



War Premium?

**Georgia State University
Economic Forecasting Conference
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Partner, Chief Investment Officer**

Overview

- **Is the Topic Stale Already?**
- **Core Issue or Catalyst?**
- **How Risk Has Changed**
- **Looking Forward**



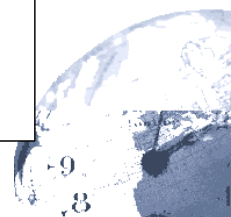
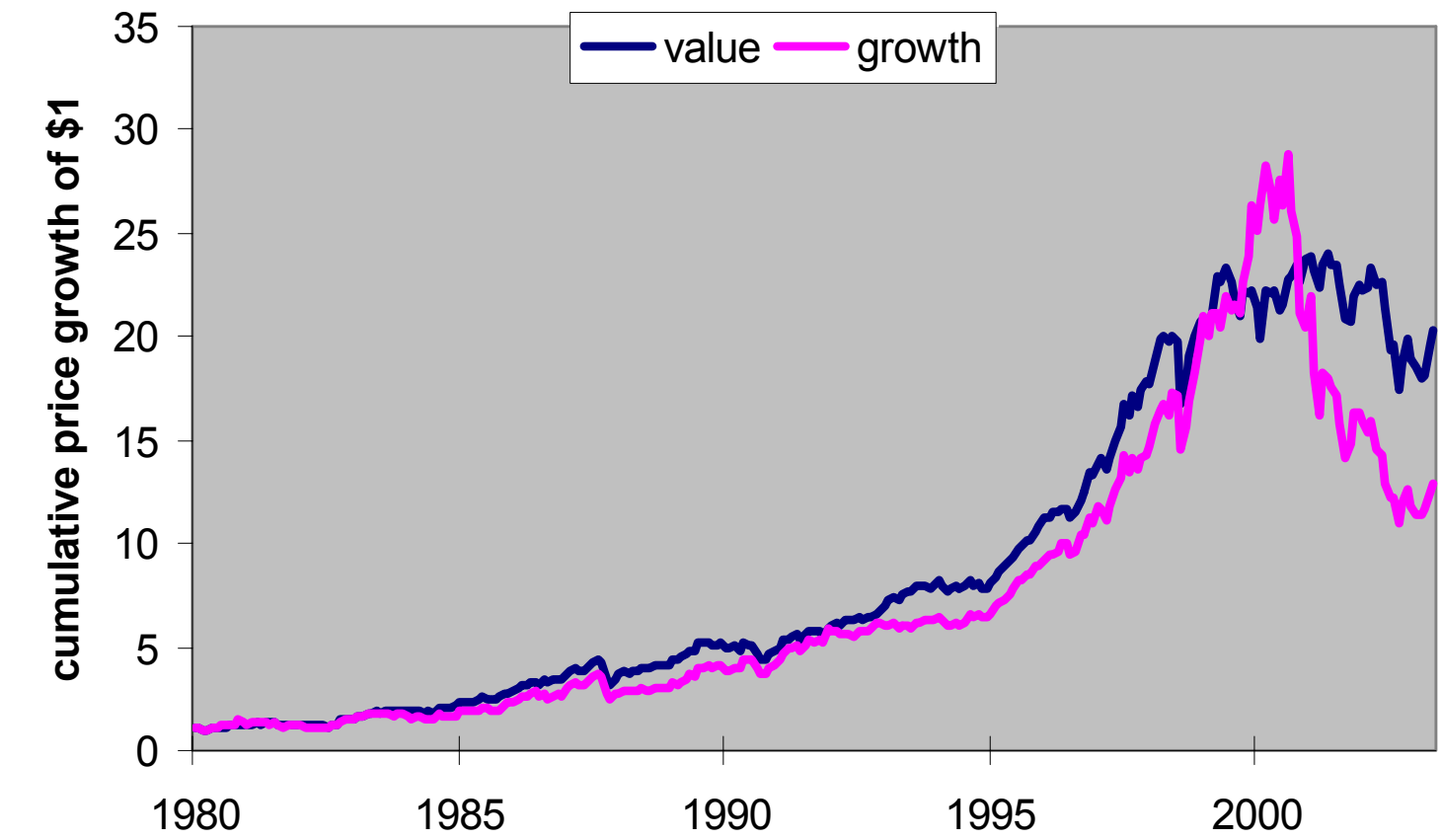
Major Shifts in Risk Perception

