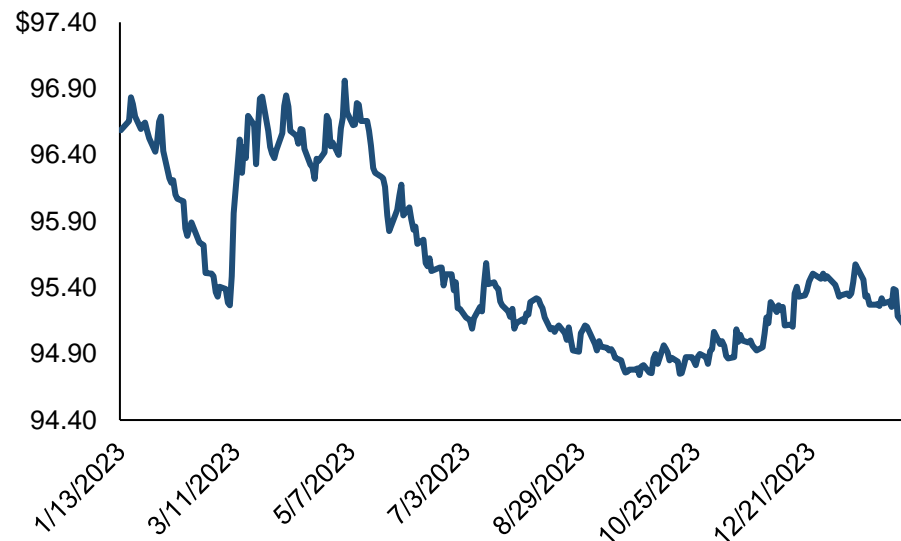




SFRM4 | One-Year Price Chart



Position Details

- 3-Month SOFR Futures | SFRM4
- Underlying Price: \$95.12
- Bear Put Spread
- Expiration Date: June 14, 2024

Interest Rate Products Sector

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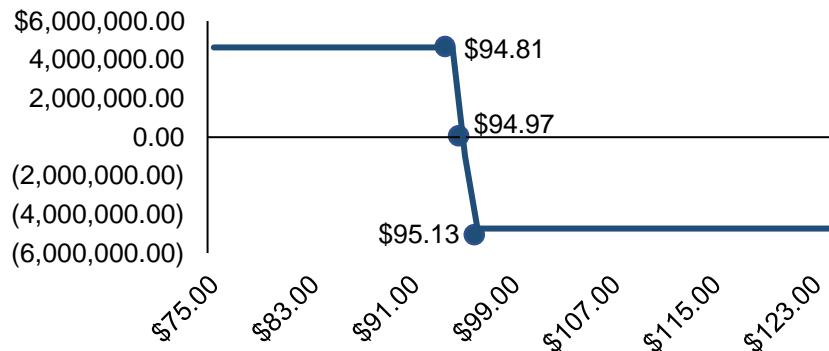
I. Product & Position Overview

Product & Position Overview

Product Description

- **3-Month SOFR Futures**
 - 3-Month SOFR Futures are standardized contracts based on the Secured Overnight Financing Rate. They are a broad measure of the cost of borrowing cash overnight, collateralized by Treasury Securities
 - The respective month for this contract is June 2024, which reflects investors' expectations for the 3-Month SOFR Futures for May, June, and July
 - This product is driven mostly by interest rates, supply and demand, repo transactions, and macroeconomic data such as inflation, and jobs market data

Payoff Diagram



Trade Breakdown

- **Bear Put Spread**
 - This trade benefits from bullish movements in the 3-Month underlying rate of SOFR, or decreases in the underlying
- **Setup**
 - We Buy –12.00 k OTM \$95.13 Puts (\$0.21) | SFRM4
 - We Sell – 12.00 k OTM \$94.81 Puts (\$0.36) | SFRM4
 - Max Profit: \$4,650,000.00
 - Max Loss: (\$4,725,000.00)
- **Expiration**
 - Date: June 14, 2024

Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
 - **\$94.85** / \$94.93 / **\$95.18**
 - Breakeven – \$94.97
- **Methodology**
 - The Sector believes that the underlying futures contract will trade down as the Fed shifts to a continued hawkish sentiment due to an unexpected strength in labor markets and sticky inflation
- **Hedge Strategy**
 - If the Fed turns more dovish than expected with its monetary policy, the Sector will look to reverse trade



