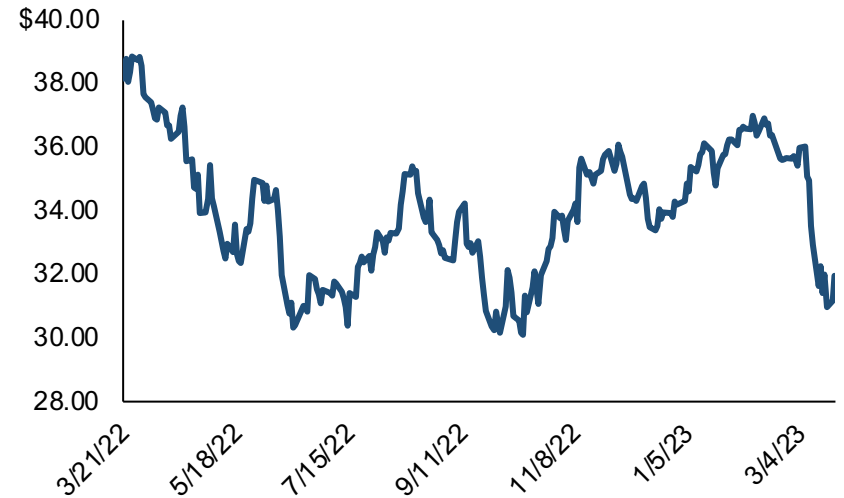


XLF US Equity | One-Year Price Chart



Position Details

- Financial Select Sector SPDR Fund | XLF US Equity
- Underlying Price: \$31.22
- Bull Call Spread
- Expiration Date: April 21, 2023

Equity Derivatives Sector

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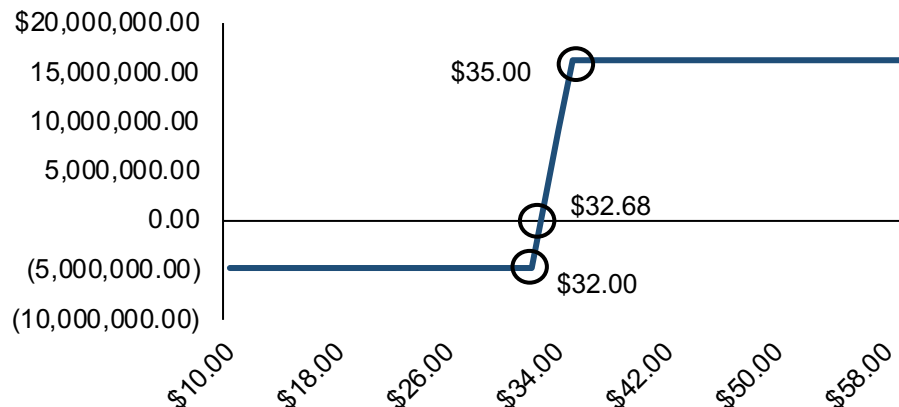
I. Product & Position Overview

Product & Position Overview

Product Description

- **The Financial Select Sector SPDR Fund**
 - The Financial Select Sector SPDR Fund is an exchange traded fund comprised of 69.00 holdings seeking to represent the financial sector of the S&P 500
 - XLF is capitalization-weighted and contains large-cap financial companies in the United States
 - Financial services, banks, and capital markets represent the top industries in XLF, constituting 79.67% of the fund
 - The top holdings of XLF include Berkshire Hathaway Inc. Class B (BRK.B) and JPMorgan Chase & Co. (JPM), representing 21.22% of the fund's total weight of allocations

Payoff Diagram



Trade Breakdown

- **Bull Call Spread**
 - This trade benefits from positive price movements in the underlying exchange-traded fund
- **Setup**
 - We Buy – 70.00 k OTM \$32.00 Calls | XLF US Equity
 - We Sell – 70.00 k OTM \$35.00 Calls | XLF US Equity
 - Max Profit: \$16,240,000.00
 - Max Loss: (\$4,760,000.00)
- **Expiration**
 - Date: Expiration Date: April 21, 2023

Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
 - **\$35.00 / \$32.80 / \$31.00**
 - Breakeven – \$32.68
- **Methodology**
 - The Sector believes the underlying ETF will trade up an additional ~11.00% to reach maximum profit
- **Hedge Strategy**
 - In the event of bearish price movements, the sector will reverse trade to exit the position



