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Capital Markets Overview

May 8, 2023

Market Update:

- Global PMI came in weaker than expected while US and EUR labor markets remained robust beating expectations
- The Fed and ECB both hiked 25 bps
- Year-to-date long-term rates have rallied with concerns over bank stress and debt ceiling impasse
- Lower yields and strong earnings beats have cushioned equities, and the path of least resistance may be higher equity markets - but with growth outlook not getting better, a more defensive tilt feels sensible

Performance of selected benchmarks as of May 05, 2023:

	ACWI LOCAL	MSCI Europe Local	S&P500	MSCI EM LOCAL	MSCI WORLD USD	MSCI ACWI GBP	MSCI ACWI EUR	US Small Cap	MSCI EM (USD)	US 10 Yr Futures	UK Gilt Index	EM Bonds	HY
MTD May 2023	-0.5%	-0.3%	-0.8%	0.2%	-0.3%	-0.7%	0.0%	-0.5%	0.5%	0.5%	-0.5%	-0.1%	-0.4%
YTD 2023	7.9%	10.9%	8.3%	3.3%	8.5%	3.4%	5.2%	0.4%	3.3%	4.3%	0.2%	2.7%	4.2%
12 Months	2.2%	9.9%	1.5%	-2.3%	2.2%	0.3%	-2.2%	-4.5%	-4.5%	1.1%	-14.6%	0.7%	1.4%

	ConsDiscr	ConsStapl	Energy	Financials	Health Care	Industrials	InfoTech	Materials	RealEstate	Comm Services	Utilities
MTD May 2023	-0.3%	-0.4%	-5.8%	-2.6%	0.1%	-0.5%	0.6%	-1.1%	-0.8%	-2.3%	0.1%
YTD 2023	14.6%	4.1%	-7.2%	-5.1%	-1.3%	1.8%	23.1%	3.0%	2.1%	22.2%	-1.3%
12 Months	-6.8%	3.2%	4.9%	-5.6%	4.4%	5.5%	8.6%	-4.9%	-14.2%	-3.5%	-0.6%

Source: Bloomberg, SECOR. Data as of May 05, 2023

Source: Bloomberg, SECOR

Special Topic:

Debt Ceiling Update

Debt Ceiling – Key Takeaways

Risks of an impasse highest levels since 2011

Stagnant ceiling would shock the economy, but an actual default unlikely

Liquidity and sovereign CDS markets are feeling the stress

Curves to steepen and equities to fall sharply if no resolution near the limit date

