.

UK real estate fundamentals have been similarly affected by the pandemic. Office investment activity was down 40% year-over-year in September, while industrial activity rose 10% year-over-year. In the third quarter, Central London office take-up was down 10% quarter-over-quarter and vacancy rates rose to 6.5%, as compared to 5.3% in the second quarter. This reduction in office demand follows a recent government recommendation for employees to remain at home. Industrial take-up, on the other hand, rose from 12.8 million square feet in the second quarter to 13.3 million square feet in the third quarter.



Central London office take-up reached only one million square feet in the third quarter, representing the lowest quarter on record.

The Central London office vacancy rate rose to 6.5% in the third quarter, after the government advised employees to work from home.

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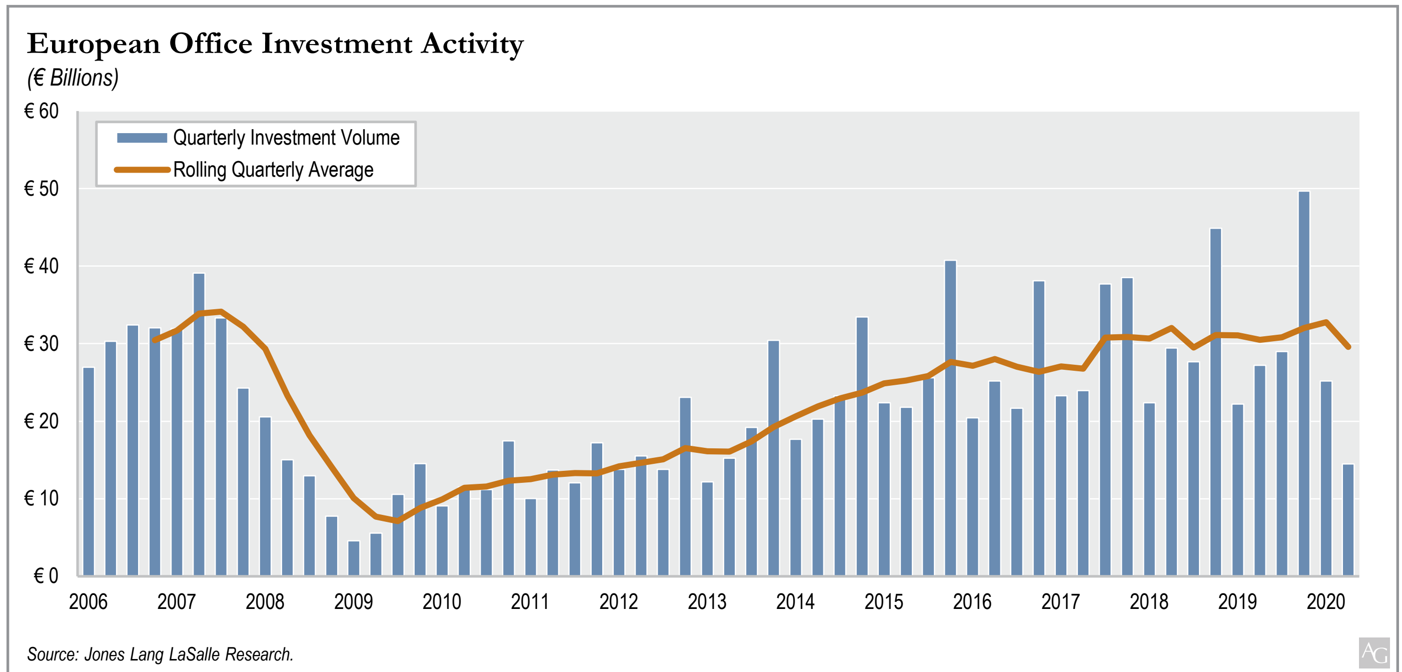
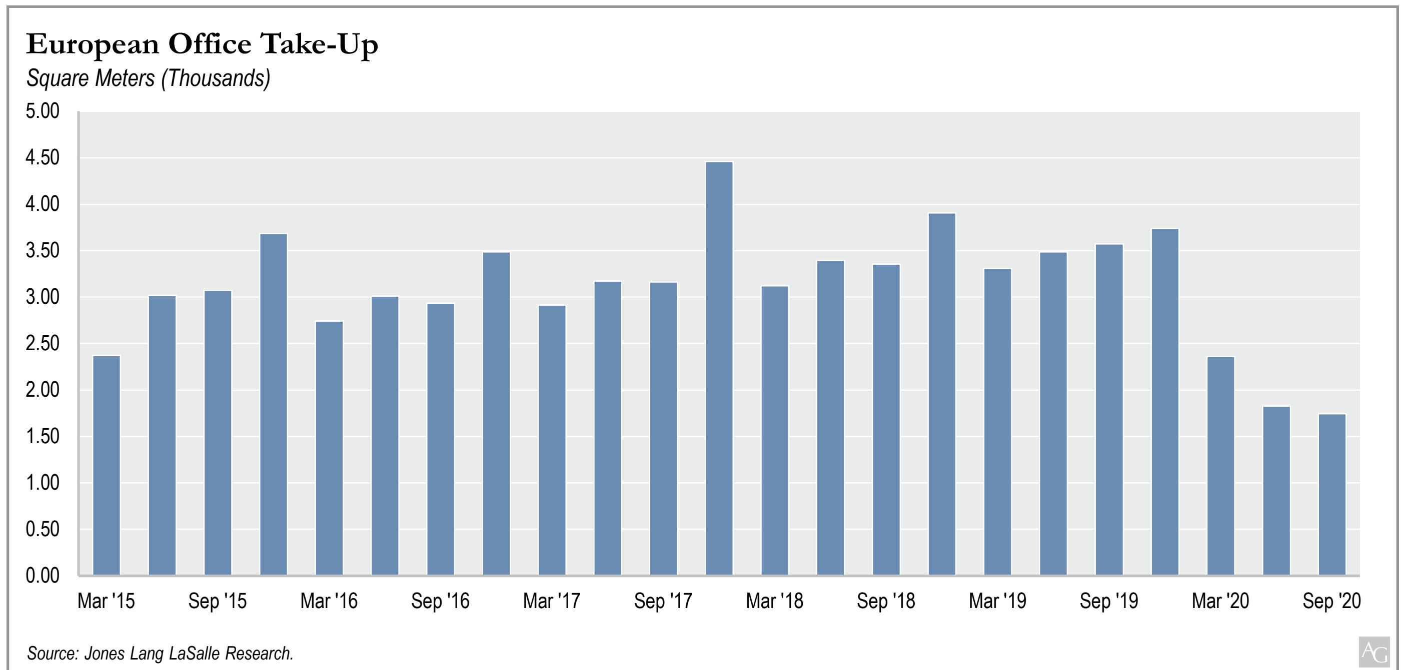
Europe Real Estate *(continued)*



There was a drastic fall in office investment activity in the second quarter given continued pandemic related uncertainty.



