DMFI

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Portfolio Update

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Portfolio Overview

- **Current Value:** $37,756,875
- **YTD Return (on invested capital):** +1.00%
- **Total Return:** $20,312.5
- **Gross Exposure:** $2,243,125
- **By Position Allocation (% of Portfolio):**
  - **Long U.S 10 Yr Treasury Future:** 6%

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Trade Recap

- Long U.S 10 Yr Treasury Future
  - **Bought:** 09/26/26
  - **Purchase Price:** $2,243,125.00
  - **Market Value:** $2,263,437.50
  - **Profit/Loss:** $20,312.50
  - **Plan:** Wait for more rate cuts to happen which will boost our profitability

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Security	View	Investment
PSVRDIXB	**Bullish**	**11,517 Shares**
IQBZ5 Index	**Bearish**	**9 Contracts**
TYZ5 COMB	**Hedge: Bullish**	**4 Contracts**

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Thesis Points and Risks → Macro News → Fundamental Analysis → Technical Analysis → Position Overview

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Thesis

- **Policy Uncertainty Remains High:** Mixed data and unclear Fed guidance keep the policy outlook uncertain, lifting rate volatility.
- **Inflation Staying Constant:** Sticky prices or new inflation shocks could force the Fed to stay hawkish longer, raising volatility.
- **Labor Market Weakens:** Softer jobs data would spark expectations for earlier cuts, increasing rate-path uncertainty.
- **Credit Stress:** Rising defaults or liquidity strains could trigger flight-to-quality moves in yields.
- **USD Devaluation:** A weaker dollar may fuel inflation and volatility as investors adjust to shifting global demand.

Thesis Risks

- **Gradual Fed Easing:** Predictable, slow rate cuts reduce uncertainty and implied volatility.
- **Labor Market Strengthens:** Strong hiring and wages support steady growth, anchoring yields.
- **Cooling Inflation:** Smooth disinflation lowers macro risk and suppresses volatility.
- **USD Increase Value:** Stronger dollar eases inflation and stabilizes long-end rates.

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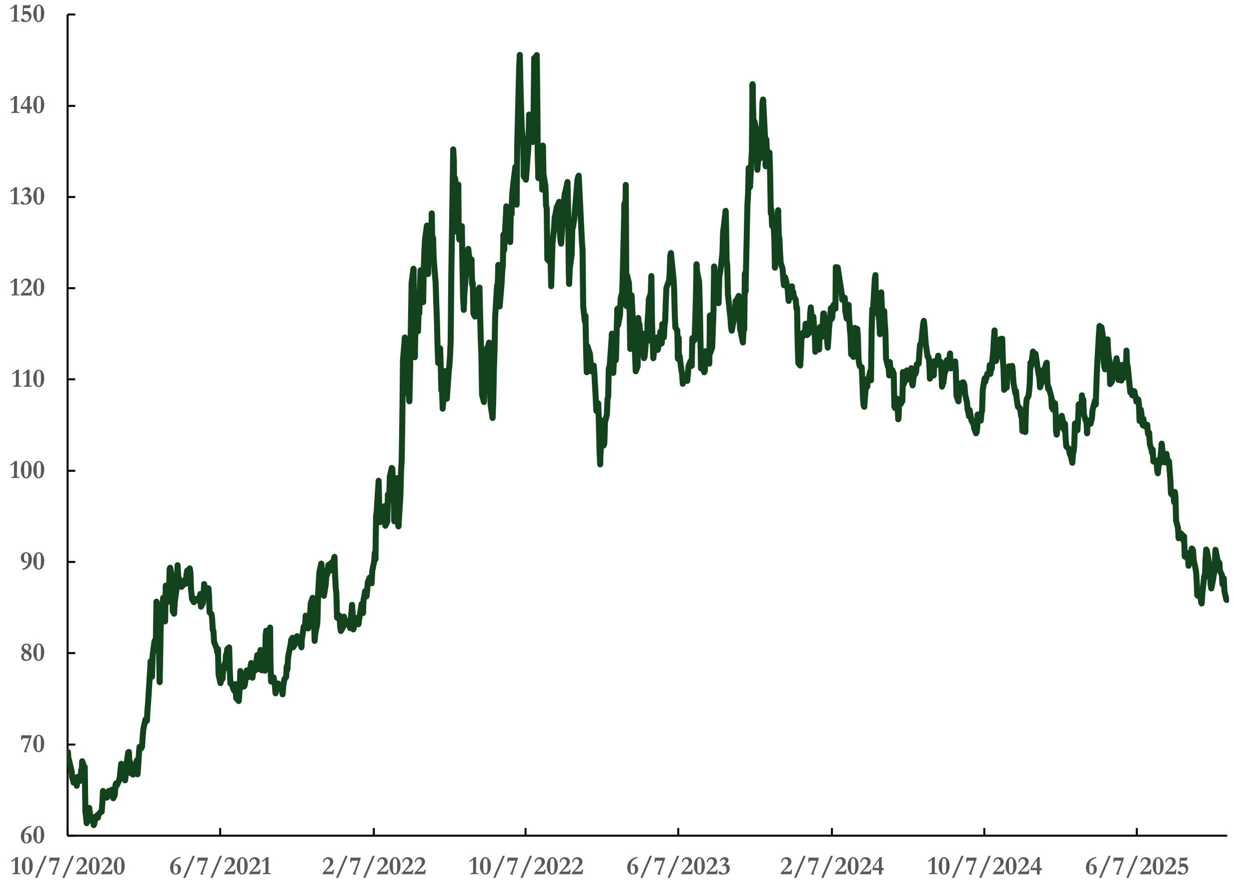
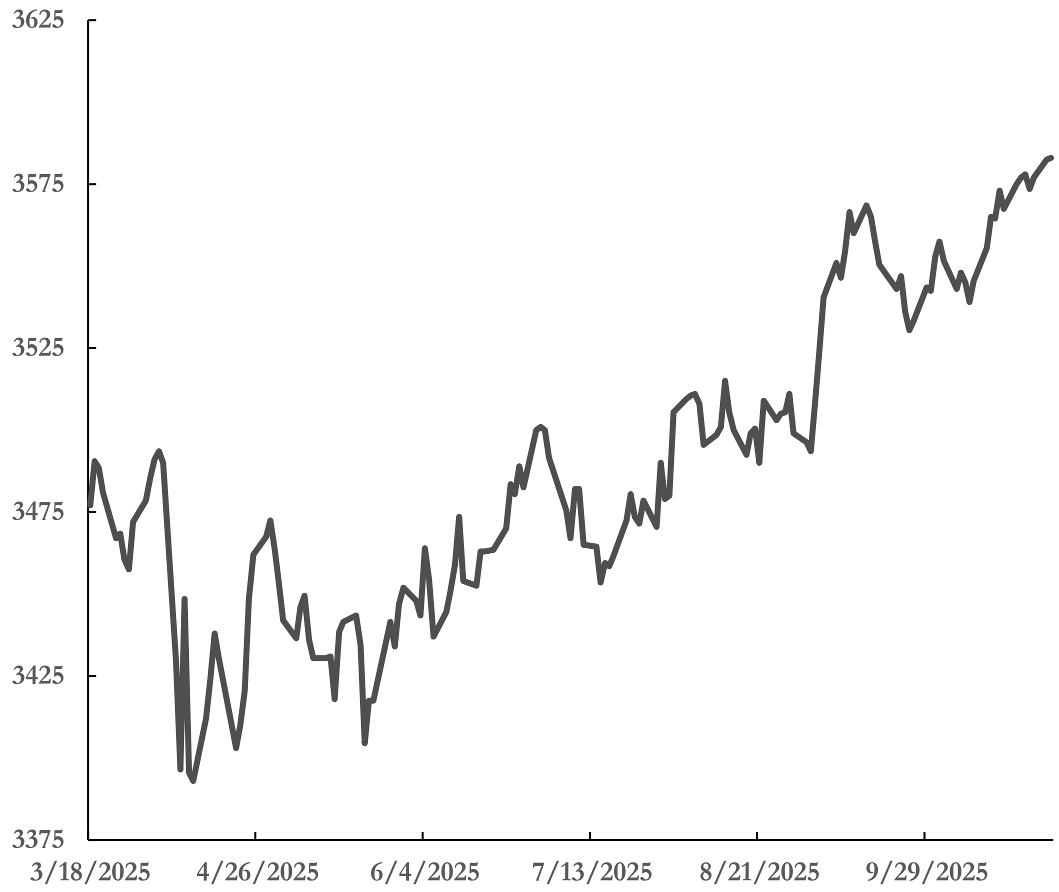
PSVRDIXB – PS 1Y10Y Volatility Index

