The Markets

Bullish Options Trades Slow amid AI Uncertainty

Lee Coppersmith, Hedge Fund Derivative Sales, FICC and Equities

Chris Hussey, Host, Goldman Sachs Research

Date of recording: October 29, 2026

Chris Hussey: This is The Markets. I'm Chris Hussey, and today is Thursday, October 29th, and I'm here on the Goldman Sachs trading floor with Lee Coppersmith, who is on our hedge fund derivative sales desk within FICC and Equities. And we're going to be talking about everything that's current right now, the Fed, earnings, AI, the retail investors, vol, the whole shebang. Lee, thanks so much for joining us.

Lee Coppersmith: Chris, thanks for having me.

Chris Hussey: Okay, Lee, let's start with the Fed, one of the big pieces of news that came out this week. What did we learn? What was the market's reaction?

Lee Coppersmith: So stepping back, I think when you look at the setup heading into the Fed, the S&P options market was implying somewhere between a 60 and 65 basis point move.

That's a bit lower than we've seen going into the previous FOMC meetings, somewhere around, call it 75 basis points. So I think the focus on the Fed was actually kind of like secondhand relative to the earnings that we're kind of digesting around it. Mainly, I think this is

because you weren't really expecting a decision from them yesterday.

So overall, I think Warsh and the committee struck this balanced tone, but there was a little bit of apprehension, I think, in the way they conveyed their message, particularly around the correlation between interest rates and the AI story, which I think kind of suggested they are happy to go at a slower pace.

The equity markets actually digested this all very well. This was the first time in seven meetings that the S&P actually finished up on the day after an FOMC press conference. So I think all things considered, it was a sigh of relief after we've seen multiple press conferences in a row inject some kind of volatility into the equity space.

Chris Hussey: Well, it's always great to get a little bit of a sigh of relief. Let's go to the earnings side then, because maybe that's not quite the sigh of relief. Obviously, the AI trade very much in focus across earnings. High bar for growth. We're in the heart of it right now. What are we seeing? How do you feel about the sustainability of everything?

Lee Coppersmith: So, so far you've seen a mixed bag. I think the implied moves heading into this earnings season were all roughly fair, about in line with recent averages over the last few quarters. The main takeaway for us is that AI demand remains incredibly strong, but the competition has become more fierce, and so the dispersion around the market's reaction has increased a lot.

We saw that yesterday with the two mega cap tech companies. We've seen that over the last, call it, month, both in the US, across Korea, and even in Europe. So I

think the bottom line for us is that there's not really much poking at the AI demand story, but there's a lot more focus around the financing and who's the winner and loser going forward.

Chris Hussey: All right. I want to touch on that financing side, because there was a little bit of a credit wobble earlier in the month. What do you think about that? Do you see that in the equity option side, these types of credit wobbles?

Lee Coppersmith: So, the credit market to us has been very concentrated to the spaces that have much more AI exposure. If you look at the other spaces within credit, they've all been relatively more insulated or contained in terms of the price moves. The equity space has been incredibly great at essentially migrating some of the volatility to only specific pockets. S&P only really drew down two and a half percent, call it peak to trough.

So I think within credit, again, back to this point around who's going to fund this AI build-out, that's the main focus. And when you think about the amount of issuance so far in 2026, it's about three times higher than it was in 2025. And so I think the full story as it relates to credit is this supply versus demand story is getting way more over-tilted towards supply versus demand, and I think that's really the kind of main story here that's kind of leading to wider credit spreads.

Chris Hussey: It's been an interesting dynamic, though, because one of the sort of lessons of the post-pandemic equity boom has been that demand has always kept up with supply, no matter where you've been. In fact, demand has led supply. So it'll be interesting to see how that plays out.

One of the elements of demand that has been an interesting part of the AI trade has been the retail investor. In June in particular, you saw a lot of demand there sort of pushing a lot of the mega cap tech trade up. Where's that retail investor now? Were they flushed out?

Lee Coppersmith: So retail activity has cooled. I wouldn't say that they've completely abandoned the AI trade or the market as a whole, but if you look at volumes today on average versus where we were in late June, volumes from the retail community are down roughly, call it, 20%.

So I think what you're saying right now is essentially the sponsorship has waned a little bit because the excitement around the right tail distribution has come in. The same way we've seen our institutional client base buy less call options, we're seeing the same thing happen with retail essentially.

