

# **WARRINGTON**

## **A S S E T M A N A G E M E N T**

### **December 2021 Market Commentary**

News of the Omicron variant of the Covid-19 virus unsettled markets early in the month of December as this new strain spread from South Africa to many other countries. Traders' nerves were rattled as Omicron was found in the United States and quickly spread, displacing the Delta variant as the dominant version of the virus circulating domestically. Fortunately, this variant has so far proven to be less virulent than prior ones even if it is significantly more transmissible. This positive aspect of these developments buoyed markets despite the announcement from the Federal Reserve Board of Governors ("Fed") to accelerate the reduction of asset purchases. Considering persistently high inflation indicators, such a step from the Fed was not a surprise. The announcement did cause intramonth volatility, sending markets higher, only to have that rally quickly erased in a three-day decline. Despite these multiple mid-month selloffs, the S&P 500 Index ("S&P") ended December with a gain of 4.47%.

The Strategic Program was able to navigate the swings in the S&P to record a monthly net gain of +1.10%, ending the year with a strong uncorrelated return of +5.03%. The Program profited from the early and mid-month index declines as ratio put spreads and butterfly put spreads became profitable. These types of trades, with some intrinsic protection built in, allow the portfolio to sustain a degree of market volatility while retaining significant profit potential.

The Tactical Program continued to hold smaller than average positions due to the increased volatility. Early in the month, we exercised extreme caution as many unknowns surrounding the Omicron variant presented an unfavorable risk/reward scenario for downside positions, even though premiums were elevated. The swings in volatility itself did not present much clarity about the near-term market oscillations, a situation where we tend to be conservative. As a result, the Tactical Program recorded a slight net gain of +0.11%, ending the year with an annual return of +4.02% with zero down months in 2021.

As stock markets moved erratically during the month, the VVIX Index (which measures the volatility of the VIX) remained elevated and registered the third highest reading since March 2020, underscoring the nervousness that remains in the markets. Recently, the number of stocks on the NYSE hitting new 52-week lows has increased to the highest levels seen since March 2020, despite the "broad" indices continuing to hit new all-time highs. The dichotomy between the index advances and the underlying individual stocks is becoming more pronounced as just a handful of stocks are contributing to the index gains, while the majority of issues languish. This situation has persisted for some time now and leaves the markets beholden to this small subset of companies in these indices, where any future weakness in those stocks would quickly impact the overall index.

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