

Gyrostat October Outlook: Beneath the calm, the cost of protection rises

Even as global equity indices remain near record highs, the pricing of risk is shifting quietly beneath the surface. In the United States, volatility, measured by the VIX, continues to hover in the mid-teens to low-20s, with a wider range and short-term spikes over the past month. In Hong Kong, the Hang Seng Volatility Index (HVIX) has remained consistently higher, reflecting structurally greater market uncertainty. This divergence highlights a simple truth: risk may be universal, but its price is profoundly local.

When markets appear calm, behavioural risk often rises. Investors begin to assume that protection is unnecessary, precisely when it is most affordable.

With market protection still attractively priced, investors have an opportunity to reinforce portfolios before conditions inevitably turn. The cost of preparing today is far less than the cost of reacting tomorrow.

From a practical standpoint, protection costs differ significantly. A one-year, 10% downside floor on a U.S. equity index portfolio may currently cost around 2% of notional value, whereas an equivalent level of protection in Hong Kong could exceed 4–5%. This disparity illustrates that risk, while universal in concept, is priced locally based on liquidity, structure, and sentiment.

A risk-management lens

True financial security comes not from predicting market direction, but from constructing portfolios that can withstand the unknown. Our approach views current conditions through a risk-management lens, building diversification and protection into portfolios by design. This proactive scenario planning reduces reliance on forecasts and helps address the 'sequencing of returns' risk that can devastate retirement balances if losses occur early in drawdown years.

Diversification for All Market Scenarios

Strategy	Key Attributes	Falling Market (Inc. Large Market Falls)	Volatile Market	Stable Market	Rising Market
Diversify risk – Conservative/Growth Mix	Relies on correlation spread across asset classes	Unfavorable – Correlation often rises in crisis	Unfavorable – Capital losses	Favorable	Favorable
Occasional Protection via Predictions	Requires accurate timing to be effective	Unfavorable – Exposed if wrong	Unpredictable – Gains/Losses	Favorable	Favorable (May be Capped)
Protection Always in Place – Absolute Return (Gyrostat)	Non-correlated beta with embedded put protection; thrives on volatility	Very favorable (Class A), favorable (Class B)	Favorable (Class A), very favorable (Class B)	Less Favorable (Lower Return)	Favorable (Mitigated Upside)

We elaborate on this in detail, along with the limitations of financial theory as it applies to portfolio construction for lower-risk investors, in our recently published guide:

Risk Managed Investing: A Structured Guide from Accumulation to Retirement:

<https://www.gyrostat.com.au/news/risk-managed-investing/>

Current market backdrop

With many equity indices trading near record highs, risk remains priced at or near historic lows. Volatility indices provide an accessible translation of how markets perceive and price uncertainty.

VIX – S&P 500 implied volatility



Source: Bloomberg / Google Finance (data as at 20 October 2025)

HVIX – Hang Seng implied volatility



Source: Bloomberg / Google Finance (data as at 20 October 2025)

Translating Volatility into Portfolio Protection Costs

The VIX index reflects the market's expectation of volatility—and by extension, the cost of protection. When volatility is subdued, protection is inexpensive; when volatility surges, the cost of cover rises sharply and availability narrows.

One way to translate this into practical terms is to express protection as a percentage of the portfolio value being insured. The cost depends on the chosen duration and the level of loss the investor is willing to tolerate before compensation begins.

