

# S&P 500 Weekly Forecast 1/12

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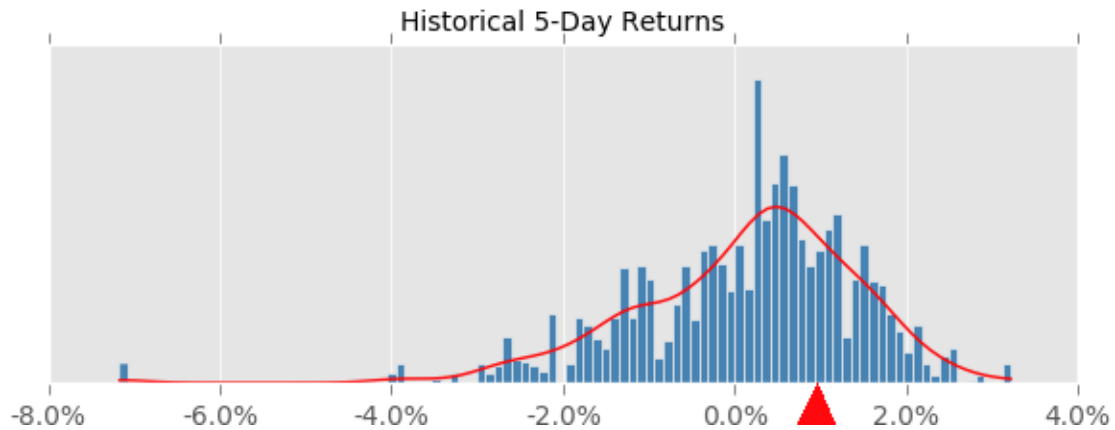
Hey everyone,

Does the chart below look like a week in which a U.S. military base in Iraq was overtly attacked by the Islamic Republic of Iran?

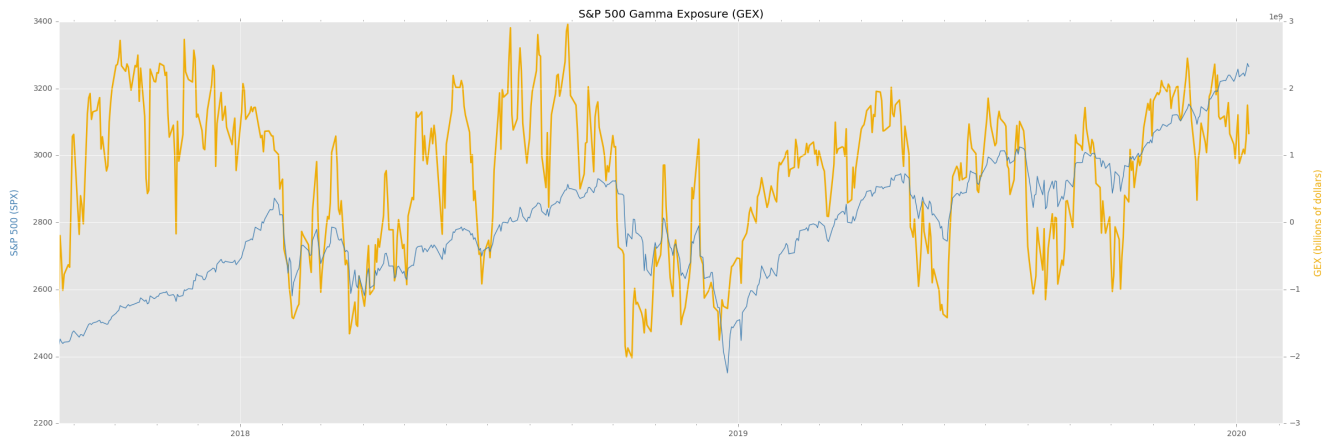
No it does not. Yes, GEX is a beautiful thing.



It was, in reality, another uninteresting week for the S&P 500, with GEX staying around or above \$1bn (our cutoff for officially declaring "high GEX"). And the "low volatility upside drift" -- which you've come to know and love -- commenced unperturbed, ending in a **0.9%** gain on the week. That was a very high-probability outcome according to last weekend's forecast (below).



