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SRP

INSIGHT

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Hilbert acquires UK intermediary with over US$400m in structured products AuM

Hilbert Investment Solutions has acquired UK structured products distributor Tempo Structured Products for an undisclosed amount.

As part of the acquisition, the senior staff at Tempo Structured Products will transfer to Hilbert Investment Solutions, with Chris Taylor, CEO at Tempo, taking the role of managing director of the UK business and Christopher Hale, Tempo's national business development director taking the same role at Hilbert.

Taylor and Hale will join Hilbert's team including Dasale Mallawa-Arachi, head of UK distribution, Adam Turner, senior business development manager, structured products, and Boumediene Boutelaa, head of institutional sales.

"The acquisition of Tempo represents a step forward for the combined business to position Hilbert as the leading provider of structured products in the UK, we will be able to leverage Tempo's market knowledge and reach to get to the next level of development, by combining Hilbert's core skills within custody, pension, models portfolio," Steve Lamarque (pictured), CEO and founding partner at Hilbert Investment Solutions, told SRP. "Tempo's products will also add scope and variety to our offering."

According to Lamarque, Tempo's reputation is widely recognised for its "acute and bar-raising focus on client centric, best practice governance, working closely with professional advisers in the UK, providing research and educational support alongside innovative products".

"We look forward to ongoing contact with professional advisers, focusing on a client-centric, bar-raising best practice approach to structured products, also bringing innovative pension and model portfolio services to the UK," Taylor told SRP.

"We will combine the best aspects of Tempo with the best aspects of Hilbert, including its good bank relationships, also strong research and product development capabilities, and notably very strong in-house plan administration and custody, 'Infinity', with BoNYM as custody provider. We will strengthen what we do together to achieve steady growth and scale over time."

Market activity

Tempo Structured Products has over 270 live products in the UK market worth an estimated US$427 million – most of the products and sales are linked to the FTSE 100 Equal Weight Fixed Dividend Custom Index (250 products/US$372m) which was introduced in the retail market by the UK distributor in 2018, as well as to the FTSE 100 and the interest rate, SRP data shows.

Most of the products sold by Hilbert have been issued by Citi (45 products/US$121m) and Goldman Sachs (four products/US$14m).

Tempo's preferred issuer since its launch has been Société Générale although the distributor has live products in the market issued by RBC and Morgan Stanley. Tempo was the fifth most active distributor of structured products in the UK in 2023 with more than 70 products marketed worth an estimated US$121m or 5.4% market share.

Hilbert, on the other hand, has a smaller range of live products in the UK market (50 products/US$137m) but a wider variety of underlying exposures including market cap and custom indices such as the FTSE 100 Equally Weighted 45 Point Decrement Index (27 products /US$70.27m) and FTSE International Consolidated Air 4.52% Decrement Index (three products/US$5.08 m) as well as market cap indices such as the FTSE 100 and Eurostoxx 50, and baskets of stocks.

> The acquisition of Tempo represents a step forward for the combined business to position Hilbert as the leading provider of structured products in the UK

VDK returns with Natixis after seven-year absence

VDK Bank, formerly VDK Spaarbank, has collaborated with Natixis for the launch of two green debt securities in Belgium: Natixis (FR) Fixed to Floating CMS Linked Coupon Green Note 2028 and Natixis (FR) Fixed to Floating CMS Linked Coupon Green Note 2029.

The former has a four-year maturity and pays a fixed coupon of 3.75% pa for the first two years of investment.

The annual coupon for year three and four is equal to two-times the difference between the 30-year EUR constant maturity swap (CMS) rate and the five-year EUR CMS rate, subject to a minimum of 2.0% pa and a maximum of 5.0% pa.

Terms for the five-year Natixis (FR) Fixed to Floating CMS Linked Coupon Green Note 2029 are similar, although the fixed coupon, at 3.50% pa, is paid over a three-year period instead of over two-years. Both structures return 100% of the nominal investment at maturity.

The products are VDK's first publicly offered structured notes since December 2017, when it launched SG Issuer (LU) Autocallable Silver Age Note, a 10-year capital protected autocall on the Solactive Silver Age Index.

"We started offering structured products again in the spring," Thomas De Nil, head of product management investment and ALM portfolio, at VDK Bank told SRP.

"Since then, we have been back in the market because market conditions – and especially interest rates, which have a major influence on the manufacturing of this type of structure – once again allowed us to offer diversifying products to customers."

Up until now, VDK mostly focused on single equity indices and – to a lesser extend – mutual funds as the underlying assets for its structured products. However, for the new products the bank switched to interest rates.

"In the past we saw that many clients wanted exposure to the equity markets but did not always want to take the risks attached. That is why equity index-linked products with a capital guarantee were a nice alternative, albeit with slightly longer terms," said De Nil.

"Today we see that customer appetite is more likely to be found in products with a shorter term and some form of guarantee in terms of return. In this way, these products distinguish themselves from the other fixed-income products in our offering due to the variable nature of the final coupons."

Natixis will use the net-proceeds of the products to finance or refinance green assets that have a positive impact on the environment including the acquisition and renovation of green buildings; renewable energy projects; organic farming; and infrastructure required for low carbon transport.

The SRP Belgium database registers 20 structured products distributed by VDK Bank, dating back to October 2013.

The products, which sold an estimated €180m (US$200m) at inception, where issued on the paper of five different entities, including SG Issuer (10), SecurAsset (five), Natixis (three), Credit Suisse, and Purple Protected Asset (one each).

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Today we see that customer appetite is more likely to be found in products with a shorter term and some form of guarantee in terms of return

Funds of structured products: aiming for autocalls that do not autocall

The Dutch domiciled Market Stability Fund (formerly Mondriaan Structures Fund) invests in a variety of structured products with the objective to generate an average long-term return at least equal to the average long-term return of equity markets in general, however with a lower level of risk compared to a diversified equity portfolio.

The fund closed June 0.62% higher relative to the previous month. Its cumulative performance since the start of the year is 4.80%.

"In Q2 2024, similar to the first quarter, all monthly returns were positive, even in April when all stock markets fell," said Ivo van Wees (pictured), managing director, risk & compliance, Market Stability Fund (MSF). "This is exactly what we like to strive for, namely stable returns."

The number of participants in the fund increased further in Q2 2024 while its assets under management (AuM) increased from €132.95m in March to €136.69m end-June.

"MSF is becoming better known and therefore interest in the fund and the added value it can offer for a broad group of investors increases," said Van Wees.

During June, many structures were redeemed early for a total notional of approximately €20m. All intended coupons were paid throughout the month with the revenues, including a part of the available liquidity, reinvested in new structures denominated in both euros and dollars for a total of around €24m.

The fund invests in products with a conditional principal guarantee and its managers have the option to choose between structures that potentially redeem early (autocallables) or memory coupon notes.

"The choice is mainly determined by the extra compensation that an autocallable provides compared to a memory coupon note," said Van Wees.

In case a product redeems early, usually in a market that has risen, capital is often reinvested at a higher level, which is to the fund's disadvantage.

"Yet we currently almost always opt for autocallables, because the coupon is considerably higher and so far, we have been able to reinvest continuously under almost comparable conditions.

"In fact, we prefer autocallables because of the higher coupon, but at the same time we'd rather have that they do not autocall," said Van Wees, who admits that the fund has no control over this.

"If products are autocalled, it is important that we can reinvest under comparable conditions and that has certainly been the case so far. It also offers flexibility, which is to our advantage."

The average coupon of the new investments is 11.2% pa compared to an average coupon of 10.8% pa for the structures that autocalled during the month.

At the end of June, the average buffer towards the protection barrier was more than 37%, with a lowest buffer of more than 31%. The initial buffer for all traded structures is at least 40%. In addition, all structures are currently paying their coupon.

The maximum maturity of the fund's products is 10-years. If none of the structures are called for early redemption, the average maturity is approximately 0.9 years with a maximum maturity of 1.2 years.

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SG expands listed range on Euronext Amsterdam

Société Générale has expanded its investment products in the Netherlands with the introduction of capital protection certificates on Euronext Amsterdam.

The French bank has listed 72 uncapped capital protection certificates that mature between 15 November 2024 and 18 December 2026. A further 125 capped capital protection certificates with a maturity between 28 October 2024 and 19 December 2025 are also listed.

The products available are linked to single indices (AEX, Eurostoxx 50, S&P 500), single stocks from European (mostly Dutch) or US companies including ABN Amro, ASM International, Amazon, Flow Traders, ING, NN Group, Unilever, and Vopak, as well as commodities (gold, Brent oil futures).

'With these certificates, investors can protect themselves against falling prices and at the same time benefit from a possible increase in the price of the underlying asset of the certificate, such as a share or index,' Christophe Cox (pictured), vice president listed structured products Belgium and the Netherlands at Société Générale said at the launch.

The certificates can be traded through various Dutch banks and brokers.

UK autocalls prove their worth

Lowes Financial Management.has released 'A Guide to Autocalls – A 21-Year Evolution' showing that the FTSE-linked capital at risk autocall is a mainstay in the UK sector, accounting for approximately 60% of autocall issuance and maturities to date.

The guide demystifies autocalls and dispels common misconceptions, offering insights into their history and features, according to Ian Lowes (pictured), founder of StructuredProductReview and MD of Lowes.

'Twenty years of maturities and historic performance show that autocalls have largely delivered as a reliable solution for investors,' said Lowes.

'The FCA's Consumer Duty regulations are at the forefront of most advisers' minds, and we know that Principle 12 states that 'a firm must act to deliver good outcomes for retail customers. Autocalls have been helping advisers do so for 20 years now and are a proven, successful solution for investors.'

Saxo Bank adds structured products to trading platform via Leonteq

Leonteq Securities AG and Saxo Bank A/S have launched a cooperation for the manufacturing and distribution of structured products.

As part of this cooperation, Saxo will become a sponsor under a standardised white-labelling issuance model established by Leonteq and will be responsible for the distribution of the Danish bank's guaranteed structured products to its client base.

At the same time, Leonteq has received an international distribution mandate from Saxo Bank to access Leonteq's global distribution network. The first Saxo guaranteed structured products are expected to be available on Leonteq's platform in the course of 2025, subject to regulatory approvals.

In addition, Leonteq will add Saxo Bank to its network of execution brokers and will seek to leverage on the bank's trading capabilities 'to access capital markets in a cost-efficient manner'. Leonteq also intends to add Saxo guaranteed structured products to its LYNQS platform.

Schroders debuts in US indexed annuity market

The UK asset manager's maiden index designed for the US fixed index annuity (FIA) market has been made available via a partnership with American Life.

With an 8% annualised volatility target, the Schroders Global Compass Index (SCHRGCI) follows a rules-based approach to allocate across multiple asset classes, including global equities, government bonds and energy commodities.

The index is now available through the Max Growth 10 FIA, which will be issued by Nebraska-based American Life & Security Co (American Life), a fully owned subsidiary of Midwest Holding, and distributed through independent marketing organisations (IMOs).

The Schroders Global Compass Index is the first index launched by Schroders in the US indexed annuity space, according to Max Guimond (pictured), head of North American solutions at Schroders.

"The FIA market is a large and growing segment with sales exceeding US$95 billion in 2023. We saw it as an attractive proposition to continue to grow our insurance footprint, especially in the US," Guimond told SRP.

Schroders has been active in variable annuity through its sub-advising funds for insurers in the country since 2012, which often employ volatility-controlled strategies, said Guimond.

"One of the main features that make indices attractive for FIA is having volatility control embedded in them, which makes the hedging more effective," he added.

The launch of the Max Growth 10 FIA marks the first-time collaboration between Schroders and American Life after a year-long process.

The excess return index that went live on 25 June features a daily rebalancing frequency with Schroder Investment Management NA as the sponsor and Bloomberg as the calculation agent as well as administrator.

It is licensed on a non-exclusive basis and adopts an asset-based fee model.

Following its foray into the FIA space, Schroders will focus on expanding its market share with an equity factor-based index in the pipeline primarily catering to the Rila market - the Schroders Strong & Stable Index.

"The index seeks exposure to stocks of large US market capitalization companies, with a favourable combination of low volatility, low valuation, high price momentum and high-quality investment factors," said Guimond.

The objective is to pursue long-term steady growth and limit downside exposure by dynamically shifting this core equity allocation with a bond component to take advantage of changing market conditions and provide a smoother volatility profile.

The past few years has seen Rila products evolve with highlights of structuring, such as buffer and dual direction payout, according to Guimond. "I think the next wave of innovation in Rila is having custom indices as an investment option there, not just the S&P 500," he said.

