

Fortem Christmas Carol
Long term implied vol – FNL 8th July 16

We started by observing the movement or lack of in longer term implied volatility in equity markets immediately post Brexit and the market forces stifling it. As we end the year with equity markets ticking up mostly, suffice to say implied levels have remained as they were and certainly on an historical level, still trade at a circa 5-7% premium to 6 year realised; the selling of longer term implied volatility as a trade still continues to stack up in our opinion, albeit whilst tailoring strike levels to each equity market.

USD 10 year Swap rates – FNL 22nd July & 5th Aug

Next came the USD 10year swap rates trade idea and how selling puts could create some very interesting income structures of circa 6- 8%. The trade had a duration of only one year, being short 10 year swap rates at 80bps; yes that's right, 80bps... Rates back then were 1.50% and as we go to print they're now up to 2.47%. This for us was the trade idea of the year, if not the decade!

Equity linked income ideas – FNL 16th & 30th Sept

It would be fair to say that the one common, most frequent request we've had this year has been in relation to income.... That would probably not come as a surprise to you all. The favourites for you the investor have been by far the phoenix autocalls, reverse convertibles and digital income structures. Gaining anywhere between 5 & 6% annual income for taking around 40% downside equity exposure. As GBP rates edged higher coming into year end, we've seen terms for these structures improve slightly.

Bank credit, risk appetite and trading axes – FNL 15th Jul, 30th Sep, 14th Oct & 18th Nov

Bank balance sheets are confusing beasts so we wrote a brief summary of the key considerations and financial ratios to look at when considering your bank credit. Whilst historic and prevailing CDS is a good barometer, it is certainly not the only measure to consider. We have also talked about how the volumes traded in derivatives creates opportunities, for example in discounted implied dividends, or the build-up in unrecyclable risk such as correlation which will see banks that have been historically very active participants in this market fall away whilst banks that have been less active, should come to the fore once again.

Passive versus active, currency hedged share classes and Japan – FNL 23rd Sep, 21st Oct & 9th Dec

We then went on to talk about currency hedged share classes for collectives and how, for many reasons the hedging mechanism employed may not be all it is stacked up to be. Connected to this we highlighted the potential advantage to our clients of how banks price parts of certain structures; namely that in our opinion the assumptions surrounding implied levels of asset and fx volatility and correlation were far too conservative in relation to Quanto (perfectly hedged) derivatives. This creates an opportunity for investors to warehouse that risk and take advantage of the significantly improved terms in currency hedged participation structures. And finally, we published a piece bringing all of that together last week, highlighting two investments we launched in collaboration with Citi linked to daily hedged Japanese equities.

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16th December 2016

	Rates (bps)	
	Current	Week Chge
GBP 1yr	58.00	1.10
GBP 3yr	76.50	1.10
GBP 5yr	98.70	0.80

	Equity Indices (%)	
	Current	Week Chge
FTSE 100	58.00	1.10
S&P 500	76.50	1.10
Nikkei 225	98.70	0.80
Eurostoxx 50	58.00	1.10

	Currencies (%)	
	Current	Week Chge
GBPUSD	1.2446	-1.00%

	5yr Credit Spreads (bps)	
	Current	Week Chge
Citigroup	76.78	-2.87
Credit Suisse	129.58	-2.69
Deutsche	199.89	-3.90
GS	89.79	-3.95
HSBC	69.55	-0.51
JPM	62.99	-1.10
MS	85.84	-3.50

	Commodities (%)	
	Current	Week Chge
Gold	1134.67	-2.17%
Oil	50.55	-1.84%

	3m Implied (vol pts)	
	Current	Week Chge
FTSE 100	12.46%	-0.16%
S&P 500	12.41%	-0.14%
Nikkei 225	18.69%	-0.64%
Eurostoxx 50	16.76%	0.15%

	5yr Implied (vol pts)	
	Current	Week Chge
FTSE 100	18.82%	-0.09%
S&P 500	21.47%	0.60%
Nikkei 225	19.79%	0.62%
Eurostoxx 50	20.56%	0.49%

Source Bloomberg / Partner Banks
 Data as at 16th December, 10.30am

Upcoming events	
19 th Dec	Fed's Yellen Speaks
19 th Dec	BoJ monetary policy meeting
21 st Dec	Japan's December Economic Report
22 nd Dec	Russia's December Economic Report
22 nd Dec	UK GDP % y/y
22 nd Dec	US GDP annualised % q/q
23 rd Dec	French GDP (Final) % y/y

FRIDAY NIGHT 'LIGHTS

All of the above can be found in the [Fortem resources library](#) on our website.

What is coming next year?

We will have some breaking news in the New Year on Fortem, with potential new additions to the management team, exciting product launches including funds and we believe a series of innovative investment propositions.

So, it goes without saying that we wish you and your families a fantastic festive cheer and look forward to entering the New Year onwards and upwards.



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