II. Macroeconomic Thesis

Macroeconomic Thesis

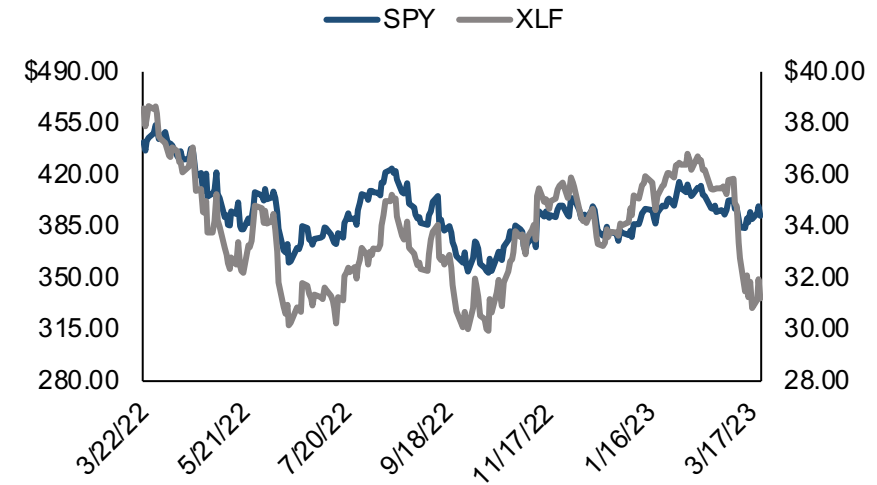
Macroeconomic Summary

- **Fearful Overaction to Mismanaged Bank Failures**
 - Silicon Valley Bank (SIVB) invested in longer-term mortgage securities with more than ten years to maturity, rather than shorter-maturity Treasuries. This led to an asset/liability mismatch, on top of crypto mismanagement
 - Credit Suisse (CS) had a long history of corruption damaging the firm, including aiding of false income tax returns in 2014, cocaine laundering, and gross mismanagement of debt

- **Re-evaluation of Federally-Insured Bank Deposit Cap**
 - Both Republicans and Democrats on the Senate Banking Committee commented on March 19 that the FDIC insurance cap of \$250.00 k should be increased, formerly \$100.00 k prior to the 2008 financial crisis
 - First Republic bank (FRC) shares rebounded ~30.00% from all-time lows on March 21
 - Treasury Secretary Janet Yellen released a statement on March 21 reassuring that the federal government is prepared to backstop more deposits

- **U.S. Home Lending at Less Risk Historically**
 - More than 40.00% of all U.S. mortgages were originated in 2020 or 2021, when the COVID pandemic drove borrowing costs to historic lows and triggered a boom in refinancing
 - 30-year fixed-rate mortgages were down by 0.23% to 6.48% for the week ended March 17
 - This has caused applications for refinancing of existing loans hitting a six-week high

XLF vs SPY | One-Year Chart



Market Pros & Cons

- New home sales increase following the dip in mortgage rates
- Market expectation of another 25.00 bps in May remains held
- Congress drags feet debating new policy around insured deposits
- More mismanaged banks fail and cause increased withdrawals



III. Risk Analysis

Risk Analysis

Directional & Magnitude Risk

- **Delta Analysis**
 - The trade has a Delta value of 0.3230
 - Theoretically, for every \$1.00 change in the underlying ETF, the options contracts will gain or lose \$0.3230
- **Gamma Analysis**
 - The trade is neutral Gamma with a value of 0.0548
 - The trade has a low Gamma value due to both a call being bought and sold, so Gamma will remain less significant for this trade

Implied Volatility Risk

- **Vega Analysis**
 - The trade has a Vega value of 0.0215
 - The implied volatility for both legs of the trade is ~28.00%
 - Vega is considerably low because higher implied volatility benefits the long call but hurts the short call, cancelling each other. However, the value of the long call leg is larger than the short call leg. Therefore, Vega is positive

Time Risk

- **Theta Analysis**
 - The trade is short Theta with a value (0.0117)
 - The opportunity to reach maximum profit decreases as expiration nears each day, devaluing the position
 - As the bull call spread becomes deeper ITM, the theta value of the lower strike call option will decrease, while the theta value of the higher strike call option will increase as it becomes deeper OTM

