

Interest Rate Outlook

Q4 2023



Derivative Logic

Agenda

- About Us
- Macroeconomic Update
- Interest Rate Environment Update & Forecasts

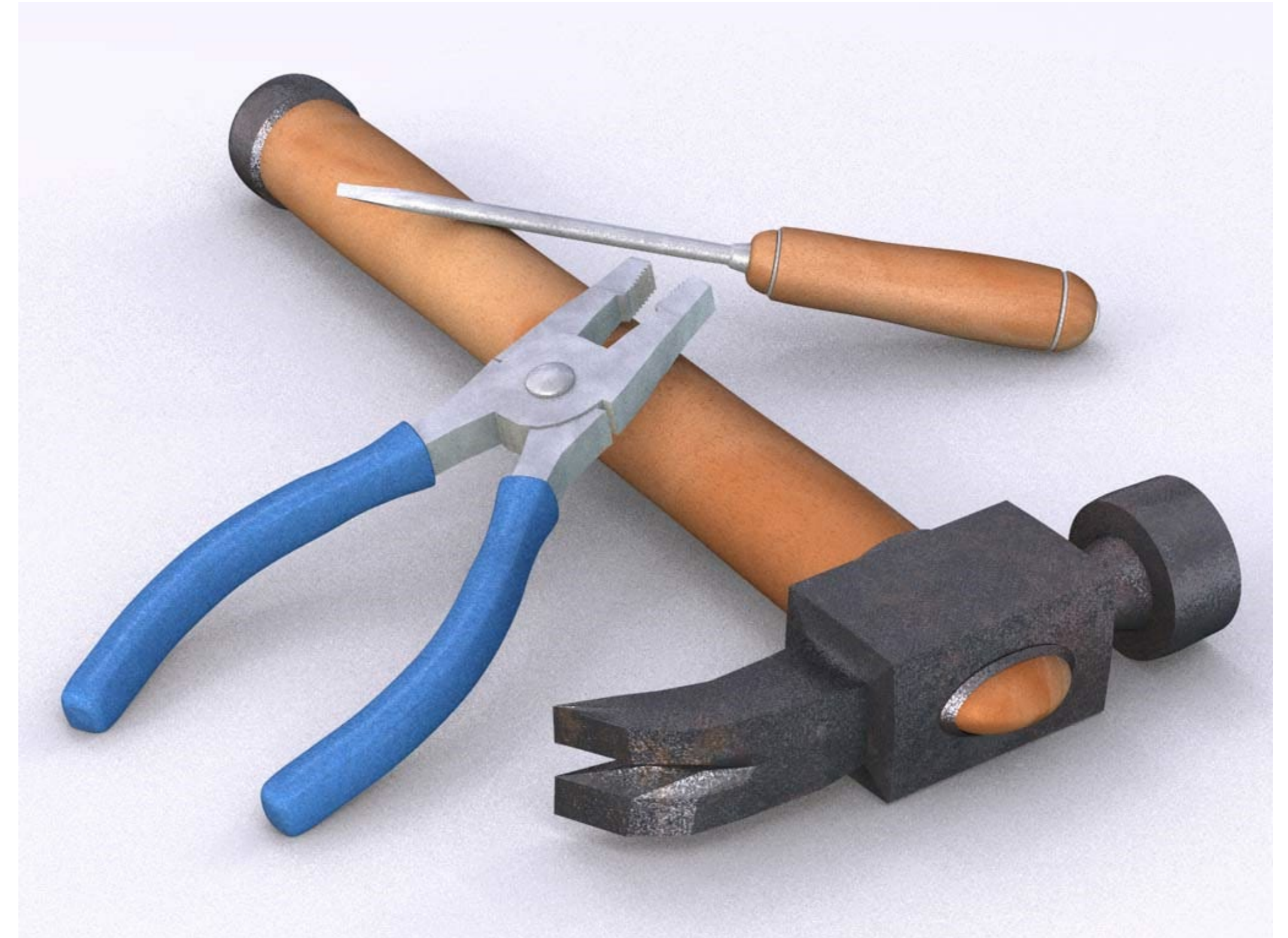
About Us

A Tool in Your Toolbox

Derivative Logic is a specialty derivatives advisory firm serving the **interest rate** and **currency** risk management needs of:

- Private Equity
- Project & Infrastructure Finance
- Public Corporations
- Real Estate
- Native American
- Nonprofit
- Municipal
- Financial Institution

We are highly experienced derivatives professionals, sharing over 90 years of industry experience and billions in notional derivative contracts executed.



