WARRINGTON
ASSET MANAGEMENT

November 2015 Market Commentary

On the surface, the S&P 500 Index saw little volatility in November, closing just a single point higher on the month at 2080.41 (+0.05%). While the net change for the entire month was nominal, beneath the surface there was a considerable amount of movement. November began with a small rally but was quick to give up those gains after various economic indicators displayed more weakness in the overall economy than was generally anticipated. In addition, declines in oil and energy related stocks weighed on markets. The S&P dropped 5.3% from the highs early in the month, most of which occurred in the final two days of the decline. Near the end of that pullback, news surfaced about the terrorist attacks in Paris. The initial market reaction was as expected, with markets selling off about a percent in overnight trading. However, in an unanticipated reversal, markets not only recovered those initial losses but climbed even higher, essentially recovering the entire decline from earlier in the month.

Entering November, Warrington was positioned for the market to go lower. The decline did materialize, but the subsequent sharp rally off of those lows decreased the value of the ratio put spreads held in the portfolio. The balance of the month after expiration saw the indices oscillate with little movement due to the Thanksgiving holiday and the anticipation of many potential market-moving events in December. By the end of the month, Warrington provided investors with a moderate gain.

We seem to be in a stalemate between the Bulls and the Bears with ample support for each position driving the intermonth market volatility. Bulls are focused on strong consensus forecasts for earnings recovery beginning in Q12016 and the expected Fed tightening signaling an increased confidence in the U.S. economy. The Bears point to negative year-over-year S&P revenue and sales as well as operating margins coming off peak levels. Their view is that the Fed's predicted upcoming actions are too little too late with deteriorating economic conditions and an increase in inflation expectations. A great deal of attention will be paid to upcoming events in December which could be significant sources of volatility. Early in the month, the ECB will meet and there is widespread anticipation of further policy easing. Also, the Federal Reserve is expected to raise the Fed Funds rate at their meeting on December 18th. If either central bank's actions fail to live up to expectations, market reactions could be extreme.

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