

# S&P 500 Weekly Forecast 7/5

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Hey everyone,

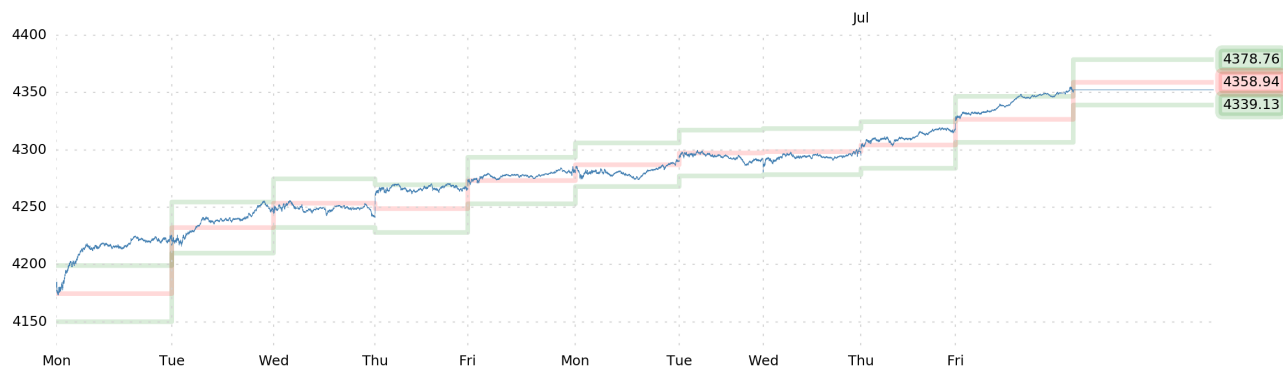
Like the short week ahead, let's keep this note quick.

1. Compressed
2. Abbreviated
3. Abridged

## Compressed

Yes, index volatility is compressed. For a flavor of just how compressed, consider the Tuesday-expiring ATM (4350) SPX call, which closed with an ask at 7.70, implying a mean expected up-move of 7.70 points, on the high end. Expressed in volatility terms, this is a 5.9% annualized vol. The Wednesday-expiring option of the same strike and type implied 6.5% vol. Wow.

This is low, and as you'd expect, it follows a calm, bullish week of upside drift. All week, gamma has been around the highest it's been since February 2020; folks have been calmly buying put protection, keeping the delta decay of puts (vanna, charm) running strong; and our probability densities have suggested either remaining vol-and-option-neutral or buying calls for the relatively outsized upside.



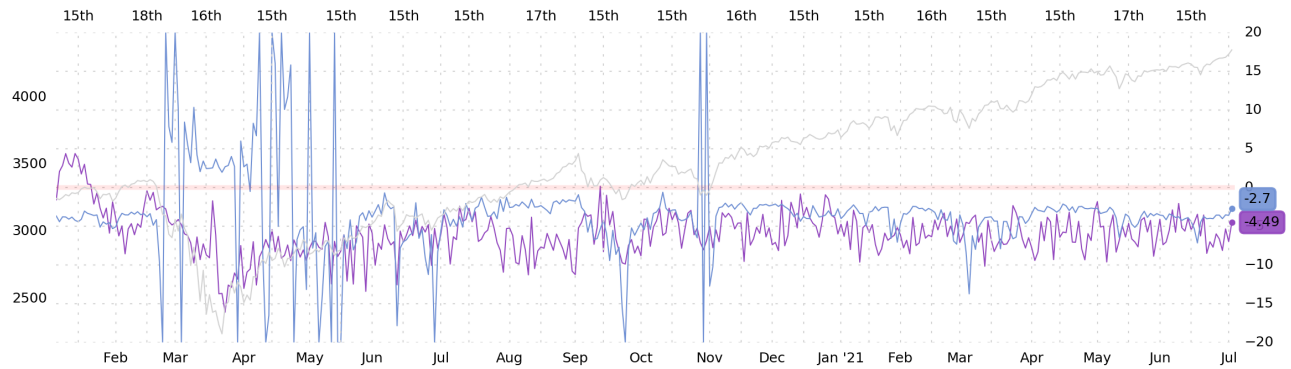
We've commented a few times about how, "Strategically," it's been a fine time to just be long SPX (as it has since last April, 2020), with the Crash Risk multiple perpetually low; but "Tactically," this has been a tough time. So we haven't had any SPX volatility positions, despite some temptation this week to get long vol.

So we have no successes or failures to report in SPX option/vol land. But in the foreshortened week ahead, we *may* want to take a position.

## Abbreviated

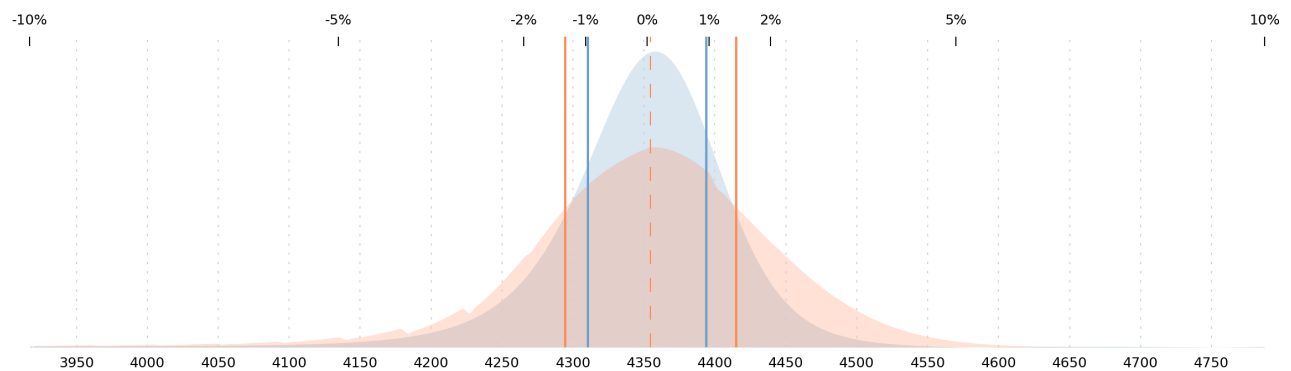
The next four market days may be [sort of] interesting. And that's the first time we've said something like that in a while. There are a couple reasons for that, but really, it boils down to the fact that Thursday and Friday were big wins for long SPX vega. I.e., if you were long SPY and long VXX, you did great—because SPY went up a lot, but VXX didn't go down at all. Whenever this happens, it's interesting, because it means some stuff is getting turned upside-down, and it means that folks' option positioning is going to be out of whack.

