

**GARCIA HAMILTON & ASSOCIATES**

**Front-End Focus:  
Opportunities in  
Short Duration**

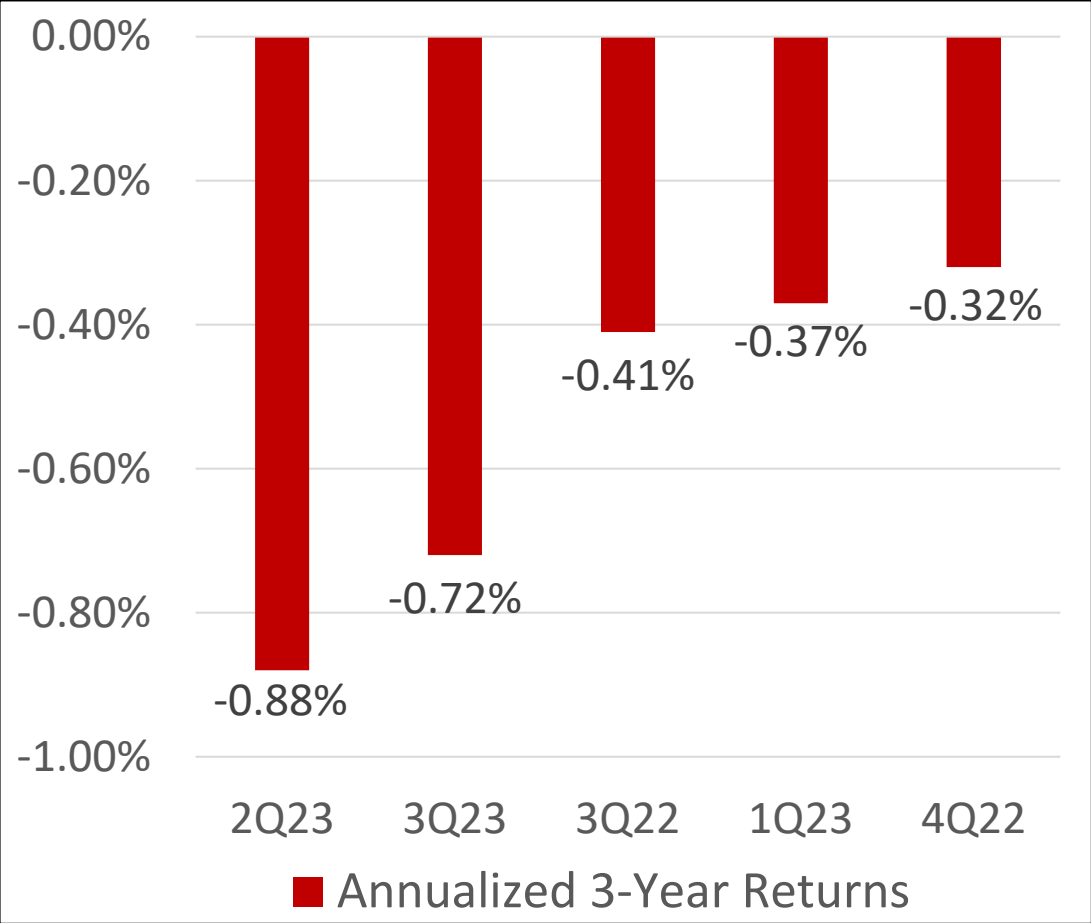
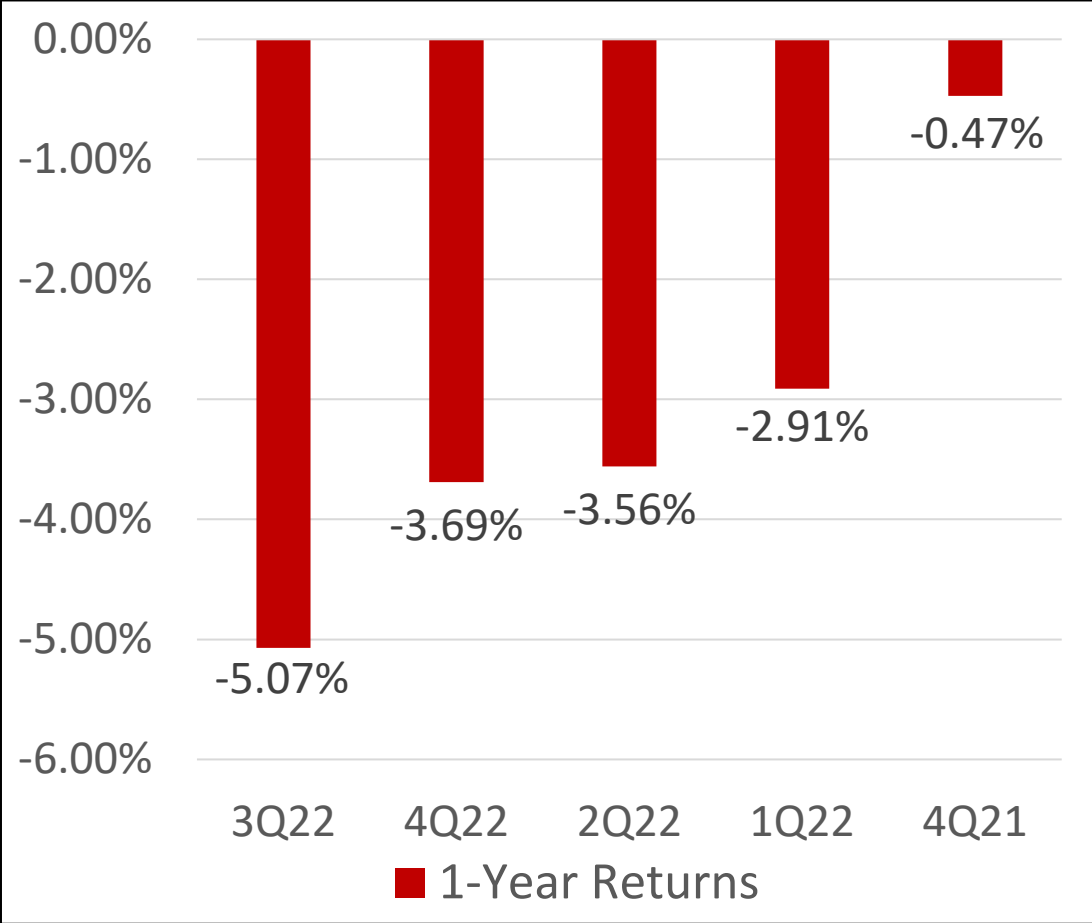
*Presented by:*

