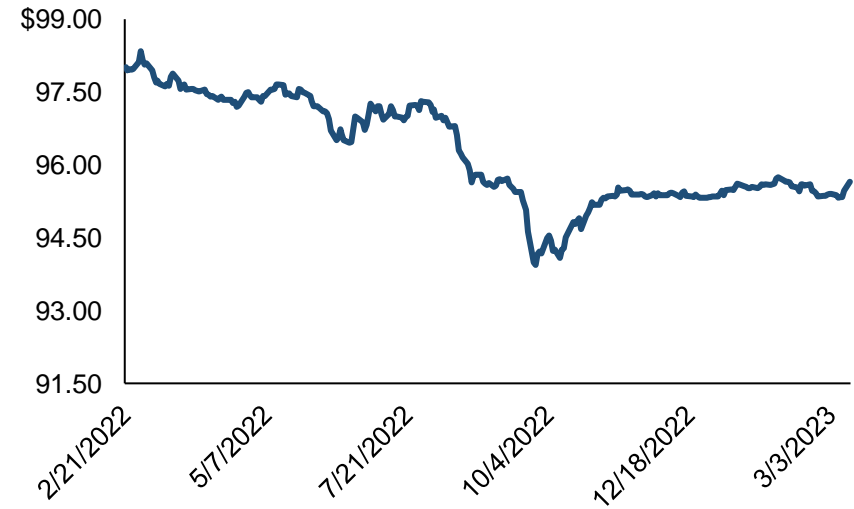


SFIM3 | One-Year Price Chart



Position Details

- Three Month SONIA Index Futures | SFIM3
- Underlying Price: \$95.60
- Bull Call Spread
- Expiration Date: June 16, 2023

Interest Rate Products Sector

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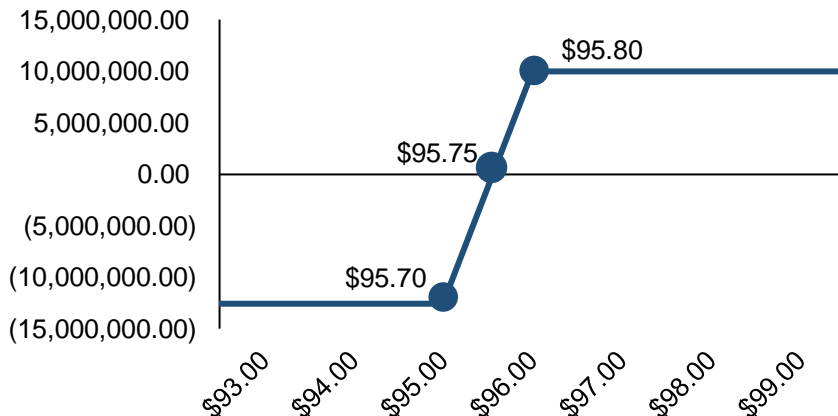
I. Product & Position Overview

Product & Position Overview

Product Description

- **Three Month SONIA Index Futures**
 - The Sterling Overnight Index Average (SONIA) is the overnight interest rate benchmark for banks on unsecured transactions in the British sterling market
 - Three Month SONIA Index Futures (SFIM3) reflect the markets expectations on the weighted average of the SONIA rate for the contracts respective months
 - The SONIA rate is impacted primarily by the Bank of England base rate, liquidity in the overnight sterling market, and macroeconomic conditions

Payoff Diagram



Trade Breakdown

- **Bull Call Spread**
 - This trade benefits from increases in the prices and decreases in the expected rate of the underlying
- **Setup**
 - We Buy – 100.00 OTM \$95.70 Calls (\$0.19) | SFIM3
 - We Sell – 100.00 OTM \$95.80 Calls (\$0.14) | SFIM3
 - Max Profit: \$5,250,000.00
 - Max Loss: (\$4,750,000.00)
- **Expiration**
 - Date: June 16, 2023

Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
 - **\$95.80 / \$95.78 / \$95.50**
 - Breakeven – \$95.70
- **Methodology**
 - The sector holds that the underlying will trade up after inflation rapidly reduces during the course of the contract
- **Hedge Strategy**
 - Should the expected SONIA rate for the contract increase, the sector will look to exit the position by reverse trading



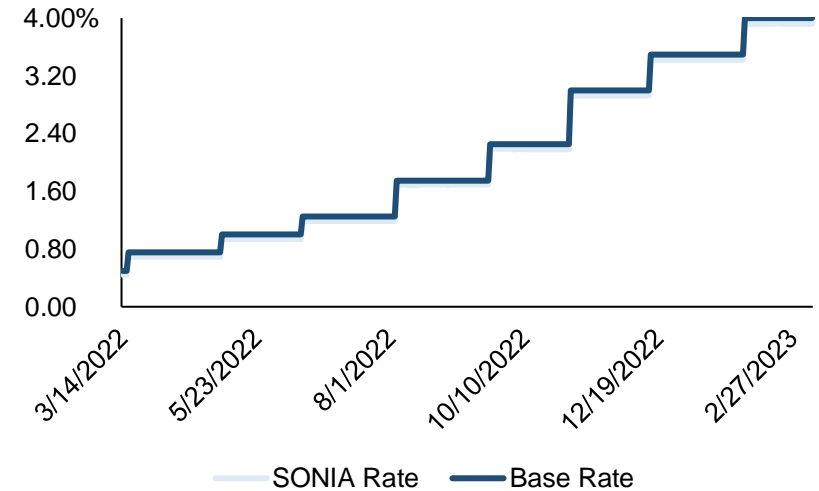
II. Macroeconomic Thesis

Macroeconomic Thesis

Macroeconomic Summary

- **Overstated Economic Growth**
 - U.K. GDP grew 0.30% for January m/m after falling 0.50% in December 2022FY and was driven by increased spending in the education and entertainment sector
 - Return of the Premier League and children to school after illness were the main contributors
 - Strikes in the winter of 2022FY hindered retail sales during the holiday season which contributed to GDP decreases
- **Reduced Inflation Persistence**
 - Food prices increased 14.50% in February due to droughts and supply chain issues from major produce importers. Food and import shortages are projected to alleviate by April 2023FY
 - 70.00% of CPI inflation in 2022FY was caused by energy and import prices
 - The Energy Price Guarantee will cap household energy bills to £2,500.00, avoiding the potential increase in April
- **Tech Sector Instability**
 - With the collapse of Silicon Valley Bank (SVB) banks in the U.K. have entered bids to take on SVB's depositors for U.K. tech companies until their funds are released
 - 3,300.00 of the U.K.'s most promising tech start-ups face losing £7.00 bn
 - Threats of financial instability in a sector the U.K. heavily seeks to grow will add to potential dovish sentiment

SONIA Rate vs. Base Rate | One-Year Chart



Market Pros & Cons

- Increase mortgage rates put pressure on Bank of England
- Job vacancy rates continue to decline
- Widespread strikes lead to an increase in wages
- Geopolitical tensions increase supply chain issues



III. Risk Analysis

Risk Analysis

Directional & Magnitude Risk

- **Delta Analysis**
 - The trade has a Delta of 0.0169
 - This trade benefits from bullish movements in the underlying future, which corresponds to a fall in SONIA
- **Gamma Analysis**
 - The trade has a Gamma value of 0.00009
 - Due to both a call being both bought and sold, Gamma will remain insignificant for this trade

Implied Volatility Risk

- **Vega Analysis**
 - The trade has a Vega of 0.0003
 - This trade is long volatility for its duration
 - The implied volatility for both legs of the trade is ~24.00%

Time Risk

- **Theta Analysis**
 - This trade has a Theta value of (0.0005)
 - Theta is negative for this trade because each passing day is less time for the trade to end ITM

