

# US Treasury Portfolio – Scenario Analysis

Carlos Blanco | April 18, 2026

## Part 1: Portfolio Overview

### Summary

Metric	Value
<b>Total Market Value</b>	\$68.4M
<b>Total Face Value</b>	\$70.1M
<b>Unrealized G/L</b>	-\$1.1M (-1.6%)
<b>Annual Coupon Income</b>	~\$2.6M
<b>Weighted Avg Coupon</b>	4.39%
<b>Weighted Avg Yield</b>	4.20%
<b>Weighted Avg Duration</b>	~11.5 years
<b>Accounts</b>	Schwab (\$56.6M) + HSBC (\$11.8M)

### All Positions – Sorted by Maturity

Coupon	Maturity	Face Value	Est. MV	Duration	Bucket
4.125%	Oct 2026	\$2,725,000	\$2,720,000	0.5	Near
6.500%	Nov 2026	\$1,815,000	\$1,830,000	0.6	Near
4.250%	Nov 2026	\$850,000	\$848,000	0.6	Near
3.625%	Aug 2027	\$4,891,000	\$4,850,000	1.3	Near
4.125%	Sep 2027	\$164,000	\$163,000	1.4	Near
3.500%	Sep 2027	\$137,000	\$135,000	1.4	Near
6.125%	Nov 2027	\$1,095,000	\$1,110,000	1.5	Near
3.625%	Sep 2030	\$67,000	\$65,000	4.2	Medium
3.750%	Dec 2030	\$350,000	\$340,000	4.4	Medium
4.500%	Nov 2033	\$1,882,000	\$1,870,000	6.8	Medium
4.000%	Feb 2034	\$1,615,000	\$1,570,000	7.1	Medium
4.375%	May 2034	\$477,000	\$470,000	7.3	Medium
4.250%	Nov 2034	\$709,000	\$690,000	7.7	Medium
4.625%	Feb 2035	\$700,000	\$695,000	7.9	Medium
4.250%	May 2035	\$7,161,000	\$7,000,000	8.2	Medium
3.625%	Feb 2044	\$4,068,000	\$3,480,000	14.8	Long
4.625%	May 2044	\$12,014,000	\$11,800,000	14.5	Long
4.625%	Nov 2044	\$1,972,000	\$1,940,000	14.8	Long
4.250%	Feb 2054	\$8,660,000	\$7,800,000	19.5	Long
4.625%	May 2054	\$3,391,000	\$3,200,000	19.2	Long
4.250%	Aug 2054	\$800,000	\$720,000	19.5	Long
4.500%	Nov 2054	\$2,546,000	\$2,300,000	19.7	Long
HSBC (blended)	~2031 avg	\$11,677,000	\$11,780,000	5.0	Medium

### Maturity Ladder (Market Value)

2026                      \$5.40M (7.9%)

2027		\$6.26M	(9.1%)
2030	\$0.41M	(0.6%)	
2033-35		\$12.30M	(18.0%)
2044		\$17.22M	(25.2%)
2054		\$14.02M	(20.5%)
HSBC		\$11.78M	(17.2%)

Remaining ~1.5% rounding/spread across buckets

### Allocation by Maturity Bucket

Bucket	MV	% of Portfolio
Near-term (2026-2027)	\$11.66M	17.0%
Medium-term (2030-2035) + HSBC	\$24.48M	35.8%
Long-term (2044-2054)	\$31.24M	45.7%
<b>Unallocated/rounding</b>	<b>\$1.02M</b>	<b>1.5%</b>

**Key concentration:** 45.7% in 20-30yr bonds = massive upside if rates drop, massive risk if they rise.

## Part 2: Scenario Analysis — “What If Rates Drop 1%?”

### Method

**Price change  $\approx$  Modified Duration  $\times$  Rate Change  $\times$  Market Value**

For each maturity bucket, we estimate the modified duration and calculate the mark-to-market gain from a 100bp parallel shift down.

