

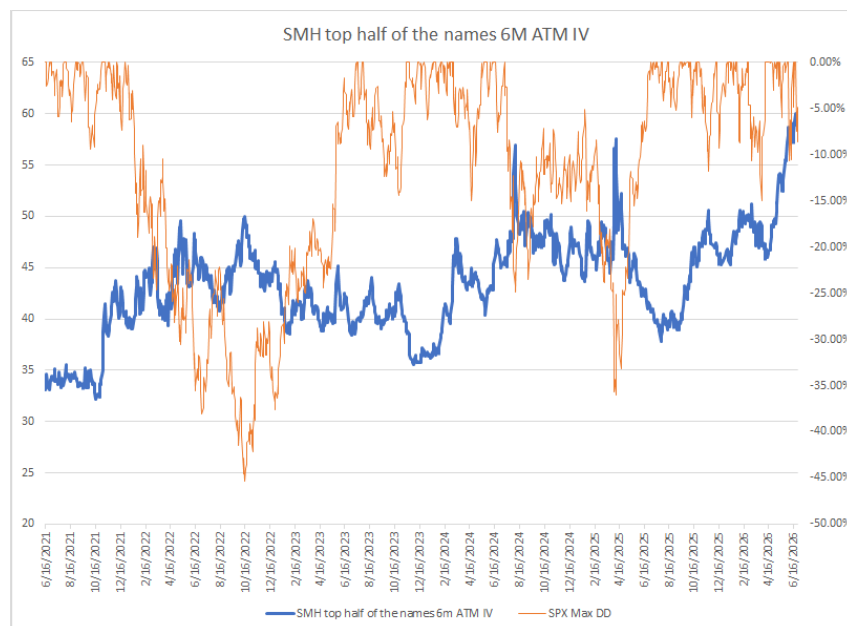
The Damped Spring Report

“Shifts in growth, inflation, risk premium and positioning all lead to opportunities in markets”

6/28/2026

Since our last DSR a variety of interesting developments have occurred related specifically to two of our big themes that we will put in context below. However, the primary goal of this report is to observe the highly unusual pricing of call options on the AI picks and shovels companies.

We have remarked that the stock market has entered a bubble regime. We have outlined a playbook for both managing one's long-term, long only, savings, and, choosing and sizing market timing trades, during a bubble. The picks and shovels companies continue to have parabolic upside moves which cannot be safely faded. However, along with this parabolic move, options markets have priced in levels of medium-term volatility in these names which we believe is unsustainable. Not only is level of upside implied volatility high but skew is extremely flat. There is a bull market in calls and a bear market in puts. While we focus primarily on macro here at Damped Spring the author has been heavily involved in all sorts of single name options trading in his career. The most interesting thing going on in markets at the moment is the extreme demand for calls on the picks and shovels companies while at the same time share prices are going parabolic. High implied volatility in the midst of drawdowns is normal. High volatility during parabolic all-time highs is an anomaly.



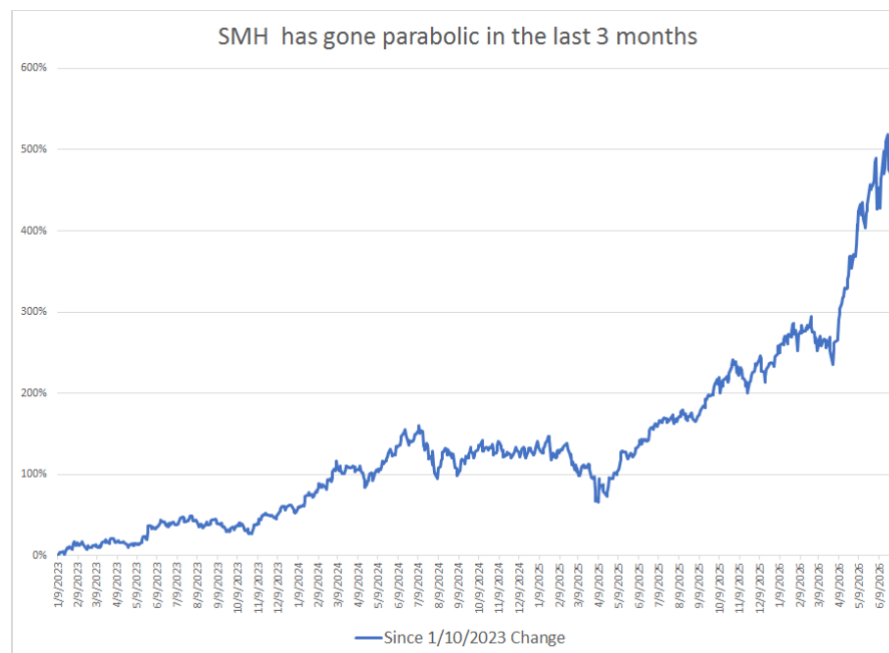
Today we think shorting atm calls and buying out of the money puts (Vega short) and hedging with long stock on 10-15 single names is an excellent addition to our macro portfolio. Many of our readers are not hedge funds or are hedge funds that do not specialize in equity single name vol trading, however, all of our readers are almost certain to have long exposure to these high-flying mega cap tech companies in the midst of a parabolic move. The big takeaway is that hedging long exposures by selling calls and buying puts on these companies or even for the most risk seeking types ADDING long exposure to these names while hedging them with this structure is a worthwhile step to add value to portfolios of many sorts.

