Finding Relative Value with Breakeven Rate Analysis

FHLBank Boston

Strategic partnerships. Reliable funding.

February 2024

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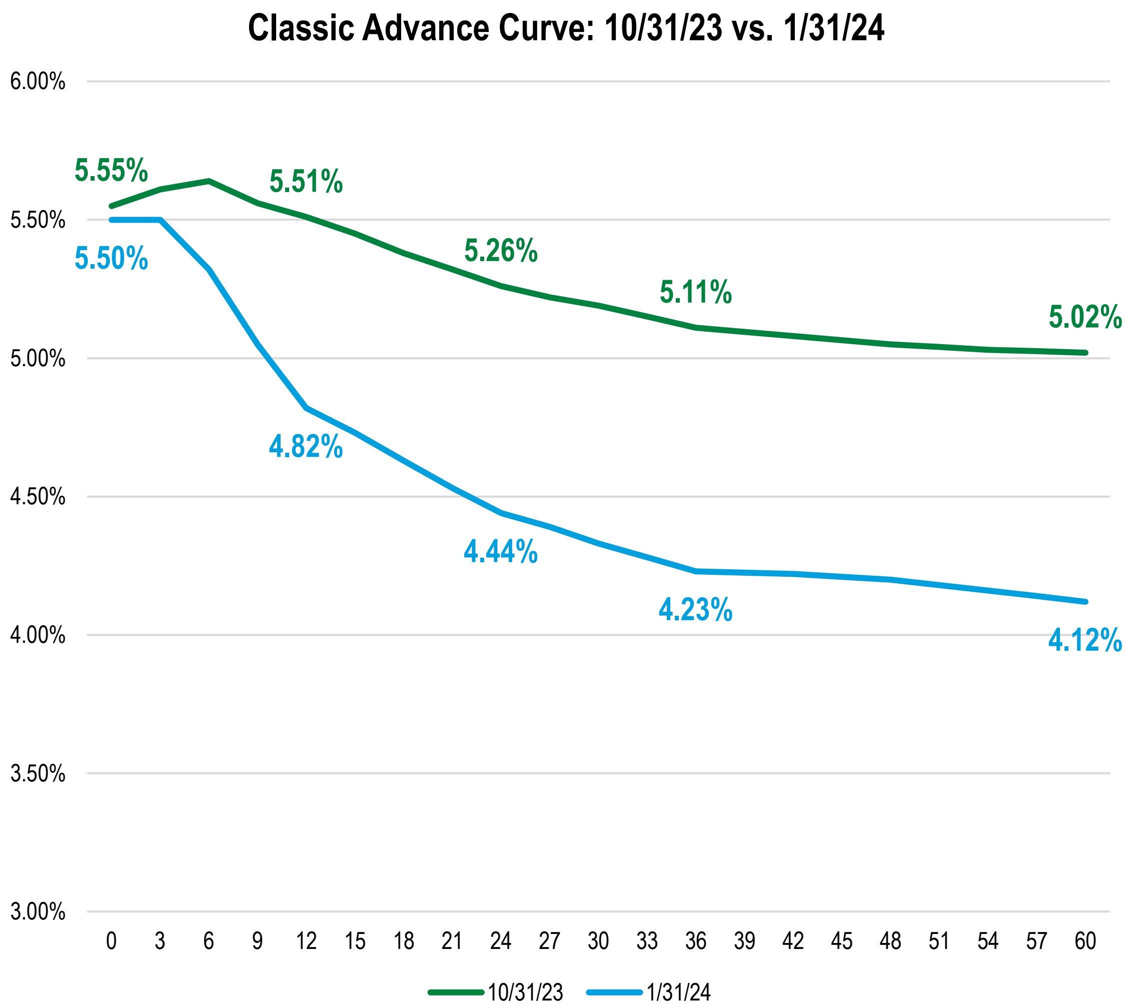
(More) Yield Curve Inversion

The end of 2023 saw a bond market rally that made the yield curve more inverted than it already was.



