

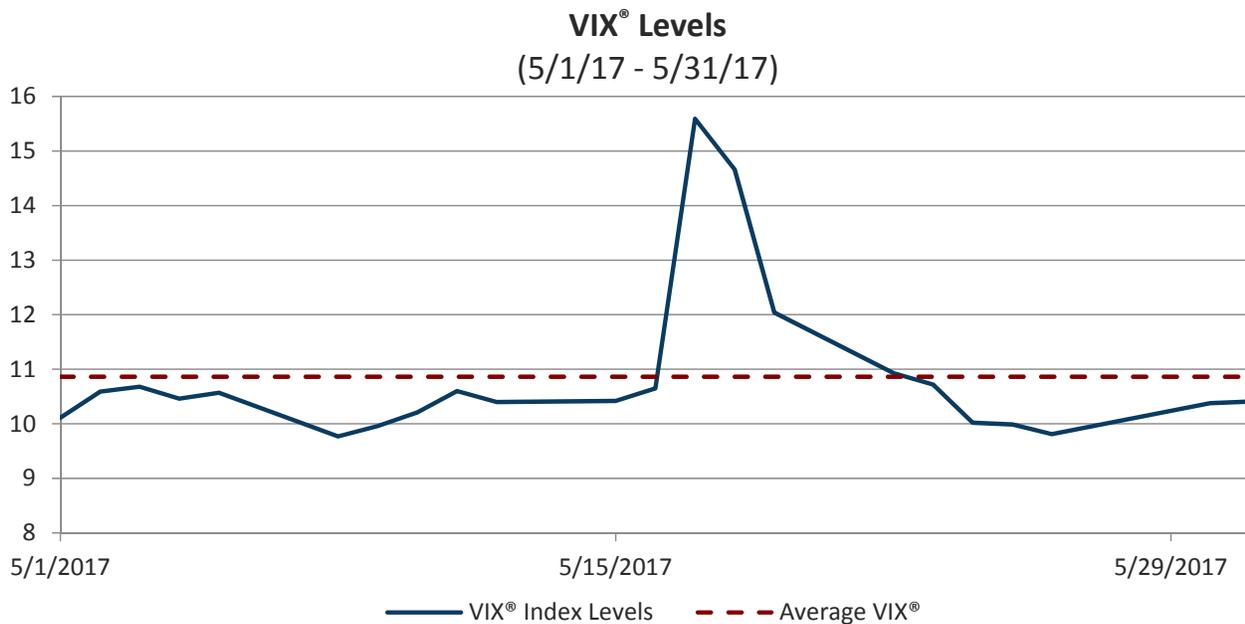
## Equity Markets

The S&P 500<sup>®</sup> Index advanced 1.41% for May, bringing its year-to-date return to 8.66%. Except for a relatively sharp one-day setback on May 17<sup>th</sup>, the equity market advance was steady. The S&P 500<sup>®</sup> Index returned 0.84% from the beginning of the month through May 16<sup>th</sup>, continuing the upward trajectory it had been on since April 13<sup>th</sup>. The market began to move higher in mid-April and surged on the results of the first round of the French presidential election as the finalists included pro-EU candidate Emmanuel Macron, a centrist who was the eventual winner of the final vote on May 7<sup>th</sup>. Strong corporate earnings reports, positive economic data and no surprises from the Federal Reserve Open Markets Committee meeting on May 3<sup>rd</sup> helped sustain the upward move into May, resulting in a 3.27% return for the S&P 500<sup>®</sup> Index from April 13<sup>th</sup> through May 16<sup>th</sup>. This was a more-than-full recovery from the 2.58% loss the Index experienced from March 1<sup>st</sup> to April 13<sup>th</sup>.

On May 17<sup>th</sup>, the S&P 500<sup>®</sup> Index lost 1.79% on concern that controversy around President Trump and investigations into his campaign staff's ties to Russian officials could derail his administration's legislative agenda. The recovery from this pullback was fairly quick with the market advancing to new highs before the end of the month. From its close on May 17<sup>th</sup> through May 31<sup>st</sup>, the S&P 500<sup>®</sup> Index returned 2.40%.

With over 97% of S&P 500<sup>®</sup> Index companies reporting first quarter earnings results, 81% met or beat expectations with aggregate quarterly operating earnings on pace to have grown at 4.71% from Q4 2016 and nearly 13% year-over-year, the fastest year-over-year growth since Q1 2012. The final estimate for Q1 GDP growth came in at 1.2%, which was better than expected and nearly double the initial estimate of 0.7% reported in April.

