Title: Wen Moon: Clues to Black Swan Monday Hunting!
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The Impact of Rising Rates on the Derivatives Market

Nearly all study respondents indicated that interest-rate derivatives are important to their firms, highlighting the central role of these products in the health of the clearing business. Until recently, volatility in this segment of the markets was muted because of the influence of central bank policies. That began to change toward the end of 2021, when the Federal Reserve signaled a shift to higher interest rates to combat inflation. As of early 2022, the Fed funds futures market was pricing in expectations for five interest-rate hikes in 2022, and some analysts are predicting even more hikes in 2023.

The Fed pivot has sparked a surge in trading activity in interest-rate futures and swaps, as market participants have adjusted their positions. Although this surge in trading activity came after the study was completed, it is likely to intensify some of the trends revealed in the data.

- **First**, the shift in interest-rate expectations is likely to be positive for the clearing business because the need for hedging by the buy side will increase volumes, given uncertainty around short-term rate hikes and longer-term bond rates.
- **Second**, this trend will intensify the search for capital optimization and the analytics to determine most capital-efficient use of derivatives. Determining the optimal choice of instrument—cleared swaps vs. futures—and central counterparty will drive new technology investment, assuming the right type of crossmargining opportunities.
- **Third**, the buy side's interest in the Libor transition will be even more front and center, as the wave of repositioning and hedging comes into the new generation of alternative reference-rate products. The performance of SOFR in particular will be a key factor. It differs from Libor in at least one important respect—it is based on a secured rather than unsecured rate, so it may introduce some basis risk for institutions looking to hedge interest-rate risk in loan portfolios.


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- **Gain** exposure to up trending markets until the cap is reached.
- **Prevent** extended declines through use of a buffer. Text
- **Complement** diversified portfolios by providing risk mitigation to equity allocations.

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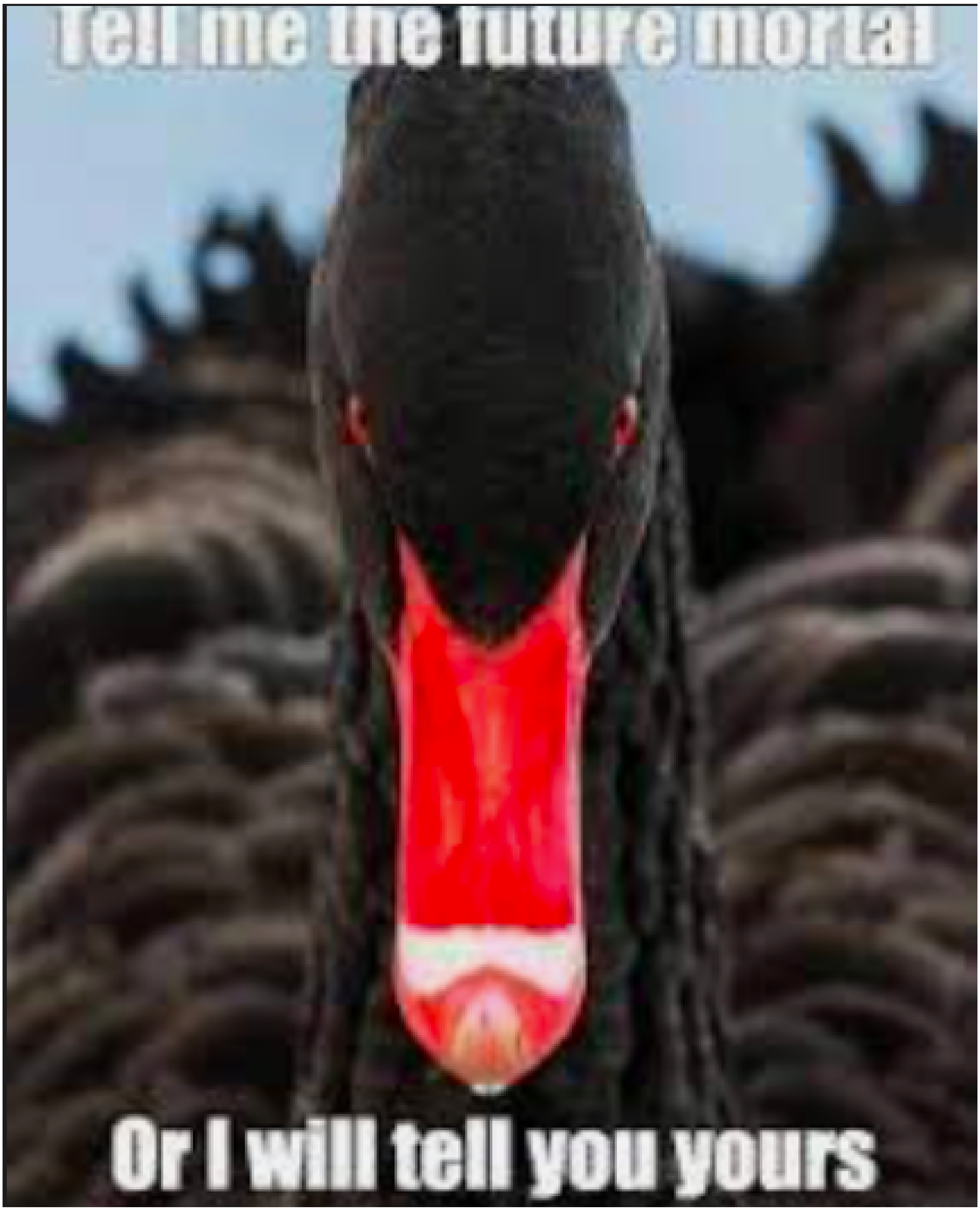
Fund Value: The most recent closing NAV of the Fund. The NAV (net asset value) is the value of one share based on the value of the holdings of the Fund calculated daily.
Fund Return: The return based on the NAV of the Fund since the start of the Outcome Period. It may not reflect the actual return for the investor.
Remaining Cap: Based on the Fund's current bid/ask midpoint, the best potential return if held to the end of the Outcome Period, assuming the Exposure Asset meets or exceeds the Cap Exposure Asset Value.
Remaining Buffer: The current amount of the Fund's stated buffer remaining which is the sum of Downside Before Buffer, Exposure Asset to Buffer End, and Unrealized Option Payoff.
Remaining Outcome Period: The number of days remaining until the end of the Outcome Period.
SPDR S&P 500 ETF Trust: is an exchange-traded fund which aims to track the Standard & Poor's 500 Index, which comprises 500 large- and mid-cap U.S. stocks.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