ECONOMIC PERSPECTIVES FROM A BOND TRADER

An Extemporaneous Discussion with

Ron New

DABE 11/13/19

OPINIONS ONLY
NOT ADVICE OR A
RECOMMENDATION

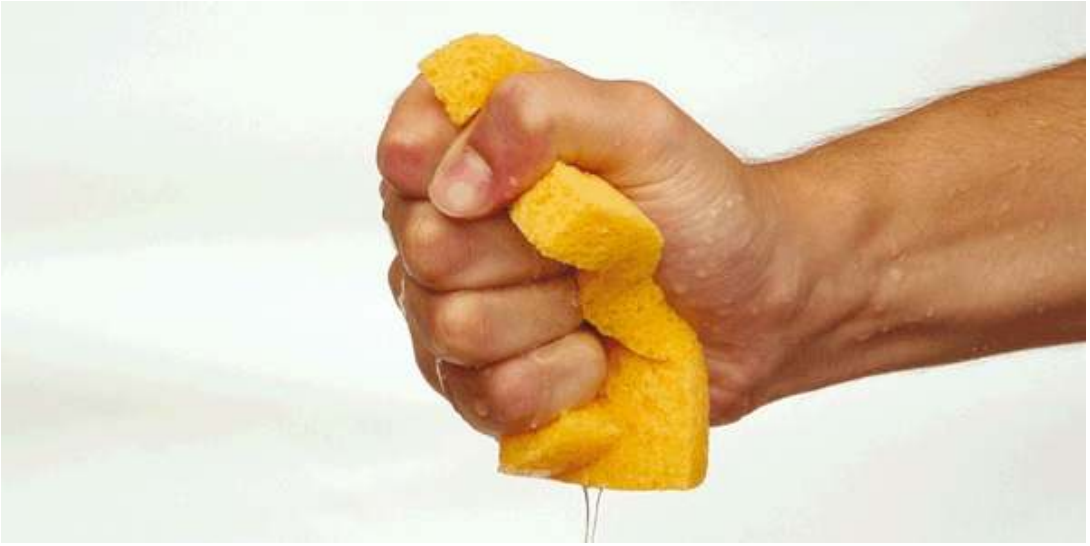
Money is the ultimate arbiter

It takes TWO different opinions to make a market

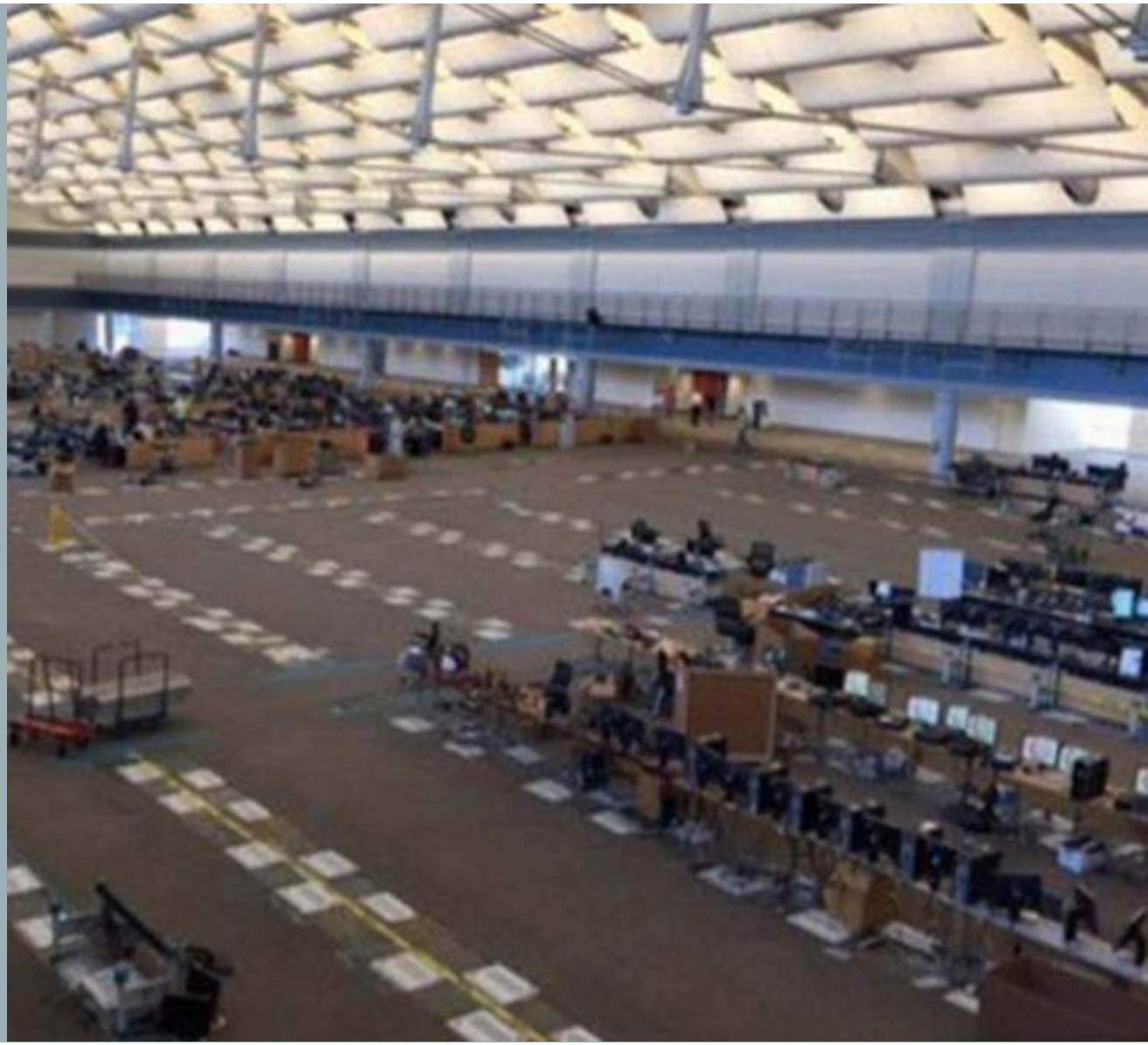
Binary issues lead to volatility

LARGEST TRADING FLOOR 2005

MARGIN COMPRESSION



LARGEST TRADING FLOOR 2016



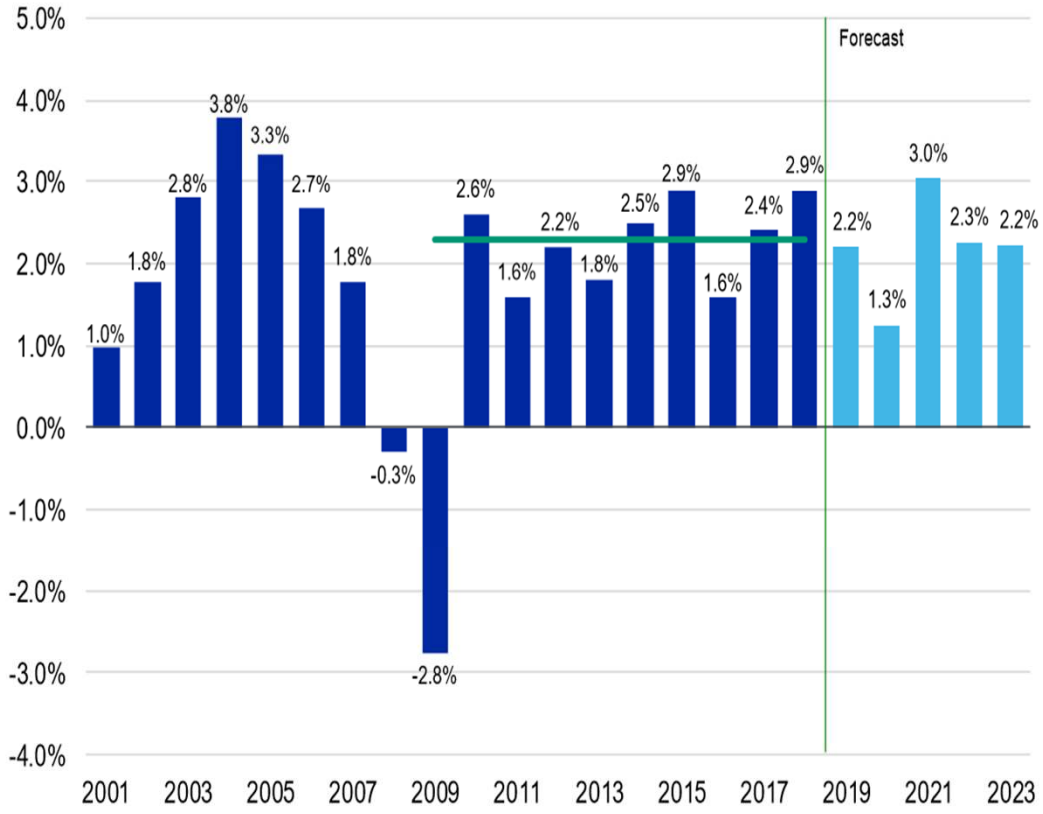
ALL TOO COMMON TRADING SET-UP 2019


LIQUIDITY
BREADTH
VS DEPTH

FAR FROM RECESSION TERRITORY

Annual GDP Growth

2001 - 2023

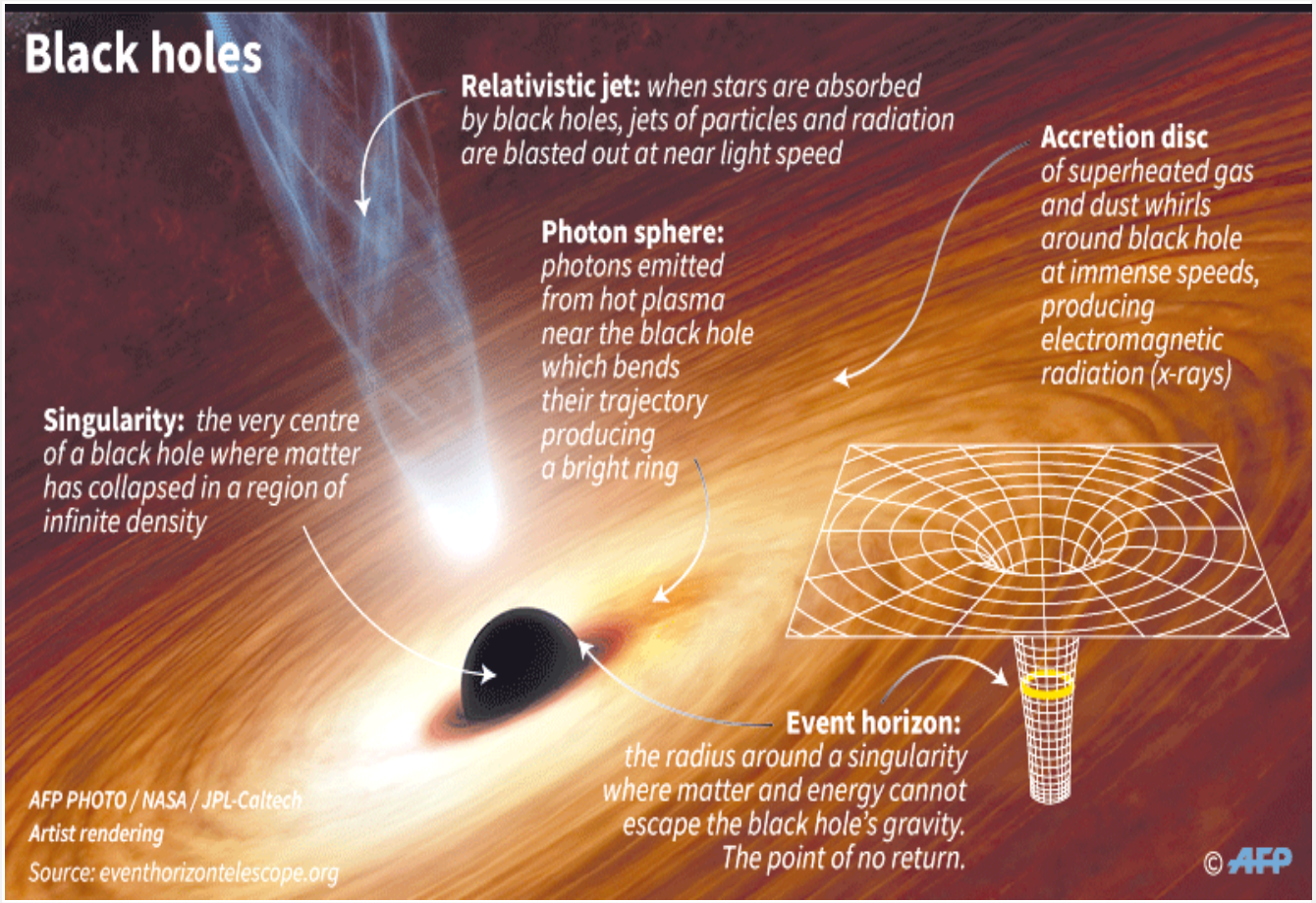


Source: Bureau of Economic Analysis; Moody's Economy.com

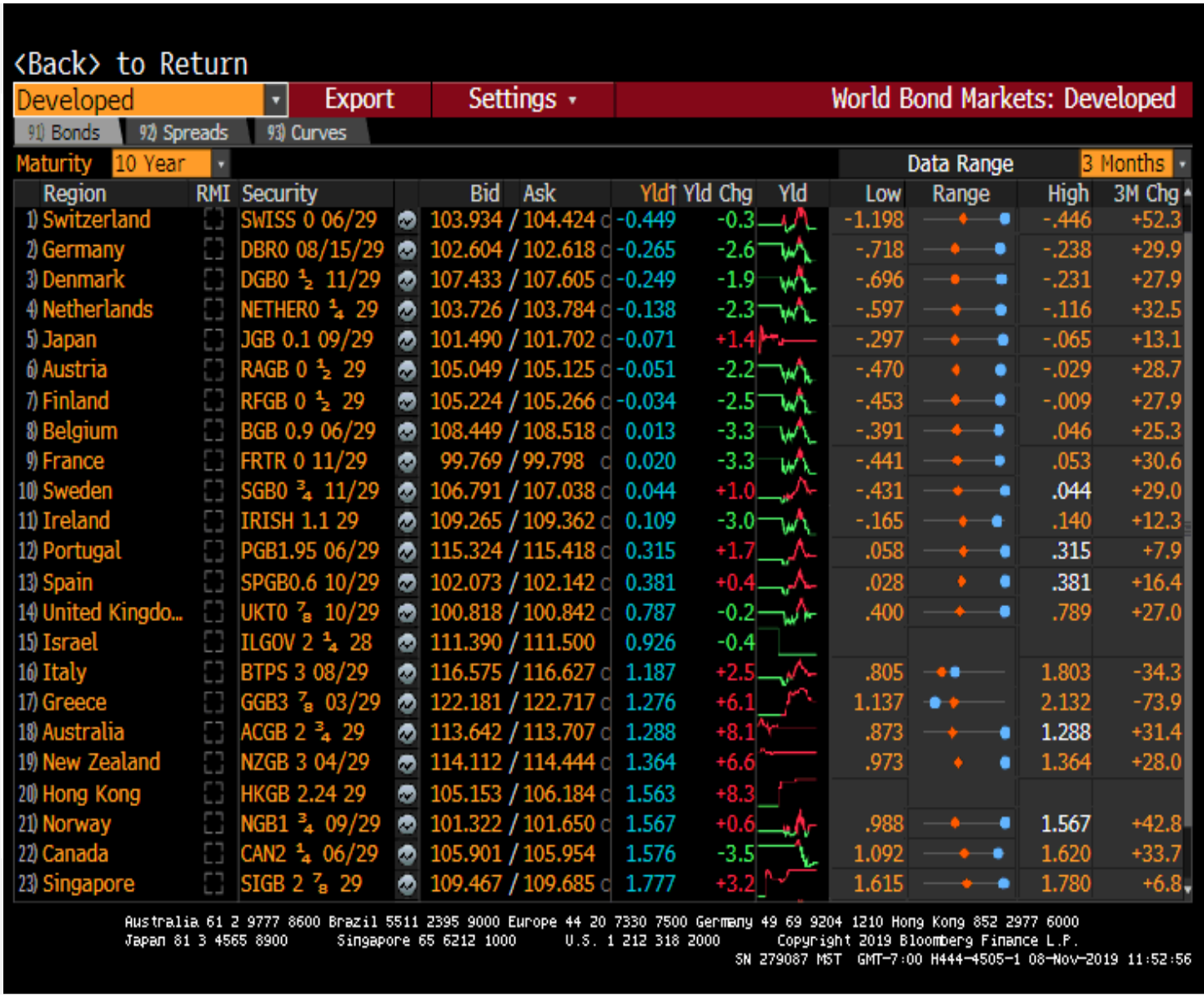
2S TO 10S YIELD CURVE ONE YEAR HISTORY

2S TO 10S YIELD CURVE TEN YEAR HISTORY

DOES ZIRP AND NIRP CREATE AN INTEREST RATE GRAVITY WELL?



