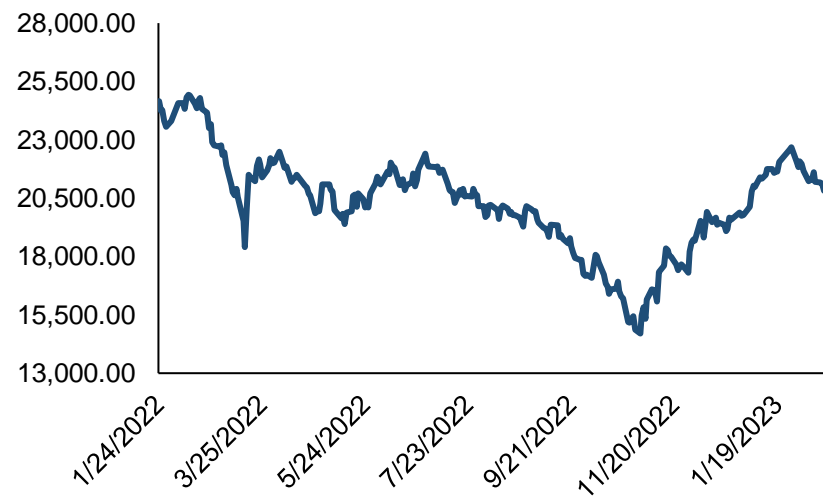




## Hang Seng Index | One-Year Price Chart



### Position Details

- Hang Seng Index | HSI 12
- Underlying Price: 20,886.96
- Long Straddle
- Expiration Date: December 28, 2023

### Index Derivatives Sector

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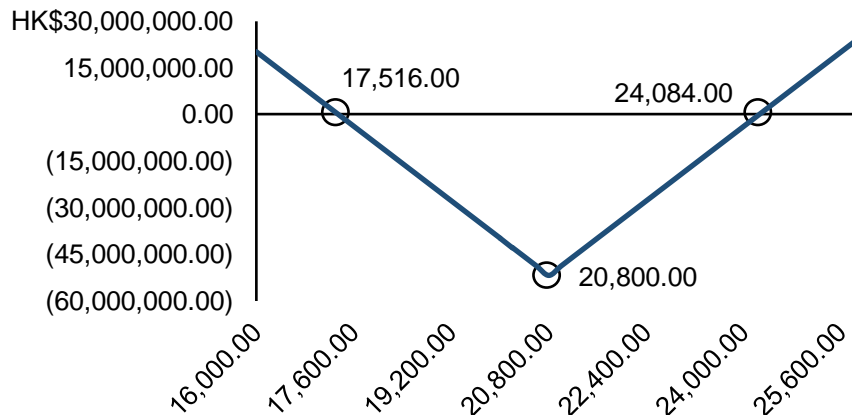
## I. Product & Position Overview

## Product & Position Overview

### Product Description

- **Hang Seng Index**
  - The Hang Seng is a free-float adjusted, market-capitalization weighted index that seeks to track the performance of 76.00 blue chip stocks listed on the Hong Kong Stock exchange
  - Although Hong Kong is a special administrative region of China, the two economies are closely tied resulting in many Chinese companies being listed on the Hong Kong Stock exchange
  - Sector Weightings: Financials (34.04%), Information Technology (30.50%), Consumer Discretionary (9.05%), Properties and Construction (6.90%), Energy (3.56%), Consumer Staples (3.26%), Health Care (3.15%), Utilities (2.88%), Telecommunications (2.81%), Conglomerates (1.49%), Industrials (1.31%), Materials (0.16%)

### Payoff Diagram



### Trade Breakdown

- **Long Straddle**
  - The trade is long volatility where the sector profits on a sizeable movement in the underlying away from the strike price
- **Setup**
  - We Buy – 300.00 ATM \$20800.00 Calls | HSI 12 C20800
  - We Buy – 300.00 ATM \$20800.00 Puts | HSI 12 P20800
- **Expiration**
  - Date: December 28, 2023

### Exit Strategy & Potential Hedge Strategy

- **Bull Base & Bear Case**
  - Upper Breakeven – 24,084.00  
**25,600.00** / 24,084.00 / **20,800.00**
  - Lower Breakeven – 17,516.00  
**16,000.00** / 17,516.00 / **20,800.00**
- **Methodology**
  - The Sector believes markets are underpricing volatility, we believe the underlying asset will trade up or down at least ~20.00% and become profitable
- **Hedge Strategy**
  - In the event that the underlying experiences little price action, the Sector will seek to reverse trade



