



# Examining Rate Cycles & their Impact on Interest Income and Investment Strategy

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# Today's Topics

1. **Market Color**
2. **Rates & Easing Cycles**
3. **Potential Impact on CU's**
4. **Strategic Focus**
5. **What to Avoid**

# Section 1

## MARKET COLOR

# US Treasury Yields

Friday, October 10<sup>th</sup>

Ticker	Time	CURR YLD	Net	SPRD to 10YR	DAY LOW	DAY HIGH	YTD LOW	YTD HIGH	YTD CHNG
. In									
USGG1M	15:00	↓4.08	--	+.03bps	4.06	4.09	4.03	5.40	-.19
USGG3M	15:00	↓3.94	-.01	-.11bps	3.93	3.95	3.91	5.41	-.37
USGG12M	15:00	↓3.59	-.06	-.46bps	3.59	3.65	3.58	5.24	-.54
USGG2YR	15:00	↑3.52	-.07	-.53bps	3.51	3.59	3.49	5.04	-.71
USGG3YR	15:00	↓3.53	-.08	-.52bps	3.52	3.61	3.41	4.88	-.73
USGG5YR	15:00	↓3.65	-.09	-.40bps	3.64	3.73	3.40	4.72	-.73
USGG7YR	15:00	↑3.83	-.09	-.22bps	3.83	3.92	3.50	4.73	-.64
USGG10YR	15:00	↑4.05	-.09	NA	4.06	4.14	3.62	4.79	-.50
USGG30YR	15:00	↓4.63	-.09	+.58bps	4.64	4.72	3.93	5.09	-.13

Agencies				Fixed Income Trading			
15:01	Outright	Switch	Bfly				
OTR	Shorts	2-30yr	Sub	MTN	Callables	Supras	
2yr				10yr			
31) T 3½ 927	99-30¼	99-30¾	3.529 - 3.526	41) T 4¼ 835	101-17+ / 101-18	4.057 - 4.055	
32) FNMA 2½ 426	/		-	42) FHLMC 6¼ 732	5.50 / -0.61	3.890 - 3.829	
3yr				43) FHLMC 5½ 736	25.99 / 20.38	4.316 - 4.260	
33) T 3½ 028	99-28¾	99-29	3.536 - 3.533	44) FNMA 5½ 737	35.04 / 27.22	4.407 - 4.328	
34) FNMA 0½ N25	/		-	45) T 4¾ 845	103-16+ / 103-17+	4.602 - 4.600	
35) FNMA 2½ 426	/		-	46) FNMA 6.21 838	/	-	
36) FNMA 1¾ 926	11.55 / 5.65		3.714 - 3.655	30yr			
5yr				47) T 4¾ 855	101-26 / 101-26+	4.637 - 4.636	
37) T 3½ 930	99-28 / 99-28¼		3.653 - 3.651				
38) FNMA 0¾ 027	3.92 / -3.07		3.567 - 3.497				
39) FHLMC 3¾ N28	1.99 / -5.99		3.554 - 3.475				
40) FNMA 0¾ 830	2.66 / -1.99		3.678 - 3.632				

# US Agency Bullet Yields

# Historical Look at the 10 YR UST Yield & the FED Funds Rate (*upper bound*)



Source: Bloomberg

# Technical Analysis

## Fibonacci Retracement

# Fibonacci Retracement

Fibonacci retracement is a **Technical Analysis** technique used to identify potential levels of support and resistance in a market trend.

It is based on the idea that markets will often retrace a predictable *percentage* of a move.

# Technical Analysis

## Fibonacci Retracement 10YR UST



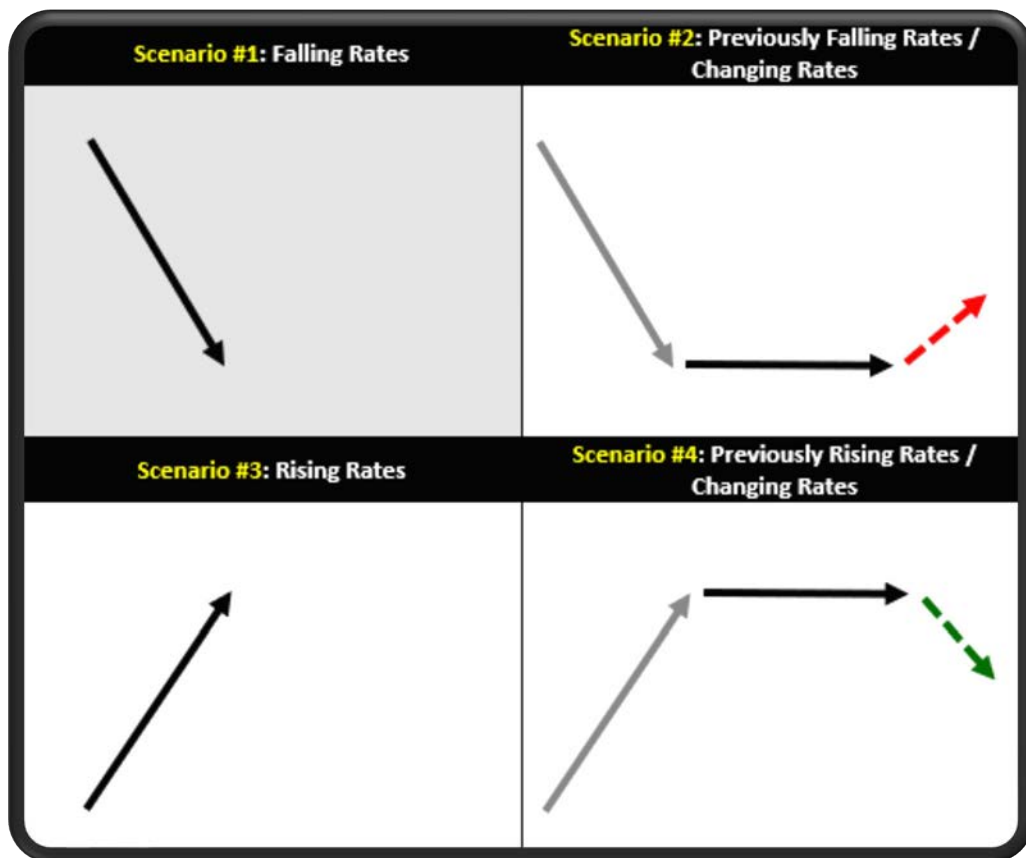
Source: Bloomberg



## Part 2

# RATES & EASING CYCLES

# Interest-Rate Perspective



For Illustrative Purposes

# FED Tightening Cycle

MAR 2022 – JUL 2023



Source: Bloomberg

# Current FED Cycle



Source: Bloomberg

# The FED's Mandate

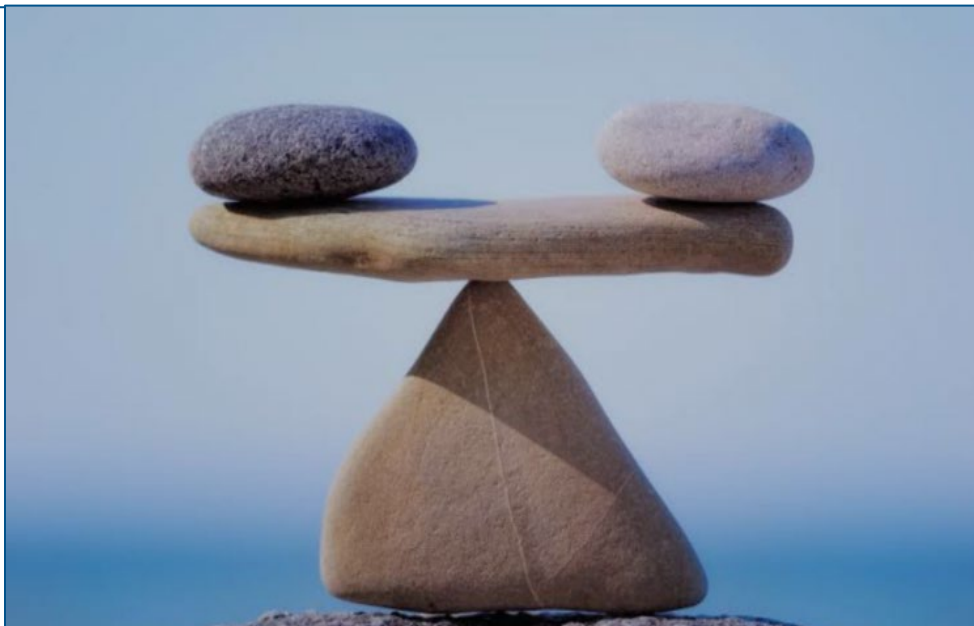
**The FED has two jobs:**

- Keep prices under control | *manage Inflation*
- Keep the labor market strong | *minimize Unemployment*

## **Dovish**

### ***Rates Down***

- Job market shows more weakness
- Unemployment continues to move higher
- Inflation remains manageable



