

## MARKET STRUCTURE | VOLATILITY REGIME &amp; DEALER POSITIONING | R-09 UPDATE

# Equities on Stilts: October Update

Dealer positioning, credit and real rates since the June report, and what they say about timing

**Ryan Mahaffy | MSF | Independent Research** Data anchored to the close of 26 October 2026. Updates the report I published in June 2026.

| Posture                          | 12-mo SPX (weighted) | 12-mo base case | End-2029 (weighted) | 5-yr TR CAGR (weighted) | SPX (26 Oct) |
|----------------------------------|----------------------|-----------------|---------------------|-------------------------|--------------|
| Core long, hedged for a pullback | 7,707 (+0.4%)        | 8,291 (+8.0%)   | 7,928 (1.0% p.a.)   | 3.8%                    | 7,676.77     |

| Positioning                      | Vol surface               | Rates and credit          | Valuation and breadth        |
|----------------------------------|---------------------------|---------------------------|------------------------------|
| Net dealer GEX -\$24.2bn / 1%    | VIX / VIX3M 19.45 / 20.48 | 10y UST 5.00%             | CAPE (to spot) 41.1          |
| Zero-gamma flip 7,723            | VIX9D 17.92               | 10y TIPS 2.66%            | CAPE yield less TIPS (0.23%) |
| Spot vs flip (0.6%)              | VVIX 101.4                | HY OAS 3.38% (low 2.60%)  | % above 200DMA 60.6%         |
| Call wall 8,000   put wall 7,000 | SKEW 151.8                | Fed funds (eff.) 3.88%    | Mag 7 / top 10 34.2% / 39.8% |
| 0-45 DTE net -\$44.1bn           | 21d realized 9.9%         | Brent / WTI \$115 / \$108 | Euphoria composite 43 / 75   |

**Thesis.** I still think this market melts up before it breaks, but the positioning that supported it in June has changed. In June dealers were long roughly \$72bn of gamma with the index 1.5% above the flip. At the October 26 close they were short about \$24bn, with spot 0.6% below a flip that has moved up to 7,723. Over the same stretch Brent went to \$115, the 10-year real yield went to 2.66%, and the S&P's cyclically adjusted earnings yield fell below the TIPS yield. Two of the four triggers from the June report have printed and high yield spreads are 12bp from the third. In June I said any one of these printing would move me from watching to hedging, so I am hedging.

The June report treated the correction as one event. I now think there are two. The first is a positioning flush of 5–12%, which I think is the most likely outcome over the next one to two quarters and which I am hedging with put spreads. The second is the actual cycle top, a decline of 20% or more, and I don't think the conditions for it are in place yet. Institutions are heavily positioned, but retail sentiment and the vol market are nowhere near euphoric, and my composite for that reads 43 out of 100 against the 75 I would want to see. My view is that the top comes between late 2028 and 2030. The model gives that window a 50% probability and a break before it 35%, so I am keeping the core long and letting the triggers tell me when that changes.

**Change log.** June report (3 Jun 2026): correction window 2026–2028; watching, no protection; no rating. **This update (26 Oct 2026):** pullback and cycle top treated as separate events; hedge for a pullback put on under the June trigger rule; cycle-top window now set by the data, with my own view at late 2028 through 2030; 12-month probability-weighted SPX 7,707; companion thesis M-02 (real-rate compression by mid-2027) marked wrong on its own falsifier.

## 1. What Changed Since June

The framework is a set of triggers plus a probability tree. Dealer positioning, the vol surface, credit, rates and oil drive the next one to three quarters. Valuation, measured as the index level that would clear a required real return over TIPS, tells me how far the market can fall once that mechanism stops working. Scenario weights sit on top of both and sum to 100%. The data is pulled and modeled in Python and Excel, and every figure in the report ties to that model.

The June report used four triggers (1–4 below) and said that any one of them printing would move me from watching to acting. I have kept those four exactly as published so the record stays clean, and added five that weren't relevant in June: the gap between the equity earnings yield and TIPS, the 10-year yield, the VIX level, breadth, and the euphoria composite. The original four decide whether I hedge a pullback. All nine together, with the composite as a gate, decide whether the window for a cycle top is open.

| Trigger                      | June (2–4 Jun) | Live (23–26 Oct) | Threshold        | Status |
|------------------------------|----------------|------------------|------------------|--------|
| 1. SPX vs zero-gamma flip    | +1.5%          | (0.6%)           | Close below flip | ON     |
| 2. VIX / VIX3M               | 0.81           | 0.95             | 1.00             | OFF    |
| 3. HY OAS                    | 2.75%          | 3.38%            | 3.50%            | NEAR   |
| 4. Brent                     | ~\$97          | \$115.22         | \$100            | ON     |
| 5. CAPE yield less 10y TIPS  | +0.35%         | (0.23%)          | Below 0          | ON     |
| 6. 10y Treasury              | 4.46%          | 5.00%            | 5.50%            | OFF    |
| 7. VIX                       | 16.06          | 19.45            | 25               | OFF    |
| 8. % of members above 200DMA | 56.8%          | 60.6%            | 40%              | OFF    |
| 9. Euphoria composite        | n/a            | 43               | 75               | OFF    |

Exhibit 1: Trigger dashboard. June VIX values use CBOE same-date closes for 3 June; the June report printed VIX 16.29. Source: CBOE, FRED (ICE BofA, H.15), yfinance; author computation.

