PLACE YOUR TRADES

KEY TAKEAWAYS

Special Guests: Mike Green and Matt Cole

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CHIGRL'S KEY TAKEAWAYS

Mike Green

1. Thoughts on yield curve inversion/recession
He thinks we are headed to toward a recession, seeing all indications, rising delinquencies and defaults, bankruptcies and softening in the labor market. We are probably on the cusp of if not already in recession.
The speed at which the Fed has hiked has created an element of shock in the economy, which people have not made any attempts to refinance much of the paper that was printed in low coupon era. That has in turn prevented an immediate impact in the economy.

2. On 0 DTE options and if are a systemic risk
On of the most successful product launches in history. It represents 50-55% of any daily option volume. But 85% of volume is dealers trading with themselves, 5% retail, and 10% institutions. 0DTE options most impactful on a day to day basis, but there is absolutely a risk for a single day event that could lead to a further event.

3. On Fed accepting higher interests rates
He believes they will over tighten and cause deflation. We have a deflationary episode ahead of us and the Fed will be late to respond to it, and that raises the chances we have a substantive credit event.

4. On BRIC's currency
I understand that people would like to get away from the dollar but part of the reason that they want to get away from the dollar is the flexibility that that creates to finance their own ambitions and objectives. But I see no country around the world and certainly not those in BRICs committing themselves to a strong currency process.

5. On student loan payments restarting in October affecting the economy or consumer spending
It is going to be a drag on both fronts. It is a tax effectively because it is proceeds going to the government. Its not going into banking system or private sector.
Long story short yes it will have an impact, but the question we don't know yet is what is the profile of how those outflows affect everything from other forms of credit to consumer spending just because we don't have the granularity on who is paying and who is not.

6. On ESG
It seems we are not really being serious about it right now. Yes, lots of ESG ETF's is just a marketing lable. But Larry Fink was just trying to make low cost products with competitive advantage.

Final thoughts:
Over next 12-24 months do we see a credit event

CHIGRL'S KEY TAKEAWAYS

Matt Cole

1. Thoughts on a impending recession
We are at the tail end of the business cycle, but his base case is a recession at the end of 2024/2025.
The data is still fairly strong. He takes the opposite stance as Mike that we are currently in a recession or close to one.

2. On US interest rates ballooning to to nearly $1 trillion on an annualized basis
There is a lot of danger, but we have have a lot of debt and DC is not going to stop spending.
Inflation is going to say above 2% for the next 7-10 years.
The Fed will never say this but it is by design for inflation to run hot when you have a debt problem.
Again we are at the end of a hiking cycle. Duration is not attractive right now, but what is attractive is negative convexity. Negative convexity is relating to interest rate volatility. They are overweight agency mortgages, which they prefer over something like credit.

3. On Oil Prices
They are extremely bullish. They see it trading between $100-$150 and then breaking above after we get through the next recession.

4. On Deglobalization
He sees much more nationalism and increased geopolitical tensions. That will lead to less cooperation on these 2050 decarbonization targets. Commitments of working together will decrease and more nationalism with resources.

5. On US pension funds with rate hikes
It is a challenging environment. If you look at Calpers for example, their funded ratio is 73%. Part of that is that has been the rough few years for bonds and equities and changing correlations when their hedge has typically been bonds.
As more people are retiring this is greater stress. One of the big changes that is happening in pensions, there have been greater inflows than outflow to retirees, and this is flipping. Flows are turning negative and this is a huge problem, particularly for millennial and younger that are not looking to retire for decades.
So right now you have retirees right now getting paid 100 cents on the dollar and the pensions are only taking in 73 cents on the dollar.
This is going to be a massive problem later on.

6. On ESG
Problem they see at Strive across corporate America is a movement away from shareholder primacy.
ESG funds outperformed in a growth environment but they are under-performing now.
He brought up that interview with Larry Fink where he famously said “We are forcing behaviors” in other words he meant to change behaviors you have to change incentive compensation.
Now you are directly incentivizing the C-Suite level above shareholder interests.

Final thoughts:
I am looking at economic data to see if/what causes the next recession.

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