AMG
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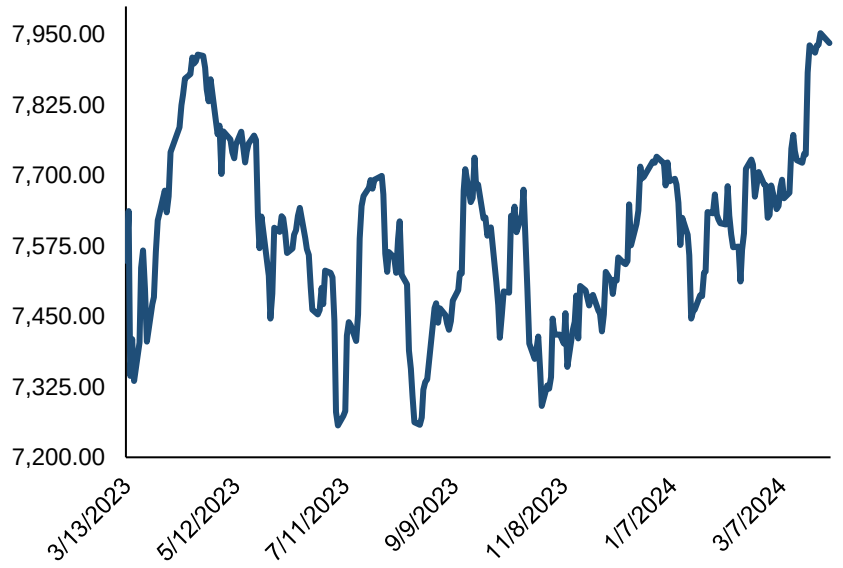
FTSE 100 Index | One-Year Price Chart



Position Details

- FTSE 100 Index | UKX9
- Underlying Price: 7,937.44
- Bull Call Spread
- Expiration Date: September 20, 2024

Index Derivatives Sector

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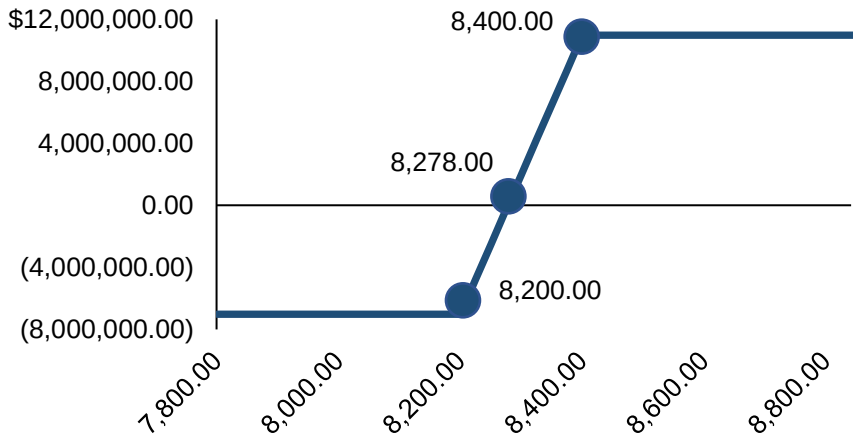
I. Product & Position Overview

Product & Position Overview

Product Description

- **FTSE 100 Index**
  - The FTSE 100 Index is a market-capitalization weighted index that is comprised of 100.00 blue-chip companies, designed to measure the performance of the 100.00 largest companies traded on the London Stock Exchange
  - **FTSE 100 Sector Weightings**: Financials (19.20%), Consumer Staples (16.20%), Healthcare (13.10%), Consumer Discretionary (12.60%), Energy (12.50%), Industrials (11.80%), Basic Materials (7.20%), Utilities (4.00%), Real Estate (1.2%), Telecommunications (1.20%), and Technology (1.00%)
  - FTSE 100 Three Largest Constituents
    - Shell PLC | 8.58%
    - AstraZeneca PLC | 7.94%
    - HSBC Holdings PLC | 5.95%

Payoff Diagram



Trade Breakdown

- **Bull Call Spread**
  - This option trade strategy benefits from relatively bullish price movements in the underlying stock market index
- **Setup**
  - We Buy – 150.00 OTM 8,200.00 Calls | UKX9
  - We Sell – 150.00 OTM 8,400.00 Calls | UKX9
  - Maximum Profit: $10,980,000
  - Maximum Loss: ($7,020,000)
- **Expiration**
  - Date: September 20, 2024

Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - **8,450.00** / **8,300.00** / **8,150.00**
  - Breakeven – 8,278.00
- **Methodology**
  - The Index Derivatives Sector aims to benefit from a ~4.00% increase in the value of the underlying index before the contract reaches its expiration date
- **Hedge Strategy**
  - In the event of bearish price movement of the index, the Sector would look to reverse trade to prevent losses

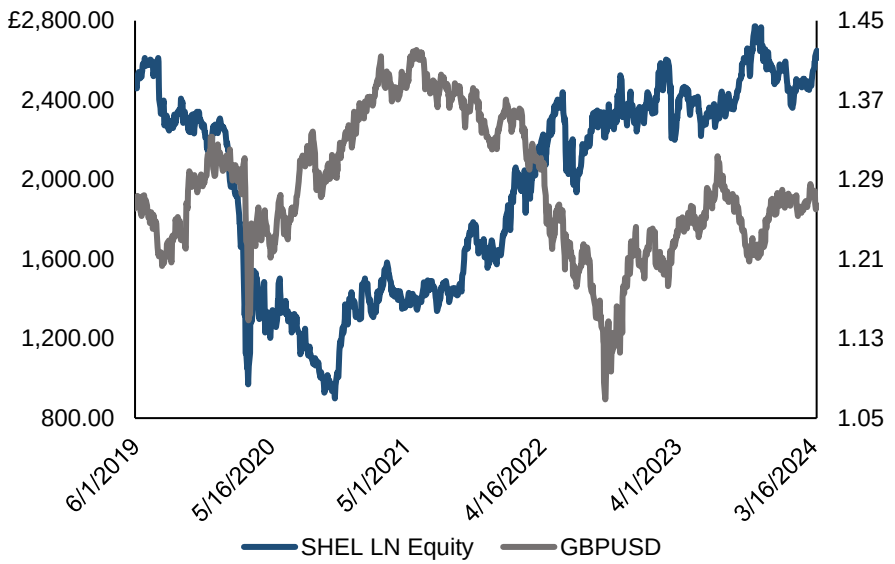
II. Macroeconomic Thesis

Macroeconomic Thesis

Macroeconomic Summary

- **BOE Signaling a Dovish Outlook**
  - The first time since rate hikes began that all nine MPC voters have changed to holding rates or cutting them at recent March meeting
  - Inflation slid by more than expected to an annual 3.40% in February, hitting its lowest level since September 2021
    - A BOE cut before the Fed would spur economic activity and a weaker currency can benefit the U.K.
- **U.K. Consumer Stays Relatively Strong**
  - Despite entering a technical recession in the end of 2023, Retail Sales data remained strong to start 2024, rising 3.60% in January and remaining unchanged in February 2024, defying market forecasts of a negative reading
  - Real Earnings Excluding Bonuses in the U.K. released at 1.63% in January. Showing strength in consumer earnings despite relatively high inflation and increased rates
- **FTSE Stocks Are Trading at a Discount With Strong Prospects**
  - Historically, in times where the P/E ratio hits 11.00 or below, the ratio corrects itself to 15.00 correlating to a 9.00%-34.00% increase in index in the following six months
  - Stabilizing oil prices lead to more predictable earnings and operating costs for large oil and gas companies, such as BP and Royal Dutch Shell who lead the energy sector
    - Shell's adjusted earnings of $7.30 bn in the 4Q2023 beat analysts' estimates. Per-share adjusted profit of $1.11 also topped forecasts of $0.91 despite much lower oil prices

SHEL LN Equity vs GBPUSD Currency | Five-Year Chart



Market Pros & Cons

- U.K. Conservative Party implement more economic recovery policy
- AZN acquisitions lead to strong earnings later this month
- Weak Chinese sentiments continues to hurt metals demand
- FTSE misses out on AI and technology growth

