IvyLine Capital
Group

Monday Market Update

LAST WEEK

April 24 - May 05, 2023

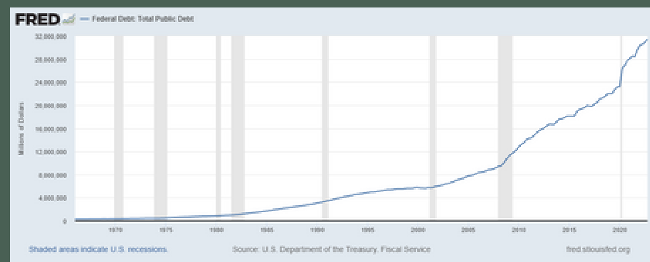
The US Debt Ceiling: A Critical Issue For Financial Markets

The debt ceiling, also known as the debt limit, is a statutory constraint established by Congress on the total amount of outstanding national debt that the federal government can have. Once the limit is reached, the federal government is prohibited from increasing its outstanding debt, which may result in an inability to pay its bills and fund its programs and services. Nevertheless, the Treasury may employ extraordinary measures authorized by Congress to temporarily suspend certain intragovernmental debt, allowing it to borrow for a limited time to fund its programs or services even after reaching the ceiling.

On January 19, 2023, the U.S. reached the debt ceiling of $31.4 trillion, but the Department of the Treasury has implemented a series of extraordinary measures to avoid binding the debt limit. The Treasury anticipates that these measures will suffice until at least early June, after which, without a raise or suspension of the debt limit by Congress, the federal government will face difficulties in meeting all of its obligations.

The Treasury's ability to manage its cash balance and generate additional revenue over the coming weeks is crucial to its ability to stretch its resources until a political agreement is reached. Receipts from the Internal Revenue Service's main filing deadline on April 18 were lower than expected and only increased the cash balance by $108 billion. The Treasury must overcome a significant hurdle by June 15, when a batch of corporate tax payments come due. If it can make it to that point, it can likely hold on until June 30 when it can implement another round of extraordinary measures. After that, it is uncertain whether the Treasury will have enough cash to sustain its obligations beyond July or August.

As for the solution, one possibility for reducing the debt is through spending cuts. However, Republicans have proposed a plan that would exclude cuts to military, Social Security, Medicare, and Medicaid. Instead, they propose a cap of $584 billion for non-defense discretionary spending over a decade in exchange for lifting the debt ceiling only until May 2024. This amounts to a 24% reduction in all non-military discretionary programs relative to the fiscal year 2023 appropriation.



Another alternative is to settle for a smaller initial cut of $30 billion and then impose a 10-year 1% nominal growth cap. However, this plan may quickly make it impossible for any agency to pay competitive salaries and retain staff, resulting in a need to shrink headcount by attrition. A more practical approach for Republicans would be to accept a small reduction in domestic discretionary spending to offset the increases of the previous Congress. It is challenging to make meaningful reductions in federal spending while large portions of spending are off-limits. Allowing cuts to Social Security, Medicare, and military spending could enable more savings with smaller cuts to a broader range of spending.

A more realistic approach to reducing the deficit is a balance of spending cuts with tax increases. This approach was used by George H.W. Bush, Bill Clinton, and Barack Obama, albeit the latter was rejected by his predecessors.

Banking Crisis Continues: First Republic Bank Was Sold To JP Morgan

On May 1, the First Republic Bank was seized by regulators, marking the third bank to be shuttered since March. JPMorgan Chase acquired most of the bank's operations, including all deposits and a substantial majority of its assets. The 84 offices of First Republic across eight states will now operate as Chase branches. Depositors of First Republic will automatically become depositors of Chase and have uninterrupted access to their funds. In addition to assuming deposits, JPMorgan will also acquire $173 billion of loans and $30 billion of securities from First Republic. The FDIC and JPMorgan have entered into a loss-share transaction on single-family, residential, and commercial loans that JPMorgan has acquired from First Republic, which means that the government agency and Chase will share in any losses and recoveries of the loans covered by this agreement. The FDIC has estimated the cost to the Deposit Insurance Fund to be approximately $13 billion.

