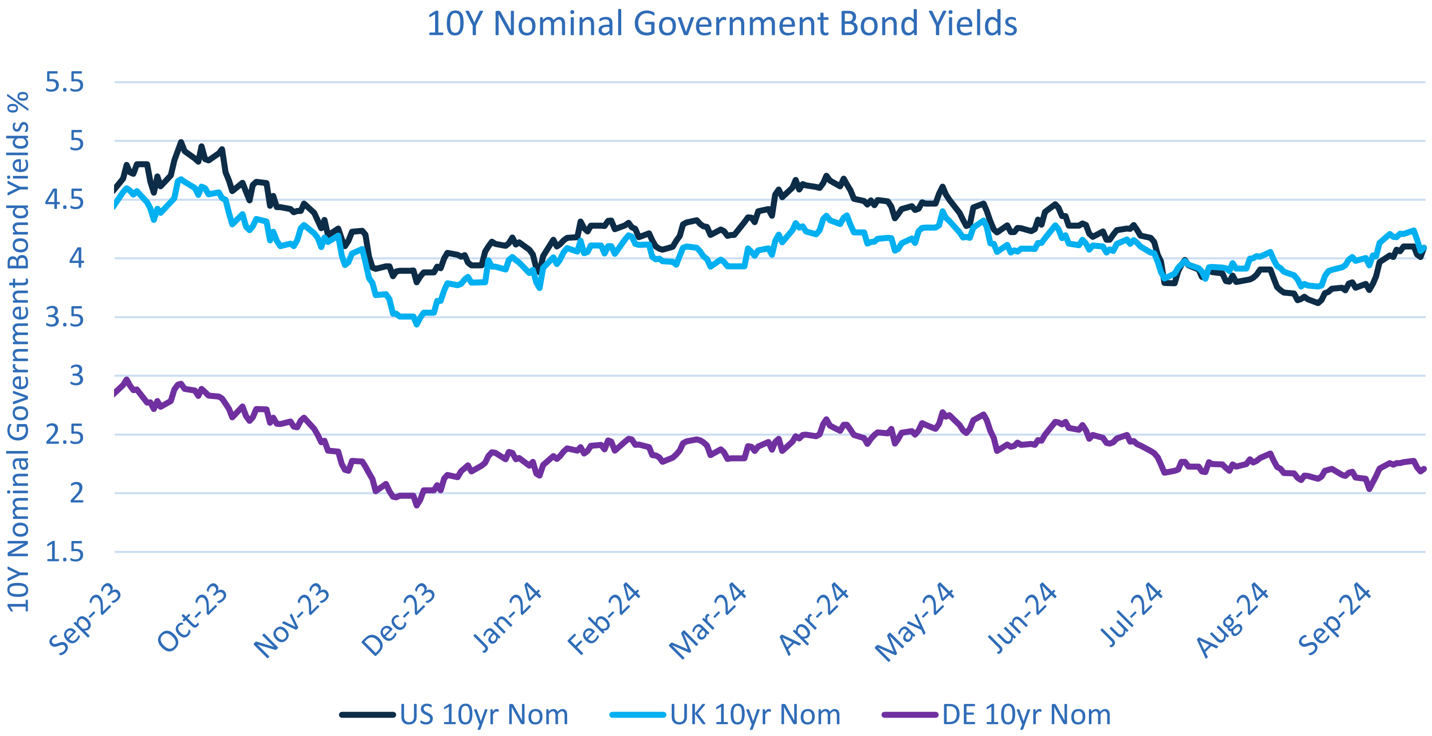
SECOR Internal

Q3 Rates Outlook

21 October 2024

Overview

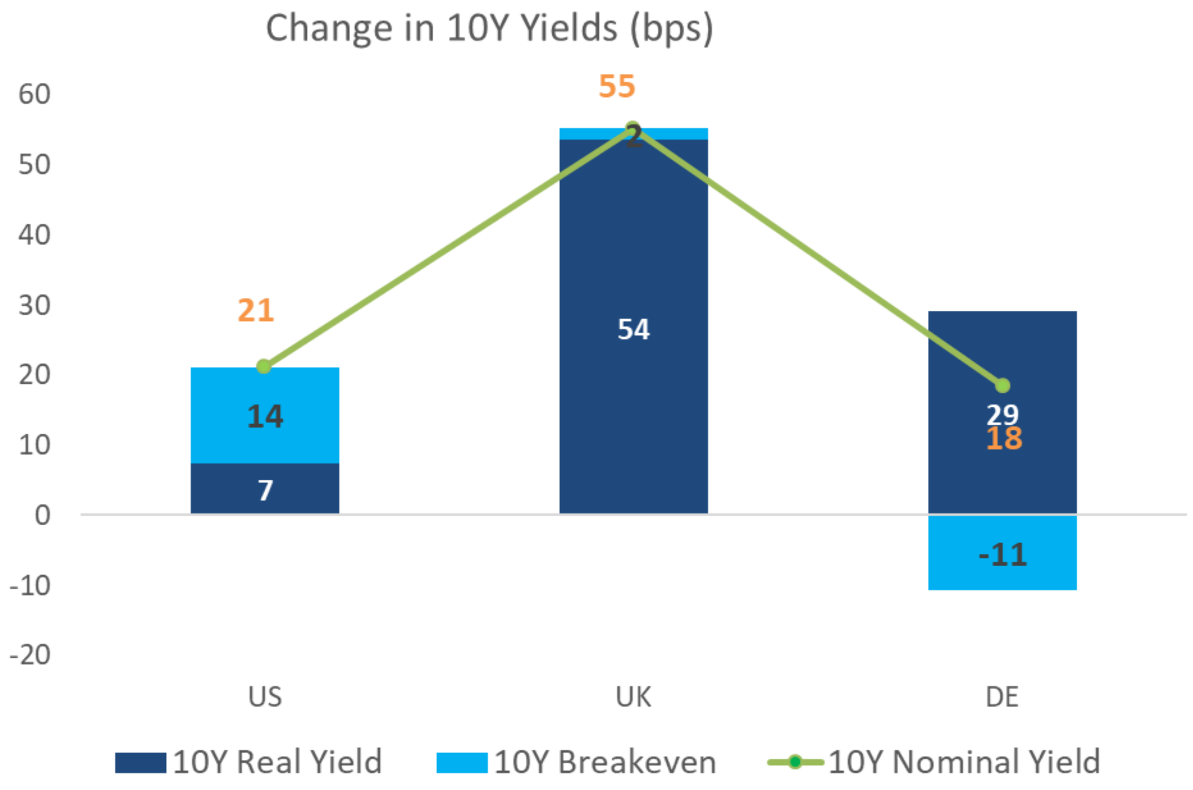
- Review of past 12 months
- The FOMC minutes point to 25bp cut per meeting
- US elections in 2 weeks