Please refer to the important information, disclosures and qualifications at the end of this material.

Your Presenter

Derivative Logic, Inc.



Jim Griffin
Managing Partner

- 27 years trading Interest Rate, Currency and Commodity derivatives
- Expert at risk management and alpha generation
- Derivative Logic is a SEC, MSRB and National Futures Association registered advisory firm

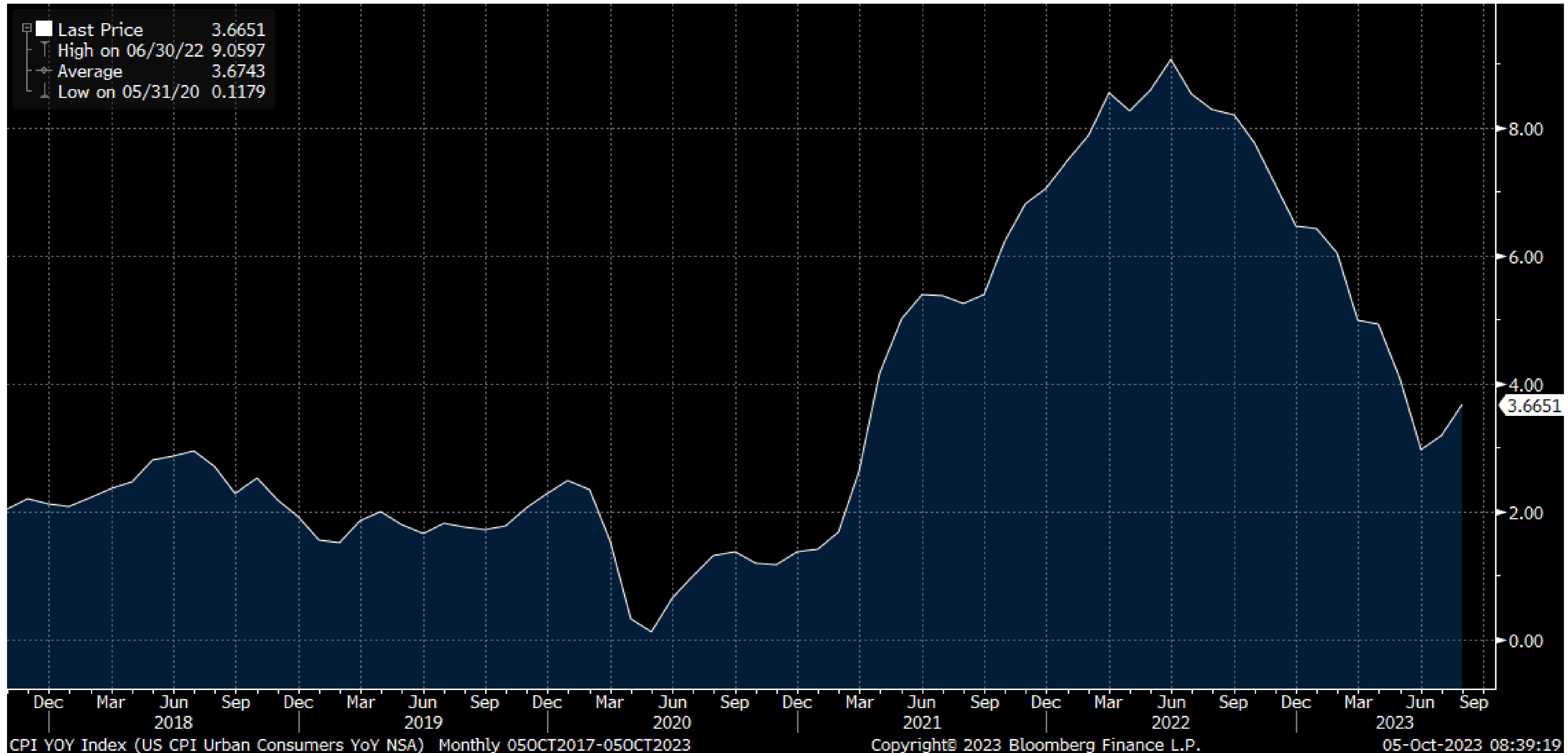
Financial Conditions are Tightening

A weighted average of Fed Funds, Treasury bond yields, corporate credit spreads, equity prices, and a trade-weighted exchange rate



