WARRINGTON
ASSET MANAGEMENT

March 2021 Market Commentary

The ever-changing character of the market was on full display in March. Where in previous months, the rise of interest rates and the threat of the Federal Reserve tightening the banking Statutory Liquidity Ratio ("SLR") caused short-term market volatility, those concerns dissipated in March with the introduction of President Biden's massive infrastructure plan. Interest rates continued to climb, with the U.S. 10-Year Treasury Note hitting the highest level since January of 2020, but these rising borrowing costs did little to dampen the market's drive higher. Even with some small intramonth declines, the S&P ended March with a gain of 4.4%.

With March delivering markets that were buoyed by the potential for trillions in additional government spending and relatively low volatility, the Strategic program was able to identify and take advantage of multiple intramonth moves, recording a net gain of +0.42%. The pullback that began mid-month accelerated on quadruple witching day (the one day each quarter where four types of derivative contracts expire and can often lead to increased market volatility) providing an opportunity to realize profits using ratio put spreads.

The Tactical program recorded another positive monthly return for March of +0.31%, providing gains in eight of the past nine months. While the CBOE Market Volatility Index ("VIX") continued to decline, our strategies were able to find multiple attractive trading opportunities. We view this current period where the VIX has now traded below 20 for an extended period (the first time this level has been breached for more than a day since before the pandemic began) as a negative medium-term indicator for the overall markets. We will use this temporary calm to opportunistically collect premium while monitoring our risk indicators for a meaningful climb in volatility.

Most crises have a "canary in the coal mine" moment that, in retrospect, should have served as a warning of impending turbulence. Will investors ask themselves whether the record setting losses from the Archegos family office this month were a signal that should have given them pause? Or was it the billions lost by a handful of prime brokers due to their leveraged exposure to one relatively small group? Was it the GameStop debacle in January? If we look back to the implosion of two Bear Stearns funds in July 2007, the surprise news of these failures was counterintuitive given the broad-based euphoria in markets, and only after some time was the true picture revealed. It is likely that the situation with Archegos is not a repeat of that time, but we recognize that such under-appreciated news can often be a valuable foreshadowing of significant events ahead.

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