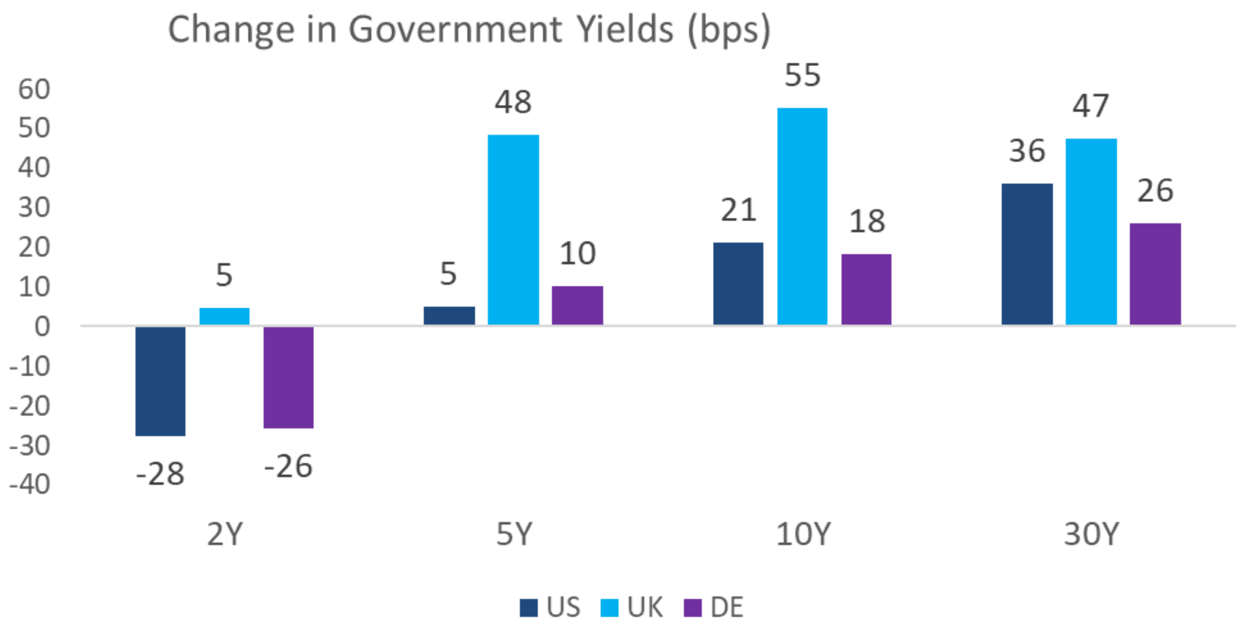


Source: SECOR, Bloomberg. Data as of 18 October 2024.

Interest Rates Steeper through October 2024

YTD rates are higher and steeper, reflecting the resilient economy and central bank cuts

