

# RUSSELL 2000 REACHES PRICE FROM 2020 – SENTIMENT CONTINUES TO SOUR BEFORE FED – JPM COLLAR PRICE NEARS

## VOLATILITY SUMMARY

Some interesting commentary from an economist who, brace yourself, believes that traditional economic theories, those espoused by Jay Powell's Fed, might not be correct... stop the presses:

### **Nobel Laureate Romer Says Fed Would Be 'Crazy' to Hike More**

- Inflation, growth theory is 'just not true right now,' he says
- Fed should begin cutting rates ahead of reaching 2% target

"The theory was you could only bring inflation down when the economy slows and that just is not true right now," said Romer, who is an economics professor at Boston College. "So right now we're at a period where we've just got to look at the facts and not be confused by some theory that turns out to be wrong."

<https://www.bloomberg.com/news/articles/2023-10-26/nobel-laureate-romer-says-fed-would-be-crazy-to-hike-more?sref=1z xv5xkq>

Equity markets aren't waiting for autopilot Jay to say something like, 'It doesn't **feel** like policy is too tight.' Folks are deleveraging during game of chicken season with a push from rising realized volatility. Remember my comments on Wednesday in this regard?

*And, considering the plateau QQQ is still on, it's almost hard to imagine that 'game of chicken' season is going to end anytime soon. Managers that were right this year, the few that went against value, with the high valuations and thus fortunately surfed A.I. mania, they are probably going to be tested further; it seems to have a future date with the 200-day moving average at a minimum...*

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

Well, Charlie the celebrity quant was out yesterday commenting on exactly this, seeing folks tapping out on the giga-herded names that have worked, referring to them as Sharpe trades, essentially in that their return/risk was very high, thus high Sharpe. But, the denominator is realized vol, and since that is rising in these names:

“Crowded growth [shares] and tech longs are actually putting up good enough numbers but still not being rewarded by the market, especially when EPS beats but revenue misses,” McElligott noted.

This matters. These are your consensus longs. Your hiding places. Your 2023 alpha generators. Your hedge fund favorites.

Two Nomura baskets tracking growth longs and the most crowded hedge fund names just suffered ~7% six-day drawdowns, a 2.5 standard deviation event on a one-year lookback.

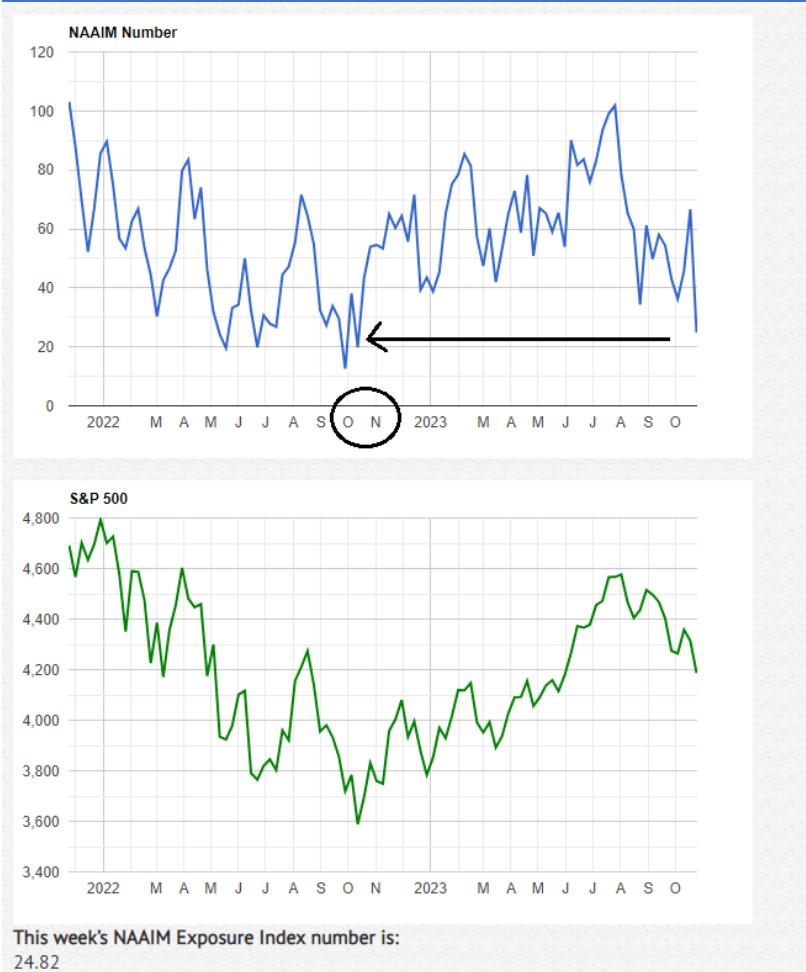
“You can feel it in the PNL [and] you can see it in the intraday behaviors and end-of-day performance of late,” Charlie went on, noting that “a hunch of the stuff that's been high Sharpe over parts of the year has recently turned high vol.” That’s bad news. “BIG \$HARPES, BIG PROBLEMS,” as he put it. Even for discretionary cohorts, volatility is an exposure toggle (to employ Charlie’s favorite phrase), so... commence the de-grossing.

Bringing it back to discretionary investors, McElligott said that if you ask him “further breakdown is likely dependent on the fundamental / active side of the equities universe and an extension of this recent earnings behavioral shift towards longs, especially as PNL management psychology moves into year-end protection mode.”

Source: <https://heisenbergreport.com/2023/10/26/mcelligott-sees-big-problems-for-2023-big-sharpe-trades/>

In the meantime, active investment managers are turning quite dour, in the case of the NAAIM, bearishness levels last seen in October of last year, don’t you love markets + calendar symmetry? They usually call it ‘seasonality’ when it’s bullish, like Santa rally, first days of January, July 4<sup>th</sup>, etc, right now they just called it a recession coming:

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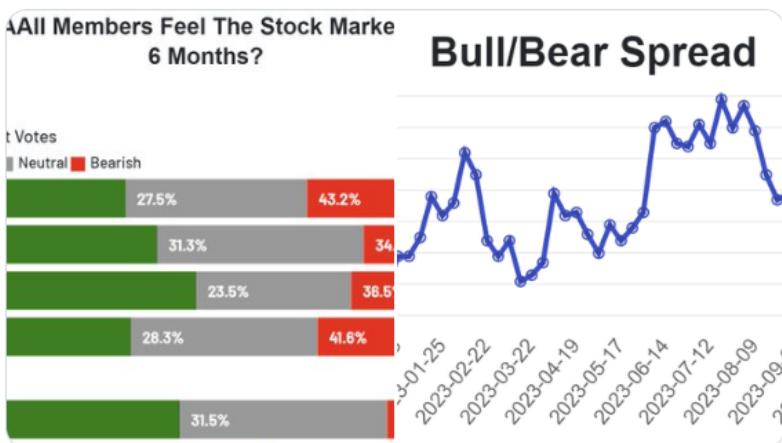
AAII Sentiment Survey:

\*Bearish: At its highest level in nearly six months; unusually high

\*Bullish: Right at the bottom of its typical range

\*Neutral: Below average for 4th week

[aaii.com/sentimentsurvey](http://aaii.com/sentimentsurvey)



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And interestingly, although it's a bit early for it to really matter to markets and dealers, the huge end of quarter JPM collar spread (a popular fintwit popcorn trade for sure), the long strike is rapidly approaching, so it will be fun to monitor after Thanksgiving into year-end:

Noel Smith ✅ @NoelConvex · Sep 29

\$JHEQX the \$JPM collar strikes for Dec 29, 2023 Expiry

...

5 33 97 29K

CtheLightTrading ✅ @canuck2usa · Sep 29

\$SPX - \$JPM Collar:

New one for those that watch or care.

Time	Symbol	Date	Strike	Type	Quantity	Price	Block	Value	W
1:34:33	SPXW	09/29/23	4100	CALL	0	19300@179.25	BLOCK	\$345.95M	0W
1:34:33	SPXW	12/29/23	4050	PUT	0	41100@56.64	BLOCK	\$232.79M	0W
1:34:33	SPXW	12/29/23	3410	PUT	0	41100@9.53	BLOCK	\$39.17M	0W
1:34:33	SPXW	12/29/23	4500	CALL	0	41100@47.15	BLOCK	\$193.79M	0W

1 1 13 4.1K

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How it's looking:



Rough estimates, judging by the screenshot on the prior page, which were the unadjusted strikes, they sold the calls to buy the put spread for about \$47 each side/net zero to enter, so the value of this hedge now is about:

$41000 \text{ dollars} \times 100 = 4.1\text{mm} \times (\text{long put current value } (\$93) - \text{short put } (\$11)) \$82 = \$336\text{mm}$ , which means dealers have had to add about \$145mm of short exposure lately. So, thinking about Mr. long call vert from the last note, who was a huge vol buy for dealers, this is approaching that size. It matters even this early.

So, a couple final thoughts and then a trade. Certainly, Friday has been quite the risk off situation lately and recent Mondays (most Mondays for quite a while now actually, take a look at just Mondays on a chart) have seen a sort of vol exhale, similar to post risk events like NFP or CPI:

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Its hard to have a lot of conviction over this weekend and into 11/1 FOMC, but it is of note that the last 2 Fridays has seen a big move higher in VIX that was subsequently unwound on Monday.



2:41 PM · Oct 27, 2023 · 17K Views

Usually, Friday's close is a nice time to buy vol, since folks overcrush it into the weekend, but lately it's been a good time to sell it, something to think about early next week when looking at implieds.

And while things, justifiably mind you considering the landscape, seem awfully heavy in markets right now, we are entering that part of the opex cycle, where premium burn likes to support the indices. (You know, when Cem starts tweeting queen emojis and the such)



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So, with all the vol events staring the market down the barrel of shotgun and considering the time of the opex cycle, wasn't it that horribly tragic news of excellent September payrolls when the markets opened 40 points lower and just marched higher considering vol burn and time of opex cycle?



Looks vaguely familiar to now, a steep one direction drop into end of month, so it wouldn't surprise me if the markets catch their breath with the help of the opex cycle after NFP. Or we can continue to crash because, well, Jay + good news.

### Volatility Trade:

**Post FED/NFP broken wing call butterfly spread**

**Buy 4210 Nov 6<sup>th</sup> call**

**Sell 2x Nov 6<sup>th</sup> 4240 call**

**Sell Nov 6<sup>th</sup> 4275 call**

**Net debit: \$1.75 (filled) - \$2**

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This is a bargain for less than 2 SPX points. You are getting a lot of leverage for not a lot of risk. For this to burn, SPX would have to rally to 4300 by NFP day, and let's be realistic, that is a lot of upside vol that would certainly not bring back systemic or trend strats into the picture.

And, you can imagine a lot of folks that are sitting overhead looking to sell after the earnings reactions just witnessed. So, it's less than 2 points that can easily pay \$10 on a 2% bounce from here. Target, \$7.50.

I will have some 0DTE commentary in a note before the Fed/Jolts/Tbac/ISM circus.

# GIGA TECH HERD FINALLY BEGINS TO BLEED DOWN TO THE UNIVERSE OF STOCKS – NEXT WEEK'S VOL EVENTS ARE MANY AND HUGE FOR MARKETS

## VOLATILITY SUMMARY

Remember this from my October 13th note?

You might find this interesting, from celebrity quant Charlie McElligott a couple weeks ago:

Long story short (there's probably a pun in there somewhere, but it's not intentional), the impact of the quarterly roll was supposed to be one-way (Charlie used the same language), but upside index options plays for November amounting to \$233 million (!) in premium paid turned what would've been a large vol supply event into a vol *buy*, altering the setup for Q4 and the end-of-year trade.

What does that mean? Well, colloquially, the read-through is that there could be embedded overhead pushback on a rally. McElligott elaborated. "If this is who we believe it is, the entity trades with extreme discretion and is typically uber-quick to monetize a winning trade," he said.

So, if the market moves in favor of those positions, profit-taking is likely. Charlie spelled out the implications of that hypothetical profit-taking. "[T]he market is operating in some ways with an upside overhang thanks to there being all of this delta to go if we see SPX rally and those options print," he said.

Well, if you were having a bad couple of months, it wasn't this bad. Guess who finally gave up hope for a seasonal rally? Yep, Mr. Index Call Vert:

- The massive SPX Call Spread buyer who I've hammered you all on for weeks looks to finally be tapping-out of a large chunk of their trades, taking what I'd say is closer now to a ~\$150mm-\$200mm "L" (from a trade that at one point was +\$250mm, ouch)

Nov3 4400/4600cs -20k -1bn in delta and 3mm in vega  
Nov10 4450/4550 cs -16k -500mm in delta and 2mm in vega  
Nov 4450/4650 cs -22k -1bn in delta and 4.6mm in vega  
Nov 4450/4550 cs -26k -1bn in delta and 4mm in vega  
Nov10 4400/4600 cs -10k -700mm in delta and 2.3mm in vega

Oof, a \$400mm U-Turn is a tough trade fail to swallow. Especially, since you know who was basically on the other side of your trade, pocketing several Irani-sized pallets of Jay's QT induced cash? This smarmy and intolerable fund manager celebrity:

(Pallet joke: <https://www.cnn.com/2016/08/03/politics/us-sends-plane-iran-400-million-cash/index.html>)

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 PiQ 🌐 @PiQSuite · 1h

🔥 ACKMAN'S BET AGAINST US TREASURIES PAYS OFF WITH \$200 MILLION PROFIT

...

Billionaire hedge fund manager Bill Ackman, who traditionally invests in stocks, earned roughly \$200 million from a bet against U.S. 30-year Treasury bonds, a person familiar with the trade said on...

Show more



1

6

13

6,599

↑

One giant problem with seasonality: it tends to work a whole lot less when central bankers are motivated to cause economic damage. Jay's Jihad against aggregate demand is starting to leave more holes in things/collateral damage than Cheney's birdshot. (Too young for that joke? See: <https://www.vanityfair.com/hollywood/2018/12/guy-dick-cheney-shot-harry-whittington-watching-vice>)

Good earnings aren't working for stocks and yet bad ones, forget it. ADP beat estimates yesterday (I know, that game is one of the oldest complete farces in market history) but, they reiterated guidance and 10% growth and this is how the market reacted to pretty darn good news in this environment:

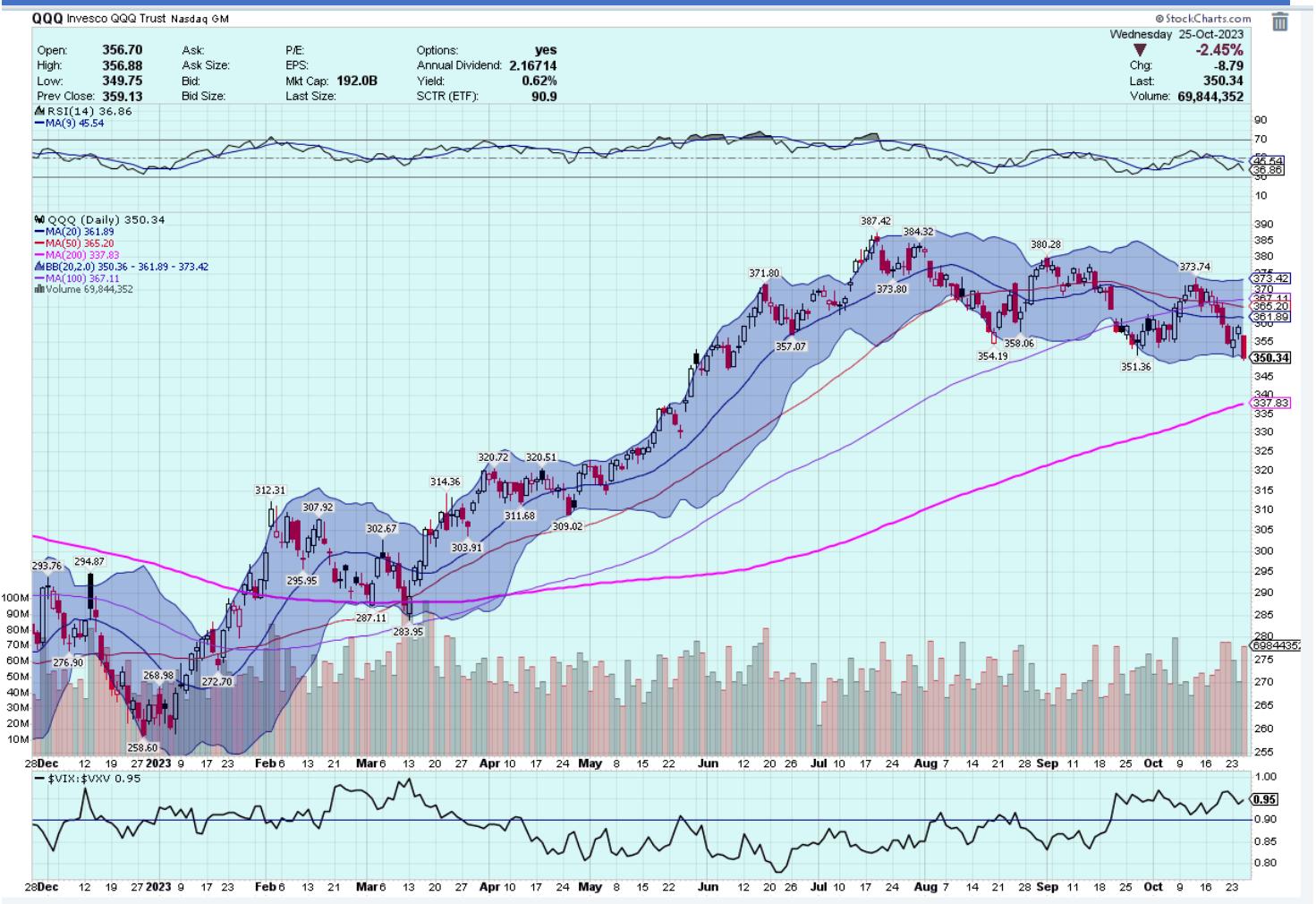
## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



So, earnings don't matter for the most part. MSFT had a great quarter, showed 25% earnings growth and it had trouble hanging on to a small gain on the day.

