SIFMA Insights

The 2022 SIFMA Annual Meeting

Perspectives & Key Themes from Market Participants

October 2022

Recently, SIFMA hosted our Annual Meeting. With hundreds of participants, we gained insights into top-of-mind topics for market participants. Inside this note, we recap just some of what was seen and heard, including:

- The Industry Outlook – industry and macro themes, with pre-conference survey results, as well as capital markets and wealth management outlooks
- View from U.S. Secretary of the Treasury Janet Yellen – economy's transition to stable & sustained growth; resilient financial system, not seeing any massive risks; update on the U.S. Treasuries market
- The Economic Outlook – inflation by the numbers, a comparison to the 1970s, and the components in the inflation equation; recession, rates, and economists' expectations
- The Regulatory View – market participant thoughts on the SEC agenda; agency priority updates from SEC Chair Gensler and CFTC Chairman Behnam
- The ESG Perspective – updates from Secretary Yellen and regulators; survey on ESG investing and underwriting
- More on Market Themes - digital assets/cryptocurrency and survey results on markets and volatility

To see details from topics SIFMA has covered throughout the year, please see SIFMA Insights at (list of Insights reports in the Appendix of this note): www.sifma.org/insights

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Contents

SIFMA Insights can be found at: https://www.sifma.org/insights

The Industry Outlook[1]

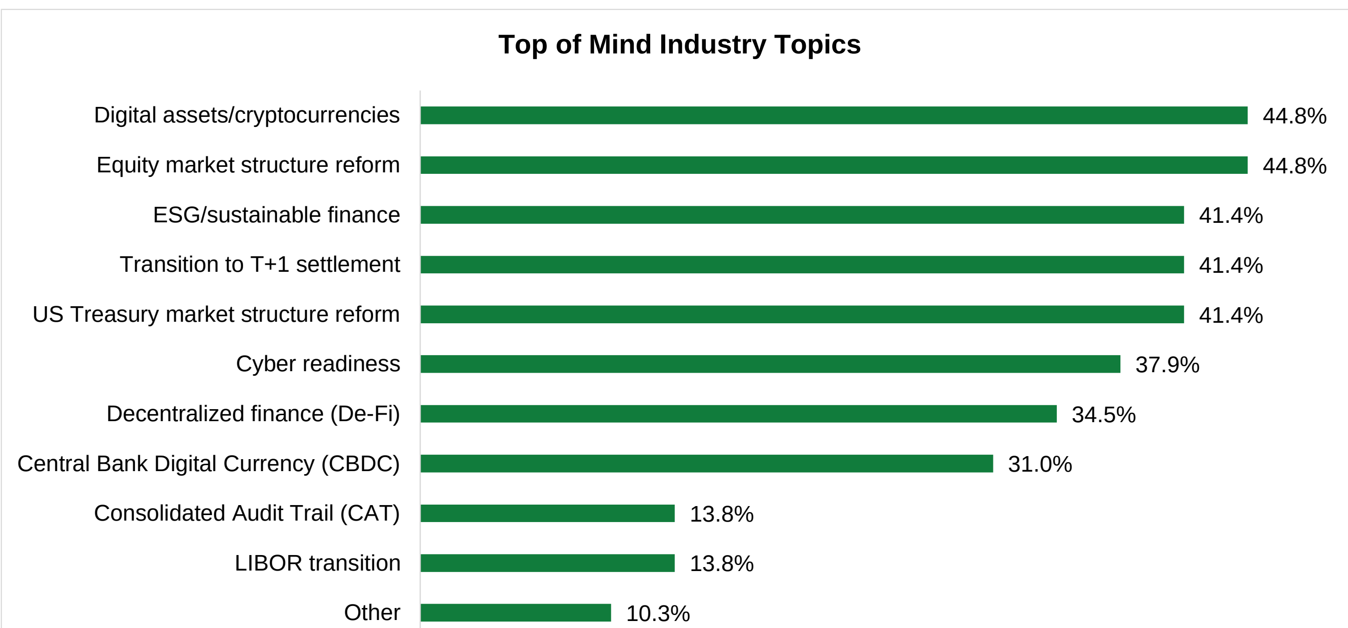
Market Touchpoint: Industry Themes

To set the scene of the conference, we surveyed attendees on what industry topics are top of mind for them. As various perspectives arose during the week, it was a reminder of the importance of market participants coming together to discuss best practices as well as pain points that the industry must work together to overcome.

A number of the identified topics addressed digital assets/cryptocurrencies and equity market structure reform, as detailed below:

- Top responses at 44.8% of responses each were tied between digital assets/cryptocurrencies and equity market structure reform
- The next top responses, at 41.4% of responses each, were ESG/sustainable finance, the transition to T+1 settlement, and U.S. Treasury market structure reform
- Cyber readiness came in third with 37.9% of responses

Survey Question: What industry topics are top of mind for you? (please select all that apply)



Source: SIFMA Insights pre-conference survey[2]

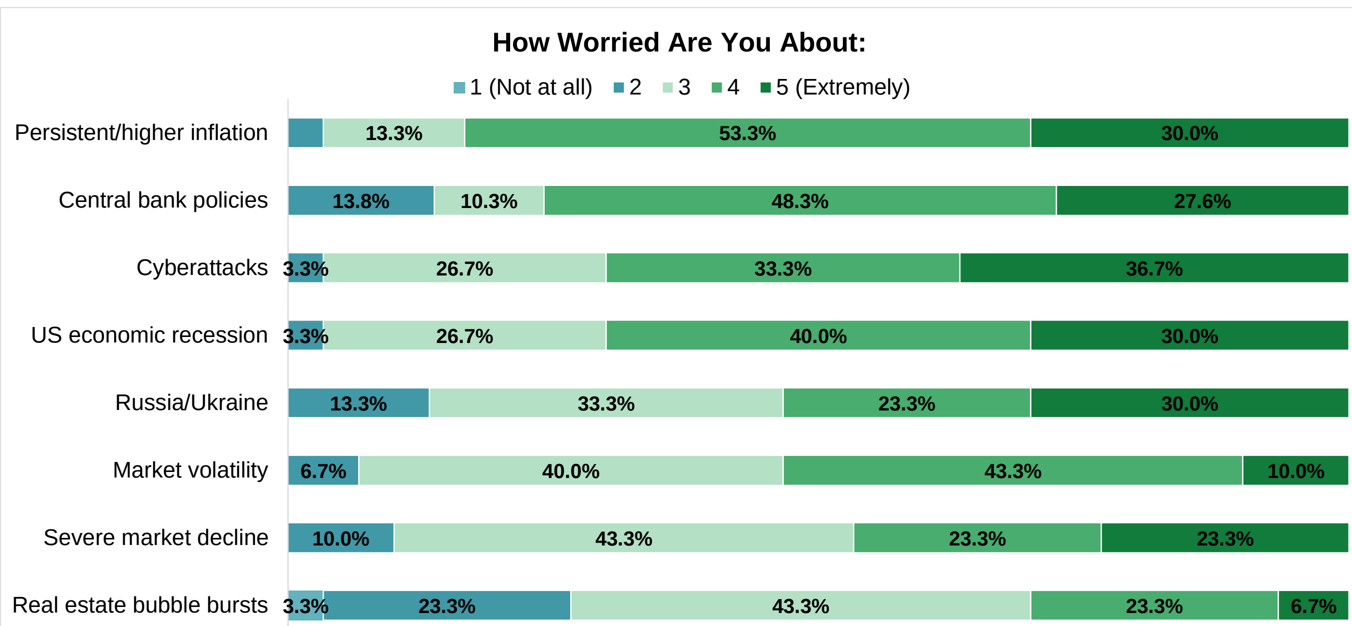
[1] This report includes comments from fireside chats with industry executives: Jim Reynolds, Chairman & CEO Loop Capital Markets & Chair SIFMA Board of Directors; Michael Durbin, President Fidelity Institutional; Ken Cella, Principal Branch Development Edward Jones
[2] The pre-conference survey was in the field from October 12-19, with 30 respondents in total

