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**Subject:** Using Russell puts as a proxy to short HY market. [C]  
**Date:** Thu, 25 Jun 2015 14:52:15 +0000  
**Inline-Images:** image017.png; image001.png; image002.png

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Classification: **Confidential**

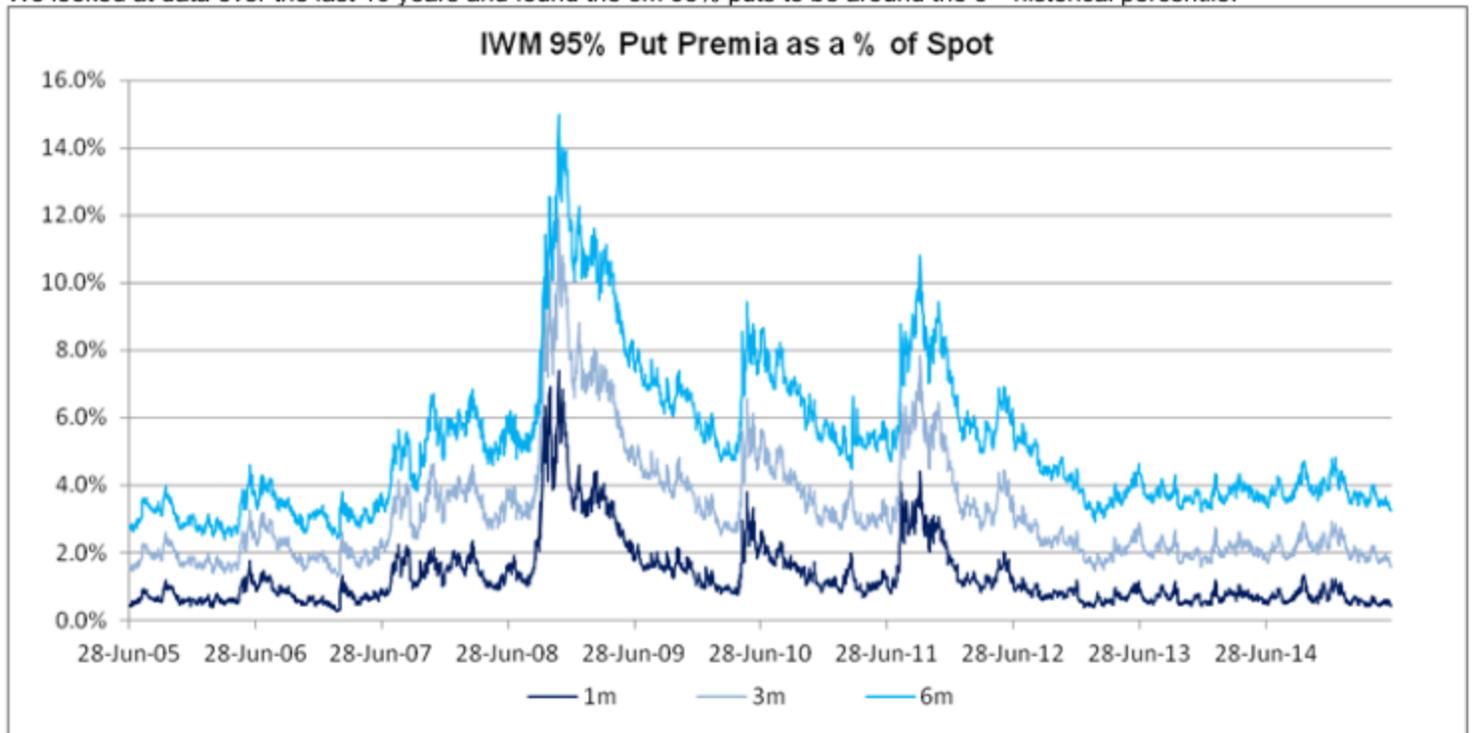
Jeffrey, I called you yesterday and left a message with [REDACTED].

A few large investors have gone on the record over the past days calling for frothiness in the High Yield market. The rationale typically used is the richness of the asset class and recent proliferation of covenant-lite deals.

