ZEFFER

HOW TO HEDGE A HIGHLY VOLATILE MARKET

Hedging, Shorting, Puts & Rotation Playbook

Framework for a weakening AI trade, tighter credit, and rotation toward quality defensives.



RISK
MANAGE
ROTATE
COMPOUND

IDEAS
PERSPECTIVE
DISCIPLINE
A BRIGHTER TOMORROW

1) OUR THESIS

- **AI trade is aging:** capex no longer guarantees multiple expansion
- **Neoclouds** face debt dependence, weak cash conversion, and financing risk
- **High valuations remain vulnerable:** SpaceX (private), Tesla, Palantir
- **Junk debt is a pressure point:** HYG and lower-rated credit
- **Private credit managers** face spread widening and markdown risk

VALUATIONS
CREDIT
LIQUIDITY
SENTIMENT
VOLATILITY

2) HEDGING TOOLKIT

FIVE WAYS TO HEDGE A MORE VOLATILE MARKET

Long Puts
Defined risk; best for sharp downside.

Put Spreads
Lower cost; capped upside.

Short Selling
Direct exposure; borrow and squeeze risk.

Index Puts
SPY / QQQ / IWM for portfolio beta hedging.

HYG Puts
Liquid way to hedge junk-bond stress.

3) WHERE TO PRESS THE SHORT

FOCUS ON THE MOST VULNERABLE AREAS

AI & Momentum

- TSLA
- PLTR
- MSTR
- Speculative AI chain

Credit & Alt Managers

- APO
- ARES
- BX
- KKR

Broad Market Hedges

- QQQ
- SPY
- IWM

Note: SpaceX is private and not directly shortable in public options markets.

4) HOW TO HEDGE

KEY PRINCIPLES FOR A VOLATILE ENVIRONMENT

- Use liquid instruments first.
- Prefer defined-risk structures in volatile markets.
- Stagger expirations instead of one all-in date.
- Match the hedge to the risk: equity beta, credit stress, or valuation unwind.

5) ROTATION: WHAT TO BUY

MOVE TOWARD QUALITY DEFENSIVES

Health Care

- JNJ
- ABBV
- ABT
- BDX
- MCK / CAH

STABLE DEMAND
INNOVATION
RECURRING CASH FLOW

Consumer Staples

- PG
- KO
- PEP
- COST
- WMT / CL

PRICING POWER
RESILIENT DEMAND
STRONG BALANCE SHEETS
ESSENTIAL PRODUCTS
DURABLE CASH FLOW

Traits to favor: pricing power, strong balance sheets, resilient demand, recurring cash flow.

Bottom line: In a fragile market, use liquid puts for downside protection, target the weakest parts of the AI and credit complex, and rotate capital toward high-quality health care and consumer staples.

Illustrative research framework — not personalized investment advice.

INDEPENDENT RESEARCH FOR A BRIGHTER TOMORROW.