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November 13, 2023

# Cayside Partners

# Navigating the Waves of Change: Credit and Rates Market Update


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# - Navigating the Waves of Change: Credit and Rates Market Update – Monday, November 13, 2023 2:00PM EST

*Todger Strunk, Chief Investment Officer*

*Cayside Partners*

# Overview

# Interest Rates: Historical Context

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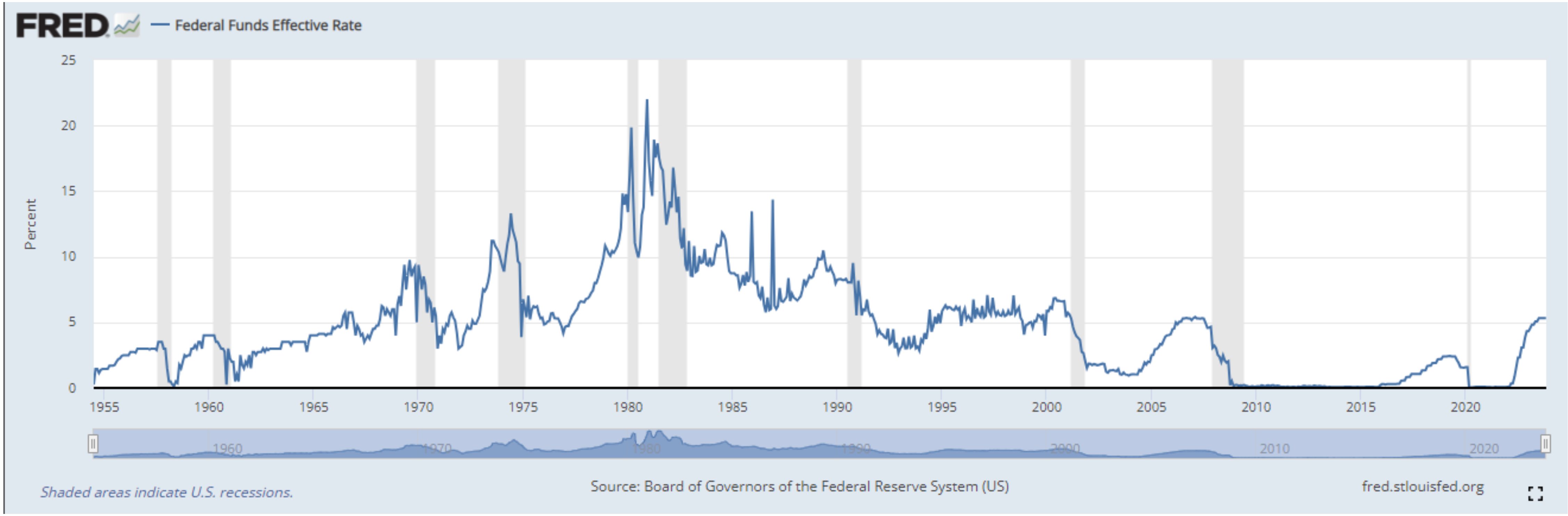
Interest rates began to increase in 2022 after being historically low since 2010. Rates are still well below the historical average