III. Risk Analysis

Risk Analysis

Directional & Magnitude Risk

- **Delta Analysis**
  - The Delta value for this trade is 0.0898
  - For every 1.00-point change in the underlying index, the value of the trade will gain or lose $0.0898
  - The trade benefits from bullish movements in the underlying price of the index
- **Gamma Analysis**
  - The Gamma value for this trade is 0.0001
  - For every 1.00-point change in the underlying index, the Delta value will change by 0.0001. Gamma has a small impact on this trade and is near zero due to the offsetting nature of the trade strategy

Time Risk

- **Theta Analysis**
  - The Theta value for this trade is (0.2790)
  - Theta is negative due to the net effect of time decay on the trade that is currently OTM
  - As the trade moves toward its expiration date, the trade will continue to decrease in value if it stays OTM, if the underlying passes breakeven Theta would become positive

Implied Volatility Risk

- **Vega Analysis**
  - The Vega value for this trade is 2.0403
  - The trade is net long volatility, and the Vega value is positive due to the underlying being below the breakeven point. The implied volatility for this trade is 14.00% as an increase in implied volatility will increase the chance of the trade being profitable

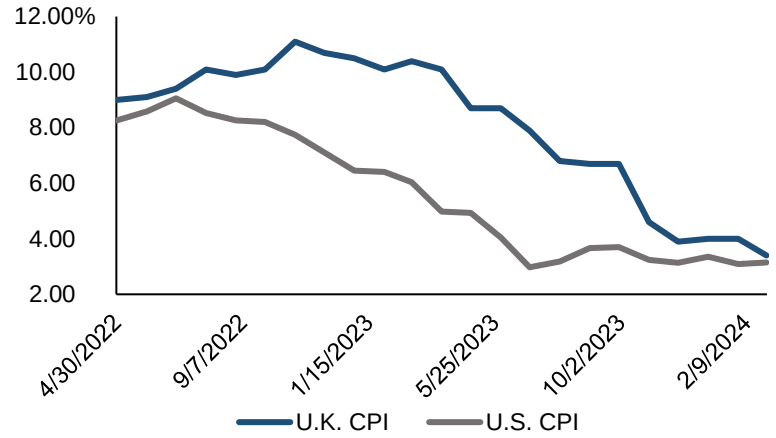
Interest Rate Risk

- **Rho Analysis**
  - The Rho value for this trade is (0.2782)
  - A 1.00% increase in the risk-free rate would increase the value of the OTM short position by a greater amount than the long position resulting in a negative net Rho value

