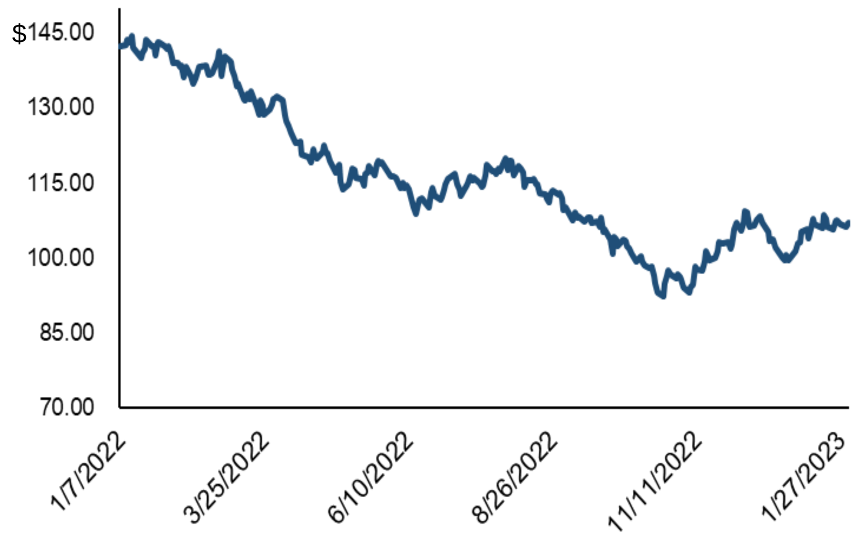
TLT | One-Year Price Chart



Position Details

- iShares 20+ Year Treasury Bond ETF | TLT
- Underlying Price: $108.33
- Bull Call Spread
- Expiration Date: August 18, 2023

Interest Rate Products Sector

Associate
Rishi Khanna
rishi.khanna03@gmail.com

Analyst
Joseph Piccirilli
josephvpiccirilli@gmail.com

Analyst
Adi Wodeyar
adiwodeyar@gmail.com

President
Anthony Bruno
anthonybruno2186@gmail.com

Chief Investment Officer
Phil Sullivan
philsullivan10@gmail.com

Director of Risk
Eric DuBartell
ericdubartell@gmail.com

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I. Product & Position Overview

Product & Position Overview

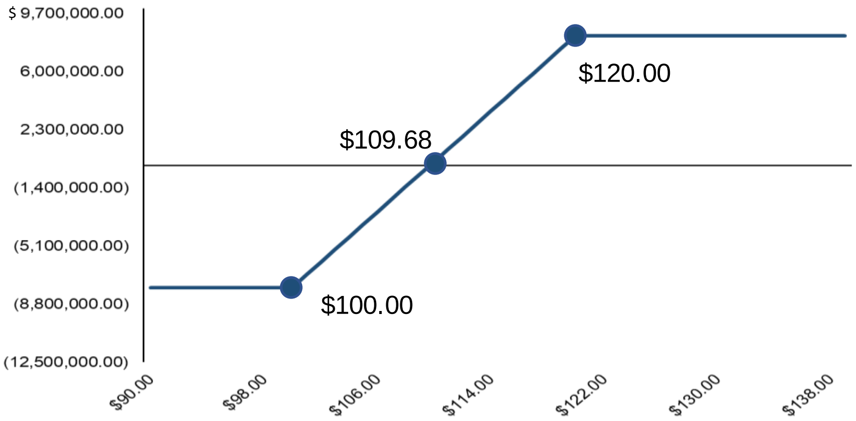
Product Description

- **iShares 20+ Year Treasury Bond ETF**
  - The iShares 20+ Year Treasury Bond ETF (TLT) is an exchange-traded fund that tracks the returns of U.S Treasury bonds with maturities over 20.00 years
  - It was created in 2002FY with 99.21% of the fund's holdings being longer-term U.S. Treasury securities
  - TLT's benchmark is the ICE US Treasury 20+ Year Index
  - TLT traded down significantly in 2022FY primarily due to the elevated levels of inflation as well as the Federal Reserve's monetary policy tightening cycle
  - Long-term U.S. Treasury securities bonds are primarily driven by macroeconomic conditions and inflation

