ALPINEMACRO
A Unique Mind On The Markets

A lot of the decline in inflation expectations is behind us, but short inflation protection trades can still make a little money at the 2- and 5-year maturities. In the event that Treasury yields head lower, our simulations suggest a roughly equal split between declines in real yields and inflation expectations. However, history shows that real yields usually lead the way down during Fed easing phases.

U.S. BOND STRATEGY

September 5, 2024

Inflation Breakevens Or TIPS?

- The odds of a soft economic landing are above 50%...
- ...but the FOMC is concerned about rising unemployment
- ...there is still some modest downside for inflation expectations...
- ...although only at the short end of the curve
- Real yields have more downside potential than inflation expectations

The monetary easing cycle will get underway later this month, but the speed of rate cuts will be determined mainly by upcoming payroll reports. One of Chair Powell's key points at Jackson Hole was that the upside risks to inflation have declined, while the downside risks to the labor market have increased. The implication is that policymakers' focus has shifted toward the "maximum employment" part of the dual mandate.

Pressure to quickly ease policy will build as unemployment rises. Nonetheless, a lot of rate cuts are already discounted in the curve.

The key question is whether the Fed will attain a soft economic landing. Or whether it is too late to head off a downturn, even if the FOMC aggressively eases in the coming months.

The Fed's track record on attaining a soft landing is admittedly not a good one. However, this time we think the chances are good:

- **Constructive inflation/growth tradeoff:** The post-pandemic recovery has been highly supply-driven, allowing inflation to decline with very little economic pain. The Phillips curve appears to be shifting back down toward the pre-pandemic (flat) level. The improved tradeoff between inflation and growth (or unemployment) makes the Fed's job easier, and provides policymakers with room to maneuver on policy rates.
- **Labor supply:** Related to the first point, rapid immigration is acting to push up the unemployment rate, even though job creation remains positive.[1] Rising unemployment opens the door to Fed rate cuts even as the economy continues to grow.

1 Alpine Macro *U.S. Bond Strategy* "Labor Market New Normal: Forget the Sahm Rule" (July 25, 2024).

ALPINEMACRO 2024 INVESTMENT CONFERENCE

NEW YORK | MONDAY, SEPTEMBER 16th **USD $1,995 - REGISTER NOW**

237 Park Avenue, New York, NY 10017

Tipping Point In Financial Markets: A Melt-up or Meltdown?

Agenda

08:10 - 08:30 **Opening Remarks : The Shifting Macro Landscape: Opportunities & Risks**
Chen Zhao, Chief Global Strategist

08:30 - 9:30 **Emerging Mega Trends: How Should Investors Be Prepared?**
Ruchir Sharma, Chairman of Rockefeller International and Founder and Chief Investment Officer of Breakout Capital

09:30 - 10:30 **Inflation, Disinflation and Fed Policy: Are We on the Right Path?**
Mike Dooley, Professor Emeritus at University of California, Santa Cruz and Chief Economist at Figure Technologies

10:30 - 10:45 Coffee Break

10:45 - 11:45 **Fireside Chat: Bull Bear Debate**
Francois Trahan, Founding Partner of The Macro Institute Versus
Jim Paulsen, Author of the Paulsen Perspectives research newsletter on Substack

11:45 - 12:30 **The Long and Shorts of U.S. Equities**
Gina Martin Adams, Bloomberg Intelligence Global Director of Portfolio Strategy, Chief Equity Strategist

12:30 - 14:15 **Luncheon Speaker: Harris Vs Trump: How The World Will Be Changed**
Greg Valliere, Chief U.S. Policy Strategist AGF Investments

14:15 - 15:00 **How Is AI Reshaping the Money Management Business?**
Gareth Shepherd, Co-Head of Voya Machine Intelligence (VMI) & Portfolio Manager, Voya Investment Management

15:00 - 15:15 Coffee Break

15:15 - 16:30 **Commodity Panel: Secular Trend, Energy and Prospect of ESG**
Tavi Costa, Partner/Macro Strategist at Crescat Capital
Lenka Martinek, Managing Partner, Sustainable Market Strategies, Nordis Capital
Adam Rozencwajg, Managing Partner, Goehring & Rozencwajg

16:30 - 17:30 **Cocktails & Networking**

Guest Speakers + Alpine Macro Strategists


Ruchir Sharma


Mike Dooley


Francois Trahan


Jim Paulsen


Gina Martin Adams


Greg Valliere


Gareth Shepherd

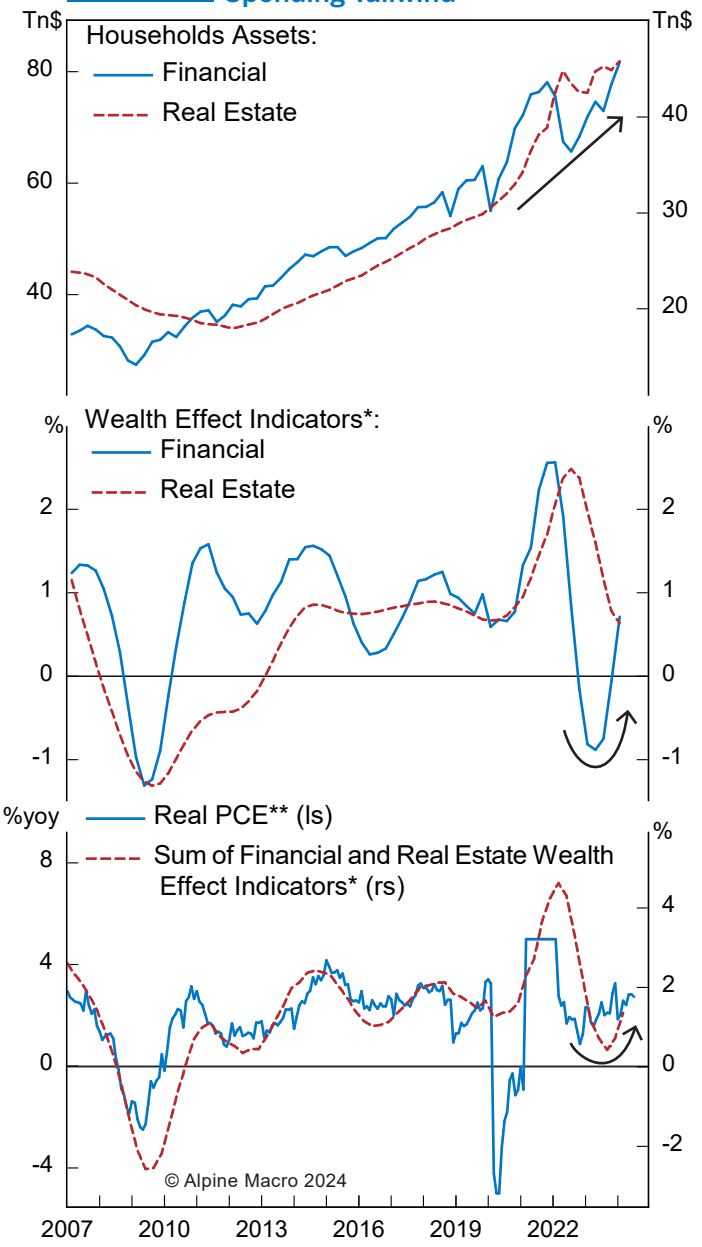

Tavi Costa


Lenka Martinek


Adam Rozencwajg

Conference Details & Registration: conference.alpinemacro.com | conference@alpinemacro.com | +1 (514) 558-1414

