

BRUCE BUDD

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CANARIES IN THE COAL MINE. THE TALE OF TWO SIGNALS: THE VIX AND THE MOVE INDEXES.

Abstract:

The purpose of this paper is to explore derived signals of the historical implied volatility measures between the U.S. equities market and the U.S. bond market using the VIX and MOVE Indices 2010-2015 respectively. This paper further examines the co-movement and dynamics (i.e. changes) within and between these markets.

This empirical analysis finds implied volatility of the treasury market MOVE Index can forecast the implied volatility of the equities market (VIX), though not always reliably. The signals between the VIX and MOVE Indexes in the last ten years has changed and the gap between these markets has widened. A relationship not witnessed since the early days before the 2008 Global Financial Crisis. The contributing factor to this widening gap is the greater volatility experienced by the MOVE Index compared to its VIX counterpart heightened by the record-low global interest rates and lack of liquidity in the bond market. The implications of this research are important for strategic forecasting policy decision-makers and analysts alike.

Keywords:

VIX Index, MOVE Index, Implied Volatility.

JEL Classification: G10, E44