TYCHOS

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New Report: Private Placement Securities – The "Hidden Debt" of Non-Financial Firms

Margin Debt and Equity Derivatives Remain a Notable Concern, While Multifamily Residential Mortgages Trends Warrant Closer Attention

The Tychos Group is now highlighting four areas of increased focus and potential credit concern: Private Placement Securities, Equity Derivatives, Margin Debt and Multifamily Residential Mortgages.

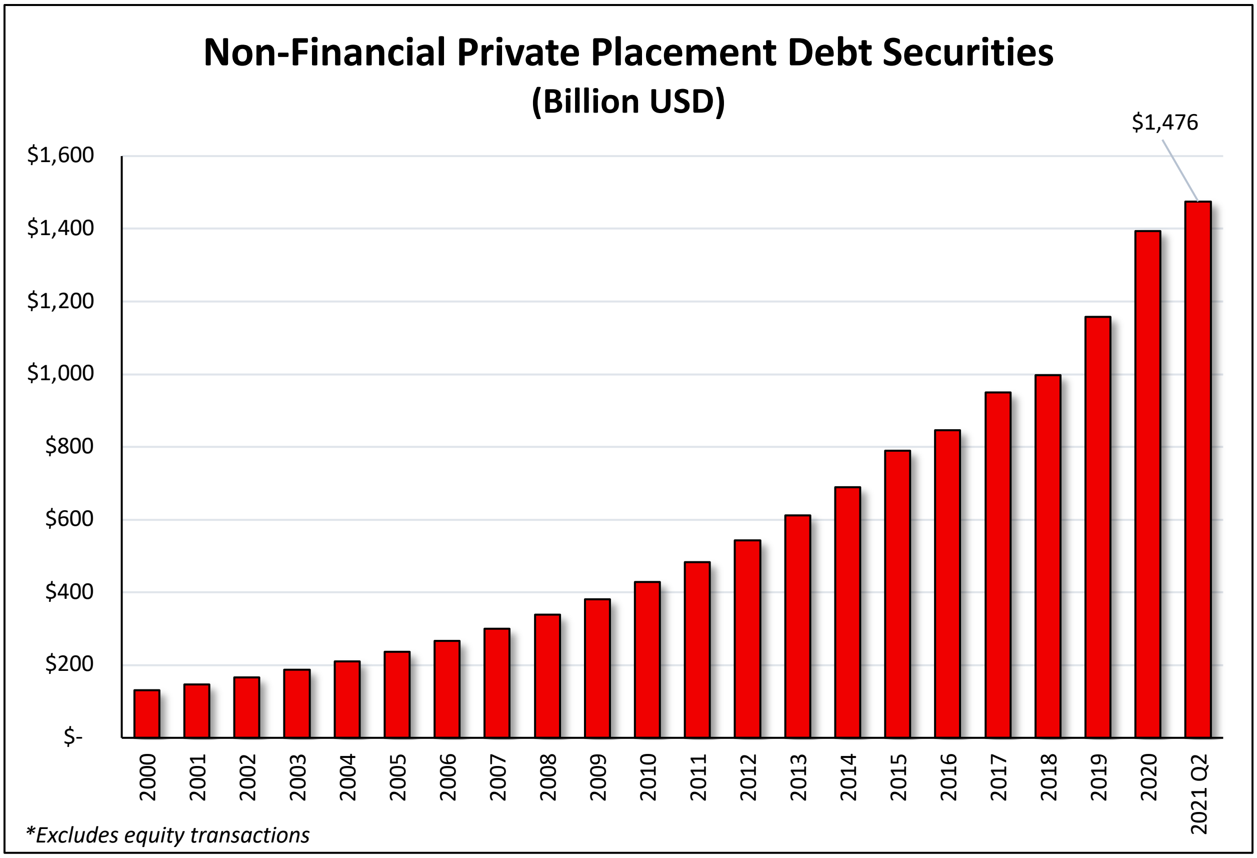
"While the U.S. economy has gained momentum entering the back end of the pandemic, increases in recent trends warrant careful monitoring", stated Dan McShane of the Tychos Analytics Group, a not-for-profit data firm focusing on trends in private sector debt and derivatives.