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One of the main features that make indices attractive for FIA is having volatility control embedded in them, which makes the hedging more effective

UBS bolsters Brazil, Latam global markets team

The Swiss bank has also strengthened its derivatives and solutions franchise to drive collaboration with its global wealth management business.

UBS has made three senior appointments in its investment bank covering institutional clients in Brazil and Latin America, according to a memo seen by SRP.

The three senior executives joining the bank's global banking and global markets team covering Brazil and LatAm, effective immediately, include Anderson Brito who has been appointed head of global banking Brazil, responsible for leading the M&A, ECM and DCM teams in Brazil.

Brito will report to Ros L'Esperance, co-head of global banking and group managing director, with an additional reporting line into Daniel Barros, CEO of UBS BB in Brazil.

Barros was the former head of global markets LatAm, he was recently named CEO of UBS BB investment bank, UBS' joint venture with Banco do Brasil that provides investment banking solutions in the southern cone.

Additionally, the Swiss bank has appointed two co-head of global markets LatAm with Diogo Lima (pictured) taking the helm of the investment banking activities outside of UBS Brasil Banco de Investimento SA (UBS BB) focusing on its local derivatives and solutions franchise and driving collaboration with global wealth management.

In his new role, Lima will report to Dushyant Chadha, global head of derivatives & solutions, FRC/equities, with an additional reporting line into Daniel Bassan, country head Brazil and regional head Latin America at UBS.

Lima will work alongside Marcelo Okura who will be responsible to continue to drive UBS BB's institutional brokerage business in Brazil. Okura joined UBS in 2013 during the Link Investments acquisition and has held several roles at UBS with the latest being the head of Brazil financing sales and origination. Okura will report to Tricia Hazelwood, with an additional reporting line into Barros.

Exclusive: Marex to enter SEC-registered note market

Marex Group is targeting mid-next year to complete its shelf registration with the US Securities and Exchange Commission (SEC) as it seeks to begin issuing structured notes onshore, according to two sources familiar with the matter.

In its prospectus dated 24 April, the financial services platform specialising in commodities has identified opportunities including 'the potential to issue structured products in the US'.

If approved, Marex will join the current 17 issuers active in the US market which includes recent re-entrant Nomura, and become the only non-bank issuer in the SEC-registered structured notes market worth over US$100 billion.

Marex declined to comment on the move. The plan was already set out before the company raised US$292m in its initial public offering (IPO) on the Nasdaq Global Select Market on 25 April, according to the sources.

In its IPO prospectus dated 24 April, the financial services platform specialising in commodities has identified opportunities including 'the potential to issue structured products in the US'.

It will take at least 10 months for Marex to complete its shelf registration statement, known as Form F-3, as issuers need to meet a series of requirements over a 12-month period, including public float – a threshold of US$75m is used to differ primary and secondary issuers.

Before that, SEC Form F-1 is required as the initial registration for new securities for foreign issuers. Marex has not filed this form for debt issuance yet.

During the 12-month interim, a company can still issue structured notes to the public, but at a higher cost as Form F-1 involves "more cumbersome" work than Form F-3, a partner at a US law firm told SRP.

Compared with existent active issuers in the US market, Marex is expected to have the edge on trading capabilities as a non-bank issuer. Meanwhile, its relatively lower credit rating of BBB- rated by Fitch and S&P may be a disadvantage, according to one of the sources.

Indexed annuities hit new heights, Rila sales up 44%

Despite the growth, two leading US insurance carriers have seen their sales noticeably decline amid increasing competition.

Fixed index annuity (FIA) sales had another record high as its sales totaled US$30.7 billion for the second quarter of the year, a 21% increase year-on-year (YoY), according to the US Individual Annuity Sales Survey released by Limra yesterday (28 August).

For the first six months, FIA sales came to $59.3 billion, up 23% from the prior-year period, accounting for 27.4% of the total US individual annuity sales.

'Over the past few years, the equity markets have experienced quite a bit of volatility, and interest rates have remained high. Consequently, investors have been interested in a solution that offers downside protection with upside growth potential, which FIAs offer,' said Bryan Hodgens (pictured), senior vice president and head of research at Limra.

'Regardless of possible rate cuts later this year — FIA sales should remain strong through 2024 and are expected to exceed the record set in 2023,' added Hodgens.

For the fifth consecutive quarter, registered index-linked annuities (Rilas) sales were again in record territory at US$16.4 billion, up 44% YoY. That led to US$30.9 billion Rila sales for the first six months, a 42% climb from the prior-year period, forming 14.3% of the total.

Sales were driven by independent broker dealers, career agents and bank distribution, all of which logged double-digit growth. Limra has forecasted Rila sales to surpass US$50 billion this year.

Compared with Q1 2024, the FIA and Rila sales increased 7.3% and 12.4% for the second quarter of the year.

For FIAs, Athene Annuity & Life has retained it crown with US$3.4 billion sales despite a 17.7% decline quarter-on-quarter (QoQ). The Iowa-based company is among eight of the top 20 carriers that saw their FIA sales cutdown.

Ohio-based AuguStar posted the greatest decline in FIA sales as the volume plunged 42.4% to US$542.3m QoQ.

Meanwhile, Sammons Financial Companies stayed as the runner-up but with a tighter margin as its FIA sales increased 19.2% to US$3.0 billion QoQ. Symetra Financial and Pacific Life had the most growth of 75.1% and 71.7%, respectively.

Salt, ICE to explore indices for risk-control investment products

US financial services firm Salt Financial has signed a memorandum of understanding with Intercontinental Exchange, Inc. (ICE), to collaborate on strategic index development. Leveraging Salt's patent-pending truVol Risk Control Engine (RCE), the collaboration will focus on satisfying the growing demand for risk-controlled investment products for insurance companies, fund sponsors, and investment banks in the form of bespoke systematic indices.

By combining Salt Financial's expertise in volatility management with ICE's robust index capabilities and the NYSE brand, this collaboration aims to bring to market 'new and enhanced index solutions'.

ICE offers a diverse range of cross-asset index solutions, with approximately US$2 trillion in assets under management benchmarked to ICE Indices which also support exchange-traded products (ETPs), structured products, insurance and other financial products globally.

The collaboration is also aimed at offering investors a broader range of choices, incorporating the latest advancements in index design and truVol's cutting edge volatility control mechanism powered by historical intraday data.

JPM sued by Dropbox co-founder over US$1bn structured note sales

The former Dropbox executive is seeking to recover US$225m in damages from J.P. Morgan due to "exorbitant" undisclosed fees on 35 structured notes.

Arash Ferdowsi, co-founder of Dropbox, has filed a lawsuit against J.P. Morgan Private Wealth Advisors LLC (JPM Wealth) and J.P. Morgan Securities LLC (JPMS), alleging that he was steered into "highly improper" market-linked investments (MLIs).

Between April 2020 and October 2023, Ferdowsi invested in MLIs comprising 35 autocallable structured notes worth over US$1 billion linked to the technology sector, as advised by Arif Ahmed at JPM Wealth.

The customised products included "exorbitant" embedded fees paid to JPM Wealth without Ferdowsi's knowledge, which were 15 times greater than their agreed-upon advisory fee.

When questioned by the client, Ahmad lied and contended that the fees worth over US$40m were retained by the notes' issuers when they were in fact pocketed by JPM Wealth and made the advisor one of the highest-paid employees, according to the filing.

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The customised products included "exorbitant" embedded fees paid to JPM Wealth without Ferdowsi's knowledge, which were 15 times greater than their agreed-upon advisory fee.

'By steering Mr. Ferdowsi into MLIs rather than suitable investments - such as index funds or large-cap technology stocks - Ahmed and JPM Wealth caused Mr. Ferdowsi to suffer over US$225m in damages,' stated the plaintiff.

The advisor and JPM Wealth are alleged to have breached fiduciary duties, applicable Financial Industry Regulatory Authority (Finra) rules, and federal and state securities laws.

JPMS is the broker-dealer of the transactions. The Ferdowsi Trust, which was used to purchase the notes, is established and governed by California law, with the entrepreneur as the sole trustee.

The plaintiff seeks to recoup the alleged damages through a Finra arbitration case, represented by white shoe law firm Quinn Emanuel Urquhart & Sullivan.

Ferdowsi transferred the management of his financial portfolio to Arif Ahmed in early 2020 who worked for First Republic Investment Management till it was acquired by JPM Bank along with its parent First Republic Securities Company in May 2023. Around 90% of the US$1 billion structured note purchases occurred before the buyout.

MassMutual beefs up alts shelf

US life insurance provider MassMutual has partnered with enterprise software solution Subscribe and will adopt its alternative investment platform to streamline and centralise private market offerings for financial advisors affiliated with its IBD subsidiary MML Investors Services.

The move is aimed at enhancing the advisor experience while expanding investment options for clients in the alternative investment space, said Vaughn Bowman, head of wealth management at MassMutual.

The Subscribe platform allows advisors to access a range of private market products, including private equity, private credit, real estate and hedge funds. The system also integrates seamlessly into firms' existing software ecosystems, offering document processing support for 1031 Exchange funds, exchange funds, SMAs, and other direct or feeder private fund offerings. It also offers compliance features including advisor monitoring, registration validation, and account suitability checks, helping firms maintain regulatory standards around investment concentration limits and state-specific restrictions for fund investments.

In May, MassMutual struck up similar partnerships with CAIS and iCapital, giving advisors under MML Investors Services access to an expanded product menu of alternative funds as well as structured notes and annuities.

Exclusive: BNPP asserts dominance in Colombia's structured notes market

The bank's issuance amount has skyrocketed this year, taking over 60% of the Colombian market share bolstered by two mega deals.

BNP Paribas (BNPP) has issued COP1.8 trillion (US$464.3m) nominal of principal-protected structured notes to local pension funds through its euro medium term note programme (EMTN) from January to May, according to Marie-Laure Dang (pictured), managing director, head of pension & insurance sales for Latin America.

"The institutional investors trade significant notional, mostly on indices and exchange-traded funds driven by country, geographical or thematic exposure rather than single stocks," said Dang. "They invest in structured products typically to increase their delta exposure to certain international markets for the longer term."

In Colombia, equity derivatives are primarily traded through structured notes for pension funds, a "very competitive" space. The flow in private banking is tiny onshore as these clients tend to have offshore accounts in New York or Miami.

The French bank's issue amount represents 64.5% of the structured note segment with the remaining split between Barclays (COP570.1 billion), BBVA (COP338.3 billion), J.P. Morgan (COP17.7 billion) and Citi (COP57.6 billion), according to the financial watchdog Superintendencia Financiera de Colombia.

The notes are part of several portfolios managed by major local pension funds Protección S.A. or Colfondos Pensiones y Cesantías (Colfondos), which accounted for 80% and 20% of the entire nominal, respectively.

At BNPP, the unprecedented growth year-to-date is bolstered by two bulk trades with nominal of COP590 billion each – the largest structured notes ever in Colombia. Sold to Protección, both products provide a leveraged long exposure to the S&P 500 Index, said Dang without disclosing the gearing level.

She also pointed out a product linked to the S&P 500 Futures Excess Return Index (SPXFP) worth COP141.3 billion traded in January, which "made a stir" as the underlier was the first "non-traditional index" in the onshore market.

Designed to be more price efficient, such non-traditional indices were first brought to the region by BNPP through a private placement with a local bank in Mexico last December, said Dang.

Japan's Tokyo Stock Price Index (Topix) was also traded by the bank in Colombia this year.

~~160 Words Chicago RIA unveils partnership with iCapital~~

Total US individual life insurance new annualised premium was US$3.97 billion in the second quarter, level with prior year results, according to Limra's preliminary U.S. Life Insurance Sales Survey. Policy count was flat for the quarter. Year to date (YTD), new premium totaled US$7.7 billion, down 1%, and the total number of policies sold was level with the prior year's results.

Indexed universal life (IUL) new premium was US$913m, largely unchanged year-on-year. Policy sales, however, climbed 11% in the quarter due to the continued growth in mid-to-lower case market.

Year-to-date, IUL premium grew two percent to US$1.78 billion. The number of policies sold jumped 12%, with half of carriers posting positive growth. IUL premium represented 23% of the total new annualised premium in the first half of the year.

'Whole life sales, which represent the largest proportion of the U.S. life insurance market, have struggled under a higher interest rate environment in the first half of 2024,' said Karen Terry, assistant vice president, head of Limra's insurance product research.

Linear zero-coupon notes drive HSBC WM growth in Asia

The UK bank records double-digit growth in revenue from structured investments within its retail wealth segment in Asia in H1 2024.