And, considering the plateau QQQ *is still on*, it's almost hard to imagine that 'game of chicken' season is going to end anytime soon. Managers that were right this year, the few that went against value, with the high valuations and thus fortunately surfed A.I. mania, they are probably going to be tested further; it seems to have a future date with the 200-day moving average at a minimum:

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Let's be realistic, the 200-day moving average area would still be up 25% or so year-to-date in QQQ. Interestingly, that particular spot would also dovetail with a support level from the last few years, and a combination of level and average that marked the top last summer:

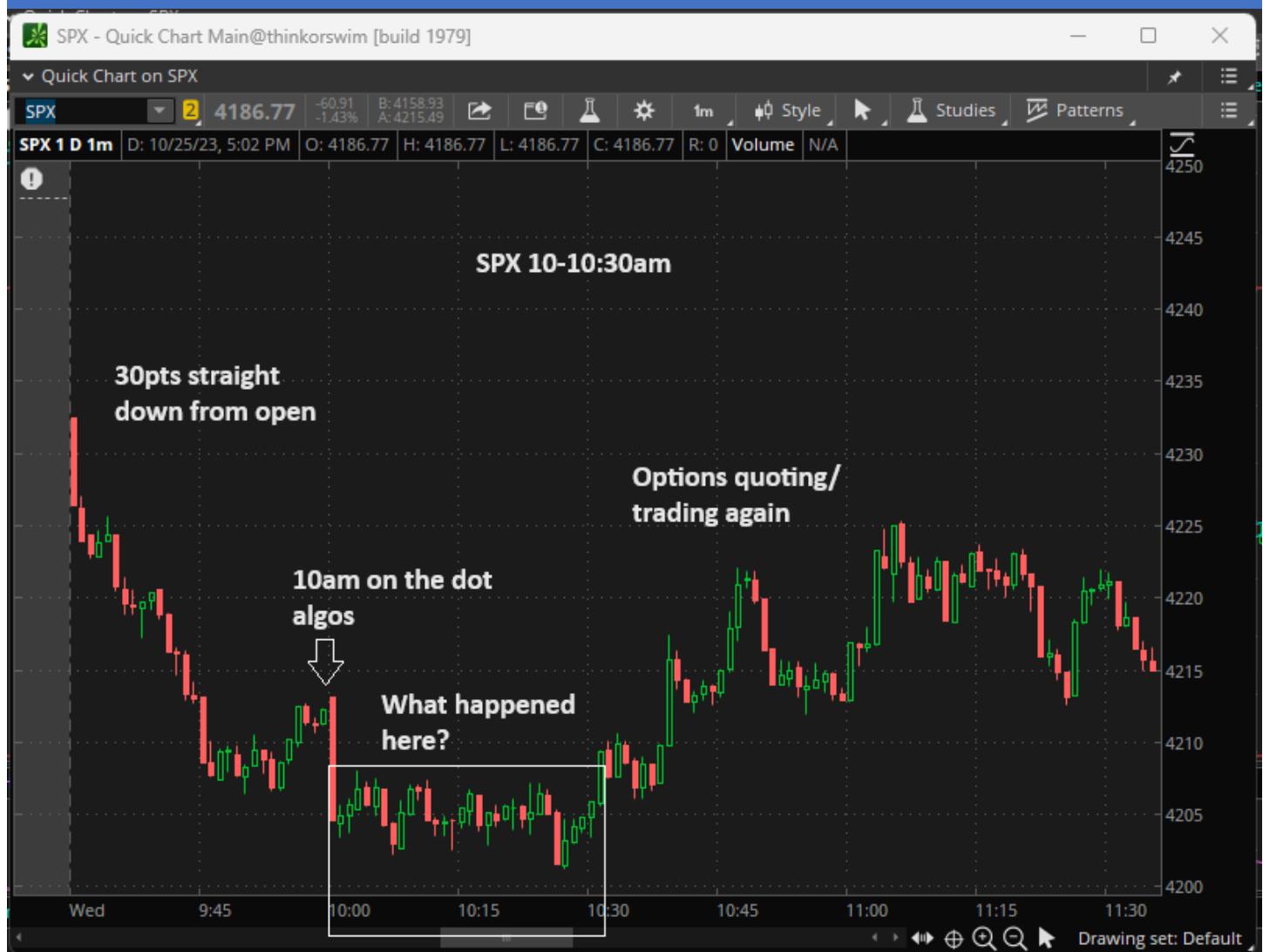
## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



Swipe down to a trade idea for this technical analysis tinder date below.

Before I continue on the topic of options vol, you probably missed some Mr. Market humor today. Now, we all know how important options are to market functioning and behavior these days, you would have to be more than ignorant at this point to not realize or accept that. But, did you see what happened this morning, in the middle of the market puking out the earnings hope and over-owned tech stocks?

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The market just froze as if it was a shortened half-day holiday trade with the VIX at 12. Ghosts of Thanksgiving Friday past markets in the middle of the indices trying to melt down. Well, there was a perfectly good explanation for this, and you probably guessed it, what was to blame:



RIGD - ODTE Alerts ✅

@rigd\_ai

...

OPTIONS TRADING IS DOWN AT E\*TRADE, IBKR, WEBULL,  
ROBINHOOD, THINKORSWIM, FIDELITY, WEBULL AND MORE

THE MARKET IS 100% RIGD!!!!

#ODTE \$SPY \$QQQ

10:26 AM · Oct 25, 2023 · 18.4K Views

#### Cboe US Options Exchange System Status Update - OPRA Processing

##### Issue

October 25, 2023 10:16:03

Cboe US Options Exchanges have identified an OPRA processing issue impacting Cboe's ability to submit quotes to OPRA. All other Cboe Exchange systems are operating normally.

Cboe Trade Desk

+1.913.815.7001

tradedesk@cboe.com

So, if you aren't quite sure yet which end of the dog wags the market, there is yet another example.

Well, if you stole Jay's dusty printer and printed/traded off of the 1pm phenomenon I've been hammering home in my recent ODTE notes, congratulations, it has been damn consistent.

But, things are changing, you can't keep a great trend quiet for very long; big hedge fund money has invested in awfully smart systems to ferret this stuff out and frontrun until it doesn't work, or it adapts/morphs:

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That is not only quite a risk-free bearish feast, but it follows a schedule on top of it. Bears get served a Chateaubriand precisely at the lunch gong. Yet, why wait, might as well get into the honey pot early, as in perhaps European traders want in on Jay's QT turned bear QE. It will be interesting to see what happens tomorrow at 1pm when the 7-yr auction is released.

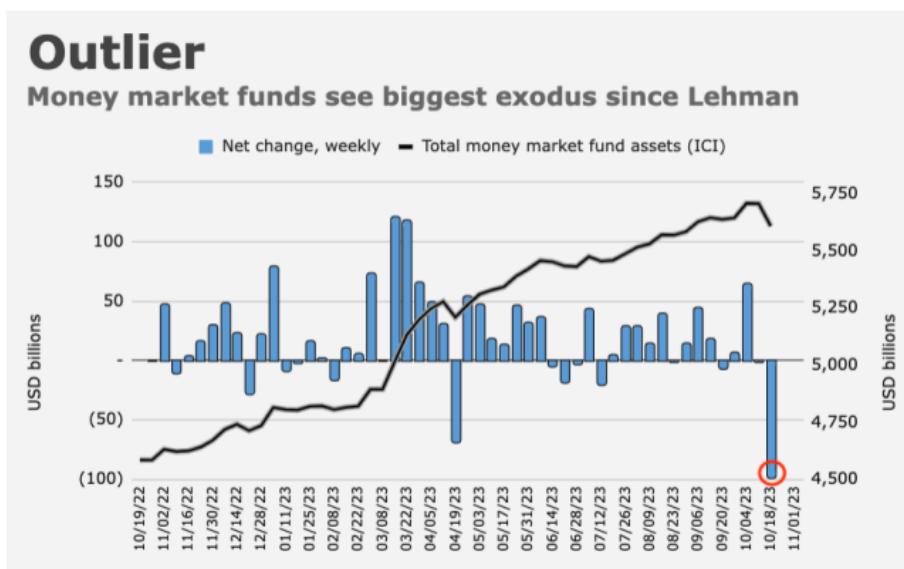
(Hint, it's going to tail, bond markets are quite volatile if you haven't noticed; 'when issued' yields versus auction doesn't matter anymore if it's off a few bps compared to the last few years of snoozer auctions/bond markets during ZIRP regardless of what ZH says about how bad it was. When are people going to figure this out?)

Ok, so let's lay out the vol events lying dead ahead, there are a slew of biggies and thus, markets are almost sure to be quite volatile. (I'd say choppy, but we seem to be on the Acela high speed commuter rail down, so will refrain from 'chop' until we have an actual up day.)

1. November 1<sup>st</sup> – JOLTs – It has been one of the most volatile days this year, since people landing jobs is clearly bad.
2. November 1<sup>st</sup> 8:30am – TBAC funding announcement – The Treasury advisory committee releases funding needs for the next quarter. Now this could be better than expected, the late California tax filing delay and student loan restart may have actually reduced immediate Treasury needs, and it was reflected in a huge withdrawal from money market funds last week:

The \$98.8 billion outflow came amid cash withdrawals presumably tied to tax payments around an extended filing deadline.

The entirety of the redemptions (and then some) were in institutional government. That category shed \$112.42 billion during the week.



This is anomalous and therefore it makes little sense to contextualize it via this year's massive inflows to money funds.

I love a “since Lehman” headline as much as anybody, but I don’t think there’s anything to see here. The IRS granted several automatic extensions this year tied to severe weather, and there was a deadline on October 16. The only color I saw on Thursday evening cited companies making delayed tax payments.

Source: <https://heisenbergreport.com/2023/10/19/money-market-funds-see-largest-outflow-since-lehman/>

The bottom line here is that if the Treasury requires higher auction amounts than expected, bonds should fall and equity indices will follow. Vice versa if the above theory holds water and bonds subsequently rally off lower than expected auction raises.

3. Fed meeting – Mr. Autopilot will probably get questioned on the soon to be infamous ‘Does not *feel* like policy is too tight’. Anything can happen, but lately he has been a maestro at tanking things, so vol will be bid.
4. November 3<sup>rd</sup> – Non-farm payrolls. Lately, this event has reemerged as a big vol day. In October, Bloomberg opined that it would be the last good one, we shall see:

## **September Jobs Report May Be Last Good One Before Sharp Slowdown**

- Bloomberg Economics expects employers hired 173,000 last month
- Growth may plummet amid tighter financial conditions, strikes

Whatever it says, folks will bring in all kinds of caveats around strikes, seasonal adjustments, the household survey, etc. Regardless, price will be moving.

If you are hunting for good news There are no Treasury note/bond auctions next week. Bond vol fun starts again on the 7<sup>th</sup>, and CPI isn’t far behind that, but the above is enough of a vol calendar to be concerned with for now.

### **Volatility Trades:**

**QQQ Nov 17th OPEX put butterfly spread**

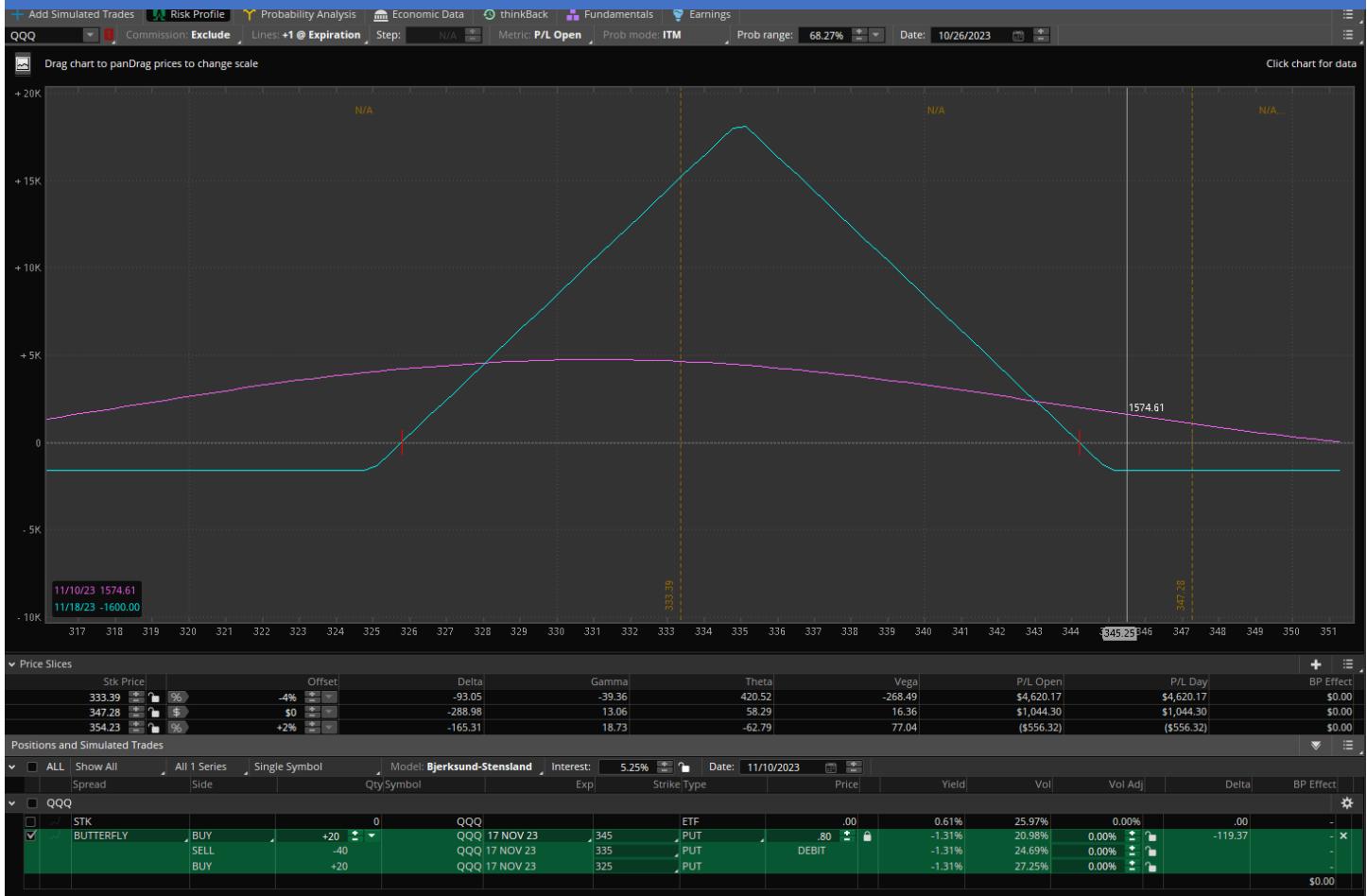
**Buy \$345 Nov put**

**Sell 2x \$335 put**

**Buy \$325 put**

**Net debit: .80-1.00**

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On the premise mentioned above, a bearish spread targeting the 200-day moving average on QQQ, with the short strikes near said average and clear support/pivots. If you expect a bounce, maybe wait to add this cheaper. Target, \$3.

**SPX Call diagonal spread:**

**Sell Nov 1<sup>st</sup> SPX 4250 call**

**Buy Nov 2<sup>nd</sup> SPX 4255 call**

**Net debit: 1.60-1.70**

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I call this a 'prove it to me' spread. In that, it doesn't cost much and works if the market proves it can buck a strong prevailing trend, in this case, obviously the aforementioned Acela lower. I expect at some point a bounce as shorts take profits ahead of the myriad of vol events – wouldn't you? Just let them go by and sell again after?

Threading the needly perfectly, this thing could be worth \$10, but I will kill it at \$5, if we bounce. These spreads for Thu/Fri this week are over \$3 now, and that is with no event in the back leg, so, more of a matter of the market essentially just pausing its waterfall for a day ahead of these events to make 3x.

Also, take a look at Mon/Tue, they are pricing around 1.70 as well.

# TECH EARNINGS VOL UNDERPRICED LIKE INDEX VOL - DISPERSION TRADING RESPONSIBLE? – VIXPIRATION WAS THE VOL WATERSHED AGAIN

## VOLATILITY SUMMARY

*'With opex a week away, and vixpiration Wednesday, heavy chop is expected. And Wednesday's vixpiration, often the vol watershed day, happens again to coincide with the outset of giga tech earnings season. How did that go in July?'*

*Source: October 13<sup>th</sup> letter*

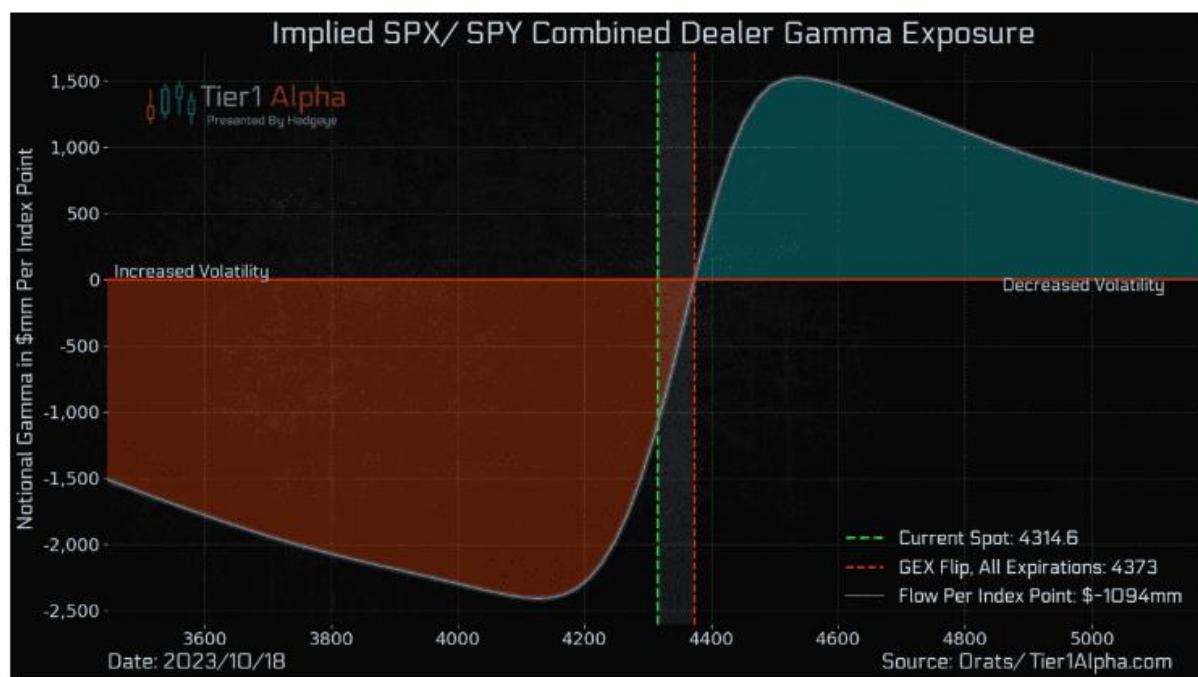
While everyone waits for the attack to start, so they can buy QQQ again.....I mostly jest, but would that surprise you?

In the meantime, VIX 9-day, a better representation of ‘fear’ (for lack of a better word) in the markets in my opinion, since the vast majority of options volume these days falls into that window, closed at the highest level since the end of the first quarter, when banking headlines were causing market haywire:



But markets falling in negative gamma while folks wait for next steps in the Middle East and really for the main events of earnings season to begin on Tuesday afternoon with giga tech firm reports, is not a big surprise. Vixpiration was once again the dividing line between implied and realized vol temporarily easing and it picking back up. And when I say realized vol, I mean day-to-day change, because we all know, intraday vol has remained high. Because, you know, we pretty much are always living on the negative gamma slope now:

## GAMMA EXPOSURE:



Dealers are back in a negative gamma regime, with just over \$1 billion to hedge per index point. Yesterday, we pointed out that the gamma curve was quite steep, suggesting that even small changes in the index could significantly impact dealers' positions. As the markets fell, this is precisely the behavior we observed.

Source: Tier1Alpha.com newsletter

Folks are going to look at the following chart and assume something like, ‘well, lower highs and heading to new lows’, and I don’t blame them; folks trading the channel are loving what they think is a new trend, because *you know that everybody looks for the new trend*:

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So, if you are one of those folks, carry on.

