

# The Bond Ultimatum

## Capital Builders Group

Fynn, Wilhelm, Darrell, & Kris  
3/31/25

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# Executive Summary



## Strategy

Reallocate a portion of the ICSH ultra-short bond ETF into a diversified mix of short- and long-duration ETFs to increase the portfolio's sensitivity to interest rate changes.



## Performance

The expected return is estimated to increase by over 1%, excluding any speculative upside from price appreciation.



## Recommendation

Capital Builders Group recommends investing approximately \$115,000 in IGSB, SPLB, and VCLT, with funds reallocated from ICSH.



# Strategy Design

## Origin

We identified this opportunity by monitoring Fed signals, market commentary, and movements in the yield curve. The current ~\$300,000 allocation in ICSH offers limited upside in a falling interest rate environment, prompting a strategic shift. This revised approach positions the fund to capture potential capital appreciation from anticipated Fed rate cuts while maintaining liquidity and a balanced risk profile.

## Goal

If interest rates decline due to slowing economic growth or easing inflation, longer-duration bonds are likely to experience greater price appreciation than ultra-short bonds. By reallocating into longer durations, we aim to capture this upside as the Fed shifts its policy to support broader economic conditions.

## Outcome

We expect the reallocation to generate capital gains as yields decline, particularly in the long-duration segments. This strategy should enhance overall portfolio performance while preserving liquidity through a substantial short-duration position.





# Strategy Rationale

## Historical context:

Interest rates remain historically high, with the 10-year Treasury yield well above its 10-year average.

While anticipated rate cuts have been delayed longer than expected, the current environment presents a compelling opportunity to position the portfolio for an eventual shift.

## What is a trigger/indicator?

The U.S. government plans to borrow or refinance \$7 trillion in FY 2025, putting pressure on the Fed to lower rates—a move that historically brings down the long end of the yield curve as well.

## When to Invest:

- Real yields remain elevated, making long-duration bonds an attractive entry point.
- The Fed has signaled a potential shift toward rate cuts.
- The current shape of the yield curve suggests meaningful upside potential from increased duration exposure.

## Exit or reduce exposure when:

- Inflation reaccelerates or economic data comes in stronger than expected.
- The Fed adopts a more hawkish stance or signals potential rate hikes.
- Yields drop significantly, limiting further upside in long-duration bonds.



# Recent Headlines

## Bond investors brace for US slowdown, shed risk as Fed seen on hold

- Extreme net long positioning in Treasuries -J.P. Morgan
- US rate futures price in 62 bps of cuts this year
- Focus on quantitative tightening, 'dot plot'

Source: Reuters, March 2025

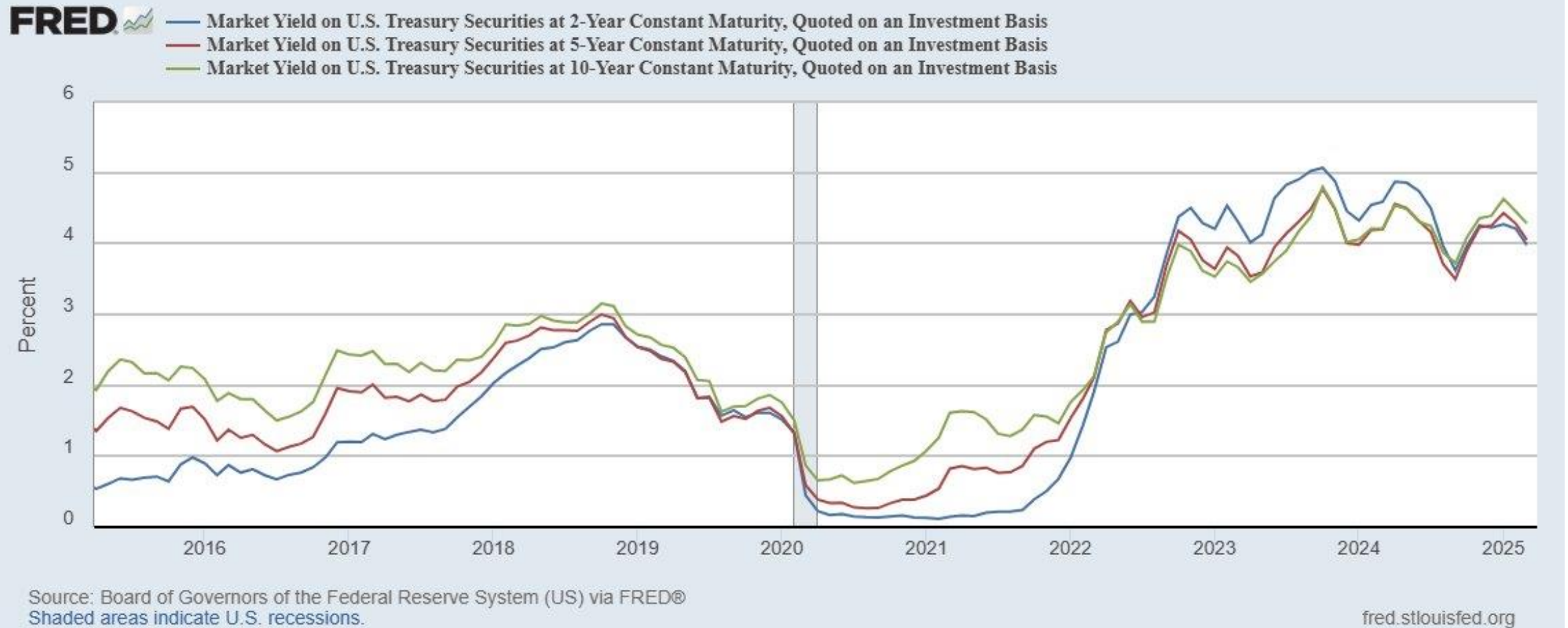
## Is now the time to add duration to bond portfolios?

While it seems reasonable to continue to sit in cash, incoming data indicate growth and inflation should continue to normalize, and as the Fed reduces interest rates—albeit gradually—this should exert modest downward pressure on interest rates.