The index is roughly where it was in June (7,676.77 against 7,609.78 on June 2) and only 1.8% below the October 6 record, so on price alone this still looks like the same melt-up. Underneath, the flip moved up 3.4% while spot moved 1.2%, which puts the market on the side where dealer hedging adds to moves instead of dampening them. The 10-year TIPS yield rose from 2.07% to 2.66% while breakevens fell, so the rise in yields is term premium. And oil went back above \$100 after the US and Iran traded strikes around Hormuz on September 9–10.

## 2. Dealer Positioning

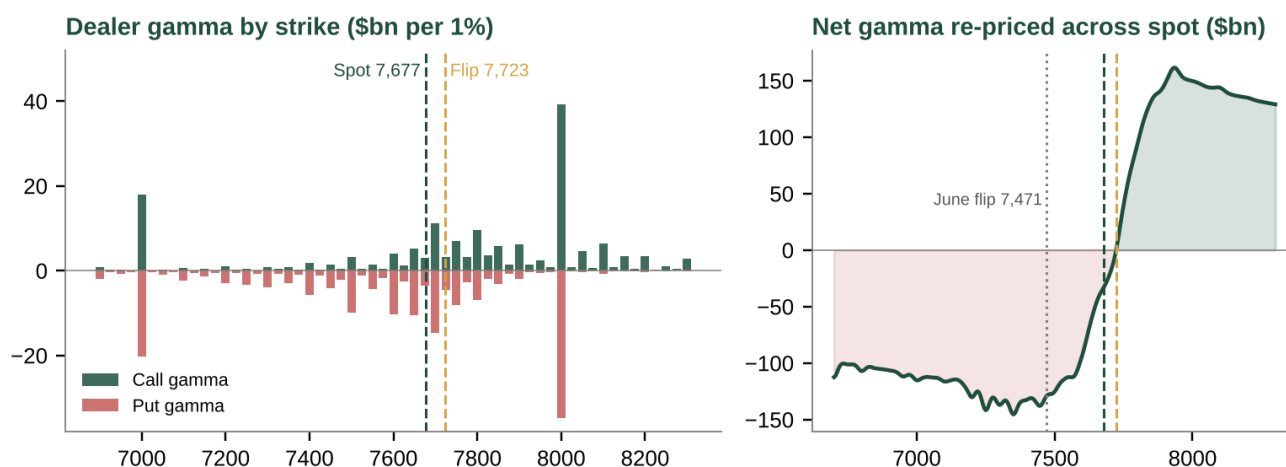


Exhibit 2: SPX dealer gamma, 26 October 2026 close. Left: by strike. Right: net gamma re-priced across a spot grid at each contract's CBOE IV. Sign convention: dealers long calls, short puts. Source: CBOE delayed chain, author computation.

| Measure         | June (4 Jun) | Now (26 Oct) | Change |
|-----------------|--------------|--------------|--------|
| Spot            | 7,584        | 7,676.77     | +1.2%  |
| Zero-gamma flip | ~7,471       | 7,723        | +3.4%  |

| Measure                           | June (4 Jun) | Now (26 Oct)            | Change      |
|-----------------------------------|--------------|-------------------------|-------------|
| Spot vs flip                      | +1.5%        | (0.6%)                  | Crossed     |
| Net GEX, CBOE gamma (\$bn per 1%) | +72.2        | (24.2)                  | Sign flip   |
| Net GEX, re-priced at spot (\$bn) | n/a          | (33.5)                  |             |
| Directional call wall             | 7,600        | 8,000 (\$39.2bn)        | Migrated up |
| Put wall                          | 7,000        | 7,000 (-\$20.3bn)       | Unchanged   |
| 0–7 / 8–45 / 46+ DTE net (\$bn)   | n/a          | (26.0) / (18.1) / +19.9 |             |

Exhibit 3: Dealer gamma, June against now. Source: CBOE delayed chain, author computation.

Net dealer gamma is -\$44.1bn inside 45 days against +\$19.9bn further out. That fits with customers buying near-dated puts into the October 16 and October 22–23 selloffs, which leaves dealers short those puts. Re-priced across a spot grid, net gamma crosses zero at 7,723 and is deeply negative by 7,600, which is why the profile is so steep around spot. Below the flip, dealers have to sell into a decline to stay hedged; above it they go back to buying dips. The 8,000 strike carries the largest call and put gamma on the board and would pull the index toward it if the pin rebuilds. 7,000 is the main support from dealer positioning.

Open interest doesn't show who is long, so I assume dealers are long calls and short puts. In a put-heavy market like this one, the sign and size of total gamma are more sensitive to that assumption than they were in June, though the flip and wall locations hold up. The open interest is Friday's close, so this is a snapshot of positioning and won't capture Monday's flow. And the re-price holds each contract's implied vol fixed, which ignores skew steepening in a selloff and understates how quickly the negative zone deepens. Two closes back above 7,723 would rebuild the pin. Until then trigger 1 is on.

### 3. Rates, Credit and Oil



Exhibit 4: 10-year TIPS yield and ICE BofA US High Yield OAS, January to 23 October 2026. Dotted line marks the June report date (3 June). Source: FRED (DFII10, BAMLH0A0HYM2).

