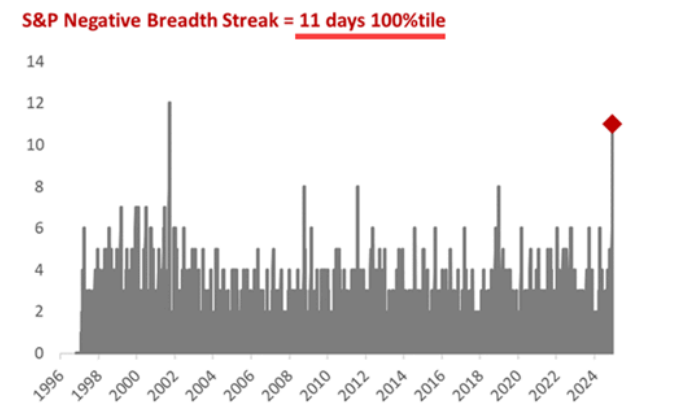


Nomura Securities Intl Inc, Charlie McElligott, Equity Derivatives Sales / Strategy, 212 667 2210
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A story told in pictures...
How the current streak of "Negative Breadth" days in US Equities as Investors chase into "Magnificent8 / MegaCap Tech" leaders could then spill-over into a nearing "Correlation Impulse," with implications on "Long Dispersion" and its "Short Vol" Vega supply getting squeezed

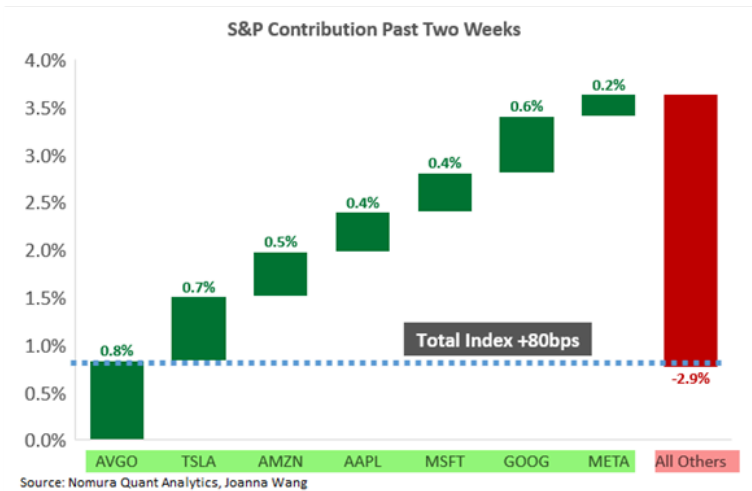
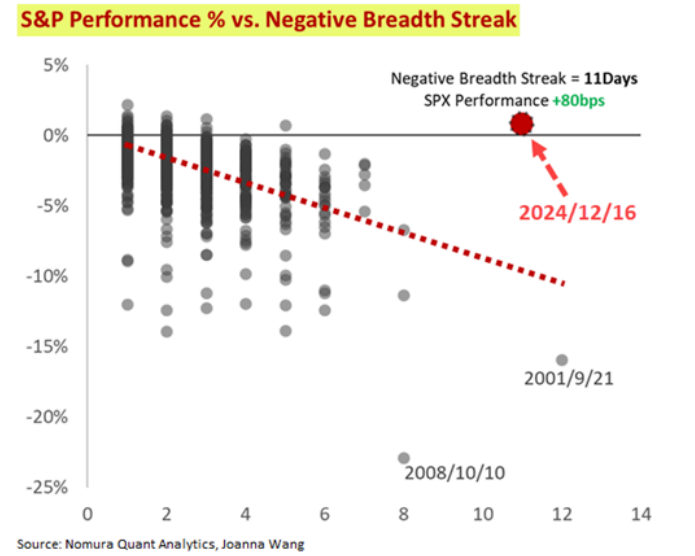
"BAD BREADTH" AND THE NATURE OF THE LATEST U.S. EQUITIES PUSH TO FRESH ATH's = EXTREME CONCENTRATION IN RETURNS VIA "MAG 8" MEGACAP TECH...AND LITTLE ELSE.

-Dare I say "unprecedented" to see said a consecutive days streak of "Negative Breadth" at this magnitude, when paired-with Index actually HIGHER over the same period (at least since 1996)...



