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BLOG POST

Options Volatility

02/11/2022

Over the last few weeks, major indices have been under significant pressure. The recent volatility comes as investors brace for tighter policy from the Federal Reserve. In order to combat this volatility, traders bought put options, which have the potential to protect investors when prices decline. According to Bloomberg, traders bought 31.3 million equity put options on the 24th of January, just shy of the all-time high of 32.3 million on the 21st. The massive number of options traded, puts as of late, show how the options market has changed over recent months. While options may have contributed to the most recent volatility, they are not the only driver of stocks. However, the increase in retail investor participation and rising hedging by institutions has spurred an increase in activity.

- At the time of this writing, the S&P 500 was down 9.72% from its previous high of 4,818.62. the Nasdaq Composite Index has fallen 16.46% from its previous high of 16,212.23, 11.6% of which came over last two weeks of trading.

- Data from CBOE Global Markets indicated $53.7bn of options traded in the U.S. on Monday compared with the monthly daily average of $25.3bn.

- On January 24th, the CBOE Volatility Index (VIX) hit its highest level of 38.94 since October 30th, 2020.

- Some now speculate the relationship between stocks and options has been upended, with derivatives now driving the equity markets.