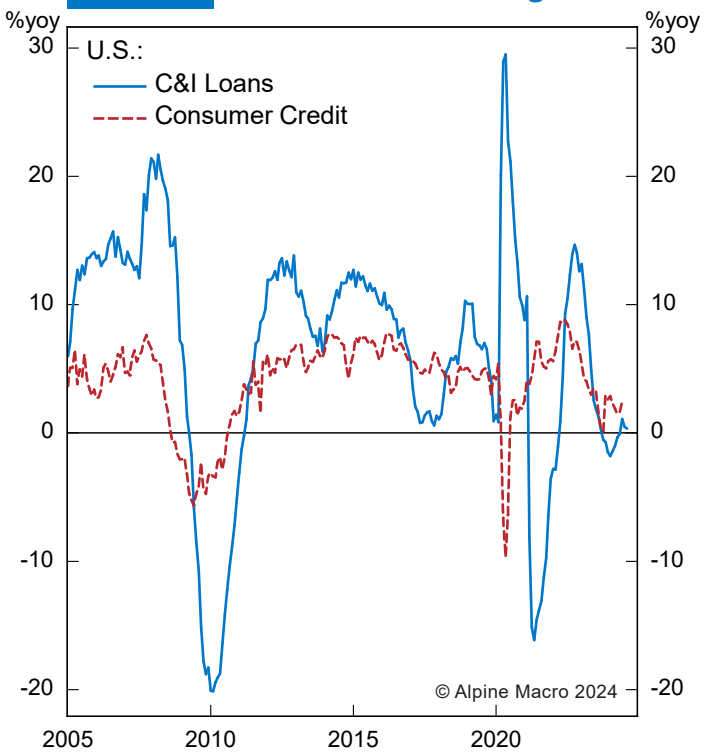
Chart 1 Asset Gains Provide Spending Tailwind



*Estimated contribution to nominal spending from previous wealth gains, as % of Personal Disposable Income
**Pandemic low and high truncated at -5 and 5%yoy, respectively

- **Positive wealth effect:** Excess savings built up during the pandemic appears to be largely spent. However, the accumulation of household wealth over the past couple of years provides a spending tailwind (**Chart 1**).

Chart 2 Credit Growth Stabilizing?

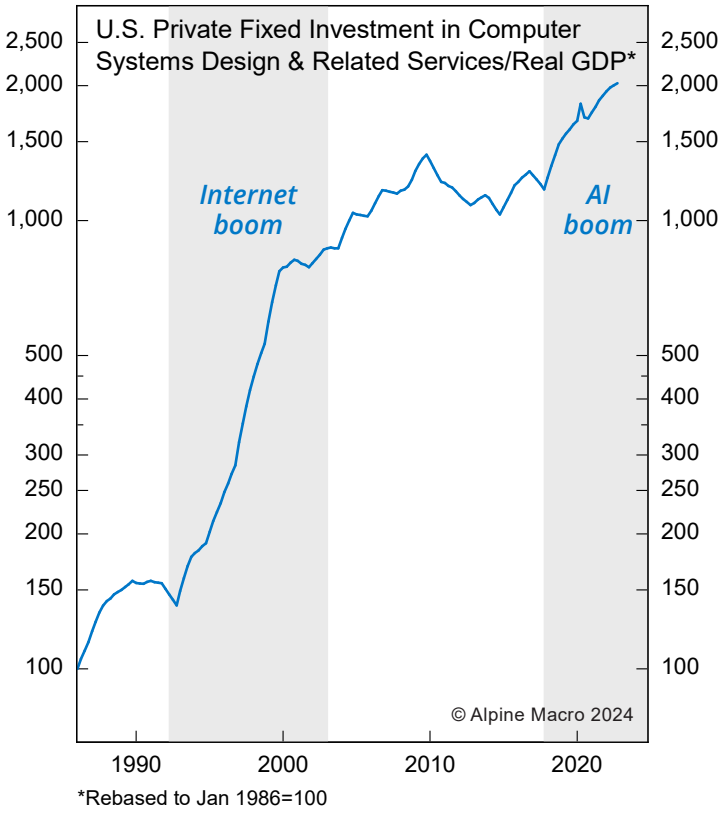


- **U.S. households' financial shape:** There is some evidence of growing stress among lower-income households (e.g. rising delinquency rates). Nonetheless, the overall household debt/income ratio is at a 25-year low and the debt service burden is modest.

- **Consumer Credit:** The worst of the tightening in bank lending standards is over and consumer credit growth shows tentative signs of bottoming (**Chart 2**).

- **Productivity growth:** Productivity growth has accelerated impressively as AI-related investment surges (**Chart 3**). It is not clear how much of the acceleration simply represents a cyclical recovery. However, we believe that the pickup is partly structural due to the adoption of AI and work-from-home, both of which reduce business costs.

Chart 3 Productivity Boom Underway



Moreover, there are no obvious areas of major overspending or excesses in the U.S. economy. The charts in the **Appendix** compare the current size of the interest-sensitive sectors of the economy to the peak of previous economic expansions (i.e. just before the recession began). Only consumer spending on non-auto durable goods appears a bit elevated. Residential investment does not look particularly worrying, despite the strong pace of housing starts in the post-pandemic period.

One downside risk is capital spending. It is not stretched at the moment. However, high levels of leverage and a low starting point for interest coverage mean that the corporate sector is vulnerable to a profit downturn. A profit recession is not our base case, but is a risk.

The bottom line is that the odds are better than even for the Fed to "stick the landing" this time. That said, the economic risks are tilted to the downside. The key indicator to watch for a sign that the economy is slipping into recession is a drop below zero in the 3-month rate of change of payrolls.

Will Inflation Breakevens Or TIPS Lead The Way Down?

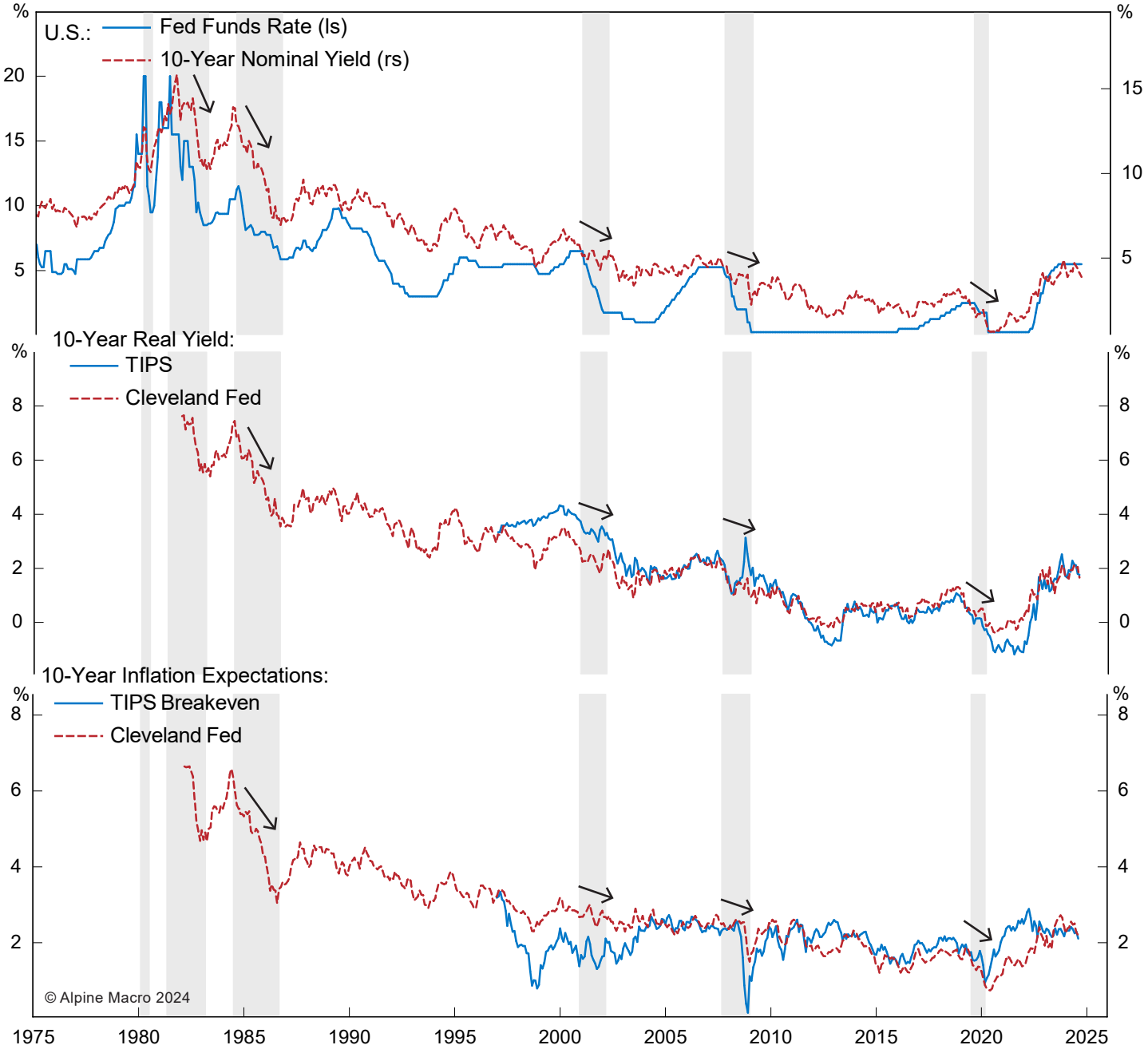
We discussed the implications of a soft economic landing for the Fed outlook and the Treasury market in a recent report.[2] We concluded that long duration positions are only modestly attractive in a soft landing scenario, given current yield levels. It would require real GDP growth to decelerate by more than we anticipate, falling below a 1% annualized pace, for the 10-year Treasury yield to drop significantly below current forward rates.

