S&P 500 Weekly Forecast 9/6

Hey guys,

First of all, things are going well. We've been getting over 1,000 tickers' PIVT charts up every evening before 9pm, and we intend to keep doing that.

https://pivt.squeezemetrics.com/
Username: [leave blank]
Password: YachtClub

Unfortunately, a lot of work still has to happen behind the scenes to speed up this process. We're still pretty far away from being able to generate historical time-series maps (it takes hours). But still, at the risk of getting ahead of ourselves, these are some things we already know we want to track down once we get the ability:

1. *Time-series maps and backtests:* Imagine the PIVT curve projected over time next to the price-action of a stock, and then imagine backtests derived from these historical curves. This seems useful.

2. *Correlation-normalization:* Each stock's PIVT "weather map" is presented without time context, so we don't know whether a big red blotch was because of a sector/index correlation or not. We *can* isolate this, and we need to!

3. *Sector heatmap:* Wouldn't it be cool to have a heatmap of expected returns across stock sectors? E.g., late this week, we got the impression that some real estate, and a lot of community banking stocks, were at high risk of poor returns over the next month. But we had to look at a *lot* of different charts to build that intuition.

4. *S&P 500 volatility:* We haven't had plots of VXX or UVXY because we didn't have data on Cboe listings. Well, we just bought some, and we're interested (read: *scared*) to see what sorts of relationships PIVT will reveal in the constant-maturity VIX ETPs.

This could be a couple weeks of work, or a couple months. Progress is going to be very lumpy, since we don't even know yet what it's going to take to speed up the algorithm.

In the meantime, we've added a directory to the PIVT site called "curves/". In that directory, you'll find the parameterized PIVT curves for each ticker. You can grab these programmatically and plot them out yourself, sort them with a script, etc. (Gotta keep the nerds happy.)

Now before we get even *further* ahead of ourselves, let's take a moment to talk about how we're reading these PIVT charts. What do they even *mean*? Let's try to clarify that.

But first...

Summer

Summer was boring. We spent most of the time working on vol-tension for single-stocks to get over the fact that our index-level GEX+ edge was degrading (we haven't sold an iron fly in a long time now). Our summer trades revolved around VIX products and the NPD/VGR data. Money was mostly made being tactically short VIX. Much time was spent on the veranda.

But this past week was the "official" end of summer—the week before the Labor Day weekend. And it was indeed a lazy, summery week, distilling the essence of the prior months into five long days of nothingness.
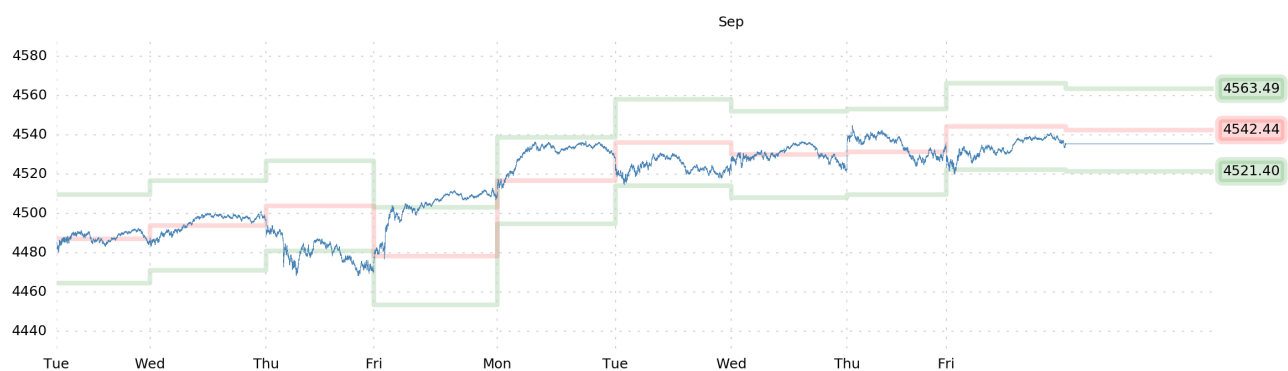
But under the calm, glassy surface, some trouble is brewing—and late this week, we started positioning for that. As we said on Thursday morning:

> There's also a bit of a temptation to throw in some wingy 1-month SPX puts, with the intention of monetizing them if SPX vol spikes. Despite having very little vega, those wingy puts are pure bets on vega *convexity*, and so will rise dramatically if we get a real vol spike. It's a cheap way to bet on the possibility. Perhaps it's more appropriate.

And that's exactly what we ended up doing on Thursday morning. At present, our only index position is long ~1-month vega convexity by means of those OTM puts (lots of 4200 strike). The intention is to monetize them if VIX spikes a whole bunch.

But will it?

