

S&P 500 Weekly Forecast 10/31

From: SqueezeMetrics <info@sqzme.co>
To: SqueezeMetrics <info@sqzme.co>
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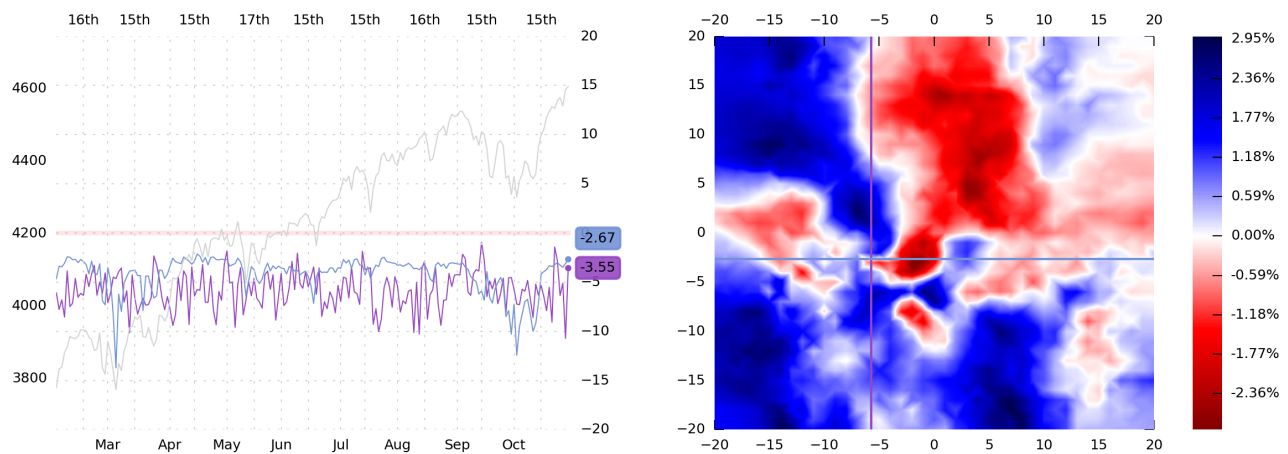
Hey everyone,

We're attaching historical signals generated by Robot Jim, trained on data back to 2011. If you are so inclined, please play with the it. A bit of nerdy detail below the fold—but first...

1. Apparently, another week passed.
2. What's going on?
3. Jim speaks.

Apparently, another week passed.

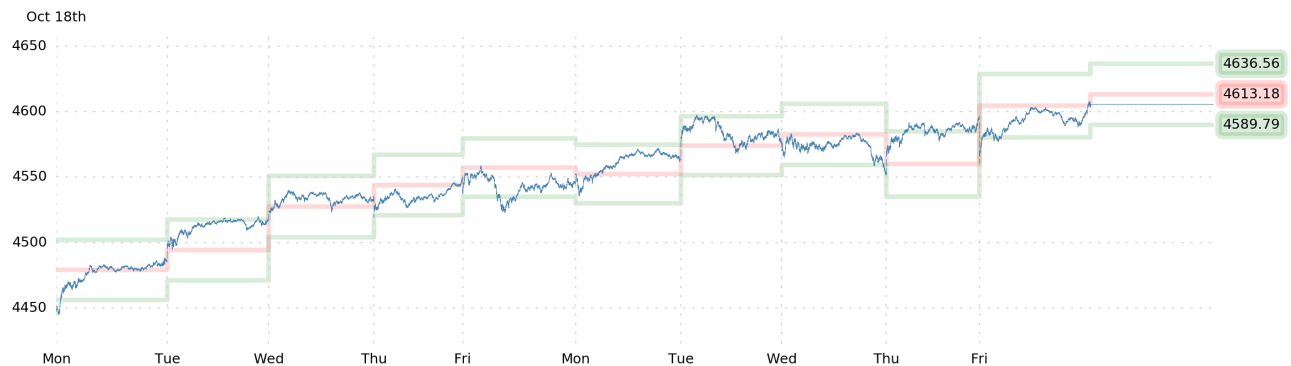
A bit of dicey data showed up last Friday, then carried into Monday. That dicey data was a dearth of SPX put-buying indicated by net put delta (NPD).