Linear zero-coupon notes have become one of the new favourites for HSBC's clients to position their portfolios as the market expects the interest rate-cutting cycle to loom this year.

Launched earlier this year, this callable structure constructed with three-to-five-year tenors has remained one of the top-selling structured products on the British Bank's product shelves over the first half of the year, Adam Lau (pictured), regional head of capital markets for Asia Pacific at HSBC, said at a press briefing on Wednesday (25 September).

"Linear zero-coupon note has been a very successful launch primarily to position against rate cut expectations," Lau said.

Following the US Federal Reserve's first rate cut in four years last week, the UK bank expects another six rate cuts with 25 basis points from each monetary policy meeting taking place to finalise the rate range between 3.25% and 3.5%, the executive explained.

"We expect trades for rate positioning will continue because the curve will continue to correct itself," he said.

On the equity asset class front, Lau pointed out that the bank is "cautiously optimistic" about the economic state, which could help trigger more investors' interest in flocking to non-principal-protected products with the backdrop of a rate cut environment. Typically the high interest rate environment drives the sales of principal-protected products given the lower cost of capital protection compared to non-principal-protected products.

"We should expect the continued turnover on the equity side, and autocallables for sure will be one [type of] product that we think client would like, especially since normally this kind of early Fed easing cycle would come with volatility. Volatility then increases the chance of knocking out," he added.

Double-digit growth

During the first half of the year, HSBC's capital markets desk within the wealth management unit recorded double-digit year-on-year revenue growth from structured investments within its retail wealth segment in Asia, according to the bank. Within its global private banking segment in Asia, it also saw a double-digit year-on-year revenue increase from US equity-related investments that include US equity-linked structured products, as well as FX investments.

"We're seeing an increase in adoption of structured products for equity positioning, FX hedging, or [interest] rates positioning," Lau said.

"This is not only limited to the high-net-worth individuals. We see this across [client base]… including the retail wealth and mass market…Mass market clients are more used to using capital-protected products than non-capital-protected products," he added.

Yield enhancement products such as fixed-coupon notes with short tenors to as short as two months and two-to-three-year capital-protected products are among the product payoffs that have gained interest among clients, according to him.

Many of the capital-protected products track the equity exposure of Japan and India which investors are less familiar, while the underlying exposure of shorter-dated products is linked to markets investors are more actively trading and familiar such as Hong Kong and the US, he added.

HSBC is among the banks that have gathered increasing interest from clients on linear zero-coupon callable notes, which can be deployed as fixed-income investments or incorporate hybrid elements such as rates of FX over the past year.

In Hong Kong, 77 structured notes with linear coupons accruing at a pre-determined coupon rate and early redemption feature have been manufactured and sold by HSBC Bank since July using the secured overnight financing rate as the reference rate, according to SRP data. It also distributed 75 interest rate-linked notes issued by Société Générale and 16 products issued by UBS.

There are also some 3,354 equity-linked investments (ELI) issued by the British bank and sold to retail investors in Hong Kong, mostly autocallables tracking either a single stock or a basket of stocks led by the tech underlying sector such as Alibaba (seen in 430 products), Nvidia (428), and Tencent (366).

Elsewhere in Asia, the bank issued 2,950 structured notes targeting private banking clients in Taiwan and 280 retail-focused structured deposits in China year to date. In the US, it issued over 860 registered notes and 27 unregistered notes, while in its home market of the UK it marketed some 85 medium-term notes.

Singapore's DBS launches crypto structured notes for institutional investors

The Singaporean bank becomes the first Asian-headquartered bank to offer financial products whose value is linked to Bitcoin and Ethereum prices.

DBS is launching over-the-counter cryptocurrency options trading and structured notes, targeting eligible institutional investors and accredited wealth clients within DBS Private Bank and DBS Treasures Private Client in Singapore, it announced today (17 September).

Starting from the fourth quarter, eligible clients seeking to build their digital asset portfolios can do so through options trading and structured notes. Currently, the bank's clients can trade cryptocurrencies and security tokens via DBS Digital Exchange, the digital asset platform that provides tokenisation, trading and custody services for institutional and accredited investors.

"DBS is offering structured notes, including cryptocurrency spot-linked notes and cryptocurrency ETF-linked notes," Jacky Tai (pictured), group head of trading and structuring, global financial markets at DBS, told SRP.

"We continue to take a prudent and measured approach towards developing our digital asset ecosystem and will keep pace with the market as it matures and as investors become more sophisticated," he said.

The bank said the upcoming launch means the Singaporean banking giant becomes the first Asian-headquartered bank to offer financial products whose value is linked to Bitcoin and Ethereum prices.

Eligible clients custodising Bitcoin and Ethereum with DBS can also hedge their positions against market volatility and potentially earn yield through options structures.

'For instance, a client seeking to manage the inherent volatility of Bitcoin may buy a put option, which gives the client the right to sell Bitcoin at a fixed price at a future date, even if Bitcoin prices fall below the fixed price by that future date,' the bank stated.

'Professional investors are increasingly allocating to digital assets in their portfolios,' Tai said. 'Now, our clients have an alternative channel to build exposure to the asset class and incorporate advanced investment strategies to better manage their digital asset portfolios.'

DBS is among a group of financial institutions exploring the digital asset product front. In May 2021, the bank rolled out a trust solution for cryptocurrencies, just a few months after DBS Digital Exchange was launched. The bank soon introduced a self-directed crypto trading function in DBS digibank app for its affluent clients in September 2022.

The latest development also came after the rising prices of cryptocurrencies this year so far, with BTC jumping more than 32% year-to-date to hover at around US$58,470 on Tuesday.

During the January to May period, the number of active trading clients on DBS Digital Exchange increased by 36% year-on-year, while digital assets customised with DBS surged by over 80% in Singapore dollar terms, according to the bank.

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Professional investors are increasingly allocating to digital assets in their portfolios

NEWS | APAC

CGS International eyes Singapore after SE Asia build-up

The overseas arm of the Chinese brokerage house and investment bank is set to expand its footprint as an issuer after over four years of acting as a third-party product distributor for and setting up a Southeast Asia presence.

CGS International Securities (CGS International) – the overseas arm of Chinese state-owned brokerage and investment banking giant China Galaxy Securities – is ramping up its Southeast Asia structured product business line.

The Singapore-headquartered investment house is preparing to start issuing structured products by the end of the year in its home market, after being an active third-party distributor locally since early 2020, according to Carlos Lim (pictured), the group head of securities and leveraged products at CGS International.

In Singapore, the company has worked with local banks to distribute products including yield enhancement-focused fixed-coupon notes (FCNs) and autocallable notes.

The company sees the city-state as filled with opportunities and challenges to issuing structured products following its successful setup in Southeast Asian markets, including Thailand, Malaysia and Indonesia.

"Singapore is already a competitive market where you have products from global investment banks, but we are moving [to becoming an issuer] because we have our Association of Southeast Asian Nations (ASEAN) regional presence and we are localised in terms of operations," he told SRP.

CGS International, previously known as CGS-CIMB Securities, was rebranded in April after CGS International Holdings' acquisition of CIMB Group stake in the two parties' joint venture was completed last December. With the rebranding, the company announced in April that it is seeking to double its revenue to SG$700m (US$528m) by 2030.

Footprint

The Chinese investment house has been an active structured product issuer in Thailand and Malaysia, where it is "stronger in terms of pricing and distribution channels," Lim said.

In Thailand, CGS International Securities issued 1,200 tranches of structured notes worth THB3.2 billion (US$92m) in sales volume between January and May, mostly tracking local stocks in a single stock asset class, according to him. In Malaysia, year-to-date, the house also issued 500 products at a traded notional of MYR110m (US$25m), he said. The most popular are the autocallables with local Malaysian single names as the underlying.

The latest development in Singapore comes on the heels of the company's first foray into Indonesia's structured warrant market in February this year, followed RHB Sekuritas Indonesia, which had its first batch of listing in September 2022 and Maybank, which had its first batch of listing in February 2023.

SRP data shows that the Singapore-based house has listed 12 call warrants on the Indonesia Stock Exchange, tracking local stocks in a single stock asset class format.

"Structured warrants are complementary to structured products and while our structured warrants business is still in the nascent stage in Indonesia, we aim to become an active issuer and market maker as the market grows given Indonesia's large retail investor base," Lim said.

Competitive advantage

Speaking of CGS International's competitive advantage in its home market, Lim stressed the house's pricing capability, including constructing a longer tenor for the products, besides the regional presence.

"Pricing comes in three ways: the yield, the knock-in and knock-out levels, and tenor," he explained. "The general tenor for structured products is usually six to 12 months and could be very driven towards the six-month bucket. But we will try to get the pricing where it applies for much longer like 10 months."

In Singapore, products tracking US household stocks as underlyings remains more attractive in the current market condition compared to Hong Kong stocks – an area where the upcoming issuer is also looking to be active, he said.

Looking ahead, CGS International's overall structured product traded notional is expected to increase by five to 10 percent year-on-year in 2024, according to Lim. Currently, Thailand and Malaysia make up roughly half and half of the firm's structured product market share by sales volume.

"Our expectation is once Singapore is up and running, we'd love for it to actually take up 20% of our product business," he said.

Spotlight on Europe: future maturities and risks for barrier autocalls

SRP analysed barrier autocalls and their ability to absorb stock market declines.

Following the heightened volatility and global sell-off at the beginning of August, SRP analysed the prospects of a positive performance (early redemption) for the barrier autocall, the most popular capital-at-risk structured product, based on its current position.

Autocallables with a knock-in (KI) protected put (barrier autocalls) have a central place in the structured products offering and have represented around one-third of the outstanding number of products in the SRP Europe database.

The structure's conditional protection means that while the products' mark-to-market value is highly correlated with the performance of the underlying asset, the invested capital is protected at maturity, providing the underlying asset does not depreciate by more than the predefined barrier level.

As of 22 August 2024, SRP lists 96,912 barrier autocalls across 26 different European markets, representing 32% of the total outstandings in Europe, and 32.7% of the notional.

Of these, more than half are linked to a single underlying: this is the proposed scope of this study, in which we analyse the barrier levels for products linked to a single equity index and products linked to a single stock, respectively.

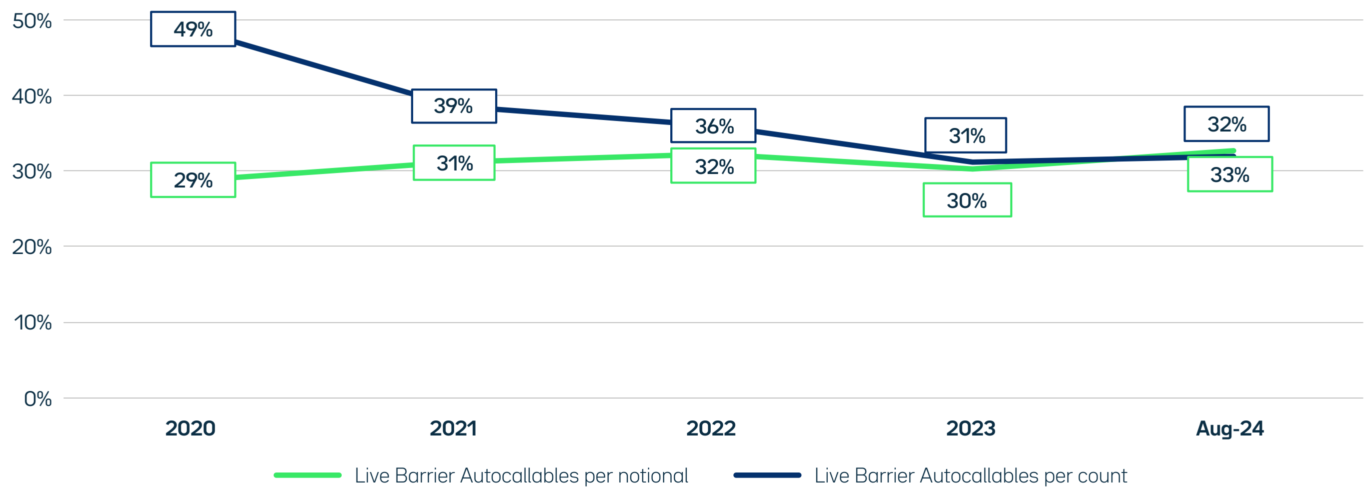
Chart 1 and 2 show the proportion held by barrier autocallables out of all outstandings and the evolution of their market share over the last five years. Chart 2 gives further detail as it provides us with the split for each index-linked, single stock-linked and multiple stocks (baskets)-linked products.