In this DSR we will

- Examine current pricing of mega cap tech implied volatility
- Assess index volatility and dispersion relative to this single name volatility anomaly
- Review our volatility framework and provide our trades
- Finally, we will review recent developments regarding the FOMC, the Hamburger theme and the Not enough Pie theme

Bull Market for Calls

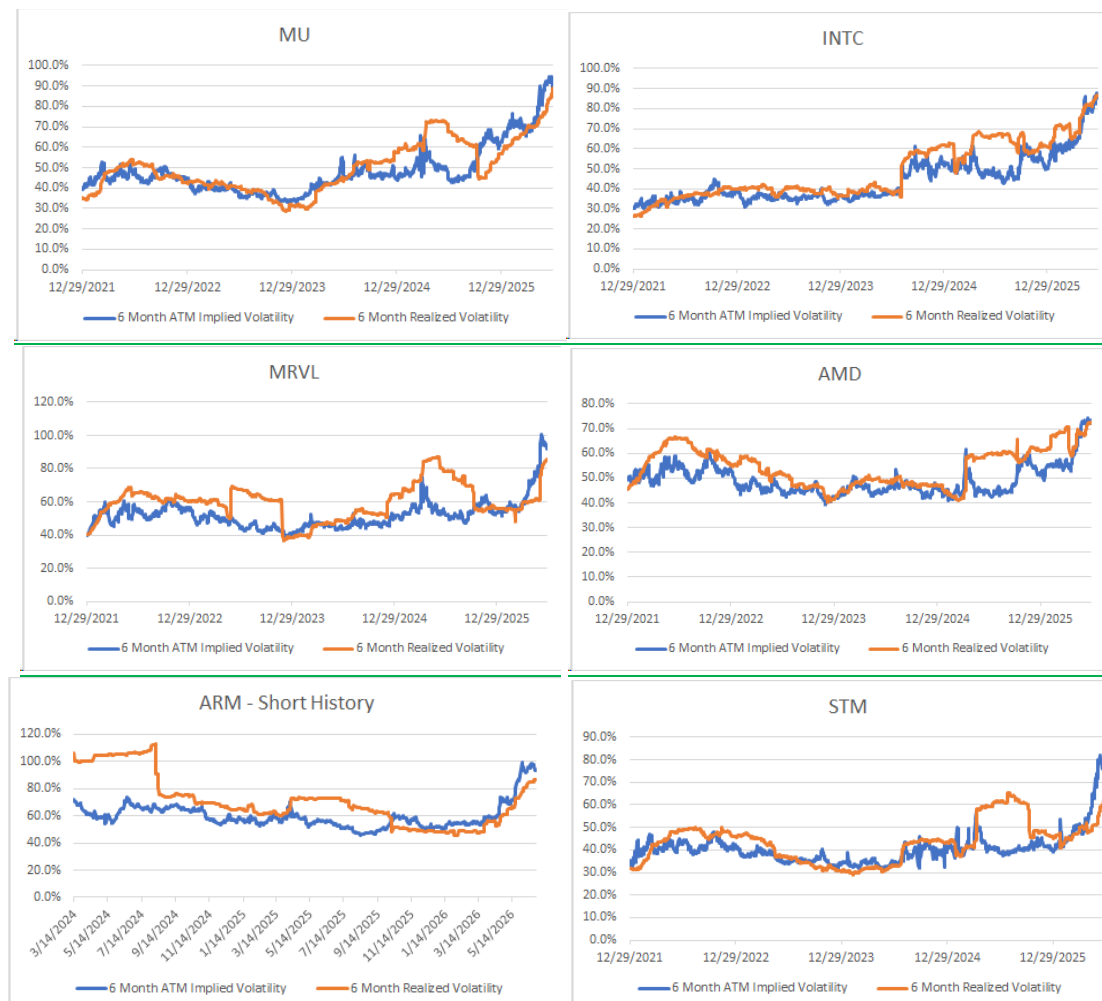
Picks and Shovels stocks are the recipient of all the capex investment in the AI buildout that really started back on 1/10/2023 when MSFT announced its intent to invest in OpenAI who had recently released the first widely available LLM ChatGPT. The picks and shovels include lots of peripheral companies, but the semiconductor sector has been the primary beneficiary. Since then, the SMH index is up close to 500% and since March when Jensen Huang the CEO at NVDA forecasted a next twelve-month capex spend of \$1TN the index has gone up 70% in a quarter.



Ironically, while the broad index of semiconductors has gone parabolic the highest weighted share in the index like NVDA, Taiwan Semi, and Broadcom have done fine but lagged. The parabolic moves are primarily in the memory and storage companies and NVDA's and TSM's direct competitors.

	3 Month Price Change		3 Month Price Change
MU	235%	QCOM	47%
INTC	191%	TXN	47%
MRVL	169%	ASML	36%
AMD	156%	CDNS	36%
ARM	121%	TSM	28%
STM	107%	ADI	22%
AMAT	83%	MPWR	20%
LRCX	77%	AVGO	18%
KLAC	69%	SNPS	15%
TER	47%	NVDA	10%

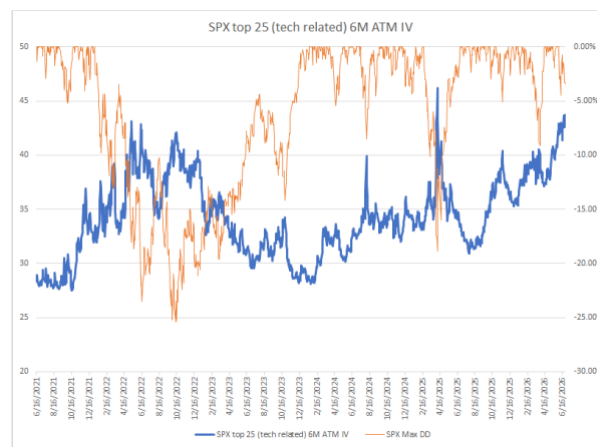
Not surprisingly these incredible rallies have generated high realized volatility and in many cases a doubling in implied volatilities of these high-fliers



