November 2018 Market Commentary

The S&P 500 Index ("Index") ended the month up 2%. However, the trading range varied from down 3% to up 3.8% with extreme volatility resulting from the China – U.S. trade tensions, Chairman Powell's statement that rates were close to neutral and a continued plunge in oil prices. UK Brexit battles and Italy's continued debt issues also added to market concerns.

The Strategic program ended the month up +0.44%. We began the month with wide put spread positions which profited when the market declined 3.6% mid-month, allowing us to monetize multiple spread positions and contributing the majority of profits for the month. The nature of the decline was such that it was spread over the course of a few days, ending with a gradual pullback. This pattern can often lead to profitable trading opportunities. To contrast that drop, the month-end rally of 4.3% was rapid, but had little effect on the portfolio as we were conservatively positioned due to some indications that a sharp rally was possible. This discretion prevented the strong move higher from negatively impacting the Fund's performance.

The Tactical program ended the month up +0.24%. The volatility experienced in November resulted in our disciplined risk management protocol hedging three different put positions while all call positions contributed to our positive program performance. Even though it had a large overall range, the S&P did not breach significant resistance levels, and declines in the market did not fall below major support levels. Those factors allowed for a positive return even after factoring in additional hedging costs.

The month of November continued to support our belief that volatility is back in a big way. However, we still feel the VIX has been showing less than an accurate portrayal of the volatility that currently exists in the market. The balance sheet run-off, now stabilized at $50 billion a month, continues to drain liquidity from the markets. Tariff rumblings also continued to catch the markets interest ahead of the planned December meeting between China and the U.S. While the U.S. economy is generally seen by most to be reasonably strong, some initial degrading of corporate earnings has become a cause for concern with many believing we have now experienced "peak earnings". We remain vigilant monitoring the markets in what we believe is a heightened risk environment as we head into the last month of the year.

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