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

The most notable areas of concern are:

Private Placement Debt Securities:

According to Bloomberg, non-financial private placement debt securities have reached $1.47 trillion on 06/30/2021, a five-year increase of $666 billion (See Chart). Even more recent data suggests continued growth over $1.49 trillion in August of 2021.

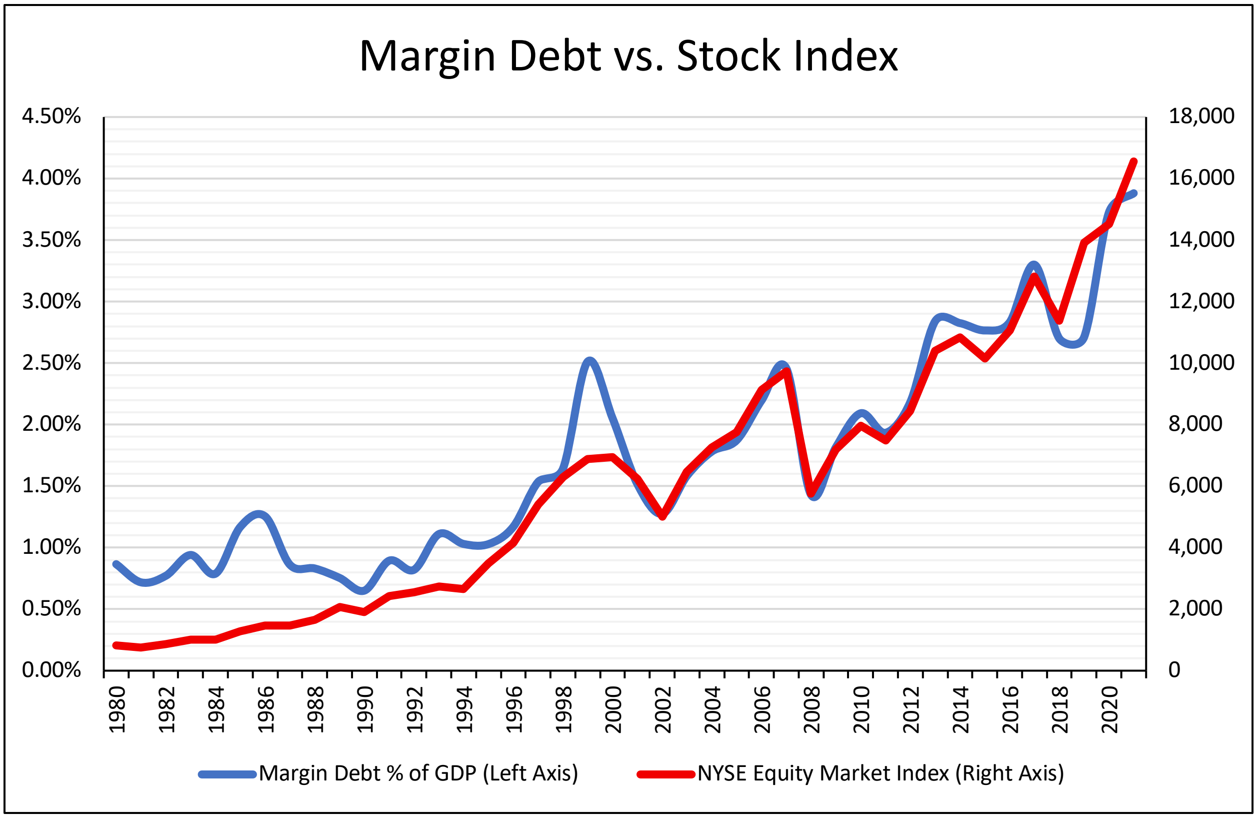


A private placement security is debt in a private transaction such as the sale of a bond to select investors rather than on the open market. The Federal Reserve's Financial Accounts of the United States excludes private placement securities from their debt by sector totals, however, we believe this data is an increasingly important component of the indebtedness of non-financial firms. Rapid expansion could signal more accommodating debt covenants and credit standards.

This is based on information as of 09/23/21. The next update from Bloomberg on this information will be 11/01/21.

Margin Debt:

According to FINRA's margin statistics, margin debt remains a concern having reached $882 billion on 06/30/2021, 51 percent higher to GDP on an annualized basis than the level of $585 billion on 06/30/2020 (See Chart). Even more recent data suggests continued growth to over $912 billion in August of 2021. This level represents a post-World War II record high.