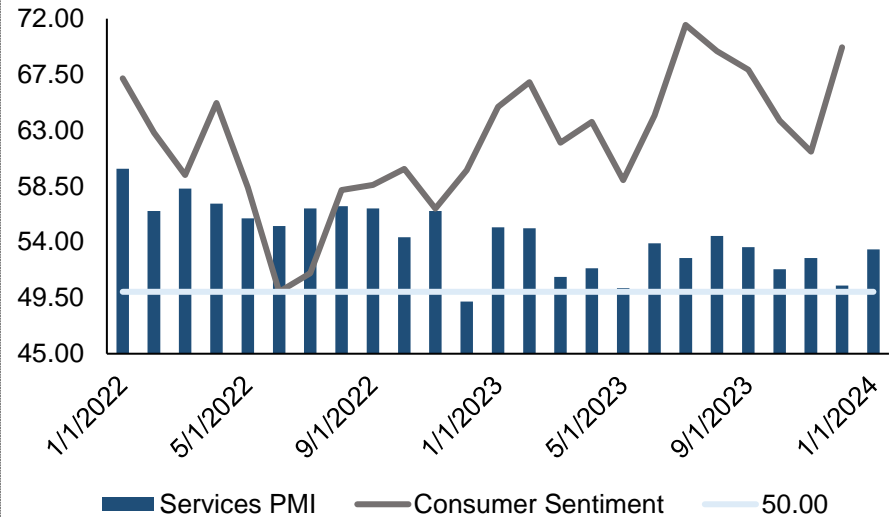
II. Macroeconomic Thesis

Macroeconomic Thesis

Macroeconomic Summary

- **Labor Market Remains Strong**
 - Nonfarm payrolls nearly doubled market expectations, adding 353.00k in January, the highest reading in one year, while also upward revising 117.00k from December
 - Atlanta Fed's wage growth tracker had a reading of 5.20% on a three-month moving average, while average hourly earnings increased 4.50% y/y and 0.60% m/m for January
- **U.S. Home Market Has Rebounded Despite Elevated Rates**
 - The December release for new home sales rose 8.00% m/m from previous reading of (9.00%) in November, as the monthly Home Purchase Sentiment Index rose 3.50 points to the highest level since March 2022FY, and pending home sales are up 8.30% for the month of December
 - U.S. home prices saw largest y/y growth in U.S. according to the S&P CoreLogic Case-Shiller 20-city house price index, while home prices in the 20.00 major U.S. metro markets increased 5.40% in the last 12.00 months
- **Core Inflationary Drivers Remain Elevated**
 - The Federal Reserve Bank of Atlanta's sticky-price core CPI remains at 4.60% y/y at the December reading. Despite sticky-price core CPI hitting a high one year ago, it has not reached this level since July of 1991FY
 - U.S. service inflation has remained above current headline CPI readings for the past year and is still 1.55% higher than headline CPI. This has only dipped 20.00 bps in the past five months, remaining relatively sticky

U.S. Services PMI vs Consumer Sentiment | Two-Year Chart



Market Pros & Cons

- Continued fall in U.S. Ten-Year
- Retail sales rising at a faster pace than expected
- More than expected amount of Regional banks have begun to fail
- Potential downward revision of latest CPI release



III. Risk Analysis

Risk Analysis

Directional & Magnitude Risk

- **Delta Analysis**
 - The trade has a Delta value of (0.9175)
 - The trade benefits from bearish movements in the underlying futures contract, which indicates a higher rate for the 3-Month SOFR
- **Gamma Analysis**
 - The trade has a Gamma value of 0.0537
 - Gamma is very insignificant as Delta is very close to one but, as Delta moves away from one Gamma will gain value and begin to have an impact on the trade

Implied Volatility Risk

- **Vega Analysis**
 - The trade has a Vega value of 0.4396
 - The trade is long volatility, as implied volatility has been underpriced due to overstated inflation and uncertainty regarding future policy from the Fed
 - The implied volatility for each leg of the trade is 23.00%, but a projected volatility of 26.00% was used as the trade is long volatility as there is potential for market movement

Time Risk

- **Theta Analysis**
 - The trade has a Theta value of (0.1596)
 - Theta is negative for this trade as the trade currently sits OTM and as time goes on Theta will have a negative effect on the trade as it approaches expiration

