

# Congress of Physician-Owned MEDICAL PROPERTIES

2022



This copy of the CPOMP 2022 session slides are presented as they were during the conference. Over the next few weeks, annotated versions of the slides will be uploaded that highlight some of the outcomes from each presentation and panel discussion.

# 04

## JP Conklin Unchained

JP Conklin, Founder & President at Pensford and Loan Boss



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# Interest Rate Thoughts

**July 2022**

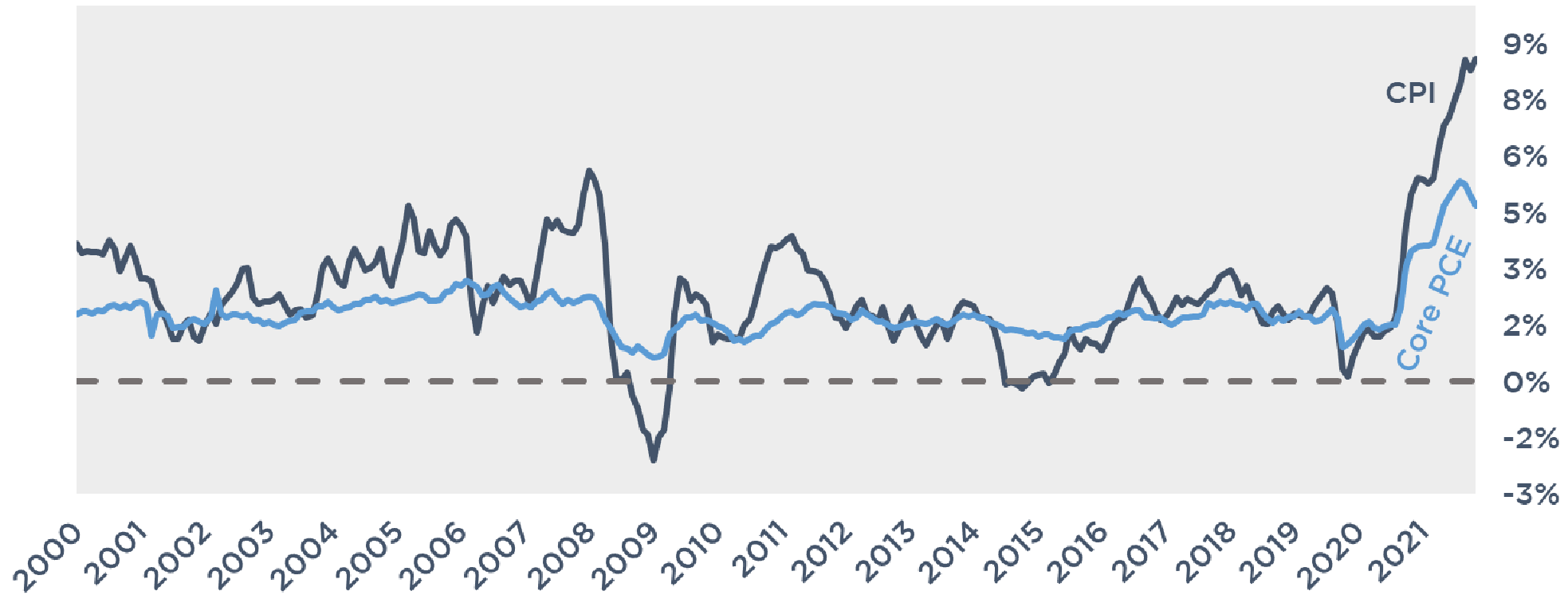
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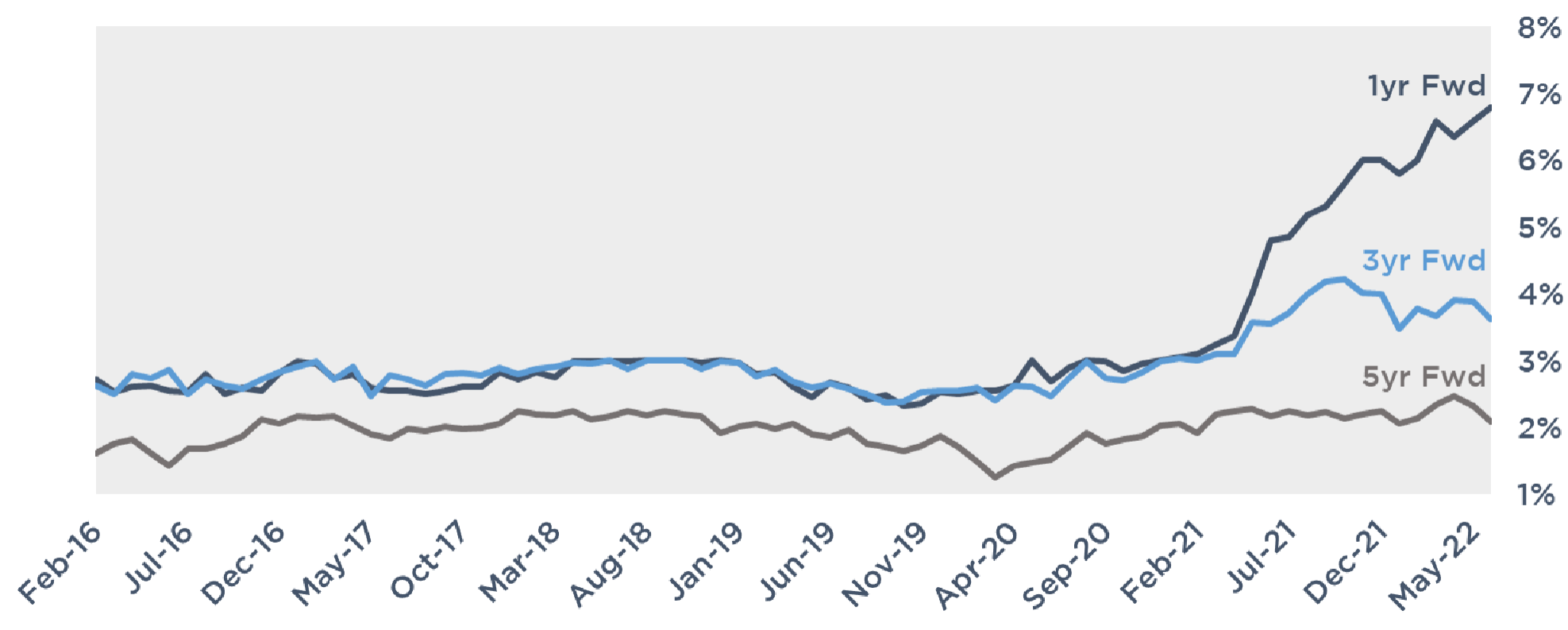
# Inflation - CPI vs. Core PCE

