

# **WARRINGTON**

## **A S S E T M A N A G E M E N T**

### **June 2020 Market Commentary**

The month began with broad based optimism, as many areas of the country began the process of reopening businesses and lifting restrictions, but by the end of the month many of the states that were more aggressive in reopening were reporting new COVID-19 cases in record numbers. This dichotomy added to the underlying uncertainty in the markets, resulting in both strong rallies and rapid declines in the S&P 500 Index. While the Index finished the month with a gain of just under 2%, it registered two intramonth declines of 9.2% and 6.6%. This price volatility sent the VIX back to heights last seen in mid-April, significantly above historically normal levels.

The Strategic Program capitalized on the increased volatility and recorded gains on multiple call and put spread positions over many intra-month expirations, culminating in a net gain of +0.86%. Some of the more extreme moves required hedging trades, per our risk management discipline, but gains from profitable positions more than offset those costs. The higher VIX readings provided ample opportunities for wider than normal spreads, initiated out-of-the-money, which were then monetized once the market moved in their favor.

The Tactical Program had gains at the beginning and end of the month from both call and put positions, which helped offset the costs incurred from reducing exposure during the declines in the middle of June. The large directional moves mid-month exceeded the risk tolerances in the program, leading to hedging that resulted in a net loss of -0.24%.

The continued spread of the virus and considerable public backlash against further lockdown measures could set the stage for the pandemic to last much longer than recent forecasts anticipate. The significant case count increases (climbing due to more testing and a rising positivity rate of those tests) have stoked fears of problems witnessed in Italy, New York and other populous states. The potential for pandemic escalation, coupled with further economic shutdowns, is certainly not priced in the current market outlook, which has recovered vigorously from the March lows. We believe that the intramonth volatility in June could be a warning sign of continued instability ahead.

We will continue to focus on profit opportunities in every market environment and, as always, we thank you for your continued support of Warrington Asset Management.