

From: Stephen Hanson <[REDACTED]>
To: "jeffrey E." <jeevacation@gmail.com>
Subject: Re: Trade recommendation
Date: Thu, 18 Aug 2016 17:44:01 +0000

Very
Tks

Sent from my iPad

On Aug 18, 2016, at 12:20 PM, jeffrey E. <jeevacation@gmail.com> wrote:

thought you might find amusing

----- Forwarded message -----

From: Richard Kahn <[REDACTED]>
Date: Thu, Aug 18, 2016 at 10:12 AM
Subject: Fwd: Trade recommendation
To: Jeffrey Epstein <jeevacation@gmail.com>

Sent from my iPhone

Begin forwarded message:

From: "Ens, Amanda" <[REDACTED]>
Date: August 18, 2016 at 11:37:24 AM EDT
To: Richard Kahn <[REDACTED]>
Subject: Trade recommendation

Rich,

In the short to medium term, we believe the cyclical rotation has only just begun. Our analysis of 4000 large long-only funds managing \$12tn shows that funds have removed their underweight in Emerging Markets and are now neutral relative to benchmark, in aggregate, for the first time in recent years. History suggests that when the Global Wave (our monitor that tracks global trends in economic activity) is rising, the best performing region is Emerging Markets, on average, suggesting investors should continue to add to exposure to this cyclical region. Energy remains the second most underweight sector (behind Financials). US equities remain a big underweight.

Looking a little further into year-end, an uncertainty shock appears overdue and our 2000 year-end S&P 500 target incorporates a high correction probability. The rally over the last six months was initially driven by an improvement in the growth outlook for which investors were not positioned. Elevated valuations, high expectations for growth and stimulus, an increase in bullish positioning and volatility near post-crisis lows

point to a complacent market ripe for disappointment. The growth surprises may not be so one-sided in the coming months, as a contentious election season and Brexit could weigh on already weak corporate confidence and spending, credit fundamentals remain weak and Fed hikes should come back into focus.

Given low levels of volatility, we recommend considering stock replacement through buying call options for upside exposure, such as with the AAPL call option recommendation I sent on Tuesday.

As we've discussed, we're increasingly concerned over "irrational exuberance" in fixed income but very few are willing to act on this fear and reduce their bond holdings. Our strategist said recently that selling IG bonds might be seen as equivalent to selling the irrational exuberance of the Nasdaq in Aug '99, 8 months before the tech bubble popped. A "taper tantrum" pop in yield should cause a jump in vol and flash decline in asset prices. **This risk should be hedged.**

To the extent you'd rather hold your long positions, we recommend buying some cheap downside protection against a fixed income-led sell-off through contingent options.

Buy SPX puts contingent on higher yields for a >60% savings vs vanilla puts

- **Dec 16, 2016 expiry**
 - **Buy a SPX 2125 put contingent on 2Y Swaps > 1.15% at-expiry: 0.85% premium (64% discount to the vanilla at 2.36% premium)**
 - **Buy a SPX 2125 put contingent on 10Y Swaps > 1.60% at-expiry: 0.75% premium (68% discount to the vanilla at 2.36% premium)**

Current SPX level: 2184

Current 2y swap rate: 0.98%

Current 10y swap rate: 1.43%

Key Events

- Yellen Jackson Hole speech 8/26
- FOMC 9/21, 11/2, 12/14
- US elections 11/8

Regards,

Amanda

Amanda Ens

Director

Bank of America Merrill Lynch

Merrill Lynch, Pierce, Fenner & Smith Incorporated

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Phone: [REDACTED] Mobile: [REDACTED]

[REDACTED]

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