That said, the fact that we see the economic risks as being skewed to the downside relative to our base case keeps us somewhat biased to be long duration. We took profits and shifted to neutral on a tactical basis following the early-August "flash" flight-to-quality that sent Treasury yields sharply lower. A rise in the 10-year yield to above 4% would likely trigger a shift to above benchmark duration. Conversely, a drop to 3.5% might justify a short position.

In the event that growth disappoints in the coming months and monthly payrolls drop closer to zero, clients have been asking whether real yields or inflation expectations will decline the most.

2 Alpine Macro *U.S. Bond Strategy* "Any Juice Left In Duration And Curve Plays?" (August 8, 2024).

Chart 4 Inflation Expectations And Real Yields During Fed Easing Phases



Note: Shaded areas denote periods of fed rate cuts

Chart 4 presents 10-year inflation expectations and the real yield going back to the early 1980s. For the period before TIPS were created, we use the Cleveland Fed's estimate of long-term inflation expectations to calculate the real 10-year yield.

Table 1 provides some statistics on historical Fed easing phases (shaded periods in **Chart 4**). Almost all of the cycles coincided with a recession, except for 1984. We did not include the Fed rate cuts in 1995 or 1998 because these were short, sharp

Table 1 Fed Easing Phases Comparison

Fed Funds Peak	Months to Trough	Change in*: Fed Funds (bps)	Inflation (p.pts)*	Real Fed Funds (bps)*	Real Yield** (bps)	Inflation Expectations** (bps)	Nominal Yield** (bps)	Contribution to Change in Nominal Yields: Real Yield (%)	Inflation Expectations (%)
May-74	20	-820	-0.80%	-740			24		
Feb-80	4	-1050	0.20%	-1070			-263		
Jul-81	16	-650	-2.92%	-358			-396		
Aug-84	24	-560	-0.93%	-467	-295	-289	-584	51	49
May-89	40	-680	-1.72%	-508	-151	-48	-198	76	24
Nov-00	31	-550	-0.41%	-509	-203	9	-194	104	-4
Aug-07	17	-500	-0.84%	-416	-130	-103	-232	56	44

*Changes calculated over a time period that matches peak-to-trough in nominal fed funds rate in each cycle
**10-year maturity. TIPS data used for periods after November 2000. Before that, data reflect Cleveland Fed estimates

affairs that were driven by a financial crisis rather than an economic downturn (i.e. Tequila and Asian Crises). We also excluded the 2019 rate cut phase because it was followed by the pandemic-driven recession that was clearly a special case.

All the data reported in **Table 1** were calculated using the peak and subsequent trough in the fed funds rate cycles. The 10-year Treasury yield dropped sharply in all cases, except in 1974. Each bond rally involved a substantial decline in the real component, contributing from about 50% to 105% of the total change in the nominal yield.

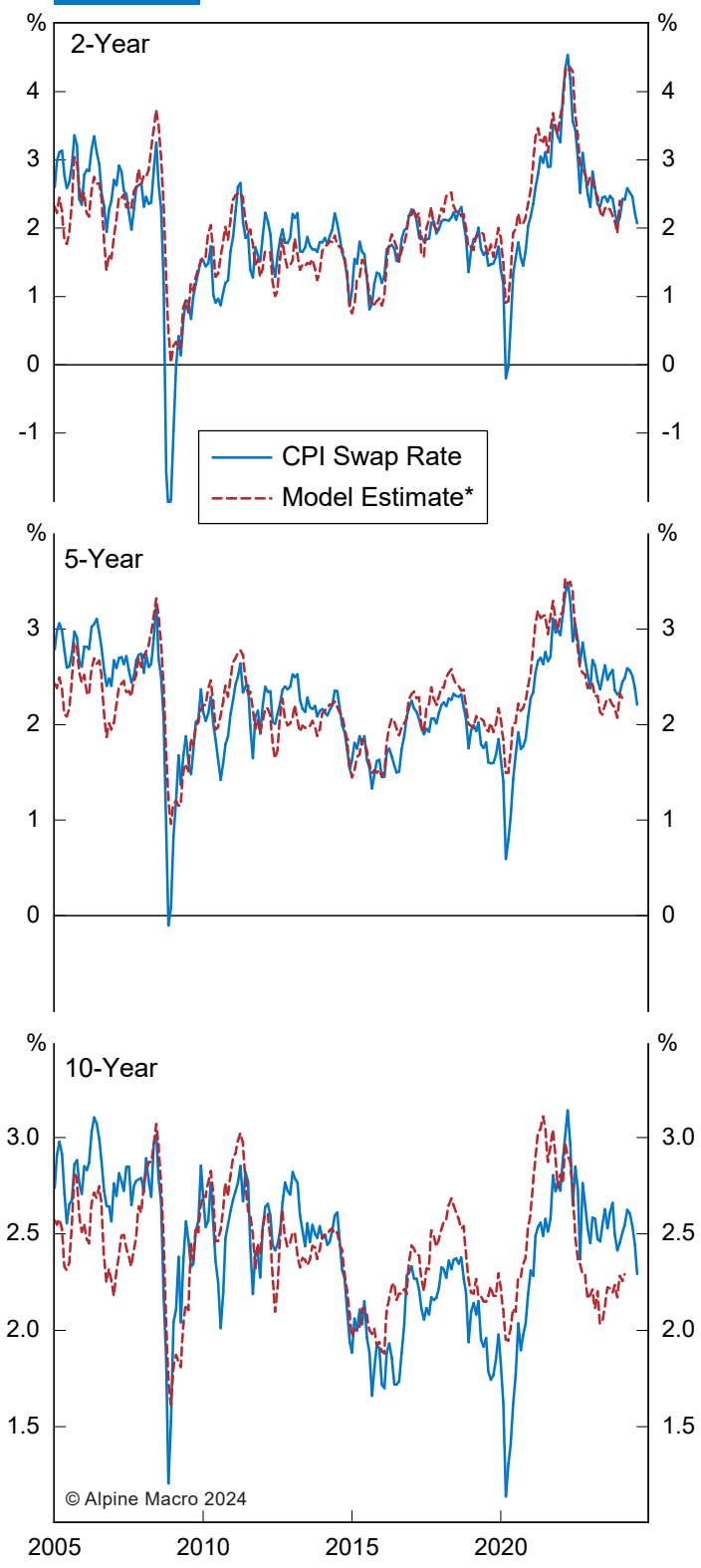
The contribution to falling nominal yields from long-term inflation expectations varied widely and was typically smaller. Inflation expectations actually moved up slightly in the early 2000s easing phase.