In the third quarter, European office leasing is down more than 50% compared to 2019 levels as businesses reevaluate space needs.

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Asia Real Estate

China

China's economy grew 3.2% year-over-year in the second quarter of 2020, a strong rebound from the 6.8% year-over-year decline recorded in the first quarter. The rebound was mainly driven by expansion in manufacturing, which was up 4.7% year-over-year, as the easing of lockdowns allowed production to resume, satisfying pent-up demand from domestic and overseas markets. The advanced manufacturing, finance, and IT sectors continued to outperform others, recording year-over-year growth of 10%, 6.6%, and 14.5%, respectively. In the first half of 2020, retail sales plunged by 11.4% year-over-year, but the decline narrowed to 1.8% in June as compared to 16% in March. Online sales' share of overall retail sales grew to 25.2%, up from 19.6% a year earlier. In response to the ongoing weakness, the Chinese central bank continued to maintain an accommodative monetary policy. As of July, fiscal stimulus introduced by the Chinese government since the COVID-19 outbreak exceeded RMB 8.3 trillion, or 8.6% of GDP.

In Beijing, leasing activity picked up modestly and net absorption returned to positive territory in the second quarter with the easing of lockdowns. The uptick was constrained by overall weakness in the economy and a new wave of COVID-19 infections in June. Overall, rents decreased 6.8% year-over-year or 3.0% quarter-over-quarter, while vacancy rose to 14%, up 2.7 percentage points quarter-over-quarter. Demand from tech companies remained strong, and IT tenants accounted for 33% of newly leased Grade A office space in the second quarter. In the Zhongguancun submarket of Beijing—also known as "China's Silicon Valley"—rents remained unchanged quarter-over-quarter and vacancy remained tight at 2.1%.

Industrial and logistics real estate remained resilient in major submarkets due to limited supply and strong leasing demand from third-party logistics companies. In Shanghai, industrial rentals rose 0.9% quarter-over-quarter or 4.7% year-over-year, while vacancy edged up 2.2 percentage points to 7.5%, mainly due to the completion of two new projects.

In terms of overall market activity, the commercial investment market continued to soften in the second quarter, with total transaction volume at only RMB 39.6 billion, down 25% quarter-over-quarter. Total commercial real estate transactions in the first half of 2020 were RMB 92.4 billion, down 40% year-over-year.

Hong Kong

Hong Kong's economy contracted by 9.0% year-over-year in the second quarter, slightly lower than the record high 9.1% decline in the first quarter. The economy continues to be weak due to the collapse in tourism, sharply lower trade flows, and social distancing weighing on domestic spending. Private consumption fell 14.5% year-over-year in the second quarter, further deteriorating from the 10.6% decline in the first quarter. Goods exports edged down 2.1% year-over-year, narrowing from the 9.7% drop in the first quarter.

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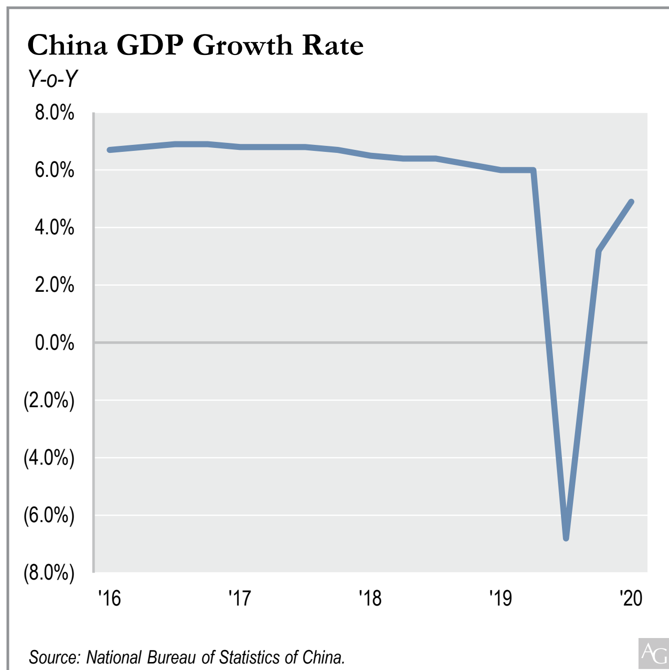


China's economy appears to be back on track with second quarter GDP growth of 3.2%.

CNY has strengthened as the economy begins to recover.

Asia Real Estate *(continued)*

Hong Kong *(Continued)*

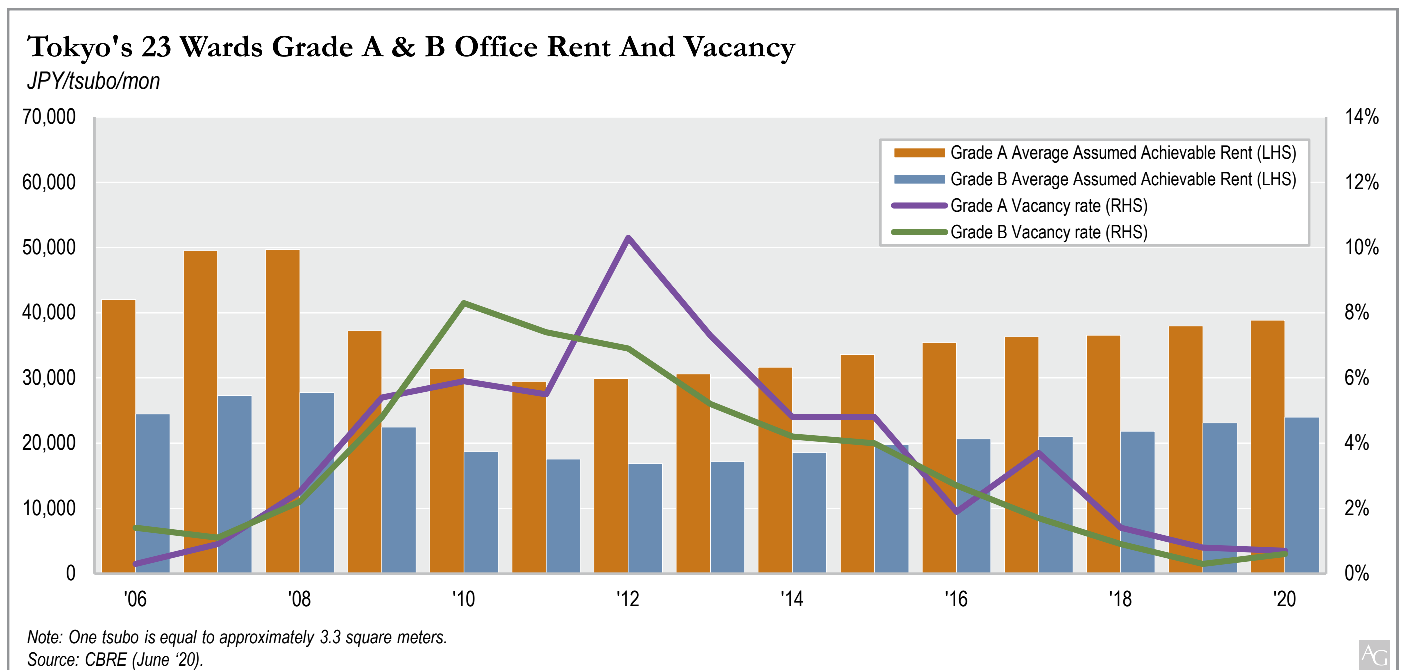
The unemployment rate hit 6.2%, the highest level in more than 15 years and up from 4.2% in the prior quarter. With limited supply, residential prices remained firm and declined by only 5.7% year-over-year, while transaction volume fell by 25%. The commercial investment market continued to be anemic in the first half of 2020 and totaled only HK$16.9 billion, down 54% year-over-year. As of June, Hong Kong's office vacancy was 8.1% and rents declined 14.2% year-over-year, driven by soft leasing demand in the core submarkets of Central and Tsim Sha Tsui, while decentralized markets like Kowloon East and Kwai Chung experienced milder rental declines.

