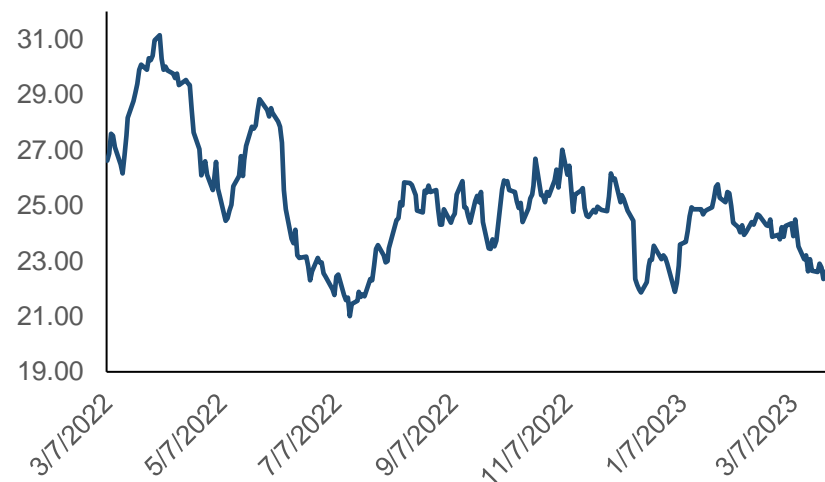




ILF US | One-Year Price Chart



Position Details

- iShares S&P Latin 40 ETF | ILF US
- Underlying Price: \$23.48
- Bull Call Spread
- Expiration Date: September 15, 2023

Metals Sector

Analyst

Owen Perry
owenperry0429@gmail.com

President

Anthony Bruno
anthonybruno2186@gmail.com

Vice President

Julia Petrova
julia.petrova6100@gmail.com

Chief Investment Officer

Phil Sullivan
philsullivan10@gmail.com

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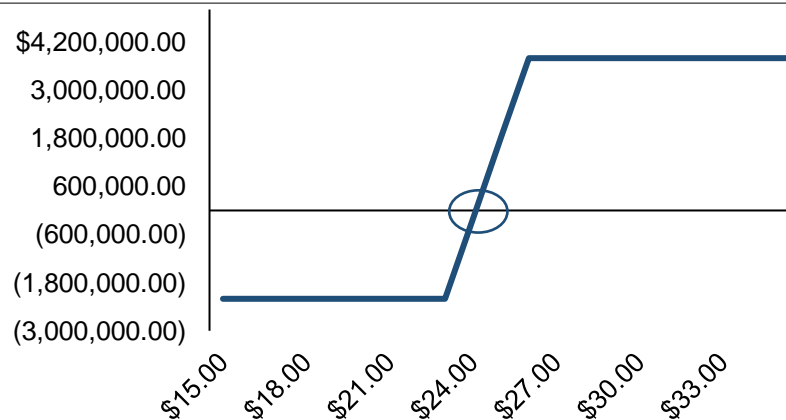
I. Product & Position Overview

Product & Position Overview

Product Description

- **iShares S&P Latin 40 ETF**
 - The S&P Latin 40, tracked by the iShares ETS, is a float-adjusted market cap weighted index comprised of the 40.00 most liquid companies in the Latin American region
 - While the Index spans the entire Latin American region, Brazil, a strong trade partner of China, makes up 57.98% of the constituents, and Mexico, a strong trade partner of the US, makes up another 28.23% of the constituents. Thus, the performance of the S&P Latin 40 is largely influenced by the economic health of these two countries
 - Sector Weightings: Materials (27.80%), Financials (26.90%), Consumer Staples (14.90%), Energy (12.10%), Communication Services (5.60%), Industrials (5.30%), Utilities (3.10%), Consumer Discretionary (1.80%), Health Care (1.10%), Real Estate (1.00%), Information Technology (0.40%)

Payoff Diagram



Trade Breakdown

- **Bull Call Spread**
 - This strategy benefits from bullish price movements in the underlying
- **Set Up**
 - We buy 20,000.00 ITM \$23.00 Calls | ILF US
 - We sell 20,000.00 OTM \$26.00 Calls | ILF US
 - Max Profit: \$3,800,000.00
 - Max Loss: (\$2,200,000.00)
- **Expiration**
 - Date: September 15, 2023

Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
 - **\$27.00 / \$24.75 / \$23.90**
 - Breakeven -- \$24.10
- **Methodology**
 - The sector believes that the index will trade up ~7.00% as the macroeconomic drivers are realized
- **Hedge Strategy**
 - Should the underlying fail to move bullishly the sector will look to exit the position by reverse trading



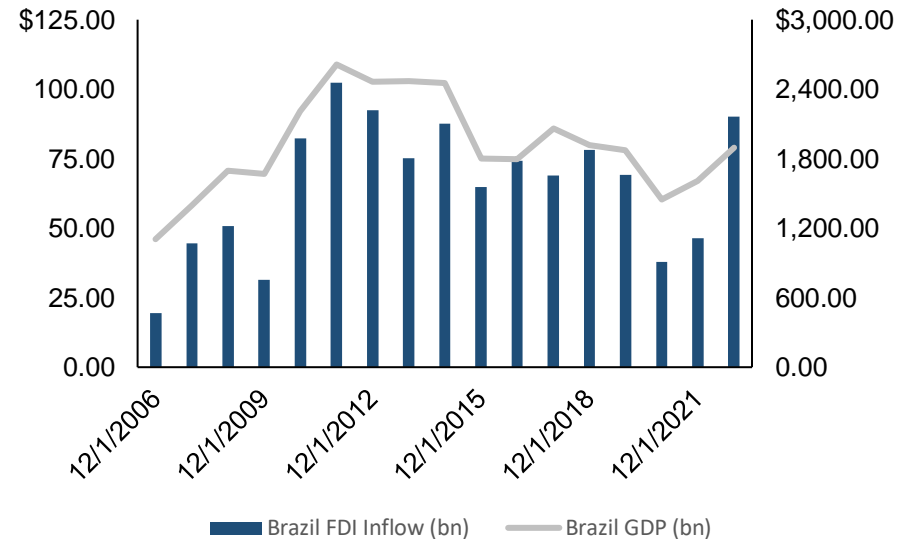
II. Macroeconomic Thesis

Macroeconomic Thesis

Macroeconomic Summary

- **Improving Brazilian Foreign Relations Will Increase FDI Inflow**
 - Jair Bolsonaro, an alt-right isolationist, lost reelection and fled to Florida as Luis Inacio Lula de Silva was sworn in
 - After years of decreasing FDI inflow, December 2022 marked the single highest FDI inflow in 10 years after Silva was declared president in October
 - Since being inaugurated, Silva has met with President Biden and visited President Jinping in Beijing on Tuesday
- **China's Reopening Will Stimulate Brazil's Export Economy**
 - In 2022, Brazil was the second leading importer to China of iron ore, second only to Australia
 - Iron ore makes up 9.70% of Brazilian exports
 - Brazil was the fifth leading oil importer to China in 2022, oil being Brazil's largest export at 17.00%
 - Brazil is also the leading exporter to China of soybeans. China's demand for soybeans is expected to increase 8.30% y/y as China seeks to restock as they reopen
- **Mexico Continues to Experience Economic Growth With AMLO**
 - In 2022, Mexico had a 4.10% y/y GDP growth rate, which marked the largest y/y GDP growth for Mexico since 2010
 - AMLO has reaped the benefits of nearshoring amidst Chinese geopolitical tension while still increasing their materials exports to China
 - Under President AMLO, we have also seen the political risk associated with Mexico fall to an all-time low in 4Q2022

Brazil Yearly FDI Inflow vs. Brazil Yearly GDP | Sixteen-Year Chart



Market Pros & Cons

- The US avoids recession, further stimulating Mexico's economy
- Peru stabilizes following the attempted military coup in December
- Media of Brazilian and Mexican cartel violence sparks safety fears
- Federal spending in Brazil drives inflation, reducing export profits

III. Risk Analysis

Risk Analysis

Directional & Magnitude Risk

- **Delta Analysis**
 - This trade has a Delta value of 0.2214
 - The trade benefits from bullish movement of the underlying but is smaller in absolute value due the trade consisting of a long call at a lower strike price and a short call at a higher strike price
- **Gamma Analysis**
 - This trade has a Gamma value of 0.0128
 - Gamma is minimal due to the near-offsetting nature of the bull call spread

Implied Volatility Risk

- **Vega Analysis**
 - The trade has a Vega value of 0.0095
 - Vega is not likely to have a significant effect on the trade due to the long and short nature of the trade, however since both legs are positive vega, the trade benefits from increases in the implied volatility
 - Implied volatility for both legs of the trade is 29.00%