Trade Breakdown

- **Bull Call Spread**
  - This strategy benefits from increases in the prices and decreases in the yields of long-term Treasury securities
- **Setup**
  - We Buy – 8,000.00 ITM $100.00 Calls ($11.70) | TLT
  - We Sell – 8,000.00 OTM $120.00 Calls ($2.02) | TLT
    - Max Profit: $8,256,000.00
    - Max Loss: ($7,744,000.00)
- **Expiration**
  - Date: August 18, 2023

Payoff Diagram



Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - **$98.00** / **$115.00** / **$120.00**
  - Breakeven – $109.68
- **Methodology**
  - The Sector holds that the underlying will trade up as inflationary pressures ease and rate hikes pause
- **Hedge Strategy**
  - If inflation continues to remain high moving into 2023FY, the Sector will exit the position through a reverse trade

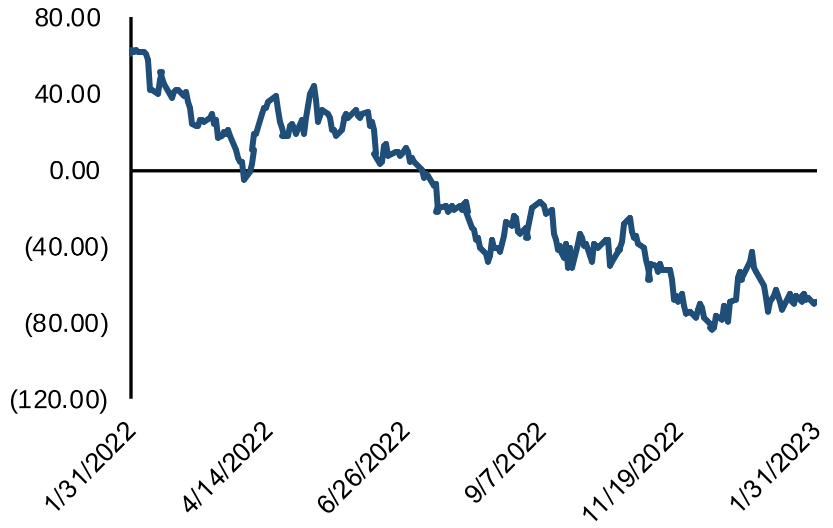
II. Macroeconomic Thesis

Macroeconomic Thesis

Macroeconomic Summary

- **Understated Recessionary Fears**
  - In a potential recessionary environment, investors will likely flock to safer investments, such as fixed income securities, as the Federal Reserve halts its interest rate increases
  - In 4Q2022 and the beginning of 2023FY, fixed income ETFs have traded up significantly, as investors largely exit equity investments and move into safer alternatives
  - The recent market trade up presents a strong buying opportunity for longer term bonds, as the economy begins to feel the effects of tightening monetary policy
- **Decreasing Inflation Figures**
  - After reaching historic highs in September 2022FY, inflation has shown signs of cooling in the past four months
  - With core PCE, the Fed's preferred inflation gauge, decreasing to ~4.40% as well as core CPI falling 0.10%, fixed income investors are now pushed into a position where they can benefit off recessionary pressures and a decrease in inflationary pressures at large
- **Recovering Credit Spreads**
  - The Investment Grade Credit Spread has reached ~125.00 bps, which represents a significant decrease from a year-long high of ~170.00 bps in October 2022FY
  - The decrease in credit spreads reflects lower market perceived risk in credit markets, in addition to the flow of investor capital back into fixed income investments
  - Credit spreads will continue to decrease and stabilize as credit markets witness increased capital inflows, which will also contribute to higher volatility in the underlying ETF

2-10 U.S. Treasury Yield Spread (bps) | One-Year Chart



Market Pros & Cons

- Inflation continues to decrease as interest rates remain elevated
- Bond ETFs see greater inflows as investors seek stable returns
- Secular factors continue to keep inflation at elevated levels
- Economic growth remains strong, leading investors to equities

III. Risk Analysis

Risk Analysis

Directional & Magnitude Risk

- **Delta Analysis**
  - The trade has a Delta value of 0.4552
  - The trade benefits from bullish price movements in the underlying, which corresponds with a broader decrease in the yields of long-term U.S. Treasury securities
- **Gamma Analysis**
  - The trade has a Gamma value of 0.0004
  - Gamma is somewhat negligible for this trade, since a call option is being bought and sold

Time Risk

- **Theta Analysis**
  - The trade has a Theta value 0.0021
  - Theta is positive for the trade because the premium for the long call is substantially higher than that of the short call
  - To enter the position, the Sector is a net payer in premiums, so as time progresses, the trade should appreciate in value

