Junior-Subordinated Capital Securities Markets

November 2023 Updates

The US Treasury bond market went on one of its biggest monthly rallies over the course of 23 years as the Fed's 3rd pause caused jubilation that the Fed will cut rates as early as next March. The UST 10yr note rallied (in following the path of Dec-24 SOFR futures) 4.44% in November as traders celebrated a Fed "pivot party" which we believe is premature (discussed later and in our 2024 outlook). Keep in mind that there had been 7 times prior over the last 23yrs when the UST10yr price had rallied over 4% in a calendar month (2.6% of the time) – in each month that followed, the UST10yr price has declined to consolidate the 2 standard deviation move. Tomorrow's Fed decision will include their "dots" report and through this report, we expect it to put emphasis on the "higher for longer" messaging so it will carry well into next year because the Fed's attempt to have forward guidance tone the market to help the Fed. Instead, it has hurt the Fed in reversing any tightening effects that were lauded just 1 meeting ago. Financial conditions point to expansion and are stronger than any other time this year. The spread between UST2yr notes and UST10yr notes further inverted this month (after closing the 2nd quarter at its lows of -107) by another 20bps to -36bps – note that the average slope of the US Treasury 2s-10s yield curve has been 113bps since Dec-1999 with a high of +281bps (and a low of -107). The 30yr bond closed the month yielding 4.49% (60bps lower) and the 10yr note closed yielding 4.33% (57bps lower). Real rates on the front end of the treasury curve (e.g., UST 5yr TIPS) fell by 23bps (to 2.11%); the 5yr implied breakeven inflation rate (i.e., the difference in yields between the 5yr UST and the 5yr Treasury Inflation Protected Security) declined by 21bps to close at 2.17%. We continue to emphasize that the Fed must deal with a very challenging conflict between ongoing excess fiscal spending not being aligned with the Fed's urgent disinflationary goal. The effect of massive fiscal excess, zooming treasury debt costs and

quantitative tightening may lead to a "fiscal fit" (or some evident concern expressed by lower UST bond market prices challenging Congress to gain control) causing even higher real rates on the US Treasury term structure; and the Fed's (subtle) acceptance of 3% inflation rather than 2% inflation over time. The Fed has paused now since the end of July and as this period of no change lengthens, the Fed's policy card will focus more on financial conditions and the "neutral rate" elevating than it will on the timing of shallower cuts. Equity prices measured by the S&P 500 zoomed 8.9% higher in November while the VIX (i.e., Chicago Board Options Exchange Volatility Index) fell 28.8% to 12.92 which was among the lowest scores of the year. Financial conditions are stellar and stimulative.

Before we talk hybrids, the performance for comparative references on returns and yield changes in some of the other corporate credit sectors is shown below:

- The junk market (measured by the ICE BofA High Yield ***h0a0*** index) rose 3.98% to close yielding 8.39% (109bps lower).
- Global bank credit (measured by ICE BofA ***e0ba*** index) rose 3.86% to close yielding 5.75% (75bps lower).
- The BBB rated 5-10yr corporate sector (measured by ICE BofA ***c6a4*** index) rose 5.39% to close yielding 5.85% (87bps lower).

Review of Market Structure:

The market for **hybrids** or **global junior-subordinated capital securities** (*i.e.,* "**Jsubs**") is comprised of two core sectors:

1. **Preferred Securities**, and
2. **Contingent Capital Securities**

Each sector has evolved with unique technical, structural, and fundamental features that are discussed and updated below:

Global Jsubs comprise two sub-sets that represent a broad group of hybrids, which can be referenced by two **ICE BofA indexes**: 1) The ICE BofA US All Capital Securities Index (***i0cs***), and 2) The ICE BofA US Dollar Contingent Capital Index (***cdlr***).

Our litmus test for hybrids satisfies two core characteristics:

1) any non-payment of distributions would not accelerate an event of default (i.e., distributions are "junior-subordinated" to ordinary interest obligations) and,
2) balance sheet classification is something other than common stock under GAAP disclosure.

The US All Capital Securities (***i0cs***) benchmark of preferred securities represents $315 billion (face amount) of investment grade and below investment grade instruments in both the retail $25par market (36%) and the institutional $1,000par market (64%). The USD Contingent Capital Index of US dollar denominated hybrids ***(cdlr)*** sums to $141 billion (face amount) of investment grade and below investment grade fixed-rate instruments with contractual triggers that could subordinate them to common stock in a reorganization that would not fall into a receivership after the bail-in. These two benchmarks combine for a $456 billion universe of fixed-rate junior subordinated USD capital securities with preferred securities (measured by ***iocs***) being a 69% subset and contingent capital securities (measured by ***cdlr****)* being a 31% subset of the total global USD junior subordinated group.

