IvyLine Capital Group

Monday Market Update

LAST WEEK

May 01 - May 12, 2023

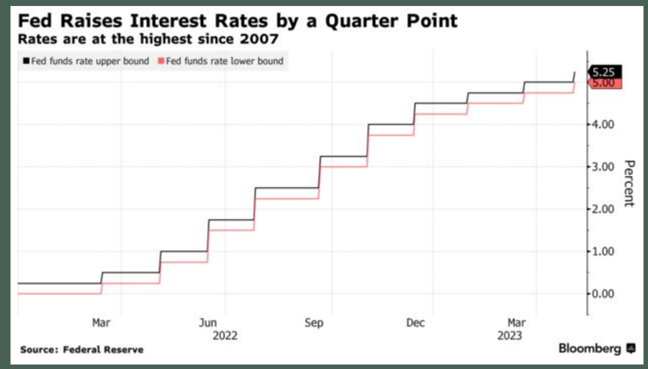
The Federal Reserve Raised Interest Rates By Another 25 bps

The Federal Reserve has increased the interest rates by 25 basis points and indicated that this could be the last hike in its most aggressive tightening campaign since the 1980s, owing to mounting economic risks. “The committee will closely monitor incoming information and assess the implications for monetary policy,” the FOMC said in a statement Wednesday. The committee omitted a line from its previous statement in March that said the committee “anticipates that some additional policy firming may be appropriate.” and instead, added that they will take into account various factors “in determining the extent to which additional policy firming may be appropriate."

The Federal Reserve lifted its benchmark federal funds rate by 25 basis points, bringing the target range to 5% to 5.25%, the highest level since 2007. The unanimous vote received "very strong" support across the board. Federal Reserve Chair Jerome Powell stated that the Fed's assessment of whether the rate will bring inflation back to the 2% target will be based on incoming data. Powell also noted that the Fed officials' inflation outlook does not support rate cuts. Stocks fluctuated and bond yields fell during Powell's statement.

Powell acknowledged the improvement in bank conditions since March but also mentioned that the ongoing banking crisis has resulted in tighter credit conditions for households and businesses, which may weigh on economic activity, hiring, and inflation. However, Powell also stated that the extent of these effects remains uncertain. While Powell mentioned the possibility of a mild recession, he believes that avoiding a recession is more likely than experiencing one. The decline in job openings has not been accompanied by rising unemployment, and wage increases have been decreasing, according to Powell.

The Federal Reserve's aggressive tightening campaign over the past year aimed at controlling high inflation rates has also resulted in pressure on financial institutions, leading to the biggest bank failures since 2008.



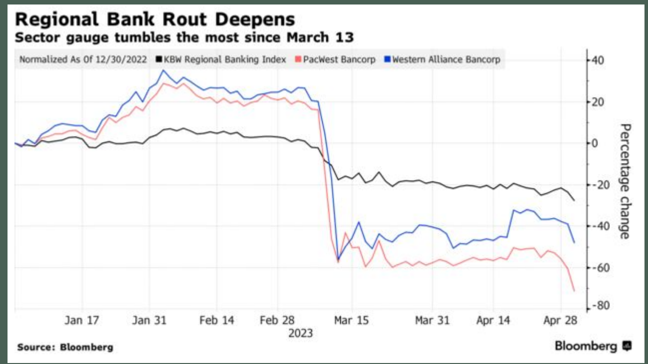
Two banks, Silicon Valley Bank in California and Signature Bank in New York, went under in March due to heavy deposit outflows. The Fed responded by launching an emergency lending facility to restore confidence in the banking system. However, the FOMC reiterated in their recent statement that the US banking system remains sound and resilient.

The Labor Department's monthly report on Tuesday showed a decline in job openings and an increase in layoffs in March, indicating that the job market is finally feeling the impact of monetary tightening. While the Fed may have finished raising rates, Chairman Powell and his colleagues have pledged to maintain elevated rates to ensure that inflation continues to recede towards the 2% target. Projections released after the March FOMC meeting showed officials were nearly unanimous in their expectation to maintain the federal funds rate above 5% through the end of 2023. However, investors do not share the same sentiment, with interest-rate futures pricing in around 70 basis points of easing by the end of the year, indicating market expectations of a pivot towards rate cuts by the Fed.

Regional Banks Melt Down Continues

The series of interest-rate hikes over the past year have caused banks to incur unrealized losses of approximately $1.84 trillion, while commercial real estate challenges have added to their woes. Banks also face the threat of deposit outflows as depositors seek higher-yielding alternatives. The recent decline in the major bank index by 4.5% is a cause for concern, as are the halts in trading of PacWest Bancorp and Western Alliance Bancorp. Both banks' pre-market trading has also seen losses following the declines of 28% and 15%, respectively, on Tuesday. The two- and 10-year yields have also fallen as investors flock to safe havens, following data pointing to a softening labor market. Additionally, savers are beginning to take notice of alternative high-yield offerings outside of traditional banking products. Although deposit betas remain relatively low, recent data from the Fed indicates that they are rising more quickly compared with past rate-hike cycles. The US bank deposits experienced their fastest annual drop since 1981 in the last three months of 2022, and shrank by a similar clip in the last quarter.

