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Special Update: Volatility Risk Trigger

As I mentioned in the most recent letter, we were moving closer to seeing the Volatility Risk Trigger signal as VIX dispersion continued to narrow during a period of time the other components of the indicator had already setup. As of Tuesday's close, the VRT 2.0 has signaled.

At this time, the proverbial window is now open for a material move higher in equity volatility. This does not necessarily mean the VIX spikes immediately or that the S&P 500 will crash. The last signal from the VRT 2.0 was in mid-August and while the signal marked the low in the VIX, vol began to slowly rise before two weeks later seeing a one-day 10 point spike and the S&P 500 dropping 3% (and then eventually 9.6% before finding a low.) This is what I mean by the "window being open" - in other words the environment becomes ripe for an increase in volatility.

Like I mentioned in Sunday's note, the current short-term risk/reward for equities is less attractive right now but while breadth data remains strong, any weakness we do see should (hopefully!) be short-lived.

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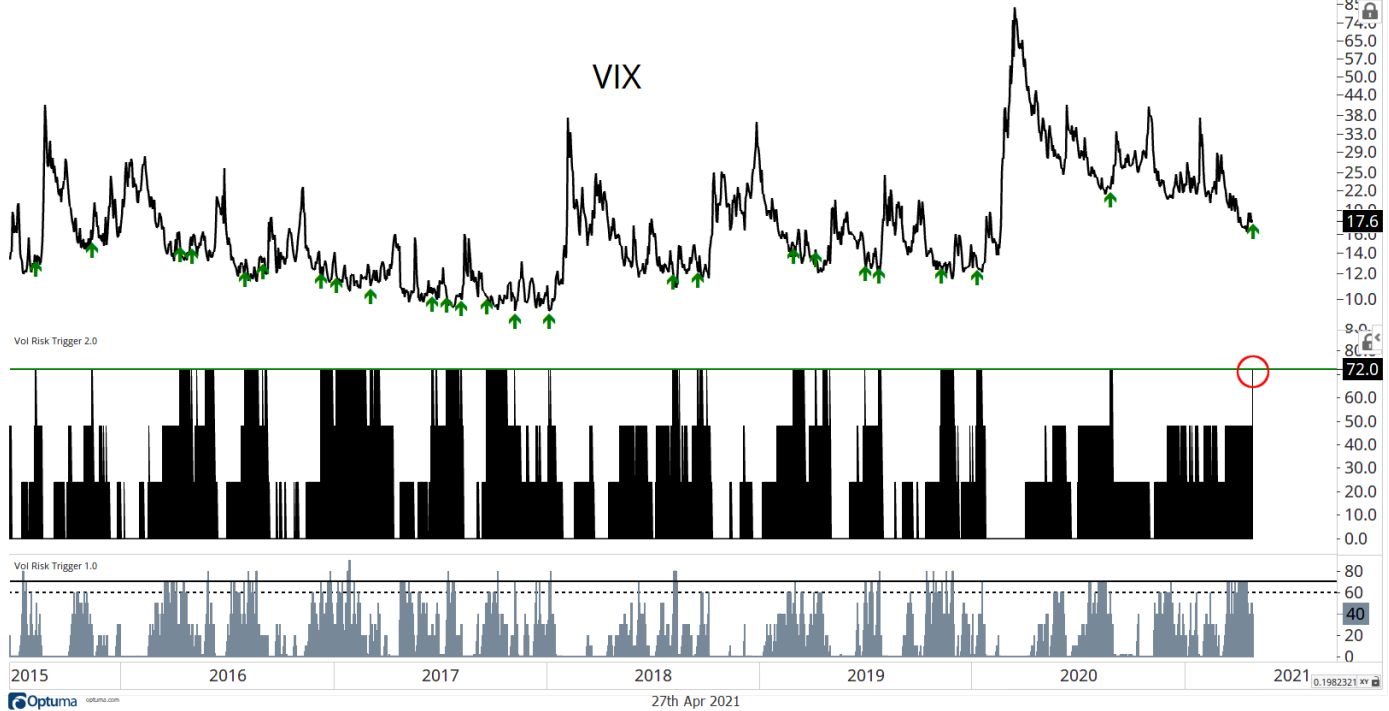
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CBOE S&P 500 Volatility Index - VIX (CBOE) - 1 Day Line Chart - USD - No Layout



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