CPI inflation – not returning to 2 percent

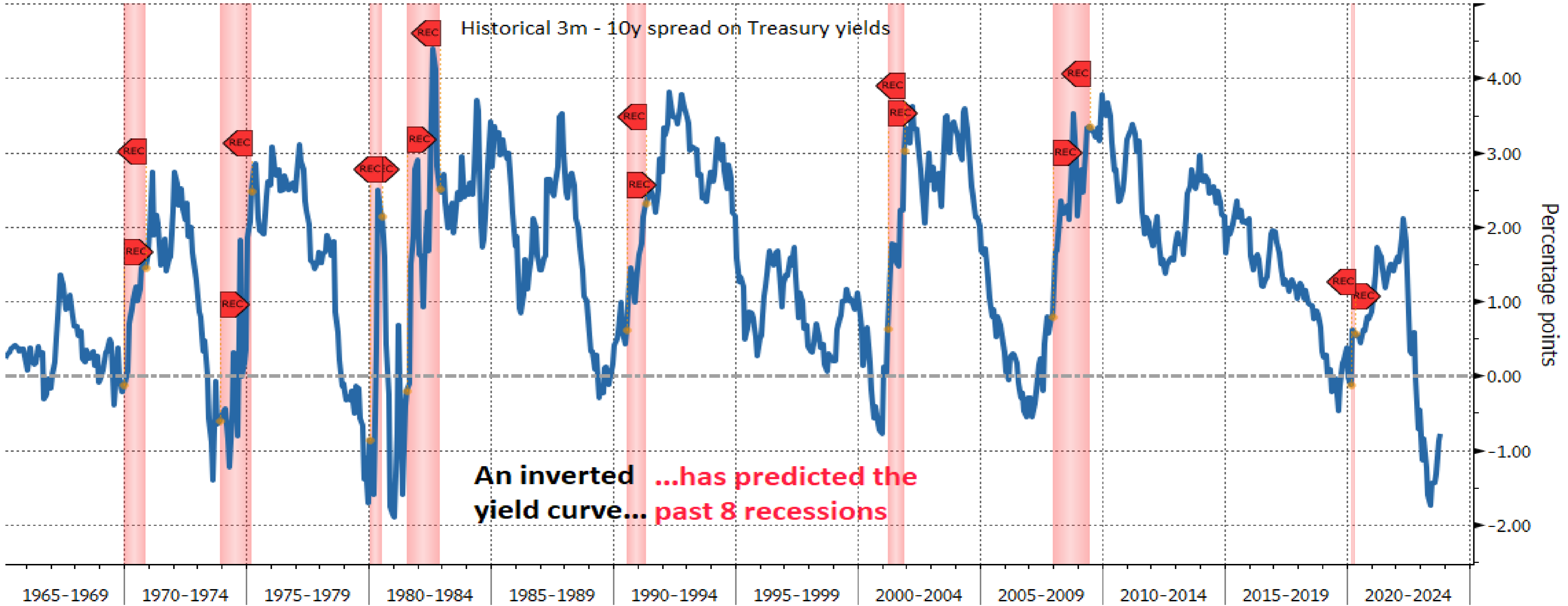
...and the Fed will get comfortable with that



Inverted Yield Curves and Recessions

...is this time different?