Market Touchpoint: Macro Themes

Our pre-conference survey sought to gauge respondents' concerns around current geopolitical, economic and market events and trends. We highlight the following in respondents' perspectives on key concerns, ranking responses by the aggregate level for #5, extremely worried, and #4, worried, responses:

- #1: Persistent/higher inflation, with 30.0% of respondents extremely worried and 53.3% worried
- #2: Central bank policies, with 27.6% of respondents extremely worried and 48.3% worried
- #3: Tied between cyberattacks (36.7% extremely worried, 33.3% worried) and U.S. economic recession (30.0% extremely worried, 40.0% worried)

Survey Question: How would you rate your level of concern about? (on a scale of 1-5 where 1 = not at all, 5 = extremely worried)



Source: SIFMA Insights pre-conference survey

Outlook – Capital Markets

As one panelist noted, the post-COVID years produced golden years for capital markets. Technology allowed firms to handle the volumes they did. For example, corporate bond issuance was $2.3 trillion in 2020 and $2.0 trillion in 2021, +52.6% and +31.5% to the three-year pre-COVID average, $1.5 trillion. The long running 0% interest rate environment allowed all assets to increase in value, even risk assets of all types. Corporate listings exploded – IPOs totaled $85.4 billion in 2020 and $153.6 billion in 2021, +85.9% and +234.2% to the three-year pre-COVID average of $46.0 billion – even if, as a panelist noted, some of these companies should not have IPOd at the values they did (as evidenced by some stock prices declining around 60% after the first earnings call of these newly public companies).

Now we are seeing a reversal, and markets are transitioning. Some capital markets businesses are down around 90%[3]. For example, IPOs totaled $7.1 billion YTD (through September), versus $117.8 billion for the same time period last year, -94.0%. SPACs have all but disappeared at $12.5 billion YTD (through September) versus $129.5 billion for the same time period last year, -90.4%. The transition away from 0% interest rates is in process, as the Fed continues to raise rates. This in turn causes a revaluation of financial assets, and, with the end game uncertain, market participants are asking what should be the intrinsic value of many assets.

So what does 2023 hold for capital markets? Many economists and market participants expect the U.S. to enter a recession next year – a mild one – which is not baked into markets accordingly to a panelist. With the U.S. Treasury 10-year hitting 4% recently, it appears a continued increase to around 5% is baked into markets. Market participants expect the Fed to continue hiking rates, though maybe not 75 bps into perpetuity (perhaps even dropping to 50 bps at the December meeting). While people can argue whether or not the U.S. is in recession – the technical argument of two quarters of negative GDP growth versus difficulty of calling a recession when the labor market remains strong – one area that perhaps already feels like a recession is in financial assets highly impacted by increasing rates, i.e. stocks and private equity.

Market participants are spending time trying figure out what the new normal will be. And clients remain nervous about how to navigate markets over the next few months, i.e. where to put their money to work. In 2023, if the economy gets on a better path and inflation comes under better control – perhaps by the second half of 2023 – markets could settle into their new normal phase.

[3] An estimate by a conference participant; will vary by firm and business

Outlook – Wealth Management

One keynote speaker presented an interesting look at the forces transforming retirement planning, which leads to what was stated as pillars driving the ability to live well in retirement: health, family, purpose, and finances. The transformational forces discussed are summarized in the diagram below:

Longevity

Average Lifespan (years):

--Currently 79

--47 in the 1900s

--Now greater time spent in retirement

Boomers & Xers

--Population shift (growth rates):

(1950-60) <15y +37%, 65+y +35%

(2020-40) <15y +4%, 65+y +44%

--Now 75% of wealth controlled by people 50+y

Misalignment

--Healthspans not aligned with lifespans

--12 of the avg. 79 year lifespan spent in poor health (15%)

Dissolution

3-legged retirement funding stool = employer pension + social security + personal savings...BUT

--Social security workers to recipients 2.8:1 vs. 159:1 in 1940

--Social security recipients 63.6M vs. 222.5K in 1940

COVID

--50M Americans stopped retirement contributions

--66M altered retirement timing; 32% retiring later vs. 11% earlier

--Healthcare costs greatest financial worry in 2021...inflation moved to the top in 2022

Source: “Longevity, COVID and the New Journey of Retirement” by Ken Dychtwald, PhD CEO of AgeWave
Note: <15y = <15 years old, 65+y = 65+ years old. Boomers = Baby Boomers, born between 1946 and 1964. Xers = Generation X, born between 1965 and 1984

Keynote speakers identified additional market trends influencing retirement planning. With low switching costs and frictions shrinking, firms' traditional linear value chains are shifting to value webs with options for each capability set. Firms have also moved up the value stack, moving beyond financial planning in terms of traditional money management to addressing clients' anxieties and concerns. Some of the identified market trends include:

- **Socioeconomic demographics**: Gen Zers[4] now represent around 40% of the U.S. consumer base. Gen Zers are the first generation that is majority minority, i.e. is over 50% minority demographics, and only two thirds of them identify as heterosexual. This is a shift in demographics and therefore (potentially) investor objectives
- **Subscriber mindset**: 74% of adults prefer renting versus owning their products and services, as they view this model presents a lower burden on their finances. This has led industry leaders to rethink how the fee/commission business fits into the rent model, i.e. what is the evolving value proposition
- **Technology transformation**: While 10 to 15 years in the making, COVID accelerated adoption of new technologies almost overnight. This led managers to "forever" embrace remote first
- **Shifting regulatory landscape**: Consumers want instant access to innovations (alternative products, digital assets, etc.). Regulators are reacting to innovations to set new investor protection regulations
- **Personalization**: Consumers want more personalized solutions and products, as witnessed in the rise of direct indexing, fractional share trading, customizable tax solutions for portfolios, sustainable finance, etc. The industry is "moving to a customer universe of one"

[4] Gen Zers = Generation Z = born in the mid-late 1990s and early 2010s

A View from the US Secretary of the Treasury

U.S. Secretary of the Treasury Janet Yellen addressed the Department's focus on the U.S. economy's transition to stable and sustained growth. Despite structural – sluggish productivity growth, decreasing labor force participation rate – and current global – energy prices, supply chain issues – pressures, the U.S. economy has held up. The labor market is healthy, and the unemployment rate is low. U.S. consumer balance sheets seem alright. Credit quality is good, and lending standards are high. Bank balance sheets are healthy, and firms are well capitalized. As such, the financial system has remained resilient.