The 10-year Treasury yield hit 5.31% on October 5 and closed at 5.00% on October 23. Almost all of that move came from the real yield. 10-year TIPS have been above 2.5% for 31 straight sessions since September 10 and peaked at 2.95%, while the 10-year breakeven drifted down from 2.48% in May to 2.34%. The Fed hiked 25bp on September 16. The bond market is charging more to hold duration while the Treasury keeps issuing it, and inflation expectations aren't what is driving it. In the October BofA survey a disorderly rise in yields was the top tail risk, ahead of an AI bubble, and respondents said a 10-year at 5.9% would get them to move money from stocks into bonds. I set trigger 6 at 5.5% as an earlier warning.

With CAPE marked to the current price at 41.1, the cyclically adjusted earnings yield is 2.43%, 23bp below the TIPS yield. In June it was 35bp above. On ten-year average earnings, someone buying the index today is accepting a lower real return than they could lock in with TIPS. That is trigger 5, and it is on. Section 7 looks at what it means for downside.

HY OAS has widened 78bp, from a cycle low of 2.60% on August 28 to 3.38%, which is wider than about 85% of daily readings over the last three years and makes it the trigger closest to printing. CCC spreads are 13.56%, while investment grade has barely moved at 91bp. Weaker credits repricing first while the index holds near highs is usually how credit stress starts. A move through 3.5% puts trigger 3 on and makes it three of four. A move through 5% opens the cycle-top window by itself, regardless of where the euphoria composite is.

Brent closed at \$115.22 and WTI at \$107.89 on October 20. The move started on September 9–10, when US strikes on Iranian tankers were followed by Iranian attacks on ten vessels near Hormuz, with the Houthis adding pressure on the Red Sea route. The administration has said the conflict could continue past the midterms. In June I said the oil signal depended on the cause. This is a supply shock, which at these prices is stagflationary and feeds directly into the real-rate problem above.

M-02 is wrong. That thesis called for real rates to compress by mid-2027 and was falsified by a sustained 10-year TIPS yield above 2.5%. Thirty-one straight sessions counts as sustained. Gold has held its trend, but the falsifier was either condition and the rates side printed. I still think fiscal pressure is the right mechanism. It is showing up in term premium instead of forcing a policy response, and that is the variable I come back to in section 5.

#### 4. Volatility Surface and Breadth

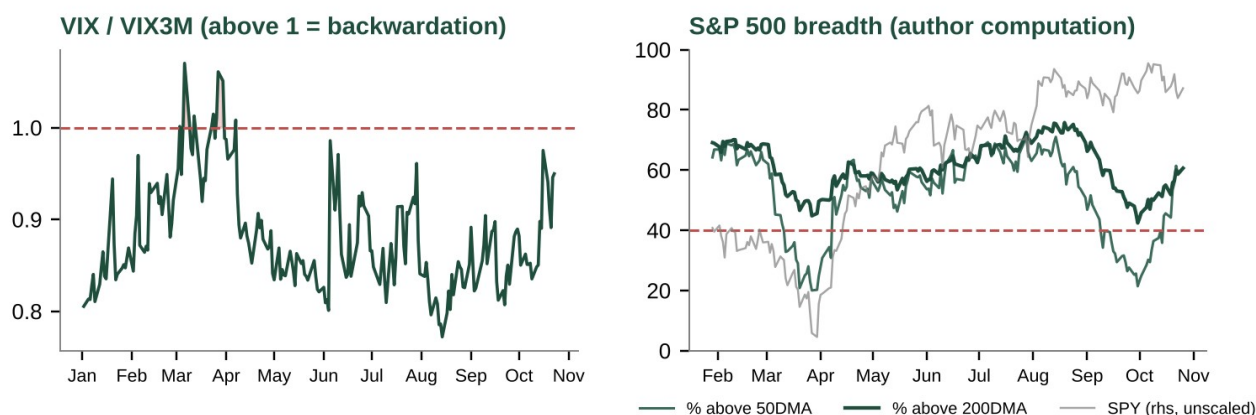


Exhibit 5: Left: VIX / VIX3M, same-date closes. Right: share of S&P 500 members above their 50- and 200-day moving averages, author computation from 500 constituents (yfinance), with SPY. Source: CBOE, yfinance.

VIX / VIX3M was 0.95 on October 23 against 0.81 in June, so the curve is flat but still in contango, and trigger 2 is off. The last inversion was in March. VIX at 19.45 against 21-day realized vol of 9.9% puts the implied premium at about 10 vol points, up from around 6 in June. SKEW is 151.8 against the high 130s in June, and VVIX has been between 101 and 110. Downside protection is expensive right now, especially in the tails, which is why the hedge in section 10 uses spreads that sell the wing and why I am not buying VIX calls.

On September 30 only 21.4% of S&P members were above their 50-day average and 42.4% above their 200-day, while the index was still near highs. That washout has since repaired to 60.6% on both measures, better than June's 53.8% and 56.8%. Equal weight has outperformed cap weight by 0.9% over six months, and net new highs are 1.6% of members. Concentration is about where it was: the Magnificent 7 are 34.2% of total market cap and the top ten are 39.8%. I read the September break and recovery as rotation inside the market, and I don't see breadth as the problem today.

