IvyLine Capital Group

Monday Market Update

LAST WEEK

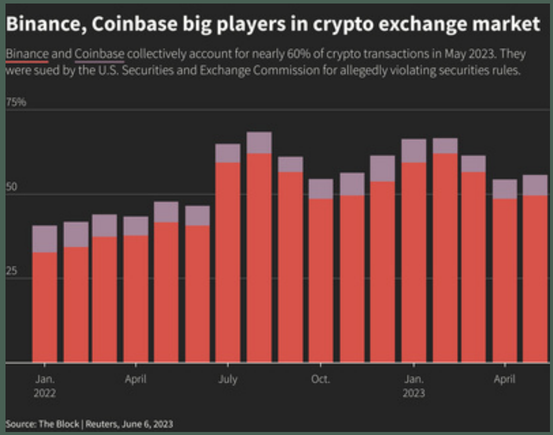
June 05 - June 16, 2023

SEC Targets Binance and Coinbase in Landmark Crypto Lawsuits

The U.S. Securities and Exchange Commission (SEC) has filed lawsuits against two major cryptocurrency exchanges, Binance and Coinbase, signaling a significant escalation in regulatory scrutiny within the industry. The SEC accuses Binance, the world's largest cryptocurrency exchange, and its CEO Changpeng Zhao of operating a "web of deception." Similarly, Coinbase, a prominent cryptocurrency platform, is facing allegations from the SEC for evading disclosure requirements and trading unregistered securities.

If successful, these lawsuits could have a profound impact on the crypto market, as they seek to establish the SEC's jurisdiction over the industry. For years, the crypto market has contended that tokens are not securities and should not fall under the SEC's purview. Despite their differing circumstances, these lawsuits align and point towards a common direction.

In the complaint filed in Manhattan federal court, the SEC claims that Coinbase has been operating as a middleman in crypto transactions since at least 2019, generating billions of dollars while sidestepping investor protection disclosures. The SEC specifically highlights 13 crypto assets, including Solana, Cardano, and Polygon, that should have been registered as securities. The lawsuit has already had a significant impact, with Coinbase experiencing an estimated net customer outflow of around $1.28 billion, causing a decline in the company's shares.

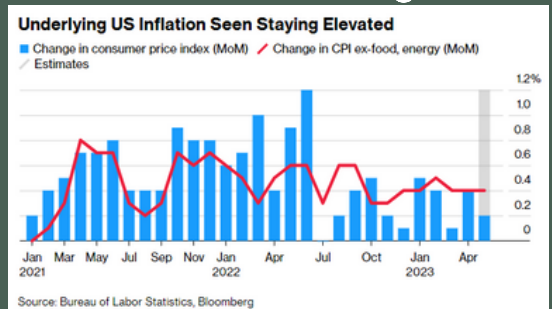


Securities, unlike other assets such as commodities, are subject to stringent regulations and necessitate thorough disclosures to safeguard investors. While the Securities Act of 1933 provides a definition for "security," experts often refer to two U.S. Supreme Court cases to determine the classification of an investment product. SEC Chair Gary Gensler has consistently asserted that tokens are securities and has sought to exercise regulatory authority over the crypto market, initially focusing on token sales and interest-bearing crypto products. More recently, the SEC has extended its scope to encompass unregistered crypto broker-dealers, exchange trading, and clearing activities. Although a few crypto companies operate as licensed alternative system trading systems, which are trading platforms used by brokers for listed securities, no crypto platform functions as a fully-fledged stock exchange. Additionally, the SEC has filed lawsuits against Beaxy Digital and Bittrex Inc this year for failure to register as an exchange, clearinghouse, and broker. While crypto companies dispute the classification of tokens as securities and argue that the SEC's rules are ambiguous, many have taken steps to enhance compliance, shelved certain products, and expanded operations beyond U.S. borders in response to the regulatory crackdown.

Established in 2012, Coinbase has emerged as a leading platform, serving over 108 million customers and holding $130 billion of customer crypto assets and funds as of March. Transaction-related activities accounted for 75% of its $3.15 billion net revenue in the previous year. Binance, on the other hand, has been accused by the SEC of inflating trading volumes, diverting customer funds, commingling assets improperly, allowing U.S. customers on its platform against regulations, and providing misleading information to customers. Binance has pledged to vigorously defend itself against the lawsuit, claiming that the SEC's actions reflect a refusal to provide clarity to the crypto industry. Following the lawsuit, Binance and its U.S. affiliate reportedly experienced approximately $790 million in customer withdrawals.

Fed's Dilemma: Navigating Interest Rates Amid Challenges

The US Federal Reserve faces a challenging decision on interest rates during its upcoming policymaking committee meeting. However, none of the available options are ideal, and the one the Fed has indicated could be the least favorable. These options reflect broader challenges that require improvements in the economy's supply-side and institutional reforms. Market expectations suggest that the central bank will maintain rates unchanged and potentially resume rate hikes in July, allowing for more data to assess the effects of recent rate increases. The market probability of a June hike has fluctuated around 20-30% in the last week, down from a previous peak of over 70% following the latest guidance.



However, there are concerns with this approach. Firstly, an additional month of data is unlikely to significantly enhance the Fed's understanding of the lagged effects of policy tools. Secondly, recent data actually favors a rate hike, which aligns with the Fed's commitment to being data dependent. Some other Fed officials also support a rate hike this week, considering positive data surprises such as higher job vacancies, robust employment creation, resolved concerns regarding the US debt ceiling, and banking instability. However, one Fed official believes that the May rate hike may have been excessive, as forward indicators of economic activity show signs of weakness. This viewpoint suggests a pause in rate hikes followed by a potential rate cut.