Source: JP Morgan, March 2025

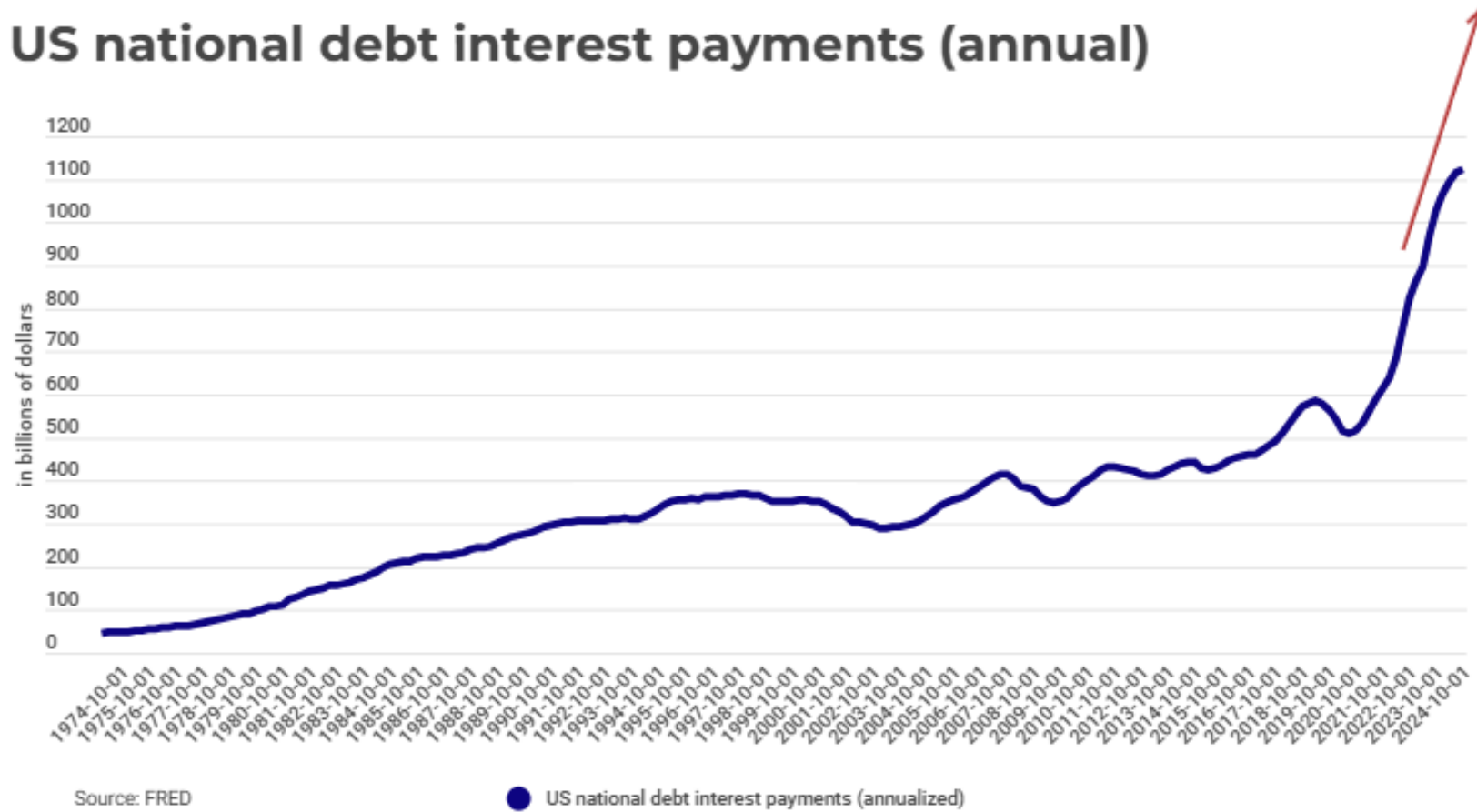


# Current Treasury Securities are Well Above 10-year Averages

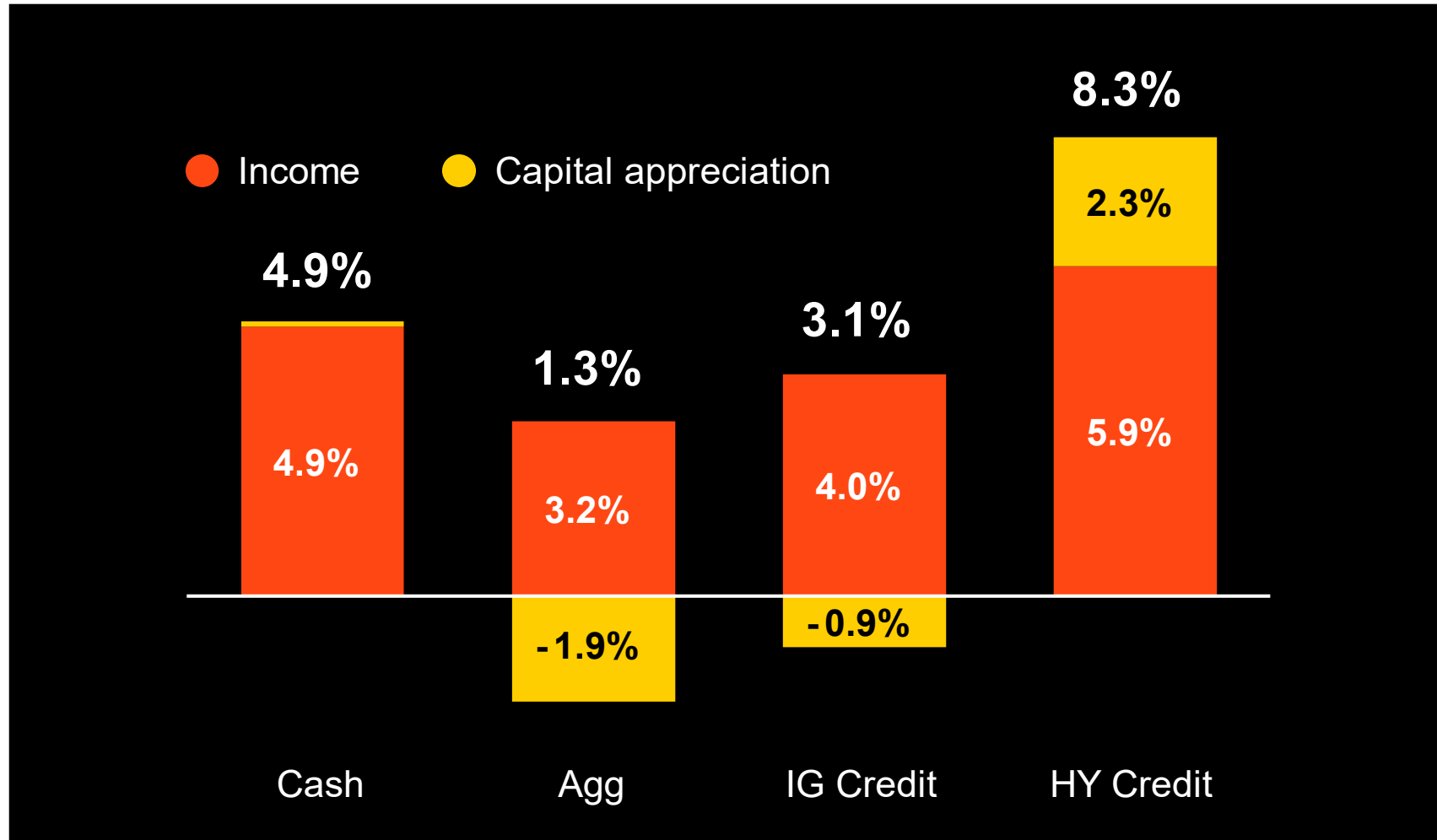


# With \$7 trillion due for borrowing or refinance in 2025, US Govt. simply cannot afford this rate

## US national debt interest payments (annual)



# 2024 Bond Performance

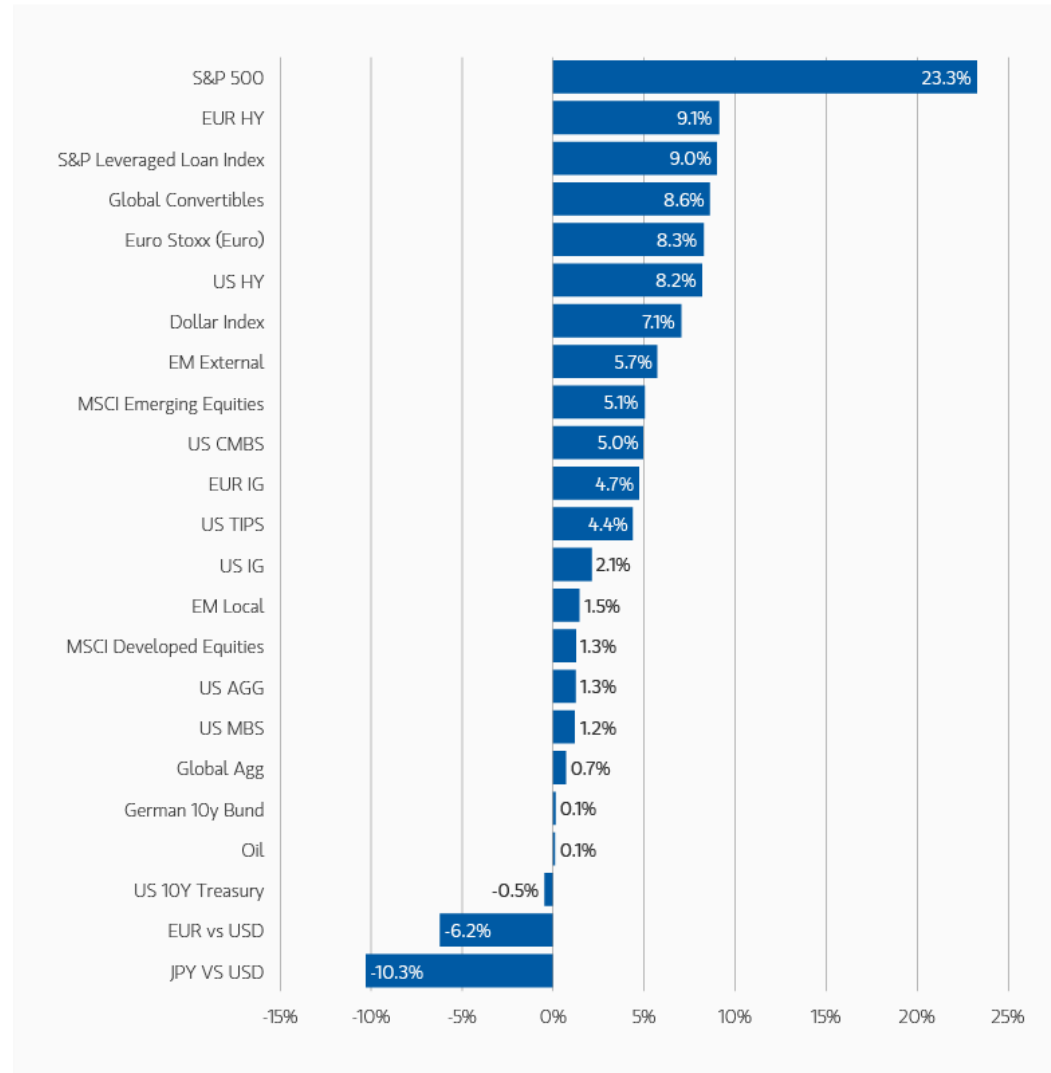


BlackRock





# YTD Performance



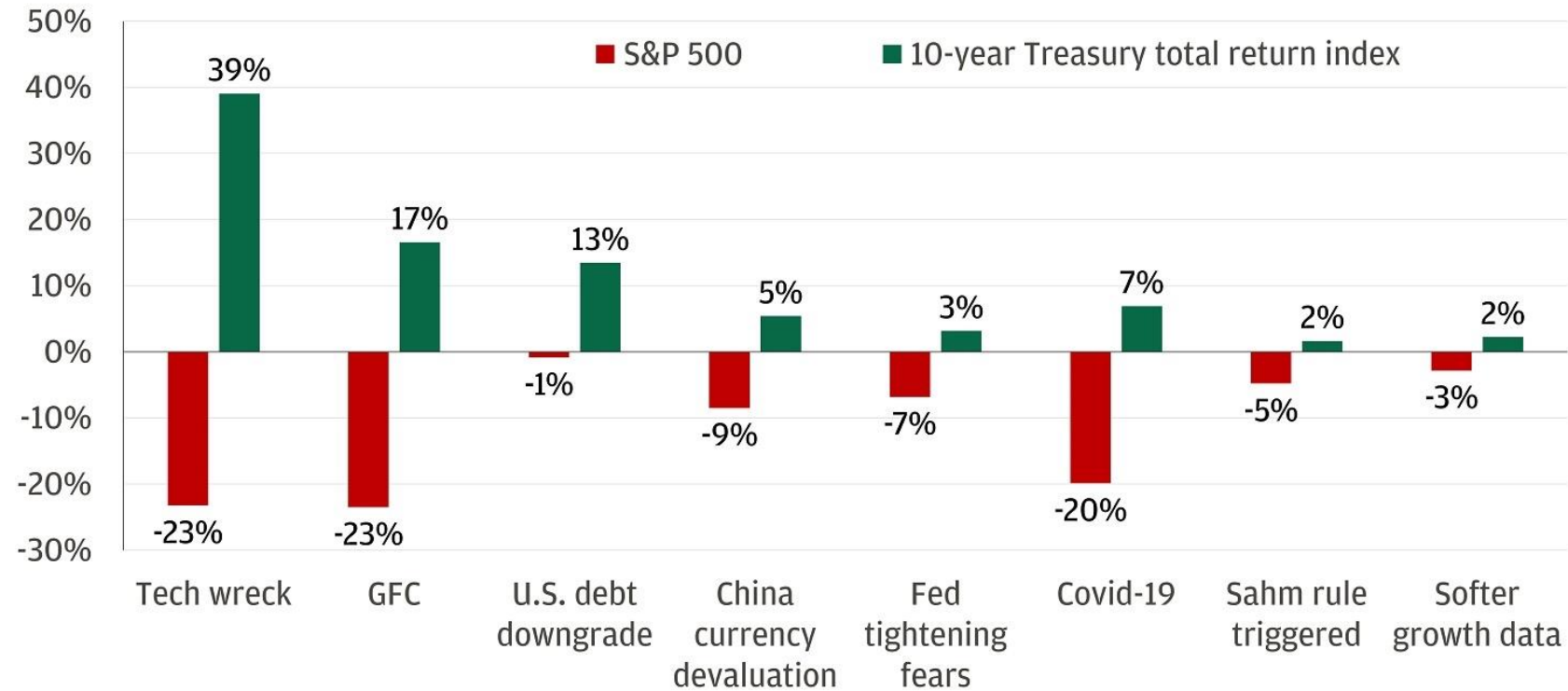
Morgan Stanley



# Bond Performance

## Bonds can still hedge against growth slowdowns

S&P 500 index level and 10-year U.S Treasury total return



JP Morgan