Fall

As if to confirm the dramatic psychological shift of summer-to-fall that accompanies the Labor Day weekend, our trusty guideposts of the last several months—NPD and VGR—have just thrown a pretty dramatic signal. We were, quite honestly, *hoping* this would happen, and we spent much of the past week introducing the unwashed masses to the concepts of NPD and VGR in anticipation that it would kick off the autumn season with some color.

To mark the occasion, we added *another* heatmap to our large collection of heatmaps (we really do have a *thing* for heatmaps, don't we?). If you take a look at the Sentiment Sheet PDF, you'll see that NPD and VGR

are now accompanied by a "you-are-here" heat/contour plot of 1-month SPX returns.
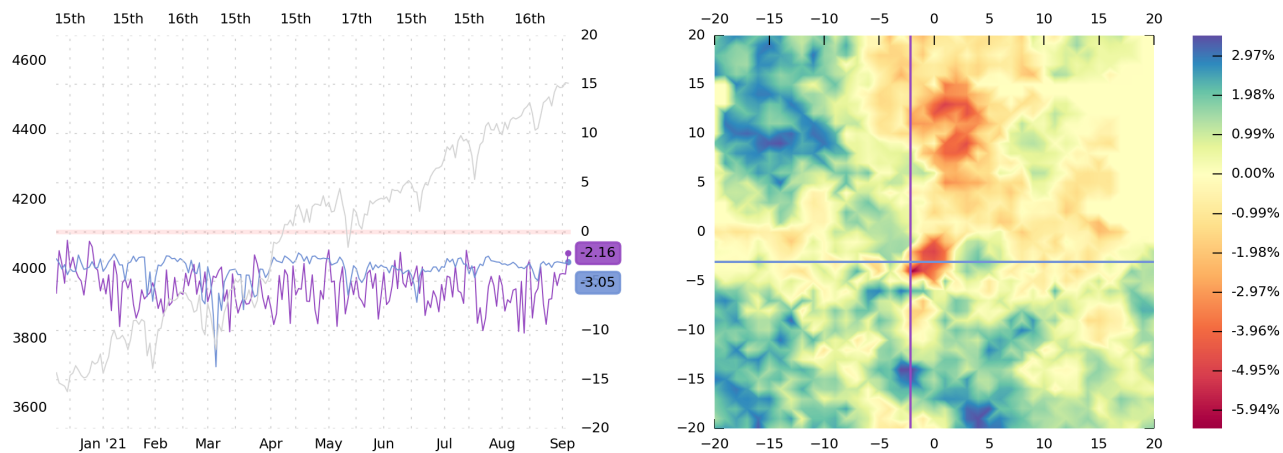
You can see quite readily that we're in a not-so-nice part of the plot: A combination of NPD and VGR which invariably seems to precede volatility. I.e., red stuff in the crosshairs.

And that's good to know.

So yeah, at this point, we're expecting VIX to spike this week, or perhaps early next week. Mid-to-high twenties feels perfectly reasonable. After seeing Friday's NPD at -2.16, we've already accumulated some additional SPX short delta, and, weather-permitting, we'll pick up even more—ideally some more SPX OTM puts. *Vega convexity, vomma, volga*... whatever you want to call it—that's what we want.

PIVT'ing

The idea of looking at data from weird angles is that *maybe* it gives you an edge. *Maybe* it gives you a unique understanding of things. Unfortunately, it's not always easy to present "weird angles" using "normal charts." So you've probably gotten used to the fact that we have pretty weird charts. And these PIVT charts are no exception.