TEN YEAR GOVERNMENT BOND YIELDS AMONG DEVELOPED ECONOMIES



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91) Bonds | 92) Spreads | 93) Curves

Maturity 10 Year | Data Range 3 Months

Region	RMI	Security	Bid / Ask	Yld	Yld Chg	Yld	Low	Range	High	3M Chg
1) Switzerland		SWISS 0 06/29	103.934 / 104.424	-0.449	-0.3		-1.198		-.446	+52.3
2) Germany		DBR0 08/15/29	102.604 / 102.618	-0.265	-2.6		-.718		-.238	+29.9
3) Denmark		DGB0 ½ 11/29	107.433 / 107.605	-0.249	-1.9		-.696		-.231	+27.9
4) Netherlands		NETHER0 ¼ 29	103.726 / 103.784	-0.138	-2.3		-.597		-.116	+32.5
5) Japan		JGB 0.1 09/29	101.490 / 101.702	-0.071	+1.4		-.297		-.065	+13.1
6) Austria		RAGB 0 ½ 29	105.049 / 105.125	-0.051	-2.2		-.470		-.029	+28.7
7) Finland		RFGB 0 ½ 29	105.224 / 105.266	-0.034	-2.5		-.453		-.009	+27.9
8) Belgium		BGB 0.9 06/29	108.449 / 108.518	0.013	-3.3		-.391		.046	+25.3
9) France		FRTR 0 11/29	99.769 / 99.798	0.020	-3.3		-.441		.053	+30.6
10) Sweden		SGB0 ¾ 11/29	106.791 / 107.038	0.044	+1.0		-.431		.044	+29.0
11) Ireland		IRISH 1.1 29	109.265 / 109.362	0.109	-3.0		-.165		.140	+12.3
12) Portugal		PGB1.95 06/29	115.324 / 115.418	0.315	+1.7		.058		.315	+7.9
13) Spain		SPGB0.6 10/29	102.073 / 102.142	0.381	+0.4		.028		.381	+16.4
14) United Kingdo...		UKT0 ⅞ 10/29	100.818 / 100.842	0.787	-0.2		.400		.789	+27.0
15) Israel		ILGOV 2 ¼ 28	111.390 / 111.500	0.926	-0.4					
16) Italy		BTPS 3 08/29	116.575 / 116.627	1.187	+2.5		.805		1.803	-34.3
17) Greece		GGB3 ⅞ 03/29	122.181 / 122.717	1.276	+6.1		1.137		2.132	-73.9
18) Australia		ACGB 2 ¾ 29	113.642 / 113.707	1.288	+8.1		.873		1.288	+31.4
19) New Zealand		NZGB 3 04/29	114.112 / 114.444	1.364	+6.6		.973		1.364	+28.0
20) Hong Kong		HKGB 2.24 29	105.153 / 106.184	1.563	+8.3					
21) Norway		NGB1 ¾ 09/29	101.322 / 101.650	1.567	+0.6		.988		1.567	+42.8
22) Canada		CAN2 ¼ 06/29	105.901 / 105.954	1.576	-3.5		1.092		1.620	+33.7
23) Singapore		SIGB 2 ⅞ 29	109.467 / 109.685	1.777	+3.2		1.615		1.780	+6.8

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2019 Bloomberg Finance L.P.
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OUT OF 25 DEVELOPED ECONOMIES, ONLY ICELAND HAS A HIGHER YIELD THAN THE UNITED STATES

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91) Bonds | 92) Spreads | 93) Curves

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23) Singapore		SIGB 2 ⅞ 29	109.467 / 109.685	1.777	+3.2		1.615		1.780	+6.8
24) United States		T 1 ¾ 11/29	98-13 / 98-13+	1.924	+0.7		1.457		1.924	+20.7
25) Iceland		ICEGB 6 ½ 31	124.656 / 125.074	3.720	+47.0					