# Price Appreciation



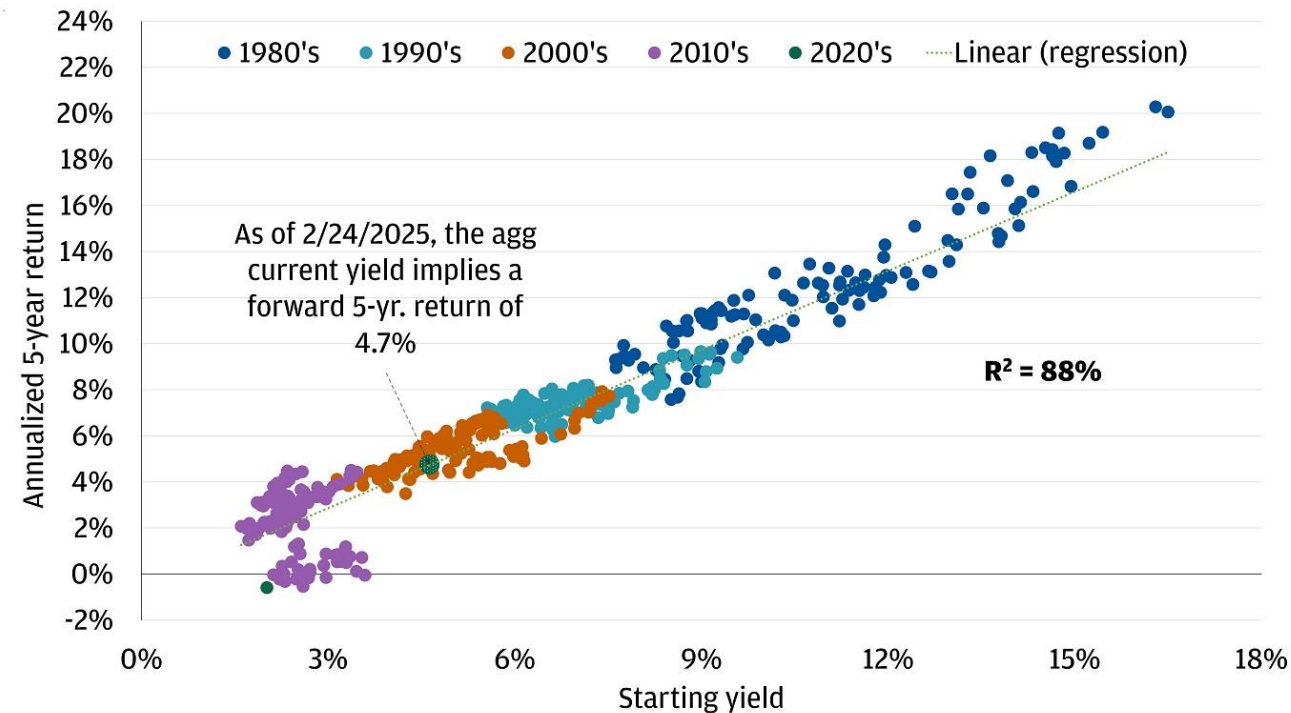
Longer-term bonds have the potential for price appreciation



# Bond Performance

## Starting yields have historically been a good indicator of future returns

Bloomberg U.S. Aggregate bonds starting yield and 5-year annualized return, %

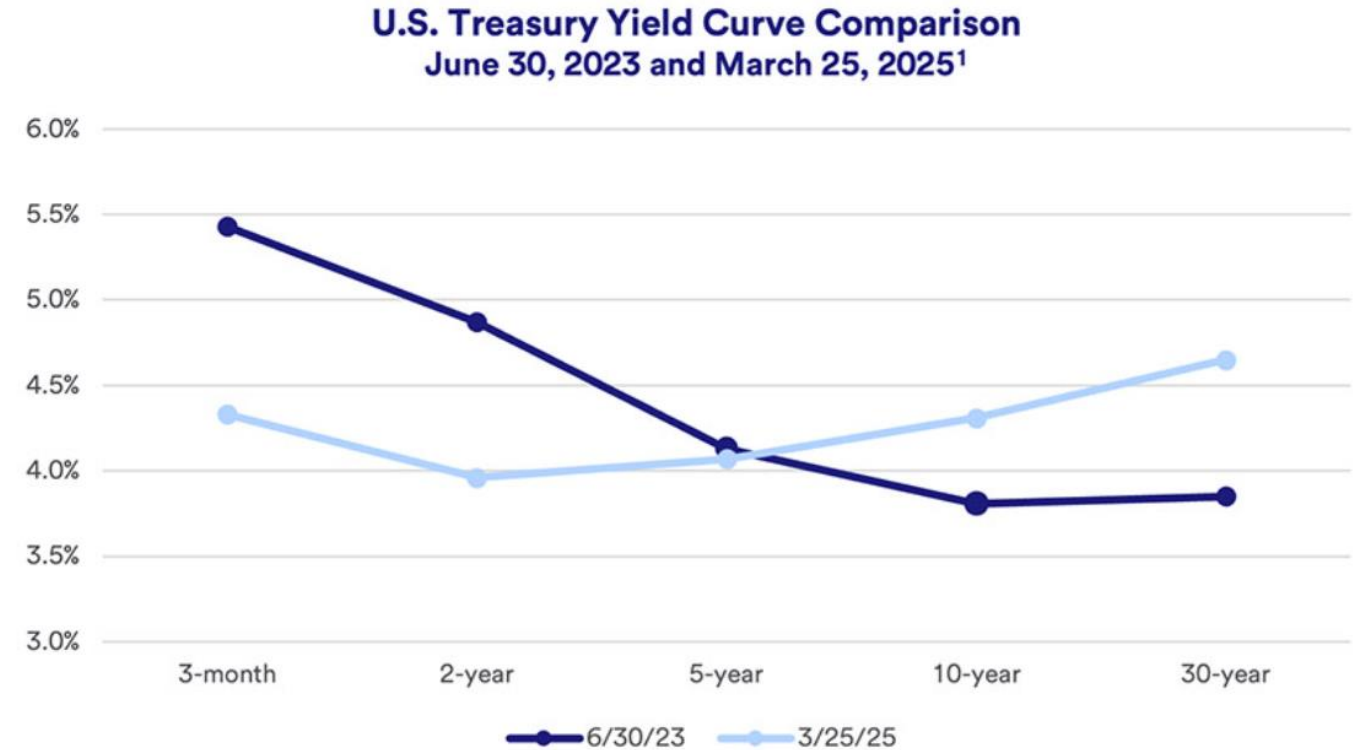
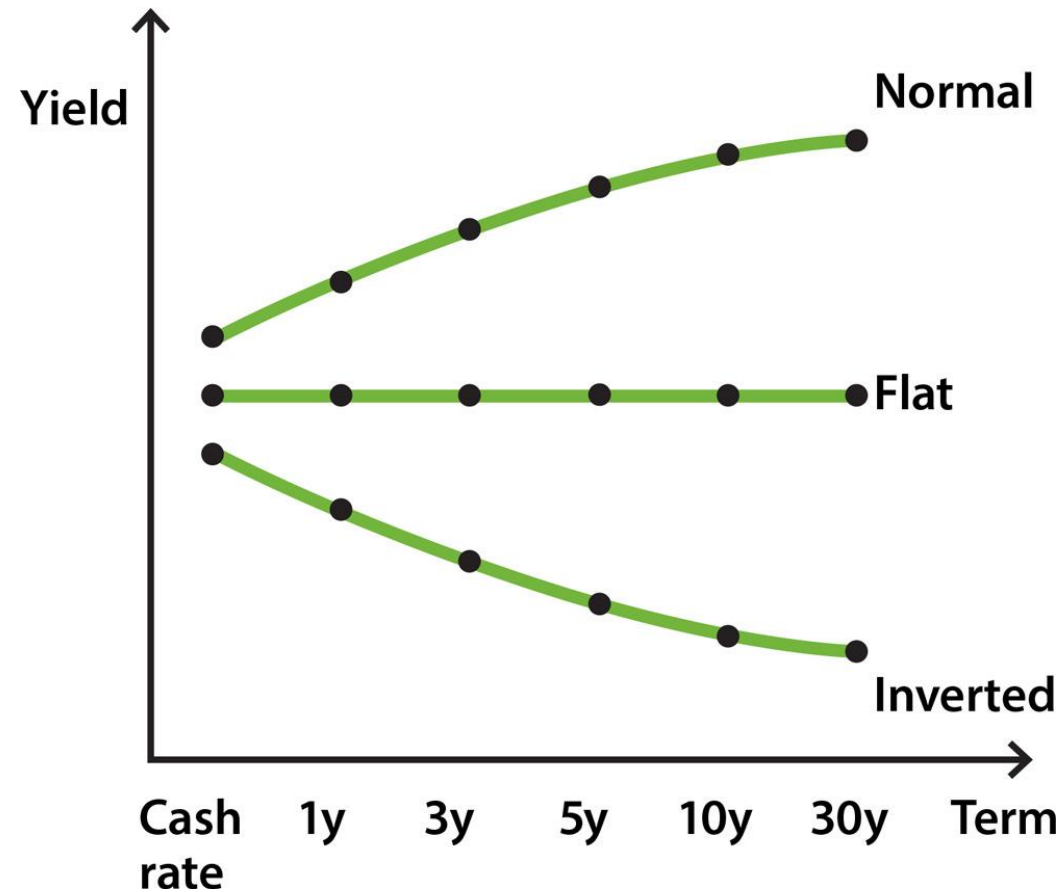


Source: Bloomberg Finance L.P. Data as of February 24, 2025. Returns are 60-month annualized total returns measured monthly beginning 1/31/1976.  $R^2$  represents the total variation in total returns that can be explained by yields at the start of each period.