Implied Volatility Risk

- **Vega Analysis**
  - The trade has a Vega value of 0.0048
  - The trade is long volatility for the duration of the trade, as the premiums for each leg of the spread would increase
  - Sustained inflows into U.S. Treasury markets at large will increase the volatility of fixed income markets
  - The implied volatility for each leg of the trade is ~17.00%

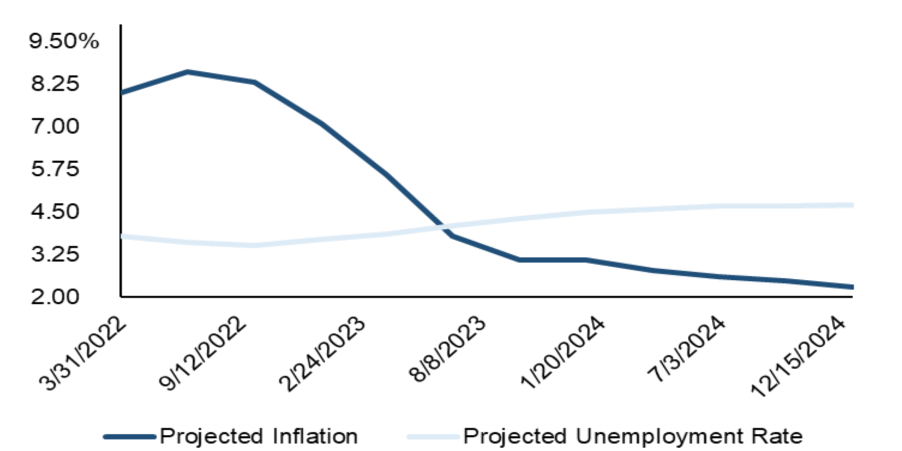
Interest Rate Risk

- **Rho Analysis**
  - The trade has a Rho value of (0.0460)
  - Rho is somewhat significant for the trade, since U.S. Treasury securities are largely correlated with movements in the target range for the federal funds rate
  - Although longer-term fixed income securities tend to be less affected by interest rate increases, sustained rate hikes could lead to elevated yields on these bonds

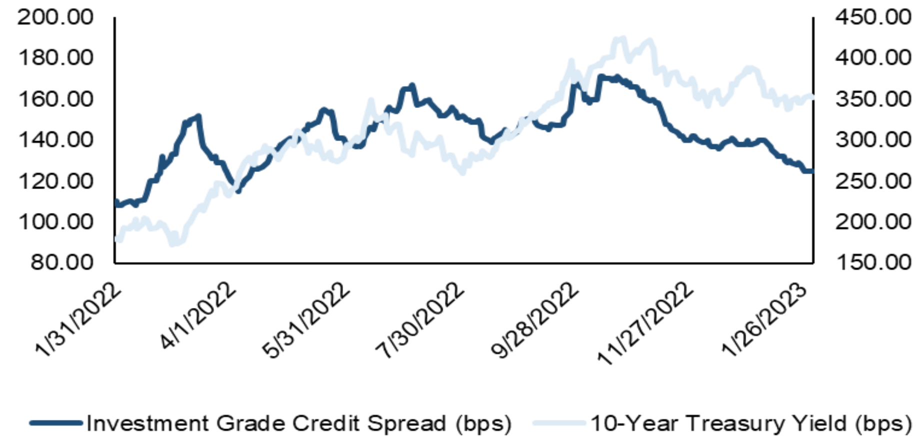
IV. Technical Bias & Fair Value

Technical Bias & Fair Value

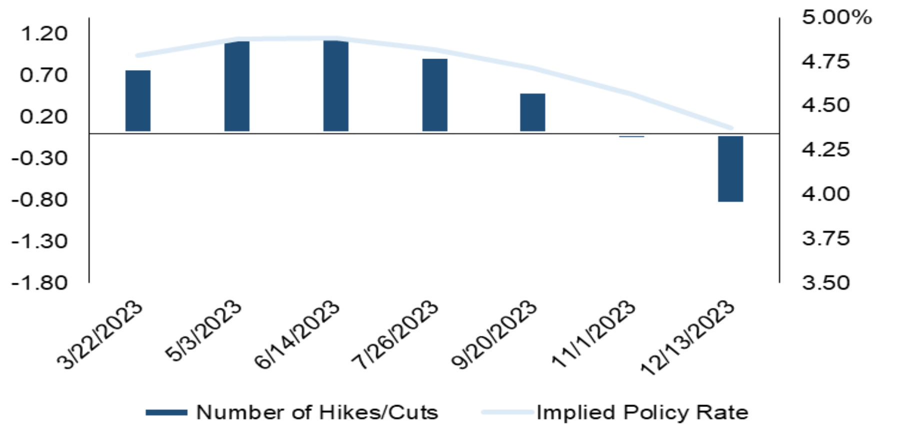
Projected Inflation vs. Projected Unemployment | Three-Year Chart