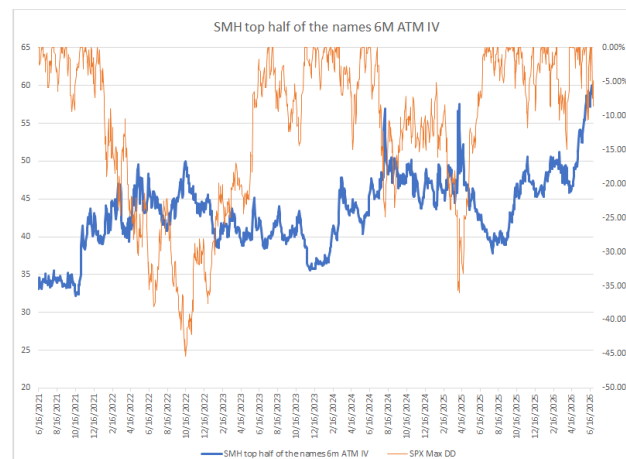
The parabolic move on high realized volatility has resulted in a bull market for implied volatility. Essentially there is very limited supply of the stocks themselves as owners are able to be highly elastic and demand much higher prices to unlock sell orders, speculative call demand is through the roof, and dealers are quite willing to raise implied volatility without limit. While we have no interest in shorting this parabolic price in the stocks themselves, we think the implied volatility will likely ease to more sustainable levels whether the move continues or not and if it pops the supply of calls and demand for puts will drive skew much higher and call volatility much lower. We think at current implieds for a select set of stocks the returns being short calls and long puts Vega short and delta neutral are highly asymmetric.

Vol levels

How high are implied volatilities? In the broad SPX top 25 tech companies the implieds are extremely high despite many of the stocks (Mag 7 and software) doing poorly. IV at this level has only really occurred in the post COVID era when SPX drawdowns are also sizable as panic put buying drives implieds up. Today its panic call buying.

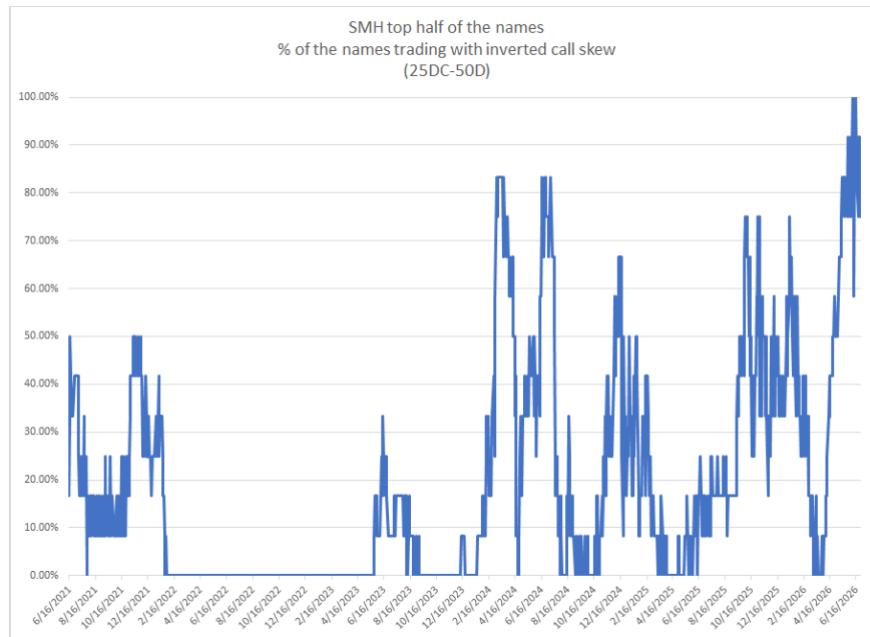


Looking at just the big caps in the SMH (some overlap with SPX but not complete) implieds are historically high

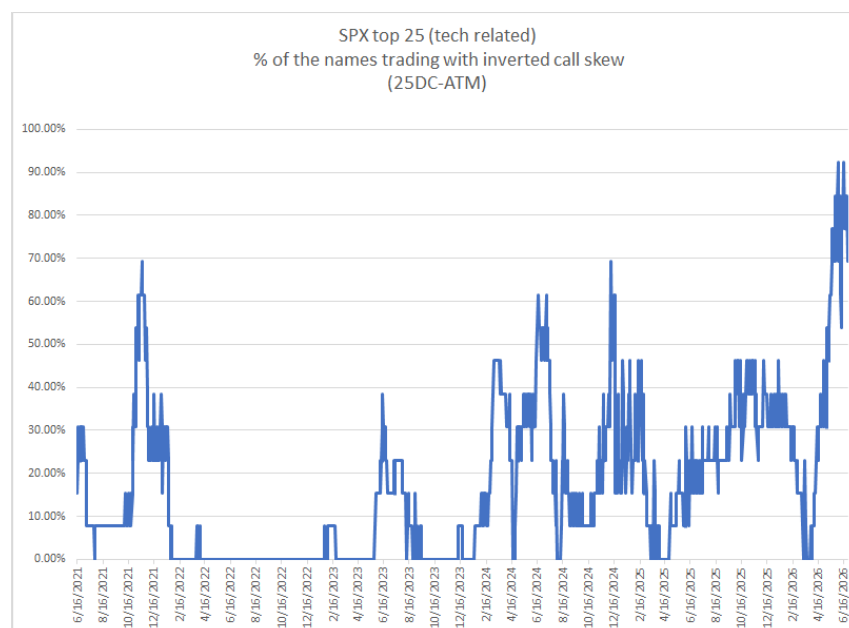


Skew

A bull market for calls creates a strong bid for implied volatility. But the parabolic moves up in stocks has also created a bear market for puts. We will address skew and what drives it in our framework section below, but the moves in picks and shovels skew confirms our view of a bull market for calls and a bear market for puts. Earlier this month all of the large cap stocks had OTM calls priced at a higher implied volatility than at the money.