Time Risk

- **Theta Analysis**
 - The trade has a Theta value of (0.0020)
 - Theta is initially negative, however very little, but as the trade approaches expiration we can expect theta to become negative as the short call is realized, assuming the long call in the trade remains ITM for the duration of the trade

Interest Rate Risk

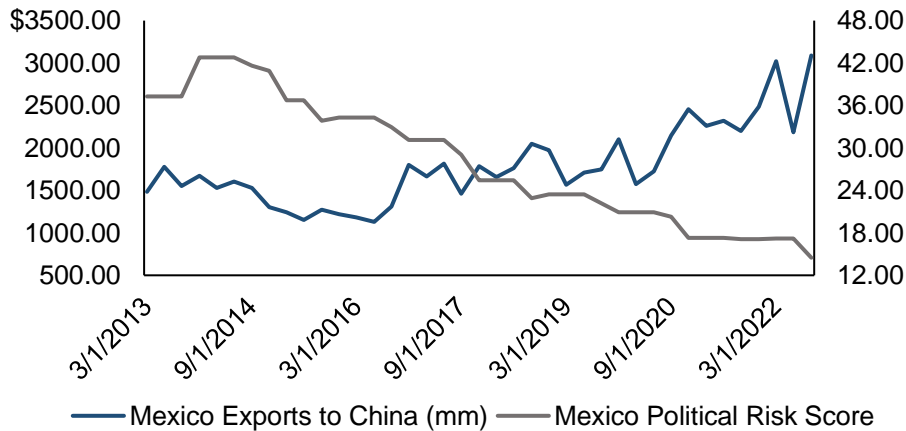
- **Rho Analysis**
 - The trade has a Rho value of 0.0199
 - Rho is slightly positive, however near-zero, on the trade mostly due to the longer duration of the trade
 - Rho is very minimal in the trade to due to markets pricing in most interest rate hikes likely to occur in the duration of the trade



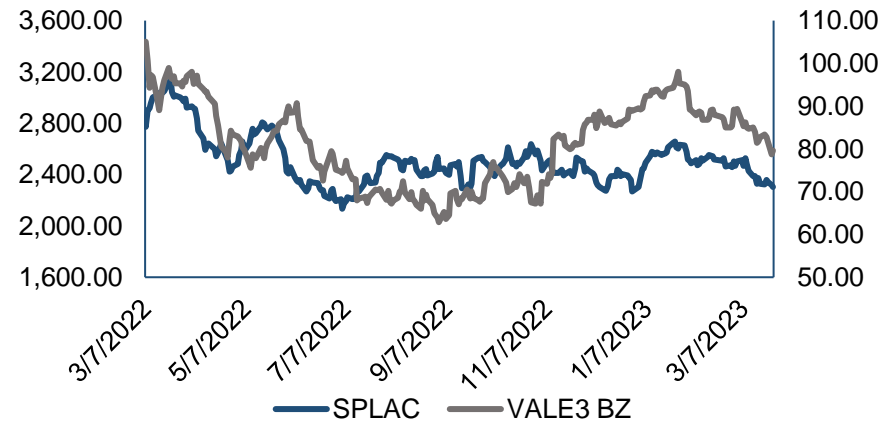
IV. Technical Bias & Fair Value

Technical Bias & Fair Value

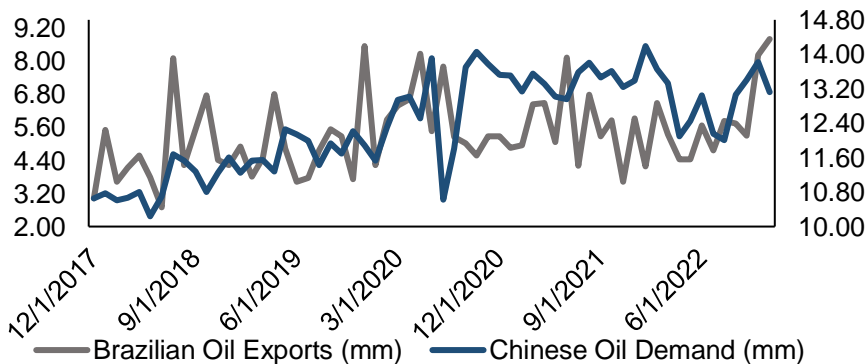
Mexico Exports to China vs. Mexico Political Risk Score