Interest Rate Risk

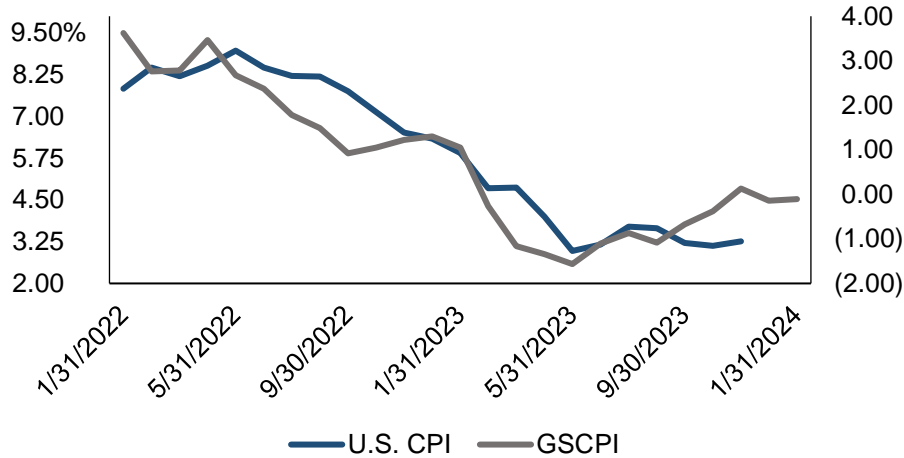
- **Rho Analysis**
 - The trade has a Rho value of (0.0393)
 - The value of Rho in the trade is somewhat important as a decrease in interest rates would be detrimental for the trade, due to the underlying futures contract trading up



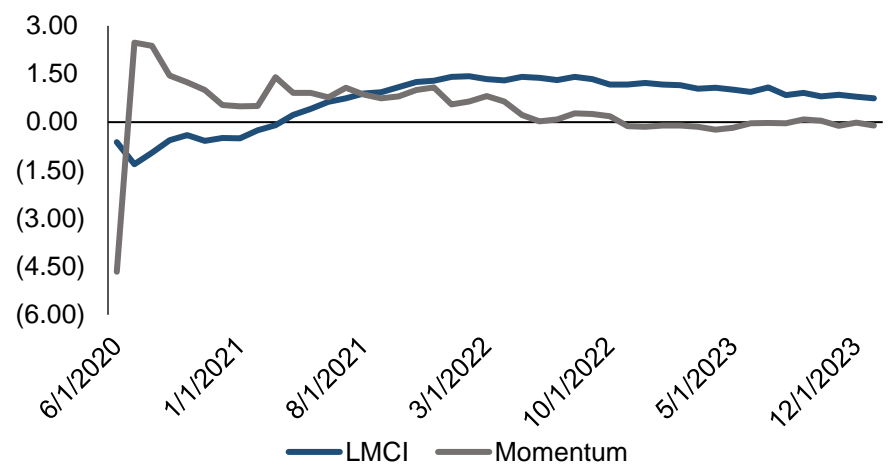
IV. Technical Bias & Fair Value

Technical Bias & Fair Value

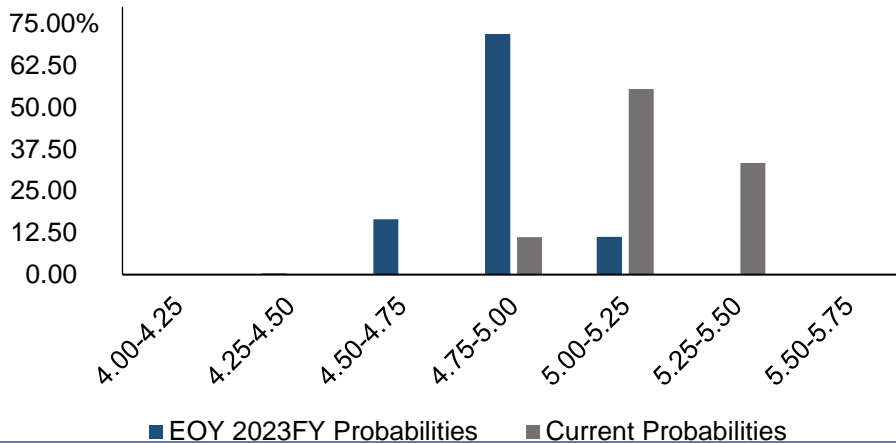
U.S. CPI vs Global Supply Chain Pressure Index | Two-Year Chart