**Jeffrey D. Detwiler, CFA, AAMS**

*Partner, Portfolio Manager*

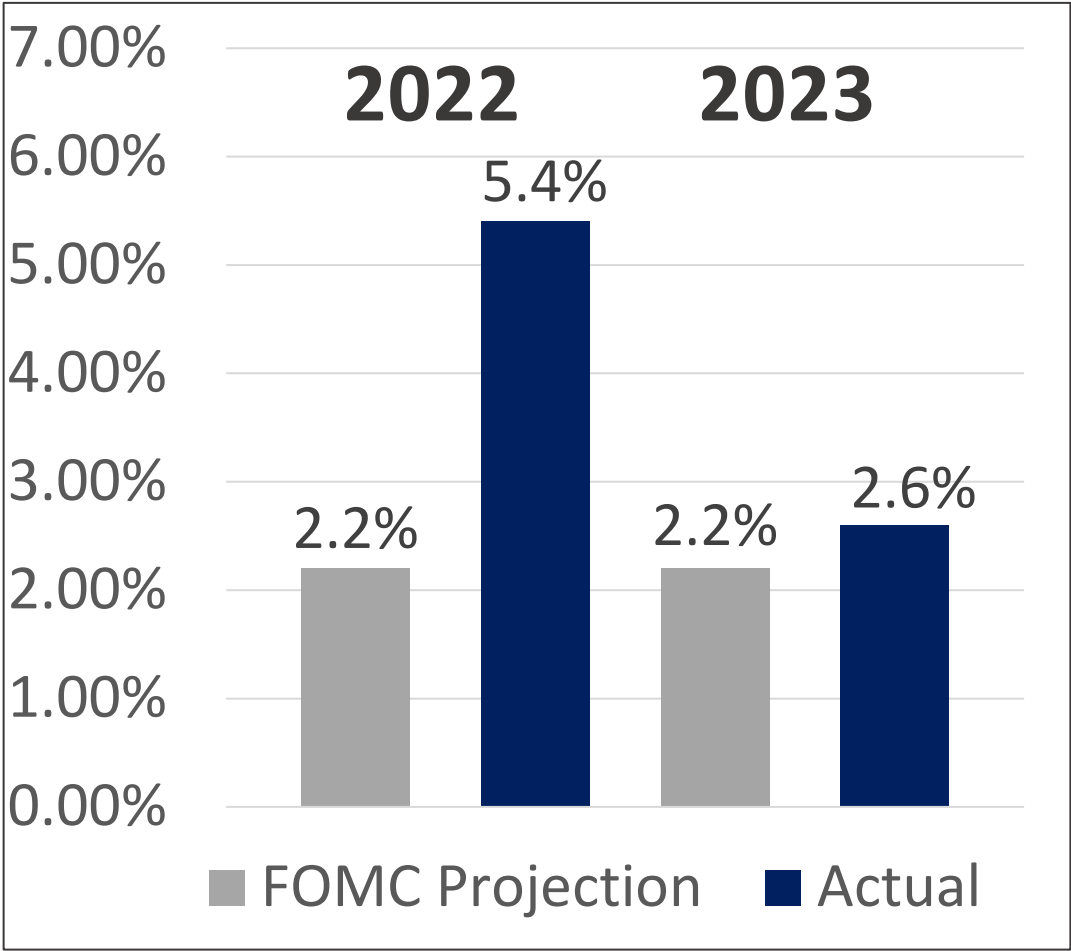
# Worst Short Duration Returns in History