S&P Latin 40 vs. Vale S.A. ADR | One-Year Chart



Brazilian Oil Exports vs. Chinese Apparent Oil Demand



Synopsis

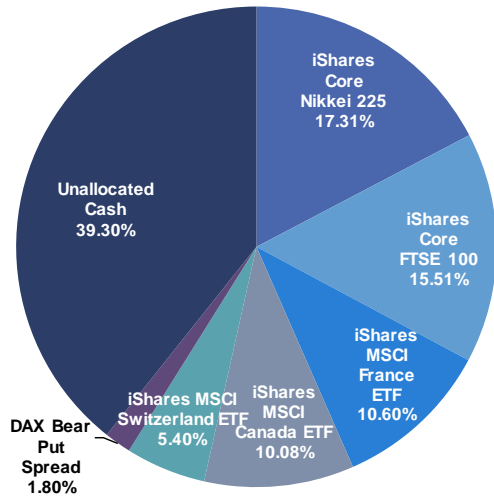
- Over the past nine years, Mexico's political risk score has continuously dropped until it reached an all time low in 4Q2022. During the same time, incumbent president AMLO has increased the export volume to China as their relationship developed
- Vale SA, the largest holding within the index by weight at 14.64%, provided China with 21.00% of their iron ore imports in 2022
 - Vale is the world's second largest producer of iron ore
- Brazil's oil exports, which historically spike in the second and third quarters of every fiscal year, increased 46.00% y/y in their market share of Chinese oil imports as China sought to diversify oil supply



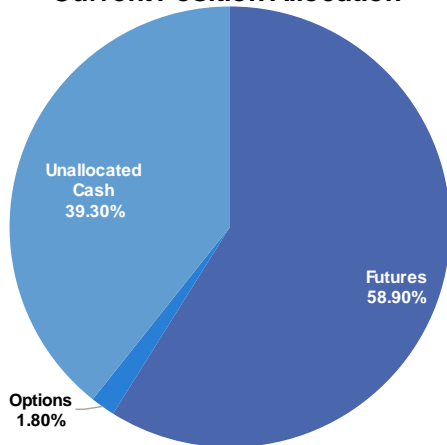
V. Capital Allocation

Capital Allocation

Current Portfolio Allocation



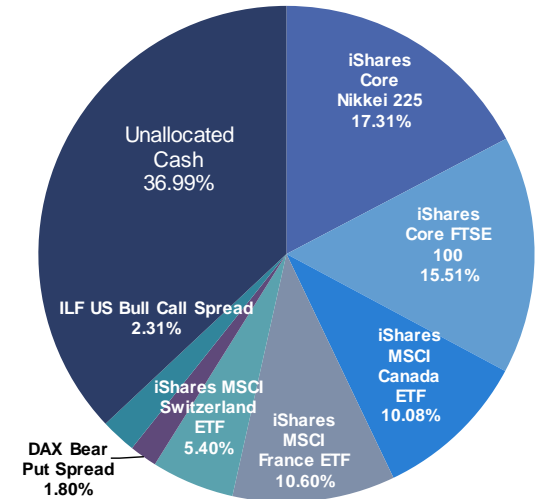
Current Position Allocation



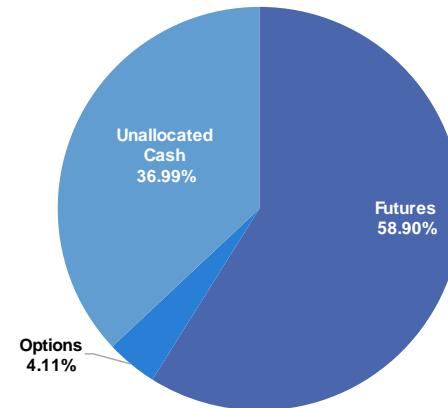
Transaction Summary

Ticker	Position Change	
	Contracts	Allocation
iShares Core Nikkei 225	0	\$0.00
iShares Core FTSE 100	0	\$0.00
iShares MSCI France ETF	0	\$0.00
iShares MSCI Canada ETF	0	\$0.00
iShares MSCI Switzerland ETF	0	\$0.00
DAX Bear Put Spread	0	\$0.00
ILF US Bull Call Spread	0	(\$2,200,000.00)
Allocation Change		(\$2,200,000.00)

Proposed Portfolio Allocation



Proposed Position Allocation



Benchmark Allocation

