ALPINEMACRO
A Unique Mind On The Markets

U.S. BOND STRATEGY

December 5, 2024

U.S. Bond Strategy For 2025 (Part I)

It might be a *cliché*, but the macro and policy backdrop appears unusually uncertain as we head into the New Year. Tail risk looms large from many perspectives, at a time when risk assets have discounted a lot of good news and bullish sentiment is frothy. Meanwhile, the path to significantly easer Fed policy has all but disappeared.

There are two key macro and policy themes that will determine how 2025 plays out. We are on the optimistic side for both themes, but admittedly, there is plenty of room for things to go wrong.

(1) Productivity Tailwind: Echoes of the 1990s

Alpine Macro's *Global Strategy* service has highlighted the similarities between the current U.S. economic situation with the second half of the 1990s.[1] That period was characterized by robust productivity growth and persistent disinflation. There was a massive investment boom in technology-related equipment as the internet proliferated.

This is akin to the current stampede into AI today, which has contributed to a surge in output-per-worker in the service sector since the pandemic.

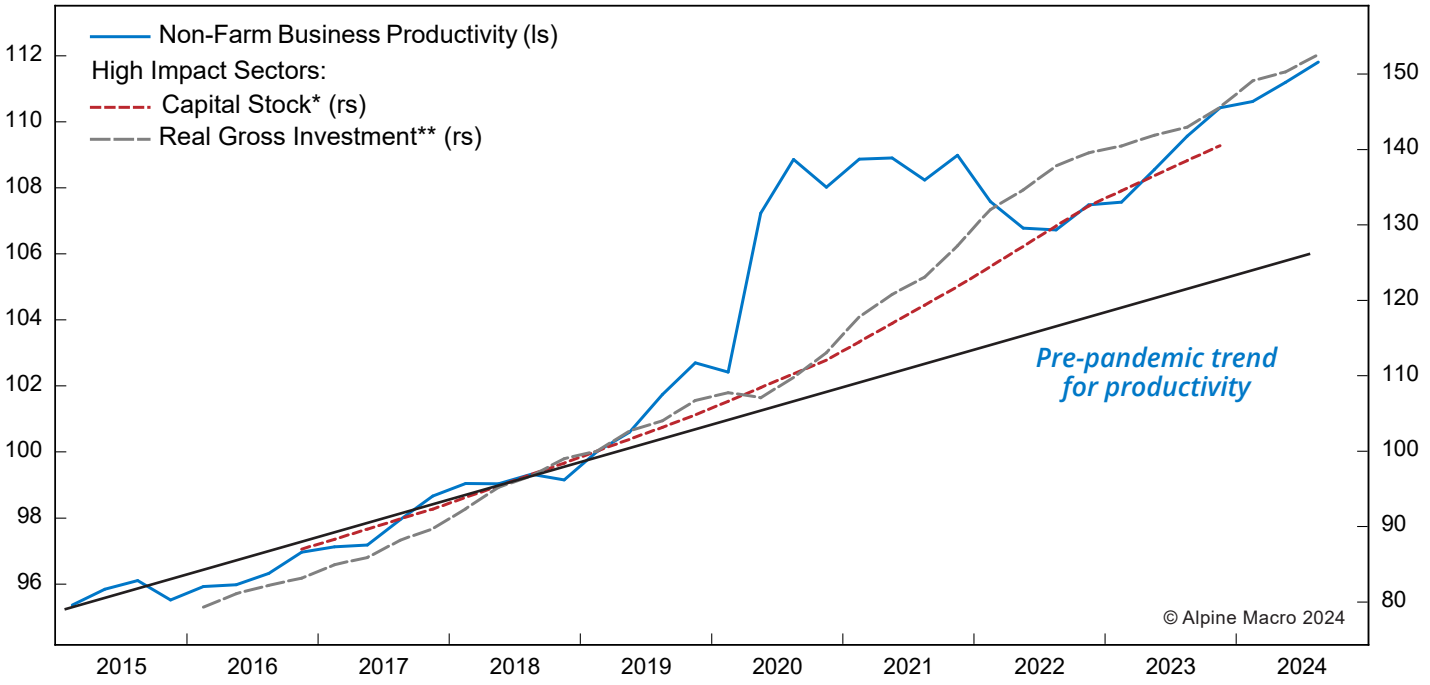
As **Appendix 1** on page 7 highlights, productivity has also benefited from (i) the work-from-home trend and (ii) a reallocation of the workforce from low-to-high productivity sectors.

1 Alpine Macro *Global Strategy* "Outlook For H2 2024: Redux Of The Late 1990s" (July 8, 2024).

The productivity tailwind from these two factors is probably largely over now. However, AI-related investment and the productivity gains that spawn from it are just getting underway. About 50 cents of every dollar of fresh venture capital has gone into AI so far this year. Roughly one-third of overall IT budgets have been reallocated into the AI sector over the past 18 months, representing about $100 billion.

The massive reallocation of capital spending toward high-impact areas means that productivity growth can stay elevated even if economy-wide capital spending remains lackluster. The capital stock of high-impact sectors, such as computer & peripherals, communication equipment and semiconductors, jumped by 40% between 2019 and 2023 (**Chart 1**). This trend undoubtedly lifted

Chart 1 Robust Productivity Gains Likely To Continue



*Average capital stock level of software, computer & peripherals, communication equipment, semiconductor
**Investment in software, R&D, computers & peripherals; shown as weighted average
Note: All series are rebased to 2019Q1=100

overall output-per-employee. Capital stock data for 2024 are not available, but surging business spending on R&D and computers & peripherals this year suggests that the productivity tailwind remains in place.

Continuing robust productivity advances will perpetuate the constructive inflation/growth tradeoff through 2025 and beyond. It will boost consumer spending power and corporate profits. One downside is that stronger productivity growth has raised the economy's equilibrium interest rate.

(2) Trump 2.0 Will Be Watered Down

The second major theme that will drive markets in 2025 is, of course, Trump's aggressive policy agenda. We believe that many of his most controversial policy proposals will ultimately be tempered.

Our *Geopolitical Strategy*[2] service argues that, while the second Trump administration will aim to cut taxes, trim regulation and raise tariffs, it will be more cautious than some fear due to political constraints:

- First, the incoming administration will aim to maintain market and economic stability. For Trump, market performance has long been a measure of his own governing success, so he is unlikely to enact policies that would significantly disrupt markets and growth.
- Second, the Trump team understands that governments overseeing inflation spikes court political defeat. Rising food prices contributed

2 Alpine Macro *Geopolitical Strategy* "United States: Trump's Comeback – Brace For Headlines, Expect Policy Surprises" (November 7, 2024).

to the political downfalls of incumbent administrations in the U.K., France, and the U.S.