The crisis began in January, when the Q4 earnings for 2022 were released, revealing a failure to navigate the interest rate hike campaign despite beating estimates. The March failures of Silicon Valley Bank and Silvergate caused a 29% slide in the bank's stock, with further declines after the announcements of Signature Bank's failure and First Republic's 62% decline from March 10. Despite efforts from bank leadership to reassure investors, the company continued to struggle. A $30 billion uninsured deposit injection backed by the government from 11 of the largest American banks helped to stabilize the situation, but the failure of Credit Suisse resulted in further share declines. The stock price rose nearly 25% in April before the final blow came in the form of a Q1 2023 earnings report disclosing a 41% outflow of deposits. The stock price plummeted by almost 95% since early March, hitting an all-time low of $8. As a result, the FDIC announced the closure of the bank and the sale of its deposits and assets to JPMorgan Chase.

Last Week Summary

Recently released key economic indicators have provided valuable insights on the current state of the economy. April CB Consumer Confidence was lower than expected, 101.3 vs 104.2. In March New Home Sales was much higher than expectations while Pending Home Sales dropped substantially despite the expected stability. Core Durable Goods Orders and Durable Goods Orders both beat the expectations. Also, GDP for the first quarter of 2023 came out though it was lower than the forecast, 1.1% vs 2.0%. March Personal Spending came in line with expectations.

Regarding Treasuries, the yield curve remained inverted, with rising yields for the short term treasuries and declining rates for the long term treasuries at the opening of the week. Throughout the week, however, there was no clear direction, with most of the movement happened with the short term notes while long term bonds were relatively stable when opening and closing of the week considered.

Please refer to the table below for further economic data.

Indicator	CB Consumer Confidence (Apr)	New Home Sales (Mar)	Core Durable Goods Orders (Mar)	Durable Goods Orders (Mar)	GDP (Q1)	Initial Jobless Claims	Pending Home Sales (Mar)	Personal Spending (Mar)
Actual	101.3	683K	0.3%	3.2%	1.1%	230K	-5.2%	0.0%
Forecast	104.2	630K	-0.3%	0.8%	2.0%	245K	0.5%	-0.1%

THIS WEEK

This week, the financial markets are poised to receive several significant reports that will provide valuable insights. On the first half of the week, ISM Manufacturing PMI and Non-Manufacturing PMI are set to be released both being expected to be much lower than last year's numbers. On Tuesday the Bureau of Labor Statistics will be releasing March JOLTs Job Openings report updating us on all open positions on the last day of the month. Next, we have undoubtedly most important event of the month, FOMC Meeting in which 25 bps hike is expected.

Moving to the latter half of the week, we will have Nonfarm Payrolls and Private Nonfarm Payrolls for the month of April, both expected to be substantially lower than TTM. Finally, on the last day of the week, the Bureau of Labor Statistics once more will update us on the Unemployment Rate for April which is expected to be in line with expectations.

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 - 01	ISM Manufacturing PMI (Apr)	46.7 vs 55.4
05 - 02	JOLTs Job Openings (Mar)	9.683M vs 11.549M
05 - 03	ISM Non-Manufacturing PMI (Apr)	51.8 vs 57.1
05 - 03	Fed Interest Rate Decision	- - -
05 -05	Nonfarm Payrolls (Apr)	180K vs 428K
05 - 05	Private Nonfarm Payrolls (Apr)	154K vs 406K
05 - 05	Unemployment Rate (Apr)	3.6% vs 3.6%

Technicals & Terms

1. The debt ceiling is the maximum amount of money that a government can borrow cumulatively by issuing bonds.
2. A deficit occurs when expenses exceed revenues, imports exceed exports, or liabilities exceed assets in a particular year.
3. Uninsured deposits: The FDIC protects bank customers by insuring deposits of up to $250,000 by placing failed banks under receivership and divesting their assets. Deposits in excess of $250,000 are called uninsured deposits and aren't usually covered by the FDIC's insurance fund.

S&P 500 @4,169.48 **8.59% YTD** DJI @34,098.16 **2.87% YTD** US2Y @ **4.04%**

As of April 28, 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.

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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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