WARRINGTON
ASSET MANAGEMENT

August 2021 Market Commentary

The S&P 500 Index ("S&P") continued its relentless advance throughout August in the face of ongoing global crosscurrents. The exponential spread of the Delta variant of Covid, the resurgence of Taliban control in Afghanistan, and the underreported troubles of China's largest real estate developer (Evergrande), all provided a "wall of worry" for U.S. stock indices to climb. As with all recent market-impacting events, the only material decline was a mid-month drop which was quickly bought, returning the S&P to new all-time highs. While the index paints a picture that "all is well", the continued advance is on the backs of the five largest stocks, which now comprise about 23% of the S&P, the highest share in history for that number (the constituents of that group change over time but are all technology stocks at the current moment). Their influence on the overall market cannot be overstated as they drive the rise of the overall index, but the converse would also be true should their rallies falter.

Even though a number of technical indicators pointed to overbought conditions during the month, the market refused to decline for more than a few days. The implied and explicit support of the Federal Reserve Board ("Fed") continues to bolster investor complacency, even though the Fed has consistently stated that they would like to begin to taper their asset purchases, perhaps as early as this year. The Strategic Program was able to capitalize on the mid-month decline and achieve a net gain of +0.17%.

August has historically been one of the more volatile months of the year but 2021 was an exception. The VIX spent most of the month under 20 (closing over that level on only two days), but the VVIX, which tracks the volatility of the VIX (how rapidly the volatility of the S&P changes), remained well above its historical norms. This underlying nervousness in the market provided ample trading opportunities for the Tactical Program resulting in a net gain of +0.33% in August.

Perhaps the various global crosscurrents are seen by market participants as reasons for the Fed to be more accommodative, as the past 18 months have seen both extraordinary global events unfold and the deployment of massive additional stimulus measures. The ongoing supply chain issues which seem to impact new and unanticipated industries each day, continue to pressure the economic recovery and the Fed's desires to begin tapering. Regardless of the root cause, the ongoing rally in U.S. equities may be entering the "whistling past the graveyard" phase, and it may be only a matter of time before the confluence of issues is too great for valuations to remain at such elevated levels. We will continue to search for positive risk/reward opportunities while remaining vigilant to the risks in the current environment.

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