What interested me today were NFLX and TSLA earnings reactions. And, it was bugging me yesterday, that implied volatility into both of these reports seemed way too low relative to recent earnings releases, *precisely when it seemed to me to have way more importance*.

I mean, these stocks are obviously the behemoths holding up the entire market and the ones managers need to stay propped to make their year if they are doing well by holding herd stocks or simply SPY/QQQ. They are the market, *especially with nearly everything else down year-to-date*.

So, with so much on the line and NFLX and TSLA both with long histories of giant earnings release moves, not only for year but in recent times mind you, so no potential for forgetting that, why did they go in with implied volatilities for earnings so low?

Here's my guess. Yet another growing source of vol supply:

# One Trading Strategy Is Winning Big in This Nasty Year for Stocks

- Dispersion trade up as single stocks swing, VIX stays muted
- Subdued demand for portfolio hedges is behind volatility quirk

<https://www.bloomberg.com/news/articles/2022-10-17/one-options-trade-wins-big-in-strange-year-for-stock-volatility?sref=1z xv5xkq>

# Volatility Trades Get Reborn as Market Split Spurs New Short

- Macro forces spur growing divergence across stocks, industries
- Dispersion trade is advancing beyond hedge-fund investors

<https://www.bloomberg.com/news/articles/2018-08-22/volatility-trades-are-reborn-as-two-tier-market-spurs-new-short?sref=1z xv5xkq>

Call it the volatility trade, squared.

As macro shocks hit global markets, a complex strategy that bets the gap between stock winners and losers will grow is spreading across hedge funds, real-money managers and even private banks.

The so-called dispersion trades offer a way to play a slew of market themes, everything from splits among tech stocks to the prey and predators of the M&A boom and the trade-war fallout.

Known as a short-correlation bet, it pairs a long and short position in equity options to profit from diverging prices.

So, sell some vol over here, long some vol over there. Cute. What happens when it doesn't work?

The strategy, which has cooled of late after notching outsize gains earlier in the year, is deployed mostly by volatility hedge funds and banks packaging it into systematic strategies. Versions of the trade may buy options on a basket of stocks while others, like those managed by Assenagon and Fulcrum, are more selective. Some are neutral to volatility, whereas others are buying more options than they sell.

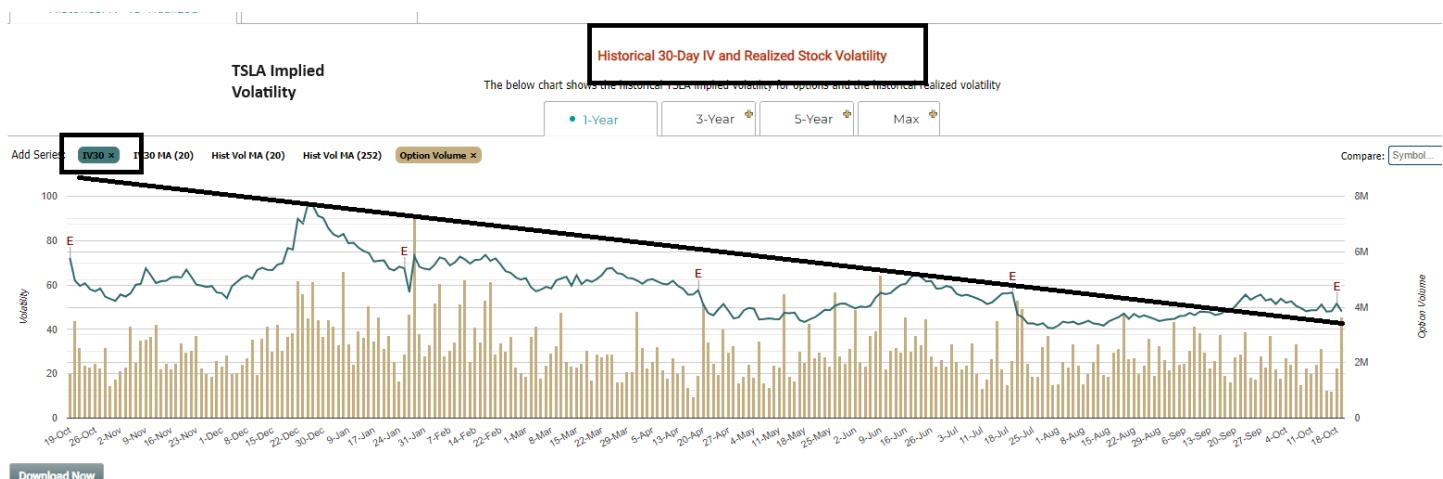
And:

With shorting volatility a key ingredient in the trade, it comes with a health warning for tourists and practitioners alike.

“It’s an elegant strategy but it’s definitely complex,” said Tobias Hekster, co-chief investment officer at hedge fund True Partner Capital. “It requires quite a bit of management and maintenance.”

Fast-money traders with a short-correlation bias incurred “significant” losses in August 2011, for example, when the Cboe Volatility Index gapped upwards by 25 points, according to Hekster, a volatility trader.

Ok, look at how TSLA implied vol has been falling and notice how the rises that naturally coincide with earnings season vol have been coming down:

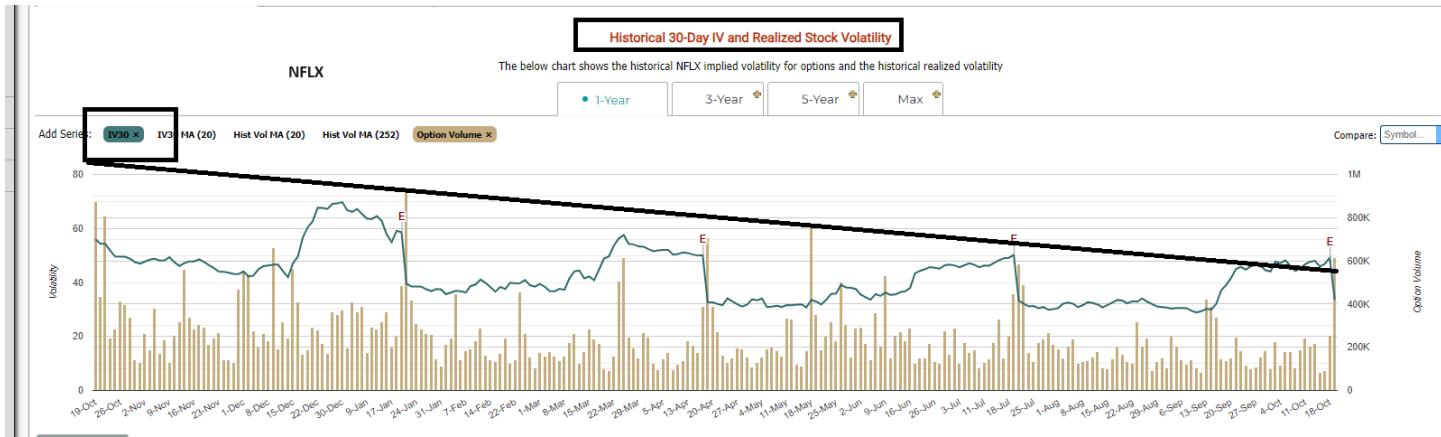


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But.... the earnings moves lately have been high:

Stock Price Performance - Last 12 Quarterly Earnings												After Earnings (Not Including Day of Earnings)				Custom Range -
	Before Earnings (Not Including Day of Earnings)					TSLA Day of Earnings				After Earnings (Not Including Day of Earnings)				Custom Range -		
Date	2 Weeks	1 Week	3 Days	2 Days	1 Day	Earnings Move	Opening Gap	Open-to-High	Open-to-Low	Drift Open-to-Close	1 Day	2 Days	3 Days	1 Week	2 Weeks	2 Days Before to 2 Days After
18-Oct-2023 AMC	-7.1%	-7.7%	-3.4%	-4.4%	-4.8%	+100.0%	-6.9%	+2.1%	-4.1%							
19-Jul-2023 AMC	+3.1%	+7.1%	+3.5%	+0.3%	-0.7%	+9.7%	-4.1%	+0.5%	-6.5%	+5.9%	-1.1%	+2.3%	+0.9%	-2.7%	-1.4%	-8.3%
19-Apr-2023 AMC	-2.7%	0.0%	-2.4%	-3.5%	-2.0%	+9.8%	+8.0%	+2.2%	-3.4%	+1.9%	+1.3%	-0.3%	-1.4%	-1.7%	-1.1%	-11.8%
25-Jan-2023 AMC	+17.2%	+12.2%	+8.3%	+0.5%	+0.4%	+11.0%	+10.8%	+0.9%	-3.3%	+0.2%	+11.0%	+4.0%	+8.1%	+17.5%	+29.4%	+15.8%
19-Oct-2022 AMC	-7.8%	+2.2%	+8.3%	+1.2%	+0.8%	+6.7%	+6.2%	+3.5%	-3.0%	+0.5%	+3.5%	+1.9%	+7.3%	+8.6%	+3.9%	+4.1%
20-Jul-2022 AMC	+6.8%	+4.4%	+3.1%	+2.9%	+0.8%	+9.8%	+3.0%	+7.2%	0.0%	+6.6%	+0.2%	-1.2%	-4.7%	+3.4%	+13.6%	+9.3%
20-Apr-2022 AMC	-6.6%	-4.4%	-0.8%	-2.7%	-5.0%	+3.2%	+10.1%	+1.6%	-7.4%	-6.2%	-0.4%	-1.1%	-13.1%	-13.0%	-13.4%	-2.9%
26-Jan-2022 AMC	-15.3%	-5.9%	-0.7%	+0.8%	+2.1%	+11.6%	+0.4%	+0.2%	-11.2%	-11.2%	+2.1%	+13.0%	+12.3%	+7.5%	+9.1%	+2.0%
20-Oct-2021 AMC	+10.6%	+6.8%	+2.7%	-0.5%	+0.2%	+10.0%	+1.1%	+5.1%	-0.1%	+4.4%	+1.8%	+14.6%	+13.9%	+20.5%	+37.6%	+18.6%
26-Jul-2021 AMC	-4.1%	+1.8%	+0.4%	+1.3%	+2.2%	+2.0%	+0.9%	+0.5%	-5.5%	-2.8%	+0.3%	+5.1%	+6.6%	+10.1%	+10.1%	+5.3%
26-Apr-2021 AMC	+5.2%	+3.3%	-0.8%	+2.6%	+1.2%	+4.5%	-2.9%	+1.0%	-1.9%	-1.7%	-1.5%	-3.9%	+0.7%	-4.4%	-12.4%	-7.2%
27-Jan-2021 AMC	+1.1%	+1.6%	+2.1%	-1.9%	-2.1%	+3.3%	-5.2%	+3.5%	-2.3%	+2.0%	-5.0%	+0.5%	+4.5%	+1.7%	-2.9%	-4.9%

And check out NFLX, same situation:



But even crazier earnings moves lately:

Stock Price Performance - Last 12 Quarterly Earnings												After Earnings (Not Including Day of Earnings)				Custom Range -
	Before Earnings (Not Including Day of Earnings)					NFLX Day of Earnings				After Earnings (Not Including Day of Earnings)				Custom Range -		
Date	2 Weeks	1 Week	3 Days	2 Days	1 Day	Earnings Move	Opening Gap	Open-to-High	Open-to-Low	Drift Open-to-Close	1 Day	2 Days	3 Days	1 Week	2 Weeks	2 Days Before to 2 Days After
18-Oct-2023 AMC	-8.2%	-5.4%	-2.7%	-4.1%	-2.7%	+16.1%	+16.9%	+1.0%	-3.1%	-0.7%						
19-Jul-2023 AMC	+7.1%	+7.6%	+8.1%	+6.1%	+0.6%	+8.4%	+6.5%	+0.4%	-3.3%	-2.1%	-2.3%	-2.1%	-2.2%	-5.5%	-1.5%	-9.8%
18-Apr-2023 AMC	-3.8%	-1.3%	-3.6%	-1.5%	+0.3%	+3.2%	+3.1%	+0.7%	-2.3%	-0.1%	+0.7%	+1.5%	+1.8%	-0.6%	-1.2%	-1.4%
19-Jan-2023 AMC	+2.0%	-4.4%	-5.1%	-3.2%	-3.2%	+8.5%	+6.5%	+2.3%	-1.1%	+1.9%	+4.4%	+6.2%	+7.4%	+5.3%	+6.8%	+11.5%
18-Oct-2022 AMC	+0.1%	+12.4%	+3.6%	+4.7%	-1.7%	+13.1%	+10.1%	+5.4%	-0.9%	+2.7%	-1.6%	+6.3%	+3.7%	+9.6%	+0.2%	+18.1%
19-Jul-2022 AMC	+8.5%	+15.6%	+15.4%	+6.6%	+5.6%	+7.4%	+3.3%	+4.2%	-3.9%	+3.9%	+3.4%	+1.9%	+1.0%	+4.8%	+4.8%	+15.5%
19-Apr-2022 AMC	-8.3%	+1.3%	-0.5%	+2.2%	+3.2%	+35.1%	+29.7%	+1.5%	-13.3%	-7.7%	-3.5%	-4.7%	-7.2%	-16.7%	-9.8%	-36.2%
20-Jan-2022 AMC	-8.1%	-2.1%	-3.3%	-0.5%	-1.5%	+21.8%	+21.3%	+2.3%	-5.0%	-0.6%	-2.6%	-7.8%	-9.5%	-3.3%	+3.2%	-29.0%
19-Oct-2021 AMC	+0.7%	+2.3%	+0.8%	+1.7%	+0.2%	+2.2%	+2.0%	+1.3%	0.0%	+4.5%	+6.3%	+7.4%	+6.0%	+10.1%	+4.2%	
20-Jul-2021 AMC	-2.0%	-1.8%	-2.2%	+0.1%	-0.2%	+3.3%	-0.9%	+0.9%	-3.9%	-2.4%	-0.4%	+0.4%	+0.6%	+1.1%	+0.7%	-3.2%
20-Apr-2021 AMC	+0.9%	-0.8%	+0.1%	+0.6%	-0.9%	+7.4%	+7.7%	+1.6%	-0.8%	+0.3%	0.0%	-0.7%	+0.3%	-0.5%	-2.5%	-8.8%
19-Jan-2021 AMC	-3.7%	+1.5%	-1.2%	+0.2%	+0.8%	+16.9%	+12.5%	+5.1%	-1.3%	+3.9%	-1.1%	-3.6%	-5.0%	-10.8%	-8.0%	+13.5%

Funds are shorting this volatility, isn't it obvious now? And isn't that a recurring theme lately, especially in this note, when I keep hammering home the fact that it's often better to be long vol than to be short vol lately? Shorting vol is crowded on several shadow fronts these days, yet another byproduct of Jay and ZIRP.

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

Here are two charts that demonstrate how ridiculous the market mispricings were going into last night. Here are the NFLX and TSLA at-the-money straddle charts:



And:



Whaaaat? They both made 100% overnight returns??!!

So, this strategy isn't even sophisticated, it is more like option dumb. It's supposed to lose more often than it wins, right? You could have opted for a long iron condor (two long option vertical spreads one put/one call) or double long butterfly spreads (put and call butterflies) and crushed 100% overnight.

It's a great time to be a long vol trader, that is for sure. Too many people are in the short vol business. And, you know who's back, Jay the autopilot, you saw what he said today:



You might just get what these short vol guys hate the most, everything going in one direction sometime soon. Volmageddon 2.0. The kindling is certainly there, the markets propped on just a few names and a growing cadre of folks exotically shorting vol in a myriad of ways.

#### **Volatility Trades:**

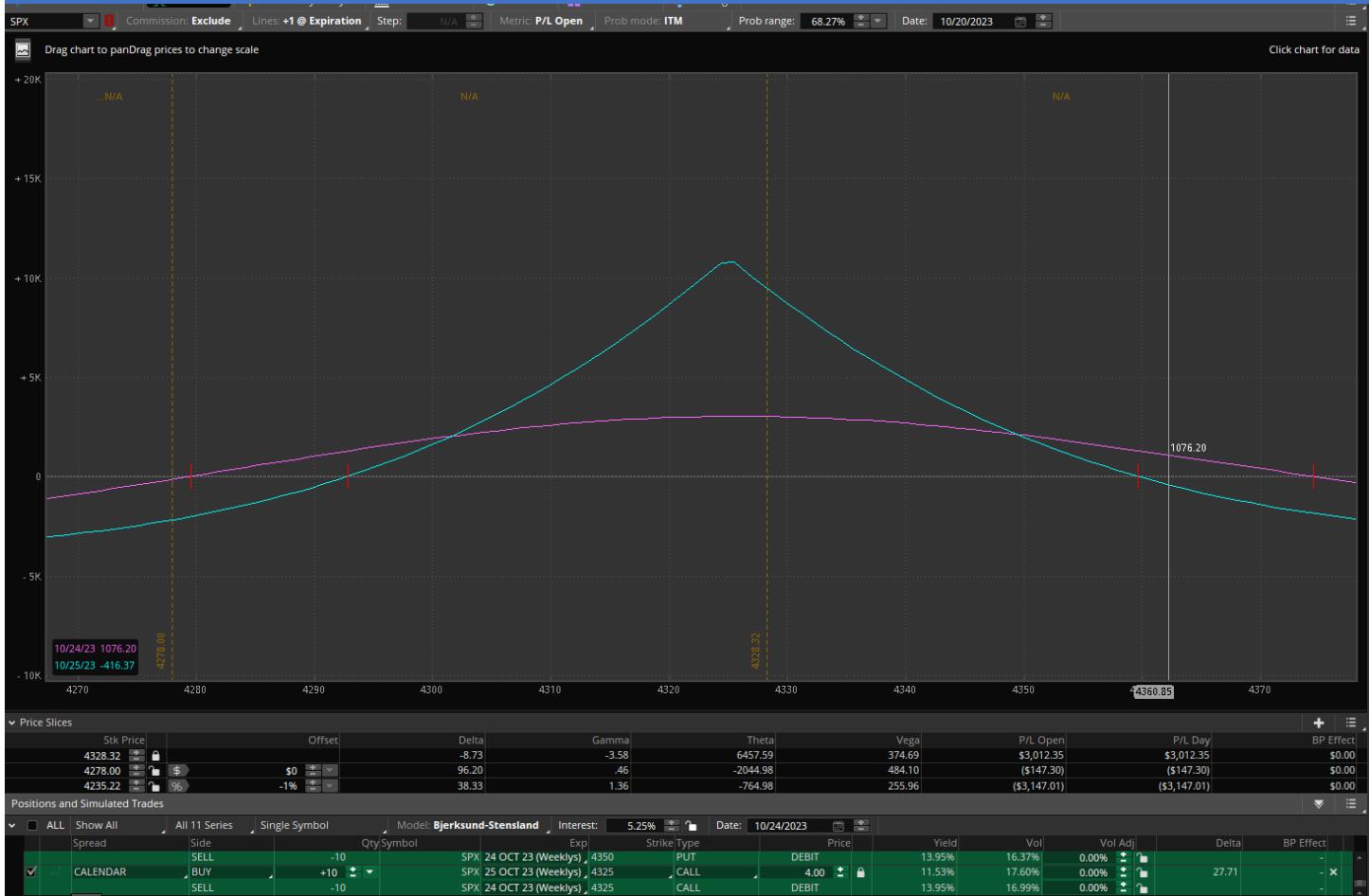
**Long tech earnings call calendar spread**

**Sell Oct 24<sup>th</sup> 4325 call**

**Buy Oct 25<sup>th</sup> 4325 call**

**Net debit: \$3.75-4.00**

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



The QQQ put calendars for the 24<sup>th</sup>/26<sup>th</sup> are working nicely and the war news during opex week is raising implied volatility in the front of the surface, when the vol smashers usually would have killed Monday and Tuesday's vol by now. So, pairing elevated front with MSFT/GOOG earnings in the back leg, is nicely priced at 4 SPX points.

