Gyrostat January Outlook: Calm At Multiyear Extremes

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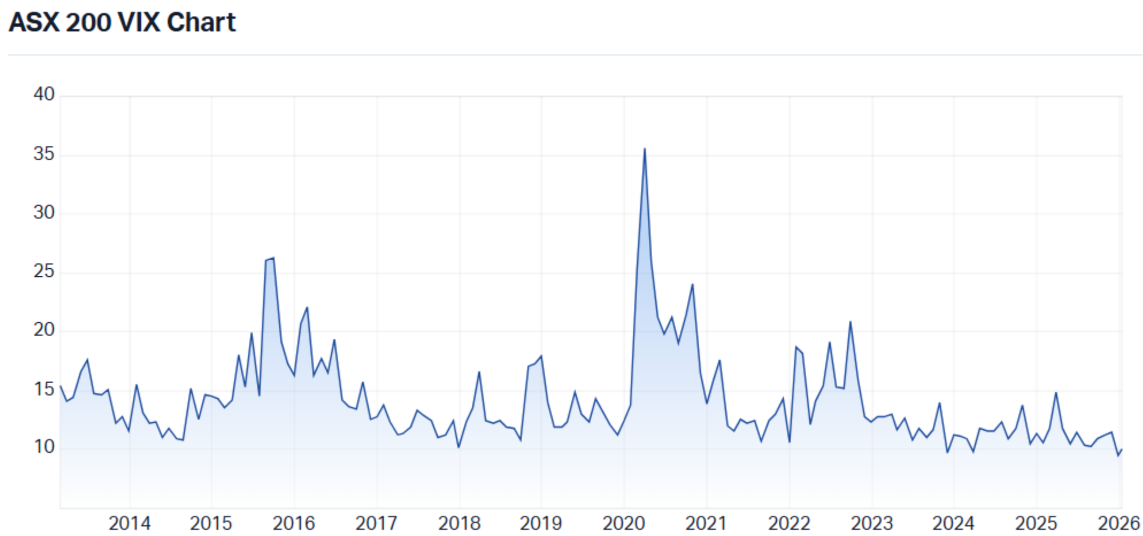
This monthly Gyrostat Risk-Managed Market Outlook does not attempt to forecast market direction. Its purpose is to examine how risk is currently priced, how market conditions are evolving, and what those conditions mean for retirees and lower-risk investors who depend on income, liquidity and capital durability. By focusing on observable indicators rather than predictions, the outlook highlights when risk is being under- or over-priced, and when structural protection matters most.

Pricing of risk: calm at multi-year extremes

Australian equity volatility is currently priced at levels rarely seen over the past decade. Measures of implied volatility, including the A-VIX, sit near multi-year lows, signalling a market environment that appears calm, stable and well-behaved.

Periods like this are often interpreted as benign. Yet from a risk-management perspective, they are better understood as moments when risk is being **cheaply priced rather than absent**. Low implied volatility reflects low demand for protection, not low exposure to uncertainty.

Historically, such conditions have coincided with increased complacency, narrower risk premia and a growing reliance on stability assumptions — precisely the conditions that matter most for retirees and income-dependent investors.



Source: Market Index https://www.marketindex.com.au/asx/xvi

Beneath the calm: realised volatility at the stock level

While implied volatility remains subdued, realised volatility at the stock level continues to tell a more active story.

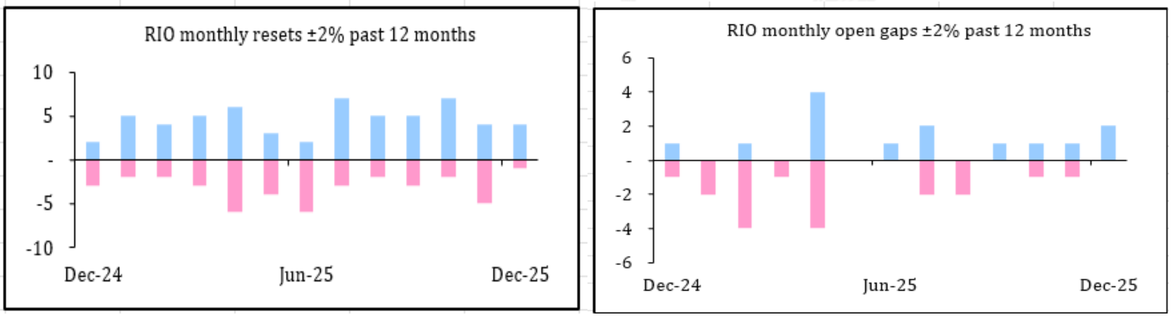
Even in calm index environments, Australian equities frequently experience meaningful price resets. Gap opens exceeding ±2 per cent, along with intraday moves of similar magnitude, remain common across large, well-known stocks. These moves reflect the ongoing adjustment of prices to information flow, liquidity changes and positioning — not exceptional events, but normal market behaviour.