JP Morgan



# Yield Curve Normalization

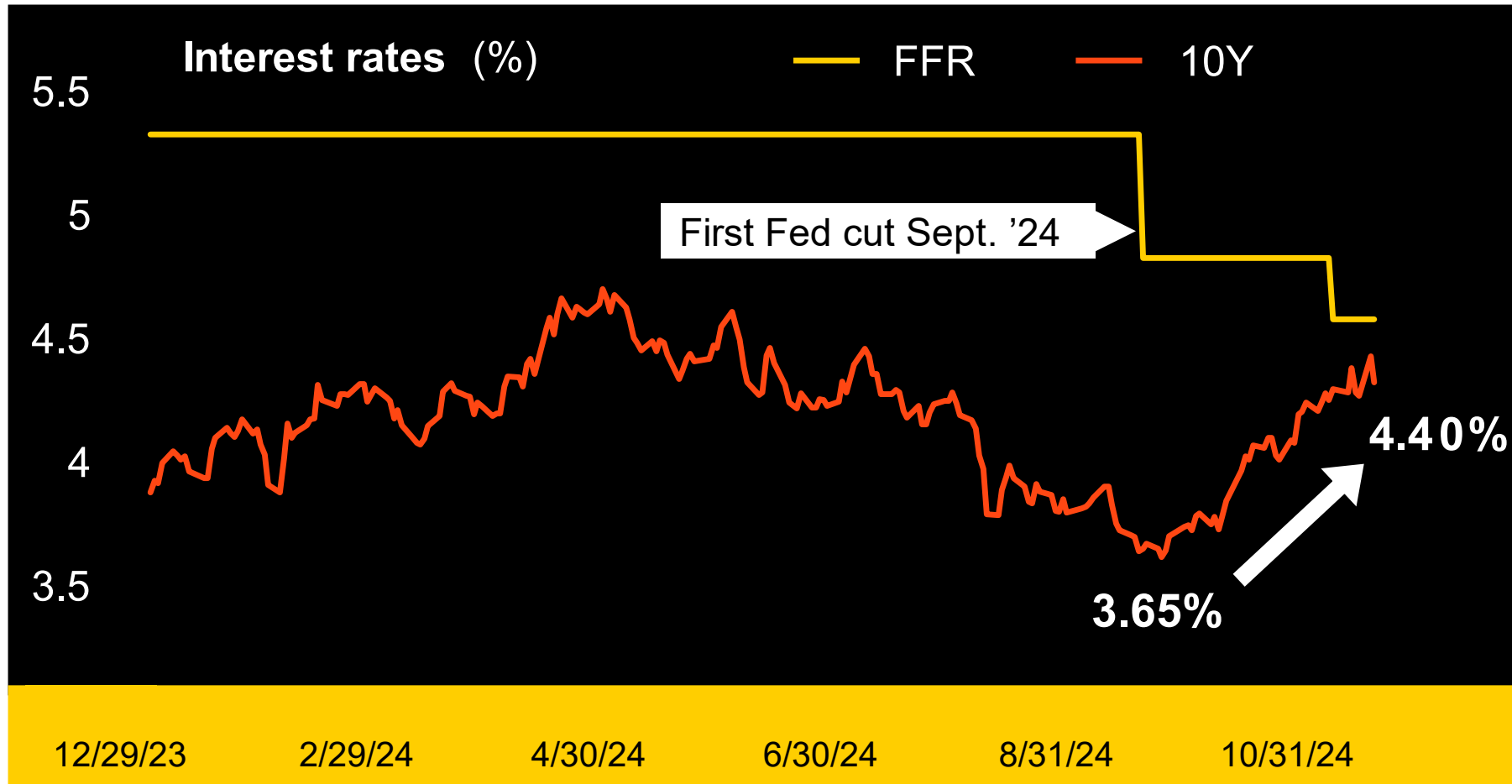


Source: U.S. Bank Asset Management Group, U.S. Department of the Treasury, as of March 25, 2025.





# Interest Rates



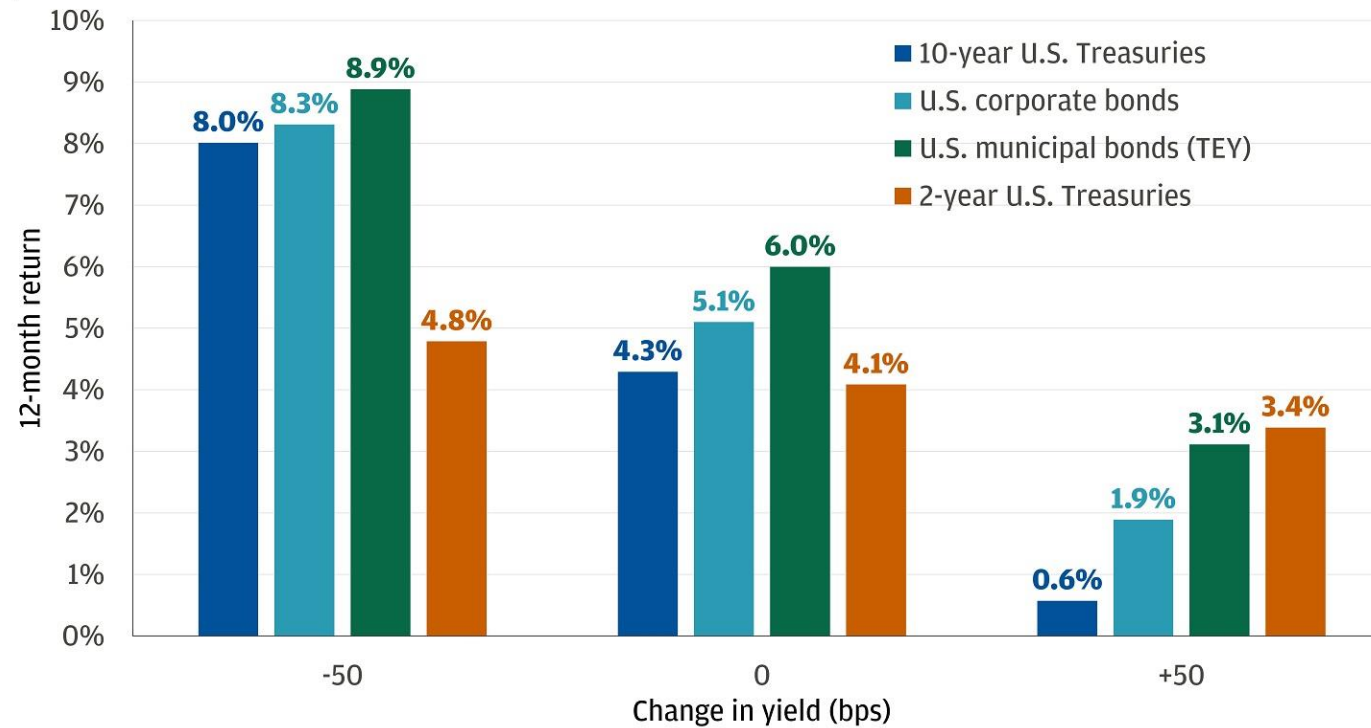
BlackRock



# Interest Rate Sensitivity

## There is asymmetry in fixed income returns

Fixed income returns given yield move scenarios

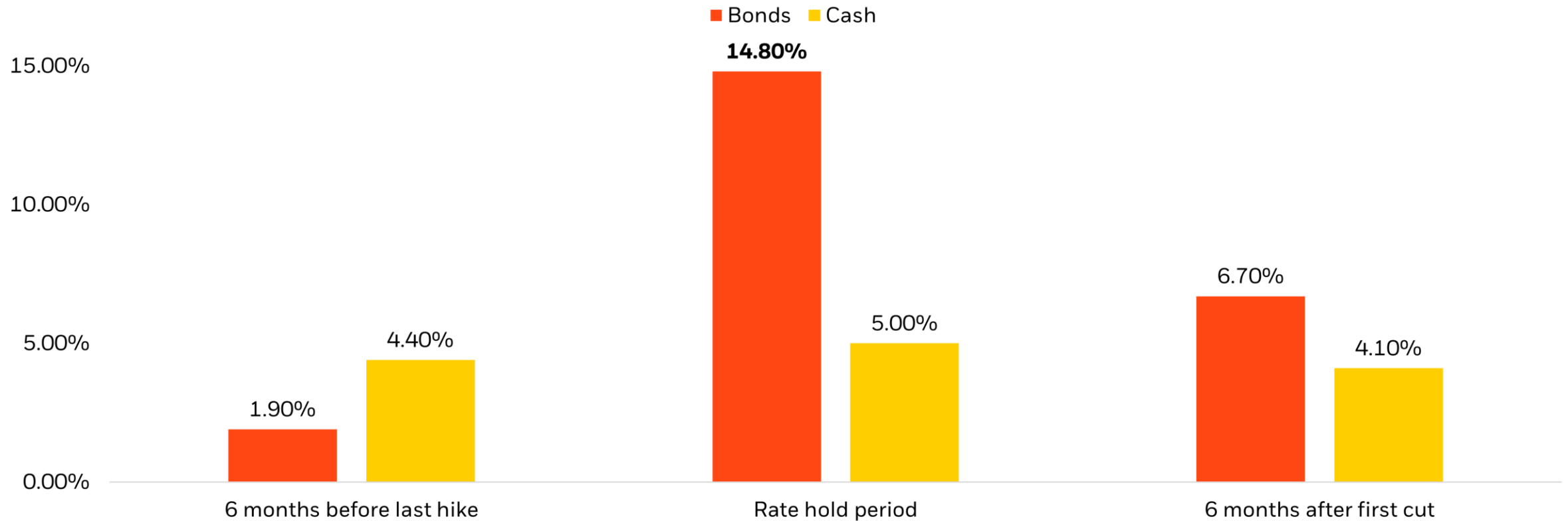


Source: Bloomberg Finance L.P. Data as of February 26, 2025.

