

Market Volatility Insights: VIX at 2-Year Norms, but Volatility of Volatility Remains Elevated

February 7th, 2025

Highlights

While **VIX remains at a neutral level relative to history**, the persistently **high VVIX suggests that investors are hypersensitive to new information**. This means that any surprise economic data, central bank shift, or geopolitical event could trigger a sharp repricing of risk.

Traders and investors should **remain agile**, keeping a close eye on key events that could break the current volatility equilibrium.

Deep Dive

What is Volatility, VIX and VVIX?

Before diving into the analysis, let's define the two key volatility metrics:

Volatility refers to the degree of variation in the price of a financial asset (such as stocks, bonds, or indexes) over time. It measures how much and how quickly prices fluctuate. Higher volatility means larger and more frequent price swings, while lower volatility indicates more stable prices. **VIX (CBOE Volatility Index)**: Also known as the “fear gauge”, the VIX measures the **expected volatility of the S&P 500 index** over the next 30 days. A rising VIX typically signals increased investor fear, while a low VIX suggests complacency.


VVIX (Volatility of Volatility Index): The VVIX tracks the expected volatility of the VIX itself. In simple terms, it measures how volatile the VIX is expected to be. A high VVIX suggests that the market is experiencing **sharp swings in risk perception**, while a low VVIX indicates a more stable volatility environment.

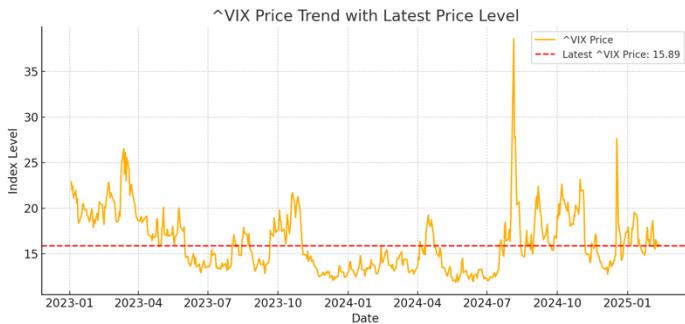
VIX: currently at 2-year Historical Norms

From the chart below, we can see that the **VIX is hovering around its 2-year average (~16.1)**, with a **current level of ~15.9**. The percentile ranking shows that the current level is neither at an extreme high nor low.

However, a crucial observation emerges when looking at **VVIX**, which measures the expected volatility of VIX itself. Unlike VIX, which is near historical norms, **VVIX**


still at elevated levels relative to its own historical distribution.

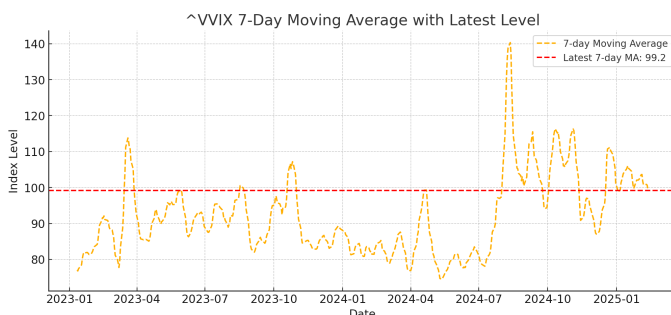
 **Chart: VIX Price Trend vs. Historical Levels**
(Below, we highlight the in-average level of VIX compared to its 2-year history)



VVIX: Persistent Volatility of Volatility

The **VVIX (volatility of the VIX itself)** remains high, meaning that while the market is not necessarily pricing in extreme fear or complacency, the speed at which investors adjust their risk expectations is heightened. This typically signals that traders are **quickly repositioning based on news flows, economic data, or geopolitical developments.**

 **Chart: VVIX Price Trend vs. Historical Levels**
(Below, we highlight the persistently high level of VVIX compared to its historical norms.)



What is Driving Volatility?