And you need look no further than the customer vanna-gamma ratio (VGR) to confirm this to be the case. VGR is -2.7, and that's the closest to zero it's been in a while. It suggests that SPX option customers are *overexposed to changes in implied volatility*, relative to their exposure to gamma. This tends to result in SPX volatility going up.



But it seems to us that the "right" way to play this isn't to be long VIX futures (which suffer from a rather steep term structure right now), but rather to bet simply on some near-term puts. I.e., some short delta, long gamma, and long vega, in a tidy little package. Perhaps an ATM put for Wednesday or something.

And maybe we should consider the possibility of a call squeeze (call overwriters getting squeezed out of short positions) at the same time. After all, the 1-week GEX+ distribution encourages at *least* as much call-buying as put-buying (right tail is pretty chunky).



We'll think about it. In any case, it won't be anything more than a "small" position. (Fixed-risk, 0.50% of portfolio, something like that.)

Now for our "research update..."

### Abridged

First, another housekeeping item: Our zomma / vol-tension model is doing well. Well enough, in fact, that we believe it prudent to make fewer references to the word "zomma," in order to abridge, just a wee bit, some of the information implicit in the name. Indeed, it is acceptable that you, dear reader, ponder these Great Secrets—but it would be sub-optimal for this discussion to be broadcasted in the same way that "vanna" was. So let's just make it a *teensie* bit harder for the normies to understand what's going on, whenever we do choose to speak about this stuff outside of these Sunday notes.

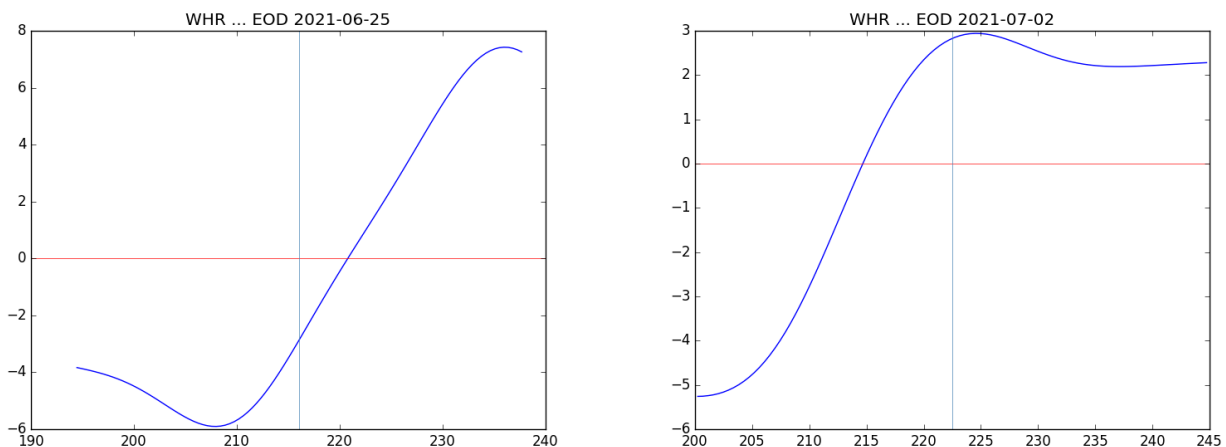
(You may recall that "vanna" became a very popular word around July of 2020.)

And so, since zomma appears to be the spiritual successor of GEX, with a bit of our "vol-triangle" / "vol-tension" model mixed in, perhaps we can call this "*gamma tension*." After all, this is about the tension between gamma (liquidity) and vega (vol, the price of liquidity). So it's a tension internal to the option market and the liquidity that it provides (via gamma, which is where the rubber meets the road).

That Ok? Maybe?

Ok.

We're still working on a fast, replicable solution for deriving our "gamma tension" curves. Same thing we introduced last weekend. But one question we've been getting is, "Do we really need to update these curves so frequently?" And as a pseudo-response, here are Whirlpool's (WHR) curves from Friday (6/25) to Friday (7/2), side by side:



It's a huge change. Not only did WHR itself move *up*, but the "zero-tension" level moved *down*. Both are bullish shifts. We had a WHR short position against a bunch of long stuff, but as we re-evaluated the change in the curve, we moved out of that position, and ended up letting our long tickers run (as we *should* have in the week prior). Turned out well.

Basically, this ("changes in the curve are important") was our hypothesis from last weekend. Luckily, it played out right before our eyes this week. With the benefit of computing these curves, we're pretty sure we can greatly improve our long/short performance.

Though we still do not have the infrastructure or speed to present these very frequently, take a gander at the second installment of the "Top 49" tension curves (same format as last weekend). Note that IWM (RUT) is still

the weakest of the indices. This has been some *very* useful info, and should continue to be.

Enjoy the short week!

The SqueezeMetrics Team

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