



July 2017 Market Commentary

Volatility, or the lack thereof, was once again the primary theme for US equity markets in July. Notably, in the moments prior to the release of the Federal Reserve's policy statement on July 26th, the VIX briefly touched 8.84, the lowest intra-day level since its introduction in 1993. This extreme reading was short-lived, as the next trading day experienced a 30.1% rise in the index from the previous day's lows. Large technology companies (specifically, the FAANG stocks) registered significant declines and led the broad stock markets lower. Volatility then remained at depressed levels for the rest of the month, with the VIX closing below 10 on half of the trading days in July. Historically, the VIX has closed with a single-digit reading only 26 times, with two thirds of those occurring this year. While this is only one measure of complacency, observations like this could indicate an overbought market.

In spite of the extremely low volatility levels, the Strategic program gained approximately 0.07% for the month. The program held ratio put spreads for multiple expirations, along with short high-strike calls to offset spread costs. Some of the spread positions were monetized when the S&P 500 futures declined, but the strong rally throughout most of July caused the other out-of-the-money ratio spreads to expire worthless.

The Tactical program continued to post consistent profits, returning a gain of approximately 0.58% for the month. With no significant drawdowns during the month, short put options positions expired worthless, locking in gains on the premiums collected. Call positions also proved profitable, despite an S&P rally of over 2% intra-month, resulting in all positions recording gains for the month.

As prudent risk managers we evaluate each trade by weighing its risk vs. the potential reward offered in the prevailing market conditions. While a return to historically normalized market volatility levels would likely generate more positive trading scenarios, Warrington's trading programs are designed to seek out positive return opportunities in all market environments and are currently tracking year-to-date profits matching or exceeding historical norms.

As always, we thank you for your continued support of Warrington Asset Management.

Past performance is not necessarily indicative of future results.