Base case: temporary extension until end of September

Debt Ceiling – A Brief Background

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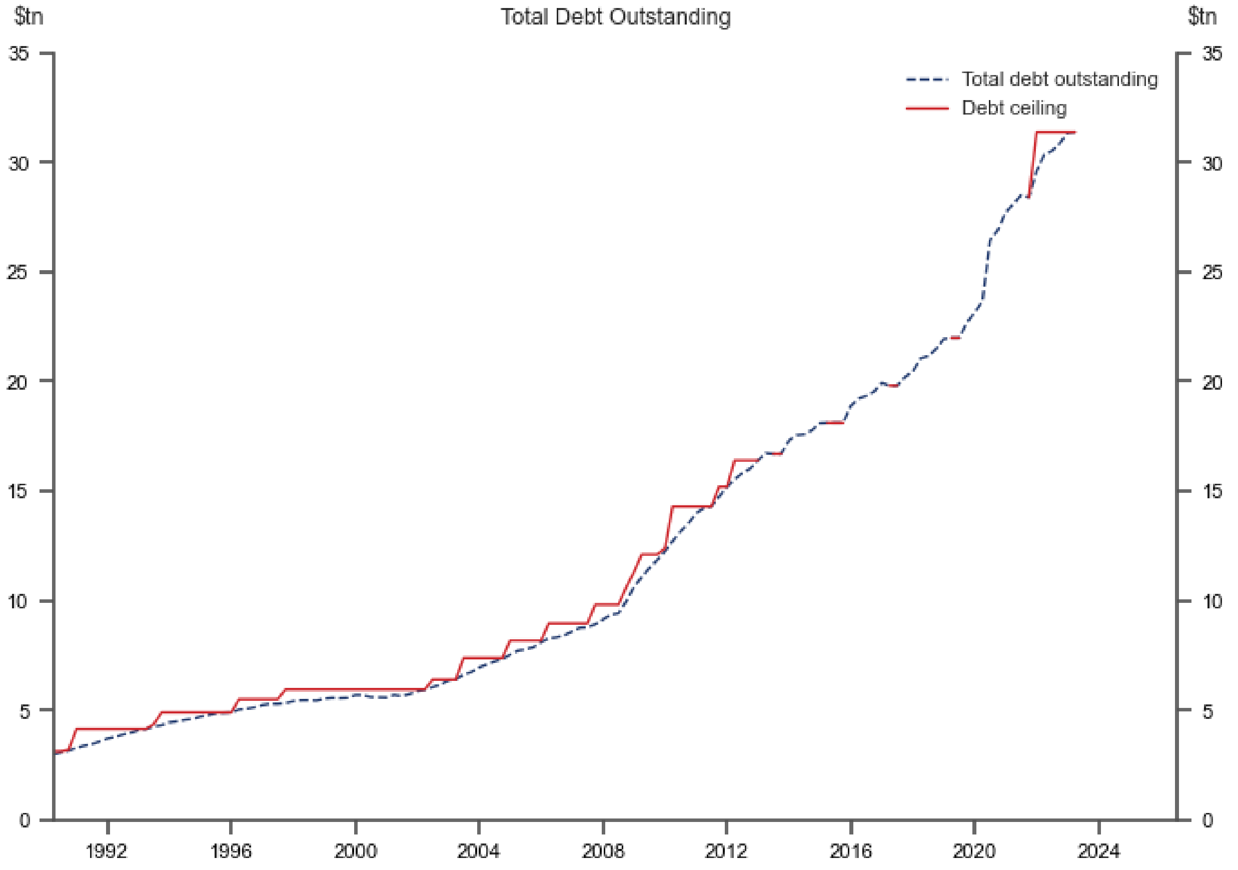
- On December 16, 2021, Congress raised the debt limit by $2.5 trillion, to $31.4 trillion, which was reached on January 19, 2023.
- Since then, the Treasury has been using "extraordinary measures" to continue to finance the budget deficits.



Note: Gaps in debt limit denote debt limit suspensions.
Source: Haver Analytics, GS MarketStrats. As of April 2023.

Debt Ceiling – Risk of Impasse Higher Than Previous Episodes

- Government officials seemingly using the debt limit as a bargaining chip for potential changes in spending

