Subject: FW: ***Market Volatility Bulletin: Election Risk Underpriced? - Credit Suisse Equity Derivatives Strategy***
From: Stewart Oldfield <[redacted]>
Date: Wed, 28 Sep 2016 14:41:54 -0400
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From: Xu, Mandy [mailto:[redacted]]
Sent: Monday, September 26, 2016 9:34 AM
To: Xu, Mandy
Subject: ***Market Volatility Bulletin: Election Risk Underpriced? - Credit Suisse Equity Derivatives Strategy***

{Header 1}

MARKET COMMENTARY

Market Volatility Bulletin
Election Risk Underpriced?
Link to Report: Market Volatility Bulletin

WHAT STANDS OUT:

· Implied volatilities declined significantly across asset classes last week. Vols are currently at/near 1-year lows for equities, rates, gold, and several FX pairs (EUR, CHF, AUD). The only exception is oil. WTI 1M implied surged 4.6 vol pts last week to 42% on speculation of potential supply cut. USO (oil ETF) skew flattened significantly on call demand.

· Ahead of tonight's debate, it's remarkable how little election risk is currently being priced into the equity vol markets. Both VIX spot and futures are near lows. SPX weekly options are pricing in less vol for the election than for an average Fed meeting (see chart below). This is despite a recent tightening in the polls.

· Our analysis shows that historically elections have been meaningful drivers of equity volatility. Over the past 6 elections, the VIX has increased every single time in the month leading up to Election Day, with an average gain of 3.5 vol pts. Looking back further at all post-war elections (1948-2012), we find that realized volatility is highest in October of an election year than any other month during election season (Jul-Nov). Given this setup, we like buying VIX call spreads for investors looking to position for a similar pickup in volatility this year. See pg 14 for trade details.

Chart: SPX Weekly Options Pricing in Less Volatility for the Election Than a Fed Mtg

Source: CS Equity Derivatives Strategy

MORE INSIDE (Market Volatility Bulletin)

Mandy Xu, CFA

Equity Derivatives Strategy

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Because of the importance of tax considerations to many option transactions, the investor considering options should consult with his/her tax advisor as to how taxes affect the outcome of contemplated options transactions.

Risks:

1. Call or Put Purchasing: The risk of purchasing a call/put is that you will lose the entire premium paid.

2. Uncovered Call Writing: The risk of selling an uncovered call is unlimited and may result in losses significantly greater than the premium received.

3. Uncovered Put Writing: The risk of selling an uncovered put is significant and may result in losses significantly greater than the premium received.

4. Call or Put Vertical Spread Purchasing (same expiration month for both options): The basic risk of effecting a long spread transaction is limited to the premium paid when the position is established.

5. Call or Put Vertical Spread Writing (same expiration month for both options): The basic risk of effecting a short spread transaction is limited to the difference between the strike prices less the amount received in premiums.

Call or Put Calendar Spread Purchasing (different expiration months & short must expire prior to the long): The basic risk of effecting a long calendar spread transaction is limited to the premium paid when the position is established.