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VIX index and products: the AMF publishes a study on the strong volatility observed on the markets in early February 2018

Given the spike in volatility perceived by investors in early February, the AMF is publishing an analysis of the main products concerned and their behaviour during this episode. Broadly speaking, the extent of investment strategies based on volatility calls for a certain vigilance.

Following the publication on February 2 of an economic statistic, triggering fears of a rise in interest rates in the United States, the markets experienced a strong increase in volatility. The S&P 500 index fell 4.2% on February 5. The VIX index, which measures the implied volatility of S&P 500 index options, rose to 50 points in a few days, far from its 10 to 15 points average as observed in the previous months. The index has since returned to lower levels.

The study begins by examining the possible impact of these market trends on French investors. It then analyses the transmission mechanism of volatility shocks on the equities markets, notably through the role played by financial products indexed to the VIX or through the index itself on February 5. Lastly, following the suspicions of the manipulation of VIX futures in the United States, it looks at the possibility of such a manipulation on volatility indexes in Europe.

The study shows that:

- Investors in French collective investments were not significantly exposed to VIX-related strategies. European funds indexed on volatility are extremely rare in Europe.
- While products indexed on the VIX appear to have had a real, but non-significant impact on equity prices, they played a self-amplifying role on the rise of the VIX.
- The large amount of funds using volatility targets or volatility products in their strategies calls for vigilance. In the event of a market downturn, these strategies may serve to heighten existing price trends.
- A manipulatory scheme on European volatility indexes, such as the VCAC or the VSTOXX, appears unlikely.

About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, that investors are provided with adequate information and supervising the orderly operation of markets. Visit our website www.amf-france.org.

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