WARRINGTON
ASSET MANAGEMENT

April 2021 Market Commentary

As the S&P 500 continued to reach new all-time highs in April, froth was also appearing in a number of more arcane markets that suddenly became the subject of investor attention, threatening material "real-world" implications. Speculation in cryptocurrencies continued as the price of lumber jumped 50% in April (and is up about 500% from the April 2020 lows). Copper, palladium, iron ore and the cost of shipping have all risen over 20% this year. These dramatic price increases translate into higher costs for many industrial and consumer products, from electronics to homebuilding, and may lead to a material spike in inflation in the near future. While the US Fed has dismissed these increases as "transitory", claiming they will revert to lower levels once supply and demand find equilibrium, every day more shortages are announced. One of the latest dislocations is in microchips, which has led to stalled completion dates for millions of automobiles, implying that the Fed's "equilibrium" is not imminent.

The Strategic program utilized research indicating a number of overbought readings in our indicators, and chose to position its portfolio in multiple ratio put-spread positions over several different expirations in April. Given that the S&P continued its ascent for most of the month, declines proved rare and the few that occurred were fleeting. Consequently, most of these spreads expired, leading to the loss of the premiums paid and a modest net loss of 0.42% for the month.

The Tactical program capitalized on the lower volatility by trading both call and put positions over multiple expirations to generate premium and record a monthly net gain of +0.33%. While our indicators deemed the S&P to be overbought, we maintained larger positions of calls and smaller than average put positions, and used tighter risk controls to manage the increased risk. In uncertain market environments we often opt for very short-dated positions (generally 1-2 days before expiration), a technique that allows for a quick realignment of our risk posture, which we successfully deployed to avoid loss on the market decline caused by the rumor of the US president's proposed capital gains tax increase.

One of the current risks market participants are debating is whether the current supply disruptions and pricing pressures will revert to more normal levels, or if demand is outstripping supply by such a degree that the price increases are more permanent. Warren Buffett has publicly stated he is seeing "very substantial inflation", and Treasury Secretary Janet Yellen indicated that if the White House spending plans are enacted "it may be that interest rates have to rise". One certainty is that inflation has become a significant concern for the "Bull market in everything". Given these risks, we will continue to apply our research and seek out profitable trading opportunities for our clients.

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