

"We believe the probability of a 5%+ dip is high this summer and our tactical call remains Down given the S&P now at an even higher PE than a year ago, heightened uncertainty in 10yr yields, weak earnings growth and continued soft economic data. We haven't had a 5%+ dip this year. Historically 5%+ dips are common and happen at least once a year since 1960, except 1964, 1993 & 1995. It has been 916 trading days (3.6 years) since a 10% correction. Selloff triggers could be a further rise in 10yr yields especially if UE keeps falling amidst slow economic growth and Fed remains unclear on first hike timing, or a jump in the dollar upon the Fed expressing firm intentions to hike in Sept."

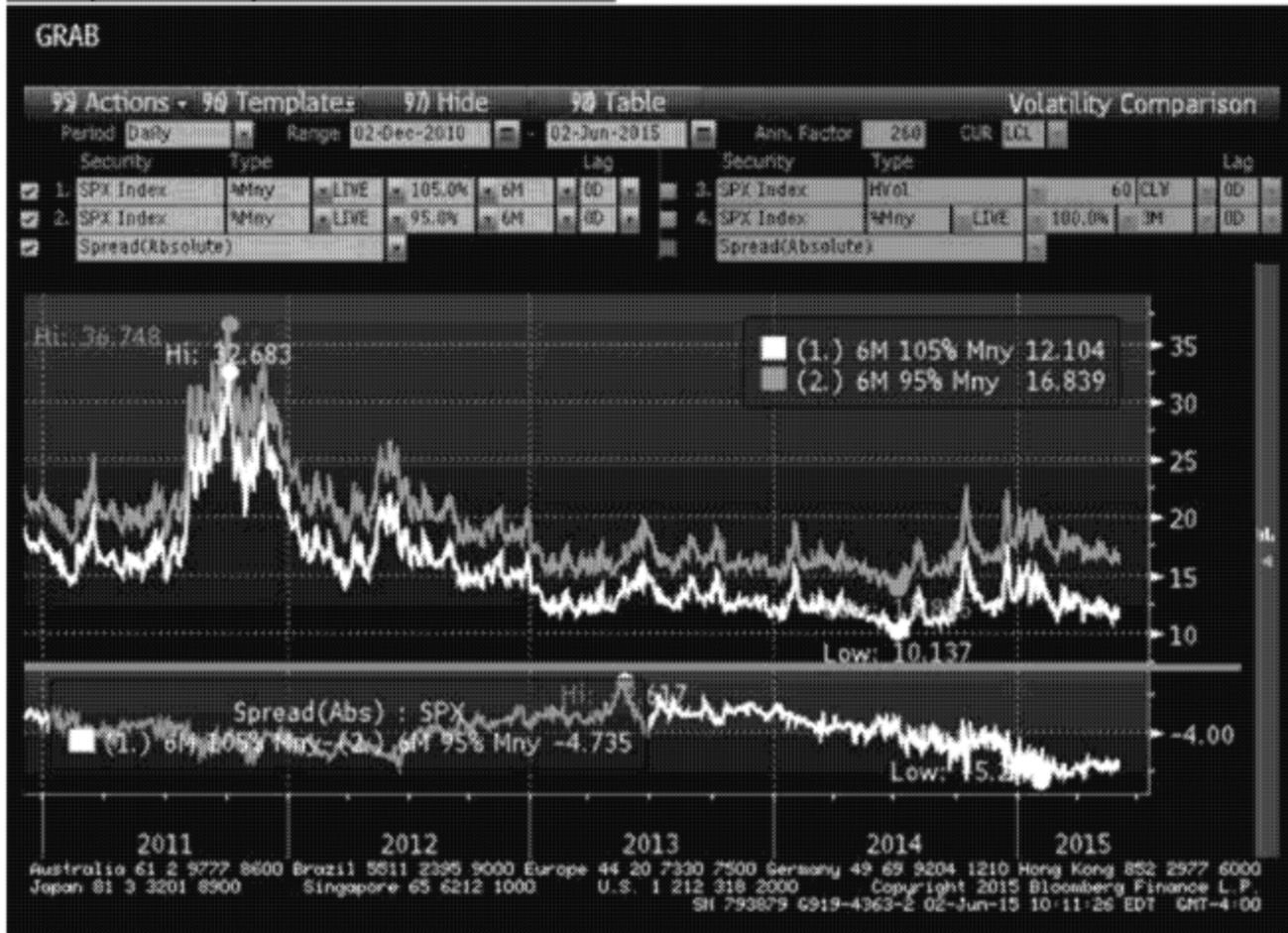
With that said, we looked at **OTC equity put spreads contingent on higher rates**. We priced in-the-money versions which would obtain its maximum payout (over 5x premium) with a 5% sell-off in SPX and higher 10y US swap rates (CMS, 25bps over its forward level).

Indicative transaction terms (as of 06/03/2015):

Client buys: OTC SPX 105%/95% Put Spread contingent on 10y USD CMS > atm+25bps at expiry
 Notional: USD50mm
 Expiry: 18 Dec 2015
 Offer (mid): 2.00% (1.60%)
 Ref vanilla: 4.30%

Ref SPX future: 2115
 Ref 10y fwd: 2.54%

SPX Implied volatility levels close to historical lows



Please let us know if you would like to discuss. Best regards,
 Daniel

Daniel Sabba