S&P 500 Weekly Forecast 6/27

From: SqueezeMetrics <info@sqzme.co>
To: SqueezeMetrics <info@sqzme.co>
Subject: S&P 500 Weekly Forecast 6/27
Date: Sunday, June 27, 2021 9:00 PM
Size: 928 KB

Hey everyone,

By the top line of this week's scorecard (+QQQ / -IWM), we're going to immediately file this week in the "lose" column. Long QQQ underperformed short IWM by a vol-normalized 0.73%. What's more, the summed, vol-adjusted weekly return on our hypothetical positions (rightmost column) is awful—a greater than 5% loss all together.

+QQQ	+2.11%	+1.03%
-IWM	-4.57%	-1.76%
+CMG	+8.51%	+2.67%
-NKE	-20.20%	-5.79%
+PYPL	+2.19%	+0.65%
-GS	-5.72%	-1.72%
+CHWY	+2.36%	+0.45%
-BBY	-5.04%	-1.57%
+USO	+3.91%	+1.14%
-GLD	-1.00%	-0.56%
+AZO	+6.71%	+2.74%
-FDX	-2.59%	-0.64%
+NVDA	+2.10%	+0.50%
-MU	-6.60%	-1.45%

Certainly, a cursory glance at the performance reveals that the far-and-away worst performer had an

earnings event (NKE), and it's logical to completely disqualify the stuff with large "event risk" (both NKE and FDX) from the final assessment (because they should have either been sized tiny or not traded at all). But that doesn't change the fact that these pairs mostly underperformed a bit, even if you remove the weird stuff.

And we already think we know what we did wrong. So let's work on that.

But first...

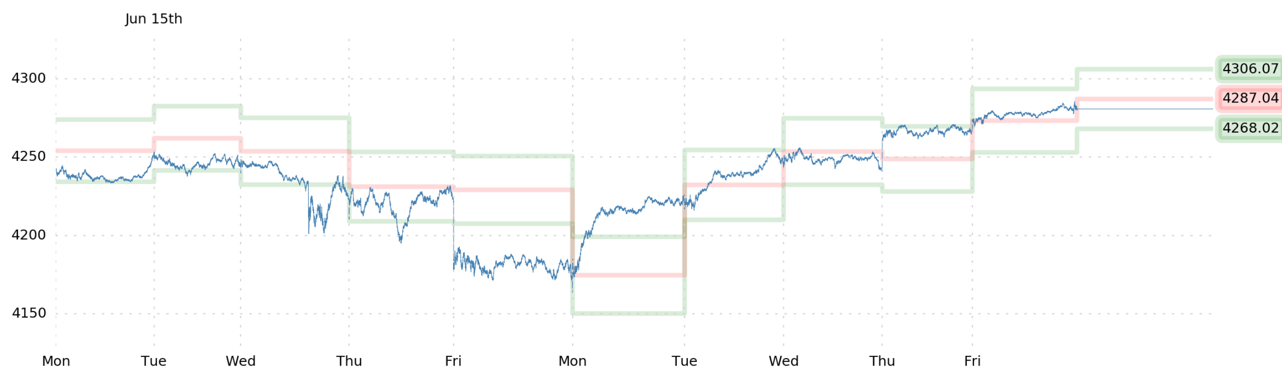
1. A recovery
2. A lull
3. A stumbling block

A recovery

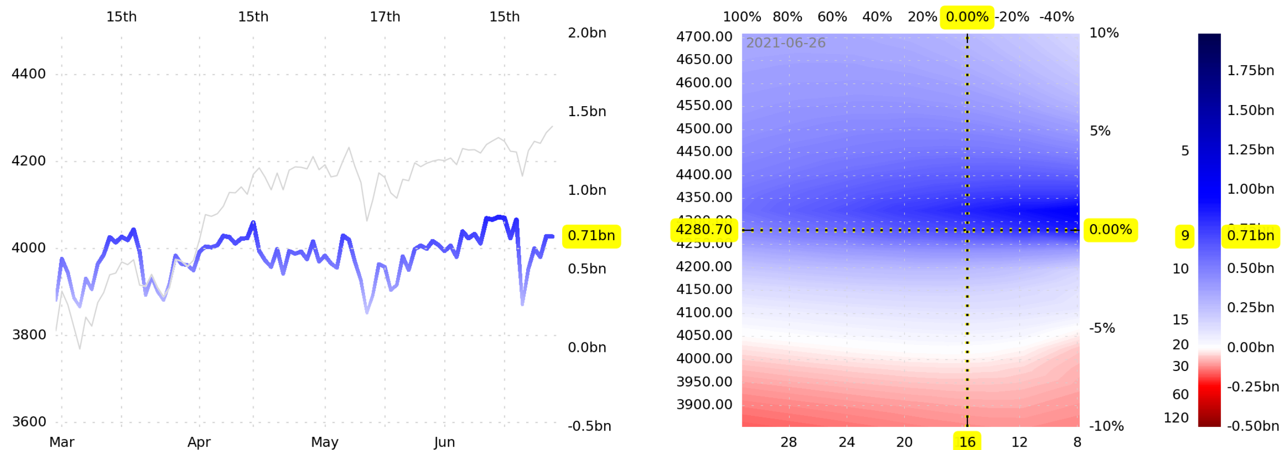
We came into the week short VIX.

