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## Fear and Greed in Global Asset Allocation

Heydon D Traub, Luis Ferreira, Maria McArdle, Mauro Antognelli

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### Abstract

The level of implied volatility in the U.S. equity market, as represented by the market volatility index of the Chicago Board Options Exchange, is a good indicator of the level of fear or greed in U.S. and global capital markets. When investors are fearful, the VIX level is significantly higher than normal. Market participants require additional compensation in the form of above-average excess returns for riskier assets. The authors find that global equity markets outperform the respective bond markets after periods of relatively high expected volatility in the U.S. market. Similarly, U.S. and international equity markets underperform bonds after periods of unusually low implied volatility. Using implied volatility as an asset allocation factor would have added significant value over the last thirteen years.

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