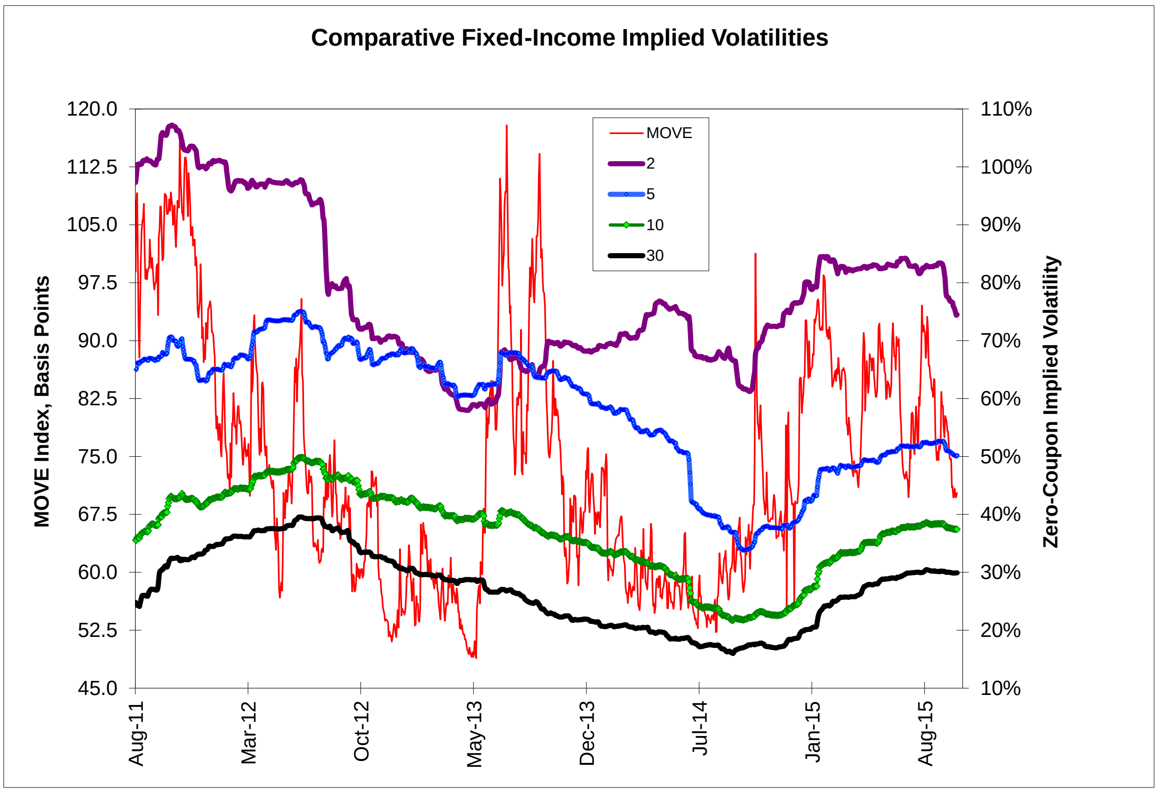
Trends In U.S. Fixed-Income Volatility

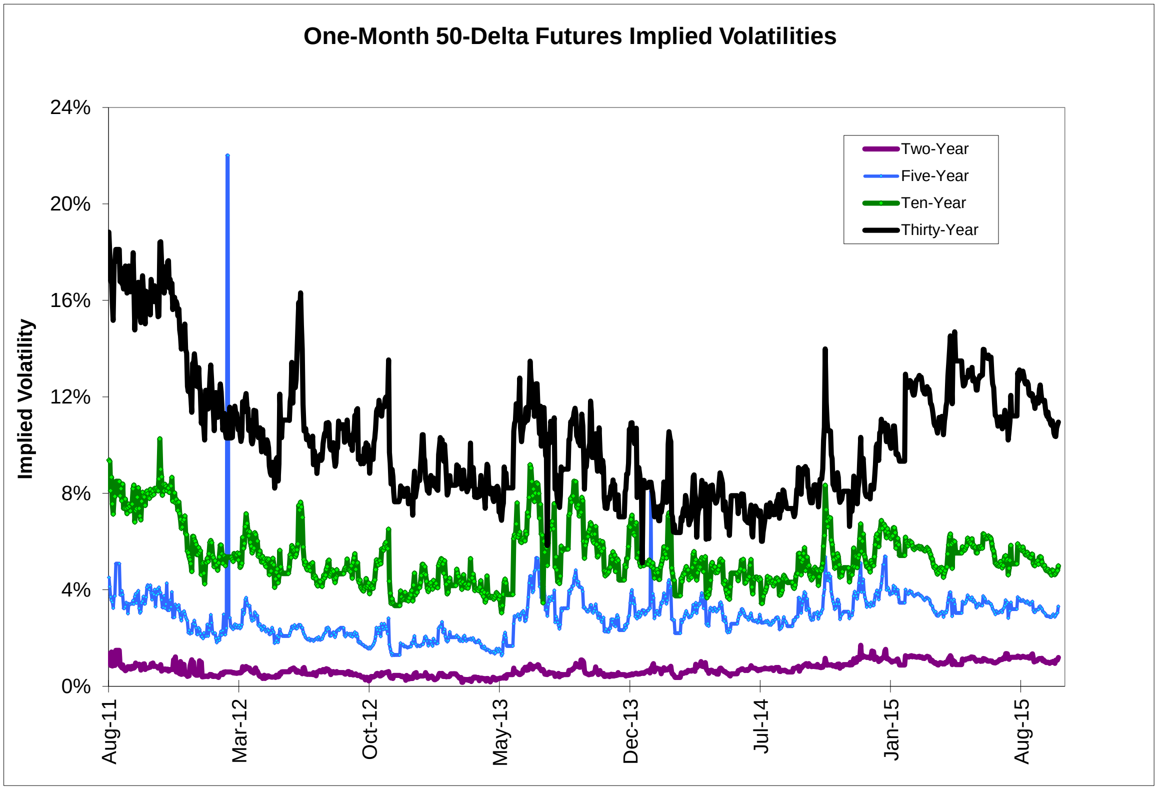
Long-term zero-coupon implied volatilities stopped their year-to-date increase just after the depths of the August global equity selloff. Two- and five-year implied volatilities did not start declining until the beginning of October. We can attribute the stability in long-term volatilities to continued disinflationary pressures and the demand for lower-risk assets. The decline in short-term volatilities can be attributed to a belief very low short-term rates will not be forced higher anytime soon. Normally the combination of low short-term rates and a steep yield curve is regarded as unstable and is accompanied by higher implied volatility.

The Merrill Lynch MOVE index, which is a weighted average of normalized one-month implied volatilities (20% weights assigned to the two-, five- and thirty-year options; 40% to the ten-year options) is near its 2015 lows but is well within its normal range since the beginning of Operation Twist in August 2011.



Futures Market Volatilities

One-month 50-delta implied volatilities for all futures contracts also exhibit a distinct term structure. Thirty-year volatility began to decline just after the depth of the August global equity selloff. As the thirty-year bond future is being threatened by a declining number of bonds available for delivery by virtue of declining issuance during the late-Clinton/early-Bush years, its volatility is becoming increasingly unrepresentative of underlying market expectations for long-term rates. If we take this into account, we continue to find futures volatilities to be remarkably featureless since the 2013 taper tantrum.


One-Month 50-Delta Futures Implied Volatilities
Implied Volatility
24%
20%
16%
12%
8%
4%
0%
Aug-11
Mar-12
Oct-12
May-13
Dec-13
Jul-14
Jan-15
Aug-15
Two-Year
Five-Year
Ten-Year
Thirty-Year