- Headline numbers have been painful but the Fed really cares about Core PCE



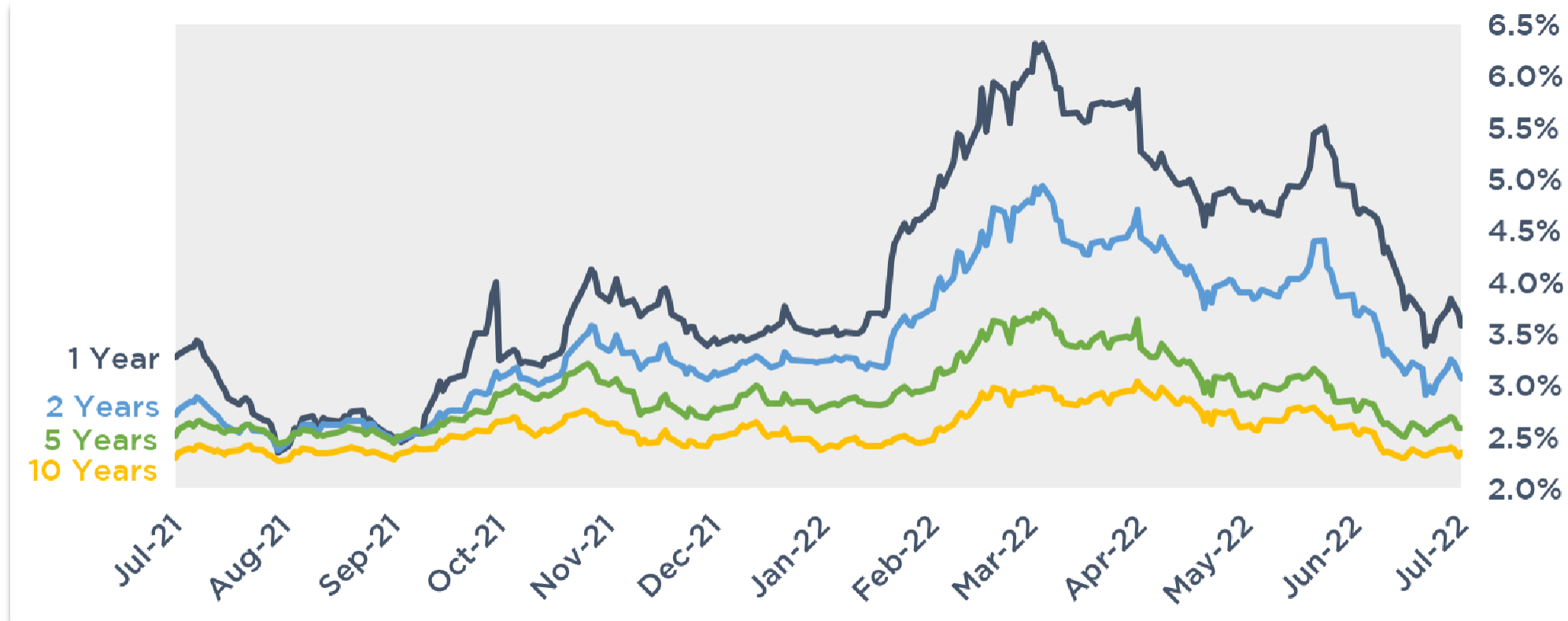
# Inflation Expectations - Survey

- Even with the recent surge, the market believes inflation is a near-term problem



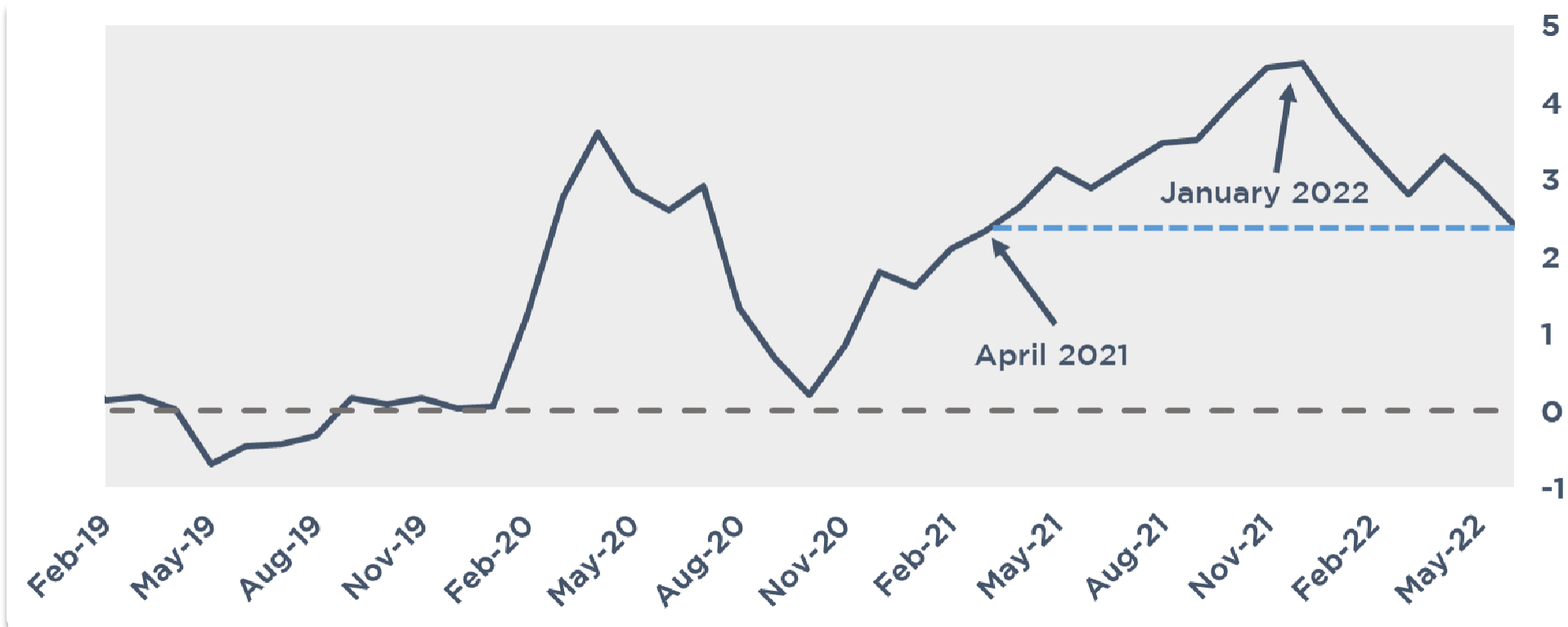
# Inflation Rates - Market

- The market expects inflation to drop faster



# Supply Chain Pressure

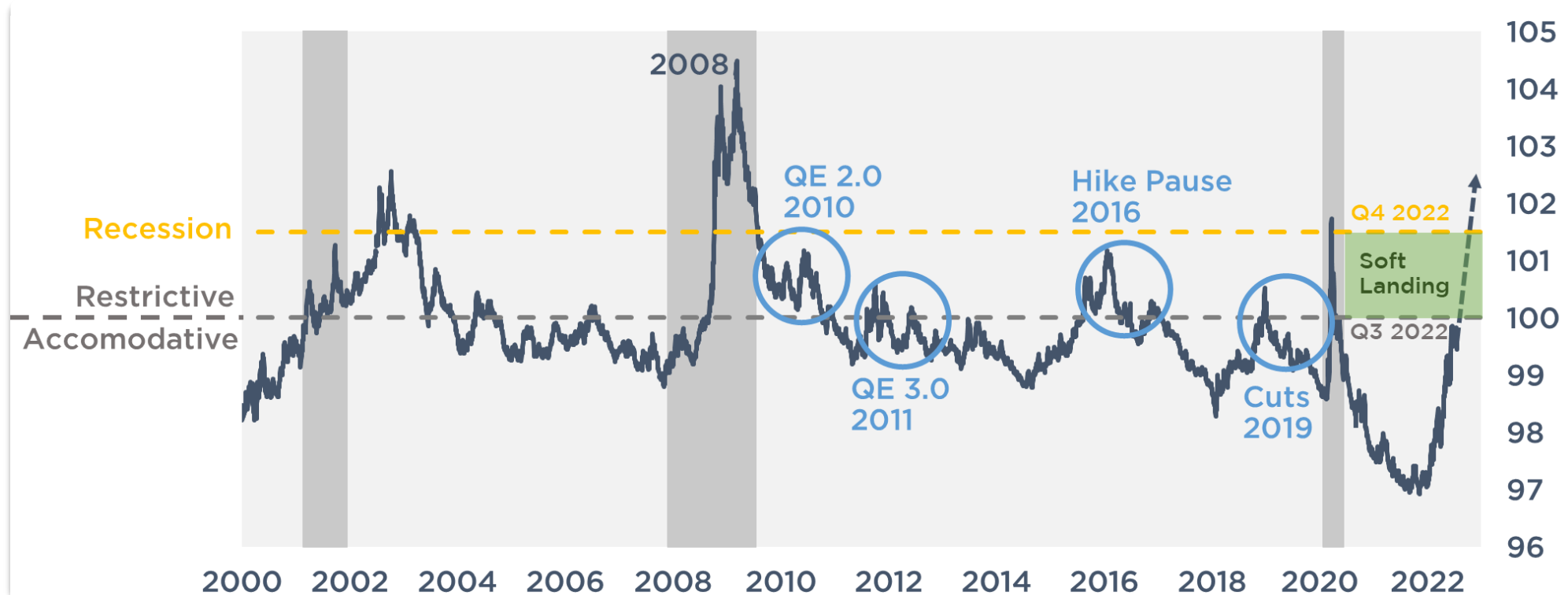
- Supply-side inflation pressure already began easing prior to the first hike