- Russian coup attempt (1989)
- Gulf War (1990-91)
- ERM crisis (1992-93)
- Canadian Referendum (1995)
- LTCM/Russian default/Brazilian debt (1998)
- Iraq War (2002-03)



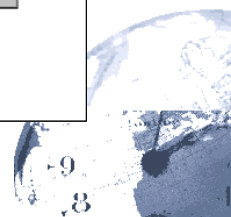
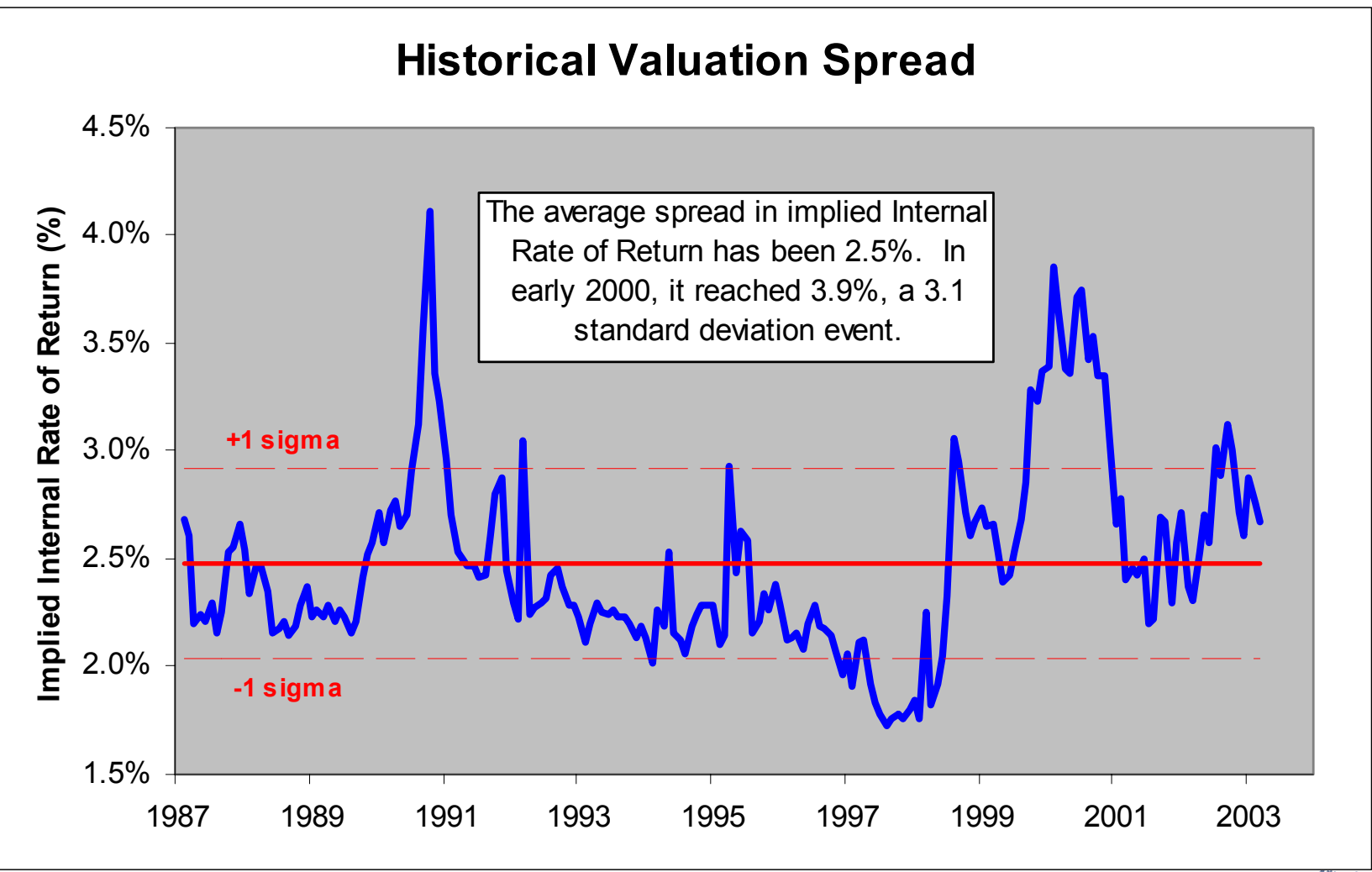
This Cycle Is Certainly Over

