S&P 500 Weekly Forecast 6/13

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Hey everyone,

Two weekends ago, we talked about *zomma*. Zomma is the spiritual successor to gamma, with the insight of the "vol triangle" bolted on. Then, *last weekend,* we talked about re-imagining the dark pool indicator (DPI) as a *normalized* number. These two datasets are what we're working on right now, with a mind to having a directional edge in single-stocks, ETFs, and sectors.

Why are we doing this now? Because the S&P 500 *per se* is not doing anything exciting, and we expect it to stay that way for a bit. So today, let's try coming up with some trade ideas with the data, and let's think about how we'd execute on a DPI/zomma edge.

But first...

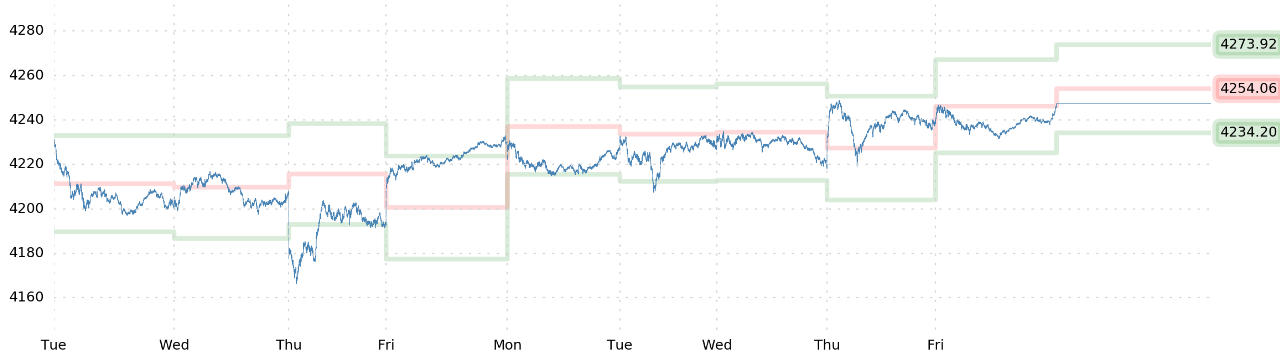
1. Recapitulation
2. Disorientation
3. Experimentation

Recapitulation

From last weekend:

> This leaves us with the impression that the only way to play the week is to be "tactical." And for us, that means riding the long SPX / long VIX position and fussing around with the SuMo bands intraday -- with the impression that VIX isn't likely to fall quickly from here. Really, the thesis is the same as last weekend's.

SuMo bands did well...



...but VIX/VXX fell pretty meaningfully, with VIX settling at a 15 handle. Hurt a bit.

> So let's guess that SPX lands at least 50 points away from 4200 on Friday (<4150 or >4250), but not much more than that. Maybe a 1.50% weekly move or something. And let's guess that we make more money on SuMo than anything else.

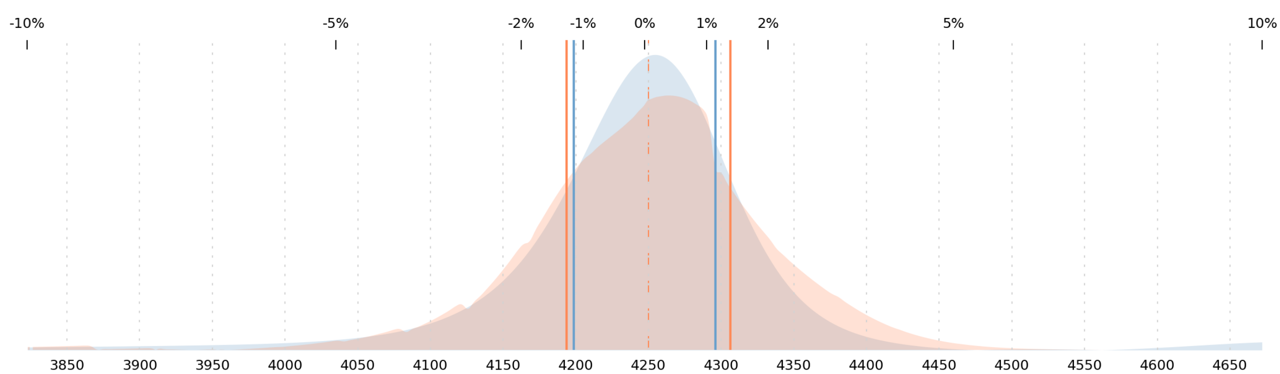
SPX landed at 4247, which was a bit less movement than we were guessing. But again, we were right about SuMo being the only thing that would make money. Everything else was pretty boring. And, as we've been saying for a while now, we don't feel like we have much of a volatility edge here, and nor are the NPD and VGR numbers prompting action.

