Lee Robinson and others assess this year's volatility at EuroHedge Summit

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Lee Robinson and other leading managers debated the outlook for volatility at last week's EuroHedge Summit – with more than half of attendees expecting a repeat of February's vol spike in the next six months.

Robinson, who made his name with Trafalgar Asset Managers before the 2008 financial crisis, said a lack of liquidity in markets heightened volatility risks.

(L-R) Lee Robinson, Oliver Dobbs

"You have a depth problem," said the Monaco-based founder and CIO of Altana Wealth, adding that since 2015 many market-makers won't even quote a price for certain off-the-rung bonds outside of sovereigns – which he was able to trade throughout the 2008-09 crisis.

Former CQS manager Oliver Dobbs, CIO of Credere Capital, agreed with Robinson that this year's volatility showed that markets are deeply fragile and lack liquidity – posing challenges as well as opportunities for the sector.

"One trade then drives a massive valuation down 10%, and there's no-one on the other side of the trade," he said.

"It's driven mainly by algos, which know the price of everything but the value of nothing," added Benjamin Clerget of BTG Pactual. He believes further short outbreaks of volatility in future is ultimately healthy for the market. "If you mix a bit of long vol against it and on the drawdown you can buy it back and monetise it, it's the best way to create alpha."

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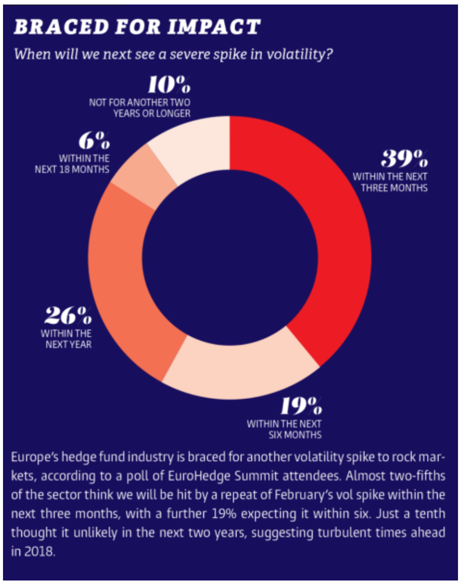
According to a poll of audience members during their panel, 39% of the industry believe a vol spike will happen in the next three months and a further 19% within six. Just a tenth of summit delegates predicted a wait of two years or more. Robinson of Altana Wealth conceded he was perplexed as to why volatility, measured by the VIX Index, had almost fallen to levels seen before February's vol spike.

"Rates are higher again, but the FANG stocks (Facebook, Amazon, Netflix and Google (now Alphabet, Inc.) keep going higher – there are a number of people who sell puts on Apple, Facebook and Netflix," he said.

"It feels a bit like 1999-2000 again, when people think these things are bulletproof and can't go wrong. Until they do go wrong."



Speaking on a separate panel, Effie Datson, senior managing director and head of hedge funds at UBP, said more volatility would be a good thing for the industry.

"The rise in volatility and rise in dispersion among equity market indices creates opportunities for stock-pickers to make money on the long and short side and outperform equities this year," she said.