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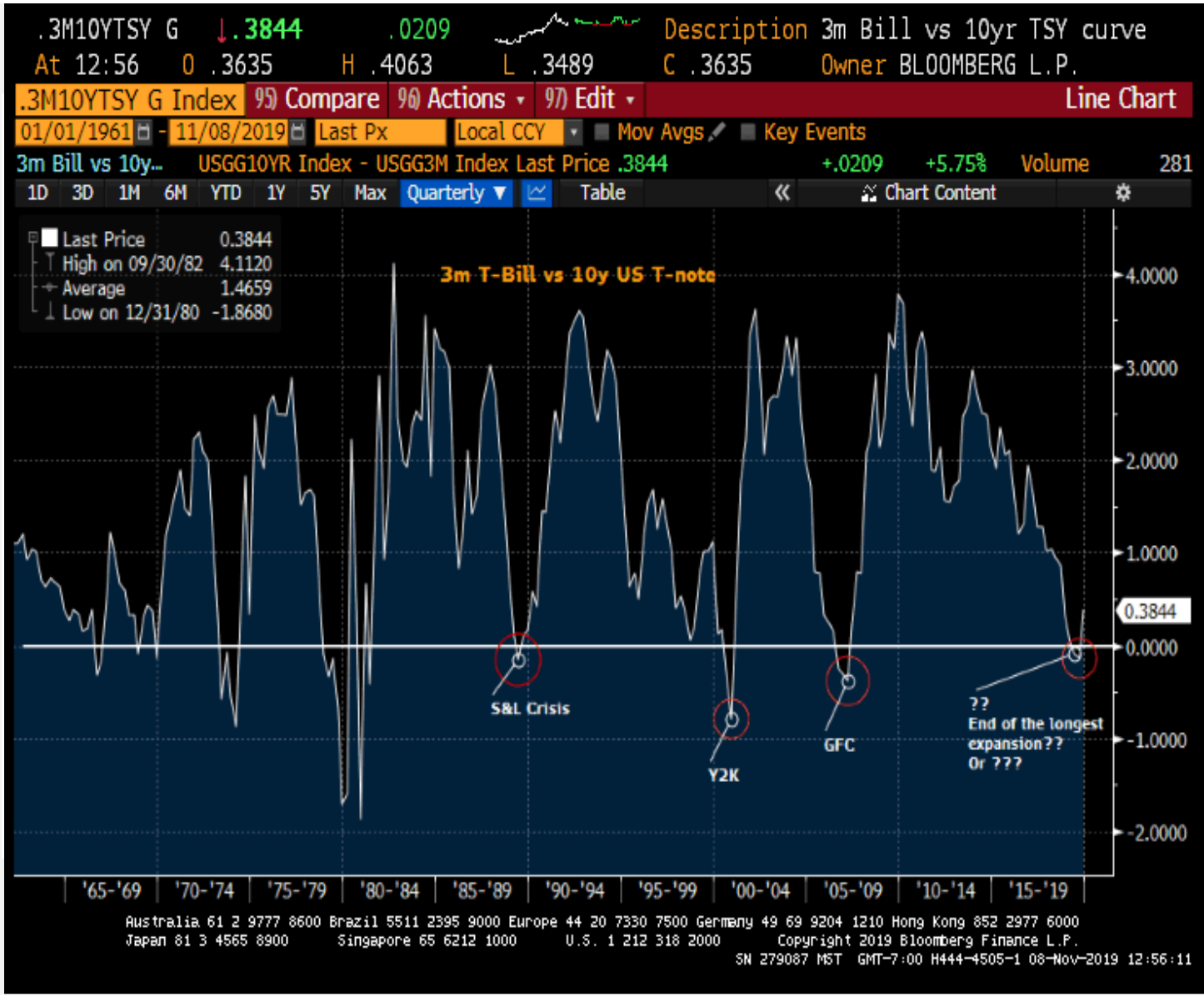
THE SYMPTOM OF LOW INTEREST RATES?

The $23 trillion gross federal debt includes debt held by the public as well as debt held by federal trust funds and other government accounts. In very basic terms, this can be thought of as debt that the government owes to others plus debt that it owes to itself. America's high and rising debt matters because it threatens our economic future. The interest that we pay on the federal debt is now the fastest growing part of the budget, and will total nearly $6 trillion over the next decade. *In fact, we spend $1 billion every day, just on interest.*

