The Gamma Cliff: August 21st- Mark The Date

Cem Karsan is flagging August 21, the monthly options expiration (OPEX) date, as the setup for what he calls a gamma cliff. On August 21st, one of the year?s larger concentrations of monthly options open interest will expire or roll forward. What happens next is worth watching.

Options market makers must hedge their risk by trading the underlying stock. The aggressiveness of their hedge trading is driven by their aggregate gamma (gamma measures an option?s sensitivity to price changes as the stock moves). As option expiration nears, gamma on at-the-money contracts builds sharply, forcing dealers to trade more actively to stay hedged. That increased hedging volume dampens volatility before the OPEX gamma cliff, as they typically sell in upward markets and buy into down markets. This helps explain why the VIX has recently been trading lower heading into OPEX, as shown on the left. When the large amount of options expire or roll forward on Friday afternoon, the stabilizing hedging flows that suppressed volatility disappear. With significantly less gamma left to hedge, dealer flows have less market impact, allowing a directional trend with more volatility to develop.

Karsan?s framework adds another layer. He distinguishes between option expiration cycles dominated by call gamma versus put gamma, noting that call-heavy, positive gamma cycles, as we are currently in, have historically tended to produce ?*market weakness or choppy price movements in the week following OPEX*.? He also describes a recurring ?*window of weakness*,? the period after one big gamma cliff and before the next cycle?s gamma starts to have its stabilizing effect.

Also note, as shown in the graph on the right, we are in a seasonal period of rising volatility. Thus, the gamma cliff Karsan warns of may be even more significant over the next few weeks.

What To Watch Today

Earnings

Wednesday Aug 19							
Analog Devices ADI:US	- / 3.31	2.05	- / 3.9B	2.88B	$197.61B	Q3	AM
TJX Companies TJX:US	- / 1.19	1.10	- / 15.18B	14.4B	$181.45B	Q2	AM
Lowe's Companies LOW:US	- / 4.25	4.33	- / 26.27B	23.96B	$126.48B	Q2	AM
Target TGT:US	- / 2.26	2.05	- / 26.03B	25.21B	$56.48B	Q2	AM
Estée Lauder EL:US	- / 0.32	0.09	- / 3.55B	3.41B	$29.26B	Q4	AM
Nordson NDSN:US	- / 3.10	2.73	- / 779.5M	742M	$15.80B	Q3	PM
Coty COTY:US	- / -0.01	-0.05	- / 1.19B	1.25B	$2.06B	Q4	PM

Economy

Wednesday August 19 2026			Actual	Previous	Consensus	Forecast
06:00 AM	US	MBA 30-Year Mortgage Rate AUG/14		6.77%		
09:30 AM	US	EIA Crude Oil Stocks Change AUG/14		17.422M		
09:30 AM	US	EIA Gasoline Stocks Change AUG/14		-0.968M		
01:00 PM	US	FOMC Minutes				

Market Trading Update

Yesterday, we discussed how&#2013266080;a collapse in implied correlation&#2013266080;left the index far more fragile than a 14 handle on the VIX suggested. Today I want to flip to the other side of that trade, because the oversold bond market has stretched to a point that finally matters.

Let?s anchor it in the tape. TLT closed Monday at $81.35. That?s 3.6% below its 50-day moving average at $84.38, 6.2% below its 200-day at $86.76, and roughly 13% below its 50-month average near $93.76. Monday?s close also took out the October 19, 2023 panic low of $82.77, the bottom that preceded a 21.4% rally in ten weeks. Momentum matches the price. The 14-day RSI closed at 33.0, which sits in the bottom 7% of every daily reading over the past decade. The 10-year yield at 4.68% and the 30-year at 5.25% are each about 35 basis points above their own 200-day averages.

TLT daily close with its 50-day and 200-day moving averages and a 14-day RSI panel, through the August 17, 2026 close. Source: RIA Advisors, Massive market data.

Now look at who is on the other side. Short interest in TLT stood at 95.3 million shares at the July 31 settlement, or 17.2% of shares outstanding, more than double the 43.7 million average since 2017. Roughly 68% of Monday?s off-exchange volume was short sales. Through August 11, leveraged funds carried a net short of 2.16 million ten-year note futures against asset managers holding a net long of 2.55 million. I?ll grant the counter before you make it. Much of that futures short is the cash-and-carry basis trade, NOT a directional view. The ETF short is directional, and it?s the one that has to buy.

FINRA short interest in TLT against the fund's share price. Short interest through the July 31, 2026 settlement, price through August 17, 2026. Source: RIA Advisors, FINRA via Massive.

From a contrarian viewpoint, when everyone agrees on something, something else usually happens.

Here is the honest math. Since 2016, TLT has been this oversold and this far under its 200-day average 40 separate times. The average maximum rally inside the following two months was 4.3%. 55% of those episodes produced a bounce of at least 3%, and 30% produced 5% or better. The catch is that the average episode also gave back 5.4% along the way, and the average two-month return was flat. That?s a trade, not a trend change.

Eventually, rates will create an economic revulsion, consumer spending will slow, and recession risk will rise. That will eventually end the drag on bonds. However, for retiree?s, this is the first time in 20-years where you can lock in a decent level of income and lower overall portfolio volatility.

