CAPACITARTE

SUPPLEMENTARY MATERIAL

London Remains Top Financial Center in Survey Despite Brexit[1]

by Gavin Finch

March 27, 2017, 8:18 AM GMT-3

- New York holds second spot in Z/Yen Group's global city index.
- Both cities' overall scores hit by uncertainty following votes

London has retained the mantle as the world's top financial center, though uncertainty about the implications of Britain's vote to leave the European Union saw its lead over Asian rivals narrow, according to a study.

New York held on to second place in the Z/Yen Group Ltd.'s latest Global Financial Centres Index, though its overall rating was hit by concern following the U.S. election of Donald Trump. London and New York fell 13 and 14 points respectively, the largest declines in the top 50 financial centers other than Calgary. Singapore and Hong Kong, the two leading Asian centers, narrowed the gap between themselves and the top two to about 25 points on a scale of 1,000, the index showed.

"We live in uncertain times and financial professionals hate uncertainty," Mark Yeandle, associate director of Z/Yen and author of the GFCI, said in the study Monday. "Brexit has caused uncertainty in Europe and the election of Donald Trump has caused uncertainty globally."

[1] **Extracted from:** https://www.bloomberg.com/news/articles/2017-03-27/london-remains-top-financial-center-in-survey-despite-brexit

Britain’s role as the world’s pre-eminent banking hub is at risk if the U.K.’s separation from the EU costs banks their ability to easily serve clients across the region. U.S. banks currently sell their goods and services throughout the bloc from bases in London, but the so-called passporting rights enabling that are unlikely to be extended after Brexit.

Frankfurt and Dublin -- emerging as the top two destinations for bankers looking to establish new trading hubs inside the EU -- ranked 23rd and 33rd respectively, both down on previous years. Paris came in 29th, the index by the London-based consulting firm showed.

The index, which is updated every six months and is in its 21st edition, was compiled from an online survey of more than 3,000 financial professionals. It also uses external gauges in areas including the business environment, financial industry development, infrastructure, human capital and reputation.

Nasdaq

PREVIEW-Hopes fade for U.S. bank earnings despite rally in financial shares[2]

April 10, 2017, 07:00:00 AM EDT By Reuters

By Olivia Oran, Sinead Carew and Chuck Mikolajczak.

April 10 (Reuters) –

Big U.S. lenders are expected to report another round of uninspiring quarterly results this week, which analysts said could dampen a "Trump rally" in bank stocks fueled by expectations the new president would lighten financial regulation and boost the economy.

Of particular concern is a recent slowdown in loan growth, driven partly by an uptick in interest rates that dissuaded consumers and companies from refinancing loans.

[2] **Extracted from:** http://www.nasdaq.com/article/previewhopes-fade-for-us-bank-earnings-despite-rally-in-financial-shares-20170410-00285#ixzz4eQkeE7eN

In February, outstanding loans across the U.S. banking industry declined for the first time in more than three years, according to Federal Reserve data. Loans fell slightly for the first quarter overall.

Analysts and investors said the lending slowdown came as a surprise, and appeared related not only to declines in mortgage refinancing and corporate borrowing but also to uncertainty about U.S. policy and economic growth.

"The loan metric doesn't fit with the optimistic tone we've seen from the banks," said Patrick Kaser, a portfolio manager at Brandywine Global in Philadelphia who invests in bank stocks.

The Fed lifted its benchmark interest rate by 25 basis points in March, marking the second such hike in three months. But the recent climb in short-term rates has been accompanied by a drop in longer-term rates, bringing the two closer together. When yields flatten in that manner, it is not helpful to bank earnings either.

The season kicks off on Thursday, when three of the country's biggest lenders, JPMorgan Chase & Co <JPM.N>, Citigroup Inc <C.N> and Wells Fargo & Co <WFC.N>, report first-quarter results. Rivals Bank of America Corp <BAC.N>, Goldman Sachs Group Inc <GS.N> and Morgan Stanley <MS.N> report the following week.

On average, analysts expect the six biggest U.S. banks to see a net income increase of 4.7 percent compared to the prior year, according to Reuters data.

While that may sound like a big gain, the year-ago quarter was an awful one for the banking sector, which saw capital markets activity and loan growth dry up amid mounting macroeconomic concerns. [L2N17B1TV]

Several analysts lowered earnings estimates last week, citing loan weakness as well as sharp declines in revenue from stock trading, where commissions have come under pressure from a new regulation in Europe and broader troubles for active asset managers. [nL2N1H11LV]

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Fewer deals in the first quarter also imply lower revenue from M&A banking. Altogether, the weak points are expected to outweigh small gains anticipated in businesses like fixed-income
trading and wealth management.