SPX Negative Breadth Dates (Top10)

	Consecutive Negative Breadth (Days)	S&P Move % During the Period
9/21/2001	12	-15.9%
12/16/2024	11	0.8%
10/10/2008	8	-22.9%
8/2/2011	8	-6.7%
12/24/2018	8	-11.3%
3/3/1999	7	-3.5%
12/14/1999	7	-2.1%
1/25/2000	7	-2.7%
6/23/2000	7	-2.0%
6/18/2001	7	-5.4%



LEVERAGED ETF –SPACE IS AMPLIFYING THIS “PERFORMANCE CONCENTRATION” -FEEDBACK LOOP VIA ITS “SYNTHETIC NEGATIVE GAMMA” EOD REBALANCING — “ANIMAL SPIRITS” RUNNING HOT, AND LARGELY AS A FUNCTION OF THE “CONCENTRIC CIRCLES” OF SAID

MEGACAP TECH / CRYPTO “SPECULATIVE EXPOSURE CHASING,” AS -AUM AND -RETURNS PUSH EACH OTHER HIGHER IN WHAT IS CURRENTLY A “VIRTUOUS CYCLE”:

-FWIW, “Mag 8” (AAPL, MSFT, NVDA, AMZN, META, TSLA, AVGO, GOOGL, GOOG) are now collectively 35.9% of the SPY / 51.8% of QQQ as is currently weighted (into this morning)

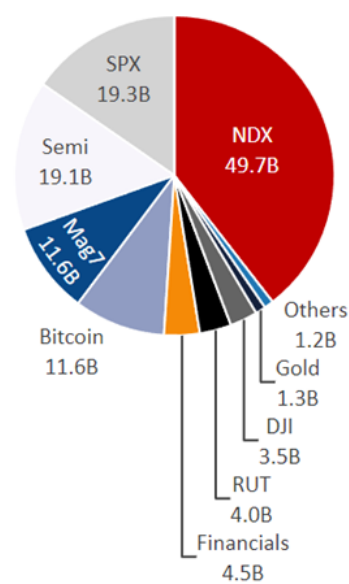
-FWIW 2.0, attaching a tear sheet from Tore Opsahl on the Nomura D1 desk regarding the new Nomura Animal Spirits custom basket, which provides exposure via a liquidity adjusted basket tracking single-name exposures across the Leveraged ETF space, to trade the theme either Long or Short

Levered ETF AUM Breakdown

Current AUM = 129B 100%tile

Category	% AUM
Tech Leadership/Animal Spirits	89%
(Tech Leadership/Animal Spirits excl. SPX)	74%
All Other	11%

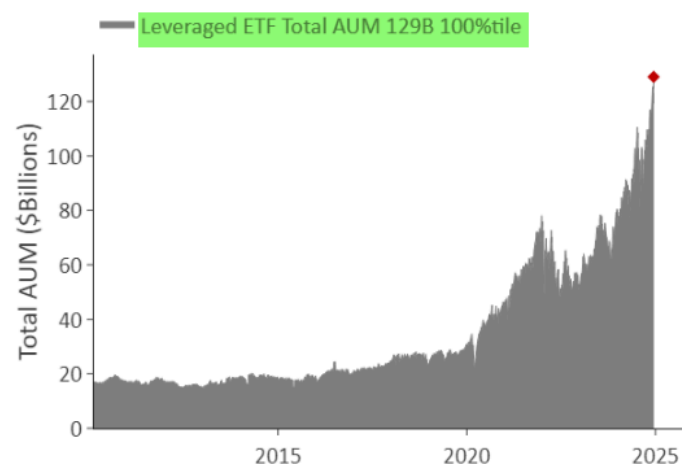
Source: Nomura Vol



Source: Nomura Vol

Levered ETF AUM Growth

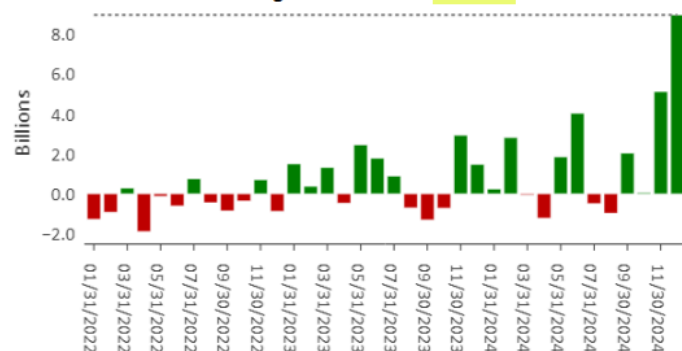
\$Billions



Levered ETF Rebalance History

	1w	1m		1w	1m
All	15.8	23.7	All	98%	94%
Tech	14.4	21.1	Tech	99%	97%
Semi	2.3	1.6	Semi	96%	91%
Mag7	5.6	9.0	Mag7	100%	100%
RTY	-0.3	-0.1	RTY	19%	35%
Financials	-0.1	-0.2	Financials	31%	34%
Bitcoin	2.0	2.1	Bitcoin	100%	99%

