Frontline Aff

Econ Growth Good Rn.

Interest Rates are Low - Corp. Borrow A lot

1. Droke SeekingAlpha - long term interest rates are up.
2. Things could always get better.
3. Investors no longer always finance US debt at low interest rates, meaning that when US issues bonds they now do it at higher interest rates so corporations to have to raise their interest rates. Irwin of New York Times - bond yields are up and interest rates are up, foreign investors demanding higher interest rates. Newsweek - investors skittish abt purchasing.

Irwin

The yields of inflation-protected bonds have moved mostly in lock step with traditional bonds in recent weeks, suggesting that traders haven't become more worried about inflation.

For example, inflation of 2.16 percent a year over the coming decade was implied by the price gap between the two types of bonds as of the middle of last week, up only a smidgen since August and below its level in May.

The rise in longer-term interest rates is driven mainly not by a rise in inflation expectations, but rather by a rise in investors' expectations for what the Fed will do and for how much compensation bond investors are demanding in lending over long time horizons.

Crowding In

1. Capital is a pre-req.
2. This relies on government investment being good it hurts the econ.

Tax Hikes Bad for Priv.

1. Low taxes = low revenues = high deficits = crowding out.
2. Perotti NBER → spending affects more.

https://www.nber.org/papers/w7207.pdf

Asset Bubble

1. SeekingAlpha - 1) everyone uses historical average , market composition has changed 2) none of the bubbles can bring down the economy.
2. Debt only becomes a problem if they can't borrow anymore to create company expansion and pay off their debt.

Interest rates cause bubbles to pop, they only go up if you negate.

3. IF they say fed hikes cause pop , Short term rates dont affect , corporations take out long term loans

Emory Case

C1 Emerging Markets

FL2- Alt-Cause: Investors going to global Corporate Bonds

1. They are going because of rising interest rates, the rates are rising because of the US.
2. The Financial Times reports that buyers of corporate debt have dried up because of a rise in perceived risk as companies take on more and more debt.

Hume, Neil. "Strong Dollar Leaves Emerging Markets on Edge for Rest of 2018." *Financial Times*, Financial Times, 1 July 2018, www.ft.com/content/e2354d1e-7aea-11e8-bc55-50daf11b720d. Accessed 10 Jan. 2019. //TP

A troubling sign in the credit market is how the lower end of US investment-grade corporate debt has steadily lost its appeal. The risk premium for Moody's BAA index over the 10-year Treasury yield has steadily risen this year — from a low of 155 basis points in early February to 200bp by the end of June. The consequences of mergers and acquisitions have been clear in the market: The widest spreads have been found on the debt of acquisitive companies and their sectors, reflecting higher market risk. Another area of concern is waning demand from foreign investors. As of June 22, foreign buying was down 13 per cent from the year before, according to estimates from strategists at Bank of America Merrill Lynch. **"Because demand is starting to wane a bit from foreign investors, you're seeing a lot more volatility in spreads and concession on new issues,"** said Josh Lohmeier, head of US investment-grade credit at Aviva Investors. "One of the things we think about is, how do you avoid M&A? . . . as a bond investor, M&A is usually not helpful, as it almost always results in balance sheet deterioration."

FL2- Alt-cause: Global Monetary tightening.

1. Spiro of the South China Morning Post writes that the Fed and other central banks will have to stop monetary policy tightening as soon as 2020 because the globe is expected to hit slower growth.

“Tight Schedule: Central Banks Can't Be Much Stricter with Money.” *South China Morning Post*, South China Morning Post, 3 July 2018, www.scmp.com/comment/insight-opinion/article/2142881/us-fed-and-other-central-banks-cant-tighten-monetary-policy. Accessed 10 Jan. 2019. //TP

In a striking development which throws the difficulties faced by major central banks in exiting their ultra-accommodative policies into sharp relief, an esoteric indicator in the US debt market is showing that yields will be lower three years from now than they will in two years, suggesting that the Fed will stop tightening policy as early as 2020. In a report which pays particular attention to the inversion of the yield curve in the so-called swaps market, Deutsche Bank proclaims that “the market is [already] pricing rate cuts”.

While it would be wrong to read too much into a single technical indicator, **other signs are emerging that central banks will have less room to tighten policy than thought to be the case as recently as the start of this year.**

As I have commented on in earlier columns, there is increasing evidence that the global economic cycle has peaked as data releases are no longer beating expectations. Citigroup’s Global Economic Surprise Index, a closely watched gauge that looks at the rate at which data exceeds or falls short of analysts’ estimates, has suddenly dipped into negative territory, dragged down by a marked slowdown in growth in the euro zone.

1. Diverting Investment

FL2 - Will Go to Chinese Bonds

1. Sonenshine of the Street writes days ago that fears of a slowing economy in China is causing a flight to quality treasury bonds, indicating that demand is matching supply.

2. Interest Rates

FL2- Fed artificially lowers interest rates

FL2- Non-uq: Fed hiking interest rates

1. Robb of Market Watch writes that there's a 75% chance that interest rates remain the same in 2019, and these rates are actually projected to drop in 2020. The interest rate hikes are coming to an end because growth was slower than the Fed originally thought it would be.
2. DW writes that the Fed is only hiking interest rates to stop the economy from overheating due to increased spending and tax cuts. However, affirming would end this trend because spending cuts and tax hikes would slow the growth and reverse the trend the Fed was worried about, meaning the Fed has no reason to increase rates anymore.

