

Theia Investments

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THEIA INVESTMENTS
— YOUR BESPOKE FAMILY OFFICE —

Two thermometers in the same room

There's an image that well describes the market of this early October, two thermometers hanging in the same room, showing different temperatures.

The first is that of bonds.

Treasury volatility (MOVE) and credit volatility are at their highs, practically at the **100th** percentile.

The second is the VIX, the equity market volatility index, which closed on Friday at **15.3** (-6.6%), with the S&P500 index less than 1.0% from its all-time highs and the Nasdaq updating its record, after a rather weak employment figure.

One of the two is wrong, or perhaps they're measuring two different things.

Let's start with what's going well, because it really is going well.

At the gates of the year's third **earnings season**, which will get into full swing mid-month with the American banks, the consensus expects S&P500 index **third-quarter earnings growth of between 27% and 29% year over year.**

It's the highest figure on the eve of an earnings season since 2021, and the estimates haven't been cut along the way, but raised.

At the end of June the consensus was at 26.7%.

There's then a less visible but very important effect. **Earnings have grown more than prices, and so the multiples have deflated on their own.**

The 12-month forward price/earnings ratio was 22.0 at the end of 2025.

Today it's **19.2 times**, below the five-year average. Since the end of June, the index has gained 2.7%, expected earnings 8.9%.

The market is close to its highs, but costs less than nine months ago.

So where's the problem then?

In the foundation.

More than two thirds of the aggregate earnings growth expected in the quarter will come from ten companies.

The technology sector alone is expected to grow by **63.5%**, and of the 72 groups that have raised their earnings guidance, **44** are tech.

Earnings, in short, are as narrow as the market.

Here's where the paradox comes in.

With earnings like these, you'd expect operators to



Two thermometers in the same room

be full of stocks.

Instead, the opposite is true.

Hedge funds' net exposure, that is, the part of the portfolio that actually bets on the upside, once purchases and short sales are offset, has fallen for the third week in a row to **46.4%**, the lowest level since April 2025, at the **2nd** percentile of the last five years.

The ratio between long and short positions is at the **1st** percentile.

Yet gross exposure remains high, at the **79th** percentile.

Hedge funds remain super invested, they use a lot of leverage, but they're not taking a directional stance.

Lots of exposure, zero conviction.

They're not alone.

Non-dealer operators have sold S&P500 index futures contracts in five of the last six weeks, for **68** billion dollars, one of the most aggressive selling waves ever recorded, surpassed only in 2020 and in 2022.

Only technology is being bought, the only sector

bought in net terms by funds in September, but it's being bought more to avoid falling behind than out of conviction.

The ratio between long and short positions on technology is at just the **25th percentile**.

Forced purchases, more than wanted ones.

Why so much caution?

Because **the macro picture is the exact opposite of corporate fundamentals**.

The indicator, which measures how much good news from the Fed the market is pricing in, has fallen to **-8**, close to the historic low (**-9.4**) of a series starting from 1991.

Only Covid and the 2022 rate-hike shock did worse. On Friday, **American employment** grew by just **29** thousand units, against the roughly 90 thousand expected, and the probability of a rate hike at the end of the month fell to **23%**.

Yet the ten-year, after an initial drop, went back above **5.25%**, erasing the entire move.

When bonds don't even celebrate data like that, it means the problem isn't just the Fed.



Two thermometers in the same room

Indeed, it isn't.

There's **oil**, with Iran remaining the main risk hanging over the market for many operators, but above all there's **the amount of paper the world has to place**.

France, with its spread versus the Bund above **120** basis points for the first time since 2012 and a yield now higher than Italy's, is forecasting record issuance of **340** billion euros for 2027.

Cloud operators are financing a growing share of AI spending with debt.

In **Japan**, with the ten-year near its highs since 1996, domestic investors have gone back to selling foreign bonds: **684** billion yen in a single week.

Public accounts that don't add up, fragile politics in many countries, and the **Japanese buyer pulling back**, that's why bond volatility is at its highs and the fear has already spread to credit.

The VIX, meanwhile, isn't moving.

The American equity fear index is below 2 on a scale of 10, and the VIX's implied volatility is the lowest in over three years relative to that of high-yield credit.

The equity market is telling us it doesn't expect

contagion from rates and credit stress.

Which thermometer to believe?

You have to choose.

It's one or the other.

The first path: **earnings season does its job**.

Earnings above expectations, multiples already down, funds under-invested.

This is the classic mix for an upside reversal, because with net market exposure this low, no conviction is needed to rise, just a few buyers forced back in.

Those who think this way buy upside on the Nasdaq, because a de-escalation scenario with Iran would be worth **+7.5%** for the Nasdaq 100, against **-4.8%** in case of escalation.

The second path: **sooner or later the VIX too will price in the fever that bonds are already measuring**.

Those who think this way have a non-trivial advantage, because protection is cheap.

The chance to gain a lot from a volatility explosion while spending little is among the most favorable in



Two thermometers in the same room

recent years.

Insurance costs less precisely when everyone has decided it won't be needed.

Who's right?

Probably, the truth lies in the middle.

Good numbers that support the few stocks producing them, and rates that keep weighing on everything else.

We'll find out better in the coming days.

In the meantime, **the most sensible choice is the one that doesn't force you to choose**, staying with the stocks that actually deliver earnings while adding a hedge, which costs little today, because when two thermometers show different temperatures, it's worth dressing in layers.



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