- This measures implied volatility for interest rate swaptions
  - Derived from options on interest rate swaps
- The 1Y10Y shows the makeup of the swaption
  - 1 Year Option
  - 10 Year Interest Rate Swap
- If the market is uncertain, volatility increase, resulting in the index increases



IQBZ5 Index - IG Credit Futures

- Includes investment grade, fixed-rate, taxable corporate bonds
- This normally moves inversely compared to the volatility index
- We are bearish because we think they will leave the soft-landing environment to a stress environment



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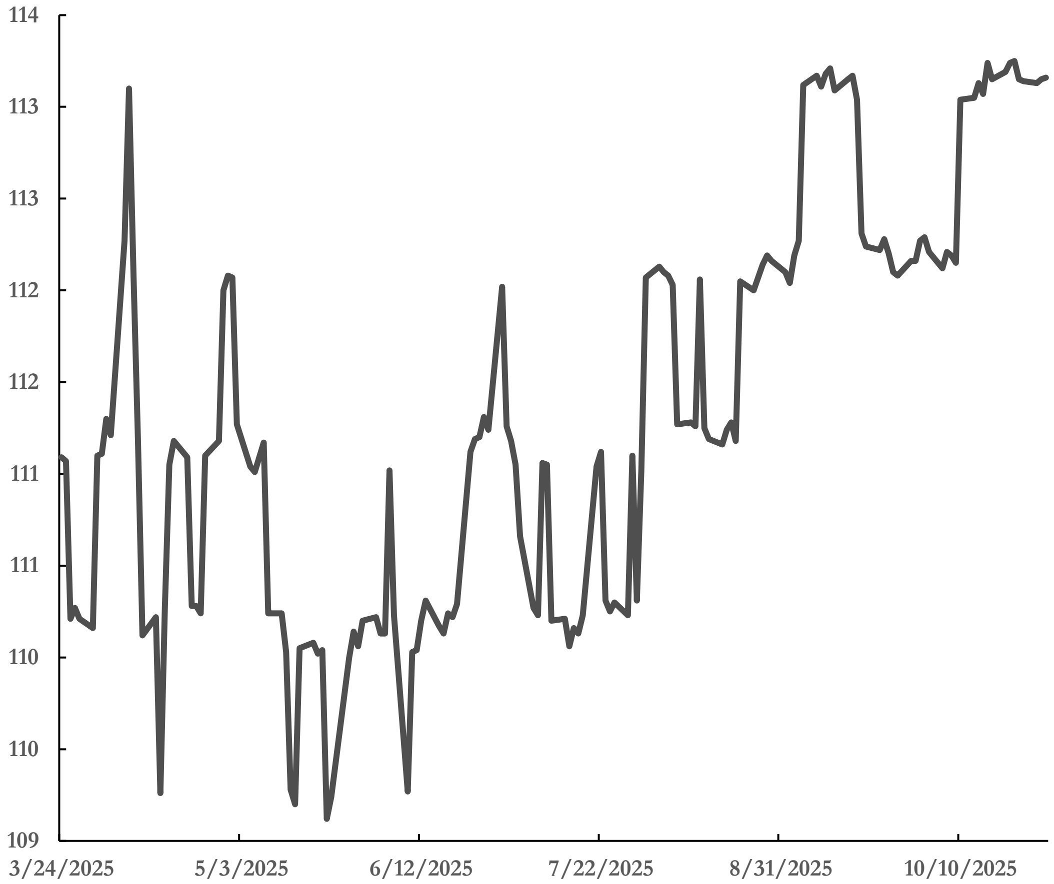
TYZ5 COMB – 10 Year Treasury Futures

- This futures contract tracks the 10 Year treasury note futures and associated spreads

- This is to add more value to our previous pitch, as well as a soft-landing hedge



Macro

Fed Communication Shift & Upcoming Events

Fed Meeting	PCE Announcements	CPI Announcements
October 28-29	October 31	November 13
December 9-10	November 26	December 10
	December 19	

- Jerome Powell has recently stated that the fed is navigating a 'challenging situation'
  - This is from persistent inflation and a weakening labor market
- 2 fed members Miran and Schmid were opposed to today's decision
  - This would be good for our play because it creates more uncertainty in the market

