Title: Possible Recession Confirmation Bias???...
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\[This is my first Reddit DD, so go easy on me. Probably 6 hours of combined research to get through this..combined with the write up and multiple tweaks, but worth it, imo\]

MAJOR EDIT: Added "**Bonds"** section previously DD'd in Discord; https://discord.gg/WWtazKtYtJ

I will try and present some semblance of a **TL;DR**, of sorts.

>!The Federal Reserve, who have had varying degrees of "success"--a term I will use lightly--will be taking control of the rate used by UK banks for reporting loans made to other UK banks; LIBOR. Rebranded as SOFR, its predecessor been a long-standing standard for baking in the Euro financial community. With the likelihood of increased inflation rates, combined with the threat of recession amidst a global pandemic and a decline in US banking--and excess liquidity--are we on the brink of a recession of large scale??!<

For Consideration

While repos and reverse-repos do not directly affect our beloved AMC--or, a *direct* link between the two have not yet been explicitly identified, rather.. at least not that I am currently aware--It is good to be aware of these events and happenings, as it greatly affects the global economic market.

Further, The coincidental timing of the increase in reverse repos operating aggregate limits, federal fund rates, and expedited sunshine meetings was just interesting to me.

In the words of u/rockstar_stocks (aka "Simulate and Trade"), "So, without further delay, let's dive in".

Preface

In 2016, the UK authority responsible for the regulation of London Interbank Offered Rate (LIBOR) announced it would no longer regulate LIBOR as the end of 2021.

Source \- Financial Management: Theory and Practice 16e; Pg. 17. By Eugene F. Brigham of the University of Florida and Michael C. Ehrhardt, of the University of Tennessee

Okay...What the ***Hell*** **is LIBOR, and why should I care??**

LIBOR is the rate UK banks report for loans made to another. When they became a likely candidate to take over LIBOR regulation, the Federal Reserve created Secured Overnight Financing Rate (SOFR). SOFR is based on actual overnight loans that use treasury securities, such as bills, notes, and bonds.

The Federal Reserve was a likely candidate for replacing the UK in regulating LIBOR because LIBOR is often pegged to the federal funds rate.

https://www.investopedia.com/ask/answers/072715/what-are-differences-between-federal-funds-rate-and-libor.asp

What is pegging?

Pegging is controlling a country's currency rate by linking it to another country's currency.

https://corporatefinanceinstitute.com/resources/knowledge/trading-investing/pegging/

Wait... Did you say bonds??

While I understand the recent talks of bonds were not fruitful, I thought it apropos to cover in some detail, for the general understanding and information of all who read.

A bond is a long-term promissory note (or "debt security") issued by a business or governmental unit, and are classified into 4 types: treasury, corporate, municipal and foreign; each with their own rate of return and level of risk. A bond's value comes from the present value of an annuity (the interest payments) plus the present value of a lump sum (the principal payment).

Corporate bonds\--The type issued by AMC in recent news--are typically traded on electronic markets, rather than exchanges. Some bonds are convertible, which means, the owners of the bond have the option to convert into a predetermined number of shares of common stock. Convertible bonds have 3 distinct advantages: lower interest payments, tax advantages, and deferral of stock dilution--as convertible bond financing is more appealing than equity financing to companies not willing to forego short-medium term dilution.

There are two types of risks associated with bonds; interest rate and reinvestment. As interest rates increase, the value of bond will decrease. Reinvestment risk occurs when the income from a bond portfolio declines because cash flows received from bonds are rolled over at lower interest rates.

As illustrated below, bonds are rated from "AAA" to "D". A bond rating reflects the probability that a bond will go into default. The higher a bond's rating, the lower it's risk, which in turn imputes a lower interest rate. Bonds rated "BB" or less are often referred to as "junk bonds", as they have a significant probability of defaulting.(edited)

https://preview.redd.it/maowujznds871.png?width=1191&format;=png&auto;=webp&s;=565ef09e4716093daf1acd8932cd7567a06d4194

Okay, so... You still didn't tell me why I should care about LIBOR...??

Two of the most widely use interest rates are LIBOR, and the Federal Funds Rate. The Federal Funds Rate is the target interest rate set by the Federal Open Market Committee (FOMC) at which commercial banks borrow and lend their excess reserves to each other overnight

... Sound familiar?? "Reverse Repos", mebbe??

https://www.investopedia.com/ask/answers/072715/what-are-differences-between-federal-funds-rate-and-libor.asp

Food for Thought

The target for the federal funds rate has varied over the years. This is largely in part to economic conditions, such as 20% in the 1980's as a response to inflation. In response to our most recent recession--courtesy of mortgage banked securities (MSB's) and a propped up economy--the federal funds rate dropped to a range of 0-0.25%.

https://preview.redd.it/cktv1wjo6s871.png?width=2142&format;=png&auto;=webp&s;=4f74dee5eacc964176daf4b2d811ecc8ea82820d

https://www.investopedia.com/terms/f/federalfundsrate.asp

*During inflation, the federal funds rate goes up. During recession, federal funds rate goes down.

