Lead/Lag ("Rainbow") Futures

Own Leaders. Hedge Laggards. Trade Dispersion.

Institutional Derivatives | Q4 2025

A New Way to Trade Market Leadership

Lead/Lag Futures are futures products that Cboe plans to offer for trading on Cboe Futures Exchange, LLC (CFE), subject to regulatory review.

Lead/Lag Futures transform the market's internal dynamics into two standardized contracts. Built on the Cboe U.S. Large-Mid Cap 100 (CEQX), constituents are continuously re-ranked by performance and split into:

- Lead 50 Future – top 50 performers (the "leaders").
- Lag 50 Future – bottom 50 performers (the "laggards").

Together, these contracts enable three trading use cases:

- Own the leaders (Lead)
- Hedge the laggards (Lag)
- Trade the spread between leaders and laggards (Lead–Lag Spread1)

This structure makes it simple to implement momentum, hedging, or dispersion views—all in a single trade, exchange-listed, and cash-settled.

Why They Matter

Traditional momentum, dispersion, and correlation trades require complex multi-leg structures, constant rebalancing, or option overlays. Lead/Lag Futures deliver the same themes in two clean contracts:

- Transparent rules – terminal rank defines Lead vs. Lag.
- Cash-settled – no borrow, no assignment, no rebalancing.
- Futures benefits – regulated market, margin efficiency, standardized clearing.

Key Potential Benefits

For Traders & Portfolio Managers:

- Express momentum with one futures contract.
- Hedge by shorting underperformers.
- Trade the leaders–laggards spread as a dispersion proxy.

For Quants & Strategists:

- Linear exposure to dispersion and correlation regimes.
- Transparent payoff function, tractable pricing, closed-form approximations.
- Beta-neutral spread, long dispersion, negative theta — clear risk factors.

For Wealth & Retail Investors:

- Simple, rules-based way to own market leadership.
- Turnkey momentum exposure without ETF fees or rebalancing lag.

Use Cases & Next Steps

When They Shine

- Trending Markets: Long Lead captures compounding momentum.
- High Dispersion: Long Spread monetizes widening gaps between leaders and laggards.
- Risk-Off Correlation Spikes: Short Spread or long Lag provide hedges.

Case Studies

- Election Quarter 2024: Lead outperformed as
  sector leadership rotated, Spread widened ahead of policy uncertainty.
- Liberation Day 2025: Dispersion surged on April 2nd, collapsed on April 8th. Tactical long-short Spread positions delivered outsized returns.

Key Takeaways

- Premium & Discount: Lead Futures tend to done rich, Lag Futures tend to trade cheap — two sides of the same coin.
- Exposures: Spread is beta-neutral, long dispersion, short correlation, and negative theta.
- Efficiency: A single futures trade replaces complex baskets or option overlays.

Lead/Lag Futures turn "own leaders, hedge laggards, trade dispersion" into standardized futures, purpose-built for momentum and correlation views, without the complexity of singlename legwork.

To learn more, contact us at Cboelabs@cboe.com