

Gyrostat May Market Outlook: When the cost of protection falls: signals for portfolio positioning

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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

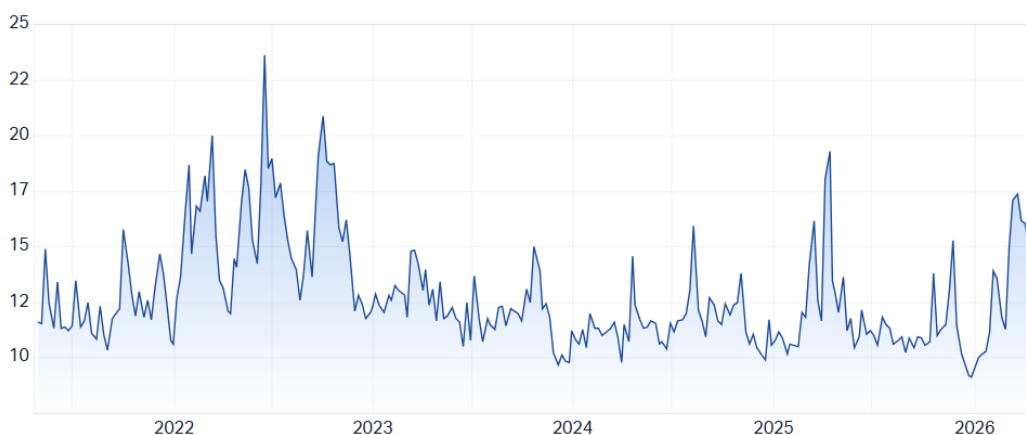
Recent market conditions have seen a reversion toward **lower implied volatility levels**, with equity markets recovering and the immediate pricing of risk moderating.

This shift reflects a familiar pattern. Periods of market adjustment are often followed by phases where volatility declines and the demand for protection recedes.

Importantly, this does not indicate that underlying uncertainty has diminished. Rather, it reflects a **reduction in the market's willingness to pay for protection**.

As a result, risk is again being priced more cheaply across key investment horizons.

ASX 200 VIX Chart



Source: Market Index <https://www.marketindex.com.au/asx/vix>

The structure of protection pricing

As outlined previously, risk is not priced evenly across time.

Short-dated measures of volatility tend to adjust rapidly, while pricing across medium- and longer-dated horizons reflects a more gradual process of repricing.

Current conditions suggest that, while volatility has moderated at the front end, the broader structure of protection pricing continues to evolve across longer investment horizons.

For investors managing portfolios over multi-year periods, these longer-dated pricing conditions remain more relevant than short-term volatility measures.

Cost of protection

The decline in implied volatility has reduced the cost of establishing protection relative to recent levels.

Periods where protection becomes less expensive are often characterised by:

- reduced demand for downside hedging
- greater confidence in market stability
- a perception that risk has diminished

In practical terms:

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

However, the cost of transferring risk has become less visible, and therefore less actively incorporated into portfolio construction.

Evolution of protection costs

Recent pricing indicates that the cost of establishing a defined level of downside protection has declined meaningfully from prior levels, reflecting a reduction in implied volatility rather than a structural change in underlying risk.

For example, protecting a portfolio with a 10% downside floor to September 2026 has declined to approximately 1.28% on 23 April, having reduced from **2.11% in late March**, and at a higher underlying index level with stock market gains during April.

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:		23-Apr-26					
ASX index level:		8,776					
Excess		2.5%	5.0%	7.5%	10.0%		
Index level		8,557	8,337	8,118	7,898		
Current market costs of protection							
	Expiry	Days					
	18-Jun-26	56	Cost 000's	908	727	545	364
			%	1.42%	0.92%	0.71%	0.36%
	17-Sep-26	147	Cost 000's	2,860	2,395	1,839	1,280
			%	2.86%	2.40%	1.84%	1.28%
	17-Dec-26	238	Cost 000's	3,652	3,246	2,511	1,946
			%	3.65%	3.25%	2.51%	1.95%
	18-Mar-27	329	Cost 000's	4,426	3,935	3,178	2,578
			%	4.43%	3.93%	3.18%	2.58%
	17-Jun-27	420	Cost 000's	4,817	4,281	3,575	3,014
			%	4.82%	4.28%	3.58%	3.01%

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)
23 Apr 2026	7,898	1.28% (~\$12,800)

For example, as at 23 April 2026, protecting a \$1 million ASX200 portfolio until 17 September 2026 with a 10% hard floor at the 7,898 level would cost approximately **1.28% (~\$12,800)**.

One month earlier, on 27 March 2026, the equivalent protection — with the 10% floor at the lower 7,657 level — cost approximately **2.11% (~\$21,100)**.

This shift highlights an important feature of market behaviour:

Low implied volatility reflects low demand for protection, not low exposure to uncertainty. It is a pricing signal, not a statement about underlying risk.

Periods where protection is inexpensive are often those where the perceived need to act is lowest.

At the same time, these periods can represent **the most favourable conditions under which to adjust portfolio structure.**

Managing protection as conditions change

Protection is often viewed as a static cost—established and held over time.

In practice, changing market conditions alter both:

- the cost of establishing protection
- the role protection plays within a portfolio

When volatility declines:

- the cost of protection falls
- the opportunity to establish or restructure defensive positions improves

This introduces an important dimension.

The effectiveness of protection is influenced not only by how it performs during periods of market stress, but by the conditions under which it is established.

Implications for retirees and lower-risk investors

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

The central issue is not whether markets appear stable, but whether portfolios are positioned to respond if conditions change.

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.

Periods of market calm can create a **false sense of stability**, where the absence of recent volatility reduces the perceived urgency to act.

However, in retirement:

the consequence of inaction is not temporary volatility, but the potential for permanent impairment of capital and lifestyle.

Broader market context

These conditions are occurring within a broader environment where global debt levels remain elevated, liquidity conditions are evolving, and the structure of markets is becoming more sensitive to changes in demand for protection.

Periods of market stability often coincide with phases where underlying structural pressures are less visible, rather than absent. In this context, the pricing of risk can diverge from the persistence of those underlying conditions.

Rebalancing and portfolio structure

Traditional portfolio rebalancing is often framed as a response to market movements.

An alternative perspective is to consider the pricing of risk itself.

When the cost of protection declines:

- the ability to establish resilient portfolio structures improves
- the trade-off between return and protection becomes more favourable

This distinction becomes most relevant when the cost of protection declines, as the conditions for restructuring portfolios improve while the perceived need to act diminishes.

Closing observation

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

More often, they transition through phases where risk becomes less visible, less actively priced, and more dependent on prevailing sentiment.

Periods where protection is inexpensive are typically those where the perceived need for protection is lowest.

This does not eliminate opportunity. It changes the conditions under which portfolios can be positioned.

When the cost of protection falls, the opportunity to structure portfolios more resiliently often increases, even though the perceived need to act is typically lowest.

For investors, the relevant question is not whether markets are calm, 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 31 March 2026

Class	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Max Qtr Loss (3Yr)	Beta
A	+8.92%	+9.28%	+7.72%	+10.41%	-0.52%	-0.08
B	+11.90%	+10.71%	+10.03%	+13.87%	-0.84%	-0.21

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