GLOBAL VOLATILITY SUMMIT 2014

October 2014 Newsletter

2015 Event Update

The Sixth annual Global Volatility Summit ("GVS") will take place on March 11th, 2015 at Pier Sixty at Chelsea Piers in New York City.

Managers. The following managers will be participating in the 2015 event:

BlueMountain Capital
Capstone Investment Advisors
Capula Investment Management
Dominicé & Co.
Fortress Investment Group
Ionic Capital Management
JD Capital Management
Parallax Volatility Advisors
Pine River Capital Management

Questions?
Please contact
info@globalvolatilitysummit.com

2014 October Newsletter

The Global Volatility Summit brings together volatility and tail hedge managers, institutional investors, thought provoking speakers, and other industry experts to discuss the volatility markets and the roles volatility can play in institutional investors' portfolios.

Planning is underway for the 6th Annual Global Volatility Summit, scheduled to take place on Wednesday, March 11th, 2015. Please continue to check the website (www.globalvolatilitysummit.com) for updates on the 2015 event and a link to registration which will open in the coming months.

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Fortress Convex Strategies Group has provided the latest piece in the GVS Newsletter Series. The newsletter points out several timely global developments and brings into question the compression of volatilities and volatility cycle regime shifts over time.

Cheers,

Global Volatility Summit

Global Volatility Summit

Fortress Convex Strategies Group

October 2014

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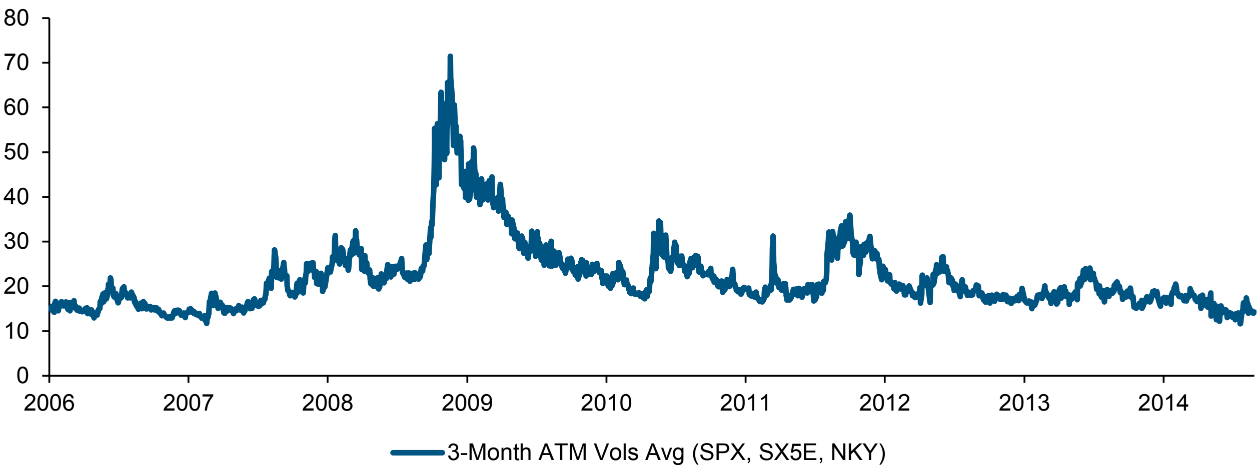
Given the numerous ongoing global developments in the past few months, including:

- Middle Eastern turmoil;
- Russian-Ukrainian conflict;
- An unprecedented political standoff in Hong Kong / China;
- Deteriorating economic growth across a number of emerging markets and Europe;
- Growing market concerns about the build-up of risk in various markets, for example, higher-yielding developed and emerging market credit;
- Concerns about US monetary policy shifting its stance in the near future;

One might be forgiven for expecting the market pricing of risk to reflect a highly uncertain and risk adverse environment.