#### 5. Timing the Top: Fiscal Path, Election Cycle, Liquidity

My view is that the real top comes between late 2028 and 2030, once the people expecting a correction today have given up and turned euphoric. That rests on three things: the fiscal path, the election cycle, and the liquidity cycle that tends to run alongside the bitcoin halving. I didn't put a date on the correction in June and I still can't.

## Fiscal path

The fiscal 2026 deficit came in at \$2.0tn, more than \$200bn above the prior year. Deficits that size support corporate profits and nominal growth, and that is the best argument for the melt-up lasting. That debt is being sold into a 5% 10-year and a 2.66% real yield, and the market is pricing it as term premium. For fiscal support to carry the market into 2028, something has to cap the long end: more issuance shifted to bills, balance-sheet policy, or an explicit ceiling on yields. Without that, I think the deficit pulls the top earlier through rates. This is the variable I am watching most closely for timing, and trigger 6 is there to catch it.

## Election cycle

The 12 months after a midterm have historically been the strongest part of the four-year cycle. That is the main support for my base case over the next year, a pullback followed by new highs in the second half of 2027. It is based on roughly 20 cycles, which is enough to lean on for a 12-month view. It can't separate one year inside the window from another, so I give it no weight in the long-horizon timing.

## Liquidity and the halving

The halving changes bitcoin's supply schedule, but its connection to equities runs through global liquidity, which comes back to the fiscal and Fed path above. Counting it as a separate reason would be double counting. Its own timing fits the back half of my window. The next halving is around April 2028, and past bitcoin peaks have come 12 to 18 months after a halving, which would put the liquidity peak in mid-to-late 2029 and an equity top that lines up with it in 2029 or 2030. I use it as a confirming signal for that part of the window.

## The 1999 comparison

The Fed started hiking in June 1999 and the Nasdaq didn't peak until March 2000, with 10-year real yields near 4% for much of that run. A melt-up can last several quarters through hikes and high real yields. On the gap between the earnings yield and TIPS, March 2000 was around -1.8% against -0.23% today (Exhibit 9), so by that measure there is still room, and it is the strongest data point I have for a later top. The L1 path in section 9 peaks at 9,800. With ten-year earnings growing 5% a year, that is a CAPE of about 46.5, above the December 1999 record of 44.2. For my window to be right, the market has to set a new valuation record. That is possible, and it is what a euphoric top would look like, but it is a high bar.

## 6. Euphoria Composite

A lot of people say they expect a correction, and the surveys show it. Positioning doesn't. To separate the two I built a composite of eight inputs, each scored from 0 at a neutral reading to 100 at a euphoric one, then weighted and averaged. The window for a cycle top opens when the composite is at 75 or higher and at least three triggers are on, or when HY spreads go through 5% by themselves. Where I set the neutral and euphoric levels is my judgment, and each one is documented in the model.

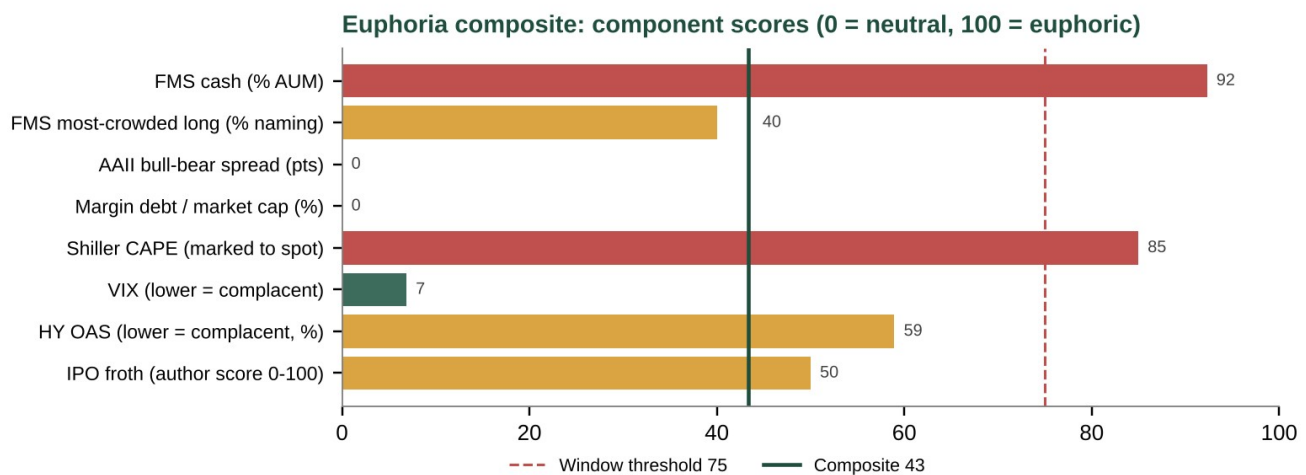


Exhibit 6: Euphoria composite components. Red at or above 75, amber 40–75, sage below 40. Source: BofA FMS, AAll, FINRA via First Trust, Multpl, CBOE, FRED; author scoring.