KC Fed Labor Market Conditions Indicator | Three-Year Chart



May 2024FY Fed Funds Rate Expectations | EOY 2023FY vs Current



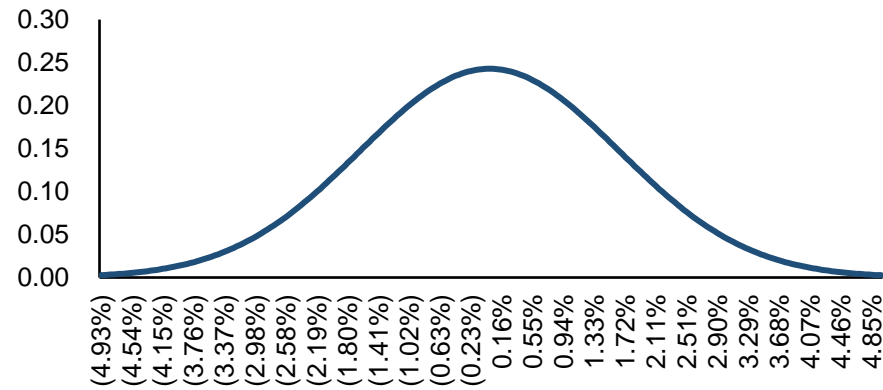
Synopsis

- The Global Supply Chain Pressure Index compiles data from 27.00 monthly indicators to create a singular index that measures the health of the global supply chain with zero being the historical average
- The KC Fed's Labor Market Conditions Indicator analyzes 24.00 labor market indicators, including things like unemployment rate, private nonfarm payroll, participation rate, and initial jobless claims
- Futures market's expectations of the Federal Funds Rate at the May 1st meeting from EOY 2023FY vs current expectations. The probabilities are reactive to various economic indicators and Fed officials' rhetoric surrounding future monetary policy

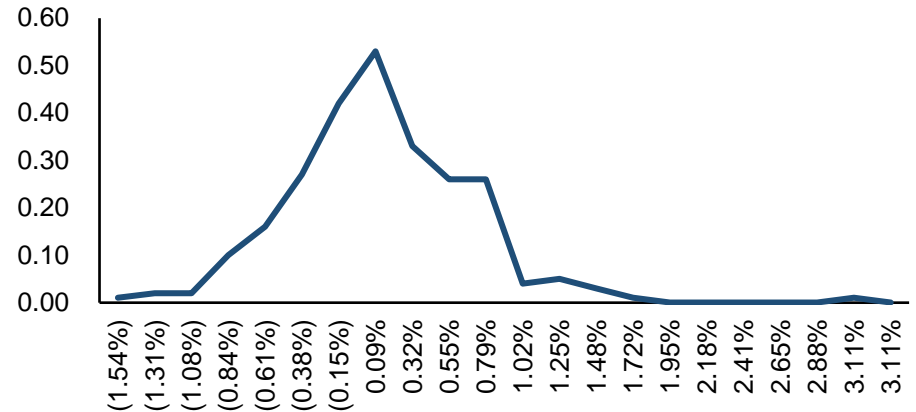
V. Volatility Analysis

Volatility Analysis

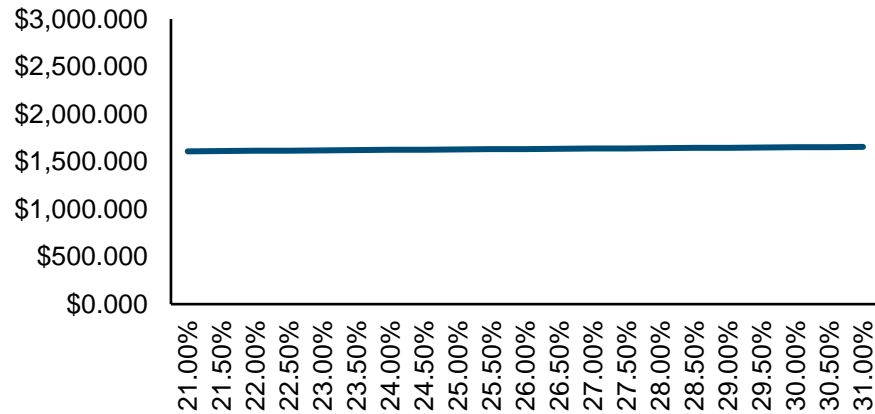
Expected Theoretical Daily Return Distribution



