S&P 500 Weekly Forecast 3/8

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Hey everyone,

There's no denying that we're in the thick of it. That" laundry list of geopolitical risks" that couldn't dent the market for months is now making up for lost time. Ever since SPX dealers' long gamma disappeared on February 21st, the S&P 500 has moved violently, with daily 4% ranges and with VIX achieving 50.

But despite that day-to-day volatility, the weekly return on the S&P 500 was **0.6%**.

There is something quite droll, or maybe cruel, about ending up pretty much exactly where you left off.

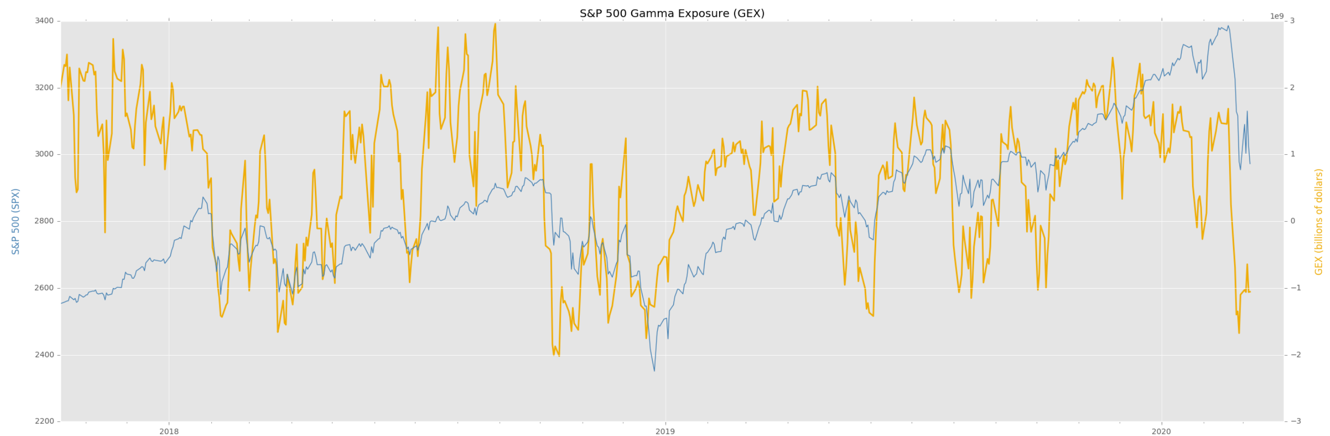
But there is perhaps no better example of the variance risk premium. A trader could have sold a weekly at-the-money straddle at the open on Monday and collected the whole premium on Friday at the close. That's crazy.

Is this worth thinking too hard about? No, not at all. But our estimate of 1-week volatility was 25%, and the market's estimate was 50%, so we think that our probabilities were at least *somewhat* reflective of the true likelihood.

Nerd note: It's easy to think that the difference between a 25% volatility forecast and 50% IV is a big deal, but it's not. All we're doing is saying that options are worth half of what they're going for. You may recall that when GEX is high, we often forecast 5% volatility for options when the market's pricing them at 10%. I.e., we frequently believe that an option is worth half of what the market thinks it's worth. Don't let the bigger

