

a due diligence

**BIG LIQUIDITY ISSUES IN THE
FIXED INCOME MARKETS**

by u/dilkmud0002

The Big Liquidity Issues in the Fixed Income Markets that no one is talking about...

Possible DD

Going over Bonds with Apes to educate and point out major **liquidity issues** I see in the Fixed Income Market.

Hello Apes... My beautiful Apes and Appettes of the world... I wanted to do some digging on the US Bond market. I believe there will be major issues in the fixed income space that are not being properly addressed.

1. How buying and selling a bond is very different to a stock?
2. How big is this issue?
3. What does this have to do with GME and my computerstonky donk?

SIFMA, is a fixed income research shop that has information on the bond market. <https://www.sifma.org/resources/research/us-fixed-income-securities-statistics/>

1. How buying and selling a bond is very different to a stock?

The bond market has **Always** been less transparent than the stock market. For example, when a broker sold a bond they would add a 2.50\$ "markup" to each bond on the buy, and each bond on the sell. A \$5 round trip (per bond) to go in and out or make a swap. As such, this was always a lucrative business for Wall St and remained more under the radar.

<http://news.morningstar.com/classroom2/course.asp?docId=5383&page=5#:~:text=Markups%20are%20usually%20from%20about,a%20small%2C%20additional%20flat%20fee.>

The difference between a bond and a stock is liquidity - there is ALWAYS a buyer for your stock - but for your bond, you need to actually find a buyer. The difference is that stocks have small spreads, like 1-20 cents, whereas bonds have much bigger spreads. (The spread is the difference between the bid and the ask).

Let's take a look at one of my Favorites, **The Evergrande March 2022 bonds.**

<https://www.bondsupermart.com/bsm/bond-factsheet/XS1580431143>

EVERRE 8.250% 23Mar2022 Corp (USD) Trading without accrued interest

China Evergrande Group
Latest Quotes as of 18 Jan 2022

China Evergrande Group is an integrated residential property developer. The Company, through its subsidiaries, operates in property development, investment, management, finance, internet, health, culture, and tourism markets.

Transact

+ Add to Watchlist

Chart Against Other Bonds / Index

Ask Yield to Maturity (% p.a.)



2,174.713

Ask Yield to Worst (% p.a.)



2,174.713

Indicative Ask Price USD



18.500

Bond Complexity

Moderate

Bond Feature(s)

Change Control Put

Equity Call

Issuer Call

Make Whole Call

Bid Yield to Maturity (% p.a.)



3,525.923

Bid Yield to Worst (% p.a.)



3,525.923

Indicative Bid Price USD



11.500

Investor Profile

Speculative /
Distressed

Above we have an Evergrande Corporate bond, that pays 8.250% annually, and matures on the 23rd of March 2022.

Above, you can see the **ASK** is 18.5cents. And the **BID** is 11.5cents. This means the spread on the bond is about 7cents. *7 cents is \$70 per bond

Bonds are issued in values of \$1000, so a bond trading at 18.5 cents, is \$185 a bond. These evergrande bond's were originally sold with the promise to buy back on the 23rd of March, 2022 at \$1000 per bond.

The bag holders (looking at you large U.S Financial Institutions) are asking 18.5 cents per bond, but the buyer is only willing to pay 11.5 cents. If you check this daily there will be no movement or sale until the seller agrees to the price.

This Evergrande Bond is illiquid, and if you buy it today, and Evergrande does not go bankrupt by March 23rd of 2022 (Less than 3 months), you will make over 3500% on the bond. This is their most Senior Debt and with that type of Yield to Maturity, it looks like Evergrande is 100 pct going out of business.

I do believe that the Chinese played U.S financial firms, by selling them these "High Yield Junk Bonds" that are basically worthless.