Data as of October, 2023





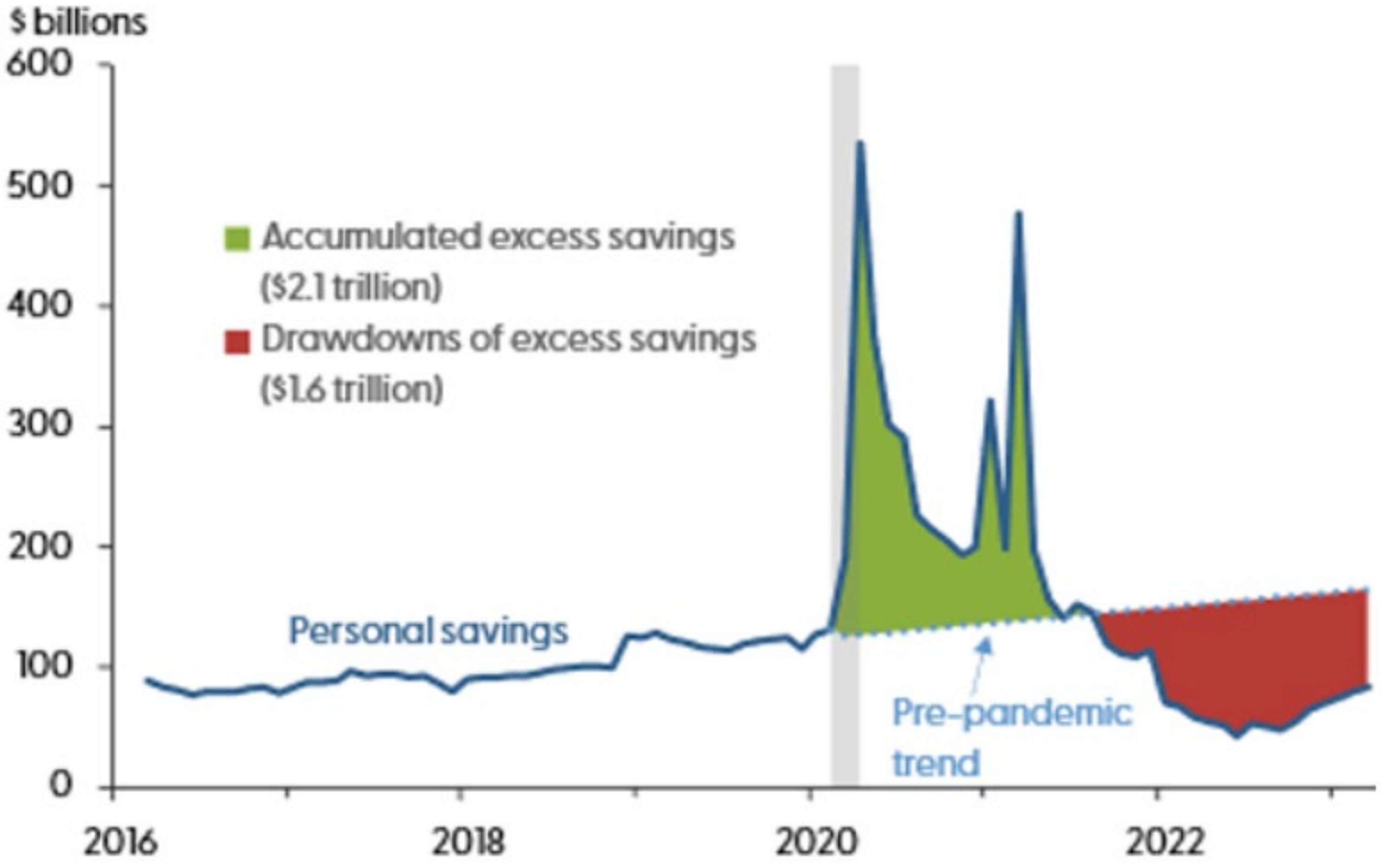
*Past performance is not necessarily indicative of future results.*

# Household Excess Savings

The COVID pandemic created an excess savings rate as consumers spent less and saved more due to lockdowns and government-led stimulus for businesses and individuals

As the COVID crisis subsided, pent up demand and consumer savings led to a large increase in spending

Ultimately, the surge in spending has led to inflation of goods and services which has caused Central Banks around the world to increase interest rates in attempt to combat the inflation




Source: Bureau of Economic Analysis, As of August 12, 2023





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# Inflation and Interest Rates