Source: Peter G. Peterson Foundation

THE RELATIONSHIP BETWEEN THE 3M TBILL AND THE 10Y UST DATING TO THE 1961



THE RELATIONSHIP BETWEEN THE 3M TBILL AND THE 10Y UST

ONE YEAR HISTORY

10 YEAR US TREASURY YIELD

A FIFTEEN YEAR HISTORY

10 YEAR US TREASURY YIELD

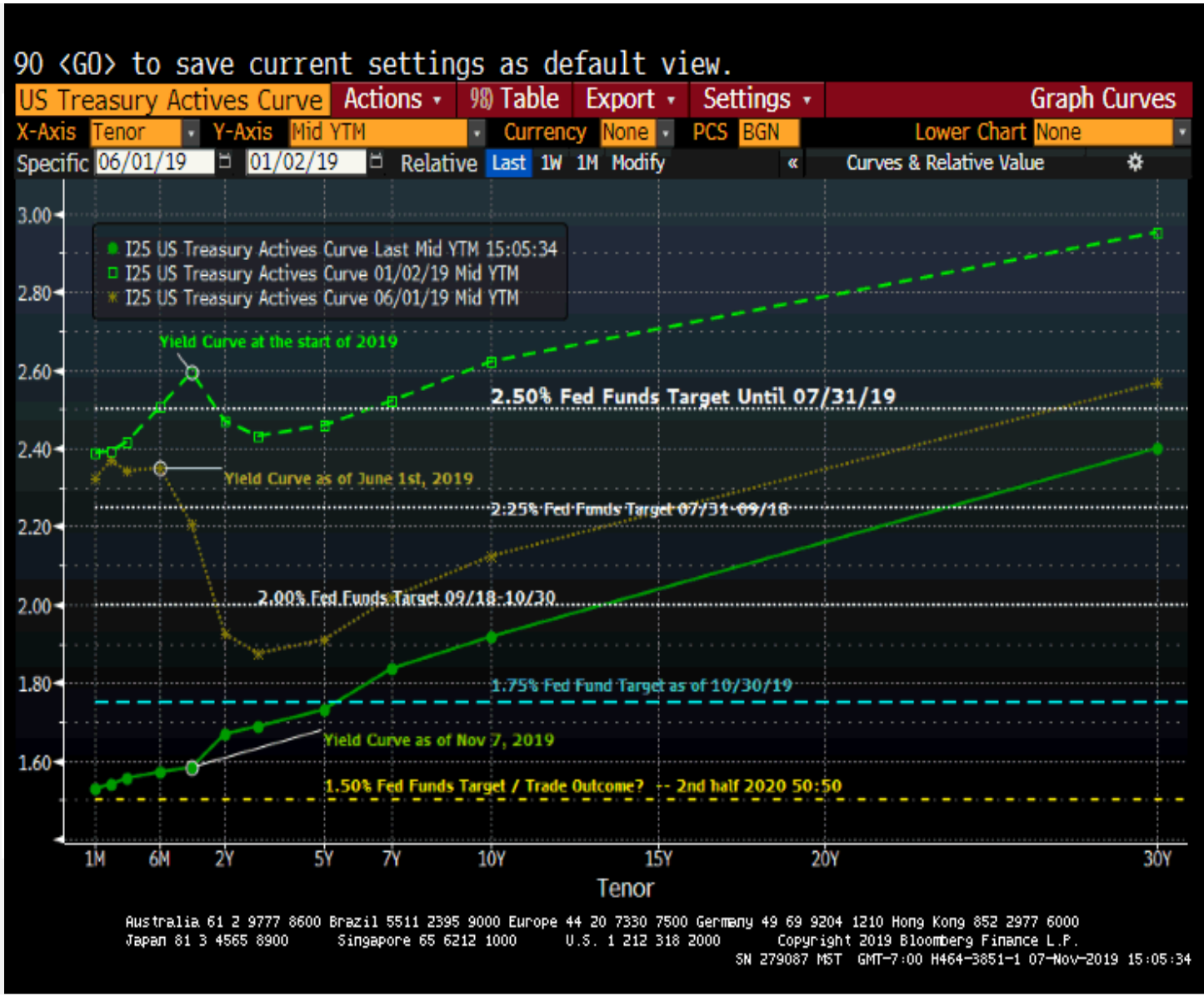
A FIVE YEAR HISTORY

10 YEAR US TREASURY YIELD

A SIX MONTH HISTORY

US TREASURY CURVE

FROM THE START OF 2019 TO PRESENT



RISK IN THE CAPITAL MARKETS

AS MEASURED BY THE BLOOMBERG FINANCIAL CONDITIONS INDEX

A LOOK AT EQUITY INDEX RETURNS

AS OF THE CLOSE ON NOVEMBER 7TH, 2019

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Americas ▾ ☐ Movers ☐ Volatility ☐ Ratios ☐ Futures ☑ Δ AVAT 10D ▾ %Chg YTD ▾ USD ▾

1) Americas	RMI	2Day	Value	Net Chg	%Chg	Δ AVAT	Time	%Ytd	%YtdCur
11) DOW JONES			27674.80	+182.24	+0.66%	-1.04%	14:20 c	+18.64%	+18.64%
12) S&P 500			3085.18 d	+8.40	+0.27%	+9.09%	14:20 c	+23.07%	+23.07%
13) NASDAQ			8434.52	+23.89	+0.28%	+16.12%	14:47 c	+27.12%	+27.12%
14) S&P/TSX Comp			16805.75 d	+60.11	+0.36%	+26.00%	14:20 c	+17.34%	+21.44%
15) S&P/BMV IPC			44119.90 d	+301.39	+0.69%	-0.60%	14:16 c	+5.95%	+8.77%
16) IBOVESPA			109580.57 d	+1220.35	+1.13%	+8.63%	14:20 c	+24.68%	+17.99%
17) CHILE SLCT			4672.77 d	+73.39	+1.60%		12:31 c	-8.47%	-14.35%
18) Colom COLCAP			1655.73 d	-1.42	-0.09%		14:00 c	+24.87%	+22.39%
19) ARG MERVAL			35869.21 d	+368.72	+1.04%	-45.50%	14:27 c	+18.41%	-25.17%
20) S&P/BVL Peru			20140.82 d	+75.63	+0.38%	-76.19%	14:01 c	+4.08%	+4.86%
2) EMEA									
21) Euro Stoxx 50			3706.68 d	+17.94	+0.49%	+4.14%	09:50 c	+23.50%	+19.02%
22) FTSE 100			7406.41 d	+9.76	+0.13%	+4.82%	09:35 c	+10.08%	+10.57%
23) CAC 40			5890.99 d	+24.25	+0.41%	+23.35%	10:05 c	+24.53%	+20.01%
24) DAX			13289.46 d	+109.57	+0.83%	+47.57%	11/07 c	+25.86%	+21.30%
3) Asia/Pacific									
31) NIKKEI			23330.32 d	+26.50	+0.11%	-3.17%	11/07 c	+16.57%	+16.98%
32) HANG SENG			27847.23 d	+158.59	+0.57%	-11.91%	11/07 c	+7.74%	+7.82%
33) CSI 300			3991.88 d	+6.99	+0.18%	-3.92%	11/07 c	+32.59%	+30.69%
34) S&P/ASX 200			6726.63	+66.48	+1.00%	+7.43%	11/07 c	+19.13%	+16.61%