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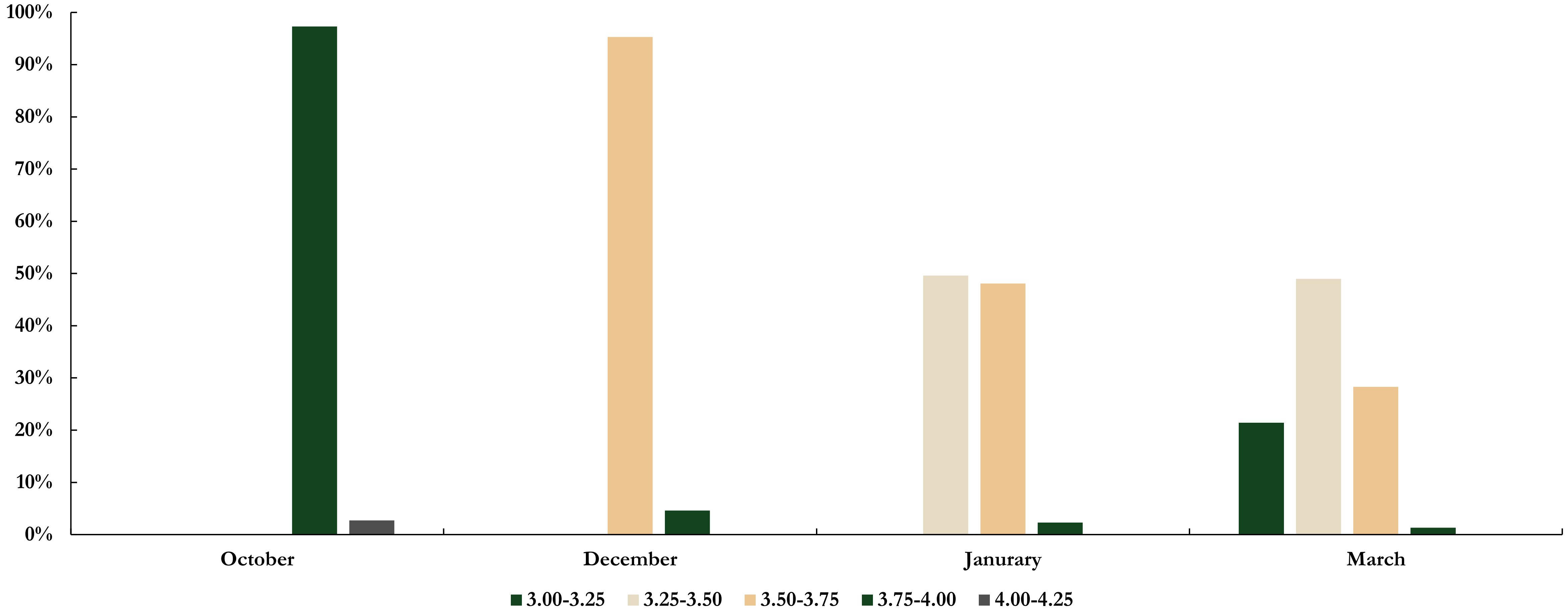
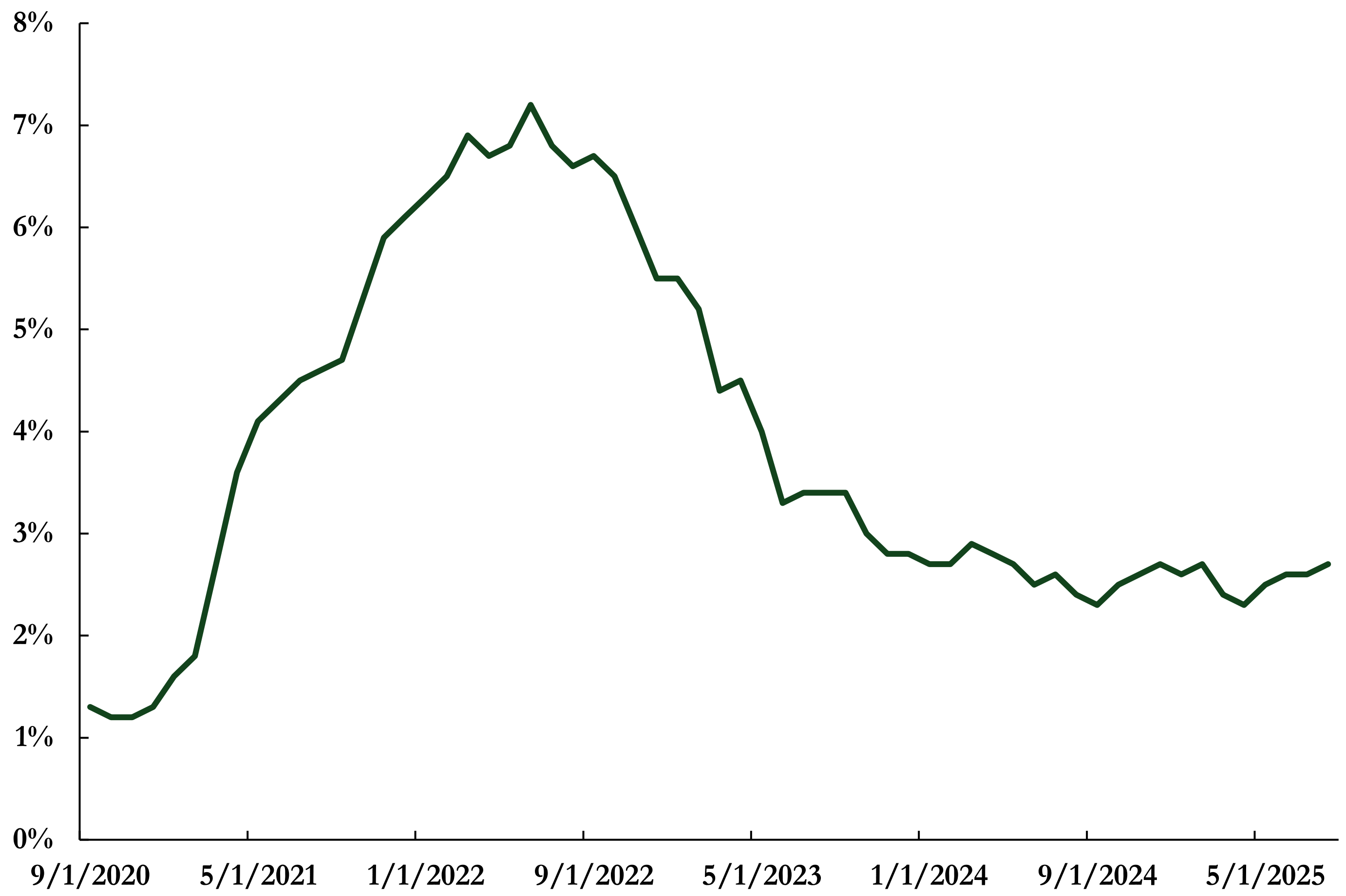
Fed Rate Cut Prediction



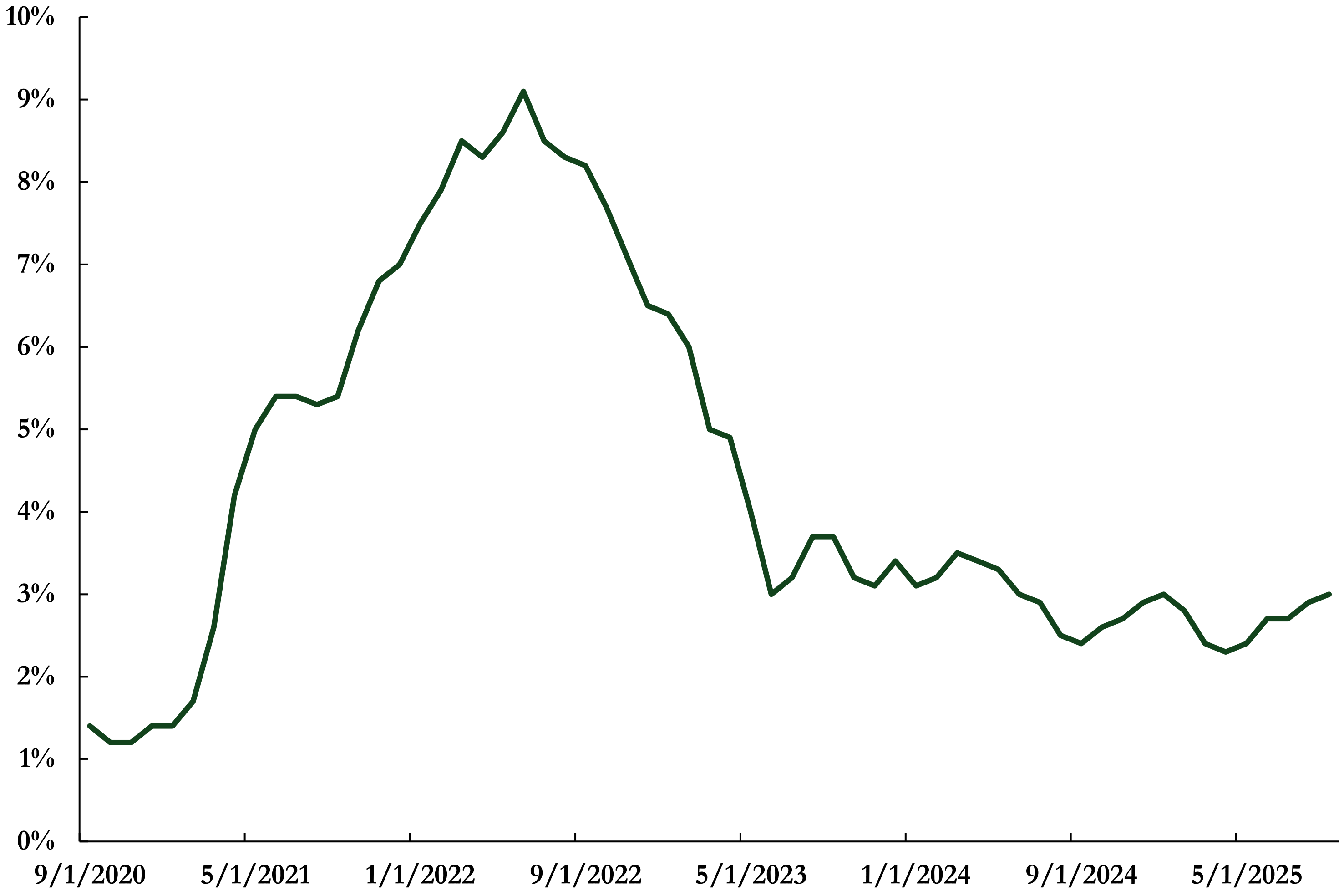
PCE

- PCE rose 2.7% in August Vs. 2.6% in July
- PCE is expected to hit 3.0% by the end of 2025
- PCE has been on a constant rise since May 2025



