

CORNERSTONE MACRO

Economics, Policy, Strategy & Technicals

Options Strategy

GUIDE TO THE WEEK: SPX 1-WEEK, IWM HEDGE, OVERWRITES

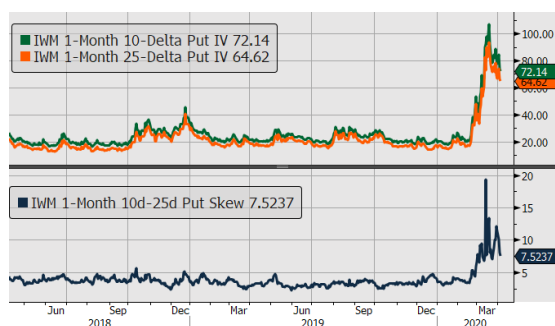
- **SPY 1-week straddle is down to 4.3%, we think gamma is too cheap here.**
- **Buy the IWM May 110/95 put spread for 2.38 (ref 123.72) for hedging.**
- **44% of the XLF reports this week, we suggest owning 5d options across names.**
- **Carter updated his sell list; we include our preferred overwrites.**

This is the first week with a meaningful chunk of earnings in the SPX, led by financials. See table to the upper right on earnings concentration. On page we look at single stock and ETF suggestions across the financials reporting this week.

The SPY 1-week straddle is down to a little bit less than 4.3% of spot. Since the beginning of March there have been 29 trading days, amidst those 29 trading days, the SPX has moved more than 4.3% 15 times and the average weekly absolute change has been 7.7%. Considering the extreme moves and the uncertainty around the virus, **buy the SPY Apr 17th 278 straddle for 12.5 (ref 278.2)**. The goal would be to sell one leg if it doubles which would finance the cost of the straddle and leave the other leg as a free option.

Hedge Idea: following the 25% rally off the lows, we would look to hedging via the IWM as we would expect weaker links to struggle more than large cap as there is still unclarity on when/how the economy will reopen. One suggestion:

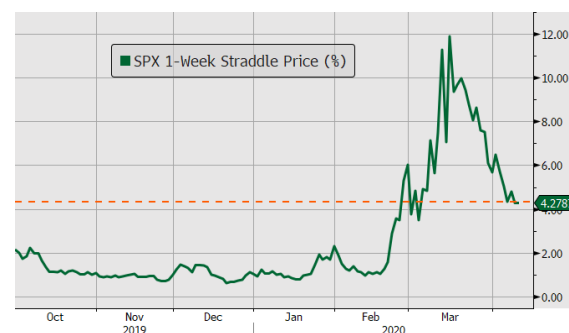
- **Buy IWM May 110/95 put spread for 2.38 ref 123.72**



EARNINGS CONCENTRATION

% Concentration of S&P 500 Market Cap Reporting by Week				
Sector	Week of Mon, Apr 13	Week of Mon, Apr 20	Week of Mon, Apr 27	Week of Mon, May 04
S&P 500 (SPX Index)	10%	23%	41%	12%
Information Technology	0%	19%	55%	3%
Health Care	26%	13%	41%	15%
Financials	44%	16%	18%	19%
Consumer Discretionary	1%	41%	18%	5%
Communication Services	1%	27%	61%	11%
Industrials	9%	28%	43%	12%
Consumer Staples	0%	37%	32%	3%
Energy	3%	7%	75%	14%
Utilities	0%	31%	27%	34%
Real Estate	0%	14%	37%	48%
Materials	0%	12%	45%	23%
QQQ- Nasdaq 100	1%	24%	54%	4%
KRE - Regional Banks	32%	56%	11%	0%

SPY 1-WEEK STRADDLE COST: 4.3%



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BANKING ON THE WINGS

This week 44% of the XLF reports earnings and while estimates are all over the place, regardless of earnings, financials have been moving a ton, particularly on the single stock side. Below we show the weekly change in price across the liquid, large cap banks reporting this week. For instance, the week of 3/27, C sold off 14.4% before rallying 26.5% the week of 4/3.