Interest Rate Risk

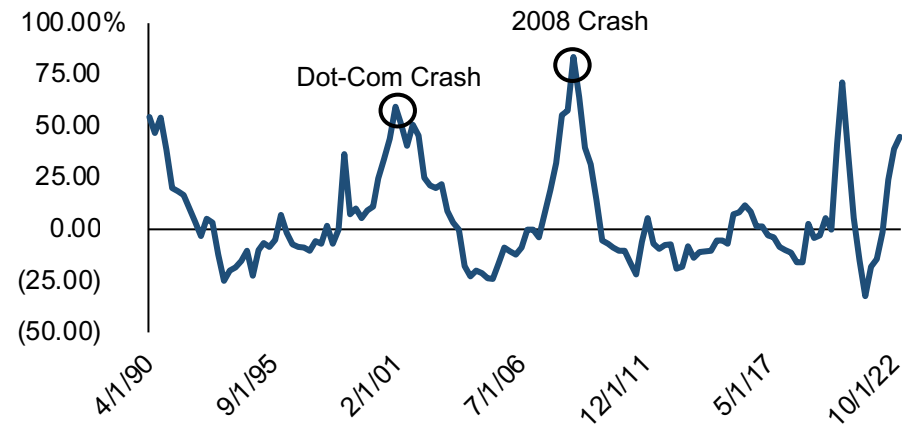
- **Rho Analysis**
 - The trade has a Rho value of 0.0107
 - There will be no FOMC meetings during the duration of this trade, so will Rho will remain less significant
 - The value is also small as a result of the offset created by buying and selling call contract simultaneously



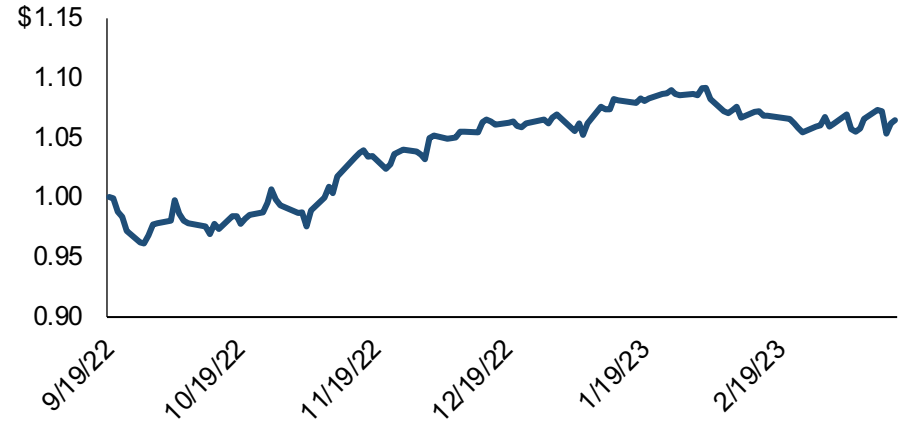
IV. Technical Bias & Fair Value

Technical Bias & Fair Value

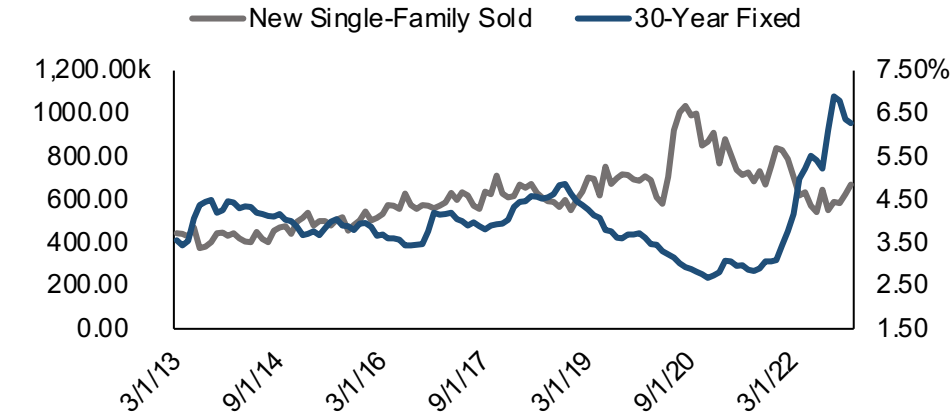
Percentage of U.S. Banks Tightening Lending | 35.00 Year Chart