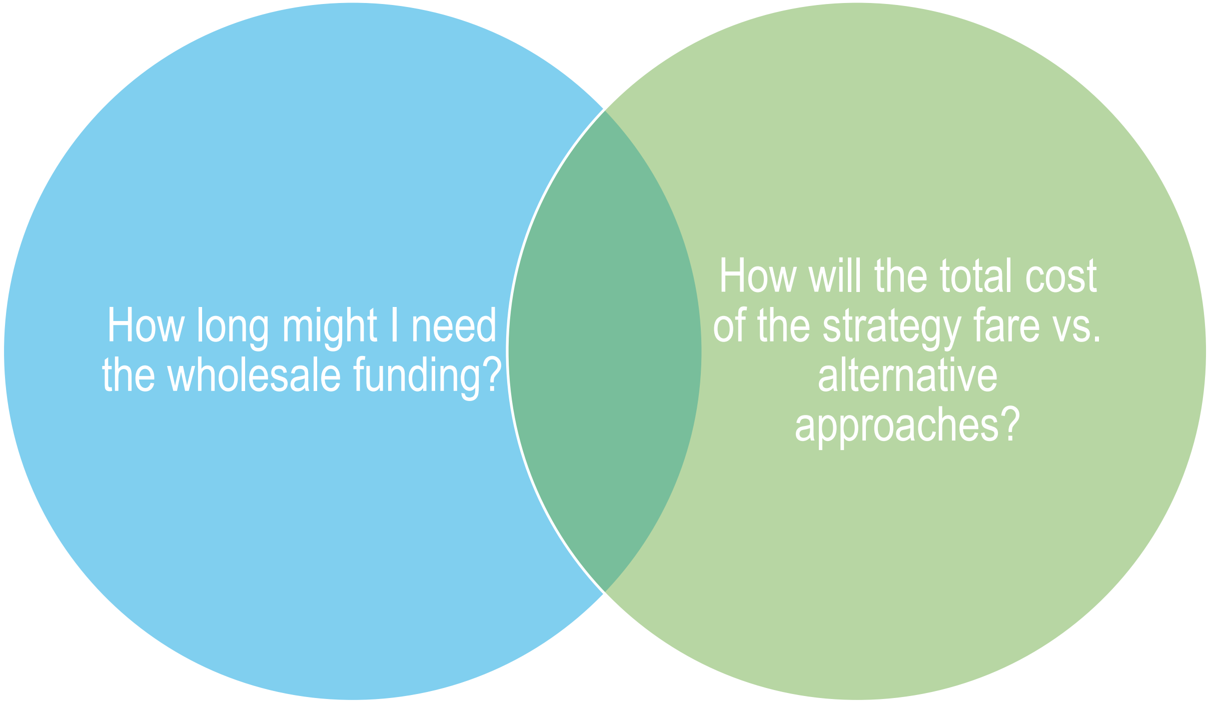
Advance Curve Steepness	10/31/23	1/31/24
3m/6m	+3	-19
3m/12m	-10	-68
6m/12m	-13	-50
6m/2y	-35	-88
12m/2y	-25	-38
12m/3y	-40	-59

**Rates as of the dates noted. All pricing is subject to change, and rates and spreads are not guaranteed.*

Source: FHLBank Boston

Fund Short or Fund Long?

Deciding on the optimal point on the yield curve can be a function of the balancing act between liquidity needs and interest-rate risk management, but also market conditions.



- Forecast of deposit flows?
- Expectations for loan growth?
- Asset prepays and paydowns?

- What's priced into the markets now?
- Potential for unexpected rate changes?
- Total balance sheet IRR needs?