Preferred Securities

In the preferred securities sleeve, there are four sub-component indexes in the US All Capital Securities Index (***i0cs****)* – this entire index is comprised of global "preferred securities". A **"preferred security"** can represent a capital security issued either through charter amendment (i.e., as a stock) or through indenture (i.e., as a bond) typically within the context of a "gone concern" statutory authority (*e.g.,* US banks). As a gone concern, a company reorganization would be processed through a bankruptcy court. Preferred security payments are in priority to

common stock dividends, yet can be deferred (i.e., payments are cumulative) or eliminated (i.e., payments are non-cumulative) without causing an immediate event of default; any principal loss absorption on a preferred security would be forced only *ex-post* through a statutory resolution in a bankruptcy proceeding.

The four sub-components of the ***i0cs*** benchmark that consolidate into the retail and institutional sectors of rated preferred securities are:

1) **ICE BofA Fixed Rate Preferred Index (*p0p1*) @ 44% *of i0cs***
   - Comprised of IG $25par and IG $1,000par (incl. US AT1)
     - The ***p0p1*** rose 7.26% this month to close yielding 6.81% (-93bps)
2) **ICE BofA US Capital Securities Index (*c0cs*) @ 24% of *i0cs***
   - Comprised of dated IG $1,000par dated hybrids (excl. US AT1)
     - The ***c0cs*** rose 3.61% this month to close yielding 7.25% (-57bps)
3) **ICE BofA High-Yield Capital Securities Index (*h0cs*) @ 6% of *i0cs***
   - Comprised of BIG $1,000par legacy Tier1 and BIG $1,000par hybrids
     - The ***h0cs*** rose 5.30% this month to close yielding 8.13% (-75bps)
4) **ICE BofA High Yield Fixed Rate Pfd Index (*p0hy*) @ 26% of i*0cs***
   - Comprised of BIG $25par and BIG 1,000par (incl. US AT1)
     - The ***p0hy*** rose 8.10% this month to close yielding 8.65% (-117bps)

The ICE BofA All US Capital Securities Index (*i0cs*) zoomed up 6.38% this month to close yielding 7.45%, which was 88bps lower than last month's closing yield and a spread of +298bps over comparable US Treasury securities (36bps tighter).

Contingent Capital Securities

A **"contingent capital security"** (i.e., a "CoCo") represents a capital security issued through indenture typically within the context of a "going-concern" type regulatory regime for banking, which would reorganize a potentially insolvent bank through the contracts of its capital before falling into a conservatorship proceeding. CoCos payments are non-cumulative and *pari passu* to common stock dividends and can be reduced or eliminated without causing an event of default. Principal loss absorption on a CoCo could be forced ex-ante through a regulatory action in advance of any bankruptcy proceeding (note that an actual bankruptcy may not happen because enough loss absorbing bail-in capital, including tier-2 capital, could be available through the "living will" of the entity's core capital). The ICE BofA USD Contingent Capital Index (***cdlr***) is comprised of US dollar denominated constituents (exclusively), which represent 57% of the mature master multi-currency benchmark (*coco*). We will utilize the USD benchmark (*cdlr*) as it more meaningfully reflects the contingent capital currency primarily held in our portfolios. The ICE BofA USD Contingent Capital Index (***cdlr***) rose 4.02% this month to close yielding 8.26%, which was 83bps lower than last month and a spread of +371bps over comparable US Treasury securities (32bps tighter).

Discussion of Retail and Institutional Sectors:

We report on the retail and institutional sectors using statistical tables in a ***Spread Value Matrix*** to provide readers with data on absolute and relative spread positionings. The data samples are sourced from ICE BofA benchmarks starting in March 2017, which is when retail benchmark calculations on yield-to-worst for currently callable $25par preferred securities were improved to reflect actual yields, even if negative. We provide measures of inflation coverage in a ***Purchasing Power Matrix***; and a table for yield-to-worst, net of inflation and of historical

default in a ***Real Yield Matrix*** that compares hybrids, investment grade corporates and high yield bonds. Finally, we show data on prior credit cycles for each sector to give you a ***Comprehensive Risk Estimate*** to the average bottom of the last 3 credit cycles (2013, 2016 and 2018) -- the rationale here is to illustrate risk measures relative to prior down credit cycles, but not necessarily an outlook to that direction. By following these tables monthly (and sometimes as "pop-outs" in flash reports), investors should gain consistent insights to assist in making more informed and supportive asset allocation decisions using junior subordinated capital securities. Each signal is intended to be independently supplementary to foster a more balanced value assessment for each sector.

