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**From:** Ens, Amanda [REDACTED]  
**Sent:** Thursday, June 22, 2017 5:50 PM  
**To:** jeffrey E.; Richard Kahn  
**Subject:** Trade Idea: Buy Nasdaq puts contingent on 10y rates higher

Tech downside idea, especially given your long positions: buy Nasdaq (NDX) 95% 6m put contingent on USSW10 >ATMF +15bps at maturity for 0.95% (65% discount from vanilla)

Rationale:

\* This week David Woo put out a piece on the Fed's hawkish turn and offered the explanation that the Fed is acting in response to overvalued equities, especially the tech sector

(<https://rsch.baml.com/r?q=EWg9ZW30FednN-Jk9t9qag&e=amanda.ens%40baml.com&h=UwqRNA>)

\* Last week's Fed meeting was unexpectedly hawkish. The market is only pricing in one more hike for the rest of the year and less than one in 2018. We think the potential for an upside surprise is there, and is not being properly accounted for by the market, especially after last week. Therefore the risk is skewed towards rates increasing more than the market expects.

\* An accelerated hiking cycle could both push rates higher and Tech stocks lower, especially if there is a growth/momentum unwind. Positioning is crowded (active managers are more overweight tech than ever before) and valuations are high (sector P/E is at a post crisis high), so we think the risk for tech is more on the downside. This lines up very nicely for downside puts on NDX contingent on rates higher.

\* High implied correlation results in significant savings relative to the vanilla put. Although vols have increased in the last few weeks, they are still in the bottom quartile over the last two years. Pricing on this structure is attractive, with a ~65% discount to vanilla.

6m Daily Correlation

Source: Bloomberg

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