The fact that bond rallies tend to be more heavily weighted toward the real component reflects the fact that inflation trends often lag the economic cycle. Meanwhile, in an economic slowdown/recession, the Fed endeavors to quickly lower real short-term interest rates, which then feed out the curve.

The current cycle is different in the sense that substantial disinflation has already occurred on the back of an impressive rebound in the supply-side of the economy. Inflation expectations across the curve are still above pre-pandemic levels, but have declined a long way and are now roughly consistent with the Fed's 2% inflation target.

With the economy slowing and actual inflation still in a downtrend, does it make sense to position for lower CPI swap rates and inflation breakevens?

Chart 5 CPI Swap Model Fit



*Out of sample after 2019
*Alpine Macro calculation including commodity prices, PMI prices paid and wage growth

CPI Swaps Scenarios

We modeled 2, 5, and 10-year CPI swap rates based on the PMI prices paid index (average of manufacturing and non-manufacturing), CRB raw industrials, the Atlanta Fed Wage Tracker, and the spot gasoline price. We found that the spot gasoline price performed much better as an explanatory variable than the 12-month forward price.

All equations fit the historical data well, although somewhat less so for the 10-year swap model (**Chart 5**). It is impressive that the models even captured the wild swings in swap rates in the out-of-sample period after 2019. All the explanatory variables are statistically significant. The one exception is the wage rate in the 10-year CPI swap model, which we were forced to exclude.

We then simulated the models over the coming year using two scenarios for the input variables: a base case and a mild recession case. **Chart 6** presents the assumptions in each scenario.

The base case assumptions are consistent with a global economic slowdown in the coming quarters, but no recession. This scenario would see modest downside pressure on wage growth. But we assume that commodity and gasoline prices are flat at current levels, and that the PMI prices paid index shifts down to a neutral reading of 50. These assumptions may be on the conservative side. Even in a soft landing, accumulating economic and labor market slack will further dampen pricing power.

The recession case incorporates a more disinflationary environment: a drop in commodity and gasoline prices, a deceleration in wage growth to 3.5%, and a plunge in the PMI prices paid to 40 (consistent with previous recessions).

Chart 6 Input Variables For CPI Swap Models

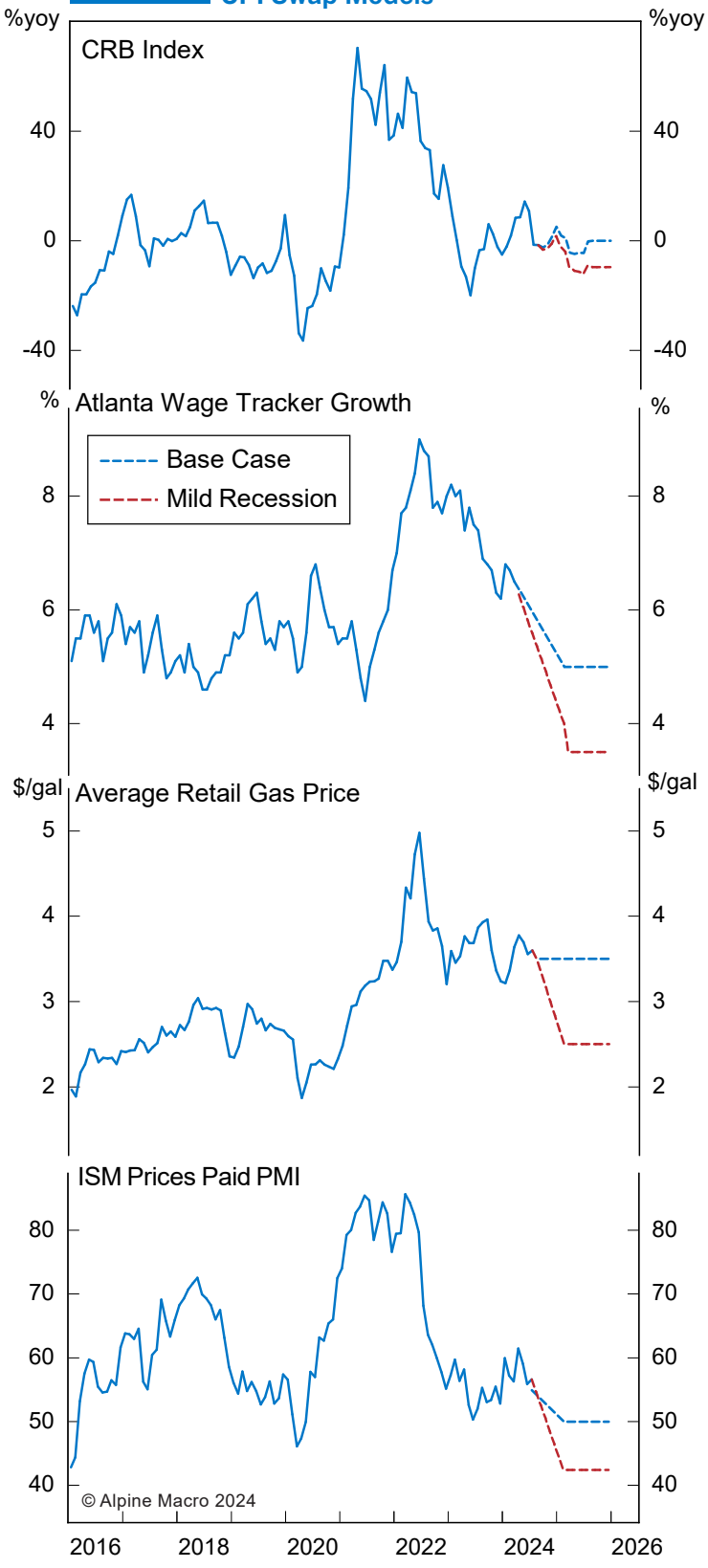


Chart 7 Inflation Swap Scenarios

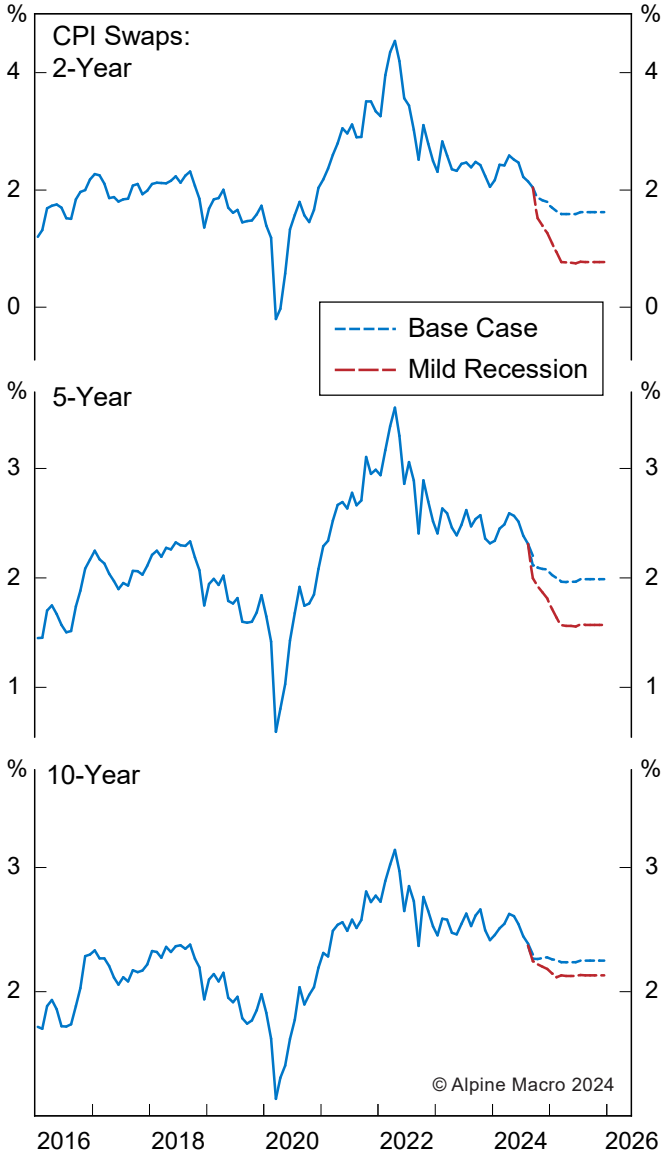


Chart 7 and **Table 2** present the resulting forecast for the 2, 5, and 10-year swap rates. They all are projected to decline from current levels and drop slightly below current 1-year forward rates. Short inflation-protection trades could be modestly profitable in the base case, although only for the 2- and 5-year maturities.