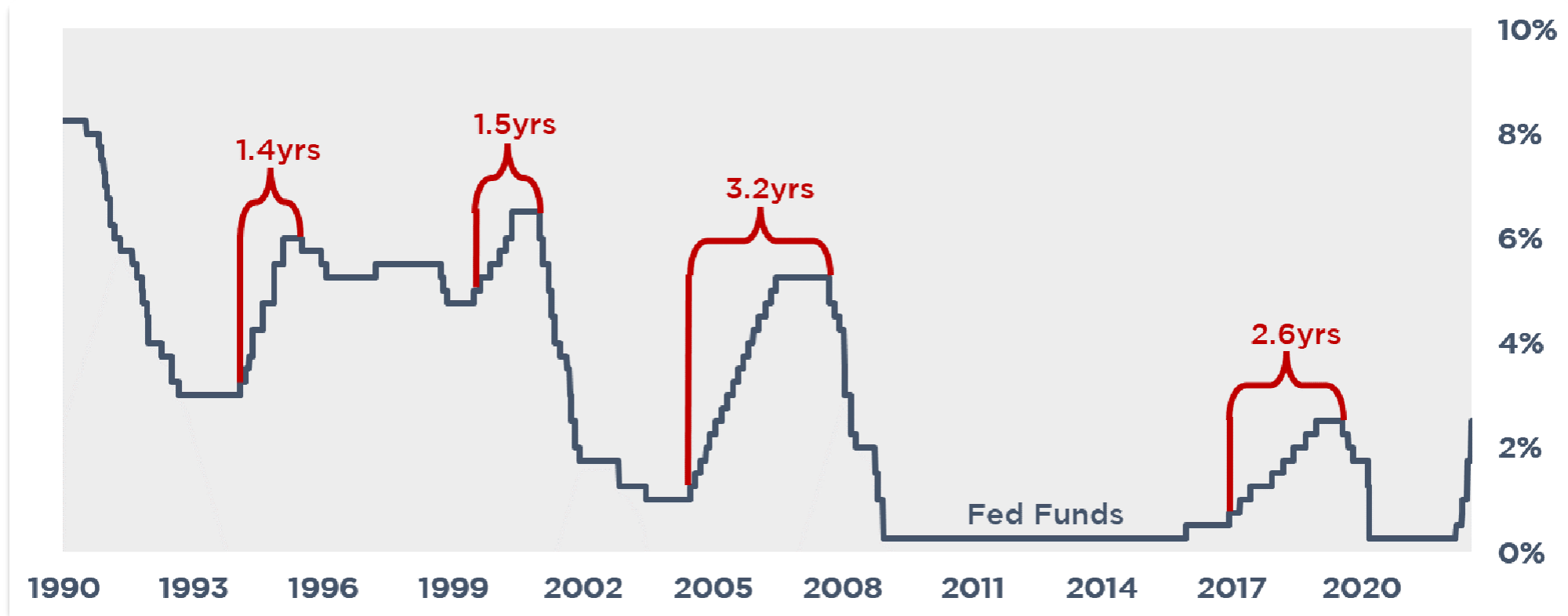
# Financial Conditions

- If conditions continue to tighten at the same pace, we will...
  - Be in restrictive territory in Q3 this year
  - Hit the recession threshold in Q4 this year



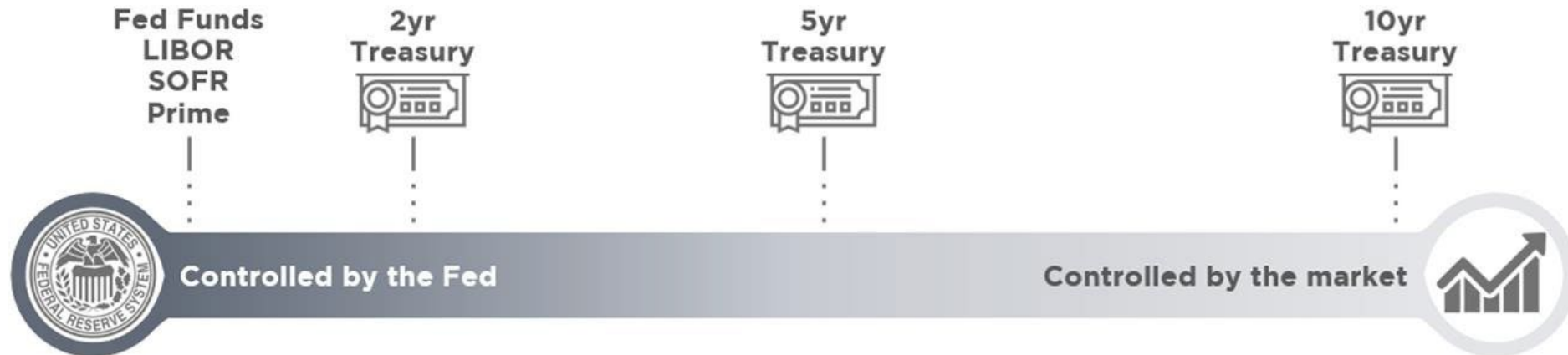
# Time Until Next Cut

- In the last four tightening cycles, the time between the first hike and first cut...
  - Averaged 2.2yrs
  - Never exceeded 3.2yrs



# How Do Rate Hikes Effect the 10 Year Treasury?

- The Fed has direct control over short term rates and rate decisions have a 1 for 1 impact
  - Fed Funds, SOFR, LIBOR, and Prime
  - 2 Year Treasury
- Fed decisions *influence* 10 year rates, but less directly
  - Very simplistically, the 10 Year Treasury represents what the market thinks short term rates will average over the next 10 years
  - 10 year rates move in *anticipation* of Fed rate decisions