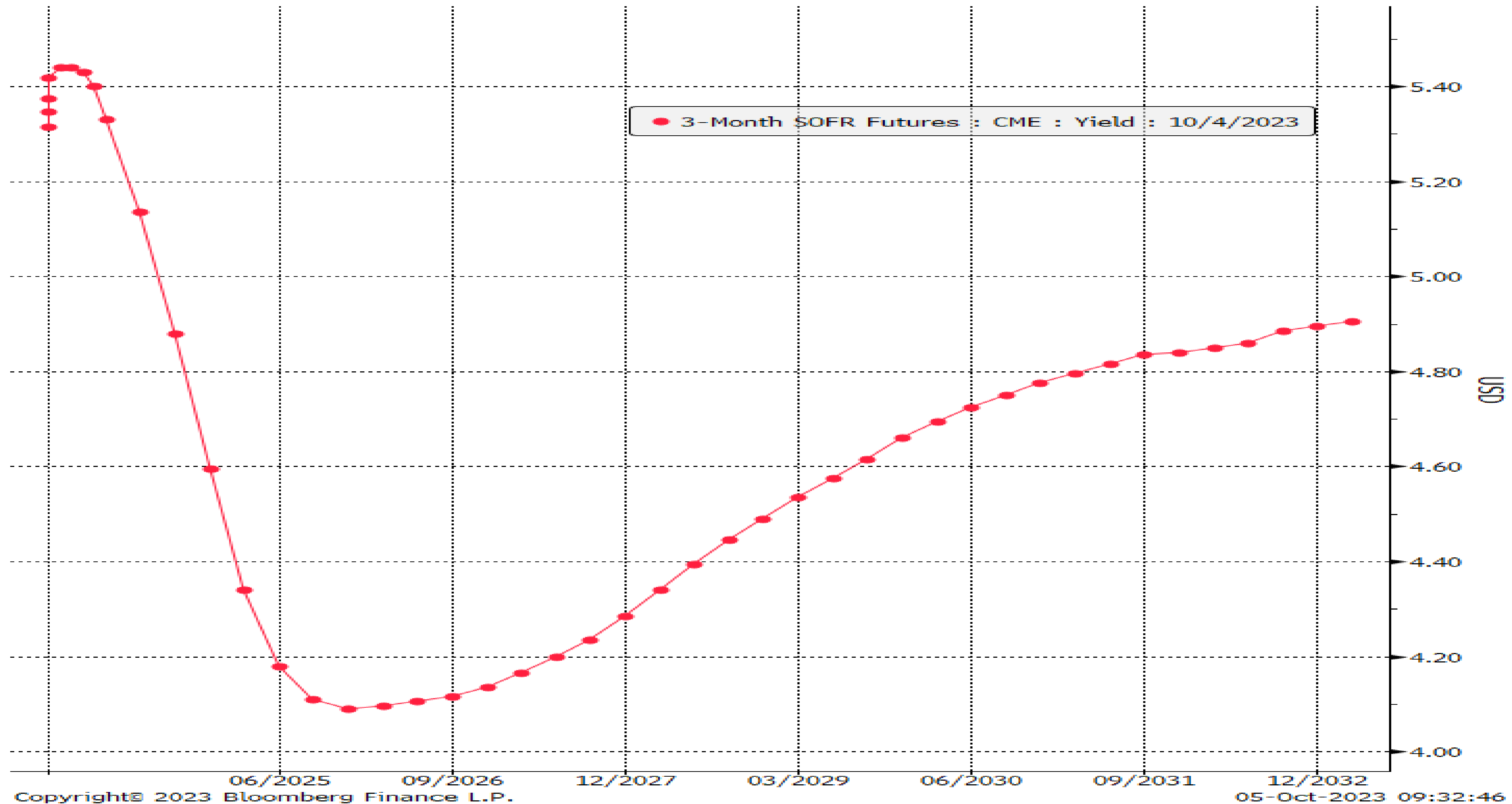
Inverted Curves = Recession?