Japan

In the second quarter of 2020, Japan's real GDP contracted by 7.9% quarter-over-quarter, as consumption slumped amid the state of emergency that lasted from early April to late May. While the economy is expected to rebound in the third quarter, as economic activity has gradually resumed, many economists predict that a return to pre-pandemic levels will take more than a year. In September, Japan's parliament elected Yoshihide Suga as the country's new Prime Minister to succeed Shinzo Abe. The Prime Minister intends to prepare additional economic stimulus measures, which could potentially focus on supporting industries such as hospitality and travel, which are suffering greatly from the pandemic. The government has already implemented a record stimulus package of ¥230 trillion ($2.1 trillion), which is about 40% of GDP.

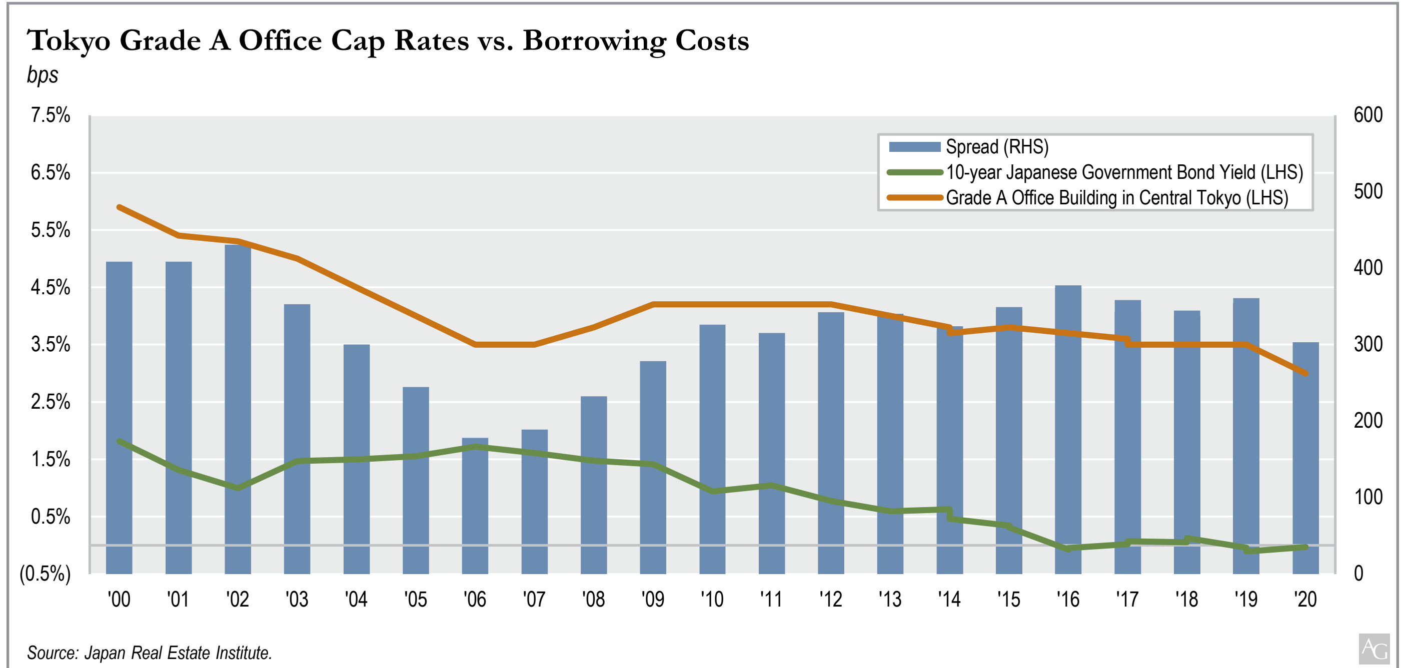
Office real estate fundamentals remained strong during the second quarter of 2020. Tokyo office vacancy decreased from 0.9% to 0.7% for Grade A and increased from 0.4% to 0.6% for Grade B. Office rents declined by 0.4% to ¥38,850 per tsubo for Grade A and by 0.2% to ¥24,000 per tsubo for Grade B. Vacancy rates are likely to rise slightly due to a slowdown of the global economy and an increase in companies seeking to reduce expenses by adopting long-term work-from-home policies. However, we believe that given the small size of urban residences, the cultural importance of workplace attendance, and frequent job rotations, the impact of work-from-home is likely to be subdued in Japan. In the logistics sector, the vacancy rate for large-scale, multi-tenant facilities in the Greater Tokyo area remained at a historical low of 0.6%. Rent increases in prime areas are driving tenants to newer, more affordable submarkets. Supported by robust fundamentals, investor interest in the logistics sector—from both domestic and international buyers—has continued to increase. Hospitality and—to a lesser extent—discretionary retail have been negatively impacted by sharply reduced domestic travel, the ongoing shutdown of inbound tourism, and the postponement of the Tokyo Olympics to 2021.

Real estate transaction volume in the second quarter fell by 22% year-over-year, mainly due to a decline in investment by domestic buyers such as Japanese REITs. Although the Japanese REIT Index—which plunged in March—regained some ground in the second and third quarters, it remains down 20% year-to-date.

