# S&P 500 Weekly Forecast 12/26

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Hey everyone,

Time for a retrospective.

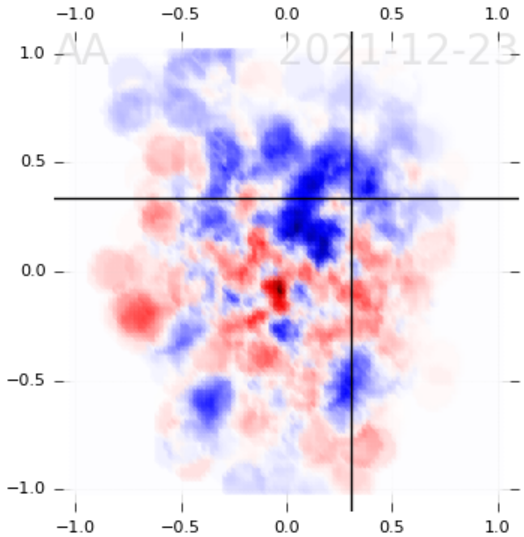
We spent most of 2021 trying to find a way to map a stock's movement in price and volatility to its subsequent returns. We called it a "volatility tension" model. But by golly did we have a hard time finding it. Having started the search in March—and with very little to show for it—we were feeling pretty bad by August (8/8):

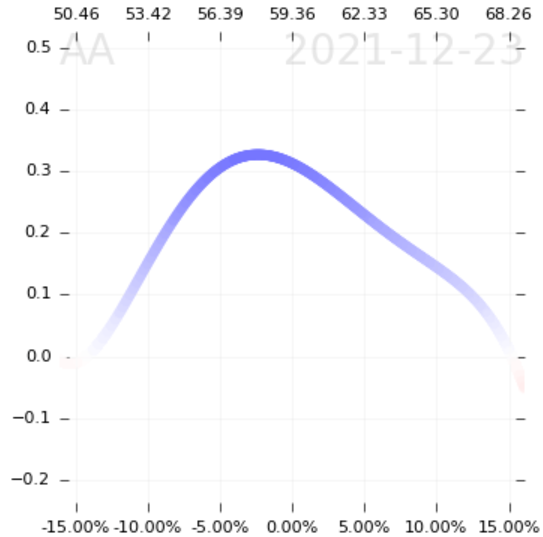
> *And yet, we still feel so close to The Answer. Is this what it feels like to be crazy?*

But only a week later, all of a sudden, we were sure we'd found it.

> *We finally found it: "vol tension" is real.*
>
> *The simultaneous consideration of rolling returns in an asset's spot price and volatility, normalized and mapped to the same domain [-1.0, 1.0], provides a framework with which we can very successfully analyze the current path in spot and vol returns, and compare it to historical patterns.*

We called the result "path-implied volatility tension" (PIVT), and it was indeed universally applicable to any asset. Here's the PIVT map of Alcoa (AA):




Note that there are clearly areas on the heatmap that are blue (bullish), and other areas that are clearly red (bearish). Specifically, around +0.25 or higher on the y-axis seems bullish.

Since the y-axis is "change in volatility," and positive numbers means vol is rising, this means that whenever vol is rising, that's historically very bullish for AA's 1-week returns. Delightfully simple.

So simple, in fact, that the PIVT method, and "weather maps," and Robot Jim (the pattern-recognition code that draws all this), are being worked into the SqueezeMetrics platform as we speak.

*Indeed, by Saturday, January 1st, there will be new charts, new downloadable data, a new Research page, and a new API.*

So let's talk less and get to work on that, because there's still a lot of stuff to do before then!

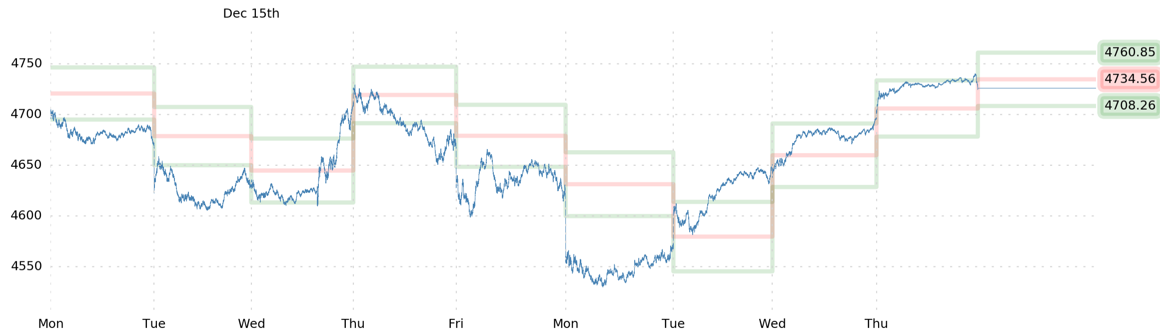
Without further ado, here's what the S&P 500 is up to:

