

WARRINGTON

A S S E T M A N A G E M E N T

December 2020 Market Commentary

Relative calm in U.S. equities markets masked the many crosscurrents under the surface. After significant debate, further COVID relief stimulus was passed by Congress late in the month and signed by President Trump on December 27th. While the passage of the bill was considered a positive development, the amount of \$900 billion was well below expectations and was complicated further when President Trump publicly stated the \$600 stimulus checks should have been raised to \$2,000. The first doses of the Pfizer and Moderna vaccines were finally administered, but the parabolic surge in COVID-19 cases and hospitalizations continued, and even Dr. Fauci stated that “our darkest days may be ahead”. Each positive development was contradicted by a negative element, confusing the outlook considerably. This “push and pull” news flow led to a generally rising S&P punctuated by moderate pullbacks, resulting in a gain of 3.8% for the month.

The Strategic Program was able to take advantage of the intra-month volatility by using near-money protected put spreads (butterfly spreads) across multiple expirations. While none of the market moves were big enough to lead to a single large gain, the moderate oscillations in the index produced multiple profit opportunities, which aggregated to a net monthly profit of +0.71%.

The Tactical Program was able to achieve respectable gains from both call and put option positions, resulting in a cumulative net gain of +0.46% for December. Actual volatility remained well below implied, which provided consistent trading opportunities. We maintained average-sized positions for most of the month and did not require any hedging trades, given the lack of sharp market moves during December.

Markets continue to confound investors with both positive and negative news flows, resulting in a tumultuous year filled with geopolitical tensions with China and Iran, Brexit, a global pandemic, a financial crisis, multiple government relief bills, vaccines, and a contested Presidential election. Adding in the increased “event risk” from the Georgia runoff elections and new mutations of the COVID-19 virus, we believe this ongoing turmoil will keep implied volatility elevated and we will continue to seek out risk-appropriate trading opportunities for our clients.

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