Snapshot of Junior Subordinated Spread Sector Moves vs. Global Financials:

	p0p4	p0p4-e0ba	stb8	stb8-e0ba	cdlr	cdlr-e0ba
Capital Securities Spread Value Matrix	(a)	(b)	(a)	(b)	(a)	(b)
	Retail	Retail	NoCo	NoCo	CoCo	CoCo
Sample Periods	03/31/2017 to Date		03/31/2017 to Date		03/31/2017 to Date	
Jr-Subs	*Absolute	**Relative	*Absolute	**Relative	*Absolute	**Relative
High	588	251	486	205	660	472
Low	-178	-267	176	60	223	143
Range	766	518	310	145	437	329
Average	77	-37	257	144	338	225
Stdev	119	101	49	27	63	37
Monthend	115	-3	295	177	349	231
Spread Scores:						
(monthend-ave)/stdev	0.32	0.34	0.78	1.22	0.17	0.16
Δ from Last Month	-0.54	-0.38	-0.63	-0.26	-0.33	0.11

Source: Bloomberg; ICE BofA Bond Indices

** Absolute = Option Adjusted US Government Spread; (current-ave)/stdev*

*** Relative = spread to global financials measured by e0ba ICE Bond Index; (current-ave)/stdev*

Here, we look at option adjusted spread (OAS) to haircut spread to comparable US Treasuries for interest rate volatility and time to expiry. The way we interpret the above option adjusted spread table is by the statistical positioning of the *Spread Scores* where, **zero** = "*fair value*", **+/- 1stdev.** = "*undervalued"/ "overvalued*", respectively and **+/- 2stdevs** = "*very undervalued"/ "very overvalued*", respectively.

Spread performance for hybrids this month was negative for all three sectors with NoCo spread performance widening the most. The Absolute Spread Score on retail paper tightened by 0.54 standard deviations; **the $25par sector is *min-fair valued* with a Spread Score of 0.32 standard deviations from average**. The Absolute Spread Score for the institutional $1,000par preferred securities sector ("NoCos") tightened by 0.63 standard deviations; **NoCos are *max-fair valued* with a Spread Score of 0.78 standard deviations from average**. The Absolute Spread Score for the CoCo sector widened tightened 0.33 standard deviations; **CoCos are *min-fair valued* with a Spread Score of 0.17 standard deviations from average**. Note that these statistical positionings provide an absolute and relative view on some historical spread, which can be further complimented with some cycle perspectives from the Comprehensive Risk Estimates below.

Implications of Market Activity:

$25par Retail Preferred Securities Sector

The retail preferred securities sector measured by *p0p4* zoomed up $6.80 to $85.87 and the yield-to-worst fell by 93bps to 6.81% this month as the bond market and the equity market both experienced a melt-up after the Fed paused a 3rd time. There was very little issuance in the retail sector during November except for a $550mm Southern California Edison 7.50% perpetual preferred stock deal that we passed on as we have little confidence in the regulatory environment for California utilities. The two largest $25par passive ETFs (iShares Preferred and

Income ETF, PFF; and Invesco Preferred ETF, PGX), had about $247million of combined net money outflow this month. There seems to have been some tax switching activities as PFF grew by $347mm, but PGX shrunk by $100mm. The overall retail $25par sector closed the month down up 6.92% on a year-to-date basis. This month's Estimated Price Risk to Average Current Yield is still low, but not nearly as low as it was last month when we noted that it was the lowest (i.e., most positive) it had been since we have been following the measure. The current yield is now 12bps less than the average current yield for the past 3 credit cycles, so if we experience a regression to the mean current yield over the next 12 months it would imply a 1.40% price loss. There is always a Fed cycle associated with the credit cycle, but no cycle is exactly like prior cycles because economic factors that cause credit spread differences change. Given that spreads in retail preferreds are 0.32 standard deviations wide of average, it appears that most of the higher yields in the retail market are explained by further elevated US treasury yields more than credit concerns.