Interest Rate Risk

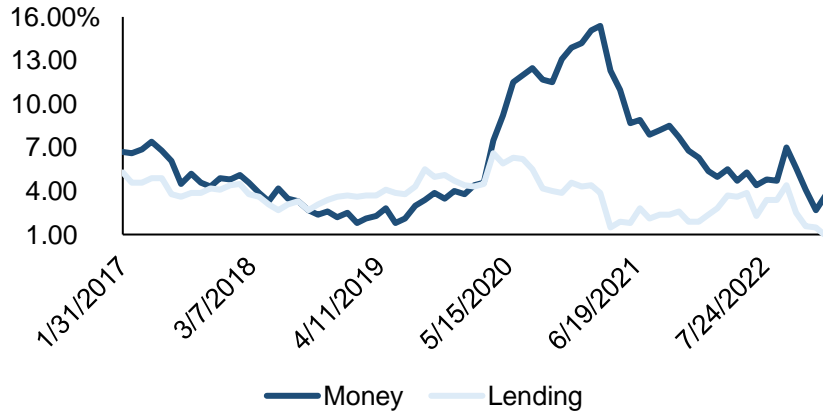
- **Rho Analysis**
 - The trade has a Rho of (0.0006)
 - Rho is somewhat insignificant for this trade as changes in U.S. Treasury yields will not have an adverse affect on the SONIA Rate
 - The value is also small as a result of the offset created by buying and selling call contract simultaneously



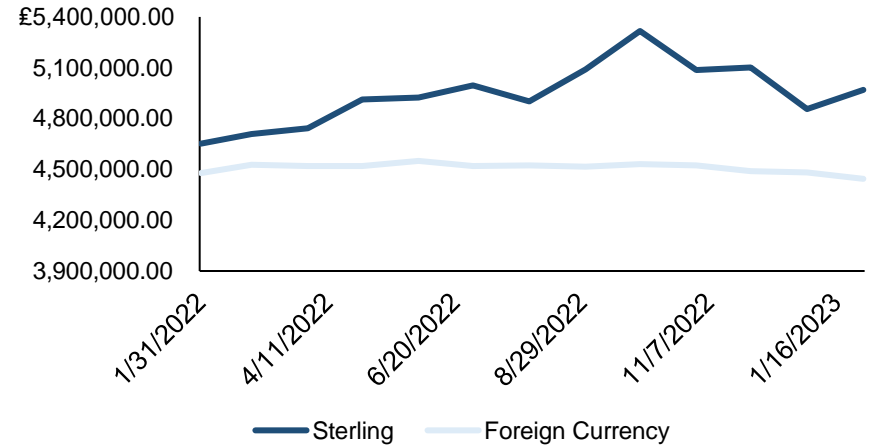
IV. Technical Bias & Fair Value

Technical Bias & Fair Value

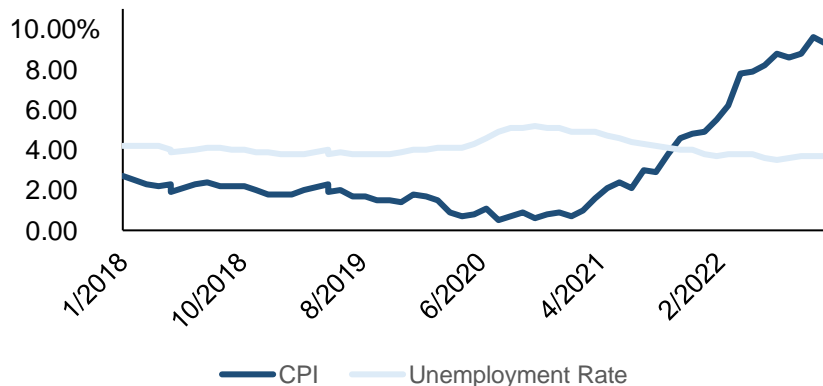
U.K. Total Money vs. Total Credit Growth | Six-Year Chart