Both charts show the increase in the share of barrier autocalls in 2024 YTD (Chart 1), as well as the increase in multiple stocks-linked products (Chart 2).

Index-linked Barrier Autocalls: future barrier risks by date and level

For this analysis, we have reviewed the KI barrier levels of 12,600 live structured products (out of 18,478 index-linked products). Our sample includes products linked to the most used market capitalisation indexes, decrement indexes, sector benchmarks and high dividend yield indexes (see Annex for the full list of underlyings included in the scope).

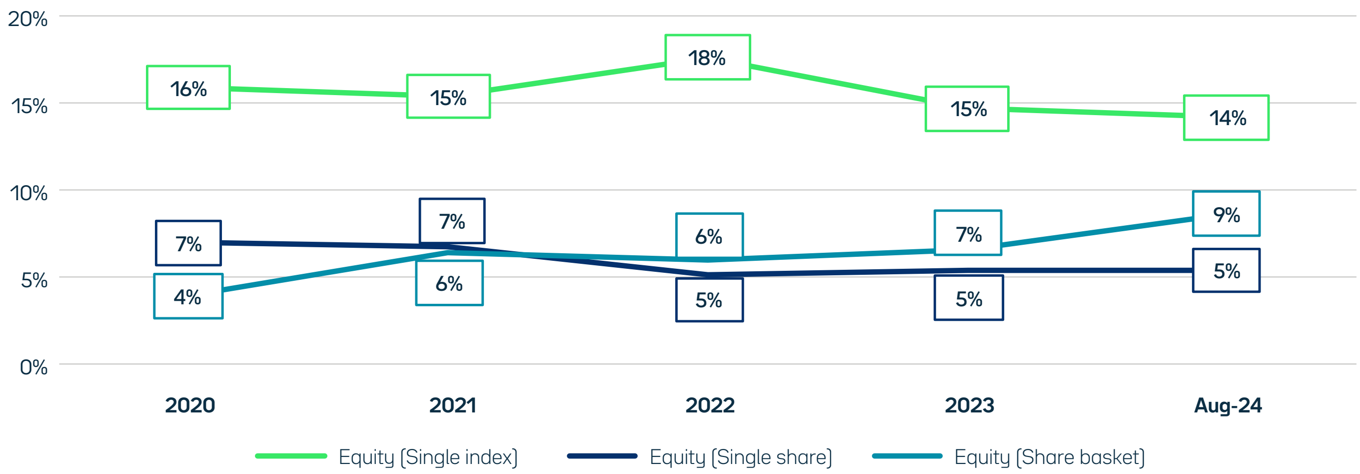
Chart 1: Europe – live autocalls with KI put, market share out of total outstandings*



****Includes all products with automatic early redemptions feature and KI put, including Athenas, Phoenix, and barrier reverse convertibles***

Source: SRP

Chart 2: Europe – live autocalls with KI put, market share by sales volume (breakdown by underlying type



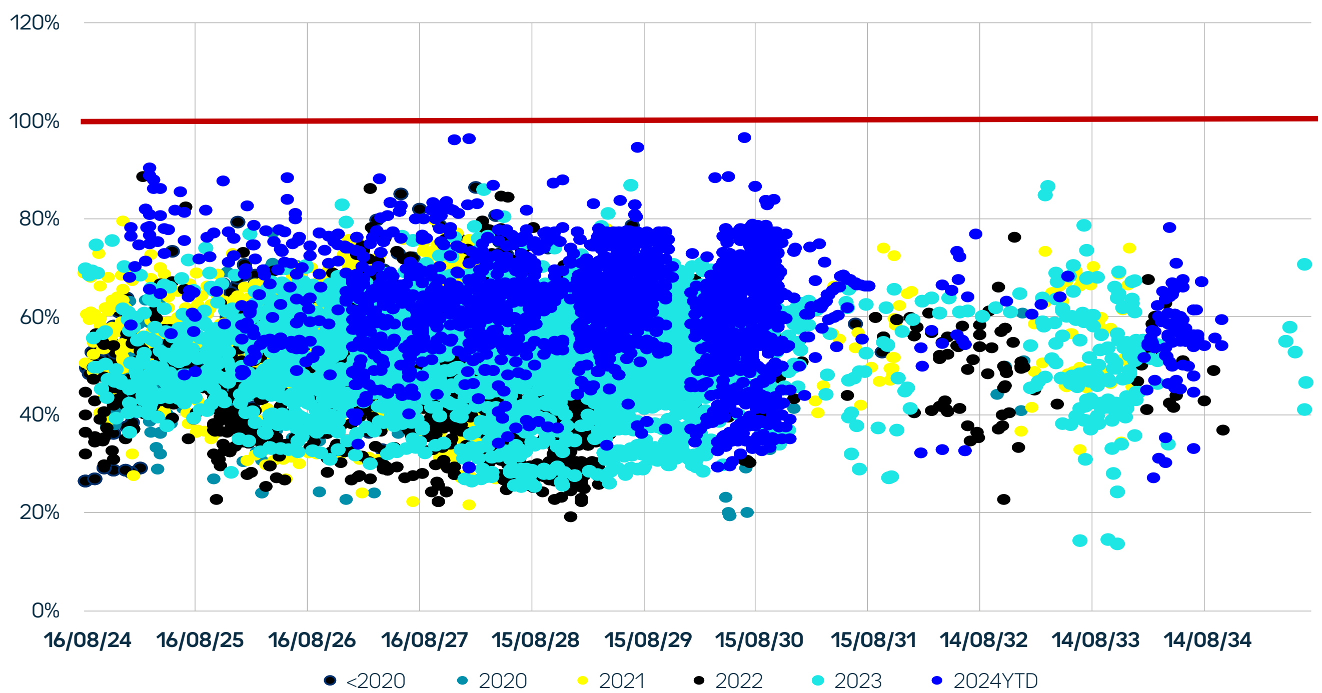
Source: SRP

The red line in the charts below represents the level of the activation of the put for each product which, if crossed, would result in a capital loss. The dots represent the current barrier levels measured on 5 August 2024. The further the points are below the red line, the safer the products.

The horizontal axis gives us the timeline of the future barrier risks by date, as in general, capital-at-risk structured products in Europe are protected by a single 'European' barrier, which is reviewed at maturity.

As we observe from Chart 3, virtually all future barrier levels were at a safe distance from activating the put as of 5 August 2024. We note that less than one percent of the products would have

Chart 3: Europe – live index-linked products, future maturities and KI barriers risks (colour is per date of issuance)



Source: SRP

Year	Number of products per year of launch	Current KI level (KI/Spot on 5/8/2024)	Average KI level at launch
2020	241	48.50%	62.40%
2021	1,574	55.50%	61.10%
2022	2,889	49.70%	58.10%
2023	4,512	52.50%	57.00%
2024	3,074	61.60%	58.80%
Total	**12,611**	**54.40%**	**58.40%**

Source: SRP.com

experienced a loss of capital if their index dropped a further 20% in the coming months and if the markets ended up not recovering from these levels until the products' maturity.

On average, the index-linked products would absorb an additional 45.6% drop in their index compared to the prices recorded on 5 August. This is better than the average 41.6% cushion defined by the barriers at inception.

As expected and visible from the table above, products launched prior to 2024 are better positioned to absorb stock market declines than they were at their launch. This is because European equities have had a strong first half of the year which has pushed the indices above their strike levels. The only exception are products launched in 2024, which have moved closer to risk but are still 41% away from crossing the barrier.

The next observation is that around 88% of future maturities in the sample are concentrated between 2026 and 2030. Only 7.5% of the sample (or 1,733 products linked to indices) are expected to mature before 2026 and they are deep in the safety zone.

The table below provides high-level statistics about the current barrier levels for products linked to market capitalisation indices (Eurostoxx 50, DAX and FTSE 100); decrement indices; sector benchmark indices; and high dividend yield indices.

Across all four groups, the data shows an improvement in the safety distance from crossing protection barriers defined at the launch of the products (in average terms). Specifically, market capitalisation index-linked products saw their safety margin increase from 42% manageable decline in the index to 46%, as of 5 August.

Similarly, the further absorbed decline for decrement index-linked products improved from 41% to 45.2%. These changes indicate that the cushion against potential index decline has generally strengthened in 2024.

Index type	Number of products per year of launch	Current KI level (KI/Spot on 5/8/2024)	Average KI level at launch
Market cap index	8,817	54.00%	57.90%
Decrement	2,711	54.80%	59.10%
Sector benchmark	686	53.70%	58.90%
High yield dividend index	393	59.80%	63.10%
Total	**12,607**	**54.40%**	**58.40%**

Source: SRP.com

Spotlight on the Magnificent 7 – defensive structures cash in on Nvidia's performance

We analysed the performance of US structured notes linked to shares of Nvidia, which saw its market value plunging 13% earlier this week.

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On 24 June, Nvidia's stocks lost traction as a roughly US$430 billion of their market value were wiped out after a three-day rout which triggered speculation that the tech industry rally driving the bull market was due for a breather.

There are more than 31,000 live products linked to the Nvidia share (excluding flow products) worth an estimated US$41.7 billion across markets

In the structured products market the Nvidia stock remains widely featured and is the only company share in the top 10 underlying ranking globally with more than 2,600 products worth an estimated US$6.4 billion year to date. SRP data also shows that there are more than 31,000 live products linked to the Nvidia share (excluding flow products) worth an estimated US$41.7 billion across markets.

Looking at the performance and projected path of live and matured structured notes linked to Nvidia shares in the US market, it can be concluded that the tech stock is delivering value to investors.

Live products

Our sample portfolio comprises 356 live structured notes linked to the performance of the Nvidia stock, either on its own or as part of a basket, with striking dates from 21 November 2021 to 3 May 2024.

StructrPro's payoff scatter shows that 304 of the live notes are on track to deliver gains of 15.5% per annum on average while 52 notes are projected to incur in capital loss.

Goldman (17% of the live products) Scotiabank (16%), and J.P. Morgan (14%) are behind the highest number of live products linked to Nvidia.

The majority of the live structures linked to Nvidia were wrapped as income autocall products (72%) followed by growth autocalls and leverage return structures with eight percent of the offering each. The highest expected return, however, will come from dual directional structures (155.9%) followed by leverage return products (54.1%) and callable structures (46.9%).

Structrpro data also shows that 75% of the live products linked to Nvidia are at risk income structures with an average projected return at maturity of 12.1% while 24% are at risk growth structures which are expected to deliver 32.6% return at maturity; one percent are protected growth structures which are on track to deliver 17.1% return at maturity.

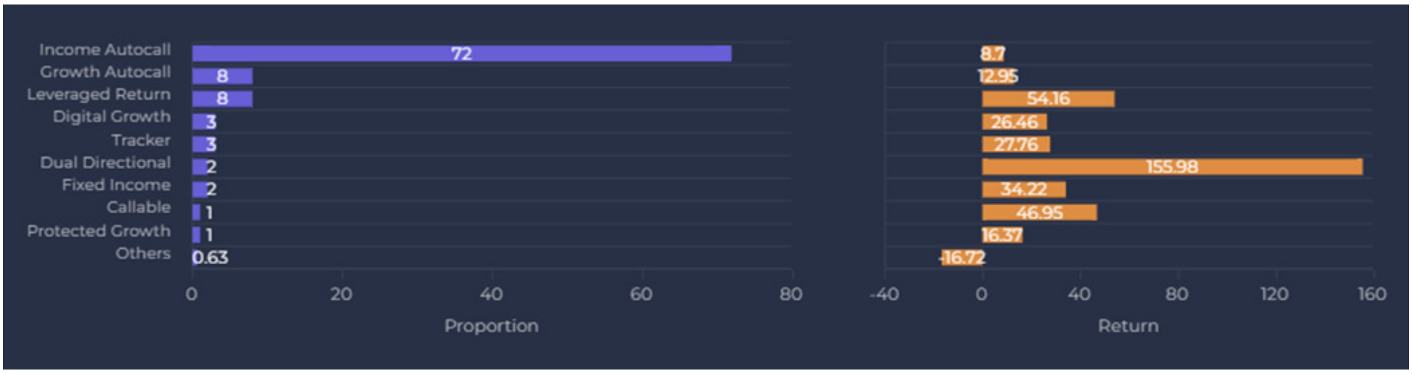
The highest number of maturities are set to be triggered early in H2 2024 while the highest number of products linked to Nvidia is set to mature organically in H1 2027.

The Return Optimization Securities - NVIDIA (90303R204) issued by UBS Financial Services in July 2022 is set to deliver the

Payoff scatter

Source: StructrPro

Product types



Source: StructrPro

maximum product payoff of 230.34% in July 2027. The five-year leverage return growth product sold US$623K promised to pay a capital return of 100%, plus 500% of the rise of the Nvidia share over the investment period, subject to a maximum overall return of 230.34% after a 126.068% participation cap is applied.