## **Hawkish**

### ***Rates Up/Same***

- Inflation surprise to the upside
- Surprising uptick in economic strength

Job market weakness **AND** Rising Inflation  
**STAGFLATION**

# Where could Fed Funds go from here...

*The Potential Path of Rates*

## Three Fed Fund Indicators to watch:

1. The Fed Dot Plot
2. Current 2-Year UST Yield
3. World Interest Rate Probability

# The DOTS





# The DOTS

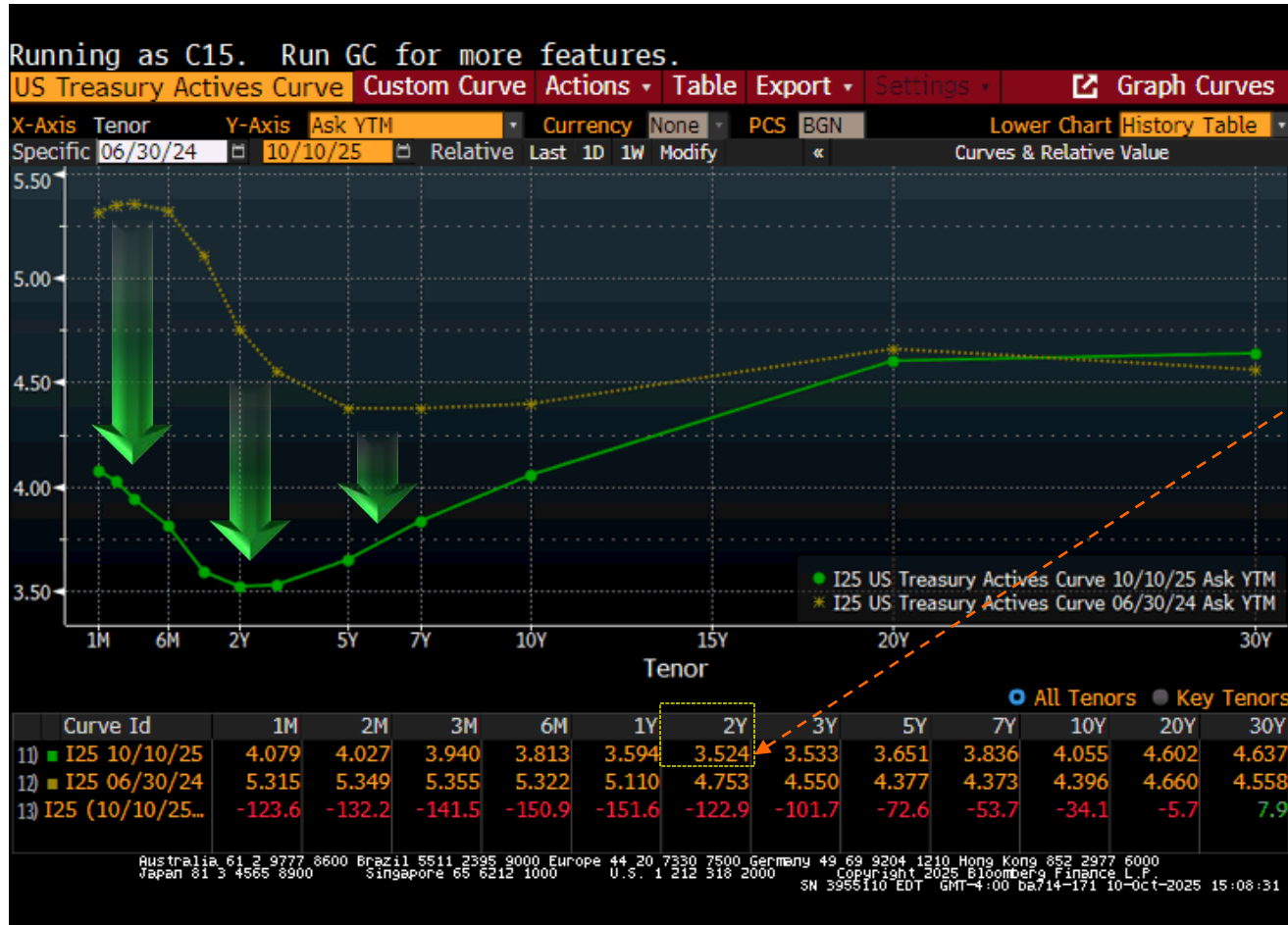
- Federal Reserve officials lowered their benchmark interest rate by a quarter percentage point and penciled in two more reductions this year.
- Policymakers pointed to growing signs of weakness in the labor market to justify their first rate cut since December, but also acknowledged that inflation has “moved up and remains somewhat elevated.”
- The Federal Open Market Committee voted 11-1 to cut the target range for the federal funds rate to 4%-4.25%, with one official voting against the decision in favor of a larger cut.

to 4%-4.25% with one official voting against the decision in favor of a larger cut.

• The Federal Open Market Committee voted 11-1 to cut the target range for the federal funds rate

# US Treasury Yield Curve

The **2YR UST** is highly sensitive to FED Monetary Policy. It can be thought of as the market's consensus *forecast* of the average FED funds rate over the next couple of years.