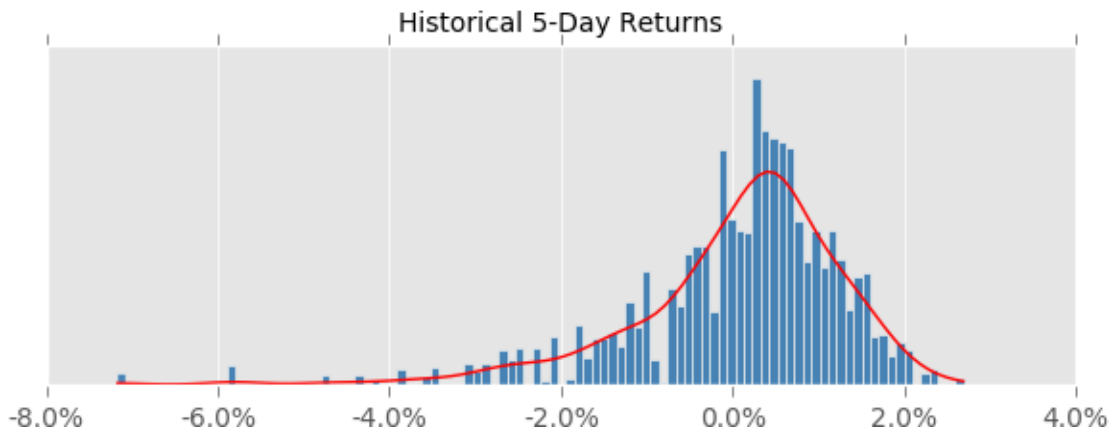
After those gains, GEX has managed to easily maintain its perch above \$1bn, ending on Friday at \$1.33bn. Last weekend at this time it was \$883mm (which is the only reason that last weekend's distribution [above] had that unusually high probability of ~1.5% losses).



For this coming week, things are back to doing normal high-GEX things. It's a leptokurtic distribution (big peak, big tail) with a high median gain and an overall bullish profile. A greater-than-2% loss on the week would be difficult to accomplish (see below).

And this is aided by the fact that we're entering Gamma Week. I.e., the January option expiration (OpEx) is this coming Friday, and so it will be difficult to break out of this high-gamma situation until Thursday evening (and we'll give you an update around then, as has become customary during the week of the big OpEx).

Anyhow, the below distribution is pretty much what you've been dealing with for several months now, so it shouldn't require a lot of explanation.



In numbers, this pretty little thing has a mean 5-day return of **0.05%**, a median of **0.28%**, and a standard deviation of **1.25%**. In volatility terms, that's a 1-week vol of **8.89%**. Further out, we see a 1-month vol of **9.25%**. If you're used to seeing 7s and low 8s for the weekly volatility expectations, we apologize -- that long left tail has a big influence on the numbers. That tail is there because there's still a small probability of the market breaking the GEX floor -- whereas when SPX GEX is closer to \$2bn, it becomes nearly impossible.

But for practitioners, that doesn't matter much, if at all. In SPX/SPY options, we have been selling ITM put spreads for what seems like forever now -- and this week is no different. If you take a look at the vertical skew charts at the bottom of the attached PDF, you'll see that the 5 DTE options encourage us to sell a straddle above the market. E.g., we could sell a call and put around 3300. According to the plot, both call and put are overpriced by the market (the put, specifically, is priced around 9% IV, even though we believe it's *really* worth more like 6.5%). What we'd prefer to do is to turn that straddle into an iron fly or something like that, with long legs to hedge the short call and put. What that adds up to is a bear call spread in addition to our trusty ITM bull put spread -- our weapon of choice in a high-GEX market (and the reason that we're not really concerned about the length of that left tail).

As for the long SVXY / short VXX crowd: You know what to do. GXV1D is **7.9**. VIX is 12.56. You only care when GXV crosses above VIX. So right now, you don't care. And by golly, not caring has been going really well lately.

So that's that. You'll hear more from us on Thursday.

### Fresh Picks

The 76 (+5) low-GEX picks have a mean 20-day projected return of **1.45%** and a standard deviation of **7.55%**. The 38 (+12) high-GEX picks have a mean 20-day projected return of **0.99%** and a standard deviation of **6.29%**. Snippets of charts are attached, as always. Since this is Gamma Week, we're seeing more and better opportunities for gamma to dominate the action in the next few days, which is fun.

For a high-GEX highlight, we have to point to **Amazon (AMZN)**. Amazon has a GEX that is nearly the same as its daily volume. That means that it should be *pretty darn difficult* for AMZN to move more than 1% on any given day this week. And since we're broadly long the market, we're interested in the idea of an ATM bear call spread on AMZN, betting against subsequent volatility, especially to the upside. In AMZN, high GEX historically signals a halt to upside (seriously, look at the chart). So, we're happy to see this one again.

For a low-GEX highlight, there are several decent possibilities, but **Target (TGT)** is our favorite. To say nothing of its longer-term prospects, it looks like GEX, around zero, is likely to allow TGT to rally from here. That's what it tends to do, anyhow -- rarely does GEX venture lower than this. However, it looks like if we want to bet on upside motion, we should probably not just buy a call outright, since they're relatively expensive (IVs are high even before the February earnings). So we may consider selling an ITM put spread or some such thing, in order to be net short vega.

Also, if anyone's still short volatility in LMT from last weekend (we went with a butterfly), it's probably worth riding that out until Friday, even if you lighten up on it a bit. That was a fun one, and its GEX is still high.

Happy Gamma Week!

The SqueezeMetrics Team

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