CPI

- Current CPI is at 3.01% as of September 2025
    - Previous Month was at 2.92%
- CPI is expected to increase 3.1% in Q4
- Has been on a constant increase since April 2025

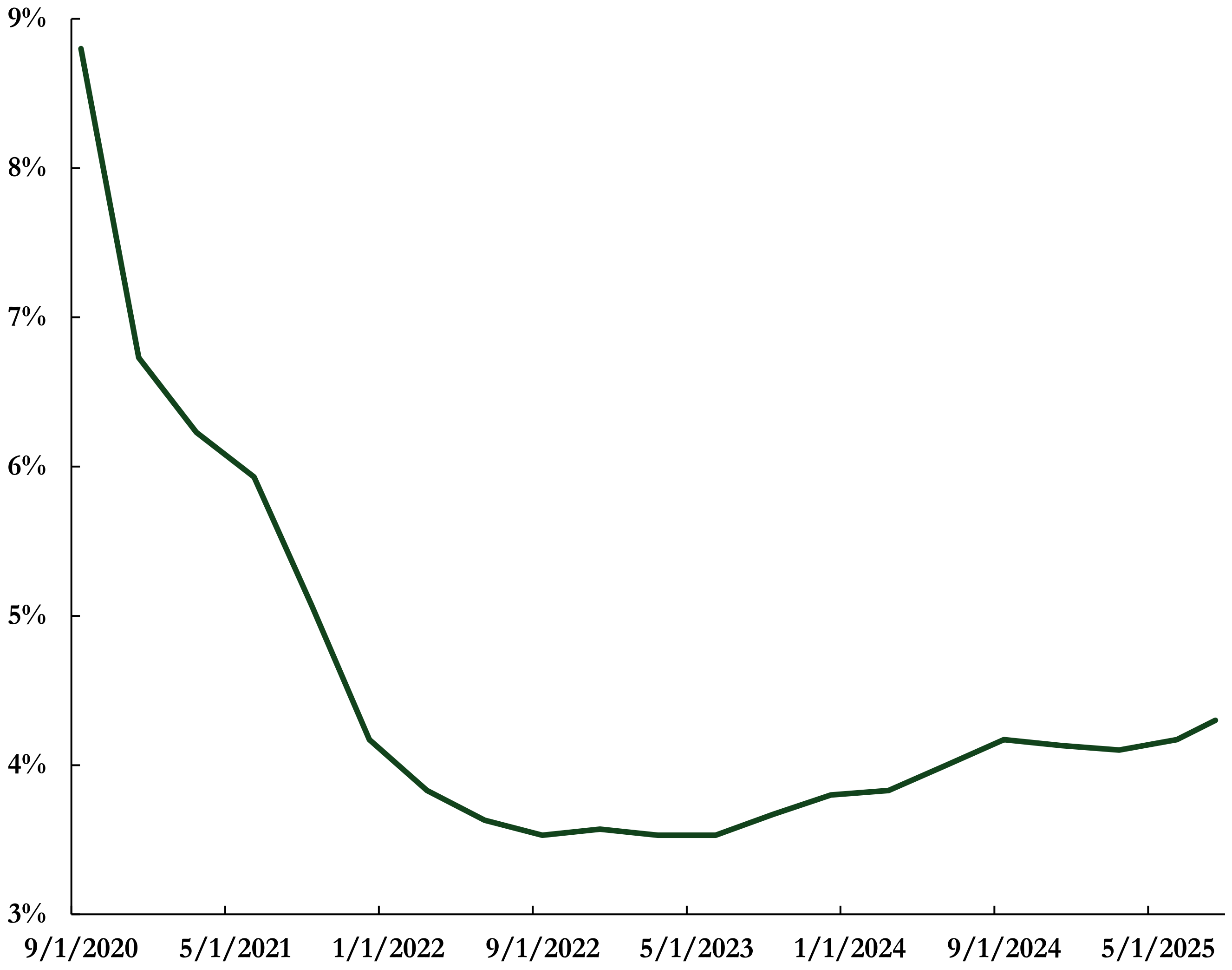


US Unemployment Rate

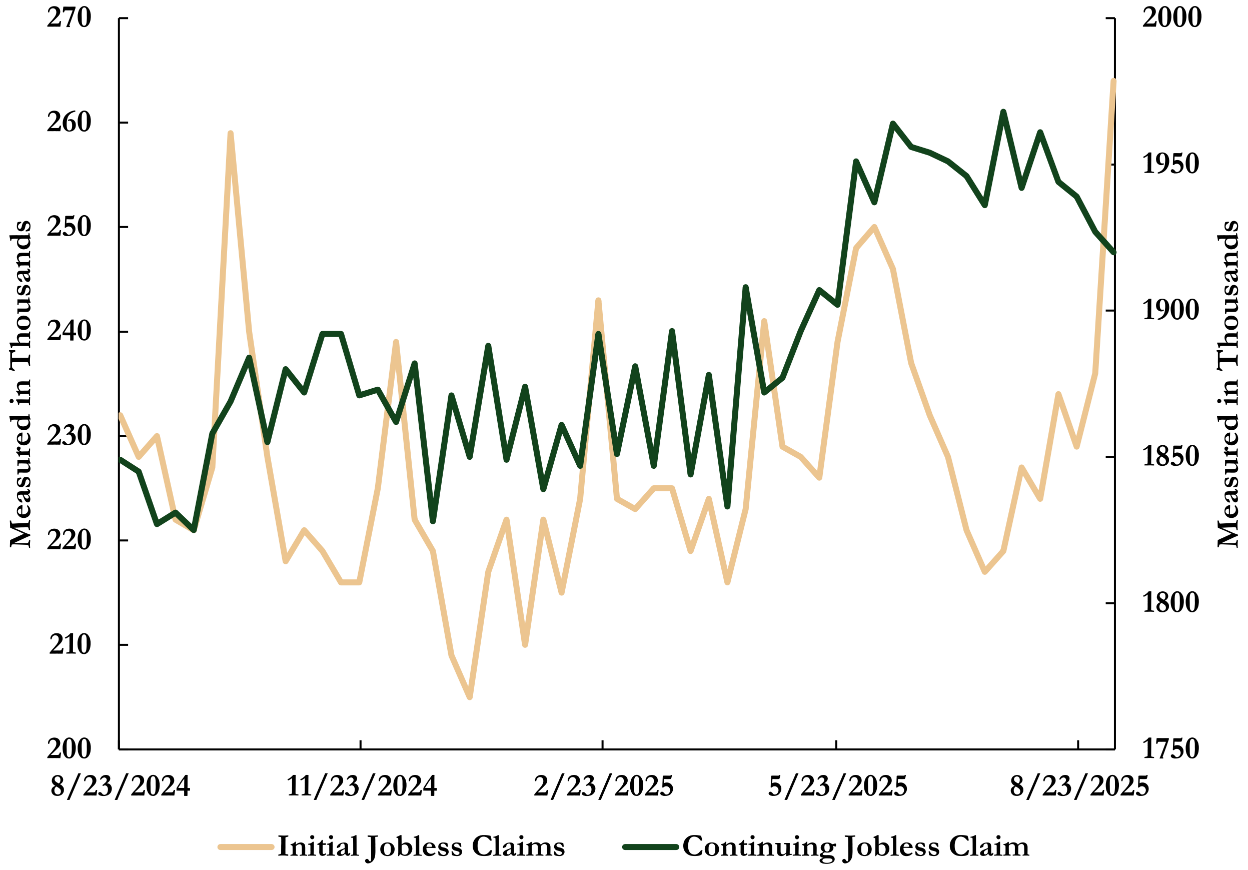
- The current US unemployment is 4.3% as of August 2025
  - This has been on a steady increase since 2022