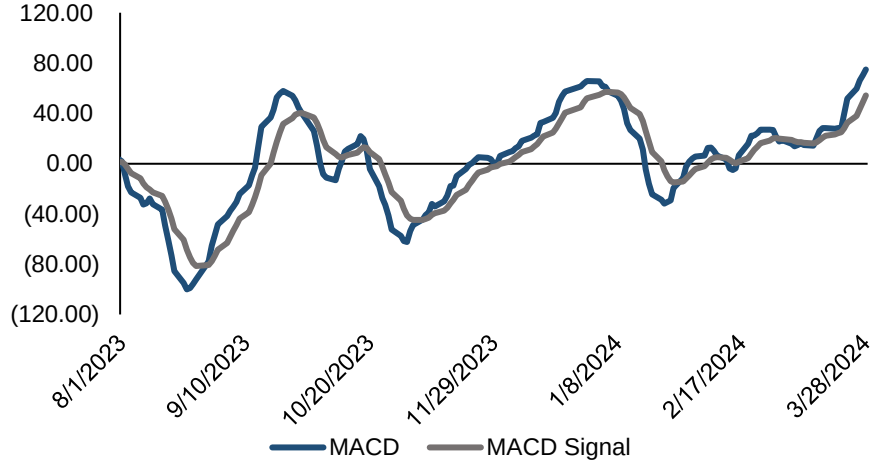
IV. Technical Bias & Fair Value

Technical Bias & Fair Value

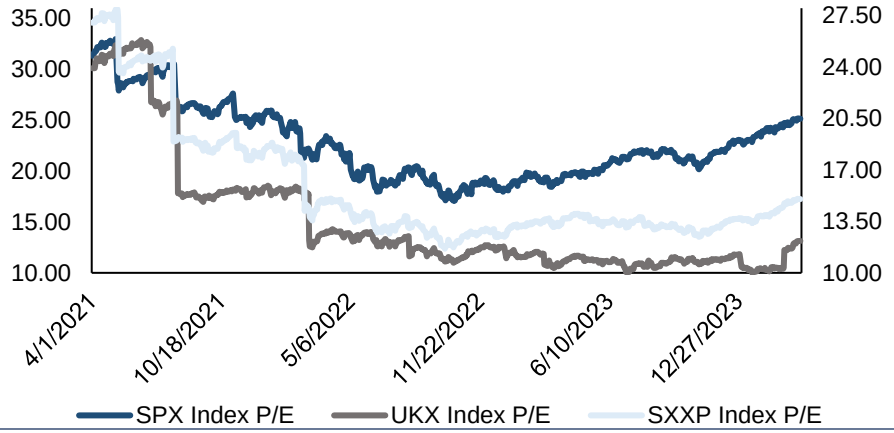
U.K. CPI vs U.S. CPI | Two-Year Chart



MACD vs MACD Signal | Eight-Month Chart



SPX P/E vs UKX P/E vs SXXP P/E | Three-Year Chart



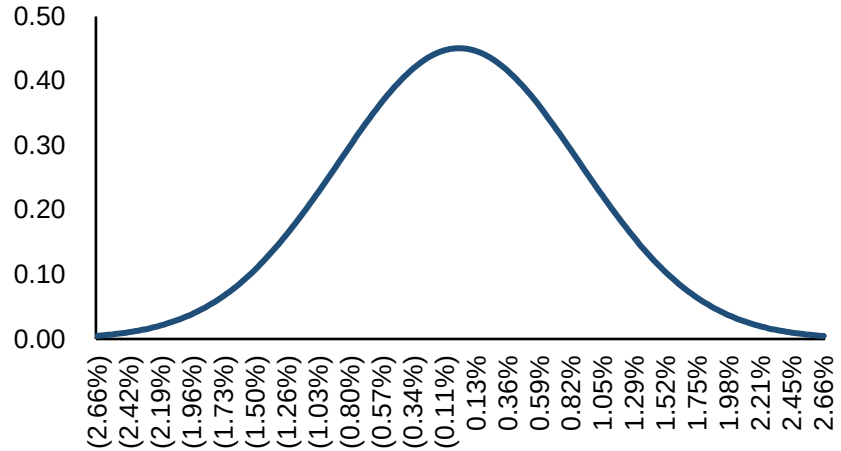
Synopsis

- Over the past two years, the U.K.'s Consumer Price Index (CPI) has been declining at a rate sharper than that of the U.S. CPI, indicating more pronounced deflationary pressures within the U.K. economy
- The Moving Average Convergence Divergence (MACD) is a trend-following momentum indicator that shows the relationship between two moving averages of a security's price. When the MACD crosses the signal line it indicates that the momentum is shifting upward as the short-term average moves faster than the long-term average.
- The gap between British equities and U.S. equities is at its highest point in over 5.00 years representing a strong undervaluation of U.K. equities comparative to U.S. and even E.A. equities currently

