

Less Risk More Reward Update

In December of 2023 I wrote an article about a structured note issued by Chase Bank that tracked the S&P 500 Futures Excess Return Index (SPXPF). The index is highly correlated with the S&P 500 Index, but it tends to slightly underperform when interest rates are higher and slightly outperform when index rates are lower.

The terms of the note were as follows: the five-year note will mature at 200% of the gains of the S&P 500 Excess Return Index. However, at the end of five years if the index is lower, the index will mature at par provided the index was not lower by more than 20%. If the index is down by more than 20% the note will mature at par minus any loss of more than 20%.

If the index closed lower by 25% five years from the date of issue, a \$100,000 investment would mature at par minus 5% or \$95,000. However, if five years from now the index was up by 50% the note would mature with 2 times the gain or a 100% profit. This note was issued on December 15, 2023.

Since that date the S&P 500 was up 17.91% through July 22, 2024 and SPXFP was only up 14.86% since interest rates are relatively high and the index slightly underperforms when rates are higher. However, the note has an intrinsic value of up 29.73% which is much higher than the S&P 500 since the note tracks the index by 200%. It is rare to find an investment with below average investment risk and above average expected return.

If you subscribe to the school of buy and hold this could be a way to enhance returns. Although this note will outperform the S&P 500 when the markets are going up, there are drawbacks. This note is subject to the credit risk of JP Morgan. If JP Morgan goes out of business, the investor could lose principal. The note does not pay dividends and investors will owe capital gains at maturity unless the note is held in a retirement account.

Sources: Yahoo Finance & SPGlobal

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