**2 Year US Treasury  
Yield:  
3.524%**

**Current FED Funds  
Effective Rate = 4.10%**

*~55 Bps lower*

Source: Bloomberg

# Bloomberg Interest Rate Probability (WIRP)

**DEC 2025:**

**~1x 25 BP Cuts**

**-25 Bps**

**Implied O/N Rate**

**3.62%**

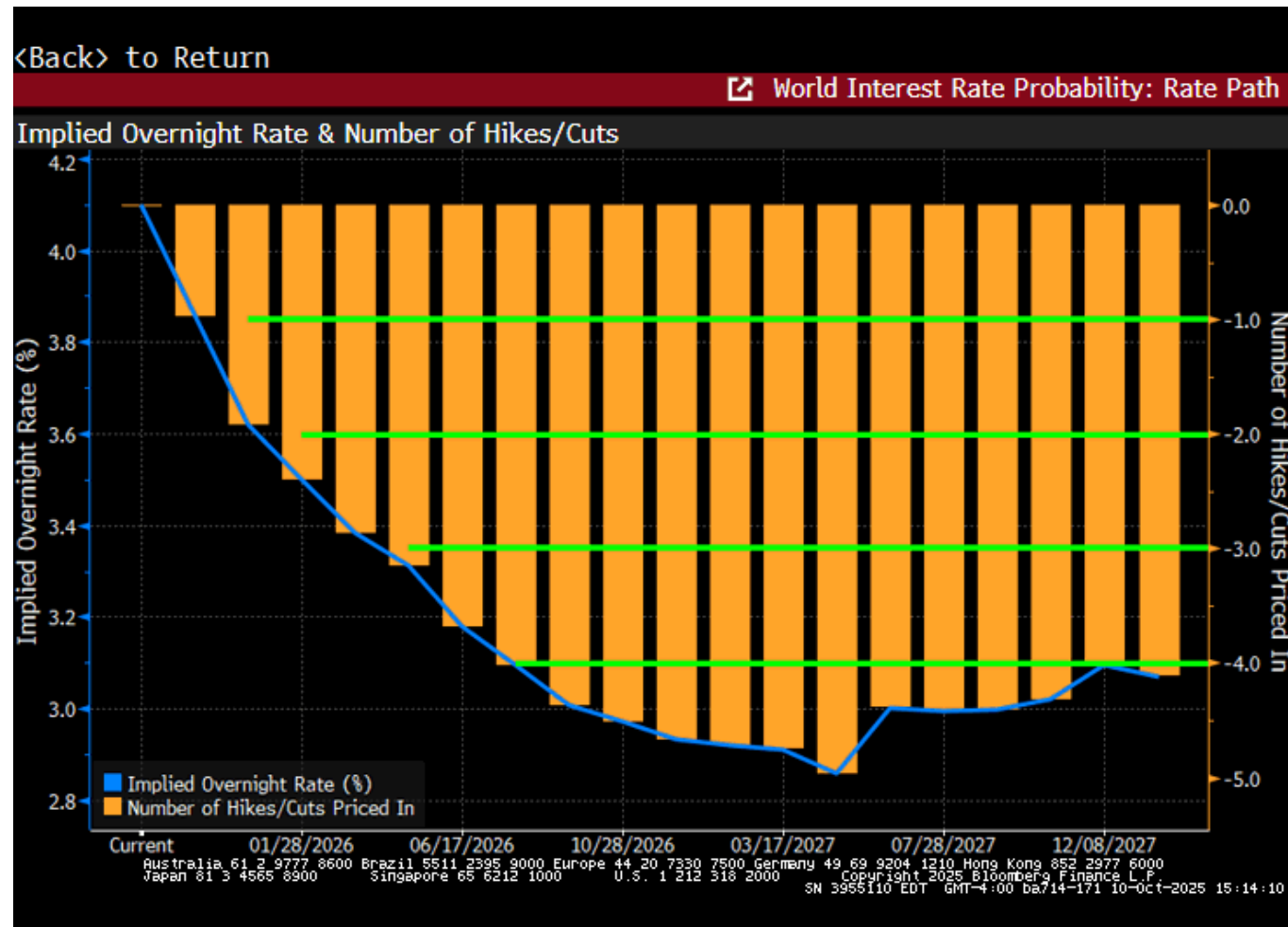
**DEC 2026:**

**~4x 25 BP Cuts**

**-100 Bps**

**Implied O/N Rate**

**2.93%**



Source: Bloomberg

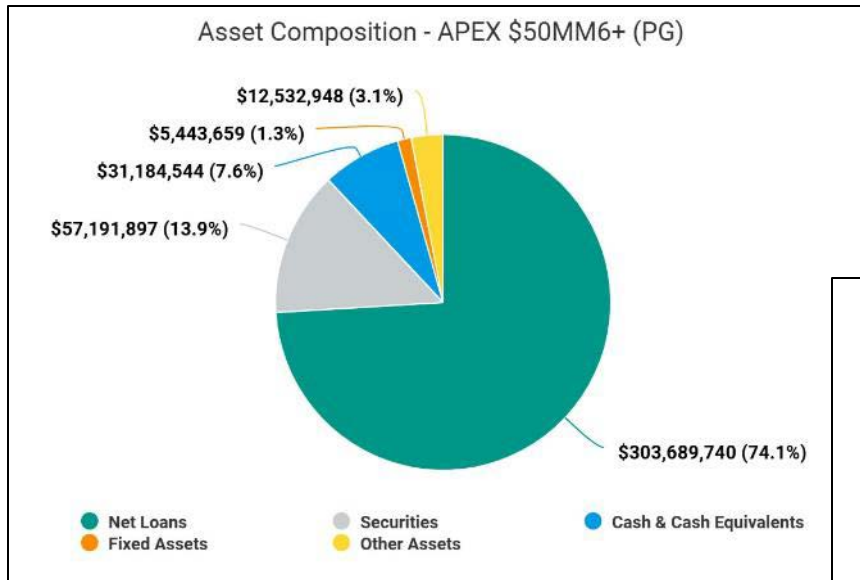
Current Implied Rate = 4.097%

# Part 3

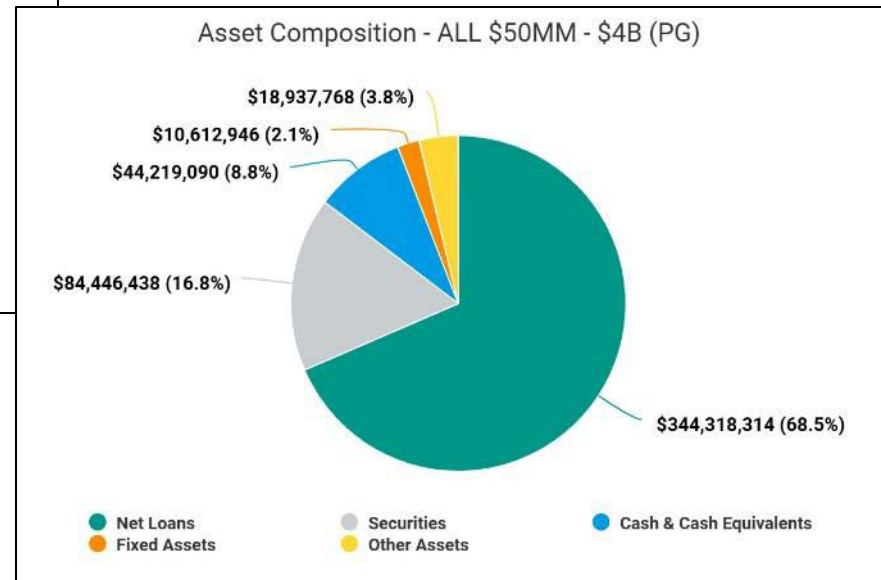
## IMPACT ON CU'S

**So, what might happen if the FED  
continues the Easing Cycle?**

# Asset Composition



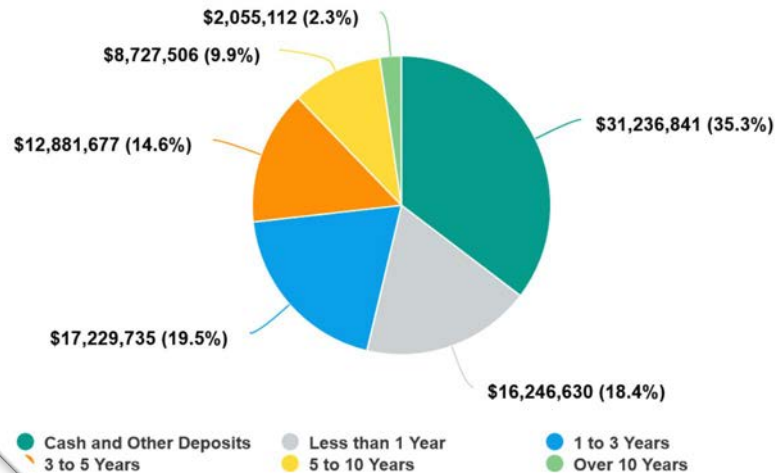
Source: Callahan & Associates  
For Illustrative Purposes Only



# Investment Portfolio Maturities

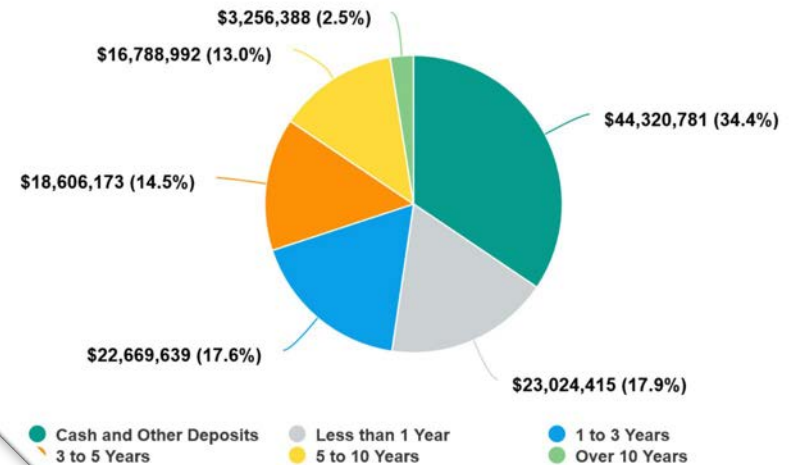
Cash + < 1YR = 53.7%

Investment Maturities Distribution - APEX \$50MM6+ (PG)



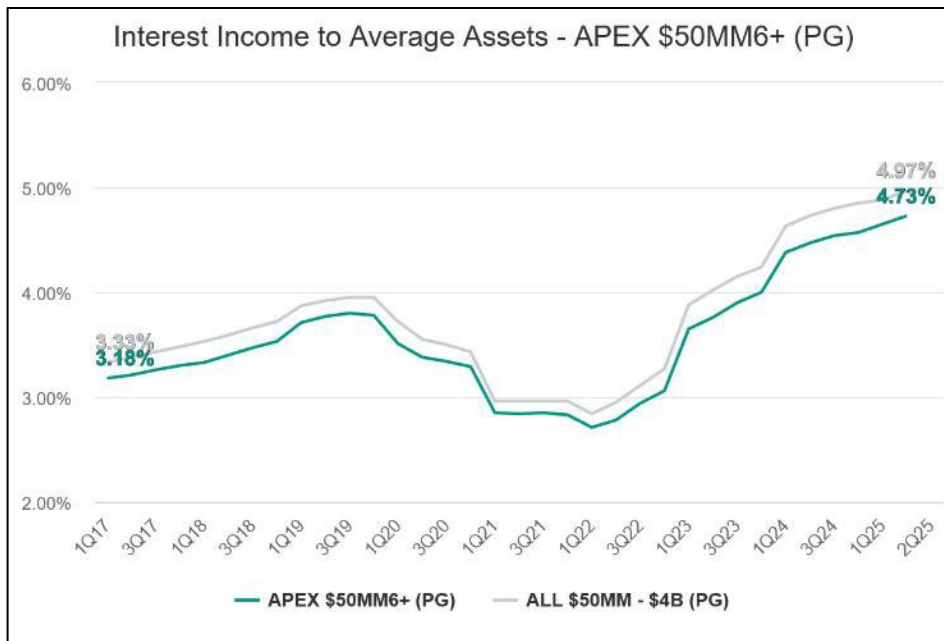
Source: Callahan & Associates  
For Illustrative Purposes Only

Investment Maturities Distribution - ALL \$50MM - \$4B (PG)

