

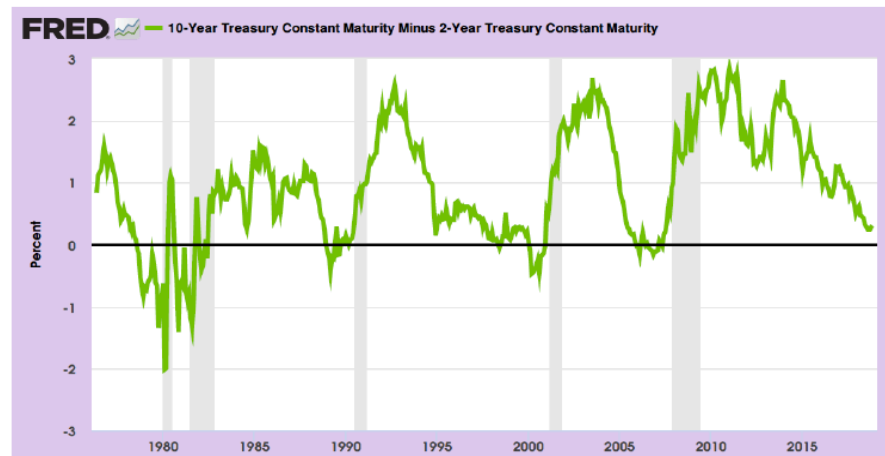
# MacroVoices

## Harley Bassman

June 25, 2020

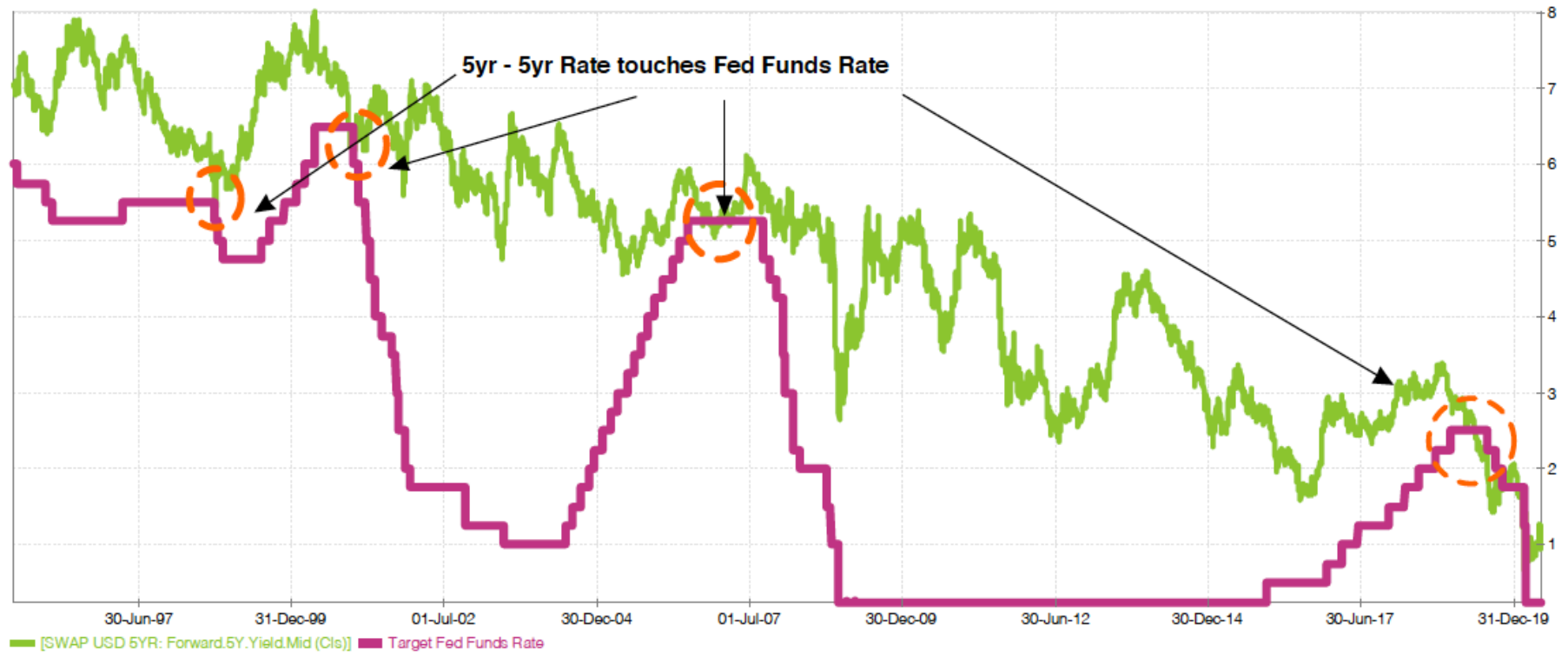
## A Guide for the Perplexed – November 15, 2018