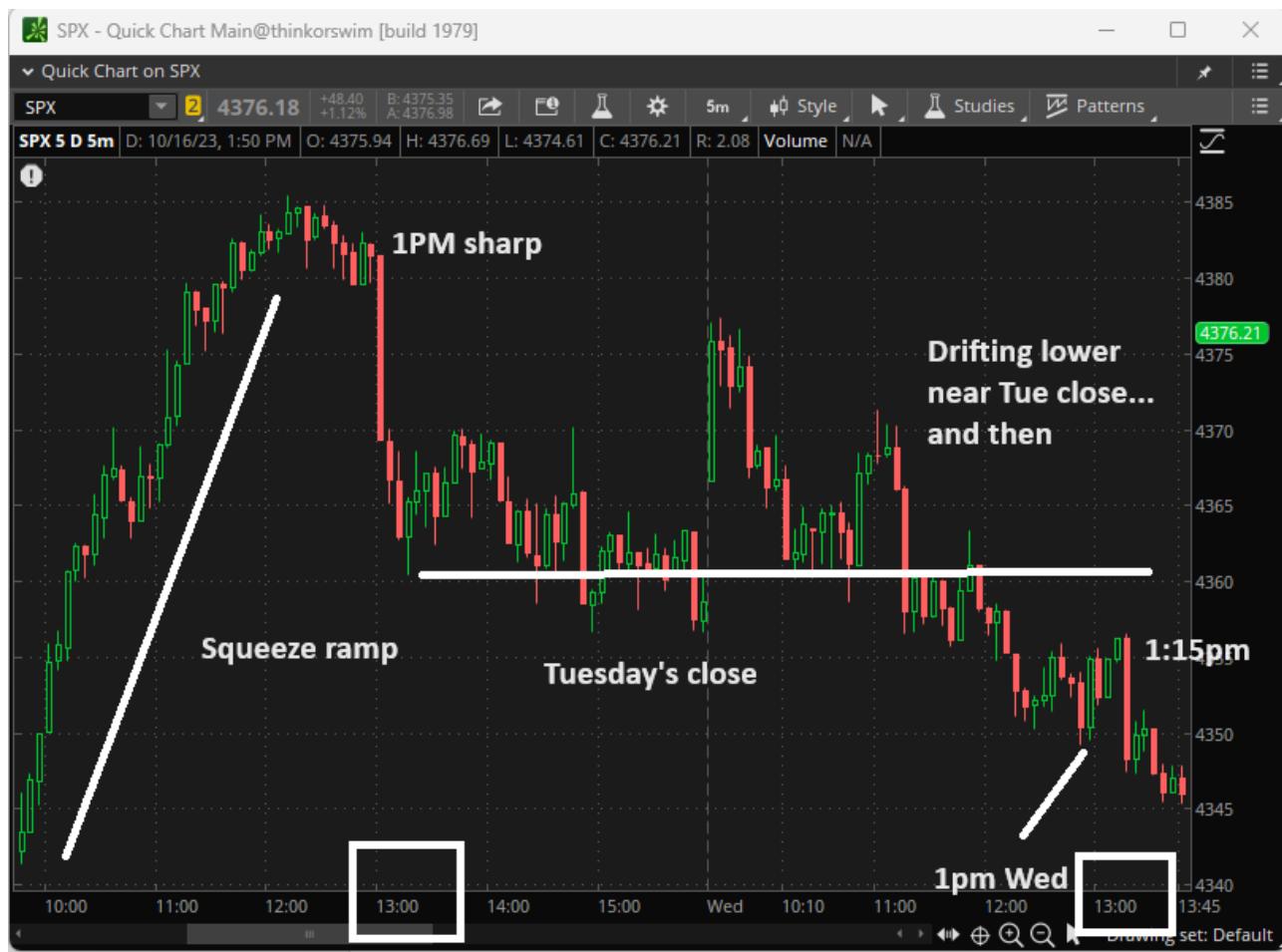
As I see it, this is essentially a market vol event, with the giant chunk of market cap in QQQ/SPY in the few giga tech names. They have to come through for basically everyone, nerves will be high. Target, \$6.50-7.

# ODTE OBSERVATIONS FROM CPI – MORE TRADES FOR GIGA TECH EARNINGS

## VOLATILITY SUMMARY

While we sit on a pre-vixpiration ramp and camp/vol smash Monday (how surprising) a brief lookback on ODTE price action around CPI last week.

Things were sort of meandering lower on CPI eve Wednesday after a squeezy kind day Tuesday, where IWM/Russell 2000 and most downtrodden stocks that were previously refusing to bounce finally gave up and saw some short covering ahead of CPI data. And, once again before I go on, exactly 1pm on Tuesday was the daily turning point, the time I alluded to in last week's note:



So, while Tuesday offered a large move the first half of the day to sort of shoot against after 1pm with ODTE options, Wednesday before CPI did not, just a gradual drift around flat, so the

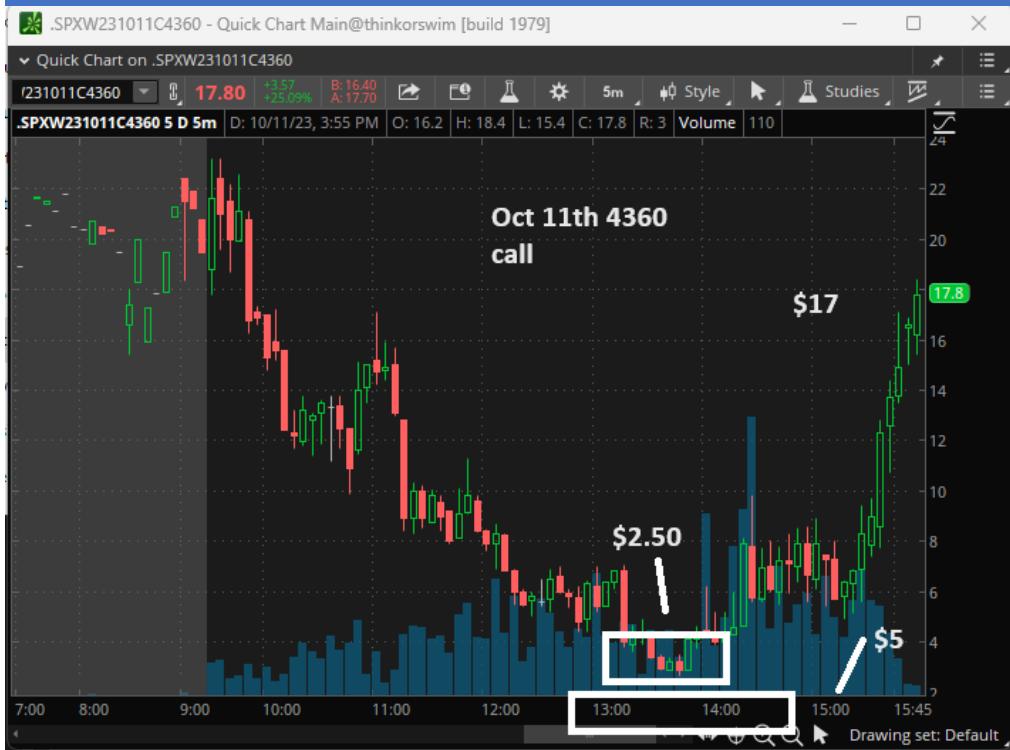
## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

setup I wrote about and was looking for, a big move up or down into Euro-close or 1pm didn't materialize. And as you can see in the above chart, nothing is happening into nearly 2pm until:



The train leaves the station and doesn't look back in a straight ramp higher and sits, of course to rub it in, on the round strike of 4375. Amazing. It was as if, once everyone fell asleep the shenanigans began. The 4360 call:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

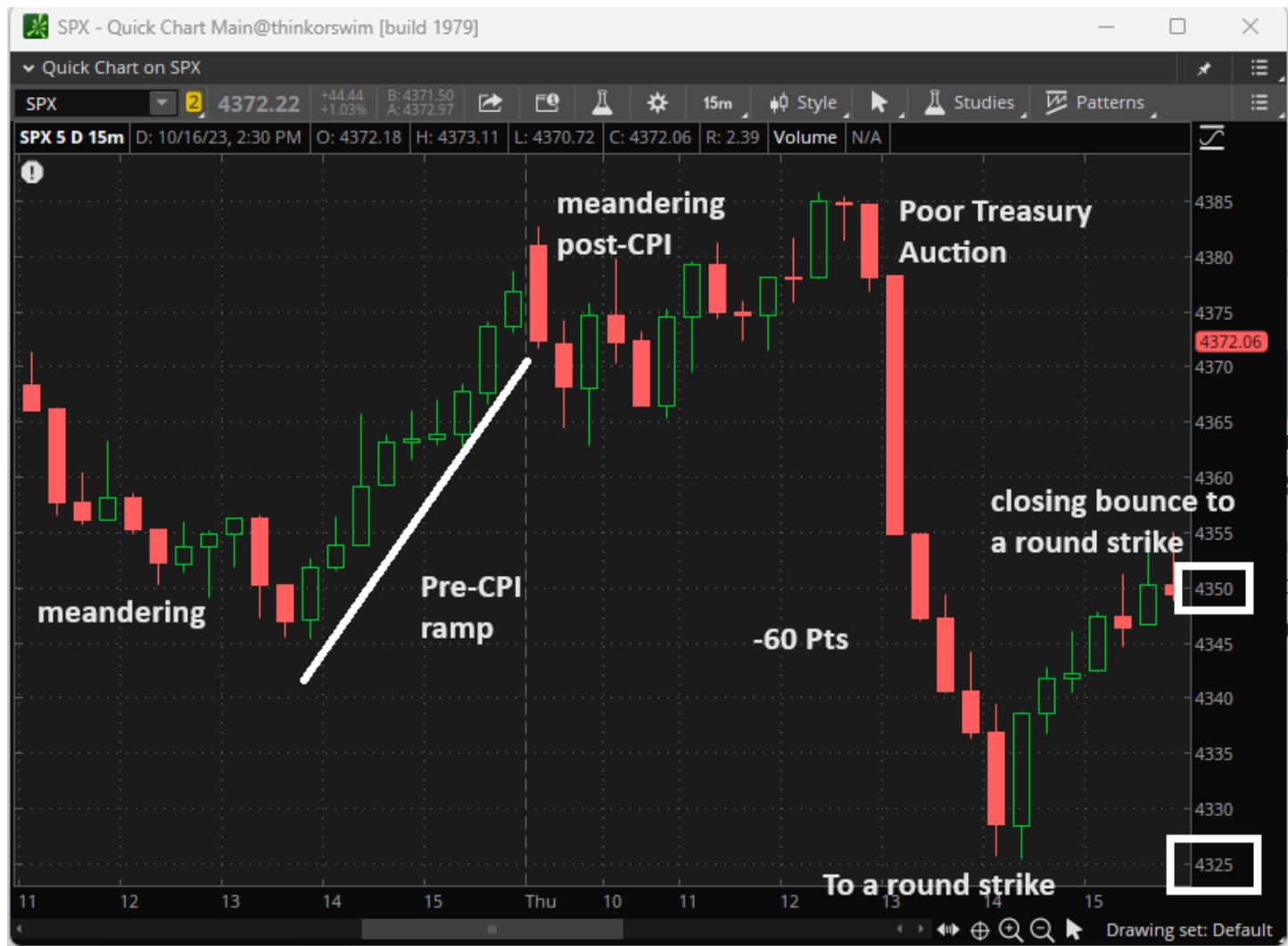


And, if you felt slighted like I did, that you were asleep at the switch and missed a 600% return in the afternoon, you also missed the next bus. ‘They’ jumped on 4370s and had fun getting 600% out of those in the last half hour to boot:



So, I suppose the ODTTE lesson of the story here: if there is an event the next day, keep an eye out for cheap options well past 1pm *especially* if it looks like nothing is going to happen.

On CPI day, if you had quickly absorbed the lesson above (I did not apparently learn fast enough), about if things appear exceptionally quiet, more reason to be on the lookout for the potential of a big late move. Once again, the morning was meandering along, digesting a mixed CPI report when:



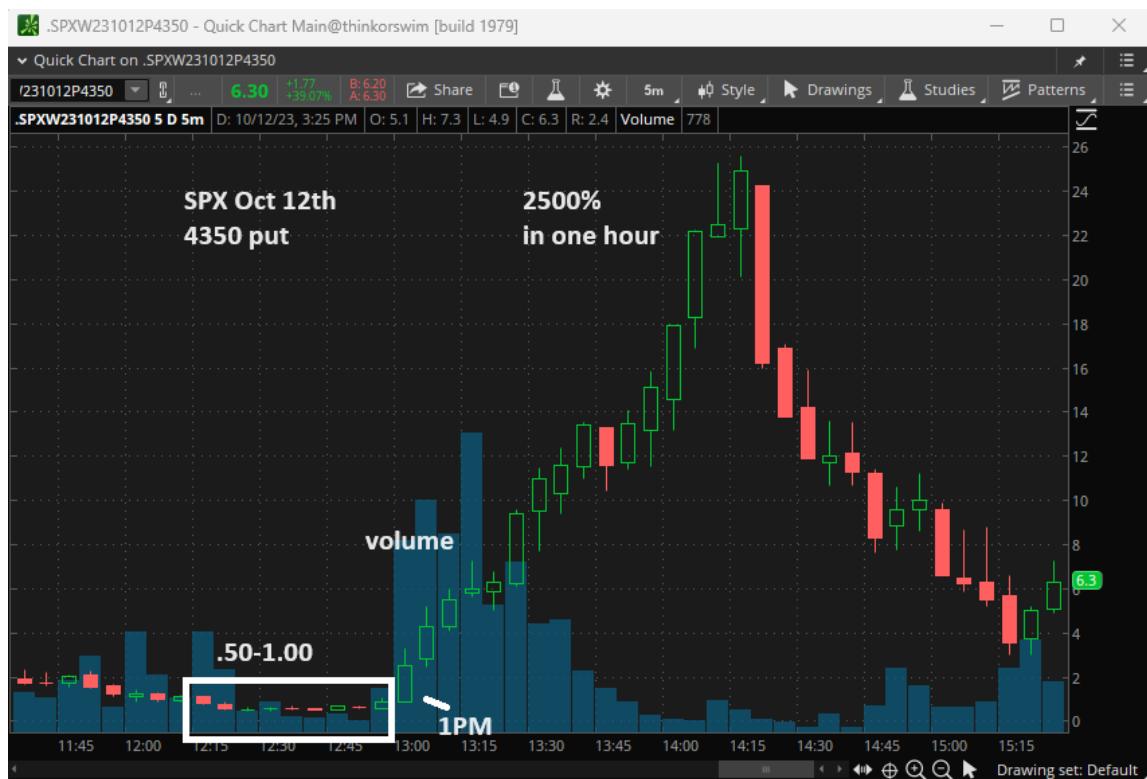
Again, what do we see here?

- A. 1pm move
- B. 2pm bounce
- C. Round strike low
- D. Round strike close

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

So, I'm adding Treasury note/bond auctions to my list of ODTE vol events to consider in the future; makes sense, if the highly volatile long duration section of the yield curve moves markets then these are most certainly to be considered vol events, no?

And so, if you had 4350 puts on Thursday, well, it was a good day for you:



Our markets today, ODTE bucket shop nirvana. I hope these observations help you navigate/profit from some potential post-vixpiration/pre-NFLX/TSLA Wednesday ODTE fun.

### Volatility Trades:

**QQQ Giga tech earnings put calendar spread**

**Sell \$362 Oct 24<sup>th</sup> put**

**Buy \$362 Oct 26<sup>th</sup> put**

**Net debit: .52-.56 (.54 filled)**

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



Pretty basic concept of being long back vol event risk, building off the 18/20<sup>th</sup> trade ideas from Friday. This time, the back leg holds a giant chunk of QQQ/SPY in GOOG/MSFT/AMZN earnings releases. If the market shoots higher or lower after NFLX/TSLA report, I will adjust and add these spreads higher or lower. Target, \$1.

# OPEX CYCLE PING PONG MARKETS ARE BACK - SEASONALITY AND CALL VOL OBSERVATIONS– GIGA TECH EARNINGS TRADE IDEAS

## VOLATILITY SUMMARY

You might find this interesting, from celebrity quant Charlie McElligott a couple weeks ago:

Long story short (there's probably a pun in there somewhere, but it's not intentional), the impact of the quarterly roll was supposed to be one-way (Charlie used the same language), but upside index options plays for November amounting to \$233 million (!) in premium paid turned what would've been a large vol supply event into a vol *buy*, altering the setup for Q4 and the end-of-year trade.

What does that mean? Well, colloquially, the read-through is that there could be embedded overhead pushback on a rally. McElligott elaborated. "If this is who we believe it is, the entity trades with extreme discretion and is typically uber-quick to monetize a winning trade," he said.

So, if the market moves in favor of those positions, profit-taking is likely. Charlie spelled out the implications of that hypothetical profit-taking. "[T]he market is operating in some ways with an upside overhang thanks to there being all of this delta to go if we see SPX rally and those options print," he said.

Source: <https://heisenbergreport.com/2023/10/02/rally-bets-saddle-stocks-with-upside-overhang/>

So, we are in that time of year when folks that are behind (which is nearly everyone, considering all bonds/treasuries and most stocks are down year to date), grab for the options keno slip with the Santa rally/fourth quarter seasonality in mind, hoping to cut the performance deficit to, well let's be honest, to QQQ's stunning performance year to date.

I keep recalling around every year end the true story of this particular hedge fund manager who turned options yolo-er in an attempt to stick-save his year-end statements:

## **Manager ‘truly sorry’ for blowing up hedge fund**

Li said in the letter that he made a series of “aggressive transactions” over the last three weeks to make up for poor returns in December. He said he bet on stock price options, predicated on the broader market rising. But stock indexes fell, causing the huge losses along with several undisclosed direct investments, according to the note.

“My only hope is that you understand that I acted in an attempt—however misguided—to generate higher returns for the fund and its investors. But even so, I acted overzealously, causing you devastating losses for which there is no excuse,” he added.

Source: <https://www.cnbc.com/2015/01/21/manager-truly-sorry-for-blowing-up-hedge-fund.html>

Calendar risk (my term) is real, and it enhances or is part of what influences market seasonality to behave the way it does; the risk of statement underperformance is powerful. It also stands to reason that implied volatility often seasonally rises, as folks look to protect outperforming areas in their portfolios without selling and incurring taxes.

In fact, I say this every year, *vol almost always seems to rise in December*, just when folks are looking for a Santa rally which statistically comes only from Christmas through the first week of January. December is often a volatile month; smooth to the finish, it usually is not! And with QT and massive rates volatility and sticky inflation and massive divergences in tech versus everything and macro weakness just beginning....vol is probably going to hang around.