| Component                             | Live  | Neutral | Euphoric | Score     | Weight      |
|---------------------------------------|-------|---------|----------|-----------|-------------|
| FMS cash (% AUM, July)                | 3.6   | 4.8     | 3.5      | 92        | 15%         |
| FMS most-crowded long (% naming, Oct) | 45    | 25      | 75       | 40        | 10%         |
| AAll bull-bear spread (pts, 15 Oct)   | (2.9) | 6.5     | 35       | 0         | 15%         |
| Margin debt / market cap (%)          | 2.3   | 2.3     | 2.9      | 0         | 10%         |
| Shiller CAPE (to spot)                | 41.1  | 25      | 44       | 85        | 10%         |
| VIX                                   | 19.45 | 20      | 12       | 7         | 10%         |
| HY OAS (%)                            | 3.38  | 4.5     | 2.6      | 59        | 15%         |
| IPO froth (author score)              | 50    | 0       | 100      | 50        | 15%         |
| <b>Composite</b>                      |       |         |          | <b>43</b> | <b>100%</b> |

Exhibit 7: Euphoria composite build. Sub-scores: positioning 51, sentiment and vol 20, price and credit 69.

Institutions are positioned for a melt-up. FMS cash was 3.6% in July, below BofA's 4.0% sell signal, and semis are still the most crowded long at 45% (down from 82% in July). Retail and the vol market are not euphoric. AAll bears outnumber bulls, margin debt is a record in dollars but average relative to market cap, and VIX is near 20. The October survey had optimism at its lowest since June, and 45% of managers said they expect an AI bubble in 2027. If most people think the bubble is a year away, we are probably not in it yet. Sentiment hasn't caught up with positioning, which has to happen before a euphoric top. Positioning is already stretched, though, which is what sets up a pullback. That points to a pullback first and euphoria later, if it comes.

## 7. Valuation and Regime Comparisons

I measure valuation as the index level at which the cyclically adjusted earnings yield would beat the TIPS yield by a required premium,  $E10 / (\text{real yield} + \text{ERP})$ . Backing E10 out of the October 8 CAPE of 41.62 and that day's close gives 186.6 index points. At today's real yield and a 1% premium, the index would be at 5,098, 33.6% below spot. At a zero premium it would be 8.6% below. Right now the market is accepting -0.23%.

| TIPS % / ERP | (0.50%) | (0.25%) | 0.00% | 0.25% | 0.50% | 1.00% | 1.50% | 2.00% | 3.00% |
|--------------|---------|---------|-------|-------|-------|-------|-------|-------|-------|
| 1.00         | 386%    | 224%    | 143%  | 94%   | 62%   | 22%   | (3%)  | (19%) | (39%) |
| 1.50         | 143%    | 94%     | 62%   | 39%   | 22%   | (3%)  | (19%) | (31%) | (46%) |
| 2.00         | 62%     | 39%     | 22%   | 8%    | (3%)  | (19%) | (31%) | (39%) | (51%) |
| 2.25         | 39%     | 22%     | 8%    | (3%)  | (12%) | (25%) | (35%) | (43%) | (54%) |
| 2.50         | 22%     | 8%      | (3%)  | (12%) | (19%) | (31%) | (39%) | (46%) | (56%) |
| 2.66 (live)  | 13%     | 1%      | (9%)  | (16%) | (23%) | (34%) | (42%) | (48%) | (57%) |
| 2.75         | 8%      | (3%)    | (12%) | (19%) | (25%) | (35%) | (43%) | (49%) | (58%) |

| TIPS % / ERP | (0.50%) | (0.25%) | 0.00% | 0.25% | 0.50% | 1.00% | 1.50% | 2.00% | 3.00% |
|--------------|---------|---------|-------|-------|-------|-------|-------|-------|-------|
| 3.00         | (3%)    | (12%)   | (19%) | (25%) | (31%) | (39%) | (46%) | (51%) | (59%) |
| 3.25         | (12%)   | (19%)   | (25%) | (31%) | (35%) | (43%) | (49%) | (54%) | (61%) |

Exhibit 8: Gravity level against spot (7,676.77). Red: at least 20% below spot. Amber: below spot. Sage: at or above. n/m where real yield plus ERP is under 0.2%. Source: author model.

As I said in June, valuation is a poor short-term signal. What it does is size the move once the mechanism breaks. At today's real yield, a decline that only restores a 0.5–1.0% real premium is 23–34%. At a 1% premium, the index only justifies today's level if the real yield falls below roughly 1.75%, more than 90bp under where it is now. That is the cap on the long end from section 5, expressed as an index level.

| Episode               | CAPE        | 10y TIPS     | Real gap       | HY OAS       | VIX         | What came next                                         |
|-----------------------|-------------|--------------|----------------|--------------|-------------|--------------------------------------------------------|
| Mar 2000, dot-com top | 43.8        | ~4.1%        | (1.8%)         | ~5.8%        | ~23         | S&P -49% to Oct 2002; ran 9 months past the first hike |
| Jan 2018, Volmageddon | 33.3        | ~0.5%        | +2.5%          | ~3.4%        | ~11         | -10% in two weeks, new highs by August                 |
| Dec 2021, 2021 top    | 38.3        | ~(1.0%)      | +3.6%          | ~3.1%        | ~17         | -25% in 2022 as real yields rose ~250bp                |
| Jun 2026, June report | 41.4        | 2.07%        | +0.35%         | 2.75%        | 16.1        | June report date                                       |
| <b>Oct 2026, live</b> | <b>41.1</b> | <b>2.66%</b> | <b>(0.23%)</b> | <b>3.38%</b> | <b>19.5</b> | Two June triggers on; HY 12bp from the third           |

Exhibit 9: Regime comps. Historical rows are approximate readings of public series (Shiller, Treasury, ICE BofA, CBOE). Real gap: CAPE earnings yield less 10y TIPS.