# How Do Rate Hikes Effect the 10 Year Treasury?

- For example, heading into Wednesday's FOMC meeting, the Fed was expected to hike 0.75%.
  - On Wednesday morning, the 10 Year Treasury was 2.79%
  - On Thursday morning, the 10 year Treasury was 2.78%
  - The market had already priced in the move well in advance
- When 10 Year rates move after a Fed meeting, it's the result of a *deviation* from expectations
  - Generally, the market knows what the Fed decision will be by the day of the meeting, so the actual decision does not cause huge rate swings
  - Instead, it is the commentary about future decisions that tend to cause movement

Fed Meeting	3/16/2022	5/4/2022	6/15/2022	7/27/2022
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## 10yr Treasury

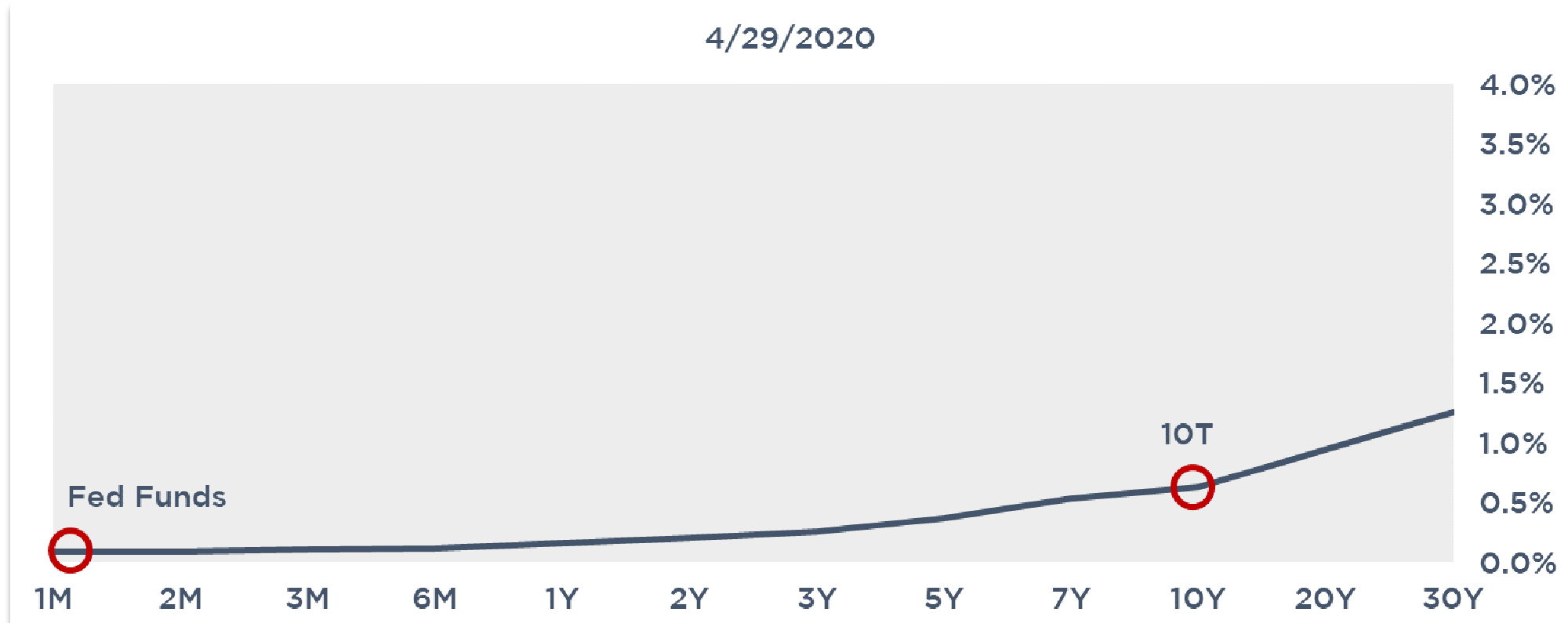
Day Before	2.14%	2.97%	3.47%	2.79%
Day After	2.17%	3.04%	3.20%	2.78%
Change	0.03%	0.07%	-0.28%	-0.01%

## Fed Funds

Day Before	0.25%	0.50%	1.00%	1.75%
Day After	0.50%	1.00%	1.75%	2.50%
Change	0.25%	0.50%	0.75%	0.75%

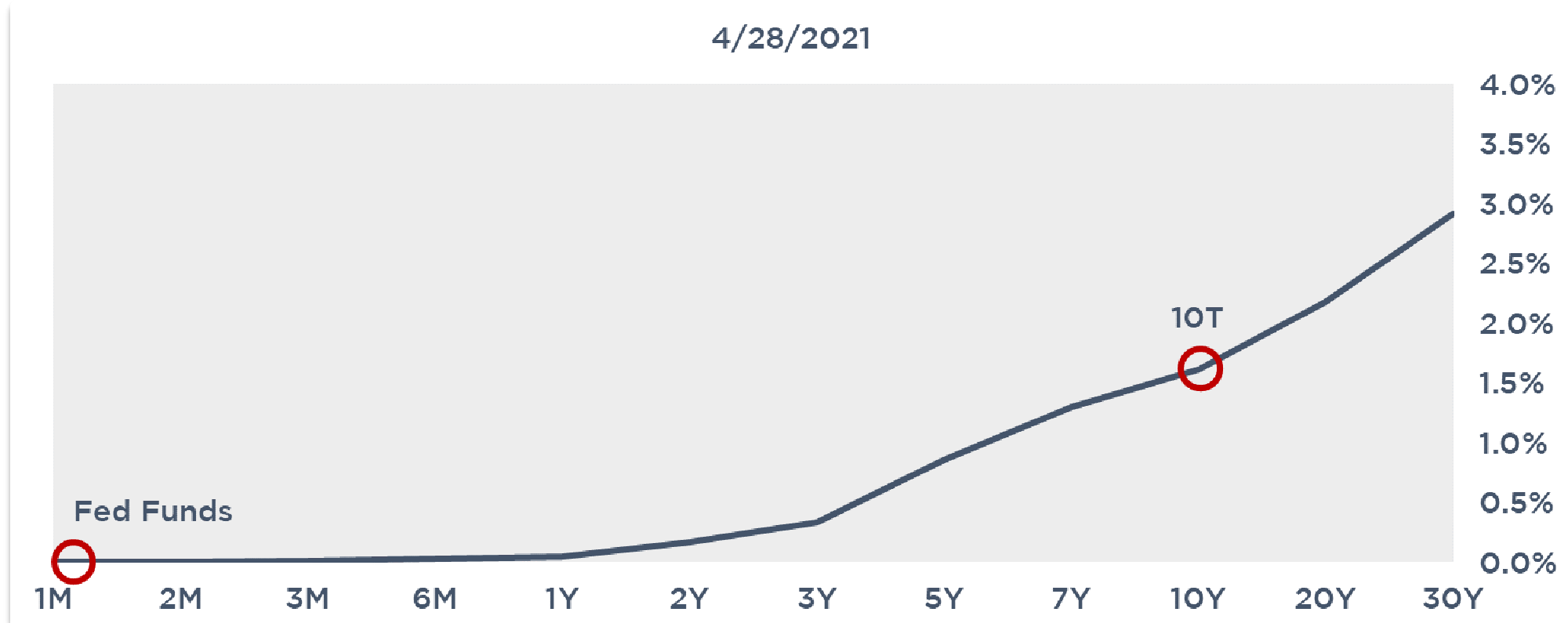
# How Do Rate Hikes Effect the 10 Year Treasury?

- During the thick of Covid, markets had priced in a substantially lower rate environment in the long-term.



