WARRINGTON
ASSET MANAGEMENT

September 2021 Market Commentary

In a distinct change of character, the S&P 500 Index ("S&P") had its worst month since the pandemic panic sell off in March of 2020 but did so in a rather "orderly" fashion. Even with China's Evergrande debt problems becoming a main focus of the market, the S&P's decline of almost 5% for the month occurred with the largest daily loss registering a maximum closing return of down 2%. Underscoring this lack of fear, the CBOE Volatility Index ("VIX") climbed during the month but never exceeded 30, well below the highs seen earlier this year. The proximate cause of the late-month market stress was related to the upcoming deadline to resolve the debt ceiling as well as the dimming prospects for large fiscal stimulus from Congress, which had long been one of the keys to helping the S&P retain its lofty valuation.

In light of this market weakness, the Strategic Program was able to utilize a number of different ratio put spreads to achieve a cumulative profit of +2.2% for September. The volatility characteristics and steady decline in the market provided many attractive trading opportunities that allowed us to manage the market risks in the portfolio while simultaneously recording profits across multiple expirations.

Even though the market was consistently weak throughout the month, the Tactical Program was able to record a net profit of +0.36%. This gain was earned holding smaller than usual positions, capitalizing on the persistently low relative volatility which provided various opportunities in very short-term trades (1-2 days in duration). Those positions were significantly above and below the market allowing us to avoid hedging costs throughout September.

A typical healthy market can have bouts of volatility without cascading into panic, but the nature of the rally that began last March has been anything but typical or healthy. A market steadily climbing, devoid of any material pullbacks, fails to rid the forest floor of flammable detritus, so even a spark (Evergrande, dysfunction in Congress, inflation scares, etc.) can lead to an engulfing forest fire. Investors have become complacent during this period, assuming that all declines will be met with an immediate new rally to all-time highs, so when that expected rebound doesn't materialize, the potential for a more severe conflagration becomes elevated.

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