WARRINGTON
ASSET MANAGEMENT

December 2015 Market Commentary

For the first time in almost a decade, the Federal Reserve raised the target Fed Funds rate in December. After publicly broadcasting their intent to do so, rates were raised a quarter-point even though many economic indicators were not necessarily in ranges normally associated with a tighter Fed policy. That, coupled with a disappointing policy statement from the European Central Bank and continued carnage in the energy markets, created a new multi-directional market volatility profile.

In early December the stock market was steadily drifting lower prior to the Fed meeting scheduled on December 16th. The market entered the meeting week down 5.4%, but then shot up 4.5% in the three sessions prior to the FOMC announcement. The S&P 500 quickly reversed this rally, dropping 3.9% in the subsequent two sessions resulting in a new monthly low. It reversed those losses in the next 3 sessions and meandered for the remainder of the month, ending down 1.75% for the month and down 0.73% for the year.

This year has been frustrating for many market participants with investors focused on the telegraphed liftoff from an extended Zero Interest Rate Policy (ZIRP) and we expect that 2016 will see continued volatility as the Fed attempts to slowly extricate itself from overt market support. Doing so will allow the stock market to experience normalized volatility, rather than the artificially low levels, interspersed with bouts of extreme moves, that have become customary in recent years. The fund has been able to navigate these changes and outperformed the S&P 500 Index and many other active managers, ending December with a positive monthly and year to date return.

We believe the forecasted change in market character, from a market wholly dependent on easy money policies to one that is more controlled by economic and geopolitical events, will provide better trading opportunities for the fund. We welcome these changes and look forward to utilizing our experience and long standing expertise spanning over two decades to deliver our investors superior uncorrelated returns regardless of market conditions.

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