Since Robot Jim saw this, he projected a small (but relatively large) probability of a left-tail event for the week. So we bought a small OTM put position and rode it out, anticipating something like a 1.8% chance of getting paid for our trouble.

It was not glamorous.

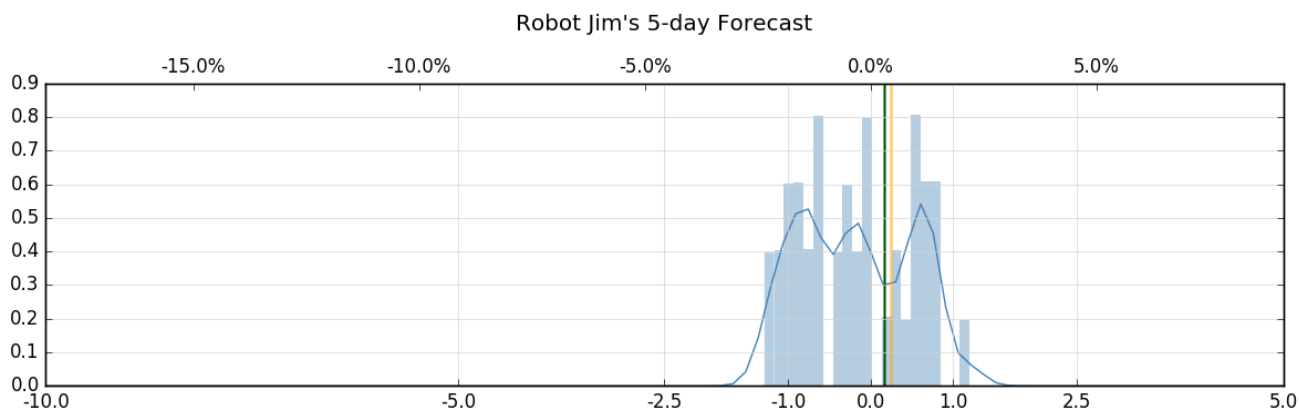
We did not get paid.



We still have that put position, but Robot Jim hasn't been too keen on us hanging on to what's left of it, since his subsequent forecasts have called for more gentle upside drift—which, so far, have been correct.

What's going on?

He hasn't changed his mind.



Upon consulting GEX, VEX, NPD, VGR, and DIX, Robot Jim thinks next week is going to be just as boring, if not more. All 1-week outcomes fall inside of the 1 MAD area, which basically means there's a strong tendency toward a "range-bound" market. A 2.50% gain or loss is totally possible, but anything greater than that would be exceptional. A very small gain, in mean and median terms, is expected.

This is, oddly, a good environment to sell an iron condor—which stands to benefit most from a uniform distribution like the one above.

We *might* do something like that, albeit in small size, but we have a hard time being gung-ho about any position right now. Perhaps this is the type of market where a discretionary trader revels in the realization that they don't *need* to take a position—of if they do, it doesn't need to be in any size.

But... if you'll allow it, we'd like to inject a bit of unusually subjective color-commentary here: *Things feel very odd right now*. Some of that has to do with the composition of our data, sure (Friday had very little put-buying again, VGR is fairly unstable, high GEX+ appears to be enforcing anticorrelation among component stocks/sectors [making you wonder what they'd be doing without SPX GEX], etc.), but there's more than that.

For the first time since the pandemic, a feeling of foreboding seems to be setting in. The sense that some

things are subtly breaking. As degenerate equity and equity vol traders, we try to stay away from the big-picture philosophizing and the macro blabber and to keep thoughts on a weekly timeframe—but sometimes it's hard to ignore the mood coming from the rates nerds and other people who use words like "economy" and "central bank."

So despite the fact that GEX+ is \$830bn right now, and that everyone is still slinging call options in Tesla, and everything seems just peachy in stonk land, it seems like a good time to remember that stocks can, and do, go down.