JP Morgan



# Bond Performance



BlackRock: Average annualized returns (%) 1990 – 2023

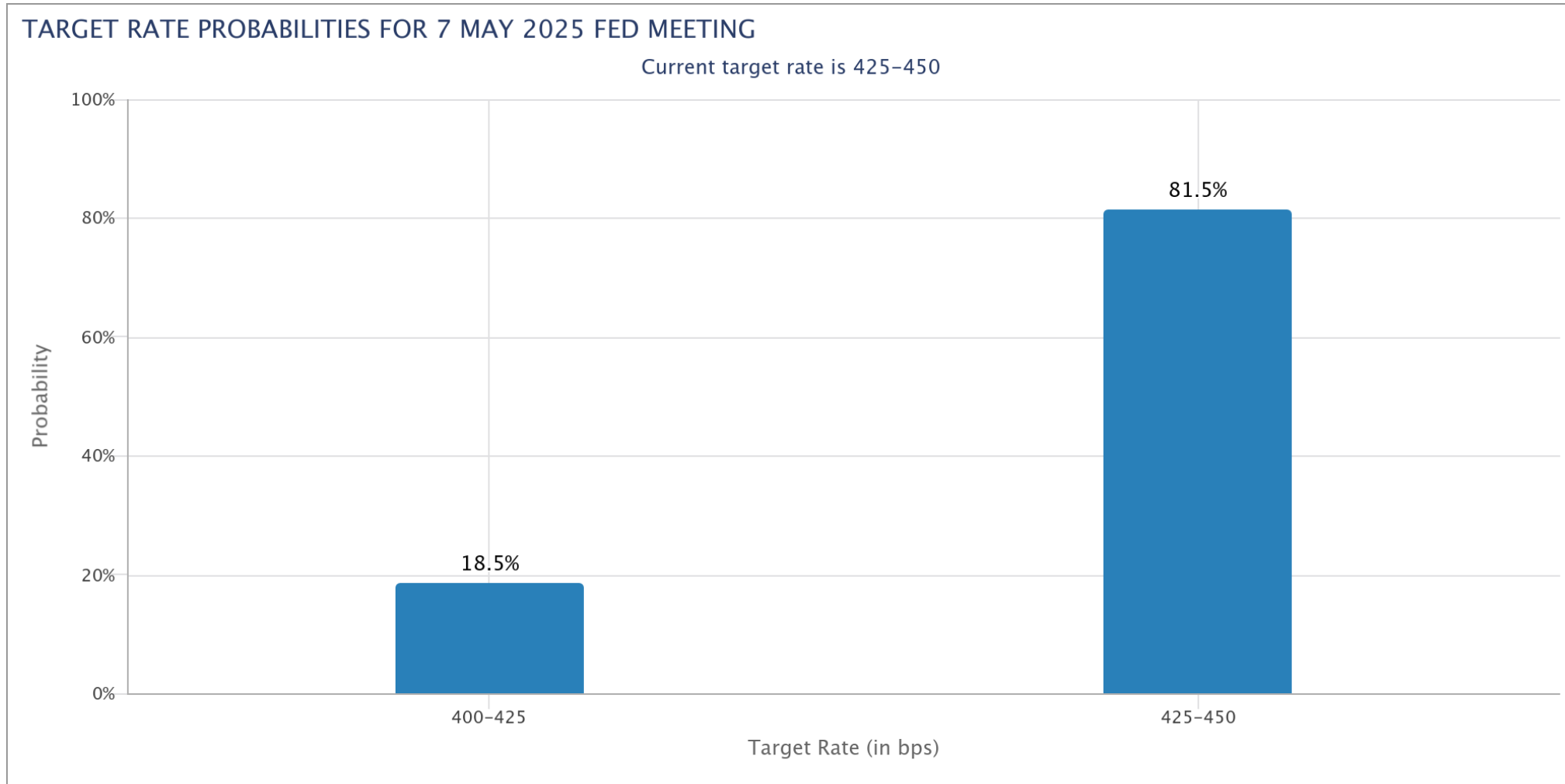


# Fed Rate Projections

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES									
MEETING DATE	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450
5/7/2025					0.0%	0.0%	0.0%	0.0%	18.5%	81.5%
6/18/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.7%	64.9%	21.5%
7/30/2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	7.6%	42.2%	40.7%	9.5%
9/17/2025	0.0%	0.0%	0.0%	0.0%	0.0%	4.7%	29.0%	41.3%	21.4%	3.6%
10/29/2025	0.0%	0.0%	0.0%	0.0%	1.7%	13.5%	33.4%	34.1%	15.0%	2.3%
12/10/2025	0.0%	0.0%	0.0%	0.9%	7.6%	23.5%	33.7%	24.5%	8.6%	1.2%
1/28/2026	0.0%	0.0%	0.2%	2.1%	10.5%	25.3%	32.1%	21.6%	7.3%	0.9%
3/18/2026	0.0%	0.0%	0.7%	4.5%	14.9%	27.3%	29.0%	17.4%	5.4%	0.7%
4/29/2026	0.0%	0.1%	1.2%	5.8%	16.4%	27.6%	27.6%	15.9%	4.8%	0.6%
6/17/2026	0.0%	0.3%	2.0%	7.7%	18.4%	27.6%	25.5%	14.0%	4.1%	0.5%
7/29/2026	0.0%	0.4%	2.4%	8.4%	19.0%	27.4%	24.8%	13.3%	3.8%	0.5%
9/16/2026	0.1%	0.5%	2.5%	8.7%	19.2%	27.3%	24.4%	13.1%	3.7%	0.4%
10/28/2026	0.1%	0.4%	2.4%	8.1%	18.3%	26.6%	24.7%	14.1%	4.6%	0.7%
12/9/2026	0.4%	2.1%	7.4%	17.0%	25.6%	24.9%	15.4%	5.8%	1.2%	0.1%