## Lowest Short Duration Returns Have Occurred in Recent Years

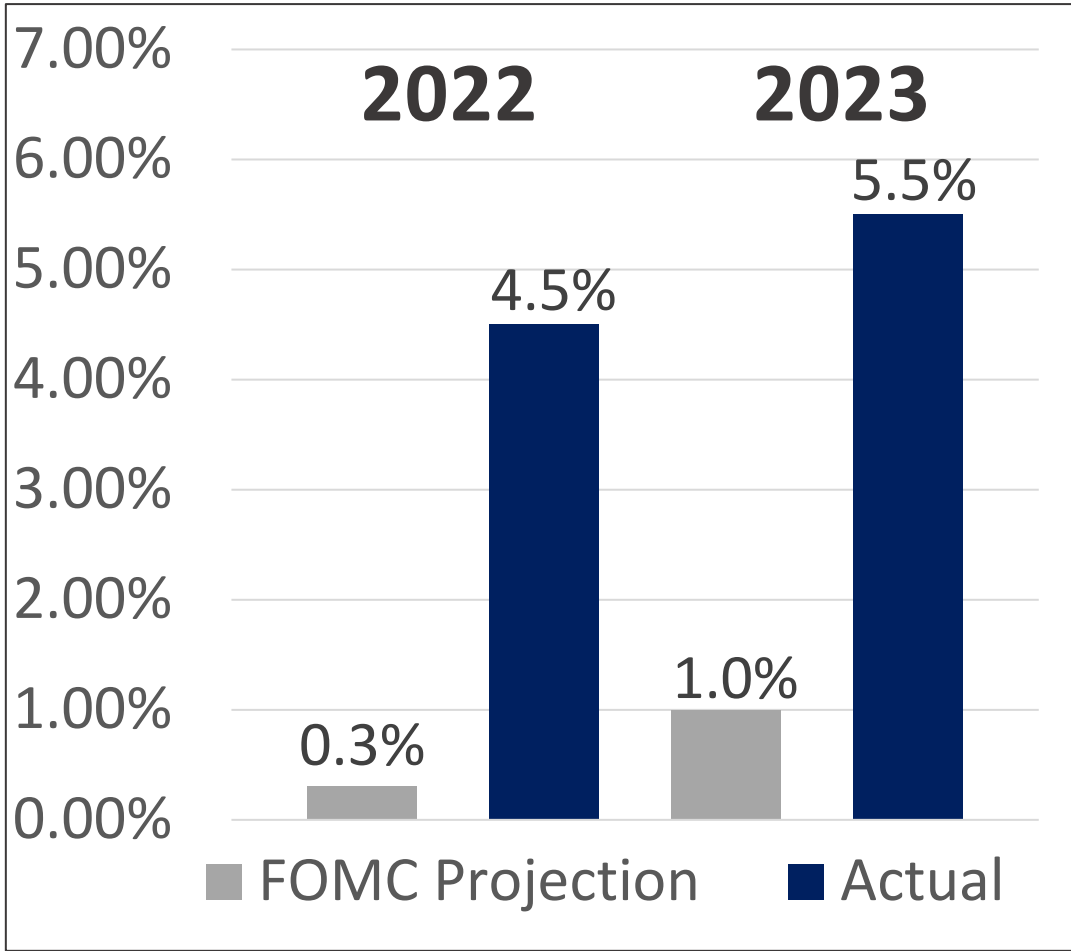


# Fed's Subpar Track Record

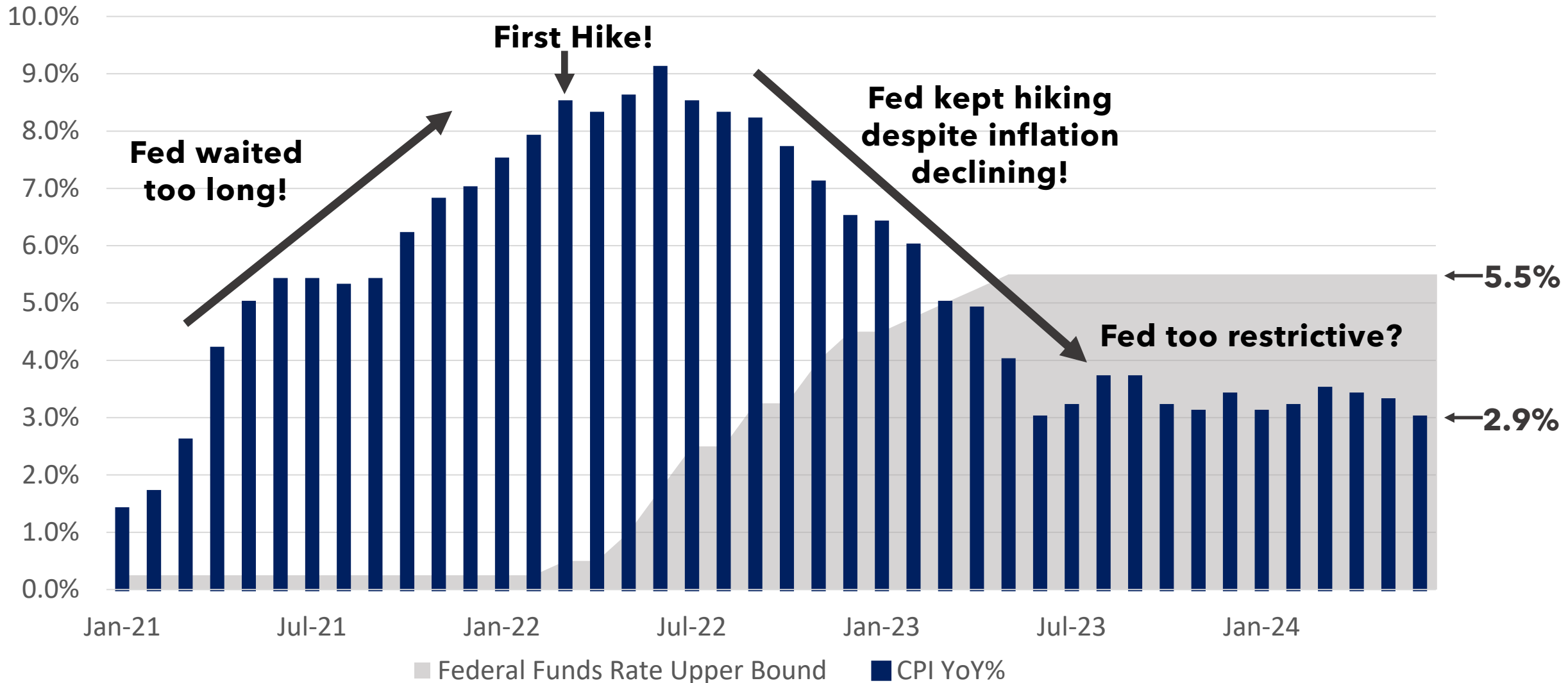