Russell 1000 Value vs. Growth



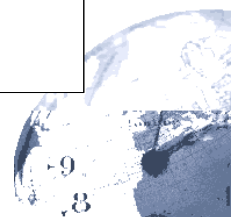
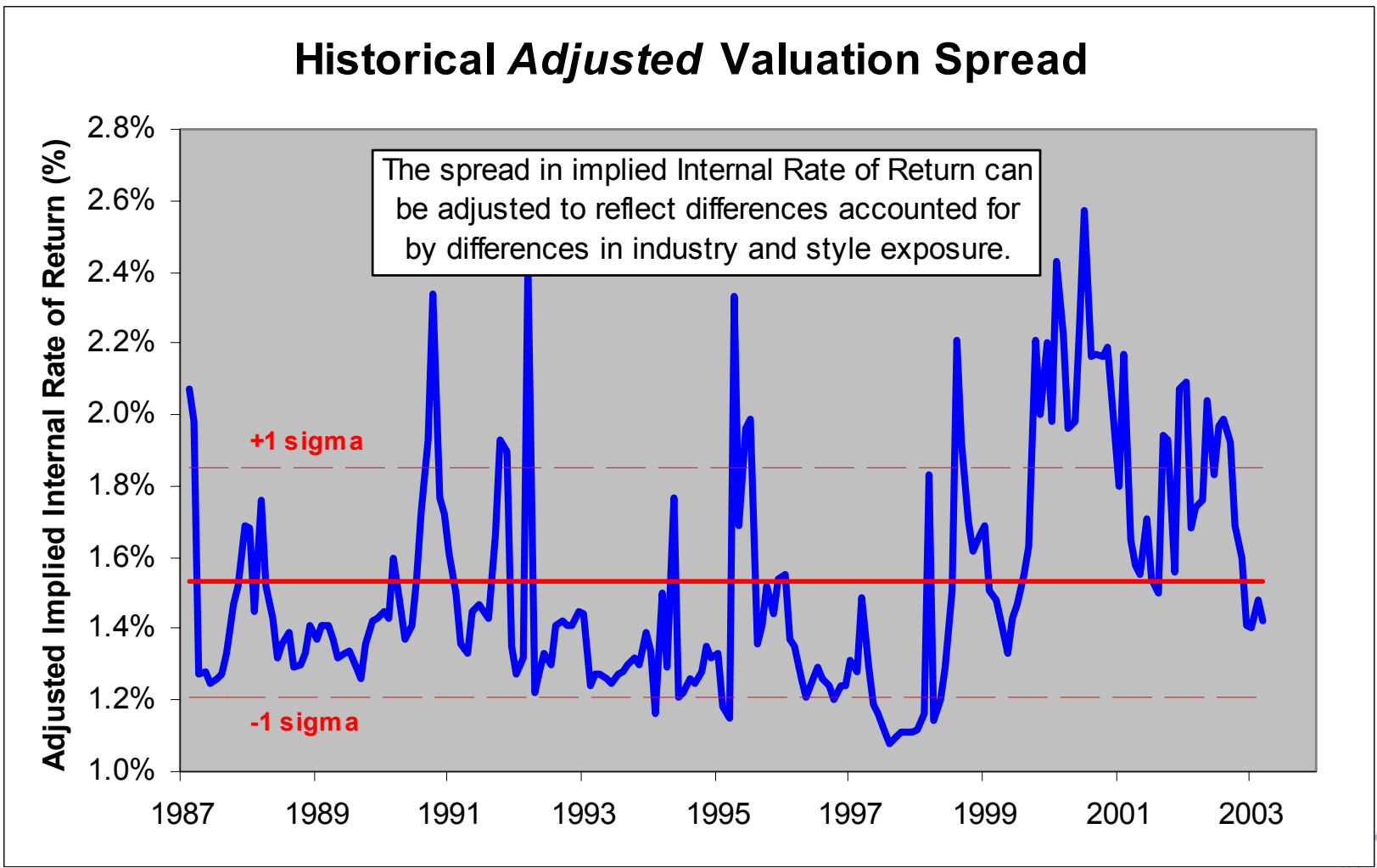
Valuations More "Fair" Today