Evercore ISI bank analyst Glenn Schorr described the quarter as "OK" but "definitely not the gangbusters quarter everybody was hoping for."

Big banks have been struggling to earn decent returns on shareholder equity for some time. In recent years, they have been spending billions of dollars to settle legal claims and comply with new regulations and capital requirements. They have also launched massive cost-cutting programs and revenue-boosting initiatives.

When November's U.S. election installed Donald Trump in the White House and business-friendly leadership in Congress, investors tended to think tough regulations would be eased and the economy would strengthen.

Bank stocks were the biggest beneficiary of the so-called Trump rally, with the KBW Nasdaq Bank Index rising 32 percent from Nov. 7 to a peak on March 1. Banks were also the biggest contributors to gains in major blue chip indexes.

But since then bank stocks have lost some of their shine, falling 6 percent in the last month even as the broader market remained mostly flat. With the U.S. Congress unable to pass laws on issues more pressing than financial deregulation, analysts said uncertainty around U.S. polices including trade, taxes and spending may weigh on the economy in the near term.

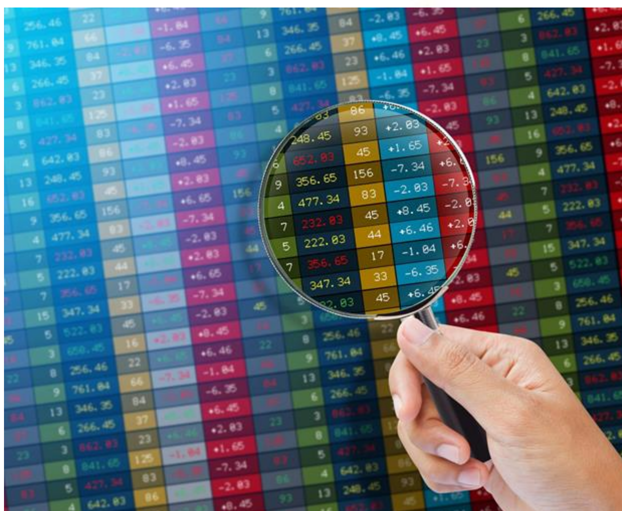
"Expectations were high coming into the year and while 1Q is by no means a bad quarter, revenues are probably less strong than market moves would have implied," said Macquarie analyst David Konrad.

INVESTMENT U
The Educational Arm of The Oxford Club

An Introduction to the Money Market Instruments Inside Your Account[3]

by Investment U Research Team

Monday, April 3, 2017 **Investment Wisdom**



Here at *Investment U*, we mainly cover stocks, bonds, options and other capital securities. To be sure, these are important. They allow investors to grow their wealth, and help companies raise funds. But capital instruments only make up half of our financial markets. The other half is made of poorly-understood securities like commercial paper, short-term loans and CD's. They're called *money market instruments*, and our economy couldn't function without them.

The money market is a highly technical and sometimes shadowy part of our financial system. In the simplest terms, it facilitates short-term borrowing and lending. These activities are essential to our way of life. A simple bank account couldn't exist without them.

Yet the public is much less informed about money market instruments than capital market instruments. Let's learn more about the obscure short-term markets that make capitalism as we know it possible.

[3] **Extracted from:** http://www.investmentu.com/article/detail/54142/money-market-instruments-inside-your-account#.WPOqVNLyvIU

What Are Money Markets?

Our economy runs on debt. Companies, governments and institutions constantly run into situations where they need more money than they currently have on hand.

Sometimes, market participants meet these financial obligations through long-term borrowing. To do this, they issue conventional bonds. But if you could only borrow money by setting up a multi-year payment plan, the economy would move a lot slower than it actually does. Sometimes, your company just needs to borrow a bit of cash until next month. Or tomorrow.

That's where money market instruments come in. They're short-term debt securities which mature in less than a year. And they're sold over-the-counter, hence their relative obscurity.

Most investors only interact with these instruments through money market funds and accounts. They're retail investment products which leverage the money market to earn a fixed interest rate. But in truth, the money market is much vaster.

An ordinary savings account earns interest because it's tied into the money market. Banks are always lending each other money with short-term securities called promissory notes. They use these loans to cover day-to-day expenses like payroll. And they pay them back with a small but fixed amount of interest. It's called the overnight rate, and it's set by the central bank.

That's why this system is called the money market. It's where your bank deposits live.

Investing in Money Market Instruments

Given the fixed returns and short turnaround on money market instruments, you might be tempted to buy them yourself. Unfortunately, it's not so easy to do that.

Money markets are designed for lending between banks, governments, and other large institutions. They trade extremely high-denomination securities which aren't accessible to most individual investors. And since they trade on informal OTC exchanges, most brokers aren't equipped to deal in them.

