

## GS: Hedging Portfolios & Credit Downside

Over the last two weeks, we have had a STARK increase of clients looking to hedge their portfolios via credit downside.

As vol has increased across asset classes, clients are looking to put on hedges/buy vol in the product *that is still near the generational tights*. **Credit has been remarkably resilient all year but is finally starting to pick up a beta to equities.** The position flush that we have seen on the equity side has just started to flow through in credit. Vol is only in the ~50% tile on a 3-5y lookback, spreads are close to the tights, and clients are still very long (see below for more).

**Highlighting the below structures with 10x+ gross payouts that have been printing here.** H/t Alisha Pasi and Reid Zhou.

### CDX Payer Spread

**\*CDX valuation is still expensive.** On a 15yr look back we are in the 21<sup>st</sup> percentile for IG and 36<sup>th</sup> percentile for HY.

**\*CDX positioning is very long risk.** On a 10yr look back, non-dealer positioning is in the 87<sup>th</sup> percentile for IG and 93<sup>rd</sup> percentile for HY.

**\*Credit vol has picked up but still screens low compared to other asset classes.** Premium for OTM payer spread is on the lower end on absolute dollar price term.

### Implementation

#### CDX IG

IG43 May 80/100 payer spreads /7.5c dfm 6.125c **11.3x Gross Payout**

IG43 Jun 85/105 payer spreads /8.25c dfm 8.125c **10.1x Gross Payout**

IG43 Jul 90/110 payer spreads /8.75c dfm 7.375c **9.4x Gross payout**

ref 57.375

#### CDX HY

HY43 May 102/97 put spreads /44c dfm 39.25 **11.4x Gross Payout**

HY43 Jun 101/96 put spreads /45c dfm 40 **11.1x Gross Payout**

HY43 Jul 100/95 put spreads /45c dfm 40 **11.1x Gross Payout**

ref 105.75

max loss: premium spent

## Charts:

### CDX 3M Vol | 15y lookback

Source: GS Global Markets Division as of March 12, 2025. Past performance figures are not a reliable indicator of future results.



## CDX 3M 10/25d Payer Spread Payout Ratio | 50-dma

Source: GS Global Markets Division as of March 12, 2025. Past performance figures are not a reliable indicator of future results.



**CDX 3M Normalized Payer Skew | 86 %-tile for IG and 87%-tile for HY over 15y lookback**

Source: GS Global Markets Division as of March 12, 2025. Past performance figures are not a reliable indicator of future results.



**CDX IG Non-Dealer Net Positioning** | *On-the-run + 2 off-the-run, 87%-tile for IG and 93%-tile for HY over 15y lookback*

Source: GS Global Markets Division, DTCC as of March 13, 2025. Past performance figures are not a reliable indicator of future results.



## CDX Spread vs SPX % Drawdown from 12m High

Source: GS Global Markets Division, DTCC as of March 13, 2025. Past performance figures are not a reliable indicator of future results.