Historical Valuation Spread

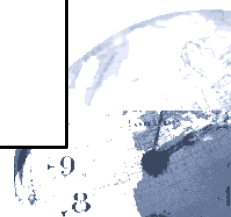
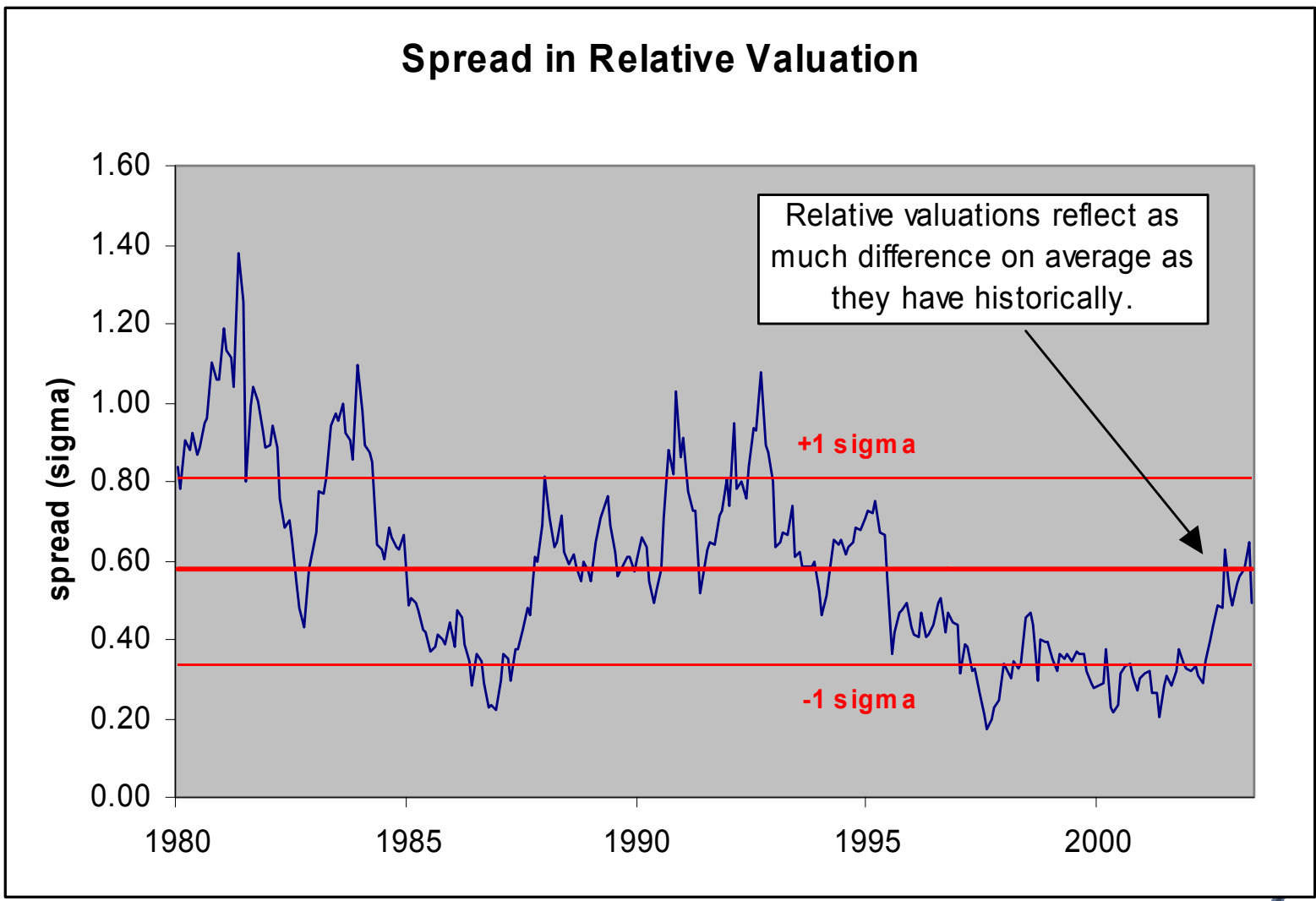


Valuation Cycle Over?