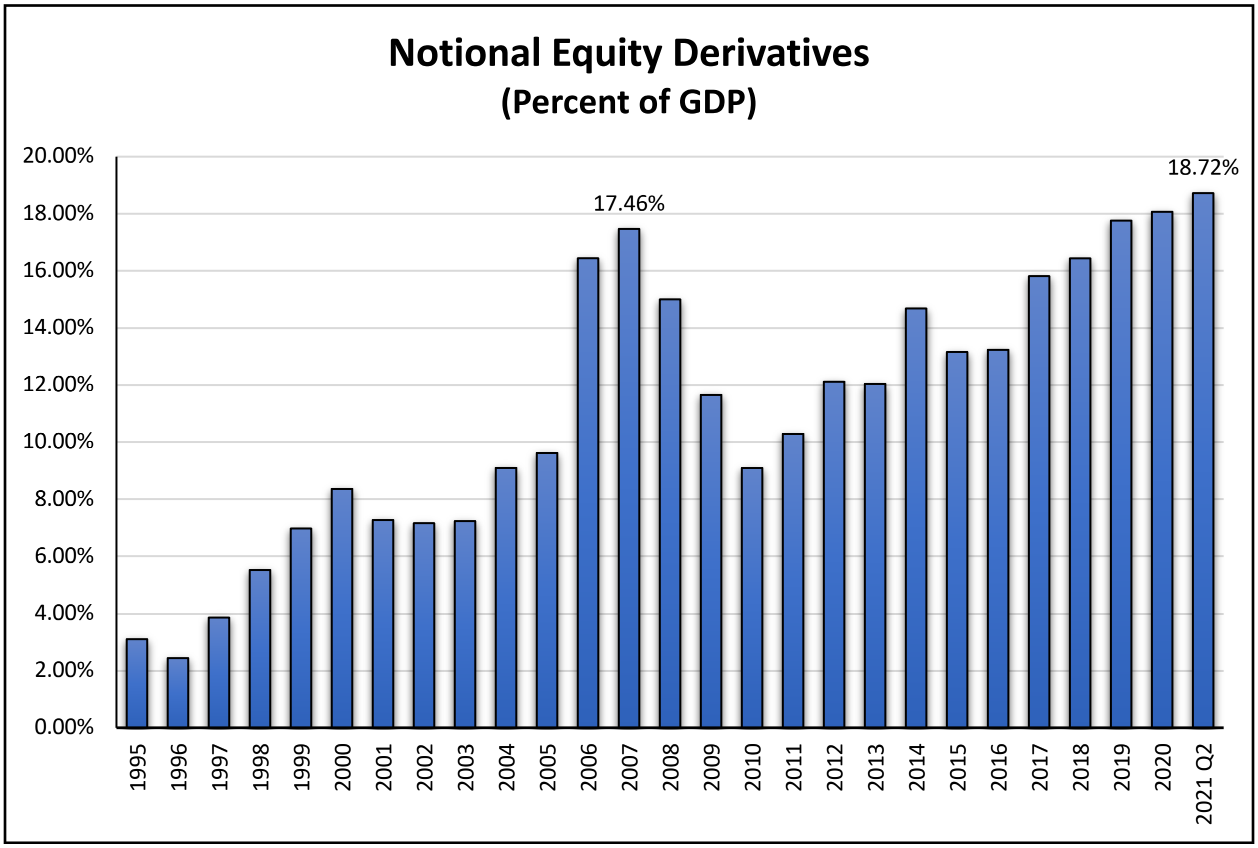


Margin debt is debt an investor takes on by borrowing from a broker/dealer for the purchase of securities. A rise in margin debt underscores the dependency of stock prices on debt and presents a concern regarding the potential of forced selling in a market decline.

This is based on information as of 09/23/21. The next update from FINRA on this information will be 11/01/21.

Equity Derivatives:

As reported by the OCC in its most recent Quarterly Report on Bank Trading and Derivatives Activities, equity derivatives continue to climb to a level above the previous peak of 17.5 percent of GDP reached in 2007, and more than double the 9.1 percent of GDP trough of 2010, and (See Chart).