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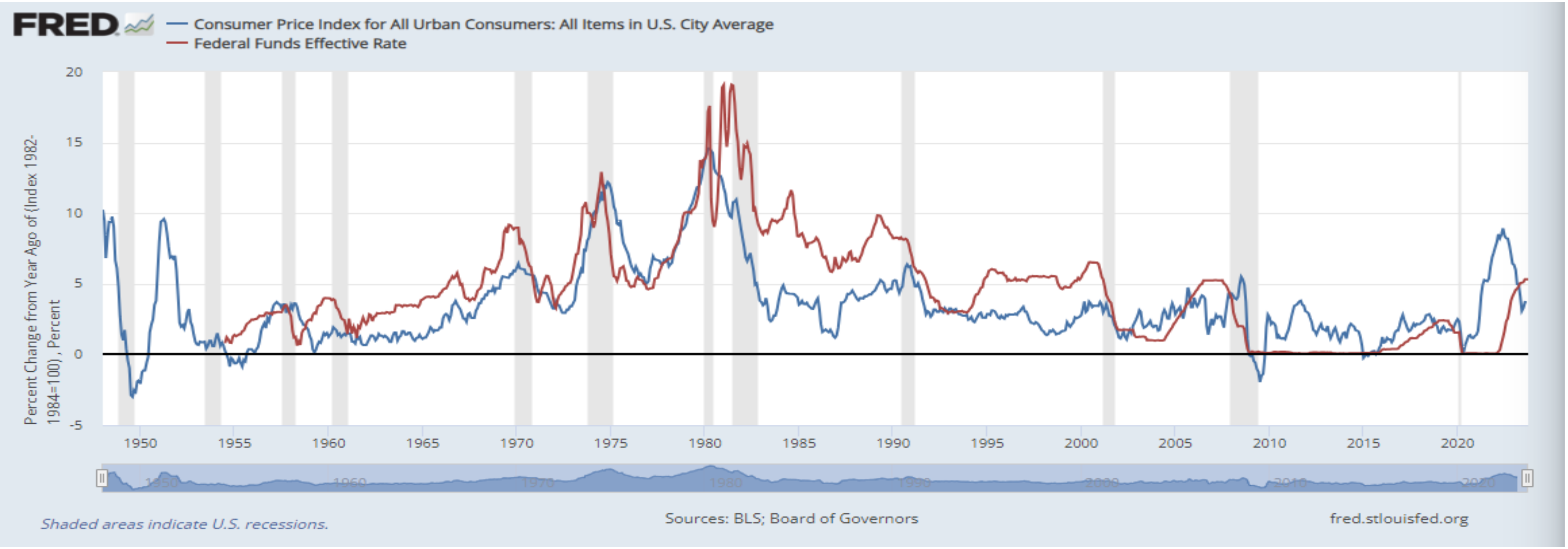
Inflation is the increase of prices of goods and services measured by the Consumer Price Index or "CPI". After the COVID lockdowns subsided, inflation began to increase after consumers began spending more and supply chains were slow to normalize. The Federal Reserve began raising interest rates in attempt to reduce inflation.




Data as of October, 2023



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# US Treasury Markets: Yield Curve