Yet, in a longer-term historical perspective, the pricing of many volatilities remains subdued, with a large number trundling along the bottom-end of their past ranges. To be sure, some shifts have started to occur more recently, particularly in currencies. The chart below is suggestive of the current situation, showing the long-term variation in an aggregate of representative equity volatility indices (S&P500, Eurostoxx, and Nikkei225).

Average Implied 3-Month ATM Volatility of Global Equity Indices (S&P500, Eurostoxx, Nikkei225)

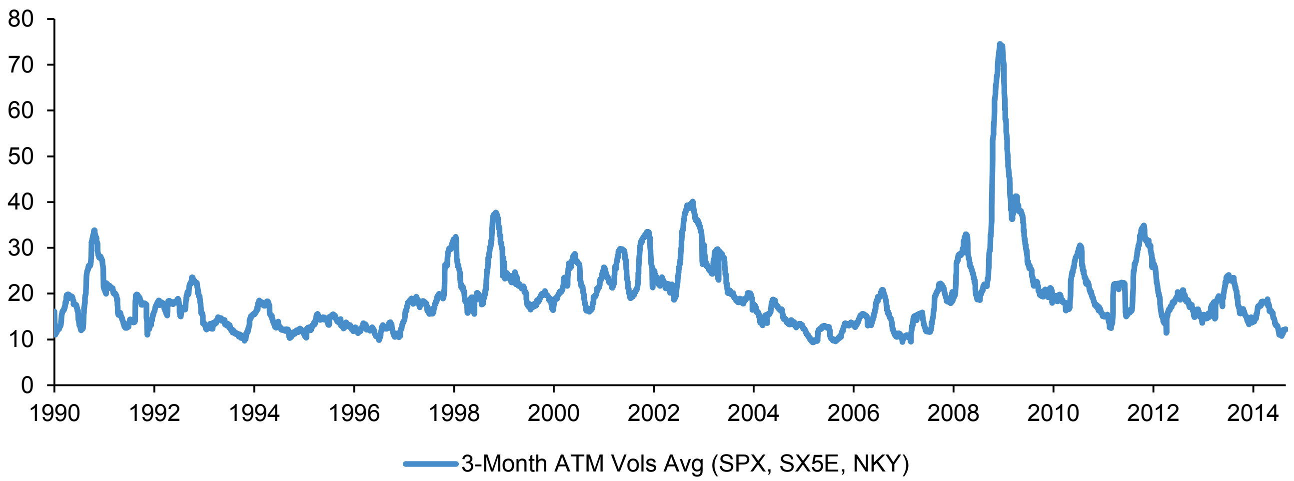


Source: Bloomberg data, as of September 2014.

Clearly within this major global equity index space, the repricing in volatility from the very lows, in our view, has been very modest thus far. This begs the question - how might we explain this current situation? The standard responses are typically proposed:

- Realized volatilities are compressed – indeed they generally are, as the realized variant of the first chart shows below – and yet in a sense this only defers the question;
- Global monetary policy remains accommodative, particularly in Europe and Japan, even if the US policy trajectory may be shifting, therefore compressing risk

Average Realized 3-Month ATM Volatility of Global Equity Indices (S&P500, Eurostoxx, Nikkei225)



Source: Bloomberg data, as of September 2014.

While there is merit to these claims, perhaps the real question is whether it is prudent to assume that the compression of volatilities we have witnessed over the last several years since the crisis will necessarily continue indefinitely into the future - as seems to be implicitly priced into our example above. As the realized volatility chart itself shows, volatility levels go through dramatic long cycle regime shifts over time, with the most dramatic shocks often occurring after extended periods of volatility compression. Certainly this has been the pattern over the last two or so decades of our careers, culminating in the Asia-LTCM-Russia crisis of 1997/1998 and the global financial crisis of 2008. Perhaps the real question to be asked is whether it is prudent to assume with very high confidence that indeed, when it comes to the global financial cycle, 'This time it's different.'

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