Levered ETF Rebalance For Mag7 Past 1M: +9.0B 100%tile



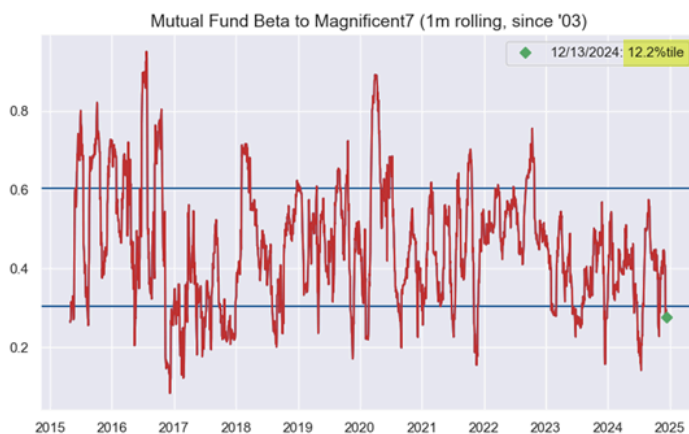
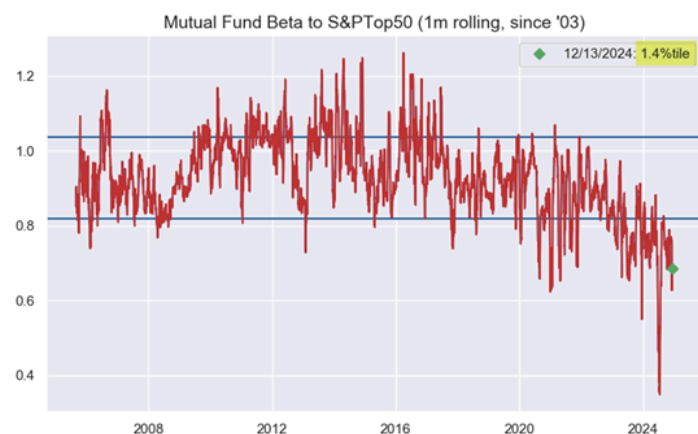
Levered ETF Rebalance For Bitcoin Past 1W: +2.0B 100%tile



Source: Nomura Vol, Bloomberg

AND THIS “CONCENTRATION OF RETURN LEADERSHIP” ACROSS A SMALL HANDFUL OF NAMES—VERSUS EVERYTHING ELSE IN INDEX “DRAGGING”—IS AN INTUITIVE PAIN-TRADE, BECAUSE YOU JUST CAN’T OWN ENOUGH OF THOSE NAMES:

-Active Mutual Fund “undercapturing,” as the largest S&P components gap away and you lose Beta to index



Source: Nomura Vol

-Or another example, where **Index Arb -players are de facto “Short” the soon-to-be-reduced “High Flyers” in the NDX 100 annual rebalance** (e.g. AVGO, TSLA, META all set to be REDUCED in the Index weight due to enormous performance runs vs Index Caps / Constraint -rules)...so look at the awful 1d performance of the Rebal trade yesterday -510bps, the first day of trading after being announced Friday...PARTICULARLY thanks to the explosion higher in AVGO yday (and TSLA to a smaller extent)

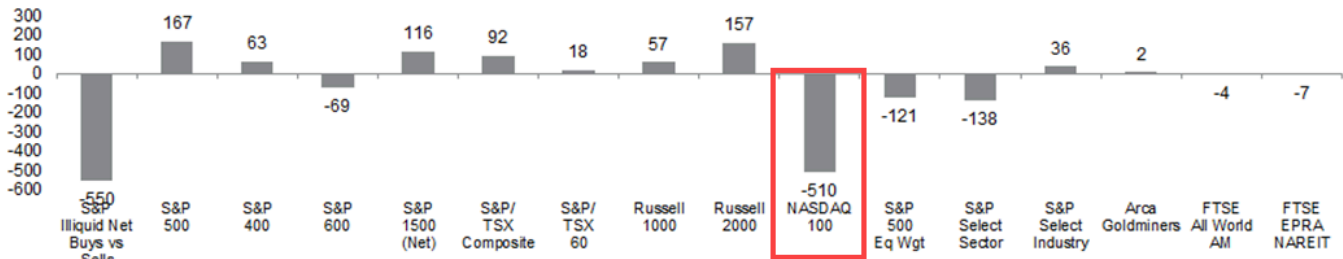
	Name	Actual Rtn	Trade Contribution	Category
1	AVGO BROADCOM INC.	11.2%	-4.4%	Wgt Decrease
2	TSLA TESLA, INC.	6.1%	-1.2%	Wgt Decrease
3	SMCI SUPER MICRO CMPTR CM	-8.3%	0.2%	Deletion
4	META META PLATFORMS, INC.	0.6%	-0.2%	Wgt Decrease
5	AMZN AMAZON.COM INC	2.4%	0.2%	Wgt Increase