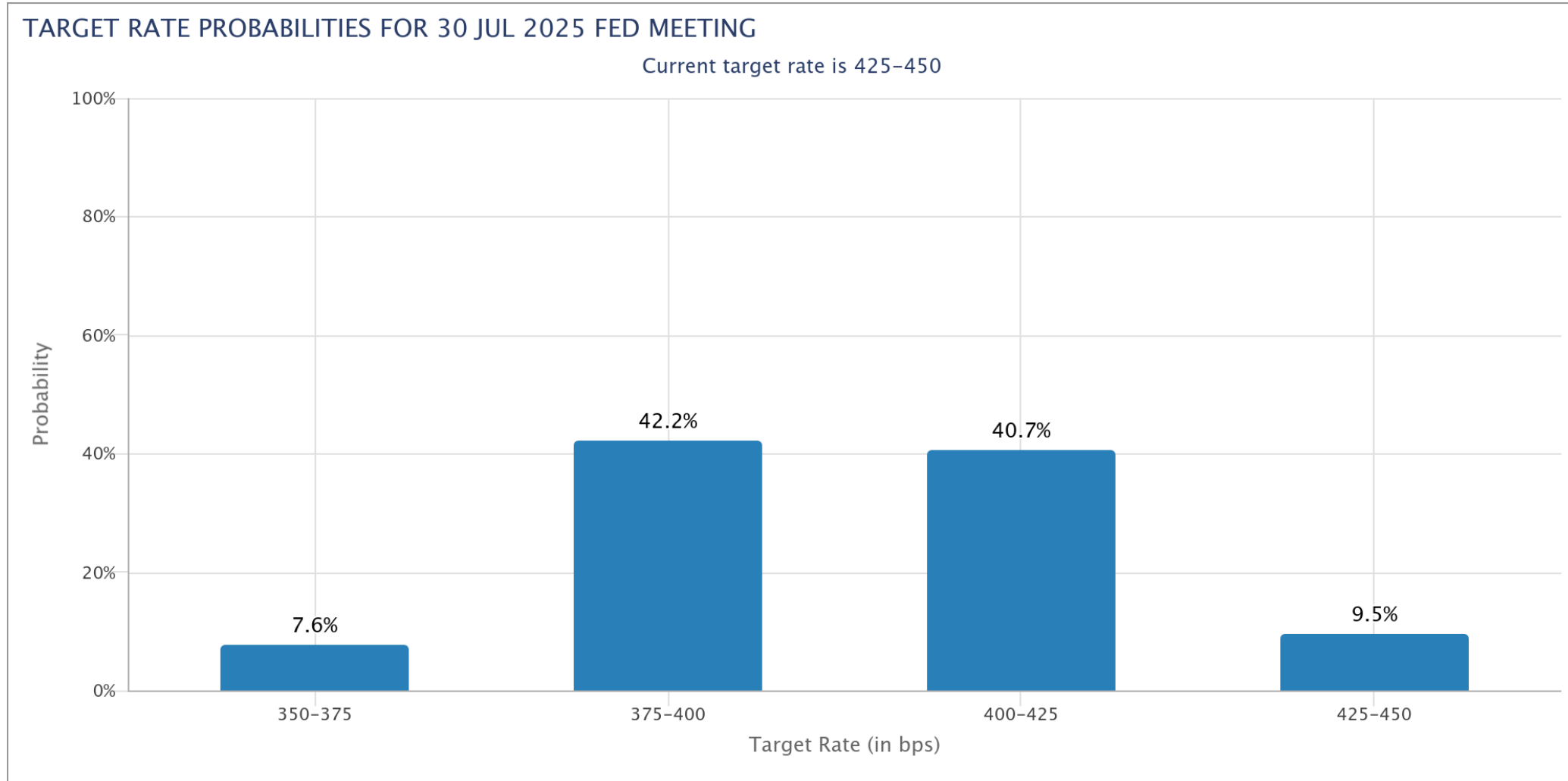


# Fed Rate Projections

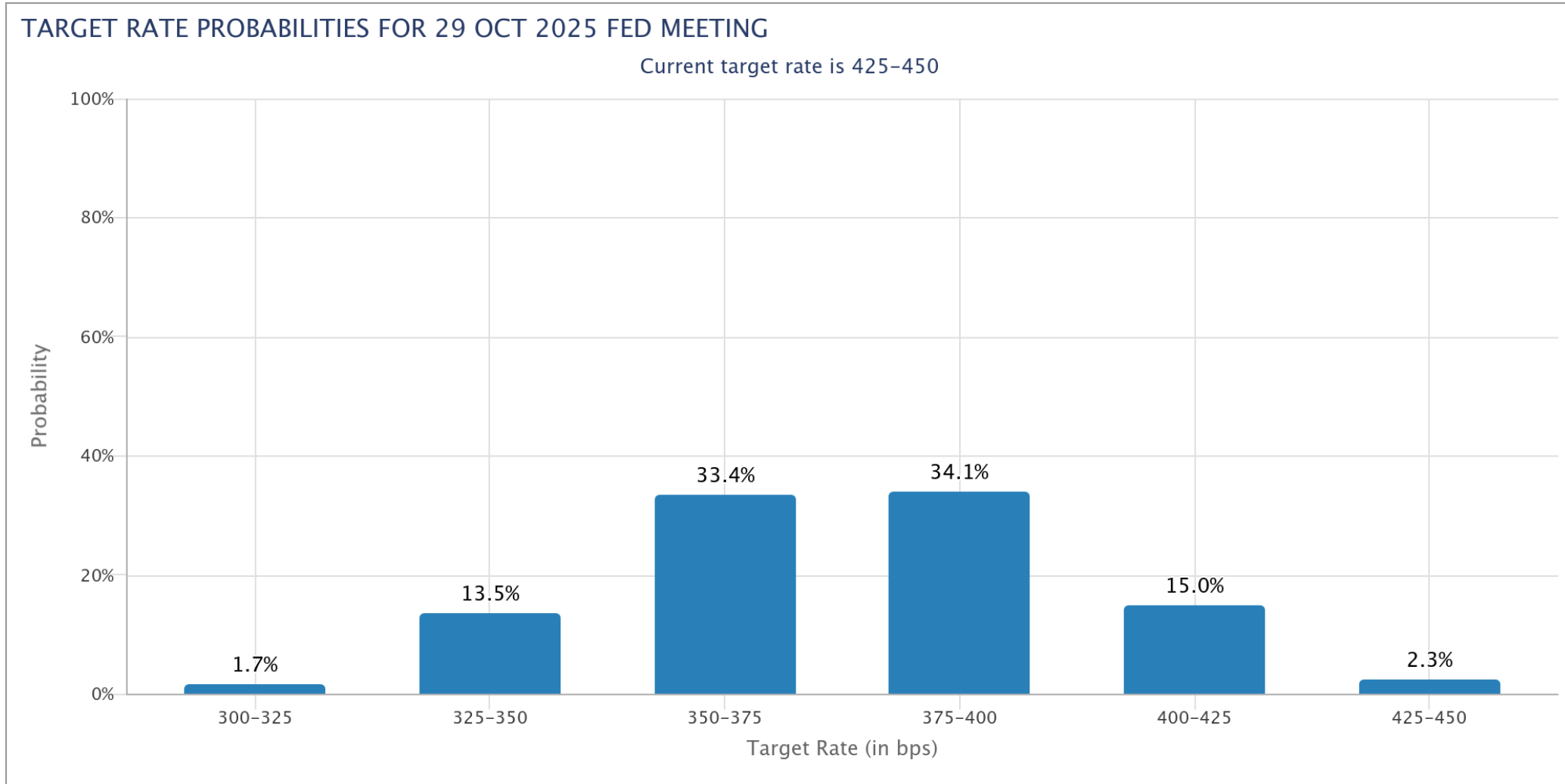




# Fed Rate Projections



# Fed Rate Projections



# Optimization Step 1: Avg. Monthly Returns

## Historical Return Calculations

Date	Fixed Income ETF Universe - Monthly Returns										Average Monthly Returns									
	SHY	IGSB	BSV	ICSH	SHV	SPLB	BLV	IGLB	VCLT	TLT	SHY	IGSB	BSV	ICSH	SHV	SPLB	BLV	IGLB	VCLT	TLT
5/1/2015	0.000436128	0.000578219	0.001505096	0.000420405	0	-0.025452594	-0.022869205	-0.027109362	-0.02862838	-0.023684578										
6/1/2015	0.000294557	-0.000777988	-0.001294771	-0.001619448	9.04839E-05	-0.03549631	-0.034684779	-0.034684779	-0.034684779	-0.034684779										
7/1/2015	0.000435588	-0.000381272	0.001469956	-0.001242843	-0.000181448	0.025249997	0.030676128	0.018559477	0.027491933	0.045412807										
8/1/2015	-0.000494748	-0.000153778	-0.000810594	0.00262853	9.0989E-05	-0.019221207	-0.011148723	-0.020002869	-0.021015485	-0.006877767										
9/1/2015	0.002926447	0.001541986	0.00511166	9.3862E-07	0.000271538	0.006766076	0.011026946	0.010758141	0.014013333	0.019682523										
10/1/2015	-0.001411156	0.002238288	-0.000767571	0.001822304	-0.000353598	0.018114423	0.006339601	0.012047048	0.009572072	-0.003995226										
11/1/2015	-0.002595769	-0.000940073	-0.002908371	-0.001339611	-9.90684E-05	-0.013973294	-0.008761155	-0.004594719	-0.002518747	-0.00877842										
12/1/2015	-0.002000327	-0.003261085	-0.003286706	-0.003367481	-0.000209025	-0.011718871	-0.01679154	-0.020080342	-0.017128881	-0.004999852										
1/1/2016	0.007520502	0.004104321	0.01084125	0.001765876	0.000879896	0.006003327	0.032097489	0.011258113	0.004109246	0.060188064										
2/1/2016	0.000588605	0.000953853	0.001995252	0.001608062	0.000272226	0.014129052	0.017672502	0.011097148	0.006918318	0.02890863										
3/1/2016	0.001354936	0.006157251	0.004537231	0.002912228	0.000353263	0.052730766	0.0326	0.053348183	0.063286121	-0.00093396										
4/1/2016	0.000317985	0.003092569	0.000860746	0.000200112	0.00045348	0.029909025	0.007953647	0.018556425	0.023799092	-0.007537817										
5/1/2016	-0.001165529	2.14325E-05	-0.002038119	0.000600239	-9.09137E-05	-0.006898302	0.000752673	-0.007949985	-0.003343335	0.00811216										
6/1/2016	0.006000634	0.00682227	0.010014971	0.001601703	0.000924157	0.049901789	0.051353852	0.04949058	0.047288795	0.069297265										
7/1/2016	-0.000450414	0.001101523	0.001715131	-0.000979077	9.62258E-06	0.029959668	0.027583076	0.026389476	0.025692238	0.021244878										
8/1/2016	-0.002348354	-0.000652133	-0.002715234	0.002863095	1.84153E-05	0.005300179	-0.003606399	0.004173968	0.001662613	-0.010121127										
9/1/2016	0.001305398	7.38115E-05	0.001866626	0.000121652	0.000633747	-0.008455438	-0.0085987	-0.010538913	-0.004447688	-0.015077189										
10/1/2016	-0.000470245	-0.000787366	-0.002588705	0.000179601	0.000389914	-0.025232496	-0.030544134	-0.026607861	-0.02497885	-0.043788176										
11/1/2016	-0.00472401	-0.004347223	-0.010113464	-0.000140705	-0.000697404	-0.056150559	-0.063198953	-0.053762127	-0.048900184	-0.082236565										
12/1/2016	8.61329E-06	0.001032912	-0.000768665	0.000339386	5.36649E-05	0.020495769	0.004323472	0.0173896	0.017036289	-0.007340748										
1/1/2017	0.002382903	0.004404165	0.005612991	0.004874247	0.001605669	0.009119578	0.014173431	0.012491564	0.009182715	0.012828429										
2/1/2017	-0.000236355	0.001141294	0.000627701	0.000199288	9.05801E-05	0.016525051	0.014726888	0.014910151	0.015086676	0.013655413										
3/1/2017	0.000603556	0.00090734	0.001105844	0.001479618	9.08945E-05	-0.007333705	-0.006803426	-0.007537401	-0.007243138	-0.006317591										
4/1/2017	0.001823216	0.002321469	0.003956138	0.000379751	-5.47167E-05	0.015253938	0.015554473	0.015359293	0.012131222	0.015538265										
5/1/2017	0.000686108	0.002054283	0.002534419	0.00181952	0.000516907	0.023581092	0.019088473	0.022390061	0.024671537	0.018907864										
6/1/2017	-0.000803647	0.00040022	-0.000924153	0.000879122	0.000734911	0.008500106	0.008909622	0.012814387	0.011576668	0.007888208										
7/1/2017	0.001822934	0.003222021	0.003495176	0.001898214	0.00096131	0.011439367	0.004046367	0.005809582	0.007890336	-0.00653124										
8/1/2017	0.001976393	0.001957982	0.003343838	0.001119022	0.000643866	0.00971127	0.020671986	0.012462917	0.011642827	0.033976331										
9/1/2017	-0.001877968	-0.000710748	-0.003094061	0.000599383	0.000698091	-0.008406206	-0.001321845	-0.001321845	0.000123329	-0.023117754										
10/1/2017	-0.000926252	0.000443617	-0.000219929	0.001397659	0.000308339	0.006280439	0.000252793	0.006888106	0.007032122	-0.000350077										
11/1/2017	-0.002222142	-0.002750952	-0.002766778	0.000658345	0.00048909	0.003074083	0.007479536	0.005134855	0.001764871	0.007337273										
12/1/2017	-0.001336523	-0.001171416	-0.001848415	0.000699156	-2.46235E-07	0.01985433	0.015641512	0.016344492	0.018285859	0.016053786										
1/1/2018	-0.000805212	0.000540081	-0.001947504	0.003902019	0.002933106	-0.00414101	-0.01564137	-0.003664932	-0.003949686	-0.028529719										
2/1/2018	-0.002033262	-0.004219182	-0.004445291	-0.000997658	-0.004892322	-0.034292835	-0.042372915	-0.04118281	-0.032428331	-0.032428331										
3/1/2018	0.002469376	0.000881437	0.002396	0.00177846	0.001633236	0.012402	0.01504449	0.010124842	0.009418598	0.028662956										
4/1/2018	-0.00244274	0.000992581	-0.00242496	0.000859537	0.000852958	-0.025139337	-0.022228693	-0.024139739	-0.025423573	-0.020999347										
5/1/2018	0.003410869	0.002808818	0.003660219	0.002558844	0.001478444	0.02322711	0.01438761	0.002467888	0.00562289	0.019975918										
6/1/2018	0.000158953	4.1091E-05	0.000425472	0.002319578	0.00138793	-0.009372232	-0.005958222	-0.007454801	-0.011408348	0.006338445										
7/1/2018	-0.000650599	0.001822551	-0.000625296	0.001878666	0.001160634	0.017012614	0.00421464	0.020381868	0.02205431	-0.014310711										
8/1/2018	0.003368168	0.004472821	0.003639201	0.002795828	0.001641257	-0.001239764	0.00472927	-0.002885892	-0.003482099	0.013149626										
9/1/2018	-0.001343823	-0.001035328	-0.00160881	0.001359567	0.001315192	-0.002837578	-0.012721273	-0.000658684	-0.002497554	-0.028659719										
10/1/2018	0.001453745	-0.001418628	0.000610443	0.002095355	0.001659274	-0.035423674	-0.032161768	-0.03852976	-0.035980333	-0.0292838										
11/1/2018	0.003701334	-8.6836E-05	0.003532381	0.001198125	0.001832002	-0.006295606	0.003819008	-0.007685465	-0.008602513	0.017672471										
12/1/2018	0.006212757	0.00521047	0.008138569	0.000817668	0.000145469	0.023182639	0.040549365	0.024426833	0.024215432	0.05614253										
1/1/2019	0.00565968	0.017933484	0.009883595	0.007711775	0.006006285	0.046295283	0.025170887	0.045243968	0.048583817	0.008501697										