Treasury is monitoring potential risks. However, Yellen noted that she does not see any massive risks. Some of the risks noted include:

- Rising interest rate and quantitative tightening environment globally
- Volatile environment in some markets globally (noting that U.S. markets seem to be working ok)
- Volatility could expose vulnerability in the shadow banking sector
- Energy and food shocks
- Supply chain shocks
- Persistently higher inflation globally

Turning to the U.S. Treasuries (UST) market specifically, Yellen reminded the audience of the importance of this market as the global benchmark for most other assets. As such, it is crucial that this market remains deep, liquid, and well functioning. UST markets need to be able to absorb shocks and disruptions rather than amplify them. While the last few years saw some stress, Yellen noted what we are seeing today is different. She commented that there are some signs of decreasing liquidity since it is a bit more expensive to transact but also noted that the Treasury market appears resilient. Traders are not having difficult trading such as seen in March 2020.

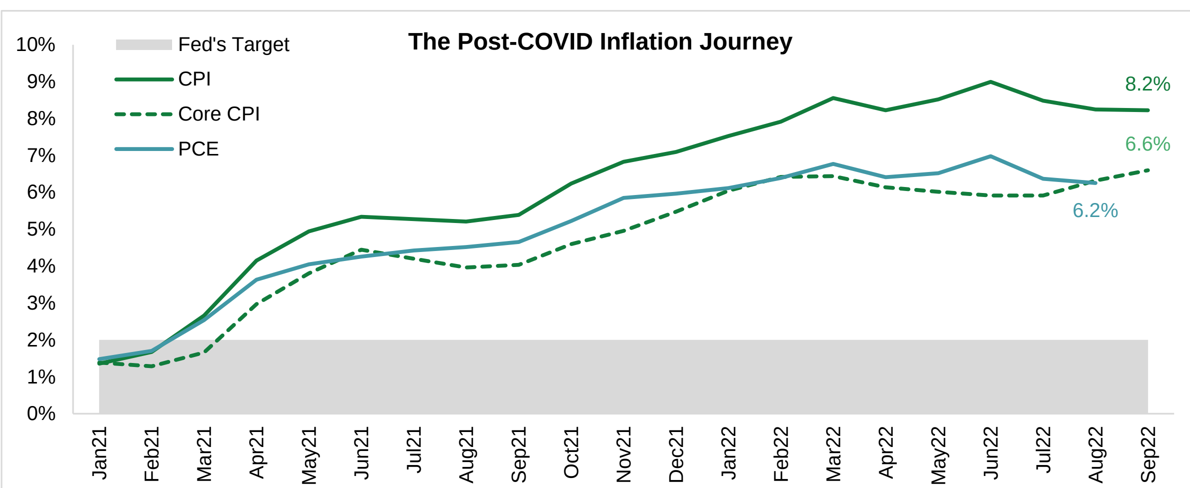
Treasury aims to bolster the functioning of the UST market. An area Treasury is monitoring is the ability of broker-dealers to intermediate the UST market. While Treasury security issuance experienced significant growth in recent years – gross issuance across all tenors $21.0 trillion in 2020 and $19.5 trillion in 2021, +100.5% and +86.7% to the three-year pre-COVID average of $10.4 trillion – dealer capacity has not grown in line with that increase (it remains essentially flat). This area is an ongoing work program for Treasury. Although, Yellen reiterated that she is not currently seeing a problem in the UST market.

The Economic Outlook

Setting the Scene

Before we recap the conversation on our economic panel, we remind readers of the current state of inflation in the U.S. We highlight where we are with inflation metrics and how this compares to peak levels, as well as show the path back down to the Fed's target of around 2%.

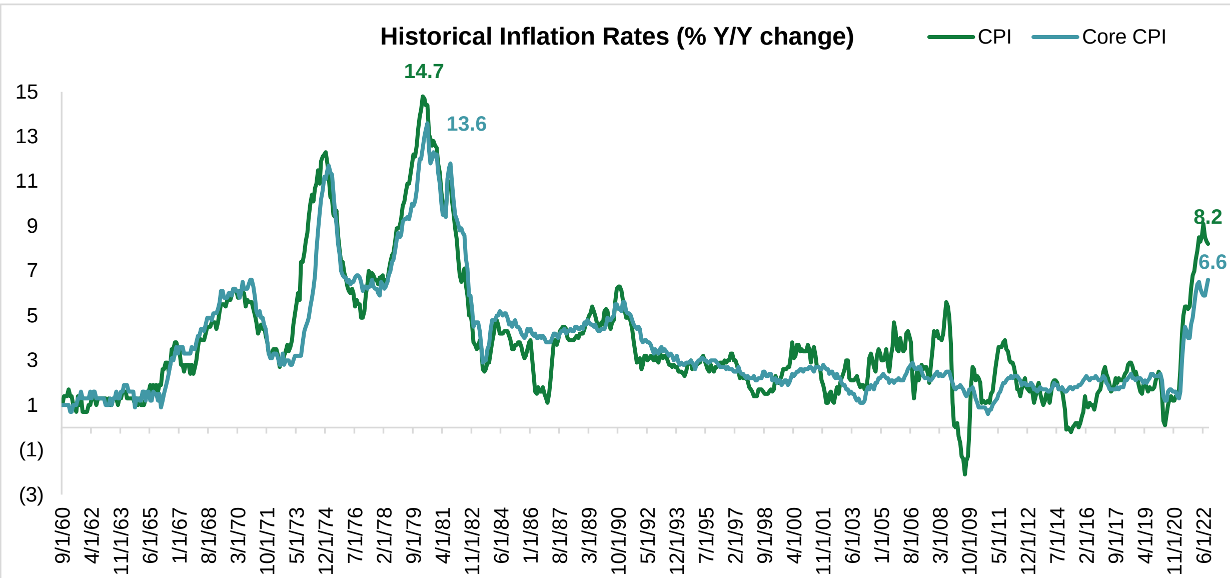
- **CPI +8.2%** (Y/Y, as of September)
  - Prior month +8.2%
  - Peak +9.0% in June
  - Path to 2% = -6.2 pps
- **Core CPI +6.6%** (Y/Y, as of September)
  - Prior month +6.3%
  - Peak +6.7% in September
  - Path to 2% = -4.6 pps
- **PCE** (the metric used by the Fed to set monetary policy) **+6.2%** (Y/Y, as of August)
  - Prior month +6.4%
  - Peak +7.0% in June
  - Path to 2% = -4.2 pps



Source: Bloomberg, SIFMA estimates

Inflation – Where We Are

We begin our recap of the conversation on our economic panel – featuring three of the economists on the SIFMA Economic Roundtable[5] – by looking at the current inflation environment. Many economists and market participants have been discussing whether or not inflation has peaked. Our economists took a different stance, not placing a lot of weight on peak or not. Headline CPI has come down from 9.0% a few months ago to 8.2% in September. We may not be at peak level, but 8.2% is still extremely high. Not quite Cabbage Patch Dolls-MTV-shoulder pads-1980 high, but at decade high levels. Additionally, Core CPI actually ticked up in September, now at 6.6%.