Americas Rebalance Trade Performance

December 16, 2024 Close

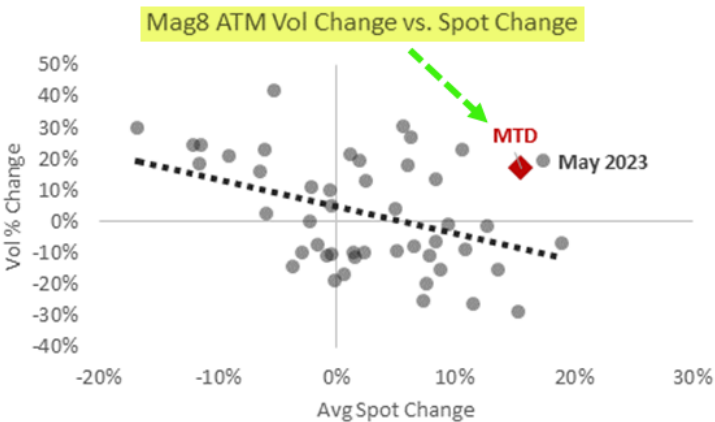
Cumulative Performance from Announcement

Today's Performance (Bps)



Source: Instinet, Patrick Mohr

-And I'd be remiss if I failed to mention the “Spot Up, Vol Up” in the MegaCap Tech / MagWhatever universe in recent weeks—where yes, some of this is a function of Speculative froth and broad market “Animal Spirits”—but no doubt, plenty of Leveraged Funds are needing to grab into that Upside Call Exposure in this group of concentrated names, because they simply don’t own enough of the underlying stuff that is dictating Index returns



Source: Nomura Vol

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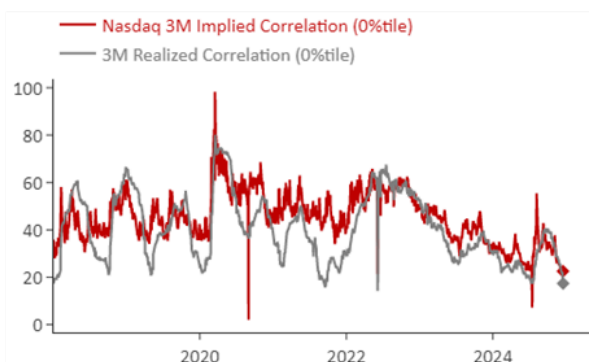
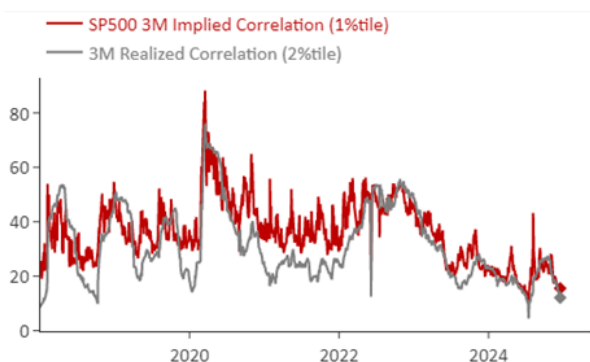
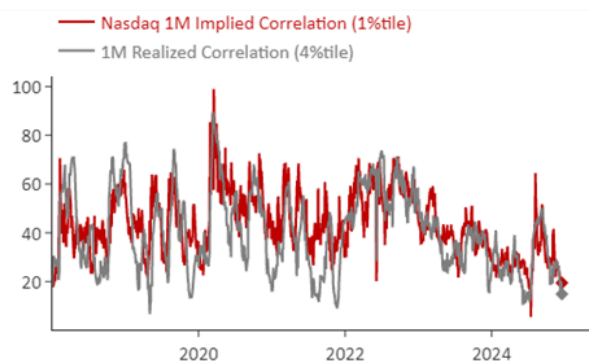
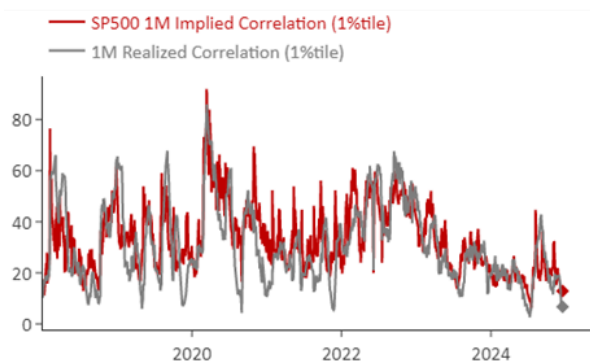
AND THANKS TO “MAG8 VS EVERYTHING ELSE” DYNAMIC...AS CORRELATION CRATERS, “LONG DISPERSION” RETURNS STRENGTHEN:

-When there’s such a clear dichotomy between “Winners and Losers” thematically and Correlation drops, Long Dispersion benefits and Index Vol bleeds...especially in a world where we have NOT seen outright “Risk OFF” shocks for a long while, and which tend to go “hand-in-hand” with “Corr1 Shocks”

as of Dec 17 2024

Summary

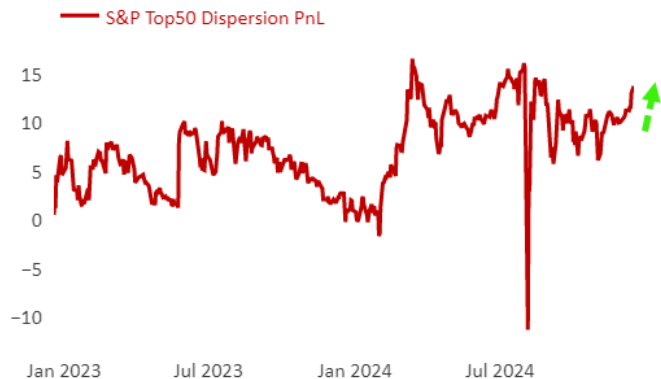
	1M Implied Correlation		1M Realized Correlation		3M Implied Correlation		3M Realized Correlation	
	Level	%tile	Level	%tile	Level	%tile	Level	%tile
SP500	12.9%	1%	6.7%	1%	15.6%	1%	12.1%	2%
Nasdaq	19.5%	1%	14.8%	4%	22.5%	0%	17.4%	1%
Tech	29.5%	4%	19.3%	2%	28.7%	1%	28.8%	4%
Financials	47.4%	12%	38.7%	15%	47.7%	12%	51.1%	30%
Healthcare	20.7%	9%	18.3%	19%	19.9%	5%	13.3%	3%
Utilities	46.3%	12%	50.6%	28%	44.8%	3%	41.6%	8%
Consumer Disc	9.8%	1%	6.0%	3%	11.4%	1%	2.2%	0%
Consumer Stpls	27.1%	15%	10.1%	2%	25.9%	4%	14.8%	1%
Energy	61.2%	24%	50.4%	11%	66.4%	38%	56.1%	17%
Industrial	29.4%	13%	20.7%	5%	26.8%	6%	25.6%	11%
SMH	49.3%	14%	27.1%	3%	51.0%	8%	36.7%	2%
ARKK	29.8%	10%	21.8%	7%	26.6%	2%	24.7%	4%



Source: Nomura Vol

Top50 Dispersion Profitability

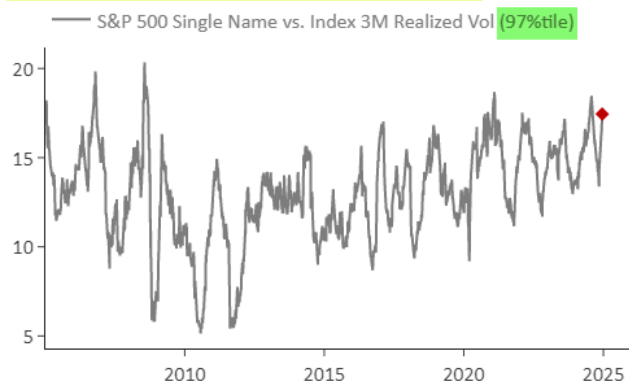
	past week	past 2w	past month	past 3m	ytd	past year
PnL	2.5	3.4	2.6	3.3	12.8	11.9
Sharpe	11.3	12.3	5.0	0.9	0.4	0.4
Max Drawdown	-0.0	-0.0	-1.4	-5.3	-27.9	-27.9
PnL %tile	88%	87%	77%	71%	100%	100%