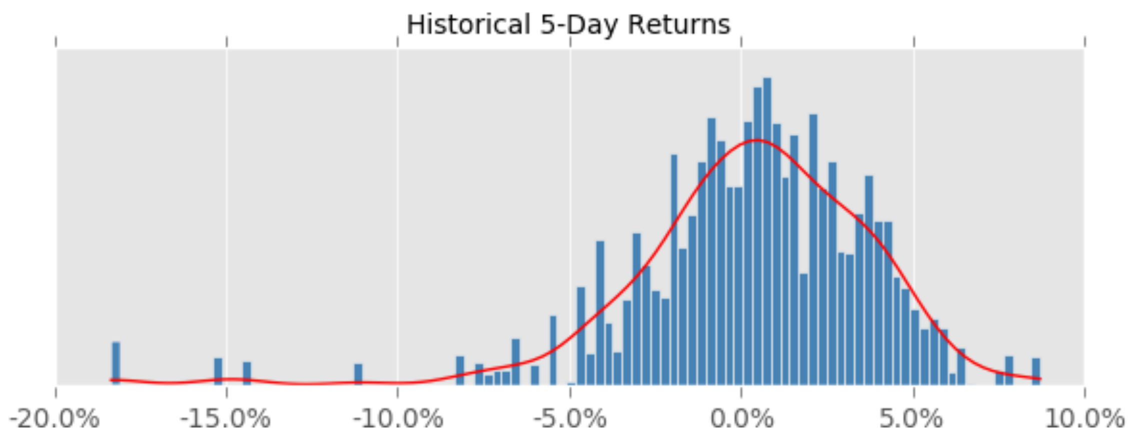
volatility numbers fool you.

Being that the S&P 500 landed right back where it started, it shouldn't be a surprise to see that GEX, too, is unchanged. At -$1.05bn, gamma exposure is very low, and it's probably going to stay here for a bit.



Another nerd note: When implied volatilities go up, gammas go down. Implied volatilities are very high right now, and that's reflective of the high day-to-day realized volatility that we've been seeing. But now imagine what happens if IVs go down -- gammas will go up. This would cause GEX to get even more *negative than it is right now, which would drive more delta-hedging, which would drive IVs back up again. Even if the market could start moving up from here, it would take a while to get out of this volatility loop. It's proper to think of this as "deeply negative GEX."*

Anyhow, this week's forecast looks a lot like last week's:



In numbers, this 5-day projection has a mean return of **0.24%**, a median of **0.47%**, and a standard deviation of **3.62%**. In volatility terms, that's a 1-week vol of **25.68%**. Further out, we project a 1-month volatility of **21.05%**. This is all very similar to last weekend's forecast, and that means we should probably expect a similar level of volatility overall. Indeed, if there was one takeaway from last weekend's note, it was that GEX was magnifying some very significant, and bearish, volume. This weekend, it's that we're stuck in a volatile regime, with deeply negative GEX, and it will take quite a bit of effort to get out of it.

So what does this mean for the VIX ETP aficionado? Much like last weekend, we think that VIX, as an objective measure of future volatility, is overpriced. This means that, all other things being equal, we'd want to be short VXX or long SVXY, but only...

> [...] as long as you are willing to shoulder the risk of VIX continuing to price in crazy high variance. This is the disadvantage of trading VIX products. It doesn't *have* to converge with reality if it doesn't want to.

> And that pain is felt acutely during these events.

Again, the *easier* decision right now is to carefully size a trade in SPX/SPY options that relies on the difference between implied volatility and realized volatility, rather than the vagaries of VIX futures. And to this end, we will be taking the same approach to this week as last. Take a look at the attached PDF and go straight to the vertical skew of 5 DTE options. Our 1-week forecast of ATM volatility is around 23%. The market is again expecting twice that, with 45% IV. And so, same as last week:

> That's tradable, and if you have the discretion to do so, consider using fixed-risk structures here, like iron flies or butterflies -- for your own sanity.

Fresh Picks
The 142 low-GEX picks have a mean 20-day projected return of **1.79%** and a standard deviation of **7.00%**. Once again, there aren't any high-GEX picks. The snippets of low-GEX charts can be found here.

The fun in selecting a low-GEX stock is when the option prices in that stock don't seem to understand that the GEX situation has changed. Often, this takes the form of cheap calls (or, recently, in AAPL's cheap puts). When GEX moves toward zero suddenly, especially due to an option expiration, there can be some great opportunities to get long convexity. But right now, with options so expensive, it seems hardly worth considering a trade on its GEX alone. That said (and we've been saying this for two weeks now), now's a good time to take a position on something you *already* have an opinion on.

Absent that, we're staying away from making GEX-related picks this week.

Good luck.

The SqueezeMetrics Team

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