

WARRINGTON

A S S E T M A N A G E M E N T

February 2022 Market Commentary

Very quickly, fears of Russia invading Ukraine rattled global markets in February. After a tumultuous January due to concerns over Fed tightening and rising interest rates, the direct and indirect fallout of the Russian invasion led to falling stock prices, skyrocketing oil and commodity prices, and a sharp rise in market volatility. There are many open questions at this early juncture including Russia's terminal goals and whether this conflict will draw in other combatants, further complicating the potential resolution. Regardless of the next iterations in this struggle, the swift and unified reactions from the rest of the world have already caused dramatic dislocations in asset markets. At its lows in late February, the S&P had dropped 10.5% from its highest point in the month, and down almost 15% from its peak in early January.

The Strategic Program was able to capitalize on the volatility and rapid movements in equity markets to record a net gain of 0.29%. Profits were achieved mid-month as volatility began to increase by using multiple separate ratio spreads in the same expiration, which allowed for profitable trade opportunities in various market environments. In contrast to recent volatile periods, we have intentionally held smaller-than average positions over weekends as we have found that option prices are not adequately reflecting the unique event risks posed by the conflict in Ukraine.

The Tactical Program has been defensive in this environment as even short-term trades have not consistently provided the attractive risk-reward characteristics our programs seek. We have found more opportunities in same-day options, as markets have been reacting aggressively to news flow. This has elevated implied volatility in deep out of the money options and allowed for profitable trades prior to expiration. These profits helped to offset hedging losses incurred early in the month and resulted in a net unchanged return for the program.

One differentiating factor between our programs and those of many other managers is our ability to remain nimble and react to rapidly changing data impacting the markets. In these instances, where news flows dominate the markets, with invasion encroachments sending markets lower, only to be reversed on the rumor of peace negotiations, we are able to quickly reassess our positioning and reduce risk or initiate new positions. We continue to monitor overall market risk to guard against negative outlier moves while also seeking new opportunities, recognizing that we are in uncommon times.

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