

# S&P 500 Weekly Forecast 11/7

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Hey everyone,

Thank you for your backtests on the SPX data from Robot Jim. Not bad. Glad to see we're not [completely] bonkers.

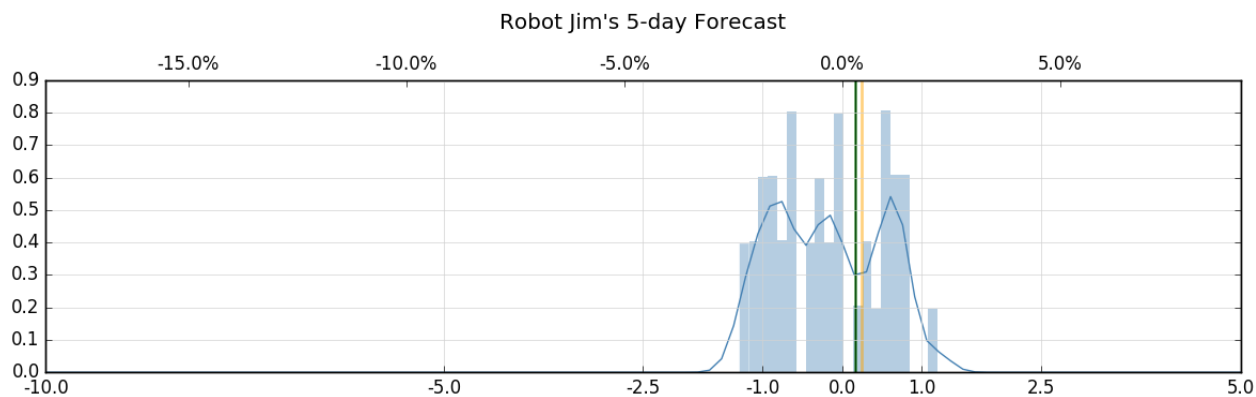
This week, an example of some single-name raw data for your testing pleasure, and some thoughts about opportunities therein.

But first...

1. Five Days of the Condor
2. Back to Normal
3. J.P. Morgan

## Five Days of the Condor

Last weekend, we saw Robot Jim predicting a 1-week distribution that was quite uniform, i.e., the probability of -1.50%, 0.00%, and +1.50% were all pretty much the same. Contrast this with the usual state of affairs, where a flat return, or a small gain, have the highest probability.



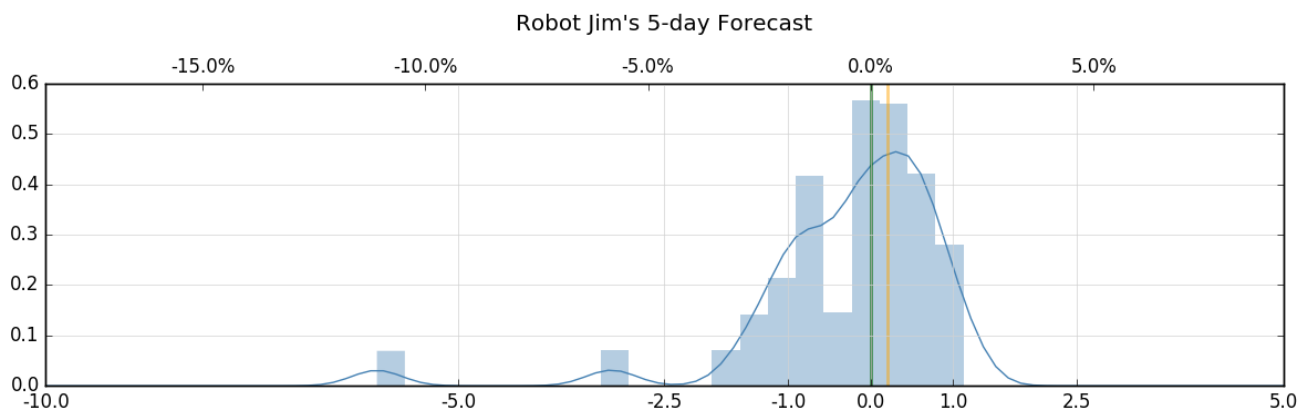
All 1-week outcomes fall inside of the 1 MAD area, which basically means there's a strong tendency toward a "range-bound" market. A 2.50% gain or loss is totally possible, but anything greater than that would be exceptional. A very small gain, in mean and median terms, is expected.