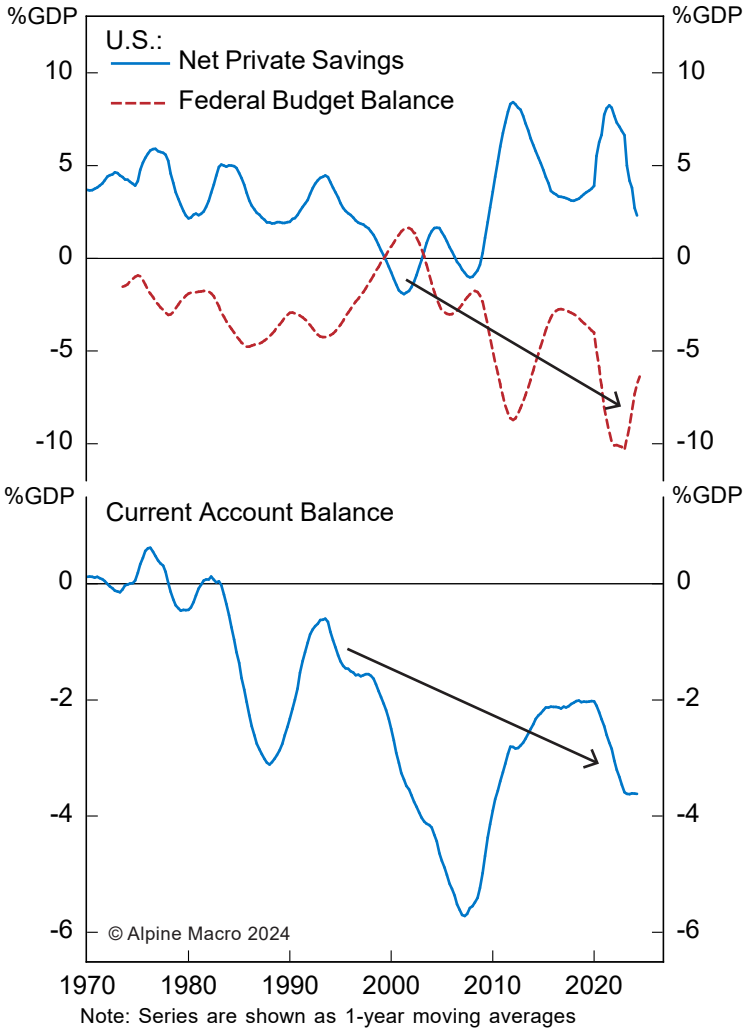
- Trump's economic team is Wall Street-friendly and economically orthodox for the most part, with a Reagan-like, *laissez-faire* approach – except with an emphasis on higher tariffs and on U.S. reindustrialization. Most of Trump's economic advisors are at least somewhat concerned about the deficit, so we do not expect a budget blowout scenario.

- Lastly, Trump is unlikely to interfere with the Fed or try to limit its independence.

Trump's deregulation drive will likely target specific areas, such as the financial sector, the fossil fuel industry, and the mining, power and auto sectors. Trump could reverse the Biden administration's climate policies and weed out some of the environmental restrictions on business and subsidies for the alternative energy sector. It is difficult to estimate magnitudes, but deregulation has the potential to add to the already-positive productivity backdrop.

The tariff threat is a wildcard. We are not overly concerned by the risk that higher tariffs will boost inflation. A recent report from our *Global Fixed Income & FX Strategy*[3] service highlighted that a stronger dollar is likely to neutralize most or all of any effect on the price level. Tariffs do not address the fundamental savings and investment imbalance in the U.S. economy – the yawning external deficit is being driven by a wide federal fiscal imbalance (Chart 2). Thus, the dollar will have to strengthen to counterbalance the impact of tariffs on the current account deficit. Trade wars tend to benefit nobody, leading only to lower trade volumes and GDP.

Chart 2 The Fiscal Deficit Is The Culprit For The Current Account Deficit



Note: Series are shown as 1-year moving averages

In any event, Trump's team will try to avoid anything that risks boosting consumer prices or damaging growth. Thus, we believe that tariffs will be used largely as a negotiation tool. In the case of Canada and Mexico, tariff increases will ultimately be modest as long as these two countries agree to better control their borders.

3 Alpine Macro *Global Fixed Income & FX Strategy* "Tariffs, The Trade Deficit, The Dollar & Inflation" (November 22, 2024).

Limited trade disruption is built into our base-case macro and fixed-income outlook for 2025, although a trade war represents a significant tail risk to both Treasurys and risk assets.

Treasury Outlook: Limited Scope For Rate Cuts?

A recent report[4] discussed the reasons behind Alpine Macro's view that the equilibrium short-term interest rate has increased to around 3.75%. These include robust productivity growth and the end of consumer deleveraging.

Fed policymakers will likely take a gradual "data dependent" approach to additional easing next year. However, an elevated R-star will limit the Fed's room to maneuver, especially given the resilient economy, recent inflation stickiness and the potential for some fiscal stimulus.

As for Treasurys, adding a 50 basis point term premium to our R-star estimate gives a 4.25% fair value estimate for the 10-year yield. This implies that long-term Treasurys are near to fair value as we go to press.