XLF 5-DELTA OPTION BREAKEVENS

Ticker	Stock Price	1-Week % Move (4/3-4/9)	Stock on 4/3	Prior 1-Week % Move (3/27-4/3)	Stock on 3/27	Apr17th Expiry 5-Delta Put Strike	Mid Price	Put Break-even	Apr17th Expiry 5-Delta Call Strike	Mid Price	Call Break-even
XLF	23.38	19.0%	19.64	-6.5%	21.01	19	0.06	-19.0%	27	0.05	15.7%
JPM	102.76	22.3%	84.05	-6.8%	90.19	85	0.35	-17.6%	125	0.23	21.9%
BAC	24.86	24.1%	20.03	-7.3%	21.60	20	0.10	-20.0%	29	0.055	16.9%
WFC	33.20	26.6%	26.23	-13.4%	30.28	26	0.15	-22.1%	40	0.11	20.8%
C	47.41	26.5%	37.49	-14.4%	43.80	36	0.21	-24.5%	60	0.10	26.8%
GS	184.26	25.4%	146.93	-7.2%	158.34	145	0.66	-21.7%	210	0.315	14.1%
MS	41.08	21.4%	33.85	-0.5%	34.01	34	0.16	-17.6%	50	0.085	21.9%

Considering these large moves, we like owning low cost 5 delta options. Specifically, **buy C April 36/60 strangle for .31 (ref 47.41)**. The breakeven is roughly +/- 27%. We would suggest selling either the put or call if they are worth 4x the cost of the strangle. To the right is an example of JPM calls last week, exploding from 5c to \$4.00.

JPM APRIL 9TH 100 CALLS: 5c → \$4.00+



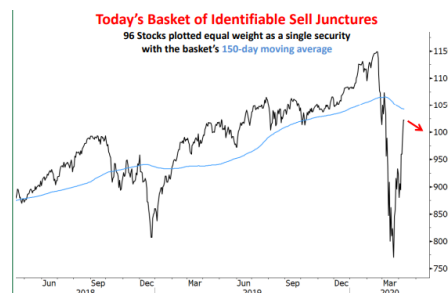
As a hedge, we suggest buying the XLF April 20 puts for .10 (ref 23.38). XLF was sub \$20 a week ago.

OVERWRITE CARTER'S SELL LIST

In Carter's latest Money in Motion report ([Link to Carter](#)), he focuses on stocks that have "rebounded sharply (with the market) but 'more so' and now are back to difficult levels where considerable overhead supply comes into play." He continues, "Almost without exception, each stock in question has recovered 'to the penny' to its respectively declining 150-day moving average. As long-time readers will know a stock in this position is judged to be at an 'identifiable' Sell juncture."

In the table below we screen Carter's Sell lists for attractive overwrites. We list May 15th expiry, roughly 25-delta calls, the premium that can be collected by selling the calls, and the breakeven at expiry. We screen the stocks for elevated implied volatility and include major index ETFs SPY, QQQ, and IWM on top for comparison.

The resulting list of stocks represent attractive overwriting candidates for those looking to reduce delta while also collecting volatility premium. Investors who own these stocks with a long term view can temporarily reduce delta exposure without selling the underlying position by selling calls. However, if the underlying stock price rallies above the strike price, you would be forced to cover the short calls.



One example in Consumer Staples (PEP), **sell PEP May 15th 140 calls at 2.36, ref 133.41**, net collecting 1.8% of spot. The upside breakeven is +6.5%, meaning the call seller is better off as long as PEP doesn't rally above 142.35 by expiry.

Another interesting example in the Utilities sector, **sell SO May 65 calls at 1.29, ref 60.33**, net collecting 1.4% of spot. The upside breakeven is +9.9%, meaning the call seller is better off as long as SO doesn't rally above 66.29 by expiry.

