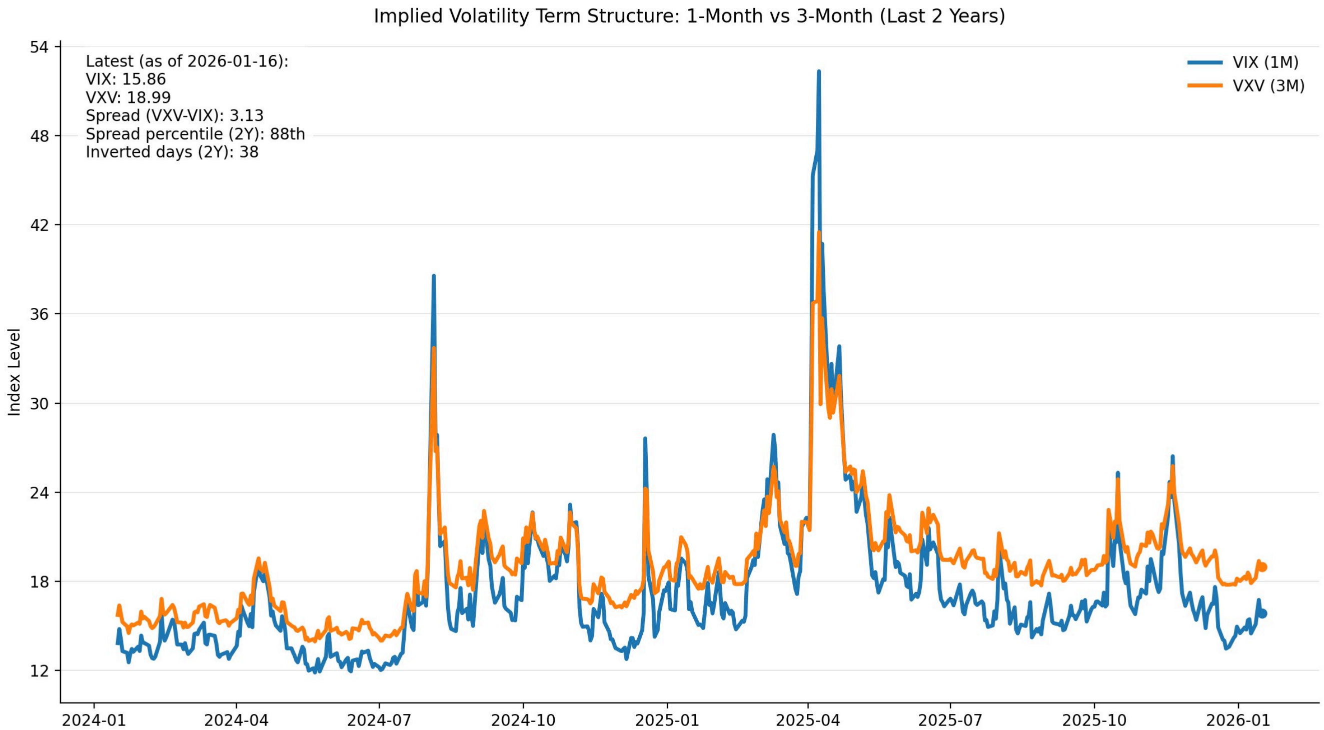
Quiet Index, Busy Under the Surface

Publication note: Charts and index levels in this piece are shown through January 16, 2026. Volatility repriced higher in January 20 trading, with the VIX moving above 20 amid renewed policy and geopolitical headlines.

Headline equity indexes continue to trade in a relatively orderly range, but the options market is sending a more nuanced message. Importantly, spot volatility can reprice quickly on macro headlines, and we have already seen that in recent sessions with the VIX jumping above 20. The broader point is that while short-dated implied volatility was subdued as of our chart date, the price of protection against left-tail outcomes has remained elevated, and implied dispersion has been rising while implied correlation has been falling. Taken together, this suggests a market that can look calm at the index level, but one where investors are still willing to pay up to hedge shocks and where single-stock moves can matter more than the index tape.