Historical Daily Return Distribution



Position Volatility Sensitivity



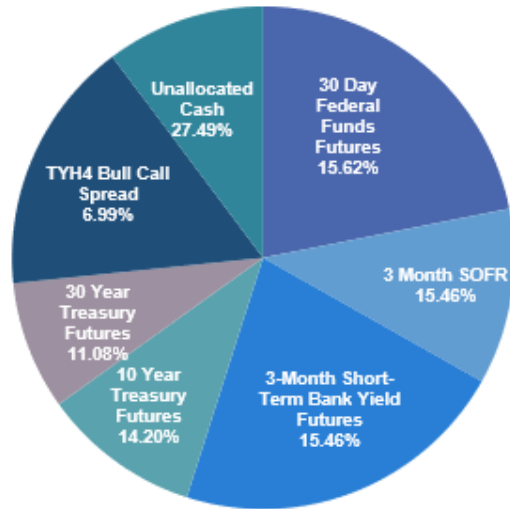
Theoretical Edge Analysis

Asset Description	Option Premium
Theoretical Long Put	\$0.21
Actual Long Put	\$0.41
Theoretical Short Put	\$0.36
Actual Short Put	\$0.22
Theoretical Long Put Adj. for DV1	\$21.00
Actual Long Put Adj. for DV1	\$40.50
Theoretical Short Put Adj. for DV1	\$36.00
Actual Short Put Adj. for DV1	\$21.50
Theoretical Edge (LP) Assuming 12.00 k Contracts	-\$234,000.00
Theoretical Edge (SP) Assuming 12.00 k Contracts	-\$174,000.00
Total Theoretical Edge	-\$408,000.00

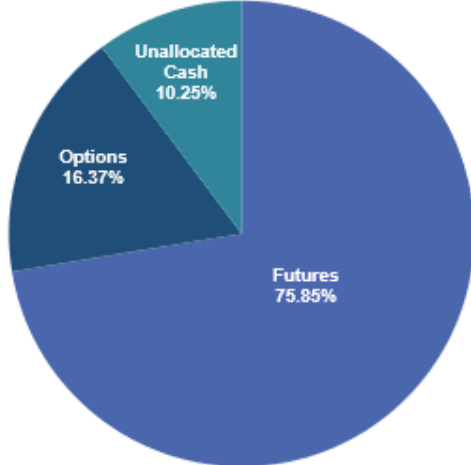


VI. Capital Allocation

Current Portfolio Allocation



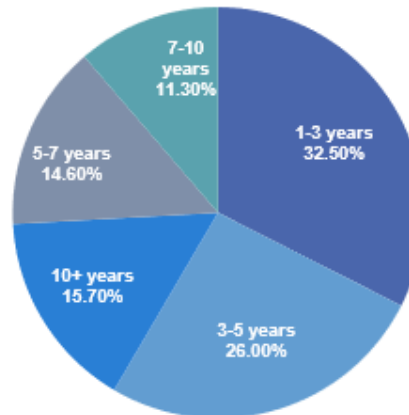
Current Position Allocation



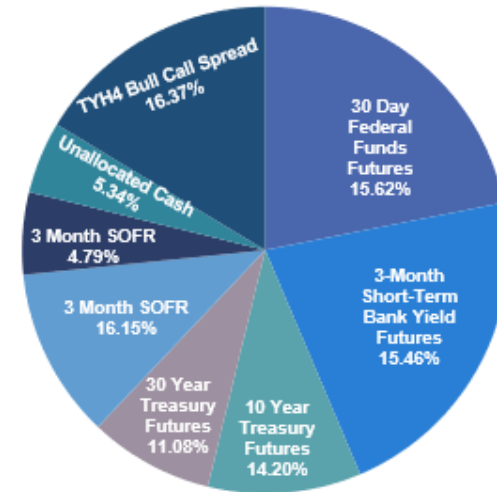
Transaction Summary

Ticker	Position Change	
	Contracts	Allocation
10 Year Treasury Futures		\$0.00
3 Month SOFR Futures		\$0.00
30 Day Federal Funds Futures		\$0.00
30 Year Treasury Futures		\$0.00
3-Month Short-Term Bank Yield Futures		\$0.00
3 Month SOFR Futures	+ 12000	\$4,725,000.00
Allocation Change		\$4,725,000.00

Benchmark Allocation



Proposed Portfolio Allocation



Proposed Position Allocation

