WARRINGTON
ASSET MANAGEMENT

April 2022 Market Commentary

Markets were roiled by numerous crosscurrents in April, as interest rates increased (the yield on the ten-year note approached 3% for the first time since 2018) and equity prices fell precipitously. In a relatively steady decline, the S&P 500 Index ("S&P") recorded its worst month since March 2020, and also its worst start to a year since 1939. One source of the relentless selling was in high-flying tech stocks (Amazon, Google, and Netflix for example) that dragged the Nasdaq lower as well. Volatility also climbed, but perhaps not as high as would be expected given the almost 9% drop in the S&P in April.

The Strategic Program was able to use ratio put spreads across various expirations to record a net gain of 1.12% in April. The consistent nature of the decline allowed for multiple profit opportunities as the selling never reached a panic-type crescendo. Evidence for that can be seen in the VVIX (the volatility of volatility), which stayed well below the highs from earlier in the year even though the VIX climbed to 34, not far from the 38.94 peak for the year reached in January. This dichotomy indicates that the selling, while large in magnitude, was more orderly than in recent declines.

The Tactical Program was traded more conservatively in April as many of the underlying market issues became readily apparent. The S&P quickly breached downside support levels, indicating that the market decline could quickly accelerate. By keeping put positions smaller and more short-dated, we recorded a slight net loss of 0.15% for the month as premiums collected were impacted by hedging costs. As the market decline did not induce a major VIX spike, option premiums did not expand as much as anticipated and therefore created a less-favorable risk-reward environment for trading.

The Russia-Ukraine conflict still rages on, with no sign of abating, and China continues to expand their lockdowns in pursuit of a "Covid Zero" policy. These are two of the major factors that are having ripple effects throughout world economies: food, energy, fertilizer, and other raw material shortages have led to inflation and scarcity in many places. The near-term impacts of these issues are causing markets to weigh the many potentially disastrous outcomes. In the face of this epic instability, the Federal Reserve is expected to continue its aggressive push to control inflation but may be instead inviting a recessionary environment as a result of their monetary policies. We anticipate that markets may be over-estimating the amount by which the Fed will be able to tighten as the early impacts from their actions begin to choke off markets. This reaction may bring about an early end to this rate-hike cycle contributing to a longer-term crisis ahead. We will continue to seek out profitable trading opportunities in this difficult environment, providing much needed diversification and non-correlation to our investors.

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