One exception to the inaccessibility of money market instruments is treasury bills. "T-bills" are short-term U.S. government debt notes. They range in value between $1000 and $5 million. You can buy them directly from the government through auction sites like **TreasuryDirect**.

As we mentioned earlier, you can also access money markets indirectly through special **mutual funds** and **accounts**. These give you a piece of the fast-paced action. But like other broad-market funds, they tend to earn a smaller return than specific securities.

It's understandable why the public is so uninformed about money market instruments. They're complicated little pieces of paper which reside within our banking system. They represent astronomical amounts of money. Yet they pop in and out of existence without most people noticing.

Yet without the money market, banks would collapse. Governments would default. And big companies would constantly be going under. Our economy would grind to a halt. We hope this article has helped you learn something about this essential part of our financial system. Whether or not you're aware of it, you use it every day.

INVESTOPEDIA

What is a 'busted' convertible bond?[4]

By Andriy Blokhin | July 28, 2015 — 1:10 PM EDT

In finance, a convertible bond represents a hybrid security that offers debt and equity features and risks. While a convertible bond can limit the interest rate risk, it usually exposes investors to an increased credit risk when compared to regular fixed-income securities. Also, convertible bonds can be used to reduce the downside market risk at the expense of typically lower liquidity than for equities. The value of a convertible bond fluctuates depending on the creditworthiness of the company and the value of the underlying stock. The busted convertible bond refers to a situation when the underlying stock trades significantly below the conversion price and the bond acts more like a debt than equity.

Convertible Bonds

A convertible bond allows investors to convert the bond into equity under specific conditions. Typically, the bond can be converted to a specified number of a company's shares if the current stock price exceeds the conversion price. The conversion premium on a convertible bond refers to the amount by which the conversion price exceeds the market price of the company. A convertible bond is a fixed-income security with an embedded option, and valuing it can be complicated.

Busted Convertible Bond

The price for a convertible bond may not fluctuate at all when the market interest rate changes if the conversion price is significantly lower than the market price. In this scenario, the bond behaves more like an equity. However, if the market price is significantly lower than the conversion price, typically by 50% or more, a convertible bond acts like regular debt. The convertible bond is considered busted, and its yield and price fluctuate mainly with changes in market interest rates and the company's credit quality, since the probability of conversion before maturity is deemed very low.

[4] **Extracted from:** http://www.investopedia.com/ask/answers/072815/what-busted-convertible-bond.asp

OPINION

Apr 13 2017 at 2:05 PM. Updated Apr 13 2017 at 3:11 PM

Bonds more liquid than shares[5]

Since the GFC regulators have constrained bank market-makers' ability to buy and sell paper. **Karl Hilzinger**

by **Christopher Joye**

Last month I had to put $500 million of new money to work in bonds, and was able to do so with almost no transaction or market impact costs.

Yet a criticism I often hear about allocating to "investment-grade" corporate and financial bonds is the claimed lack of "liquidity" (or inability to buy and sell securities in secondary markets). It turns out this is a total myth.

Let's start by considering the relative size of Australian fixed income compared to a better known asset class like Aussie shares. According to the ASX, the total value of listed companies is $1.8 trillion.

[5] **Extracted from:** http://www.afr.com/markets/market-data/bonds/bonds-more-liquid-than-shares-20170410-gvi7al#ixzz4eR31TVJn

The Australian bond market is a similar size, although you would never know it if you looked at asset allocations within super funds, which massively favour leveraged local equities over safer debt.

The value of investment-grade Australian debt securities (in all currencies), which means bonds with ratings ranging from BBB to AAA, is about $1.5 trillion, which rises to over $1.6 trillion if you include unrated and sub-investment grade bonds, and hybrids.

If you then add in "direct loans" and corporate debt held on bank balance sheets, you would find that the Aussie fixed-income sector is, in fact, larger than listed equities.

Roughly $1.3 trillion of the $1.6 trillion of Aussie bonds are issued domestically. The non-government bond or "credit" market, encompassing financial and corporate bonds, is worth about $844 billion of which close to $600 billion is issued in Aussie dollars (including investment-grade hybrids).

Primary liquidity in the bond market, or the annual value of new issues, is multiples the size of equivalent ASX IPOs. Whereas shares are perpetual, bonds have hard maturities that need to be regularly refinanced irrespective of conditions. On average, there are around $20 billion to $30 billion of new IPOs on the ASX each year. By contrast, the annual value of domestic bond issuance is $140 billion.

So what about secondary trading? The ASX says that cash market trading was worth $1 trillion in the 2016 financial year. This means that the Aussie sharemarket's turnover ratio is about 57 per cent.