We have been working on using Russell (and IWM US ETFs) puts to hedge for a HY sell-off and would like to discuss with you. Russell risk premium can be seen as tied to HY and put options are historically cheap (see below).

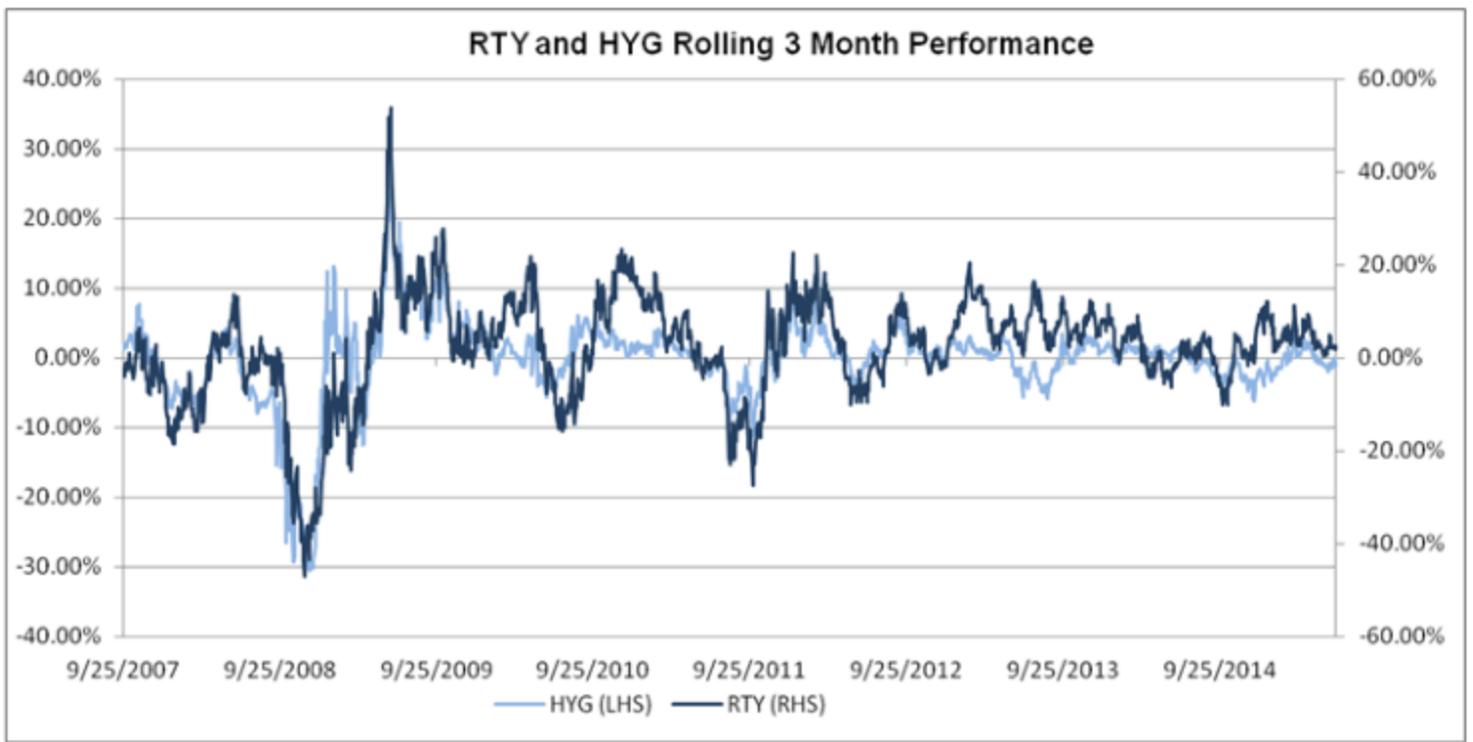
**IWM 95% put premia in historical lows (see premiums for 1m, 3m and 6m expiries).**

We looked at data over the last 10 years and found the 3m 95% puts to be around the 3<sup>rd</sup> historical percentile.