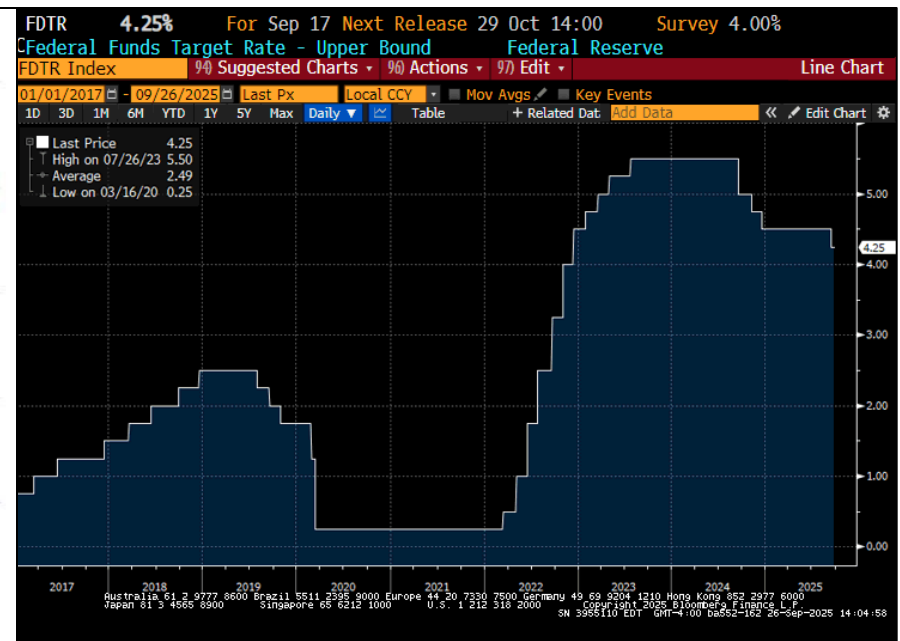


Cash + < 1YR = 52.3%

# Interest Income



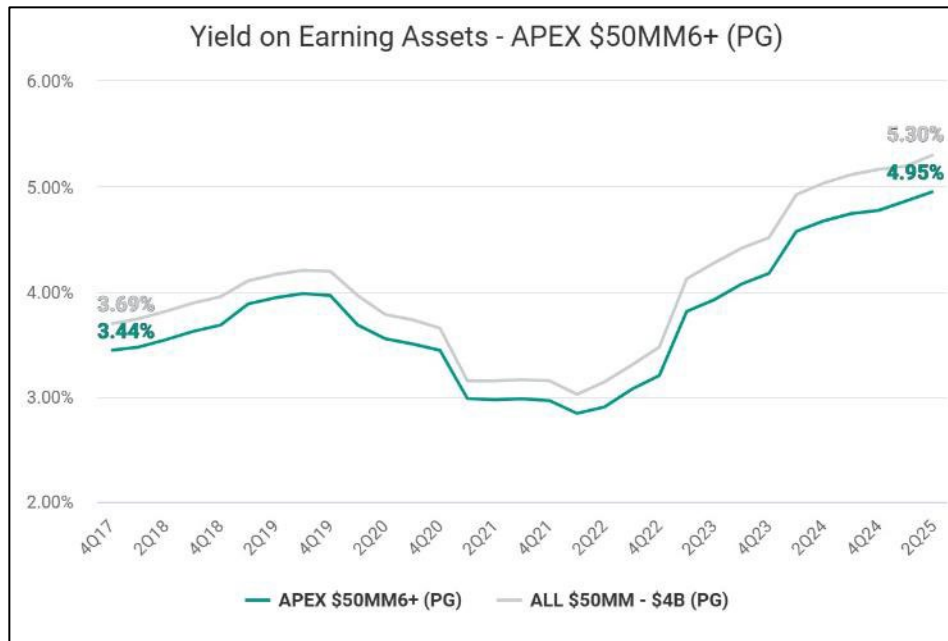
Source: Callahan & Associates  
For Illustrative Purposes Only



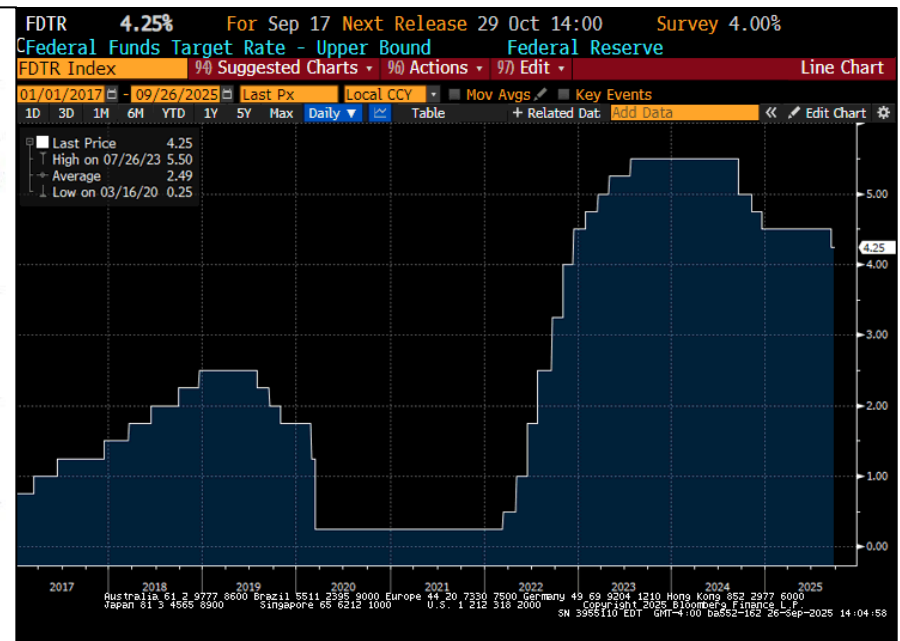
Source: Bloomberg



# Yield on Earning Assets



Source: Callahan & Associates  
For Illustrative Purposes Only



Source: Bloomberg

# Cash Will Reprice *FAST*...

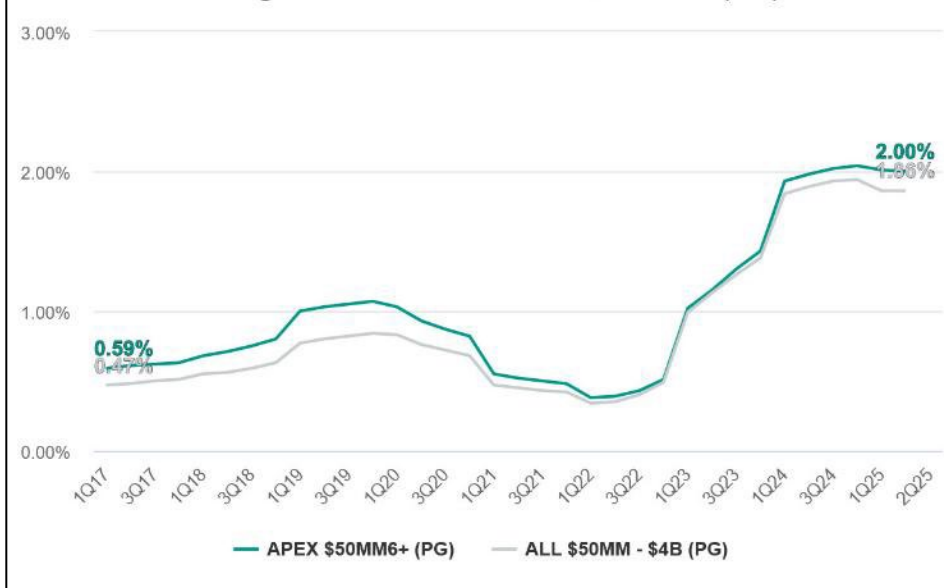


*\*For Illustration Purposes*

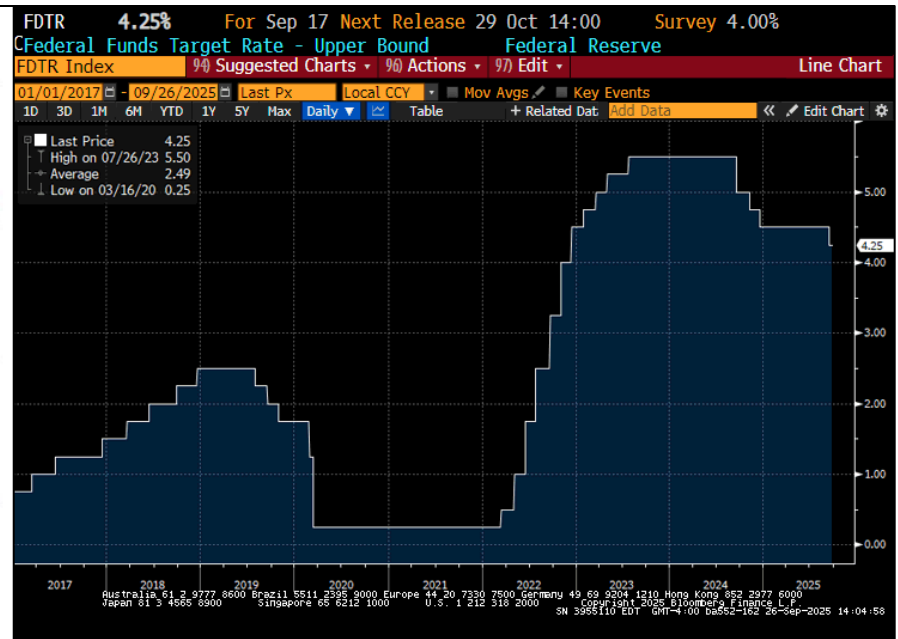
# The Other Side of the Balance Sheet

# Cost of Funds

Average Cost of Funds - APEX \$50MM6+ (PG)