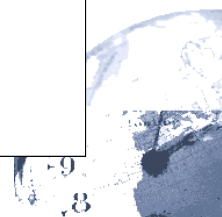
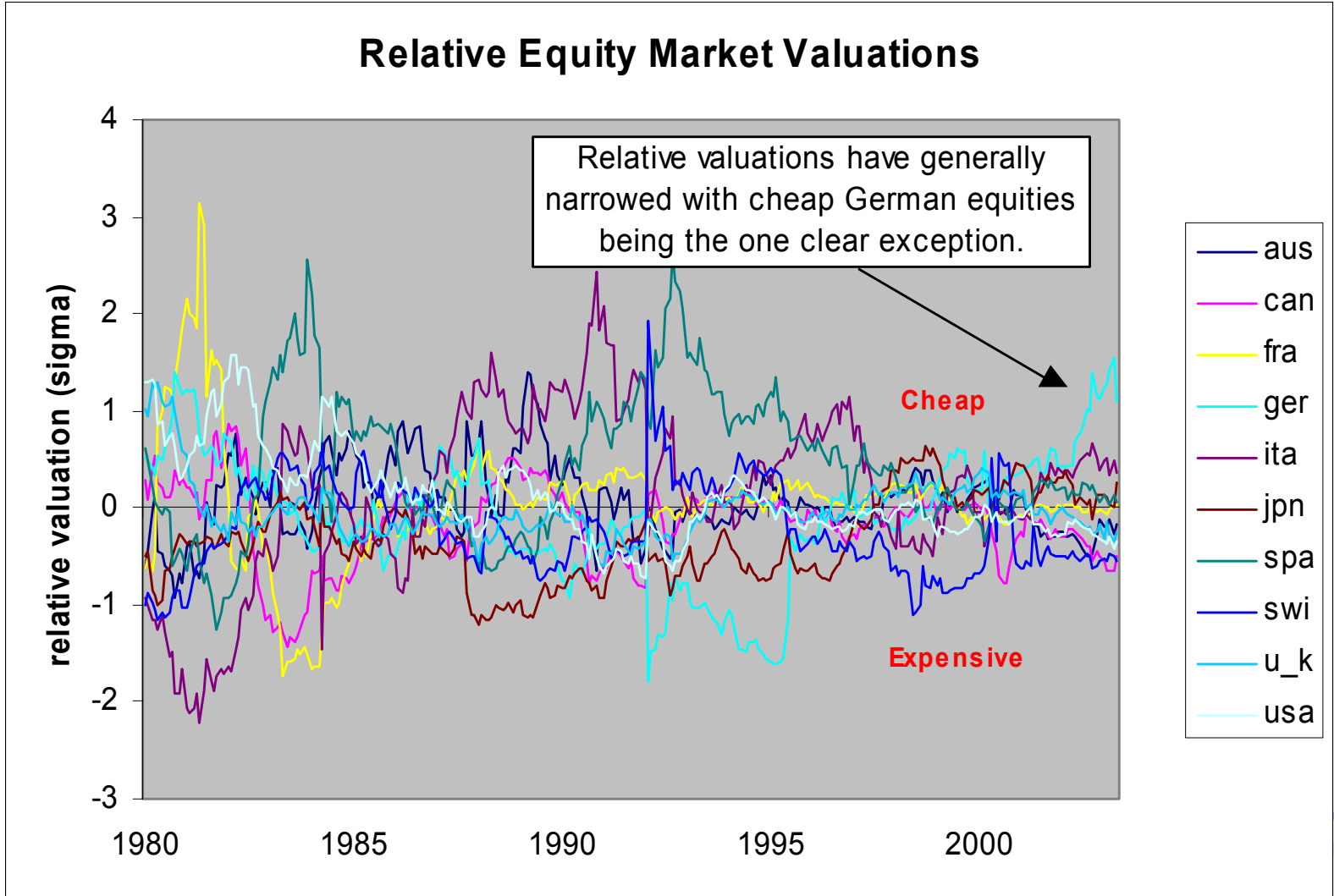
Historical *Adjusted* Valuation Spread



Opportunities Appear “Normal”