Scenario Analysis: Finding the Breakeven Rates

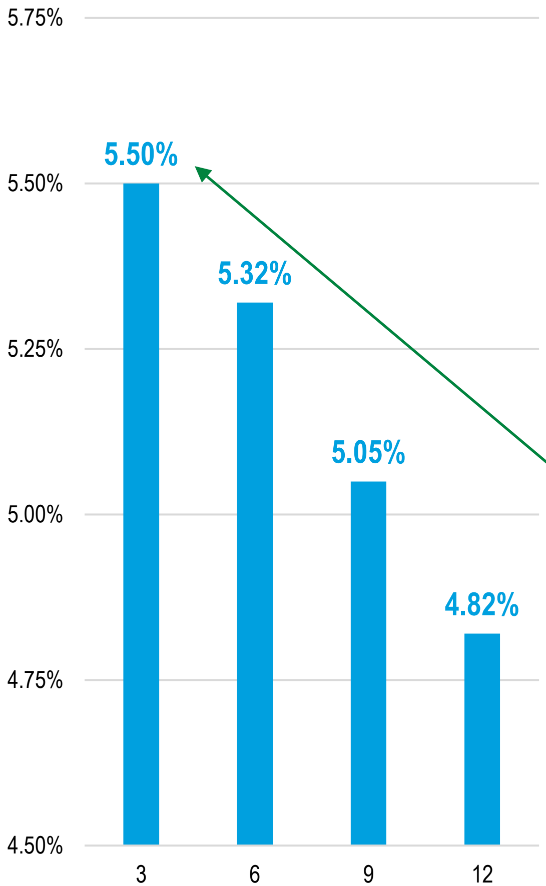
We can identify the breakeven rate in a down-rate environment, where the all-in cost ceases to be cheaper than the alternative of continually funding short.

- 12-month Classic Advance vs. Rolling Short-Term Advances
- SOFR-Indexed Advances vs. Rolling Daily Cash Manager Advances
- HLB-Option Advances vs. Rolling Short-Term Funding

Taking Advantage of an Inverted Yield Curve

An inverted yield curve prices in the expectation of lower short-term rates in the future. If rates do not drop according to the timing or amount currently being priced in, then funding extension will have provided interest expense savings.

Current Classic Advance Rate



3-month Classic: 5.50%

Implied 3-month Classic, 3-months Forward: 5.14%

Implied 3-month Classic, 6-months Forward: 4.51%

Implied 3-month Classic, 9-months Forward: 4.13%

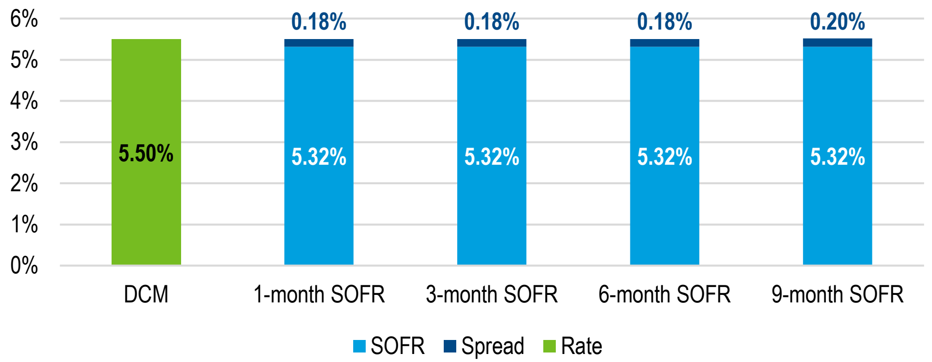
The 3-month rate implied for months 10-12 is over 130 bps below current levels