- The Fed is now more concerned with the rising unemployment rate

- It is expected to be around 4.5% by the end of 2025



Jobless Claims



- Initial claims have been greater than 200k since 2024
  - This shows the labor market is starting to crack

- Continuing claims is continuing to rise, showing people struggle to find jobs

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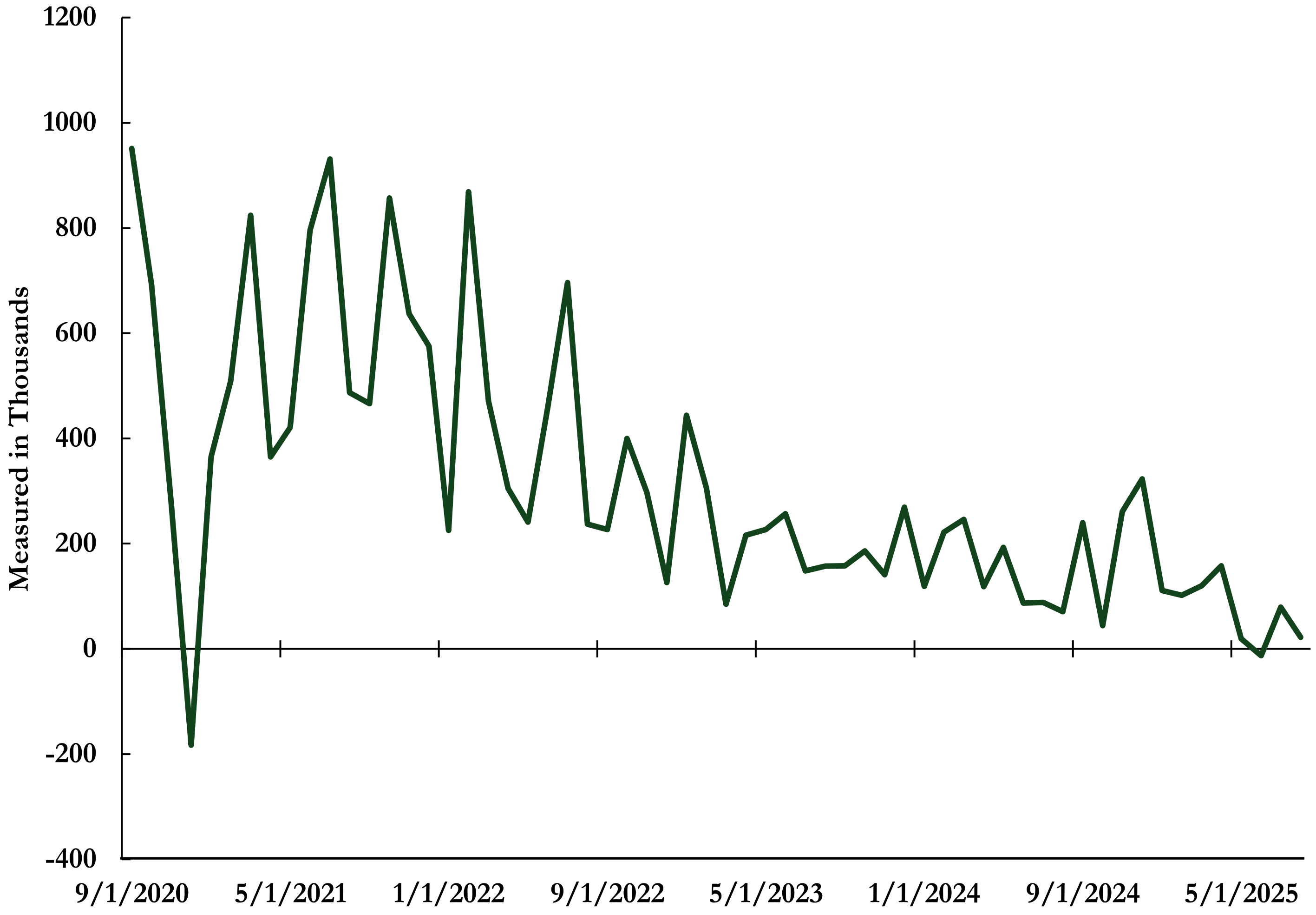
Non-Farm Payroll

- Non-Farm Payroll has slowed significantly since 2021
  - Signaling weakening labor demand and rising recession risk
- A weaker labor market increases policy uncertainty for the Fed
  - Supports higher implied rate volatility, benefiting our long volatility exposure
- Slowing job growth increases business default risk
  - Increases demand for higher yield and widens credit spreads



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Geopolitical Uncertainty

- Middle east and Ukraine tensions
  - Policy and inflation uncertainty in NATO countries lifts global rate volatility
  - Higher corporate/defense funding costs widen investment-grade credit spreads

- US-China Trade
  - Supply chain risk in the tech sector leads to corporate investment hesitations, widening credit spread
  - Recent meeting indicates a temporary solution with even more policy uncertainty for the future

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Spread Difference

- Risk Premium: Shows how much extra yield investors require for taking corporate credit risk over "risk-free" Treasuries
- The current spread between investment grade bonds and U.S Treasuries is 75 bps
- September and October have had the tightest spread since 1998 at 72 bps

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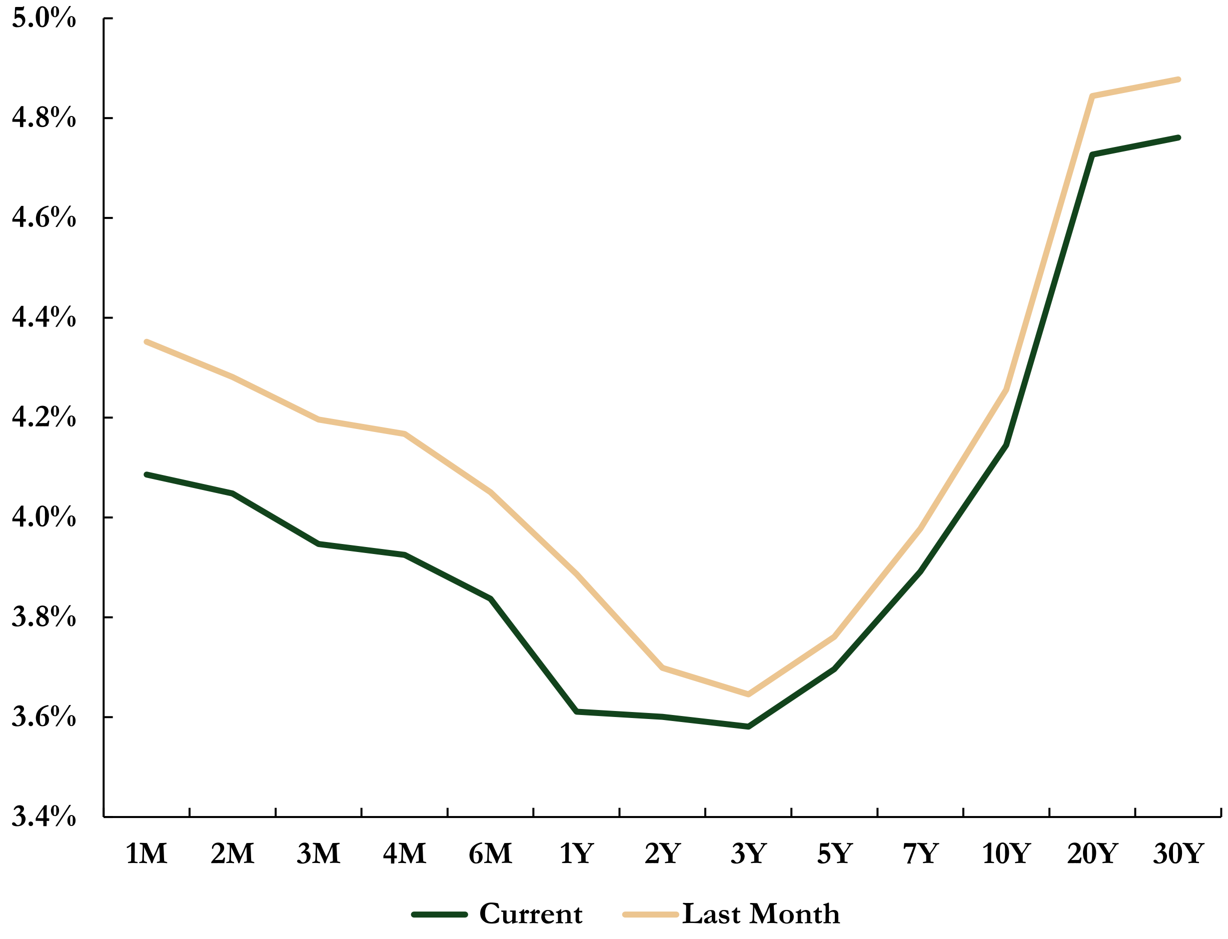
Yield Curve