### Detailed Calculation by Bucket

Bucket	MV	Avg Mod Duration	Rate $\Delta$	Estimated Gain	New MV
Near (2026-27)	\$11.66M	1.0	-1.00%	+\$0.12M	\$11.78M
Medium (2030-35)	\$12.70M	7.2	-1.00%	+\$0.91M	\$13.61M
HSBC	\$11.78M	5.0	-1.00%	+\$0.59M	\$12.37M
Long 2044	\$17.22M	14.7	-1.00%	+\$2.53M	\$19.75M
Long 2054	\$14.02M	19.5	-1.00%	+\$2.73M	\$16.75M
<b>TOTAL</b>	<b>\$68.4M</b>	<b>~11.5</b>	<b>-1.00%</b>	<b>+\$7.52M</b>	<b>\$75.9M</b>

### Impact Summary

Metric	Before	After -100bps
Total MV	\$68.4M	\$75.9M
Unrealized G/L	-\$1.1M	+\$6.4M
Change	—	<b>+\$7.5M (+11.0%)</b>

## Multi-Scenario Sensitivity Table

Scenario	Rate $\Delta$	Portfolio Gain/Loss	New MV	Unrealized G/L
Aggressive easing	-200 bps	<b>+\$15.0M</b>	\$83.4M	+\$13.9M
Strong easing	-150 bps	<b>+\$11.3M</b>	\$79.7M	+\$10.2M
<b>Base case</b>	<b>-100 bps</b>	<b>+\$7.5M</b>	<b>\$75.9M</b>	<b>+\$6.4M</b>
Moderate easing	-50 bps	+\$3.8M	\$72.2M	+\$2.7M
Status quo	0 bps	\$0	\$68.4M	-\$1.1M
Mild tightening	+50 bps	-\$3.8M	\$64.6M	-\$4.9M
Significant tightening	+100 bps	<b>-\$7.5M</b>	\$60.9M	-\$8.6M

**Range: -\$7.5M to +\$15.0M depending on rate direction.**

## Part 3: What Would Cause a 1% Rate Drop?

### 1. Recession / Economic Slowdown

- Q1 2026 GDP tracking at just **1.3%** — barely positive
- Consumer sentiment at **lowest level since 1952** (University of Michigan)
- John Mauldin's "Muddle Through" thesis: slow growth, gradual normalization
- If GDP goes negative → panic bid for Treasuries → yields plunge

### 2. Fed Rate Cuts

- Fed Funds currently at **4.50%** — restrictive territory
- Room for 3-4 cuts (75-100bps) if inflation cools toward 2.5%
- Market pricing ~2 cuts by year-end; could accelerate if data weakens
- Every 25bp cut puts downward pressure on the entire curve

### 3. Iran Resolution → Oil Crash → Disinflation

- Strait of Hormuz tension already easing — crude fell from **\$93 → \$82**
- Full resolution could push oil to **\$65-70** range
- Energy is ~7% of CPI — oil at \$65 mechanically drops CPI by 0.3-0.5%
- Lower energy costs = lower shipping, manufacturing, food costs → cascading disinflation

### 4. Financial Crisis / Credit Event

- Mauldin's "**Great Reset**" warning — debt levels unsustainable
- Commercial real estate stress: office vacancy at record highs, regional bank exposure
- Any credit event → flight to safety → Treasury yields crash
- 2008 parallel: 10Y went from 4.0% to 2.0% in months

### 5. Global Flight to Safety

- Geopolitical escalation (Taiwan, Middle East, Europe)
- Foreign central banks increasing Treasury reserves
- Any stock market correction (-10%+) drives money into bonds

## 6. Deflation Scare

- AI productivity gains reducing labor costs across industries
- Goods deflation already visible in categories like used cars, electronics
- If services inflation breaks → narrative shifts from “sticky inflation” to “deflation risk”

## Part 4: Forces Playing FOR Carlos ☐

Factor	Detail	Impact
<b>Consumer sentiment</b>	Lowest since 1952	Spending pullback → growth slows → rates fall
<b>Oil crashing</b>	\$93 → \$82, could go \$65-70 on Iran deal	CPI drops mechanically
<b>GDP slowing Fed has room</b>	1.3% Q1 tracking 4.50% → 3.50% = 4 cuts available	Near-stall speed → Fed acts Each cut helps the portfolio
<b>PPI cooling</b>	+0.5% actual vs +1.1% expected	Pipeline inflation fading
<b>S&amp;P earnings strong</b>	13.2% growth, 6th straight double-digit Q	Economy healthy enough to avoid crisis, but inflation cooling
<b>Mauldin’s Muddle Through</b>	Gradual normalization thesis	Rates drift lower over 12-18 months

**Key insight:** You don’t need a crisis. You just need inflation to cool from 3.3% toward 2.5% and the Fed to cut 2-3 times. That alone gets you most of the \$7.5M.