Source: FHLBank Boston

Bolster Liquidity While Keeping Duration Short

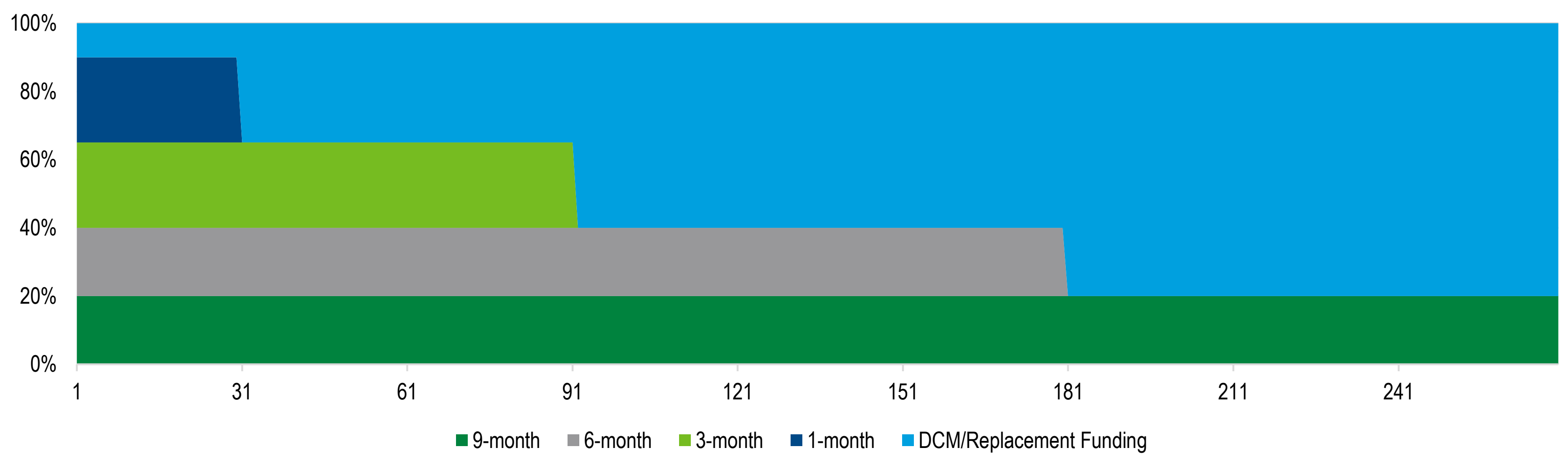
Utilizing the SOFR-Indexed Advance can provide liquidity benefits and reduce operational burden vs. rolling overnight.

Daily Cash Manager & SOFR-Indexed Advances



Strategy Details
Take a rolling DCM position and ladder out with the SOFR-Indexed Advance, retain a portion in DCM
Floating-rate exposure allows for benefits if rates decline faster than expected
Reduce spread risk that DCM rate may widen out in periods of market stress
Laddered maturities allow for flexibility to replace with deposits or term out as needed

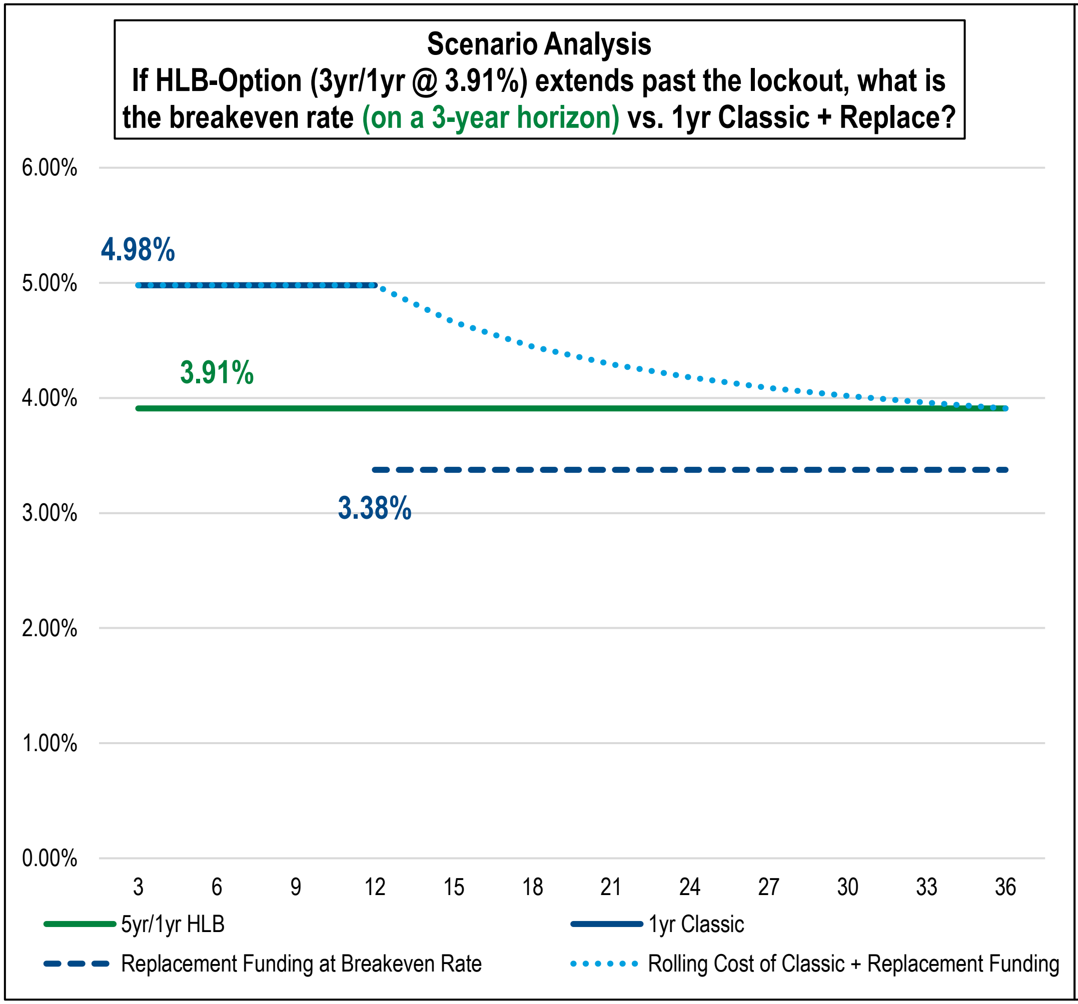
Laddered Funding Strategy: SOFR-Indexed Advance + Daily Cash Manager Advance

