

WARRINGTON

A S S E T M A N A G E M E N T

November 2017 Market Commentary

No change to the new “norm” of historically low volatility in US equity markets in November, apart from a few nominal declines early in the month. The market rally then resumed with the S&P 500 Index (“S&P”) hitting all-time highs on the hopes that the tax reform bills coming through the House and Senate may have the votes to pass. The persistent rally continues to generate notable statistical records with the S&P now having gone 13 months without a 3% decline and 51 weeks without closing up or down 2% on the week, the longest such streak since 1965. These extremes may point to an increasing sense of complacency, something that is more often seen at market tops than at the onset of new bull markets.

The Strategic program was able to capitalize on the small declines early in the month using ratio put spreads. As the market rallied, the costs to adjust spreads as positions became out-of-the-money led to overall losses. The rally continued and the on last day of the month exhibited what could (with eventual hindsight) be seen as a “blow-off top,” defined as a very strong move higher after a long period of appreciation, often the last gasp of an aging bull market. Nevertheless, the fierce rally on that day caused us to hedge our short call exposure. The fund ended November with a decline of approximately 0.73%.

The Tactical program was able to navigate the moderate market moves for the majority of the month and register early gains. However, as with the Strategic program, the strong rally on the final day of the month caused us to hedge some short call positions leading to a nominal loss of 0.10% for the month.

An increasing number of market indicators are registering either never before seen or multi-decade extreme levels. Many market pundits point to the persistent strength in equity markets as evidence for even more gains, but experience tells us that such rallies cannot continue forever. Declines and pullbacks within a larger bullish trend are aspects of a healthy market but are missing from this current environment. While some may believe that Central Bankers have succeeded in creating a never-ending bull market, we will continue to use our proven risk management and long history trading these markets to provide consistent risk adjusted returns for our clients through all market cycles.

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