Monday Market Update

LAST WEEK

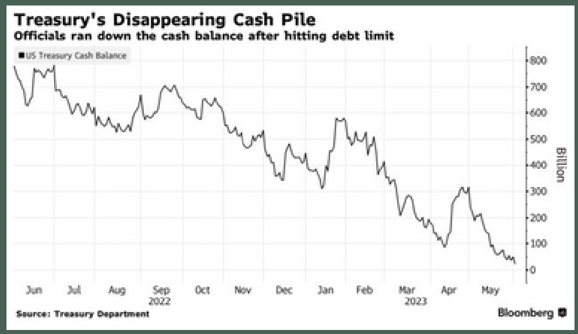
May 29 - June 09, 2023

The Debt Ceiling Accord Has Been Reached Averting Possible Default

President Joe Biden has enacted legislation that successfully averts a potential default on the US debt, thereby avoiding a catastrophic impact on the economy. This bipartisan achievement, which defied expectations in Washington, involves the suspension of the debt ceiling until January 1, 2025, alongside spending caps on defense and domestic programs until that time. In the event that inflation remains at 5%, these measures may require a reduction in government programs. The bill received significant support in both the House and the Senate, solidifying President Biden's reputation as a pragmatic dealmaker, especially as he prepares for his reelection campaign. The signing of the bill took place privately, without a formal ceremony. A statement from the White House expressed gratitude to congressional leaders, including McCarthy and Senate Republican leader Mitch McConnell, for their collaboration.

This legislation marks a turning point towards reducing government spending after a series of emergency measures related to the COVID-19 pandemic and the enactment of significant laws concerning taxation, healthcare, climate, and infrastructure. The Senate passed the bill late Thursday, following the approval by the House a day earlier, just ahead of the Monday deadline to prevent a historic default on US payments. A default and the subsequent risk of recession would have posed a significant threat to President Biden's chances of securing a second term.

The spending limits set by this legislation will have notable implications for certain groups, such as recent college graduates who will need to resume student loan payments, as well as low-income Americans relying on food assistance, who may face restrictions or cuts in their benefits. Economists at Morgan Stanley estimate that the overall impact of this package on the US economy will be minimal, potentially resulting in a slight decrease in growth next year.



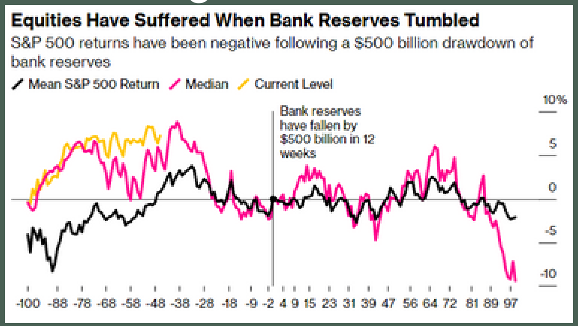
Yields on Treasury bills maturing in early June experienced a decline on Friday, with rates on certain issues falling below 5%. The cost of insuring US sovereign debt against default through derivatives has also decreased. At one point, the cost of insuring US debt exceeded that of many emerging markets with lower credit ratings. Contracts on the S&P 500 and Nasdaq 100 showed modest gains of around 0.3%, while cash markets were closed for Memorial Day. The value of the dollar, which has been influenced by concerns surrounding the statutory borrowing limit, remained stable after experiencing a decline on Friday. Additionally, Treasury futures tied to the 10- to 30-year segment of the US government bond market rallied, albeit on light trading volume.

Potential Consequences Of The Debt Ceiling Deal

Following the recent enactment of a debt ceiling deal by President Joe Biden, the US Treasury is preparing to issue a substantial amount of new bonds to replenish its funds. This influx of bonds will further strain liquidity, compounding the impact of previous debt limit standoffs. The Federal Reserve's quantitative tightening measures have already diminished bank reserves, while money managers have been holding onto cash in anticipation of a potential recession. JPMorgan Chase & Co. strategist Nikolaos Panigirtzoglou estimates that the surge in Treasury issuance will exacerbate the effect of quantitative tightening on stocks and bonds, potentially resulting in a combined performance decline of nearly 5% for the year. Starting on Monday, these bond sales will impact every asset class as they absorb an already dwindling money supply. JPMorgan estimates that overall liquidity, as measured broadly, will decrease by $1.1 trillion from approximately $25 trillion at the beginning of 2023. This trend, coupled with the tightening measures implemented by the Federal Reserve, is expected to lead to an annualized decline in liquidity of 6%, a significant shift compared to the growth experienced over the past decade, according to JPMorgan's estimations.

With the narrow avoidance of a default, the Treasury is now poised to embark on a borrowing spree, which some Wall Street estimates project could exceed $1 trillion by the end of the third quarter. The borrowing spree will commence with multiple Treasury-bill auctions on Monday, totaling over $170 billion. Predicting the repercussions of this substantial influx of funds into the financial system is a complex task. Short-term Treasury bills attract various buyers, including banks, money market funds, and a diverse range of entities referred to as "non-banks," such as households, pension funds, and corporate treasuries. Presently, banks exhibit limited interest in Treasury bills due to the inability of their yields to compete with returns on their own reserves. However, even if banks refrain from participating in the Treasury auctions, a shift of their clients' deposits into Treasuries could create significant disruptions. Citigroup conducted simulations based on historical scenarios where bank reserves decreased by $500 billion within a span of 12 weeks, approximating what may occur in the coming months.