So we're just kinda... floating here.

Disorientation

Nor do the numbers that we see right now make us think we can gain a meaningful edge in SPX volatility. Sure, GEX+ is the highest it's been since 2020, but -- unlike when VIX was 40 and GIV was 20 -- there isn't an obvious edge in selling options, whether the intention is to be short gamma or vega.

Indeed, the only weekly edge, according to the GEX-derived density, is in long calls / call spreads, targeting that fat-ish right tail. According to the GEX+ liquidity assessment, the probability of a Friday close above SPX 4325 is underappreciated.



And so, with vols being pretty cheap, is it worth a shot at something like a Friday 4350/4400 call spread? A bet either that (1) realized volatility will increase, but to the upside; or that (2) the [upside] drift factor will dominate.

Well, the Sentiment Sheet doesn't really have much to tell us, with NPD and VGR at -5.62 and -4.03, respectively -- these are pretty neutral readings, and they don't really add any color to this boring state of affairs. So a small position in an OTM call spread seems like it wouldn't hurt... but... nor will it bring home the bacon.

For that, let's try something else.

deep breath

Experimentation

The original idea of the "Research" page (https://squeezemetrics.com/monitor/p/research) is that you'd be able to see when a substantial deviation from the mean occurs in a stock's off-exchange short volume (bullish or bearish DPI), and you'd then be able to assess whether that's worth a closer look. That's all there is to it. It's been running this same exact screen, every day, for the past five years.

But while we're thinking about getting directional edges in *normalized DPI and zomma,* we want to improve this screen to account for those new datasets. So we think we'd like to sort by things like sector, size, and historical returns -- because especially now that we have zomma, we expect to be able to find some really exceptional opportunities in long/short stock, sector, intra-sector, etc.

As a first step toward that, let's start by consulting the Research page for ideas, then let's see what the normalized DPI and our proto-zomma have to say about it. *Then* let's manually sort through the ideas and pick the stuff we like best. *Then* let's start presenting the data in a way that lets us do this efficiently on a daily basis.

An ugly, untamed stream-of-consciousness follows:

...

Ok, top 10 *"High-DPI"* tickers right now: MRO, EDU, MRK, BMY, IVR, COP, TIGR, GLD, GILD, INFY.

Very clear pattern right off the bat in energy: MRO (Marathon Oil) and COP (ConocoPhillips), both huge oil and gas E&Ps getting bought. Could mean good for E&Ps broadly or could mean opportunity to spread against other energy names, whether other E&Ps or something like drillers, equipment/services, or midstreams. Put a pin in it.

Another clear pattern in drugs here: MRK, BMY, and GILD. Good for healthcare? Drug manufacturers specifically? Is there a spread trade? Put a pin in it.

On to the top 10 *"Low-DPI"* tickers: RIDE, NKE, ABT, KDP, VEON, ENDP, IFF, VXUS, ARRY, CAT.

ABT (Abbott Laboratories). That's healthcare: pharma and medical devices. Promising spread trade opportunity already. Any more healthcare past the top 10? Well, #11 is UNH (United Health), with health benefit plans and services, and a bit lower is CAH (Cardinal Health) with pharma and medical distribution.

Easy! Long MRK, BMY, and GILD; short ABT, UNH, and CAH. *Intra-healthcare spread!*

We also couldn't help noticing that all of CAT, HON, and DE were toward the top of the "Low-DPI" list, representing a big chunk of the industrials sector. So how about those two oil E&Ps versus short the three industrials for a focused *inter*-sector trade? Can we find another big "high-DPI" energy name to add to MRO and COP just for symmetry? How about... #18 on the list, MPLX (midstream/logistics). Put a pin in it.