Following the collapse of several banks in March, including Silvergate Capital Corp., SVB Financial Group’s Silicon Valley Bank, and Signature Bank, investors have been closely scrutinizing



regional banks like Western Alliance and PacWest. These banks are at risk due to asset-liability mismatches and uninsured deposits. However, recent earnings reports from both banks in April seem to have calmed investors' concerns, with the banks indicating that their deposit bases had stabilized or recovered after initial outflows in March. Despite this, the banking industry remains under pressure due to the impact of interest rate hikes, commercial real estate troubles, and deposit flight to higher-yielding alternatives.

Last Week Summary

Key economic indicators released this week have provided valuable insights on the current state of the economy. April's ISM Manufacturing PMI and ISM Non-Manufacturing PMI both slightly exceeded expectations. However, JOLTs Job Openings for March and Unemployment for April both fell short of expectations, leaving mixed signals on the state of the labor market. The most significant event of the week was the FOMC Meeting, resulting in another 25 basis points of interest rate hike despite the ongoing banking crisis. This is expected to be the last interest rate increase by the Federal Reserve, and we may see the Fed pivot towards the end of this year. Looking ahead, Nonfarm and Private Nonfarm Payrolls for the month of April were both substantially higher than forecasts, indicating a positive trend for the labor market.

In the Treasury market, the yield curve remained inverted, with an increase in yields for short-term treasuries and a decrease in rates for long-term treasuries. Of particular note was the significant increase in the yield for 1-month notes, which rose by 110 basis points in just one week. This highlights the level of concern among investors regarding the US Debt Ceiling.

Please refer to the table below for further economic data.

Indicator	ISM Manufacturing PMI (Apr)	JOLTs Job Openings (Mar)	ISM Non-Manufacturing PMI (Apr)	Fed Interest Rate Decision	Nonfarm Payrolls (Apr)	Private Nonfarm Payrolls (Apr)	Unemployment Rate (Apr)
Actual	47.1	9.590M	51.9	25bps	253K	230K	3.4%
Forecast	46.7	9.683M	51.8	25bps	180K	154K	3.6%

THIS WEEK

This week, the financial markets are anticipating the release of several significant reports that will offer valuable insights to investors. In the first half of the week, we can expect the release of the CPI and Core CPI for the month of April, both of which are projected to be similar to the numbers reported a year ago. In addition, the Crude Oil Inventories numbers are also scheduled to be released, with expectations of a significant increase compared to the same period last year. On Tuesday, the weekly Initial Jobless Claims report and April's PPI report will be released, providing investors with insights into the labor market and changes in the prices of goods sold by manufacturers.

As we move towards the latter half of the week, the WASDE Report will be released, providing the latest USDA forecasts of U.S. and world supply-use balances of major grains, soybeans and products, cotton, and U.S. supply and use of sugar and livestock products. Furthermore, two other economic indicators for the month of April - the Export Price Index and Import Price Index - are expected to be published. These indicators will provide valuable information on the changes in the prices of goods exported and imported by the United States, respectively.

Please refer to the table on the right for a comprehensive list of the scheduled reports.

Source: Investing.com

Economic Calendar

Date	Economic Indicator	Expectation vs TTM
05 - 10	Core CPI (MoM) (Apr)	0.4% vs 0.6%
05 - 10	CPI (MoM) (Apr)	0.4% vs 0.3%
05 - 10	Crude Oil Inventories	-1.100M vs 8.487M
05 - 11	Initial Jobless Claims	245K vs 203K
05 -11	PPI (MoM) (Apr)	0.3% vs 0.5%
05 - 12	WASDE Report	- - -
05 - 12	Export Price Index (MoM) (Apr)	0.3% vs 0.6%
05 - 12	Import Price Index (MoM) (Apr)	0.3% vs 0.0%

Technicals & Terms

1. Deposit beta measures how responsive management's deposit repricing is to the change in market rates.
2. WASDE Report: A monthly report that provides the current USDA forecasts of U.S. and world supply-use balances of major grains, soybeans and products, and cotton; and U.S. supply and use of sugar and livestock products.
3. Emergency credit: Money loaned by the Federal Reserve to a bank or other financial institution which has an immediate need for cash and no alternative sources of credit. These loans are usually made in response to a financial crisis and are colloquially referred to as bailout loans.

Central Banks Rates

FED	ECB	BOE	BOJ	PBOC
5.25%	3.75%	4.25%	-0.10%	3.65%

S&P 500 @4,136.25 **7.73% YTD**

DJI @33,674.38 **1.59% YTD**

US2Y @ **3.92%**

As of May 05, 2023

Our Fund

The fund invests in macro related ETFs, individual equities, and certain hedged options strategies. Our single strategy utilizes distribution and variance metrics for the placement of options. The main factor that determines these decisions centers around Implied Volatility.

Any interest in our fund, please visit at www.ivylinecapital.com or email us info@ivylinecapital.com.
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Disclosure: The following results statement presents the performance of IvyLine Dynamic Growth LP account managed by the managing member of the General Partner and Advisor. The fund results are unaudited and is only to display an approximation of the performance for the timeframe above. The results were calculated by Perennial Fund Services, LLC. Results are net of fees calculations. Any questions should be directed to the manager of the fund. Past performance does not indicate future results.

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