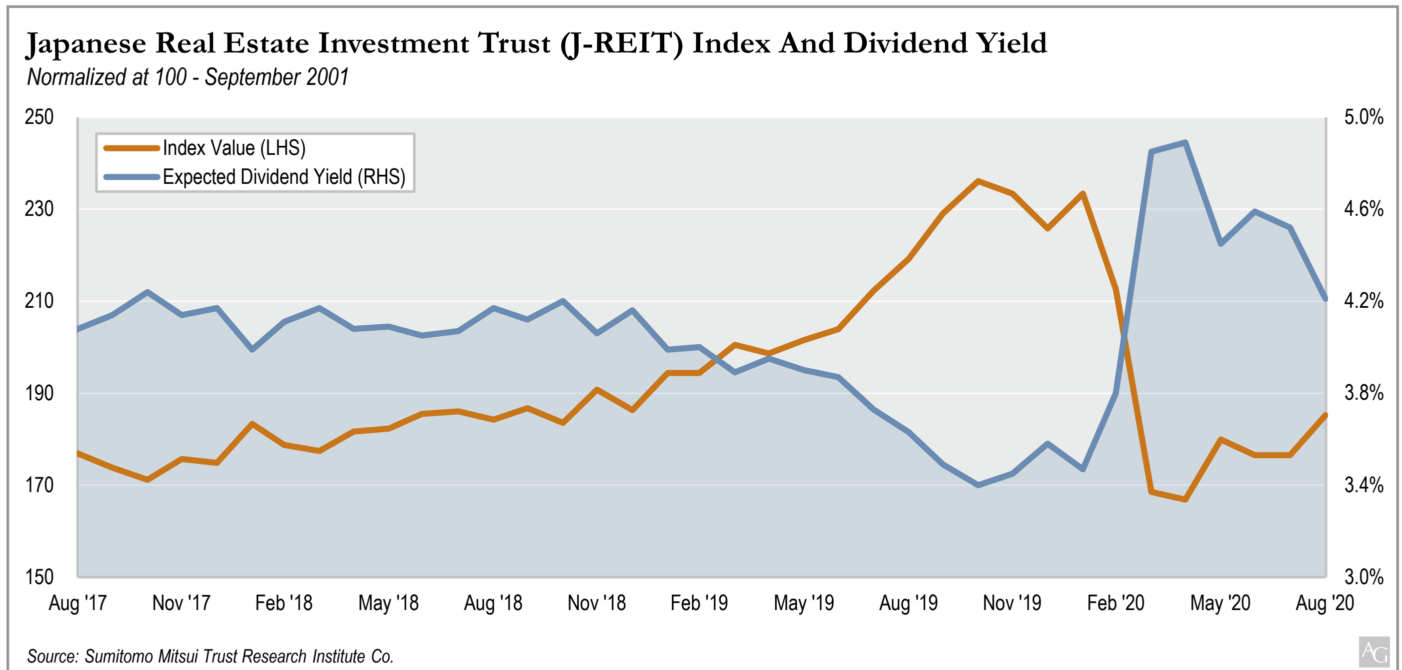


Office fundamentals remain strong with few signs that COVID-19 is affecting demand.

Asia Real Estate *(continued)*



Cap rates continue to compress as local institutions seek yield in today's low interest rate environment.



J-REITs have begun to recover, but the recovery is uneven, with industrial REITs leading and hotel REITs lagging.

Asia Real Estate *(continued)*

South Korea

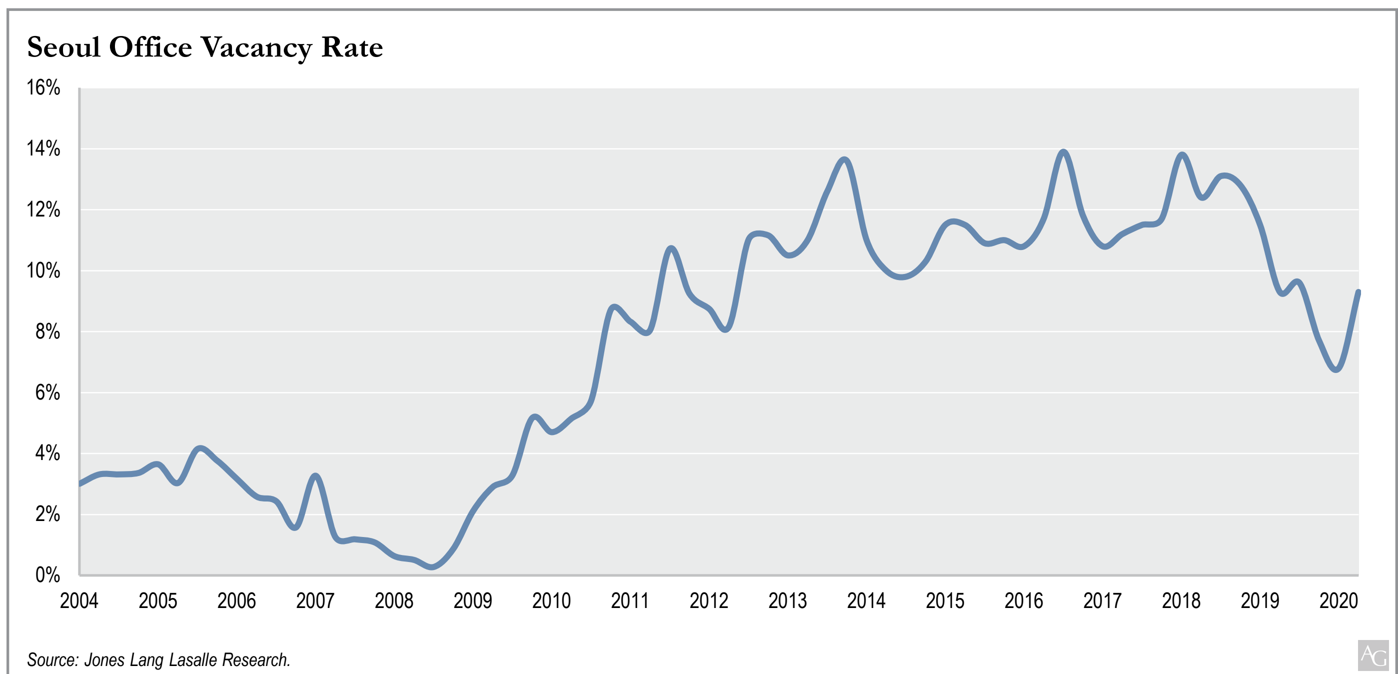
In the second quarter of 2020, economic growth in South Korea declined 3.2% quarter-over-quarter, driven by a sharp drop in exports. Due to the impact of the COVID-19 pandemic, the Korean economy faces headwinds, and the Bank of Korea (BoK) forecasts that the Korean economy will contract by 1.3% in 2020 but will recover and grow by 2.8% the following year. The BoK maintained its accommodative monetary policy and its benchmark rate at 0.50%, the lowest it has ever been.

