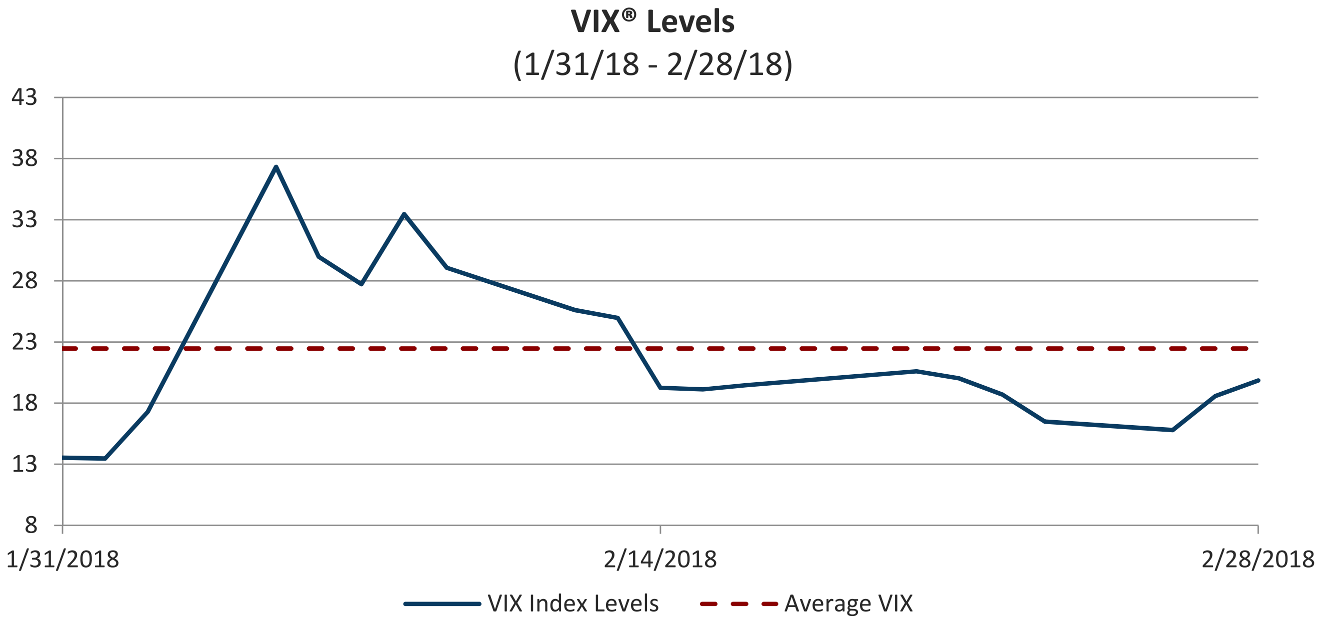
Market Recap

Feb. 2018

The S&P 500® Index declined 3.69% for February, bringing its year-to-date return to 1.83%. The month began with a decline of 8.55% through February 8th, as the equity market downtrend that began in late January accelerated. A significant portion of the decline occurred on Monday, February 5th when the S&P 500® Index lost 4.10% and volatility measures spiked to levels not seen since August of 2015. From its all-time closing high on January 26th through February 8th, the S&P 500® Index lost 10.10%. The equity market staged a partial recovery over the last three weeks of the month, with the S&P 500® Index returning 5.32% from February 8th through month-end.

Despite equity market losses and a significant uptick in volatility, data releases suggested the market backdrop of an expanding economy and robust earnings growth remained intact, while inflationary pressures showed unexpected signs of life. The January Consumer Price Index release on February 14th reported a 0.5% increase in prices for the month and a year-over-year change of 2.1%, both data points exceeding consensus expectations. On February 28th the second estimate of fourth quarter GDP growth came in at 2.5%, which was consistent with consensus expectations but a slight downward revision from the 2.6% rate estimated in January. With over 94% of S&P 500® Index companies reporting fourth quarter earnings results, 84% met or beat expectations, with aggregate quarterly operating earnings on pace to have grown 5.32% during Q4 and 17.51% year-over-year.