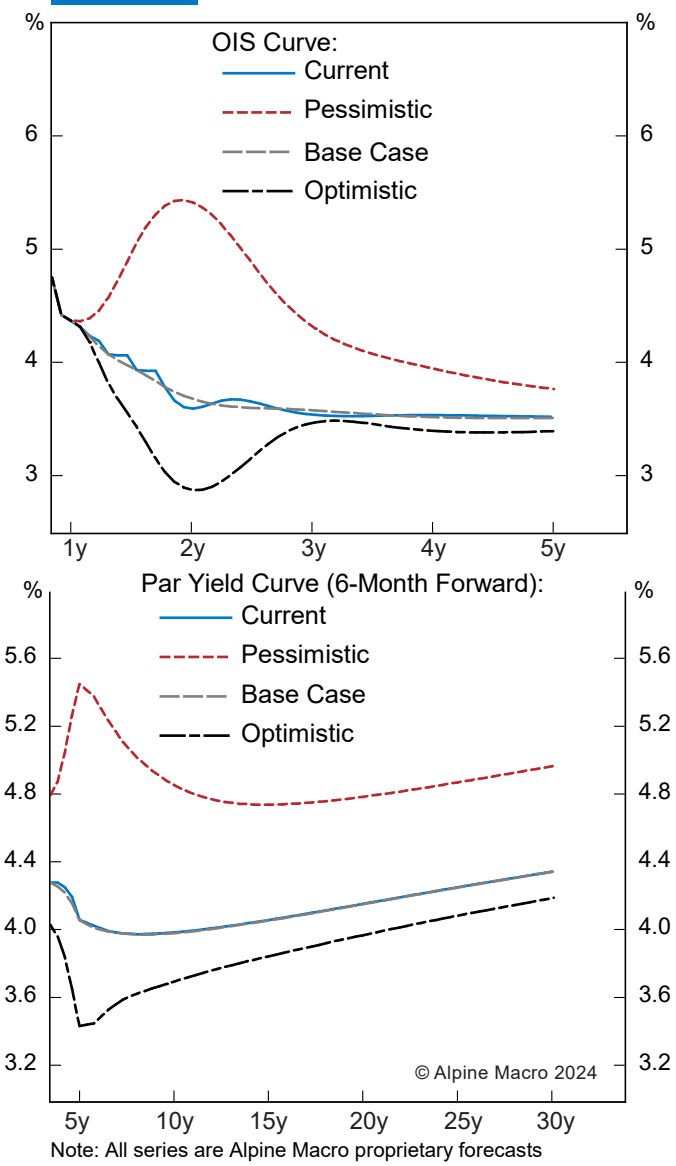
Three Scenarios

Appendix 2 on page 10 discusses the assumptions underlying our **Base Case** outlook, along with two alternative scenarios. These scenarios will form the basis for our analysis of the excess return potential for spread product, to be published next week in Part II of the Outlook 2025.

4 Alpine Macro *U.S. Bond Strategy* "Election Outcome: Riot Point Ahead For Treasurys?" (November 7, 2024)

Yield*

Chart 3 Yioeld Curve Scenarios



Note: All series are Alpine Macro proprietary forecasts

We fed three rate scenarios into our Yield Curve Simulator. The Treasury curve results for a 6-month horizon are shown in **Chart 3** and **Table 1**.

There are no implications for duration or the shape of the curve in the **Base Case** because we are assuming that the Fed trims rates in line with current market expectations. The 10-year yield falls to 4.13% in 6 months, in line with the forward rate.

Table 1 Treasury Yield Curve Simulation

			Level in 6 Months		
	Current	6 months forward	Pessimistic	Base Case	Optimistic
2-year	4.19	3.99	5.2	4.0	3.5
10-year	4.25	4.13	4.8	4.1	3.9
2/10 slope	6	14	-46	14	41
Butterfly Trades*					
2/5/10			-23	0	3
2/10/30			39	0	6
5/10/30			43	0	2

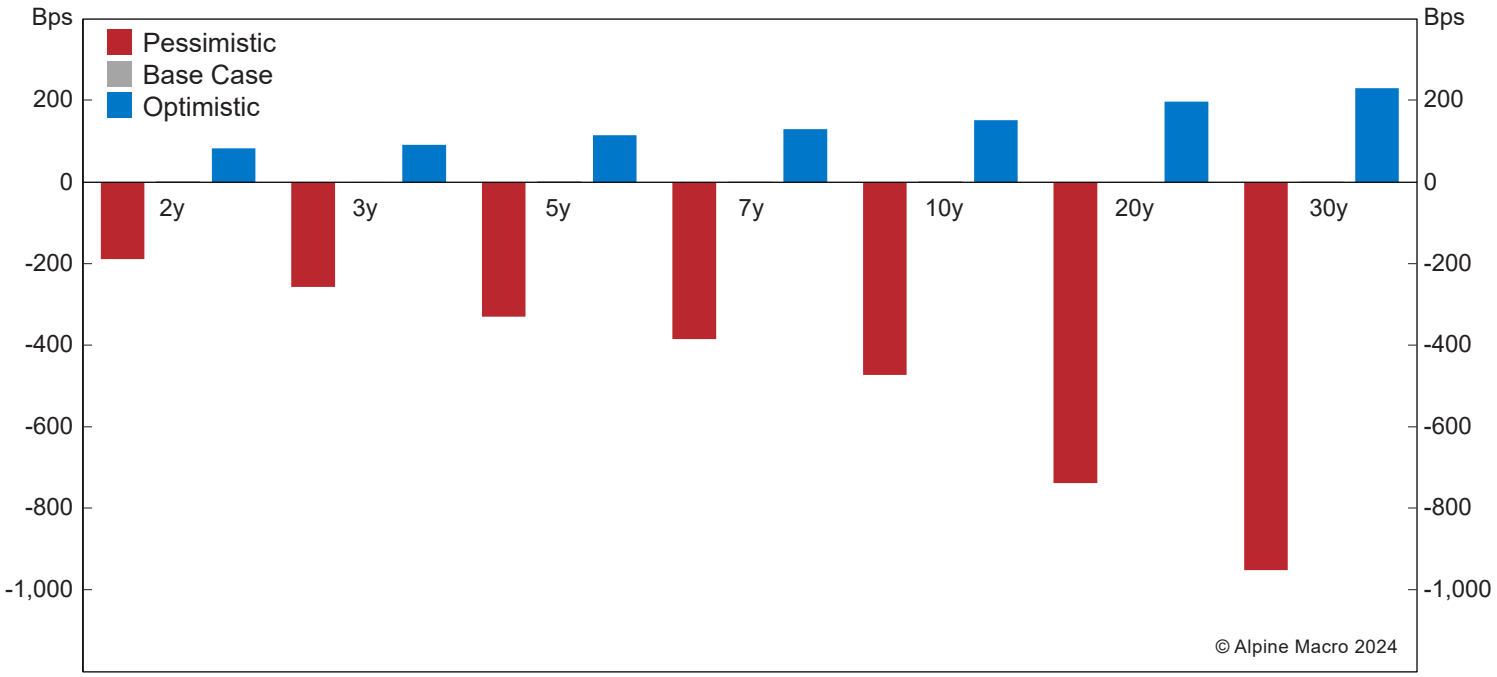
*Positive values indicate that bullet (belly) outperforms the barbell (wings)
Note: All data are in basis points, except 2- and 10-year yields (%)

It is a different story in the **Optimistic Case**, which combines the fairly benign fiscal and tariff assumptions from the Base Case with somewhat slower real GDP growth. Disinflation progresses faster than in the Base Case and the unemployment rate edges higher, prompting the FOMC to take the fed funds rate down more aggressively. The policy rate is assumed to dip a bit below neutral to around 3% within one year. The 10-year Treasury yield falls to 3.94%, providing a return of 150 basis points in excess of a "no change" scenario (**Chart 4**). Steepening trades are projected to make money, but not much (bottom portion of **Table 1**)

The **Pessimistic Case** is a boom-bust scenario. Economic growth initially responds positively to fiscal stimulus and aggressive deregulation, but labor supply is hampered by highly restrictive immigration policies. The unemployment rate declines and wage pressures heat up. A trade war develops, disrupting global supply chains and adding to inflation fears. The Fed cuts rates by 25 basis points in December, but subsequently hikes four times during 2025 for a total increase of 100 basis points.