Investment Grade Credit vs. 10-Year Treasury Yield | Two-Year Chart



WIRP Federal Funds Rate | One-Year Chart



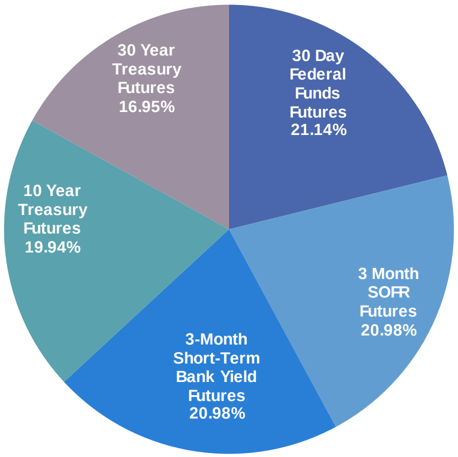
Synopsis

- As inflation returns to its two percent target in the long-run, investors at large will likely flock to stable longer-term fixed income securities due to their stability of cash flows and seemingly risk-free returns
- Credit spreads have shown a decrease in market perceived risk within credit markets, as corporations at large have remained liquid
    - The credit spread tightening has also showed resumed flows into fixed income securities following selloff in 2022FY
- The recent market trade up and lasting effects from the Federal Reserve's ongoing monetary policy tightening cycle presents a strong buying opportunity for U.S. Treasury securities that are underpriced

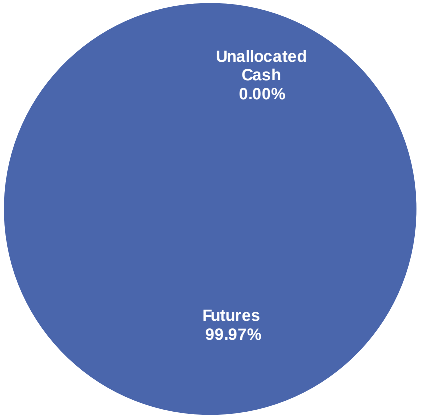
V. Capital Allocation

Capital Allocation

Current Portfolio Allocation



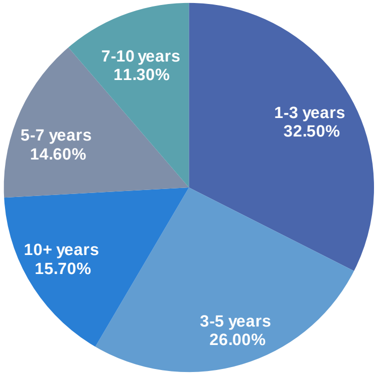
Current Position Allocation



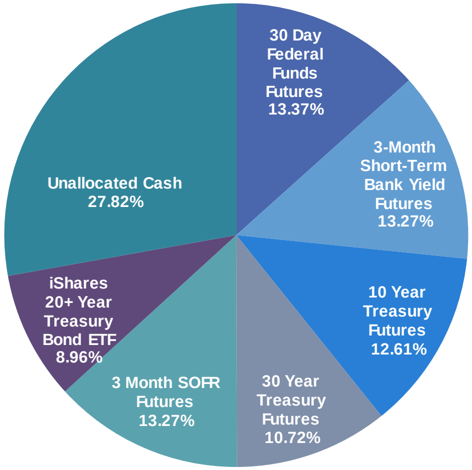
Transaction Summary

Ticker	Position Change: Contracts	Position Change: Allocation
10 Year Treasury Futures	0	$0.00
3 Month SOFR Futures	0	$0.00
30 Day Federal Funds Futures	0	$0.00
30 Year Treasury Futures	0	$0.00
3-Month Short-Term Bank Yield Futures	0	$0.00
iShares 20+ Year Treasury Bond ETF	0	$7,744,000.00
Allocation Change		$7,744,000.00

Benchmark Allocation



Proposed Portfolio Allocation



Proposed Position Allocation