Retail Pfds.	Valuation Implosions			Average		Diff. to	
Credit Cycle Bottoms >	2013	2016	2018	Prior Bottoms	Current	Average	
GA10	2.98%	1.64%	2.74%	**2.45%**	4.35%	1.90%	
PCE DEFY	1.48%	0.59%	1.86%	**1.31%**	3.00%	1.69%	
Real UST10yr	1.50%	1.05%	0.88%	**1.14%**	1.35%	0.21%	
$25Coupon	6.64%	6.46%	6.05%	**6.38%**	5.45%	-0.93%	
$25Price	$94.06	$98.66	$93.09	**$95.27**	$82.78	-$12.49	
$25Current Yield	7.06%	6.55%	6.50%	**6.70%**	6.58%	-0.12%	
Mdur Worst	9.52	10.44	10.95	**10.30**	12.21	1.91	
CY Spread vs. T10yr	4.08%	4.91%	3.76%	**4.25%**	2.23%	-2.02%	
Source: Bloomberg; ICE BofA Bond Indices						-1.40%	Est. Price Risk to AveCY
				Comprehensive Risk Est.		5.18%	Est. Price Risk + CY
				Recapture Rate (yrs.)		0.21	Est. Price Risk / CY
					Memo:	6.92%	Total Return YTD

The current yield of the retail sector closed the month at 6.58%, which was approximately 12bps lower than the average current yield at the bottom of the last three credit cycles. The current yield spread to the 10yr US Treasury note is 223bps which is 202bps less than the average spread of the last three credit cycle bottoms as retail preferred yields are high, but spread is being "squeezed" by UST yields being high as well -- a gauge to yields being high is the discount price to the sector. The rebalanced dollar price of the retail sector is $82.78 this month and $12.49 lower than the average price of the prior bottoms, which means that there is significantly more convexity to the retail market during this cycle than there was during the prior cycles even though yields were mostly higher. The implication of a 0.12% current yield increase to 6.70% (the average current yield of the prior bottoms) is an estimated 1.40% price decline using the current modified duration of 12.21; then adding back a current book yield (assuming a 12month path) of 6.58% makes the *Comprehensive Risk Estimate* for returns in the retail sector positive at 5.18%. The assumed loss recapture rate with income is between 2-3 months. Overall, yields in the retail sector appear to be undervalued in the absolute, but spreads are min-fair valued compared to US Treasuries.

- Year-to-date, below investment grade (BIG) $25pars have underperformed investment grade (IG) retail paper by 3.61%, which is 183bps better than last month.

$1,000par Institutional Preferred Securities Sector

The $1,000 par institutional sector of the preferred securities market rose $3.46, and yields-to-worst fell 72bps to 7.81% this month. The following table illustrates the institutional preferred securities sector's three prior credit cycles compared to closing valuations this month:

Institutional Pfds.	Valuation Implosions			Average		Diff. to	
Credit Cycle Bottoms >	2013	2016	2018	Prior Bottoms	Current	Average	
GA10	2.94%	1.75%	2.74%	**2.48%**	4.35%	1.87%	
PCE DEFY	1.17%	0.59%	1.86%	**1.21%**	3.00%	1.79%	
Real UST10yr	1.77%	1.16%	0.88%	**1.27%**	1.35%	0.08%	
Coupon	6.77%	6.43%	5.88%	**6.36%**	5.30%	-1.06%	
Price	$103.96	$99.62	$97.23	**$100.27**	$91.43	-$8.84	
Current Yield	6.51%	6.45%	6.05%	**6.34%**	5.80%	-0.54%	
Mdur Worst	5.90	5.23	4.64	**5.26**	3.96	-1.30	
CY Spread vs. T10yr	3.57%	4.70%	3.31%	**3.86%**	1.45%	-2.41%	
Source: Bloomberg; ICE BofA Bond Indices						-2.14%	Est. Price Risk to AveCY
				Comprehensive Risk Est.		3.65%	Est. Price Risk + CY
				Recapture Rate (yrs.)		0.37	Est. Price Risk / CY
					Memo:	5.53%	Total Return YTD