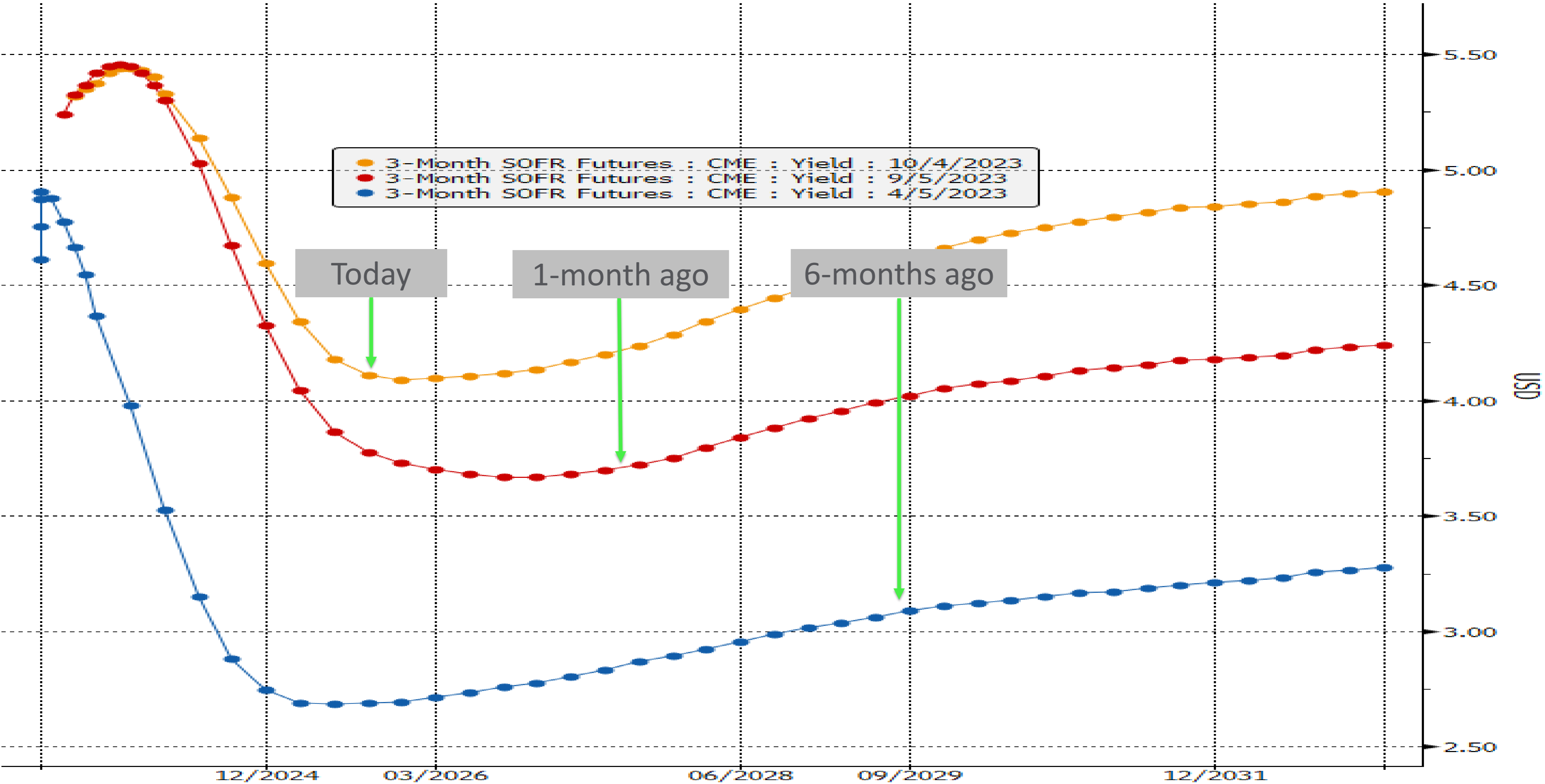
Source: Bloomberg
USGG10YR Index (US Generic Govt 10 Yr) Inverted Curve Reces 2 Monthly 31JAN1965-05OCT2023

Copyright© 2023 Bloomberg Finance L.P. 05-Oct-2023 08:43:00

Its All About the Curve...



SOFR Expectations



Copyright© 2023 Bloomberg Finance L.P.

05-Oct-2023 09:34:14

The Fed Believes a Soft-Landing is Guaranteed

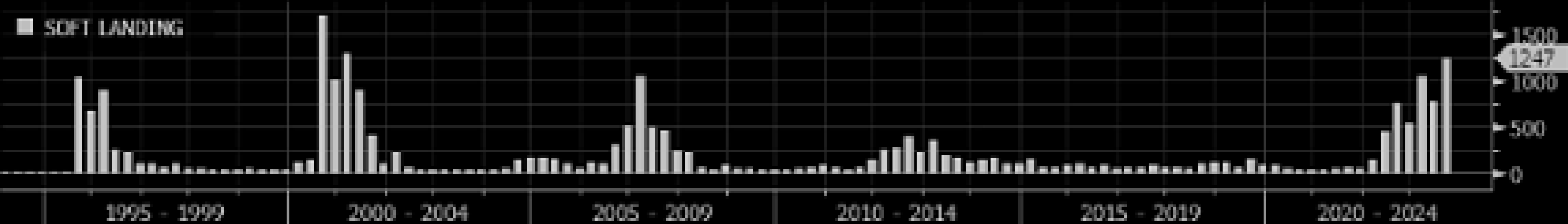
...via its SEPs

- Inflation to ease to 2%, but not until 2026
- The bar for any rate cut is high
- Implies two fewer rate cuts in 2024 and two fewer in 2025
- Even with cuts, rates won't fall to ultra low levels for years
- Long-term Fed Funds rate is ~3% (it's 5.50% now)

Everyone Expects a Soft-Landing

...just before a recession

Soft Landing Calls Have Preceded Past Recessions



Source: Bloomberg Economics. This chart shows the frequency of mentions of the term “soft landing” in company filings, transcripts, and presentations since 1994.