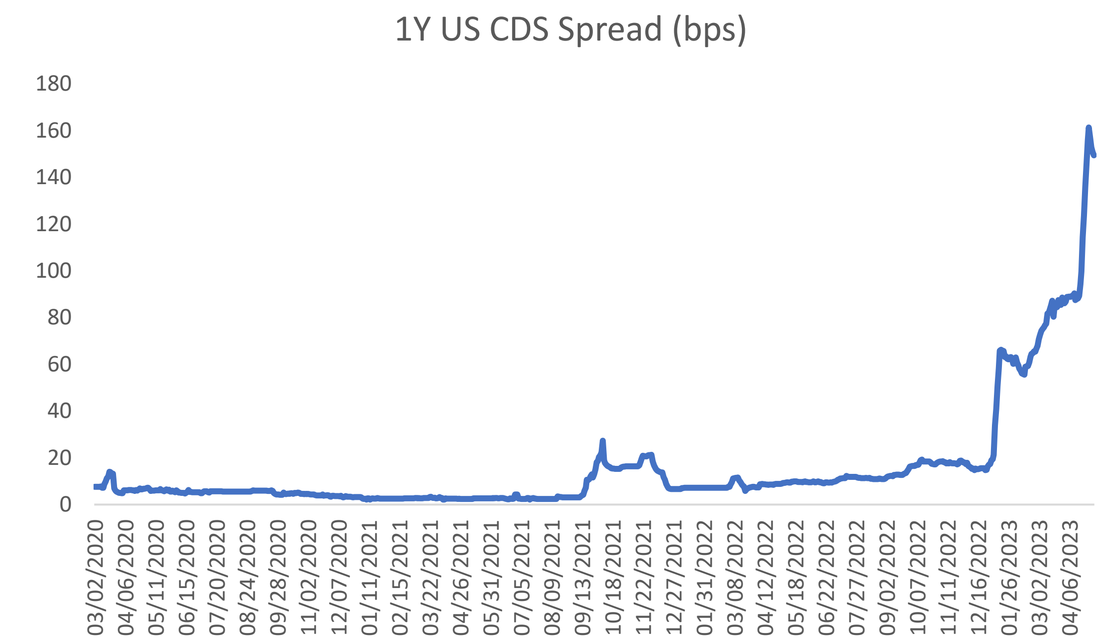
- Recent Tax receipts came in lower than expected, around $30bn, putting pressure on when the debt ceiling date would be breached.

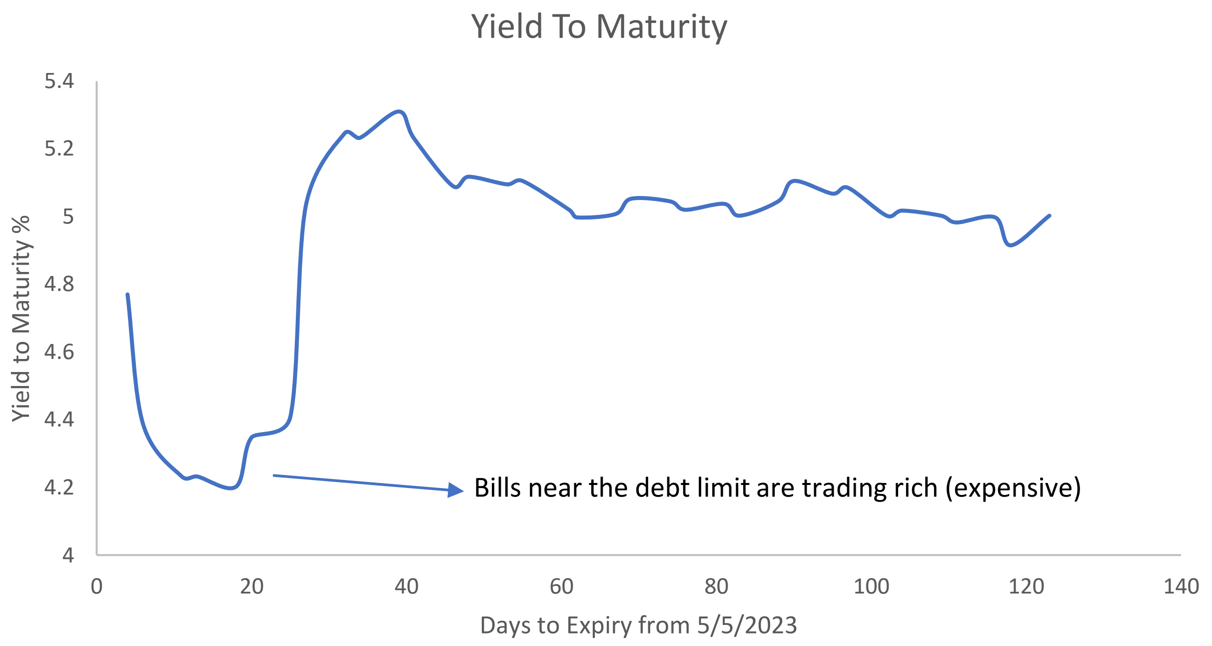
- Initially, talks were for a potential breach to be between July and September. Recently however, Janet Yellen indicated that the US could run out of cash by June 1st, but her forecast did have a wide confidence interval of "a number of weeks later than these estimates"

https://www.bloomberg.com/news/articles/2023-05-01/yellen-warns-congress-treasury-may-run-out-of-cash-soon-as-june