## Inflation



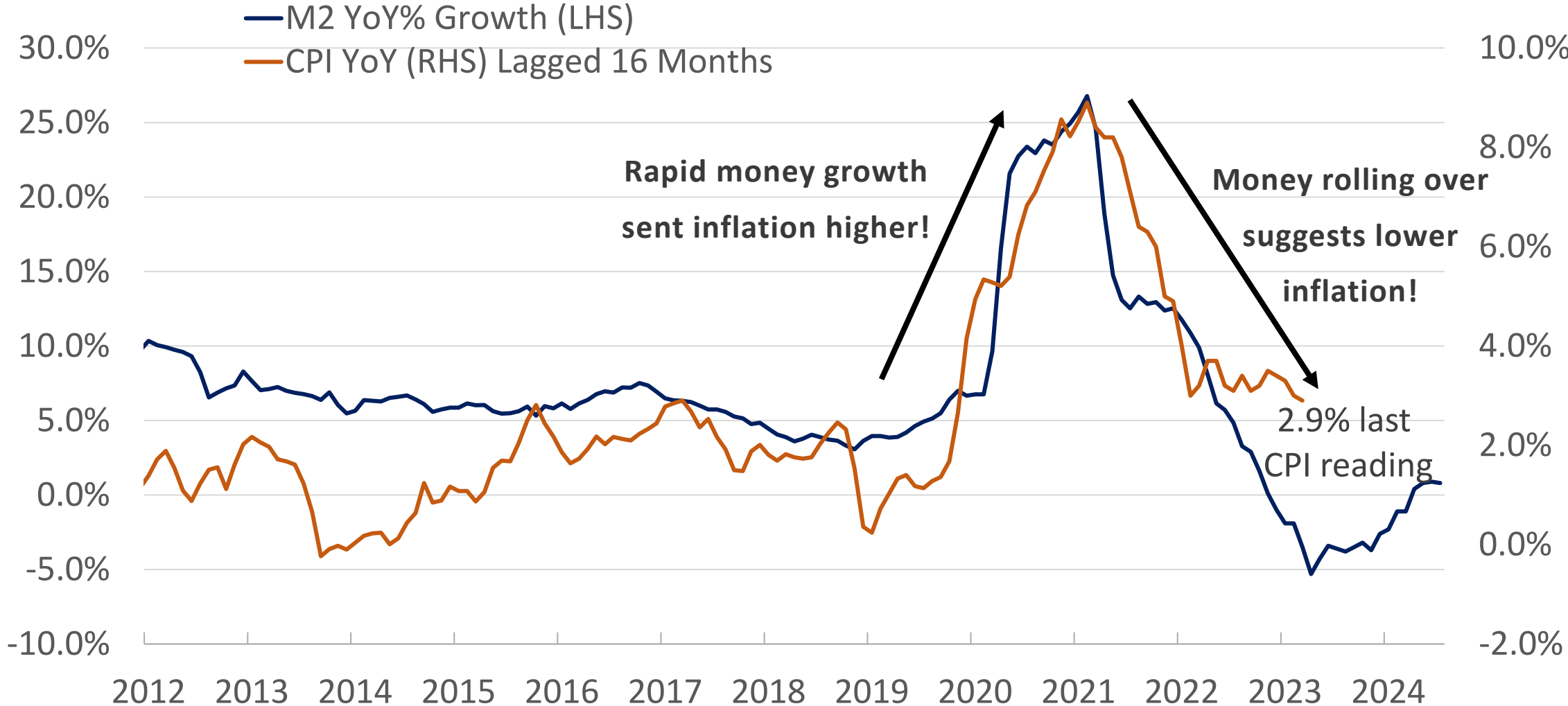
## Fed Funds Rate



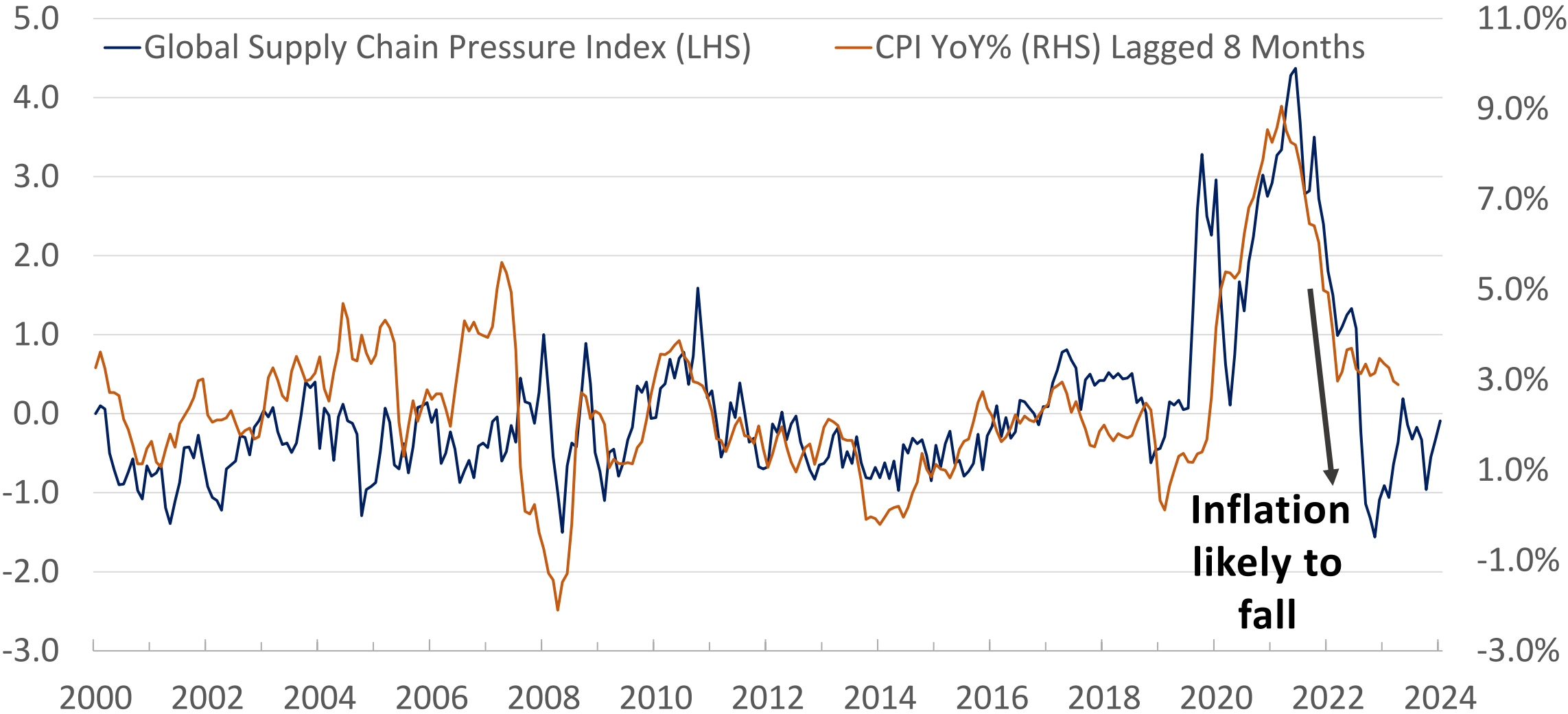
# Fed Late in Tightening/Late in Easing?