MAY 15TH EXPIRY 25-DELTA CALL WRITING CANDIDATES FROM CARTER'S SELL LIST

Tickers	Sector	1-Month 102.5% Implied Volatility	IV %ile (2Y)	1M RV	IV-RV	Stock Price	YTD %	May 15th 25d Call Strike	Mid Price	Mid Price %	Call Break- even	Call Delta	Annual Standstill % Return	Earnings Date (Conf/Est)
SPY	S&P 500	33.7	95%	84.8	-51.1	278.20	-13.0	295	4.54	1.6%	7.7%	0.29	18.6%	
QQQ	Nasdaq 100	35.2	95%	83.9	-48.7	200.86	-5.3	215	2.99	1.5%	8.5%	0.26	17.0%	
IWM	Russell 2000	49.0	96%	96.6	-47.6	123.72	-25.0	135	2.51	2.0%	11.1%	0.27	23.1%	
VG	Comm Svc	90.9	96%	147.0	-56.1	8.46	14.2	11	0.28	3.3%	33.3%	0.22	37.1%	May-08 (E)
CHTR	Comm Svc	47.5	97%	84.4	-36.9	466.64	-3.8	515	8.40	1.8%	12.2%	0.25	20.5%	May-01 (C)
OLLI	Cons Disc	60.9	94%	128.7	-67.7	54.64	-16.3	60	1.95	3.6%	13.4%	0.33	40.7%	Jun-08 (E)
CMG	Cons Disc	66.1	96%	111.9	-45.8	771.00	-7.9	880	20.55	2.7%	16.8%	0.26	30.4%	Apr-21 (C)
MNST	Cons Staples	42.8	95%	77.2	-34.4	60.51	-4.8	65	1.63	2.7%	10.1%	0.32	30.6%	May-01 (E)
HSY	Cons Staples	37.0	96%	106.0	-69.0	143.91	-1.6	155	2.64	1.8%	9.5%	0.28	20.9%	Apr-23 (C)
PEP	Cons Staples	35.3	96%	104.9	-69.6	133.63	-1.5	140	2.36	1.8%	6.5%	0.32	20.1%	Apr-28 (C)
BLK	Financials	44.0	95%	122.5	-78.5	471.42	-5.5	520	7.95	1.7%	12.0%	0.24	19.2%	Apr-16 (C)
CI	Health Care	56.4	95%	120.2	-63.8	181.83	-11.1	200	4.73	2.6%	12.6%	0.29	29.6%	Apr-30 (C)
DHR	Health Care	34.4	95%	79.0	-44.6	145.73	-4.9	155	2.21	1.5%	7.9%	0.27	17.3%	May-07 (C)
CAT	Industrials	43.2	94%	85.2	-41.9	125.03	-14.7	135	2.35	1.9%	9.9%	0.27	21.4%	Apr-28 (T)
AYX	Tech	85.3	95%	140.5	-55.2	107.92	7.8	130	3.35	3.1%	23.6%	0.25	35.4%	May-01 (E)
LRCX	Tech	64.7	96%	153.1	-88.4	258.28	-11.2	295	7.03	2.7%	16.9%	0.26	31.0%	Apr-24 (E)
PYPL	Tech	48.9	96%	113.2	-64.3	105.84	-2.2	115	2.76	2.6%	11.3%	0.31	29.7%	Apr-24 (E)
BOX	Tech	56.9	87%	119.0	-62.1	15.43	-8.0	18	0.35	2.3%	18.9%	0.23	25.9%	May-28 (E)
MRVL	Tech	49.4	92%	108.7	-59.3	24.28	-8.3	27	0.47	1.9%	13.1%	0.24	22.0%	Aug-30 (E)
SO	Utilities	46.8	96%	127.6	-80.8	60.33	-4.4	65	1.29	2.1%	9.9%	0.30	24.3%	Apr-30 (C)
D	Utilities	41.2	95%	123.8	-82.6	81.59	-0.3	90	1.13	1.4%	11.7%	0.22	15.7%	May-05 (T)

APPENDIX

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