Week of December 21st Updates

Contents

Central Banking / Economy

- **Treasury Rally to Be Tested by Fed's Next Move**
  - U.S. gov bonds have rallied after a weak first 10 months of 2022
  - Treasury yields fell last week after a better-than-expected CPI report
  - Last Friday, the yield on the 10-yr treasury **settled at 3.48%**, up from 1.50% at the end of last year, but down from the 2022 high of 4.23%
  - Bond investors' optimism about inflation and pessimism about economic growth is good for Treasurys
    - This is because Treasury yields are mostly determined by expectations for what short-term interest rates set by the Fed will average over the life of a bond
  - WSJ Pro – Central Banking

- **Japan Bends to Global Forces Pushing Up Interest Rates**
  - The Bank of Japan's governor (Haruhiko Kuroda) increased interest rates and said they would let the 10-year government bond rise to 0.5% after previously capping it at 0.25%
  - Market players took advantage and drove the rate up to 0.395% as of the end of Tuesday
  - The Bank of Japan's move wasn't meant to help Japan's sluggish economy and help it reach a target inflation of 2% as much as it was meant as a precautionary measure to tamp down the economy
  - WSJ Pro – Central Banking

- **U.S. Home Sales Post Record 10th Straight Month of Declines**
  - U.S. existing-home sales fell a 10th straight month as high mortgage rates and home prices pushed buyers out of the market
  - Sales of previously owned homes fell 7.7% from the prior month to a seasonally adjusted annual rate of 4.09 million homes
    - This is the weakest rate since May 2020
  - Existing home sales have dropped about 37% from their peak in January 2022
  - Note: mortgage rates are at around 7%, a sharp increase from the roughly 3.1% from the end of 2021
  - WSJ Pro – Central Banking

Markets

- **Stocks Fall to Start the Week as Recession Worries Linger**
    - Stocks closed lower on Monday as investors still focus on recession risks and talks about inflation
    - Even with the Fed raising rates 50 bps, investors are not at ease regarding the status of inflation, and believe that the Fed will continue to tighten conditions
    - Barron's

Private Equity

- **Advocates for Private Equity Seek Reversal of Rule That Tightens Interest Deductions**
    - Lobbyists for PE have spent years urging lawmakers to extend a rule that determines how much of their debt costs a business can deduct from their taxes
    - Despite those efforts, the rule expired at the beginning of the year. Business groups are furiously lobbying lawmakers before the new Congress starts work to reinstate the rule as part of a year-end tax deal
    - The reduced deductions are felt most by firms that need financing to expand, such as IT, transportation, and hospitality companies
    - WSJ Pro – Private Equity

- **Proposed SEC Rules Would Raise Scrutiny of Sponsor-Led Secondary Deals**
    - The SEC is weighing changes that could lead to more actions against firms that carry out secondary transactions involving continuation funds
    - Under the proposed changes, private fund managers carrying out secondary transactions must report their completion dates and describe the deal within one day of closing
    - The logic behind this regulation is to allow the SEC to have access to data to help identify potentially stressed transactions
        - It's difficult for the SEC to know whether a fund is a continuation vehicle
        - Note: a continuation vehicle / continuation fund is a way for fund managers to extend investments in certain assets or to

refinance companies that are difficult to sell, while giving the fund investors a chance to exit

- There were about $68.6 billion in adviser-led continuation funds in 2021, up from $34.8 billion in 2020 and $26.4 billion in 2019
- WSJ Pro – Private Equity