An older reddit post showed some of the Evergrande bond holds, everyone owns them. See link below and keep in mind the data is older.

https://www.reddit.com/r/Superstonk/comments/pt57ol/who_are_evergrandes_bond_holders_here_are_the/

The point with all of this is that this bond is illiquid - the sellers won't accept less than 18.5 cents, and the buyers won't offer more than 11.5 cents - this bond won't sell unless the seller lowers their price. 11.5 cents is about 30% cheaper than 185 cents.

2. How big is this issue?

It's about \$51 trillion big...If you include all the debt in the public markets in the U.S it is about \$51 trillion...

[SIFMA](#)

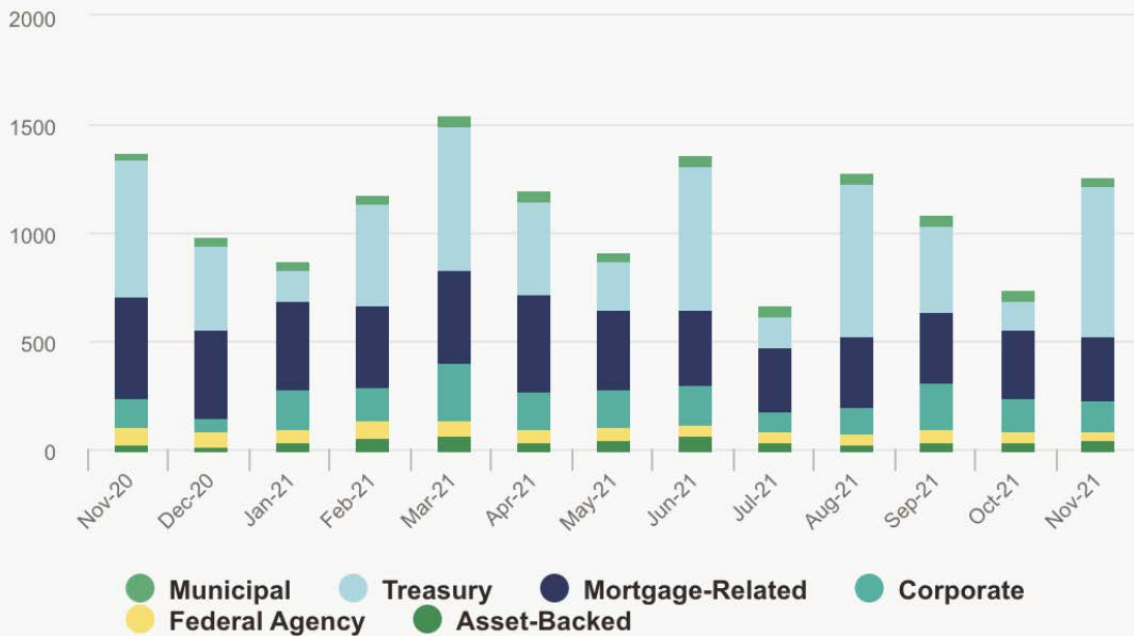
SIFMA Research tracks U.S. fixed income markets, including issuance, trading, and outstanding data breaking out U.S. Treasuries, mortgage-backed securities (MBS), corporate bonds, municipal securities, federal agency securities, asset-backed securities (ABS), and money markets (outstanding data only). Data is downloadable by monthly (issuance and trading only), quarterly and annual statistics including trend analysis.

Current YTD statistics include:

- Issuance (as of November) \$12,072.8 billion, +7.5% Y/Y
- Trading (as of November) \$966.3 billion, +0.1% Y/Y
- Outstanding (as of 3Q21) \$51.8 trillion, +5.3% Y/Y

US Fixed Income Securities Issuance (\$B)