Composition of U.K. Bank's Assets by Currency | One-Year Chart



U.K. CPI vs. Unemployment Rate | Five-Year Chart



Synopsis

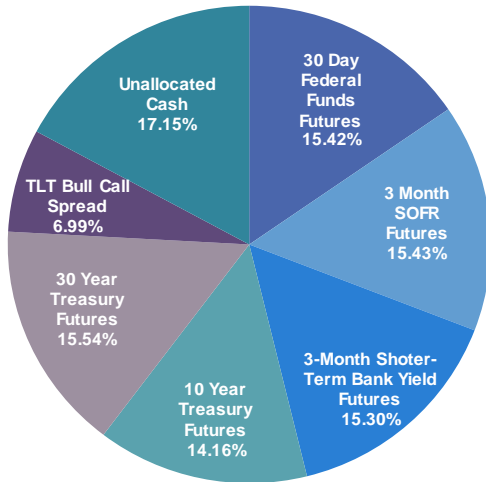
- U.K. unemployment has remained relatively stable over the past four years despite COVID-19 and record high inflation
 - U.K. unemployment has consistently stayed under 4.60%, which is in range with their target rate of 3.50%-5.00%
- U.K. bank's assets have seen overall increases in 4Q2022 and the beginning of 2023FY in sterling asset's adding to the liquidity of banks for overnight sterling funding
- The decrease in money and credit growth for households, non-financial corporations, and non-intermediating financial companies undermines signs of economic growth despite recent numbers



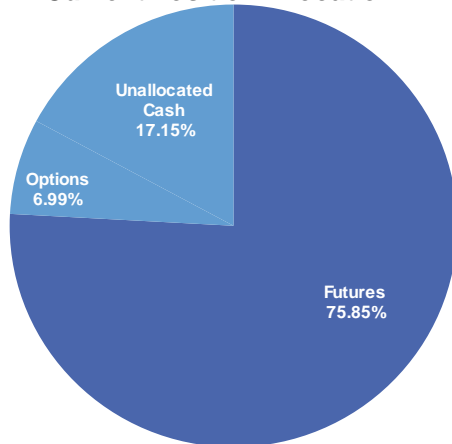
V. Capital Allocation

Capital Allocation

Current Portfolio Allocation



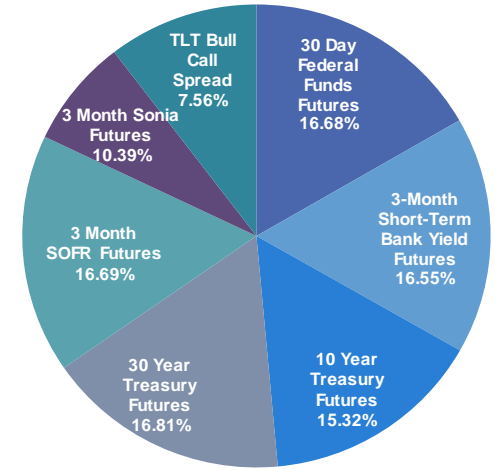
Current Position Allocation



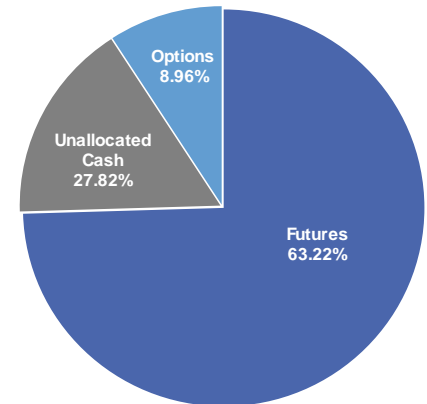
Transaction Summary

Ticker	Position Change	
	Contracts	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
TLT Bull Call Spread	0	\$0.00
3 Month Sonia Futures	+ 100	\$4,750,000.00
Allocation Change		\$4,750,000.00

Proposed Portfolio Allocation



Proposed Position Allocation



Benchmark Allocation