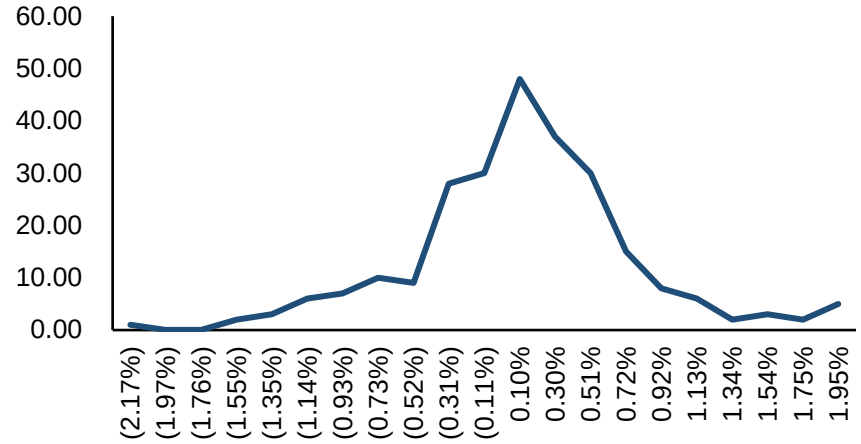
IV. Volatility Analysis

Volatility Analysis

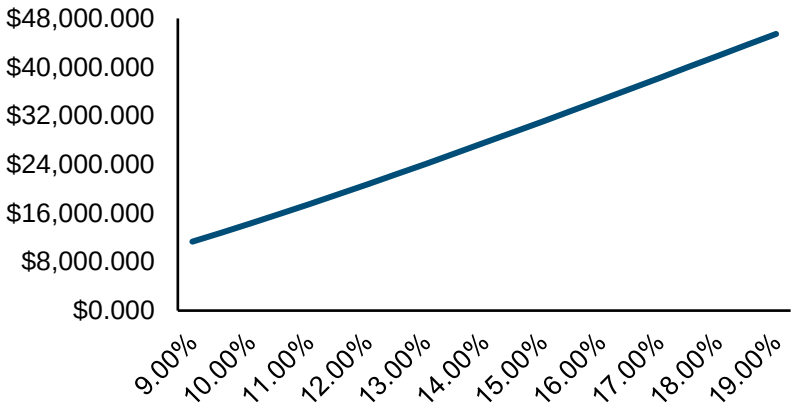
Expected Theoretical Daily Return Distribution



Historical Daily Return Distribution



Position Volatility Sensitivity



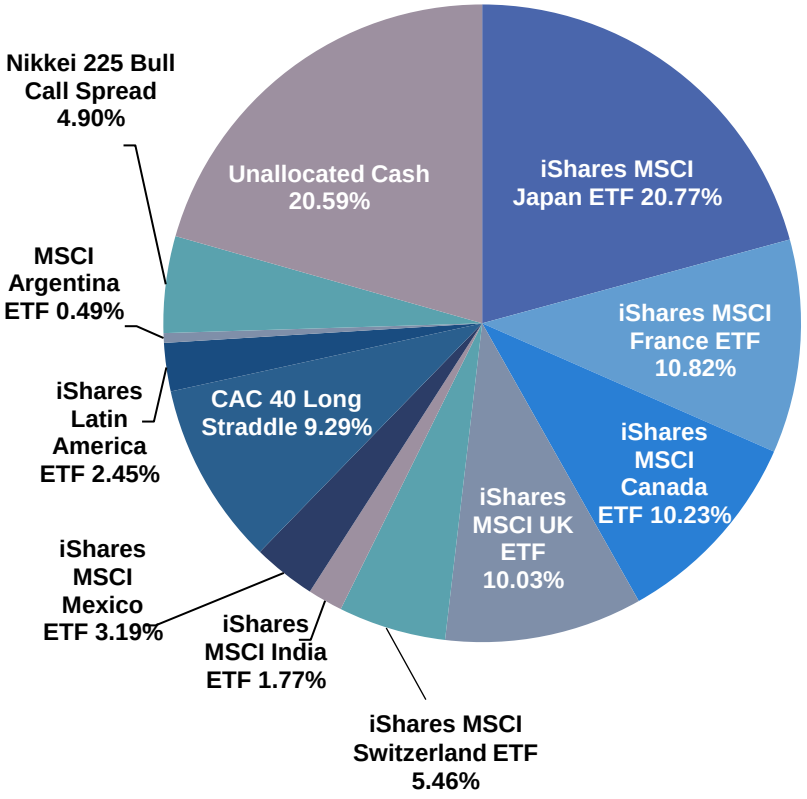
Synopsis

Asset Description	Option Premium
Theoretical Long Call	$247.3834
Actual Long Call	$157.5000
Theoretical Short Call	$183.6888
Actual Short Call	$79.5000
Theoretical Long Call Adj. for DV1	$24,738.3408
Actual Long Call Adj. for DV1	$15,750.0000
Theoretical Short Call Adj. for DV1	$18,368.8833
Actual Short Call Adj. for DV1	$7,950.0000
Theortical Edge (LC) Assuming 150.00 Contracts	$1,348,251.1187
	-
Theortical Edge (SC) Assuming 150.00 Contracts	($1,562,832.4939)
Total Theoretical Edge	($214,581.3752)

V. Capital Allocation

Capital Allocation

Current Portfolio Allocation



Proposed Portfolio Allocation