* PnL in Vol Pts

Source: Nomura Vol

S&P 500 Single Name vs. Index 3M Realized Vol



AND “LONG DISPERSION” RV TRADES MATTER...BECAUSE THIS HAS BEEN A CRITICAL COMPONENT OF THE INDEX OPTIONS “VEGA SUPPLY” –THEME (VS LONG BASKET OF SINGLE-NAME VOLS) OVER THE PAST FEW YEARS, WHICH CONTINUES TO STUFF DEALERS / MMs ON INDEX GAMMA AND COMPRESS REALIZED VOL: Clearly the entry point is unattractive with Corr so low (to the point where “Reverse Dispersion” queries are increasingly popular as a diversifier)....but you are “in” these trades, which have grown at magnitudes recently..so there remains potential for the “Short Index Vol” leg to squeeze

–“The on-trend equity dispersion trade...has grown five-fold in the last four years, to a vega notional of us to \$1 billion”—Risk.net 10 Apr 2024

–“The number of QIS targeting dispersion has risen 75% since the end of 2021 to over 50, according to PremiaLab data from 18 banks”—Hedgeweek.com 27 May 2024

SO WE NEED A “CORRELATION SHOCK,” WHICH ONE CANNOT PREDICT, OF COURSE...

–I’m on the record as wondering if the next few US Treasury Refunding announcements from the new regime could spark a “Macro Scare” via renewed / escalated pressure on the Long-End of USTs, with regard to potentially shifting the forward guidance on current Coupon / Bill supply dynamics which have placated the market since the Yellen “Pivot to Bills” –issuance...and instead, see the Treasury begin terming-out into Coupon, especially as RRP continues to shrink after having acted as the Bill “shock absorber”

...BUT THIS EXTREMELY SMALL SAMPLE BACKTEST ON “SPX NEGATIVE BREADTH STREAKS” AS A SIGNAL OF FORWARD MOVE IN SPX 1M CORRELATION—IS TELLING US THAT “THERE’S A CHANCE” FOR A CORRELATION SQUEEZE FROM HERE WHEN IT’S BEEN THIS LOW AND WE’VE SEEN BREADTH THIS CONSISTENTLY NEGATIVE:

–We lowered the “Negative Breadth Streak” from the current 11 down to 6 as the trigger, in order to take a snapshot of their forward moves in Correlation...and FWIW, each of those priors had not surprisingly seen a Correlation Crush in the months leading into the “Negative Breadth Streak”...but on the the T+1w forward and peaking at T+2w, we saw those median SPX COR1M levels ratchet sharply higher thereafter

COR1M Levels | SPX Negative Breadth Streaks >= 6

	-3m	-2m	-1m	-2w	-1w	+1w	+2w	+1m	+2m	+3m	+6m	+1y
Median	26.4	31.7	39.4	48.7	50.9	67.4	80.7	74.6	66.7	53.2	47.9	51.2
10/10/2008	34.2	34.4	38.3	59.2	59.1	84.3	96.6	74.6	66.7	53.2	47.9	51.2
8/2/2011	37.7	49.7	46.4	54	63.4	67.4	80.7	85.5	76.7	85.4	61.4	55.2
12/24/2018	13.8	28.9	40.5	43.4	42.7	33.3	28.7	31.2	34.4	19.8	30.9	21.1
12/16/2024	18.6	16.6	8.8	10.7	10.1							

Source: Nomura Vol, Joanna Wang

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- o Uncovered put writing: The risk of selling an uncovered put (including short put position in a ratio put spread) is significant and may result in losses significantly greater than the premium received.
- o Covered call or put writing: Selling a covered call or put limits the potential profit of a long or short stock position respectively.
- o Call or put vertical spread purchasing (same expiration month for both options): The basic risk of effecting a long spread transaction is limited to the premium paid when the position is established.
- o Call or put vertical spread writing (same expiration month for both options): The basic risk of effecting a short spread transaction is limited to the difference between the strike prices less the amount received in premiums.

- Call or put calendar spread purchasing (different expiration months & short must expire prior to the long): The basic risk of effecting a long calendar spread transaction is limited to the premium paid when the position is established.

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