ZOOM IN ON THE S&P 500

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Public Statement

Staff Statement on LIBOR Transition

Division of Corporation Finance, Division of Investment Management, Division of Trading and Markets, and Office of the Chief Accountant[1]

July 12, 2019

LIBOR[2] is an indicative measure of the average interest rate at which major global banks could borrow from one another. LIBOR is quoted in multiple currencies and multiple time frames using data reported by private-sector banks.[3] LIBOR is used extensively in the U.S.[4] and globally as a "benchmark" or "reference rate" for various commercial and financial contracts, including corporate and municipal bonds and loans, floating rate mortgages, asset-backed securities, consumer loans, and interest rate swaps and other derivatives. It is expected that a number of private-sector banks currently reporting information used to set LIBOR will stop doing so after 2021 when their current reporting commitment ends, which could either cause LIBOR to stop publication immediately or cause LIBOR's regulator to determine that its quality has degraded to the degree that it is no longer representative of its underlying market.[5] As regulators and market participants seek to avoid business and market disruptions resulting from the expected discontinuation of LIBOR, implementing alternative reference rates in advance of the discontinuation has taken on urgency. As described in more detail below, the U.S. and other countries are currently working to replace LIBOR with alternative reference rates.

The expected discontinuation of LIBOR could have a significant impact on the financial markets and may present a material risk for certain market participants, including public companies, investment advisers, investment companies, and broker-dealers. The risks associated with this discontinuation and transition will be exacerbated if the work necessary to effect an orderly transition to an alternative reference rate is not completed in a timely manner.[6] The Commission staff is actively monitoring the extent to which market participants are identifying and addressing these risks.

Alternative Reference Rates

Working groups have been formed in each of the United States, the United Kingdom, the European Union, Japan, and Switzerland to recommend an alternative rate to LIBOR for its respective currency. In the U.S., the Alternative Reference Rates Committee ("ARRC"), a group convened by the Federal Reserve Board and the Federal Reserve Bank of New York, is comprised of a diverse set of private-sector entities, each with an important presence in markets affected by USD LIBOR,

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BUSINESS NEWS MARCH 5, 2018 / 2:57 PM / 2 YEARS AGO

U.S. Libor exposures larger than thought at $200 trillion: ARRC

Karen Brettell 3 MIN READ

(Reuters) - A committee of large banks tasked with helping U.S. derivatives markets move away from reliance on the London interbank offered rate (Libor) said on Monday that the benchmark rate underpins more derivatives and loans than previously thought, adding to the need to reduce its influence.

The Alternative Reference Rates Committee (ARRC) said that around $200 trillion in U.S. dollar-based derivatives and loans are based on Libor, with derivatives accounting for around 95 percent of the exposures.

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Photographer: Chris Ratcliffe/Bloor

Markets

Libor Refuses to Die, Setting Up $370 Trillion Benchmark Battle

By Alex Harris

May 6, 2018, 6:00 PM EDT *Updated on May 7, 2018, 10:26 AM EDT*

- Key rate seeks second life after regulators sound death knell
- Presumptive heir faces challenges as futures trading begins

A struggle that will dictate the future of financial markets is brewing. Long beleaguered Libor is fighting to preserve its status as the premier global benchmark for dollar-based assets just as questions pile up over the credibility of its presumptive heir.

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What is CECL?

CECL, or current expected credit loss, is a new accounting standard that will change how financial institutions account for expected credit losses. Following the financial crisis, much of the immediate focus by regulators and supervisory authorities was on recapitalizing institutions and guarding against systemic risk with an increased focus on stress testing as the preferred tool to protect the global economy from further erosion. Perhaps more important to the bottom line is the more recent publication of revolutionary changes to accounting standards that determine the appropriate level of balance sheet reserves for credit losses.

In June 2016, the Financial Accounting Standards Board (better known as FASB) published its Accounting Standards Update on Financial Instruments – Credit Losses (Topic 326). It replaces the current standards for loss accounting – commonly known as FAS-5 and FAS-114.

FASB's CECL standards will apply to any institution issuing credit, including banks, savings institutions, credit unions and holding companies filing under GAAP accounting standards. The rules affect all entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The CECL standards will be effective starting Dec. 15, 2019, for public business entities that are US SEC filers and will fundamentally change how banks estimate losses in their allowance for loan and lease losses (ALLL).

While the US CECL standards deviate in a few significant ways from the international IFRS 9 standard published two years earlier, they share an important feature – the calculation of the expected credit loss is now computed over the *life of the loan*. CECL represents a significant change from the previous incurred loss model. Under the previous incurred-loss model, banks recognized losses when they had reached a probable threshold of loss. Many analysts have suggested the older method for computing expected credit losses drastically underrepresented impairments and the calculation of potential future losses.