On the real estate front, the spread between prime office cap rates and Korean government bond yields (i.e., 5-year treasury bonds) stood at 320 basis points, which is above the 10-year average of approximately 260 basis points. Investment activity in the commercial office sector continued to be robust, with investment volume above $3 billion in the first half of 2020. Prime office vacancy in Seoul's major business districts was 9.3% as of the second quarter, which is below the 10-year average of 10.6%. The low vacancy rate can be attributed to the robust tenant demand for office space in Seoul. Net absorption of office space in Seoul was positive in the first half of 2020, despite COVID-19.

Residential prices in Seoul continued to rise, with Seoul apartment prices increasing 11.5% year-over-year as of September 2020. The current government has been and is continuing to implement tight regulations aimed at curbing speculative investments in the residential sector. With the introduction of these regulations, there has been volatility in the sector.

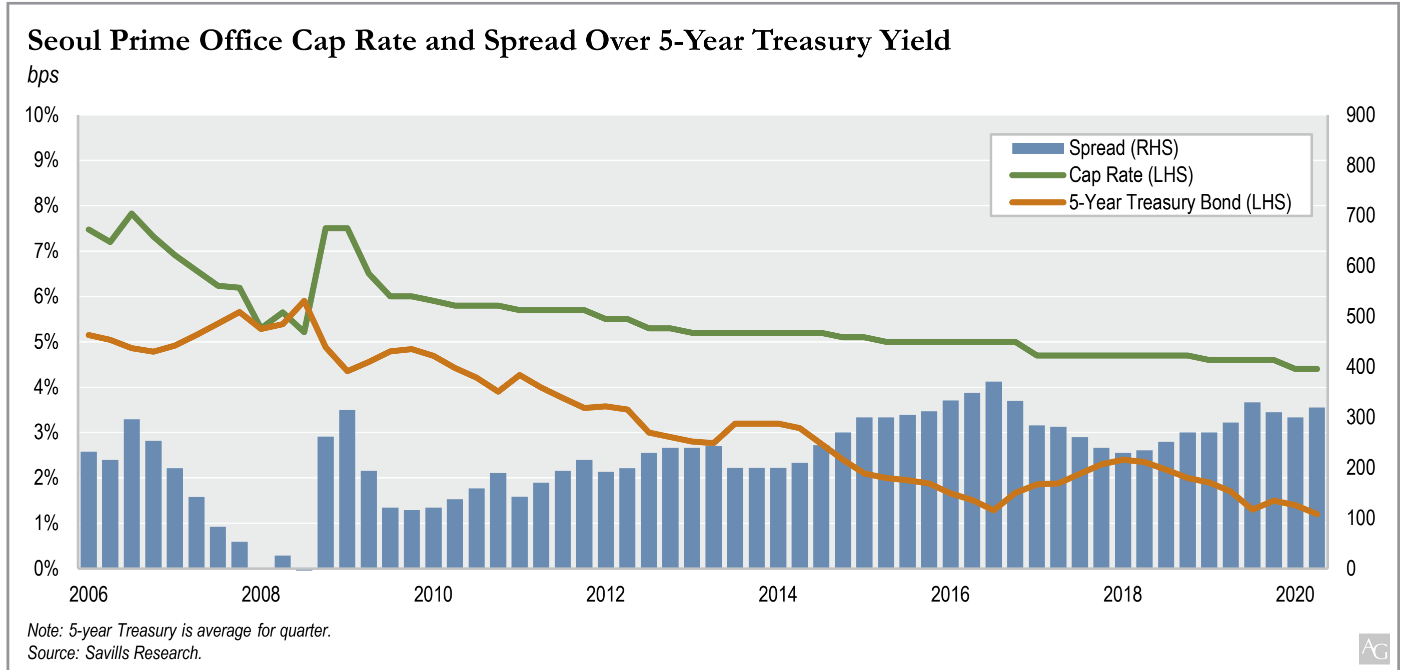
As expected, the hotel and retail sectors have been impacted by the sharp decline in tourists visiting Korea.

Leasing and investment momentum in the logistics sector remains robust, with the outbreak of COVID-19 expediting the continued growth of the e-commerce industry. Modern and efficient logistics facilities in the greater Seoul area have only frictional vacancy. Cap rates for logistics centers have continued to compress; however, a spread of 100-150 basis points remains for logistics cap rates, as compared to that of prime office cap rates.

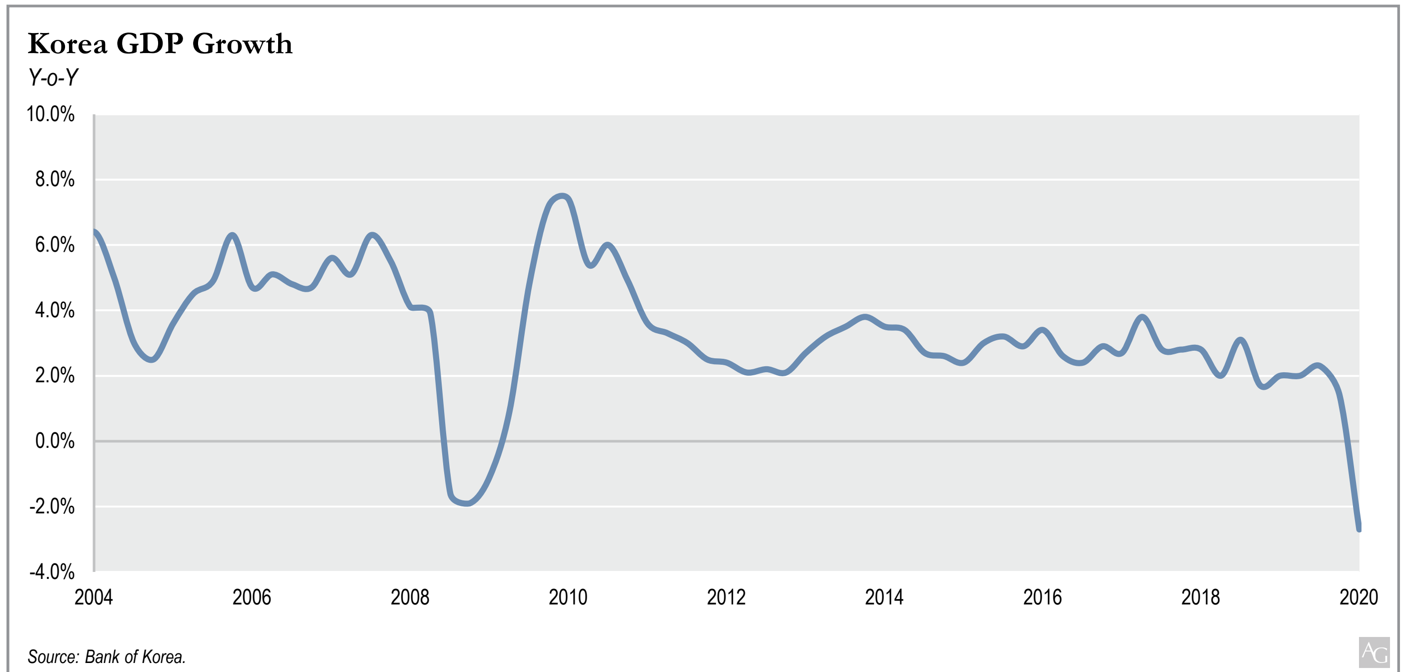


Seoul office vacancy increased as tenants slowed their expansion due to the pandemic.

