TYCHOS

PRESS RELEASE
March 29, 2021
Contact Information
Tychos Analytics Group
Dan McShane
Dan.McShane@tychosgroup.org

New Report: A Rise in Margin Debt and Equity Derivatives Underscore Heightened Market Valuation Risk in 2021

Trends in Corporate Sector High-Yield Debt, Criticized Bank Assets and Home Equity Withdrawals Point to Potential Credit Concerns

The Tychos Group is now highlighting five areas of emerging concern: Equity Derivatives, High Yield Bonds, Home Equity Withdrawals, Margin Debt and Criticized Bank Assets.

"While the U.S. economy has shown great resiliency, pronounced increases in certain recent trends warrant careful monitoring", stated Dan McShane of the Tychos Analytics Group, a not-for-profit data firm focusing on trends in private sector debt and derivatives.

Additional details and a comprehensive report are available at www.tychosgroup.org.

The most notable areas of concern are:

Margin Debt:

According to FINRA's margin statistics, margin debt had reached $778 billion on 12/31/2020, 34 percent higher on an annualized basis than the level of $579 billion on 12/31/2019 (See Chart). Even more recent data suggests continued growth of over $800 billion for 2021Q1.

Margin debt is debt an investor takes on by borrowing from a broker/dealer for the purchase of securities. A rise in margin debt presents a concern and could bring forced selling in a market decline.

This is based on information as of 02/27/2021. The next update from FINRA on this information will be 04/01/21.

Corporate Sector High-Yield Debt:

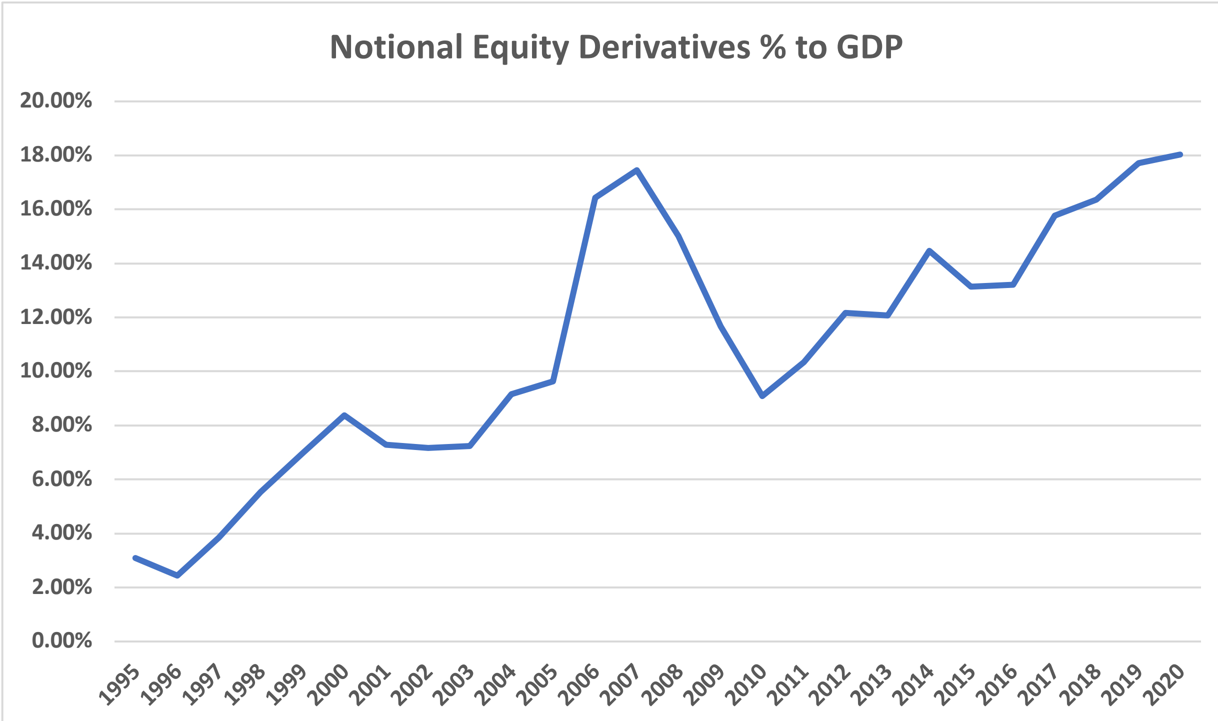
Corporate sector high-yield debt has now reached $1.75 trillion, 18 percent higher on an annualized basis than the level of $1.49 trillion on 12/31/19.

Corporate sector high-yield debt is any debt rated "BB" or lower, also sometimes referred to as "speculative" or "junk bond" debt. A rise in high-yield debt may indicate a broader deterioration in corporate credit quality.

This is based on information as of 03/20/21.

Equity Derivatives:

As reported by the OCC in its most recent report on derivatives, equity derivatives are well above the 9.1 percent of GDP level of 2010, and above the previous peak of 17.5 percent of GDP reached in 2007 (See Chart).