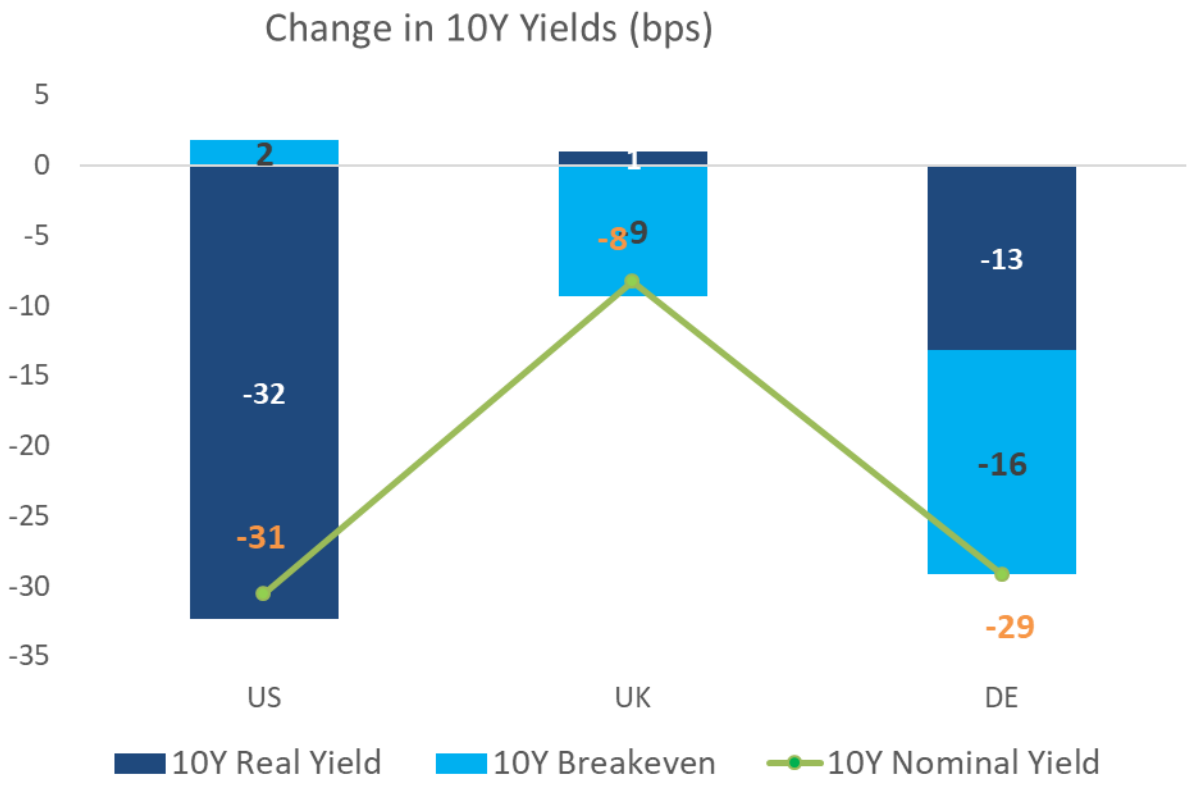


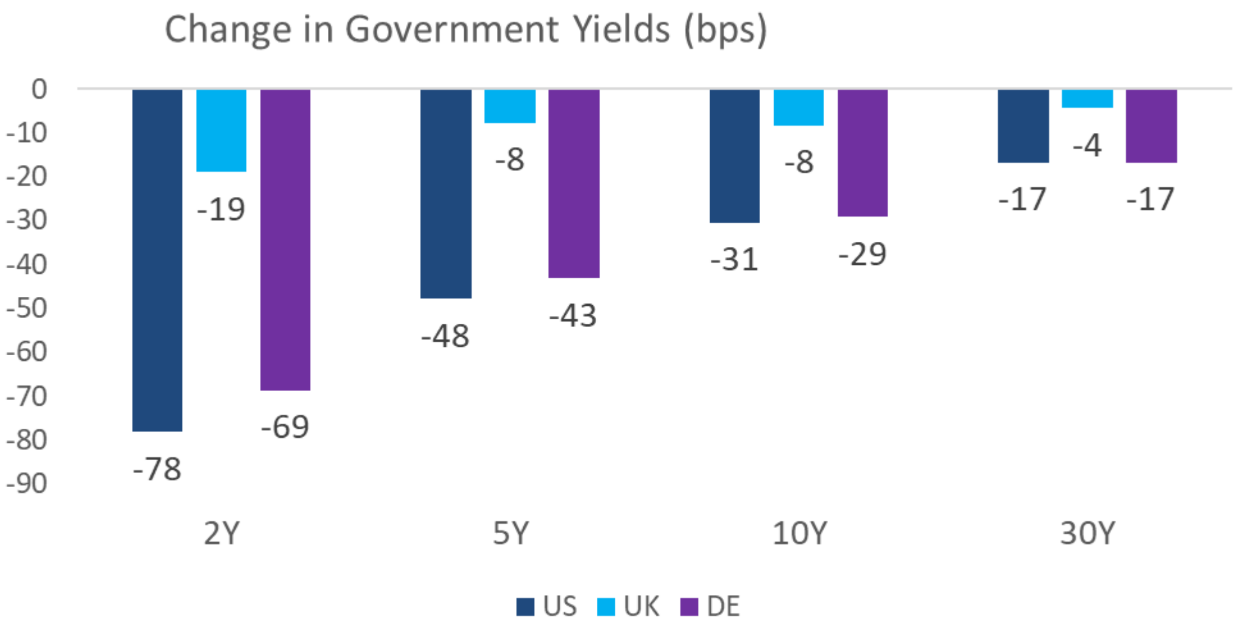


Source: SECOR, Bloomberg. Data as of 18 October 2024.

