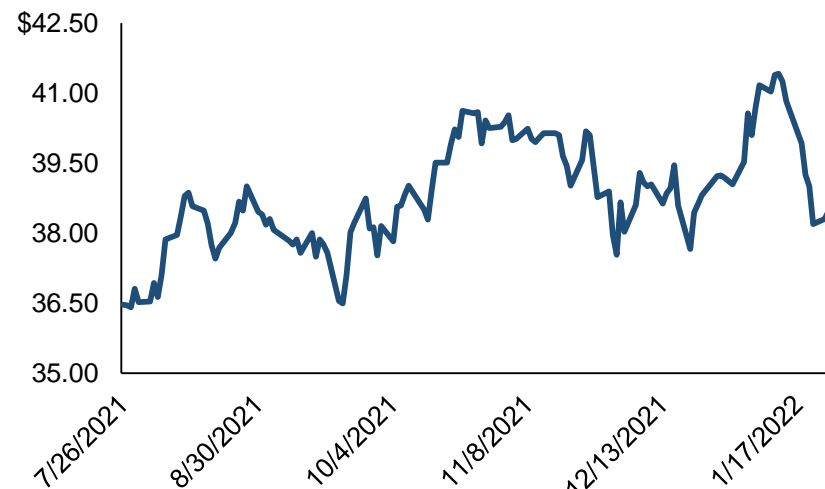




## XLF US Equity | Six-Month Price Chart



### Position Details

- Financial Select Sector SPDR Fund | XLF US Equity
- Underlying Price: \$39.60
- Iron Condor
- June 30, 2022

### Equity Derivatives Sector

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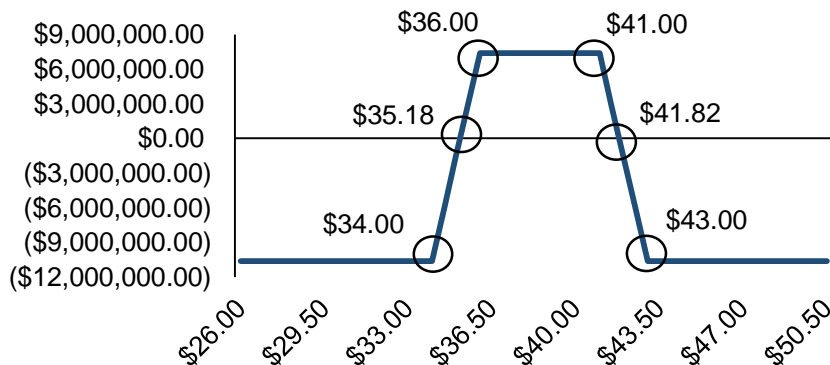
## I. Product & Position Overview

## Product & Position Overview

### Product Description

- **The Financial Select Sector SPDR Fund**
  - The Financial Select SPDR Fund is an exchange-traded fund comprised of 67.00 financial service firms that tracks the Financial sector of the S&P 500
  - The Financial Select SPDR Fund is heavily weighted in standard and investment banks in the U.S. and Canada
    - The top five holdings account for 39.76% of the fund's weight including Berkshire Hathaway Class B (BRK.B), JPMorgan Chase & Co. (JPM), Bank of America Corporation (BAC), Wells Fargo & Company (WFC), and Citigroup Inc. (C)

### Payoff Diagram



### Trade Breakdown

- **Iron Condor**
  - This trade benefits from neutral movements in the price of the underlying ETF
- **Setup**
  - We Buy – 90,000.00 OTM Puts at strike of \$34.00
  - We Sell – 90,000.00 OTM Puts at strike of \$36.00
  - We Sell – 90,000.00 OTM Calls at strike of \$41.00
  - We Buy – 90,000.00 OTM Calls at strike of \$43.00
- **Expiration**
  - June 30, 2022

### Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - **\$38.50 / \$36.00 & \$41.00 / \$34.00 & \$43.00**
  - Breakeven points – \$35.18 & \$41.82
- **Methodology**
  - The Sector believes that the Financials sector is priced at fair value and will experience comparatively low volatility in the coming months, leading to neutral price movements
- **Hedge Strategy**
  - The Sector will adjust our number of XLF shares held in the event of significant adverse price movements up or down



