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Hybrid Structured Note Sales Rise as Volatility Falls to Low

By Kevin Dugan - Feb 21, 2013

U.S. banks sold $271.9 million of structured notes that are tied to multiple types of assets in February, the most in almost two years, as volatility fell to its lowest level since 2007.

Credit Suisse Group AG (CSGN) led issuers with $179.6 million of sales of hybrid securities, according to data compiled by Bloomberg. Such notes are linked to different assets, typically equities and currencies or commodities.

Investors sometimes bundle together several bets to increase potential returns, with U.S. stock volatility so low, said Justin Capetola, managing partner at Blue Bell Private Wealth Management LLC in Blue Bell, Pennsylvania. On Feb. 19, the Chicago Board Options Exchange Volatility Index, commonly known as the VIX, closed at 12.31, the lowest since April 20, 2007.

Hybrid notes can be more volatile than other types of securities, boosting the value of their embedded options and allowing banks to create more attractive terms for them, he said.

The next biggest month for offerings was in March 2011, when banks sold $305.9 million worth of the notes, Bloomberg data show.

Credit Suisse issued the largest hybrid this month, $171.4 million of one-year securities tied to the Hang Seng China Enterprises Index and the Chinese yuan. The securities, issued Feb. 1, yield twice the gains of the benchmark adjusted for theexchange rate between the dollar and the offshore renminbi, with a cap of 32.5 percent, according to a prospectus filed with the U.S. Securities and Exchange Commission. JPMorgan Chase & Co. distributed the notes for a 1 percent fee.

Investors bought $1.01 billion worth of hybrid notes last year, 13 percent less than in 2011, Bloomberg data show.

Banks create structured notes by packaging debt with derivatives to offer customized bets to retail investors while earning fees and raising money. Derivatives are contracts whose value is derived from stocks, bonds, commodities and currencies, or events such as changes in interest rates or the weather.

To contact the reporter on this story: Kevin Dugan in New York at kdugan4@bloomberg.net

To contact the editor responsible for this story: Alan Goldstein at agoldstein5@bloomberg.net