WARRINGTON
ASSET MANAGEMENT

June 2021 Market Commentary

The S&P 500 Index ("S&P") steadily climbed higher in June, as if on autopilot. The specter of higher inflation and the potential U. S. Federal Reserve ("Fed") response to those higher prices did little to dampen the animal spirits early in the month. Only when the Fed indicated a more hawkish stance did the S&P have a material decline, with a quick drop of 2.2% in a matter of days following after the Fed's announcement. The impact quickly faded and the S&P rapidly regained those losses and resumed its upward trajectory, ending June with a gain of 2.3%. The VIX reflected this relative calm and reached its lowest level since February 2020.

The Strategic Program was able to profit from the initial market decline after the Fed's announcement, but those gains were offset by the net costs on a number of put spread positions that expired during the month. Multiple times during the month market metrics indicated that the S&P was overbought, but outside of the brief mid-month decline, no material pullback occurred. The aggregate result of all trades was a net gain in June of +0.15%.

Minimal price volatility, with a CBOE Market Volatility Index ("VIX") that remained in historically normal ranges, created a beneficial environment for the Tactical Program resulting in a net gain of +0.49%. Outside a few select days during the month, the VIX stayed within the 15-20 range, and provided excellent risk/reward trading opportunities to extract profits for our clients.

While the only real drama in equity markets this month were the result of Fed commentary, a prominent question remains unanswered and could become a bigger story as time passes: is the current inflation just transitory, or will it be longer lasting? To confound that question, how long does inflation need to be present to no longer be considered "transitory"? While this distinction may seem semantic, the Fed will not be able to continue to ignore inflation and provide a highly accommodative monetary policy if inflation figures continue to climb and remain there for many more months. We believe that much of the current inflation is caused by the extraordinary situation brought on by last year's economic entrenchment in tandem with this year's economic rebound, but that doesn't mean these issues will resolve themselves quickly. We believe inflation expectations will continue to confound markets and provide attractive trading opportunities in the near term.

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