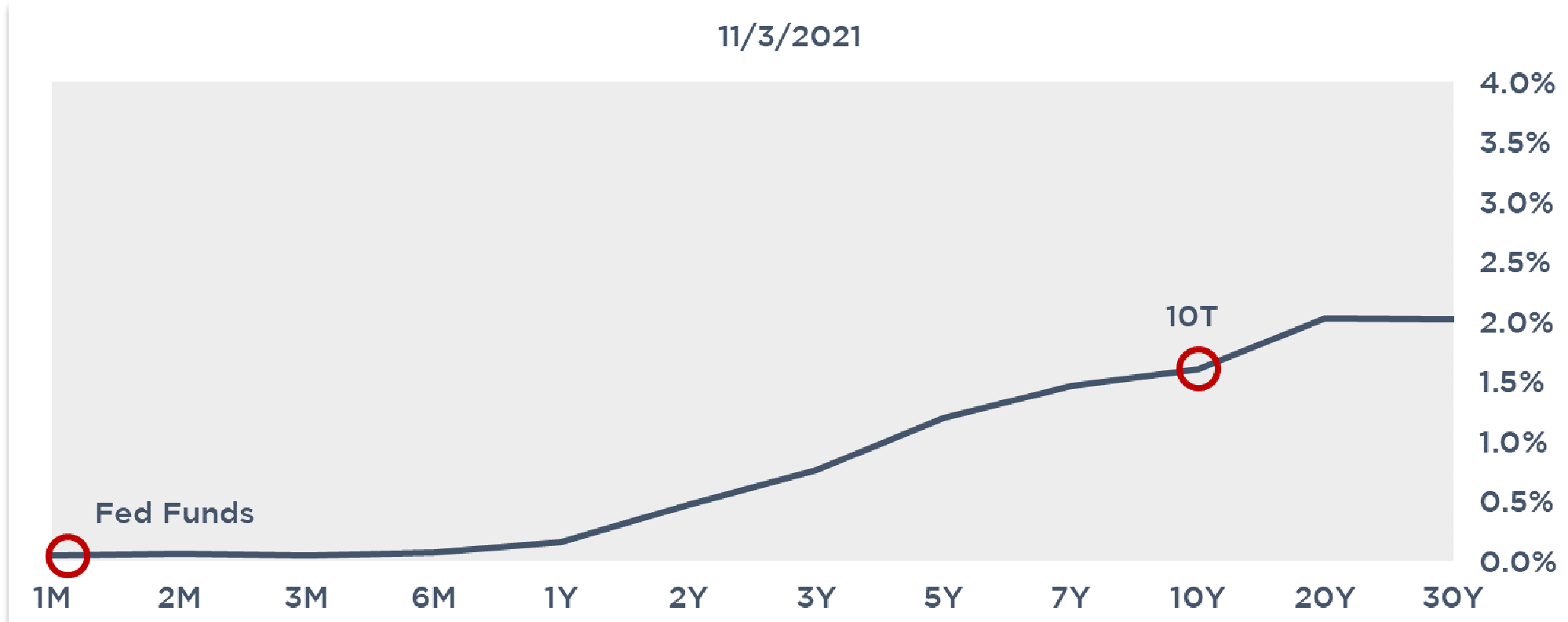
# How Do Rate Hikes Effect the 10 Year Treasury?

- By early 2021, markets had shaken most of those long-term fears



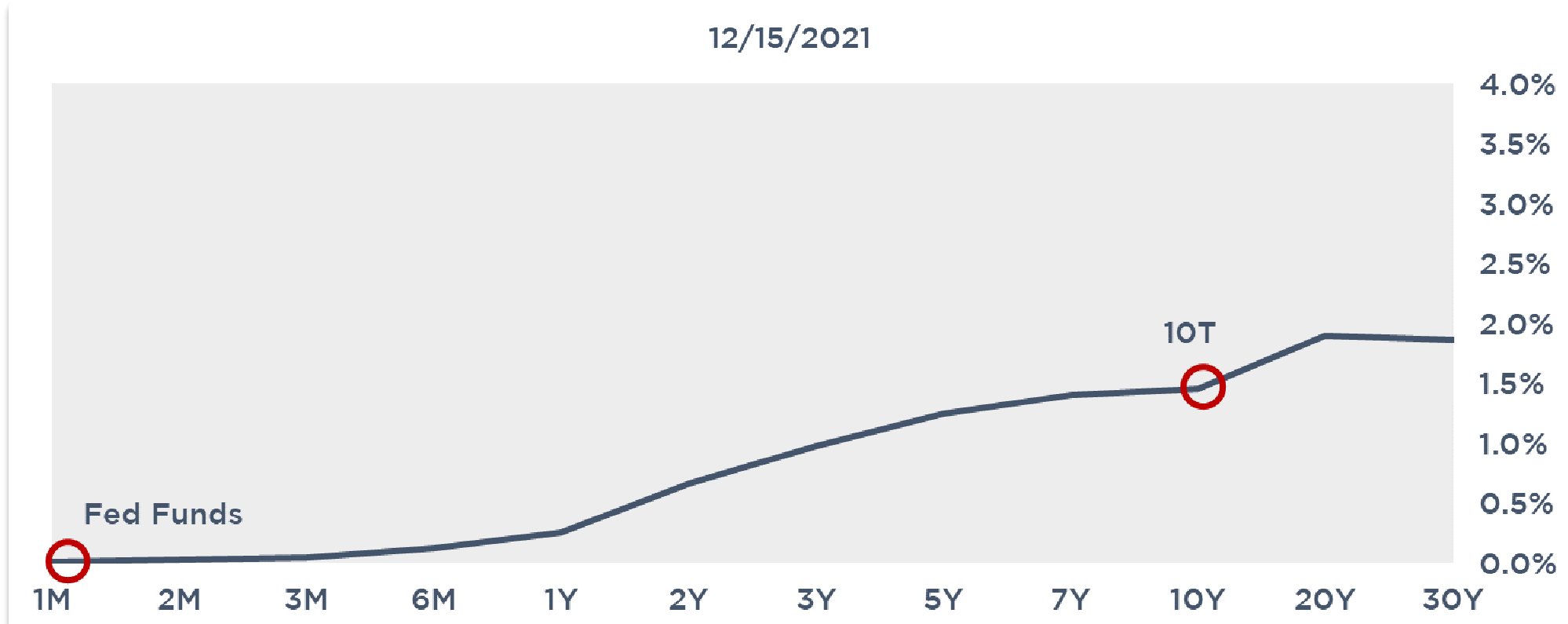
# How Do Rate Hikes Effect the 10 Year Treasury?

- In the fall, the market was still not expecting any hikes anytime soon.



