April 2020 Market Commentary

The extreme oversold condition of the S&P 500 reached in March was rapidly reversed in April, with a number of market metrics even moving to overbought levels as the S&P rallied over 35% from the lows. Pundits are debating whether we are in a "bear market rally" (defined as a sharp, quick rally during an extended bear market decline) or the start of a V-shaped recovery. We remain skeptical, as multiple never-before seen outlier events, including crude oil crashing to negative prices and millions of new jobless claims filed each week, indicate that the longer term trend of the market most likely will be lower, with periodic sharp rallies.

As the strong bounce off the March lows abated, we positioned the Strategic portfolio to profit from a mean reversion and decline in the S&P. While the majority of the month saw the Index move higher, we were able to realize profits on both long calls and long puts during the last week of April. The Strategic Program ended the month down 0.26%, as gains were not enough to offset the cost of prior positions that expired out-of-the-money.

The Tactical Program was able to successfully navigate the elevated volatility and finish the month up +0.47%, as market oscillations were less extreme than in March. The strong rally, coupled with the elevated VIX, created opportunities for us to trade very short term put options (one to two days before expiration). Chronically high VIX levels dictated that we deploy smaller than average position sizes, yet we were able to incrementally realize profits on several different call and put positions.

The unprecedented amount of monetary and fiscal stimulus being injected into global economies and markets has helped arrest the extraordinary panic selling in March. However, the longer-term problems facing the U.S. and other world economies are not liquidity-based, but rather they are issues of solvency risk. Providing lower-cost or more accessible loans to businesses does not necessarily replace lost revenues for many industries where sales have evaporated. When the price of oil futures turned negative on April 20th, it was largely due to global oversupply caused by a lack of end user demand brought on by coordinated economic shutdowns. Government stimulus will not necessarily cause consumers to resume prior consumption trends while pandemic fears still exist, so further fiscal measures may not have the same efficacy. Despite these issues, opportunities in markets filled with uncertainty will continue to present themselves, and we will carefully weigh the risk / reward relationship in search of profits for our clients.

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