This distinction matters. Low implied volatility does not mean markets are inactive. It means risk is being repriced quietly and frequently, rather than violently and visibly.

For risk-managed strategies, this persistent movement is not a threat. It is the raw material from which outcomes are generated.

This becomes even clearer at the stock level. While index volatility attracts attention, individual stocks often display far greater realised movement. Australian commodity stocks, for example, Rio Tinto, exhibit frequent ±2 per cent oscillations around short-term means. These repeated moves create opportunities for systematic resets and profits. The important insight is that movement is not occasional; it is intrinsic. Markets reset constantly. A rules-based process simply captures what markets naturally provide.

Rio Tinto monthly realised price movements Dec 24 – Dec 25



Source: Google Finance and Gyrostat Analysis

The cost of protection: pricing versus consequence

Periods of low implied volatility are also periods when portfolio protection is typically cheapest.

Current protection costs remain low by historical standards, reflecting limited investor demand for downside insurance rather than an absence of risk. Such conditions typically coincide with elevated confidence and a greater reliance on stability assumptions, particularly among growth-oriented portfolios.

ASX200 Protection pricing: duration vs excess – at 9 January 2026

					000's		
Date today:					9-Jan-26		
ASX index level:					8,745		
Excess				2.5%	5.0%	7.5%	10.0%
Index level				8,527	8,308	8,089	7,871
Current market costs of protection							
	Expiry	Days					
	19-Mar-26	69	Cost 000's	576	461	346	240
			%	1.10%	0.64%	0.38%	0.24%
	18-Jun-26	160	Cost 000's	1,983	1,545	1,107	828
			%	2.14%	1.54%	1.11%	0.83%
	17-Sep-26	251	Cost 000's	3,153	2,459	1,879	1,488
			%	3.15%	2.46%	1.88%	1.49%
	17-Dec-26	342	Cost 000's	3,825	3,048	2,447	2,008
			%	3.82%	3.05%	2.45%	2.01%
	18-Mar-27	433	Cost 000's	4,478	3,679	2,981	2,472
			%	4.48%	3.68%	2.98%	2.47%

Source: Gyrostat analysis of ASX200 option pricing (as at 9 January 2026)

For example, at 9th January 2026 protecting a $1 million ASX200 portfolio until 17th September 2026 with a 10% hard floor at the 7871 level would cost approximately 1.49% (≈$14,900).

When protection costs are low, the temptation is to defer action. Yet history suggests that protection is least demanded when it is most affordable, and most demanded only after it becomes expensive or unavailable.

From a structural perspective, the question is not whether markets will fall, but whether portfolios are positioned to remain functional if calm conditions give way to more volatile regimes. For mandate-based portfolios, these pricing conditions matter because protection is most effective when it is established before volatility becomes visible.

What this means for retirees

For retirees, risk is not volatility in isolation. It is the interaction between market movement and time.

Low volatility environments often encourage higher allocations to growth assets and delayed risk management. When disruption eventually occurs, losses tend to arrive quickly, income plans are strained, and recovery windows are limited.

This is the essence of sequencing risk. Early losses do not merely reduce portfolio values; they permanently alter income sustainability and longevity planning. Calm markets can therefore increase risk for retirees if they encourage over-reliance on stability.

A risk-managed approach recognises that uncertainty is always present, even when volatility is not visibly elevated.

Closing observation

Periods of market calm often coincide with shifts in how risk is priced, opening windows where protection is available at unusually low cost.

When volatility is cheap, protection is available, and stock-level movement remains persistent, the conditions are quietly signalling the importance of structural resilience. For retirees and lower-risk investors, the question is not whether calm will persist, but whether portfolios are designed to function when it does not.