Notwithstanding the above, projecting the **-verditer line-** forward would be consistent with a **-shaded-area-** recession in early 2020. It is important to note that a flat Yield Curve does not cause a recession, but rather is a harbinger. A flat rate profile suggests that investors are not demanding a higher return in exchange for locking up their funds into the distant future; likely in anticipation of an economic slowdown that will reduce the demand (price) for money.

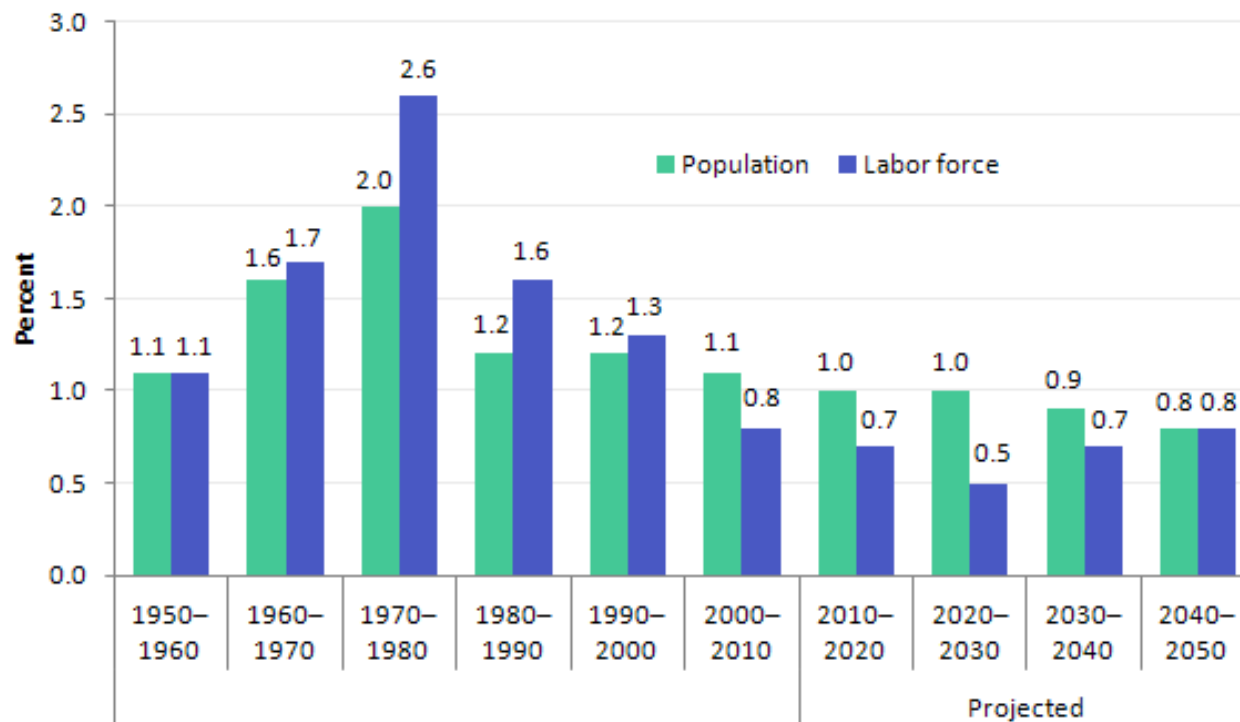


Similarly, a flat Yield Curve does not directly cause a decline in Implied Volatility, but rather reduces the demand for financial market insurance (options).

