



Not Just Generative -
Agentic AI Is Coming,
and It's Redefining
Compute

Equity Insights
July 2025

Insurance Is Best Bought When It's Cheap: Taking Advantage of Suppressed Volatility to Hedge Equity Risk

Volatility in global equity markets remains strikingly low, with the VIX trading at relatively low levels. This is despite the very real and escalating risks stemming from renewed trade frictions between the U.S. and multiple global partners. The 10% baseline tariffs are already in place, and the 90-day temporary exemptions granted to a subset of countries and sectors post-Liberation Day are now nearing expiry.

As these exemptions lapse, there's growing uncertainty around potential retaliatory measures, supply chain disruptions, and their knock-on effects on global macro conditions—all of which remain grossly underpriced by the options market in our opinion.

To be clear, we are not advocating a bearish stance. We remain long equities across our portfolios, supported by positive price action and strong near-term momentum. However, we believe that in light of the current pricing of volatility, it is prudent to begin layering in protective overlays through put options. These instruments currently offer a cost-effective form of insurance that can safeguard against unforeseen market drawdowns.

A Fragile Calm Amid Structural Risks

While equity indices continue to trend higher, supported by resilient earnings and AI-led momentum, the complacency reflected in volatility pricing is striking. Risks are brewing across multiple dimensions:

- **Trade Policy Re-escalation:** With the grace period ending, the likelihood of new trade barriers or tariff extensions is increasing, heightening uncertainty across sectors, particularly in manufacturing, autos, and technology hardware.
- **Macro Spillovers:** Tighter trade conditions could suppress global growth just as several economies begin to show signs of deceleration. The risk of demand-side shocks is particularly concerning for export-heavy markets.
- **Valuation Stretch:** Equity markets, especially in the U.S., are priced for a near-perfect outcome. Any macro or policy disappointment could trigger sharp risk-off moves.

Yet despite this, the VIX remains at low levels — providing what we believe is a tactical window for investors to protect portfolios.

Staying Long, Hedging Smart

At Lighthouse Canton, we continue to maintain a constructive long bias across portfolios. The strength in price action and continued fund inflows suggest that near-term momentum remains intact. However, we recognize the asymmetry of risk and believe this is the right time to consider cost-effective portfolio insurance.

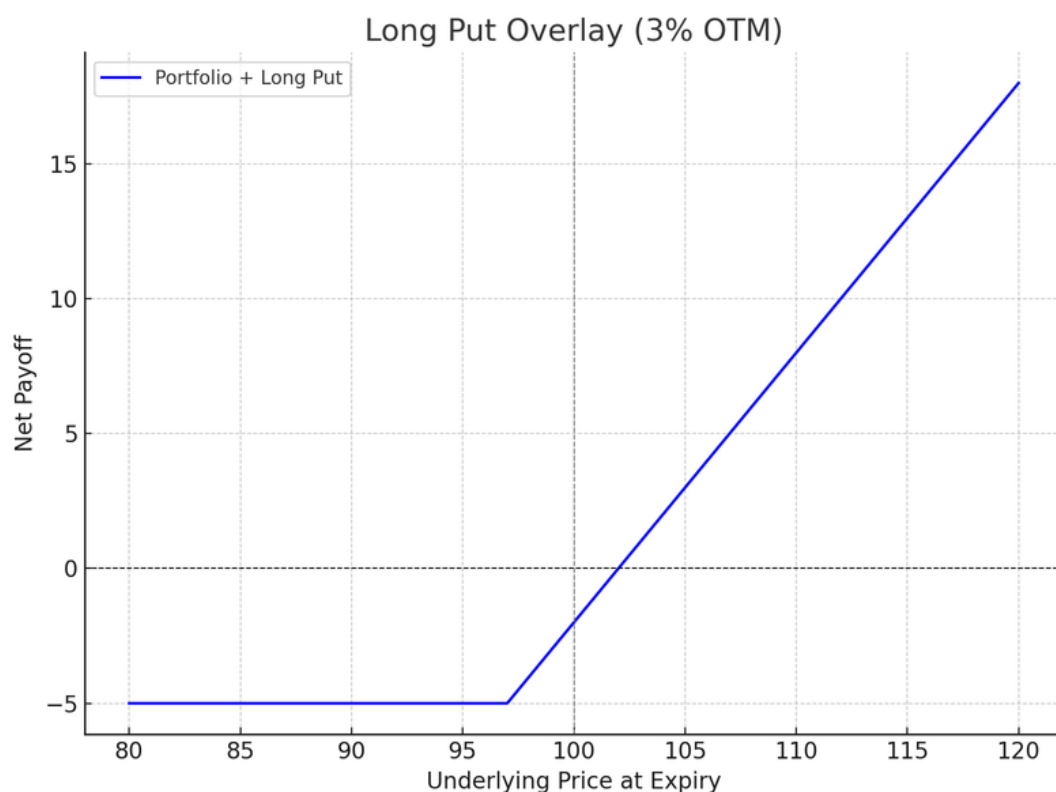
We advocate the use of index-level put options to hedge against potential drawdowns while maintaining full exposure to the upside. These strategies allow investors to benefit from market rallies while containing downside risk in the event of volatility spikes.