Interest Rates Steeper through Second Half of 2024

2H24 rates have steepened across markets following cut by the central banks

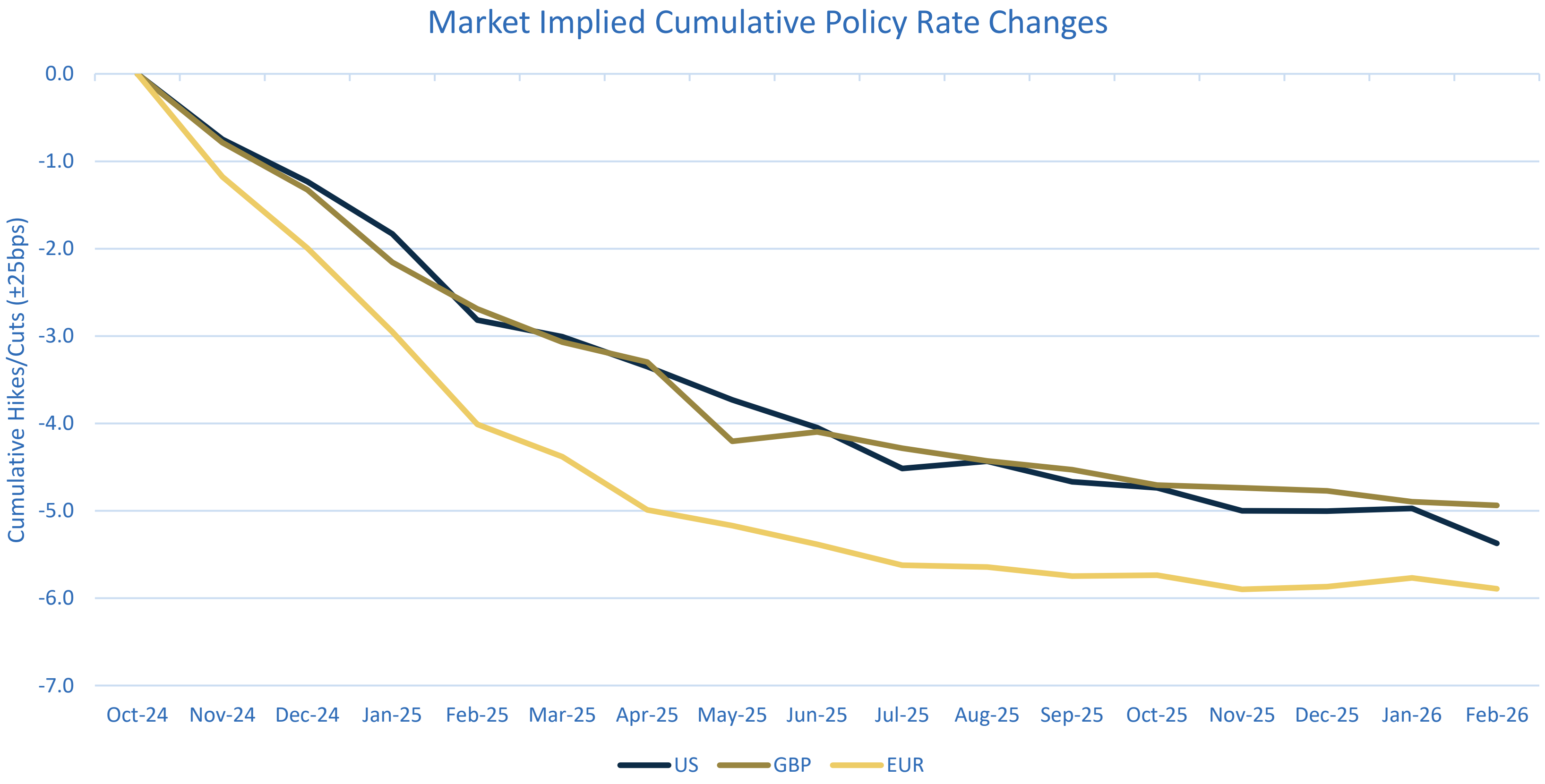




Source: SECOR, Bloomberg as of 30 June 2024.

Market Implied Policy Rates

- Another cut or two expected for the remainder of 2024
- San Francisco Fed President Daly : "People want to know, where will the rate settle...But the truth is, we're a long way from where it's likely to settle."
- ECB Press Release: "…inflation shows that the disinflationary process is well on track... financing conditions remain restrictive."



Source: SECOR, Yield Book. Data as of 18 October 2024.

