

# LAST WEEK

May 22 - June 02, 2023

## The US Debt Ceiling: A Tentative Deal Has Been Reached

President Joe Biden and House Speaker Kevin McCarthy expressed confidence in their preliminary agreement on the debt-ceiling, anticipating its successful passage through Congress and eventual signing into law. Their optimism aims to avert a potentially unprecedented default by the United States. President Biden affirmed their progress and intention to finalize the deal during a press briefing at the White House, mentioning a scheduled call with Speaker McCarthy to ensure all details are thoroughly addressed.

The agreement between President Biden and Speaker McCarthy was reached following a 90-minute phone conversation on Saturday evening. Its conclusion paves the way for an effort to navigate the deal through Congress, overcoming opposition from members in both parties, before the government exhausts its borrowing capacity in approximately one week. Speaker McCarthy expressed his belief that a majority of Republicans will support the emerging bill, emphasizing its transformative impact on reining in federal spending, while acknowledging it may not fulfill the desires of all individuals. President Biden, likewise, expressed confidence in the agreement, stating that he foresees no significant obstacles that could impede its journey to his desk for signature. Representative Steny Hoyer, an influential Democrat, provided early centrist support for the deal, despite acknowledging certain setbacks it may present to his party's agenda.

Speaker McCarthy urged lawmakers to reserve judgment until the legislative text of the bill is released, which is expected on Sunday. This will provide representatives with the promised 72 hours to review the document before potential voting as early as Wednesday. Negotiators from both parties plan to brief their respective members on the details of the agreement through separate calls later in the day.

Although McCarthy acknowledged the possibility of some opposition within the Republican party, he dismissed the notion that the House would fail to pass the measure, emphasizing that the majority of his party's lawmakers are enthusiastic about the deal. When questioned about concerns of a potential ousting from the speaker's chair by conservative lawmakers, McCarthy expressed no worry. Representative Jim Clyburn, a South Carolina Democrat and a close ally of President Biden, took a pragmatic approach, recognizing the challenges in securing the necessary votes in the House and Senate.

Speaker McCarthy highlighted the merits of the deal, citing provisions that reclaim previously approved spending and represent the largest rescission in American history. He also emphasized increased work requirements. Notably, the agreement reduces the budget of the Internal Revenue Service (IRS) by \$1.9 billion, a smaller cut compared to the \$80 billion reduction initially sought by many GOP lawmakers.

While the agreement does not impact the Biden administration's ongoing litigation regarding student-loan forgiveness, it does bring an end to the pandemic-era moratorium on repayments within 60 days of the agreement being signed. Additionally, the deal aims to streamline permitting processes for energy projects, with a separate focus on addressing a comprehensive overhaul of the National Environmental Policy Act (NEPA), which has been in existence for 54 years.

The bill establishes a discretionary cap of \$1.64 trillion for fiscal year 2024, reflecting a nominal cut of \$60 billion from the current spending level of \$1.7 trillion. This includes a 3% increase in defense spending from \$858 billion to \$886 billion, coupled with a 12% reduction in domestic program funding from \$722 billion to \$637 billion. The White House noted that accounting adjustments in the forthcoming appropriations bill could offset this reduction.

Given the limited room for error or delays, Treasury Secretary Janet Yellen issued a warning on Friday, stressing the necessity of extending the debt-limit by June 5 to avoid a historic default.

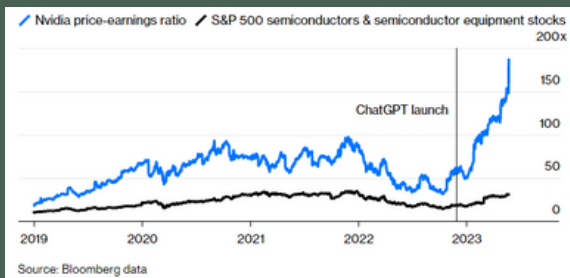
## Nvidia Is Up By 161% Year To Date

Nvidia has become a highly hyped stock, with its market capitalization reflecting high expectations and optimism. The company's chips have been instrumental in driving various buzzworthy technological advancements, and whenever a new hype trend emerges, investors on Wall Street often consider Nvidia as a potential investment.

The expanding market for computationally intensive technology provides Nvidia with continued opportunities for growth. The company's recent stock surge was fueled by its projection of \$11 billion in sales for the upcoming quarter, surpassing analysts' estimates. Nvidia's significant weighting in the Nasdaq 100 also contributed to the index's overall gains. Its stock has soared by 161% this year, largely due to the belief that its chips will play a crucial role in the future of AI.

Nvidia's CEO, Jensen Huang, has contributed to the hype by presenting a compelling vision of the company's opportunities. He described the \$1 trillion worth of installed data center infrastructure as ready for extensive upgrades, enabling accelerated computing and substantial cost and energy reductions. The emergence of the generative AI wave has provided additional incentives for companies to adopt these advancements.

