Insights

Volatility as opportunity

Executive summary

- Volatility tends to matter most when it leads some investors to act, while others have the flexibility to choose when and how to respond.
- Under stress, portfolios are driven by liquidity and funding needs rather than valuation, leading to transactions driven by liquidity needs.
- In practice, this means committing capital where timing drives pricing (secondary private markets and directly negotiated lending where borrowers need immediate funding), selling volatility where it is overpriced (structured equity), and allocating to strategies that benefit from widening dispersion (long/short, relative value, event-driven).

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Recent weeks have seen a repricing of risk across markets. Tensions in the Middle East have pushed energy prices higher. Inflation expectations have become less stable, and rate paths correspondingly more uncertain. Equity volatility has risen in response, with the CBOE Volatility Index (VIX) - reflecting volatility in the S&P 500 - moving back towards levels more typically associated with stress than calm. While volatility frequently moves above its long-term average, more meaningful dislocations tend to occur when it reaches materially higher levels.

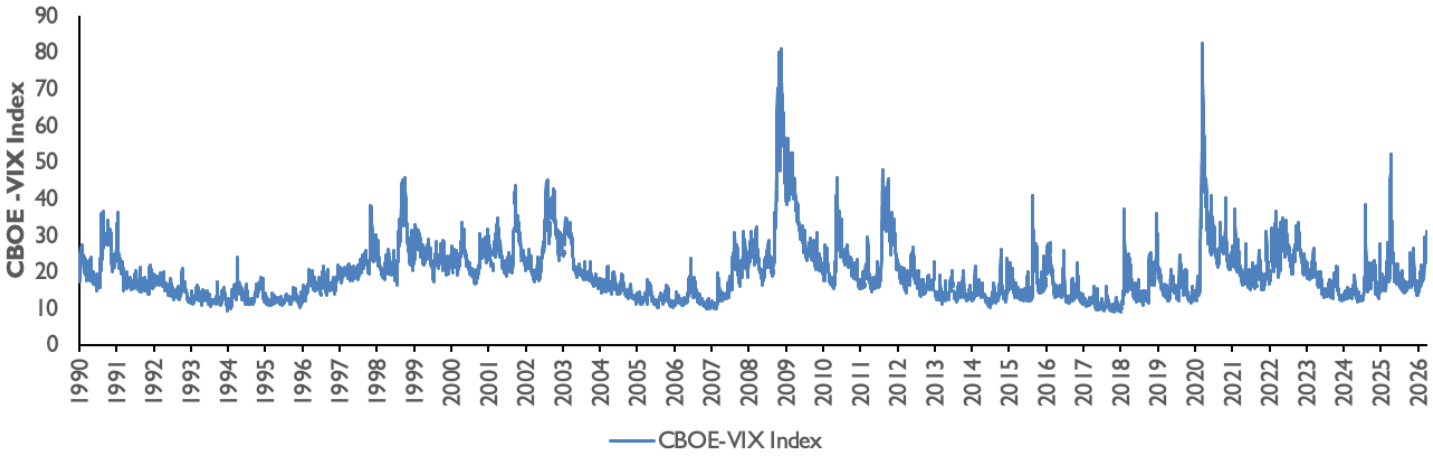


Figure 1: Historic levels of CBOE-VIX Index
Source: Bloomberg

Historically, periods of elevated equity volatility have often occurred once a material repricing is already underway, though not necessarily complete. The table below shows peak levels of the VIX over the past three decades, alongside the fall in equities at the point of peak volatility and the subsequent 12-month return of the S&P 500.

	Event	VIX Peak	S&P 500 fall by VIX Peak	S&P 500 return, one year after VIX peak
Aug-98	LTCM / Russia default	45	-19%	30%
Sep-01	9/11 within bear market	43	-30%	-18%
Oct-02	Dot-com bottom	44	-49%	34%
Oct-08	Global Financial Crisis	80	-40%	12%
Aug-11	US downgrade / Euro crisis	48	-19%	22%
Aug-15	China devaluation / growth scare	40	-12%	13%
Mar-20	COVID shock / policy response	82	-34%	60%
Mar-25	Earlier Iran conflict / energy shock	52	-7%	18%

Figure 2: S&P 500 returns before and after VIX peaks
Sources: Bloomberg, Financial Times data and internal analysis

Volatility does not create opportunity by itself, opportunity arises when it forces transactions.

Periods of stability compress risk premia and encourage consensus positioning. They are followed by episodes in which uncertainty is repriced, liquidity becomes selective, and correlations behave differently. The catalysts vary. The sequence does not.

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How volatility actually transfers value

Volatility does not affect all investors equally. It separates those who must act from those who can choose when to act.

For many investors, volatility coincides with constraint. Liquidity becomes uneven, financing conditions tighten, and capital requirements increase at the same time. Distributions slow, capital calls continue, and operating businesses often require additional support rather than generating surplus cash.

At that point, portfolios behave according to what can be accessed, not what should be held. Liquid assets are reduced first. Illiquid exposures remain. Over time, the structure becomes more concentrated and less flexible, not through deliberate allocation but through necessity.

This is the mechanism through which volatility transfers value. Some investors are required to transact when conditions are least favourable. Others are able to provide liquidity, absorb uncertainty and transact selectively.