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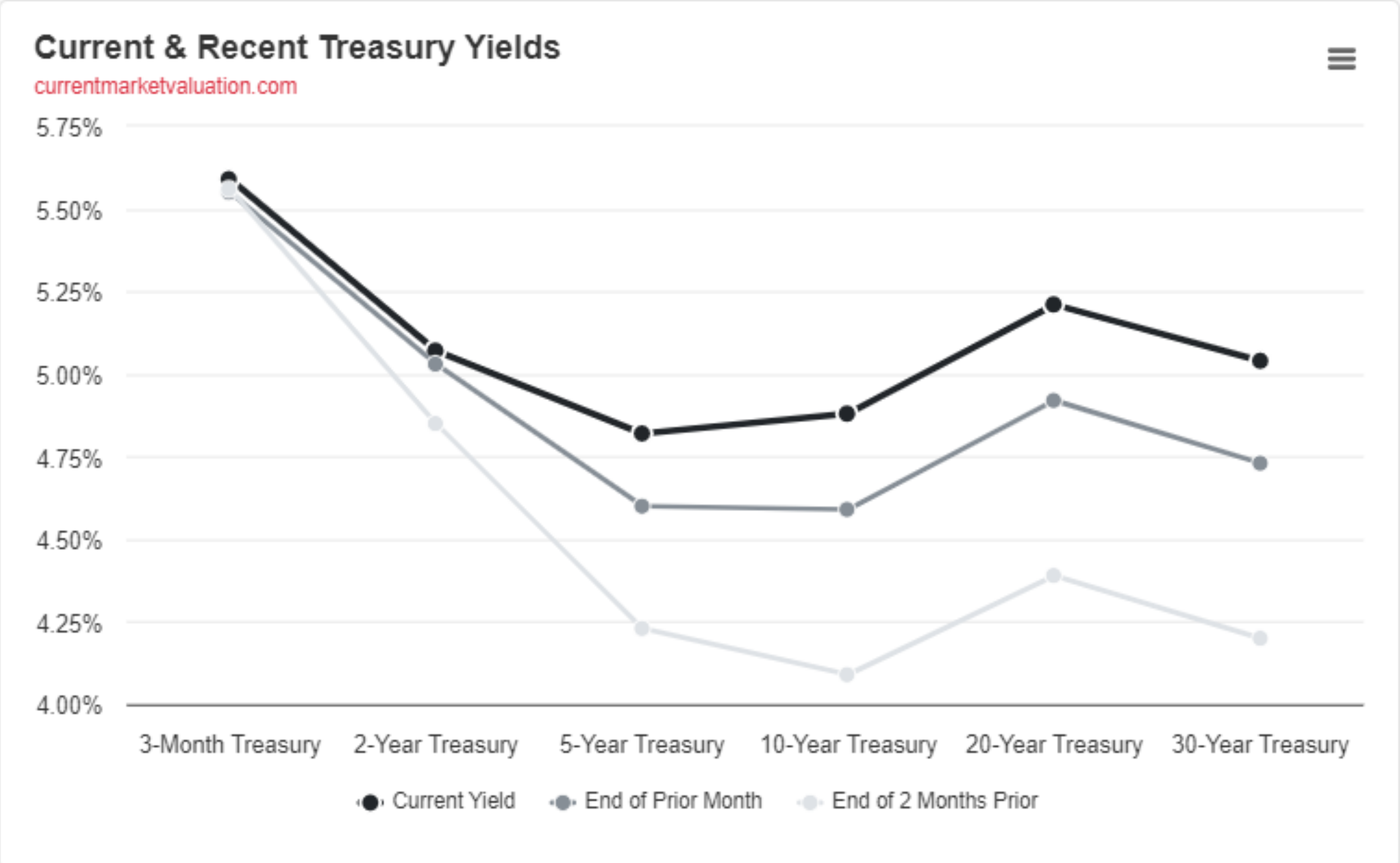
The US Treasury Yield has increased across all maturities, however the shorter maturity Treasuries have yielded a higher interest rate than the longer maturity Treasuries

This is called an “Inverted Yield Curve”, which is abnormal in most environments as purchasers typically demand higher yields for longer time value and commitment of capital




Source: Currentmarketvaluation, US Department of the Treasury; as of November 7, 2023