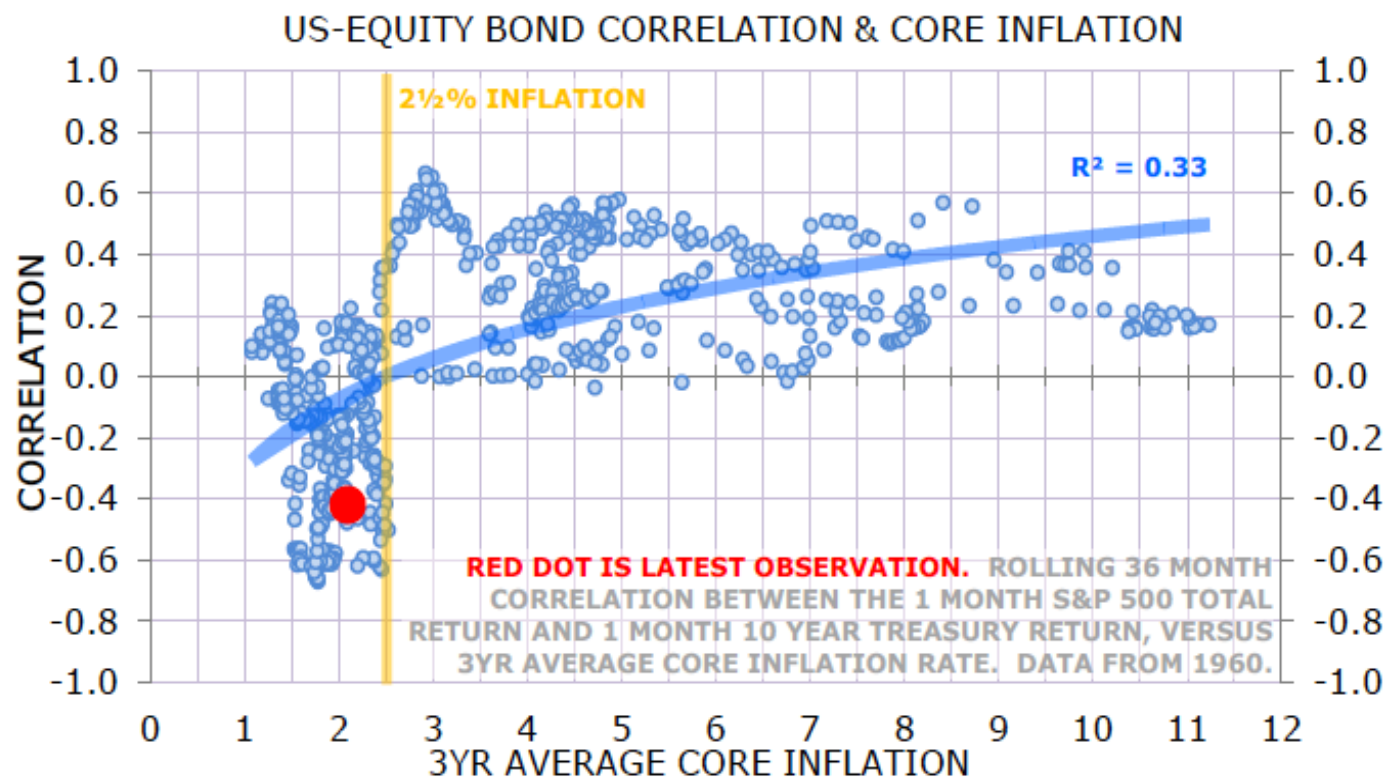
## Fed Funds Rate vs 5yr forward 5yr Rate