# Causes of Inflation: Money Growth



# Causes of Inflation: Supply Chains

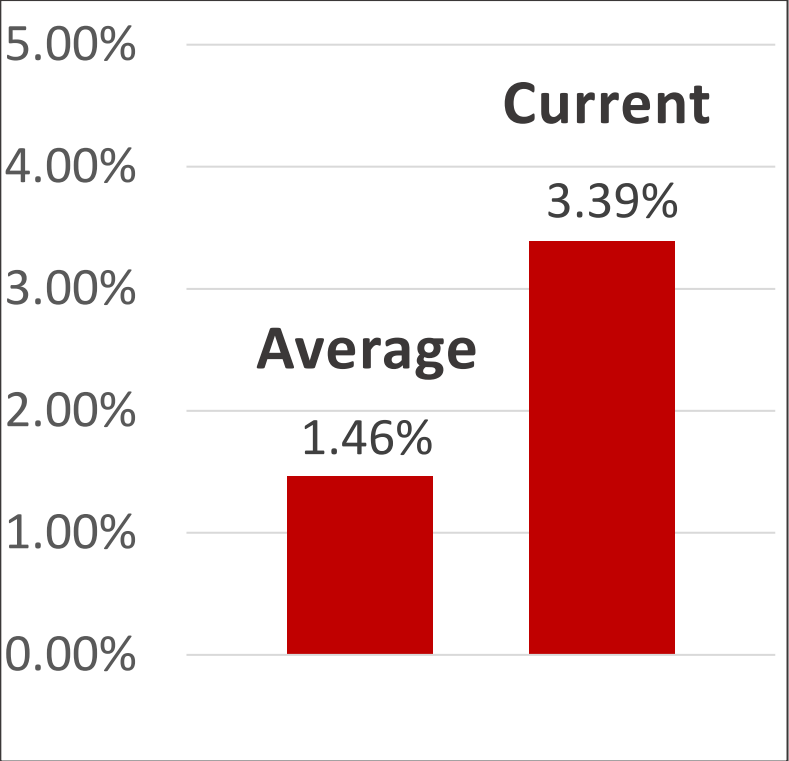


**Inflation  
likely to  
fall**

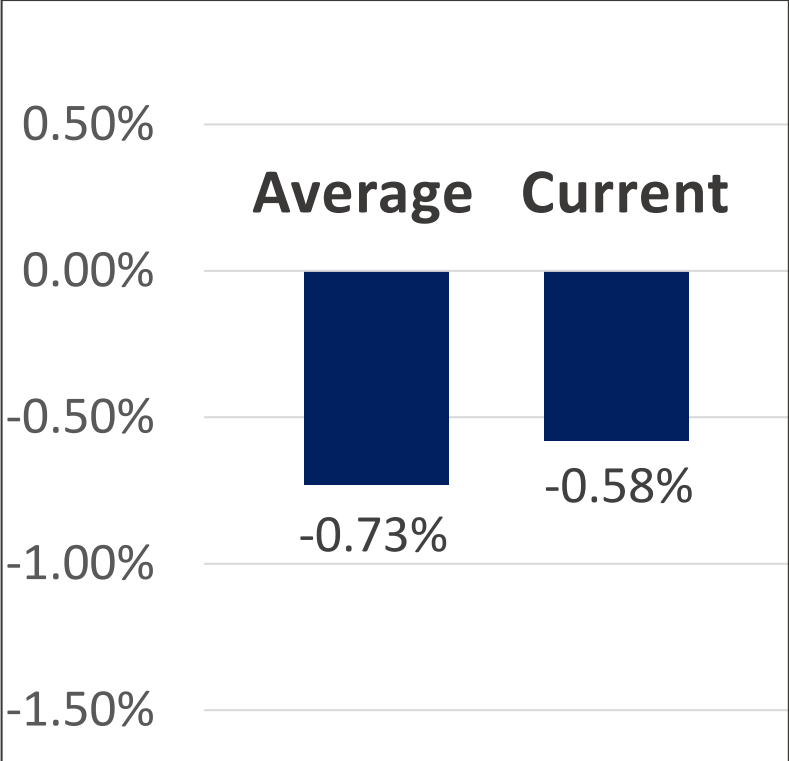
# What Comes Next?