From January 26th, 2020:

Wuhan Coronavirus is gaining steam as a fear *du jour*. Last time there was a big geopolitical scare, it was with regard to an imminent war with Iran. We cavalierly brushed this off at the time because GEX was so high that pretty much nothing could break the floor. The feedback from this event was that "Iran doesn't matter," despite the fact that if GEX were below \$1bn when that scare started, the market would have sold off significantly. But with his virus, GEX is a mere \$500mm. As a result, there is some potential for people to take "pandemic risk" seriously -- simply because they may see that the market takes this more seriously than Iran (and it already has).

Will "stagflation" fears take root this week? Will the "meme stonk" underpinnings of recent equity returns be suddenly called into question? Probably not. GEX+ is probably still too high to allow a game-changing response to the FOMC minutes, and if things start turning sour, we'll have quite a bit of time to watch it happen. What's more, there's no kindling for a crazy volatility event—so why bother thinking about it?

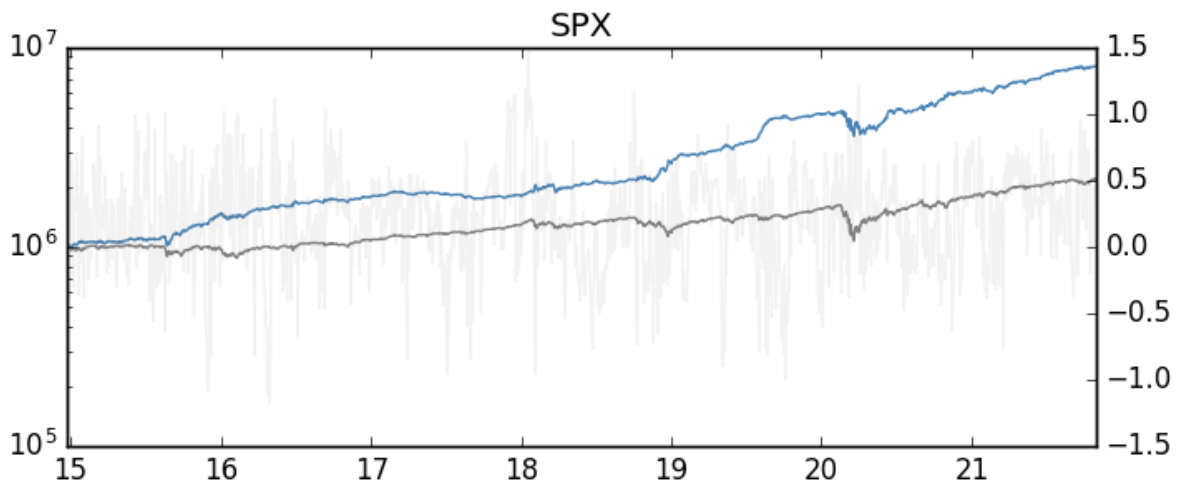
Well, it just feels smart to be prepared for things to change. And we're finally starting to think about that.

Jim speaks.

Attached is some data back to 2011 for SPX, using the multidimensional "Robot Jim" method to derive a mean and median 1-week return. Mean and median are both normalized to today's VIX, to be comparable through vol regimes. So bear in mind that these are indeed percentage return estimates, but that they are normalized to a VIX at about 16. We intend this to be used for a very simple binary, or only slightly weighted, strategy.

We will release a whole lot more data than this, with respect to vol, distributions, etc., as we firm up the data.

When we backtest SPX, we start in 2015, to allow Jim time to "learn"—but you can do whatever you feel like doing.



In any case, we think you should get some decent stuff out of this, and we'd like to hear how it matches, or diverges with, your expectations, or your other best-loved datasets.

DIX and NPD are both taken into account only with a 1-day lag—so this data should be high-fidelity with respect to the ability to trade at the close. So that's what we're assuming we'll be able to do.

Any questions, let us know.

More data and some visuals next week—but for single-stocks.

Enjoy the week!

The SqueezeMetrics Team

SPX.csv 137 KB