Infinity Q Volatility Update

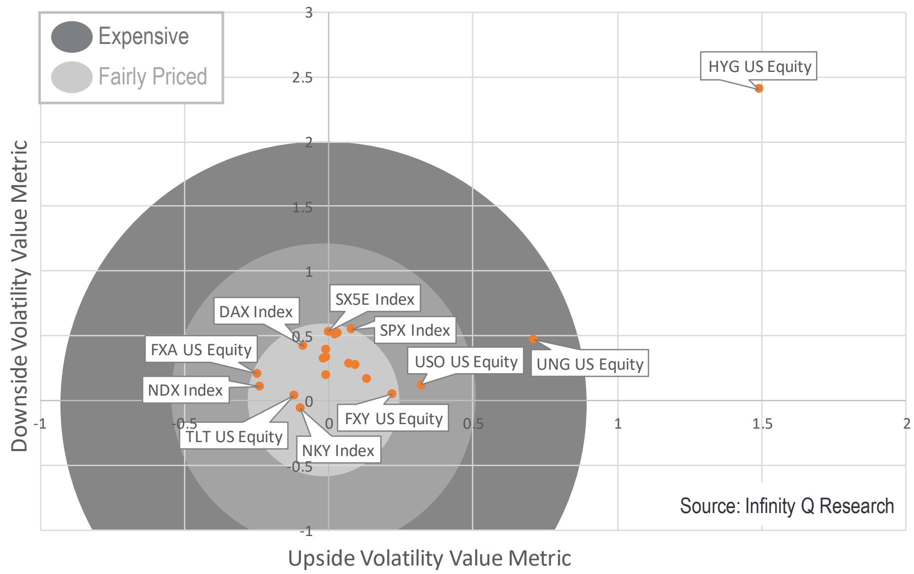
July 2018

Macro Vol Commentary

The normal summer doldrums were interrupted toward the end of the month with Facebook earnings providing a slight hiccup to the domestic equity market vol crush that marked the first few weeks of July. We believe one of the main catalysts driving the slight pick-up in realized volatility was an earnings miss from the social networking behemoth that caused a subsequent -20% sell-off in the stock. This move seemed to ruin the persistently over-crowded "long FAANG" trade that we saw investors aggressively rotate into post the February "Volpocalypse". We believe this sparked an unwind of investors who had entered into the trade lacking major conviction and resulted in the Nasdaq dropping more than -4% over the last few trading days of the month. As a result, we saw a bid in implied volatility overall and a significant jump in Nasdaq implied vol, ending the month trading at a more than 6pt premium to the VIX, suggesting very expensive cost to own US tech volatility going forward. That being said, we believe that the relatively muted broad market vol response since then suggests relatively low probability of a sustained follow through and perhaps a return to the "dog days of summer" on the horizon for August.

European vol markets were slightly less eventful, with a potential Europe-US tariff ceasefire buoying European markets and driving implied volatility lower in both the front and long ends of the curve. This news, along with improving economic growth amidst extremely dovish European Central Bank led to a flattening of SX5E skew and most European implied vol indicators moving into bullish territory.

Meanwhile in Asia, NKY volatility seems rich, perhaps signifying low confidence in the BoJ having the tools at its disposal to be able to navigate through any sustained period of turmoil.



Cross-Asset Volatility Monitor

This month, we introduce our 20 factor Cross-Asset Volatility Monitor which seeks to identify various global assets that have 1-month implied volatilities suggesting larger than normal market moves in the left (downside) & right (upside) tails*. We think that this screen represents a potentially efficient way to identify the opportunity set available at any given time in global volatility markets. The monitor looks at the implied volatilities of a 1-month 10-delta put option and call option for each of the 20 assets and highlights the most expensive/cheap as relative to the previous month. The dark shaded area signifies what we believe are expensively priced tails as compared to the realized volatility of last month and the light shaded area represents potentially fairly priced tails. We think that the significance of the results of the monitor allow the team at Infinity Q to quickly identify at any given time during the day which assets provide attractive trading opportunities due to volatility levels that are implying either abnormally large positive or negative market moves through either over-priced call or put options.

As an example, this month it seems some of the cheap sourcing of convexity continues to come from global FX markets while High Yield Credit appears to be abnormally expensive in both the left & right tails. Going forward, we hope to use this as a useful tool for Infinity Q investors & prospective investors to tap in to how we think about the various volatility markets and where we can either buy (or sell) cheap (or expensive) volatility.

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*As of August 10, 2018

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The indices and securities included in the Cross Asset 1-Month Probably Monitor are the 20 underlyings commonly assessed in reviewing the broad global volatility markets.

SPX Index: The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

SX5E Index: The EURO STOXX 50 is a stock index of Eurozone stocks designed by STOXX, an index provider owned by Deutsche Börse Group. According to STOXX, its goal is "to provide a blue-chip representation of Supersector leaders in the Eurozone."

NDX Index: The Nasdaq-100 Index includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology.

UKX Index: The Financial Times Stock Exchange 100 Index, also called the FTSE 100 Index, is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.

DAX Index: The Deutscher Aktienindex (German stock index) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange

SMI Index: The Swiss Market Index is Switzerland's blue-chip stock market index. It is made up of 20 of the largest and most liquid Swiss Performance Index (SPI) large- and mid-cap stocks.

AS51 Index: The S&P/ASX 200 measures the performance of the 200 largest index-eligible stocks listed on the ASX by float-adjusted market capitalization. It is considered the benchmark for Australian equity performance.

NKY Index: The Nikkei-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

HSI Index: The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index of the largest companies that trade on the Hong Kong Exchange, and is consider the main indicator of the overall market performance in Hong Kong.

Kospi2 Index: The KOSPI 200 Index is a capitalization-weighted index of 200 Korean stocks which make up 93% of the total market value of the Korea Stock Exchange.

Investment involves risk, including possible loss of principal. The prices of securities fluctuate, sometimes dramatically. The price of a security may move up or down, and may become valueless. It is as likely that losses will be incurred rather than profit made as a result of buying and selling securities.

Past performance is no indication of future results.

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