Okay, back to LIBOR...

The Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have been encouraging banks to cease entering into any new contracts that use USD LIBOR as a reference rate, as the LIBOR transition (to SOFR) is a significant event that poses complex challenges for banks, as well as the financial system, as it creates safety and soundness risks.

https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20201130a1.pdf

LIBOR is an important rate and benchmark used worldwide that is often determined utilizing the funds market's supply and demand. The Intercontinental Exchange (ICE) polls several large banks daily, and the large majority report LIBOR as the standard for determining daily costs to borrow.

https://www.investopedia.com/ask/answers/072715/what-are-differences-between-federal-funds-rate-and-libor.asp

Okay, but didn't you mention Reverse Reps earlier?? ... "Beware the Ides of March"!

\- I mentioned earlier about the federal funds rate dropping to 0-0.25%. This took place on Sunday, March 15, 2020 as a response to the Covid-19 pandemic.- A March 15th Fed Press Release announced the increase of its holdings by at least $500B.

https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm

In the event you are unfamiliar...

Repurchase Agreements, or as they have come to be known, "Repos", are a transaction that takes place between a primary dealer and counter-parties such as banks, money market funds, and government sponsored enterprises, such as the Fed.

In repo transactions, The New York Fed's Open Market Trading Desk ("the Desk") purchases Treasury, debt, or MSB's from one of the aforementioned counter-parties, with the understanding that the underlying securities will be resold at a later date.

Overnight Reverse Repurchase Agreements, however, have been conducted daily overnight since 2013. The purpose of this overnight repo system is to help prevent fund rates from falling below a set target. This overnight repo system also serves as a supplement to The Fed's primary monetary policy for depository institutions in an effort to regulate short term interest rates.

https://preview.redd.it/m9mbnin94s871.png?width=1250&format;=png&auto;=webp&s;=313cb3555826f9a9a8babcb80febd619c0311f4c

https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements

More on Reverse Repos

The 28-day operating term that started on March 13, 2020 is where we see the Fed's operating aggregate limit jump up to $500M.

https://preview.redd.it/vgxtl7y3yr871.png?width=1278&format;=png&auto;=webp&s;=2acd020ec50b2da1d725f2d2252e3d064c0356f3

Previous to this period, the highest operating aggregate limit was $150M.

https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements/repurchase-agreement-operational-details

Since this date, the Federal Reserve's operating aggregate limit has continued to steadily increase. Yesterday's reverse report operations are shows below.

[https:\/\/apps.newyorkfed.org\/markets\/autorates\/tomo-results-display?SHOWMORE=TRUE&startDate;=01\/01\/2000&enddate;=01\/01\/2000](https://preview.redd.it/092tmmrsxr871.png?width=1674&format;=png&auto;=webp&s;=00823f64b70d8530e9133376838b6272742cc4b8)

I find it extremely serendipitous that the same period starting two days after the Fed has a sunshine meeting and lowers the federal funds rate is the SAME period that reverse repos jumped by more than 3X.

Remember earlier I said federal funds rates lowering is indicative of recession.

LIBOR Overnight Vs. SOFR Overnight Rates

During this same period in mid March 2020, SOFR regulation tightened, as rates dropped from 1.59 on March 2nd, to 0.26 on March 16th, to 0.1 on March 27th.

https://preview.redd.it/74kc7awv0s871.png?width=1416&format;=png&auto;=webp&s;=8ef3ebb8e3f1bfc1

85a50cf3b9a54151e4d18927

LIBOR rates followed dropping from 1.57 on March 2nd, to 0.23 on March 16th, to 0.13 on March 27th.

https://www.srz.com/images/content/1/7/v4/171291/042220-SRZ-Alert-Overnight-LIBOR-and-SOFR-Performance.pdf

The difference and volatility of these rates further underscores the need for market participants (banks) to be prepared for the transition from UK regulated LIBOR to Federal Reserve regulated SOFR.

https://www.srz.com/images/content/1/7/v4/171291/042220-SRZ-Alert-Overnight-LIBOR-and-SOFR-Performance.pdf

So..... What's this you say of recession???

Despite officials' attempts to quash interest rate concerns and casting projections of GDP growth from 6.5% to 7% in 2021, the Fed raised its headline inflation expectation to 3.4%.

https://www.cnbc.com/2021/06/16/fed-holds-rates-steady-but-raises-inflation-expectations-sharply-and-makes-no-mention-of-taper.html

Also, according to the textbook referenced earlier in the preface, interest rates and inflation typically rise prior to a recession, and fall afterward.

Why does this happen? A few reasons...

1. Consumer demands slow during recessions, keeping companies from raising prices, which in turn reduces price inflation
2. Companies cut back on hiring, which reduces wage inflation
3. Less disposable income causes consumers to reduce spending, reducing consumer demands for loans
4. Companies reduce investments in new operations, which reduces demand for funds

So, that does all of this mean??

Great question. Honestly, I am not 100% sure. I saw some dots, starting connecting them, and ended up at the bottom of a rabbit hole.