We also assume that the term premium increases given the likely jump in rate volatility associated with such a nasty macro scenario. The 10-year yield rises to almost 4.8% in six months, but the extreme long end of the curve is hit particularly hard because of the extra term premium. The 30-year bond jumps well above 5%, netting a loss of almost 1000 basis points versus a no-change scenario. The 10-year bond outperforms both 2/30 and 5/10 barbelled positions in duration-matched terms.

Chart 4 Excess Returns Simulation Across Macro Scenarios (Bps)*



*Excess returns versus "no change" scenario

Investment Conclusions

We believe that R-star has shifted sharply higher since the pandemic, but the Treasury market has largely discounted that story. Our fairly benign, supply-driven macro base-case view is positive for risk assets, but it is not consistent with a major shift in yields in either direction. Of course, a shocking geopolitical event could push Treasury yields sharply lower in a flight-to-quality. But outside of that, we think the Treasury market is fairly priced. The 10-year yield is close to our estimate of fair value at 4.25%.

The worrying long-term trend in federal debt is unlikely to change next year. Nonetheless, we do not expect the U.S. market to suffer a "Liz Truss" moment in which Treasurys are sacked by bond vigilantes (please see the above-mentioned report for details).

This means that we do not have a bias to be long or short duration heading into 2025. Also, we are not recommending Treasury curve plays at the moment. Until something happens that causes us to adjust our base-case view, our duration strategy will be to play a trading range.

In terms of the risks, the probabilities shown in **Appendix 2** for the three scenarios are tilted toward the optimistic side. That said, uncertainty is elevated heading into the new year. The tails to the macro and rate distribution in 2025 are obviously fat.

Next week we will discuss asset allocation strategy for U.S. fixed-income investors in Part II of the Outlook.

Mark McClellan
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Appendix 1
What Is Driving Productivity?

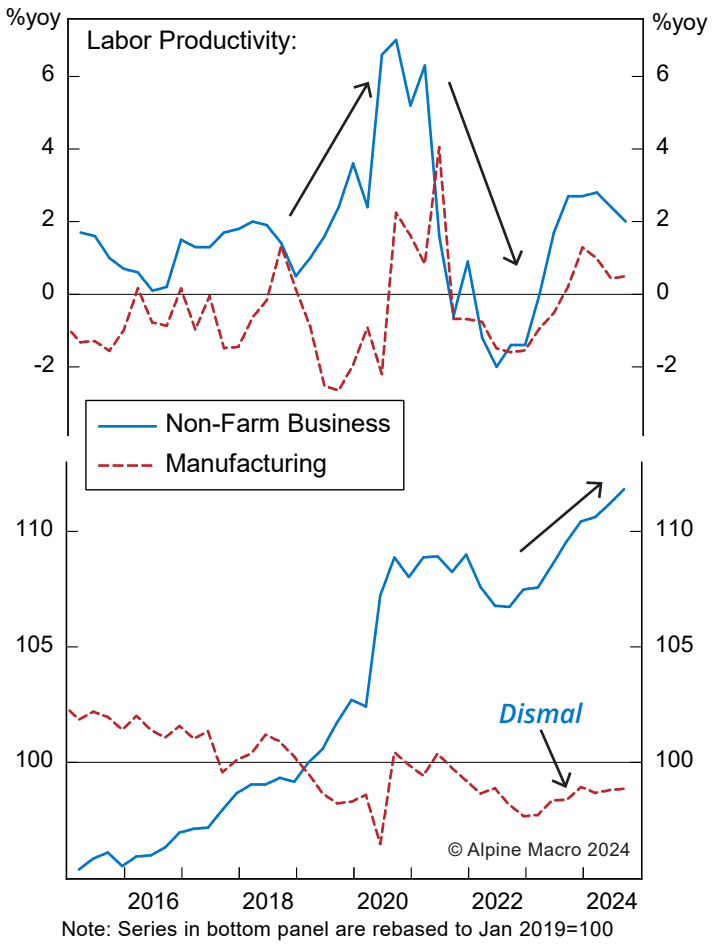
U.S. productivity growth soared during the worst of the pandemic and then turned negative in 2022, as lower-productivity sectors aggressively laid off workers at first and then hired them back (**Chart A1**). Looking through this distortion in the cycle, however, the level of output per worker has expanded by an impressive 12% since 2019. This performance far exceeds the other major developed economies.

What is perhaps most impressive is that the gains were made in service industries rather than in manufacturing. Output-per-worker in the latter has even drifted lower over the past decade.

There are three main driving forces at work:

