WARRINGTON
ASSET MANAGEMENT

March 2023 Market Commentary

In what has now become a recurring theme, stock markets were wobbly during March due to testimony by the Chairman of the Federal Reserve, Jerome Powell, where he reiterated (yet again) his intention to fight inflation with higher interest rates. Even with this public proclamation, markets still hoped for no rate hike at the Fed's March meeting, but when the committee raised rates by 0.25% and again warned of the need to fight inflation, markets reacted poorly. The end-of-quarter rally was the reason for the final +3.5% gain in the S&P, which had previously been unchanged on the month.

The Strategic Program recorded a net profit of +0.04% as our posture of holding multiple ratio put spreads allowed us to realize gains during the mid-month S&P pullback. These different spreads targeted varying levels of S&P declines, and we were able to monetize some positions when Fed hawkishness led to investor nervousness and a drop in stock prices. By holding spreads that could profit in both moderate and more dramatic declines, we were able to achieve profitability during the middle of the month and retain the opportunity for further profits had the pullback become more severe.

The Tactical Program achieved a net +0.07% return for March. Attractive premiums have remained in spread-based strategies, rather than outright options. In these spreads, we add a long put option against some short put options, and the spread between the values of those positions is the net premium collected. In periods where we feel volatility is undervalued compared to perceived market risks, these spread strategies present a different risk/reward scenario than outright option sales.

As we mentioned in previous notes, the velocity and degree of the interest rate increases in the prior year were bound to cause some unexpected complications in the financial system. The first of what we believe to be many such issues arose in March as Silicon Valley Bank became the first casualty. In what was ultimately due to a bank run and losses on treasury holdings, the fear and panic led to other institutions being liquidated or merged with other banks. Whether this is the tip of the iceberg or a few isolated bank failures, we continue to believe that other previously unexpected issues will arise. While global markets digested these issues in this instance, time will tell if the next crises will be as innocuous. As we look for signals that such issues are approaching, we will continue to seek out attractive risk/reward trade opportunities.

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