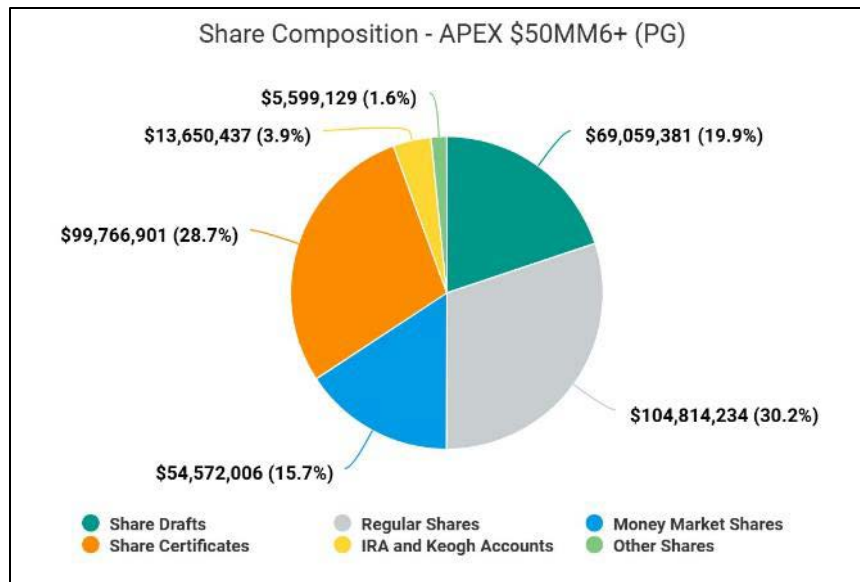
Source: Callahan & Associates  
For Illustrative Purposes Only



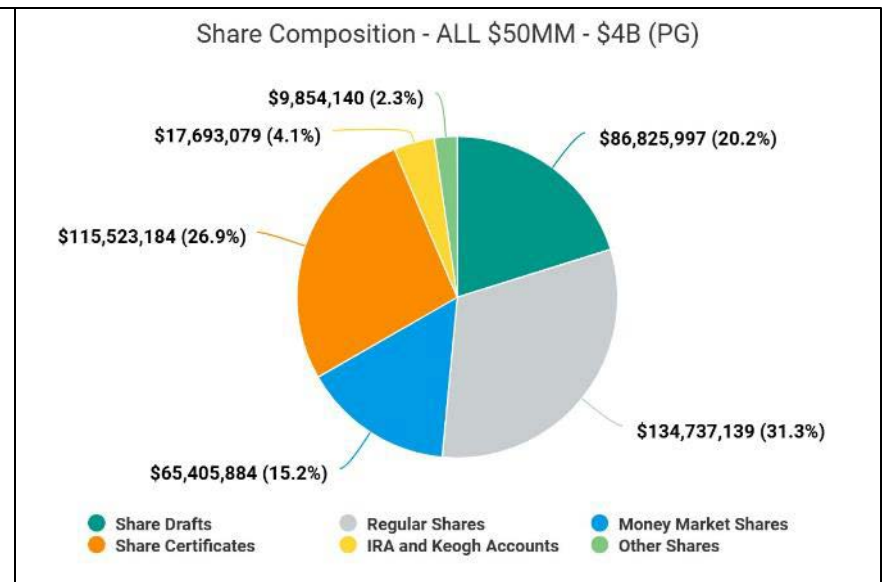
Source: Bloomberg

# Share Composition

MM + Certs = 44.4%



MM + Certs = 42.1%



Source: Callahan & Associates  
For Illustrative Purposes Only

# Part 4

## STRATEGY FOCUS

# Strategic Focus

- ✓ **Yield Protection** | *Income Protection*
- ✓ **Yield Enhancement**
- ✓ **Positive Convexity** | *“Engineered Convexity”*

## What to Avoid

- ✗ **Staying Too Short**
- ✗ **Callable Bond Trap**

# Strategic Focus

Yield Protection	Yield Enhancement	Positive* Convexity   <b>NEW</b>
<p><i>This strategy focuses on buying bonds that will have consistent yield performance regardless of interest rate movements.</i></p> <p><b>Highest Coupon under PAR!</b></p> <p><b>Lock in Yield!</b></p>	<p><i>This strategy focuses on bonds that have the potential to outperform their current yield projection in the event that rates move lower over the next 6-18 months.</i></p> <p><b>Move down the coupon stack for a 1.5-3 point discount</b></p> <p><b>Monthly income can increase as Treasury Yields drop!</b></p>	<p><i>Strategically add deeply discounted and/or bullet-alternative securities to the portfolio that have positive or *near-positive convexity.</i></p> <p><b>Using optionality in our favor!</b></p> <p><i>This will provide significant <b>potential price appreciation</b> in the event that interest rates fall.</i></p>



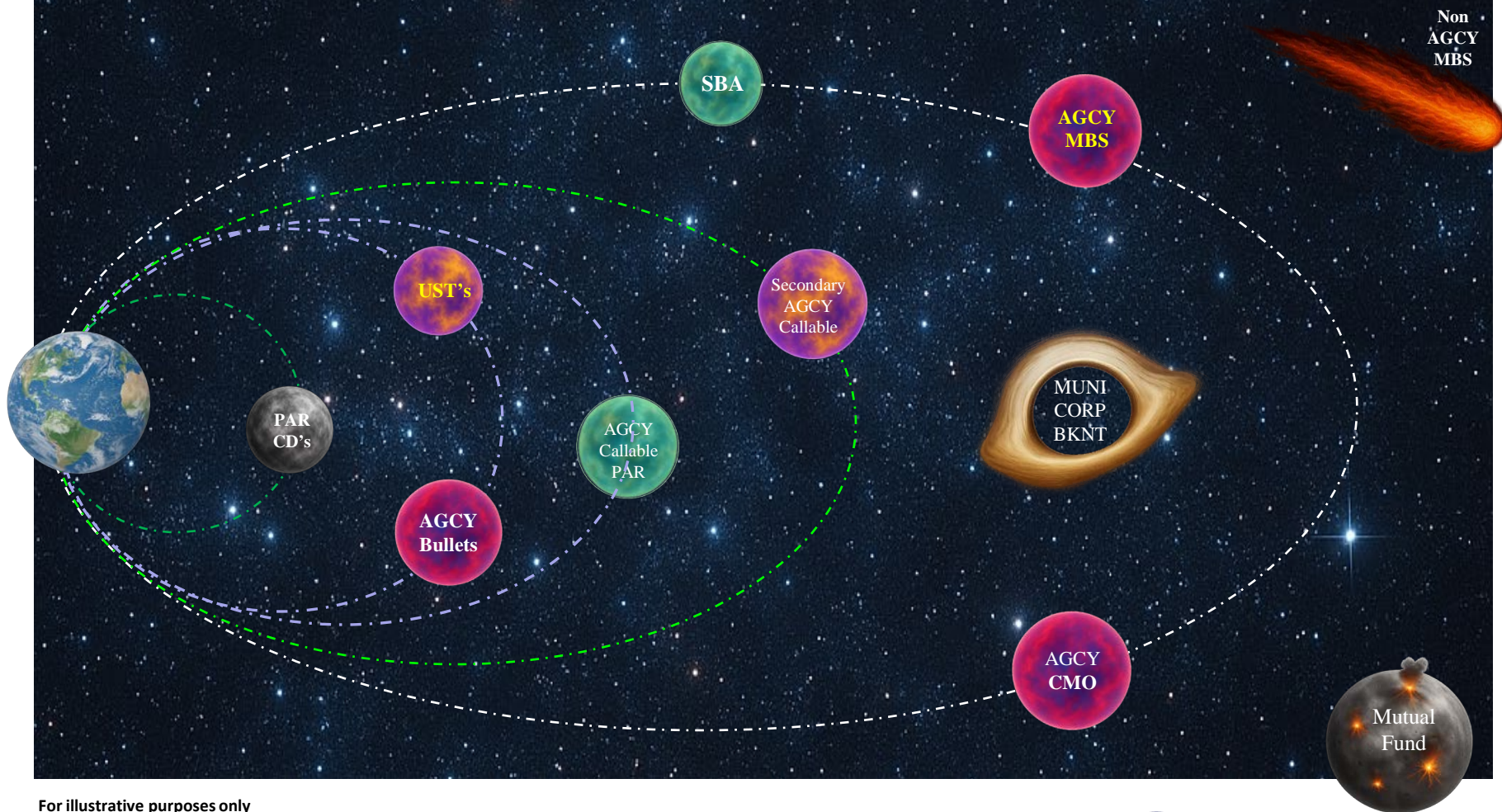
# The Bond Market Deli-Tray

US TREASURY		CPN	MTY		YTM	
2 YEAR		3.500	9/30/2027		3.524	
3 YEAR		3.500	10/15/2028		3.533	
5 YEAR		3.625	9/30/2030		3.647	
AGCY BULLETS		CPN	MTY		YTM	Spread
2 YEAR		0.750	10/8/2027		3.510	-1.4 bps
3.1 YEAR		3.250	11/16/2028		3.550	1.7 bps
4.8 YEAR		0.875	8/5/2030		3.680	3.3 bps
INSURED BANK CD's			MTY	CALL	YTM	Spread
2 YEAR	Multiple Issuers			Bullet	3.500	-2.4 bps
3 YEAR	Multiple Issuers			Bullet	3.600	6.7 bps
5 YEAR	Multiple Issuers			Bullet	3.750	10.3 bps
AGCY CALLABLES		CPN	MTY	Call Protection	YTM	Spread
2 YEAR	2-NC3MO INC	4.050	10/8/2027	0.2 YRS	4.050	52.6 bps
3 YEAR	3-NC6MO BERM	4.000	10/17/2028	0.5 YRS	4.000	46.7 bps
5 YEAR	5-NC3MO BERM	4.250	10/15/2030	0.3 YRS	4.250	60.3 bps
MBS		CPN	WAL   WAL +300	WAC	BASE	Spread
15 YEAR	15YR MBS Pool	4.500	5.2   6.6	5.47	4.450	80.3 bps
15 YEAR	15YR MBS Pool	4.500	6.4   8.6	5.43	4.520	87.3 bps
FIXED-RATE CMO		CPN	WAL BASE   +300	WAC	BASE	Spread
CMO	SEQ	4.750	4.2   7.47	6.90	4.810	116.3 bps

