Week of June 12th Updates

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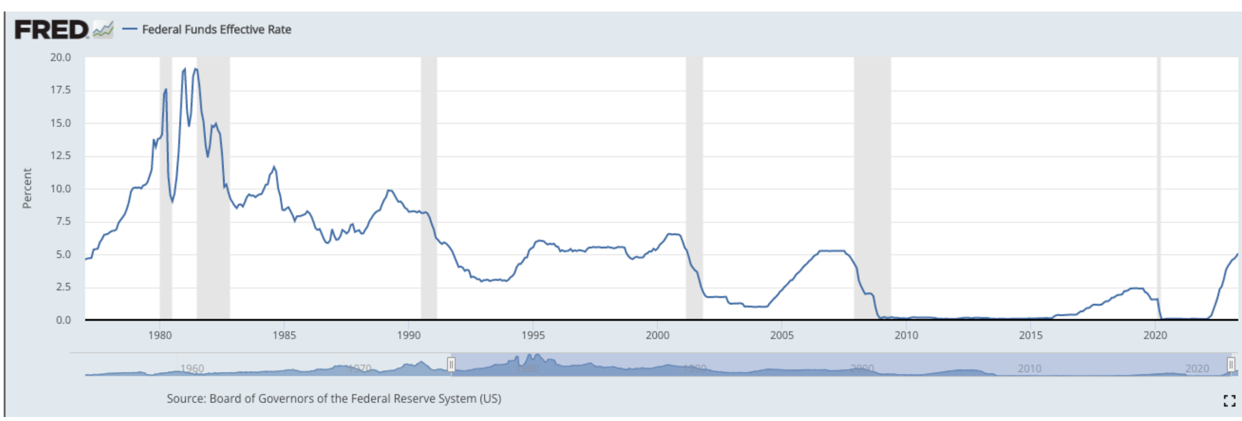
<u>The Fed Didn't Raise Rates This Week, but Penciled in More Rate Hikes This Year</u>

- The Fed's most recent decision was to pause rate hikes for now while projecting more increases later
    - Powell's phrasing at a press conference hinted that a rate hike is likely at the Fed's July 25-26 meeting
- Fed officials' projections showed that 12 out of 18 expected to raise rates at least two more times this year, up from just four officials in March
- The current benchmark fed funds rate is 5 – 5.25%
    - One more increase would push the short-term rate to a 22-year high
- After holding the rate at near-zero during COVID, the Fed implemented 10 consecutive rate hikes, the most rapid series of increases since the 80s
- It's likely the case that economic readings are not going to show enough softness for the Fed not to raise rates
- In my opinion, the speed at which rates have been increasing has been too aggressive (as expected when about 25% of the entire money supply was printed within the last three years). However, I think the Fed hasn't given nearly enough time to witness the lag in rate increases and its effect on the economy and we are bound to have a strong economic pullback and certain adverse effects
- 

- Since 1980 all rapid rate increases were followed by a recession (indicated by the grey bars) and led to a decrease in rates afterwards (with post 2009 and 2020 leading to rates going to near-zero)

Spring Spending Surge Pushes Growth Despite Rate Increases

- Despite high inflation and rate increases, Americans are still spending more
    - Consumers spent a seasonally adjusted 0.3% more in May than in April (following a 0.4% in April from March)
- The increase likely stems from rising wages, which simply means that the growth is pushing off a potential recession
- As long as consumers continue to spend, a recession will be delayed
    - This obviously presents a big challenge for the Fed because they haven't seen economic activity cool as much as they hoped to
    - However, simultaneously, they need to balance that with the risk of delayed effects of the rate increases—and the more recent banking strains—which could hurt growth and the labor market more than they expect

SEC Sues Coinbase, Alleges It Is Unregistered Broker

- This is the second case in two days against a major crypto company
    - On Monday, the SEC sued the world's largest crypto exchange, Binance, and its founder Changpeng Zhao
- The SEC said that 13 of Coinbase's listed tokens were unregistered securities. Additionally, they claimed that the Coinbase Earn staking program (which allows users to earn interest on their tokens) is also an unregistered security
- Overall, it seems like as a result of the FTX fallout (rip to my friends reading this whose BlockFi accounts were locked) the SEC has been cracking down more on the industry and is taking an enforcement-only approach
- Other companies, however, are still keen on being involved in the industry as seen with BlackRock creating plans for a Bitcoin ETF
- This is not financial advice and is just my opinion and what I think, but I think the concept of bitcoin or some other decentralized token replacing actual fiat money is not going to happen and the idea of it happening is a joke
    - I sold all of my Bitcoin when I actually understood what it was
        - The idea of it being "digital gold" makes no sense because you're holding a limited supply of absolutely nothing which

        - doesn't hold any intrinsic value and can't be worn or used and is solely dependent on what someone else is willing to pay for it
    - I cannot imagine a scenario in which the government would ever allow control of a currency to be taken out of their hands and which they couldn't manipulate (i.e., increase or decrease money supply)
    - I can see why there are exchanges that allow for the trading of tokens for the sake of pure speculation, but I do not understand why companies like BlackRock are legitimately applying to create a Bitcoin ETF
- I agree with the SEC cracking down a lot more on crypto companies because I see the industry as being extremely dangerous to retail investors if it isn't regulated a lot more

Messi's New Deal and How it Could Affect Future Contracts

- Some basic background info on the deal:
    - Messi recently left PSG to join Inter Miami
    - Saudi Arabian team Al Hilal also placed a bid for Messi, offering far more in terms of salary
        - Inter Miami offered $150mm for 2.5 years ($60mm/year)
        - Al Hilal offered $400mm a year for a contract worth $1+ billion
    - What makes Inter Miami's deal way more attractive is the profit-sharing provisions:
        - MLS and Apple agreed to a $2.5 billion deal over 10 years broadcast rights
        - Adidas is the main sponsor of the MLS and Messi has a lifetime contract with them → now that Messi signed with an MLS team Adidas also agreed to include Messi in profit sharing for certain products
        - Lastly, Messi's deal with the MLS most likely includes an option to purchase part of a team as well
            - Which is the deal David Beckham received, leading him to become co-owner of Inter Miami
- The reason this deal is so significant is because it highlights a potential shift in how athletes may start being compensated

- Over time, I think athletes are going to demand more profit-sharing based agreements to get paid a percent of the value that their labor is adding to a team and/or a league
- A reason why this is likely:
    - Steph Curry joined the Warriors in 2009 and has stayed with them till 2023
    - At the end of 2014 the Warriors valuation was about $750mm
    - As of October 2022, their valuation is over $7 billion
    - Curry's most recent contract listed a salary of about $53 million/year
    - Over a span of eight years the Warriors have gained about $6.25 billion in value (if you spread it evenly that's over $780mm/year)
    - Now… keep following
    - There are now team pass subscriptions where you can subscribe to watch one team. However, loyalty has shifted over the years from teams to players
        - Meaning some people are more likely to pay to just watch Steph Curry's games regardless of what team he plays for instead of paying to watch one team like the Knicks for a season
    - This shifts a lot more value to players which also means that it's possible for there to be a shift in which some agreements include profit-sharing agreements
    - The Warriors could not simply throw more and more money at Steph past a certain point (the same way Al Hilal couldn't pull Messi with over $1 billion)
    - A few companies compensate employees using shadow or phantom equity (a form of compensation offered that has the benefits of owning company stock without the actual ownership) → essentially profit sharing
    - If certain teams and leagues allow it, then this same form of profit sharing could be incorporated in which players don't necessarily have to get a share of the team or potential share, but are compensated as a % of the value they add (mainly applies to top athletes in a league)