By key levels, the coupons for 217 live products are at 62.07% of the initial underlying level on average while the autocall level for 229 live products is at 102.03% of the initial underlying level. There are also 265 products with an average barrier level at 58.62% of the initial underlying level.

Expired products

The sample of matured products linked to Nvidia includes 1,049 products that have been either redeemed early or matured organically – StructrPro shows that 987 products delivered gains while 55 delivered a loss with the remaining seven products returning the capital invested.

The average return amounts to 8.78% pa while the investment duration lasted around six months.

On an annualised basis, approximately 25% of the expired products delivered a return of 12.5% while a quarter of them delivered 15% to 17.5%. Additionally, more than 10% of the products matured generated a return of 10% pa. Only 3.8% of the matured products linked to Nvidia delivered a loss.

A portfolio breakdown by issuers shows that UBS was behind the highest number of maturing products (22%) which delivered a 12.1% return on average; followed by J.P. Morgan with 16% of the products matured and 10.9% return on average; and Goldman Sachs with 14% of the maturing products and one of the lowest returns on average at 5.74%.

By product type, the highest returns were delivered by defensive autocall structures (32.2%) followed by leverage return (22.5%) and growth autocallables (21.7%).

The best performing structure among the matured products linked to Nvidia was the Trigger Jump Securities - NVIDIA (36259L576). This product which had a three-year term and a digital payoff structure matured organically in September 2023 delivering the highest possible payout at 174.5% (20.3% pa).

Key levels

FEATURE	INITIAL (%)	CURRENT (%)	NUMBER
Coupon	58.79	62.07	217
Autocall	99.86	102.03	229
Strike	100	97.88	350
Barrier	57.83	58.62	265

Source: StructrPro

ANALYSIS

Spotlight on Apac: Nikkei autocalls remain safe despite Japan stock crash

From dealers' selling pressure to a breakdown of live products tracking the country's benchmark index knock-in barrier levels, here's what happened to Nikkei 225-linked structured products triggered by Monday's stock market plunge.

Image: Chachamal/Adobe Stock.

Japan's benchmark Nikkei 225 index suffered its biggest single day loss since 1987 on Monday (5 August), also impacting the exotic product market.

The benchmark closed down 12.4% to 31,458.42 on Monday before rebounding later in the week, leaving the industry puzzling over what this meant for various market exposures to the autocallable structure featuring the gauge – one of which was the selling pressure from dealers.

"In Japan, the spot sell-off has caused dealers to long Nikkei 225 back-end volatility, so we have seen selling pressure from exotic dealers," Shane Carroll, equity derivatives strategist at UBS, told SRP.

Most of the Nikkei 225-linked exotic selling was likely to hedge Japan-issued products, Carroll said, and some impact was also seen earlier last week as long-end volatility struggled to pay on the move lower. Generally speaking, dealers need to tackle hedging dynamics by buying the futures to hedge the barrier risk.

However, the magnitude of the moves has overwhelmed exotic flow impacts since last Friday, he said.

"At the same time, there has been interest from volatility accounts to buy calendar spreads which has contributed to offsetting the exotic selling pressure," Carroll said. "With volatility having reset much lower in the last two days, this would cause autocallable vega to increase that could lead to increased selling pressure."

"But even then, we still expect market dynamics to be more driven by spot price action," he added.

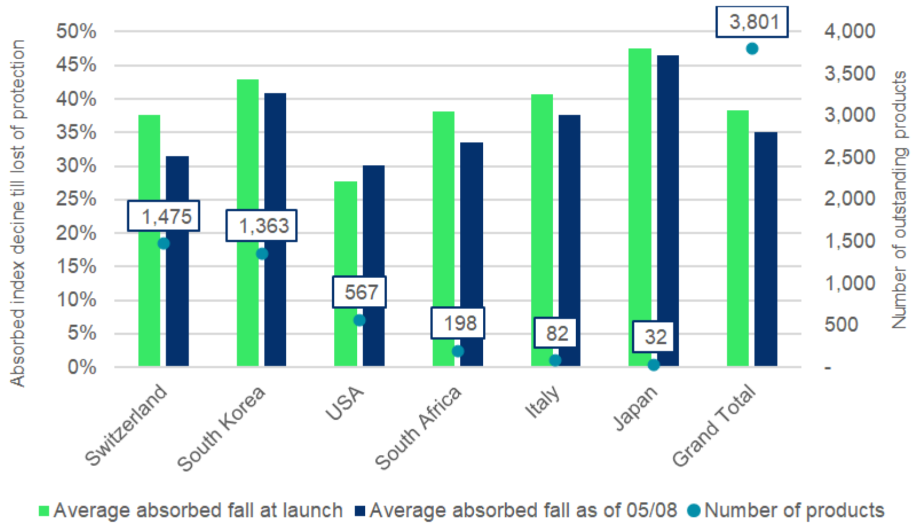
The latest autocallable market activity in Japan came long after the tightened regulation on structured Uridashi – also known as public-distributed, non-fully principal-protected structured notes that usually feature autocallable payoff sold to retail investors – since late 2022.

Following the structured Uridashi distribution guidance issued by the Japan Securities Dealers Association in July 2023, new product issuance targeting retail investors has dwindled significantly. Now, only three active distributors remain in the market for the complex structured note Uridashi market compared to 20 active distributors prior to the regulatory notice.

Despite the market shake-off earlier this week before rebounding to 35,025 on Friday's close, a source from a global investment bank told SRP that by their estimation, the bulk of Japan-issued Nikkei 225-linked autocallable knock-in levels start around 28,000, which is still some distance away from the current spot level.

Out of 3,695 live Nikkei 225-linked products with knock-in barrier put stemming from 18 different jurisdictions

Chart 1: Live products linked to Nikkei 225 and barrier risk (expressed as a % change of the safety cushion)



Source: SRP

on SRP's database, only six investment certificates and one structured note – all issued in Switzerland – have breached the knock-in barrier after the spot price tumbled on Monday.

The impact on the 33 live Japan-issued publicly distributed-autocallables has remained within the conditional protection limits as the average safe cushion of these products shrank by only 1.1%. And the reason is that most of those products have locked in advantageous entry levels preceding the Japanese stocks' impressive rally in 2023 and 2024.

The above also explains why the bulk of the barriers globally is situated at a safe distance, more than 20% away from current levels (Charts 1 and 2 below). Around 38% of the outstanding products had a strike date in 2024 and as many have struck in 2023.

Geographically, 1,475 products (39%) have been sold in Switzerland, 1,363 products (36%) in South Korea, 567 products (15%) in the US, and only 32 products in Japan.

The chart below shows the offer market breakdown for the outstanding products and the change in the initial safety distance till the loss in protection as of 5 August 2024.

The average down-and-in put (DIP) (knock-in) barriers for the products analysed is 61.8% from the initial fixing implying an allowed 38.2% decline in the index in average terms.

The table below shows the average DIP levels together with their strongest and weakest instances in the principal markets for the Nikkei-linked products.

Chart 4 below shows the distribution of all live products' barriers relative to the Nikkei 225 level measured on 5 August 2024 and their future maturity date (on the horizontal axis).

The line represents the level of activation of the put (and loss of protection) for each product. If the line got crossed at maturity, this would result in a capital loss for those products.

As of Monday, only 110 products – mostly from the US and Switzerland with some minor issues from Austria, Canada, Spain, and South Africa – were within 10% of crossing the barrier, which is the most sensitive zone to further decline in the underlying. For those products (in the highlighted zone), if the index fell by an additional 10% compared to the low on 5 August, and if it remained at these levels without recovering until the products matured, it would result in a loss of capital protection.

These products' knock-in barrier levels range from 90% to 65% of the initial index level. Most of their maturity dates sit between 2025 and 2029.

Meanwhile, as of Monday, 332 products were within 20% of crossing the barrier, mostly from products issued in Switzerland and the US.

The latest figures also translate into around 97% of Nikkei 225-linked live products being more than 20% from crossing the barrier level as of Monday, hovering in the safe zone.

Those products would absorb at least an additional 20% drop in their index compared to the prices recorded on 5 August.

South Korea's ELS

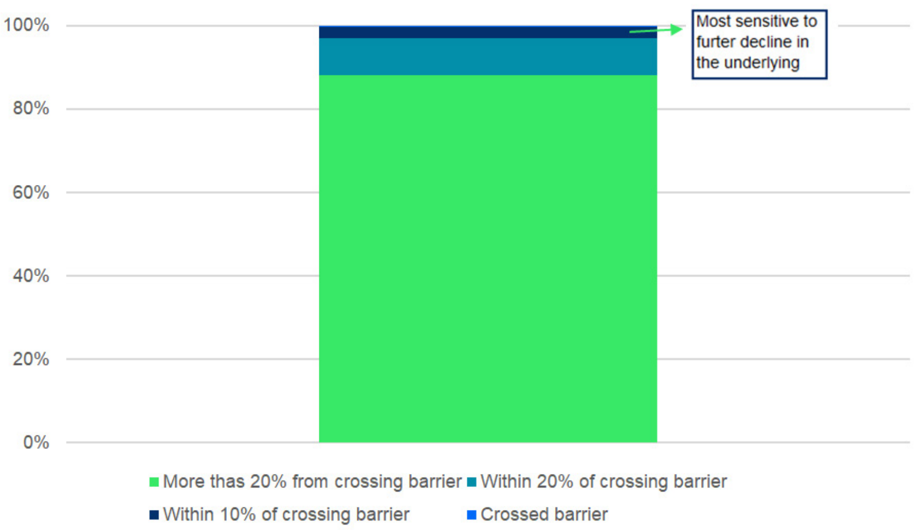
Besides the Nikkei 225, South Korea's

Nikkei 225: average DIP levels

Market	Average Down-and-in (knock-in) barrier	Most protective	Least protective
Switzerland	62.4%	40%	90%
South Korea	57.1%	40%	70%
USA	72.2%	50%	90%
South Africa	61.8%	40%	75%
Italy	59.4%	50%	75%
Japan	52.4%	40%	65%
Grand Total	**61.8%**	**30%**	**90%**

Source: SRP

Chart 2: Nikkei 225-linked live products: distance from knock-in put strike as of 5 August close



Source: SRP

Kospi 200 index was also among the index gauges turning scarlet during Monday's market crash. The index dropped nine percent to 331.86 by Monday's close before retreating to 351.52 when the Korea Stock Exchange rang the closing bell on Friday.

Despite Asia's stock markets plummeting, Gyun Jun, senior derivative analyst at Samsung Securities, noted that there's still room to reach the knock-in barrier level of inventory for autocallable-focused equity-linked securities (ELS) that linked the Kospi 200 and Nikkei 225.

"Most of the ELS linked to Nikkei 225, which expires by the end of this year, were issued in the second half of 2021," Jun told SRP. "The initial base price of ELS was about 28,000 points. Since the knock-in barrier level is usually 40% of the base price, the barrier price would be 17,000 points or less."