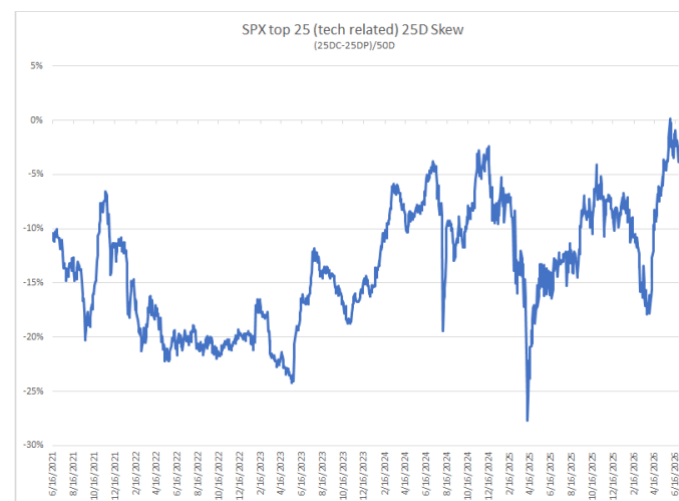
Earlier in June, 23 out of the top 25 Tech stocks had inverted skew and currently over two thirds remain inverted despite poor performance by many of these companies.



Above we showed the call wing. Here is the more traditional measure of skew using the difference in implieds of a 25% Delta call (OTM) and a 25% Delta Put. Note this skew is also flat and if you squint at the dates the other times the skew has been flat is near or at bottoms of large selloffs in March of 2023 SVB Crisis, July of 2024 “Yen Carry” panic, and of course liberation day. Typically, the bottom of these markets results in aggressive selling of puts and buying of calls. Today, the calls are bid as stocks go parabolic.



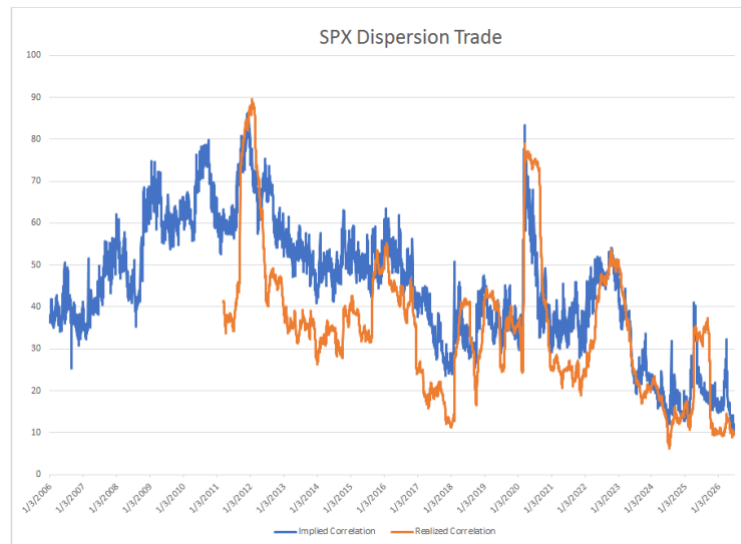
SPX big cap names are also quite flat skew.



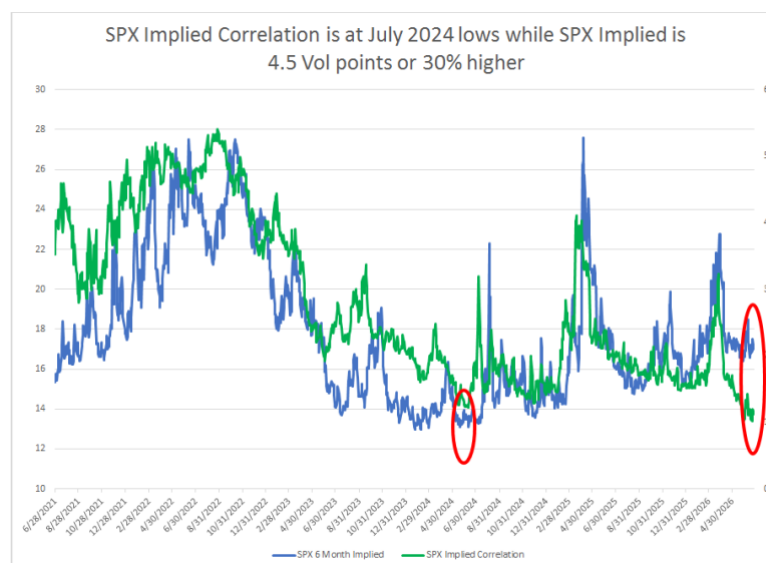
Dispersion

The author began trading a proprietary dispersion trading strategy in 1995. The idea behind that trade is if one owns a basket of single name equity options and delta hedges that basket and is short an index option and delta hedges that position one can capture the dispersion of single name returns while taking less Vega and theta risk. When single names have a wide dispersion of outcomes (some up and some down) the trade wins. When they don't and all stocks move in

the same direction the trade loses. The "Dispersion Trade" is short correlation between stocks. Not surprisingly when markets crash correlations go toward 1 and the dispersion trade gets crushed. Back in the day Implied Correlation ranged between 60-80%. Today 6 Month Implied correlation is near all-time lows at 11%. These crazy kids. In this DSR right before the correlation trade exploded spectacularly, we wrote about the crowded nature of this trade [here](#).



Today and back in 2024 being short all time low implied correlation seems like a horrible idea. One might think that doing a reverse dispersion trade (selling single name vol and buying index vol) is "better" than just selling single name volatility which would be in contrast to what we are suggesting in this report, however today's dispersion trade looks unattractive AND it is not because index volatility looks too low. We certainly don't like the dispersion trade but as anyone who has traded this relationship for 30 years knows doing a reverse dispersion trade MUST only be done when index vol is standalone attractive. It's not. The opportunity is in the single names standalone.



Volatility Framework

I am going to drop into using I instead of awkwardly using we for this section. I have traded volatility markets for 39 years. It's literally been my life's work. The understanding of the volatility market has been a critical differentiator for my work in macro particularly around understanding what drives risk premiums and how important it is to separate alpha from beta. It's unrealistic for me to try to transfer my knowledge of this complex topic in a couple of paragraphs. However, I will provide some core principles that all my work on the topic rests upon.