Source: Bloomberg, SIFMA estimates

Instead of having a conversation about peak or not, the conversation from our economists is on when the Fed will be comfortable that they are achieving their goals. One economist noted that core inflation is created to remove the erratic segments, food and energy. However, today's inflation has its own erratics, like used cars and airfares. Another way to remove erratics is to calculate the trimmed mean or median inflation rate. The Fed needs to see these metrics turn down in earnest to change its path.

We have seen prices decelerate for goods, but we have not seen the same in services. Once services decrease, overall inflation will come down. Additionally, the Fed is watching inflation expectations. One economist reminded us of the 1984 inflation, comparing it to a Hydra (a multi-headed monster in Greek mythology; as each of its heads was cut off, it was replaced by two others). Once inflation gets into the economy, it can replicate and feed into inflation expectations. In the 1980s, this then fed into the Phillips Curve, bleeding into unemployment. He argued that the Fed should not have waited to act back then, as expectations of inflation are hard to take out of the system.

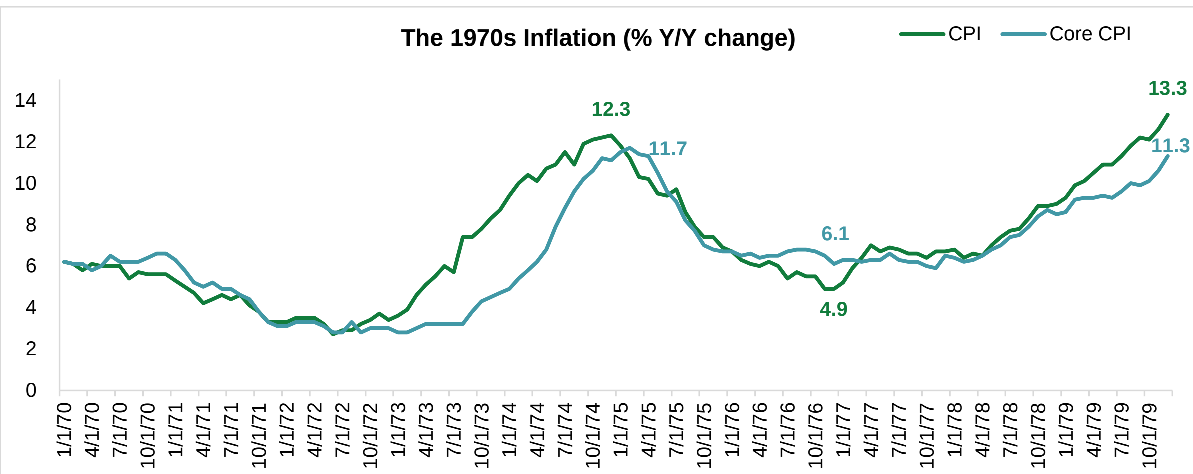
[5] Panelists: Ethan Harris, Head of Global Economics Research, Bank of America; Jay Bryson, Managing Director and Chief Economist, Wells Fargo; moderated by Dr. Lindsey Piegza, Ph.D., Chief Economist, Managing Director, Stifel Nicolaus and Chair of the SIFMA Economic Roundtable

Inflation then reversed over the next several decades. The Phillips Curve has been flat as pancake given low, stable inflation. However, this same economist argued that the Phillips Curve is not dead and inflation expectations should be monitored.

Inflation – 1970s Part II

In the 1970s, the Fed had a shot to rein in inflation. They acted too slowly and failed to "nip it in the bud". Inflation then continued to ebb and flow throughout the decade. However, structurally, the economy was very different back then. Unions held much greater power, with cost of living adjustments (COLA) built into labor contracts. This created an upward spiral – COLA led to further price increases. And, of course, there were multiple oil shocks in the 1970s.

That said, economists noted that the Fed can learn from the 1970s. Do not let inflation – or inflation expectations – get entrenched. Inflation expectations got entrenched in the 1970s. Today, the Fed was late to the game but is keeping its eye on inflation expectations to keep them in check.



Source: Bloomberg, SIFMA estimates

Inflation – Composition

In general, inflation pressures can be divided across supply side, demand side, and the labor component.

Supply Side: The first supply side shock came from supply chain issues. We all remember counting the number of ships in queue off of the Ports of Los Angeles and Long Beach (Ports LA/LB) in the fall of 2021. We have seen improvements here, and economists expect continued supply chain improvements over the next year, at least on the domestic side. The wild card remains China. With the continuation of President Xi's Zero COVID policy – where cities can be locked down with no notice – supply chain disruptions remain a risk.

The second supply shock came from the Russian invasion of Ukraine. When the price of oil hit $120 per barrel, we saw a second jolt of inflation. Now, the price of oil (and other commodities) have stabilized, and the price of gasoline has come down, albeit still elevated. As such, potential China lockdowns and corresponding supply chain disruptions are a greater concern in the U.S. than the Russia/Ukraine war.

Supply side shocks increase prices and decrease output. And this side of the inflation equation is hard to tackle – the Fed cannot go unload boxes at the Ports LA/LB. Additionally, Fed tightening puts further downside pressure on output. On a happier note, one economist noted that if commodity prices in aggregate continue on a downward path, this could bring inflation down to the 4% range.

Demand Side: The demand side shocks were driven by the helicopter money spent over the last few years by the U.S. government (and many developed countries around the world). The goal was to spend our way out of the COVID-driven recession – the result was inflation. The U.S. spent an estimated $6 trillion in fiscal stimulus directly and loosely associated with COVID. And the money tap has not been shut off – $1 trillion infrastructure package, "only" $53 billion CHIPS act, etc. Many consumers received direct stimulus checks and enhanced unemployment benefits. We also saw strong pent up demand driven by COVID lockdowns in the U.S. This free money and "insanely" strong demand for goods from American consumers fueled demand side shocks to prices. One economist noted that this was the first time household spending went up during a recession.

The Fed can impact demand side inflation with monetary policy. As one economist said, it is tricky but doable. Additionally, persistently high inflation, raising rates, and recession fears should work to cool down consumer demand (and one economist noted that we are already seeing signs of fading).