The Fed finds itself in this uncomfortable situation due to several factors. One prominent reason is misjudgment of the inflation threat, resulting in successive rate hikes and a subsequent erosion of public trust and policy credibility. Communication discrepancies between the Fed's rate path and market expectations have emerged, along with a public disagreement within the central bank regarding the likelihood of a recession. The Fed's reputation has suffered from lapses in bank supervision, the absence of a strategic policy framework, weak accountability, and susceptibility to groupthink. Given these complex challenges, the Fed is unlikely to resolve its predicaments in the near future. Furthermore, if the proposed "skip" approach is pursued, it could lead to further challenges, rendering future decisions even more difficult.

Considering the Fed's commitment to data dependency and achieving a 2% inflation target, a preferable route would be to raise rates by 0.25% and remain open to additional hikes. Recent data surprises, along with the balance of risks associated with the Fed's policies, support this approach over a "skip." However, if the Fed believes its inflation target is outdated due to significant supply-side changes in the economy, a pause with an inclination to cut when appropriate may be warranted. This would allow the effects of previous rate hikes to spread through the economy, minimizing potential damage to economic growth and financial stability. It is important to acknowledge that the Fed's policy mistakes and institutional weaknesses are not the sole factors undermining its effectiveness. Changing global patterns, corporate supply chain restructuring, the energy transition, and labor market mismatches all indicate the need to reassess the Fed's inflation target for sustainable economic well-being. Thus, the current framing of the policy debate is narrow and may hinder the necessary deliberations to rebuild the foundation for the Fed to contribute to inclusive growth and financial stability.

Last Week Summary

Recent economic indicators have yielded valuable insights into the current state of the economy. Starting with the Services Purchasing Managers' Index (PMI), it fell short of expectations, signaling a contraction in the Services sector. Additionally, Crude Oil Inventories came in significantly lower than predicted, indicating strong demand for the commodity. The Trade Balance showed a deficit, as the United States imported more goods than it exported. Moreover, Initial Jobless Claims for the second week of June exceeded expectations, with 261,000 claims compared to the projected 231,000. For further in-depth analysis, we encourage you to explore the EIA Short-Term Energy Outlook and WASDE Reports by following the provided link.

Shifting our focus to the Treasury market, the yield curve displayed a persistent pattern of inversion. Initially, yields for all treasuries started the week at slightly lower levels. However, over the course of the week, rates fluctuated, resulting in short-term treasuries closing slightly lower than their opening levels, while long-term treasuries experienced slightly higher rates at the end of the week.

For a more comprehensive understanding and detailed economic data, please refer to the comprehensive table provided below.

Indicator	Services PMI (May)	ISM Non-Manufacturing PMI (May)	EIA Short-Term Energy Outlook	Crude Oil Inventories	Trade Balance (Apr)	Initial Jobless Claims	WASDE Report
Actual	54.9	50.3	- - -	-0.451M	-74.60B	261K	- - -
Forecast	55.1	51.8	- - -	1.022M	-63.30B	231K	- - -

THIS WEEK

The upcoming week is set to unveil significant economic indicators of importance to financial markets. Firstly, the Consumer Price Index (CPI) and Core CPI figures for the month of May will be released, with expectations of a decline compared to the same period last year. Following that, the Producer Price Index (PPI) and Core PPI data for May will be published, projecting a slight decrease compared to the previous year's figures. Concurrently, the Federal Reserve is scheduled to announce its decision on interest rates, with market participants anticipating a pause in rate adjustments. Lastly, as the week draws to a close, we will gain insights into consumer spending patterns through the release of May's Retail Sales and Core Retail Sales data. These reports will shed light on changes in consumer behavior and provide valuable information for market analysis.
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
06 - 13	Core CPI (MoM) (May)	0.4% vs 0.6%
06 - 13	CPI (MoM) (May)	0.3% vs 1.0%
06 - 13	CPI (YoY) (May)	4.1% vs 8.6%
06 - 14	PPI (MoM) (May)	0.2% vs 0.8%
06 - 14	Core PPI (MoM) (May)	0.2% vs 0.5%
06 - 14	Fed Interest Rate Decision	Fed Pause
06 - 15	Core Retail Sales (MoM) (May)	0.1% vs 0.5%
06 - 15	Retail Sales (MoM) (May)	-0.1% vs -0.3%

Technicals & Terms

1. A cryptocurrency, crypto-currency, or crypto is a digital currency designed to work as a medium of exchange through a computer network that is not reliant on any central authority, such as a government or bank, to uphold or maintain it.
2. A cryptocurrency broker and a cryptocurrency exchange are two fundamentally different concepts. Both platforms allow you to trade cryptocurrency, but the broker offers indirect trading, acting as an intermediary between traders and the market. A crypto exchange is also an intermediary, but between traders.
3. Crypto tokens are digital representations of interest in an asset or used to facilitate transactions on a blockchain. They are often confused with cryptocurrency because they are also tradeable and exchangeable. Crypto tokens are often used as a way to raise funds for projects in initial coin offerings.
4. Often referred to as the "truth in securities" law, the Securities Act of 1933 has two basic objectives: require that investors receive financial and other significant information concerning securities being offered for public sale; and. prohibit deceit, misrepresentations, and other fraud in the sale of securities.

Central Banks Rates

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

S&P 500 @4,298.86 **11.96% YTD** DJI @33,876.78 **1.86% YTD** US2Y @ **4.59%**

As of June 09, 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.
You must be an accredited investor

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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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