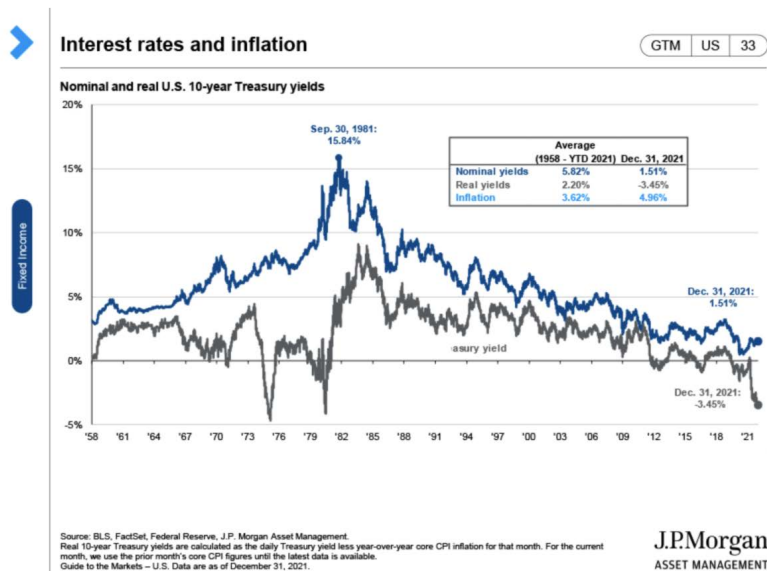
Source: Bloomberg, Dealogic, Refinitiv, US Agencies, US Treasury, SIFMA estimates
 Note: Hover values listed in order of legend labels.



Source: SIFMA

The chart above is the latest I could find which shows how much Debt these crazy fools have been racking up. Last year, Interest Rates have fallen since the 80's.....

[When interest rates go down, the price of bonds increases, and bonds have rallied since the 80's. Over 40 years! And now, the FED, wants to raise rates because inflation is crazy.](#)



[Looking at treasuries for 2021, they all lost money \(Except the TIPS bond which is not sustainable\). 2, 5, 10 and 30 year bonds all lost money. And the further out you go, the more you lose.](#)



Fixed income market dynamics

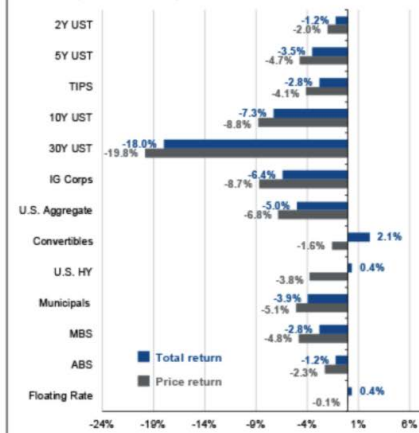
GTM US 34

Fixed Income

U.S. Treasuries	Yield		Return			
	12/31/2021	12/31/2020	2021 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	0.73%	0.13%	-0.57%	2 years	0.67	-0.41
5-Year	1.26%	0.36%	-2.80%	5	0.92	-0.36
TIPS	-1.04%	-1.06%	5.96%	10	0.57	0.20
10-Year	1.52%	0.93%	-3.60%	10	1.00	-0.33
30-Year	1.90%	1.05%	-4.62%	30	0.93	-0.31
Sector						
IG Corps	2.33%	1.74%	-1.04%	12.3	0.42	0.38
U.S. Aggregate	1.75%	1.12%	-1.54%	8.7	0.85	0.02
Convertibles	3.66%	4.01%	4.40%	-	-0.29	0.87
U.S. HY	4.21%	4.18%	5.28%	6.5	-0.25	0.72
Municipals	1.11%	1.07%	1.52%	13.1	0.37	0.09
MBS	1.98%	1.25%	-1.04%	6.1	0.81	-0.16
ABS	1.96%	2.87%	1.11%	2.4	-0.04	0.10
Floating Rate	0.48%	0.54%	0.52%	2.0	-0.22	0.44

Impact of a 1% rise in interest rates

Assumes a parallel shift in the yield curve



Source: Bloomberg, FactSet, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management. Sectors shown above are provided by Bloomberg unless otherwise noted and are represented by - U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; ABS: J.P. Morgan ABS Index; Corporates: U.S. Corporates; Municipals: Muni Bond; High Yield: Corporate High Yield; TIPS: Treasury Inflation-Protected Securities (TIPS); U.S. Floating rate index; Convertibles: U.S. Convertibles Composite. Convertibles yield is as of November 2021 due to data availability. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield-to-worst. Convertibles yield is based on U.S. portion of Bloomberg Global Convertibles. Correlations are based on 15-years of monthly returns for all sectors. Past performance is not indicative of future results. Guide to the Markets - U.S. Data as of December 31, 2021.