Labor Component: However, economists pointed out that the U.S. is seeing the hottest labor market in history. Economists pointed out that we have had a tight labor market for a long time in the U.S. Low levels of legal immigration and low population growth have kept pressure on wages. Wage pressure – often referred to as sticky by economists – has been persistent. This does not fit into the 2% inflation story. The Fed needs to cool off the labor market and force an increase in the unemployment rate to tackle this piece of the inflation equation.

Putting all of the pieces together, bringing down the last couple of points of inflation to get to the 2% target could be very hard. Overall, our economists expect inflation to come back down, but it will take economic weakness to do so.

Recession – Unfortunately, Yes

The pain is coming – substitute pain for recession in the various Fed speeches you read. While bank CEOs during recent earnings calls commented that the U.S. consumer is currently healthy or stable – debt/income ratios are the lowest in decades, household checking/savings are above pre-COVID levels – this is not looking to be sustainable. One economist ran through some numbers. Household real disposable income in August was -4% (Y/Y growth rate), yet real spending was +4%. Households are bringing down savings rates (now 3.5%) and increasing credit card debt. While he does not expect the party to end next month, as consumers become more and more stressed, we will get a retrenchment.

The Fed has undergone the fastest pace of tightening since the 1980s. As such, the U.S. looks to not be able to avoid a recession next year. (Europe, the UK, and Japan are already in a recession; a mild aggregate global recession is expected for next year.) However, economists expect the recession to only be modest or mild. Although they do caveat this by noting that the strong pace of the rate hikes makes the end game uncertain. Economic models have been underestimating inflation over the last year and a half – by 2.5 pps in the U.S. and 4 pps in Europe – and our economists believe the Fed is being too optimistic about recession probability.

GDP and inflation are a simultaneous conversation. The Fed is playing catchup. By going this fast, it opens up the possibility of risking a "big accident". Our economists do not see how the U.S. can avoid a recession.

Rates – How Much More to Go

Did the Fed wait too long our moderator asked? Yes, an estimated six months too late as stated by one economist. For the last 30 years, we have not had inflation, and the Fed began rate increases on inflation expectations which never materialized since the Phillips Curve was so flat. Additionally, economic consensus was very slow to recognize the durability of the inflation we were seeing. Looking to our SIFMA Economic Roundtable survey, 67% of respondents still had inflation as transitory in our year-end 2021 survey. This was down from 88% of respondents in our mid-year 2021 survey but shows that consensus was still in the transitory camp to close out 2021.

Our panelists pointed out that back when we were still discussing transitory or not, the Fed had just adopted a new framework. This fell apart immediately. Looking at the trimmed mean inflation measure discussed above, it was around 2% a year ago. However, it has accelerated every month since. Our economists noted that despite seeing the hottest labor market and fiscal stimulus in history the Fed was unwilling to shift from its new framework and did not act.

Economists stated that the Fed now needs to be humble and nimble. The Fed's latest Summary of Economic Projections expects the unemployment rate at end-2022/2023 to increase 0.6 pps, while GDP growth should hit 1.3%. Economists pointed out that unemployment has never gone up this much without negative GDP growth.

While technically the upper bound on rates is infinity, economists do not thing we will have to raise rates back to 1980s levels. However, getting the last few 1-2% will be difficult, as some inflation expectations are becoming entrenched in the economy given high food prices. The Fed can get back to 2% according to economists, but not without pain. So as to not end this section on a down note, economists do not believe the Fed will need to raise rates to 7-8%.

Rapid Fire Roundup

Q: Is the U.S. in a recession now?
A: No

Q: Will the U.S. be in a recession next year?
A: Yes

Q: Where do you see the inflation rate next year?
A: Average 3.00% (range 2.75% to 3.25%)

Q: What will the Fed do in November?
A: Hike by 75 bps

Q: What will the Fed do in December?
A: Hike by 50 bps

Q: What will be the terminal interest rate?
A: 5.00% by this time next year

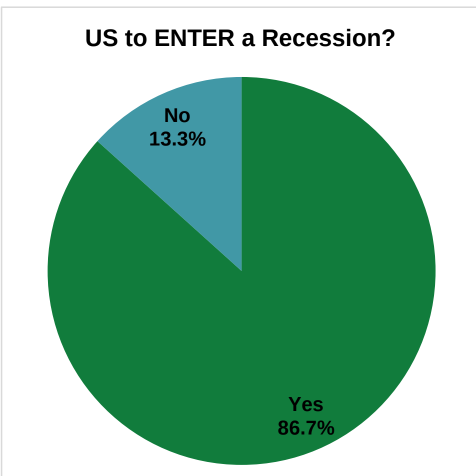
Q: What could change these views?
A: Sticky inflation could pressure the Fed to raise 75 bps in December and increase the terminal rate above 5.00%

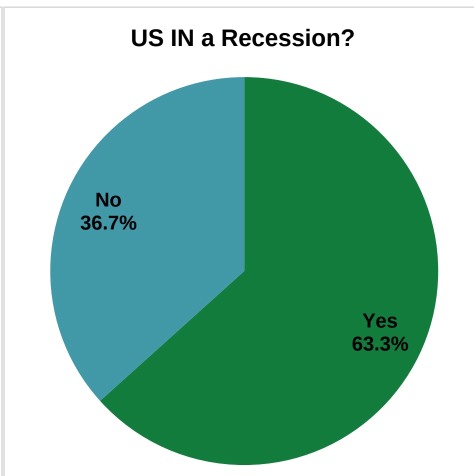
Market Touchpoint: Economic Themes

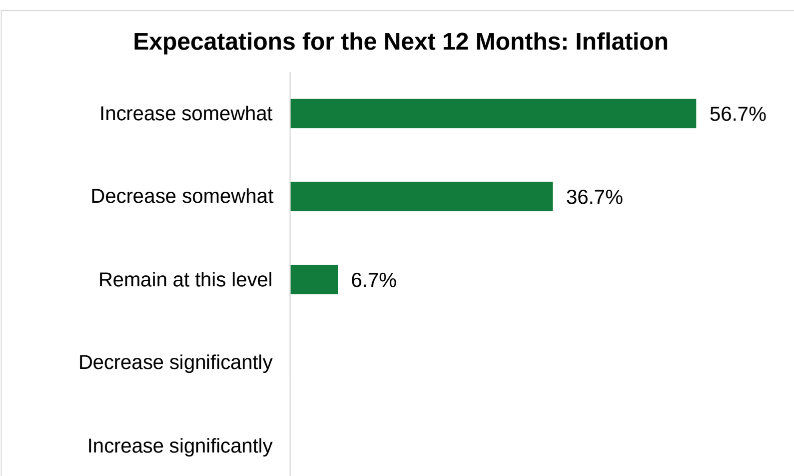
Our pre-conference survey sought to gauge respondents' thoughts around macroeconomic events and trends. We highlight the following in respondents' perspectives on key concerns:

- 86.7% of respondents expect the U.S. to enter a recession
- 63.3% of respondents believe the U.S. is already in a recession
- As to inflation expectations for the next 12 months, 56.7% of respondents expect it to increase somewhat, followed by 36.7% expecting inflation to decrease somewhat

Survey Questions: Do you expect the U.S. to enter a recession? Do you believe the U.S. is already in a recession? What are your inflation expectations for the next 12 months?