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

Well, we got a 2.00% gain on the week. Definitely on the higher end of the range, but indeed, an iron condor struck with these probabilities in mind should have performed well. And that's pretty neat, because we wouldn't have even considered a condor otherwise.

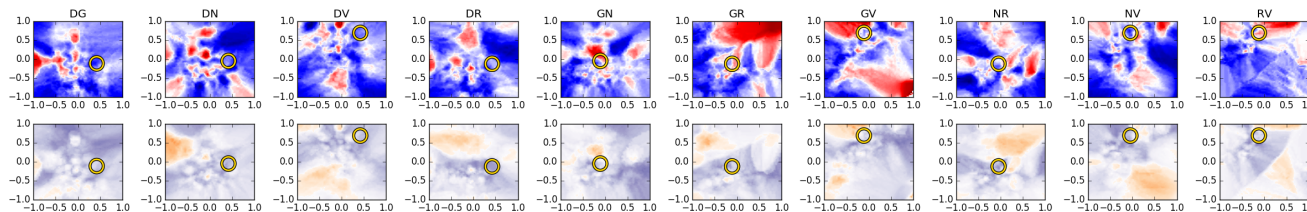
Still, we took no position this past week, and have no position now.

### Back to Normal



You can see that *this* week's projection is a bit more familiar—left-skewed and unimodal. The mean weekly return is 0.01%, and the median is 0.36%.

As an attempt at seeing what Robot Jim sees, take a look at [this summary](#) (inline below, but linked externally in case it's too big)—which is now in a format that we're starting to like: The upper row maps mean returns (blue positive, red negative) for each pair of predictors, and the lower row maps volatility (purple vol negative, orange vol positive) for the same. The gold rings indicate where the current data places us on those heatmaps.



So, for instance, if you look at panel "DG" at the far left (which stands for DIX-GEX), you'll note that we're currently in a fairly bullish place on the returns map, predicting mean gains (gold ring on top of blue stuff); and a pretty boring place for the volatility map (slightly purple, indicating realized volatility flat to down).

Then, at a glance, you can see where some of the more bearish feels might be coming from: GN, GR, and RV each have a bit of red inside the ring. Those are the pairs GEX-NPD, GEX-VGR, and VGR-VEX, respectively. So, for example, what the "RV" heatmaps (far right) are telling us is that the current combination of the customer vanna-gamma ratio (VGR) and dealer vanna exposure (VEX) predicts lower SPX spot prices. However, if you look at the attending volatility map, you'll note that there isn't any orange inside the ring. I.e., VGR-VEX predicts that SPX will fall, but *also* that volatility *won't* increase.

*Nerds: Call us crazy, but we think this actually kinda makes sense: If customers are overexposed to changes in volatility (VGR near zero), then they're liable to be shaken out of their positions, and SPX going lower*

would increase stability. However, with VEX reasonably high, any increase in volatility should actually be met with dealers buying SPX. So the combined impact should be a "left shoulder" event rather than a "left tail" event. Kinda cool. Probably not worth thinking about, though.

Anyhow, yes, that's a lot of heatmaps, but they're mostly telling us the same thing: Volatility probably doesn't increase this week, and return expectations are neutral. Boring, really.

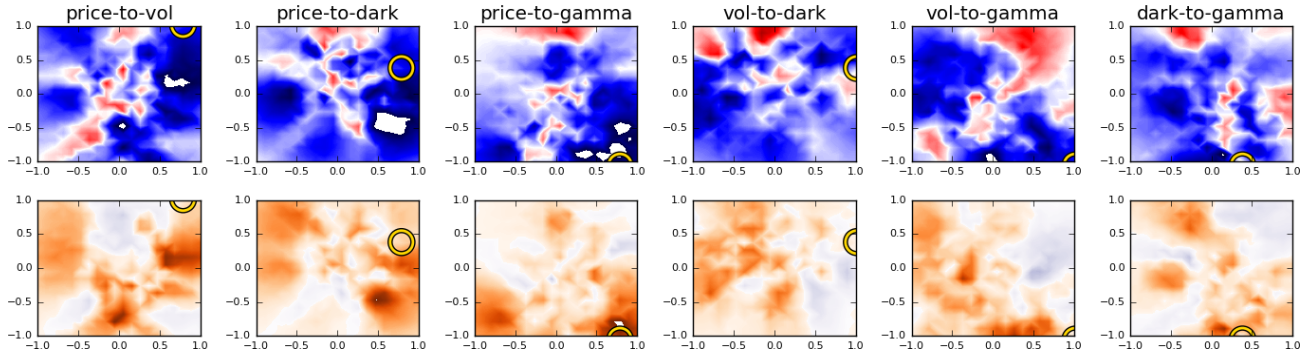
And yes, in case you were wondering: Our vague, general sense from last week still stands—things still feel like they're starting to go off the rails in markets. (You may have noticed our [Twitter rant](#) on one of those off-the-rails curiosities.) But at the moment, there doesn't really feel like an opportunity in betting on anything, so we continue to sit on our hands.

