WARRINGTON
ASSET MANAGEMENT

June 2018 Market Commentary

The S&P 500 Index ("Index") intra month volatility continued in June, with abrupt declines and rallies, only to end the month with a nominal gain of 48bps. The Index spent the first two weeks of June climbing steadily, gaining 3.2% by midmonth, then declined in response to the ongoing trade war jitters as the President expanded on his vision of fair trade. While the fears of a trade war with China, the EU, and Canada may ultimately be overblown, the rhetoric certainly has introduced another catalyst for market volatility for the foreseeable future.

The Strategic program was able to capitalize on the increased volatility, providing investors a return of approximately 1% for June. After adjusting our positions in response to the Index rally early in the month, the portfolio entered the middle of the month holding both call and put spreads, which quickly turned profitable as markets retreated. These gains accelerated as we moved closer to end-of-month expiration, especially during the significant Index drop of 1.35% on June 25th. Positions were held for the reminder of the week, and we closed out a solid month on the back of higher volatility.

The Tactical program was able to identify and extract profits from the increased market volatility throughout June. The month began with positions that benefited from the early Index rally. The velocity of the rally allowed both the short puts and short calls held in the portfolio to add to accumulated profits leading into late June. As volatility spiked in the last few days of the month, positions were hedged and the program locked in a positive return of approximately .35%.

The Index behavior in June continues to support our view over these past few months that volatility is back and likely here to stay. There are many contributors, including the Fed's balance sheet, which reflects the "catch up" on quantitative tightening that has reduced assets by $140 billion this year. After months of minimal balance sheet reductions, it remains to be seen if this accelerated pace will continue. Concerns over a global trade war spooked the markets in June with no certainty as to the eventual outcome. To date we are seeing few tariffs actually implemented, but more impactful actions such as China letting their currency decline (as China has spent a significant portion of their reserves defending it in the last three years), or their refusing to participate in U.S. Treasury auctions could add to the markets' ongoing uncertainty and volatility.

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