

Understanding the VIX

- The CBOE Volatility Index (VIX) is a real-time measure of market expectations for price changes in the S&P 500 Index, often referred to as “the Fear Index”
- Investors use the VIX to gauge market sentiment and assess levels of risk, fear, or stress when making investment decisions
- The VIX is calculated using option prices and implied volatility over the next 12 months, providing a forward-looking measure of market volatility
- High VIX Values, typically above 30, are associated with increased uncertainty and fear in the market, while lower values indicate stability. The average of the VIX Index has been approximately 21 since 1993.
- Investors can indirectly trade the VIX through the likes of future contracts and ETFs, tracking its movements, and using it to hedge risk or speculation of market movements

Using the VIX to Make Portfolio Decisions

- By monitoring the changes in the VIX, we can assess overall market sentiment and volatility levels.
- When the VIX is higher, market uncertainty is greater which may prompt a more conservative approach to our model allocations
- When the VIX is lower, it implies less market uncertainty and greater confidence in the economy which could lead us to increase the exposure of riskier assets like growth stocks and real estate.
- The VIX, however, is just one of many market barometers and must be used in conjunction with other current market information like interest rate movements, earnings growth, geo-political events and other market valuation metrics.

VIX over the last 1 year

As you can see in the chart below, the strong outperformance of equity markets over the last year has resulted in a below average value in the VIX Index.



But when we expand the chart to cover the last 5 years (see next page), it's clear that the large spike in the VIX (as high as 66 in March 2020) led to the severe market decline precipitated by the Covid pandemic. Volatility and market uncertainty remained elevated until around October 2022, where a steady decline in the VIX corresponded with strong equity performance over the next 18 months. Except for a spike in April 2024, the VIX has maintained a value below 15 for most of this year.