Debt Ceiling – Impact on Liquidity and CDS Markets

- Impasse risks have spread into the credit default swap (CDS) and liquidity markets
  - 1Y US Sovereign spreads have spiked
  - Treasury bills expiring before the deadline are trading at a premium





Source: Citi

Bills and government-exposed stocks tend to have the most consistent reaction

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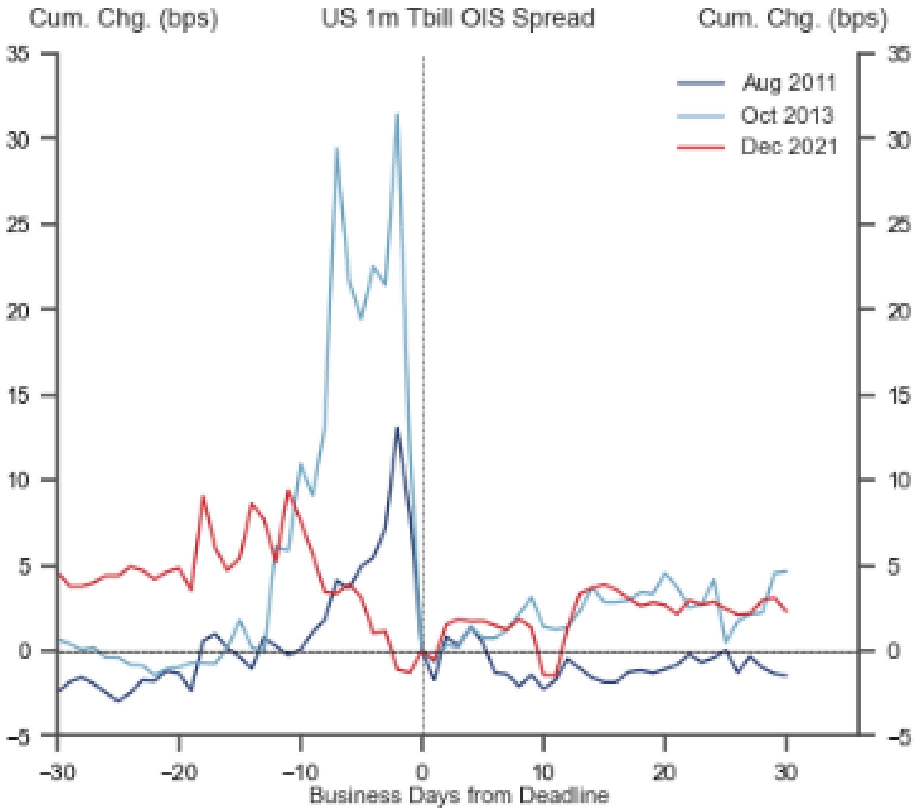
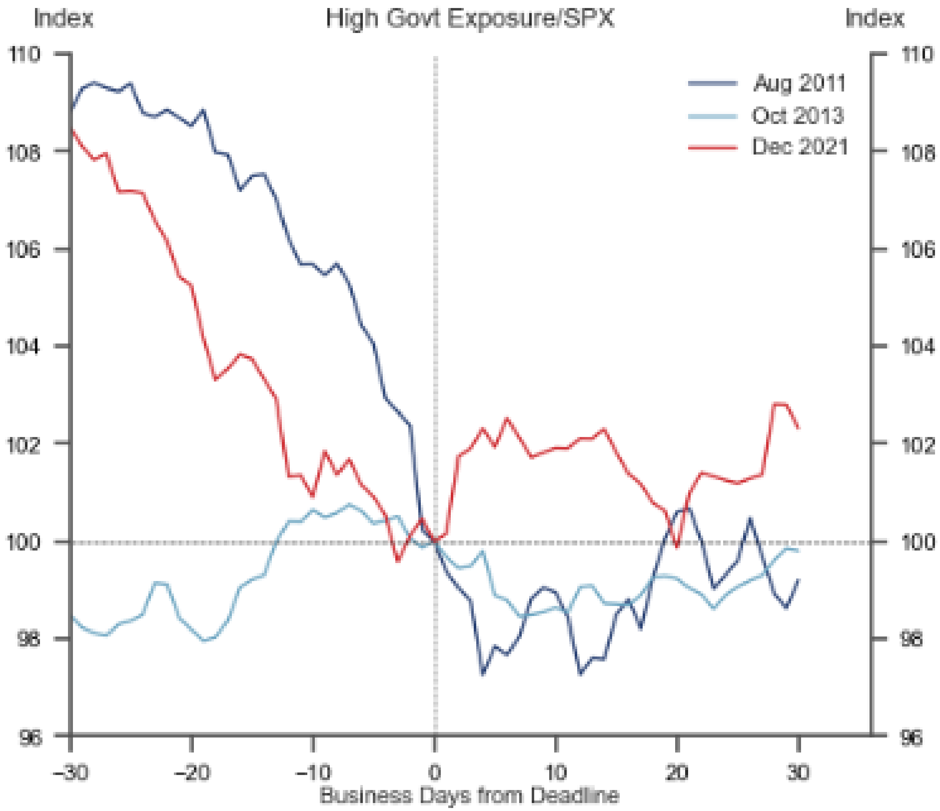
Bill yields and government-exposed stocks respond to debt ceiling debates