## Yield Changes for 2-Year Treasury

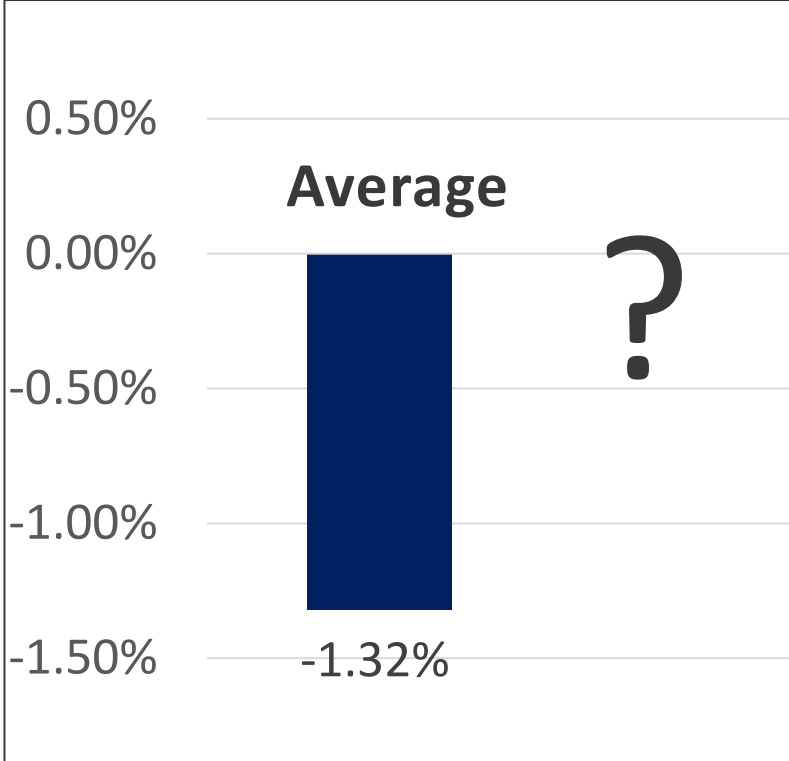
### Tightening Cycles



### Pause Periods



### Easing Cycles



Data represents 12 tightening periods (1984 to 2023); Pause after tightening covers the last 7 pauses after Fed tightening (Mar 22 to June 24); Easing cycle covers last 15 Fed easing cycles