Back to Charlie, his commentary, being the god of greeks and all, these outstanding call verticals are well known, and certain nefarious markets news sites that gab about gamma games are all over it:

## \$200mm in the money

Recall the "big spender" that loaded up on call spreads just in time for the rally? McElligott writes: "Premium now ~\$460mm and UP well over ~\$200mm from initial ~\$250mm spend, while the \$Gamma nears ~\$2.5B—yet as the \$Delta has now ballooned now upwards of \$15B in the trade, the market is aware of the overhang provided all those Futures for Sale that will come-off when the trades are monetized". Let's see if "big spender" starts exiting the trade soon...which will impact vols (and clean delta "overhang").

[MORE](#)


Comically, with earnings season about here, sentiment also has magically and dramatically reverted to bullish:

### What Direction Do AAII Members Feel The Stock Market Will Be In The Next 6 Months?


[More Historical Sentiment Data](#)

Sort of gives you the impression, that this overhang might just put a dent into giga tech earnings spike season. You know, selling those spikes. That and the fact that managers, they have to be staring down the barrel of 2024, and can owning all this tech really work to this shocking ‘relative to everything else’ degree again, especially when folks are finally coming to the realization that Jay’s jihad to dent the economy about to take some victims:

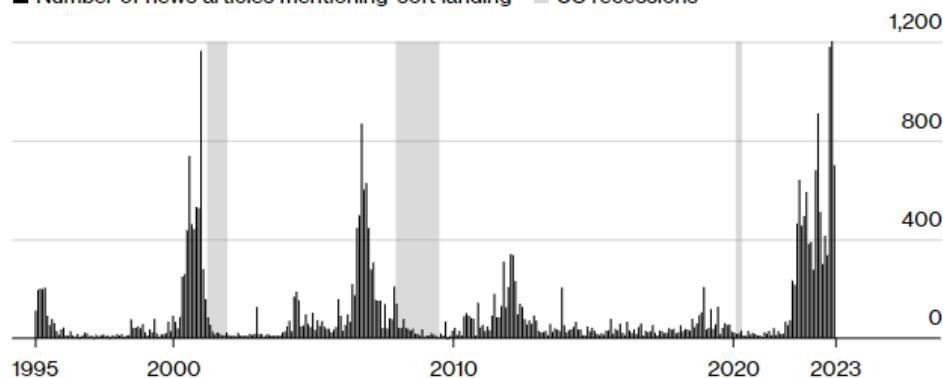
### ***Soft Landing Calls Always Precede Recessions...***

“The most likely outcome is that the economy will move forward toward a soft landing.” So said then-San Francisco Fed President Janet Yellen in October 2007, just two months before the Great Recession began. Yellen wasn’t alone in her optimism. With alarming regularity, soft landing calls peak before hard landings hit.

### ***Soft Landing Hopes and Hard Landing Realities***

Optism tends to peak before a downturn hits

■ Number of news articles mentioning ‘soft landing’ ■ US recessions



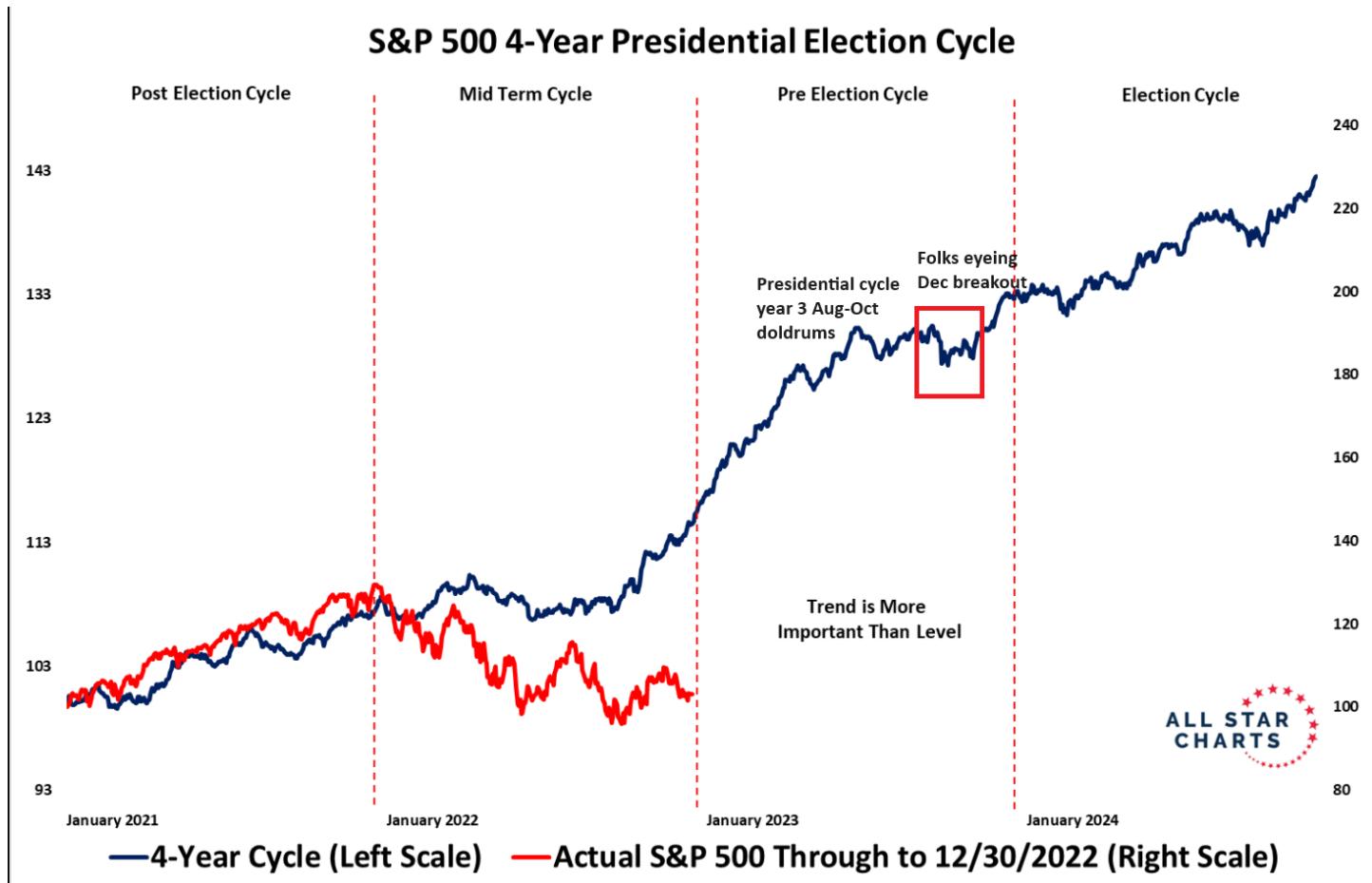
Source: Data compiled from news sources tracked by Bloomberg

Why do economists find it so difficult to anticipate recessions? One reason is simply the way forecasting works. It typically assumes that what happens next in the economy will be some kind of extension of what’s already happened – a linear process, in the jargon. But recessions are non-linear events. The human mind isn’t good at thinking about them.

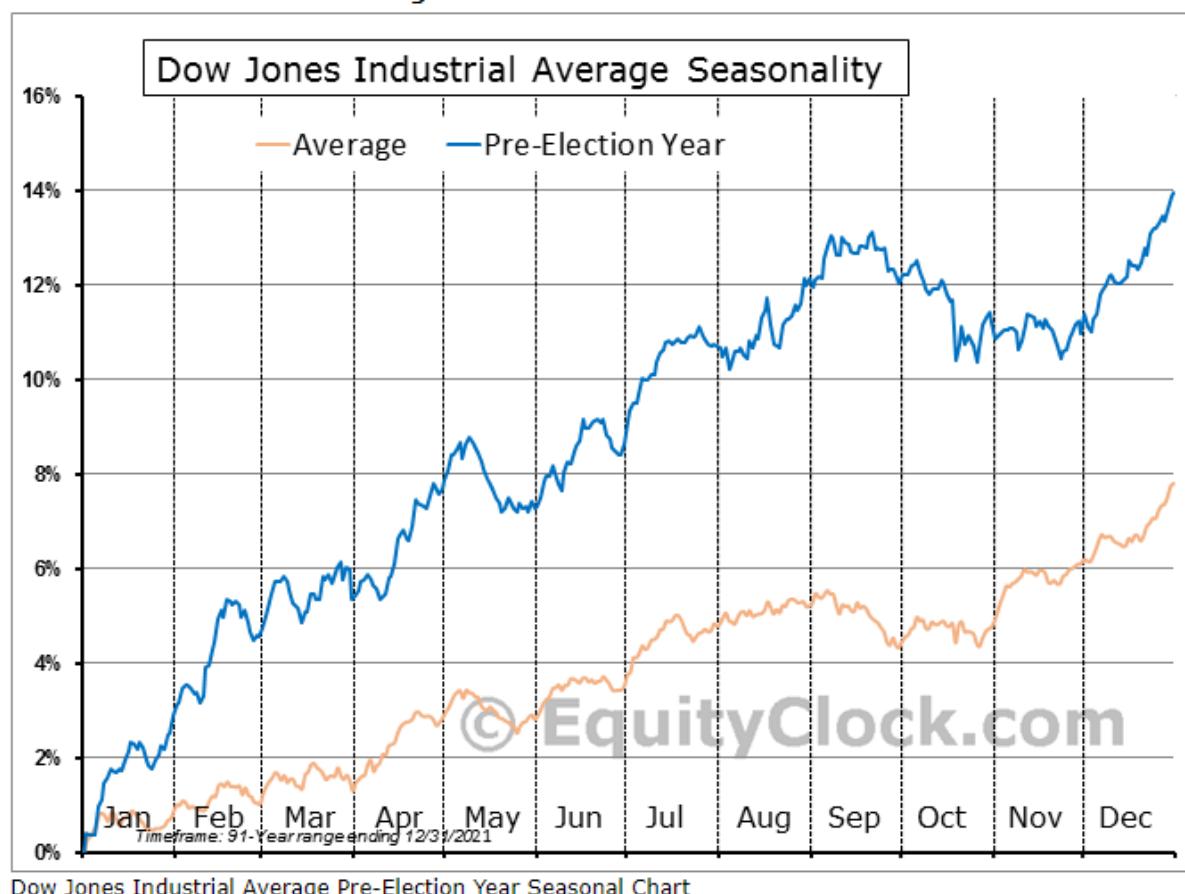
Source: <https://www.bloomberg.com/news/articles/2023-10-01/6-reasons-why-a-us-recession-is-likely-and-coming-soon?sref=1zvx5xkq>

(I will remind you, when the time comes, around Christmas, a great trade is to own vol in the big winners, because folks will be looking to dump some when the tax year changes. And there will be vol trades, of course.)

But, one thing folks are holding onto regarding seasonality, beyond the obvious time of the year stuff is the Presidential cycle seasonality, which worked nearly perfectly this year believe it or not:



You can see a bit closer below on an old Dow chart (couldn't find one for the S&P 500) how it doesn't break out until late in the year whereas most years a general positive market reaction to third quarter earnings and a ramp into Thanksgiving are the average result:

**Dow Jones Industrial Average Pre-Election Year Seasonal Chart**

Dow Jones Industrial Average Pre-Election Year Seasonal Chart

So, here we are in game of chicken season, a vol stew of protecting tech gains stirred with hopes for the end of year rally being expressed with call options again. And we know how that works, when they burn off, or they are monetized, dealers are sellers.

The opposite of what happens when folks buy downside vol/puts. When traders sell those or that vol burns off subsequently dealers become buyers and that equals bounces. It works both ways, in this case an overhang versus support.

With opex a week away, and vixpiration Wednesday, heavy chop is expected. And Wednesday's vixpiration, often the vol watershed day, happens again to coincide with the outset of giga tech earnings season. How did that go in July?

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



It should be an interesting week.

### Volatility Trades:

**SPX FANG earnings put calendar spread**

**Sell 4350 Oct 24<sup>th</sup> put**

**Buy 4350 Oct 26<sup>th</sup> put**

**Net debit: 4.25-4.50**

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



The 24<sup>th</sup> is a huge earnings day, with GOOG/MSFT after the bell. The back leg also holds MSFT on the 25<sup>th</sup>, so we are talking about a giant chunk of QQQ and SPY market cap. Everyone will be on edge and vol should be bid. Target, \$8.

You can also look to do the same with NFLX/TSLA for vixpiration. I have 18/20pm put spreads and 18/20am spreads, the standard SPX expiration, next Friday morning. Those are already pricing \$5 at-the-money, and those have a half day less than the 24/26s.

I wanted to put a QQQ 18/20 trade in this note but it went from .55 yesterday to .70 today on the rise in implied vol. They are still a value for .2% of the underlying.

I will return early next week, with another OOTD note with charts and analysis on CPI/post-CPI price action/observations.

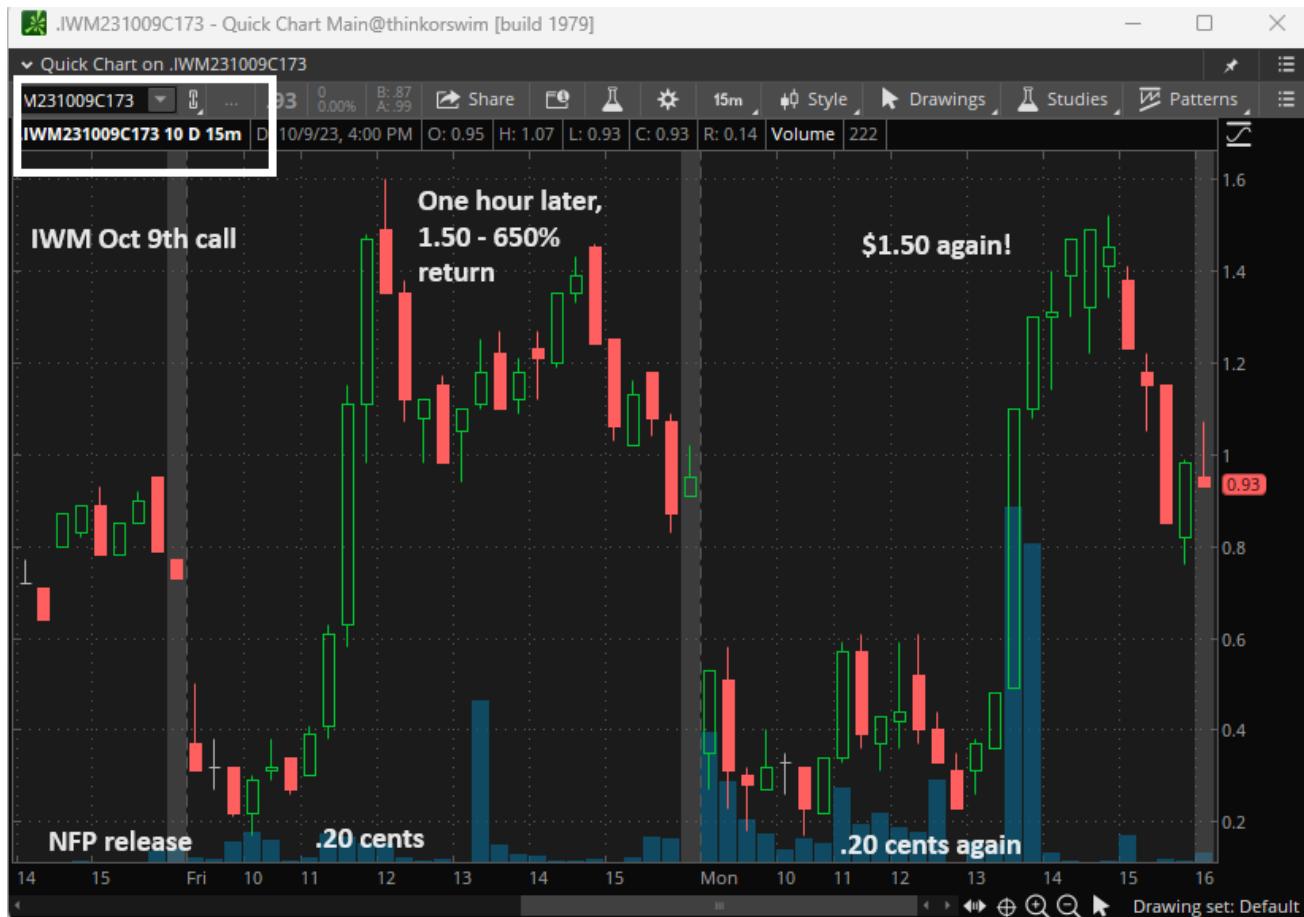
# PRE-CPI AND 0-1DTE – TRADE IDEAS FOR INTRADAY VOL BEFORE AND AFTER THE RELEASE

## VOLATILITY SUMMARY

In this space, I continually post charts showing 0-1DTE options gaining hundreds of percent, and it has become so frequent that I've decided to attempt to add more value to this letter by penning short notes prior to these events focused on 0-1DTE ideas.

Vol continues to be sold aggressively into monthly payrolls, JOLTs, CPI and the Fed meeting, and the result often is a big move in options that are grossly underpriced once the first move is made. Also, the day before the event frequently offers some excellent opportunities as well.