Today has a 2000-level multiple, a real yield between 2000 and 2018, spreads closer to 2018 and a VIX between the two. 2018 is the closest template for a pullback: crowded positioning, a mechanical unwind, a 10% drawdown, and a recovery within months because credit held up. 2000 is the template for my window and shows how far negative the real gap can go before a top. 2021 is the warning. When real yields rose about 250bp in 2022, a multiple near 38 didn't last the year.

## 8. Twelve-Month Scenarios (to October 2027)

| Scenario                       | Trough | Trough level | End   | End level    | Weight | Signal it is playing out                                |
|--------------------------------|--------|--------------|-------|--------------|--------|---------------------------------------------------------|
| Melt-up, no flush              | (3%)   | 7,446        | +16%  | 8,905        | 20%    | Two closes above 7,723; VIX/VIX3M below 0.90            |
| <b>Flush, then melt (Base)</b> | (9%)   | 6,986        | +8%   | 8,291        | 50%    | Test of the 7,000 put wall with HY under 4%             |
| Early cycle break              | (25%)  | 5,758        | (18%) | 6,295        | 20%    | HY through 5%; 10y through 5.5%; 2027 EPS cut           |
| Deep break / credit event      | (38%)  | 4,760        | (32%) | 5,220        | 10%    | AI-capex cut and data-center credit stress; HY above 6% |
| <b>Probability-weighted</b>    |        | 6,610        | +0.4% | <b>7,707</b> | 100%   | Base +8.0%; weighted roughly flat                       |

Exhibit 10: 12-month scenarios from 7,676.77. P(5%+ drawdown) 80%; P(20%+ drawdown) 30%. Source: author model.

The base case gets 50%: a pullback to the 7,000 put wall in Q4 or Q1, then new highs in the second half of 2027 on post-midterm seasonality and the capex prints. That fits my view that the melt-up continues. The base path is up 8%, but the probability-weighted level is 7,707, roughly flat, because there is a 30% chance of a drawdown of 20% or more. With that skew I would rather hedge the pullback and keep the core long than add exposure here.

| Base wt / Early-break wt | 10%   | 15%   | 20%          | 25%    | 30%    |
|--------------------------|-------|-------|--------------|--------|--------|
| 40%                      | +4.6% | +2.9% | +1.2%        | (0.5%) | (2.2%) |
| 45%                      | +4.2% | +2.5% | +0.8%        | (0.9%) | (2.6%) |
| 50%                      | +3.8% | +2.1% | <b>+0.4%</b> | (1.3%) | (3.0%) |
| 55%                      | +3.4% | +1.7% | 0.0%         | (1.7%) | (3.4%) |

| Base wt / Early-break wt | 10%   | 15%   | 20%    | 25%    | 30%    |
|--------------------------|-------|-------|--------|--------|--------|
| 60%                      | +3.0% | +1.3% | (0.4%) | (2.1%) | (3.8%) |

Exhibit 11: Probability-weighted 12-month return against the Base and Early-break weights. Melt-up absorbs the residual; Deep break held at 10%. No cell clears 5%.

Even with the early-break weight at 10%, the expected 12-month return stays under 5%, which is less than T-bills pay. At 25% or more it is negative across the whole range of base-case weights. This is an index view, and several of the energy-transition and value names in my book have their own catalysts.

## 9. Long-Horizon Scenarios (end-2029 checkpoint; 5-year to October 2031)

The cycle assumptions behind these paths are that the Fed keeps hiking into 2027, the year after the 2026 midterms follows its historical pattern, the next bitcoin halving lands around April 2028 with a liquidity peak 12 to 18 months later, and the long end either gets capped by policy (L1, L3, L4) or doesn't (L2, L5).