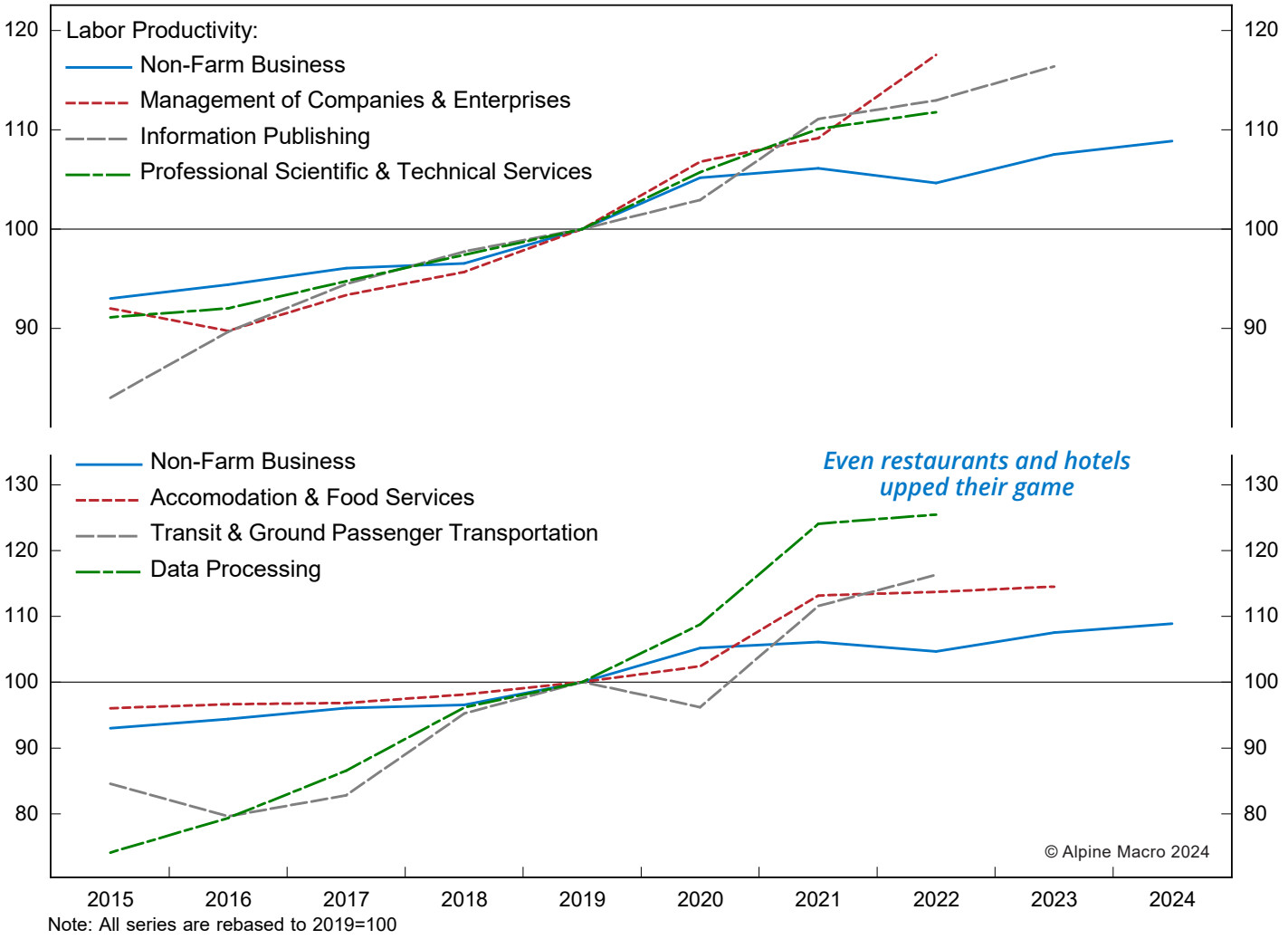
- **Labor reallocation:** The pandemic sparked a major reallocation of workers away from low-productivity sectors, such as restaurants and hotels, into higher-productivity sectors such as professional, technical, scientific and management services (**Chart A2**). Many people laid off during the pandemic re-trained and/or went back to school, allowing them to jump into a better paying job in an industry where productivity is generally higher. This compositional shift lifted the economy's average level of output-per-worker.
- **Work-from-home:** Remote work has apparently been a boon to worker output in sectors such as business management, professional, information and publishing among others. It appears that reduced commuting time is being put to good use.
- **Capital spending and technological change (AI):** Overall business investment spending has not been impressive since the pandemic, after adjusting for inflation. The stock of non-residential equipment only increased by 6% between 2019 and 2023 (latest data available; **Chart A3**). However, the investment has been concentrated in "high impact" areas that are driving outsized productivity gains. These areas include computers & peripheral equipment, communications, semiconductors, software, and pharmaceuticals. The real stock of software jumped by a whopping 50% in four short years. Of course, the development and broadening application of artificial intelligence is playing a key role in this trend.

Chart A1 Productivity Gains All In Services



Note: Series in bottom panel are rebased to Jan 2019=100

Chart A2 Labor Reallocated Into Higher-Productivity Sectors



Note: All series are rebased to 2019=100

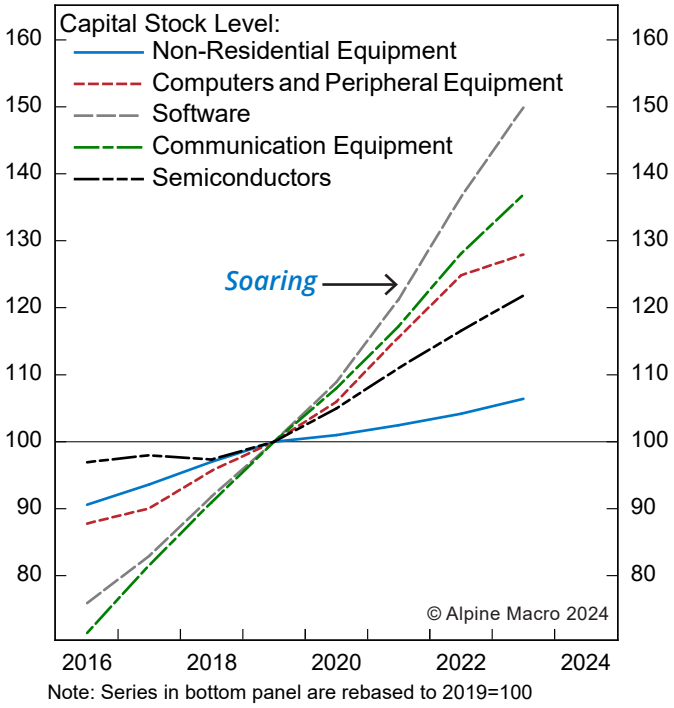
Productivity growth has even surged in areas that have struggled historically to increase worker efficiency and that have little to do with AI or work-from-home. The main example is accommodation & food services (**Chart A2**). The labor reallocation left hotels and restaurants short of staff when the economy re-opened and demand flourished, driving wages sharply higher. The result was that these businesses were forced to innovate.[5]

The majority of the productivity gains from the post-pandemic labor reallocation is probably behind us now. The work-from-home trend may still be playing out. Nonetheless, in theory, reduced commuting time should not permanently increase the economy's underlying productivity growth rate. A lot of the productivity gains from this source may be behind us as well.