Source: SIFMA Insights pre-conference survey

The Regulatory View

The Industry View

Panelists indicated that the current SEC agenda is "very, very aggressive". They noted the need for the industry to work with SEC staff to educate them on unintended consequences, moving ideas off paper and into real world examples of what may not work or could go wrong. The goal is to look at capital markets as a whole, not just assess one regulatory change at a time.

Concerns exists that there is only so much you can push through a pipe before it bursts. Prior to 2021, firms had to implement Regulation Best Interest (Reg BI), the Consolidated Audit Trail (CAT), and cost basis on the tax side. Now, it is estimated that there are 34 active and over 20 proposed rules for the industry to eventually implement. Some of these rules/proposals will significantly transform markets, such as the transition to T+1 settlement. Additionally, the comment periods for rules/proposals have gotten shorter, with not much time to analyze the balance between the SEC's objectives (ex: increasing transparency) and the technology needed for and costs of implementation. Further, analysis must be performed to ensure firms of all sizes have the capabilities to implement changes, not just the largest firms.

Concerns were summarized in two questions:

- How much change is possible to implement?
- How much change is necessary to achieve the SEC's objectives, i.e. added transparency?

The SEC View

SEC Chair Gary Gensler began his update with a focus on competition, which he noted was central to the SECs remit. He commented that competition was important to maintaining fair and orderly markets for investors, issuers, and financial intermediaries, as it:

- Promotes innovation and efficiencies;
- Lowers the cost of capital; and
- Helps with the U.S.'s global competitiveness

With his focus on competition, Chair Gensler went on to discuss the tools the agency has to enhance competition by improving:

- Transparency – address information asymmetries;
- Access – ensure firms of all sizes compete, increasing innovation; and

- Fair dealing/playing field – indicating sports have rules to improve competition and that promoting integrity increases consumer confidence in markets

With those tools in mind, he restated some of the areas he has instructed staff to review, existing proposals, and potential proposals across markets, including:

- Fixed income – U.S. Treasuries (UST)
  - Require liquidity providers to register as dealers
  - Have platforms including interdealer brokers comply with Regulation Alternative Trading Systems (Reg ATS)
  - Broaden central clearing on both the cash and repo sides of the market
  - He supports measures at FINRA bringing additional transparency to UST and other fixed income markets
- Equity market structure
  - Minimum tick size – changes to the quote and trade tick size to level the playing field between dark and lit markets
  - Best execution – SEC rule to bring best ex "upstairs" from the FINRA level
  - Order by order competition for retail orders – introduction of price improvement auctions and greater interaction with buyside orders
  - Access fee – lowering the maximum cap
  - Disclosure – update Rule 605 to increase disclosure of order execution quality
- Private fund advisors – require detailed reporting on fees, expenses, and preferential treatment

Finally, Chair Gensler commented on the timing for proposals. In general, he noted that timing will be based on when SEC staff finish their work and send their recommendations upstairs. He reminded the audience that the SEC has not yet proposed anything on equity market structure. Yet, the agency has already received pre-proposal feedback.

The CFTC View

CFTC Chairman Rostin Behnam highlighted a few themes the agency is working on, including:

- Digital assets – The CFTC is looking at what other global regulators are considering or already doing, as there is a strong cross-border element in this space. He noted that the CFTC currently has limited authority over cash products; expansion of that authority is the subject of pending legislation
- Climate – In general, the climate conversation has been on disclosures. The Commission is reviewing feedback received in a recent request for information and considering what role the agency can play in this area, noting voluntary carbon markets as one such area
- Clearing and risk – clearing house governance and the relationship (or tension) between clearing houses and clearing members. CFTC has proposed to bridge the gap via transparency around margin models, risk committees, and governance structures
- CFTC Division of Market Oversight (DMO) – elevate data collection and analysis with artificial intelligence (AI) and machine learning (ML)
- Intermediaries – focused on risk management tools and cyber resiliency

The ESG Perspective

Updates from Regulators

U.S. Secretary of the **Treasury** Janet Yellen noted that the Treasury and Financial Stability Oversight Council (FSOC) are working with a group of regulators to adequately assess and address climate-related risk that companies face. This pooling strategy is new for all of the regulators involved, sharing information and learning how to go about doing this. She noted they are also engaging with financial institutions to try to understand how they are implementing and accounting for commitments to achieve net-zero by 2050. Additionally, Yellen indicated that the development of carbon markets could be very helpful.

SEC Chair Gary Gensler made some comments around the SEC's climate proposal. The agency reopened the comment period for this proposal, requesting feedback on the usefulness, viability, and liability scope three emissions. The climate rule has received around 15,000 comments from investors, issuers, etc. This includes feedback from large and mid-sized public companies, as well as private companies. As to recent press reports, he denied that the climate rule would be finalized in the next few weeks. There is no timing for this rule as of yet.

Chair Gensler finished comments on the climate rule by noting that the SEC is a disclosure-based regulatory. Since the ESG/sustainable finance conversation is already happening – investors see climate change as influencing investment decisions – the SEC wants to see full, fair disclosure to bring greater consistency and comparability to this area of markets.

CFTC Chairman Behnam also made comments on his agency's request for information on climate related financial risk, which asked a series of questions on disclosures, stress testing, and data, among other items. The comment period recently closed, and the agency received diverse feedback with many comments focusing on: (a) the need to approach climate at the enterprise versus subsidiary level and (b) the need for global coordination. He indicated the agency wants to build a coalition on what the agency can do in this space.

Chairman Behnam also made comments on voluntary carbon markets (VCBs) – not to be confused with compliance markets, which are cap and trade markets[6]. VCBs are marketplaces to buy and sell carbon offset credits, which represent an instrument representing the reduction of one metric tonne of carbon dioxide or GHG emissions. This is currently an unregulated space – which can be ripe for fraud – and, as such, has suffered from credibility issues. Behnam indicated VCBs are at the juncture of innovation and scaling. CME Group and Intercontinental Exchange (ICE) each have futures contracts in this space, and Behnam expects to continue to see innovation in this area. As such, the agency is considering how it could alleviate integrity and transparency issues.