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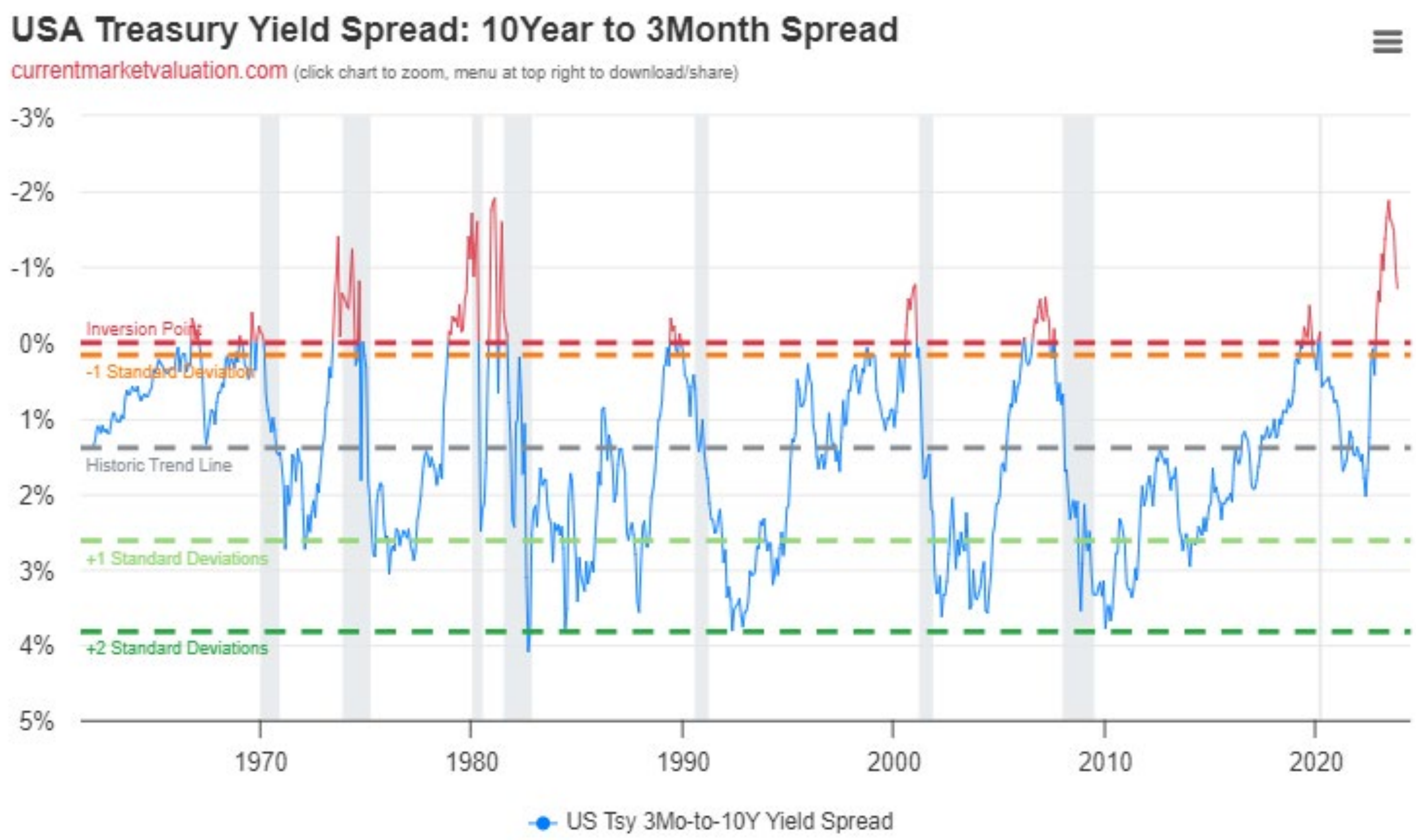
# US Treasury Markets: Yield Curve Inversion

The USA Treasury Yield Spread is a measure of the difference of yield between 10 year and 3 month maturities to determine the degree of the Yield Curve Inversion

Historically, Yield Curve Inversion signals the potential for a recession once the Yield Curve normalizes




Source: Currentmarketvaluation, Board of Governors of the Federal Reserve System; as of October 31, 2023



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# Interest Rates: Economic Impact

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Interest Rates directly impact the economy as consumers and businesses often borrow to fund purchases and investments. As the interest rate increases, the cost of capital increases making it more expensive and difficult to fund purchases