> *But* there appears to be no reason to believe in *increased* volatility to the downside, and that's what we really care about when we're short VIX. Heck, even DIX is telling us that there's a bid under the index.

That turned out to be just dandy, though we seem to have cut that position a bit too early. VIX fell from 20-ish to 15-ish over the course of the week, and SPX steadily climbed.



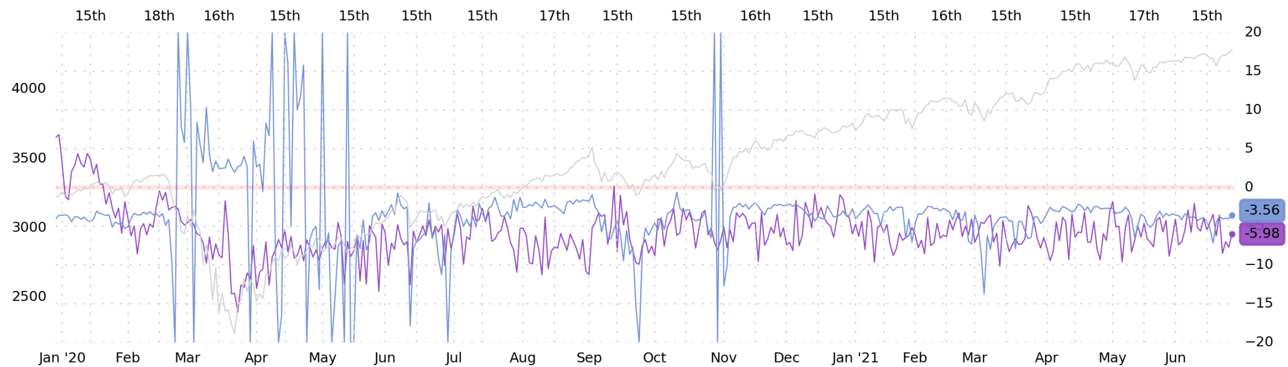
By the end of the week, GEX+ managed to get all the way back to $710mm per SPX point. That's quite a bit of liquidity-at-spot by recent standards, and that means we go back back to 0.50% daily average moves or so.



Now what?

A lull

It's very difficult to believe anything transpires here. "Upside drift," the default setting of a high-GEX market, seems in play. Neither NPD nor VGR are offering scary enough numbers to make us want long volatility just yet.



Strategically, the last year-and-a-half of data has told us that there's essentially no crash risk in the market (though this is *slowly* starting to climb back to a normal level), and that this gives the long-equity portfolio free rein to take delta risk. Still, *tactically*, we felt we've had numerous opportunities to be long and/or short gamma and/or vega in varying degrees with some success. It's just recently that we haven't felt like we've had much of a tactical edge at all. And that's probably going to stay that way for at least a few months.

Which is basically why we've been digging into single names. Because there's no way that the best way to be long boring SPX delta here is to actually be long SPX. There's more out there, and we're keen on finding it.

A stumbling block

It is (to us) appealing to think that we can make a series of trades once a week, harvest a long/short edge, and spend the rest of our time tending the roses and reading Marcus Aurelius under a shade tree. Or maybe that's just laziness, but still, for these last few weeks, we've been operating under the assumption that we can keep our trade evaluation very low-frequency with this data.

