

# WARRINGTON

## ASSET MANAGEMENT

### September 2015 Market Commentary

In the weeks prior to the FOMC meeting in September, market expectations for an interest rate hike varied greatly. The economic data remained mixed, with one camp focused on the continued anemic growth and low inflation, while the other focused on a number of imbalances in the economy resulting from the low interest rates of the past number of years. In the end, the Fed chose to keep rates unchanged, but continued to imply that future rate hikes were imminent.

Perhaps even more surprising was the “Dot Plot” graph (a chart showing where the individual Fed Governors expect interest rates to be in the coming months and years) released by the Fed concurrent with the policy announcement. One unnamed Fed governor expected the Fed to turn to negative interest rates, a drastic move utilized recently by a few other central banks. We believe that even the prospect of negative rates could cause serious repercussions across many markets.

Our continued view is that the dramatic increase in market volatility over the last two months is a direct result of the Fed’s mixed messages. A core tenant of our trading strategy is the fundamental analysis we use to measure the risk-reward levels present in current market pricing. With no clear indications for action, opposing views within the Fed and the increased volatility evident in the market, we chose to keep positions light and well-hedged throughout September.

After the Fed's decision to hold rates at current levels was announced, markets initially rallied but then began to steadily retreat. The S&P 500 index dropped 7.4%, from high to low, over the remaining nine trading sessions. The fund was down 0.3% for the month, as risk management was the overriding mandate in an environment filled with such uncertainty.

Warrington welcomes the return to historically normalized levels of volatility which is the optimal environment for its trading strategy. We see strong signs that the market manipulation that has been "normal" for some time now will likely unfold in the near term, creating more profit opportunities ahead. Accordingly, until we see indications that the tide is turning, we will continue to focus on risk management and capital preservation while searching for opportunities to generate profits for our investors.

We thank you for your continued support of Warrington Asset Management.