J.P.Morgan
ASSET MANAGEMENT

The chart on the right shows the impact of a 1% rise in interest rates. A 1% rise in rates will push the 30 year bond down 18%. So a retail client with \$1million in the 30 year bond, would lose \$180k, every time rates go up 1 pct. Rates go up 5% and the 30 year bond is almost worthless.

So how many treasuries does the FED own?

[The Taper, is when the FED stops buying these Treasuries.](#)



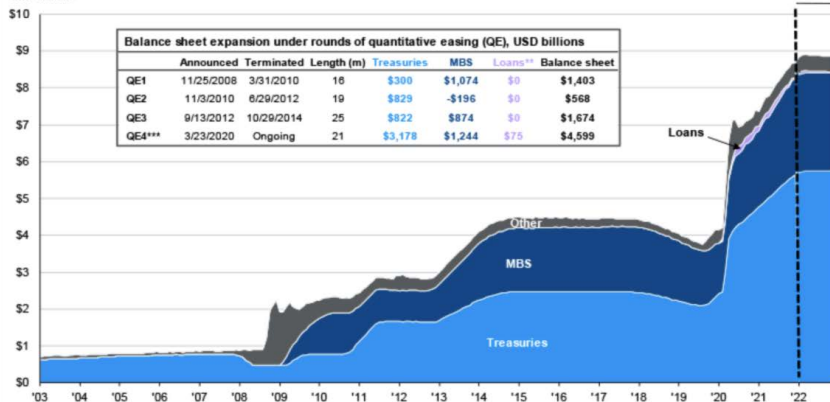
The Federal Reserve balance sheet

GTM US 32

Fixed Income

The Federal Reserve balance sheet

USD trillions



Source: FactSet, Federal Reserve, J.P. Morgan Investment Bank, J.P. Morgan Asset Management. Currently, the balance sheet contains \$5.7tn in Treasuries and \$2.6tn in MBS. *The end balance sheet forecast assumes the Federal Reserve reduces the pace of purchases of Treasuries and MBS by \$30bn per month, beginning January through mid-March, as suggested in the December 2021 FOMC meeting. **Loans include liquidity and credit extended through corporate credit facilities established in March 2020. Other includes primary, secondary and seasonal loans, repurchase agreements, foreign currency reserves and maiden lane securities. ***QE4 is ongoing and the expansion figures are as of the most recent Wednesday close as reported by the Federal Reserve. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated. Guide to the Markets - U.S. Data as of December 31, 2021.