- When the economy is in bad shape investors tend to migrate more towards U.S treasury
  - U.S treasury yields drop faster than Corporate bond yields --> wider spreads

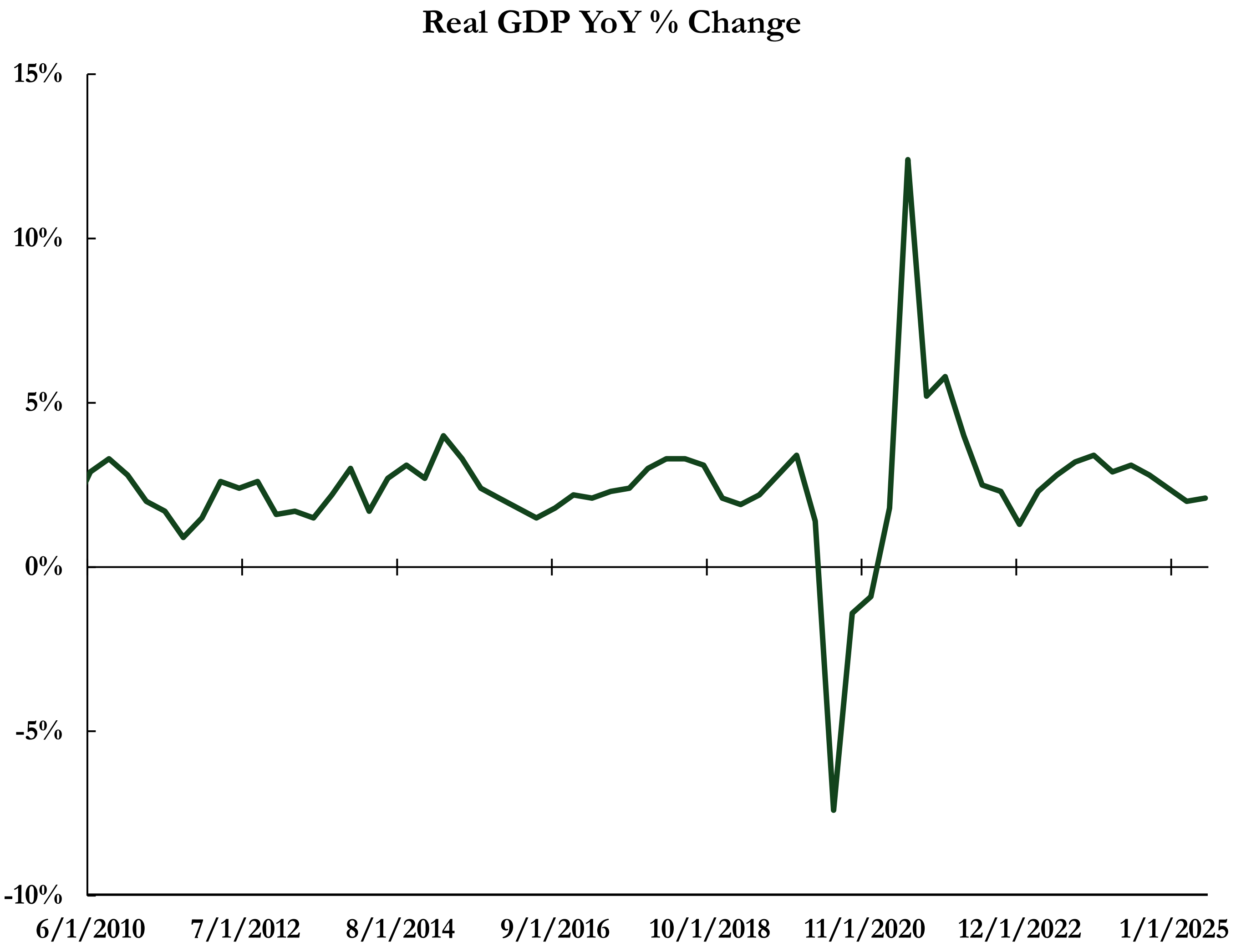


GDP

- US GDP growth has remained consistent for the last 10 year (Excluding covid)

- With consumption making up roughly 70% of the US GDP,
  - Fed needs to ensure people keep spending

- Q2 YoY GDP Growth was 3.3%
  - When GDP growth gets above 3% inflation must rise in a MDC



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USD Vs. EUR

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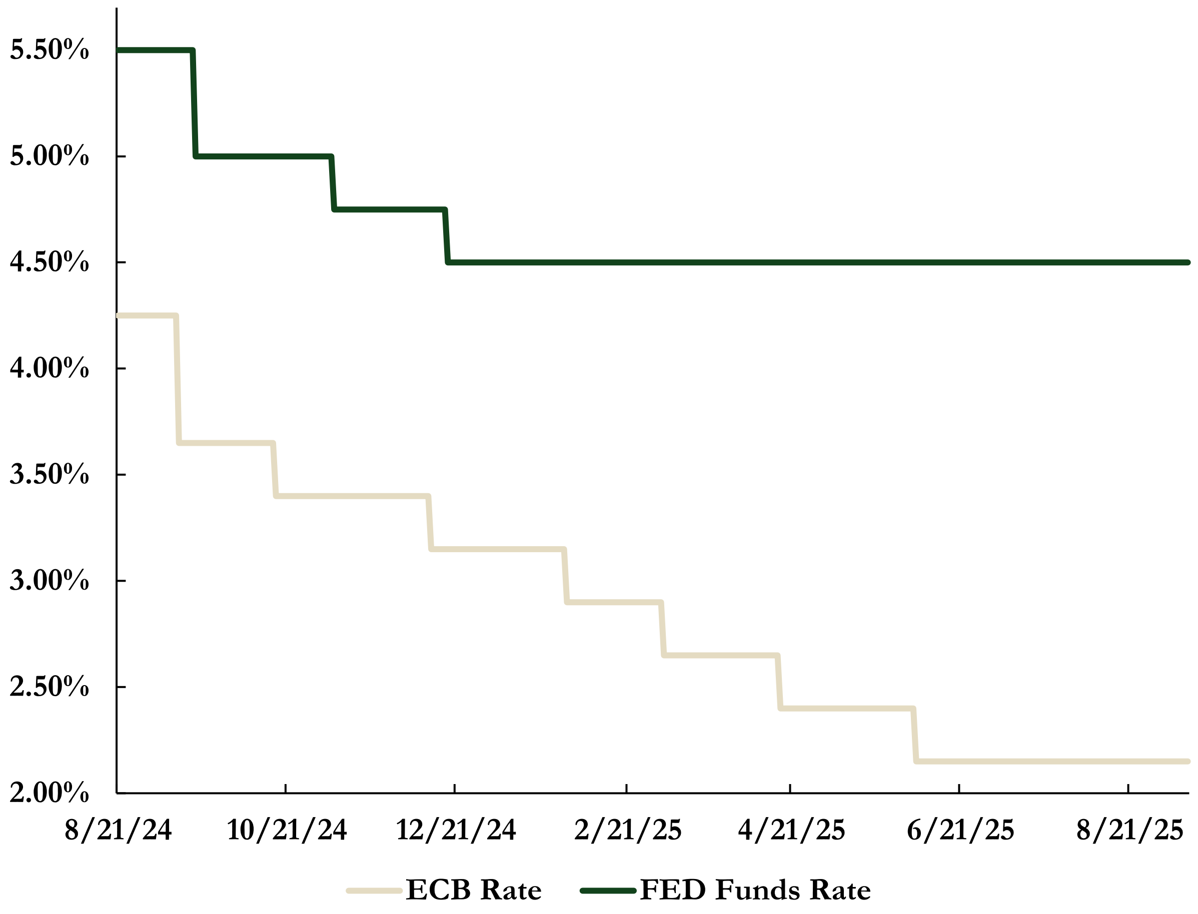
Fed Funds Rate vs ECB Rate