**T-4**

Last weekend, Jim had an extremely bullish forecast:

> *That's a mean 1-week return of 1.20 MAD—something like +2.50%. That's an incredibly aggressive stance from Jim, especially in light of what feels like some unfriendly futures action tonight. ES falling to 4580 (-0.60%).*

The index spent the next four days going up 2.28%.

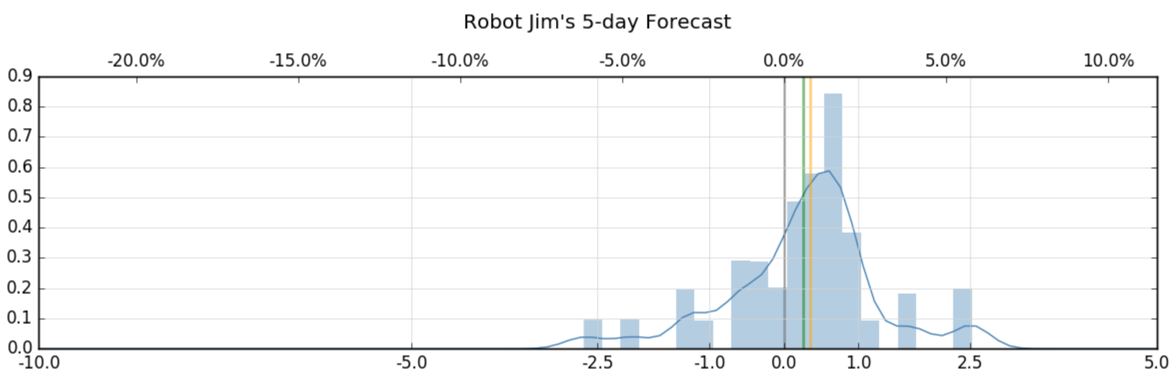



Not bad, Jim.

On Thursday, all our "great big honking position" in E-minis got totally swapped out (at Jim's advising) for a boring bet on upside drift. I.e., an ITM call spread (long ITM, short slightly OTM, expiring Friday). And that's all we got right now.

**T+5**

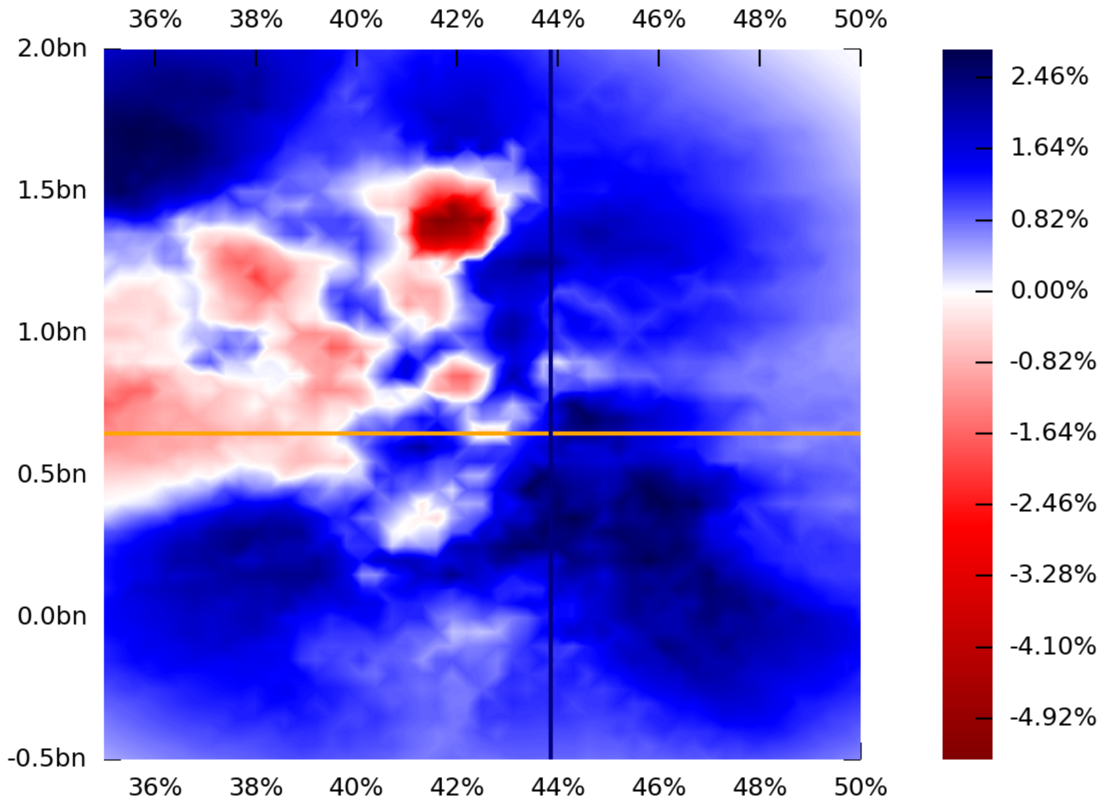
Full trading week ahead. Here's the new forecast:



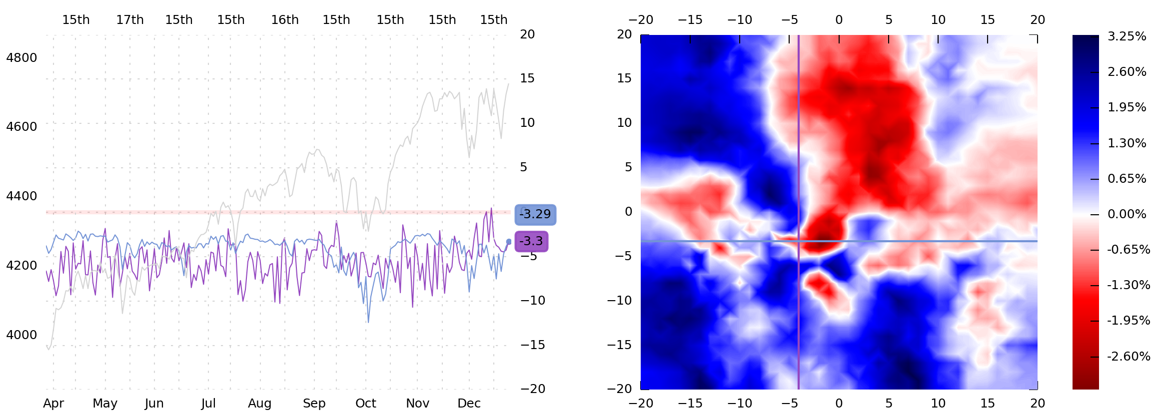

Left-skewed, with a strong tendency toward something like +0.50 MAD gains. I.e., "upside drift," perhaps to the tune of 0.25% to 1.25%.

Left tail is nothing unusual, but nothing we'd want to be exposed to. Happy to be in non-aggressive bullish vertical spread (benefit from anything flat to up).

The DIX/GEX+ heatmap still has us in a favorable zone with respect to 1-month returns, but you can tell that the crosshairs have been slowly moving back toward the middle as GEX+ rises and DIX falls.




The other person of interest, the NPD/VGR heatmap, has meanwhile brought us back into an area of some concern.




The crosshairs are in a mildly red zone, and any NPD prints near zero (or in the positives) will add danger here. Since there has been a dearth of SPX put-buying lately (*many* NPD prints around zero), this is a believable scenario.

Also, as a general rule, NPD between -5 and 0 results in higher vol-of-vol. So we should expect VIX to continue to be "jumpy," and for SPX to have choppier action than you'd otherwise expect with VIX at 18.

So there's no way you'll find us short VIX here.

You can easily see that, while this coming week has "upside drift" tendencies, owing to a favorable DIX and GEX+ scenario (and the good liquidity that they bring), there's some tension coming from customer positioning (both NPD and VGR). Customers are *not* in a good place with respect to their vanna/vol positioning, and they are not well hedged.

So we continue to watch this carefully, as a decrease in DIX alone will start making these forecasts look iffy in a hurry.

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Next weekend, we'll talk a bit about what 2022 might bring. And you'll still be hearing from us on Tuesday through Friday.

In any case...

Happy New Year!

The SqueezeMetrics Team