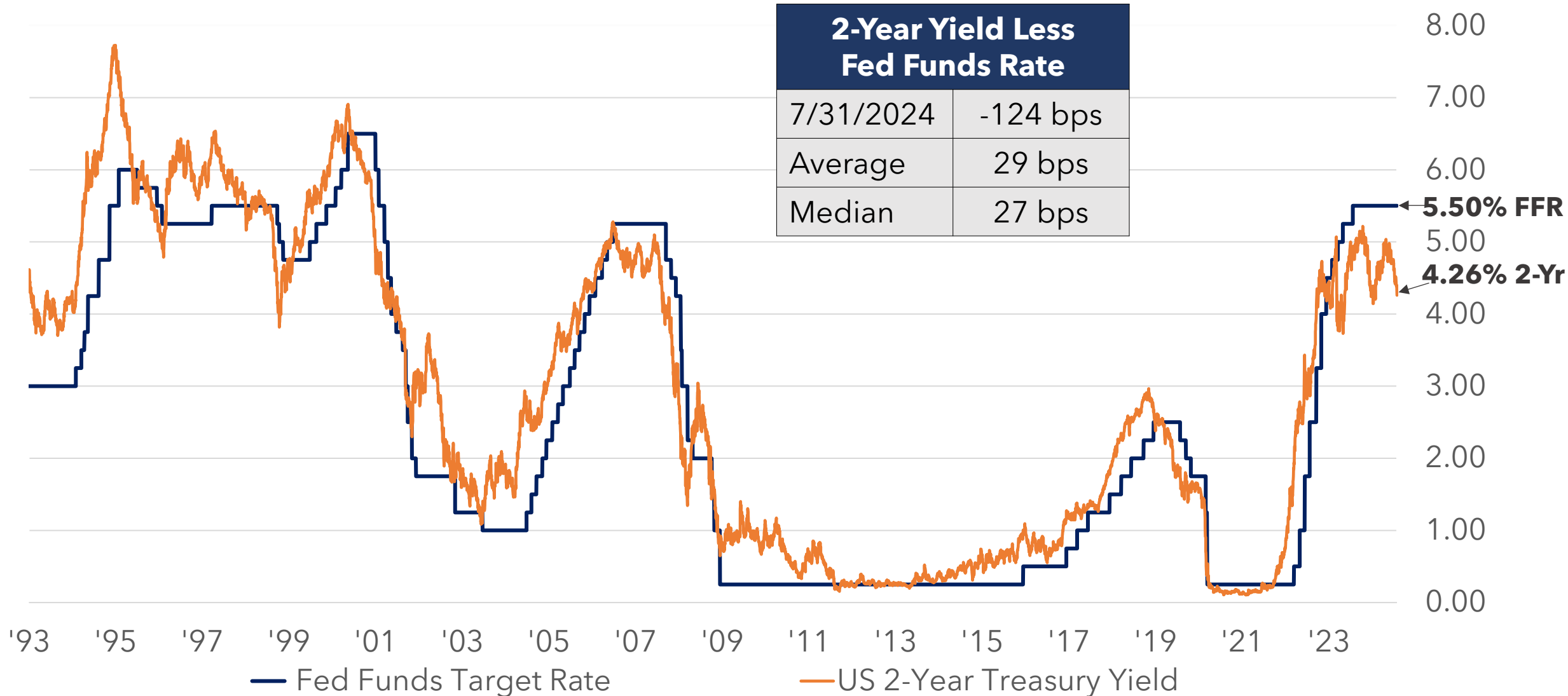
# Market Projection for Next 12 Months

**Lower Inflation ➡ More Cuts Expected ➡ Lower Yields**

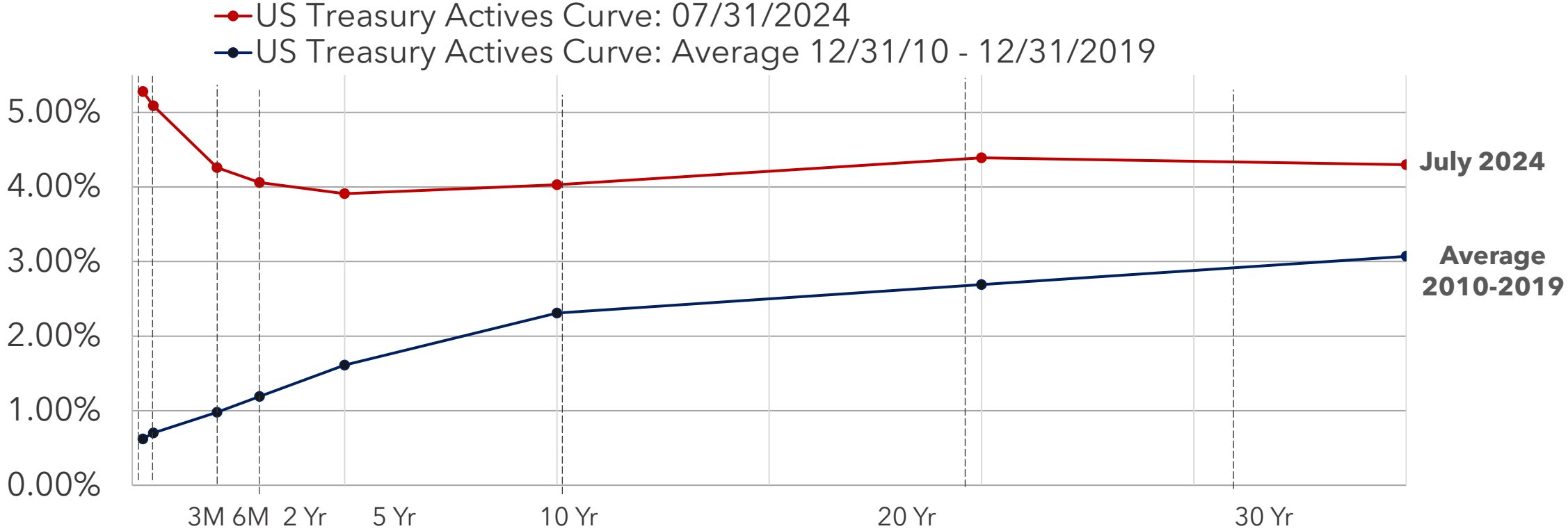
<b>2024 Meetings</b>	<b>May 01</b>	<b>June 12</b>	<b>July 31</b>
<b>CPI YoY%</b>	3.27%	2.97%	2.89%
<b>Projected Cuts</b>	2	4	6
<b>2-Year Treasury</b>	4.96%	4.75%	4.26%