# How Do Rate Hikes Effect the 10 Year Treasury?

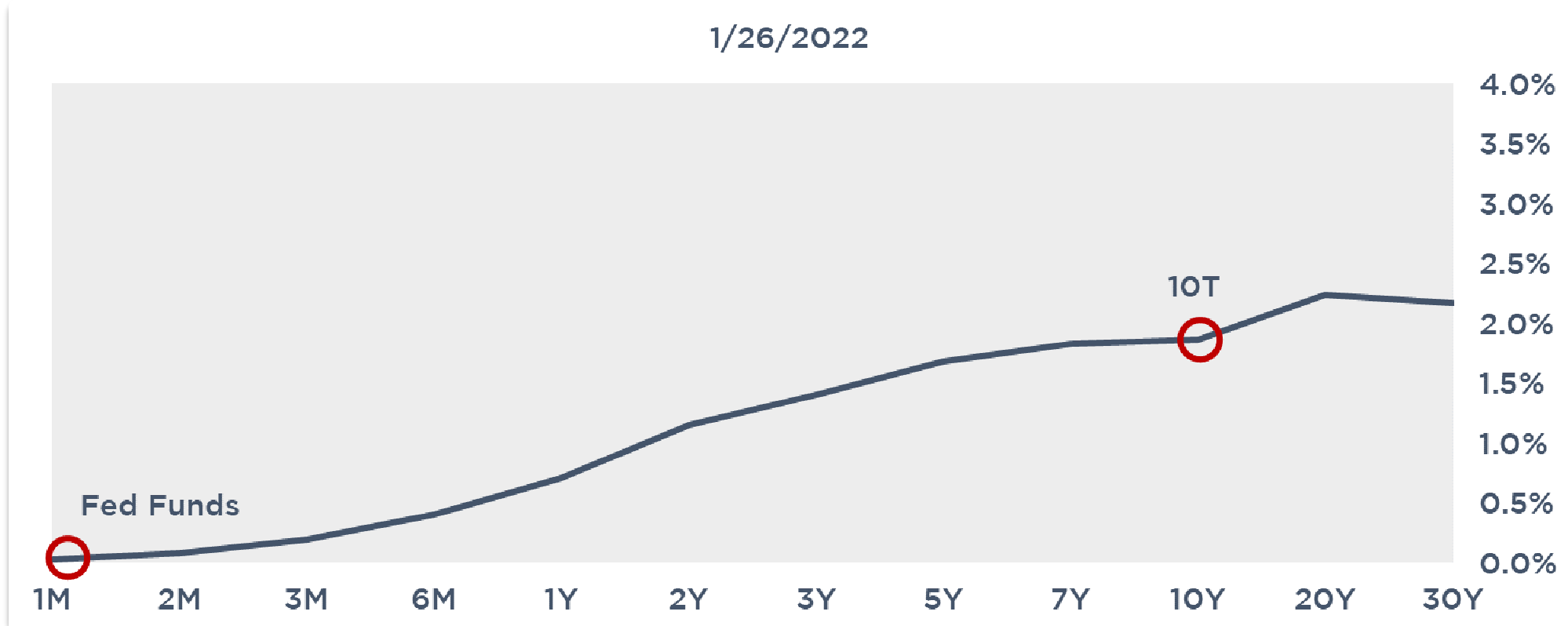
- In December, the Fed signaled the possibility of hikes in 2022. The curve barely moved.





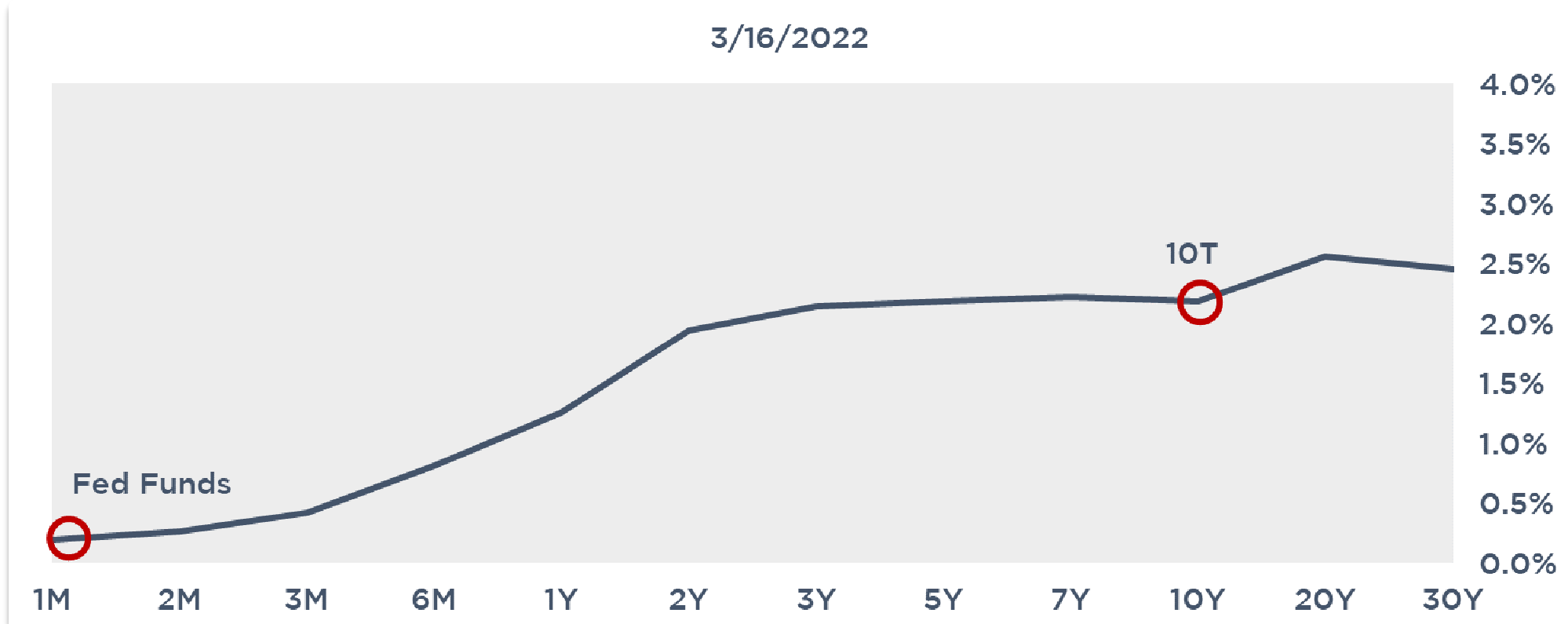
# How Do Rate Hikes Effect the 10 Year Treasury?

- By January, the market began pricing in a few more rate hikes



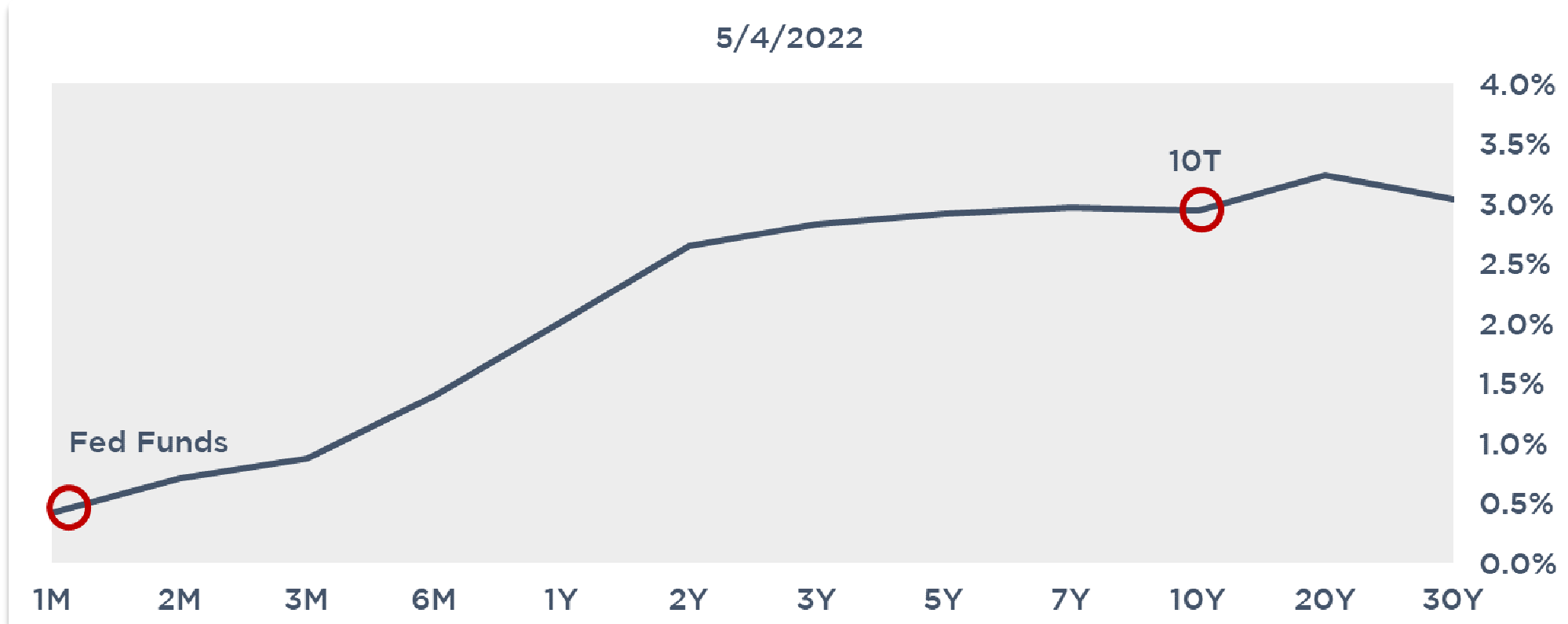
# How Do Rate Hikes Effect the 10 Year Treasury?