**Annual population and labor force growth rates by decade, 1950–2010 and projected 2010–2050**

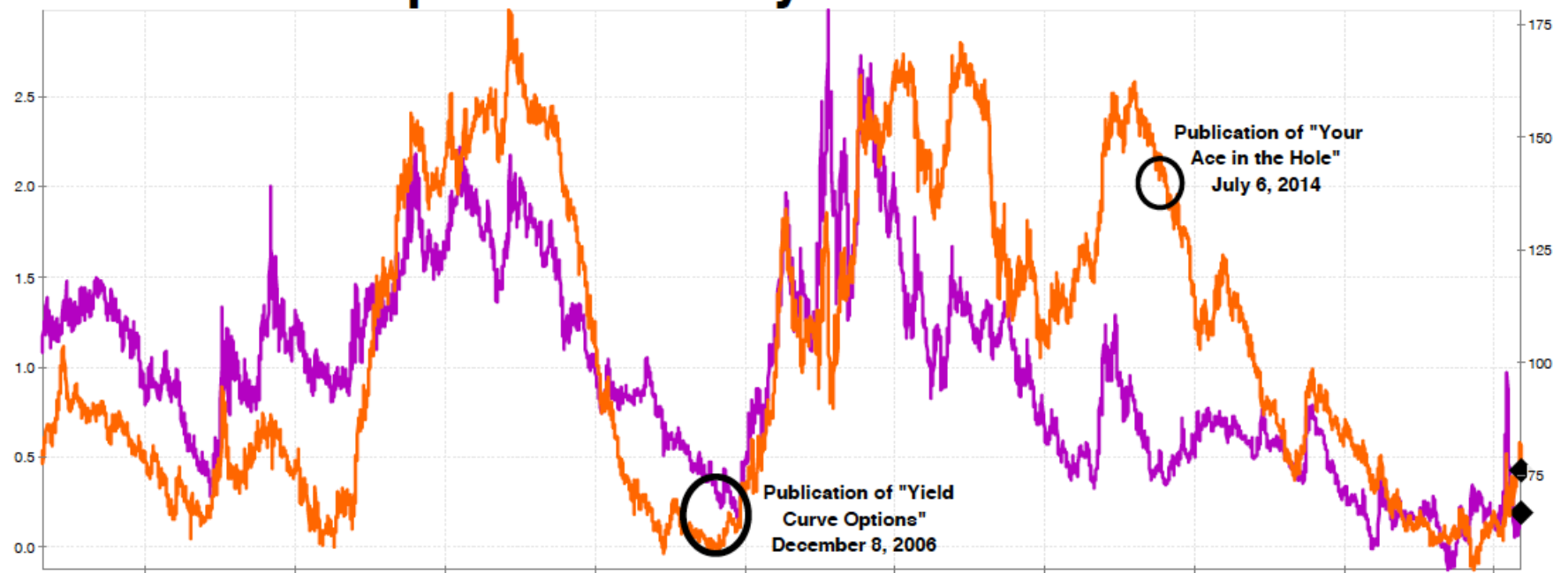


Source: U.S. Bureau of Labor Statistics.