In the meantime...

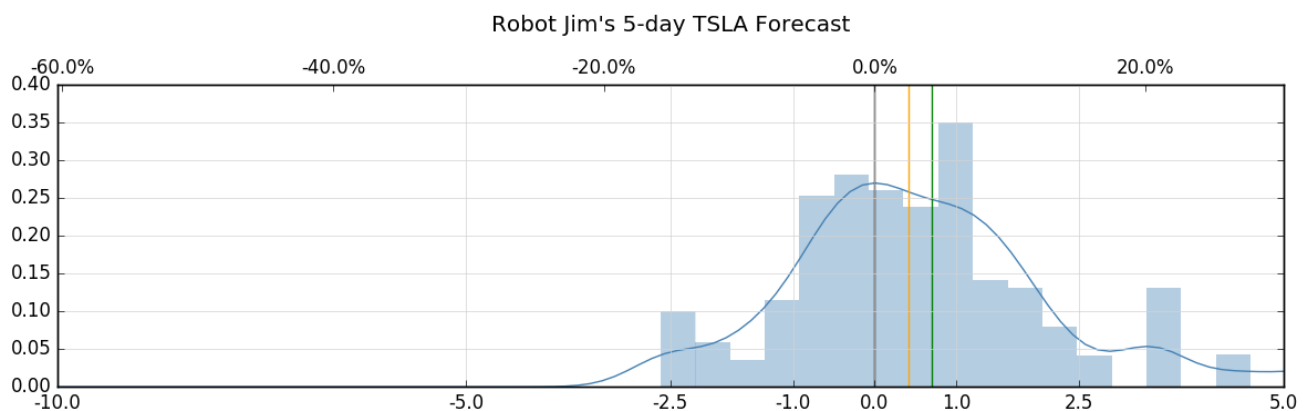
### J.P. Morgan

Let's focus on one stock to step through a process we're increasingly getting comfortable with. Let's make that stock Tesla (TSLA), just for fun.

In the above, Robot Jim used five predictors that we use specifically for the S&P 500 (DIX, GEX, VEX, NPD, VGR) to derive a return distribution. We displayed those predictors as ten unique pairs and their return/vol heatmaps. Below, for Tesla, we have *four* predictors (totaling *six* unique pairs). Those predictors are *spot*, *vol*, *dark*, and *gamma*. "Spot" and "Vol" are the two axes of PIVT that we've been plotting on heatmaps from the beginning; "Dark" and "Gamma" are essentially just DPI and GEX, normalized.



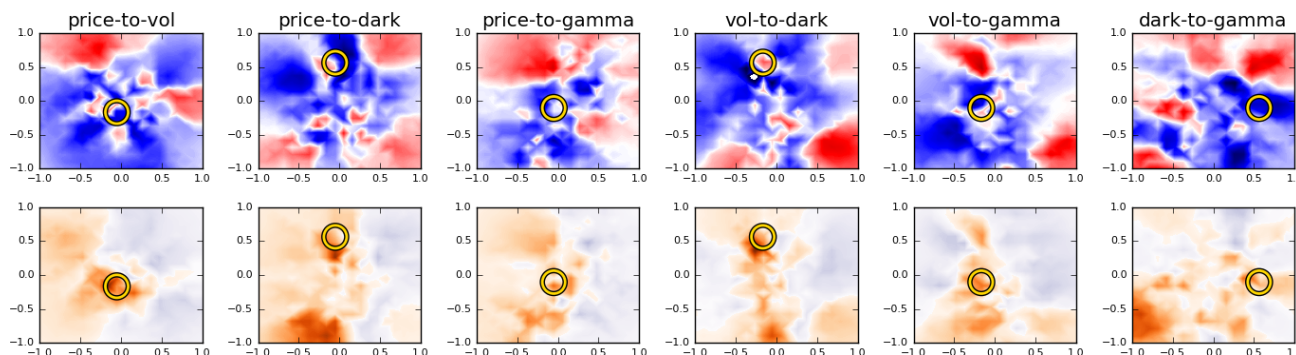
And when Robot Jim synthesizes all this stuff, he gets this:



Mean 4.20% gain, median 2.52%. That's a right-skewed distribution, and the volatility is high (37% higher than the volatility of the past month). That's bullish, as you might expect, and it lends itself to buying calls—no surprise there.