DW- https://www.dw.com/en/fed-moves-to-prevent-us-economy-from-overheating/a-43075197
The US central bank has raised interest rates by a quarter-point at its first policy meeting under Chairman Jay Powell and signaled more hikes are coming in response to tax cuts and higher government spending.

FL2- Fed hikes not affecting developing nations

1.

Broner, Fernando. "Why Do Emerging Economies Borrow Short Term?" IMF. 2004. https://www.imf.org/External/Pubs/FT/staffp/2004/00-00/broner.pdf //RJ

The main empirical results can be summarized in three stylized facts. First, when compared with Germany and the United States, **the excess returns from holding emerging market long-term bonds are, on average, much higher than those from holding emerging market short-term bonds. In other words, there is a high "term premium" of around four percentage points per year, when comparing 3-year and 12-year maturities.**3 This high term premium reflects the high risk premium required by investors to hold long-term debt relative to short-term debt. Second, the term premium is around 30 percentage points higher, on an annual basis, in crisis periods than in non-crisis periods. T**hird, emerging economies issue relatively more short-term debt during periods of financial turmoil, and wait for tranquil times to issue long-term debt**. This suggests not only that the high term premium shortens the average maturity structure, but also that time variations in the term premium lead countries to shorten their maturity structure even more during crises.

!Default Crisis/Millions Poverty

FL2- IMF loans bailout

1. Hessler of DW explains that IMF loans have worsened crises in Mexico and in the 1990s Asian financial crisis because the IMF makes these countries implement austerity policies on their population in return for the loans.

2. DW- despite IMF loan to Argentina, currency just dropped to new lows.

https://www.dw.com/en/imf-bailouts-roads-to-stability-or-recipes-for-disaster/a-45338114

In 1995, Mexico was hailed as a shining example of the IMF's new policy, as the country had repaid a bailout package to the tune of $52 billion (€45 billion). **But it would take only a few years that its failures became obvious.**

Mexico's citizens suffered a sharp decline in real per capita income, which in 1998 had fallen back to a level last seen in 1974. From the end of 1994 to the end of 1996, Mexico added $560 billion to its total external debt because the government bailed out mainly commercial banks to the tune of $545 billion by buying all their bad loans.

Some economists even regard the legacy of the bailouts in Latin America as the beginning of the financial crisis in Asia in the late 1990s. They claim that the IMF had sent a clear signal to the world that if anything goes wrong, the lender would come to the rescue of investors.

The late 1990s Asian financial crisis was caused in large part by South Korea, Thailand, the Philippines, Malaysia and Indonesia's heavy reliance on short-term foreign loans and openness to hot money. When it became apparent in 1997 that private enterprises would not be able to meet their payment obligations, international currency markets panicked and Asian currencies plummeted.

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In South Korea, for example, a country whose income approaches European levels, unemployment skyrocketed from approximately 3 percent to 10 percent. "IMF suicides" became common among workers who had lost their jobs and dignity.

In Indonesia, the worst-hit country**, poverty rates rose from an official level of 11 percent before the crisis to 40 to 60 percent, and GDP declined by 15 percent in one year.**

Malaysia stood out as a country that refused IMF assistance and advice. Instead of further opening its economy, Malaysia imposed capital controls, in an effort to eliminate speculative trading in its currency. While the IMF mocked this approach when adopted, the Fund later admitted that it succeeded.

FL2- EM now have monetary and fiscal policies to respond

1. Can't use fiscal policies when you have no money to spend because of your debt! Inman '18 of the Guardian explains that Argentina, Indonesia, and South Africa have to institute austerity policies on their population to try and reduce their deficit spending.

Inman, Phillip. "Argentina, Turkey, Mexico ... Fear of Contagion Haunts Emerging Markets." *The Guardian*, Guardian News and Media, 8 Sept. 2018, www.theguardian.com/business/2018/sep/08/emerging-economies-crisis-looms-shadow-america-boom-interest-rates. Accessed 13 Jan. 2019.

The second tier of affected countries, like South Africa and Indonesia, are also likely to follow Argentina's lead and win round investors with austerity programmes to bring down borrowings. It is a policy that has the potential to trigger domestic strife, but it will prevent even more of them from joining the exodus.

A2 AFF:

Topshelf:

1. Higher GDP solves the debt
2. Austerity leads to higher deficits
3. Investors shift to household borrowing which creates a bubble
4. Investors shift to riskier investments that creates a bubble

Emerging Markets Link 1:

1. People always invest in treasuries because its safe so demand is really high. This means any increase in supply doesn't change the interest rate much bc demand matches it lol
2. There are different knowledge pools between investors in US bonds and EM bonds
3. If they don't buy treasuries, they'll buy Chinese yuan bonds

Emerging Markets Link 2:

1. No causal relationship between EM rates and U.S. rates, past examples prove
2. Countries are borrowing a lot from other countries (lol...)
3. No correlation between interest rates and deficits in America

4. There are flexible exchange rates so the case doesn’t apply (lol...)
5. Trump is making the dollar weaker

Emerging Markets Impact:

1. IMF has program to bailout EMs that will default
2. Countries have passed credible change to prevent default, Turkey established better central bank, Argentina was bailed out, Brazil has a new elected official
3. 2008, interest rates rose but investment flows rose rapidly