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Gyrostat June Market Outlook: When low volatility conceals structural risk

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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 continue to reflect a moderation in implied volatility following the earlier repricing episodes experienced during the first quarter of the year. Equity markets have stabilised, liquidity conditions remain functional, and short-dated measures of market fear have declined from elevated levels.

At a surface level, this environment can appear constructive.

However, periods of market calm often coincide with phases where the pricing of protection becomes less visible, less demanded, and therefore less actively incorporated into portfolio construction.

This distinction remains important.

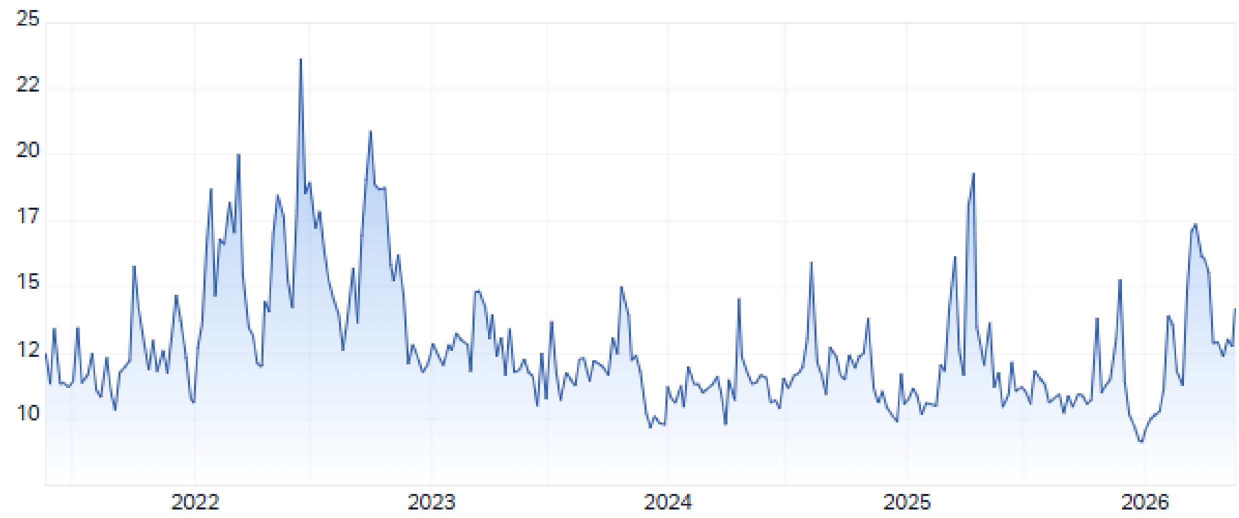
Low implied volatility reflects reduced demand for protection, not reduced exposure to uncertainty.

Risk itself has not disappeared. Rather, the market is currently assigning a lower immediate price to transferring that risk.

This reflects a recurring pattern within financial markets. Following periods of volatility, market participants often recalibrate quickly toward stability assumptions once prices recover and realised volatility declines.

The consequence is that protection frequently becomes least expensive at precisely the moment investors feel least urgency to establish it.

ASX 200 VIX Chart



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

The structure of protection pricing

An important feature of current market conditions is the continued divergence between short-dated calm and the persistence of broader structural uncertainty.

Short-dated volatility measures respond rapidly to changes in sentiment and positioning. However, medium- and longer-dated pricing conditions tend to evolve more gradually as markets reassess uncertainty over extended investment horizons.

For long-term investors, particularly retirees drawing income from portfolios, these longer-dated pricing conditions remain more relevant than short-term market stability.

The issue is not whether markets remain calm over the coming weeks. The more important question is whether portfolios are positioned appropriately if pricing conditions evolve differently over multi-year investment horizons.

Periods where volatility compresses at the front end of the curve can create an impression that underlying fragility has diminished.

In practice, market structure, liquidity dependence, elevated debt levels and sensitivity to policy shifts remain persistent features of the broader investment environment.

The repricing of risk may slow during periods of calm, but the structural conditions that influence future repricing remain present.

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Protection costs and portfolio structure

The moderation in implied volatility has improved the relative cost of establishing downside protection compared with earlier periods of market stress.

This introduces an important portfolio construction consideration.

Protection is often evaluated primarily by how it performs during periods of market decline. Equally important, however, are the pricing conditions under which protection is established.

Periods of elevated volatility typically increase protection costs and reduce portfolio flexibility. Conversely, when implied volatility declines, the cost of establishing downside resilience can improve materially, creating more favourable portfolio-construction conditions.

Importantly, this does not imply that investors should respond to every change in volatility conditions.

