

WARRINGTON

ASSET MANAGEMENT

July 2023 Market Commentary

The Dow Jones Industrial Average, though long surpassed by the S&P 500 as the preferred barometer of stock market performance, still serves as a helpful index in gauging the performance of many large companies. When the Dow notched a streak of 13 trading days in a row with a positive return in July, a deeper look into this level of strength was needed. The length of that streak is tied for the second longest in history (with the longest being 14 days in 1897, just about a year after the birth of the index). However, other periods of similar Dow streaks have coincided with some ominous dates: January 1987, February 2017, and June 1929. It raises the question: does such extreme optimism herald drastic declines? Currently, that seems irrelevant as the broader markets remain indifferent, and the S&P gained +3.2% in July.

This absence of downside movement and the continued upward trend has limited the potential for ratio put spreads to yield significant profits. Still, we persist in collecting credits for the spreads, enabling a modest degree of profitability. Additionally, we were able to monetize some spread trades late in the month as the S&P experienced an intraday reversal, which helped the Strategic Program to record a net gain of +0.09% in July.

The relationship between options drives spread-based trades. These trades, rather than outright option sales, continue to be more lucrative and allowed the Tactical Program to achieve its best monthly return since late 2020, with a +0.29% net gain in July. Despite the market's steady ascent, spread trades have grown increasingly appealing. The Tactical Program has capitalized on these opportunities to revert to its historical return characteristics.

As the Dow's winning streak concluded, the S&P underwent a small, but notable decline. After surpassing the 4600 level for the first time since March 2022, the index suffered a sharp sell-off as bond yields surged. Does this event suggest a shift in the underlying bullish character of the market, or is it merely a minor setback that will be reversed in due course? Time will provide the answer, but markets usually correct themselves when sentiment becomes too extreme. Bearing this in mind, we remain dedicated to identifying opportunistic trades to generate profits for our clients.

We sincerely appreciate your continued support of Warrington Asset Management.