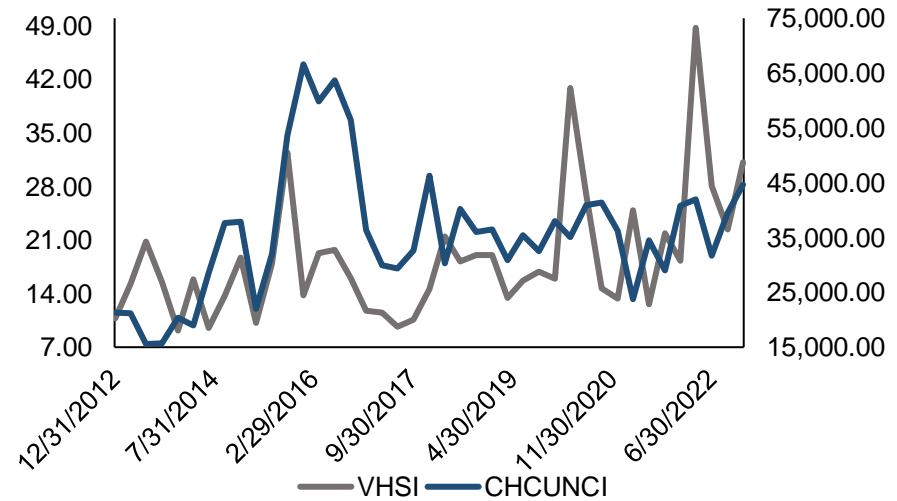
## II. Macroeconomic Thesis

## Macroeconomic Thesis

### Macroeconomic Summary

- **Heightened US China Tensions Restore Geopolitical Concerns**
  - Accusations and restrictive action are being exchanged between the two economic superpowers after the US shot down the China balloon it claims to have been part of China's global espionage program
  - How the desire to strengthen US-Taiwan ties will impact US China relations is yet to be seen, with speculation regarding whether China's "wolf warrior diplomacy" still lurks beneath the surface of Xi Jinping's leadership
  - US government entities from the Biden administration to the Republican-controlled house will continue to scrutinize US investments to China in 2023 amid mounting distrust
- **Markets React to China Foreign Investment**
  - Over the duration of the trade, China will be renegotiating their loan to Sri Lanka, the first middle-income country within the BRI to default on sovereign debt
  - Political and project quality uncertainty in Latin American participants of the BRI will further drive volatility
- **Monetary Policy Uncertainty Could Drive Volatility in 2023**
  - Strong economic data thus far from the U.S. may propel the Fed to enact more hawkish monetary policy through 2023FY as the disinflation process experiences difficulties
  - HKMA generally follows Fed rhetoric and with markets currently pricing in a 5.30% terminal rate, though possibly climbing to 6.00% by September, the Hang Seng will be susceptible to any changes in monetary policy sentiment and economic conditions as the year progress

### Hang Seng Volatility vs. China's Direct Investment Abroad BOP



### Market Pros & Cons

- Hong Kong again becomes a civil protest hot spot
- Continued uncertainty with China's property sector
- Fed remains aligned with what markets price in in terms of monetary policy during the duration of their hiking cycle
- China has successfully emerged from Covid-19 shutdowns



## III. Risk Analysis

## Risk Analysis

### Directional & Magnitude Risk

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- **Delta Analysis**
  - The trade has a Delta value of 0.0929
  - The trade is Delta neutral due to the nature of the trade benefitting from either a bullish or bearish price movement in the underlying asset
- **Gamma Analysis**
  - The trade has a Gamma value of 0.0002
  - Gamma is near zero due to being in a delta-neutral position, meaning there will be a minimal rate of change in Delta throughout the duration of the trade

### Implied Volatility Risk

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- **Vega Analysis**
  - The trade is long Vega with a value of 145.6869
  - Implied volatility: 22.00%
  - The Vega value can be attributed to the value of the option having considerable exposure to volatility, benefitting from a percentage point increase in volatility of the underlying instrument

### Time Risk

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- **Theta Analysis**
  - The trade is short Theta with a value of (17.5498)
  - The option is currently ATM, each day that passes decreases the likelihood of ending ITM deteriorating the option's value by the given Theta