# Market Leads the Fed

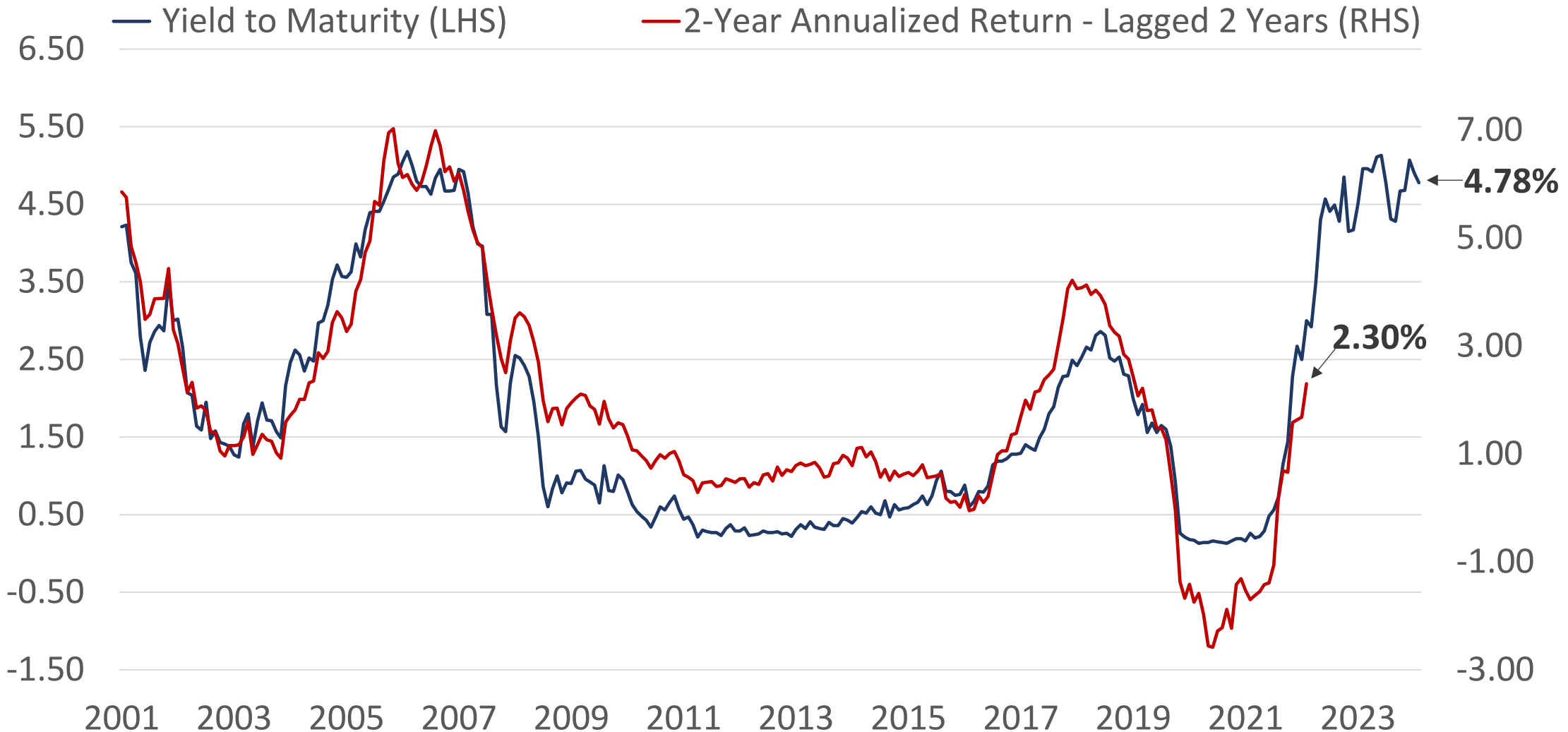


# Inverted Yield Curve Presents Opportunity



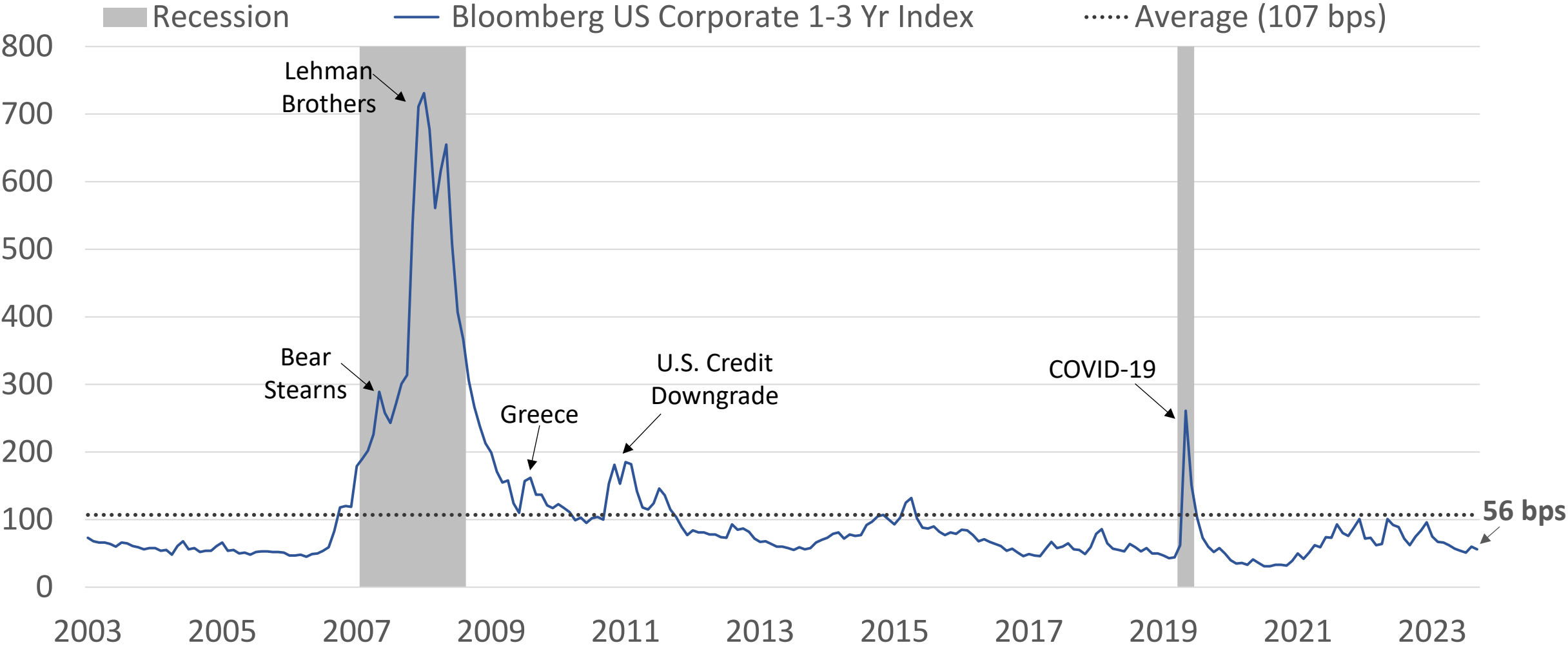
	Average 2010-2019	July 2024	Difference
3 Month	0.62%	5.28%	+4.66%
2 Year	0.98%	4.26%	+3.28%
5 Year	1.61%	3.91%	+2.30%
10 Year	2.31%	4.03%	+1.72%
30 Year	3.07%	4.30%	+1.23%
3 Month - 2 Year	0.36%	-1.02%	-1.38%

# Yields Lead Returns



Index Shown: Bloomberg US 1-3 Year Treasury Index  
As of June 30, 2024 | Bloomberg

# Little Compensation for Credit Risk



# Mortgage-Backed Securities Represent Tremendous Value

FR SB0837 Mtge												Actions		Export		Settings		Yield Table			
100% FNCI 3 S			3.503(76)97			CUSIP 3132CW4W1			Pool Level		As of 07/2024										
7/24	11.5C					Coupon		3.0%		Maturity		02/01/34		CA	15%	2016	37%				
3Mo	11.5													TX	8%	2015	22%				
6Mo	10.5													IL	5%	2017	22%				
12Mo	10.2													FL	5%	2014	8%				
Life	10.5																				
D) Price-to-Yield																					
Settle	07/11/24		CF	CF	CF	CF	CF	CF	CF	CF	CF	CF	CF	CF	CF	CF	CF				
Vary	0	0 CPR	10 CPR	15 CPR	20 CPR	25 CPR	30 CPR	40 CPR										Speeds			
Price	95-04+	4.58	4.95	5.16	5.39	5.64	5.92	6.54										Yields			
Avg Life		3.36	2.71	2.44	2.19	1.98	1.79	1.46													
Mod Duration		3.03	2.44	2.19	1.98	1.78	1.61	1.32													
Prin Win	Date	8/24-5/33	8/24-4/33	8/24-3/33	8/24-1/33	8/24-1/33	8/24-1/33	8/24-1/33													
I Spread		20	48	63	81	101	122	173										Spreads			
Jul24	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	GOVT(I)	6M	1Y	2Y	3Y	5Y	7Y	10Y	30Y	
192P	185	196	174	155	143	163	139	160	158	188	190	8:32	5.29	5.01	4.63	4.41	4.24	4.24	4.29	4.47	
11.5C	11.1	11.8	10.4	9.3	8.6	9.8	8.4	9.6	9.5	11.3	11.4	Disc	30/360	3Y	100-18	5Y	100-00				

Huge upside potential if rates decline and prepayments accelerate