However, investment in AI and related productivity gains are just getting underway. Real business

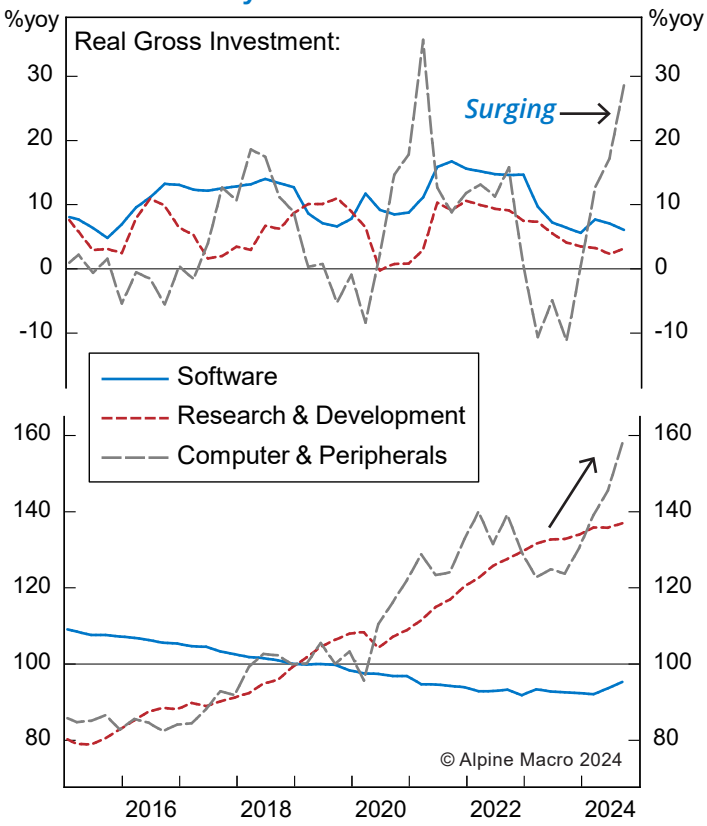
5 This point was well developed in the following excellent report: America's Productivity Boom, Joseph Politano, Apricitas Economics. November 25, 2024.

Chart A3 Capital Stock In "High Impact" Sectors



Note: Series in bottom panel are rebased to 2019=100

Chart A4 Capital Spending Sustained By AI & Data Centre



Note: Series in bottom panel are rebased to 2019=100

investment in computers & peripherals has soared by almost 30% over the past year and is up by roughly 60% since 2019 (**Chart A4**). R&D has jumped by almost 40%. Interestingly, investment in software has been falling over time in real terms. However, as mentioned above, the stock of software surged by 50% in the four years to 2023. This points to a sea change in the efficiency of creating software. AI is undoubtedly helping as software is writing new code, which means that it requires less and less capital spending to boost the outstanding stock.

The reallocation of capital spending toward high-impact areas means that productivity growth can remain elevated even if economy-wide capital spending remains lackluster.

Appendix 2
Macro And Policy Scenarios For 2025

Base Case (65% probability. Gradual disinflation toward 2%, real GDP growth is close to trend):

- Some federal fiscal stimulus – 2017 tax cuts are extended and the corporate tax for the domestic manufacturing sector is reduced. Some federal spending cuts is partly offset by spending increases in other areas (like defense). Projected budget deficit increases a bit over the next year, but no blowout.
- Tariffs are watered down and targeted; no major impact on U.S. or global growth. Tighter borders reduce the inflow of illegal immigrants, but there is no mass deportation.
- Unemployment rate is flat. Productivity growth remains robust. Fed cuts another 50 basis points, but then signals it will go on hold and "watch the data".
- Bullish macro backdrop for risk assets, although not max-bullish because rates are expected to stay high indefinitely; there is little economic slack and disinflation continues to proceed only gradually. No major Treasury rally.
- Worries linger about a possible "Fed pivot" tail risk.

Optimistic (20% probability. Inflation drops quickly to 2% or a bit below, growth softens to around 1.5%):

- Same fiscal scenario as in the Base Case above.
- Little or no new tariffs are implemented as fresh trade agreements are negotiated that open up new U.S. trading possibilities.
- Lots of disinflationary de-regulation activity. Underlying productivity growth continues at a high pace, driven by rapid investment in AI and work-from-home.
- Despite some fiscal stimulus and easy financial conditions, economic growth softens a little as previous growth tailwinds fade. Unemployment increases a bit more, but this opens the window for the Fed to cut more aggressively, taking the fed funds rate down below R-star for a period of time (to 3%).
- The combination of slowing inflation, limited tariff action, slightly softer growth and more rate cuts than are currently discounted turns out to be extremely bullish for risk assets. Asset bubbles form in multiple markets. Be long duration.

Pessimistic (15% probability. Inflation levels off at around 3% and edges up, economic growth accelerates at first):

- 2017 tax cuts are extended and manufacturing corporate tax rate is slashed to 15%. Some federal cost cutting is done, but not enough to offset a significant boost to defense spending and for other GOP favorites.
- Economic growth responds positively to the fiscal stimulus and aggressive de-regulation.

- Significant tariff rate increases are applied to Canada, Mexico and China.

- Unemployment declines initially and wage growth accelerates; labor demand strengthens but labor supply is curtailed by border security and some deportation.

- Productivity growth slows and the constructive growth/inflation trade-off that the U.S. has enjoyed post-pandemic is over. The Phillips curve shifts up.

- The Fed is forced to pivot, raising rates by 100 basis points over four meetings. This sets up for a market/Fed clash as Treasury yields rise. Worries escalate regarding a possible "hard landing" end-point.

- Rising inflation, greater macro uncertainty and growing angst regarding the sustainability of the federal budget deficit cause the coupon curve to bear-steepen.

- Risk-off trading environment. Treasury yields rise at first, but eventually fall as the economy cracks.