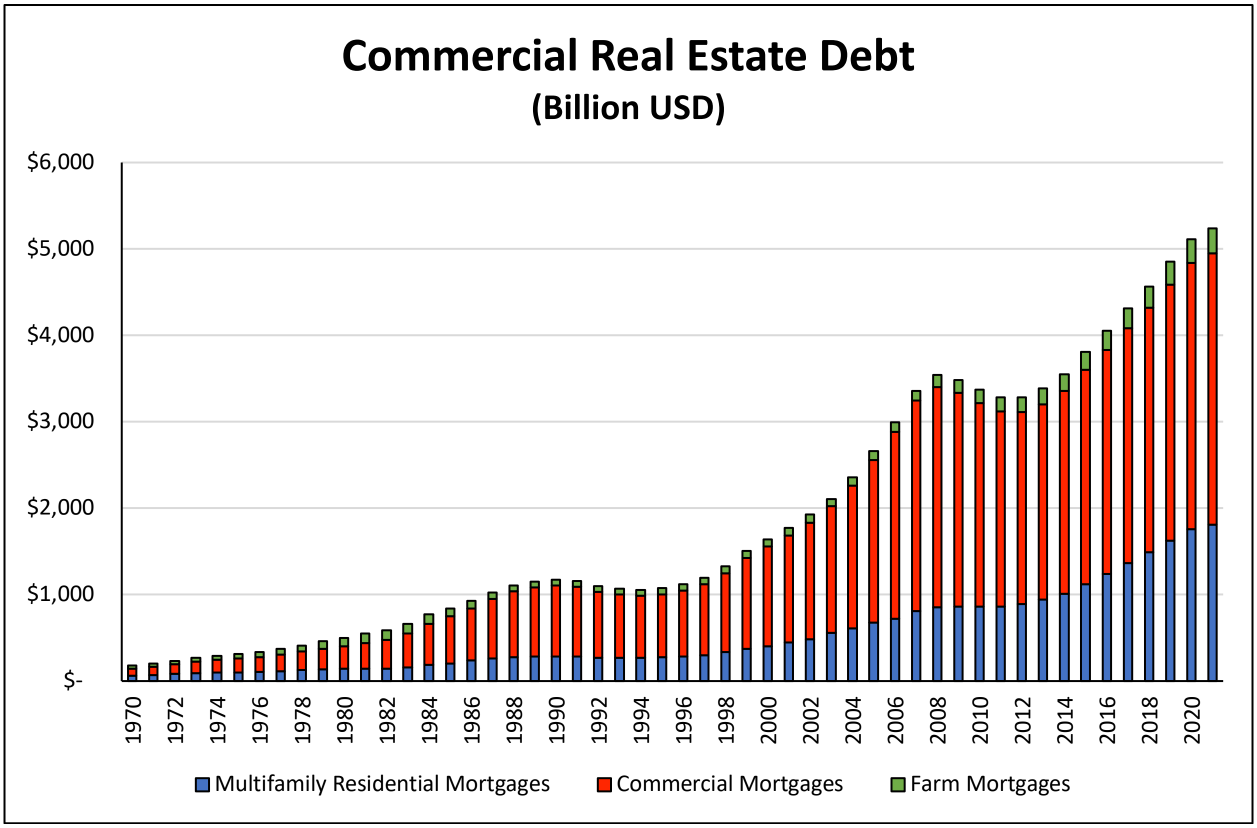
Equity derivative transactions are transactions in which a portion of the return (including interest, principal or payment streams) is linked to the price of a particular equity security or to an index of such securities. Equity derivative transactions include equity and equity index swaps, equity index 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 2021 Q2 that became publicly available on 09/16/2021. The next update from the OCC on this information will be 12/2021.

Multifamily Residential Mortgages:

According to the Federal Reserve's Financial Accounts of the United States, Multifamily Residential Mortgages, a major component of Commercial Real Estate debt, has reached $1.81 trillion as of 06/30/2021, 55 percent higher on an annualized basis than the level of $1.17 trillion on 06/30/2016 (See Chart).



Multifamily Residential Mortgages are loans secured by housing units in structures with five or more units, excluding buildings composed of condominiums and cooperatives where the units are individually owned and may be financed with a one-to-four-family mortgage.

A rapid increase in loans to this sector could suggest an oversupply of units in this sector.

This is based on information as of 2021 Q2 that became publicly available on 09/23/2021. The next update from the Federal Reserve on this information will be 12/09/2021.

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.