Summary of Our Expectations for Q4 2023

- Inflation to ease somewhat but remain sticky
- Restrictive Fed policy. No '23 rate cuts
- Fed to signal a mild policy pivot in Q4
- Fed funds target to exceed the YoY CPI
- UST yield curve to continue flattening
- Rate volatility to face intermittent spikes
- Unemployment rate to climb slowly
- Mild, shallow recession to show up late Q4 2023, or early Q1 2024
- Credit spreads to widen
- Stock market to remain mostly defensive
- More fiscal pressure and focus on US deficit

Rate Forecasts Q4 2023

Forecasts –end '23

Fed funds (upper): 5.50% (no more hikes)

SOFR (CME 3m): 5.40%

2-yr UST: 5.00%

5-yr UST: 4.75%

10-yr UST: 4.8%

S&P 500: 4,000

WTI crude oil (bl): \$90.00

Retail gasoline (AAA): \$3.75

CPI headline YoY: 3.5%

Core PCE YoY: 3.3%

Unemployment rate: 4.0%

Avg hourly earnings YoY: 4.0%

Real GDP: 1.8%

What Smart Borrowers are Doing Now

1. Buying back / eliminating / negotiating SOFR loan floors
2. Utilizing forward-starting rate hedges; caps and swaps
3. Buying down rate cap strikes to create a synthetic, fixed rate loan (cash flow)

What's your pain threshold?

Derivative Logic - Here For You

Why Not Have Advice?

Our firm was established to empower borrowers who need to use interest rate and foreign exchange derivatives—the majority of hedge users still fly blind without the proper advisory on their side. We are here for our clients with the guidance, live market data, structuring and pricing expertise, and modeling tools to help them make smart, informed decisions for their loans and cash flows in 2023. In their fine print, banks tell you to get advice from people like us. There must be a reason!

Please call us to discuss hedging your loan portfolio, current real estate deals or foreign currency exposures, and above all else, have a happy and healthy New Year!

Using Swaps as a Municipal Entity or as a Non-Profit?