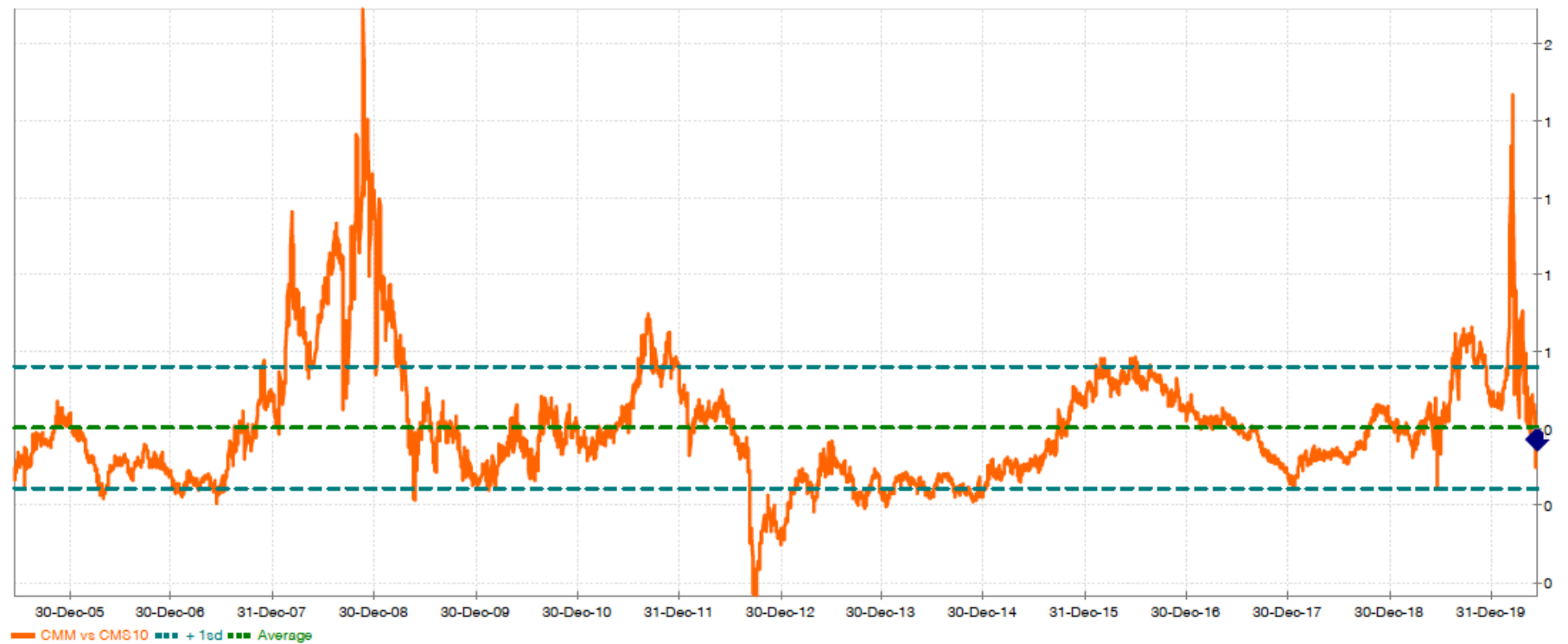


Source: S&P, Bloomberg-Barclays, GFD, BLS; Minack Advisors

# Implied Volatility vs Yield Curve



## Par MBS Rate versus 10CMS Rate



## Par MBS Spread versus Implied Volatility





## Constant Current Coupon MBS Libor-OAS





ASDZ0 Index

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Line Chart