So, the one area where we are still seeing some dip buying has been in the leveraged ETF space. Those volumes remain pretty strong. But in terms of the options market, we're not seeing the same type of call buying activity that we once were.

Chris Hussey: So if we have this decline in call buying activity, we have this decline in the options market in terms of demand, I would imagine that's pretty good for the price of options.

What are you seeing in terms of the hedging community? Are they sort of diving in and taking advantage of this?

Lee Coppersmith: Yeah, I think when you kind of back up, the main story for most of this year has been buying calls for sure and people trying to play for this explosive

right tail distribution. Really since the end of the summer, most of the pullback in implied volatility, the way the options market's pricing distributions, has mainly been because people have been taking risk down more so on the call option side, not because of put buying.

What's happened more recently in the last, call it, few weeks, is we have seen this debate become more two-sided and put buying has picked up, which tells us there's a lot more nervousness around just how things will play out between now through year-end. To us, though, when you think about what the market's implying, the distributions are now pretty fair on both ends.

And so because the absolute level of vol isn't very high, we actually think it's a pretty good time to be deploying capital through the options market to be expressing these between now through year-end just because the catalyst path is so rich.

Chris Hussey: Is there any risk that we have sort of a self-fulfilling prophecy, though, here? As the market stays flat or drifts a little lower, there's no sort of reward for having bought calls and so you start buying puts and it just, you know, so the more the market is flat, the worse the options market is.

Lee Coppersmith: There is definitely a case to be made around that. I think what we've seen now is we've been in this amazingly large consolidation pattern at the index level.

However, under the surface, things are realizing. And so, the main theme that we've seen continue to resonate in

our world in the option space has been dispersion. Now, it's completely evolved from where we were, call it, in Q1 and Q2 of this year, mainly because you had the momentum factor working on a really high sharp.

What's happened really since then is that the momentum factor itself has seen a lot more dispersion. And so like everything else this year, we've just seen, again, a new trend take place where you have to get even more surgical with the way you think about implementing any of your exposure through options particularly.

Chris Hussey: Yeah, that seems to be the theme of this conversation here, right? We have dispersion in fundamentals as competition picks up in the AI trade, and we have dispersion in the market that is helping to play that. Okay, put a bow on it. What's the trade?

Lee Coppersmith: I think the easiest place to go hunt right now is particularly outside of the AI space. We like biotech here.

Chris Hussey: Wow.

Lee Coppersmith: We think it's a space that offers a lot of secular properties, just like some of the AI trades previously. But now there's this window where you could potentially have a tailwind of lower rates, more M&A, and I do think the added layer of maybe more drug discovery going forward as a result of some of these AI companies could help lend itself to having more capital get attracted to that area.

Chris Hussey: Lee, terrific. Always a wealth of information. Really appreciate you joining us.

Lee Coppersmith: Thank you very much, Chris

Chris Hussey: Before I go, I want to make one comment. 45 years ago, I discovered that my mother had breast cancer. Since that time, my family has rallied around Breast Cancer Awareness Month, which comes every October, to help raise money for a cure. You've seen me wear pink throughout October. I encourage everybody to go out there, support breast cancer awareness, and the research that's working towards a cure.

That does it for this week's episode of The Markets. I'm Chris Hussey. Thanks for listening.

The opinions and views expressed herein are as of the date of publication, subject to change without notice, and may not necessarily reflect the institutional views of Goldman Sachs or its affiliates. The material provided is intended for informational purposes only, and does not constitute investment, legal, or tax advice, a recommendation from any Goldman Sachs entity to take any particular action or be used as a basis for any other investment decision, or an offer or solicitation to purchase or sell any securities or financial products. Any forward-looking statements, case studies, computations or examples set forth herein are for illustrative purposes only. Past performance is not indicative of future results. Neither Goldman Sachs nor any of its affiliates make any representations or warranties, express or implied, as to

the accuracy or completeness of the statements or information contained herein and disclaim any liability whatsoever for reliance on such information for any purpose. Each name of a third-party organization mentioned is the property of the company to which it relates, is used here strictly for informational and identification purposes only and is not used to imply any sponsorship, affiliation, endorsement, ownership or license rights between any such company and Goldman Sachs. This material should not be copied, distributed, published, or reproduced in whole or in part or disclosed by any recipient to any other person without the express written consent of Goldman Sachs.

A transcript is provided for convenience and may differ from the original video or audio content. Goldman Sachs is not responsible for any errors in the transcript.

© 2026 Goldman Sachs. All rights reserved.