- Realized volatility is driven by many factors summarized [here](#) in this twitter thread
- Implied volatility is a poor predictor of future realized volatility. In fact, Implied volatility is mostly an excellent predictor of past realized volatility. Meaning realized volatility drives implied not the other way around.
- Implied volatility should be higher than future realized volatility through time as the purchase of options by market participants allows them to take less risk.
- Because Implied Volatility should trade at a consistent premium to realized volatility a short vol position collects risk premium. In other words, short vol is long beta.
- Like all forms of Beta short volatility positions perform poorly in market crashes. Like all forms of beta risk premium collection is a slow grind interrupted by occasional sizeable drawdowns
- Like all forms of Beta implied volatility should be expected to be priced fairly through time. Meaning all else equal implied volatility is fairly priced today.
- Implied volatility is impacted by end user supply and demand and while very hard, like trading any assets, there is alpha available to those who can find it and understand it is different than beta.
- The volatility market on a daily basis is arbitrated by the best and brightest minds around. **However, those arbitrageurs can on very infrequent occasions be overwhelmed by paper flows. In such circumstances deeper pools of capital must find the opportunity and be willing to provide liquidity. Today is one of those days.**

The Trade

The ideal trade setup we would like to design is to sell Vega and buy downside vol while selling ATM vol. We want no delta exposure, and we want no path dependency and ideally very little gamma. Our view is that the elevated levels of implied volatility in these parabolic stocks will fall and the realized will be lower still. Furthermore, we expect those with massive, appreciated positions will begin to hedge by writing atm calls and buying otm puts pressuring implieds while also steepening skew. Our time horizon is roughly 3 months. Before we jump into the trade construction we will use, there are two caveats.

- We could simply be wrong and the parabolic move and the demand for calls will continue. We humbly recognize that implied volatilities have already moved up a lot and were “sellable” 10-20 points ago. We are attempting to “sell the top” in implieds based mostly on them being very high.
- We are using individual options contracts which creates strike concentrations and path dependency. But perhaps more importantly we are dynamically hedging our exposure and that process has a wide variety of profit and loss outcomes even if we are absolutely correct on our view. We can still be right and lose money. The good news is that “randomness” is not likely to be an expected loss but is simply a risk of the position we are taking.

We like the trade and plan on building a sizable, short Vega/skew steepening position across multiple single stocks as the opportunity presents itself. Single name volatility trading is not something that you decide to do on one day and execute without regard to price. Price matters a lot we are taking the opposite side of a mania for calls. Evidence of that mania is necessary to execute, or we are simply handing profits to market makers. We have entered into three positions already and will add over time.

For this report we will

- Review our trade selection “rules”
- Describe our specific trade structure
- Size each trade and the overall portfolio
- Outline our dynamic hedging strategy

Trade selection

There are many stocks making parabolic moves due to AI picks and shovels exposure. We think our trade applies well to most if not all of those stocks however we are limiting our universe to US listed mega cap tech stocks and the larger companies in the semiconductor index. We think we can get some diversification across specific businesses within the obviously highly correlated sector without having to reach down to less liquid stocks in less liquid options markets. Notably we are not trading Samsung or Hynix simply because of less understanding of the Korean Options markets dynamics and because other US stocks overlap with those names. That said those stocks should be absolutely included if you have local expertise and easy access.

Other major factors driving our company choices for trade selection include

- Absolute level of implied volatility
- Relative level of IV vs historic IV
- Absolute level of realized volatility
- Historic level of IV vs RV
- Size of company
- Recent size of parabolic move

Ideally, we would sell implied at all-time highs, with that implied being really high 70-120% annualized, in big companies which have recently made a parabolic move AND are rising rapidly on trade execution day. We can wait. But if we see most of these things coming together, we will trade.

So, let's start by looking at all the names with 6 Month Implied volatility of 70% or more. With that metric we like all the trades except one. MPWR has not been up enough to qualify. ARM is acceptable despite the lowish multiple to IV average due to ARM being a recent IPO. AMD has a low multiple to average but a huge parabolic move.

Sorted By IV Level						
Name	IV	Average IV	Multiple of IV to Average	IV Z SCORE	3 Month Price Change	Trade Y/N
ARM	94%	60%	1.56	3.60	121%	Y
MRVL	92%	52%	1.76	4.52	169%	Y
MU	88%	48%	1.83	3.36	235%	Y
INTC	86%	44%	1.95	3.63	191%	Y
TER	86%	44%	1.93	3.91	47%	Y
LRCX	78%	44%	1.79	4.11	77%	Y
AMAT	78%	41%	1.88	5.31	83%	Y
KLAC	78%	40%	1.92	5.51	69%	Y
DELL	77%	41%	1.85	3.69	143%	Y
STM	76%	41%	1.87	4.89	107%	Y
MPWR	74%	48%	1.54	4.56	20%	N
AMD	72%	49%	1.46	3.72	156%	Y
QCOM	68%	37%	1.84	4.56	47%	
ORCL	59%	35%	1.67	2.40	1%	
ASML	57%	38%	1.49	3.31	36%	
PLTR	56%	62%	0.90	(0.99)	-23%	
TXN	55%	30%	1.83	4.72	47%	
ADI	53%	31%	1.68	4.63	22%	
PANW	52%	39%	1.35	3.21	90%	
CDNS	50%	35%	1.44	2.99	36%	
SNPS	50%	36%	1.37	2.15	15%	
AVGO	50%	38%	1.30	1.66	18%	
TSM	50%	36%	1.37	2.66	28%	
TSLA	46%	55%	0.83	(1.43)	2%	
IBM	45%	26%	1.73	3.33	12%	
NVDA	42%	48%	0.88	(1.17)	10%	
CSCO	42%	25%	1.67	3.78	47%	
NFLX	40%	40%	1.00	(0.02)	-23%	
META	39%	40%	0.99	(0.08)	-4%	
MSFT	38%	27%	1.39	2.91	1%	
AMZN	38%	34%	1.09	0.73	12%	
GOOG	35%	31%	1.10	0.90	17%	
AAPL	27%	27%	1.01	0.04	12%	

By sorting IV by Z Score we expand the possible universe with the caveat that the absolute level of vol could be not that interesting. We added QCOM to our list of trades as it has a long history and a high z-score a fairly high IV and yet not a great parabolic move. TXN is interesting but more of a watch and see if IV expands. ADI and CSCO don't work.

