

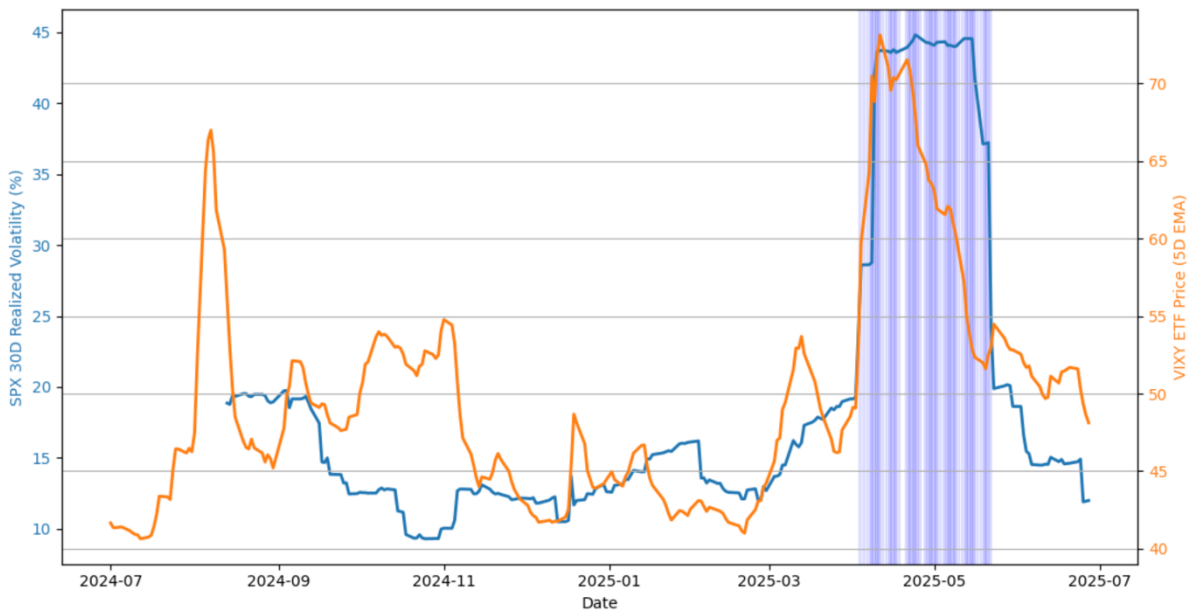
Flash: Volatility Compression, Too Calm Before the Storm?

June 29th, 2025

Highlights

Markets have grown unusually quiet. Equity volatility, as measured by the VIX, has been hovering near post-pandemic lows for much of Q2 2025. Bond volatility (MOVE index) has also come down sharply after a volatile 2024. On the surface, it suggests investor confidence, but beneath it lies a growing risk of complacency.

Figure 1: SPX 30-Day Realized Volatility vs. VIXY ETF (Implied Volatility Proxy):



The chart shows that VIXY (implied volatility proxy) consistently trades above realized SPX volatility, reflecting the persistent volatility risk premium priced into VIX futures. However, notable divergences emerge:

Early 2025: Realized volatility spiked sharply while VIXY remained relatively anchored, suggesting the market was slow to react.

The volatility spread narrowed substantially afterward, as realized vol caught up, then both declined, hinting at mean reversion and market calm.

Overall, the compression in both vol measures toward June suggests growing complacency, potentially setting the stage for a sharp vol regime shift if risk materializes.

The Evidence of Complacency

VIX Term Structure: Steep contango — with front-month VIX <13 and back months barely above 15

Realized Volatility (SPX): 10-day and 30-day realized vol both trending under 8%, historically low

Skew Flattening: Implied vol skew on SPX options has normalized — indicating little demand for downside protection

Credit Markets: CDX IG and HY spreads remain tight despite macro risks (e.g. geopolitics, US election)

This hawkish pivot is rippling across the yield curve. The 10-year Treasury yield recently climbed above 4.4%, up from below 4.1% just weeks prior. Meanwhile, short-term rates remain anchored, keeping the curve inverted but now with more pronounced upward pressure on the long end, a dynamic some analysts view as a warning signal for asset valuations

Why This Calm Might Be Dangerous

1. Macro Uncertainty Is Rising, Not Falling

- The US election cycle is heating up
- Fed policy remains uncertain — data-dependent with asymmetric tail risks
- China's recovery remains weak, and geopolitical flashpoints are still active

2. Positioning Is Crowded

- Heavy positioning in **mega-cap tech and AI trades** — these are sensitive to growth and

3. Historical Analogs

- Similar periods of low vol in 2017 and mid-2021 were followed by sharp corrections once catalysts hit (inflation surprises, geopolitical shocks, QT acceleration)

Trade Ideas: Hedge the Calm

If you believe **volatility is artificially compressed**, here's how to position:

Volatility Plays:

- **Buy VIX Call Spreads** (e.g., Sep 15–20 or Oct 16–24)
- **Calendar Spreads on SPX** – Sell near-term vol, buy deferred vol (expect vol to reprice forward)
- **Tail Hedges** – Buy put spreads or broken-wing butterflies on SPX, QQQ

Cross-Asset Hedges:

- **Gold Calls or Long GLD** – Often catches bid when volatility rises
- **JPY or CHF Longs** – Safe havens in equity drawdowns
- **Long MOVE Index via TYVIX proxy or short TLT**, in case bond vol returns first

rates

- Volatility sellers (e.g., structured product issuers, vol ETFs) may be **overextended**
- Dealer gamma profiles suggest **short-term vol suppression**, which can unwind violently

Final Thought

Periods of low volatility can last — until they don't. With so many potential catalysts ahead (Fed pivot, fiscal stress, global elections), the cost of optionality is **historically cheap** right now. In portfolio terms, even a **modest volatility hedge** can offer strong convexity in a reversal scenario.

What Read More on the Topic

- [VIX at Lows: Why Traders Are Bracing for a Volatility Reversal](#)
- [The Gamma Trap: How Dealer Positioning Can Snap Back Vol](#)
- [MOVE Index and the Bond Market's Volatility Disconnect](#)
- [Volatility Risk Premia: How Much Are You Really Earning?](#)
- [Low Volatility ≠ Low Risk: Lessons from 2017 and 2021](#)

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