### Interest Rate Risk

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- **Rho Analysis**
  - The trade has a Rho value of (27.0260)
  - Since we are net buyers, an increase in the risk free rate decreases the value of our option

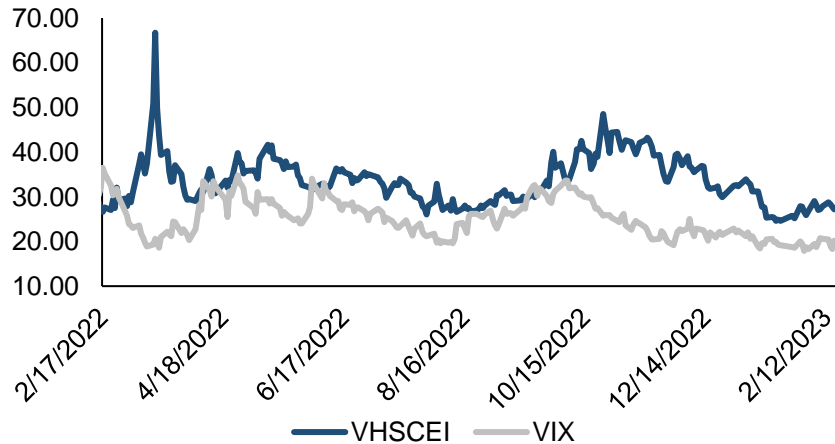




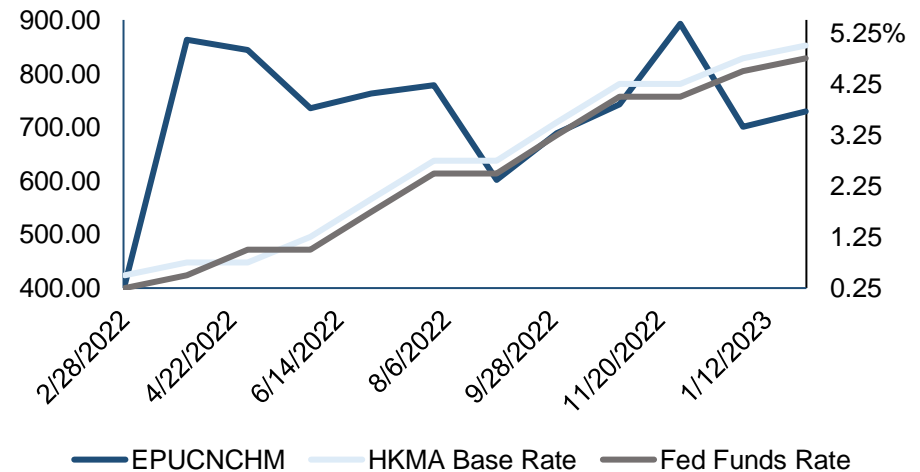
## IV. Technical Bias & Fair Value

## Technical Bias & Fair Value

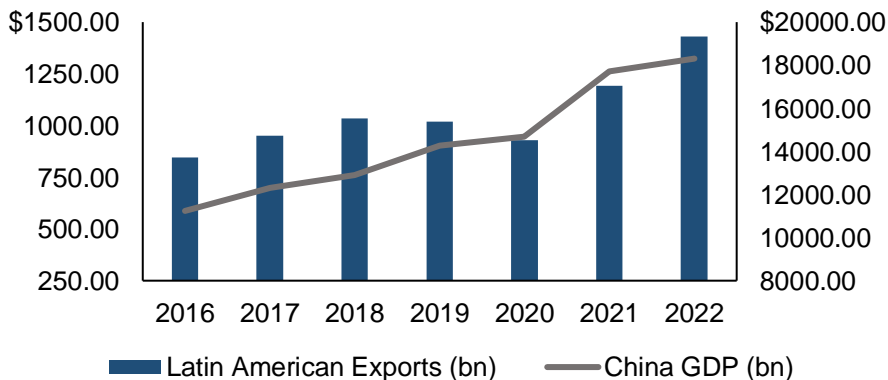
HSCEI Volatility Index vs VIX | One-Year Line Chart



