

# **WARRINGTON**

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

### **September 2022 Market Commentary**

In an already eventful year, September didn't disappoint those looking for even more noteworthy additions. Volatility was present in a wide array of markets including a 9.3% decline in the S&P 500 Index ("S&P") and the 2-year U.S. Treasury yield and U.S. Dollar Index jumping 24% and 5.6%, respectively. These are some of the largest, and historically most stable markets in the world, rising and falling in extreme magnitudes. Dramatic moves like these are arguably the direct result of the Federal Reserve's explicit campaign to tame inflation by any means necessary. From rate hikes to aggressive jawboning of markets, lower asset prices seem to be their solution to solving the persistent demand-driven inflation.

Even with markets moving rapidly, the Strategic Program's position implementation techniques provided multiple opportunities to participate in this volatility, capture profits, and equally as important, avoid losses. Our experience has taught us that markets have a tendency to move much farther and faster than investors anticipate. This led us to use more distant, out-of-the-money, long ratio put spreads that provided a buffer should the market have dropped sharply, while also offering significant profit opportunities. The Strategic Program achieved a gain of +0.45% in September.

As the S&P continued its decline, the Tactical Program selectively used put options to collect profits but, with actual market volatility continuing to exceed implied volatility, many put option trading opportunities did not provide an attractive risk/reward scenario. The Program is more cautious in this type of extreme volatility and, while we saw success in selling call options as the S&P declined, small hedging costs offset those gains delivering a flat return for the month.

In what will surely have long-term ramifications, the underappreciated sabotage of the Nord Stream 1 and 2 undersea natural gas pipelines has critically damaged a significant artery for the flow of energy from Russia to Europe. This further drives a wedge between Russia and the West and complicates a potential "return to normal" should Russia cease its incursions in Ukraine. This crisis, in addition to the litany of issues being thrown at the world economy, shows why such dramatic market movements are occurring with more regularity. We believe volatility is here to stay for the foreseeable future as many of these issues cannot be dealt with in the short term and will lead to continued instability across the globe. This environment will continue to provide additional trading opportunities for the programs.

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