In a 2016 speech the Reserve Bank of Australia's Guy Debelle published the secondary turnover ratios for different sectors of the bond market over time. This was based on all data available from Austraclear, which accounts for Aussie dollar bonds only. Debelle also excluded all primary issues.

Across government bonds, the secondary turnover ratio is 250 per cent to 300 per cent, which translates into $1.8 trillion each year. Within corporate debt markets, the turnover ratio is similar to equities at about 50 per cent.

That means secondary volumes in Aussie credit amount to $250 billion to $300 billion annually (or over $5 billion per week), which increases to more than $400 billion if we add in Aussie credit in foreign currencies. Secondary trading in Aussie fixed income is therefore about 2.2 times the size of domestic equities.

So why the illiquidity myth? First, Aussie fixed-income managers are as a rule very passive, hold-to-maturity investors that collectively have similar positions. They trade in secondary markets to accommodate inflows, outflows, new primary issues and to rebalance against benchmarks. Liquidity can, as a result, become very "one-sided".
During risk-off events when credit spreads are widening, many are selling and looking for a bid, which can be hard to find. Conversely when credit is rallying and spreads are tightening, most are buying paper and offers can be few and far between. If, on the other hand, you are contrarian through these cycles, liquidity is near limitless: during sell-offs you can buy as much as you want and in the rallies the bid knows no bounds.

Another point of confusion is that the bond market is actually an agglomeration of multiple "dark pools", or silos of liquidity, that can be difficult for non-active investors to access.

Many transactions are intermediated by bank market-makers, and since the global financial crisis regulators have constrained their ability to buy and sell paper.

There has definitely been a deterioration in this "street" or intermediated liquidity despite the fact that primary volumes, and hence supply from issuers and demand from end buyers, is greater than it was before the GFC. Again, these changes provide opportunities for nimble investors that can come to the aid of market-makers that want to augment their inventory-taking ability.

As far as liquidity goes, high-quality credit markets have some big advantages over shares.

Many non-government bonds are eligible for the RBA's liquidity facilities, including senior-ranking securities issued by banks and AAA rated securitisations. This means that the public sector stands ready to buy this paper in all circumstances, which is not a privilege afforded to equities. It is also very easy to execute large, say $25 million to $50 million, parcels in highly rated credit (e.g., the major banks' senior debt) without affecting bid-ask spreads.

In the US an important new source of credit liquidity has been the advent of exchange-traded funds (ETFs). Large investors can now swap their over-the-counter bond portfolios for units in a listed ETF via "in-specie" transfers that provide them with more marketable securities. ETFs in turn open up the opaque OTC domain to mutual funds and retail punters.

An advantage of an ETF over a listed investment company (LIC) is the fact that ETFs trade at their net asset value (NAV) rather than at a discount (or premium) to it. An LIC has a fixed number of shares, which means that if demand exceeds (or is less than) supply, the price can deviate from the underlying asset values.
Another problem with LICs is that they can come with conflicts of interest. Promoters pay brokers enormous commissions of up to 2.6 per cent of the value of the LIC to spruik. Unfortunately, these payments are not captured by the Future of Financial Advice laws that were designed to protect consumers from conflicted remuneration. Given the choice, I prefer low-cost ETFs trading at NAV

INVESTOPEDIA

How is a debenture stock different from a regular debenture?[6]

By Sean Ross | January 12, 2015 — 2:11 AM EST

Private businesses and governments sometimes issue debt securities to raise additional capital. These debt instruments are called debentures whenever they are not secured by any form of collateral. Debentures, which otherwise act much like any other kind of bond, are ostensibly only backed by the faith and credit of the issuing institutions. Debentures should not be confused with debenture stocks, which are an equity security that act much more like a preferred stock than a bond.

Debenture stockholders are entitled to dividend payments at fixed intervals. Like regular debentures, debenture stocks are normally not backed by any collateral; however, a form of protection may be sought through a trust deed that names a trustee to act on behalf of stockholders. The operation of debenture stocks is nearly identical to preferred stocks.

Regular debentures act as loans against the company, which makes the owner of the debenture a creditor with preferred status in case of liquidation. Debenture stocks are an equity security, not a loan. This means debenture stockholders are put in position behind debentures and all other forms of debt for liquidation purposes.

Debentures are perceived to be less safe than other bonds because they lack collateral security, although an exception is made in the case of government debentures such as U.S. Treasury Bills. Debenture stocks are not perceived to be less safe than other equities since they carry the same degree of risk as other types of stock issue. Unlike traditional stocks, debenture stocks provide a more reliable stream of returns.

[6] **Extracted from:** http://www.investopedia.com/ask/answers/011215/how-debenture-stock-different-regular-debenture.asp#ixzz4eR5BeBoq