How we structure around this

Our starting point is to remove dependence on favourable timing.

We structure portfolios so that known obligations can be met without relying on private market distributions or supportive market conditions. This requires assessing liquidity across the full family balance sheet - including commitments, operating capital needs and family-level requirements - rather than within the financial portfolio alone.

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In practice, this leads to a consistent set of choices: commitments are paced relative to available resources, liquidity is held in a form that can be deployed immediately without requiring asset sales or refinancing, and leverage is structured so that it does not create pressure under adverse conditions. Asymmetric instruments are used deliberately and within defined limits, ensuring that they do not increase exposure at precisely the point other risks are rising. These choices reduce efficiency to an extent during stable markets, but preserve control when conditions are less supportive.

Where the opportunity sits now

Once structure allows choice, volatility becomes usable. In the current environment, the opportunity set is beginning to expand, but it is not uniform. It appears where other participants are constrained.

The most immediate opportunities arise where timing drives pricing. This is increasingly visible in **secondary private market transactions** and **negotiated credit situations**, where sellers are motivated by liquidity needs rather than long-term positioning. In these cases, pricing reflects immediacy as well as valuation. The ability to commit capital without needing to recycle liquidity elsewhere becomes the source of return.

A second set of opportunities lies in the pricing of uncertainty itself. Volatility is an asset in its own right, and in periods such as the present, it becomes more expensive to avoid. **Structured equity solutions allow investors to take the other side of that demand.** When used appropriately, they can convert uncertainty into income or improved entry levels - for example, generating yield while only committing capital if markets reprice to pre-defined levels. The key distinction is whether these structures are integrated into the broader portfolio or layered on top of it. In isolation, they can increase exposure at precisely the wrong time. Within a controlled framework, they allow volatility to be monetised rather than endured.

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A third area of opportunity emerges from **dispersion**. In more stable environments, assets tend to move together, limiting the scope for relative positioning. In volatile environments, outcomes diverge. Differences between sectors, securities and capital structures widen. This creates a more favourable backdrop for strategies that are not dependent on market direction. **Equity long/short** managers can exploit widening gaps between winners and losers; **relative value** strategies can capture distortions in pricing relationships across credit and rates; **event-driven** strategies benefit from corporate outcomes becoming less synchronised. The opportunity is not in predicting direction, but in exploiting differentiation.

Across all of these areas, the same condition applies. Capital must be available and uncommitted at the point of opportunity. Without that, volatility remains something to observe rather than use.

The greatest constraint is often psychological

If the structural requirement is clear, the practical difficulty is **behavioural.**

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Periods of volatility are characterised by reduced visibility and heightened narrative intensity. Information turns more negative, outcomes appear less predictable, and the range of plausible scenarios widens. In these conditions, the instinct is to wait - to defer decisions until there is greater clarity.

At the same time, the opposite instinct often emerges - the desire to reduce exposure altogether. In the current environment, with geopolitical tension and energy uncertainty dominating the narrative, the case for de-risking can feel compelling. In practice, this is frequently the point at which long-term positioning is adjusted at precisely the wrong time.

This is evident in the current environment, where attention is drawn to specific risks - such as potential disruption to the Strait of Hormuz - even as the more important question is how markets are repricing risk more broadly and where that repricing creates opportunity.

In markets, clarity typically coincides with recovery. By the time uncertainty has receded, prices have already adjusted and premia have narrowed.

The result is a persistent gap between what is understood and what is implemented. Capital that is notionally available is not deployed. Opportunities are recognised but deferred. Decisions are postponed until they feel justified, rather than when they are most valuable.

The challenge is not analytical. It is the discomfort of acting without confirmation. Over time, a disproportionate share of long-term returns is generated in precisely those periods where uncertainty is highest. The paradox is that these are also the periods where acting feels least natural.

Volatility is therefore not just a market condition. It is a behavioural test.

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Where volatility becomes an advantage

Volatility will recur, as it has repeatedly, including in recent weeks.

Each cycle presents itself differently. The current one is shaped by geopolitical tension, energy uncertainty and shifting policy expectations. The next will have a different catalyst. The pattern, however, will be the same.

Uncertainty will rise. Liquidity will become uneven. Some investors will be required to act. At that point, outcomes diverge:

- For those whose capital is constrained, volatility will force decisions - selling what can be sold, deferring what cannot, and accepting terms accepting terms available at the time.

- For those whose capital remains flexible, the same environment will create opportunity - to deploy, to price risk more favourably, and to act selectively while others cannot.

Our role is to ensure that this structure preserves choice - and that it can be exercised when conditions are least comfortable.

The difference is not prediction. It is whether the structure preserves choice - and whether that choice is exercised when it matters.

About the author

Nick Perryman is Vice Chairman at InCred Global Wealth Limited and Chairman of its Investment Committee. He has over 25 years of investment and wealth management experience, holds advanced qualifications in investment management, financial planning and psychology, and was previously a managing director at UBS where he was head of its international business in London and before that head of investment products and services. He is a doctoral researcher at Durham University and an honorary fellow of Royal Holloway, University of London. He is co-author of the book, "Leadership in Wealth: Mastering the opportunities of wealth in your family, firm and society"

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