Source: Bloomberg



# The CU Bond Complexity Universe



For illustrative purposes only

# MBS Cash Flow

**Individual Residential Mortgage are  
Pooled into a Bond**



**Individual Borrower Mortgages  
Monthly P&I Payments**



**P & I Flows thru to the MBS  
Holders**



# **Loan Vs. Investment Cash Flow**

# P&I from Loans...

Month	CAR/ Term Loan	LOC	Mortgage Loans	Balloon Loans
1	P&i	I	p&I	I
2	P&i	I	p&I	I
3	P&i	I	p&I	I
4	P&i	I	p&I	I
5	P&i	I	p&I	I
6	P&i	I	p&I	I
7	P&i	I	p&I	I
8	P&i	I	p&I	I
9	P&i	I	p&I	I
10	P&i	I	p&I	I
11	P&i	I	p&I	I
12	P&i	I	p&I	I
⋮	⋮	⋮	⋮	⋮
<u>48</u>	<u>P&amp;i</u>	<u>I</u>	<u>p&amp;I</u>	<u>P</u>
Balance	0	P	p&I	0
			⋮	
		Year 12	P&i	



# P&I from Bonds...

Month	Bullet Maturity	Callable Bond #1	Callable Bond #2	Callable Bond #3	MBS
1					p&I
2					p&I
3			(P?)		p&I
4					p&I
5					p&I
6	I	I (P?)	I (P?)	I (P?)	p&I
7				(P?)	p&I
8				(P?)	p&I
9			(P?)	(P?)	p&I
10				(P?)	p&I
11				(P?)	p&I
12	I	I (P?)	I (P?)	I(P?)	p&I
⋮	⋮	⋮	⋮	⋮	⋮
<b><u>48</u></b>	<b><u>P</u></b>	<b><u>(P?)</u></b>	<b><u>(P?)</u></b>	<b><u>(P?)</u></b>	<b><u>p&amp;I</u></b>
	0	0	0	0	p&I
		NC 6MOS SEMI	NC 3MOS QRTLY	NC 6MOS ANYTIME	

# UST | AUG 2028

T 2 7 <sub>s</sub> 08/15/28	↑97-27	+ 00 <sub>3</sub> <sub>4</sub>	97-27/97-28+	3.671/3.653
At 13:45			10MMx10MM	Source OPCO
T 2 7 <sub>s</sub> 08/15/28 Govt	1) Export	97) Settings		Cash Flow Analysis
97-27/97-28+	3.671/3.653	OPCO@ 13:44	95) Buy	96) Sell
			BBID	9128284V9
2) Cash Flows	3) Present Values	4) Distressed Analysis		
Price	97-28+	Settlement 09/29/25	Issue 08/15/2018	Maturity 08/15/2028
Yield	3.652987 to Worst	08/15/28	@ 100.000000	Face Amt 500M
Payment Date	Interest	Principal	Total	
02/15/2026	7,187.50	0.00	7,187.50	
08/15/2026	7,187.50	0.00	7,187.50	
02/15/2027	7,187.50	0.00	7,187.50	
08/15/2027	7,187.50	0.00	7,187.50	
02/15/2028	7,187.50	0.00	7,187.50	
08/15/2028	7,187.50	500,000.00	507,187.50	

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 61 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2025 Bloomberg Finance L.P.  
 SN 3955110 EDT GMT-4:00 ba552-173 26-Sep-2025 13:45:14

Source: Bloomberg

# FHR 5516 HG

## Projected Cash Flow (*Base Case*)

FHR 5516 HG Mtge										Scenarios	Stratify	Actions	Export	Settings	Yield Table														
100% FNCL 6.0 N					6.973(343)11					CUSIP 3137HKMZ4					Pool Level		As of 09/2025												
9/25	CPR	VPR	CDR	SEV	30D	60+	90+	Bkrp FC	REO	CumLoss	First Proj	10/25/2025	Day Count	30/360															
1M	15.0	14.7	--	--	0.5	0.3	0.2	--	--	--	Freq	Monthly	Delay 24	Created 09/26/2025															
1) Price-to-Yield					Cashflows					30 Table		31 Graph		32 Close Report															
11 Bond Flow					12 Collateral Flow					13 Deal Flow																			
Orig Bal 208,419,754 USD					Your Orig Bal 1,000,000																								
Prev Bal 178,295,576					Your Prev Bal 855,464																								
Accrued 0.0000 for 0 days, Start 10/01/25, Delay 24, WAL 1.901																													
Show precise amount					Monthly																								
Dates					Balance					Principal					Interest					Cashflow					Coupon				
Totals										855,464					70,616					926,080									
1.	11/25/2025				840,933					14,531					3,208					17,739					4.500				
2.	12/25/2025				825,513					15,420					3,153					18,574					4.500				
3.	01/25/2026				809,229					16,283					3,096					19,379					4.500				
4.	02/25/2026				792,111					17,118					3,035					20,153					4.500				
5.	03/25/2026				774,188					17,923					2,970					20,894					4.500				
6.	04/25/2026				755,492					18,696					2,903					21,599					4.500				
7.	05/25/2026				736,056					19,436					2,833					22,269					4.500				
8.	06/25/2026				715,917					20,139					2,760					22,900					4.500				
9.	07/25/2026				695,110					20,806					2,685					23,491					4.500				
10.	08/25/2026				673,676					21,435					2,607					24,041					4.500				
11.	09/25/2026				651,653					22,023					2,526					24,549					4.500				
12.	10/25/2026				629,082					22,571					2,444					25,014					4.500				
13.	11/25/2026				606,006					23,076					2,359					25,435					4.500				
14.	12/25/2026				582,469					23,538					2,273					25,810					4.500				
GOVT 15:51 6M 3.85 1Y 3.65 2Y 3.65 3Y 3.65 5Y 3.77 7Y 3.96 10Y 4.18 30Y 4.76 Disc 30/360															1Y 3.51 2Y 99-23 1/2														
Australia 61 2 9777 8600 Brazil 5511 2385 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000															Copyright 2025 Bloomberg Finance L.P. SN 3955110 EDT GMT+4:00 Ba552-162 26-Sep-2025 15:53:02														

Source: Bloomberg



# FHR 5516 HG

## Projected Cash Flow (*Base Case*)

FHR 5516 HG Mtge										Scenarios		Stratify		Actions		Export		Settings		Yield Table									
100% FNCL 6.0 N					6.973(343)11					CUSIP 3137HKM24					Pool Level		As of 09/2025												
9/25		CPR	VPR	CDR	SEV	30D	60+	90+	Bkrp	FC	REO	CumLoss	First Proj		10/25/2025		Day Count		30/360										
1M		15.0	14.7	--	--	0.5	0.3	0.2	--	--	--	--	Freq Monthly		Delay 24		Created		09/26/2025										
1) Price-to-Yield					Cashflows					30 Table					31) Graph					32) Close Report									
1) Bond Flow					12) Collateral Flow					13) Deal Flow																			
Orig Bal					208,419,754 USD					Your Orig Bal					1,000,000														
Prev Bal					178,295,576					Your Prev Bal					855,464														
Accrued 0.0000 for 0 days, Start 10/01/25, Delay 24, WAL 1.901																													
Show precise amount					Annually																								
		Dates			Balance			Principal			Interest			Cashflow			Coupon												
Totals								855,464			70,616			926,080															
1.		10/25/2026			629,082			226,382			34,220			260,602			4.500												
2.		10/25/2027			350,741			278,341			22,445			300,786			4.500												
3.		10/25/2028			137,388			213,353			11,132			224,485			4.500												
» 4.		09/25/2029			0			137,388			2,818			140,206			4.500												
GOVT 15:51 6M 3.85 1Y 3.65 2Y 3.65 3Y 3.65 5Y 3.77 7Y 3.96 10Y 4.18 30Y 4.76 Disc 30/360 1Y 3.51 2Y 99-23 <sup>1</sup>																													
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2025 Bloomberg Finance L.P. SN 3955110 EDT GMT-4:00 ba562-162 26-Sep-2025 15:55:36																													

