WARRINGTON
ASSET MANAGEMENT

March 2022 Market Commentary

An old market aphorism says that markets are often most volatile at inflection points and the first quarter of 2022 certainly supported that statement. As markets struggled to cope with a torrent of negative news, the shift from years of ultra-accommodative monetary policy to a tightening bias caused many sectors, especially those in the fixed income space, to suffer. The Aggregate Bond Index (a widely used fixed income proxy) suffered a loss of 5.9% in the first three months, its worst quarter since Q3 of 1980. As inflation continued to be less than "transitory," and the Fed began raising rates for the first time in years, expectations for significant future rate hikes were foremost on the minds of investors. The pain felt in the equity markets during the first two months of the year gave way to a relief rally in March, with the S&P gaining 3.7%, finishing the quarter down -4.6%.

The Strategic Program was able to achieve profits early in the month as the S&P sold off and nearly retested the lows from February. However, the market rallied from that low, gaining 11% through the end of the month. Our internal risk indicators pointed to a possible reversal, so we positioned the portfolio to potentially profit from another retest (and possible break) of the prior lows, but the rally ultimately continued unabated. The ratio put spread positions held in later March expired, detracting from performance, resulting in a net +0.16% gain for the Strategic Program in March.

Volatility remained elevated in March but the upwards trend in the S&P in the second half of the month allowed the Tactical Program to collect premium on a larger position of short-dated put and call options. Even with the strong rally from the early-March lows, the call position expirations are a testament to the extreme level of volatility implied in those options when we sold them as prices stagnated even as the market continued to rise. The Tactical Program gained +0.20% for the month.

If fixed income pricing is any indication of the near-term market outlook, then escalating inflation and monetary policy tightening seems a certainty. An interesting wrinkle to the outsized rate hike expectations is that certain futures markets are already anticipating rate **cuts** in 2023. This dichotomy will ensure that increased volatility will remain in the coming months. Additionally, the backdrop of the ongoing Russian invasion of Ukraine could change near-term risk appetites quickly as the situation there changes by the moment. We, like the overwhelming majority of the civilized world, hope for peace for the Ukrainian people and will continue to search for positive risk adjusted trading opportunities for our clients during these uncertain times.

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