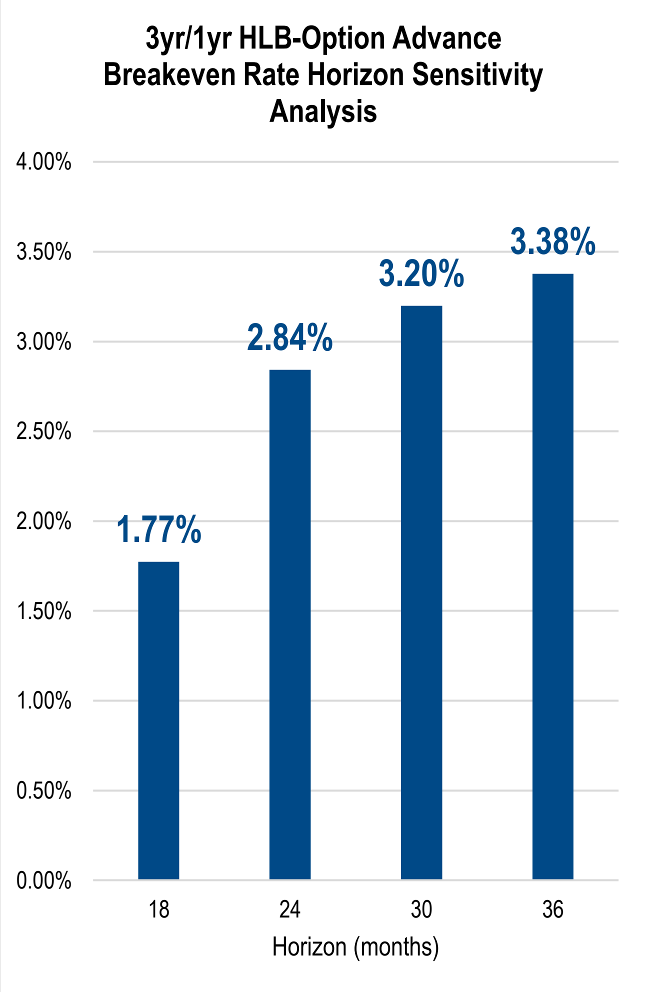


Source: Federal Reserve Bank of New York, FHLBank Boston

Margin Relief

The HLB-Option Advance can offer immediate cost savings, as well as ample cushion for rates to decline and still produce a lower cumulative interest expense as compared to a strategy of Classic Advances with short maturities.





Source: FHLBank Boston

Thank You

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