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	3	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	5	21	97	50	136	324	33	0	-3	-11	6.1
Treasury Index				45	108	223	0	0	0	0	6.0
IG Corporate	-8	36	281	68	177	482	77	-2	-6	-28	7.0
AAA	-30	-19	132	87	190	184	32	0	-1	-10	10.6
AA	-15	13	161	69	172	317	41	0	-3	-11	7.8
A	-11	20	235	68	165	437	65	-2	-5	-26	7.0
BBB	-4	54	344	68	189	556	94	-2	-8	-33	6.8
High-Yield	8	88	592	39	125	978	262	-2	-13	-88	3.0
BB	7	72	434	45	125	805	154	-3	-14	-67	3.2
B	5	84	489	39	124	885	249	-4	-16	-88	2.7
CCC	18	139	1234	26	142	1647	525	-15	-30	-304	2.9
ABS	8	31	138	29	83	518	45	-1	-9	-23	2.7
Government Related	2	3	101	43	104	349	44	1	0	-6	5.3
Domestic Agency	1	9	44	28	75	376	9	0	-2	-9	3.3
Foreign Agency	1	7	72	33	76	387	19	0	-2	-10	3.6
Sovereign	1	-28	202	68	138	319	124	0	4	-6	8.4
Local Authorities	7	42	195	56	175	338	57	0	-4	-17	7.6
Supranationals	-1	-1	30	31	67	347	8	0	0	-4	3.6
MBS	29	44	76	43	155	321	42	1	-5	-8	5.9
CMBS	10	34	254	42	113	542	83	-3	-8	-43	4.2
Non-Agency	12	41	380	45	121	702	132	-5	-11	-71	3.8
Agency	7	28	129	39	105	384	36	0	-3	-13	4.5
Municipals*	15	72	-12	62	197	286	-78	-3	-12	-9	6.0

*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		4.7	4.7	4	6.2	6.2	0.0	100.0	100.0	0.0
Treasurys	2	4.3	4.3	2	7.4	6.4	1.0	30.2	39.8	-9.6
Spread Product	4	4.9	5.0	-5	5.7	6.1	-0.4	69.8	60.2	9.6
Corporate	3	5.3	5.4	-6	5.5	6.6	-1.0	26.0	25.9	0.2
Investment Grade	3	5.0	5.1	-8	6.0	7.2	-1.2	22.0	21.9	0.1
AAA	1	4.7	4.7	0	11.1	11.1	0.0	0.1	0.3	-0.1
AA	3	4.7	4.8	-10	6.5	8.2	-1.6	1.7	1.6	0.0
A	3	4.9	4.9	-7	6.0	7.2	-1.2	9.7	9.6	0.1
BBB	3	5.2	5.2	-8	5.9	7.0	-1.1	10.5	10.3	0.1
High Yield	3	6.9	6.9	0	3.0	3.0	0.0	4.0	4.0	0.0
BB	3	6.0	6.0	0	3.2	3.2	0.0	2.1	2.1	0.0
B	3	7.1	7.1	0	2.7	2.7	0.0	1.4	1.4	0.0
CCC	3	9.7	9.7	0	2.9	2.9	0.0	0.5	0.5	0.0
Government Related	4	4.8	4.7	5	6.0	5.5	0.5	4.1	3.8	0.2
Agency	4	4.5	4.5	7	3.8	3.3	0.5	0.7	0.6	0.2
Foreign Agency	3	4.5	4.4	7	4.2	3.6	0.5	0.6	0.6	0.0
Local Authorities	5	5.0	4.9	8	8.7	7.6	1.1	1.0	0.6	0.3
Sovereign	3	5.6	5.5	9	9.6	8.4	1.2	0.9	0.9	0.0
Supranationals	2	4.3	4.3	7	4.2	3.6	0.5	0.8	1.1	-0.3
Securitized	4	5.0	5.0	-1	5.8	5.8	0.0	33.5	25.5	7.9
Agency CMBS	5	4.5	4.5	0	4.5	4.5	0.0	1.1	0.7	0.4
Non-Agency CMBS	3	5.5	5.5	0	3.8	3.8	0.0	0.7	0.7	0.0
ABS	4	4.7	4.7	0	2.7	2.7	0.0	0.5	0.4	0.1
Agency MBS	4	5.0	5.0	0	5.9	5.9	0.0	31.2	23.8	7.5
Municipals	4	3.4	3.4	0	6.0	6.0	0.0	6.3	5.0	1.3

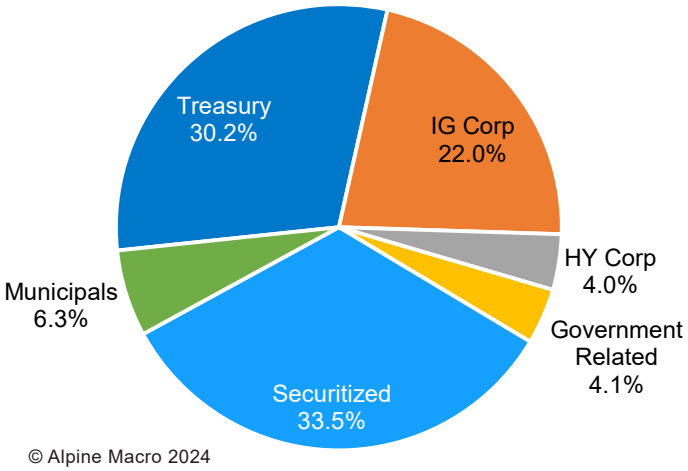
*PF = Portfolio; BM = Benchmark
Source: Bloomberg Finance L.P.
Note: Our methodology incorporates a restriction that the maximum deviation from the benchmark weight is 50%. However, due to the adding-up constraint, the actual weight shown in the table can deviate by slightly more than 50% at times.

Detailed U.S. Bond Allocation

	Contribution to Duration (CTD)			Contribution to Yield (CTY)		
	PF*	BM*	Exposure	PF* ()	BM* ()	Exposure
U.S. Bond Strategy	6.2	6.2	0.0	4.7	4.7	4
Treasurys	2.2	2.6	-0.3	1.3	1.7	-40
Spread Product	4.0	3.7	0.3	3.4	3.0	44
Corporate	1.4	1.7	-0.3	1.4	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	-1
AA	0.1	0.1	0.0	0.1	0.1	0
A	0.6	0.7	-0.1	0.5	0.5	0
BBB	0.6	0.7	-0.1	0.5	0.5	0
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	0.2	0.2	0.0	0.2	0.2	1
Agency	0.0	0.0	0.0	0.0	0.0	1
Foreign Agency	0.0	0.0	0.0	0.0	0.0	0
Local Authorities	0.1	0.0	0.0	0.0	0.0	2
Sovereign	0.1	0.1	0.0	0.1	0.1	0
Supranationals	0.0	0.0	0.0	0.0	0.0	-1
Securitized	1.9	1.5	0.5	1.7	1.3	39
Agency CMBS	0.0	0.0	0.0	0.0	0.0	2
Non-Agency CMBS	0.0	0.0	0.0	0.0	0.0	0
ABS	0.0	0.0	0.0	0.0	0.0	0
Agency MBS	1.9	1.4	0.4	1.6	1.2	37
Municipals	0.4	0.3	0.1	0.2	0.2	4