12/16/2017

- 06/15/2020

Last Px

Local CCY

Mov Avgs

Key Events

1D

3D

1M

6M

YTD

1Y

5Y

Max

Daily

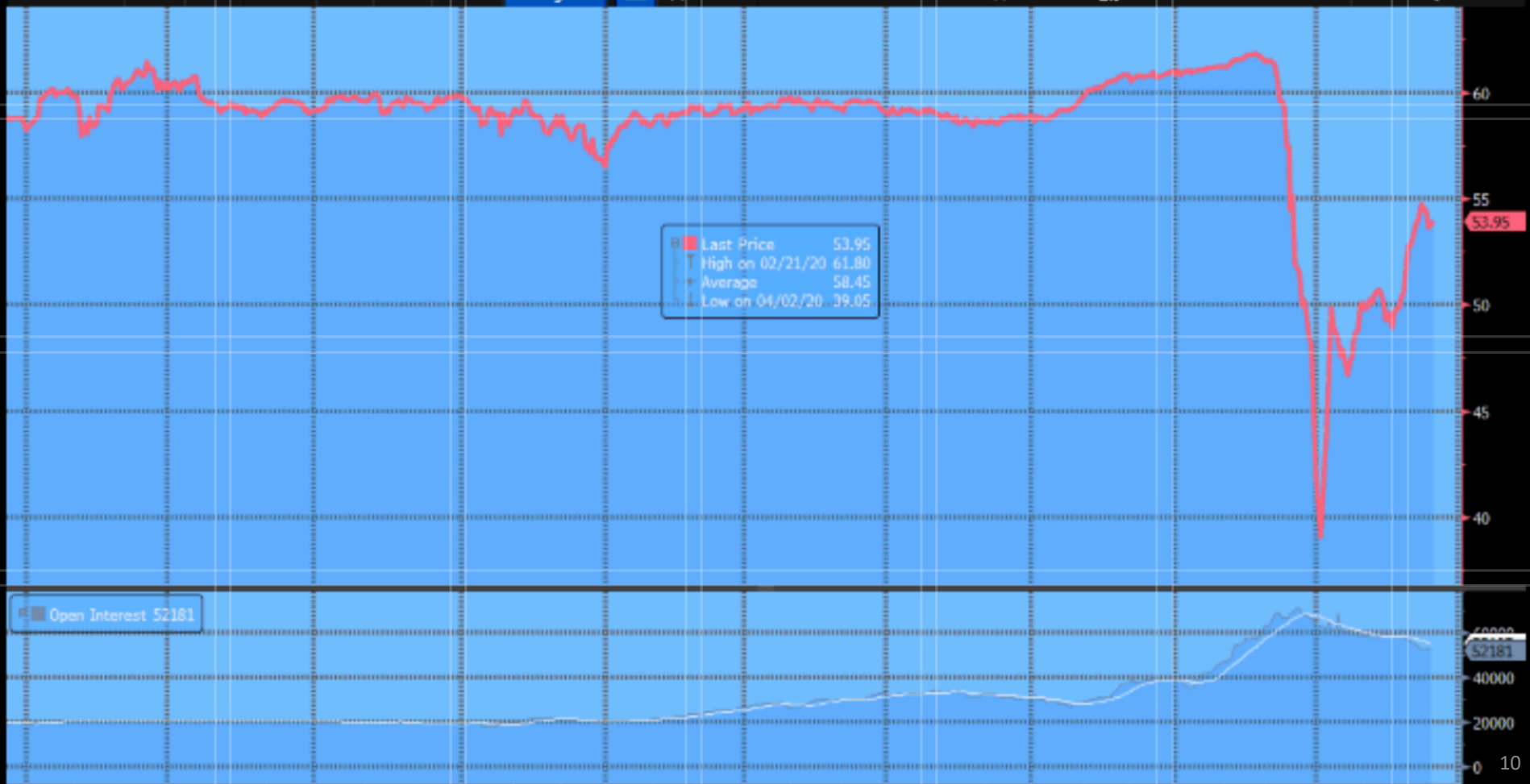
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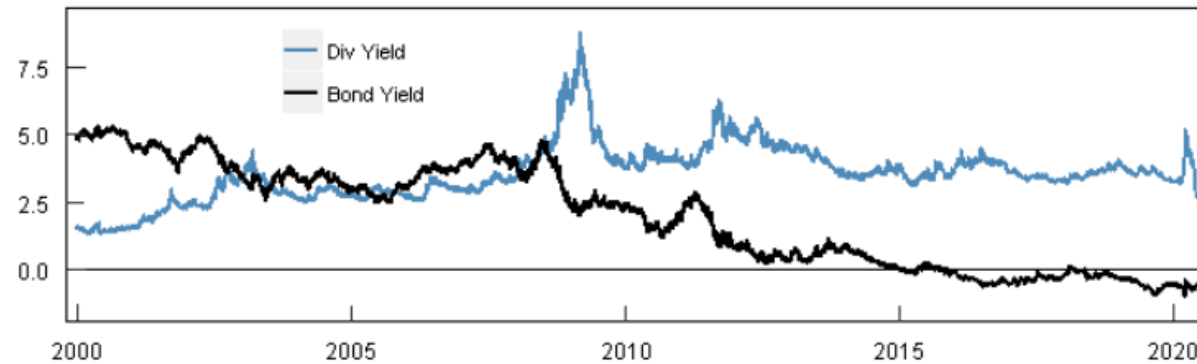
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Chart Content