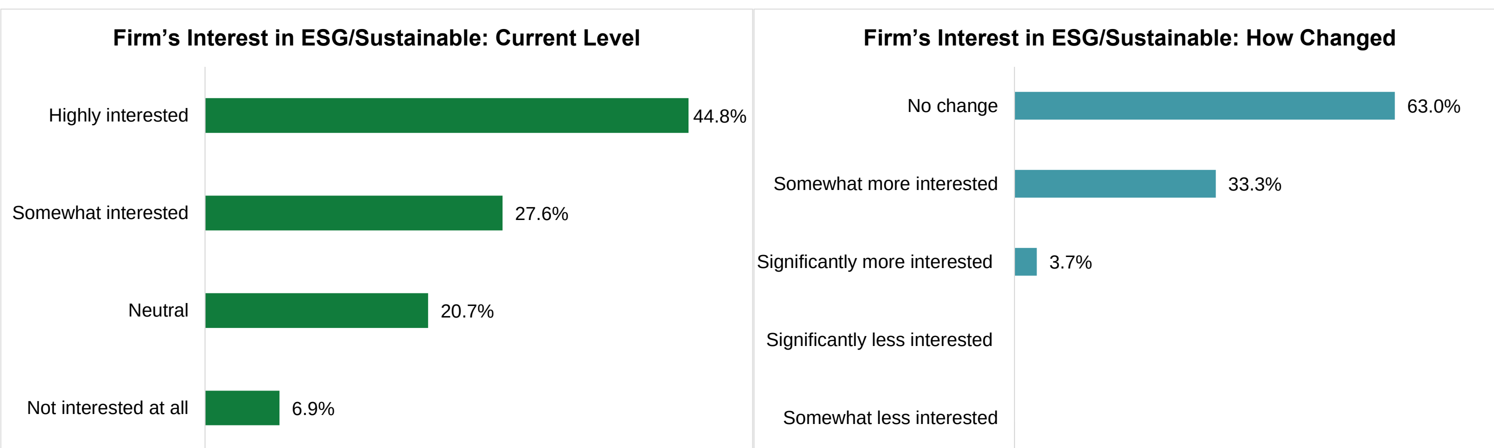
[6] System that limits aggregate emissions from a group of emitters by setting a cap on maximum emissions. The government grants the right to emit pollutants through emissions allowances, which are tradeable, bankable, and scarce, signaling a price for the cost of emitting

Market Touchpoint: ESG

We used our pre-conference survey to gauge survey respondents' interest in ESG and sustainability services and product offerings. We highlight the following:

- Current level of interest
  - 44.8% of respondents were highly interested
  - 27.6% of respondents were somewhat interested
- How interest has changed
  - 63.0% of respondents indicated there was no change
  - 33.3% of respondents noted they have become somewhat more interested

Survey Questions: How do you rate your firm's current interest in providing ESG/sustainable products/underwriting? How has your firm's interest in providing ESG/sustainable products/underwriting changed since the start of the year?



Source: SIFMA Insights pre-conference survey

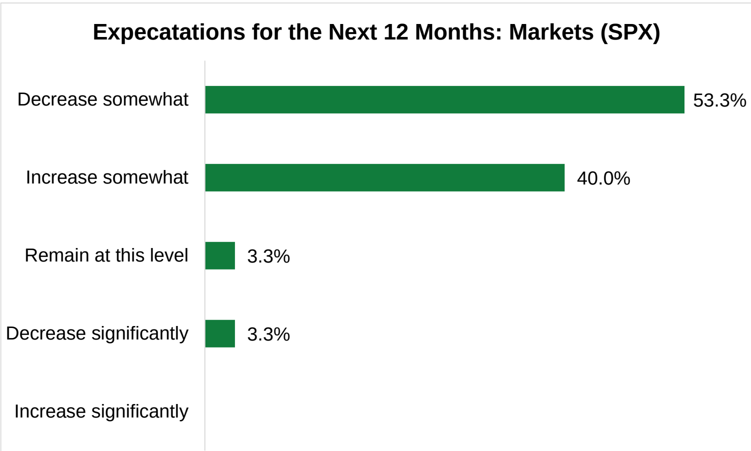
More on Market Themes

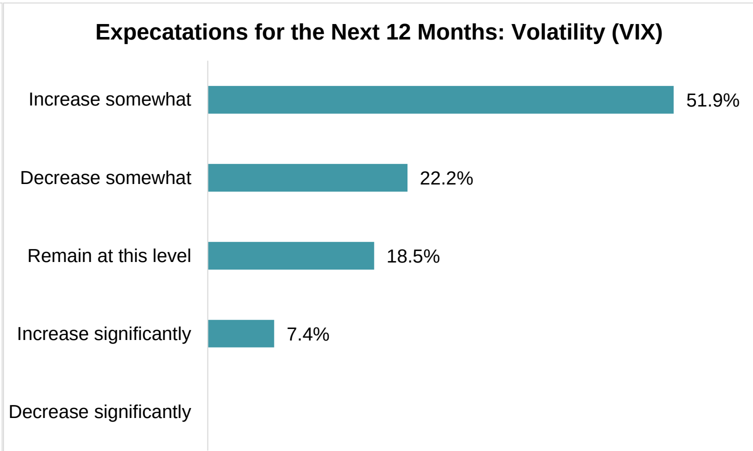
Market Touchpoint: Markets & Volatility

Our pre-conference survey sought to gauge respondents' thoughts around market performance (price of the S&P 500 index) and volatility (the VIX). We highlight the following in respondents' perspectives for the next 12 months:

- Markets (S&P 500, SPX Index)
  - 53.3% expect markets to decrease somewhat
  - 40.0% expect markets to increase somewhat
- Volatility (VIX Index)
  - 51.9% expect volatility to increase somewhat
  - 22.2% expect volatility to decrease somewhat
- In short, expectations are for volatility to be up but markets down

Survey Questions: Over the next 12 months, do you expect markets – in terms of the price of the S&P 500 index – to? Over the next 12 months, do you expect market volatility – in terms of the price of the VIX index – to?





Source: SIFMA Insights pre-conference survey

Crypto/Digital Assets

Comments from Regulators

SEC Chair Gensler reiterated his belief that many digital assets are securities and therefore fall under the SEC's jurisdiction. Based on the current laws on the books, he estimates a significant portion of the existing ~10,000 tokens qualify as securities. He believes the agency's role is to set fair rules for this market. He indicated rules can be adjusted by Congress, as long as, as Aristotle noted, "like cases be treated alike".

From the **CFTC's** perspective, Chairman Behnam pointed out that the CFTC would be ready to oversee, or fill in, the gaps in the cash markets, but it would require expanded authority. Similar to Gensler, he believes some of the existing tokens are commodities. The agency needs to understand how to regulate these commodity tokens. Currently, the digital asset space differs from traditional commodities markets in that digital assets have been more retail oriented speculative markets versus the risk management and price discovery functions played by the derivatives markets the CFTC currently oversees.