- Diverging Fed and ECB policy paths adds to uncertainty in global rate expectations

- This increases the demand for rate hedges and volatility instruments driving implied volatility higher



Position Overview

Profit Plays

Implied Volatility

Price: $86.83

Quantity: 11,517 Shares

Total Cost: $1,000,021.11

Exit Date: By the end of 2025

Combined Total: $1,966,891.11
Combined Stop Loss: $98,344.56 (5%)

Short Credit Spread Futures

Contract Value: $107,430.00

Quantity: 9 Contracts

Total Cost: $966,870.00

Expiration: 12/17/2025

Underlying Asset: LUACTRUU Index

Tick Size: 0.50

Tick Value: $15

Value of 1.0 Point: $30

Price: 3,581.00 Points

Initial Margin: $1,914

Maintenance Margin: $1,740

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Hedge

Long Treasury Futures

Contract Value: $113,500.00

Quantity: 4 Contracts

Total Cost: $454,000.00 (23% of profit side)

Expiration: 12/31/2025

Underlying Asset: US 10 Yr Treasury

Tick Size: 0-00+ (64ths of a bp)

Tick Value: $15.625

Value of 1.0 Point: $1,000

Price: 113-16 Points

Initial Margin: $1,875
Maintenance Margin: $1,875
Stop Loss: $22,700 (5%)

Market Conditions

Hard Landing

- **Definition:** Economy tips into recession; growth contracts sharply
- **Macro Dynamics:** Rising unemployment, falling demand, fed forced to cut rates aggressively
- **Market Impact:** Volatility spikes, Credit spreads widen dramatically, Treasury yield drops

Soft Landing

- **Definition:** Growth slows but avoids recession; inflation cools
- **Macro Dynamics:** Steady GDP, resilient labor market, and Fed eases rates gradually
- **Market Impact:** Volatility drifts lower, credit spreads stay tight, and treasury yields drift lower

Inflation Spike

- **Definition:** Growth slows but inflation proves sticky or re-accelerates
- **Macro Dynamics:** Weak growth, high prices, Fed keeps policy tight despite slowdown.
- **Market Impact:** Volatility rises, credit spreads widen, treasury yields rise

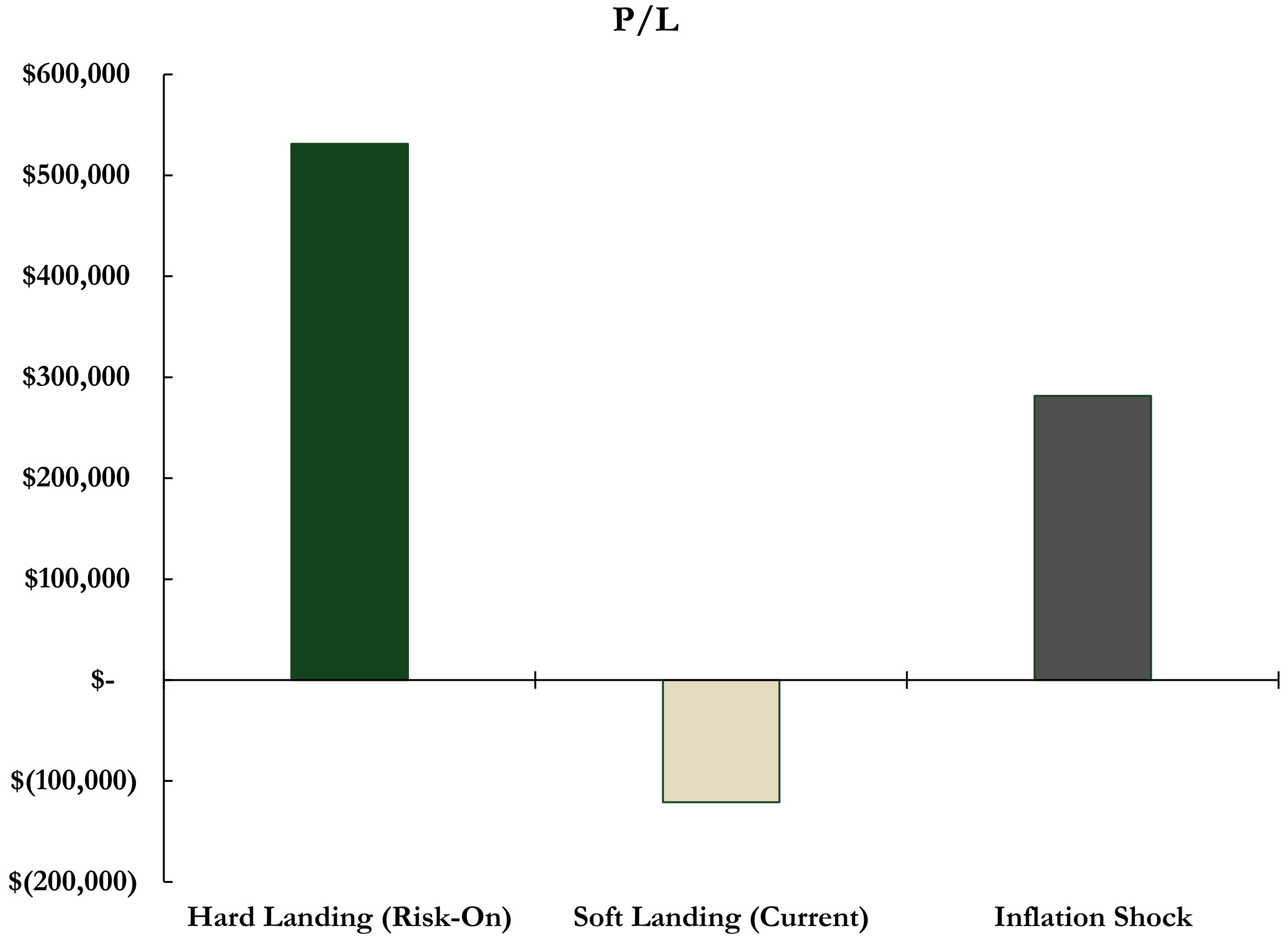
Full Position Overview

Volatility Play: $1,000,021.11

Credit Spread Futures: $966,870.00

Hedge: $454,000.00

Total Cost: $2,420,891.11



Appendix

Desired outcomes explained

Bullish on Implied Volatility

- **Market uncertainty** → harder to forecast Fed path → range of possible future interest rates outcomes widen → demand for interest rate options rises to hedge uncertainty → implied volatility rises on the 1Y10Y Swaptions Index → options become more expensive → long volatility position gains