In contrast, shorting 10-year CPI swaps would only be profitable in the case of a recession or a sharp drop in oil prices.

How Much Downside For Real Yields?

We can combine these projections with the yield curve simulations we presented last month's report, in order to calculate the implied change in real yields (Table 3).[1]

Both inflation expectations and real yields decline in our base case. However, for the 5-year maturity, the projected decline in nominal yields is somewhat skewed toward lower inflation expectations relative to the expected drop in real yields. The opposite is true for the 10-year maturity.

In the case of a mild recession, the relative contribution from falling real yields increases for the 5-year maturity. This is consistent with our intuition; there is more downside potential for real rates than inflation expectations in a recession.

Bottom Line: A lot of the decline in inflation expectations is behind us, but short inflation protection trades can still make a little money at the 2- and 5-year maturities. Our simulations suggest that both inflation expectations and real yields for 2- and 5-year maturities will make roughly equal contributions if nominal bond yields fall as the Fed cuts rates. However, these simulations must be taken with a grain of salt. History shows that real yields tend to fall by more than inflation expectations during Fed easing cycles. Moreover, the real yields are currently elevated by historical standards, while inflation expectations are not. Nominal Treasurys should outperform TIPS in the event of a rally as inflation expectations shift down for both the 2- and 5-year maturities. However, it is a closer call for the 10-year maturity.

Table 2 Inflation Swap Trades: Focus On Short-End

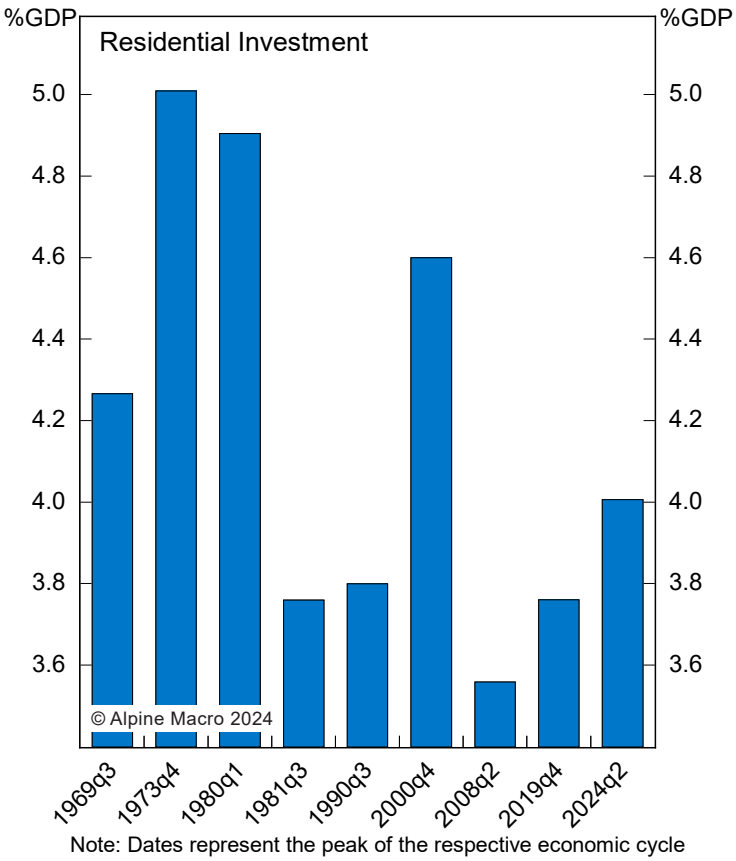
CPI Swap	Current	Base Case	Mild Recession	Forward Curve
2-Year	2.05	1.6	0.8	2.24
5-Year	2.20	2.0	1.6	2.29
10-Year	2.30	2.3	2.1	N/A

Table 3 Real Yield Or Inflation Expectations?

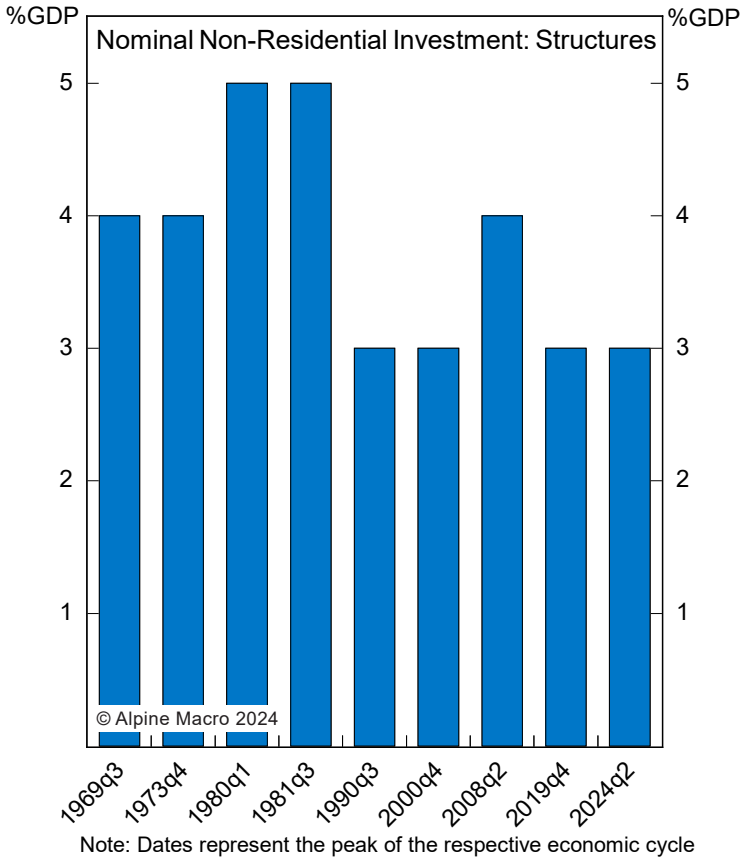
	Treasury Yield Scenarios (all in % unless otherwise noted) 1-Year Horizon							
	Current Yield	Yield in 12 Months	Change (bps)	Current CPI Swap	Swap in 12 Months	Change (bps)	Change in Real Yield (bps)	Contribution from Real Yield (%)
Base Case								
2-Year	3.88	3.05	-83	2.05	1.62	-43	-40	48
5-Year	3.65	3.32	-33	2.2	2.00	-20	-13	39
10-Year	3.84	3.58	-26	2.3	2.25	-5	-21	81
Recession								
2-Year	3.88	1.45	-243	2.05	0.77	-128	-115	47
5-Year	3.65	2.44	-121	2.2	1.57	-63	-58	48
10-Year	3.84	3.11	-73	2.3	2.13	-17	-56	77