Rate Implications of the US Elections

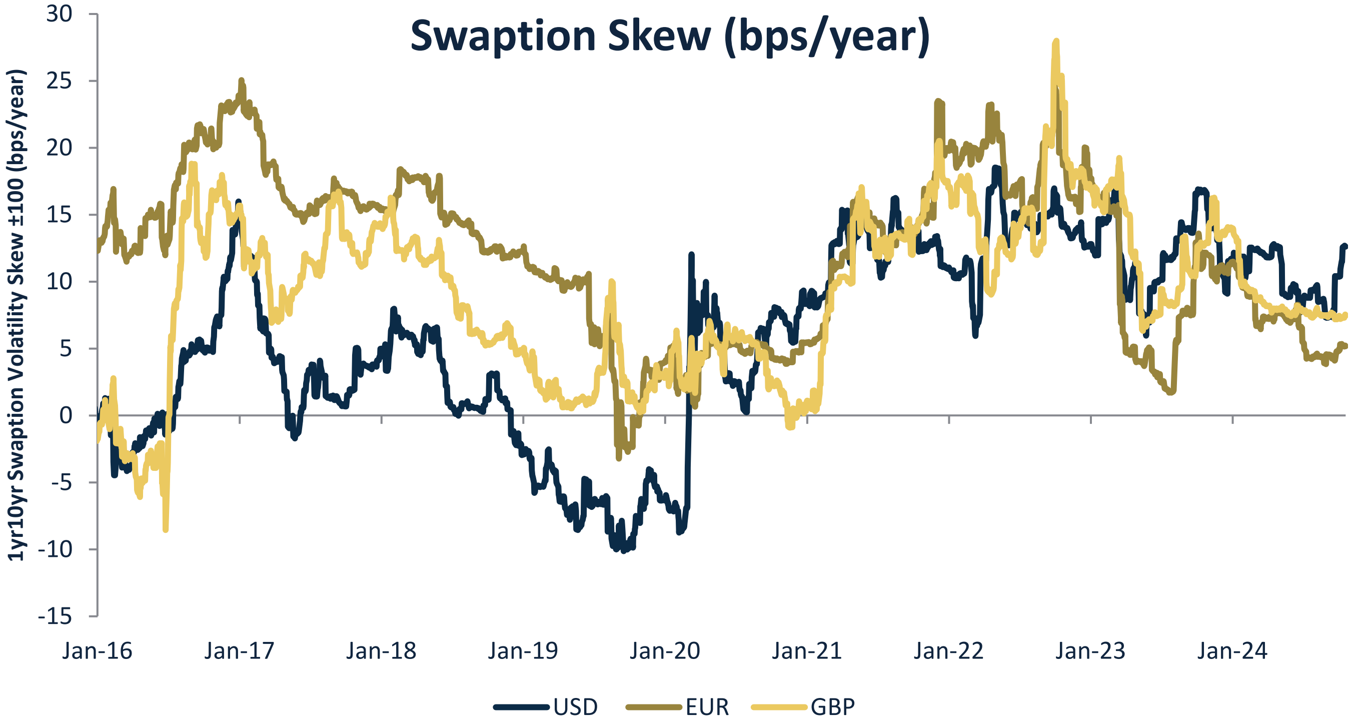
Current prediction markets are leaning towards a Trump presidency with a republican sweep

