

**Index Investment Strategy**

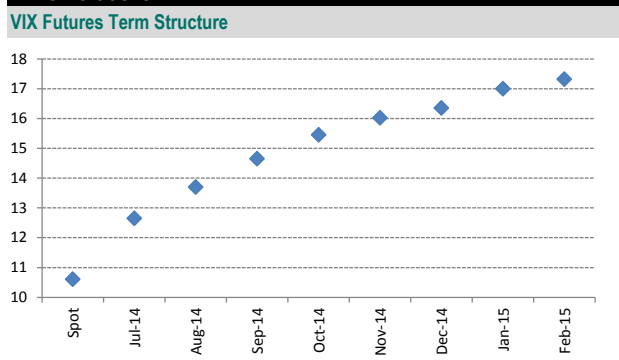
**VOLATILITY AND CORRELATIONS**

Implied Volatility Measures	VIX	1m ±	Realized (1Yr)
S&P 500 1 month (VIX®)	10.61	-1.83	11.05
S&P 500 9 day (VXST)	10.55	-0.45	11.05
S&P 500 3 month (VXV)	12.62	-1.71	11.05
DJIA (VXD)	10.58	-0.81	10.55
S&P ASX 200 (A-VIX)	11.44	-0.06	11.37
S&P TSX 60 (VIXC)	11.20	-0.59	9.36
Hang Seng (VHSI)	12.57	-2.72	15.51
10 Year US Treasury Note (VXTYN)	4.29	-0.52	5.58
Gold ETF (GVZ)	12.11	-1.93	19.19
VIX of VIX (VVIX)	71.76	3.04	99.03

Investable Volatility Indices	1 Month	YTD	1 Year
S&P VIX Short-Term Futures Index	-20.58%	-31.36%	-63.51%
S&P VIX Mid-Term Futures Index	-8.03%	-17.31%	-40.87%
S&P Dynamic VIX Index	0.13%	-10.32%	-26.29%
S&P 500 Dynamic VEQTOR Index	3.71%	2.49%	5.78%
S&P Daily Inverse Short-Term VIX	24.14%	29.57%	114.26%
CBOE S&P 500 Buy-write Index	1.29%	5.68%	11.22%
S&P 500 Stock Covered Call Index	3.31%	5.57%	15.45%

VIX Futures Indices Roll Costs (Monthly)	
Short-term futures	-8.30%
Mid-term futures	-3.58%

**HEDGING COSTS**



Correlations (Month-end)	1 Year	3 Year	10 Year
S&P 500 / S&P Europe 350	0.83	0.86	0.86
S&P 500 / 10 Year US Treasuries	0.02	-0.50	-0.28
S&P 500 / Commodities Correlation	0.16	0.66	0.46
S&P 500 / US Dollar Correlation	-0.63	-0.64	-0.54
Emerging / Developed Correlation	0.81	0.91	0.88

Credit Default Swap Indices	Current	1m ±
S&P/ISDA U.S. 150 CDS	47.9 bps	-5.6 bps
S&P/ISDA U.S. Investment Grade CDS	54.6 bps	-8.7 bps
S&P/ISDA U.S. High Yield CDS	267.5 bps	-21.2 bps
S&P/ISDA Intl Dev Sovereign CDS	42.9 bps	-9.1 bps

**COMMENTARY**

- The VIX closed yesterday at its lowest since February 2007; the S&P 500® closed at yet another all-time high. Realized volatility is low too; an otherwise unremarkable 0.8% gain yesterday in the S&P 500 was the largest daily move so far in June.
- Yesterday's announcement from the Fed contained few surprises; a further \$10 billion reduction in monthly bond purchases accompanied further reassurances regarding the Fed's continued support of the U.S. economy - interpreted as a continuation of low interest rates for some time.
- Coming two weeks after the E.U. central bank set a negative interest rate (-0.1%) for deposits - and with continued stimulus in Japan - if the remarkably low global volatility environment is indeed due to the actions of central banks, then it looks set to continue.
- Credit spreads have tightened considerably across the board. The costs of insuring the debt of the largest 150 investment-grade issuers in the S&P 500 - and U.S. high yield debt - are both at post-crisis lows.
- As might be expected, inverse short-term volatility indices performed particularly well in the last month (up over 24% since Friday, May 16). Otherwise, none of the volatility-linked indices outperformed the 4% gain in the S&P 500.
- The VIX futures curve has steepened somewhat. As we mentioned last month, the low correlation environment suggests a potentially benign environment for diversification as opposed to hedging as a risk management strategy.

**Sources:** S&P Dow Jones Indices LLC and/or its affiliates, NYSE, CBOE as of June 18, 2014. **Volatility measures:** respective VIX and changes in those levels May 16 - June 18, 2014. 1 year realized volatility calculated according to previous 1 years daily returns, annualised. **Investable Index performance** based on total return. **Correlations** of monthly returns between total return indices, in USD. Commodities are represented by the S&P GSCI Total Return index, US Treasuries by the S&P/BGCantor 7-10 year UST Index, US dollar represented by the DXY Index (Source: NYSE). All correlations provided to month-end May 2014. VIX futures **monthly roll costs** are expressed as the weighted sum of the percentage difference in price between each future and the subsequent future to expiry, expressed as a fraction of the subsequent futures price and weighted according to the former future's weight in the either the S&P VIX Short-Term Futures Index, or the S&P VIX Mid-Term Futures Index, as appropriate. Charts and graphs are provided for illustrative purposes. Past performance is no guarantee of future results. For more information, please visit our website at [www.spdji.com](http://www.spdji.com)

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