S&P 500 Protection pricing: duration vs excess

S&P500 Index				000's			
Underlying portfolio to protect:	\$100 M	USD		100,000			
Date today:				17-Oct-25			
S&P500 index level:				6,633			
Excess				2.5%	5.0%	7.5%	10.0%
Index level				6,467	6,301	6,135	5,969
Current market costs of protection							
	Expiry	Days					
	18-Dec-25	62	Cost 000's	2,000	1,513	1,132	752
			%	2.00%	1.51%	1.13%	0.75%
	19-Mar-26	153	Cost 000's	3,256	2,601	1,967	1,311
			%	3.26%	2.60%	1.97%	1.31%
	17-Jun-26	243	Cost 000's	4,207	3,360	2,541	1,694
			%	4.21%	3.36%	2.54%	1.69%
	17-Sep-26	335	Cost 000's	5,021	4,010	3,033	2,022
			%	5.02%	4.01%	3.03%	2.02%
	17-Dec-26	426	Cost 000's	5,684	4,540	3,434	2,289
			%	5.68%	4.54%	3.43%	2.29%

Source: Gyrostat analysis of S&P 500 option pricing (as at 17 October 2025)

Hang Seng Protection pricing: duration vs excess

HSI INDEX				000's			
Underlying portfolio to protect:	\$100 M	HKD		100,000			
Date today:				17-Oct-25			
HSI index level:				25,586			
Excess				2.5%	5.0%	7.5%	10.0%
Index level				24,946	24,307	23,667	23,027
Current market costs of protection							
	Expiry	Days					
	30-Dec-25	74	Cost 000's	2,825	2,195	1,655	1,130
			%	2.97%	2.19%	1.66%	1.13%
	30-Mar-26	164	Cost 000's	4,553	3,661	3,067	2,250
			%	4.55%	3.66%	3.07%	2.25%
	29-Jun-26	255	Cost 000's	5,946	5,001	4,352	3,400
			%	5.95%	5.00%	4.35%	3.40%
	29-Sep-26	347	Cost 000's	7,176	6,129	5,333	4,438
			%	7.18%	6.13%	5.33%	4.44%
	30-Dec-26	439	Cost 000's	8,498	7,003	6,094	5,064
			%	8.50%	7.00%	6.09%	5.06%

Source: Gyrostat analysis of Hang Seng option pricing (as at October 2025)

For example, protecting a \$1 million S&P 500 portfolio until 17 September 2026 with a 10% hard floor would cost approximately 2.0% (≈\$20,000). The same protection in the Hang Seng Index until 29 September 2026 would cost roughly 4.4% (≈\$44,000). Put simply, investors currently have the ability to secure meaningful downside insurance at unusually attractive levels, a window that often closes quickly once volatility returns.

Evidence of resilience

Gyrostat's risk-managed strategies are designed to deliver peace of mind across conditions. The Class A has maintained a 14-year track record without a single quarterly drawdown beyond its 3% risk tolerance, while our leveraged Class B focuses more on returns and has a defined higher risk tolerance.

Absolute return equity income funds, such as Gyrostat, use proprietary systems to find the least expensive protection and adjust its duration and coverage as needed, a strategy called 'dynamic hedging'. This strategy is difficult for individual investors to execute efficiently on their own.

For cautious investors, swapping passive long-only equity exposure for risk-managed absolute return funds adds diversification beyond traditional asset splits. This isn't about shifting between growth and defensive assets, but rather about maintaining continuous protection against market volatility in all scenarios.

Gyrostat Risk Managed Equity Fund Performance Report – Class A and Class B Absolute Returns at 30 Sep 2025

For the quarter ended 30 September, Class A increased by 2.31% and Class B by 3.52%, consistent with our guidance.

Class	1yr	2yr p.a.	3yr p.a.	4yr p.a.	Max Qtr Loss (3Yr)	Beta
A	+7.52%	+8.06%	+7.20%	+10.45%	-1.26%	-0.08
B	+8.31%	+9.91%	+8.82%	+11.02%	-0.84%	-0.22

Outlook

Looking ahead, realised volatility is expected to rise, and the risk of large downside 'gaps' remains elevated. Investors face a choice: continue to rely on predictions or proactively construct portfolios that can withstand a wide range of outcomes, including significant market declines.

For retirees and conservative investors, the current tranquil market environment should not breed complacency. Instead, it constitutes a strategic opportunity to strengthen long-term financial stability.

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