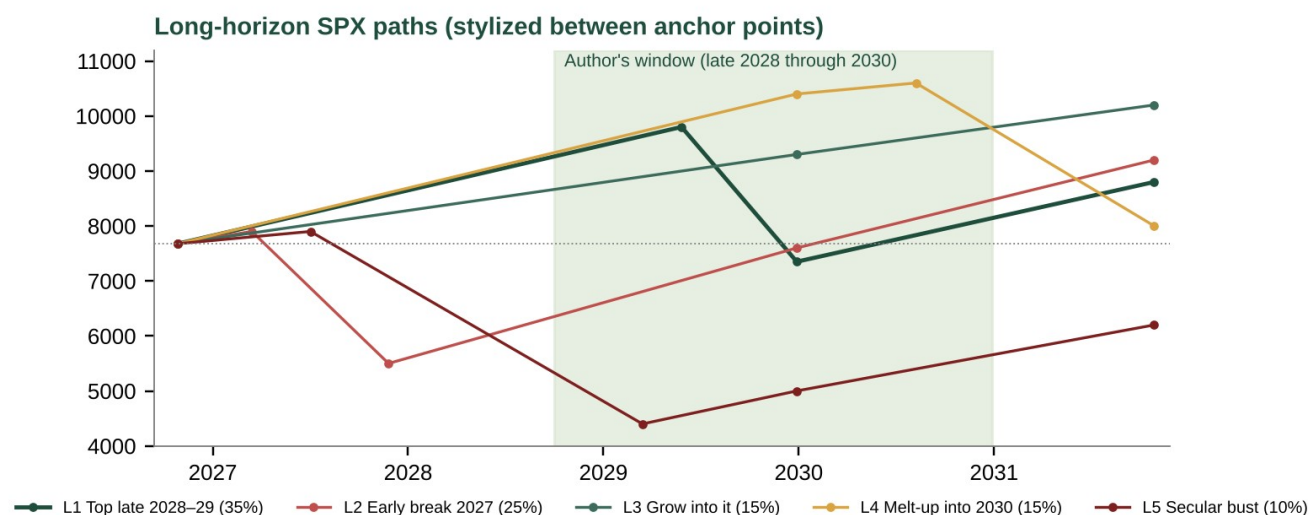


Exhibit 12: Long-horizon SPX paths, stylized between anchor points. Shaded: the author's late 2028 through 2030 window.

| Scenario                          | Peak   | End-2029     | CAGR to 2029 | Oct 2031     | 5-yr TR CAGR | Weight      | Break starts |
|-----------------------------------|--------|--------------|--------------|--------------|--------------|-------------|--------------|
| L1 Melt-up, top in late 2028–2029 | 9,800  | 7,350        | (1.4%)       | 8,800        | 4.0%         | 35%         | Late 2028–29 |
| L2 Early break                    | 7,900  | 7,600        | (0.3%)       | 9,200        | 4.9%         | 25%         | 2027         |
| L3 Grow into it                   | 9,300  | 9,300        | 6.2%         | 10,200       | 7.0%         | 15%         | None         |
| L4 Melt-up into 2030, then break  | 10,600 | 10,400       | 10.0%        | 8,000        | 2.0%         | 15%         | 2030         |
| L5 Secular bust (2000-style)      | 7,900  | 5,000        | (12.6%)      | 6,200        | (3.0%)       | 10%         | 2027–28      |
| <b>Probability-weighted</b>       |        | <b>7,928</b> | <b>1.0%</b>  | <b>8,730</b> | <b>3.8%</b>  | <b>100%</b> |              |

Exhibit 13: Long-horizon scenarios. CAGR on price from 7,676.77; total return adds a 1.2% dividend yield. P(break before late 2028) 35%; P(top inside the late 2028 through 2030 window) 50%; P(no break through 2030) 15%. Source: author model.

My window carries 50%, split between a top in late 2028–2029 (35%) and a melt-up that runs into 2030 before breaking (15%). A break before the window carries 35%, which is too large to dismiss. Over five years the weighted total return is 3.8% a year, about what a CAPE of 41 implies and close to T-bill yields. L3 and L4 together carry 30% and compound at 6–10% a year through 2029. The trigger set is how I stay invested for those while knowing ahead of time what would tell me L2 or L5 has started.

## 10. Positioning and Hedging

| Layer                         | Current action                                                                     | Changes when                                                                |
|-------------------------------|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Core long (broad US equities) | Held. Not adding until the pullback happens or the index gets back above the flip. | Add in the 7,000–7,250 zone with HY under 4%, or on two closes above 7,723. |

| Layer                | Current action                                                                                                                              | Changes when                                                                              |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Pullback hedge       | On. Dec–Jan SPX put spreads, long strike about 4% out of the money, short strike near the 7,000 put wall. Sized for the base-case pullback. | Take off on two closes above the flip, with VIX/VIX3M under 0.90 and HY back under 3.25%. |
| Vol hedges           | Not adding VIX call spreads. With VVIX at 101–110, the convexity is already expensive.                                                      | Revisit if VVIX falls back under 90 with VIX under 17.                                    |
| Credit tail          | Small HYG put position. Credit is the trigger closest to printing.                                                                          | Add if HY goes through 3.5%.                                                              |
| Cycle-top protection | None yet. The window is closed with the composite at 43 against 75.                                                                         | Window opens: composite at or above 75 with three triggers on, or HY through 5% alone.    |

Exhibit 14: How I am positioned against the trigger set. Informational only.

I am using spreads instead of outright puts. Implied vol is about 10 points over realized and SKEW is 152, so buying the wing outright means paying up for the part of the distribution the market already prices richly. And my base case is a 5–12% pullback, so selling the 7,000 strike caps the payoff about where dealer support sits anyway. In June I argued against carrying protection in a long-gamma, contango market because it bleeds while the index grinds higher. Short gamma below the flip is when protection earns its cost, and I will take the hedge off when that changes.

