WARRINGTON
ASSET MANAGEMENT

February 2020 Market Commentary

The S&P 500 Index ("S&P") continued registering new all-time highs in February, as the fear of the spread of the coronavirus and its economic impact appeared to be contained within China. This changed dramatically in late February, with reports of the virus spreading into Japan, Iran, and Italy in large numbers, as well as warnings from global companies of supply-chain disruptions and a lack of future earnings clarity. The stock market aggressively discounted these new developments, and markets fell dramatically. From peak to valley, the S&P declined 16% from the highs reached on February 20th, which was the fastest reversal from an all-time high in history. During this period the VIX Index spiked over 240%, and was the worst week for the S&P since late 2008.

The Strategic Program was able to successfully navigate this extreme volatility and protect capital, incurring an estimated net loss of 0.51% for the month. Gains from put spreads were offset by hedging costs, as our risk management triggers required we close positions and eliminate risk early in the decline. We are continuing to seek out favorable risk-adjusted trading opportunities, but we are keenly aware that manic rallies and declines could result from the current fragile market conditions.

The Tactical Program also applied its strict, preemptive risk management protocol to hedge put positions held on February 20th as the S&P began to roll over. The continued market weakness, coupled with the significant unknowns, prompted us to reduce risk holdings to a small position of calls. The drastic decline in the last week of the month validated our conservative approach, resulting in a net gain of +0.10% for the month.

The current level of extreme volatility in the stock market shows no signs of abating, as each day brings news of the global spread of the virus, with over 70 countries reporting confirmed cases. As history indicates, at some point the bad news will be fully discounted and markets will stabilize and most likely rally, but the longer-term questions are how global corporate profitability will be impacted and can supply chains recover from the economic disruptions. With volatility hovering at these elevated levels, we will continue to look for positive risk/reward trading opportunities which we feel confident will present themselves as more information becomes available and short-term market panic subsides.

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