Source: Haver Analytics, GS MarketStrats. As of April 2023.

The 2011 debates had a large impact on other asset classes

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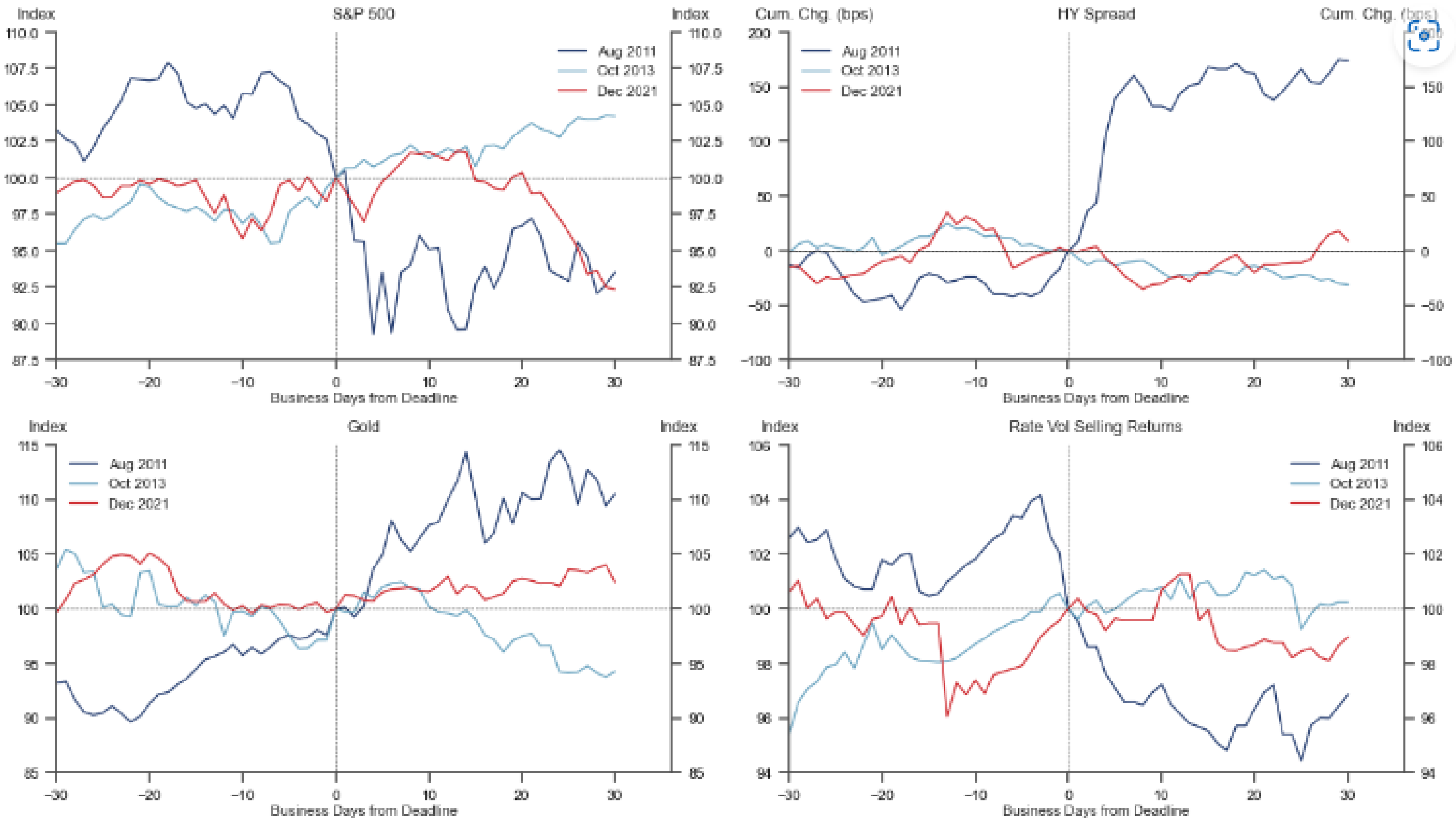
Other assets saw large moves during the contentious 2011 disputes



Source: Haver Analytics, GS MarketStrats. As of April 2023.

Risk to growth much greater than default risk

	7/22/2011 - 8/10/2022	Hypothetical 2% US Growth Shock
Rates		
UST 2y	-21bp	-92bp
UST 5y	-59bp	-103bp
UST 10y	-86bp	-56bp
Equities		
S&P 500	-16.70%	-17.40%
Russell 2000	-21.60%	-22.00%
Nasdaq 100	-14.70%	-17.80%
Eurostoxx 50	-22.30%	-13.80%
HSCEI Index	-16.00%	-6.80%
Nikkei 225	-10.80%	-13.90%
MSCI EM	-17.90%	-12.40%
Cyclicals/Defensives	-7.20%	-6.00%
VIX	145%	168%
FX		
EUR/USD	-1.20%	1.10%
JPY/USD	2.10%	4.10%
GBP/USD	-0.90%	-1.80%
CAD/USD	-4.10%	-2.70%
AUD/USD	-5.50%	-3.00%
CNH/USD	0.40%	-0.60%
MXN/USD	-5.60%	-6.10%
BRL/USD	-3.70%	-3.30%
CHF/USD	12.20%	1.10%
EUR/CHF	-11.90%	-1.00%
CAD/JPY	-6.10%	-6.50%
MXN/JPY	-7.50%	-9.80%
Commodities		
Copper	-11.10%	-6.50%
Gold	11.30%	1.90%
Oil	-16.60%	-16.10%
Credit		
CDX IG	24bp	54bp
CDX HY	218bp	368bp

Source: GS Economics Research: Global Markets Comment (Hedging the Debt Ceiling (Wilson/Chang) 18 April 2023). The Hypothetical 2% US Growth Shock represents a 2% downgrade to US GDP Growth expectations. Haver Analytics, GS MarketStrats. As of April 2023.

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