To understand why VVIX remains elevated despite a neutral VIX, we need to look at the **key volatility drivers since late 2024.**

Key Volatility Drivers Since Late 2024:

◆ November - December 2024: The Inflation Pivot and Market Confusion

- **November 13, 2024:** The October CPI report showed lower-than-expected inflation, fueling speculation that the **Federal Reserve might begin cutting rates earlier than anticipated.** Markets rallied, but volatility spiked as traders adjusted their rate expectations.
- **December 11, 2024:** At the **FOMC meeting**, the Fed kept rates unchanged but hinted at the possibility of **multiple rate cuts in 2025.** This caused a **sharp drop in VIX**, but VVIX remained elevated as markets debated whether the central bank was being too optimistic.

◆ January 2025: Corporate Earnings Volatility

- **January 24, 2025:** Tech earnings season kicked off, with mixed results from major companies like **Microsoft, Apple, and Google.** While revenues were strong, concerns over **slowing AI investment growth and regulatory pressures** led to sharp stock-specific volatility.
- **January 30, 2025:** The Fed meeting reinforced **rate-cut expectations**, but **bond market volatility surged**, leading to erratic movements in risk assets.

◆ February 2025: Geopolitical and Macro Risks

- **February 5, 2025:** Ongoing geopolitical tensions in **Eastern Europe and Middle East** led to energy price spikes, causing **sector-specific volatility** in commodities and defense stocks.
- **February 9, 2025:** The **US debt ceiling negotiations** became a focal point for market

- uncertainty, with a potential government shutdown adding to volatility concerns.

◆ **Market Liquidity & Options Hedging: A Hidden Driver**

- A significant portion of **daily market volatility now comes from short-term option trading strategies** (especially zero-day-to-expiration, or **0DTE options**).
- **Sharp intraday reversals have become more common**, with institutional traders adjusting positions aggressively to hedge against potential news events.

Upcoming Events That Could Impact Volatility

Key Market Catalysts Over the Next 2 Months:

Looking ahead, there are several scheduled events that could trigger heightened volatility:

February - March 2025 Key Events:

◆ **February 13, 2025: January CPI Report**

- **A major test for market expectations on inflation.** A hotter-than-expected CPI could **delay rate cut expectations**, while a weak report could **fuel a further rally in equities**.
- Market reaction: **Likely strong move in VIX and rate-sensitive assets.**

◆ **February 15, 2025: Nvidia & Semiconductor Earnings**

- **Semiconductor stocks have been a major driver of market momentum.** Nvidia, AMD, and other chipmakers report earnings, which could **swing the Nasdaq sharply**.
- Market reaction: **VIXN (Nasdaq Volatility Index) may spike.**

◆ **February 28, 2025: US PCE Inflation Report**

- **The Fed's preferred inflation gauge.** If PCE inflation remains sticky, it could signal that rate cuts might be further delayed.
- Market reaction: **Potential sharp moves in bond yields, impacting stock volatility.**

◆ **March 5, 2025: OPEC+ Meeting**

- **Oil markets remain highly sensitive to supply changes.** Any surprise production cuts or policy changes could lead to **commodity-driven volatility.**
- Market reaction: **Energy sector-specific volatility.**

◆ **March 20, 2025: FOMC Meeting & Fed Projections**

- **The biggest volatility event in the near term.** The Fed will release its latest **economic projections and rate hike expectations.**
- Market reaction: **Potentially large shift in VIX and equities.**

Conclusion: A Market Ready to React

While **VIX remains at a neutral level relative to history**, the persistently **high VVIX suggests that investors are hypersensitive to new information.** This means that any surprise economic data, central bank shift, or geopolitical event **could trigger a sharp repricing of risk.**

Traders and investors should **remain agile**, keeping a close eye on key events that could break the current volatility equilibrium.

Next Steps

- **Monitor upcoming market catalysts.**
- **Use dynamic hedging strategies based on VVIX trends.**
- **Prepare for potential volatility spikes even in a stable VIX environment.**

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