Gyrostat April Market Outlook: The changing cost of protection: signals for portfolio construction

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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 those pricing conditions are evolving, and what they imply for retirees and lower-risk investors who depend on income, liquidity and capital durability. The focus remains on observable market signals rather than prediction.

Pricing of risk

Recent months have seen a transition from the unusually low implied volatility levels observed late last year to a period where risk is being more actively priced.

This adjustment has not occurred uniformly. Short-term volatility measures have responded quickly to evolving headlines, while the pricing of protection across medium- and longer-dated horizons has begun to adjust more gradually.

This distinction remains important. Short-term volatility reflects the very front end of the market's risk curve. For investors managing portfolios over longer horizons, the pricing of protection further along that curve is often more relevant.

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

The structure of protection pricing

An important feature of current market conditions is that risk is not priced evenly across time.

Focusing on a consistent level of protection (10% downside protection), current market pricing indicates a clear upward progression in cost across investment horizons. This structure reflects a market where risk is no longer being priced at unusually low levels but is being more actively transferred across time.

Cost of protection

The recent shift in pricing highlights a broader change in market conditions.

Periods where protection could be established at relatively low cost have given way to an environment where the cost of transferring risk has increased. Importantly, this adjustment has occurred quickly in some instances, reflecting how rapidly pricing can change once demand for protection strengthens.

In practical terms:

- protection remains available
- liquidity remains strong
- markets continue to function efficiently

However, the cost of maintaining protection is now a more visible component of portfolio construction.

Evolution of protection costs

Recent pricing also highlights how quickly protection costs can adjust once demand strengthens, particularly across longer-dated horizons.

For example, protecting a portfolio with a 10% downside floor to September 2026 increased from approximately **1.28% in late February to 2.11% in late March**, and at a reduced underlying index level with stock market falls during March.

This shift illustrates two important features of current market conditions:

- protection costs can adjust rapidly once volatility expectations change
- longer-dated protection is often more sensitive to shifts in demand than short-dated measures

The result is a market where the **term structure of protection is actively evolving**, with costs becoming more pronounced across the horizons most relevant for portfolio construction.

				000's			
Date today:				27-Mar-26			
ASX index level:				8,508			
Excess				2.5%	5.0%	7.5%	10.0%
Index level				8,295	8,082	7,870	7,657
Current market costs of protection							
	Expiry	Days					
	18-Jun-26	83	Cost 000's	2,345	1,786	1,382	1,080
			%	2.34%	1.79%	1.38%	1.08%
	17-Sep-26	174	Cost 000's	3,728	3,054	2,557	2,109
			%	3.73%	3.05%	2.56%	2.11%
	17-Dec-26	265	Cost 000's	4,531	3,862	3,254	2,769
			%	4.53%	3.86%	3.25%	2.77%

Source: Gyrostat analysis of ASX200 option pricing

ASX200 Protection Pricing Comparison

Date	10% Floor	Protection Cost
27 Feb 2026	8,255	1.28% (~$12,800)
6 Mar 2026	7,939	1.80% (~$18,000)
27 Mar 2026	7,657	2.11% (~$21,100)

For example, as at 27 March 2026, protecting a $1 million ASX200 portfolio until 17 September 2026 with a 10% hard floor at the 7,657 level would cost approximately **2.11% (≈$21,100)**.

One month earlier, on 27 February 2026, the equivalent protection — with the 10% floor at the higher 8,255 level — cost approximately **1.28% (≈$12,800)**.

Managing protection as conditions change

While the cost of protection has increased, the presence of market volatility also changes how protection behaves within a portfolio.

Protection is often viewed as a static cost—established and held over time. In practice, periods of market movement can cause protection positions to accumulate value, reflecting both intrinsic and time components.

This introduces an additional dimension. ***Protection is not only a defensive measure but can become a source of realised value during periods of market adjustment.***

As a result, the effective cost of maintaining protection is influenced not only by initial pricing, but by how protection is managed as conditions evolve.

Implications for retirees and lower-risk investors

For retirees and lower-risk investors, the implications are subtle but important.

The central question is no longer whether protection is available, but whether it is being implemented deliberately and efficiently.

Sequencing risk remains a defining consideration. The order in which returns are realised continues to have a disproportionate impact on outcomes, particularly where withdrawals are occurring.

In an environment where the cost of protection has increased, disciplined and structured management of risk becomes more important than static positioning.

Closing observation

Markets rarely move from calm to uncertainty in a single step.

More often, they pass through phases where risk becomes more visible, more actively priced, and more contested. The current environment reflects such a transition.

Periods where protection was inexpensive are typically followed by periods where its cost increases. This does not eliminate opportunity, but it changes the conditions under which portfolios must be managed.

As the cost of protection changes, the distinction between static and actively managed risk becomes more relevant.

For investors, the relevant question is not whether markets are calm or uncertain, but whether portfolios are structured to remain resilient as the pricing of risk evolves.

Gyrostat Risk Managed Equity Fund

Performance Report – Class A and Class B

Absolute Returns at 28 Feb 2026

Class	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Max Qtr Loss (3Yr)	Beta
A	+10.38%	+9.60%	+8.52%	+10.04%	-0.52%	-0.08
B	+12.86%	+10.05%	+10.32%	+13.25%	-0.84%	-0.21

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