How to Hedge: Tailoring Puts to Portfolio Exposure

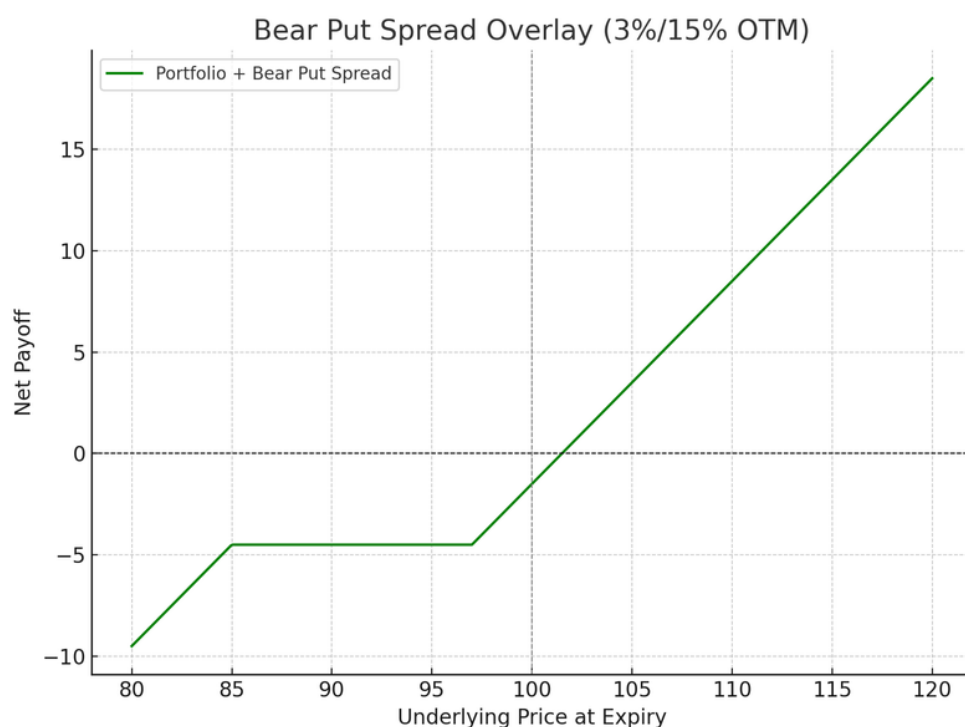
Investors should select hedges that mirror the risk profile of their portfolios:

- **Tech-Heavy / High-Beta Portfolios:** Consider **puts or bear put spreads on the Nasdaq-100 (QQQ US)**. These instruments are more sensitive to moves in growth and tech, and align well with portfolios skewed toward AI, software, and innovation-heavy names.

- **Diversified Sector Portfolios:** Prefer **S&P 500 (SPX or SPY US) options**, which provide broad-based protection and more stable delta profiles.



- **Bear Put Spreads:** For those looking to reduce hedging costs, **bear put spreads** — buying a near-the-money put and selling a lower strike put — can be an effective way to cap downside while minimizing premium outlay.



Final Thoughts: Insurance Is Best Bought When It's Cheap

We view the current volatility setup as an anomaly: a low VIX against a backdrop of elevated structural and policy risks. This mismatch presents a compelling opportunity to shore up downside protection **before volatility re-prices**.

Our portfolios remain long for now, in line with prevailing market momentum. But we believe it is prudent to layer in tactical hedges to guard against sharp reversals that often emerge when the market least expects them.

As always, risk management isn't about calling tops—it's about preparing for what the market isn't pricing in.

LIGHTHOUSE CANTON

Singapore

Lighthouse Canton Pte Ltd

16 Collyer Quay #11-02
Collyer Quay Centre
Singapore 049318

☎ +65 67130570

Dubai

Lighthouse Canton Capital DIFC Pte Ltd

The Exchange Gate Village 11,
Unit 802 Dubai International
Financial Centre PO Box
507026 Dubai, UAE

☎ +971 45 861500

India

Lighthouse Canton India Private Limited

Unit No 104A, First Floor, Worldmark 2, Asset
Area No. 8
Hospitality District Aerocity, IGI Airport,
New Delhi 110037

☎ +91 9650473961

Unit 507 & 508, INS Tower,
Bandra Kurla Complex,
Bandra East,
Mumbai - 400051

☎ +91 9650473961

1st Floor, WeWork37, Cunningham Cross
Rd,
SRT Road, Vasant Nagar, Bengaluru-
560001

☎ +91 9900096873

✉ info@lighthouse-canton.com

✉ service@lighthouse-canton.com

in Lighthouse Canton

DISCLAIMER

The contents of this document are confidential and are meant for the intended recipient only. If you are not the intended recipient, please delete all copies of this document and notify the sender immediately.

This document, provided as a general commentary, is for informational purposes only and is not to be construed as an offer to sell or solicit an offer to buy any financial instruments in any jurisdiction. This does not constitute any form of regulated financial advice, and your independent financial advisor should be consulted prior to taking any investment decision(s).

This document is based on information from Sources which are reliable but has not been independently verified by Lighthouse Canton Pte Ltd and its affiliate companies ("LC"). LC has taken the reasonable steps to verify the contents of this document and accept no liability for any loss arising from the use of any information contained herein. Please also note that past performances are not indicative of future performance.

Information contained herein are those of the author(s) and does not represent the views held by other parties. LC is also under no obligation to update you on any changes made to this document.

This document is prepared by Lighthouse Canton Pte Ltd and its affiliate company, Lighthouse Canton Capital (DIFC) Pte Ltd, which are regulated by Monetary Authority of Singapore ("MAS") and Dubai Financial Services Authority ("DFSA") respectively. MAS and DFSA has no responsibility for reviewing, verifying and approving the contents of this document and/or other associated documents. The contents of this document may not be reproduced or referenced, either in part or in full, without prior written permission from LC.

This document is confidential and is only intended for Accredited Investors and/or Professional Clients, as defined by MAS and DFSA.