Chairman Behnam also reminded the audience that the CFTC does have the authority to bring enforcement cases in cash markets – the underlying markets to derivative contracts – in instances of fraud or manipulation of markets. The CFTC has brought around 60 enforcement cases in the digital asset space, ranging from large ($2 billion) to small scale cases. All of these actions were driven by whistle blowers and market participants bringing complaints to the agency, since the agency does not currently have the regulatory and surveillance infrastructure of its traditional markets in this space. Behnam noted that these 60 cases most likely represent only the tip of the iceberg.

Finally, Chairman Behnam discussed the Digital Commodities Consumer Protection Act (DCCPA) bill sponsored by Senators Debbie Stabenow (D-MI) and John Boozman (R-AR). The bill would expand the scope of CFTC authority over certain types of digital assets, by defining a "digital commodity" which would include common cryptocurrencies, and empower the CFTC to regulate digital commodity platforms. Behnam feels the draft bill provides a good commodity definition for this space, which clearly exempts digital securities and Central Bank Digital Currencies (CBDC) and argued it would provide a clear framework to regulate digital commodities under the existing system.

Comments from Market Participants

While differing opinions on the ability to determine intrinsic value continue, there is not a debate around the benefits on the underlying blockchain technology. There also seems to be an industry consensus around the need for a more defined regulatory structure to protect investors. The rise of digital assets started with crypto, and, as a panelist noted, financial services innovation was 100% consumer lead in this space. The trend came in fast and strong, and now 80 million U.S. individual investors own or have purchased digital assets. Panelists estimated that 40% of Millennials[7] invest in crypto, which is greater than the percent investing in mutual funds.

One panelist pointed out the loss destruction – when Bitcoin was at $60,000 some people said it could go to $500,000, but it is now around $19,000. More regulatory clarity is needed, and the regulators and Congress are playing catch up to the markets.

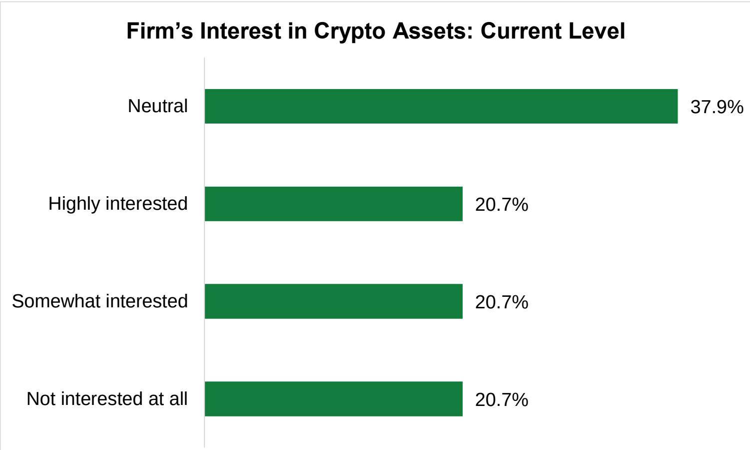
[7] Millennials = Generation Y = Gen Y = those born between the early 1908s and the mid-19902 to early 2000s

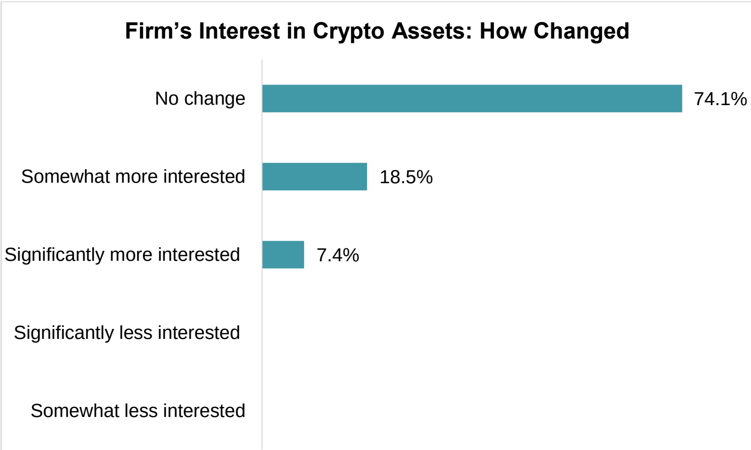
Market Touchpoint: Crypto

We used our pre-conference survey to gauge survey respondents' interest in crypto asset investing, highlighting the following:

- Current level of interest
  - 37.9% of respondents were neutral
  - Highly, somewhat, and not interested were then spilt at 20.7% each
- Change in level of interest
  - 74.1% of respondents expressed no change
  - 25.9% expressed an increase in interest, 18.5% somewhat and 7.4% significantly more interested

Survey Questions: How do you rate your firm's current interest in crypto asset investing? How has your firm's interest in crypto asset investing changed since the start of the year?





Source: SIFMA Insights pre-conference survey

Appendix: SIFMA Insights Research Reports

Monthly Market Metrics and Trends: www.sifma.org/insights-market-metrics-and-trends

- Statistics on volatility and equity and listed options volumes
- Also highlights an interesting market trend

Market Structure Primers: www.sifma.org/primers

- Capital Markets Primer Part I: Global Markets & Financial Institutions
- Capital Markets Primer Part II: Primary, Secondary & Post-Trade Markets
- Electronic Trading
- US Capital Formation & Listings Exchanges
- US Equity
- US Multi-Listed Options
- US ETF
- US Fixed Income
- SOFR: The Transition from LIBOR
- The Evolution of the Fintech Narrative

Equity Market Structure Analysis Series

- Analyzing the Meaning Behind the Level of Off-Exchange Trading, Part II
- Analyzing the Meaning Behind the Level of Off-Exchange Trading
- Why Market Structure and Liquidity Matter

Conference Debriefs

- Insights from market participants into top-of-mind topics

SIFMA Insights: www.sifma.org/insights

- Pre-Conference Survey Comparison, Spring 2022
- Market Structure Thoughts
- Market Structure Compendium
- Inflation 101
- Market Structure Survey: Volatility, Volumes, Market Levels & Retail Investor Participation
- SPACs versus IPOs
- A Look Back at 2020 Market Structure Themes
- US Capital Formation’s 2020 Journey
- Market Structure Download: Post-Election Update
- Market Performance Around US Presidential Elections

- Market Volatility Around US Presidential Elections
- Market Structure Download
- A Deeper Look at US Listed Options Volumes
- The Cboe Trading Floor Reopened – Revisiting Volume Data
- NYSE Goes All Electronic – What Does It Mean?
- The NYSE Trading Floor Reopened – Revisiting Market Share Data
- COVID-19 Related Market Turmoil Recap: Part I (Equities, ETFs, Listed Options & Capital Formation)
- COVID-19 Related Market Turmoil Recap: Part II (Fixed Income and Structured Products)
- 2020, the Year of the SPAC
- The 2020 Market Madness
- The VIX's Wild Ride
- The 10th Anniversary of the Flash Crash
- DTCC's Important Role in US Capital Markets
- Building Resilience with a Culture of Cyber Awareness

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