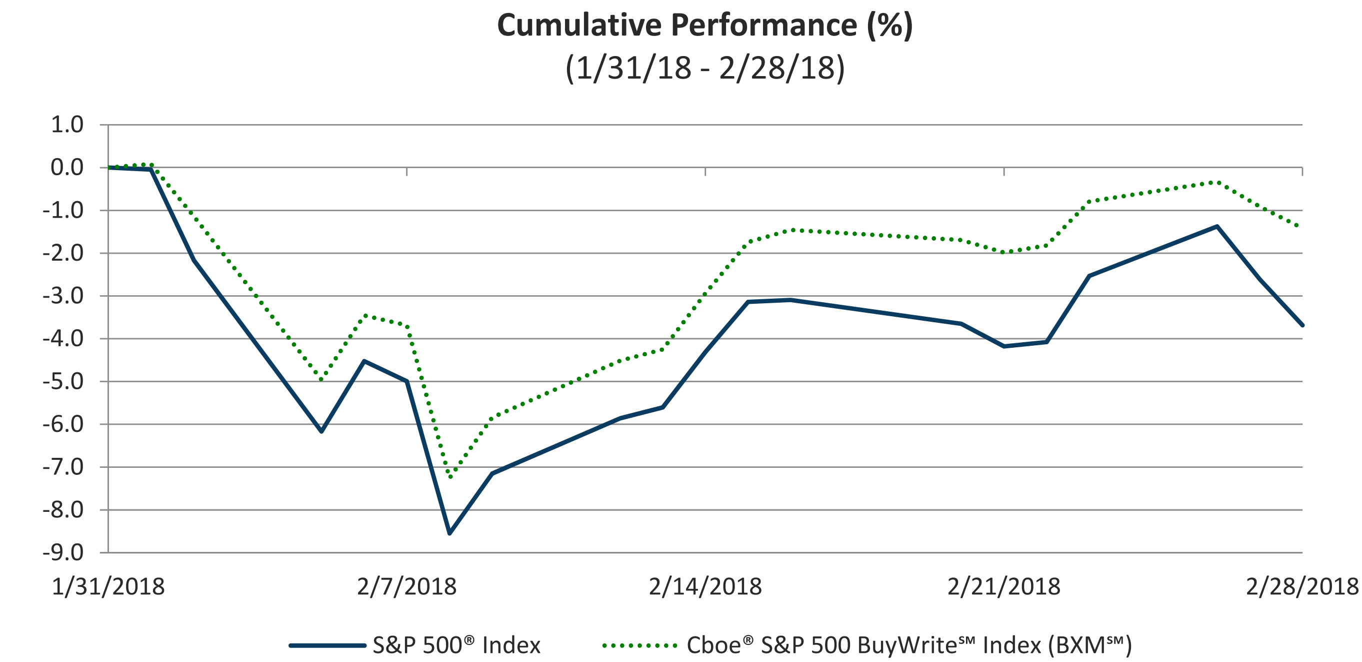
Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 22.46, more than double last month's average and measured as the highest monthly average since January of 2016. The VIX® had a closing high of 37.32 on February 5th and an intra-day high of 50.30 on February 6th, the highest VIX® reading since August 2015. The VIX's closing low for the month was 13.47 on February 1st and it ended the month at 19.85. The S&P 500® Index's realized volatility (as measured by its annualized standard deviation of daily returns) was 27.70% - the highest measure since November 2011. The spread between implied and realized volatility was negative for the first time since September 2016 and was the largest negative spread since August 2015.



Datasource: Bloomberg, L.P.

The Cboe® S&P 500 BuyWrite℠ Index (the BXM℠)[1] had a return of -1.42% for February, bringing its year-to-date return to -0.48%. The BXM's℠ February outperformance of the S&P 500® Index was primarily due to the smaller loss it experienced from the beginning of the month through February 8th. The BXM℠ began the month with the equity market level above the strike price of its February call option, thus reducing its market exposure. This, in combination with the premium it collected in January for writing its index call option, resulted in 130 basis points (bps) of performance advantage relative to the S&P 500® Index as the BXM℠ declined 7.25% through February 8th. As a result of the market decline, the strike price of the BXM's℠ written index call option was well above the market level as the equity market began to advance after February 8th. The BXM℠ thus had nearly full market exposure and, from February 8th to the 15th, the day prior to the expiration of its February index call option, the BXM returned 5.95% compared to a 5.92% return for the S&P 500® Index. The premium from the new index call option with a March expiration that the BXM℠ wrote on February 16th helped it generate a return of 0.33% from its closing value on February 15th through month-end while the S&P 500® Index declined 0.57% over the same period.

[1]The Cboe® S&P 500 BuyWrite℠ Index (the BXM℠) is a passive total return index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index. The construction methodology of the BXM℠ includes buying an equity portfolio replicating the holdings of the S&P 500® Index and selling a single one-month S&P 500® Index call option with a strike price approximately at-the-money each month on the Friday of the standard index option expiration cycle and holding that position until the next.



Datasource: Bloomberg, L.P. **Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.**

Despite the spike in volatility and equity market decline, the bond market delivered losses and rising yields. The Bloomberg Barclays U.S. Aggregate Bond Index (the Aggregate) returned -0.95% for February, bringing its year-to-date return to -2.09%. The yield on the 10-year U.S. Treasury rose over the course of the month, beginning at 2.71% and ending at 2.86% while reaching a high of 2.95% on February 21st.