

Navigating U.S. Equity Investments with Structured Products

April 11th, 2025

Highlights

In the current economic climate, characterized by elevated interest rates and a downturn in U.S. equity markets, investors are seeking strategies that balance capital preservation with growth potential. Structured products linked to U.S. equities have emerged as a compelling option, offering capital protection while providing exposure to potential market gains.

Deep Dive

Capital Protection with Equity Exposure

Structured products are investment solutions that blend traditional assets like stocks or bonds with financial tools called derivatives to create a **custom risk-return profile**. They often include **capital protection**, meaning investors can recover all or part of their initial investment at maturity, even if markets decline. This makes them attractive in volatile times, as they allow investors to **participate in market gains while limiting downside risk**. Some structured products also offer **regular coupon payments**, providing potential income even when markets are flat. They are ideal for investors seeking **market exposure with built-in safeguards**.

Favorable Conditions Amid High Interest

The current environment of relatively high interest rates **enhances the attractiveness of structured products**. Higher rates enable the creation of allowing structure products with higher participation in equity gains or enhanced yield potential. This is because the elevated interest rates increase the discount rates used in structuring these products, allowing for **better capital protection features and more favorable upside participation**.

Navigating Market Downturns with Caution

The U.S. equity markets have recently experienced significant declines, with major indices posting notable losses. For instance, the S&P 500 and Nasdaq have registered their third consecutive weeks of declines, marking the longest losing streak since mid-2024. This downturn underscores the

of cautious investment strategies. Structured products, with their inherent capital protection, offer a **prudent approach to navigating such volatile markets**. They provide a **buffer against potential losses while still allowing for participation in any market recovery**.

Considerations for Investors

While structured products offer distinct advantages, investors should conduct thorough due diligence:

Credit Risk: The capital protection feature is contingent upon the issuer's creditworthiness. It's essential to assess the financial strength of the issuing institution.

Liquidity: Structured products may have limited secondary markets, making them less liquid than traditional investments. Investors should be prepared to hold these products until maturity.

Complexity: The structures can be intricate, with returns linked to various underlying assets and contingent on specific conditions. A clear understanding of the product's terms is crucial.

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Structured Products Example

Investment Term: Max 4 years (16 quarters)

AutoCall Feature: The product redeems early at **100%** if the underlying asset reaches this level from **Quarter 4 onward**.

Coupon Hurdle: Coupons are paid **quarterly** if the underlying is **above 90%** of the initial level.

Capital Protection Barrier: If the underlying **stays above 65% at maturity**, the investor gets **full capital back**. Below this level, capital loss occurs.

Memory Function: If a coupon is missed, it can be recovered if the hurdle is met later.

Key Takeaways:

- **If the market performs well**, early AutoCall ensures **early exit with gains**.
- **If the market remains stable**, investors receive **steady quarterly coupons**.
- **If the market drops but stays above 65%**, capital is protected, but coupon payments depend on price fluctuations.
- **If the market drops below 65% at maturity**, investors take **capital losses**.

Performance Scenarios and Outcomes:

Scenario	Underlying Asset Performance	AutoCall Triggered?	Coupon Payments	Capital Protection	Total Return
Bullish 📈	The underlying rises above 100% in Q4	✅ Yes (redeems early)	4% per quarter until redemption	✅ Full capital protection	16% (4 quarters x 4%) + full capital
Stable 📊	The underlying fluctuates between 90%-100%	❌ No	4% per quarter (full period)	✅ Full capital protection	64% (16 quarters x 4%) + full capital
Moderate Bear 📉	The underlying fluctuates between 65%-90%	❌ No	Coupons paid only when above 90%	✅ Full capital protection	Partial return depending on how often hurdle is met
Severe Bear 📉	The underlying drops below 65% at maturity	❌ No	No more coupons	❌ Capital loss proportional to the drop	Investor takes losses beyond -35%

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