The most favorable outcome entails money market mutual funds effectively absorbing the bond supply with their own available cash, leaving bank reserves intact.



Traditionally, money market mutual funds have been prominent purchasers of Treasuries; however, they have recently diverted their investments towards the more attractive yields offered by the Federal Reserve's reverse repurchase agreement facility. This leaves the remaining buyers, the non-banks, who will participate in the weekly Treasury auctions but not without consequences for banks. These buyers are expected to liquidate bank deposits to free up cash for their purchases, exacerbating the existing capital flight that has led to the downsizing of regional lenders and destabilized the financial system this year.

Currently, the relief stemming from the US averting default has shifted attention away from any imminent liquidity repercussions. Concurrently, investor enthusiasm surrounding artificial intelligence has propelled the S&P 500 to the brink of a bull market after three weeks of gains. Additionally, liquidity for individual stocks has shown signs of improvement, defying the broader trend. Nevertheless, concerns persist regarding the typical consequences of a significant decline in bank reserves: stock market declines and widening credit spreads, with riskier assets bearing the brunt of the losses.

Last Week Summary

Recent economic indicators have provided valuable insights into the current state of the economy. Last week witnessed the release of significant indicators that yielded surprising results. Kicking off the week, the CB Consumer Confidence report surpassed expectations, with a reading of 102.3 compared to the forecasted 99.0, indicating strong consumer confidence in overall economic activity. Following this, several crucial labor market indicators were published, including the April JOLTS Job Openings, Initial Jobless Claims for the last week of May, and the May Unemployment Rate. These indicators painted a positive picture of the job market, as they all exceeded projections and indicated robust employment conditions. The ISM Manufacturing PMI aligned closely with expectations, while Average Hourly Earnings remained in line with forecasts. Notably, the Jobs Report, also known as Nonfarm Payroll, reported a figure of 339K, surpassing the expected 190K, which raises questions about a possible pause in Federal Reserve actions.

Turning our attention to the Treasury market, the yield curve exhibited a persistent pattern of inversion. At the beginning of the week, yields for all treasuries opened at lower levels, ranging from 0 basis points to 70 basis points, with the exception of the 3-month note, which experienced a 21 basis points increase. Throughout the week, rates fluctuated, eventually closing slightly lower than their opening levels.

For further details and comprehensive economic data, please refer to the table provided below.

Indicator	CB Consumer Confidence (May)	JOLTs Job Openings (Apr)	Initial Jobless Claims	ISM Manufacturing PMI (May)	Crude Oil Inventories	Average Hourly Earnings (MoM) (May)	Nonfarm Payrolls (May)	Unemployment Rate (May)
Actual	102.3	10.103M	232K	46.9	4.488M	0.3%	339K	3.7%
Forecast	99.0	9.755M	235K	47.0	-1.101M	0.4%	180K	3.5%

THIS WEEK

The upcoming week presents a significant lineup of economic indicators. To begin, two influential indices, namely the Services PMI and ISM Non-Manufacturing PMI, will be released by different institutions for the month of May. It is anticipated that both indices will demonstrate a decline compared to the figures reported a year ago, signifying potential shifts in the non-manufacturing sector.

Additionally, the Energy Information Agency will publish its short-term outlook on energy, offering valuable insights into the industry. Wednesday will witness the release of Crude Oil Inventories data, shedding light on the demand for the commodity following Saudi Arabia's voluntary oil production cut announcement, alongside the Trade Balance report for the month of April.

As the week progresses, attention will turn to key indicators such as Initial Jobless Claims for the first week of June, which can provide insights into the labor market, and the WASDE Report, focusing on the US and global supply-use balances of major commodities like grains, soybeans, and cotton. These reports offer valuable information for assessing market dynamics and identifying potential investment opportunities.

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 - 05	Services PMI (May)	55.1 vs 53.4
06 - 05	ISM Non-Manufacturing PMI (May)	51.8 vs 55.9
06 - 06	EIA Short-Term Energy Outlook	---
06 - 07	Crude Oil Inventories	
06 - 07	Trade Balance (Apr)	-63.30B vs -87.10B
06 - 08	Initial Jobless Claims	
06 - 09	WASDE Report	---

Technicals & Terms

1. The ISM Non-Manufacturing PMI and Markit Service PMI are both indices that measure the non-manufacturing sector. The ISM PMI is a composite index calculated by the Institute of Supply Management, while the Markit PMI is based on surveys conducted by Markit Economics.
2. Drawdown is a peak-to-trough decline during a specific period for an investment, trading account, or fund.
3. A credit spread, also known as a yield spread, is the difference in yield between two debt securities of the same maturity but different credit quality. Credit spreads are measured in basis points, with a 1% difference in yield equal to a spread of 100 basis points

Central Banks Rates

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

S&P 500 @4,282.37 **11.53% YTD**   DJI @33,762.76 **1.86% YTD**   US2Y @ **4.50%**

As of June 02, 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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