WARRINGTON
ASSET MANAGEMENT

March 2016 Market Commentary

The S&P 500 continued the strong rally that began in mid-February resulting in a gain for the index of 6.6% for the month of March. The index opened higher on the first of the month and rarely looked back, never residing in negative territory throughout March. The move higher came as investor confidence grew with the stabilization of the recent oil declines and a majority of corporate earnings reports beating expectations (even though revenues at many companies failed to meet projections). In addition, from a technical standpoint, all U.S. indices moved above their 200 day moving average. While positive signs emerged in March, many negative indicators still exist.

For the Strategic program, this relentless rally resulted in technical signals indicating a high probability for mean-reversion in the indices. Specifically, our systems noted that the S&P 500 was farther above the 21-day moving average than it had been at any time since late October 2011. Historically, when the S&P has climbed more than 4.5% above the 21-day moving average, the index has often experienced a moderate pullback in the near term. March showed itself to be outside of the norm with the index continuing its climb higher, with only nominal declines through the end of the month. This lack of mean reversion caused the program's ratio put spreads, held by the partnership, to decline in value leading to a small loss for the month.

In the Tactical Program, the overextended environment for the S&P led us to conservatively size put positions (in case of a decline), and allowed us to enter advantageous short call positions as we were able to sell options further away from the market due to strong demand to buy calls. The Tactical program ended the month with a solid net return of just under 1%.

With the Fed appearing to be on hold over the near-term, stock markets have priced in calm seas ahead indicated by low volatility levels (the VIX was down to a low of 13, below its 12 month average of 17.62). Given this outlook, we will continue to look for indicators signaling possible market shocks ahead as current Fed policies will likely lead to surprises brought on by other factors it cannot control. One of the more problematic outcomes could be a resurgence of inflation. As energy prices have stabilized, the influence that energy has exhibited to hold inflation in check has and will continue to decline. Labor costs, long thought to be the next source of inflation, could begin climbing as the unemployment rate is at levels not seen since early 2008.

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