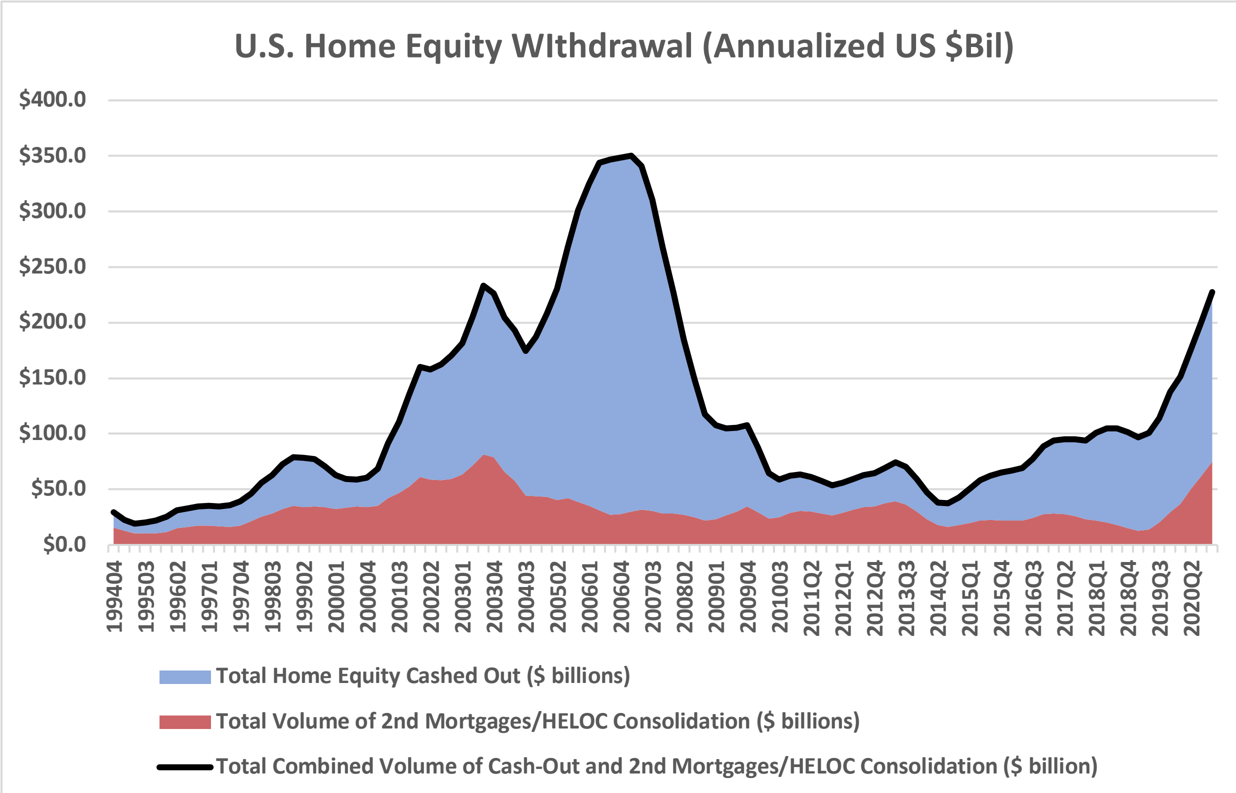
Equity derivative transactions are transactions in which a portion of the return (including interest, principal or payment streams) is linked to the price of a particular equity security or to an index of such securities. Equity derivative transactions include equity and equity index swaps, equity index deposits, equity-linked loans and debt issues, and other bank permissible equity derivative products.

This high level of equity derivatives would suggest an element of caution relative to current equity market valuations.

This is based on information as of 2020 Q4 that became publicly available on 3/23/2021. The next update from the OCC on this information will be 06/2021.

Home Equity Withdrawals:

Combined home equity cash-outs and second mortgages/HELOC (home equity lines of credit) consolidation have now reached $228 billion, which is the highest level since the first quarter of 2007 and are an annualized 66% higher than in 2019.



This information can be used as a proxy that is indicative of the amount of consumer spending reliant on debt. High current levels would suggest the reliance on home equity withdrawals is rising in a fashion similar to the boom that preceded the Great Financial Crisis of 2008. However, notably, there is not currently a rise in conventional mortgage lending similar to that period.

This is based on information as of 2020 Q4 that became publicly available on 02/26/2021. The next update from Freddie Mac on this information will be on 05/2021.

Criticized Bank Assets:

Criticized assets are assets rated special mention, substandard, doubtful, or loss as defined by the agencies' uniform loan classification standards.

Criticized assets remain high. At J.P. Morgan they have declined to 4.0 percent as of 12/31/20 from 4.5 percent at 09/30/20; at Citigroup they have risen to 10.4 percent as of 12/31/20 from 8.1 percent at 09/30/20; at Wells Fargo they have declined to 3.7 percent as of 12/31/20 from 4.1 percent at 09/30/20; and at Bank of America they have risen to to 3.9 percent as of 12/31/20 from 3.7 percent at 09/30/20.

This is based on information that became publicly available on 02/2021. The next update on this information will be on 05/2021.

About Tychos

Tychos is a not-for-profit data analytics firm specializing in private sector credit and derivative information. Historically, a rapid buildup in credit in a given sector has led to credit related issues in that sector, and Tychos analyses are designed to monitor these types of trends. Tychos examines data for the largest seven economies in the world, namely the United States, China, Japan, Germany, France, the United Kingdom, and India, which collectively represent over 60 percent of global GDP.

Additional details are available at www.tychosgroup.org.