Mark McClellan
Chief U.S. Bond Strategist

3 Alpine Macro *U.S. Bond Strategy* "Any Juice Left In Duration And Curve Plays?" (August 8, 2024).



Note: Dates represent the peak of the respective economic cycle

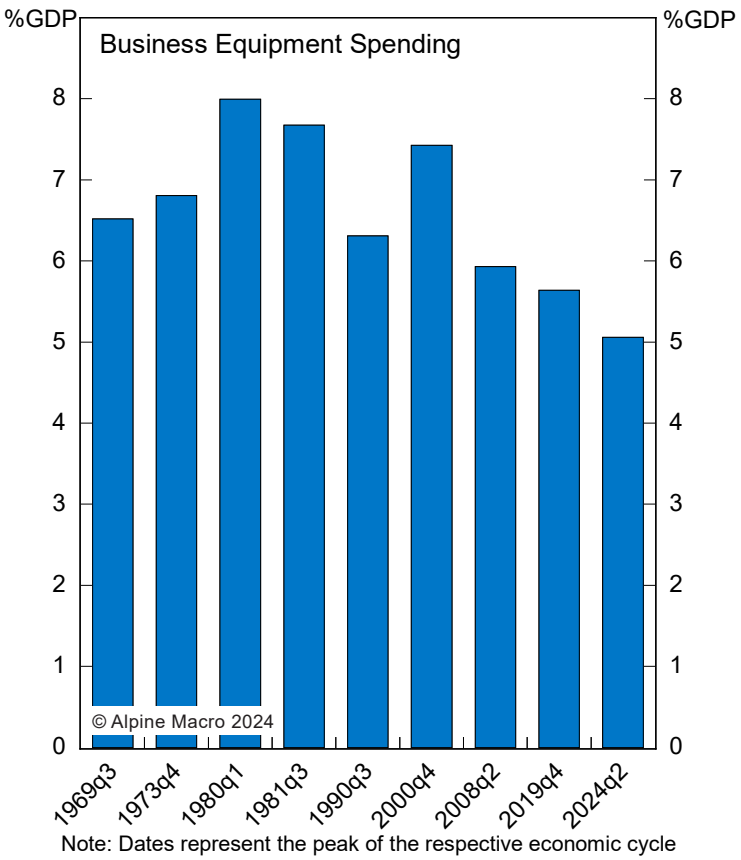


Note: Dates represent the peak of the respective economic cycle

Appendix
Measures Of Economic Excess

Charts A1-A5 compare the current size of the interest-sensitive sectors of the economy with the peak of previous business cycles. The idea is that the economy has more downside potential if there has been excessive spending in one or more sectors in the years leading up to the downturn. The conclusions are as follows:

- **Residential investment:** Housing construction is slowing from a fairly high level and affordability is poor. However, there is no evident overhang of housing that requires a major contraction to correct. Housing inventory is tight. Residential investment as a share of GDP, at 4% in the second quarter, was at the low end of the range compared to previous cyclical peaks.
- **Consumer Spending:** The consumer spending spree since the pandemic has created a potential trouble spot in non-auto durable goods. The chip shortage has prevented households from buying as many motor vehicles as they would have liked. But they have gorged on other consumer durables. There is room for a pullback in durable spending outside of autos, although the ongoing rotation into services should soften the blow.
- **Non-Residential Investment in Structures:** Problems in the commercial real estate sector are well known. The good news is that the adjustment to lower construction activity has already been made. Relative to GDP, non-residential construction is not elevated.



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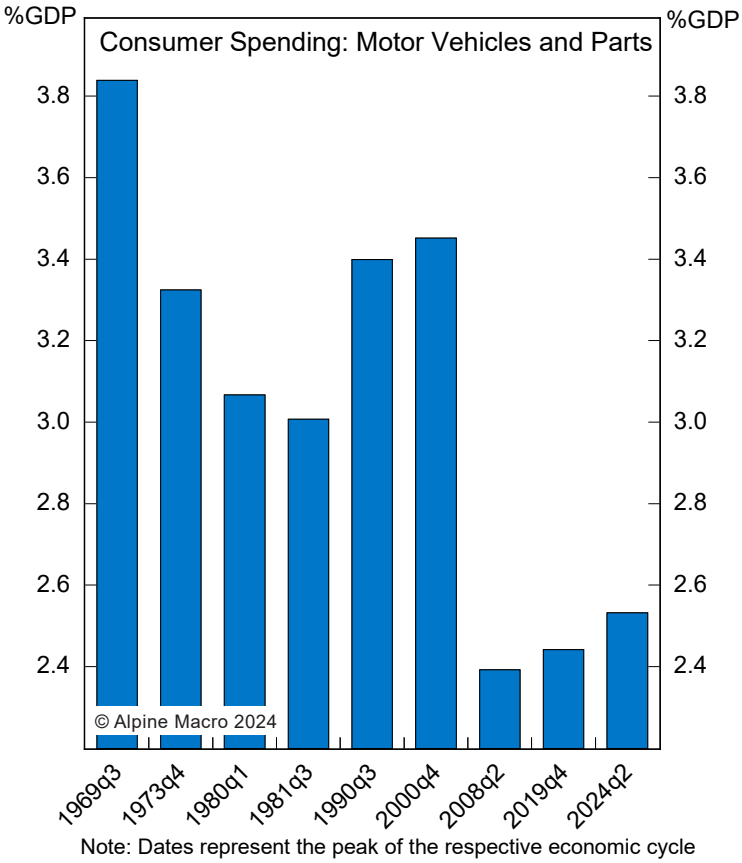
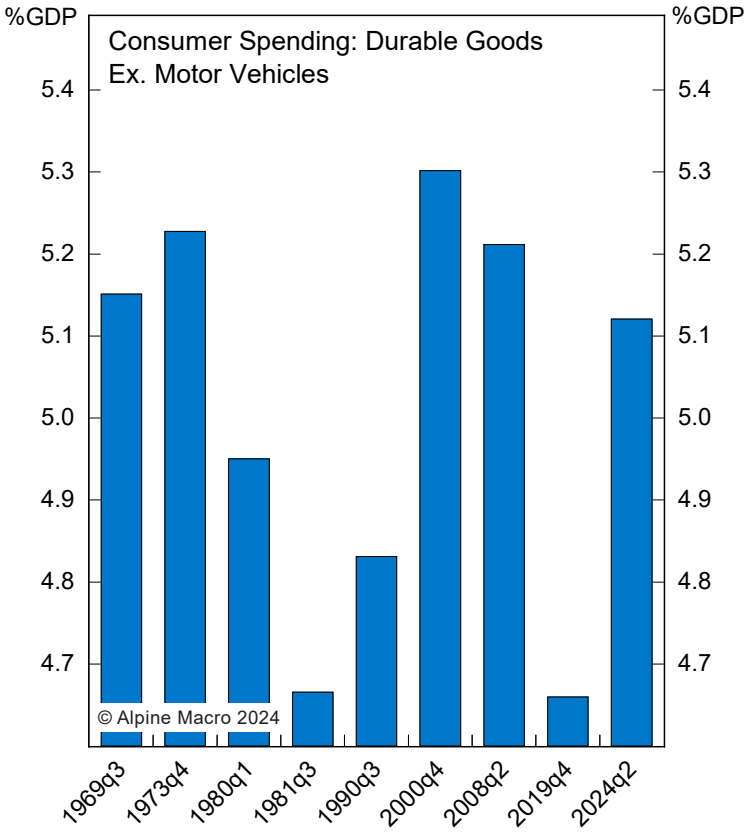


Note: Dates represent the peak of the respective economic cycle

- **Non-Residential Investment in Equipment:** Business investment in equipment in the second quarter was slightly below levels that marked the cyclical peak in previous cycles. Capex is not particularly interest-sensitive, but follows consumer spending. It could be a source of weakness if the households decide to scale back aggressively and this hits corporate profits. But at least there is no overhang of excessive capex that could exacerbate the adjustment.

Our take is that, while there is one potential trouble spot, elevated consumer spending on non-auto durables is not large enough to warn of a deep recession.