Rather, it highlights that portfolio resilience is influenced not only by market outcomes, but also by the pricing conditions under which risk management decisions are implemented.

Periods where protection is inexpensive can therefore create structurally favourable conditions for improving portfolio resilience, even when the perceived need to act appears low.

					000's		
Date today:					15-May-26		
ASX index level:					8,629		
Excess				2.5%	5.0%	7.5%	10.0%
Index level				8,414	8,198	7,982	7,766
Current market costs of protection							
	Expiry	Days					
	17-Sep-26	125	Cost 000's	2,366	1,754	1,311	994
			%	2.40%	1.75%	1.31%	0.99%
	17-Dec-26	216	Cost 000's	3,335	2,645	2,136	1,717
			%	3.33%	2.64%	2.14%	1.72%
	18-Mar-27	307	Cost 000's	4,224	3,455	2,863	2,389
			%	4.22%	3.45%	2.86%	2.39%
	17-Jun-27	398	Cost 000's	4,785	4,016	3,436	2,945
			%	4.78%	4.02%	3.44%	2.95%
	16-Sep-27	489	Cost 000's	5,542	4,722	4,100	3,515
			%	5.54%	4.72%	4.10%	3.51%

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)
15 May 2026	7,766	0.99% (~$9,940)

For example, as at 15 May 2026, protecting a $1 million ASX200 portfolio until 17 September 2026 with a 10% hard floor at the 7,766 level would cost approximately **0.99% (≈$9,900)**.

This compares with a more elevated environment 27 March 2026, the equivalent protection — with the 10% floor at the lower 7,657 level — cost approximately **2.11% (≈$21,100)**.

This reflects 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**.

Sequencing risk and retirement portfolios

For retirees and lower-risk investors, the implications remain particularly significant.

Sequencing risk continues to represent one of the defining structural risks within retirement investing.

The order in which returns are realised matters materially when withdrawals are occurring.

This means that periods of market decline early in retirement can create consequences that are difficult to recover from, even where long-term average returns eventually appear acceptable.

In this context, periods of market calm can become psychologically dangerous.

Extended stability often encourages the assumption that portfolio resilience is already sufficient, reducing the perceived urgency to review downside exposure or structural risk.

However, retirement portfolios are not simply exposed to volatility.

They are exposed to the interaction between market declines, withdrawal requirements, behavioural pressure and reduced recovery capacity.

The consequence of inaction is therefore not merely temporary market fluctuation.

For many retirees, the consequence can become permanent impairment of capital durability and lifestyle flexibility.

This remains why the pricing of protection is relevant even during periods where markets appear stable.

Broader market context

Current conditions continue to occur against a broader backdrop characterised by:

- elevated global debt levels
- evolving liquidity conditions
- ongoing geopolitical uncertainty
- increasing market sensitivity to policy expectations
- concentrated equity market leadership

Periods of stability often reduce the visibility of these structural pressures.

However, reduced visibility is not the same as structural resolution.

Markets frequently transition gradually between phases where risk is actively priced and phases where risk becomes temporarily discounted by prevailing sentiment.

This transition process rarely occurs in a straight line.

Instead, markets often move through periods where:

- realised volatility declines
- investor confidence improves
- demand for protection recedes
- risk transfer becomes less expensive

before conditions eventually shift again.

The pricing of risk therefore remains dynamic rather than static.

Rebalancing and resilience

Traditional portfolio rebalancing frameworks are often centred around changes in asset prices.

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

When the cost of protection changes materially, the conditions under which portfolios can be structured also change.

This does not require forecasting market direction.

It simply recognises that periods where protection becomes less expensive may improve the ability to construct portfolios capable of responding more effectively if future conditions deteriorate.

For investors focused on retirement durability, resilience is not determined solely by returns achieved during favourable conditions.

It is also determined by the ability of portfolios to remain functional during periods where market conditions change unexpectedly.

Closing observation

Markets rarely move directly from calm conditions to crisis.

More commonly, they transition through phases where risk becomes progressively less visible, less actively priced, and increasingly dependent on prevailing confidence.

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.

For investors, particularly retirees and lower-risk portfolios, the relevant question is not whether markets currently appear stable.

The more important question is whether portfolios are structured to remain resilient as the pricing of risk evolves.

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Gyrostat Risk Managed Equity Fund

Performance Report - Class A and Class B

Absolute Returns at 30 April 2026

Class	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Max Qtr Loss (3Yr)	Beta
A	+8.13%	+8.92%	+7.82%	+10.35%	-0.52%	-0.08
B	+9.58%	+9.77%	+9.59%	+13.43%	-0.84%	-0.21