S&P 500 Weekly Forecast 2/9

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Hey guys,

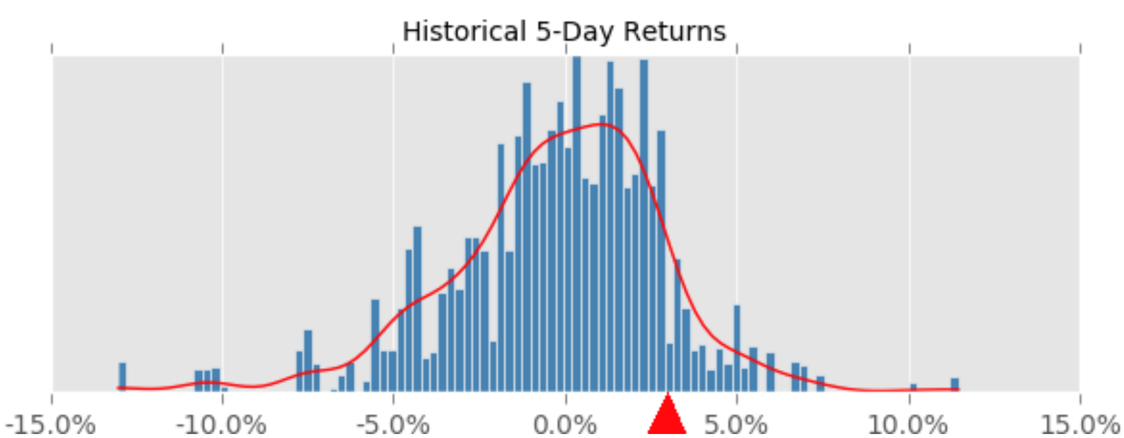
The notable thing about last weekend's forecast was that the distribution of returns had a 3.10% standard deviation (volatile), a slightly negative mean return (bearish), and a flat top, where anything from around -2% to +3% returns would be considered *equally* likely to occur (a platykurtic distribution). These are all basically the *opposite* of what you see in a high-GEX market -- and thus the opposite of what we've been seeing for the past few months.

That led us to the following conclusion:

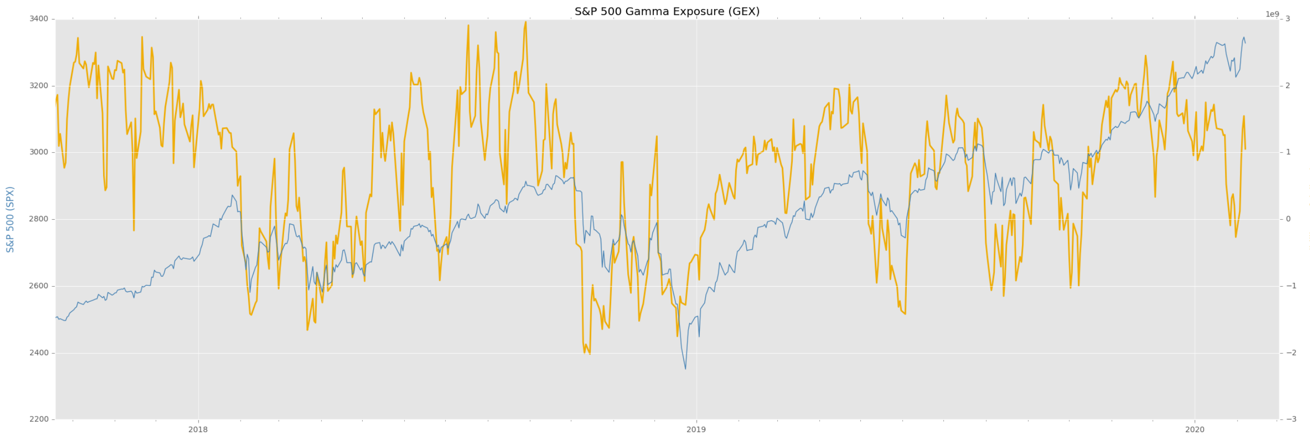
> In any case, the platykurtic distribution [...] is telling us to be short skew (the market is greatly exaggerating the probability of near-term left-skew), and maybe a bit short delta, too. Even if you end up wrong about being short delta, you can make up for it by being right about skew.