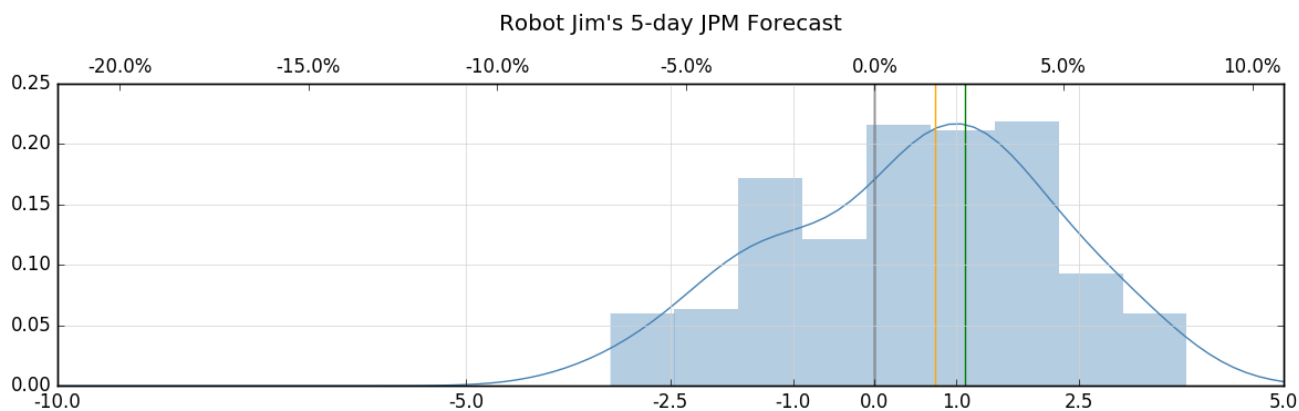
This is a nice example because your intuition could probably lead you to the same place. The historical patterns that drive this distribution are, to the trained eye, apparent on a stock chart (of course, Jim doesn't know that Elon tweeted that he wants to sell tons of his own stock this weekend [among other things], but c'est la vie).

Perhaps *more* interesting, though, is something more boring, and much less obvious: J.P. Morgan (JPM).



Probably the biggest point of interest here is the bottom-left heatmap, which describes the volatility forecast coming from the "price-to-vol" relationship (which is PIVT). Note that, *right there in the middle* of JPM's PIVT heatmap, is an orange blob—a high-volatility area.

And if you look at where all the *other* gold rings on all the *other* heatmaps line up, you'll probably get the sense that volatility is likely to increase next week (lots of orange), and probably that gains are more likely than losses (more blue than red). Well, here's what all-seeing Jim says:



That's a mean (green) gain of 2.39%, a median (orange) gain of 1.59%, and realized volatility increasing (relative to the last month) by 100%! That means that a move of 2 MAD, or +/-4.34%, would be "average" for JPM over the next week. Yuge!

In summary, Robot Jim says that JPM is, weirdly, a *much* better call-buying candidate than TSLA. Not only are its gains, relatively speaking, potentially more significant, but it's more likely to have bigger relative moves as well.

Some historical data on JPM is attached for context—just like the SPX data from last weekend—except this time, we're including both MAD and % returns to play with. A simple, binary long-short test shouldn't be too impressive, but if you mess around with leverage and sizing, you'll be able to get something appealing (e.g., apply leverage to a long-only strategy as a function of projected MAD return, which gives you a nice vol-adjusted PnL).

Anyhow, right now we feel like we have a nice mix of charts, summary stats, and historical data lined up, and Robot Jim is proving helpful. So let's start actually rolling out some daily-updating data next weekend—it's time to really give it a try.

Enjoy the week!

The SqueezeMetrics Team

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**JPM.csv** 221 KB