The current yield of the institutional preferred sector closed the month at 5.80%, which was 22bps lower than last month. The $91.43 price of the NoCo sector is $8.84 less than the average price over the last three credit cycles – the implication of the discount is an embedded **"pull toward par"** as time ages and the prospect of higher coupon resets approach becoming available in less than 4yrs on average. The current yield of the sector is 54bps less than the 6.34% average current yield at the bottom of the last three credit cycles. The implication of a 0.54% current yield increase to 6.34% (the average current yield of the prior bottoms) is an estimated 2.14% price decline using the modified duration of 3.96; then adding back a current book yield (assuming a 12month path) of 5.80% makes the *Comprehensive Risk Estimate* for the NoCo sector equal to a 3.65% horizon return to accept the risk, which is 108bps less than last month. It would take 0.37yrs to recapture this capital loss estimate with book income. We consider the NoCo sector to be a max-fair valued sector.

- Year-to-date, below investment grade (BIG) $1000pars underperformed investment grade (IG) institutional paper by 2.32%, which was 83bps better than last month.

Contingent Capital Securities Sector

The CoCo sector rose $3.10 to $91.60 as yields-to-worst declined 83bps to 8.26% this month. The following table illustrates the contingent capital securities sector's three prior credit cycles compared to closing valuations this month:

CoCo Securities	Valuation Implosions			Average		Diff. to	
Credit Cycle Bottoms >	2013	2016	2018	Prior Bottoms	Current	Average	
GA10	3.01%	1.75%	2.88%	**2.55%**	4.35%	1.80%	
PCE DEFY	1.48%	0.59%	1.86%	**1.31%**	3.00%	1.69%	
Real UST10yr	1.53%	1.16%	1.02%	**1.24%**	1.35%	0.11%	
Coupon	7.63%	6.40%	6.78%	**6.94%**	6.43%	-0.51%	
Price	$105.04	$89.12	$96.21	**$96.79**	$92.21	-$4.58	
Current Yield	7.26%	7.18%	7.05%	**7.16%**	6.97%	-0.19%	
Mdur Worst	4.76	5.30	3.95	**4.67**	2.66	-2.01	
CY Spread vs. T10yr	4.25%	5.43%	4.17%	**4.62%**	2.62%	-1.99%	
Source: Bloomberg; ICE BofA Bond Indices						-0.51%	Est. Price Risk to AveCY
				Comprehensive Risk Est.		6.47%	Est. Price Risk + CY
				Recapture Rate (yrs.)		0.07	Est. Price Risk / CY
					Memo:	-2.41%	Total Return YTD

The current yield of the CoCo sector closed the month at 6.97%, which was 10bps lower than last month and 19bps less than the average current yield at the bottom of the last three credit cycles (i.e., 7.16%). The average CoCo price of $92.21 is still lower than all of the last 3 three cycles, which (like the other hybrid sectors) highlights that the term structure of interest rates (i.e., high real US Treasury yields) being the primary reason for discounted prices – the implication of the discount is an embedded **"pull toward par"** and time ages and the prospect of higher coupon resets approach becoming available in less than 3yrs on average. The

implication of a 0.19% current yield increase to 7.16% (the average current yield of the prior bottoms) is an estimated 0.51% price decline using the modified duration of 2.66; then adding back the current book yield (assuming a 12month path) of 6.97% makes the *Comprehensive Risk Estimate* for return in the CoCo sector 6.47%. The recapture rate of the estimated capital risk is less than one month for CoCos.

The CoCo sector was active with issuance from UBS, Santander, SocGen and Barclays at yields ranging from 9.25% to 10% which caught the attention of the market with books as much as over 21x oversubscribed.

Outlook:

A Fed conundrum: If the Fed cuts rates too soon it could impair its credibility and forfeit the effectiveness of forward guidance in recruiting markets to assist it; but if the Fed leaves rates too high for too long it could prompt a fiscal fit (i.e., volatility in the US Treasury markets) caused by the rising costs of the massive US debt load – either way, it appears inflation will stay elevated (i.e., above 2%). Fiscal deficit spending growth is expected to be twice as fast as GDP growth for decades, which means the Fed will have to print money to absorb the debt – **monetizing debt is inflationary**.

A False Dawn: Neither the bond market nor the equity market is appreciating the need for the Fed to keep interest rates high for longer because fiscal growth pressures (something the Fed cannot directly opine on) are trading against restrictive rates pressure. The bond market is discounting five federal funds rate cuts to 4% by December 2024, which is well below the median rate of 5.125% in the Fed dots report (and below the lowest dot in the 4.375%-6.125% range of opinions from the board of governors) for 2024. The bond market is not in agreement with the Fed's narrative and has dismissed its resolve to not repeat the policy mistake of the 1970s. The equity market is taking its cues from Dec-24 SOFR futures in expecting an almost

immediate series of rate cuts and has virtually ignored any risk of recession despite a continuously inverted yield curve.