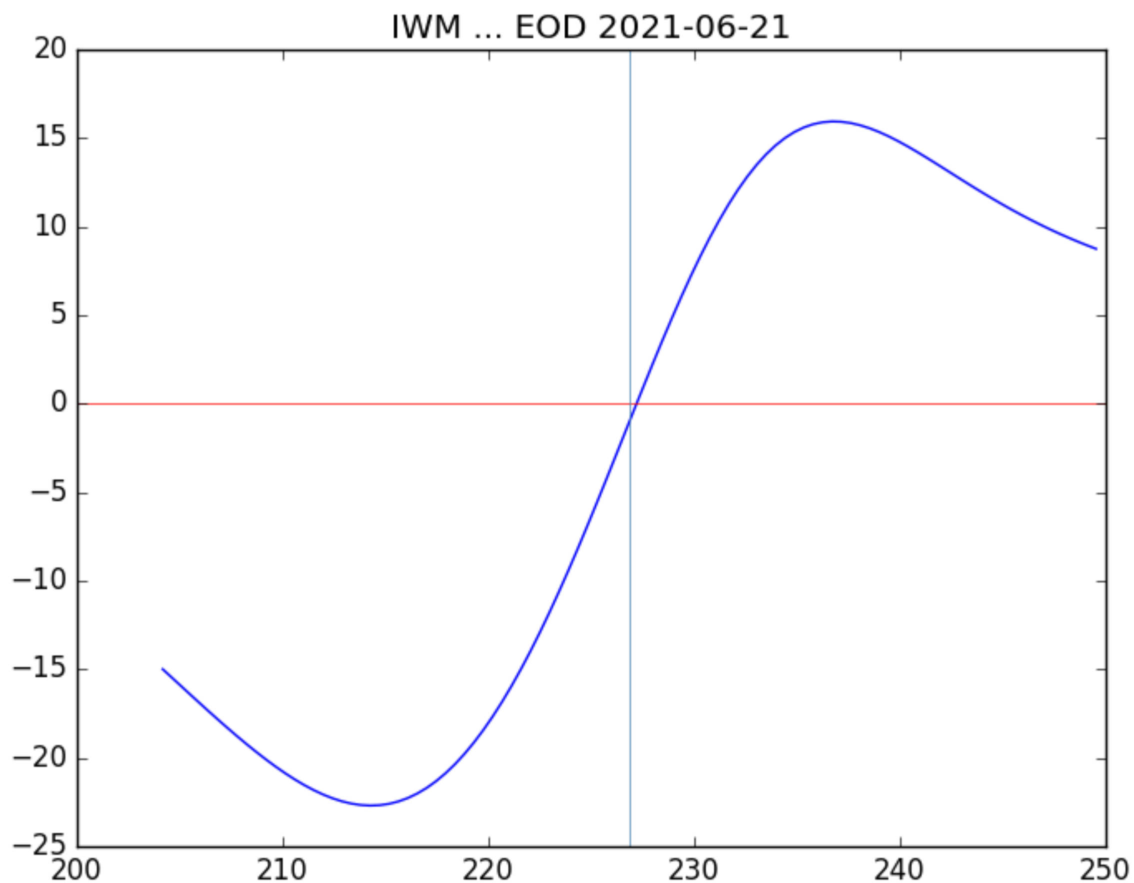
Well... maybe not.

As you know, this past week, IWM outperformed QQQ, despite last Friday's data suggesting this was unlikely. But a lot happened between Friday night and Monday evening. Enough changed, in fact, that if we'd reviewed our data again on Monday, we would have realized that our short IWM edge had *completely* disappeared after Monday's gap-and-run 2.14% gain. And if we'd known that, we'd have been able to cut that trade at a small loss, instead of remaining short against the data's recommendation. Kinda stupid, really.

A natural question arises: *"Next time, can we know ahead of time where our edge disappears?"* And the answer is "yes." But by golly it's going to require us to buy some more CPUs—because the answer is that we need to generate a large scenario analysis for every security that we want to evaluate. Basically, we need a "GEX+ heatmap" for *everything*. Hundreds of little volatility surfaces. This is something we were hoping to *not* have to do.

Is it worth the trouble? Well, *yes.* Because if you'd generated a "z-curve" for IWM on Monday, you'd have found that the curve intersected with an IWM spot price of 227.10—above which you'd *no longer want to be short* the ETF, because bullish momentum would take over *(above 227.10, incremental decreases in implied volatility would improve, rather than deteriorate, liquidity)*. Basically, you'd have *never* remained short IWM through Tuesday with higher-frequency data.

To see what we mean, here's Monday's end-of-day IWM "z-curve," and the "z-intercept" at 227.10. This is "neutral," and is no longer a good short candidate.



We can compute a daily "z-intercept" like this for every optionable security. And if this week is any indication, it also seems like we *ought* to. This would be the only way to get higher-frequency data—by straining our CPUs. So it's time to dig up 60Gb of (compressed) historical option data and test this out. In other words, we have a lot of work to do.

For a first look at some of the current z-curves (for just a few big, notable, optionable stocks/ETFs) take a look through this very large image (you'll have to zoom in). Notice that the curves have varying shapes and steepnesses. Note also that things are overall pretty bullish for these names (positive on the y-axis). No surprise.

Two things that interest us, practically and theoretically:

1. For a bearish name, take a look at WHR. Note specifically that it remains bearish only as long as price remains below 220. That's useful information, and an invitation for a very specific trade.
2. For a potentially more *convex* bearish name, take a look at FSLR. This one has a steep curve below zero, which begins around 82. Could this mean that a long put, struck at 82, takes advantage of the liquidity setup?

We expect this to be a painful, but fruitful, avenue of research. Wish us luck.

And enjoy the week!

The SqueezeMetrics Team