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2)	Reserve Impact Driven by Consumer Loans and Historical Losses	BI	11/04
3)	Book Values to Take a One-Time Hit With CECL Implementation	BI	11/04

Time Ordered News

4)	Esquire Financial Holdings, Inc.: 10-Q 2019/09/30	EDG	13:41
5)	First Bancshares Inc /ms/: 10-Q 2019/09/30	EDG	13:39
6)	Kentucky Bancshares Inc /ky/: 10-Q 2019/09/30	EDG	13:24
7)	Smartfinancial Inc.: 10-Q 2019/09/30	EDG	13:16
8)	Provident Financial Services Inc: 10-Q 2019/09/30	EDG	12:46
9)	Mackinac Financial Corp /mi/: 10-Q 2019/09/30	EDG	12:40
10)	Ameris Bancorp: 10-Q 2019/09/30	EDG	12:34
11)	Oak Valley Bancorp: 10-Q 2019/09/30	EDG	12:33
12)	U S Physical Therapy Inc /nv: 10-Q 2019/09/30	EDG	12:32
13)	Northfield Bancorp, Inc.: 10-Q 2019/09/30	EDG	12:25
14)	Bank of Marin Bancorp: 10-Q 2019/09/30	EDG	12:23
15)	Fs Bancorp, Inc.: 10-Q 2019/09/30	EDG	12:13
16)	Houston Wire & Cable Co: 10-Q 2019/09/30	EDG	12:12
17)	Bimini Capital Management, Inc.: 10-Q 2019/09/30	EDG	12:10
18)	Juniata Valley Financial Corp: 10-Q 2019/09/30	EDG	11:51

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ABA BANKING JOURNAL

Consumer Lending Group Warns: CECL Could Seriously Limit Credit Availability

ON OCTOBER 14, 2019 NEWSBYTES, POLICY, TAX AND ACCOUNTING

As the Financial Accounting Standards Board prepares to vote this week on a delay of the CECL accounting standard for certain companies, the Center for Responsible Lending on Friday warned that the standard could seriously affect credit availability to low- and moderate-income borrowers. CRL called for a pause in CECL's implementation to allow for a full economic impact study of the standard.

"As proposed, CECL creates a significant disincentive for lenders to originate loans to low- and moderate-income families and communities of color, since the up-front charge will be relatively large than for 'prime' loans, even when the lender charges an interest rate that will fully cover the expected risk of loss," said CRL President Mike Calhoun. "This problem is particularly acute for long-term assets like mortgages."

ABA has long warned of the procyclical nature of CECL and its potential to curtail consumers' access to credit. In previous comments to FASB, ABA called for a "full, indefinite delay" of CECL for all companies, and the association continues to advocate for a quantitative impact study.

CECL | Loan loss accounting

UNINTENDED CONSEQUENCES

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INNOVATE

Opendoor Wants to 'Win' the $1.6 Trillion Real Estate Industry. To Get There, It Needs to Grapple With Realtors, Squatters, and an Unpredictable Economy

Five years after its launch in Phoenix, the company may have already changed the process of buying and selling homes forever. Its founder thinks that's just the beginning.

By Kevin J. Ryan *Staff writer, Inc.* @wheresKR

Since its launch in 2014, the company has bought and sold 50,000 houses in 23 cities across the U.S. This year alone, Opendoor is on pace to purchase $5 billion in homes. While iBuying currently accounts for less than 1 percent of the $1.6 trillion worth of annual real estate transactions in the U.S., that number is expected to rise: Opendoor's competitors now include other tech startups as well as such real estate stalwarts as Keller Williams and Realogy's Coldwell Banker.

Economics

The Next Housing Bubble Could Come From Technology

The ability to buy or sell a home with the click of a mouse could also make housing more affordable.

- For many of the same reasons big investors have been reluctant to move into the home market, small-time real estate investors have traditionally taken their time and stayed in neighborhoods they know well.
- But now online real-estate firms such as Redfin are offering better technology, such as 3D maps, which allows potential homebuyers to purchase sight unseen. A large inventory of homes owned by respected firms would add liquidity to this market, allowing small investors to get in and out more easily.
- Together, these two technologies could serve as a kind of market-maker: A platform that allows buyers and sellers to find each other. As an asset that can be easily bought and sold at known prices, real estate would be coveted by investors, who are willing to accept a lower return on their investment in exchange for the convenience of easy trading.
- The yield on an asset is its price divided by the yearly cash flow it generates. For stocks, the cash flow is dividends. For houses, it is rental income. Housing investors have generally considered a price-to-rent ratio of 12 to 15 as a good investment. That corresponds to a yield of 7% to 9%. On the other hand, the average dividend yield on stocks is about 2%, corresponding to a price-to-dividend ratio of just over 50.

Economics

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So what would happen if houses became as easy to trade as stocks? At first, the price of homes would soar. That happened during the last housing bubble, when lower lending standards added liquidity to the housing market by making it easier for investors to sell quickly to less qualified borrowers.

The existence of a market-maker in housing, however, could drive yields down to the level of stocks, creating a potential bubble twice as big as the one that occurred in the early 2000s.

Emerging technology has the potential to radically transform the economics of housing. It could lead to an expansion of supply, making housing more affordable; or it could result in the financialization of housing, the end of the owner-occupied era and new source of economic instability. Policy makers will have to keep an eye out for which scenario is emerging and what if anything they can do about it.

THANK YOU

Ron New

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