Asia Real Estate *(continued)*



Cap rates remain wide, as institutional investors continue to seek yielding assets.



As expected, GDP growth remained negative due to the pandemic.

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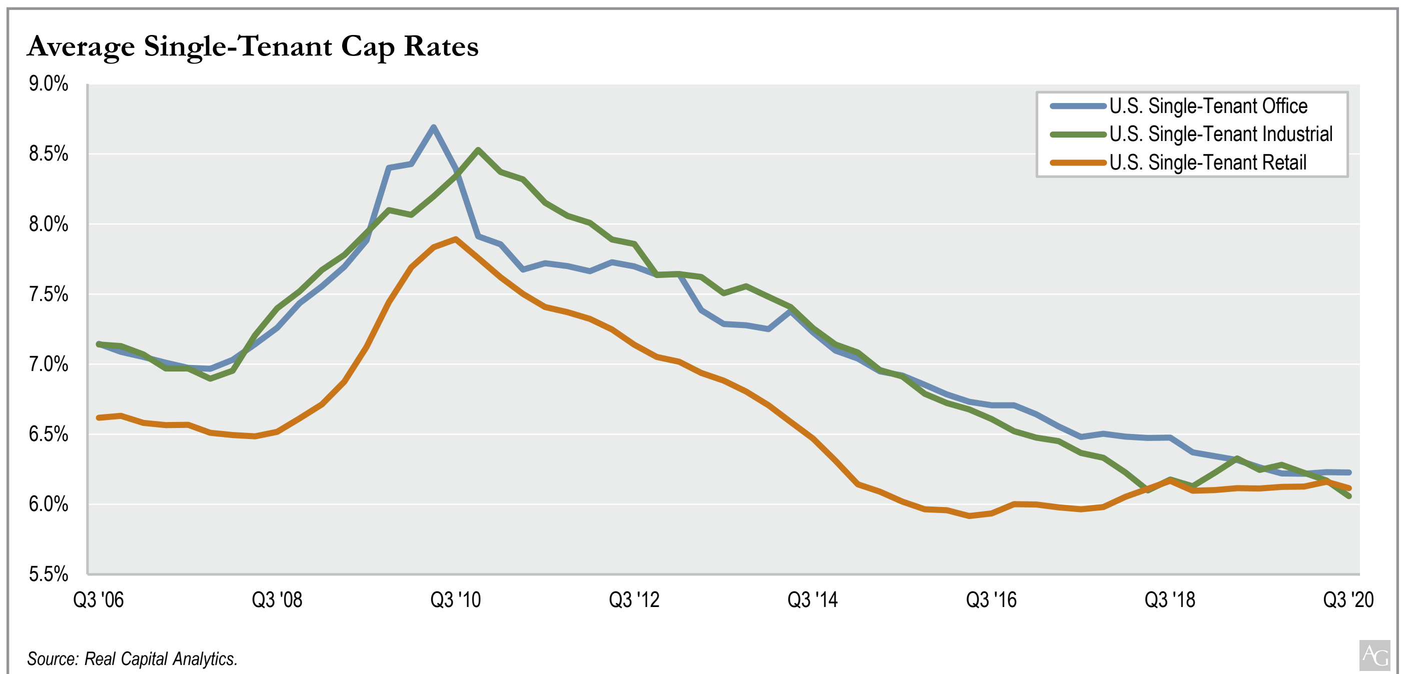
Net Lease Real Estate

As of the third quarter of 2020, the trailing 12-month U.S. single-tenant transaction volume totaled $56 billion, according to Real Capital Analytics (RCA). In the first quarter of 2020, COVID-19's impact on volume was minimal; however, the impact was clear in the second and third quarters, with volumes down 15% and 21%, respectively, compared to the prior quarters. The two-quarter decline is most pronounced in office and retail, which are both down approximately 35%, while industrial volume is down 29%. The last time total volume was $56 billion was in the first quarter of 2015. The decline could be attributable to a number of factors, including properties being closed, uncertain sellers, a lack of clarity in the debt markets, and a pricing disconnect between sellers and buyers. As businesses reopen and there is more clarity on tenants' operations, sellers may have more confidence in bringing properties to market.

Although single-tenant volume has decreased in 2020, net lease properties represented 20% of total commercial real estate investment volume in the second quarter, as compared to 13% in the first quarter of the year, according to CBRE. While there have been large fluctuations in volume, cap rates have remained far more stable, with mild compression in the past two quarters. As interest rates declined and cap rates remained stable, the spread between average cap rates and the 10-year Treasury rate has widened to the highest level since 2012.



Retail and office cap rates have remained largely flat, while industrial cap rates compressed.