**Consumer Borrowing:** Higher interest rates translate into increased borrowing costs for consumers. Mortgage rates, auto loans and credit card interest rates have all seen upward pressure, potentially impacting household budgets and consumer spending

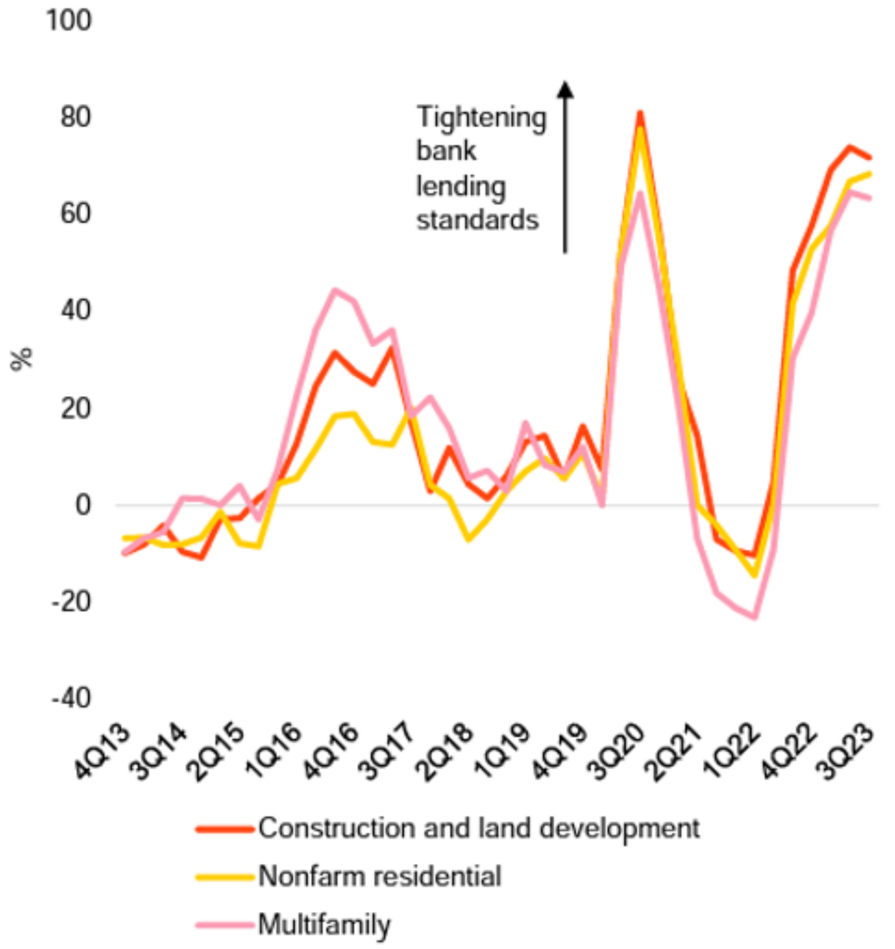
**Business Investment***:* Rising rates can influence business investment decisions, as the cost of financing projects and expansions increases. Companies may become more selective in their capital allocation, which could have implications for economic growth

**Housing Market:** The real estate market has been particularly sensitive to rising rates, with higher mortgage rates potentially cooling demand for housing and reducing transactions as many borrowers are faced with higher mortgage rates and higher overall housing costs

# Bank Lending Standards

As interest rates rise, consumers and business become more constrained with their ability to spend and continue operations which could lead to payment delinquency and default.

When banks perceive increased risk in credit markets, they often tighten their lending standards. This makes it more difficult to borrow and finance purchases which can create further delinquency and default if borrowers are limited to credit access




Source: BlackRock, Board of Governors of the Federal Reserve System. As of the July 2023 Federal Reserve Senior Loan Officer Opinion Survey (most recent available).





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# Questions & Answers

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