November 2023 Market Commentary

The 60/40 portfolio, seemingly left for dead after 2022, had its best month in years. The Bloomberg Global EQ:FI 60:40 Index posted a 7.6% return as both stocks and bonds rallied from their recent declines. This resurgence was fueled by the prospect of the Federal Reserve cutting interest rates, sparking optimism that rates might have peaked and signaling a potentially more supportive environment for equity and fixed income markets. However, it's important to remember that stocks often face challenges when interest rates are cut, as this action is usually taken to bolster markets. Despite this, markets were buoyant in November, with the S&P 500 gaining about 9% and the Bloomberg USAgg Index rising by 4.5%.

The Strategic Program typically fares better in declining markets, as evidenced by its positive gains from August through October of this year. In November, when the S&P 500 surged and recorded only one day with a loss greater than -0.25%, the opportunities for profitable put spread trades dwindled. The rise in the S&P 500 also drove the VIX index to its lowest level since January 2020, adversely affecting the prospects for ratio call spread trades as well. While we continued to hold low-cost put spreads during the month, we were not able to monetize any of them, leading to a -0.14% net return for November.

The Tactical Program was able to find profitable trading opportunities despite the very low volatility, leading to a net gain of +0.54% for the month. The steady climb of the S&P 500 made put option sales seemingly attractive, but the plummeting VIX reduced the premium on these options, making them less appealing and somewhat limited the trades we engaged in.

After such robust market performance, investors often expect the trend to continue indefinitely. With the positive December seasonality upon us, the case for a continued rally seems obvious. However, scenarios like this can often yield surprises. If the likelihood of rate cuts diminishes, inflation resurfaces, or geopolitical tensions escalate, the current optimistic market outlook could quickly shift. In such times, we remain particularly alert to potential disruptions, as events can escalate rapidly and significantly impact the stock market. Our focus will be on identifying profitable trading opportunities while also being vigilant about unforeseen risks.

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