Sorted By IV Z Score						
Name	IV	Average IV	Multiple of IV to Average	IV Z SCORE	3 Month Price Change	Trade Y/N
KLAC	78%	40%	1.92	5.51	69%	Y
AMAT	78%	41%	1.88	5.31	83%	Y
STM	76%	41%	1.87	4.89	107%	Y
TXN	55%	30%	1.83	4.72	47%	Maybe
ADI	53%	31%	1.68	4.63	22%	N
MPWR	74%	48%	1.54	4.56	20%	N
QCOM	68%	37%	1.84	4.56	47%	Y
MRVL	92%	52%	1.76	4.52	169%	Y
LRCX	78%	44%	1.79	4.11	77%	Y
TER	86%	44%	1.93	3.91	47%	Y
CSCO	42%	25%	1.67	3.78	47%	N
AMD	72%	49%	1.46	3.72	156%	Y
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PANW	52%	39%	1.35	3.21	90%	
CDNS	50%	35%	1.44	2.99	36%	
MSFT	38%	27%	1.39	2.91	1%	
TSM	50%	36%	1.37	2.66	28%	
ORCL	59%	35%	1.67	2.40	1%	
SNPS	50%	36%	1.37	2.15	15%	
AVGO	50%	38%	1.30	1.66	18%	
GOOG	35%	31%	1.10	0.90	17%	
AMZN	38%	34%	1.09	0.73	12%	
AAPL	27%	27%	1.01	0.04	12%	
NFLX	40%	40%	1.00	(0.02)	-23%	
META	39%	40%	0.99	(0.08)	-4%	
PLTR	56%	62%	0.90	(0.99)	-23%	
NVDA	42%	48%	0.88	(1.17)	10%	
TSLA	46%	55%	0.83	(1.43)	2%	

Net net these are our choices. We have already done MU, INTC, and SNDK (which has no history for this purpose but a very high IV and parabola)

Trade candidates						
Name	IV	Average IV	Multiple of IV to Average	IV Z SCORE	3 Month Price Change	Trade Y/N
ARM	94%	60%	1.56	3.60	121%	Y
MRVL	92%	52%	1.76	4.52	169%	Y
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AMD	72%	49%	1.46	3.72	156%	Y
QCOM	68%	37%	1.84	4.56	47%	Y

Trade Structure

Based on our desire to take limited delta and gamma risk and focus on Vega we needed to structure our trade with a medium long tenor. We chose December 2026 expiry because it has a fair amount of Vega, our expectation of a vol reversal in the next 3 months allows us enough time to have that Vega pay off, and perhaps most importantly it matches the expiry where when hedgers want to lock in their year, they are likely to focus.

In terms of strike, we wanted to have a fairly high long delta. While OTM calls are probably juicier they are hard to hedge when the underlying is in the midst of a parabola. But even then, ATM delta was too light for us in case of a parabola. For that reason, we compromised and reduced the Vega we were short, increased exposure to skew steepening, and increased our need for a long equity delta by buying OTM puts. We chose the strike of the OTM put based on where the stocks broke out from before going parabolic. We suspect eventually there will be quite a bit of demand for puts that hedge giving back more than whole move.

As an example, we completed the following trade in MU last week. For one contract of exposure we

Sold the Dec 18, 2026, 1200 Call
Bought the Dec 18, 2026, 850 Put
And delta hedged by buying
80 Share of MU

Roughly speaking all of the trades will be structured similarly.

Sizing

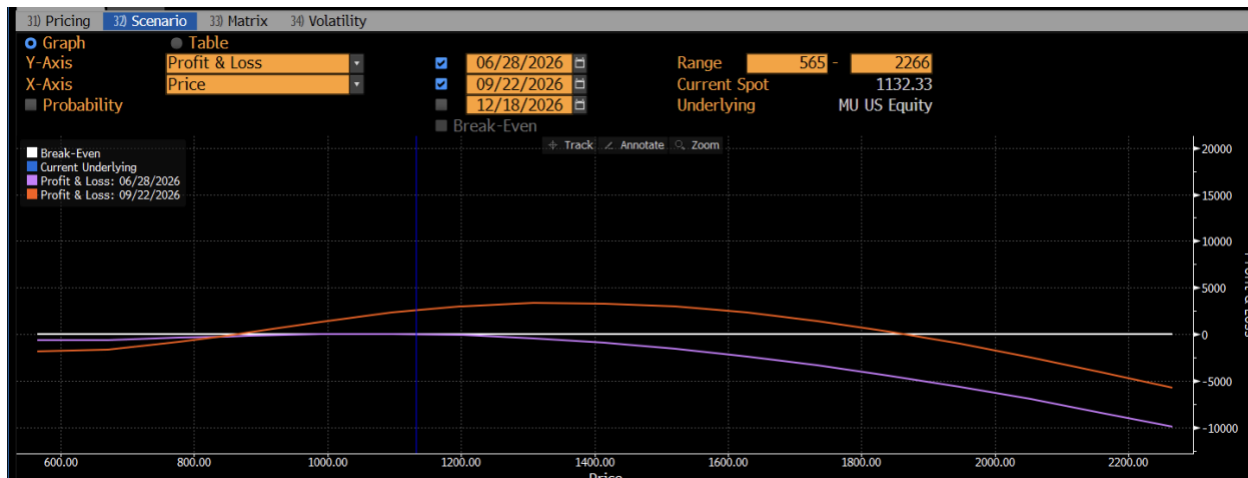
As shown above we plan on trading twelve names. Each name will have an assigned weight. To keep it simple there will be three weights. Those weights will be essentially market cap size weights but, on the cusps, will reflect stronger or weaker views on the trade itself.