# Opt. Step 2: Covariance Matrix

## Covariance Matrix

	Covariance Matrix									
	SHY	IGSB	BSV	ICSH	SHV	SPLB	BLV	IGLB	VCLT	TLT
SHY	2.33829E-05	2.73483E-05	3.05131E-05	6.95024E-06	6.65808E-06	9.8582E-05	0.00011069	9.88E-05	9.93579E-05	0.000130356
IGSB	2.73483E-05	7.21956E-05	4.67767E-05	1.69594E-05	7.37646E-06	0.000256844	0.000214452	0.000250266	0.000249282	0.000182419
BSV	3.05131E-05	4.67767E-05	4.52692E-05	1.01901E-05	7.4121E-06	0.000180675	0.000185745	0.000179607	0.000180008	0.000201162
ICSH	6.95024E-06	1.69594E-05	1.01901E-05	8.09992E-06	5.06087E-06	4.61268E-05	3.3441E-05	4.49446E-05	4.37606E-05	2.16443E-05
SHV	6.65808E-06	7.37646E-06	7.4121E-06	5.06087E-06	5.37222E-06	1.76605E-05	1.81876E-05	1.8269E-05	1.83843E-05	1.82692E-05
SPLB	9.8582E-05	0.000256844	0.000180675	4.61268E-05	1.76605E-05	0.0012968	0.001141727	0.001252824	0.001259825	0.001094402
BLV	0.00011069	0.000214452	0.000185745	3.3441E-05	1.81876E-05	0.001141727	0.001167685	0.001126452	0.001132722	0.001253248
IGLB	9.88E-05	0.000250266	0.000179607	4.49446E-05	1.8269E-05	0.001252824	0.001126452	0.001239443	0.001234329	0.001088059
VCLT	9.93579E-05	0.000249282	0.000180008	4.37606E-05	1.83843E-05	0.001259825	0.001132722	0.001234329	0.001257032	0.00109099
TLT	0.000130356	0.000182419	0.000201162	2.16443E-05	1.82692E-05	0.001094402	0.001253248	0.001088059	0.00109099	0.001584081



# Opt. Step 3: Determining E(FFR)

## Expected FFR Calculations

CME FedWatch Tool - Conditional Meeting Probabilities										
Meeting Date	200-225	225-250	250-275	275-300	300-325	325-350	350-375	375-400	400-425	425-450
5/7/2025	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	18.50%	81.50%
6/18/2025	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	13.70%	64.90%	21.50%
7/30/2025	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	7.60%	42.20%	40.70%	9.50%
9/17/2025	0.00%	0.00%	0.00%	0.00%	0.00%	4.70%	29.00%	41.30%	21.40%	3.60%
10/29/2025	0.00%	0.00%	0.00%	0.00%	1.70%	13.50%	33.40%	34.10%	15.00%	2.30%

CME FedWatch Tool Converted - Expected Value Calculations (midpoint method)											Σ(Midpoint <sub>i</sub> x Probability <sub>i</sub> )
Meeting Date	212.5	237.5	262.5	287.5	312.5	337.5	362.5	387.5	412.5	437.5	
5/7/2025	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	76.3125	356.5625	432.8750
6/18/2025	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	53.0875	267.7125	94.0625	414.8625
7/30/2025	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	27.5500	163.5250	167.8875	41.5625	400.5250
9/17/2025	0.0000	0.0000	0.0000	0.0000	0.0000	15.8625	105.1250	160.0375	88.2750	15.7500	385.0500
10/29/2025	0.0000	0.0000	0.0000	0.0000	5.3125	45.5625	121.0750	132.1375	61.8750	10.0625	376.0250

Expected Fed Funds Rate	
Meeting Date	E(FFR)
5/7/2025	4.3288%
6/18/2025	4.1486%
7/30/2025	4.0053%
9/17/2025	3.8505%
10/29/2025	3.7603%

Time-Weighted Average E(FFR) Conversions					
E(FFR)	Initial Meeting	Next Meeting	# of Days in Effect	Annualized Fraction	E(FFR) x Annualized Weight
4.3288%	5/7/2025	6/18/2025	42	0.115068493	0.004981027
4.1486%	6/18/2025	7/30/2025	42	0.115068493	0.00477376
4.0053%	7/30/2025	9/17/2025	49	0.134246575	0.005376911
3.8505%	9/17/2025	10/29/2025	42	0.115068493	0.004430712
3.7603%	10/29/2025	12/10/2025	42	0.115068493	0.004326863

Time-Weighted Average E(FFR)	
Annualized Average	4.0182%
Monthly Average	0.3349% <--- reasonable risk-free rate proxy, per our forecasted assumptions





# Optimization Outcome – (forecasted $r_f$ )

## Optimization Parameters

- $\sum$  LT Fixed Income ETFs:  $\geq 15\%$ ,  $\leq 30\%$
- ICSH Allocation:  $\geq 30\%$ ,  $\leq 60\%$

## Weighted Objective Function:

- $\min f(x): 40\%\sigma^2 - 60\%E(r)$ ,
  - Where  $E(r)$  = Excess Expected Return

## Optimization Allocation:

- 60% ICSH (Ultra Short-Term)
- 10% IGSB (Short-Term)
- 18% SPLB (Long-term)
- 12% VCLT (Long-Term)

Portfolio Optimization Using the the Forecasted  $r_f$

Portfolio Weights Table		$\bar{X}$	ICSH Min	ICSH Max	$\Sigma$ Long-term ETFs (min 15%, max 30%)
ETF	Initial Weight		0.3	0.6	30%
SHY	0%	0.001131			
IGSB	10%	0.001946			
BSV	0%	0.001448			
ICSH	60%	0.001876			
SHV	0%	0.001474			
SPLB	18%	0.002506			
BLV	0%	0.001611			
IGLB	0%	0.002326			
VCLT	12%	0.002494			
TLT	0%	0.000116			
SUM	100%				

Expected Return of Initial Portfolio	
$E(R_p)$	0.002070395

Portfolio Variance	
$\sigma_p^2$	0.00015169

Portfolio Standard Deviation	
$\sigma_p$	0.012316261

Sharpe Ratio		$r_f$
SR	-0.103776608	0.335%

Weighted Objective Function: $(w \times \sigma_p^2) - (1 - w) \times \text{Excess Return}_p$	
Chosen $w$	0.4
Output	0.000828

$\Delta E(R_p)$

+0.000442601682499466

$\Delta \sigma_p^2$

0.000115



# Recommended Action Plan - Purchases

Name	Ticker	Expense Ratio	Current Yield	Beta	% of Total Bond Allocation	Share Price	# of Shares	Allocation Total
iShares Ultra Short-Term Bond ETF	ICSH	0.08%	5.16%	0.54	60%	\$50.66	3,399	\$172,193
iShares 1-5 Year Investment Grade Corporate Bond ETF	IGSB	0.04%	4.04%	0.56	10%	\$52.34	548	\$28,699
SPDR Portfolio Long Term Corporate Bond ETF	SPLB	0.04%	5.04%	0.60	18%	\$22.47	2,249	\$51,658
Vanguard Long-Term Corporate Bond ETF	VCLT	0.03%	5.03%	0.59	12%	\$75.61	455	\$34,439
<b>TOTAL</b>		0.06%	5.01%	0.56	100%	\$48.75	6702	\$286,989



# iShares Ultra Short-Term Bond Active ETF

<b>Ticker</b>	ICSH
<b>Net Assets</b>	5.47B
<b>Expense Ratio</b>	0.08%
<b>YTM</b>	3.4%
<b>Weighted Avg Coupon</b>	4.75
<b>YTD Return</b>	0.83%
<b>One-year Return</b>	5.55%
<b>Three-year Annualized Return</b>	4.36%
<b>Five-year Annualized Return</b>	2.82%
<b>Ten-year Annualized Return</b>	2.28%

- **Maturity:** Weighted average maturity is 0.70 years, meaning most holdings mature in under a year.
- **Duration:** Effective duration is 0.45 years, indicating very low sensitivity to interest rate changes.
- **Credit Quality:** Primarily investment-grade, with ~38% AAA, 30% AA, and 53% A-rated bonds.
- **Sector Allocation:** Concentrated in Commercial Paper (31.6%), Finance (18.3%), CDs (16.5%), and Industrial (14.4%).



# iShares 1-5 Year Investment Grade Corporate Bond ETF

<b>Ticker</b>	IGSB
<b>Net Assets</b>	21.7B
<b>Expense Ratio</b>	0.04%
<b>YTM</b>	4.76
<b>Weighted Avg Coupon</b>	4.14
<b>YTD Return</b>	1.61%
<b>One-year Return</b>	6.76%
<b>Three-year Annualized Return</b>	3.01%
<b>Five-year Annualized Return</b>	2.01%
<b>Ten-year Annualized Return</b>	2.34%

- **Maturity:** Weighted average maturity of 2.90 years, indicating a focus on short-term bonds.
- **Duration:** Effective duration of 2.60 years, suggesting moderate sensitivity to interest rate changes.
- **Credit Quality:** Predominantly investment-grade, with approximately 1.0% AAA, 8.8% AA, 46.4% A, and 43.6% BBB rated bonds.
- **Sector Allocation:** Primarily invested in corporate bonds (98.99%), with minimal exposure to cash equivalents (0.51%) and government-related securities (0.21%).



