November 2020 Market Commentary

Stock markets sold off prior to the U.S. elections and then reversed into a sharp November rally as the determination of a winner became clearer, even though some Senate elections resulted in runoffs that will not be resolved until early January. There was also speculation that the strength of the rally was bolstered by the unwinding of massive positions initiated prior to the election to hedge against potential runaway volatility. When that volatility did not appear, those hedges were unwound and supported a continued stock market rally. Another major source of market strength was the positive news regarding Pfizer and Moderna's COVID-19 vaccine trail results leading the S&P 500 Index ("S&P") to all-time highs, climbing 12.4% in the first few days of November. In fact, the Dow Jones Industrial Average climbed 12.1%, its strongest month since January 1987.

We approached the U.S. election with a conservative outlook, holding minimal positions, until the S&P breached one of our proprietary risk indicators early in the month showing an extreme overbought level. We positioned the Strategic portfolio to profit from a short-term decline, but the S&P subsequently relieved the overbought condition by consolidating in an elevated range near those all-time high levels. The remainder of the month was spent churning in those ranges so neither call nor put spreads were able to record significant gains. The Strategic program ended the month with a net loss of -0.25%.

The Tactical program, with its very short-term trading approach, abstained from holding risk exposure prior to the election. Once a degree of clarity was achieved, we initiated positions to capitalize on the overbought market environment. Throughout the month, we were able to record small, consistent gains in both call and put positions which resulted in a net gain of 0.26% in November.

With a degree of uncertainty remaining regarding the runoff elections in Georgia, and the resulting balance of power in the Senate, the market may be ahead of itself by pricing in too much good news. The dichotomy of positive vaccine news contrasts starkly with the rampant spread of COVID-19 throughout the U.S. and the remainder of the world. With serious political disagreements regarding the next stage of stimulus needed, the significant damage to many sectors of the economy continues. How far the deterioration goes before widespread deployment of a vaccine and resultant herd immunity is achieved remains a legitimate question. The market seems to have answered that question and should this anticipation of perfection not come to fruition, asset markets sit ill-prepared for the ensuing volatility that will likely return.

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