WARRINGTON
ASSET MANAGEMENT

October 2019 Market Commentary

The October 1st stock market decline initially was reminiscent of a frequent trading pattern from 2018, in that the first decline in the S&P foreshadowed much deeper losses to come. However, this years' decline proved to be short lived, as the market reversed and instead rallied to new all-time highs, also breaking out of the narrow trading range of the previous six months. This reversal can be attributed to ostensibly positive developments on the U.S. / China trade conflict, as the two sides indicated that "Phase 1" of a deal had been agreed. Stock markets seemed to take the news at face value and the rally continued for the balance of the month, causing a precipitous decline in the VIX from an earlier high of 21.5 to 12.3.

The Strategic Program was able to capitalize on the early volatility, taking profits on multiple ratio put spreads over the first two trading weeks. As the market then reversed and rallied for the rest of the month without retracement, the balance of the month's put spread positions expired worthless, offsetting some of the earlier gains. On balance, the Strategic Program was able to provide investors a monthly net gain of 0.21%.

The Tactical Program incurred minor losses from the volatility in the early part of the month, as our predetermined risk management protocols were activated and put positions were closed at a small loss. However, as markets advanced and volatility declined through month end, the trading environment proved more profitable and the Tactical Program was able to generate offsetting gains and deliver a positive net return of 0.05% for the month.

While the China trade war continues to dominate both headlines and investors' attention, we believe the latent issue of repo market stress is equally important. The Fed apparently agreed and aggressively reacted to the situation, dramatically expanding their balance sheet to alleviate funding imbalances. While they were quick to point out that this was not to be viewed as "Quantitative Easing", the Fed's balance sheet ballooned substantially in just one month, reversing approximately 40% of the $700 billion "Quantitative Tightening" of the last two years. Should they continue to add liquidity at this rate, the Fed's balance sheet will rise to the highest level in its history by the end of this year, clearly articulating the gravity of this problem which has to date been mostly absent from public discourse.

As always, we appreciate your continued support of Warrington Asset Management.