However, it is important to approach these developments with a healthy dose of skepticism. Nvidia's current valuations have exceeded the exuberant levels of 2021. Despite the significant expansion of its total addressable market, the company still faces challenges such as the potential impact of a recession on its top customers' capital expenditures and the long-term threat of new competition, including the possibility of



major companies like Microsoft and Alphabet developing their own chips.

Unlike companies that were favored during the pandemic bubble, Nvidia is not a one-trick pony. It has diversified opportunities beyond a single growth narrative. Companies like Peloton Interactive Inc. and Zoom Video Communications Inc. relied heavily on specific trends, and when those trends subsided, their valuations plummeted. In contrast, Nvidia has a stake in the future of generative AI, and while its stock may experience significant declines if reality fails to meet expectations, the company has a track record of finding new hype cycles to ride, potentially propelling it to even greater heights.

# Last Week Summary

Recent economic indicators have provided valuable insights into the current state of the economy. Last week, significant indicators related to the Housing sector for the month of April were released. New Home Sales exceeded expectations, indicating a robust performance, while both Building Permits and Pending Home Sales fell short of anticipated levels. In the Services sector, the Services PMI surpassed expectations, registering a reading of 55.1 compared to the projected 52.6, signaling sector expansion. Conversely, the Manufacturing PMI came in lower than expected, suggesting a contraction in the sector. A notable highlight of the week was the release of the Q1 GDP report by the Bureau of Economic Analysis. The report revealed a higher-than-forecasted growth rate of 1.3% compared to the projected 1.1%, underscoring positive economic momentum. Additionally, two key indicators, namely Core Durable Goods Orders and Core PCE Price Index, aligned with expectations, reflecting stability in those areas.

Shifting focus to the Treasury market, the yield curve persistently displayed an inverted pattern. At the beginning of the week, yields for all treasuries opened higher, ranging from 0 basis points to 10 basis points. Subsequently, there was a decline across all treasuries around mid-week, but this trend reversed, leading to higher yields by the end of the week compared to the opening levels.

Please refer to the table below for further economic data.

Indicator	Building Permits	Manufacturing PMI (May) P	Services PMI (May) P	New Home Sales (Apr)	GDP (QoQ) (Q1) P	Pending Home Sales (MoM) (Apr)	Core Durable Goods Orders (MoM) (Apr)	Core PCE Price Index (MoM) (Apr)
<b>Actual</b>	1.147M	48.5	55.1	683K	1.3%	0.0%	-0.2%	0.4%
<b>Forecast</b>	1.416M	50.0	52.6	663K	1.1%	0.5%	0.0%	0.3%

# THIS WEEK

The upcoming week holds a range of significant economic indicators to monitor closely. On Tuesday, the attention will be on the CB Consumer Confidence report, which is expected to exhibit a decline compared to the trailing twelve months. This will be followed by the release of the JOLTs Job Openings data, anticipated to show a decrease from the corresponding figures of the previous year, with expectations of 9.755 million job openings compared to 11.400 million.

Shifting focus to the latter part of the week, we will receive the Initial Jobless Claims for the final week of May, which is projected to reflect an increase. Additionally, the ISM Manufacturing PMI will be published, with expectations pointing towards a lower reading. Lastly, on the last day of the week, three highly important indicators for the month of May will be released: Average Hourly Earnings, Nonfarm Payrolls, and the Unemployment Rate. Average Hourly Earnings are expected to show a slight increase, while Nonfarm Payrolls and the Unemployment Rate are both projected to be lower. These indicators will provide valuable insights into the current labor market conditions and wage dynamics.

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

Source: [Investing.com](https://www.investing.com)






# Technicals & Terms

- Accelerated computing is a modern style of computing that separates the data-intensive parts of an application and processes them on a separate acceleration device, while leaving the control functionality to be processed on the CPU.
- The National Environmental Policy Act is a United States environmental law that promotes the enhancement of the environment and established the President's Council on Environmental Quality. The law was enacted on January 1, 1970.
- Generative AI models use neural networks to identify the patterns and structures within existing data to generate new and original content.

# Economic Calendar

Date	Economic Indicator	Expectation vs TTM
05 - 30	CB Consumer Confidence (May)	99.0 vs 106.4
05 - 31	JOLTs Job Openings (Apr)	9.755M vs 11.400M
06 - 01	Initial Jobless Claims	229K vs 200K
06 - 01	ISM Manufacturing PMI (May)	47.0 vs 56.1
06 - 01	Crude Oil Inventories	-1101M vs -5.068M
06 - 02	Average Hourly Earnings (MoM) (May)	0.4% vs 0.3%
06 - 02	Nonfarm Payrolls (May)	180K vs 390K
06 - 02	Unemployment Rate (May)	3.5% vs 3.6%

## Central Banks Rates

FED	ECB	BOE	BOJ	PBOC
				
5.25%	3.75%	4.50%	-0.10%	3.65%

S&P 500 @4,205.45 **9.53% YTD**

DJI @33,093.34 **-0.16% YTD**


US2Y @ **4.54%**


As of May 26, 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](http://www.ivylinecapital.com) or email us [info@ivylinecapital.com](mailto:info@ivylinecapital.com).  
*You must be an accredited investor*

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