Big	Risk 30bp of AUM as a soft stop
Medium	Risk 20bp of AUM as a soft stop
Small	Risk 10bp of AUM as a soft stop

In aggregate we expect pretty darn high correlation in this portfolio while there is some diversification in that these companies are in slightly different areas of the picks and shovels space expecting any correlation less than 1 seems irresponsible. Given that we will have the overall portfolio have a 250BP Soft Stop and a 500bp hard stop.

Turning these risks into actual contract amounts is easier said than done. We could measure Vega risk. We could measure static worst-case gap move risk with no delta hedging. We could measure the realized pnl volatility in a back test and apply that daily and tweak sizes. What we have decided to do is look at two factors.

We are looking at gap risk and Vega risk. Here we model the MU trade we did. Notice that for a 50% up move in the stock the purple line moves down by roughly 3000 dollars per contract. We think we would want to be constrained with a soft stop if the parabolic move continued. MU is a "Big" position by our weighting. For a 100MN AUM with a desired soft stop at 30bp we are prepared to lose 300,000 on this trade. That solves for 100 Contracts.



Triangulation with the Vega risk of the structure it has \$74 per contract per vol point. \$3000 per contract would require a 40 vol point increase. Given the 97 vol we sold we think that supports the 100 contract sizing. We will use this framework to size all of the trades and as mentioned use 1 correlation at the portfolio level.

Our "expected" return is 20 vol points in this case and while taking 30bp of soft stop risk we expect to earn 15bp as a central case.

Dynamic hedging

As can be seen in the above scenario analysis which has a 50% to 200% stock price range the purple line and the red line are pretty insensitive to a local price change. We intend to minimize our dynamic reheding as it will be small locally and just introduce unwanted chop. However, we also will use a hard spread between our delta neutral hedge and our actual delta such that at a threshold deviation we will rehedg. Given that these stocks have been in a parabolic uptrend and trending markets favor constant reheding regardless of size we intend to keep a fairly tight threshold in our hedging process.

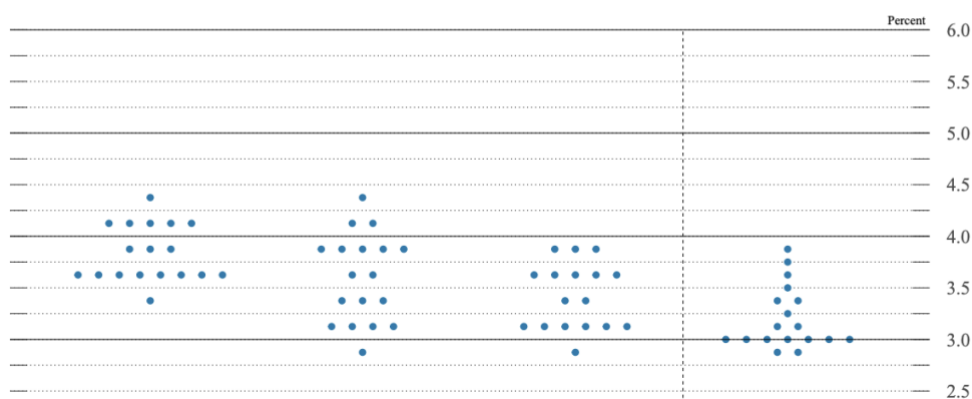
Update on key themes and FOMC.

Over the last two weeks the [FOMC](#) met and surprised markets a touch, the "[Not enough pie](#)" theme began showing up in Hyperscaler equity performance, and the "[I will gladly pay you Tuesday for a Hamburger today](#)" theme showed up in size as indigestion from issuance. Each of our DSR's linked in the prior sentence describe our themes and expectations.

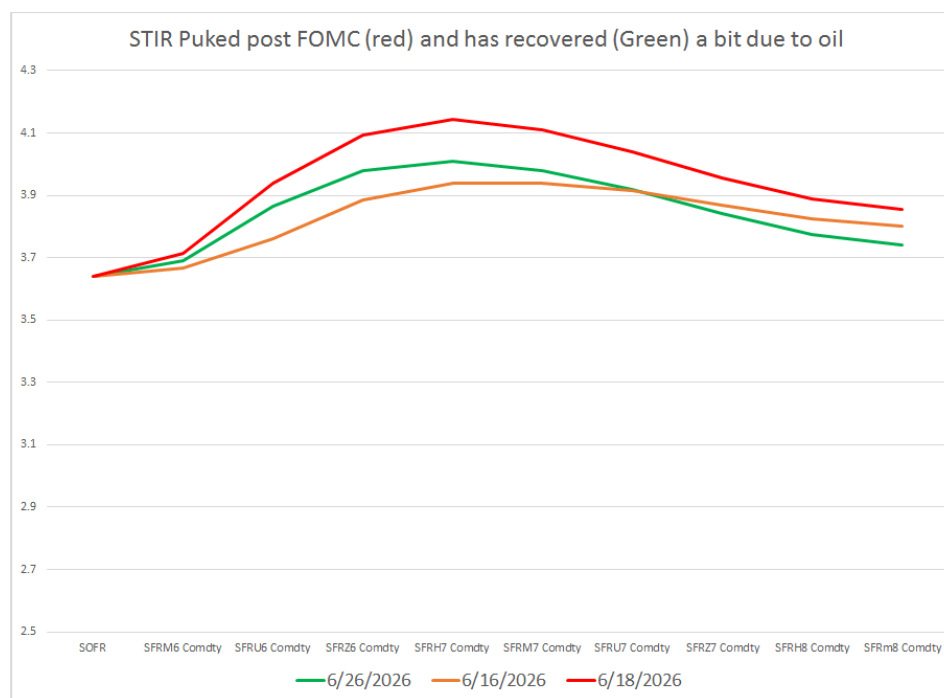
FOMC

Warsh did everything he could to avoid forward guidance while outlining his framework for the Fed. Cynics would say he is just building out cover to cut rates. We do not share that view. We see no reason for the Fed to either begin a meaningful cutting cycle or hiking cycle. However, the hawks on the FOMC grew meaningfully hawkish. Warsh refused to pencil in dots, but 9 members now advocate a hike and 6 advocate two or more. Oil has fallen another 15% since the meeting.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