So, (1) inter-sector, *energy* (long MRO, COP, and MPLX) versus *industrials* (short CAT, HON, DE).

And (2) intra-sector *healthcare* (long MRK, BMY, and GILD; short ABT, UNH, and CAH).

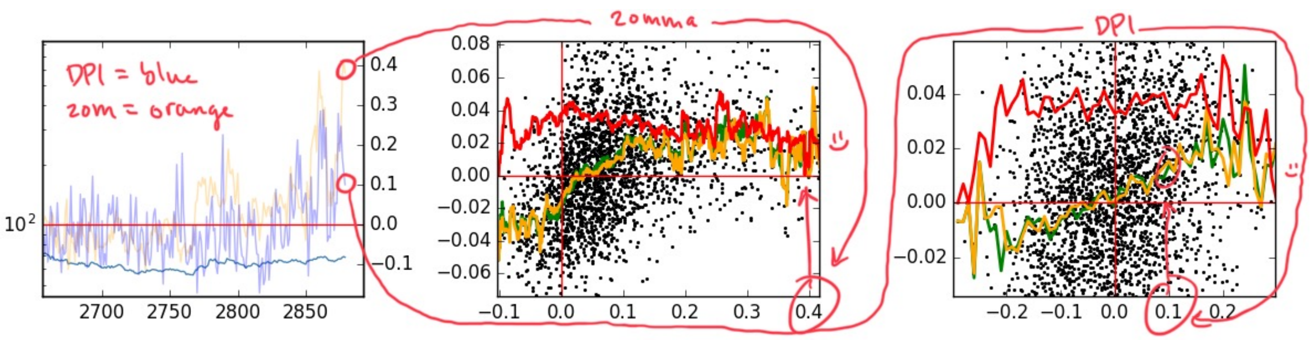
Sounds fun! Now let's see which of these 12 tickers has the best track record with respect to DPI and zomma, and let's pare down our trade idea from there.

1. +MRO — Terrible. DPI not predictive. Zomma extremely predictive, but currently a tad positive. Bad idea.
2. +COP — Awesome. DPI extremely useful. Zomma and DPI both predict weekly gain.
3. +MPLX — Meh.
4. -CAT — Excellent. Zomma predictive and negative. DPI pretty good, also negative.
5. -HON — Not bad. Zomma slightly positive, so... meh. DPI predictive. Decent candidate for a long put, but that's it.
6. -DE — Not bad. Zomma predicts losses, DPI is only moderate.

1. +MRK — Perfect. Extremely predictive variables, bullish.
2. +BMY — Sweet. Same as MRK.
3. +GILD — Great. Same. DPI is awesome.
4. -ABT — Pretty good. DPI decent predictiveness and bearish, zomma a bit unusual (close to zero), but bearish.
5. -UNH — Lovely. Zomma near zero, good put candidate. DPI predictive and bearish.
6. -CAH — Eh. Not great. DPI shows selling, but zomma is meaningfully positive and predictive. Not very bearish.

From the *energy-industrials* trade, [long] COP and [short] CAT are the clear winners, with meaningful DPI and zomma data matching the proposed trade. From the *healthcare* trade, everything is awesome except CAH. To give you a sense of *how* we're determining, e.g., that GILD looks like a "great" trade, take a look at this annotated plot-blob.

Time-series on the left, zomma scatterplot and returns in the middle, and normalized DPI scatter and returns at the right.



Make sense, kinda?

Now with a bit of eenie-meenie-miney-mo, let's narrow this whole thing down to two trades:

- Long COP / short CAT
- Long GILD / short UNH

In conclusion, we would guess that about 90% of the above process can be done automatically with this new data and some new screening code, and based on the edge apparent in some of these tickers (but not all!), the output of such a screen should be... useful.

Hopefully you agree.

More data to buy, more database work to do, and more tests to run. Enjoy the week!

The SqueezeMetrics Team
