

## LIBOR IS IN THE RED ZONE

*This Day in History: Today is National Chocolate Cupcake Day. On October 18, 1867, the United States took possession of Alaska after having paid \$7.2 million to Russia. In 1968, U.S. long jumper Bob Beamon leapt 29' 2½" in the Mexico City Olympic games, shattering the previous world record by 21 3/4." The record stood for almost 23 years.*

**Market Update: Swap rates moved lower for most of the week before rising sharply on Friday. Rates ended the week mixed across a flattening curve with the short end signaling a possible tightening on the horizon.**

Term	Swap Rates			Change	
	10/15/2021	10/8/2021	9/15/2021	WoW	MoM
2y	0.54	0.43	0.32	0.11	0.22
3y	0.84	0.73	0.56	0.12	0.29
5y	1.20	1.15	0.90	0.05	0.30
7y	1.40	1.41	1.13	-0.01	0.27
10y	1.58	1.64	1.33	-0.06	0.24
20y	1.80	1.90	1.60	-0.10	0.20
2s/10s slope	1.03	1.20	1.02	-0.17	0.02

**Desk activity was a repeat of the last few weeks. Portfolio hedgers, those worried about potential price depreciation associated with long-duration bonds, continue to use swaps on new or existing bonds to convert those bonds to floating rates at attractive spreads and reduce +300bps price volatility to -6% or less.**

After years of work and preparation, we are nearing the first of the two remaining US dollar LIBOR deadlines: **December 31, 2021 is the drop-dead date for new LIBOR based transactions.** With limited exceptions, any LIBOR based transaction conducted after December 31, 2021, will raise safety and soundness concerns with financial regulators.

**The last day LIBOR rates will be published is June 30, 2023** (to provide time for legacy transaction maturity). These dates will not be extended, and regulators expect limited new LIBOR transaction between now and year-end.

LIBOR to SOFR spread adjustments were published earlier this year. The spread adjustments will apply to all derivative transactions and most cash transactions when the above trigger event, the cessation of LIBOR on June 30, 2023, occurs.

As a result of regulatory and market participants' activity, the use of SOFR is expanding dramatically, somewhat alleviating concerns about the liquidity of the SOFR market. Some recent facts that have provided comfort regarding the viability of SOFR include:

- The implementation of “SOFR First” in July, intended to encourage more transactions to be priced off SOFR.
- SOFR futures, a required market for the derivatives market to function effectively, has now surpassed one million outstanding contracts.
- Recent trading in LIBOR swaps is at its lowest levels since early 2020. Notional trading in SOFR has quadrupled in 2021. The trends are clear and accelerating.
- Several large commercial syndicated loans priced off SOFR have been issued. Ford recently announced a \$15.5 billion revolving credit facility tied to simple daily SOFR that reportedly involved a syndicate of 60 banks. Such a large and widely held facility indicates the growing comfort by borrowers and, importantly, the ability of banks to service SOFR based loans.

VSIRP is actively participating in these ongoing market changes. Beginning this week, we will drop our LIBOR pricing matrix and replace it with a SOFR pricing matrix. The SOFR matrix will be supplemented by both a Prime and an Effective Fed Funds matrix. We expect further changes to come as the SOFR market continues to develop. Last month, virtually all our transactions were based on SOFR or other non-LIBOR indexes. Alternative hedgeable indexes, such as prime or fed funds effective as well as SOFR, are all available to help with balance sheet management.

After a long landing pattern, SOFR has arrived and LIBOR is departing. Feel free to contact us if you have questions about the ongoing transition or things you need to be doing now to prepare for 2022 and life without LIBOR.

Stay safe and have a great week!

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