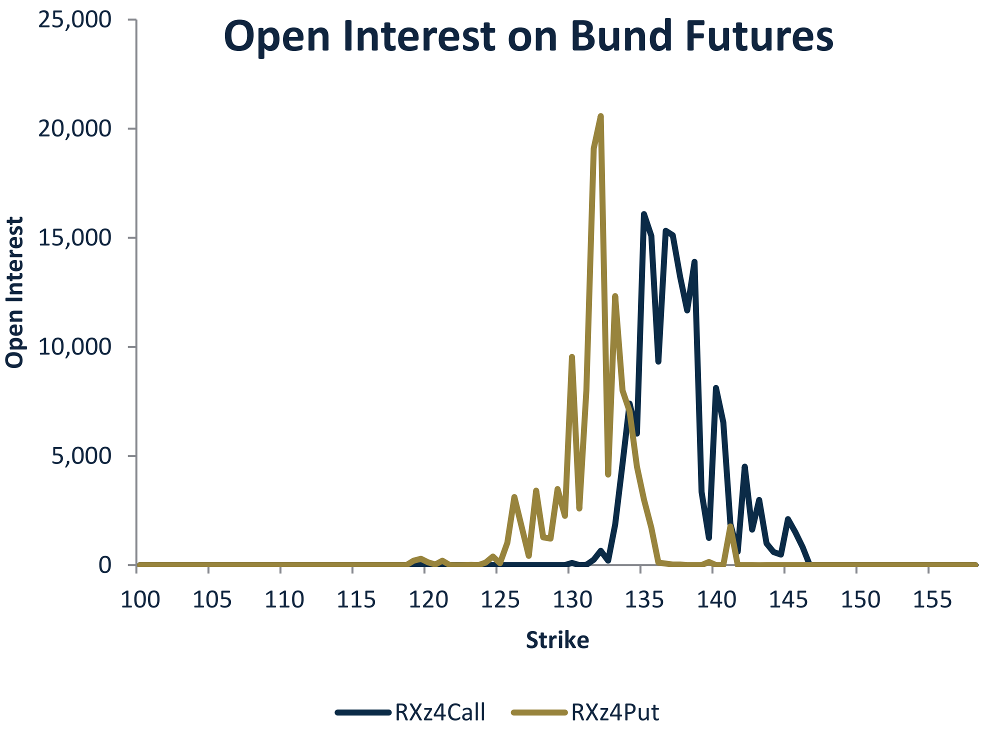
Summary	Key Policy Implications	Yields	Curve	Volatility
Republican sweep	Material Fiscal expansion via extension of tax cuts; tighter immigration policy and tail risk of broad-based tariffs	Higher across the curve	Parallel	Higher across the curve
Trump with a divided government	Modest fiscal expansion via extension of some tax cuts; tighter immigration policy and tail risk of broad-based Tariffs	Higher at the front end	Flatter	Moderate increase
Harris with a divided government	Limited fiscal expansion, with risk tilted towards fiscal contraction. Trade and immigration policies are likely to see minimal changes	Lower across the curve	Slightly steeper	Lower
Democratic sweep	Higher spending coupled with higher taxes; net impact on deficits/growth outlook uncertain	Slightly lower	Steeper	Higher on short end

Source: Barclays

Market positioning towards higher rates

- 1Y-into-10Y Volatility Skew = +100 Payer Vol – 100 Receiver Vol
  - US has risen in Q1 2024 while GBP and EUR are trending lower
- Open interest on Bund Puts 0.7x Calls which is lowest ratio we’ve seen in years





Source: SECOR, Barclays Live, Bloomberg. Data as of 18 October 2024.

Rates Summary Page

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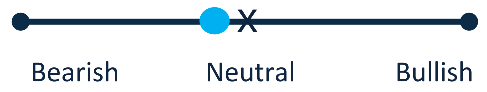
Factors	Comments	Historical Range
Valuations and Fundamentals	▪ Fiscal supply anticipations remain high (higher rates) ▪ Inflation has come closer to central bank targets (lower to neutral rates) ▪ Markets positioning for further cuts but uncertain about depth and speed	
Technicals	▪ Lesser opportunity in 2s10s and 5s30s steepening as markets reprice the reaction function of central banks but still except steeper curves ▪ Swap spreads continue to grind lower	
Macro Impact	▪ Inflation is trending down but still a lingering risk. Central banks may make policy mistake post pivot. Markets still watching economic data prints to determine policy path which should be supportive of volatility in the near term. ▪ Fed now watching labor markets more closely	
Overall	▪ 9-to-12 month view vs Fwds is generally neutral	

● Current Quarter

X Last Quarter

Scenario-Based Outlook: Neutral Duration

- Key take aways
  - Base case is that long end rates are stabilizing as inflation normalizes as monetary policy has pivoted
  - The main risks remain around downside economic data surprises, evolution of fiscal policy and geopolitical tensions
  - We expect market participants to react to prints as the central banks continue to be data driven which supports volatility in the top left

