WARRINGTON
ASSET MANAGEMENT

September 2018 Market Commentary

The S&P 500 Index ("Index") ended the month in positive territory, up 0.5%. Trade and tariff issues continued to dominate the headlines, which provided periodic small and short-lived shocks to the markets. However, the overall state of the U.S. economy remains strong, with initial jobless claims coming in at the level lowest since 1969, supporting the highly anticipated quarter percent increase in the Federal Funds Rate on the 26th. Tech stocks took a small breather from their torrid rally this year, with the NASDAQ down 0.7% for the month. As the tech-heavy NASDAQ holds many of the stocks which have been leading other indexes higher, this performance divergence was notable.

The Strategic program continued to deliver strong uncorrelated performance, ending the month up approximately 1.1%. Early in the month put option spreads were used to generate profits, taking advantage of a moderate correction. During the second week of the month the market declined to levels that indicated to our systems that a rebound was likely. We then employed the use of call spreads in the portfolio to capture the potential upside move, which added to our overall gains for the month. As we headed in to the last days of the September, new ratio put spread positions were also able to generate profits from a moderate decline and complete a month where every position traded was profitable.

The Tactical program delivered another strong month, closing up approximately 1%. Given recent periods of market volatility, we have effectively controlled portfolio risks by scaling into our positions and then adding incrementally. This conservative stance has allowed us to extract profits from market moves while minimizing the need to hedge positions.

The U.S. economy stands apart from most global economies this year, as fundamental data remains strong in the U.S., but the risks grow as the Fed continues its "quantitative tightening" period. The Fed will reach their stated goal of $50 billion a month in balance sheet run-off starting in October, and time will tell how this affects the broader markets in the coming months. The probability of the next rate increase in December is now over 70% and the 10 Year Treasury Note has already made a significant move from 2.8% to a high of 3.1%. Should this trend continue, rapidly rising rates would undoubtedly impact equity markets, most likely with greater volatility and a downside bias. As we enter the 4th quarter and approach mid-term elections, we remain optimistic that higher volatility will return and continue to provide us with opportunities to achieve profits for our clients.

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