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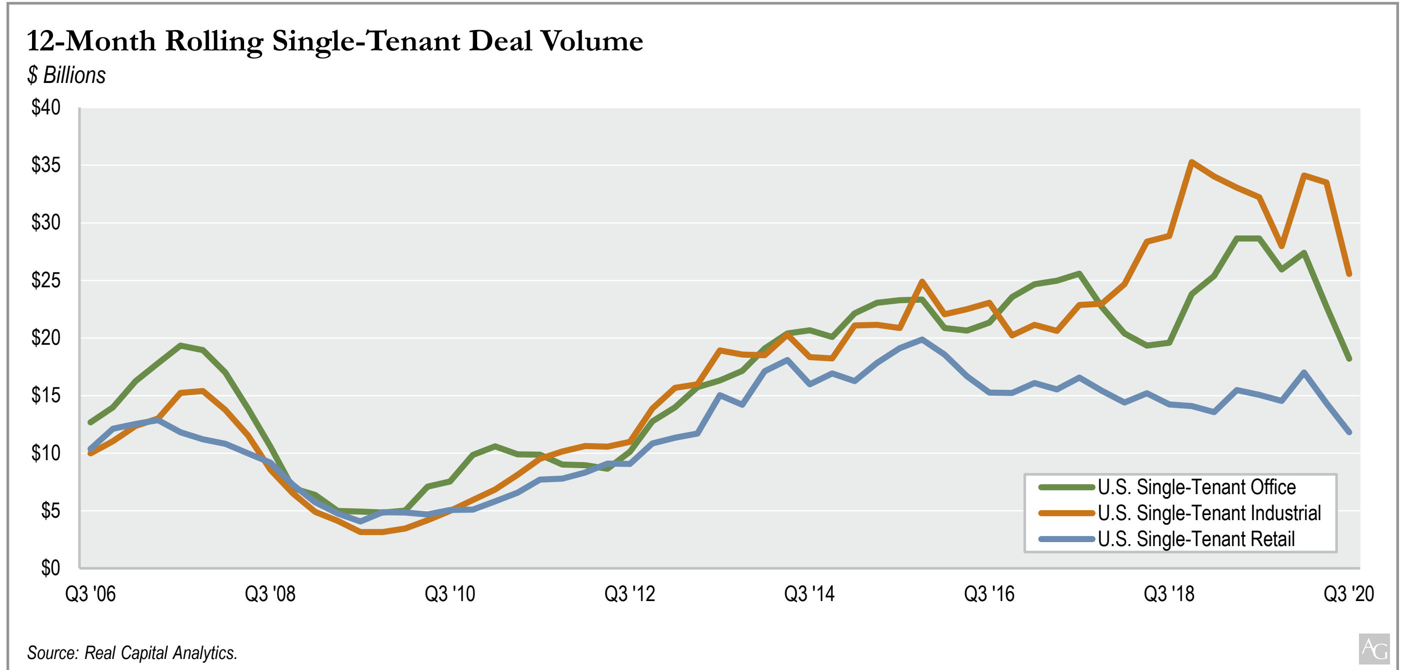
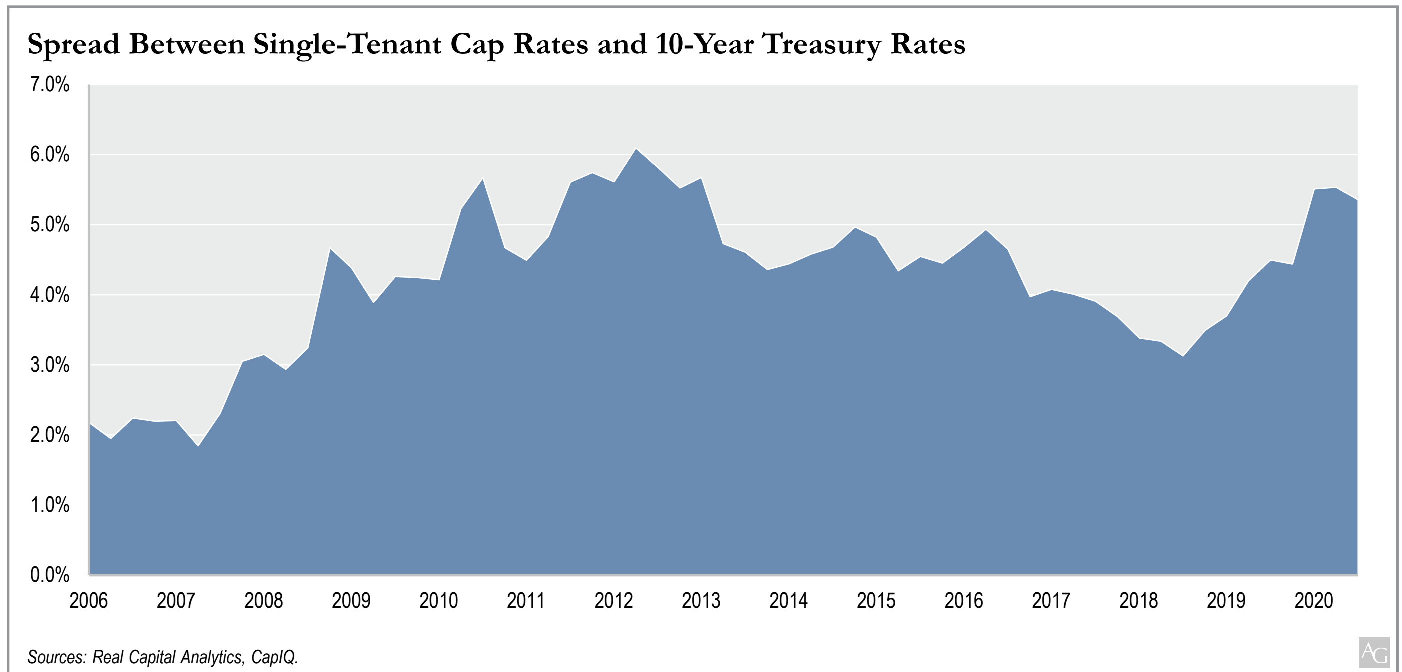
Net Lease Real Estate *(continued)*



After growing substantially for most of 2019, single-tenant volume declined in Q2 and Q3 2020.



The spread between average cap rates and the 10-year Treasury rate has increased.

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Private Equity

The third quarter proved to be a very strong one for the private equity industry and more robust than many predicted. Despite the COVID-19 pandemic's continued adverse effects on the global economy, private equity proved to be a resilient asset class. Consistent with last quarter's update, we will analyze year-over-year activity on a third quarter basis, in addition to on a year-to-date basis where relevant.

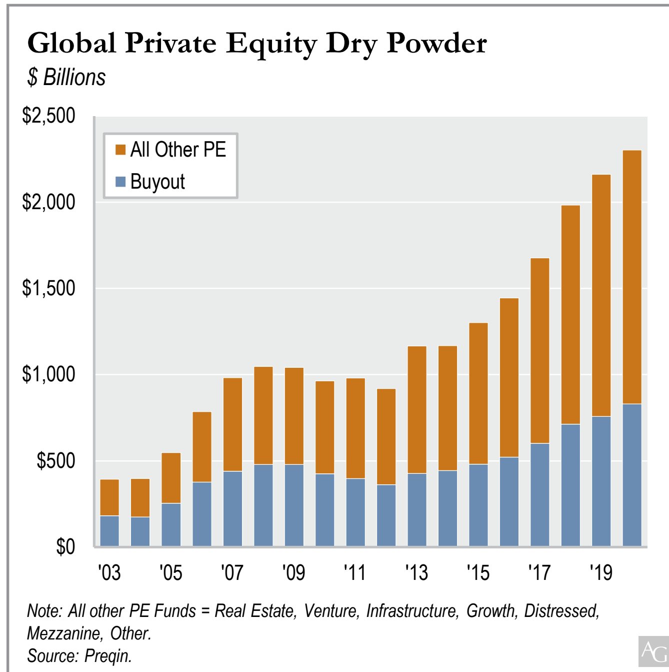
Third quarter 2020 deal volume, on both a global and North American basis, increased year-over-year. In North America, there were $63.6 billion of transactions in the third quarter of 2020, as compared to $56.2 billion in the third quarter of 2019—a year-over-year increase of 13%. Global deal volume in the third quarter of 2020 increased approximately 4% year-over-year to $110.1 billion. Given the significant weakness in deal volume experienced during the second quarter, year-to-date volume was lower on both a North American and global basis, with year-over-year declines of 19% and 17%, respectively.