... But Actually Spreads Are Narrow Today



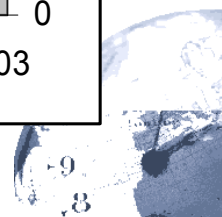
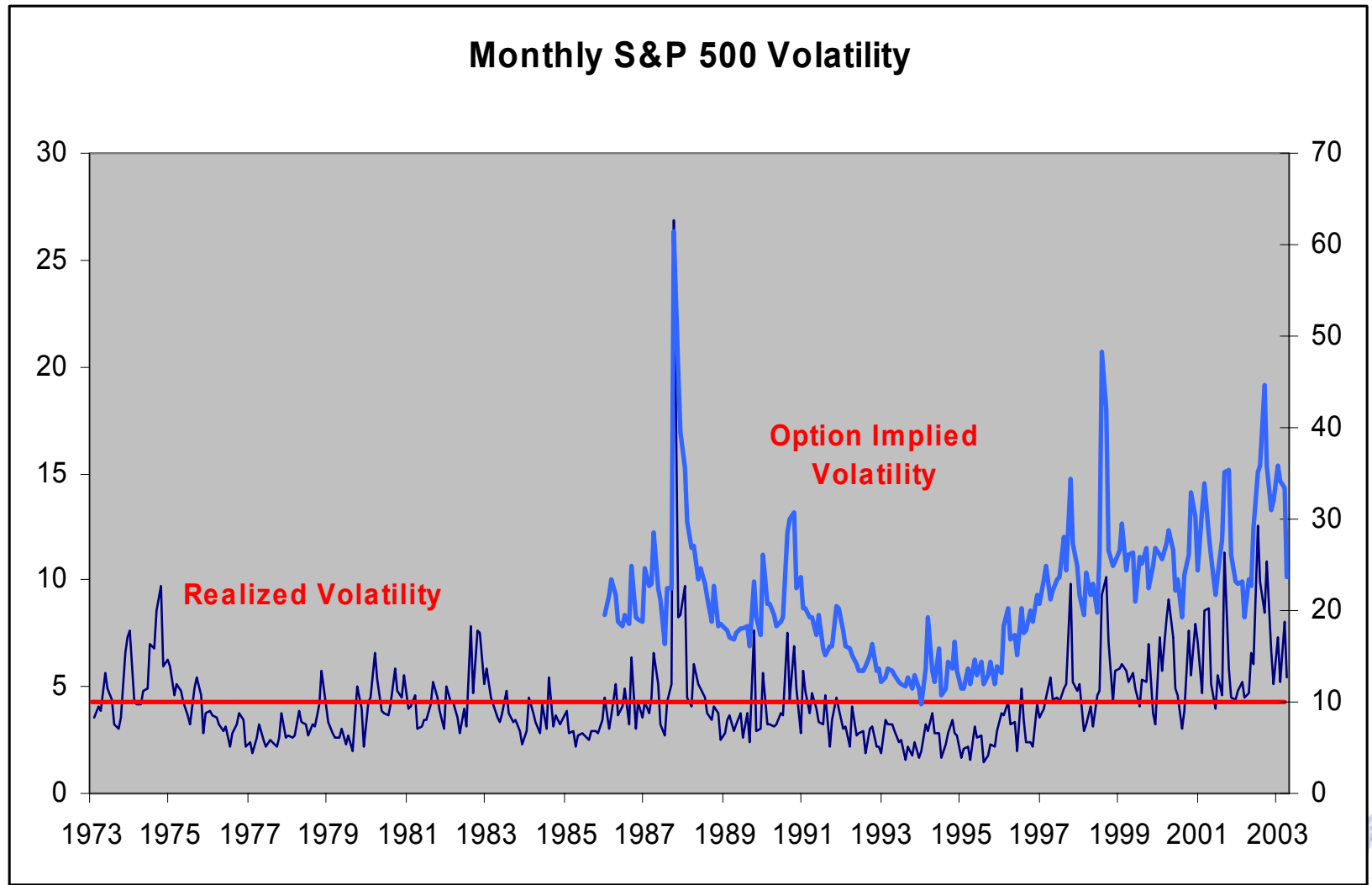
Risk *Has* Changed

- **Historical Volatility**
 - Realized volatility
 - Option implied

- **Seemingly Improbable Outlier Events**



Volatility Remain High



Summary

- **There was a war premium**
 - But war was also a catalyst for market adjustment
- **Valuation cycle has probably ended**
- **Higher risk today should suppress market prices**