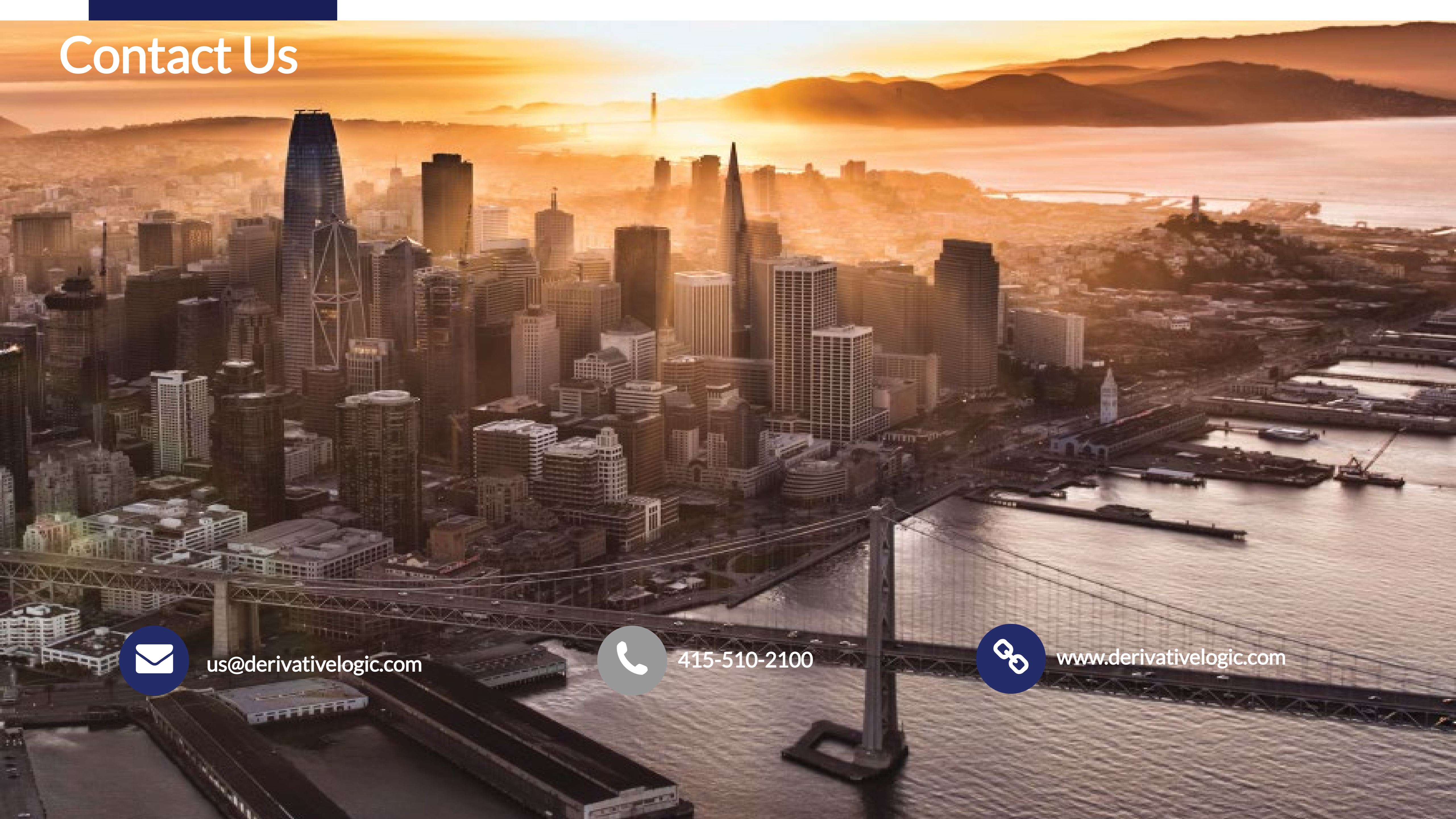
Derivative Logic, Inc. is a registered SEC & MSRB municipal advisory firm and our team members have passed the mandated FINRA Series 50 and Series 54 exams for Municipal Advisor Representative and Municipal Advisor Principal, respectively. We can act as Designated Evaluation Agent (“DEA”) or a Qualified Independent Representative (“QIR”) for clients. We may also serve as an Independent Registered Municipal Advisor (“IRMA”) for not-for-profits, municipalities, and Obligated Persons as necessitated by Dodd-Frank regulation. We are registered with the National Futures Association (“NFA”) as a regulated swap firm.

Disclosure

Any projections, forecasts, opinions or estimates, including without limitation any statement using “expect” or “believe” or “predict” or any variation thereof, contained in this document are forward-looking statements and are based upon certain current assumptions, beliefs and expectations that Derivative Logic Inc. considers reasonable or that the applicable third parties have identified as such. Forward-looking statements are necessarily speculative in nature, and it can be expected that some or all of the assumptions or beliefs underlying the forward-looking statements will not materialize or will vary significantly from actual results or outcomes. Consequently, the inclusion of forward-looking statements herein should not be regarded as a representation by Derivative Logic Inc. or any other person or entity of the outcomes or results that will be achieved by following any recommendations contained herein. While the forward-looking statements in this document reflect estimates, expectations and beliefs, they are not guarantees of future performance or outcomes. Derivative Logic Inc. has no obligation to update or otherwise revise any forward looking statements, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of events (whether anticipated or unanticipated), even if the underlying assumptions do not come to fruition. Opinions expressed herein are subject to change without notice and do not necessarily take into account the particular investment objectives, financial situations, or particular needs of any or all investors. This report is intended for informational purposes only and should not be construed as a solicitation or offer with respect to the purchase or sale of any security. Further, certain information set forth above is based solely upon one or more third-party sources. No assurance can be given as to the accuracy of such third-party information. Derivative Logic Inc. disclaims any liability should the information or opinions contained in this or future documents change or subsequently become inaccurate. All information is subject to change without notice. Past performance is never a guarantee of future results. All rights reserved.



Contact Us



us@derivativellogic.com



415-510-2100



www.derivativellogic.com