Note: Dates represent the peak of the respective economic cycle

Alpine Macro U.S. Bond Allocation (Duration: At Benchmark)

1-5 Scale; 3 Represents Benchmark	Allocation Score	Comments
Treasurys	2	
Spread Product	4	
Spread Product Composition:		
IG Corporates	3	Avoid AAA; favor upper-end of BBB
High-Yield	3	
Agency CMBS	5	
Non-Agency CMBS	4	Favor AAA
Government-Related	4	Favor Local Authorities and Agencies
ABS	4	Favor up-in-quality, favor sub-prime autos
Agency MBS	4	
Municipals	4	Favor highly-rated taxables in the belly, and BBB non-taxables at the long end

Note: The allocation score presents Alpine Macro's recommended weighting relative to benchmark. It is based on a five-point scale, with "1" being "maximum underweight", and "5" being "maximum overweight". A benchmark weighting is represented by "3". The underweights and overweights across bond sectors notionally sum to the overall recommendation for spread product versus Treasurys. Our benchmark is the Bloomberg Barclays U.S. Aggregate Bond Index, augmented with High-Yield Corporates and Municipal bonds.

Historical Returns

	Excess Return to Treasurys (Bps)			Total Return (Bps)			Option Adjusted Spread (Bps)				
	Past 5 Days	Past Month	YTD	Past 5 Days	Past Month	YTD	Latest	Past 5-Day Change	Past Month Change	YTD Change	Duration
Barclays Aggregate	-9	23	54	1	33	401	38	1	-2	-6	6.2
Treasury Index				9	11	340	0	0	0	0	6.1
IG Corporate	-25	67	122	-13	75	463	96	3	-8	-8	7.1
AAA	-33	90	60	-21	88	336	37	2	-9	-5	10.5
AA	-32	67	56	-18	74	382	52	4	-7	0	8.3
A	-23	66	101	-12	74	442	82	2	-9	-9	7.1
BBB	-25	68	153	-13	77	499	118	4	-8	-9	6.9
High-Yield	-20	155	326	-10	179	706	320	12	-38	-30	2.9
BB	-19	136	270	-9	159	643	188	6	-39	-33	3.2
B	-22	148	280	-11	174	655	295	19	-35	-42	2.7
CCC	-19	232	488	-9	257	889	781	3	-65	-48	2.8
ABS	-2	2	74	9	31	438	65	1	3	-3	2.8
Government Related	-18	24	56	-6	40	407	49	2	-2	-1	5.4
Domestic Agency	-3	-5	22	9	23	370	17	-1	1	-1	3.1
Foreign Agency	-5	-1	44	6	21	407	24	1	1	-6	3.7
Sovereign	-65	120	117	-54	122	436	131	7	-14	2	8.7
Local Authorities	-2	-1	91	9	2	420	68	0	1	-6	7.9
Supranationals	-5	0	23	6	21	398	9	1	0	-3	3.7
MBS	-9	20	71	1	31	431	40	2	-2	-10	5.7
CMBS	4	12	182	15	28	550	98	-2	-1	-28	4.2
Non-Agency	0	17	271	11	37	644	157	-1	-1	-46	3.8
Agency	8	7	93	19	20	455	41	-2	0	-8	4.7
Municipals*	-9	18	-265	10	-7	144	-31	1	-3	38	6.2

*YTW used instead of OAS

Detailed U.S. Bond Allocation

	Allocation Score	Yield			Duration			Weight		
	PF	PF* (%)	BM* (%)	Exposure (Bps)	PF*	BM*	Exposure	PF* (%)	BM* (%)	Exposure (Bps)
U.S. Bond Strategy		4.5	4.4	3	6.1	6.2	-0.1	100.0	100.0	0.0
Treasurys	2	3.9	3.9	-1	7.2	6.5	0.7	29.6	39.4	-9.7
Spread Product	4	4.7	4.8	-7	5.7	6.1	-0.4	70.4	60.6	9.7
Corporate	3	5.2	5.3	-8	5.6	6.6	-1.0	26.0	25.8	0.2
Investment Grade	3	4.8	4.9	-9	6.1	7.3	-1.2	22.0	21.8	0.1
AAA	4	4.4	4.4	0	11.2	11.2	0.0	0.3	0.3	0.1
AA	3	4.4	4.5	-12	6.9	8.7	-1.8	1.5	1.5	0.0
A	3	4.7	4.7	-8	6.0	7.3	-1.3	9.8	9.7	0.0
BBB	3	5.0	5.1	-10	5.9	7.0	-1.1	10.4	10.3	0.0
High Yield	3	7.2	7.2	0	2.9	2.9	0.0	4.0	4.0	0.0
BB	3	6.0	6.0	0	3.2	3.2	0.0	2.0	2.0	0.0
B	3	7.2	7.2	0	2.7	2.7	0.0	1.5	1.5	0.0
CCC	3	11.6	11.6	0	2.8	2.8	0.0	0.5	0.5	0.0
Government Related	4	4.5	4.4	5	6.0	5.5	0.5	4.3	3.9	0.3
Agency	3	4.3	4.3	5	3.6	3.1	0.5	0.7	0.7	0.0
Foreign Agency	5	4.1	4.1	5	4.3	3.7	0.6	0.9	0.6	0.3
Local Authorities	5	4.7	4.6	6	9.0	7.9	1.2	1.0	0.7	0.3
Sovereign	3	5.3	5.2	6	10.0	8.7	1.3	0.9	0.9	0.0
Supranationals	2	4.0	3.9	5	4.3	3.7	0.6	0.9	1.1	-0.3
Securitized	4	4.6	4.6	0	5.6	5.6	0.0	33.8	25.9	8.0
Agency CMBS	5	4.2	4.2	0	4.7	4.7	0.0	1.1	0.7	0.4
Non-Agency CMBS	4	5.4	5.4	0	3.8	3.8	0.0	0.9	0.7	0.2
ABS	4	4.6	4.6	0	2.8	2.8	0.0	0.5	0.4	0.1
Agency MBS	4	4.6	4.6	0	5.7	5.7	0.0	31.4	24.1	7.3
Municipals	4	3.4	3.4	0	6.2	6.2	0.0	6.2	5.0	1.3

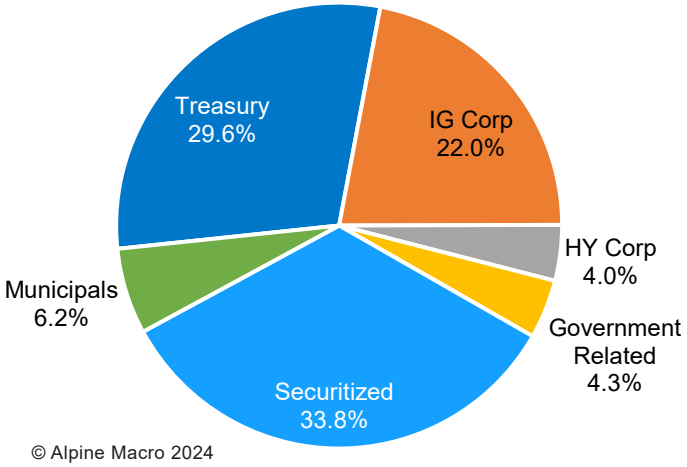
*PF = Portfolio; BM = Benchmark
Source: Bloomberg Finance L.P.
Note: Our methodology incorporates a restriction that the maximum deviation from the benchmark weight is 50%. However, due to the adding-up constraint, the actual weight shown in the table can deviate by slightly more than 50% at times.