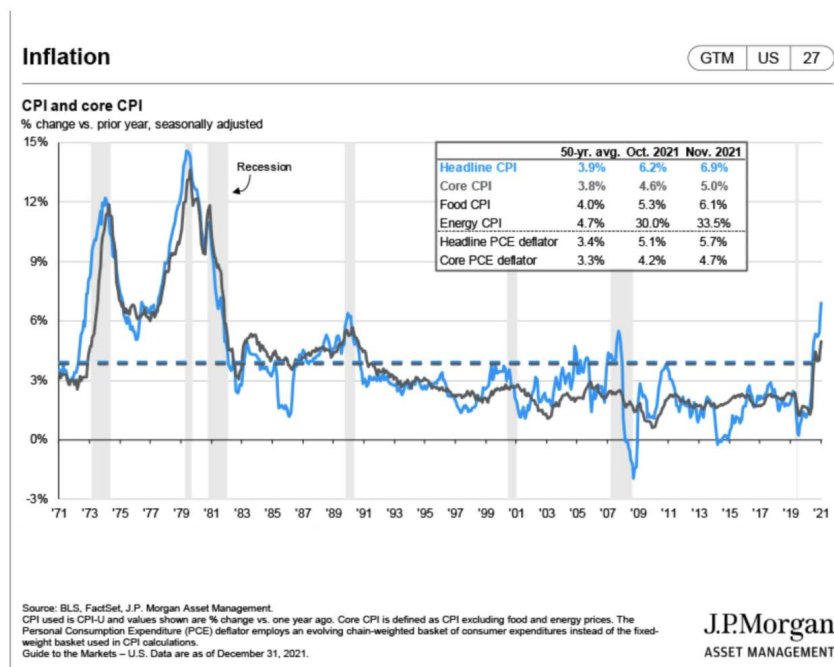
J.P.Morgan
ASSET MANAGEMENT

The FED owns \$5.5 Trillion of these Treasuries that pay a whopping 1.85 percent.

According to the interest rate changes published by J.P Morgan Guide to the Markets, the FED stands to lose probably more than anyone... When these rates rise, the FED is going to get whacked. In addition, who is going to buy these bonds?

(If anyone knows how, a fun analysis would be to break down the maturities of the treasuries that the FED owns, and actually map out losses of their pf against a 1, 2 and 3% rise in rates.

[Inflation was reported at 6.9% \(Nice\) in November of 2021.](#)



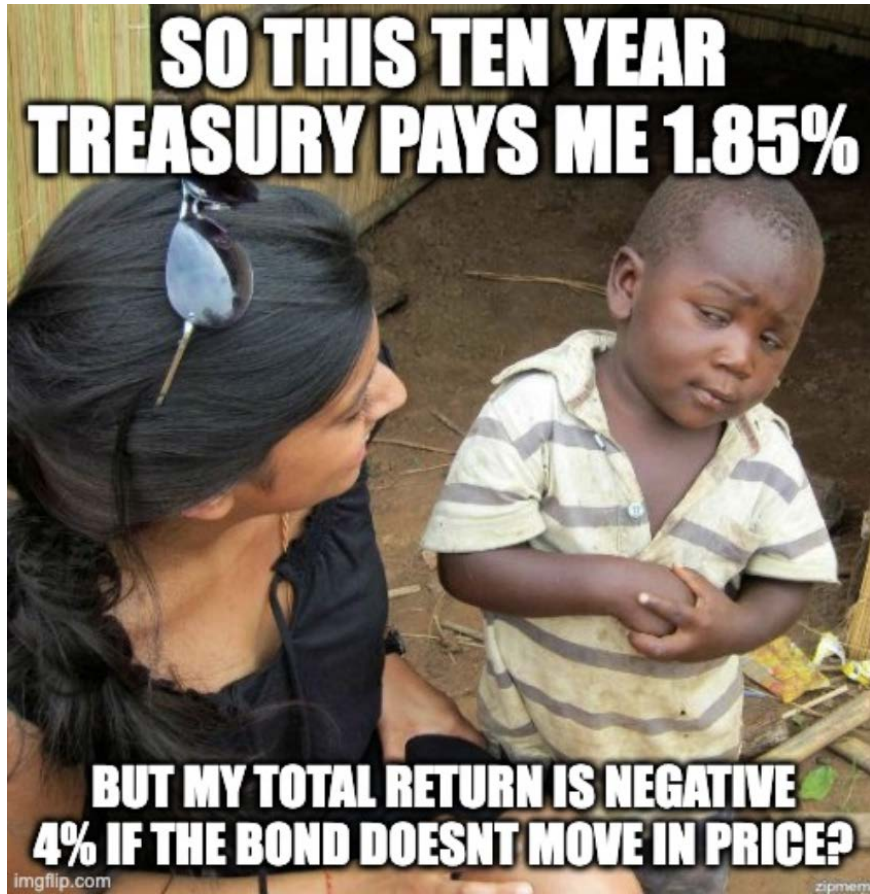
[Nice...](#)