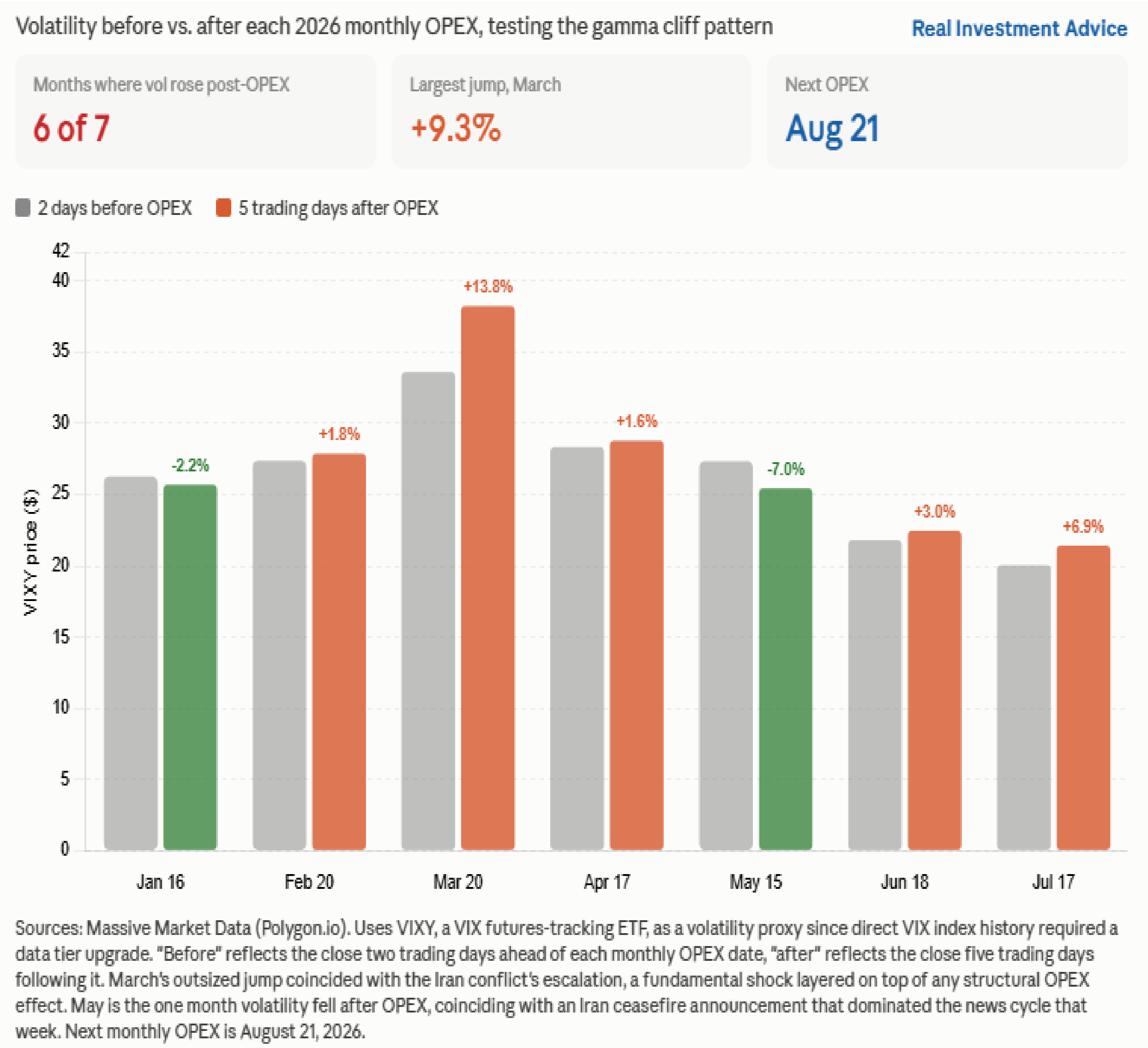
However, for now, the setup for a bounce is ripe. I would use the bounce to rebalance portfolio allocations as needed, reduce duration if you are overweight long-duration bonds, and think through what happens when, or if, the economy breaks. That isn?t a maybe, but a *?when?* question.

Can The Market Continue To Fight Its Headwinds

Three separate headwinds may make it tougher for the stock market to continue higher.

- The 10-year Treasury yield is now within a few basis points of its 19-month high of 4.75%, while the 30-year yield is 5.30%, its highest level since June 2007.
- Crude oil is trading back above $85, after troughing below $70 in early July. The interim US-Iran ceasefire formally expired with negotiations still deadlocked. The correlation between oil prices and yields has been strong.
- The gamma cliff we noted in the opening is a third headwind that could materialize early next week. Stabilizing dealer hedging flow that?s kept volatility contained will disappear.

The market has absorbed the first two pressures so far. To wit, Piper Sandler?s Michael Kantrowitz noted equities have stayed resilient specifically because ?*ten-day realized volatility remains low*,? and earnings growth continues trending higher. The gamma hedging, which has negated the impact of higher oil and yields, may not be as effective post-gamma cliff. As we share below, volatility has risen in 6 of the last 7 gamma cliffs.



Sources: Massive Market Data (Polygon.io). Uses VIXY, a VIX futures-tracking ETF, as a volatility proxy since direct VIX index history required a data tier upgrade. "Before" reflects the close two trading days ahead of each monthly OPEX date, "after" reflects the close five trading days following it. March's outsized jump coincided with the Iran conflict's escalation, a fundamental shock layered on top of any structural OPEX effect. May is the one month volatility fell after OPEX, coinciding with an Iran ceasefire announcement that dominated the news cycle that week. Next monthly OPEX is August 21, 2026.

Tweet of the Day

***Walter Bloomberg** @DeItaone · 29s

YARDENI: 5% TREASURY YIELD IS THE KEY LINE

Ed Yardeni isn't alarmed by surging global bond yields—yet.

He expects the U.S. 10-year Treasury yield to remain within a 4%-5% range without seriously hurting the economy or corporate earnings.

But with the yield now near 4.73%, he's watching the "Bond Vigilantes" more closely.

A move above 5% could raise concerns, although Yardeni expects strong buyer demand around that level.

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