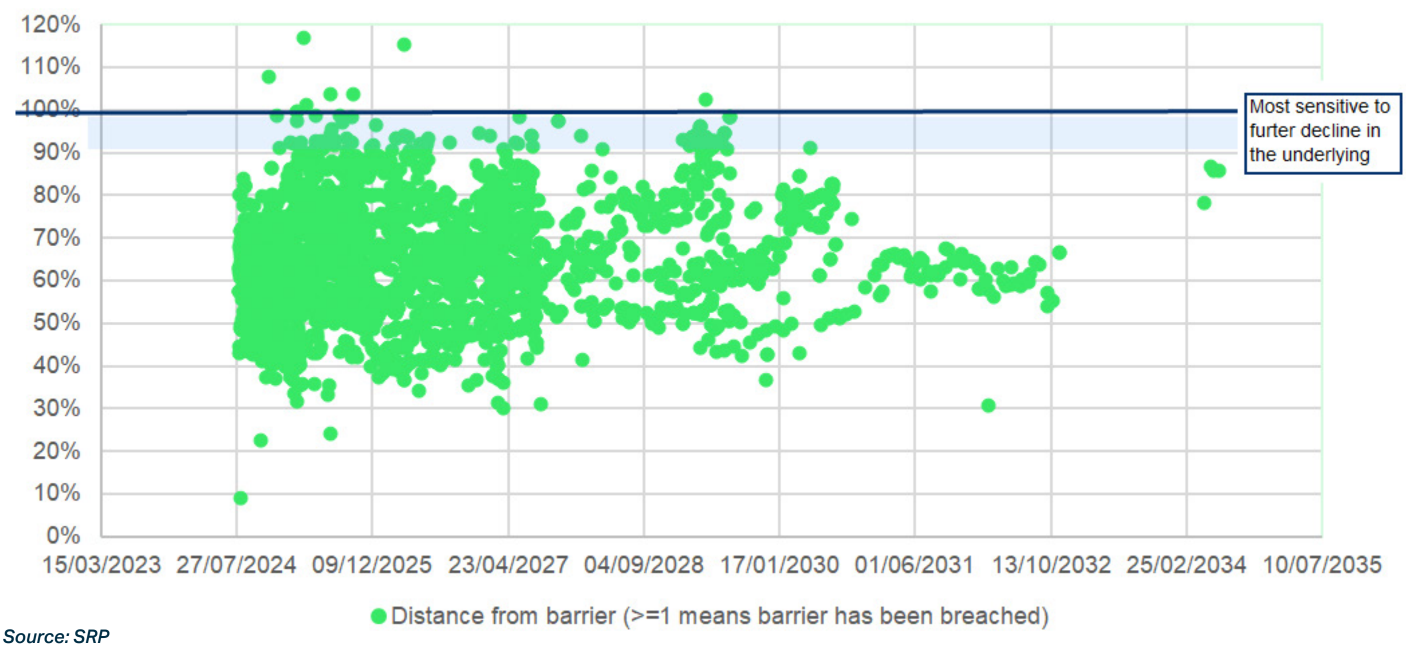
The ELS products tracking the Kospi 200 are similar. "Kospi 200-linked ELS [were] issued in the second half of 2021. The initial base price is around 400 and the knock-in barrier price would be around 240," Jun said.

Nikkei 225 and Kospi 200 are often constructed in a basket of three indices in the ELS products. According to SRP data, there are 1,998 live ELS products tracking the Nikkei 225 in a basket of indices format, collecting a sales volume of US$3.5 billion in the country, while the Kospi 200 index underlying was deployed in 3,216 live ELS products mostly in a basket of indices, worth of approximately US$6 billion.

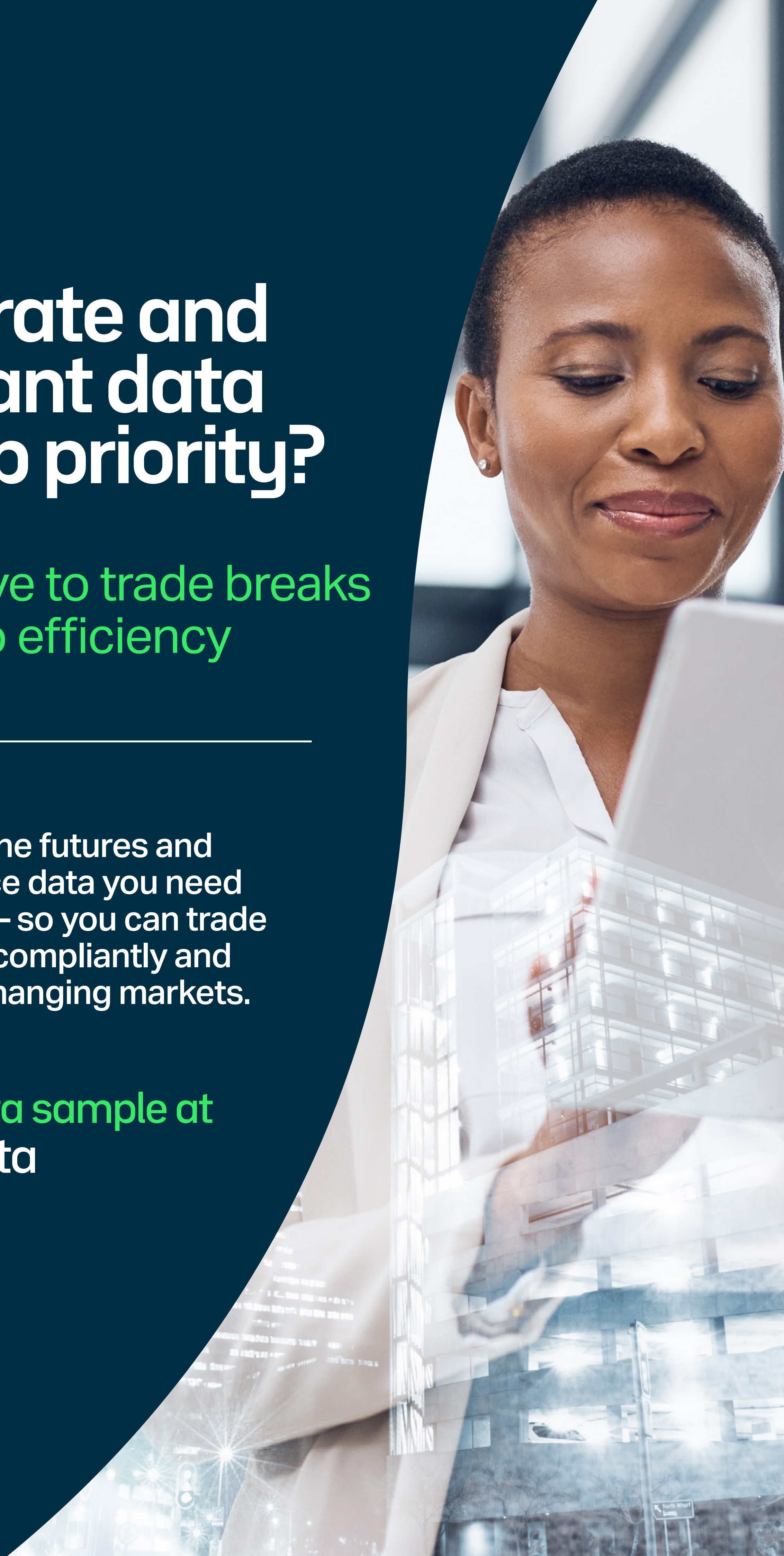
Jun said that on the hedging side, securities houses bought the Kospi 200 futures during Monday's choppy session.

"From the issuer's point of view, it is judged that the short gamma position is maintained at the current price range," he added after Monday's close.

Chart 2: Nikkei 225-linked live products: distance from knock-in put strike as of 5 August close



Source: SRP



Greeks aggregation: the value of calculating total risk

Looking at the aggregated risk of large portfolios provides valuable insight into trading distortions and opportunities that may not be immediately obvious by simply tracking issuance trends.

By Tim Mortimer, FVC

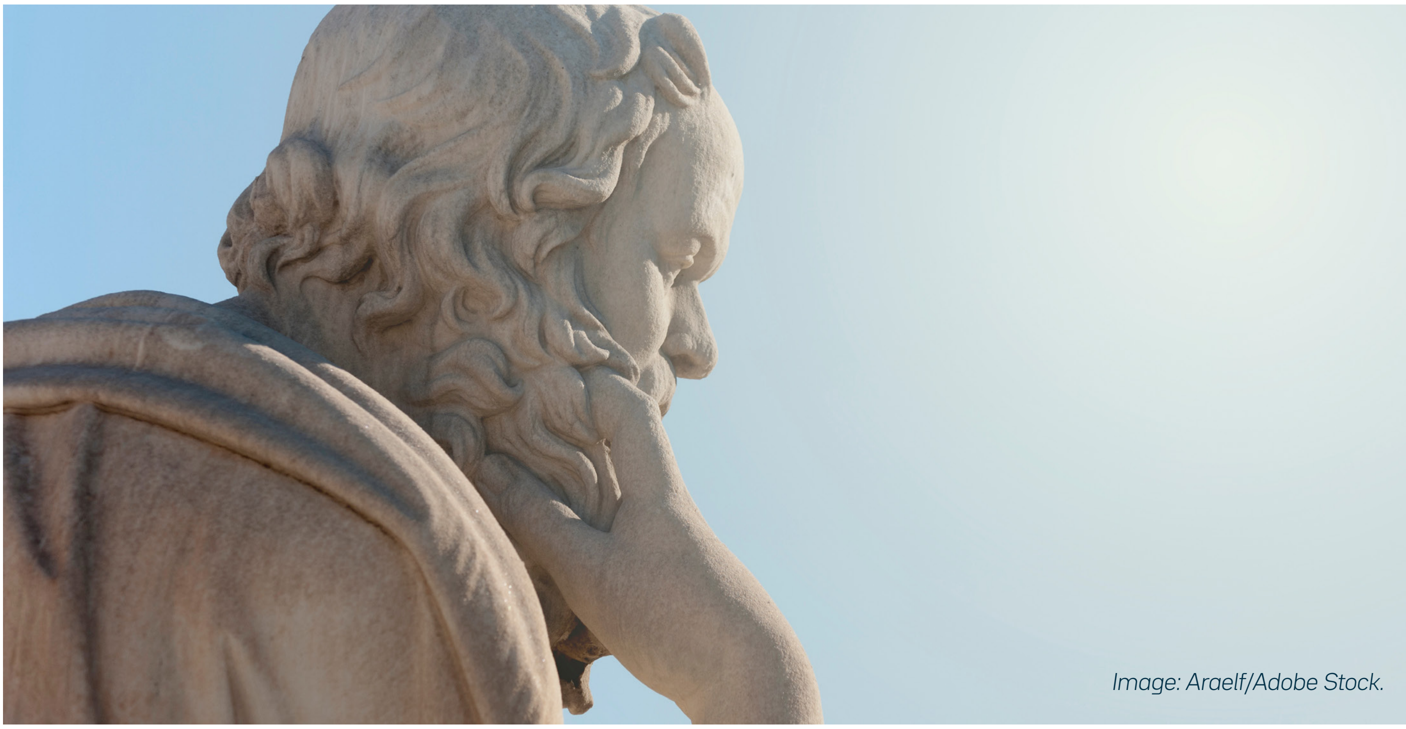


Image: Araelf/Adobe Stock.

In the previous article, we considered the definition and calculation of sensitivities, or "Greeks", for individual structured products.

The main Greeks are named Delta, Gamma, Vega, Rho and Theta. Delta measures the sensitivity of the product price to the underlying asset, while Gamma represents the rate of change of Delta relative to the underlying price.

The size of the Delta indicates the amount of stock, futures or other holdings required to serve as the primary hedge for the structured product position.

Gamma provides a measure of how quickly Delta changes, and therefore how frequently the corresponding hedge position will need to be adjusted to maintain a neutral position. A high Gamma value means that frequent rebalancing is necessary if the underlying moves significantly. High Gamma values are usually associated with direct and roughly "at-the-money" optionality that is highly sensitive to movements of the underlying asset.

The potential Gamma value is reduced when a product contains offsetting individual components or is deeply in or out of the money. In the case of out-of-the-money options, sensitivity approaches zero, while for in-the-money options, it becomes more linear to the underlying. Although these scenarios differ in terms of payoff (positive or negative), both exhibit lower option exposure, which is the key driver for hedging as captured by the Greeks.

Most traders would argue that the next most important Greek is Vega, which measures volatility sensitivity. Vega is closely tied to Gamma, as it can be considered "future" Gamma. Vega is highest for longer-dated products because changes in volatility can significantly affect future values of options.

Rho and Theta measure the rate of change in the product price with respect to interest rates and remaining time respectively. While it is important, Rho is usually easier to manage. Theta is primarily informational and does not represent any exposure to hedge.

Product	Notional (USD m)	Underlying Deltas			Currency Deltas (USD m)		
		Underlying 1	Underlying 2	Underlying 3	Underlying 1	Underlying 2	Underlying 3
1	5	0.4	0.7		2	3.5	
2	4		0.5	0.6		2	2.4
3	7	0.3	0.3	0.4	2.1	2.1	2.8
4	8	0.8			6.4		
5	12		0.7			8.4	
Total	**36**				**10.5**	**16**	**5.2**

Source: FVC

To measure the aggregate risk of a large portfolio of structured products, across an entire market or set of markets, it is necessary to combine the sensitivities of individual positions to calculate total risks.

The standard way for calculating the Greeks for a single option or structured product involves repeatedly using the pricing model, with the technique of "bumping" (i.e. changing product input parameters) to measure price changes.

A portfolio or collection of products will generally span many underlying assets, either through single-asset products with different underlyings or by considering the contribution of each underlying in basket or worst-of products.

Linear combination

The first obvious step in calculating aggregate Greeks for a portfolio is to find the overall Delta for each underlying. This requires identifying the distinct underlying assets across the portfolio and then summing up the Delta of each product multiplied by the notional size of each product.