As of 17 Oct 2024	30yr EUR Swap	30yr GBP Swap	30yr USD Swap
Spot Rates	2.28%	3.87%	3.58%
Probabilities			
Shock: Significant recession caused by unknown factors. Geo-political environment deteriorates.	5.00%	5.00%	5.00%
Hard Landing: Policy mistake, Weak Economic Data, Earnings below expectations	35.00%	35.00%	35.00%
Soft Landing: Inflation pressures remain contained. Growth in line with expectations.	50.00%	50.00%	50.00%
Upside Surprise: Positive earnings + falling inflation and improved productivity and sentiment	10.00%	10.00%	10.00%
Probability Weighted Rate	2.23%	3.82%	3.53%
Implied 1yr Forward Rate	2.25%	3.84%	3.53%
Difference vs Forward	-0.02%	-0.02%	0.00%

Source: SECOR, FTSE

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Considerations and risks related to asset classes:

Equity investments involve a high degree of risk. Equity securities may decline in value due to factors affecting securities markets generally, and equity securities generally have greater price volatility than debt securities/investments. Equity securities of certain jurisdictions may experience more rapid and extreme changes in value and may be affected by uncertainties such as international political developments, currency fluctuations and other developments in the laws and regulations of countries in which an investment may be made. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Debt investments (such as, but not limited to, investment grade, high yield, emerging market debt, asset backed securities and insurance linked securities) involves special considerations and certain risks, including risk of default and price volatility, and such securities are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest.

LDI and equity overlay strategies may invest and trade in many different market strategies and instruments (including securities, non-securities and derivatives) and may employ different investment, hedging, leverage and arbitrage methodologies, so the risks of those would be material to understanding the risks and benefits of the portfolio. Counterparty and ISDA arrangements may pose potential risk. Furthermore, derivative strategies may be exposed to the risk of market disruptions, volatility, and governmental interventions.

Illiquid investments (such as, but not limited to, private credit, private equity and infrastructure):

General/Loss of capital. Investment involves a high degree of risk. There can be no assurance that return objectives will be realised and investors could lose up to the full amount of their invested capital. Fees and expenses may offset the trading profits.

Limited liquidity. Investments in private markets may result in restricted liquidity since withdrawal rights are limited and interests are not freely transferable or redeemable. There is unlikely to be a secondary market for private market investments interests.

Volatility. Investment techniques used may include the use of leverage and derivative instruments such as futures, options and short sales, which could amplify the possibilities for both profits and losses and may increase volatility.

Hedge Fund investing is speculative and involves significant risk including the risk of losing some or all of the invested capital. Hedge fund strategies may participate in the buying and selling of equity and debt securities, private investments funds, non-readily realisable investments, illiquid investments suspension of trading, concentrated investments, developed and emerging market investments. Hedge fund strategies may be exposed to risks stemming from usage of leverage, derivatives, futures, options, over-the-counter derivative transactions. Counterparty and ISDA arrangements may pose potential risk. Furthermore, hedge fund strategies may be exposed to the risk of market disruptions, volatility and governmental interventions.

Modelling Assumptions:

Forward looking return, volatility, and correlation assumptions have been derived by SECOR, and are based on a combination of: a) the historic performance of each asset class based on what we consider to be appropriate indices or suitable proxies, and over a period that we consider to be appropriate in light of prevailing market conditions (typically 10 years); and b) our judgement in relation to how historic performance, and its various components, may differ in the future. This may include, for example, ad-hoc adjustments to reflect our view that markets are over or under valued.

The resulting assumptions are assumed to be appropriate for asset and liability projections over the medium to long term i.e. 10 to 20 years or longer, and are net of all ongoing management costs and fees.

Expected returns for an asset class are generally built up from and include an allowance for our projected return on cash, inflation, spreads, risk premiums, liquidity premiums, potential losses, valuation adjustments, alpha for active management, management fees, other ongoing costs, and any other factors that we may consider are appropriate for the asset class and/or prevailing market conditions. Expected returns generally do not allow for SECOR advisor or fiduciary management fees, or any transition or rebalancing costs between asset classes or an existing portfolio.

A material risk factor is that the projected returns modelled are underpinned by historic market returns combined with SECOR's assumptions on future market returns, meaning that the projected net returns used for modelling portfolios may not be realised within expected timeframes.

Further details are available on request.