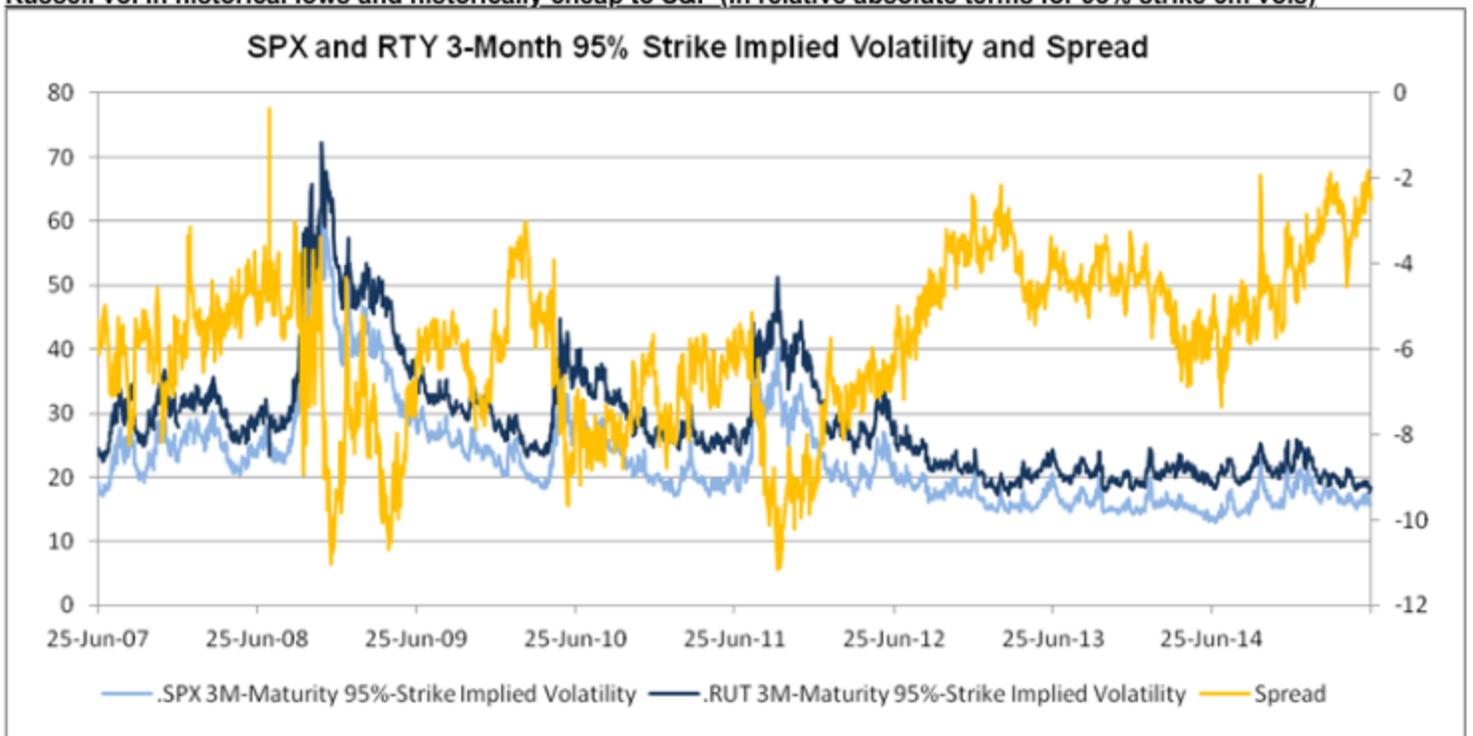


**Historical rolling 3-month performance of HYG US ETF and RTY Index.**

The historical performance below illustrates that when large moves happened, they co-occurred in both RTY Index and HYG US ETF (since 2007).



**Russell vol in historical lows and historically cheap to S&P (in relative absolute terms for 95% strike 3m vols)**



Looking forward to discussing further.  
 Regards,  
 Daniel

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