Source: Bloomberg

# Part 5

## WHAT TO AVOID

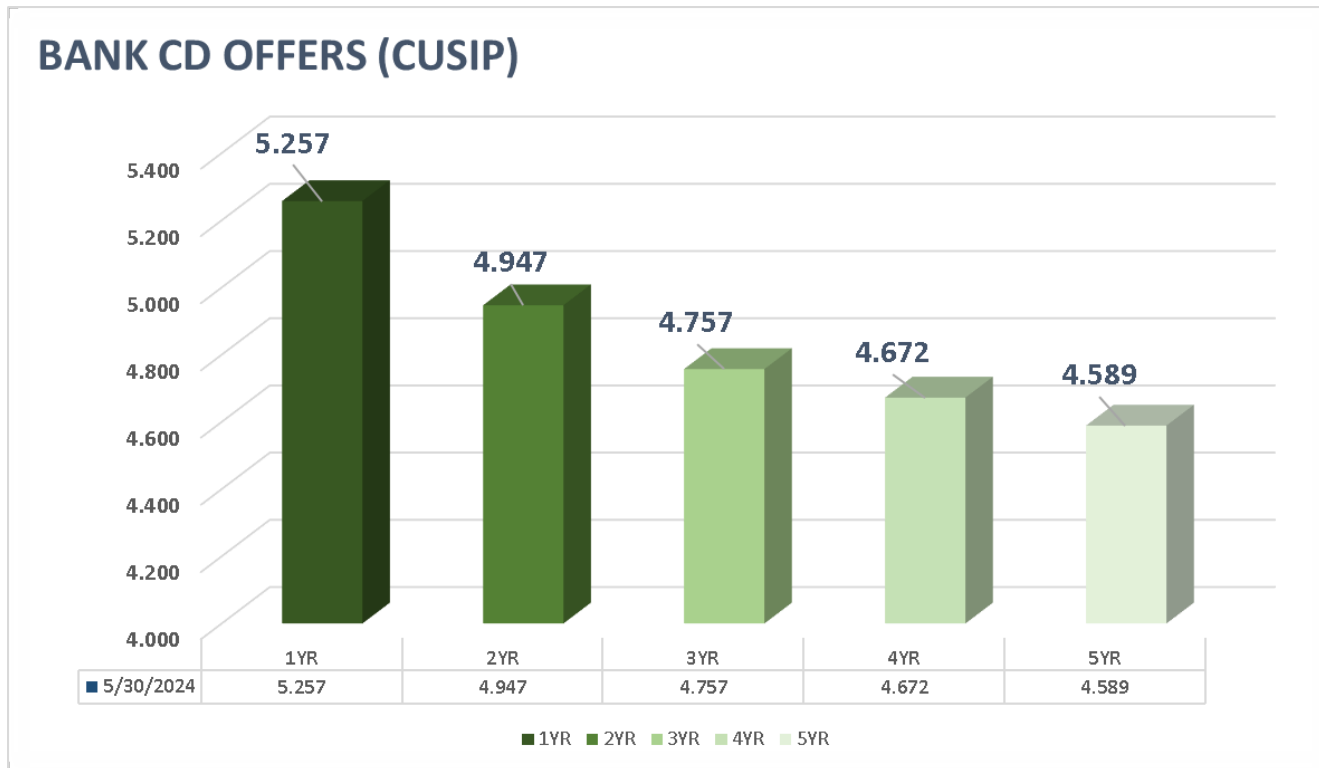
# What to Avoid

- ⊗ **Staying Too Short**
- ⊗ **Callable Bond Trap**

# Insured Bank CD's

May 30, 2024

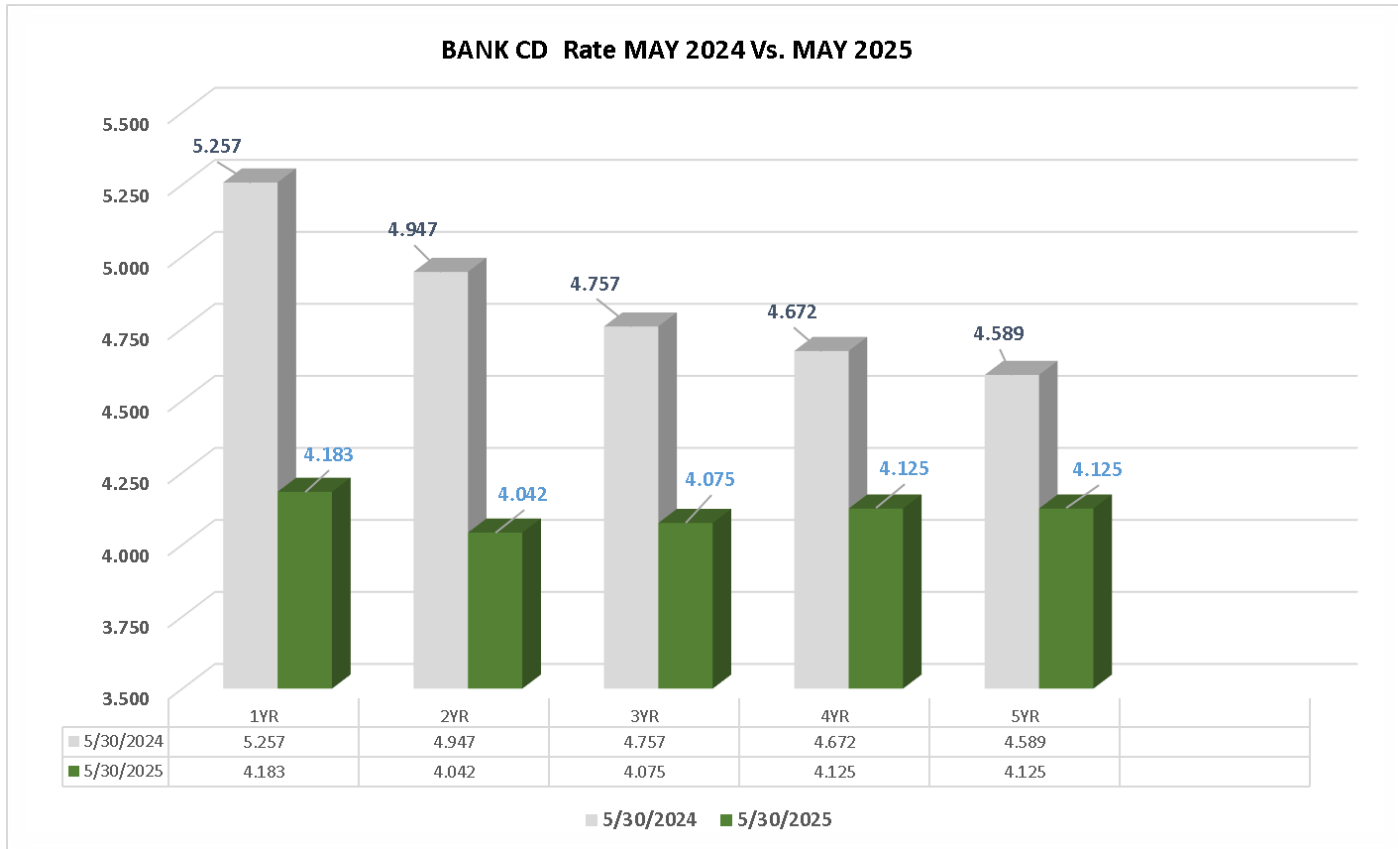
*“1YR... No Brainer!”*



For Illustrative Purpose Only

# A Year Later...

## *Our CD Matures*



For Illustrative Purpose Only

# Rates are lower now...

*Should we have locked-in yield for longer?*

	5-YR CD					
1,000,000	4.589%	4.589%	4.589%	4.589%	4.589%	4.589%
	45,890	45,890	45,890	45,890	45,890	229,450

	1YR CD	5YR CD				
1,000,000	5.257%	4.125%	4.125%	4.125%	4.125%	4.351%
	52,570	41,250	41,250	41,250	41,250	217,570

<b>Difference</b>	6,680	(4,640)	(4,640)	(4,640)	(4,640)	-11,880
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-23.8 Bps

# The Callable Bond Trap



## Beware...

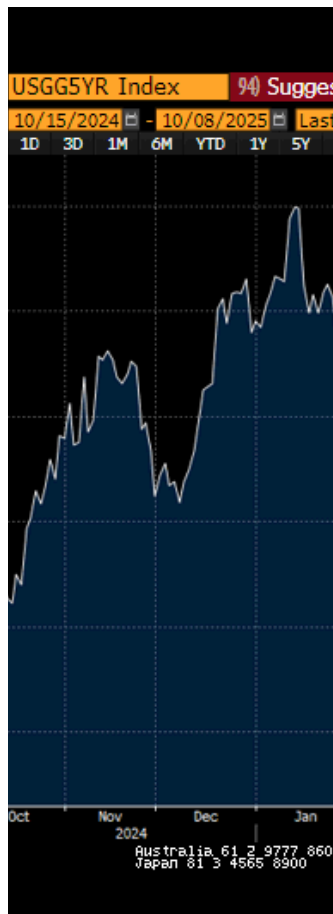
Getting Caught in the “Callable Bond Trap” due to  
Overreliance on New Issue Callable  
Bonds/CD’s/Step-Up Bonds