# SPDR Portfolio Long Term Corporate Bond ETF

<b>Ticker</b>	SPLB
<b>Net Assets</b>	1.19B
<b>Expense Ratio</b>	0.04%
<b>YTM</b>	5.82%
<b>Weighted Avg Coupon</b>	4.83
<b>YTD Return</b>	3.77%
<b>One-year Return</b>	5.70%
<b>Three-year Annualized Return</b>	-2.70%
<b>Five-year Annualized Return</b>	-2.38%
<b>Ten-year Annualized Return</b>	2.17%

- **Maturity:** Holds U.S. corporate bonds with maturities of 10+ years.
- **Duration:** 12.55 years (option-adjusted), indicating high interest rate sensitivity.
- **Credit Quality:** Mostly investment-grade: 44.6% A, 44.6% BBB, 9.0% AA, 2.2% AAA.
- **Sector Allocation:** 68.6% Industrial, 17.2% Finance, 14.0% Utility.





# Vanguard Long-term Corporate Bond ETF

<b>Ticker</b>	VCLT
<b>Net Assets</b>	15.52B
<b>Expense Ratio</b>	0.03%
<b>YTM</b>	5.6%
<b>Weighted Avg Coupon</b>	4.70
<b>YTD Return</b>	3.86%
<b>One-year Return</b>	5.57%
<b>Three-year Annualized Return</b>	-2.82%
<b>Five-year Annualized Return</b>	-2.28%
<b>Ten-year Annualized Return</b>	2.23%

- **Maturity:** Primarily holds bonds with maturities of 20 years or more, Average effective maturity of 22.3 years.
- **Duration:** Average duration of 12.5 years, indicating high sensitivity to interest rate changes.
- **Credit Quality:** Invests in high-quality U.S. corporate bonds.
- **Holdings Concentration:** Concentrated in industrials (69.5%), financial services companies (17.3%), and utilities (11.8%).



# 10+ Year Chart



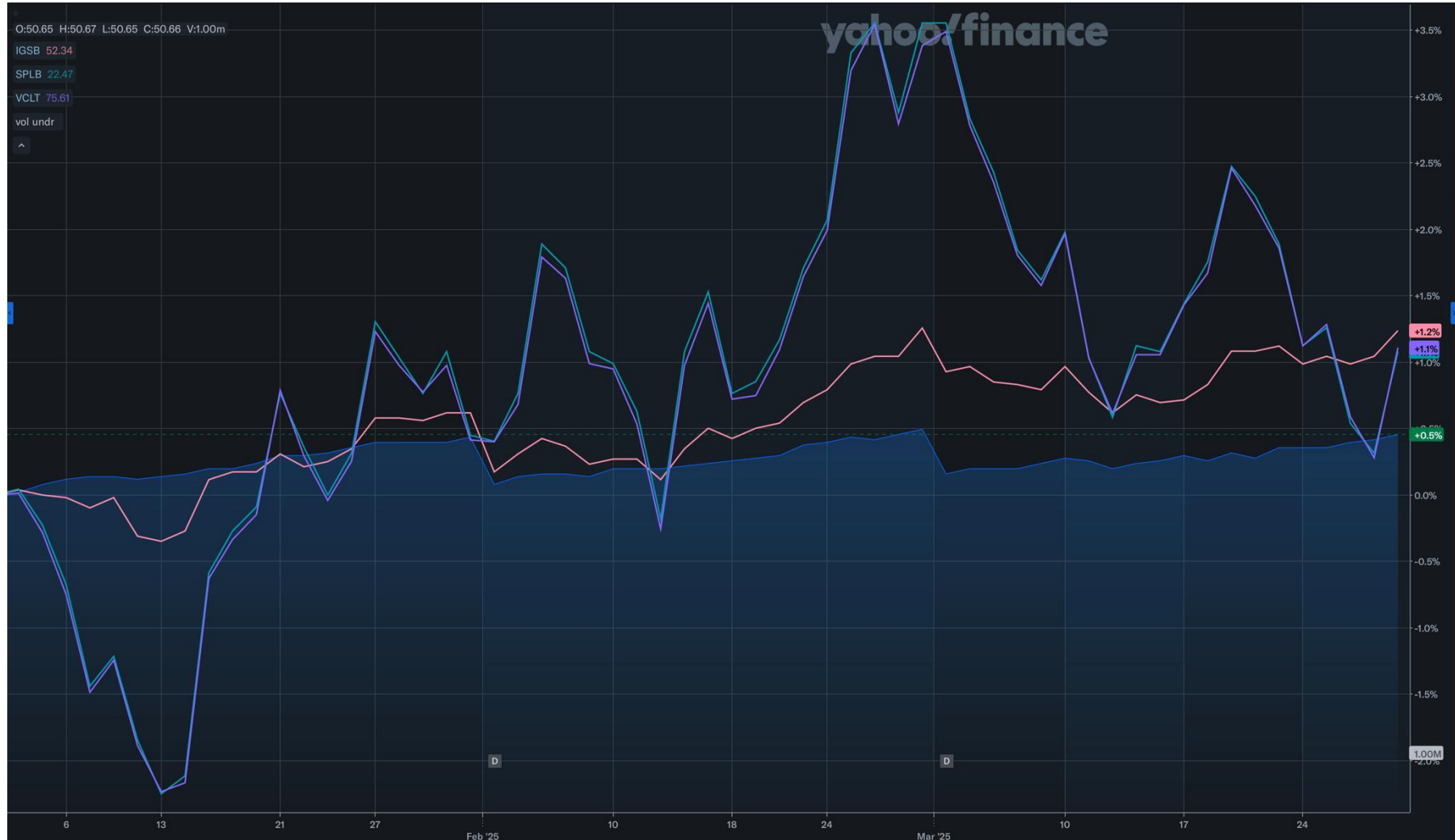
# 5 Year Chart



# 1 Year Chart

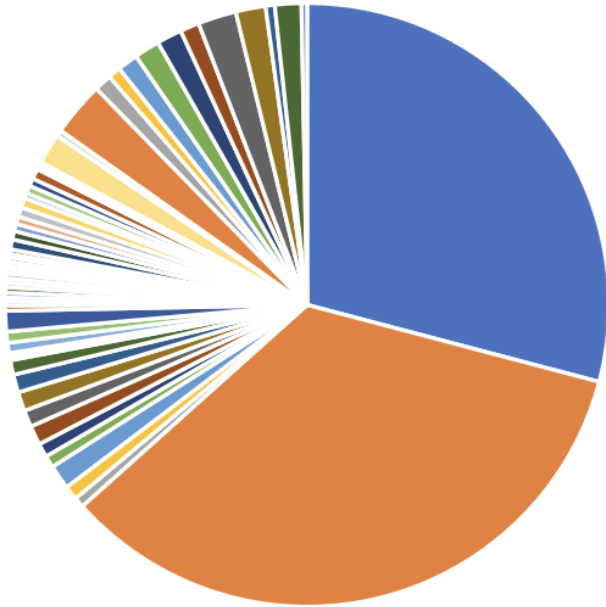


# YTD Chart

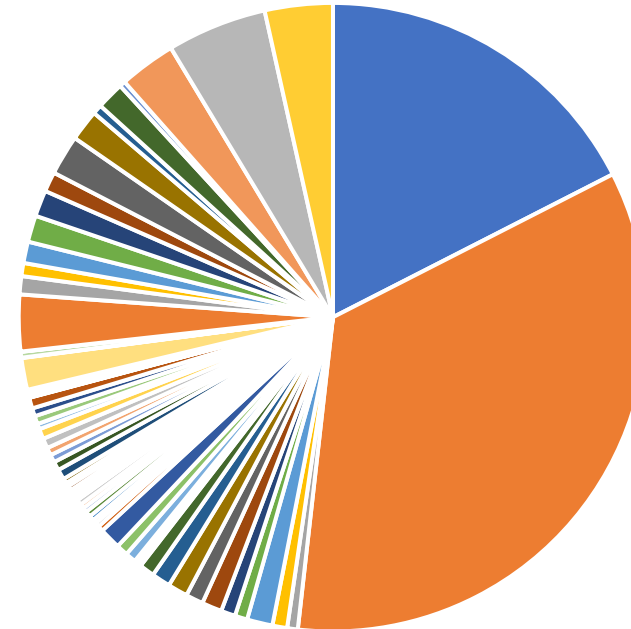


# Effect on the Portfolio

Portfolio Weights Before



Portfolio Weights After



Portfolio	Exp. Return	St. Dev	Beta	Sharpe	Idio. Risk
Existing	17.53%	7.37%	0.73	1.80	3.47%
Adjusted	18.67%	8.02%	0.80	1.79	3.73%





# Summary & Recommendation

## Strategy Merits



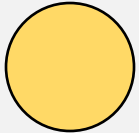
- **Performance**

The expected return is estimated to increase by over 1%, excluding any speculative upside from potential price appreciation.



- **Risk**

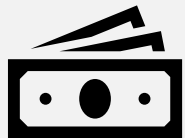
Risk remains low; the fixed income allocation is unchanged, with only the composition adjusted.



- **Effects on Portfolio**

Considerable upside potential with minimal downside risk.

## Action Plan



- **Recommendation: Yes**

Sell approximately \$115K of ICSH to purchase IGSB, SPLB, and VCLT.



# Appendix





# Sources

- **CMEGroup.** "CME FedWatch Tool."
- **E\*TRADE.** "Bond Market Outlook 2025."
- **Morgan Stanley.** "Is 2025 the Year of the Bond?"
- **U.S. Bank.** "How Changing Interest Rates Affect Bonds."
- **BlackRock.** "Seeking a More Resilient Portfolio."
- **iShares by BlackRock.** "Bond Duration 101: A Guide for Investors."
- **Yahoo Finance**
- **Bloomberg**
- **Federal Reserve Bank of Atlanta**
- **Morgan Stanley:** Outlook 2025: The Case for Portfolio Diversification

