
ABR Dynamic Funds – 2025 Market Commentary

No, the VIX Still Isn't Broken

Introduction

Throughout the industry, we've seen increasing claims that the CBOE S&P 500 Volatility Index® (VIX), and market volatility as a whole, is behaving differently. In this market commentary, we aim to address these claims directly, provide data-driven evidence to refute them, and explore some of the psychological reasons why these misconceptions persist.

Part 1: What's Driving the False Perception That Volatility Has Changed

Similar to our [commentary two years ago](#), there has been a recent uptick in media coverage questioning the efficiency and reliability of the VIX.

"Wall Street's famous 'fear gauge' isn't what it used to be as funds shake off VIX spike"

- "A VIX at 65 may not be equivalent to a VIX at 65 10 years ago, when liquidity wasn't as fickle as it is today,"

"Could the Volatility Index (VIX) be broken?"

- "The VIX has recently remained at lower levels, with a more subdued reaction to market sell-offs than expected"

"Is the VIX Too Low Again?"

- "At the 20 level, the VIX could still be too low in the current environment."

Articles like these highlight the growing sentiment that the VIX is less useful or less accurate than it once was. But before we can evaluate these claims, we need to revisit a fundamental question: **What is the VIX truly useful for?**

For many investors, the VIX is perceived as a "fear indicator," and right now, there is no shortage of fear. This perception leads to the first major point of contention:

1. **"The VIX is too low. There are countless geopolitical and other reasons to be concerned right now. The VIX is the "fear index"; it should reflect those concerns.**

Furthermore, because the VIX is calculated from real-time S&P 500 index option prices, specifically focusing on options with expirations between 23 and 37 days, there is a belief that newer trading instruments are artificially suppressing VIX values. This brings us to our second point of contention:

2. **“Zero-days-to-expiration (ODTE) options have become quite popular, and they are not included in the calculation of the VIX, which measures 1-month volatility. To the extent that ODTE options may have lured option buyers from other maturities, the increased focus on ODTE options has resulted in a lower VIX.”**

At first glance, these arguments may sound plausible, particularly to those less familiar with the mechanics of volatility. However, a deeper understanding of historical volatility trends, the structure of option markets, and **autocorrelation in volatility patterns** reveals that these claims are unfounded.

3. **“Buffered/hedged equity products & structured notes sometimes entail the selling of volatility instruments, such as options. These sales both directly suppress volatility by selling it and indirectly suppress volatility through the associated dealer gamma hedging.”**

Some market participants claim that buffered and hedged equity products, structured notes, and dealer gamma hedging are suppressing volatility. They argue that the mechanics of these strategies, particularly the hedging of embedded options, lead dealers to buy as markets fall and sell as they rise – long volatility gamma hedging behavior. This, they contend, smooths price movements and lowers realized volatility. Additionally, the growing popularity of these products is believed to have expanded the supply of options, putting downward pressure on premiums and implied volatility metrics like the VIX. Collectively, these dynamics are said to create a short-term “volatility dampening” effect.

While ABR maintains a fundamentally different perspective, the pervasive media and market commentary make it understandable that those without deep expertise may reach a different conclusion.

In **Part 2**, we will examine updated data to address these misconceptions, expanding upon our research from 2023 with fresh figures.

Disclosures:

This material is intended for informational purposes only and should not be construed as legal, accounting, tax, investment, or other professional advice. Nothing herein is or is intended to constitute investment advice, an endorsement, or a recommendation to buy, sell, or hold any instrument, product, derivative, fund or strategy. Information is as of the date indicated and is subject to change without notice. Information provided is for demonstration purposes only and is not to be relied upon. While information herein has been obtained from sources which ABR Dynamic Funds, LLC believes to be reliable, ABR Dynamic Funds, LLC cannot and does not guarantee its accuracy or completeness.

Incorporating a dynamic volatility strategy into a portfolio is designed to help an investor potentially mitigate, and potentially benefit from, volatility in the U.S. stock market. There can be no assurance such a strategy will achieve a gain or prevent a loss. Volatility assets and strategies may not be suitable for some investors due to their financial circumstances and risk tolerance. A volatility strategy should not be viewed as a complete investment program

Volatility assets entail their own unique risks that investors should consider when evaluating a volatility strategy. Volatility-based futures can become volatile and difficult to value and can be imperfectly correlated to the underlying asset or index. Due to leverage, the loss on a long futures contract could greatly exceed the initial investment. The loss on a short contract theoretically is unlimited since the appreciation of the shorted asset also theoretically is unlimited. Thus, a small investment in derivatives could have a large potential impact on the performance of a portfolio. Further, a volatility strategy may at times call for high portfolio turnover rates, which increases brokerage costs. High turnover also may generate net short-term capital gains.

Past performance does not guarantee future results, and all investing involves risk, including the loss of principal. It is not possible to invest directly in an index.

Dynamic Funds for a Dynamic Future



ABR Dynamic Funds LLC

17 State Street, Suite 725

New York, NY 10004

212-918-4664

info@abrfunds.com

For Institutional Investors only – not for Retail use