Now, let's be realistic, not every release is going to see a day where the S&P 500 has a 60-100 point low/high intraday vol result like recent events, but as they keep happening and when a few of these moves are harvested, those trades pay for several that do not. In fact, you can potentially keep trading the same option for a couple days and do it twice. For example, look at an IWM \$173 Monday call that expired yesterday:

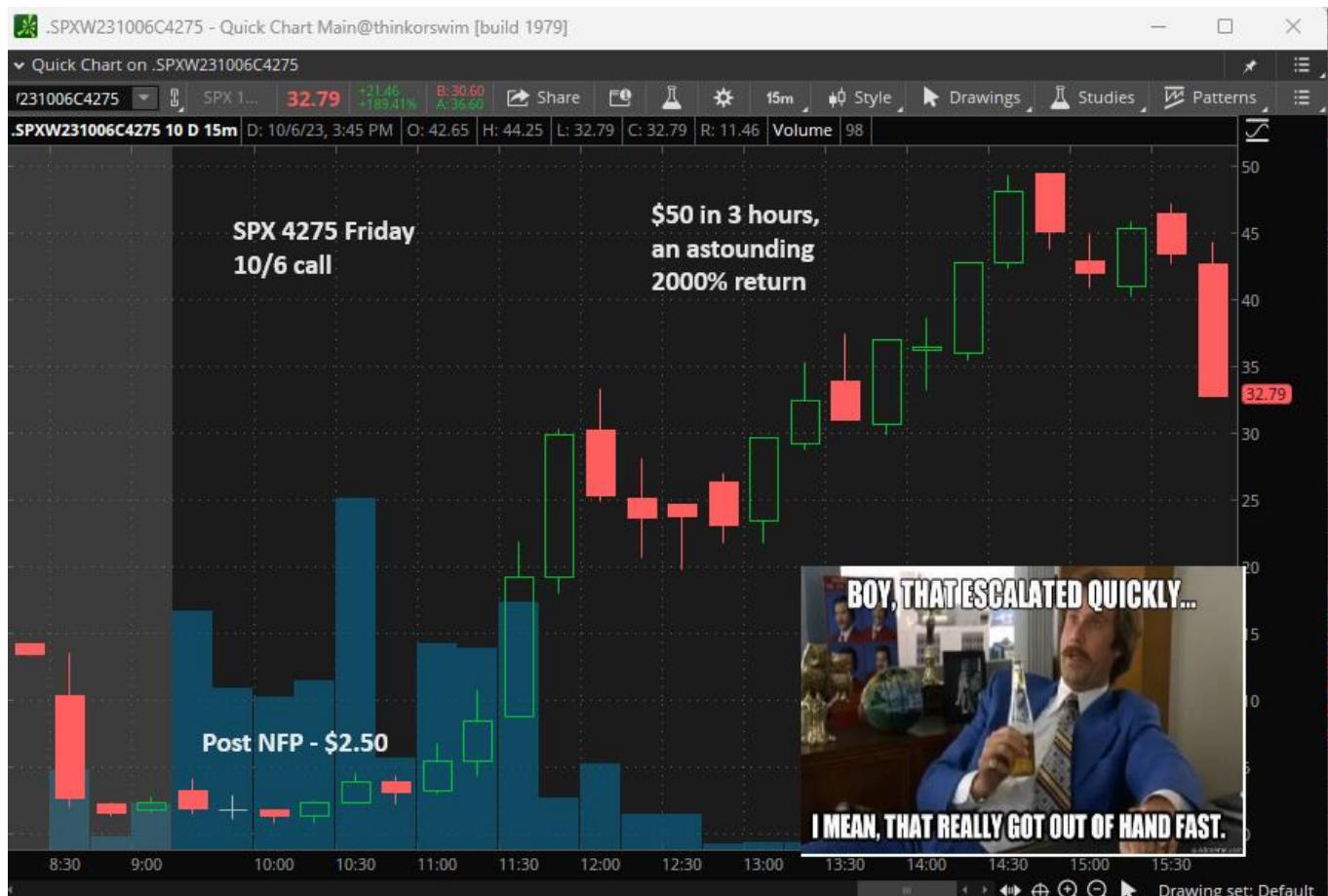


What happened here that we can learn from?

- A. Post-release 0-1DTE vol on Friday was too low/the options were very inexpensive
- B. A lot of folks were/are short
- C. IWM was near fairly long-term support
- D. The markets were down at least .5% and Europe about to close or recently closed
- E. We were far detached from the prices at the prior OPEX thus potential reversion in beat up names nearing OPEX
- F. And, very, very importantly, earnings season was approaching

IWM and RUT options are excellent places to look for vol that is often far too cheap, not quite sure why, *especially when it is prone to massive squeezes*. And, considering the chart from last week's note, the IWM/QQQ short small caps/long giga tech factor trade is very crowded.

But, the Russell 2000 wasn't really ready to squeeze until today, having its best day when there weren't ODTE options available. It lagged SPX/QQQ on Friday, and thus the real value was in the Friday SPX options post NFP. I guess, having both just in case one squeezed more than the other might be a great way to approach things:



## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

A 0-1DTE long gamma portfolio perhaps. (Where is that on the ‘efficient frontier’ I wonder?)

So, let’s look at CPI’s price action on September 12<sup>th</sup> for perhaps some ideas on how scour for cheap gamma. Times of the day very key, notice European close and post Euroclose:



So, with CPI the following day, the SPX had at this point rallied three straight days off a low following a 100pt SPX drawdown over five days. Sound vaguely familiar?

What events were behind CPI, another thing to consider. It was quarterly opex week and the Fed meeting was the following week, so massive intraday reversal potential existed.

Looking at the day before the September 20<sup>th</sup> Fed meeting, calls bought on the dip worked quite well, yet markets had come down 80pts from a post-CPI rally. A chart of the September 19<sup>th</sup> 4430 call:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



The rest is recent history, the VIX went into that meeting sub-14, with the worst week historically on deck, and well.... puts made fortunes. We won't be as lucky to own vol at that price this time around I suspect, recent Fed-heads one more 25bps hike flip-flopping or not.

So, what am I looking for? On pre-CPI day, cheap calls if SPX is down 20-30pts in the morning around 10:30-11am, and if the market is up after Europe closes, say around 12:30-1pm, cheap puts. Round strikes preferred since they are obvious targets. Same basic idea for CPI day; if the market initially doesn't like the CPI print, cheap calls.

This is far from an exhaustive list of ideas, looking at the charts above, you may see something more obvious with regard to price and timing.

One consideration, the backbone to aiding 0-1DTE buying call gamma on dip strats currently, is that folks are looking toward earnings and seasonality at the moment, which starts with JPM Friday, but really starts with NFLX/TSLA next Wednesday afternoon, which also happens to be, yes, vixpiration day, how quaint.

I clearly have some ideas for that timeframe and will post a note post-CPI on Friday. (Hint, the market hated the day after those earnings releases in July, the day after vixpiration.)

# OWNING DOWNSIDE VOL/HEDGES WINS BIG – LEGENDARY FACTOR TRADE SHOWS DIVERGENCES DEBUNKING THE MYTH OF TECH AND RATES- EARNINGS VOL TRADES

## VOLATILITY SUMMARY

Rates, rates, rates, every day, rates. It's a bear steeping-tastrophe. It goes without saying, I suppose, that we wouldn't be in a mess where we have to look at rates spike nearly every day, watch equity markets *tank* on the news of people being hired and spike when the economy looks worse if it wasn't for Jay being asleep at the printer again. You can't turn on Bloomberg/CNBC and even attempt the "Fed" drinking game, you wouldn't get an hour into any day.

(JOLTS is the new CPI apparently, 65-70 SPX point intraday ranges last two releases..)

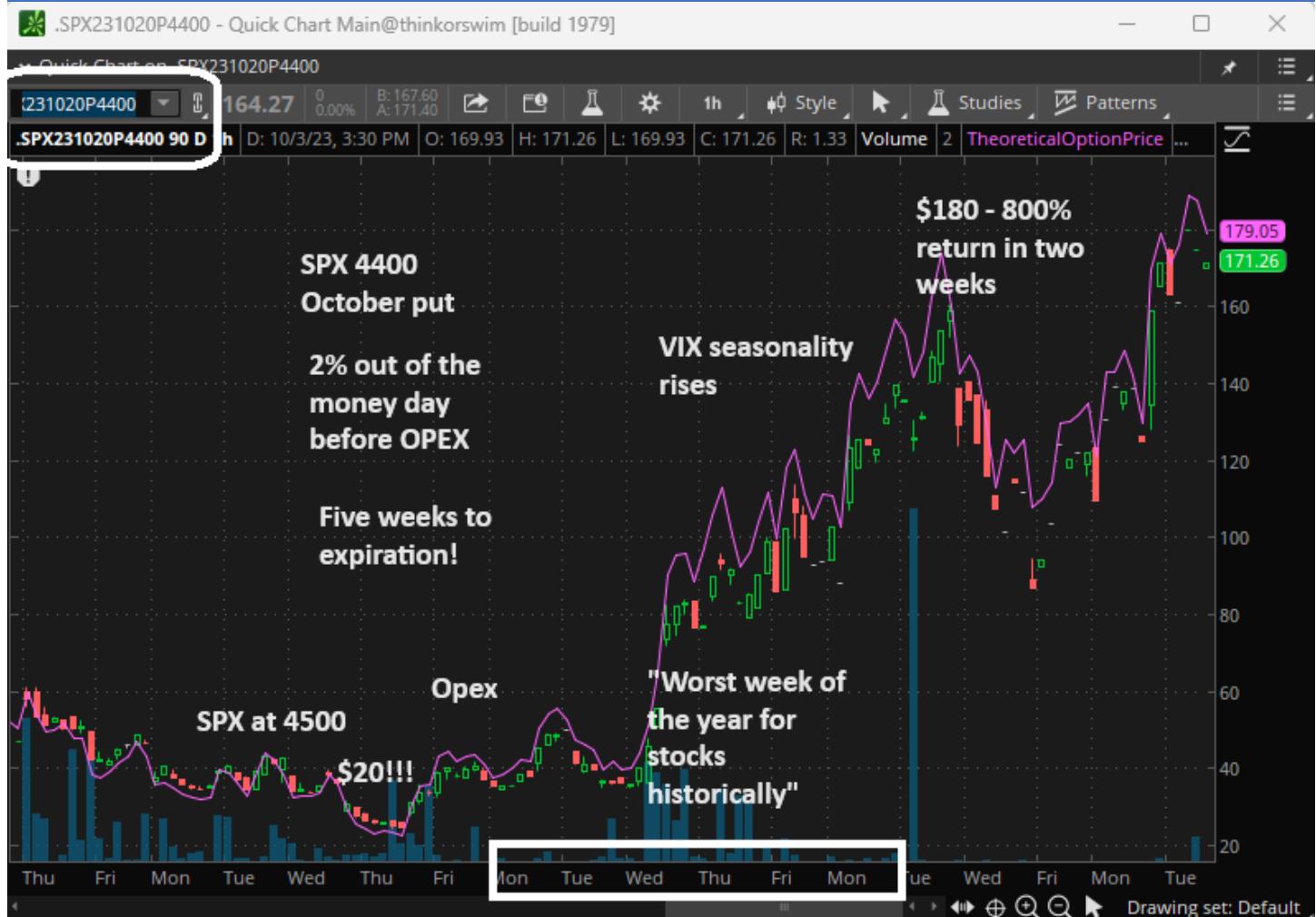
What amazes me lately, is that even in what appears to be a trendless equities market is really embedded with smaller but pervasive and repeating trends. And the trends are seasonal as well, which begs the question, if everyone is a trend follower (seems that way) and everyone knows the seasonality, why do both keep happening?

Well, I should make a top ten list of market dogma that is pure BS. A lot of the stuff you either hear on tv or learn in finance classes that is just a bunch of made up malarky. Clearly, I've pounded on the 'forward-looking' twaddle for a while, but let's add to the list 'random walk' and 'efficient markets'.

The answer probably lies in the fact that so much money is invested/traded now when trends are established and vol is lower in CTA and systemic strats. It's simply self-reinforcing.

And since markets keep trending, and do it seasonally to boot, combine those observations with volatility that keeps getting sold for income in new tenors and higher volume (0-1DTE for example) and in new forms (more vol selling ETFs launching like QQQY) and you get things like this, that should have been totally predictable:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



Yet, you and I both know, there was plenty of this stuff going around:

*From Sep 21<sup>st</sup> note:*

And, on top of this, weren't we besieged with warnings about how this was the worst week of the year for stocks?

Source: <https://www.reuters.com/markets/us/fed-meeting-comes-during-historically-tough-week-us-stocks-2023-09-12/>

## The September effect

In 26 of the last 33 years, the S&P 500 fell in the week following the September options expiration, with a median drop of 1%



And this:

## That VIX seasonality

Was this just the start of something bigger...slightly "scary" as VIX has tracked the seasonality pattern well this year.



## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

### VIX seasonality

Time to get busy...



### You are here

VIX seasonality perfection...



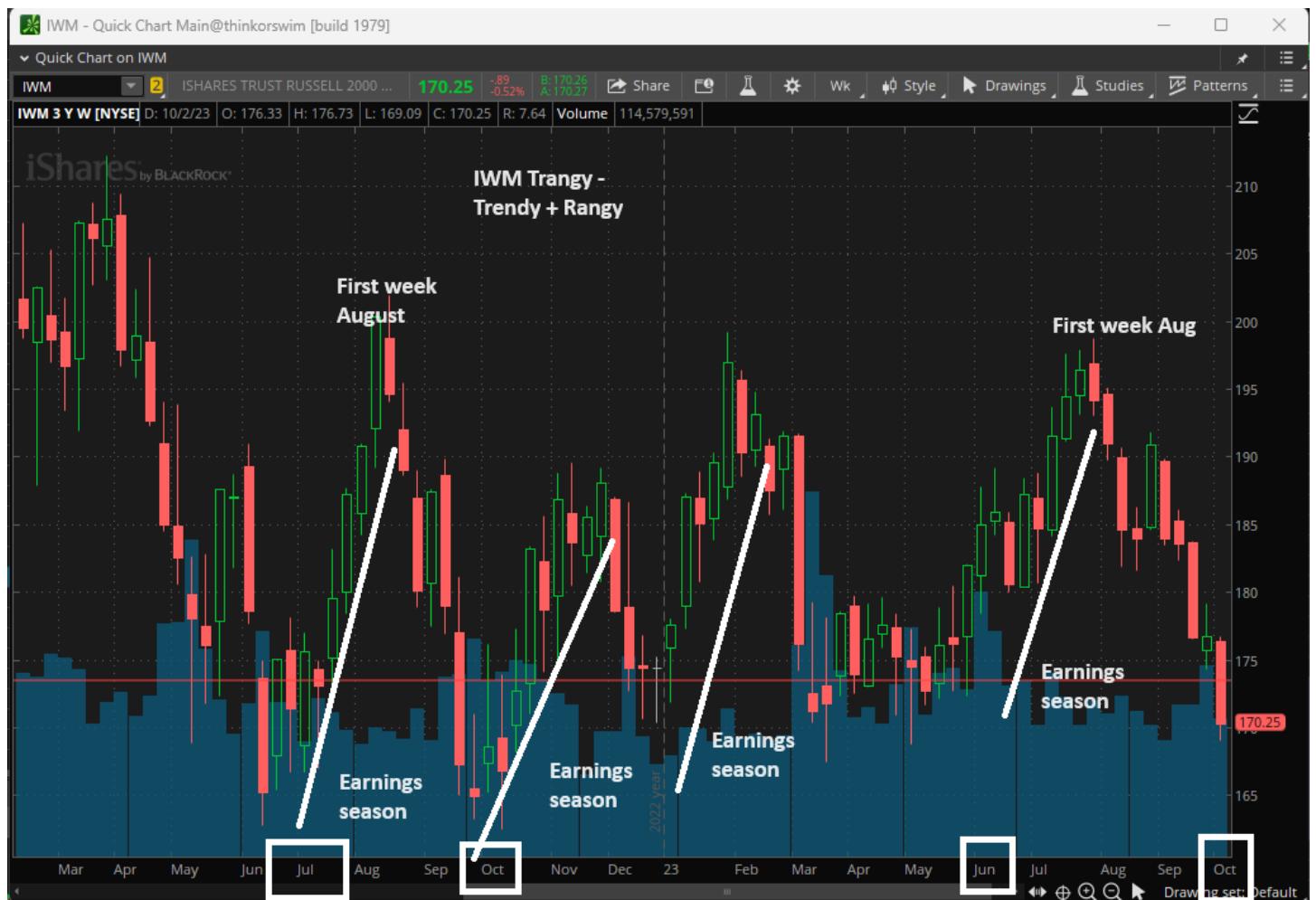
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Sep 21 2023 at 09:00

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

All you had to do was buy naked long vol; I'm going to write this here over and over again in the hopes that I can get it through my head that vol remains cheap relative to realized vol and especially to what I call trendvol. Directional vol can be even cheaper than it appears due to the potential for convexity magnification, similar to how a leveraged ETF keeps growing faster than its implied leverage when it feeds on itself repeatedly.

So, can we apply this instead of sounding like the Herald of Hindsight? Well, if trends inside of ranges are the thing now, let's call them 'trangy' seasonal markets, let's look at IWM, the Russell 2000 ETF for some clues to where cheap vol might be hiding out:



Clearly, boat missed on buying puts on IWM or owning the TZA 3x bear ETF staring in August (By the way, IWM is down 13% and TZA is up 53%, see what I mean....) but earnings season clearly has been quite good for IWM. Let's look at what rates did last year for some context as well:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



Interestingly, a rapid rise in the 10-year rate petered out in mid-October, the day **CPI ‘relieved’ folks by rising month on month .4% and year over year 8.2%, both worse than forecasts!** It almost makes you chuckle, but the real story, was that the next day, on the 14<sup>th</sup> of October, JPM reported better than expected and earnings season did what earnings season seems to do most of the time, the markets grind higher on the better than expected game.

And to add a little fuel to this idea, that small caps might come out of the sewer, is this compelling chart:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



So, if you were a genius hedge fund manager and you went long the Nasdaq 100 and short the Russell 2000, you are up over 100% year to date and will probably have to turn away new investors for winning the Crystal Ball Investing Award for 2024. (I remember as a kid, there was movie where this youngster looked at the newspaper and saw the future winning horses highlighted <https://www.imdb.com/title/tt0082849/>)

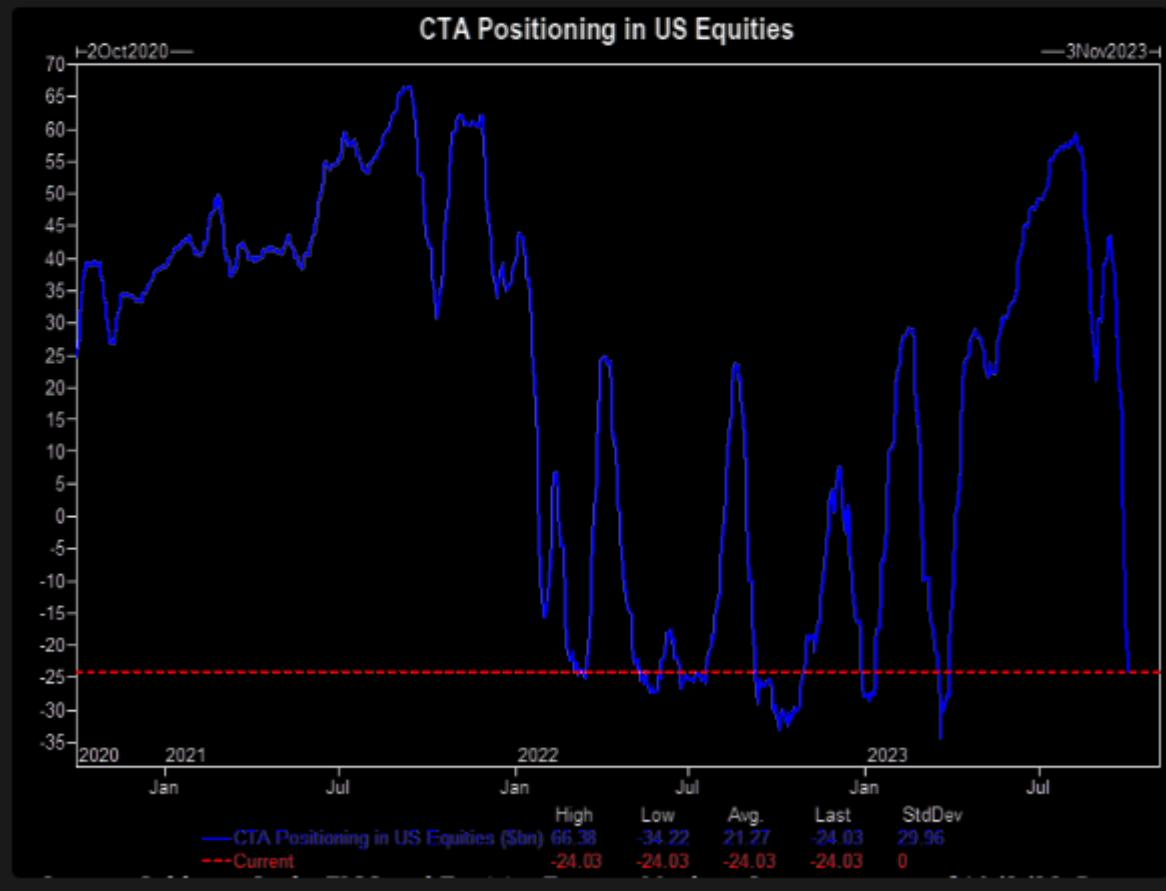
Imagine thinking, ‘Oh, higher rates for longer plus value stocks must be a sign to go long QQQ/short IWM’. Anyway, this trade is ripe for one of those huge factor unwind days, where the Bloomberg/Nomura/McElligott article says it was an 8 standard deviation factor day or whatever.