- By the first rate hike, the market had shifted expectations significantly higher



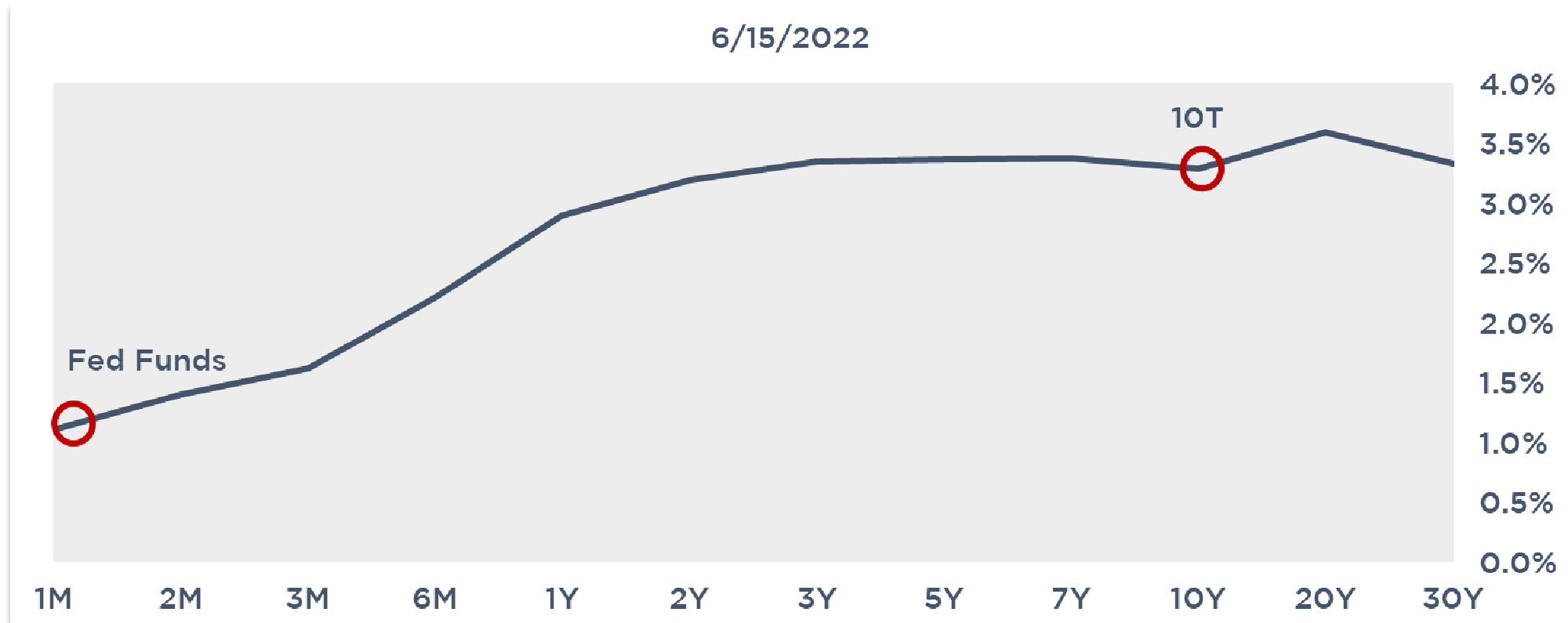
# How Do Rate Hikes Effect the 10 Year Treasury?

- Following the second hike, the market was realizing we were on a much higher trajectory



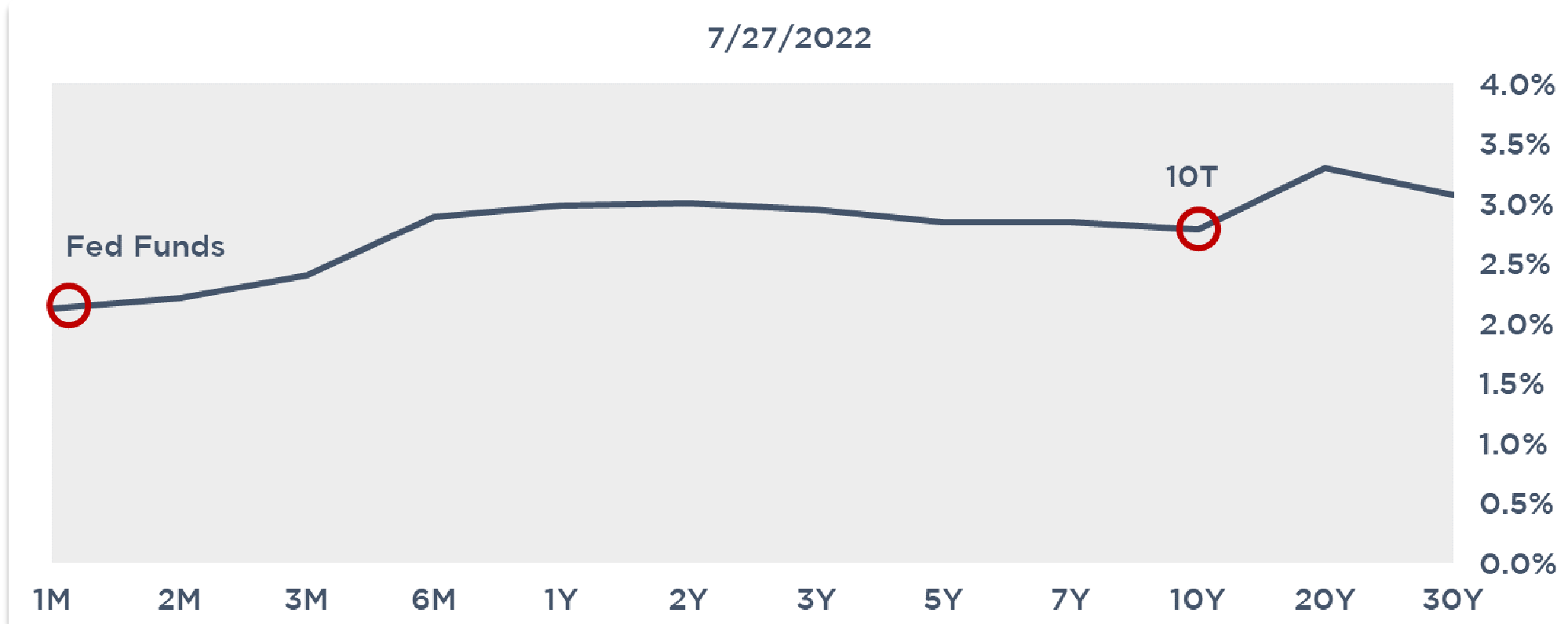
# How Do Rate Hikes Effect the 10 Year Treasury?