USD to EUR | Six-Month Price Chart



New Home Sales vs 30.00 Year Fixed Rate | Ten-Year Chart



Synopsis

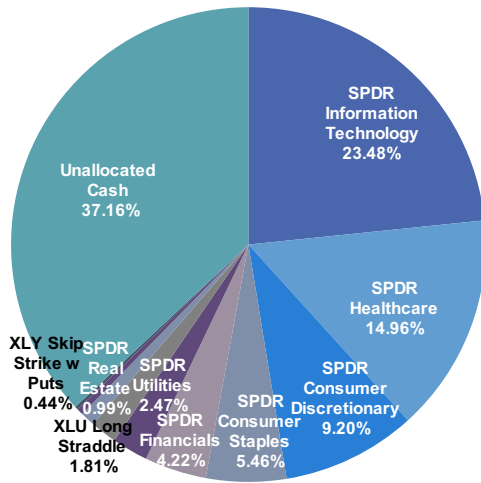
- Domestic banks are tightening standards for commercial and industrial loans to large and middle-market firms. This has historically been seen in anticipation of mass-defaults across the U.S. economy
 - A closer expiration allows for capitalization on recent market movement, while avoiding future risks
- New Single-Family Homes sold have historically trended inversely to the 30.00-year fixed mortgage rate
 - Berkshire Hathaway is XLF's top holding at ~12.00%
- The USD decreased in value by 2.80% following March 15 after the ECB hiked rates by 50.00 bps to combat European inflation



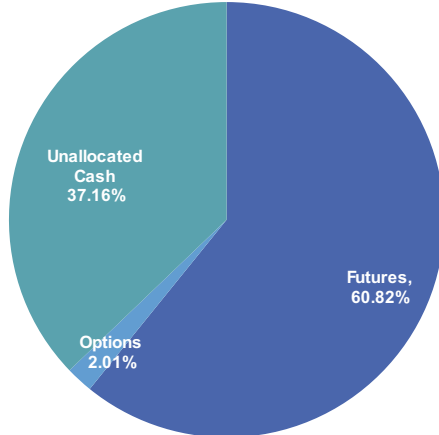
V. Capital Allocation

Capital Allocation

Current Portfolio Allocation



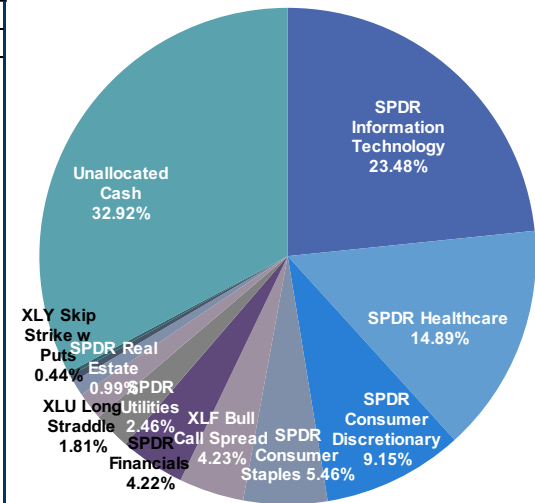
Current Position Allocation



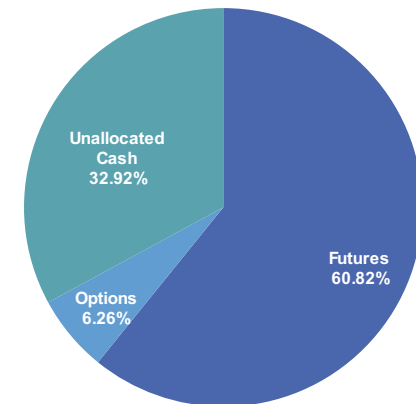
Transaction Summary

Ticker	Position Change	
	Contracts	Allocation
SPDR Consumer Discr	0	\$0.00
SPDR Consumer Stapl	0	\$0.00
SPDR Financials	0	\$0.00
SPDR Healthcare	0	\$0.00
SPDR Information Tech	0	\$0.00
SPDR Real Estate	0	\$0.00
SPDR Utilities	0	\$0.00
VNQ Back Spread	0	\$0.00
XLU Long Straddle	0	\$0.00
XLY Skip Strike w Puts	0	\$0.00
XLF Bull Call Spread	0	\$4,760,000.00
Allocation Change		\$4,760,000.00

Proposed Portfolio Allocation



Proposed Position Allocation



Benchmark Allocation