China Economic Uncertainty vs HKMA Base Rate vs Fed Funds Rate



Latin American Exports vs. China GDP



### Synopsis

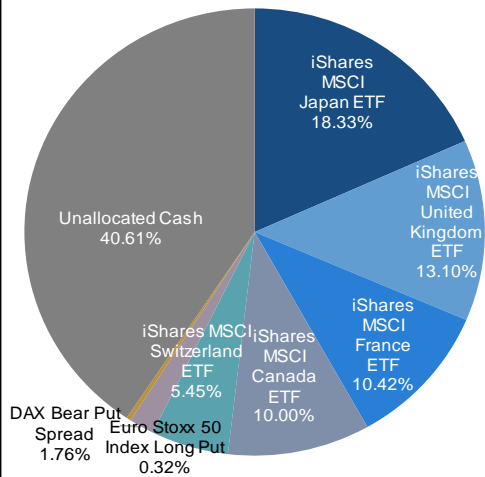
- In 2022, the HSCEI Volatility Index which serves as a barometer for volatility in the Hong Kong stock market increased 55.00% y/y, whereas its US counterpart the VIX is up 33.00% y/y. The VHSCEI is also well above its average over the past decade which could signify a continuing trend of increased volatility into 2023
- As the monetary policy decisions grows more difficult given the macro-economy, economic uncertainty is rising again in China, similar to when the Fed commenced its cycle of rate hikes and times of the zero-COVID policy ravishing business performance in China
- In 2021, the Belt and Road initiative shifted to focus more on Latin America, specifically because of their raw materials. Thus, we have seen an increase in both Latin American Exports and China's GDP and China increases its reliance on Latin American goods



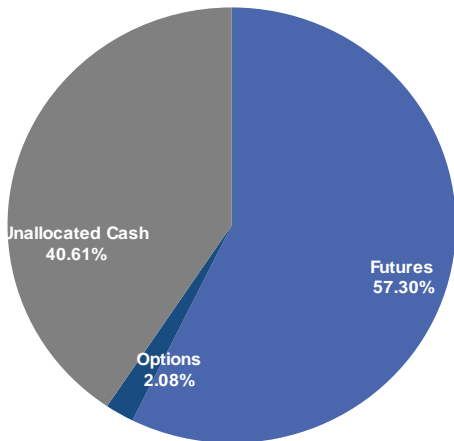
## V. Capital Allocation

### Capital Allocation

**Current Portfolio Allocation**



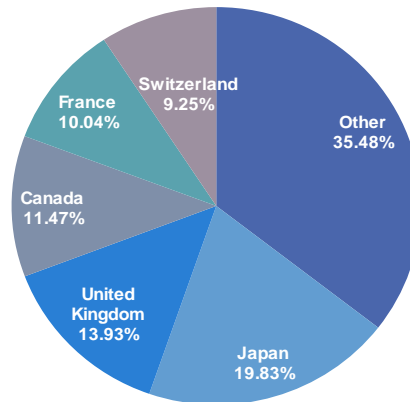
**Current Position Allocation**



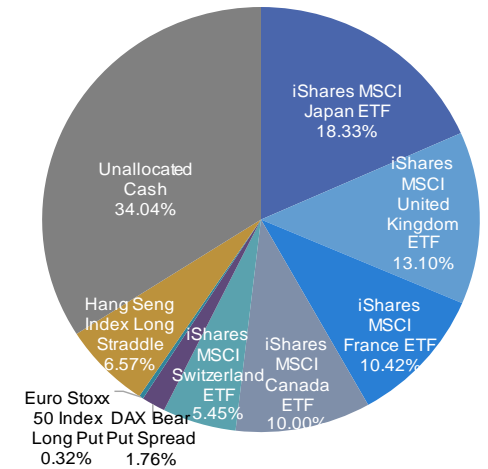
**Transaction Summary**

Ticker	Position Change	
	Contracts	Allocation
iShares MSCI Japan ETF	0	\$0.00
iShares MSCI Japan ETF	0	\$0.00
iShares MSCI Japan ETF	0	\$0.00
iShares MSCI Japan ETF	0	\$0.00
iShares MSCI Japan ETF	0	\$0.00
iShares MSCI Japan ETF	0	\$0.00
DAX Bear Put Spread	0	\$0.00
Euro Stoxx 50 Index Long Put	0	\$0.00
Hang Seng Index Long Straddle	+ 600	(\$6,403,800.00)
Allocation Change		(\$6,403,800.00)

**Benchmark Allocation**



**Proposed Portfolio Allocation**



**Proposed Position Allocation**

