WARRINGTON
ASSET MANAGEMENT

October 2023 Market Commentary

The MOVE Index is often likened to the bond market's equivalent of the VIX. Similar to the VIX, it captures the volatility of a broad asset class and consolidates it into a single figure. Despite the MOVE Index having retreated from its peak seen during the turbulence in regional banks in March, it still hovers significantly above its recent average. In sharp contrast, the VIX has remained subdued at relatively low levels, even as the S&P 500 has fallen 11% from this year's peak. Notably, the equity market's downturn has seen a remarkably orderly response, devoid of panic-driven selling. In October, the S&P 500 experienced a -2.2% drop, ending the month with investors bracing for the Federal Reserve's meeting on November 1st, where they largely anticipated unchanged interest rates.

October marked a shift in equity investor sentiment as bond market volatility began to capture attention, highlighted by the yield on the 10-year Treasury note briefly touching the psychologically significant level of 5%. Although it hasn't substantially surpassed that threshold, the recent swift changes in long-term rates could lead to significant consequences. Against this backdrop, the Strategic Program achieved a net gain of +0.33% by capitalizing on long ratio put spreads amid the market's decline.

Despite a 300-point fall in the S&P over ten trading sessions, the Tactical Program still posted a net profit of +0.37% for October. The downturn did not trigger a major VIX surge, thus the credit spreads maintained in the portfolio remained profitable. While a slightly elevated VIX would present more trading opportunities, we continue to identify appealing positions even in this environment of limited volatility.

On the geopolitical front, instability in the Middle East persists, with recent conflicts between Israel and Palestine adding complexity to international relations. Yet, it appears likely to join the growing list of significant global events in the past two years that markets have largely ignored. We ponder what might spur a substantial increase in market volatility. The ingredients for heightened risk are present, as seen by the emergence of risky ventures like the new ETF that sells 0DTE options for income, a strategy which carries potentially enormous risks. The anticipation of a "soft landing" for the economy is becoming increasingly tenuous, yet, paradoxically, this has become the presumed scenario. This dissonance may set the stage for potential market volatility.

We sincerely appreciate your continued support of Warrington Asset Management.