Why do I want to tie my money up with the U.S Government for ten years, to lose 4% to inflation, and that's with no rate hikes. (Some people will say its Transitory, I say it's here and real)

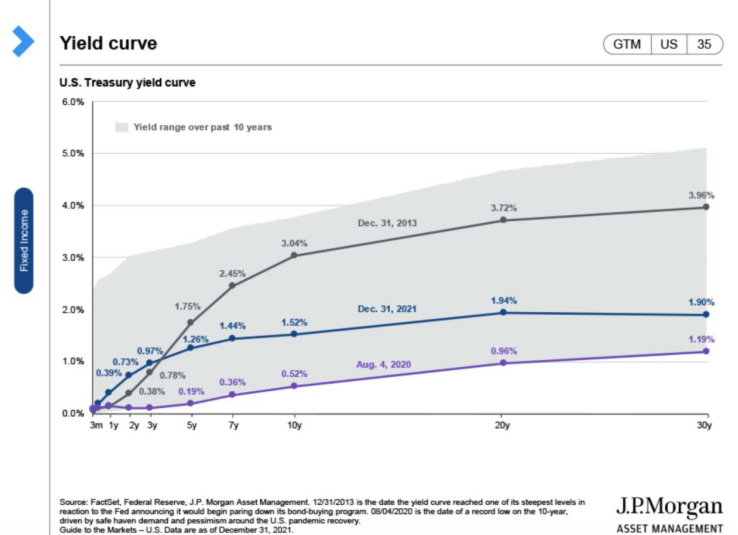
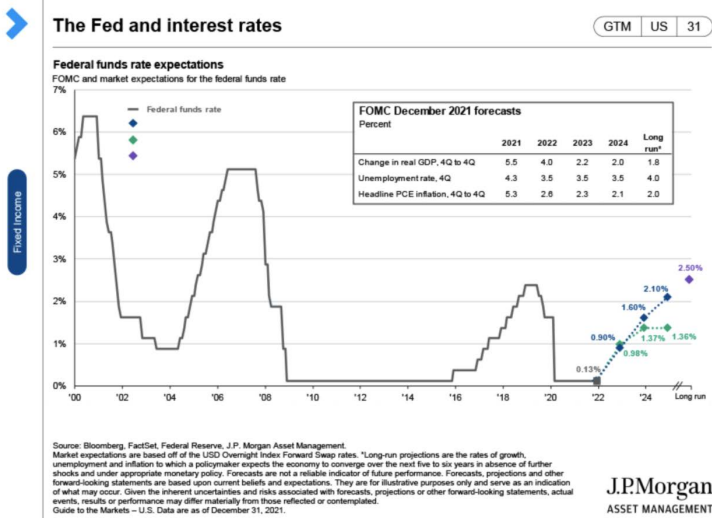
This was a quick overview of Treasuries. The only way the FED can print more money is to keep buying these Treasuries and Agency Securities (Even the FED doesn't want to hold this garbage).

[Sounds like a good deal...](#)



[RATE HIKES ARE COMING!](#)

[Flat Yield Curve... \(thats a juxtaposition if I ever saw one\)](#)



The **YIELD CURVE** shows how interest rates and maturities correlate. The purple line is 2020, as you can see rates have dropped since 2013 and the curve is more flat - You make 1.19% if you hold the 30 year bond, .96% on the ten year bond, and so on. Is it really worth holding these 30 year bonds for a 2% coupon payment, and fluctuations of 18% every time rates move 1 percent. MOST people would rather be on the "short" (closer maturities) part of the curve - Now do you guys see why Burry is Short U.S Treasuries...

And now, the SEC wants to sue Coinbase for offering a solid liveable interest payment on a product. No Bullshit... <https://www.nytimes.com/2021/09/08/business/coinbase-sec.html#:~:text=Coinbase%2C%20the%20largest%20cryptocurrency%20exchange,interest%20on%20digital%20asset%20deposits.&text=1%20that%20its%20Lend%20product%20could%20violate%20securities%20laws>.