- Can the US government borrow at twice the speed of the economy without crowding out other asset classes to pay for it?
    - *We think not.*
- Will the Fed have to print the money again to pay for it?
    - *We think so.*

Implications for Junior Subordinated Capital Securities:

There should be ample opportunities to buy attractive hybrid yields next year – have no fear of missing out on hybrids quite yet. Dec-24 SOFR futures should trade back up toward federal funds parity as the year progresses to the election -- we expect that level to finish more toward 5% than its current 4% by year end, which means the US Treasury 10yr note should correct as well and make another move up toward 4.75% at some point during the year before rallying back toward 4% based on (post-election) Dec-25 SOFR futures taking over leadership sometime in September.

Our credit team views hybrid credit fundamentals are generally sound and the purchasing power matrix scores of hybrids are even better now than they were this time last year – this, despite the laudable credit performance this year (especially this month).

Purchasing Power Matrix: Financials	A Mdur	B YTW%	C 5yrBE Inflation%	D=B/C Inflation Coverage	E=D/A Inflation Coverage/ Mdur
Retail $25par (p0p4)	12.21	6.76	2.17	3.12	0.26
NoCos (stb8)	3.96	7.84	2.17	3.61	0.91
CoCos (cdlr)	2.66	8.36	2.17	3.85	1.45
More Sr. Fins (e0ba)	4.70	5.77	2.17	2.66	0.57

Source: Bloomberg; ICE BofA Bond Indices

- Hybrid yields are higher, breakeven inflation is lower and inflation coverage is up.
- Hybrid yield inflation coverages are generous at 3.12x to 3.85x for junior subordination – shown above. The contingent convertible sector (CoCos) is the winner on *Inflation Coverage* and risk adjusted coverage when factoring in duration. The NoCo sector wins the silver medal again on both scores. The retail sector measures up too, but one must accept more duration risk in a mostly "fixed-forever" sector structure to get the coverage.

<u>In relation to positioning:</u>

- Maintain a defensive orientation by positioning fixed-to-refixed structures and barbelling these discounts with current coupon new issuance which embeds a "pull toward par" backstory to preserve capital and offer the potential for income growth.
- Real hybrid yields are compelling and even more so when we consider subtracting estimated historical credit default risks from real yields – shown here in a *Real Yield Matrix*

Real Yield Matrix	Hybrids		Corporates	
	Preferreds	CoCos	IG Corps	BIG Corps
Bloomberg Index	*cips+hips*	*cdlr*	*c6c0*	*h0a0*
Mod.Duration	3.96	2.66	6.09	3.72
Yield-to-Worst	7.84	8.36	5.71	8.5
Inflation[1] Adjustment	2.17	2.17	2.17	2.17
Real Yields	5.67	6.19	3.54	6.33
Default[2] Adjustment	-0.49	-0.49	-0.05	-2.72
YTW, net, net adj.	**5.18**	**5.70**	**3.49**	**3.61**
Composite Rating	*BBB2*	*BB1*	*BBB1*	*B1*
Last Month End:	Hybrids		Corporates	
	Preferreds	CoCos	IG Corps	BIG Corps
YTW, net, net adj.	5.66	6.21	4.09	4.38
Change from Last	-0.48	-0.51	-0.60	-0.77

Source: Bloomberg; ICE BofA Bond Indices

[1] *Inflation assuption based on the UST5yr breakeven inflation rate*
[2] *Sprectrum's 10yr annual default study through 2023 to date*

- Hybrids offer the most positive double-net real yield opportunity in credit.
- The Fed is likely full stop on rate hikes, though elevated real yields in US treasuries will likely persist well into 2024 because of a higher "terminal rate" being necessary in the new paradigms de-globalization, de-carbonization, and fiscal excess (all inflationary).
- Over the longer term, eventual rate cuts to offer some insurance against an extended recession next year are likely, but not until after the election.
- The structural "pull toward par" discounts should reward hybrid investors who take advantage of today's lower prices and wider than average spreads. Indeed, large sectors of the hybrid markets are not "fixed income", but rather "fixed-to-refixed income".

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