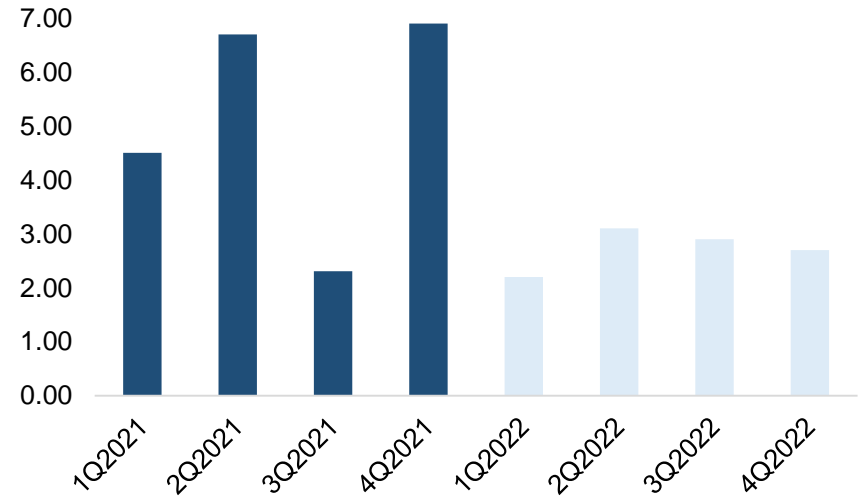
## I. Macroeconomic Thesis

## Macroeconomic Thesis

### Macroeconomic Summary

- **Mixed Bank Performance Amid Monetary Policy Shift**
  - Banks typically perform well amidst high-interest rate environments, increasing margins
  - U.S. bank loan growth accelerated in 4Q2021 from the prior quarter across consumer and commercial segments
    - The Sector believes loan growth will level off as borrowing becomes more expensive
  - Bank revenue growth hampered by weaker trading revenues and larger expenses, primarily with increasing talent retention costs
- **Neutral Performance Amid Moderating Economic Growth**
  - Currently the U.S. is entering the late-cycle phase of the business cycle in which Financials historically have muted performance
  - During the previous late-cycle phase, the XLF saw positive returns, but growth was muted; from its 2018 high to 2019 high, it realized a mediocre 2.00% growth
  - Since the financial sector is cyclical and interest rate sensitive, investors will typically look to it earlier in the business cycle
- **Lackluster Performance from Insurers and Asset Managers**
  - Large insurance companies net most of their revenue from money from premiums, prior to paying out claims
    - The Sector expects poor performance from the broader market, leading to worse returns
  - Asset managers have seen large trade downs over the last three months with BlackRock (BLK) and T. Rowe Price Group (TROW) falling 14.10% and 26.45%, respectively

### U.S. Y/Y GDP Growth | Actual vs. Projected



### Market Pros & Cons

- Federal Reserve Begins Shrinking Balance Sheet by Allowing Some Treasuries and MBS to Mature
- Markets Accurately Predicts Number of Rate Hikes
- Emergence of New COVID-19 Variants of Concern Sparks Volatility
- Inflation Surges Despite Rate Hikes, Driving Interest Income



## I. Risk Analysis

## Risk Analysis

### Directional & Magnitude Risk

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- **Delta Analysis**
  - The trade is slightly negative Delta with a value of (0.001)
  - Delta is essentially neutral since the trade would benefit from the underlying staying within its current range
    - The slight negative value can be explained by the underlying currently being slightly closer to our upper strike prices
- **Gamma Analysis**
  - This position is short Gamma with a value of (0.020) as the trade would be adversely affected by large price swings

### Implied Volatility Risk

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- **Vega Analysis**
  - Calculated with an implied volatility of 24.86%, this position is short Vega with a value of (0.031)
  - Since this trade benefits from the underlying trading within a range, increases in implied volatility would hurt the market value of the trade

### Time Risk

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- **Theta Analysis**
  - The position is currently long Theta with a value of 0.003
  - Since the underlying is currently within our range of maximum profitability, each passing day makes the underlying more likely to end within our desired range
  - Theta would change to a negative value if the underlying fell out of a profitable range, since time decay would then hurt our chances of profitability

### Interest Rate Risk

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- **Rho Analysis**
  - This trade is long Rho with a value of 0.004
  - As net receivers of the options premiums, increases in the risk-free rate would benefit us since we could theoretically invest the cash in a risk-free asset