My point is that the universe of stocks not giga tech related is due for a catchup of sorts, potentially, and what better time than October opex and earnings season for that to begin, while the news/sentiment is pretty darn sour.

I'm thinking that we might be in for a bit of a pre-earnings purgatory here, seeing that so many stocks are near 52-week lows, a lot of hedge fund folks have sold and are leaning short, and CTAs are leaning short now:

## The long is gone

CTAs have puked equities aggressively. The number one flow guru around, Goldman's Scott Rubner writes: GS strats team predict further sales in global stocks amounting to \$52B within the coming week and a total of \$73B over the next month, assuming a flat market condition. Notably, the majority of this anticipated selling is expected to occur in the upcoming week.

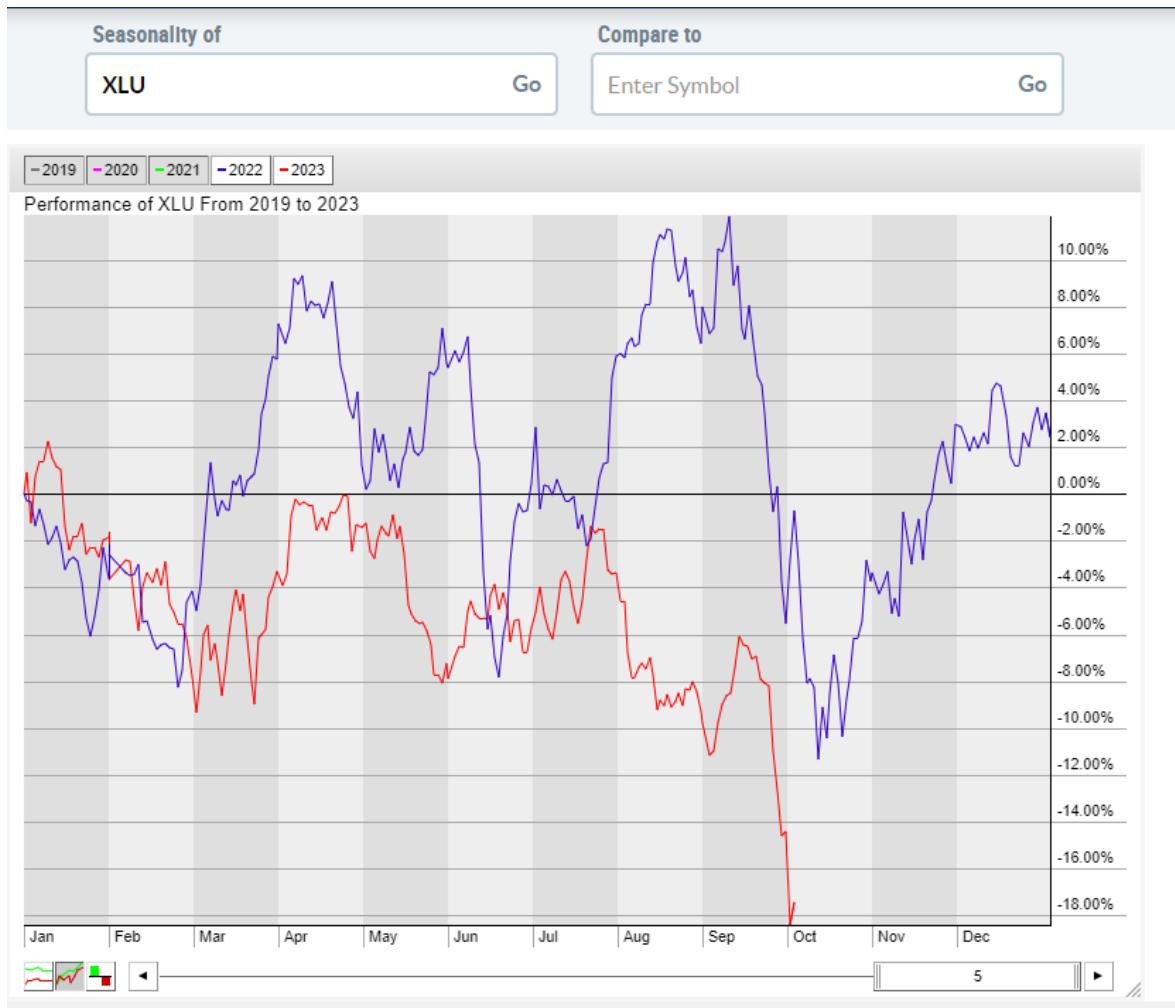


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11 hours ago at 04:00

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

Even utilities have followed last year's pattern of crashing around now:



A lot has happened price-wise since the last earnings season ended, mostly bad, and it might be time for sentiment to improve a little.

### Volatility Trades:

#### NFLX Oct 13th call condor spread

**Buy \$385 call**

**Sell \$395 call**

**Sell \$400 call**

**Buy \$410 call**

**Net debit: \$1.70-1.75**

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



Earnings are on the 18<sup>th</sup>, and the chart looks like it's rounding out a bottom:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



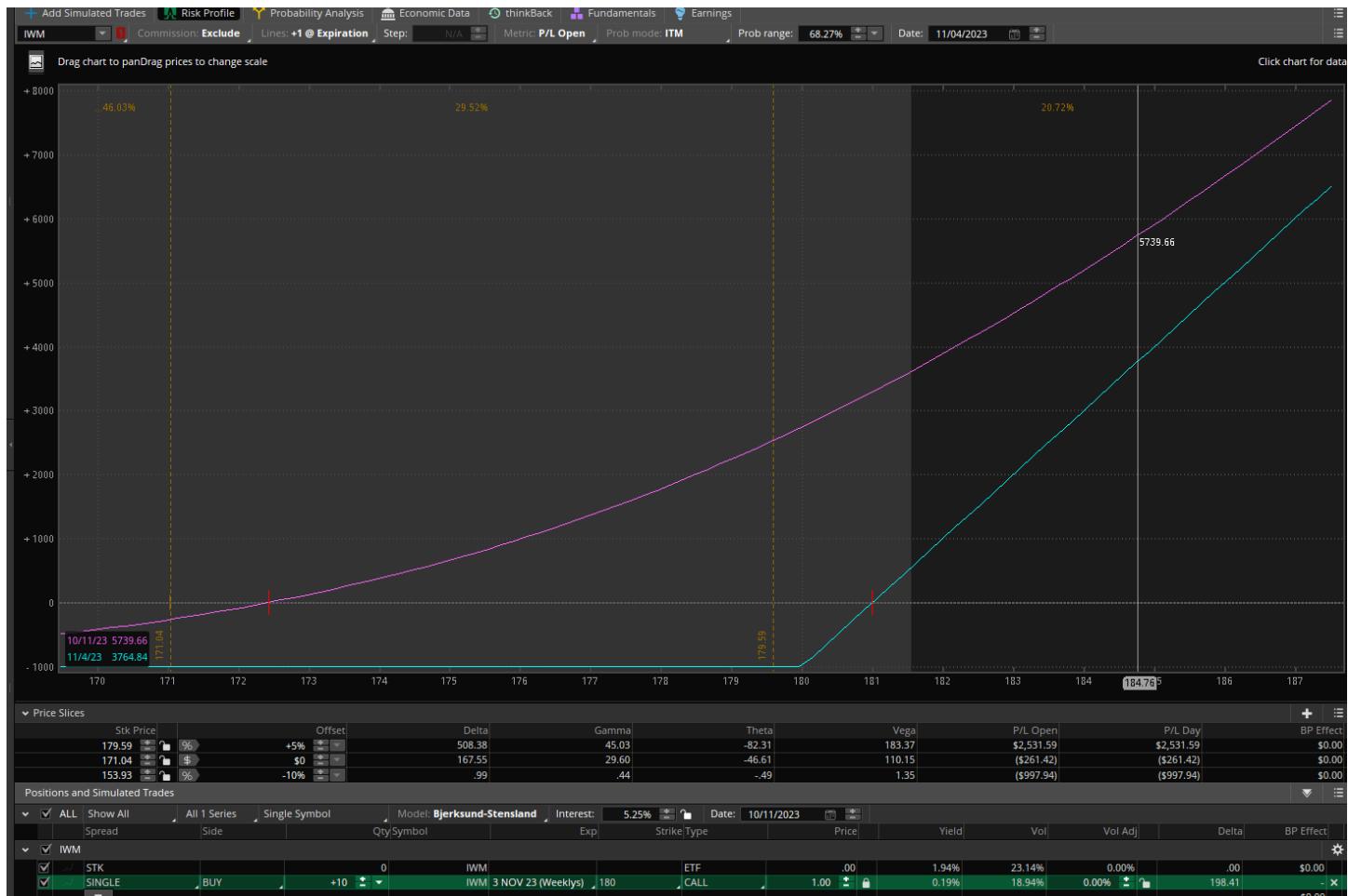
The chart shows \$400 as a logical pivot in the past, and it's \$100 down since before it last reported. Also, as you can see in July, and in the chart below it tends to float into earnings in October, not to mention that they are about to announce a price hike, which usually is a spike day for the stock. The news of that this week was squelched by a horrible market day.

Stock Price Performance - Last 12 Quarterly Earnings										
Date	Before Earnings (Not Including Day of Earnings)					Day of Earnings				
	2 Weeks	1 Week	3 Days	2 Days	1 Day	Earnings Move	Opening Gap	Open-to-High	Open-to-Low	Drift Open-to-Close
19-Jul-2023 AMC	+7.1%	+7.6%	+8.1%	+6.1%	+0.6%	-8.4%	-6.5%	+0.4%	-3.3%	-2.1%
18-Apr-2023 AMC	-3.8%	-1.3%	-3.6%	-1.5%	+0.3%	-3.2%	-3.1%	+0.7%	-2.3%	-0.1%
19-Jan-2023 AMC	+2.0%	-4.4%	-5.1%	-3.2%	-3.2%	+8.5%	+6.5%	+2.3%	-1.1%	+1.9%
18-Oct-2022 AMC	+0.1%	+12.4%	+3.6%	+4.7%	-1.7%	+13.1%	+10.1%	+5.4%	-0.9%	+2.7%
19-Jul-2022 AMC	+8.5%	+15.6%	+15.4%	+6.6%	+5.6%	+7.4%	+3.3%	+4.2%	-3.9%	+3.9%
19-Apr-2022 AMC	-8.3%	+1.3%	-0.5%	+2.2%	+3.2%	-35.1%	-29.7%	+1.5%	-13.3%	-7.7%
20-Jan-2022 AMC	-8.1%	-2.1%	-3.3%	-0.5%	-1.5%	-21.8%	-21.3%	+2.3%	-5.0%	-0.6%
19-Oct-2021 AMC	+0.7%	+2.3%	+0.8%	+1.7%	+0.2%	-2.2%	-2.2%	+2.0%	-1.3%	0.0%
20-Jul-2021 AMC	-2.0%	-1.8%	-2.2%	+0.1%	-0.2%	-3.3%	-0.9%	+0.9%	-3.9%	-2.4%
20-Apr-2021 AMC	+0.9%	-0.8%	+0.1%	+0.6%	-0.9%	-7.4%	-7.7%	+1.6%	-0.8%	+0.3%
19-Jan-2021 AMC	-3.7%	+1.5%	-1.2%	+0.2%	+0.8%	+16.9%	+12.5%	+5.1%	-1.3%	+3.9%
20-Oct-2020 AMC	+3.9%	-5.2%	-3.1%	-1.0%	-1.0%	-6.9%	-4.6%	+1.1%	-2.6%	-2.4%

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

### IWM November 3<sup>rd</sup> \$180 call

**Net Debit: \$1**



I know you never thought you'd see this in my note. Reminds me of Rocky III, "If you can change then I can change, we all can change.." or something. Anyway, why Nov 3<sup>rd</sup>? Well, Fed vol, non-farm payrolls vol, JOLTs vol all in this window. Target, \$2.50.

I should have another short note Saturday with a few more ideas post-NFP.

# END OF QUARTER PANICKY FIXED INCOME TRADING BECOMES CONCRETE SHOES FOR EQUITIES – WILL REALIZED VOL REMAIN HIGHER? – TRADES FOR EARNINGS/CPI

## VOLATILITY SUMMARY

*July 14<sup>th</sup> note:*

*"I've said this before but allow me to repeat myself. Equity markets (and bond markets for that matter) are not forward-looking. They are more like teenage parties; they don't end until the cops show up or get kicked in the nuts."*

Well, how's it going, fixed income managers? The 'smart' ones in the room. The conservative, prudent stewards of capital. The ones that do their extra homework and have advanced degrees from the Church of Finance (CFAs).

They wouldn't get caught in, say, rushing to buy things in the hopes that they would go up into year end, would they? Because it's the end of the Fed hiking cycle? Because inflation will come down? Because rates won't stay higher for longer? I think they forgot who flies the friendly skies of global fixed income airlines, oh yes....he's back to bring this bird in:



## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

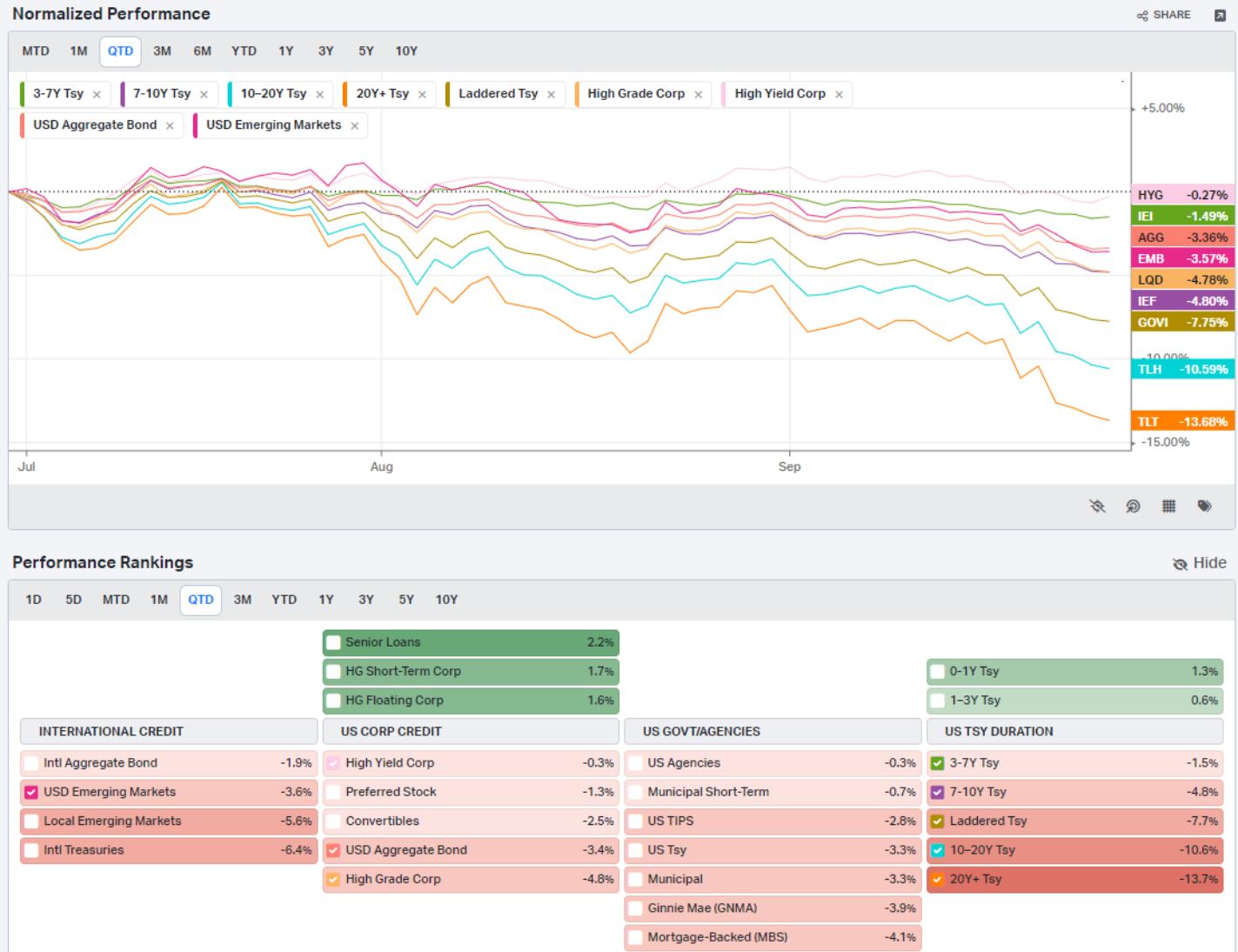
While you are contemplating if the entire rates complex going berserk (purely coincidental to the end of the quarter, right?) will finally cause more havoc in the banking system, or shadow banking system, or whatever real estate/private equity/leveraged loan/ system.....How did 2018 go you ask? When ‘autopilot Jay’ was tightening into year-end?



A lot to chew on there.

Well, here is how the ‘smart guys in the room’ did this quarter, in an array of fixed income areas:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH



Absolute carnage; the end of quarter statements are going to be quite a Picasso, attempting to paint a rosier picture with some tax advantaged maneuvering and window dressing. Comically, the riskiest bonds (HYG/JNK junk ETFs) did the best this quarter into a worsening economy/quantitative tightening, how funny is that?

I mean, how could these managers have known things like:

- A. Jay Powell repeating one thousand times over that rates would be higher for longer, or
- B. That the dot plot was going to show a higher curve for next year, or
- C. That there was going to be huge fresh new supply of treasuries to refill the TGA and to pay off the additional budget deficit interest, or
- D. That these higher rates/QT would negatively affect corporate bonds or .....

That's just a start, right? For these forward-looking 'smarter' markets. (Insert frustrated eye-roll emoji)

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

In the meantime, a lot of non giga-tech herd stocks look similar to Boeing's chart, which is quite the thing, going down every day by almost the same amount with amazing symmetry?



So, it seems to me that realized vol is going to be here for a while as the markets wonder if the summer of looking-forward to a future of AI induced profit bliss might have been just a bit of a drunken market summer dream. And back to reality with all the concerns the summer tried to look through, a slowing economy, tightening consumers and banks, etc.