Here are four sets of PIVT charts for a few currently interesting sector ETFs.
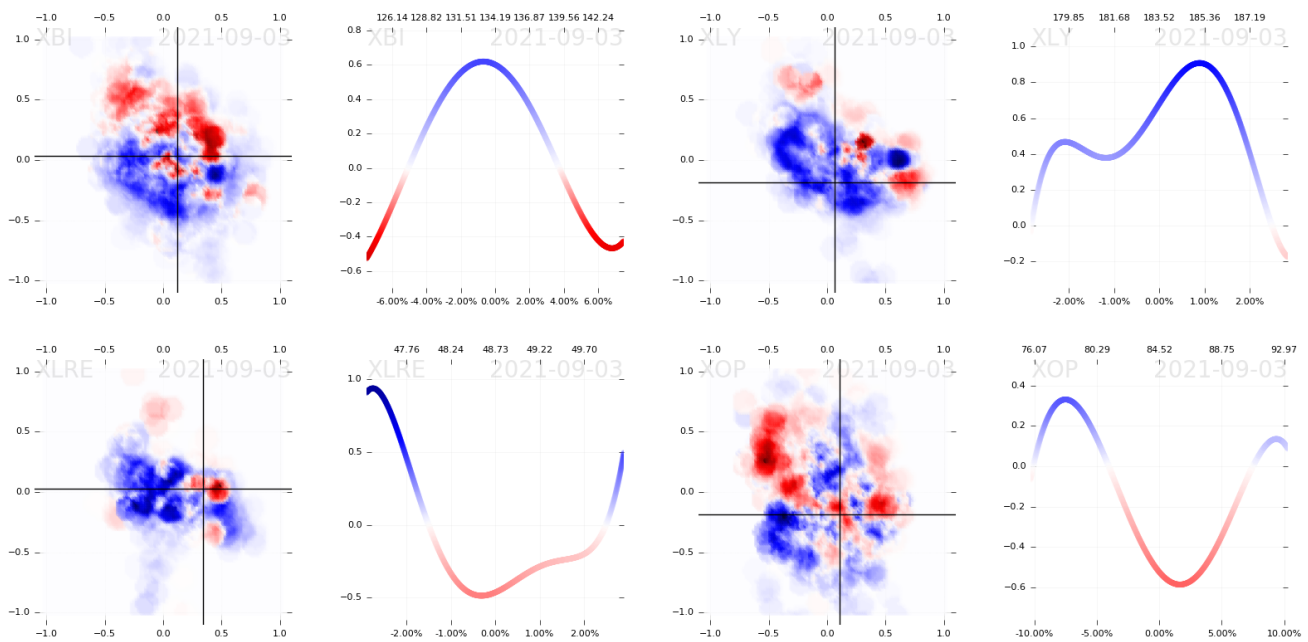
There's a heatmap on the left of each chart pair that views historical price-action through the lens of volatility. It's a three-dimensional plot (three axes, one of them being 1-month forward stock returns, in color). They look a lot like the plots we were generating to explore the "vol triangle" stuff, and that's because they're the same thing (except it actually works now). Crucially, there are historical tendencies visible in the data, and we want to be able to suss those out.

So let's walk through each ticker—one by one, top-left to bottom-right—and give a little stream-of-consciousness.

XBI (Biotech) – Crosshairs are in a blue zone, and that's bullish, but it's not *far* from a red zone. It looks like this ticker responds very well to the lower quadrants (vol down), and very poorly to the upper (vol up). The PIVT curve reflects this. Any large move tomorrow, up or down, and bearishness takes over. This is a long, but it's probably not something you'd hold for a long *time*, since it's tenuous.

XLY (Consumer Discretionary) – Reasonably bullish, and consistently so. Crosshairs are in a generally bullish zone, and the curve reflects this. You could probably hold this for a bit and expect it to outperform.

XLRE (Real Estate) – Crosshairs are in a historically not-great area. Seems like this is a bad time to be long. When we view the curve, it's almost as if this is the inverse of XBI. Any big move will shake XLRE out of its rut, but all other things being equal, it's a short.

XOP (Oil and Gas E&P) – There's a lot of noise in the heatmap, but our one takeaway would be that spot-down, vol-down (upper left quad) is a killer, and that spot-down, vol-up (lower left quad) is a buying opportunity. This is the sort of asset where you don't want to buy dips until things have cleared up (go figure, it's commodity-adjacent). Crosshairs are currently in an iffy place, and curve reflects that unless there's a lot of movement, it's a short.

Two things to keep in mind:

1. The colors are all based on 1-month returns. This reduces noise, and clarifies the signal, without doing

anything fancy. Still, the data is meant to be consulted on a day-to-day basis to see if everything's still pointing in the "right direction" (much in the same way that today's VIX can mean something very different from tomorrow's VIX, despite them being one-month variance measurements). So you might end up holding on to a trade for a day, or for two weeks, depending on the feedback you get.

2. The curve is projecting *tomorrow's* closing PIVT color. So all these curves are for Tuesday at the close. In contrast, the heatmap data is from the prior close. So you should *not* expect the color in the crosshairs to always match the color at 0% on the curve.

Hopefully that walk-through helps explain how we look at the charts.

Now let's finish up by highlighting some ticker combos that, at a glance, we find interesting:

Residential construction (NVR, TOL) looks rough. Community banking (NYCB) looks rough. Drugs look pretty good (PRGO, AMGN). Credit services, generally, look good (OMF), with an exception (WU). In REIT land, healthcare REITs are doing weird things, with a classic-looking spread-closing setup (long OHI, short HTA)— and also take note of VTR's strength here. And lastly, a couple fun-looking spreads in airline stuff (long JBLU, short SABR), and especially in specialty industrial machinery (long MIDD, short PCAR).

It's also worth mentioning that SPY has a predicted return of around 0.05 mean absolute deviations —essentially flat. And that lines up with our NPD/VGR and well as DIX/GEX data. Which is cool.

Thank you all for the feedback thus far—full steam ahead!

Have a lovely week.

The SqueezeMetrics Team