Volatility was Subdued Earlier in January, and the Front End Led the Way

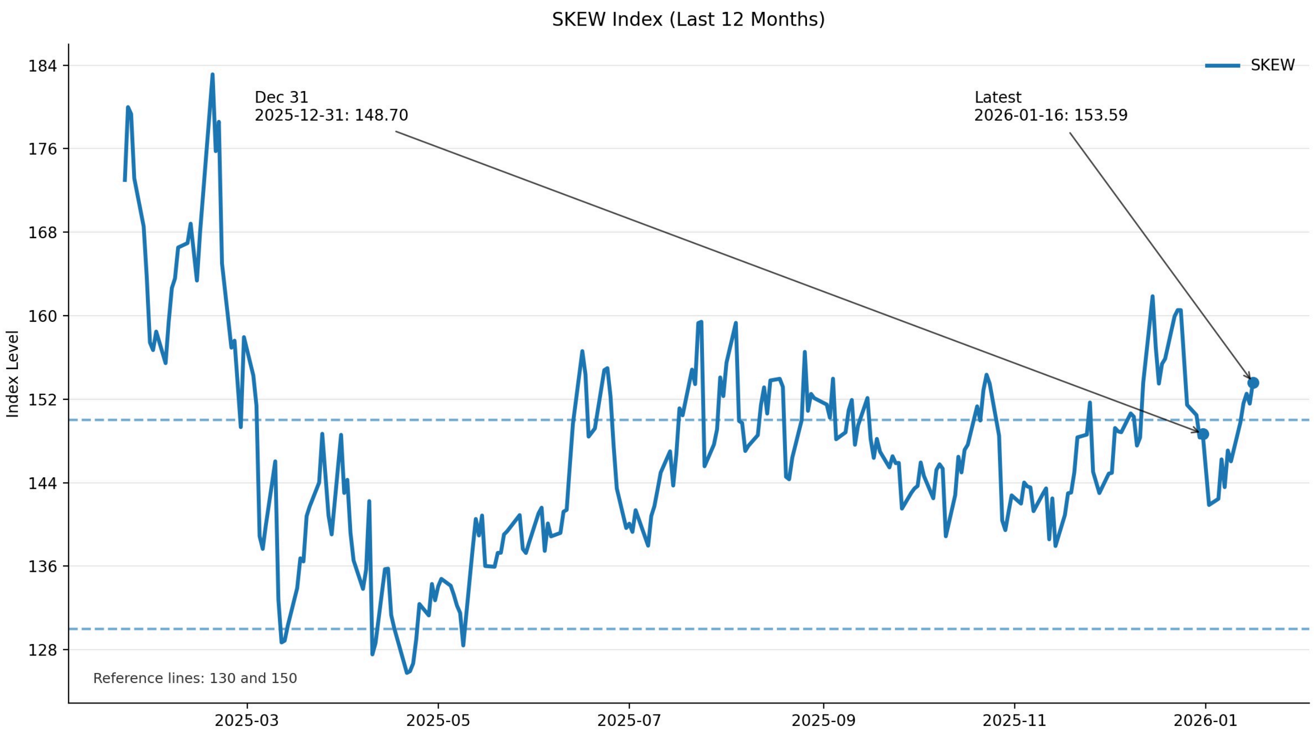
One way to summarize the volatility regime is this: near-term implied volatility was contained as of our chart date, but the curve still carried a meaningful term premium. As of January 16, the VIX closed at 15.86, modestly above its December 31 close of 14.95, but still consistent with a relatively benign implied-volatility backdrop. The CBOE S&P 500 9-day Volatility Index (VIX9D) closed at 12.09 on January 16 versus 12.00 on December 31, reinforcing that the market was not pricing much turbulence over the next couple of weeks. Meanwhile, the CBOE 3-month VIX (VXV) closed at 18.99 on January 16, leaving the curve upward sloping, with longer-dated volatility priced above the front end, which is the more typical configuration when stress is not acute. Since then, volatility has repriced higher with the VIX moving above 20, which is a reminder that spot volatility can change quickly. The message is not that risk is gone. It's that the market can price near-term calm at times, while still keeping more premium further out.



Source: Federal Reserve Bank of St. Louis (FRED) as of January 16, 2026

Tail-Risk Pricing Remains Elevated

While VIX captures "average" implied volatility, the CBOE SKEW index (SKEW) helps describe how expensive downside tail hedges are relative to more normal outcomes. As of Jan 16, SKEW was 153.59, up from 148.70 on Dec 31. Reference lines at 130 and 150 are included to provide context. Readings near 100 are often viewed as more typical, while levels above 130 suggest investors are paying meaningfully more for downside tail protection, and levels above 150 are commonly interpreted as elevated tail risk pricing. This is not a timing signal by itself. It is a reminder that "low VIX" can coexist with investors actively paying for crash-style protection.