Let's be realistic, if the areas of the market that are supposed to be relatively quiet, like highly liquid corporate bond ETFs (LQD) are acting like this, how quickly are we going back to July-like overnight tractor-beam S&P futures daily ramps of +10? Remember July earnings season, it was the last one we had, seems so long ago already:

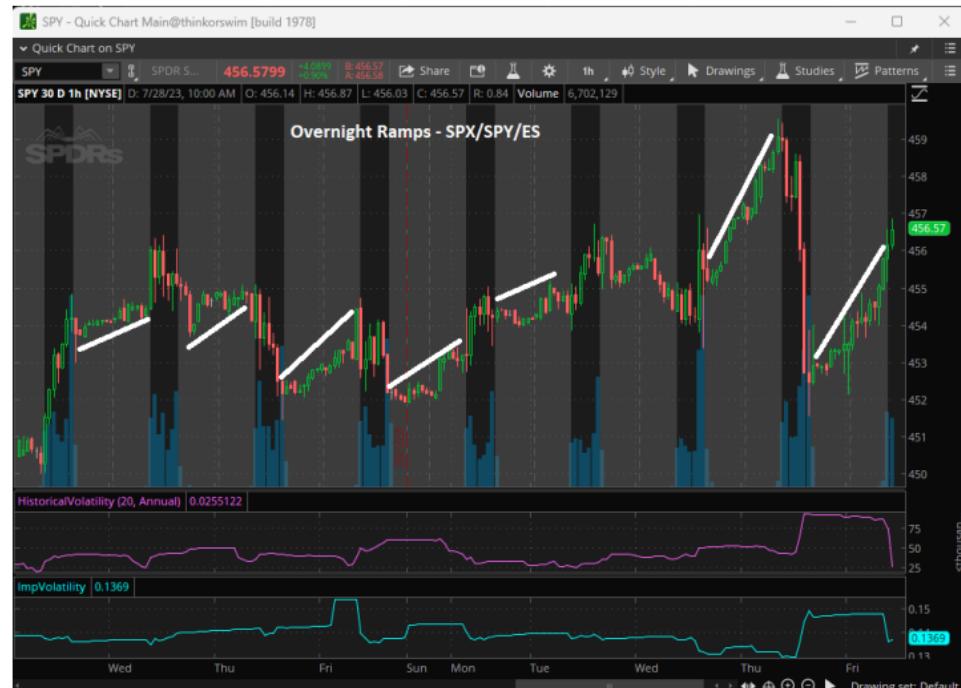
## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

### VOLATILITY ANALYTICS NEWSLETTER – JULY 28TH

OVERNIGHT RAMPING APPROACHING COMICAL – VOL  
MAY INCREASE POST AAPL/AMZN AS CORRELATIONS RISE  
– TRADES FOR NFP/CPI/POST TECH EARNINGS

### VOLATILITY SUMMARY

I'm trying to remember when I last saw this, probably October into November of 2021, when every night it seemed the futures just seemed to be caught in a tractor beam higher, down wasn't an option, and it's happening again:



So, the first day of the month is almost here, it's almost always bullish, first day or two of the month, and part of the reason this time may be perhaps related to the fixed income space in a different way. Yes, the end of quarter managers' duck duck goose/musical chairs games will be over, folks will be positioning in some of those beaten down spaces for the fourth quarter, but also, a gigantic amount of fixed income ETFs go ex-distribution early next week:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

Symbol ▲	ETF Name	Total Assets (\$MM) ▼	YTD	Avg Volume	Previous Closing Price	1-Day Change	Overall Rating
BND	Vanguard Total Bond Market ETF	\$94,767.10	-0.76%	5,847,134	\$69.88	-0.10%	
AGG	iShares Core U.S. Aggregate Bond ETF	\$91,140.70	-0.89%	7,708,700	\$94.18	-0.13%	
BNDX	Vanguard Total International Bond ETF	\$51,014.40	2.26%	2,140,651	\$47.94	-0.06%	
VCIT	Vanguard Intermediate-Term Corporate Bond ETF	\$39,107.20	0.74%	4,912,878	\$76.19	-0.25%	
TLT	iShares 20+ Year Treasury Bond ETF	\$38,224.00	-8.83%	27,846,788	\$88.87	-0.35%	
VCSH	Vanguard Short-Term Corporate Bond ETF	\$36,380.50	1.92%	3,824,123	\$75.13	-0.07%	
MUB	iShares National Muni Bond ETF	\$34,223.00	-0.58%	2,904,123	\$103.09	-0.11%	
BSV	Vanguard Short-Term Bond ETF	\$33,040.60	1.27%	2,888,511	\$75.09	-0.04%	
BIL	SPDR Bloomberg 1-3 Month T-Bill ETF	\$30,742.50	3.48%	6,590,645	\$91.75	0.01%	
LQD	iShares iBoxx \$ Investment Grade Corporate Bond ETF	\$30,074.00	-0.13%	20,074,356	\$102.54	-0.28%	
IEF	iShares 7-10 Year Treasury Bond ETF	\$27,518.80	-2.45%	6,976,854	\$91.73	-0.03%	
VTEB	Vanguard Tax-Exempt Bond ETF	\$27,212.20	-0.52%	3,866,986	\$48.33	-0.08%	

So, I expect a little calm here for a bit and then, probably as we get into earnings season, folks will have a lot to digest regarding the outlook for stocks/earnings, their end of year statements, the economic outlook for next year, what to sell for tax losses, and numerous other considerations. Let's see how forward looking the Sybil-like/schizophrenic markets will be.

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

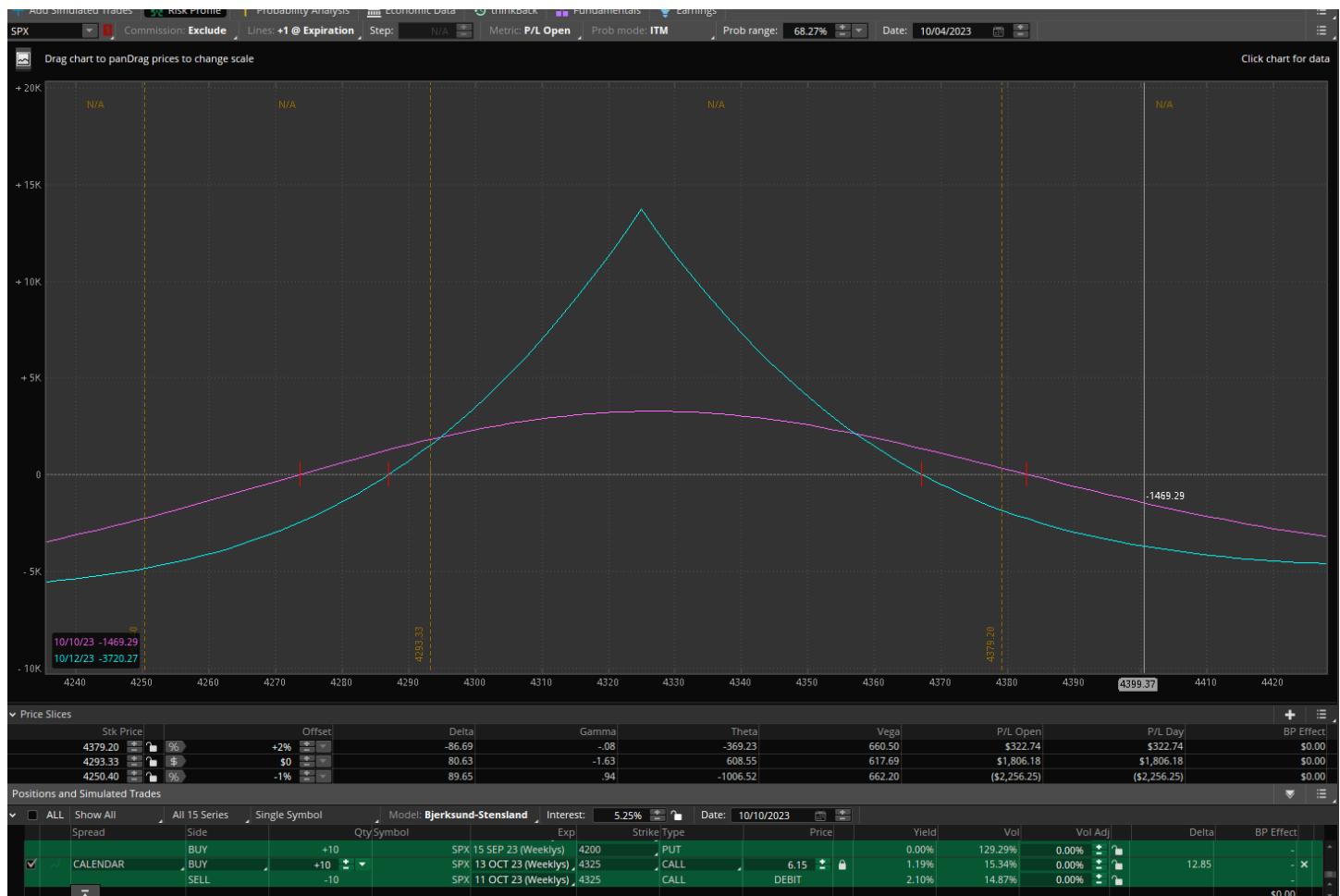
### Volatility Trades:

#### SPX CPI call calendar spread

Sell Oct 11<sup>th</sup> 4325 call

Buy Oct 13<sup>th</sup> 4325 call

Net debit: \$6.00-40



I'm flipping the script a little. And there are two reasons why I'm gravitating to calls instead of puts. The IV structure and the gain/loss distribution. Look at today/Tuesday two-day call calendar spreads:

## VOLATILITY ANALYTICS NEWSLETTER – OCTOBER 27TH

CALLS												PUTS												
Last X	Mark	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	Bid X	Ask X	Strikes:	Bid X	Ask X	Last X	Mark	Net ...	%Ch...	Impl...	Delta	Gam...	Volu...	Ope...	N/A	
28 SEP 23/2 OCT 23 (0/4) 100 (Weekly)											35													29.98% (+12.52%)
4.16	6.300	<b>28.29</b>	-117.2...	38.66%	-.11	.00	2	10	<b>4.10</b>	8.50		4210 / 4210	<b>5.30</b>	5.55	<b>5.38</b>	5.425	-4.24	-44.07%	42.89%	-.13	.00	416	1,123	
<b>-2.44</b>	<b>6.900</b>	-17.73	-115.9...	37.03%	-.12	.00	N/A	2	<b>4.80</b>	9.00		4215 / 4215	<b>5.90</b>	6.05	6.33	5.975	-3.77	-37.33%	41.08%	-.14	.00	2,410	1,364	
5.74	7.350	-12.27	-68.13%	35.28%	-.13	.00	N/A	15	5.20	9.50		4220 / 4220	<b>6.40</b>	6.65	<b>6.98</b>	6.525	-4.32	-38.23%	39.19%	-.15	.00	640	467	
1.35	8.000	-15.49	-109.5...	36.72%	-.14	.00	N/A	72	5.90	10.10		4225 / 4225	7.00	7.25	7.10	7.125	-3.70	-34.26%	37.29%	-.16	.00	604	481	
16.80	8.650	<b>23.79</b>	-340.3...	34.83%	-.16	.00	5	13	6.50	10.80		4230 / 4230	<b>7.65</b>	<b>7.90</b>	6.33	7.775	-5.17	-44.96%	37.19%	-.17	.00	270	1,260	
<b>-4.62</b>	<b>9.250</b>	-5.38	-707.8...	38.74%	-.16	.00	1	17	<b>7.30</b>	11.20		4235 / 4235	8.35	8.60	8.75	8.475	-4.18	-32.33%	35.17%	-.19	.00	198	633	
22.05	10.400	<b>5.47</b>	+32.99%	28.50%	-.20	.00	14	21	8.70	12.10		4240 / 4240	<b>9.25</b>	9.50	10.00	9.375	-2.90	-22.48%	33.19%	-.20	.00	415	345	
4.25	11.100	-6.08	-58.86%	32.76%	-.20	.00	12	18	9.20	13.00		4245 / 4245	10.10	10.35	10.225	10.225	-2.59	-20.02%	32.31%	-.22	.00	322	425	
<b>11.78</b>	<b>12.300</b>	<b>-.45</b>	-3.68%	27.30%	-.23	.00	56	71	10.60	14.00		4250 / 4250	11.05	11.30	<b>11.70</b>	11.175	-2.34	-16.67%	31.09%	-.23	.00	1,387	2,053	
11.93	12.800	<b>3.25</b>	+37.44%	29.02%	-.23	.00	18	46	11.50	14.10		4255 / 4255	12.00	12.30	12.37	12.150	-1.12	-8.30%	29.23%	-.24	.00	308	156	
20.08	13.800	<b>2.52</b>	+14.35%	28.88%	-.23	.00	39	96	12.40	15.20		4260 / 4260	<b>13.25</b>	13.50	13.70	13.375	-1.31	-8.73%	27.93%	-.26	.00	433	334	
16.00	15.450	<b>4.67</b>	+41.22%	27.36%	-.24	.00	63	68	14.80	16.10		4265 / 4265	14.45	14.70	14.55	14.575	-3.03	-17.24%	26.53%	-.27	.00	591	242	
18.25	17.200	6.41	+54.14%	23.68%	-.28	.00	187	139	16.70	17.70		4270 / 4270	15.55	15.85	16.01	15.700	-1.50	-8.57%	25.31%	-.27	.00	407	350	
<b>18.50</b>	<b>18.250</b>	<b>3.99</b>	+27.88%	23.27%	-.26	-.01	318	585	<b>17.70</b>	18.80		4275 / 4275	<b>17.00</b>	17.30	18.55	<b>17.150</b>	-1.47	-8.49%	24.09%	-.26	-.01	556	637	
19.50	19.500	4.65	+31.31%	22.17%	-.24	-.01	221	128	19.20	19.80		4280 / 4280	18.05	18.35	18.05	18.200	4.02	+28.65%	23.04%	-.24	-.01	562	483	
19.60	20.650	7.64	+63.88%	21.64%	-.19	-.01	309	129	20.20	21.10		4285 / 4285	19.10	19.45	20.39	19.275	5.39	+35.93%	22.28%	-.19	-.01	242	418	
21.28	21.100	7.20	+51.14%	21.46%	-.10	-.02	226	184	20.90	21.30		4290 / 4290	<b>20.00</b>	20.50	20.10	20.250	6.19	+44.50%	21.40%	-.11	-.02	470	729	
21.50	21.700	7.29	+51.30%	20.47%	-.00	-.02	156	120	<b>21.50</b>	21.90		4295 / 4295	<b>20.40</b>	20.80	21.10	20.600	8.86	+23.39%	20.78%	-.00	-.02	269	351	
21.55	21.450	6.33	+41.59%	19.97%	-.11	-.02	927	373	21.20	21.70		4300 / 4300	<b>20.00</b>	20.40	21.40	20.200	9.33	+77.30%	20.65%	-.11	-.02	778	1,559	
19.76	20.500	6.66	+50.84%	19.93%	-.21	-.02	376	302	20.30	20.70		4305 / 4305	<b>19.20</b>	19.50	19.50	19.550	-.70	-3.47%	19.42%	-.23	-.02	185	183	
19.00	18.925	6.91	+57.15%	19.79%	-.29	-.01	619	241	18.80	19.05		4310 / 4310	17.00	18.10	18.37	17.550	8.86	+93.17%	20.53%	-.28	-.01	194	167	
16.72	17.225	5.32	+46.67%	19.95%	-.32	-.00	299	145	<b>17.10</b>	17.35		4315 / 4315	<b>15.60</b>	16.40	16.28	16.000	5.55	+51.72%	21.27%	-.31	-.01	90	166	
15.55	15.325	4.87	+45.60%	20.72%	-.32	-.00	1,168	245	15.20	15.45		4320 / 4320	<b>14.00</b>	14.90	14.51	14.450	5.33	+58.06%	19.28%	-.35	-.00	180	337	
12.45	13.550	2.62	+26.65%	21.31%	-.31	-.00	604	293	13.40	13.70		4325 / 4325	12.00	12.70	12.30	12.350	3.06	+33.12%	23.34%	-.31	-.00	310	477	
11.03	11.875	1.88	+20.55%	21.71%	-.29	-.00	516	346	<b>11.80</b>	11.95		4330 / 4330	9.10	11.10	10.30	10.100	6.68	+184.5...	24.70%	-.28	-.00	153	711	
10.23	10.325	1.93	+23.25%	23.53%	-.27	-.00	615	336	<b>10.20</b>	10.45		4335 / 4335	<b>7.10</b>	8.80	2.55	8.950	-4.65	-64.58%	28.86%	-.25	-.00	40	106	
8.97	8.850	1.94	+27.60%	24.36%	-.24	-.00	575	888	8.70	9.00		4340 / 4340	<b>6.00</b>	9.30	-4.00	7.650	-11.21	-155.4...	28.14%	-.24	-.00	41	264	
8.75	7.750	2.50	+40.00%	24.61%	-.22	-.00	344	158	7.45	7.70		4345 / 4345	<b>4.50</b>	8.10	7.13	6.300	3.45	+93.75%	31.02%	-.21	-.00	6	153	
5.95	6.475	-.18	-2.94%	26.20%	-.19	-.00	720	1,432	<b>6.35</b>	6.60		4350 / 4350	<b>4.70</b>	6.30	4.96	5.500	13.65	+157.0...	22	-.00	22	538	828	
5.00	5.475	-.50	-9.09%	27.77%	-.17	-.00	312	229	5.35	5.60		4355 / 4355	<b>2.40</b>	<b>6.70</b>	7.84	4.550	5.22	+199.2...	28.24%	-.19	-.00	7	113	
4.45	4.75	.02	+0.45%	29.31%	-.15	-.00	1,236	236	4.45	4.70		4360 / 4360	<b>2.70</b>	6.20	1.95	4.450	-10.31	-84.09%	49.9%	-.18	-.00	60	143	
3.66	3.850	-.24	-6.15%	30.87%	-.13	-.00	640	679	3.75	3.90		4365 / 4365	<b>2.00</b>	5.20	4.58	3.600	3.61	+372.1...	28.71%	-.17	-.00	46	117	
2.80	3.175	.03	+1.08%	32.41%	-.11	-.00	327	481	3.05	<b>3.30</b>		4370 / 4370	<b>1.10</b>	4.50	-14.41	2.300	-20.59	-333.1...	28.14%	-.14	-.00	42	340	
2.40	2.625	-.18	-6.98%	33.95%	-.09	-.00	671	1,550	2.55	2.70		4375 / 4375	<b>.60</b>	2.40	-1.12	1.500	-.72	+180.0...	38.10%	-.12	-.00	23	299	
1.95	2.200	-.18	-8.45%	35.52%	-.08	-.00	368	351	<b>2.15</b>	2.25		4380 / 4380	<b>.10</b>	3.40	-4.06	1.750	-20.93	-124.0...	40.26%	-.12	-.00	15	166	

\$8- 75pts in the money

Spot around 4300

\$1.50- put calls

75pts ITM

For a while now, there has been a skew toward calls, could be rates, could be demand, but essentially, calls have been holding IV better. Put smashing/vol offering is a hot market dynamic lately. So in the case of put calendars, when they go deep ITM when the market drops, they are worthless or even have to be closed for a debit. And when the market shoots higher, the IV gets annihilated and the put calendars 1%+ out of the money evaporate quickly.

Conversely, when we get a spike up, the call calendars do just fine with the call skew in place. You can see here, 2% in the money, they still earn. They cost more initially but they have more of a yield type behavior with a larger margin for error. Target, \$10.

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