## Part 5: Forces Playing AGAINST Carlos ☐

Factor	Detail	Impact
<b>CPI at 3.3%</b>	61 consecutive months above 2% (Bilello)	Fed can’t cut aggressively
<b>Earnings booming</b>	13.2% growth → economy too strong	No urgency for rate cuts
<b>S&amp;P at ATH Fiscal deficits</b>	All-time highs → no panic \$2T+ annual deficit → massive Treasury supply	No flight to safety Supply pressure keeps yields high
<b>Sticky inflation</b>	Services, shelter, insurance	Fed may stay higher for longer
<b>Duration concentration</b>	49% in 2044-2054 bonds	If rates RISE 100bps → -\$5.3M on long bonds alone

**Key risk:** If inflation reaccelerates (oil shock, tariffs, supply disruption), Carlos’s long bonds could lose 10-15% of their value.

## Part 6: Most Likely Path — Base Case

### Timeline

Apr 2026	Iran tensions continue de-escalating. Oil drifts to \$75. CPI prints 3.1% (down from 3.3%).
May-Jun	Oil hits \$65-70 on formal Iran deal / Hormuz reopening. CPI drops to 2.8%. Fed signals September cut. 10Y drifts from 4.32% → 4.10%.
Jul-Aug	Consumer spending weakens. GDP Q2 at 1.0%. Market begins pricing 3 cuts by year-end. 10Y drops to 3.90%.
Sep 2026	**Fed cuts 25bps** to 4.25%. 10Y at 3.75%. Portfolio gains ~\$2M.
Oct-Dec	Second cut to 4.00%. CPI at 2.5%. 10Y at 3.50%. Portfolio up ~\$5M from today.
H1 2027	Two more cuts to 3.50%. 10Y settles at 3.30%. Near-term bonds (\$7.5M) mature and need reinvestment. **Portfolio gain: ~\$7.5M (+11%)**

### Probability Assessment

Scenario	Probability	Portfolio Impact
Base case (-100bps by mid-2027)	45%	+\$7.5M
Mild easing (-50bps)	25%	+\$3.8M
Aggressive easing (-150bps+)	10%	+\$11-15M
Status quo (rates flat)	12%	~\$0 (collect \$2.6M/yr income)
Rates rise (+50-100bps)	8%	-\$3.8M to -\$7.5M

**Expected value: ~+\$4.5M** (probability-weighted across scenarios)

## Part 7: Recommendations

### 1. Hold to Maturity = \$2.6M/Year Guaranteed

Regardless of rate moves, the portfolio generates **\$2.6M in annual coupon income**. This is the floor. Even if rates rise, you collect coupons and get face value at maturity. The unrealized loss is only -1.6% — noise on a portfolio this size.

### 2. Long Bonds Are Recession Insurance

The 49% allocation to 2044-2054 bonds isn't just a rate bet — it's **insurance**. If a financial crisis hits, these bonds could appreciate 20-30%. In 2008, 30Y Treasuries returned +25% while equities fell -38%.

### 3. Profit-Taking Strategy for 2054s

If the base case plays out and 10Y drops to ~3.3%: - The 2054 bonds (~\$14M MV today) could be worth **\$17-18M** - Consider selling 30-50% of the 2054 allocation to lock in gains - Reinvest proceeds into 5-10Y paper at (presumably lower) yields - This reduces duration risk while harvesting the rate move

### 4. Reinvestment Plan for 2026-2027 Maturities

~\$11.7M in face value matures within 18 months: - **\$5.4M** rolling off in 2026 (Oct-Nov) - **\$6.3M** rolling off in 2027 (Aug-Nov)

Options: - **If rates have dropped:** Lock in current (lower) yields in 10-20Y to extend duration - **If rates are flat/higher:** Reinvest in 2-5Y to maintain flexibility - **Barbell strategy:** Split 50/50 between short (2Y) and long (20Y)

### 5. Income Optimization

At \$2.6M/yr on \$68.4M → **3.8% yield**. Compare to: - Money market: ~4.3% (higher but zero duration/appreciation potential) - 10Y at 4.32% (similar yield, less duration risk) - The portfolio trades lower yield for **upside convexity** — if rates drop, you get capital gains money markets can't deliver

---

## Current Rates Reference (April 18, 2026)

Maturity	Yield
2-Year	3.78%
5-Year	4.05%
10-Year	4.32%
20-Year	4.55%
30-Year	4.50%
Fed Funds	4.50%

**Yield curve:** Inverted at front end (2Y < Fed Funds), slightly inverted 20Y-30Y. Classic late-cycle shape suggesting market expects rate cuts.

---

*Report generated April 18, 2026. Data as of January 30, 2026 (Schwab) and current market rates. Duration estimates are approximations based on coupon, maturity, and current yield levels.*