IvyLine Capital Group

Monday Market Update

LAST WEEK

March 13 - March 24, 2023

The ECB increased interest rates by another 50bps reaching to 3%

On Thursday, the European Central Bank (ECB) increased its main interest rate by 50 basis points, indicating its willingness to offer liquidity to banks in response to the recent banking sector turmoil. This latest decision brings the bank's primary rate to 3%, having been in negative territory before July of the previous year. In February, early data suggested a headline inflation of 8.5%, which is well above the central bank's target of 2%. “The Governing Council is monitoring current market tensions closely and stands ready to respond as necessary to preserve price stability and financial stability in the euro area. The euro area banking sector is resilient, with strong capital and liquidity positions,” the central bank said in the same statement.

Last week, the banking sector faced some initial difficulties when the Silicon Valley Bank was declared insolvent by the U.S. authorities. As a result, the bank's international branches were affected and caused worries about whether central banks are raising interest rates too quickly. In response to this event, Goldman Sachs revised its predictions for the Federal Reserve's upcoming meeting, now forecasting a 25 basis points increase instead of the previously expected 50 basis point hike. “Given the reforms that have taken place, and I was around in 2008, so I have a clear recollection of what happened and what we had to do, we did reform the framework, we did agree on Basel III, we did increase the capital ratios … the banking sector is currently in a much, much stronger position,” Lagarde said during a news conference.

On the same day, the European Central Bank (ECB) updated its forecasts for inflation. According to the new projections, the average headline inflation for this year will be 5.3%, followed by a rate of 2.9% in 2024. This marks a change from the bank's previous forecast in December, which predicted a higher inflation figure of 6.3% for 2023 and a lower rate of 3.4% for 2024.

Lagarde emphasized that: “We are determined to return inflation back to 2% in the medium term, that should not be doubted, the determination is intact,”. She did not provide any indication about future decisions. “We know that we have a lot more ground to cover, but it is a big caveat, if our base line were to persist,” she said, highlighting that “the pace we will take will be entirely data dependent.”

The Fall of The Next Domino: Credit Suisse Was Acquired by UBS

On Sunday, UBS, the largest bank in Switzerland, made a deal to purchase Credit Suisse, its struggling and long-time rival, for around $3.2 billion, as an attempt to curb the financial panic that has spread globally in the past week. The Swiss government brokered the deal quickly in a matter of days, and it could be the most extensive shake-up in the banking industry worldwide since the 2008 financial crisis. Credit Suisse was established in 1856 to provide funding for Switzerland's rail network, but it was plagued by numerous scandals, management turbulence, and unsuccessful reform efforts that tarnished its image, attracted legal action, and left it with substantial losses. The recent decline in banking stocks, caused by the collapse of Silicon Valley Bank earlier this month, exposed its long-standing weaknesses and hastened its downfall, revealing the level of investor panic. Swiss government leaders and regulators stated that the purchase of Credit Suisse by UBS was the most effective way to calm investors' fears about the stability of Switzerland's financial sector and the potential for its problems to spread to other countries. UBS will pay 0.76 cents for each Credit Suisse share, valuing the acquisition at approximately $3.2 billion, a small portion of its market value as of Friday. To assist UBS in completing the transaction, the Swiss National Bank agreed to lend up to 100 billion Swiss francs, and Finma, the Swiss financial regulator, took various extraordinary measures to aid UBS in swiftly absorbing its primary competitor. These measures included wiping out $17 billion of Credit Suisse's bonds and exempting UBS shareholders from voting on the deal. As part of the deal, UBS will essentially wind down Credit Suisse’s investment bank, with the combined firm’s operations in that area set to eventually account for no more than a quarter of its assets.

The negotiations between UBS and Credit Suisse were uncertain until the very end because they had different ideas about the terms of the deal. UBS made an initial offer of around $1 billion on Saturday night, but it was rejected by Credit Suisse's board, who claimed that their real estate holdings alone were worth around that amount. However, UBS was the only feasible candidate for the purchase, as the Swiss government was only willing to offer protective measures to a Swiss institution.

Credit Suisse was facing challenges in its efforts to recover, but its situation worsened due to two incidents last week. Firstly, the bank announced on Tuesday that its financial reporting had "material weaknesses." Additionally, it was caught up in the growing anxiety about the stability of banks, leading to significant drops in the prices of Credit Suisse's shares, bonds, and the cost of insuring its debt against default throughout the week, despite regulatory efforts to restore investor confidence. By Thursday, the bank had decided to utilize a $54 billion loan from the Swiss central bank to prevent a catastrophe. However, by Wednesday, the Swiss government had already contacted UBS, suggesting that they consider buying Credit Suisse.

Last Week Summary

Last week some important indicators came out. February CPI MoM came in higher than expected 0.5% vs 0.4% of expected while CPI YoY was as expected, 6.0%. Core Retail Sales was as expected while Retail Sales was slightly lower than expected. Also, PPI and Core PPI numbers were released too, both being lower than expected. Both Building Permits and Initial Jobless Claims were higher than expected.

On the Treasury's front the yield curve is still inverted. All the treasuries saw a significant rate decreases from the very beginning of the week and it kept during the week. Treasuries like 2-year bonds which had a return of more than 5% was trading at 3.81% on Friday.

Please see table below for further economic data.

Indicator	CPI (MoM) (Feb)	CPI (YoY) (Feb)	Core Retail Sales (MoM) (Feb)	PPI (MoM) (Feb)	Core PPI (MoM) (Feb)	Retail Sales (MoM) (Feb)	Building Permits (Feb) P	Initial Jobless Claims
Actual	0.5%	6.0%	-0.1%	-0.1%	0.0%	-0.4%	1.524M	192K
Forecast	0.4%	6.0%	-0.1%	0.3%	0.4%	-0.3%	1.340M	205K

THIS WEEK

We have a number of important reports set to be released this week for the month of February. Beginning of the week the National Association of Realtors will be releasing their Existing Home Sales report which is expected to be higher than last year corresponding period. Next, the most important event of the week we have the Federal Reserve Interest Rate Decision in which 5% is expected.

In the second half of the week we will have New Home Sales numbers for the month of February. Concluding the week February Core Durable Goods Orders and Durable Goods Orders will be published.

See table to the right for the full list.

Source: Investing.com

Economic Calendar

Date	Economic Indicator	Expectation vs Prior year (YoY)
03 - 21	Existing Home Sales	4.17M vs 4.00M
03 - 22	Fed Interest Rate Decision	- - -
03 - 23	Building Permits	- - -
03 - 23	Initial Jobless Claims	199K vs 192K
03 - 23	New Home Sales (Feb)	648K vs 670K
03 - 24	Core Durable Goods Orders (MoM) (Feb)	0.2% vs 0.8%
03 - 24	Durable Goods Orders (MoM) (Feb)	1.2% vs -4.5%

Technicals & Terms

1. Tier 1 common capital ratio is a measurement of a bank's core equity capital, compared with its total risk-weighted assets, and signifies a bank's financial strength.
2. Basel III is an international regulatory accord that introduced a set of reforms designed to mitigate risk within the international banking sector by requiring banks to maintain certain leverage ratios and keep certain levels of reserve capital on hand.
3. An acquisition is when one company purchases most or all of another company's shares to gain control of that company.

S&P 500 @3,916.64 **2.01% YTD** DJI @31,861.98 **-3.88% YTD** US2Y @ **3.81%**

As of March 17, 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.