Settings

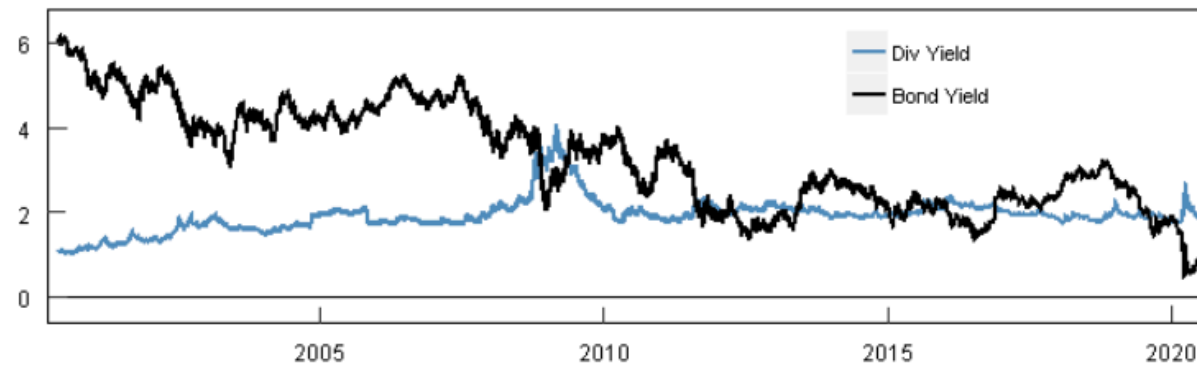


SX5E div yield vs. 5Y bund yield



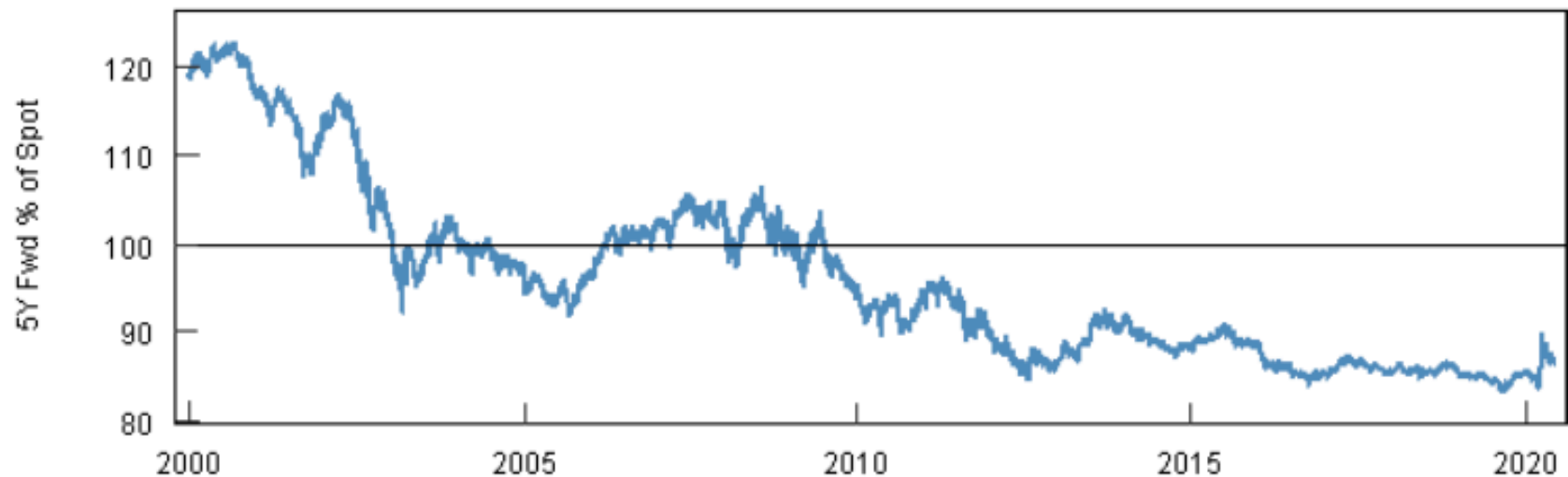
Source: J.P. Morgan

SPX div yield vs. 5Y tsy yield



# SX5E 5-year Percent of Spot Price

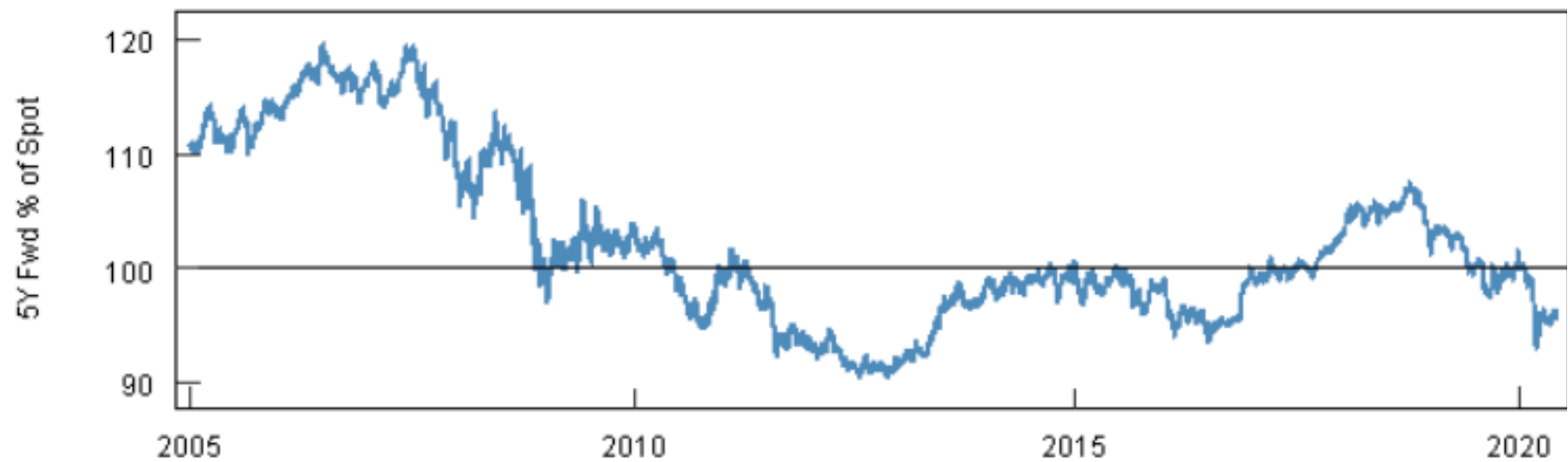
SX5E 5Y Fwd as % of Spot



Source: J.P. Morgan

# SPX 5-year Percent of Spot Price

SPX 5Y Fwd as % of spot (we only have good data post 2005)



Source: J.P. Morgan

# Listed Option Trade Idea:

S&P 500 = 3000 ~SPY = 300

Forward Price = 284.75

Buy December 16, 2022 call; K = 340 @ \$21.0; Vol = 21.25%; Delta = 37%  
Sell December 16, 2022 put; K = 230 @ \$21.5; Vol = 27.00%; Delta = 23%

Convexity (gamma) = +0.45

Time decay (theta) = -3.75

340 is the all time high

230 is 16.75 P/E (6% earnings yield) to earnings of \$137

2019 Actual SPX earnings = \$163