## 11. Key Risks

| Risk                                                                         | Severity | Probability | Assessment and mitigant                                                                                                                                                                           |
|------------------------------------------------------------------------------|----------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Disorderly long-end selloff (10y through 5.5%, TIPS above 3%)                | High     | Medium      | The top tail risk in the October FMS. This would pull the break earlier and rule out L1. Trigger 6 at 5.5% is the warning, and the hedge pays on the first leg down.                              |
| Iran and Hormuz escalation after the midterms                                | High     | Medium      | Brent is already \$115 and the administration has said the war could continue past the midterms. A supply-driven move at this level is stagflationary. Trigger 4 is on.                           |
| AI-capex guidance cut in this week's hyperscaler prints                      | High     | Low–Med     | Semis are still the most crowded long at 45%, and CoreWeave fell 11.8% on October 16 on AI selling alone. A cut to 2027 capex below the ~\$1.3tn discussed in May would hit the leaders directly. |
| Further Fed hikes (28 Oct, December)                                         | Medium   | Medium      | 76% of FMS respondents expect no hike in October. Another hike with oil at \$115 and the 10-year at 5% would shorten the window.                                                                  |
| Credit stress from AI and data-center issuance                               | High     | Low–Med     | HY is 12bp from trigger 3 and CCC spreads are 13.56%. Credit is the best early warning I have, and it opens the window by itself at 5%.                                                           |
| Midterm outcome                                                              | Medium   | Medium      | In the October FMS, 32% expect a Democratic sweep to push yields up and stocks down, from 44% in September. Partly priced.                                                                        |
| Mega-IPO supply (Anthropic late 2026, OpenAI 2027)                           | Medium   | Med–High    | SpaceX is 36% below its post-listing high. The next two listings draw on the same pool of money that holds the leaders.                                                                           |
| The melt-up resumes without a flush                                          | Medium   | 20%         | The hedge costs carry. It is a defined-risk spread sized to the pullback, with a set exit if the index gets back above the flip.                                                                  |
| Method: GEX sign convention, single snapshot, stale FMS cash, judgment bands | Medium   | n/a         | Flip and wall locations hold up under the sign convention; total gamma does not. FMS cash is from July. The composite bands are mine and can be changed in the model.                             |

Exhibit 15: Key risks, ordered by near-term bearing on the view.

## 12. Conclusion

**Posture: core long with a hedge on for a pullback. 12-month probability-weighted SPX 7,707 (+0.4%), base case 8,291 (+8.0%). End-2029 weighted 7,928; five-year weighted total return 3.8% a year.**

Dealers are now short gamma, real yields are above 2.5%, oil is over \$100, and the equity real premium is negative. Under the rule I set in June that means acting, so I have added a defined-risk hedge for a pullback toward 7,000, which I think is the most likely next move.

For the cycle top to come between late 2028 and 2030, sentiment has to catch up with positioning and something has to cap long-end yields so the fiscal impulse can keep running. The composite says sentiment is nowhere near euphoric, which supports a later top. Rates and credit say there is no cap yet, which points earlier. The model puts 50% on my

window and 35% on a break before it. That is better than one-in-three odds of an early top, which is why I let the triggers decide when I hedge.

What would prove this wrong: if the index gets back above 7,723 and vol comes in without a pullback, the hedge was early and costs me carry. If HY goes through 5% or the 10-year through 5.5% before the composite reaches 75, my window was wrong and the early-break path is in play. Both are on the dashboard, and I will rerun the full set after the November 3 midterms and the November 5 earnings.

## Sources and Method

Index, options and vol: CBOE delayed SPX option chain, 26 Oct 2026 close (author GEX computation; sign convention dealers long calls, short puts; prior-session open interest; sticky-strike re-price for the flip); CBOE daily history for VIX, VIX9D, VIX3M, VVIX, SKEW. Rates, credit, oil, liquidity: FRED series DGS10, DFII10, T10YIE, T10Y2Y, DFF, BAMLH0A0HYM2, BAMLH0A3HYC, BAMLC0A0CM, DCOILWTICO, DCOILBRETEU, WALCL, RRPONTSYD, WTREGEN, NFCI, SP500, VIXCLS (FRED carries about three years of ICE BofA history, so credit percentiles are three-year). Breadth and concentration: author computation from 500 S&P 500 constituents (community constituent list, datasets/s-and-p-500-companies on GitHub) priced via yfinance; concentration on full, not float-adjusted, market cap.

Secondary sources: BofA Global Fund Manager Survey, July 2026 (via Crypto Briefing) and October 2026 (via Teleborsa, XTB); AAI Sentiment Survey, 15 Oct 2026; FINRA margin debt via First Trust, 15 Oct 2026; Multpl daily CAPE via Finnovate, 8 Oct 2026; CBO Monthly Budget Review via CRFB, 8 Oct 2026; Nvidia Q1 FY27 earnings call via Crypto Briefing (capex); IDN Financials, 11 Sep 2026 (Hormuz); MetaTrading Club, 16 Oct 2026 (AI selloff); Nemo, 10 Aug 2026 (SpaceX IPO); regime-comp rows are approximate readings of Shiller, Treasury, ICE BofA and CBOE series. The author modeled the data in Python and Excel.

## Disclaimer

This report is for informational and educational purposes only and does not constitute investment advice, a solicitation, or an offer to buy or sell any security, digital asset or derivative. The author is unlicensed and manages no outside capital. Equities and equity derivatives involve significant risk of loss, including total loss of principal. Gamma-exposure figures are the author's model estimates, not exchange-published data; other providers produce materially different outputs. Scenario weights and euphoria scoring bands are the author's judgment. Past market cycles do not predict future behavior. **Author position: long broad US equity (VTI/VOO); Ryan Mahaffy may hold SPX, SPY, VIX and HYG options and other positions in assets discussed, and may trade them without notice.**