Sources: Yahoo Finance, CBOE Global Markets as of January 16, 2026

High Dispersion and Low Correlation: A Market of Single-Stock Outcomes

A second under-the-surface signal is the combination of rising dispersion and falling implied correlation. Dispersion is a rough proxy for how wide single-stock outcomes can be, even when the index is stable. The CBOE S&P 500 Dispersion Index (DSPX) was 33.83 on January 16, up from 29.54 on December 31. At the same time, the CBOE 1-Month Implied Correlation Index (COR1M) was 8.58 on January 16, down from 12.40 on December 31. This mix suggests that diversification benefits are still being priced as relatively healthy (lower correlation), while the distribution of single-stock outcomes is widening (higher dispersion). That can be consistent with a market that feels calm in aggregate, but where leadership rotates and earnings or sector-specific developments can drive meaningful idiosyncratic moves.

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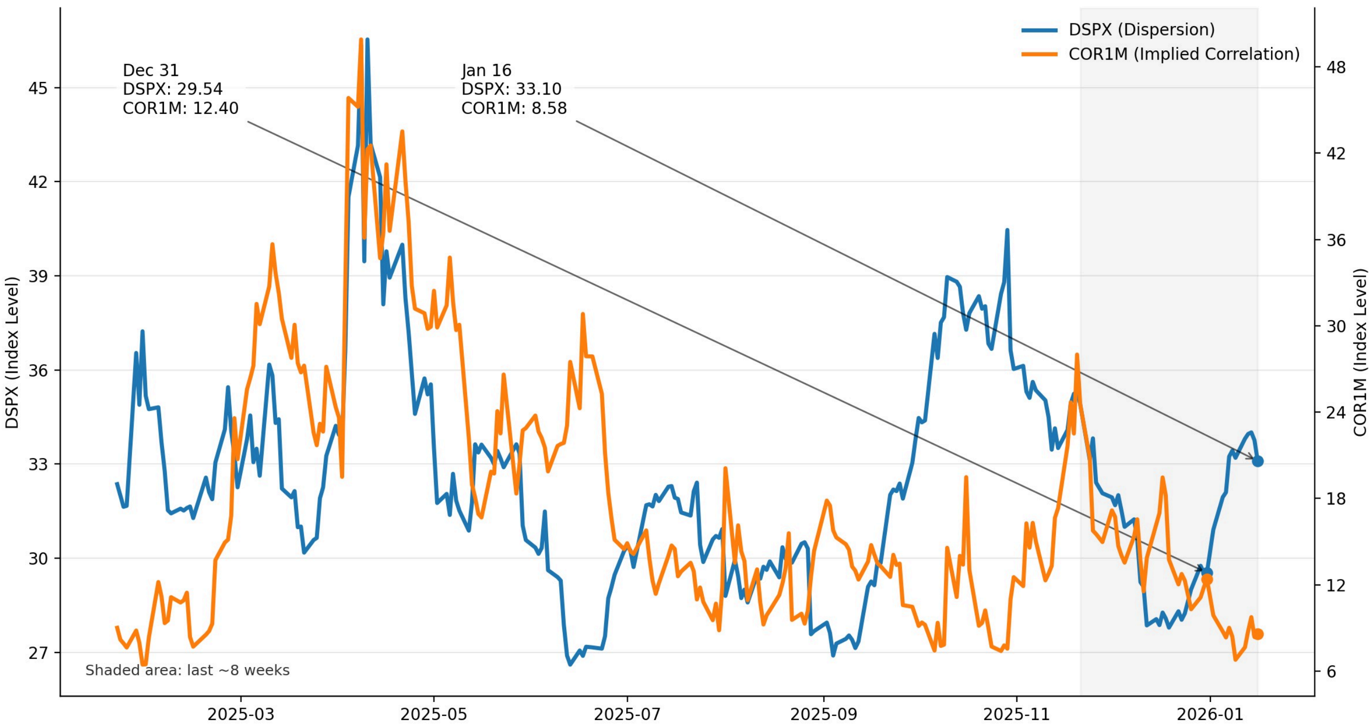
Dispersion vs Implied Correlation (Last 12 Months)



Sources: Yahoo Finance, FXEmpire as of January 16, 2026

Bottom Line

The options market is not flashing a broad-based stress signal, but it is also not complacent. Near-term index volatility is priced as relatively quiet, while crash insurance remains expensive and single-stock outcomes appear more dispersed. For investors, the practical takeaway is to respect tail risk, stay disciplined, and avoid over-interpreting a low VIX as a guarantee of smooth sailing.

What we are watching next week:

- Whether the VIX9D stays anchored below VIX, or begins to reprice near-term event risk.
- Whether SKEW continues to firm, which can indicate persistent demand for left-tail protection.
- Whether earnings updates and guidance, particularly where single-stock moves can drive index-level calm but portfolio-level volatility, begin to broaden the dispersion backdrop
- Any shift in dispersion and correlation that would suggest the market is transitioning from stock-specific volatility to index-level stress.

Disclosures on next page

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