The FIXED income markets are dead after years of lower rates. Inflation is hundreds of basis points higher than any safe fixed income investment out there. The DTCC, the FED and the Street does not want you to know this.

1. What does this have to do with GME and my computerstonky donk?

The Major Major Issue in the bond market is the illiquidity of the ETF's. I think this is one of the most dangerous parts of the market that is being overlooked by the Financial Institutions. The truth is, there are no more reasonable income plays currently (I'm not talking about Crypto).

MARKET INSIGHTS

U.S. bond ETFs hit \$1 trillion AUM in October 2020

<https://www.ishares.com/us/insights/etf-trends/us-bond-etfs-1-trillion#:~:text=Now%20with%20a%20U.S.%20marketplace.potential%20benefits%20to%20many%20investors.>

MARKET INSIGHTS

U.S. bond ETFs hit \$1 trillion AUM in October 2020

Why am I pointing out ETF's?

When buying Fixed Income, I would always advise a Mutual Fund over an ETF. The reason, the Mutual Fund has a team of analysts and traders. The Mutual Fund has a portfolio manager. If the mutual fund is redeemed the Fund Manager can go to the fund and sell the bonds they like. They can pick and choose and take the best bid available. The difference between and ETF is that its a computer buying and selling a blanket index when the fund is bought and sold.

Remember, ETF's are open end funds - so the ETF provider has to buy/sell the bonds in the ETF everytime an ETF is purchased.

The "AGG" is one of the biggest broad market bond ETF's and its total value is over

\$90Billion.

<https://www.ishares.com/us/products/239458/ishares-core-total-us-bond-market-etf>

Key Facts

Net Assets of Fund as of Jan 14, 2022	\$90,401,626,801	Fund Inception	Sep 22, 2003
Exchange	NYSE Arca	Asset Class	Fixed Income
Benchmark Index	Bloomberg US Aggregate Bond Index	Bloomberg Index Ticker	LBSTRUU
Shares Outstanding as of Jan 14, 2022	806,000,000	Distribution Frequency ⓘ	Monthly
Premium/Discount ⓘ as of Jan 14, 2022	0.01%	CUSIP	464287226
Closing Price as of Jan 14, 2022	112.17	30 Day Avg. Volume ⓘ as of Jan 14, 2022	7,607,971.00
30 Day Median Bid/Ask Spread ⓘ as of Jan 14, 2022	0.01%	Daily Volume ⓘ as of Jan 14, 2022	9,113,399.00

NAIC Designated (Schedule D Eligible)

If the FIXED INCOME markets start to decline, if people really do shy away from the negative total returns in bonds... These bonds along with the treasuries will be dumped in the market.

With a computer doing the buying and selling, it could be a catastrophic liquidity event if the FIXED INCOME markets went thru a major sell off. This FUND ABOVE, the "AGG", has no discrimination -Remember in part 1, Bonds need a buyer and a seller - **My Fear is that there are no buyers for most of the debt out there.** Once people wake up and start liquidating their Bond ETF's the computer will sell the bond to the high bidder... they have to, to return money to the investor.

So if your ETF owned Evergrande, you would be forced out at 11.5 cents on the dollar for a 89.5 cents loss from Par (face value).

If the computer is forced to dump these bonds, they could trade very low, and that will affect margin in the same way the stocks do. While the Stonks are a major focus, the Fixed Income Markets pose real liquidity issues that the Street has no answer for.

My Final Thoughts...

Fixed Income Investments are practically worthless. With Yields so low, and Inflation so high, these investments are not practical and will pose major liquidity issues to the bond and equity markets once the selling really begins.

SOURCE FOR CHARTS - https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/?gclid=Cj0KCQiAip-PBhDVARIsAPP2xc1IQL1mKLma-nW3fvN-COQRsU8YXOU3pMHyL4mo4ZK70alydanRH4aAkpjEALw_wcB&gclsrc=aw.ds