This is a simple linear combination operation, as demonstrated in the example table above.

This table illustrates the Delta positions for five products across three underlyings. Product 1 has exposure to underlyings 1 and 2 (40% and 70% respectively), while the other products have exposure to one or more of these three underlyings in different combinations.

The currency Deltas columns are obtained by multiplying the unit Delta by the notional of each product. Since product 1 has a notional of US$5 million, the currency Delta to underlyings 1 and 2 equate to US$2 million and US$3.5 million respectively.

The overall currency Deltas for the portfolio across all products are shown in the final row. These figures are important as they indicate the overall exposure to each underlying. For a trader managing these positions, they reveal the amount of each underlying that needs to be held, with underlying 2 having the highest requirement in this example.

It is possible for Delta (as with any other Greek) to be negative for an individual product, which means the overall total may reflect some offsetting contributions. A trader managing the overall risk of the portfolio would analyse the breakdown this way, as it is important to isolate the exposure to each underlying.

This approach is suitable for an actual trading book or portfolio but can also be applied to all open products in a particular market or across markets. In this latter case, performing this calculation would give the overall exposure that the structured product market has created across the issuers involved in the market activity. This is important for understanding the size of the market and its hedging impact on different underlyings.

Aggregating other Greeks can be done similarly, calculating the combined Gamma position, volatility (Vega) and interest rate (Rho) exposures. These are all useful metrics for measuring the amount of market hedging activity that can be expected by assessing the size of Gamma, Vega and Rho across all products, underlyings and currencies.

For underlyings with significant issuance relative to the size of the underlying or its option liquidity, there will often be situations where the structured products market has a noticeable effect on underlying price movements and the observed implied volatility levels.

This information provides valuable insight into trading distortions and opportunities that may not be immediately obvious by simply tracking issuance trends in a more simplistic manner. Therefore, aggregate Greeks calculations serve some important purposes at both the portfolio and market level.

Disclaimer: The views, information or opinions expressed herein are those of FVC, and do not necessarily reflect the views of SRP.

MerQube: indexes near US$1 billion in structured products sales

The index fintech is capitalising on the support from several structured products issuers in the US market and its speed to market to increase its footprint globally.

> Our clients can run back-tests, look at the performance and then have an index live in a very short period of time

Sales of structured products linked to MerQube's indices have increased by 200% in 2024 - from US$350 million across 651 products in 2023 to US$1.1 billion across 748 products year to date – and are on track to quadruple if the current issuance levels remain steady until the end of the year.

Sales of products linked to the company's flagship indices – the MerQube US Large-Cap Vol Advantage Index and MerQube US Tech+ Vol Advantage Index – have more than doubled.

The MerQube US Large-Cap Vol Advantage Index which sold US$144 million across 170 products in 2023 is now close to US$500 million mark at US$467 million across 293 products; while the MerQube US Tech+ Vol Advantage Index which sold US$143 million across 229 products in 2023 has sold US$325 million across 280 products year to date.

The US index fintech which introduced the MerQube US Small-Cap Vol Advantage Index earlier this year in the US market (17 products/US$15.4 million) has also expanded its footprint to Europe with two new decrement indices sold in France in 2024.

"The JPMorgan vol advantage index range has been very important because it has enabled us to have visibility in the structured products market and showcase our ability to use intraday implied vol to create vol control indices," Vinit Shrisastava, CEO of MerQube, told SRP.

"This approach was new to the market two years ago and has been gradually adopted by other index providers."

Of course, having JPM backing the indices and getting agreements with some of the major distributors in the US is opening new opportunities across markets.

"[It is] testament to the value we can bring to the structured products market," said Shrisastava (pictured).

In Europe, the US index fintech has also made inroads into decrement indices and continues to leverage its technology "to deliver innovative tools to do decrement indices", which has been made available to clients and distributors.

These include the MerQube Europe Large Cap Basic Resources 20-50 Point Decrement Index (25 products/ US$127 million); and MerQube Euro Zone Large Cap Banks 20-50 Point Decrement Index (14 products/US$50 million); which add to the MerQube ENGIE 1.2 Point Decrement Index (featured in six products worth US$22.5 million in 2023 compared to seven products/US$21 million YTD).

"Our clients can run back-tests, look at the performance and then have an index live in a very short period of time," said Shrisastava. "With the market being saturated with decrement indices, the key was to provide the distributor with the data they needed like historical data on single stocks to do the back testing efficiently. Other providers may require days to dig into this data whereas we deliver it to our clients automatically and with a click."

Are product providers moving towards self-indexing?

Roby Muntani: In general, people are becoming more cost conscious and brand aware. The big four have dominated the market for a long time and that has cost associated with it. With new technology and new players in the market, product providers have realised that paying the Big Four is not always warranted, if the brand is not an essential part of the strategy.

Of course, the brands will continue to retain a big portion of the market, but brands are no longer necessary everywhere and across all products. People are becoming more conscious of when they need the brand.

The self-indexing story has not picked up as much as people expected but I do believe that it's here to stay, and that it will continue to grow. The generational shift and wide adoption of technology among young people is key, giving them greater control and power to do their own investing, with speed and lack of friction.

How important is to build a track record to differentiate MerQube's offering in a crowded space?

Vinit Shrisastava: Our goal is to approach things differently. The design of the vol advantage indices leads to very efficient hedging. The payoff is embedded in the index eliminating the reliance on futures or options on the underlying index. We're creating more efficient indices, designed for tradability and easily optimised for specific products such as structured products.

Our view of the market has not changed since we launched MerQube. We always said that two thirds of the market will always be dominated by big brands, because people are used to them. But there's a third of the market, which has room for innovation and is driving further market growth on the back of new ideas.

Our goal has always been to address this white space. We have seen the MerQube brand becoming more accepted for the right reasons. We want to deliver indices that are unique and not everybody can build. The Vol advantage is a good example of that even today, two years after it was launched.

What would you say is MerQube's unique selling point?

Vinit Shrisastava: It is not easy to build a brand and consistently be on top of your game. To achieve that you must build the infrastructure and put it in the hands of your clients so that they can develop their ideas and build new indices quickly. That is our differentiator.

Our index infrastructure can be used to do things that are either complex or simple and enables our clients to be very quick to market. J.P. Morgan was the first to recognize this and backed us from the very beginning, followed by our other, now big clients, such as UBS, Morgan Stanley, Citi and Allianz which also have a small stake in the company. Having the validation from some of the biggest players in the market has opened doors for us.

We do a lot of things behind the scenes around calculation of very complex strategies developed by QIS desks. There is a lot of opportunity for us in the QIS side of the market which includes a significant number of strategies that are not public.

Roby Muntani: We have learnt that removing friction is the key, whether it's a complex or a simple strategy. We started off at the high complexity level corner, because there was a gap, but we're starting to see that there is a lot of friction even with something as simple as a single stock decrement index which is unneeded.

There is a space to remove that friction, drive efficiencies and make a more pleasant user experience through technology.

We strive to make the journey from idea creation to production much faster, whether they work with us or they do it themselves using our technology. MerQube is an enabler.

What opportunities are you looking for? What are the current market drivers for MerQube?

Vinit Shrisastava: Beyond the annuities market where there is a lot of opportunity for us, the covered call and defined outcome space is growing fast with around US$ 40 billion in assets today. Essentially these products are getting a structured product payoff into an ETF and removing the credit risk of the issuer. We see an increasing number of ETF providers doing all kinds of options strategies from covered calls to collars and they're coming out under the ETF wrapper.

QIS was originally a more institutional kind of trade as banks started trading these strategies with pension plans and other big asset managers. But now it's getting more mainstream and there is scope to deliver options strategies via structured products.

We are building out our options platform, which will be ready by the end of the summer and will enable us to build payoffs using listed options and single stock options. There is lot of interest from both banks and from retail investors for this kind of product. The focus will be again to facilitate access to that infrastructure to build option-based strategies.

Roby Muntani: We can now embed the option strategy in the index to add protection. Instead of offering a complex payoff and having to explain how the payoff works, you can just embed the payoff in the index.

People are getting more comfortable with option strategies, and we want to be part of that growth.

3AI: passive investing entering new phase as "intelligent" indices evolve

The UK AI company is "scientifically pioneering" the future of alpha intelligence for passive investing as well as developing new enhanced indices.

In the second part of an interview with 3AI, SRP spoke to Jacob Ayres-Thomson (pictured), to discuss the company's focus on developing new enhanced indices to be incorporated into the investment management process and used as underlyings for structured products.

The company's empirical research has resulted in the realisation that enhanced indices are the next step in the evolution of unlocking alpha for systematic strategies as passive investing continues to evolve.

Ayres-Thomson notes that looking at the world's 20 largest asset managers by AuM, most companies have a typical age of more than 100 years and have been around gathering assets for a long time. However, plotting AuM against years since inception, the managers with the largest AuM were the two youngest - BlackRock and Vanguard while State Street, another younger company, was in the top five.

"We looked at what these companies did to gather assets," said Ayres-Thomson. "The simple answer is that they really powered passive investing. What they did, essentially, was to automate, systematise and take the human stock picker out of the equation and effectively create automated systematic index tracking ETFs, and other types of funds and they have been hugely successful."

True outperformance

Looking at performance, active investment managers continue to underperform low-cost passive benchmark investment products.

"Investors want performance and we have models that show us the mechanics of this relationship," said Ayres-Thomson. "As an example, we performed research into the drivers of AuM in the US ETF market, and discovered statistically that there were only two features driving flow and they were locked in a power law relationship: years since inception of fund, and annualised net return after fees.

"Given that most of the ETF market in America is driven by retail investors, this shows us how they think. Long-term performance is believed, short-term performance, less so. However, they are not smart enough yet to segment alpha from passive investing, so as to ascertain true outperformance."

The research made it clear that investors focus on net total return after fees which highlights precisely what has happened in the wider asset management market, according to Ayres-Thomson.

"Investors have flocked to passive low-cost trackers, because of the outperformance, what we call alpha," he said.

"Unlike human stock picking, machine learning presents a deeply scientific approach to learning how stocks work, one that is fully capable of observing enough data not to be tricked by the randomness of stocks and that looks at enough features to understand the intricate relationship and meaning between features of a company and its stock, and how they interact with future investment performance."

According to Ayres-Thomson, the scientific evidence (statistical testing) that validates 3AI is "totally beyond reasonable levels of chance" with the company operating at present with near 0% tolerance for false results i.e. using something that didn't work due to false test results".

"The chief barrier to adoption of machine learning is not that it does not work but rather a false bias caused by a lack of statistical literacy in the financial industry," he said. "Never before have methods been so deeply tested and validated as we are able to achieve today, by virtue of observing 3AI across such a large quantity of stocks."

Is it time to replace benchmark indices that were not designed for investment products in investors' portfolios?

Jacob Ayres-Thomson: Indices were originally created, not as methods of portfolio construction, nor as methods to create investment products, but as academic barometers of things – GDP or unemployment. Over time they have evolved into being the decision making behind the largest equity funds in the marketplace far surpassing the size of funds of the greatest professional investment managers. It is startling that in the case of equity benchmarks, they have gathered so much more AuM than human stock pickers despite doing basically no research about the companies they invest in, typically only asking a few simple qualifying questions of each stock they select, i.e. size, liquidity.

This is not testament to the brilliance of passive investing but the failure of human professionals to learn how stocks work. We are quite clear why this has been the case at 3AI. Neural networks, which became all the buzz in machine learning some 10 years ago are modelled on our brains and have proven to be highly effective at learning unexplainably complex mammal skills such as walking, talking, perception etc., but perform poorly in noisy financial data.

Humans are the wrong "learning" technology for the job. The key it appears with someone like Warren Buffett is not that he learnt from the stock market, but that he learnt a philosophy of valuation and growth from the likes of Ben Graham and Charlie Munger - he paid little attention to learning from the feedback of the market, in essence, he utilised his general intelligence but turned off his learning from market feedback.

With machine learning we can inject sophisticated learning about valuation, growth, momentum, credit risk, analyst reports and expectations into the evaluation of every stock within a benchmark. We can create for the first time a passive approach to investing that also performs sophisticated investor analysis of every company in the index, an undertaking that would be a gargantuan task for an investor in the largest 2,000 US stocks but is now possible with machine learning.

Does this mean traditional benchmark indices will be replaced by the new 'intelligent' indices across investment products over time?

Jacob Ayres-Thomson: We believe the era of intelligent "thinking" indices is being birthed. With passive investing, for example, investors are forced to buy more of a thing, as its price goes up and miss the opportunity to buy more for less when a stock has fallen. A recent example was Tesla's inclusion into the S&P 500 at a level that even Musk described as overvalued. Passive funds were forced to plough into Tesla at a valuation many were concerned about and their stampede into Tesla was known to all, so many hedge funds would have exploited that.

