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The SPIKES® Volatility Index: Why Methodology Really Matters

Given the Fed's ongoing fight against inflation, all eyes were on the September 21st Federal Open Market Committee (FOMC) Meeting. During uncertain times, like this announcement, investors and traders are looking at reliable indicators that gauge market sentiment, especially in the immediate aftermath of the release of the target rate at 2pm ET. Two gauges of 30-day implied volatility that traders often look at are the SPIKES Volatility Index (ticker: SPIKE) and VIX. These two volatility indices typically move in tandem with each other and the correlation of daily returns has significantly measured over 99%.

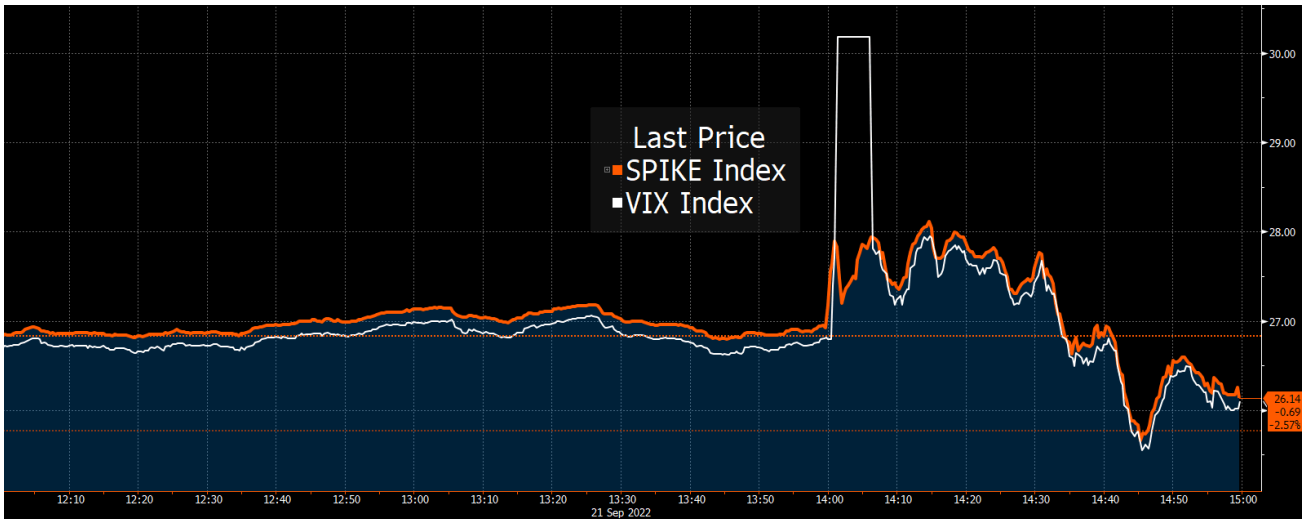
However, there was a significant divergence between SPIKES and VIX after the FOMC's rate hike on September 21st. This is due to the differences in their methodology. **One key difference is that SPIKES derives its value from SPY options while VIX derives its value from SPX options**. SPIKES is constructed to ensure stability, especially during crucial times like the FOMC meeting, as it uses SPY options quotes and traded prices (often known as "price dragging") from all 16 U.S. equity options exchanges, whereas VIX relies on SPX quotes from a single underlying exchange.

Why does this matter?

A look at the SPIKES and VIX Index around the FOMC meeting:

SPIKES and VIX tracked each other closely in advance of the Fed's announcement at 14:00 ET (prior to the Fed announcement, SPIKES was consistently producing values that were ~0.15 higher than VIX[1]). At 14:01:01 ET, VIX sprang up to 30.18 and stayed there until 14:05:46. During this time, SPIKES vacillated in the mid to high 27s. At 14:06:31, VIX finally resumed its close relationship to SPIKES, dropping to the high 27s. For the remainder of the trading day, SPIKES and VIX maintained a very similar path with SPIKES producing values ~0.15 higher than VIX, like the pre-Fed announcement period.

SPIKES and VIX Indexes on September 21, 2022



Source: Bloomberg

[1] Factors contributing to slightly different SPIKES values as compared to VIX include SPY options' American style versus SPX options' European style and SPY options' "PM" settlement versus SPX options' "AM" settlement.

So what happened?

VIX diverged nearly 10% from SPIKES and it lacked movement from 14:01-14:06 ET, but it then returned to SPIKES' levels. Due to SPIKES calculation methodology and dissemination methodology, it allows for great stability, especially during crucial times in the market like the immediate aftermath of an FOMC movement.

Volatility Index Comparisons	SPIKES	VIX
Options prices used for calculation	SPY	SPX
# of exchanges that list the options used in calculation	All (-16)	One
Option bid/ask method used	Price Dragging	Mid-Point
Time of Settlement	8:30 CT	8:30 CT
Expirations used in daily Index calculations	First two monthly with at least two full days until expiry	Monthly and weekly between 23 & 37 days
Includes Weekly options in calculation	No	Yes
Overnight Index levels available	No	Yes
Index price dissemination	Every 100 milliseconds	Every 15 seconds
Data subscription needed	MIAX® Product Feed (MPF)[1] & OPRA	CBOE
Options truncation for Index calculation	Exclude strikes below/above[2] two consecutive $.05 CRPs[3]	Exclude strikes with and below/above[2] two consecutive zero bids

[1]Data feed available to market participants providing real-time updates for MIAX Options proprietary products. Contact MIAX
[2]Below/above as it relates to puts/calls [3]$.05 on SPY would be the equivalent of $.50 in SPX. CRP=Cash Reference Price

To learn more about SPIKES methodology along with the SPIKES Volatility Ecosystem including options, futures and ETFs, visit: miaxoptions.com/spikes.

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