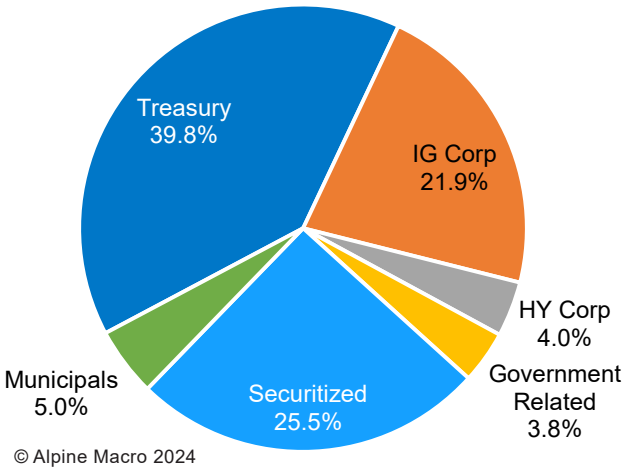
*PF = Portfolio; BM = Benchmark
Source: Bloomberg Finance L.P.
Note: Our methodology incorporates a restriction that the maximum deviation from the benchmark weight is 50%. However, due to the adding-up constraint, the actual weight shown in the table can deviate by slightly more than 50% at times.

Portfolio Exposure



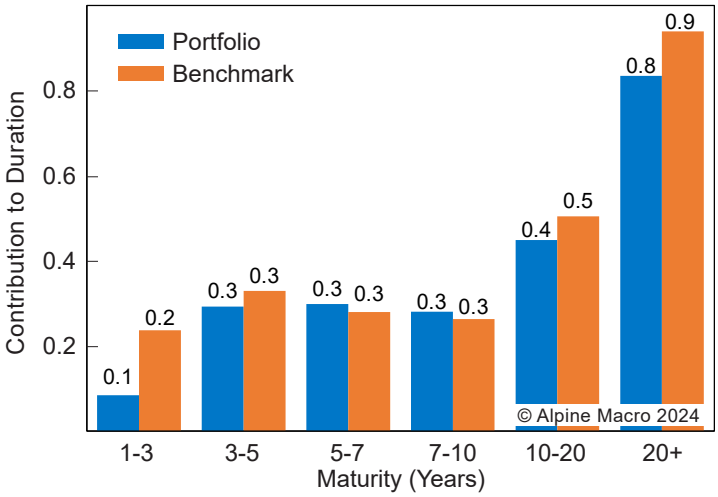
Source: Bloomberg Finance L.P.

Benchmark Exposure

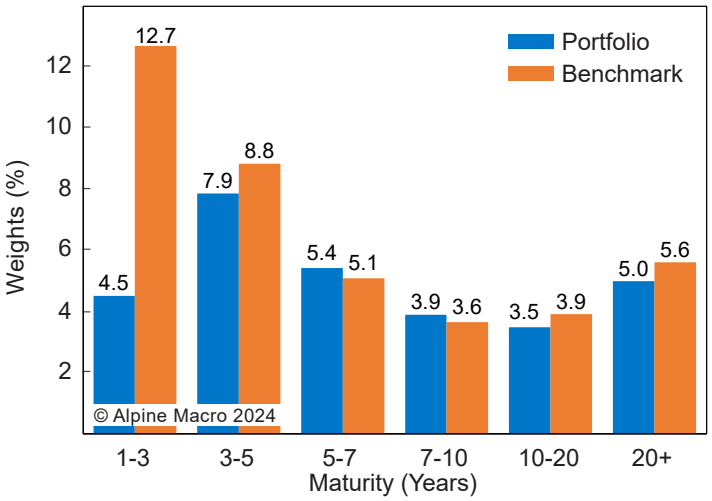


Source: Bloomberg Finance L.P.

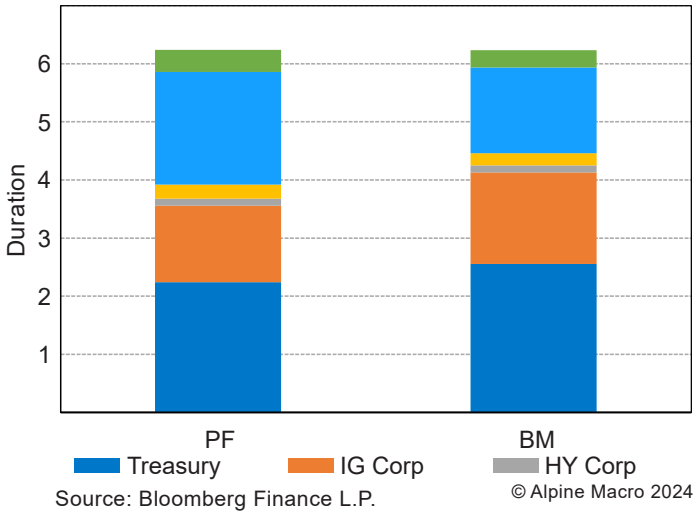
Treasury Contribution To Duration



Treasury Weight

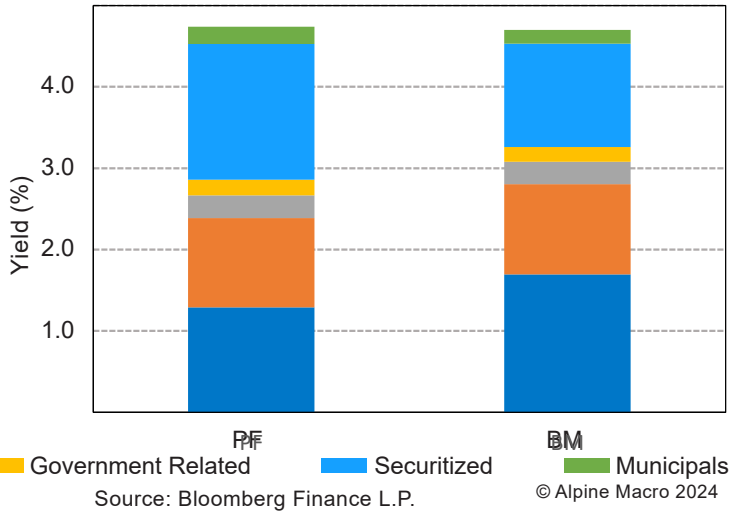


Contribution To Duration



Source: Bloomberg Finance L.P.

Contribution To Yield



Source: Bloomberg Finance L.P.