Well, maybe we were right about the skew, but we were definitely wrong about the short delta:

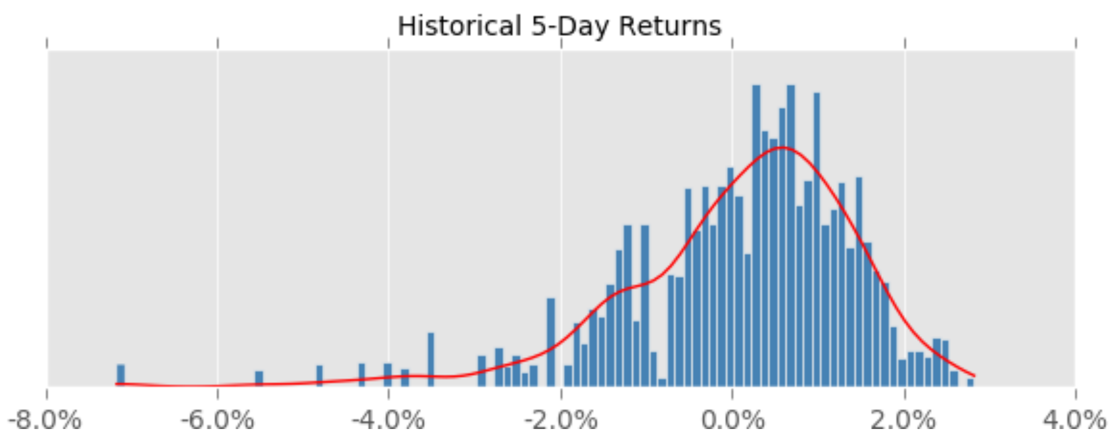
With a **3.2%** gain on the week, the S&P 500 ended up at the high end of that high-probability lump in the middle of the distribution. Further gains would have been unusual, since high GEX started kicking in and slowing things down. (Congratulations to those who simply bought OTM calls, seeing that they were underpriced as well!)



And with SPX GEX a hair above $1bn, we'd say that Friday closed with "high GEX" -- but just barely. The GEX floor is still not as strong as it was for much of the last few months.



This leaves us in a region of relative stability (GXV is 9.29), but if we're being honest with ourselves, we find it more difficult now to ignore the left shoulder of the distribution. Still, the most important consideration is that there is still ample GEX floor in place to slow down any imminent selloffs, and to give us timely warning if we move toward 0 GEX again.



In numbers, the above 5-day distribution has a mean return of **0.08%**, a median of **0.30%**, and a standard deviation of **1.36%**. In volatility terms, that's a 1-week vol of **9.67%**. Further out, on the 1-month timeframe, we see a very similar **9.19%**.

In a "stable" market, you generally expect to see near-term volatility forecasts the same as longer-term, or lower. If you look at the time skew of GXV on the attached PDF, you'll see that the skew is pretty flat. Perhaps "yes stable, but just barely," is the right way to put it.

For those engaged in the long SVXY / short VXX trade, the advice doesn't change much: Yes, VIX is overpriced, but some vigilance is in order. Somewhere around SPX 3265, volatility could start really kicking off again, and if GXV rises above VIX, it's worth getting back out of the trade.

For the SPX/SPY option crowd, the message coming from the vertical skew charts at the bottom of the attached PDF is "non-directional short vol." Both calls and puts are a bit overpriced according to GEX. In other words, now would be a decent time for a small, short straddle position. Or an iron condor.

And if we may add a bit of extra color: Now doesn't feel like a good time to be unhedged (hence the unusual mention of iron condors). Geopolitical risk is weird. Coronavirus, specifically, is turning into an "all-or-nothing" type of risk. So yes, go ahead and be short convexity / short vol, but guard the downside with a bit of *extra* vigilance this week.

Fresh Picks
The 91 (-28) low-GEX picks have a mean 20-day projected return of **1.46%** and a standard deviation of **7.41%**. The 16 (+10) high-GEX picks have a mean 20-day projected return of **1.23%** and a standard deviation of **5.93%**. The higher overall GEX in the market this week makes the spreads between the low- and high-GEX picks less dramatic (whereas last week had many low-GEX names, and thus many with strong rally potential). Snippets of charts are attached, as always.

The only high-GEX highlight that we'd consider is **Bristol-Myers Squibb** (BMY), but being that its high GEX corresponds to low option prices (see that 30-day IVs are close to 20%), we don't really see an opportunity in shorting any options here.

As for a low-GEX opportunity, there are a couple interesting ones, but none as interesting as **Apple** (AAPL). Apple has gone up a lot lately (if you haven't noticed) and the current GEX at around zero is highly unusual for a strong stock at its highs. The implication, we think, is that a lot of puts have been bought. And generally when a lot of puts have been bought, IVs are high, and it's not really a great idea to buy puts. But in the case of AAPL, IVs aren't really all that high. On a 30-day timeframe, it's mid-20s. For us, this feels interesting, since long gamma (in this case, puts) can cause volatility, and if speculators are betting on AAPL falling, it could become self-sustaining pretty quickly from the gamma. So we'll probably buy some AAPL puts, thinking that there could be a decent reward possible with GEX near zero -- even if the probability of payoff itself isn't high.

A bit unusual, but there you go.

Enjoy the week!

The SqueezeMetrics Team

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