In our enhanced approach to indexing, we have observed a down tilt in Tesla during recent times where it had underperformed the wider market by 80% as 3AI was cognizant of the overvaluation and reduced likelihood of sustaining Tesla's valuation at that point.

However, we do not think that passive investing (benchmark indices) is ever going to be replaced because as a market's pricing efficiency increases, benchmarks also benefit. We have observed through our analysis greater pricing efficiency and liquidity in the largest US stocks than anywhere else in the world which is a direct result of the impact of the fact that the US market has the most advanced hedge fund ecosystem in the world today boosting domestic market pricing efficiency.

An increase in pricing efficiency will result in a stock market going up faster as capital is more efficiently allocated to faster growth opportunities and less time sat dormant in poor performing companies. We believe this likely contributes a net 1-2% average alpha to the USA stock market per year, benefiting pension funds and wider society.

Our conclusion at 3AI is that AI powered enhanced indices and passive are here to stay and we expect the enhanced approach to create a new premium benchmark that sits alongside the traditional benchmarks.

How important are structured products on 3AI's roadmap?

Jacob Ayres-Thomson: The structured products market is a more agile than the traditional investment management market, where a lot of that capital is sitting on passive benchmarks.

Our current partnership with Barclays, focused on the US annuity market, is now going global. We're also looking at global indices for the European and Asian structured products market, and at the hedge fund space, where we also supply 3AI Alpha Insights to quantitative trading teams around the world.

We have been very pleased to receive strong feedback on the alpha insights data we supply to some of the world's leading hedge funds, as those managers are discovering that around half of the alpha, we unlock was previously unseen to them, despite them having today vastly larger R&D resources than ours is today.

However, our vision for 3AI is that this will not always be the case. We continually ingest ever newer datasets in a bid to leave no stone unturned in our search for alpha. We have also discovered that we are able to train artificial intelligence systems to learn specialisms within the markets and then glue them together to create enhanced AI that performs even better by combining very distinct intelligence and data analysis from different areas.

We also utilise systems that study our own systems to learn their circle of competence such that we are better able to deploy them. To us it is abundantly clear that we are scientifically pioneering the future of alpha intelligence for passive investing.

Derivia Intelligence

Derivia Intelligence Middle East

20 November 2024 | Conrad Dubai, UAE

Derivia Intelligence Middle East 2024 is the inaugural Derivia Intelligence conference, combining the FOW and SRP brands.

Scheduled for 20 November at Conrad Dubai, this event will focus on derivatives and structured products and feature two streams, allowing attendees to choose the most relevant topics. Bringing together both buyside and sellside professionals, the event will showcase panel discussions on market developments, regulatory changes, and growth opportunities.

The event will feature a series of sessions covering a wide range of topics looking at the macroeconomic environment, regulatory landscape, commodity markets, sustainable finance, digital assets, regional equity markets, role of Islamic finance, equity, FX and fixed-income markets, and index innovation.

Beyond the comprehensive agenda, Derivia Intelligence Middle East also aims to foster collaboration and promote growth within the derivatives trading and structured products community. The event offers a great opportunity for participants to engage with industry peers, exchange innovative ideas, and explore potential partnerships.

For more information and registration details, please click the link to visit the official event website.

SRP | FOW

REGISTER NOW

SRP Americas 2024 Awards: the winners revealed

The best in class in the structured product industry gathered in New Orleans for the SRP Americas 2024 Awards on 11 September. The full list of winners is below.

DISTRIBUTORS

Best Capital Protected Distributor, Americas
Desjardins

Best Distributor, Americas
Morgan Stanley

Best Distributor, Brazil
Santander

Best Distributor, Canada
Desjardins

Best Distributor, Mexico
BBVA

Best Distributor, USA
Bank of America

Best Performance, Americas
Santander (Brazil)

Best Performance, Brazil
Santander

Best Performance, Canada
Desjardins

Best Performance, Mexico
BBVA

Best Performance, USA
Bank of America

Best Yield Enhancement Distributor, Americas
Morgan Stanley

Best Private Bank
UBS

Best Independent Broker-Dealer
Raymond James

ISSUERS

Best FIA / VIA carrier
Athene

Best FIA/VIA Hedge Provider
Barclays

Best Hedge Provider
Goldman Sachs

Best House, Americas
J.P. Morgan

Best House, Brazil
XP Investimentos

Best House, Canada
Desjardins

Best House, Mexico
Monex

Best House, USA
J.P. Morgan

Best House, Commodities
J.P. Morgan

Best House, Equities
J.P. Morgan

Best House, Foreign Exchange
Monex

Best House, Interest Rate
J.P. Morgan

Best House, Capital Protection
Desjardins

Best House, Certificates of Deposit
HSBC

SERVICE PROVIDERS

Best Index Provider
Nasdaq

Best Law Firm
Davis Polk

Best Multi Issuer platform
iCapital

Best Pricing and Risk Analytics
Bloomberg

Best Proprietary Index provider
Barclays

Best Single Issuer Platform
BBVA ePricer

Best Structured Products Technological Solution
Bloomberg

Best Technology Provider
Luma

Best Thematic Index Provider
S&P Dow Jones Indices

INNOVATION & EDUCATION

Deal of the year Annuities
North American Secure Horizon Suite of Fixed Index Annuities (Annexus, North American Company for Life and Health Insurance)

Deal of the year Canada
Zenitude Balanced Guaranteed Portfolio (Desjardins)

Deal of the year Latin America
Guaranteed Minimum Rate Double No Touch (Monex)

Deal of the Year USA
Cash-Settled Equity-Linked Notes Linked to Microsoft (Barclays)

Index of the year annuities
Barclays Transitions Indices

Index of the Year Structured Products
S&P 500 Market Agility 10 TCA (S&P DJI)

Best Educational Initiative
Stifel

Most Innovative Product
Leveraged Callable S&P 500 Futures Excess Return Index-Linked Notes (Goldman Sachs)

Personality of the Year, Annuities
Natasha Dadlani

Personality of the Year, Structured Products
Adam Siegler

Voice of the Customer
Desjardins

SRP Americas 2024: leveraging technology to increase distribution, auto-pricers in focus

Panelists discussed how buy-sides drive the innovation of technology and platforms within the structured product industry at the SRP Americas 2024 conference held in New Orleans, LA last week.

Technology and platforms in the structured product industry have been a positive boost to the financial advisor's space, Tom Baughman, managing director, head of advisor distribution for private wealth solutions at iCapital, kicked off the "distribution avenues and access through technology" panel discussion.

"We've essentially been able to take this business off of spreadsheets and on to a place where you have order entry and lifecycle management, not to mention all the education and research capabilities that bring as well," Baughman said in the panel moderated by Tom Layton, senior vice president at Raymond James Financial.

Matt Linker, head of derivatives at Arta Finance, agreed with Baughman's points as he also saw the value of having multi-dealer platforms for advisors to iterate faster through them. But there's a remaining challenge coming side-by-side.

"There's almost too much choice in a sense, so we need to figure out 'How do we then optimise? How do we then select the best offerings for end clients?'" said Linker.

"Buy-side completely drove the innovation and the platform development, particularly with respect to structured products," Vanessa Simonetti, managing director, global equity derivatives at TD Securities, said. "I do think the end goal is still to grow the pie and make the market more prominent. That will ultimately benefit issuers, but it has also created headaches and work for issuers and changed how issuers deliver pricing to all these requests."

Panelists highlighted the importance of issuers' auto-pricing technology, with many having the resources to develop such tool internally.

"It used to be that you would say to someone, 'I can price these 12 iterations for you, and I'll have it for you in about an hour or two,'" Simonetti said. "Now, that's expected to be 30, 40 or 50 iterations in five minutes."

While from the wholesaler side, Baughman said most of the work iCapital works on the auto-pricer front is related to price discovery for clients, Simonetti said the Canadian bank's auto-pricer is strictly for internal use.

"I think there's a lot of opportunity for any technology provider to offer optimization or shortcuts to the auto-pricer space," Linker said. "How do we come closer to the end goal even if you don't go all the way there to the final structure?"

Meanwhile, the increasing digitisation and automation brought up concerns about the younger generation coming into a structured product industry with full understanding of various pieces of option pricing, Linker and Simonetti noted.

Linker shared about being in a pickle when he tried to hire a structuring role at the firm earlier this year. "As someone who believes strongly that you should know all of those details, know how to dive into Excel, know every single dynamic that feeds into these structures, I had an incredibly difficult time finding people that were able to do that," he said. "Ultimately, I was able to make the hire. But I think it speaks to the challenge that we're going to start to see."

Baughman sees iCapital's next scope for growth is to show a financial advisor and their client the impact to their portfolio by investing in structured notes.

"Our competition is what the 85% or so of advisors that aren't using structured notes to generate income or create hedges in their portfolio – I think that's the best next step to trying to expand the pie and using technology to do so," he said. "The more we can work to simplify some of the options you have with respect to structured products, I think that will help further drive growth in the marketplace," Simonetti concluded. "I do think that the technology of the platforms can really help drive that organised thought process for the advisors."

SRP Americas 2024: uncertainty amid rate cuts and elections

The expected rate cuts and upcoming presidential election dominated the first panel discussion at the SRP Americas Conference 2024 in New Orleans, LA on 11 September.

With the US elections coming up, advisors want to ensure that there's protection for astronomical gains made by their clients who tend to be elderly or approaching retirement over the last decade, especially in a couple of the high-flying single stock names.

We have been receiving great feedback, interest on the full suite, which is going to encompass your variable prepaid forwards, callers and cover call overriding - Lou Mandia, Morgan Stanley

Earlier this year Morgan Stanley launched a programme which features the adoption of some best practices of its internal wealth channel and independent financial advisor.

"We have been receiving great feedback, interest on the full suite, which is going to encompass your variable prepaid forwards, callers and cover call overriding," said Lou Mandia, head of RIA strategy & solutions at the bank.

It's not entirely clear what the full parameters are for the November elections with few detailed policy positions from both candidates.

"We spent a lot of time in our world worrying about phantom income, on structured products. This would be sort of a big issue for the market," said Christopher Schell (pictured), partner at Davis Polk & Wardwell.

The two candidates want to go in very different directions with a largely tax reducing agenda from a potential Trump administration to a tax increase situation under a Harris administration, especially if the 'wealth taxes' ever get enacted, Schell added.

Schell also noted the future directions of US Securities and Exchange Commission (SEC) as Trump reportedly said he would fire chair Gary Gensler on day one if he won the elections.

I don't think [the rate cut] is necessarily a negative thing for our collective business - Nolan Thompson, Goldman Sachs

The elections results may also make a difference to the new DoL fiduciary rule, which "has had a lot of issues in the structured products areas and made it very challenging with the width to sell to retirement accounts", according to Schell.

Nolan Thompson, vice president, private investor product group at Goldman Sachs, showed optimism in the impact of expected Fed interest rate cuts.

"I don't think [the rate cut] is necessarily a negative thing for our collective business," said Thompson. "Obviously that'll impact our bond prices, but it also impacts our equity boards in a positive way. In terms of pricing, I'm not overly concerned about it. Our clients are always comparing the structure notes relative to what is the next best thing that they can get at that time."

Thompson recalled a lot of questions raised by clients about how the demand of structured products could keep up when the hiking cycle started years ago.

More data will come out and impact Fed's actions till November. "The market should continue to be choppy up until and probably through the end of the year," he said.

In the US, investors are known for concentrating on domestic equity. To help them diversify away from the exposure regardless single stocks or worst-of baskets, J.P. Morgan has been pitching QIS products by making "a lot of effort, time and energy into education," said Shane Meyer, executive director at the US bank.

"Towards the end of last year and into this year, we really saw that adoption take over and all the hard work and energy we put into the on the education side and even the technology side, right with capital platform, getting training set up and running so and so forth," said Meyer.

Valentin Gratteau, investment solutions sales US & Latin America at BBVA, has also seen the similar concentration in underlying assets as its onshore trades are predominantly equity-linked notes on US indices. In addition, there's a concentration on autocallable products.

Meanwhile, offshore investors have more diversified portfolios across geopolitical exposure and payoff. In terms of investment duration, they prefer shorter terms and are more active in fixed income markets than onshore investors, according to Gratteau.

SRP Americas Conference 2024

Between 10-12 September 2024, the SRP Americas Conference was held in New Orleans.

SRP AMERICAS CONFERENCE 2024

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