Bearish on credit

- **Economic slowdown and rising unemployment** → corporate credit risk increases → bond prices fall → yield increases → credit spreads widen → credit spread futures increase in value → short position gains

Position Hedge

- **Investors become cautious** → more money flows into safe assets like U.S. Treasuries → higher demand for Treasuries increase prices → Treasury yields fall → falling yields increase Treasury futures prices → our long hedge position gains, offsetting potential losses in other legs

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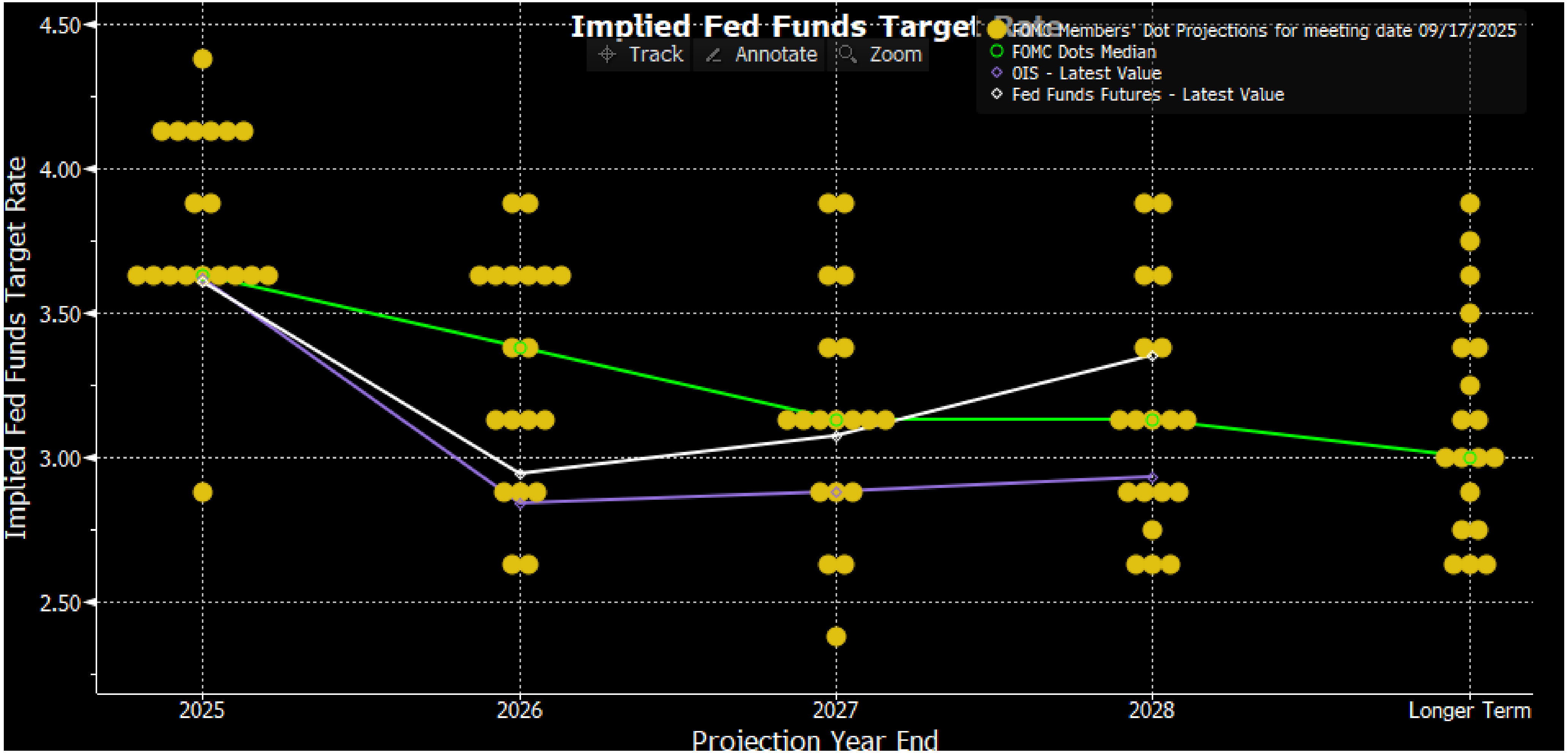
Fed Dot Plot (Bloomberg screenshot)



What is implied Volatility

- "A metric that captures the market's view of the likelihood of changes in a given security's price."
- In fixed income markets, it represents uncertainty around future interest rates
- Major factors for calculating implied vol
  - Supply & Demand
  - Time Value
- This data can be used to predict both future moves and supply and demand
- Often used to price out options contracts
- Rising implied volatility shows greater uncertainty

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P/L Calculations

- Used chat gbt to help me find historical % and bps changes for each economy environment

			Volitility	Credit Spreads	10Yr Treasury	
Widen 120 bps		Hard Landing (Risk-On)	40%	360	8	
Tightens 30bps		Soft Landing (Current)	-15%	-90	2	
Widen 60 bps		Inflation Shock	25%	180	-4	
			Volitility	Credit Spreads	10Yr Treasury	Total P/L
-100 bps		Hard Landing (Risk-On)	$ 400,000.00	$ 97,200.00	$ 34,000.00	$ 531,200.00
-25 bps		Soft Landing (Current)	$ (150,000.00)	$ (24,300.00)	$ 8,500.00	$ (165,800.00)
50 bps		Inflation Shock	$ 250,000.00	$ 48,600.00	$ (17,000.00)	$ 281,600.00
			Total P/L	Stop Loss Adjusted P/L		
		Hard Landing (Risk-On)	$ 531,200	$ 531,200		
		Soft Landing (Current)	$ (121,045)	$ (121,044.56)		
		Inflation Shock	$ 281,600	$ 281,600		

Correlation of Securities

Security	PSVRDI	IQBZ5	TYZ5
PSVRDI	1	-0.548	-0.172
IQBZ5	-0.548	1	.584
TYZ5	-0.172	.584	1

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Profit Scenarios

Market Scenario	Rates move	Vol move	PS 1Y10Y Vol (23,034 S)	IQBZ5 (-10 c)	TYZ5 (+4 c)	Approx. Net
Disorderly sell-off (yields ↑ 15 bp, vol ↑ 10 %)	+15 bp	+10 %	+ 58 k	+ 15.8 k	– 5.1 k	+ 68 k
Calm sell-off (yields ↑ 15 bp, vol flat)**	+15 bp	0 %	0	+ 15.8 k	– 5.1 k	+ 10.7 k
Flight-to-quality (yields ↓ 15 bp, vol ↑ 10 %)	–15 bp	10%	+ 58 k	– 15.8 k	+ 5.1 k	+ 47 k
Calm rally (yields ↓ 15 bp, vol flat)**	–15 bp	0%	0	– 15.8 k	+ 5.1 k	– 10.7 k

Chat GPT Estimated Profitability

📌 Probability by individual leg

Here's how I'd break down each component's probability of being *profitable* (i.e., each leg individually delivering a positive return) by the same expiration dates:

Leg	Probability of profit
Long-volatility (rates swaptions / 1 Y×10 Y kind of exposure)	~60% — The volatility leg has somewhat better odds: given policy uncertainty and inflation/disinflation ambiguity, there's a decent chance implied vol will move higher or at least not collapse. But the carry/decay risk remains.
Short credit-spreads (IG credit futures or equivalents)	~50% — This is the riskiest leg. Credit spreads are extremely tight for investment grade (~1.00% OAS for BBB corporates) and historically very low. FRED +2 Without a clear catalyst of macro deterioration, spreads may remain flat or tighten — which would hurt your short.
Long 10-yr Treasury futures (duration hedge)	~70% — This leg has the highest odds of working. In a risk-off move your hedge benefits; even in uncertainty-driven markets, Treasuries often rally (yields fall). But if inflation suddenly spikes or growth surprises, this leg might lose.

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