Implied volatility, as measured by the Chicago Board Options Exchange (CBOE<sup>®</sup>) Volatility Index (the VIX<sup>®</sup>), averaged 10.86 for the month with a closing low of 9.77 on May 8<sup>th</sup> and a closing high of 15.59 on May 17<sup>th</sup>. The VIX<sup>®</sup> closed below 10 on four days during the month and the closing low on May 8<sup>th</sup> was less than half a point above the VIX's<sup>®</sup> all-time closing low of 9.31 on December 22<sup>nd</sup>, 1993. The VIX<sup>®</sup> ended the month at 10.41.



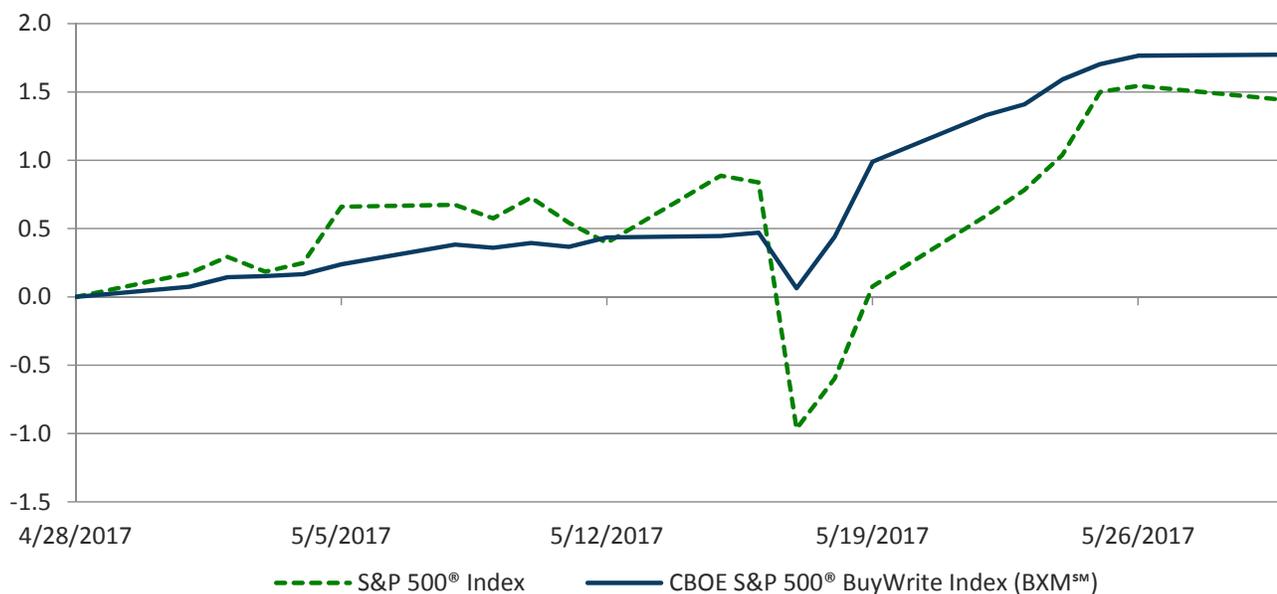
Datasource: Bloomberg, L.P.

Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.

The CBOE S&P 500® BuyWrite Index (the BXMSM) had a return of 1.78% for May, outperforming the S&P 500® Index by 37 basis points (bps) and bringing its year-to-date return to 6.83%. The BXMSM lagged the S&P 500® Index as the market advanced at the beginning of the month but the downside protection it delivered during the pullback on May 17<sup>th</sup> was the primary driver of the outperformance. The limiting factor on the BXM'sSM return in early May was the May index call option it wrote on April 21<sup>st</sup>, which had strike price of 2355. The market's advance over the last half of April resulted in the index call option being more than 1% in-the-money at the beginning of May, thus limiting the BXM'sSM market exposure and participation in the market advance during the first half of the month. Having an in-the-money call option allowed the BXMSM to deliver 139 bps of downside protection as it declined just 0.40% on May 17<sup>th</sup>. On May 19<sup>th</sup>, the BXM'sSM May index call option expired and it received a premium of \$23.10 when it wrote a new index call option with June expiration and a strike price of 2385. The premium received represented an annualized rate of 12.62%. The higher strike price on its June index call option and the premium received for writing it improved the BXM'sSM total return potential and helped it generate a return of 1.72% from its closing value on May 17<sup>th</sup> through month-end, though it lagged the S&P 500® Index by 68 bps over this period.

<sup>1</sup> The CBOE® S&P 500 BuyWriteSM Index (the BXMSM) 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 BXMSM 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 expiration.

### Cumulative Performance (%) (5/1/17 - 5/31/17)



*Datasource: Morningstar Direct<sup>SM</sup>.*

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The Bloomberg Barclays U.S. Aggregate Bond Index (the Aggregate) returned 0.77% for May, bringing its year-to-date return to 2.38%. The yield on the 10-year U.S. Treasury rose from its starting point of 2.28% on May 1 to a monthly high of 2.41% on May 10<sup>th</sup> before declining to end the month at 2.20%.