Dry powder at September 30th set an all-time high of $830 billion, an increase of 4% from June 30th levels. It is interesting to note that dry powder increased during the third quarter despite global economic uncertainty and strong deal volumes, reflecting a solid fundraising environment. Transaction multiples paid also demonstrated a degree of stability. Year-to-date, average multiples paid stood at 10.9x, which—although down slightly from the record 11.5x achieved for calendar 2019—is still on the upper end of the historical range. Average leverage for buyouts year-to-date was 5.5x multiple of EBITDA, which is slightly lower than the prior three calendar years. Equity contribution as a percentage of total capitalization was at 44%, which is consistent with both calendar 2018 and 2019. In the third quarter of 2020, the number of exits decreased approximately 15% year-over-year, though dollar volume increased substantially—by nearly 60%—reflecting larger monetizations. For the first nine months of 2020, exits and dollar volume were lower year-over-year—down 28% and 26%, respectively—reflecting the weak second quarter.

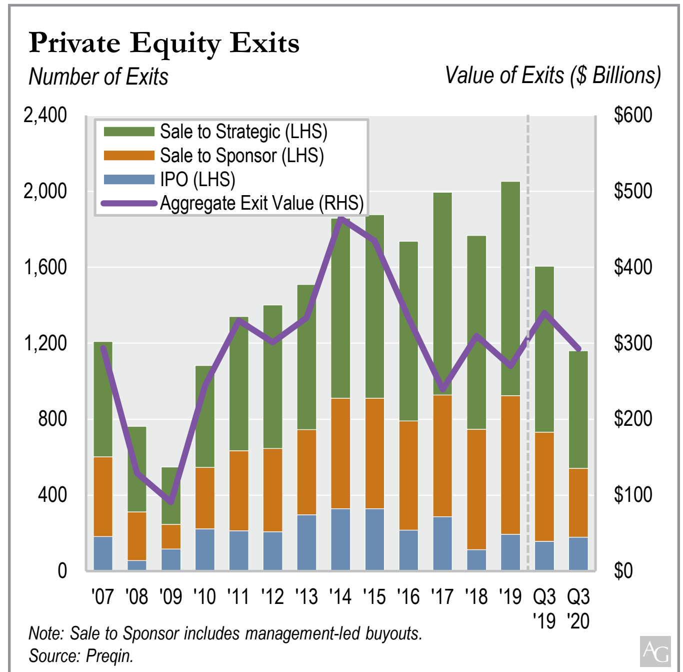
During the third quarter, the private equity industry demonstrated resilience and rebounded from an expectedly weak second quarter. As stated in prior updates, given the nature of the industry, one quarter does not make a trend. As a result, it is far too soon to declare stability in private equity, as socioeconomic factors, corporate profits, geopolitical concerns, and the broad availability of a COVID-19 vaccine will have a significant impact on the performance of the asset class in the future.

For the first nine months of 2020, year-over-year deal volume decreased 19% in North America and 17% globally.

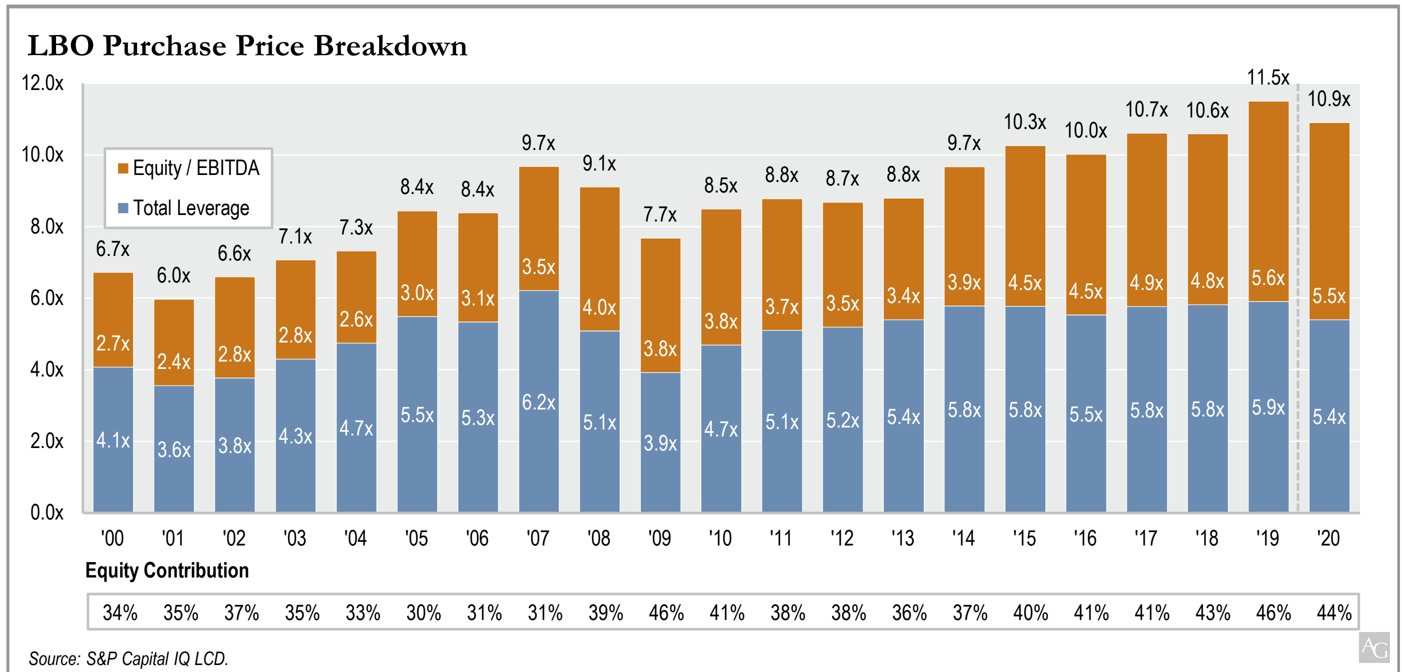
Private Equity *(continued)*



Buyout dry powder at September 30, 2020 stood at $830 billion, an all-time record and a 4% increase from June 30th.



The first nine months of 2020 were weaker year-over-year, with the number of exits decreasing 28% and dollar volume down 26%.



LBO multiples through the first nine months of 2020 stood at 10.9x, which—although lower than calendar 2019—remains high relative to historical levels.

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