- By the third hike, the market expected hikes to 3.5%



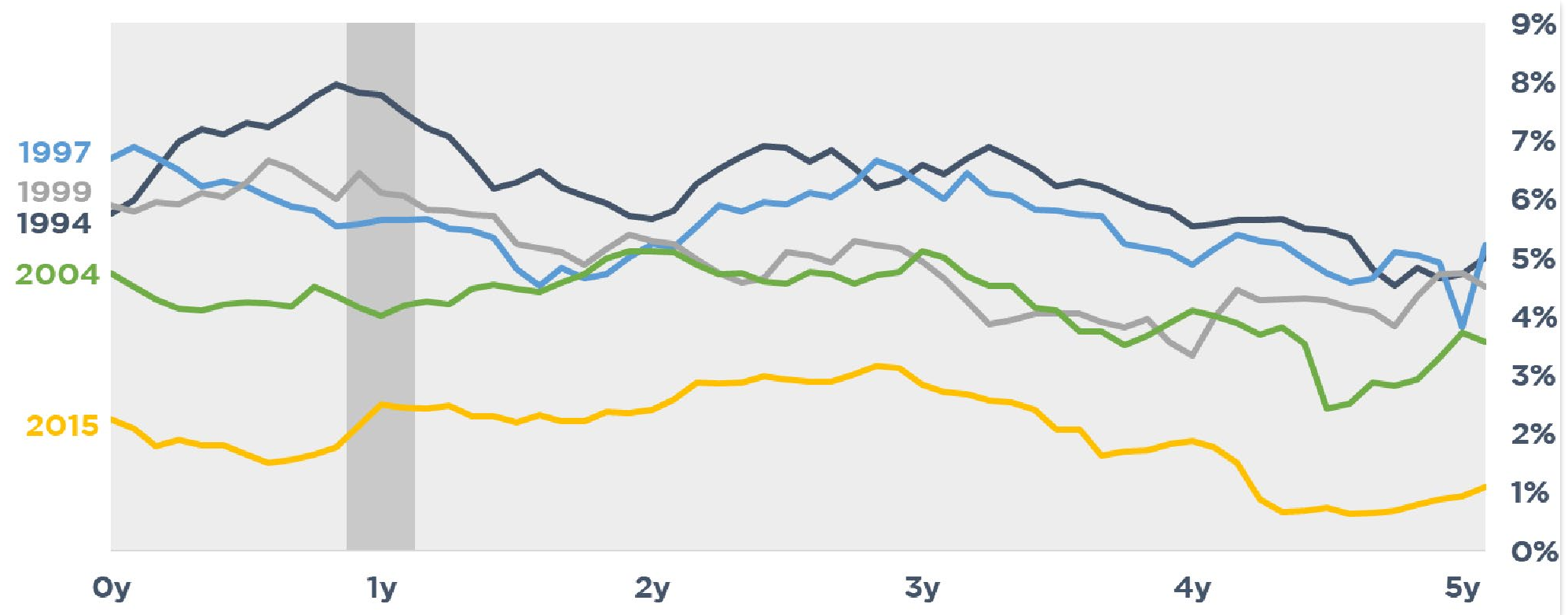
# How Do Rate Hikes Effect the 10 Year Treasury?

- The belief is now that the Fed will quickly get to 3% and then eventually start cutting again



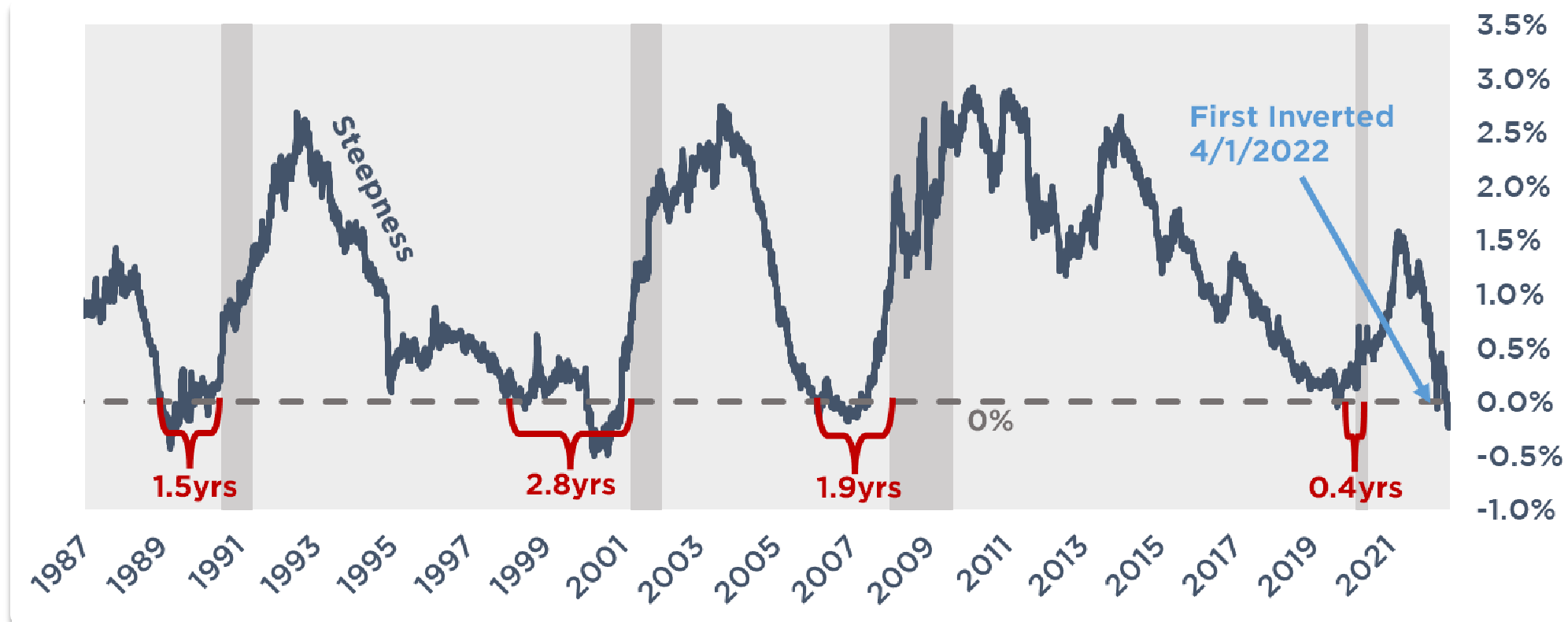
# 10T Hike Reaction

- Except for the 1994 cycle, the 10T has generally stayed flat or trended lower following the first Fed hike
- On average, the 10T was just 14bps higher a year after the first hike



# We're Not In a Recession

- In the last four cases, the time between inversion and recession...
  - Averaged 1.7yrs
  - Never exceeded 2.8yrs



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