Detailed U.S. Bond Allocation

	Contribution to Duration (CTD)			Contribution to Yield (CTY)		
	PF*	BM*	Exposure	PF* ()	BM* ()	Exposure
U.S. Bond Strategy	6.1	6.2	-0.1	4.5	4.4	3
Treasurys	2.1	2.6	-0.4	1.1	1.5	-38
Spread Product	4.0	3.7	0.3	3.3	2.9	42
Corporate	1.5	1.7	-0.3	1.3	1.4	-1
Investment Grade	1.3	1.6	-0.3	1.1	1.1	-1
AAA	0.0	0.0	0.0	0.0	0.0	0
AA	0.1	0.1	0.0	0.1	0.1	0
A	0.6	0.7	-0.1	0.5	0.5	-1
BBB	0.6	0.7	-0.1	0.5	0.5	-1
High Yield	0.1	0.1	0.0	0.3	0.3	0
BB	0.1	0.1	0.0	0.1	0.1	0
B	0.0	0.0	0.0	0.1	0.1	0
CCC	0.0	0.0	0.0	0.1	0.1	0
Government Related	0.3	0.2	0.0	0.2	0.2	2
Agency	0.0	0.0	0.0	0.0	0.0	0
Foreign Agency	0.0	0.0	0.0	0.0	0.0	1
Local Authorities	0.1	0.1	0.0	0.0	0.0	2
Sovereign	0.1	0.1	0.0	0.0	0.0	0
Supranationals	0.0	0.0	0.0	0.0	0.0	-1
Securitized	1.9	1.4	0.4	1.6	1.2	37
Agency CMBS	0.1	0.0	0.0	0.0	0.0	2
Non-Agency CMBS	0.0	0.0	0.0	0.0	0.0	1
ABS	0.0	0.0	0.0	0.0	0.0	0
Agency MBS	1.8	1.4	0.4	1.4	1.1	34
Municipals	0.4	0.3	0.1	0.2	0.2	4

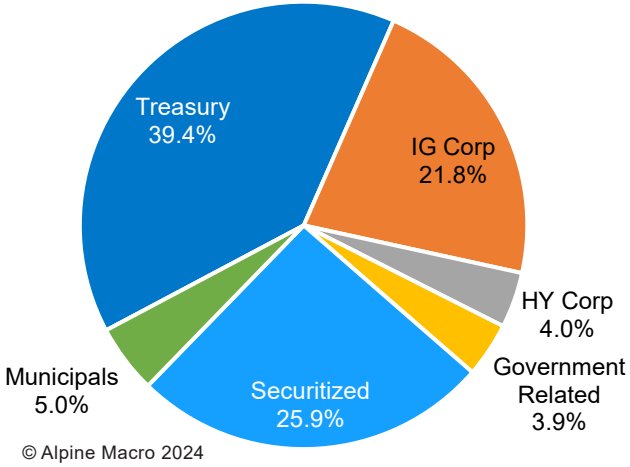
*PF = Portfolio; BM = Benchmark
Source: Bloomberg Finance L.P.
Note: Our methodology incorporates a restriction that the maximum deviation from the benchmark weight is 50%. However, due to the adding-up constraint, the actual weight shown in the table can deviate by slightly more than 50% at times.

Portfolio Exposure



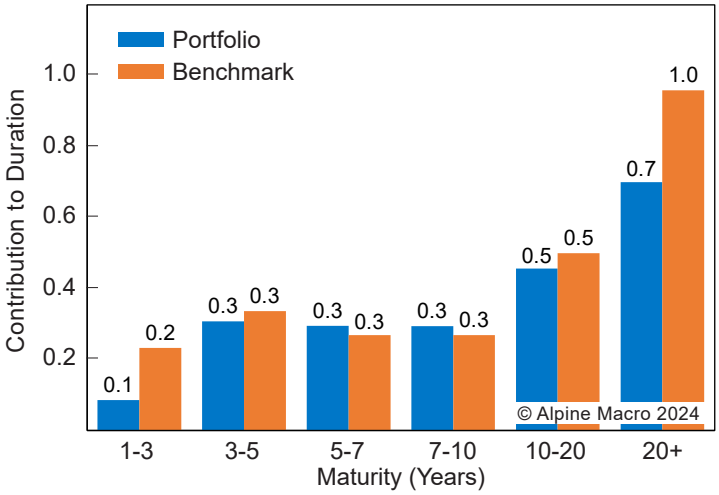
Source: Bloomberg Finance L.P.

Benchmark Exposure

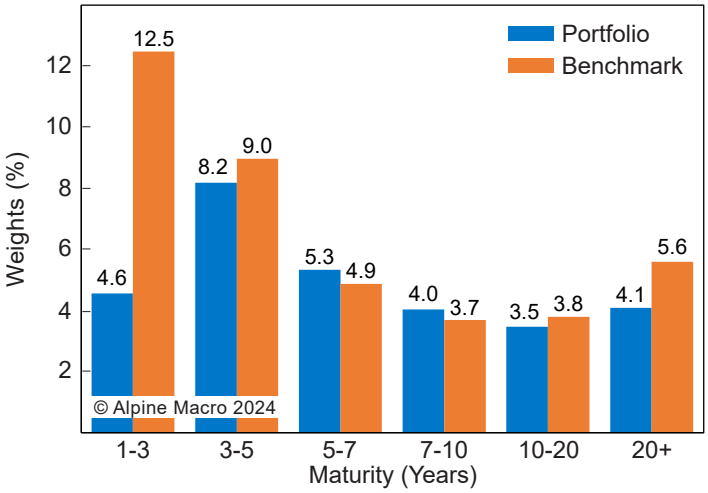


Source: Bloomberg Finance L.P.

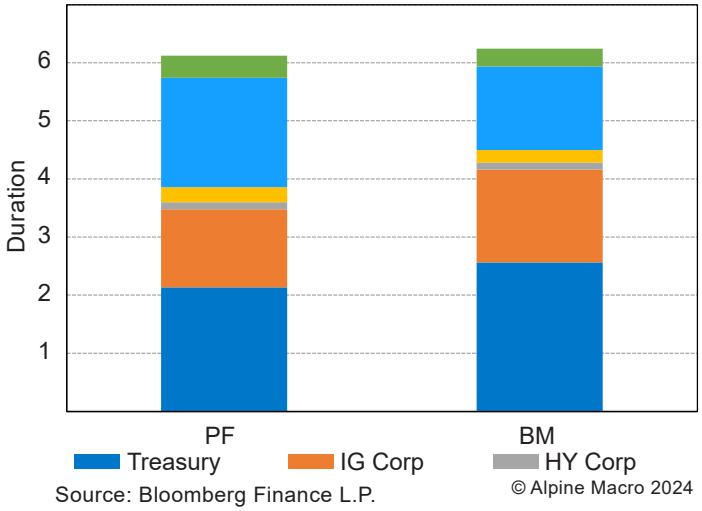
Treasury Contribution To Duration



Treasury Weight

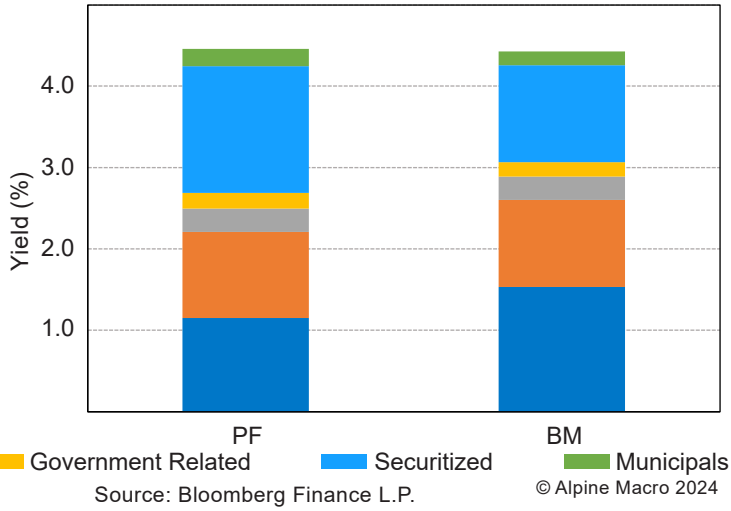


Contribution To Duration



Source: Bloomberg Finance L.P.

Contribution To Yield



Source: Bloomberg Finance L.P.