WARRINGTON
ASSET MANAGEMENT

# November 2021 Market Commentary

Volatility reentered the markets near month-end as the shocks from two different catalysts rattled what was otherwise a very calm November. The prospect of another variant of the Covid-19 virus (dubbed "Omicron") plus Jerome Powell speaking about inflation, indicating it may no longer be "transitory", caused the S&P 500 Index ("S&P") to drop 4% in the final few days of the month to end November with a loss of -0.7%. Coincident with that decline, the CBOE Volatility Index ("VIX") increased dramatically from under 15, early in the month, to near 30 at its highs.

Over the first few weeks of the month, the Strategic program saw pressure on its ratio put spreads, as the S&P steadily climbed higher. The rally, which began in early October, continued to November 22nd, gaining 11% over that period. However, as we continued to employ low-cost, out-of-the-money ratio spreads, we were able to capitalize on the late-month volatility and record net gains of +0.75%. As markets have shown a tendency to drift higher and then fall very rapidly, we have opted to structure our put spread trades with multiple "profit zones": some smaller in size and closer to the current market, while others were larger in size but farther in price from the current levels. This approach allowed us to have a tiered profit potential with varying outcomes based on the severity of market movements.

The Tactical program recorded a nominal return of +0.11% in November as the early strength in the S&P led to small losses from hedging certain positions. Later in the month, we successfully avoided the volatility spike as our leading risk indicators identified that the market was significantly overbought and volatility was being priced unsustainably low. That outlook led to a more cautious positioning where we employed call options to generate small premiums while avoiding short put options as volatility rose, and the market declined.

Whether this new Omicron variant will cause significant social ramifications, as the Delta variant did earlier in the year, the market reaction is so far more outsized than what would be expected given the first indications of its minimal lethality. If current fears surrounding Omicron are overblown or justified, they come at a time that the Federal Reserve is signaling worries about inflation, and Congress fights over the looming government shutdown. Any of these issues could lead to extreme market volatility as stocks have been priced for perfection for much of this year in the face of so many crosscurrents. We will continue to search for positive risk-reward trading opportunities for our clients as we monitor these ever-changing market environments.

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