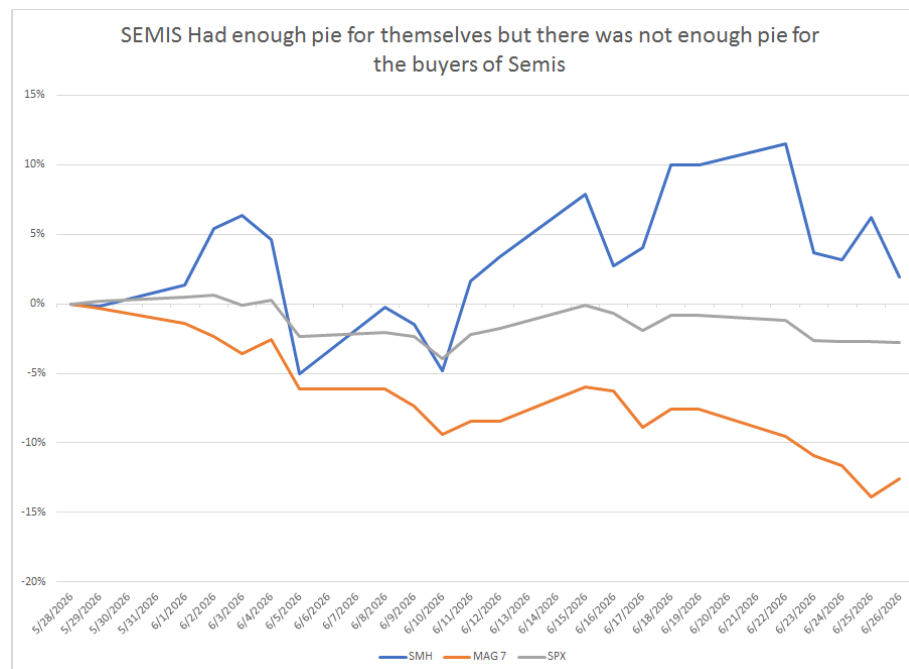


Market sold off hard on committee dots and has recovered a bit on oil.



"Not enough pie"

We don't think stocks across all the equity markets have enough of the GDP pie to justify their earnings growth expectations. The last month was fine for the Semi's, but the Mag 7 doesn't have enough pie. Notably Apple who is not in the capex orgy still got slammed as the memory chip makers forced Apple to raise prices.



"Hamburger theme"

All this capex needs financing to deliver growth. Over the last few weeks GOOG issued an 80bn Equity deal which is now 5% underwater. SPCX completed its IPO which is now struggling to maintain the slight premium of its first ipo trade and is down 30% from peak. SPCX also completed a 25BN corporate deal across many maturities which is trading poorly at 15-20bp higher yield vs issuance. CBR5 an AI Chip maker ipo'd and is now back to its original ipo price after almost doubling on its first day trading. There is general indigestion showing up. Open AI seems to be afraid to issue and is pushing back its IPO date. Huge overhang of deals needs to get done or capex driven growth doesn't meet expectations.

Synthesis

We think the macro conditions remain fine and there is no reason to expect major policymaker moves in either direction. Equity markets remain in a bubble regime, but some vulnerabilities are becoming more obvious. We are well positioned if a sudden move occurs while looking to add short equity exposure when the bubble is no longer inflating. However, today we believe there is a great opportunity to enter into short calls long puts on the stocks that have gone parabolic the last quarter. For the hedge fund relative value trader, we outline our exact delta neutral trade and the names we are going to execute. For our long only clients, we

see these risk reversals as a great way to hedge/take profits and if there is no desire to take profits or hedge the "hedge fund" trade can be done by adding to these stocks while also hedging.

Current Portfolio and Performance

	Assumed Portfolio size	\$	100,000,000					
	LTD P/L	\$	67,383,134					
	Total Return		67.38%		YTD Return in excess of cash		-1.92%	
	Today's Date		6/28/2026		Portfolio Created		4/15/2019	
Date	Position	Entry Price	Amount	Worst case loss	MTM	P/L	Open/Closed	
6/24/2026	CLZ6 65/60 Put Spread	1.82	-157	\$ 500,000	1.82	\$ -	Open	
5/1/2026	SPX 6/30/2026 6965/6865/6765 Put Butterfly	3.37	750	\$ 252,750	0.17	\$ (240,000)	Open	
6/18/2026	SPX US 9/18/26 P7200/6800 Put Spread	54.50	183	\$ 1,000,000	75.00	\$ 376,147	Open	
6/18/2026	NDX US 9/18/26 P27500/23500 Put Spread	407.00	12	\$ 500,000	594.10	\$ 229,853	Open	
4/29/2026	ZBU6 7/24/2026 111/108 1x2 put spread	- 1/16	2000	\$ 2,000,000	0.06	\$ 250,000	Open	
6/18/2026	ZBU6 8/20/2026 117/119 1x2 Call spread Long 117 Leg	0.00	1000	\$ 1,000,000	-0.11	\$ (109,375)	Open	
In Progress	Short Single Name Vol will reference another blotter	0	0	600,000	0	\$ -	Open	
			Initial Risk	6.4%		6.96%		