



together with equities giving up some of the recent upside. We condition equity puts on a higher 5Y rate:

- **18-Dec-2015 SPX 95% put subject to 5s > ATMF + 25 , offer 1.15%, an 73% discount to vanilla at 4.30%**

Alternatively, delayed hikes mean lower rates. However, unless the Fed abandons hikes in the foreseeable future, risk premia in the belly would remain elevated – 5s might not rally hard as the market remains in a standby position until further notice. In all likelihood, given the favorable rates differential between UST and European sovereign yields, this would be a “buy” signal for foreigners. In that sense, 10s could lead on the way down while risk assets rally. Thus, contingent S&P calls would be conditioned on the 10Y rate:

- **18-Dec-2015 SPX 103% call subject to 10s < fwd-25bp at expiry, offer 1.00%, a 70% discount to vanilla at 3.37%**

When combined, these two trades describe effectively contingent equity strangles, with conditioning reflecting a particular Fed action. At inception, the put side is short S&P and long rates gamma, while the call side is long S&P and short rates gamma. Each leg reflects the doubling up as pressure on S&P is also bullish for gamma and delayed hikes are bullish for stocks and bearish for vol. This doubling up is the source of excess leverage. With both hybrid options at deep discounts in excess of 70%, buying the whole package (as a contingent strangle) is still cheaper than buying single vanilla options. Both trades have limited downside with max loss equal to the option price.