**Result:** Chasing the initial higher yield results in  
lower income in a falling rate environment



# January 2025...

*Let's lock in some Yield!*



Source: Bloomberg



# June 2024...

*Let's lock in this 5.80% Yield to Maturity*

4 <GO> to Set Current Selection as Default

95) Actions • 96) Alerts • 97) Summary 98) Set Homepage 99) Export • [New Issue Monitor](#)

Selection \*U.S. Agencies (NIM 2) 1) Show Filters 2) Clear Filters Issues

● Real Time ● Issue History Date Range 01/15/25 - 01/15/25 6) Prelim Issues | PREL

Date ↓	Issuer	Coupon	Maturity	Spread	Curr	Outst	Book Mgr	Note
		All ↓	3-5 Years ↓	All ↓	All ↓	All ↓		
101) 1/15	FED HOME LN BANK	5.000	01/30/30		USD	15	JOINT LEADS	5-NC1 S/A
102) 1/15	FANNIE MAE	5.000	01/28/30		USD	30	INSPRX,WFS	5-NC1 BERM
103) 1/15	FREDDIE MAC	5.050	01/29/29		USD	0	JOINT LEADS	4-NC3MO BERM
104) 1/15	FREDDIE MAC	4.875	10/30/28		USD	15	INSPRX,WFS	3-75-NC9MBER
105) 1/15	FED HOME LN BANK	5.250	01/22/30		USD	0	JOINT LEADS	5-NC6MO INC

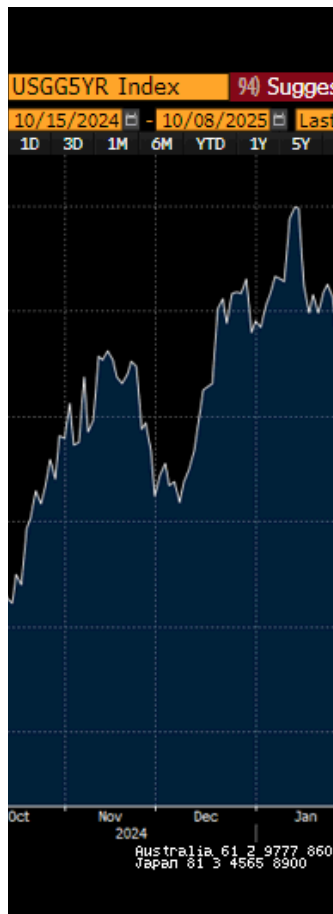
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000  
 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000  
 Copyright 2025 Bloomberg Finance L.P.  
 SN 3955110 EDT GMT-4:00 ba717-172 08-Oct-2025 12:54:49

Source: Bloomberg



# January 2025...

*Let's lock in some Yield!*



Source: Bloomberg



FHLB 5 1/4 01/22/30 \$Called

FHLB 5 1/4 01/22/30 Cor Actions Settings Page 1/13 Security Description: Bond

Data not provided by Bloomberg

94 Notes

95 Buy

96 Sell

25 Bond Description

26 Issuer Description

Pages	Issuer Information	Identifiers
11 Bond Info	Name FEDERAL HOME LOAN BANK	FIGI BBG01RQY8NT6
12 Addtl Info	Industry Government Sponsored (BCLASS)	CUSIP 3130B4MZ1
13 Reg/Tax	Security Information	ISIN US3130B4MZ14
14 Covenants	Mkt Iss US DOMESTIC	Bond Ratings
15 Guarantors	Ctry/Reg US Currency USD	
16 Bond Ratings	Rank Unsecured Series 0000	
17 Identifiers	Coupon 5.250000 Type Fixed	
18 Exchanges	Cpn Freq S/A	
19 Inv Parties	Day Cnt 30/360 Iss Price 100.0000	
20 Fees, Restrict	Maturity 01/22/2030	
21 Schedules	CALL ON 07/22/25@100.00	
22 Coupons	Iss Sprd	
23 Sustainability	Calc Type (1)STREET CONVENTION	
Quick Links	Pricing Date 01/13/2025	
32 ALLQ Pricing	1st Coupon Date 07/22/2025	
33 QRD Qt Recap	Call Announcement Date 07/14/2025	
34 TDH Trade Hist	Call Effective Date 07/22/2025	
35 CACS Corp Action	Security created by firm STIFEL, NICOLAUS & CO	
36 CF Filings		
37 CN Sec News		
38 HDS Holders		
66 Send Bond		

4 <G> to Set Current Selection as Default

95 Actions 96 Alerts 97 Summary 98 Set Homepage 99 Export New Issue Monitor

Selection \*U.S. Agencies (NIM 2)

1 Show Filters

2 Clear Filters

Issues

Real Time Issue History Date Range 07/24/25 - 07/24/25 Prelim Issues | PREL

Date	Issuer	Coupon	Maturity	Spread	Curr	Outst	Book Mgr	Note
		All	3-5 Years	All	All	All		
101 7/24	FED HOME LN BANK	4.500	08/14/30		USD	100	JOINT LEADS	5-NC1 CONT
102 7/24	FREDDIE MAC	STEP	07/24/30		USD	5	ZEUFN-sole	5-NC3MO BERM
103 7/24	FREDDIE MAC	4.750	07/30/30		USD	25	BCLY-sole	5-NC6MO BERM
104 7/24	FANNIE MAE	4.300	01/30/29		USD	15	WFS-sole	3.5-NC6MO 1X
105 7/24	FED HOME LN BANK	4.150	07/19/30		USD	15	JOINT LEADS	5-NC2 1X
106 7/24	FED HOME LN BANK	4.200	07/29/30		USD	10	PIPR,RWB	5-NC2 BERM
107 7/24	FREDDIE MAC	4.000	08/07/30		USD	5	MTBK-sole	5-NC1 ANN
108 7/24	FREDDIE MAC	4.000	07/29/30		USD	30	DADA-sole	5-NC1 BERINC

Now that  
same/similar  
structure is  
**50 bps lower.**

Our Bond was called on  
07/22. No worries, we'll  
get another one... *Let's  
see what's available...*

# Potential **negative** impact on earnings from loss of coupon...

Loss of Coupon	Amount	Income Loss		
		Year 1	Year 2	Year 3
<b>-0.50%</b>	\$500,000	<b>-\$2,500</b>	<b>-\$5,000</b>	<b>-\$7,500</b>
<b>-0.50%</b>	\$1,000,000	<b>-\$5,000</b>	<b>-\$10,000</b>	<b>-\$15,000</b>
<b>-0.50%</b>	\$2,500,000	<b>-\$12,500</b>	<b>-\$25,000</b>	<b>-\$37,500</b>
<b>-0.50%</b>	\$5,000,000	<b>-\$25,000</b>	<b>-\$50,000</b>	<b>-\$75,000</b>
<b>-0.50%</b>	\$10,000,000	<b>-\$50,000</b>	<b>-\$100,000</b>	<b>-\$150,000</b>

For Illustrative Purpose Only

*How long do we get to keep this one?*



Source: Bloomberg

# The “Callable Bond” Trap



Source: Bloomberg

5YR UST Yield



# The Impact of Yield...

Amount Invested	Yield Pick Up	Protecting-Enhancing Yield   Income Impact					
		Monthly	Annual	2-YRS	3-YRS	4-YRS	5-YRS
1,000,000	0.25%	208	2,500	5,000	7,500	10,000	12,500
1,000,000	0.50%	417	5,000	10,000	15,000	20,000	25,000
1,000,000	0.75%	625	7,500	15,000	22,500	30,000	37,500
1,000,000	1.00%	833	10,000	20,000	30,000	40,000	50,000
1,000,000	2.00%	1,667	20,000	40,000	60,000	80,000	100,000

Amount Invested	Yield Pick Up	Protecting-Enhancing Yield   Income Impact					
		Monthly	Annual	2-YRS	3-YRS	4-YRS	5-YRS
2,500,000	0.25%	521	6,250	12,500	18,750	25,000	31,250
2,500,000	0.50%	1,042	12,500	25,000	37,500	50,000	62,500
2,500,000	0.75%	1,563	18,750	37,500	56,250	75,000	93,750
2,500,000	1.00%	2,083	25,000	50,000	75,000	100,000	125,000
2,500,000	2.00%	4,167	50,000	100,000	150,000	200,000	250,000

Amount Invested	Yield Pick Up	Protecting-Enhancing Yield   Income Impact					
		Monthly	Annual	2-YRS	3-YRS	4-YRS	5-YRS
5,000,000	0.25%	1,042	12,500	25,000	37,500	50,000	62,500
5,000,000	0.50%	2,083	25,000	50,000	75,000	100,000	125,000
5,000,000	0.75%	3,125	37,500	75,000	112,500	150,000	187,500
5,000,000	1.00%	4,167	50,000	100,000	150,000	200,000	250,000
5,000,000	2.00%	8,333	100,000	200,000	300,000	400,000	500,000

\*For Illustration Purposes



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