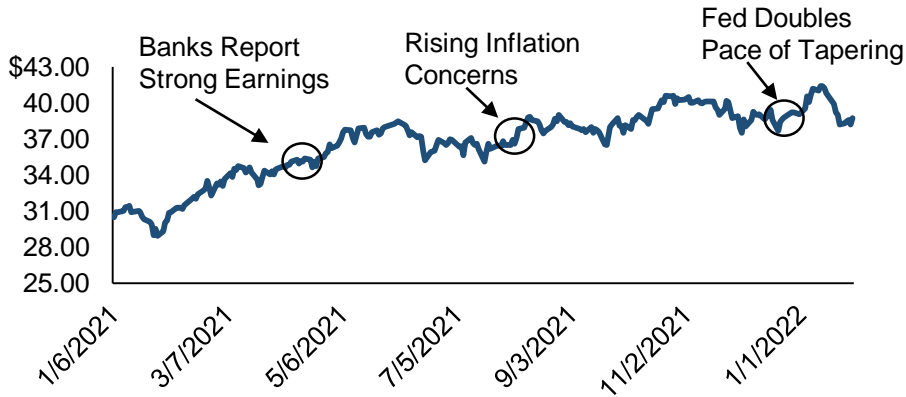




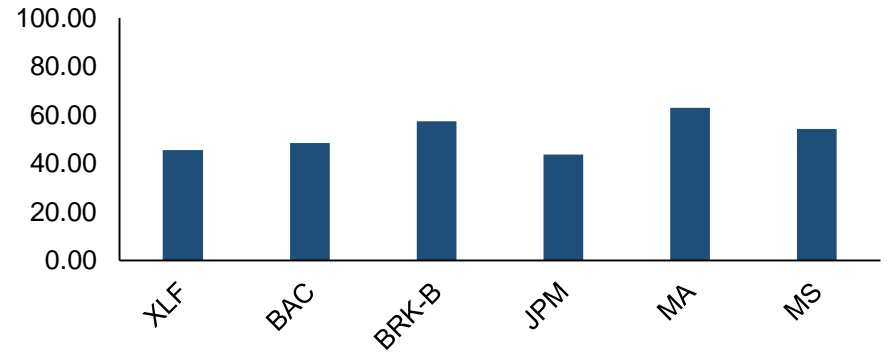
## I. Technical Bias & Fair Value

## Technical Bias & Fair Value

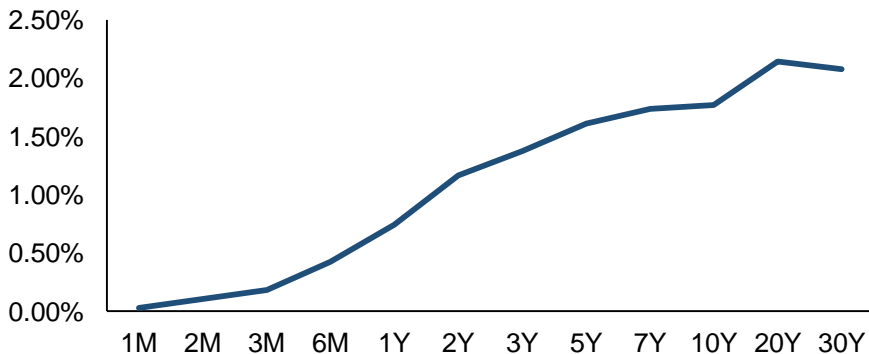
**XLF US Equity | Major Events**



**RSI Chart | XLF US Equity and Major Holdings**



**U.S. Treasury Yield Curve**



### Synopsis

- In April 2021, banks reported strong earnings among rising inflation, as CPI jumped to 4.20% y/y from 2.60%
- XLF traded up in early August as concerns over inflation mounted, with mentions of inflation in earnings reports up 1,100.00% y/y
- In December 2021, the Fed raised its pace of asset tapering from \$15.00 bn to \$30.00 bn per month
- RSI values for XLF and its major holdings indicate that it is not being oversold nor overbought
- Flattening across the yield curve is indicating investor concerns over long-term economic growth, with the 30.00-year even falling below the 20.00-year treasury

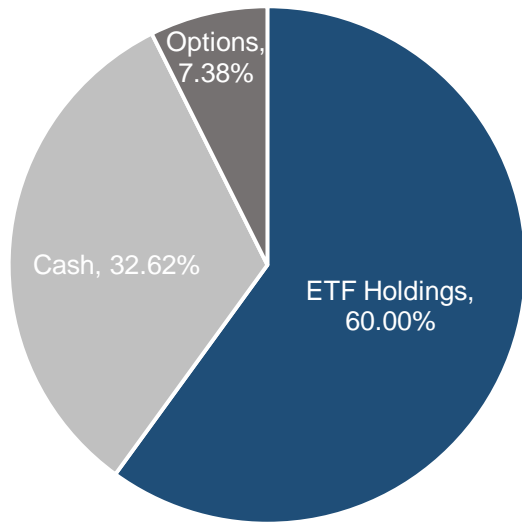


## I. Capital Allocation

## Capital Allocation

### Allocation Breakdown & Portfolio Implications

- The Sector plans to allocate 60.00% of our total allocation towards holdings of ETFs in our benchmark, 30.00% towards options, and 10.00% is to be held as cash reserves
- This trade will increase our exposure to the Financials sector
  - Currently, 5.00% of our cash is invested in shares of XLF, so this trade increases exposure substantially
- The Sector holds conviction that the Financials sector will see sideways price movements in the coming months, leading the Sector to capture profit through a neutral options strategy



### Portfolio vs. Benchmark Allocation Weights

