Market Recap

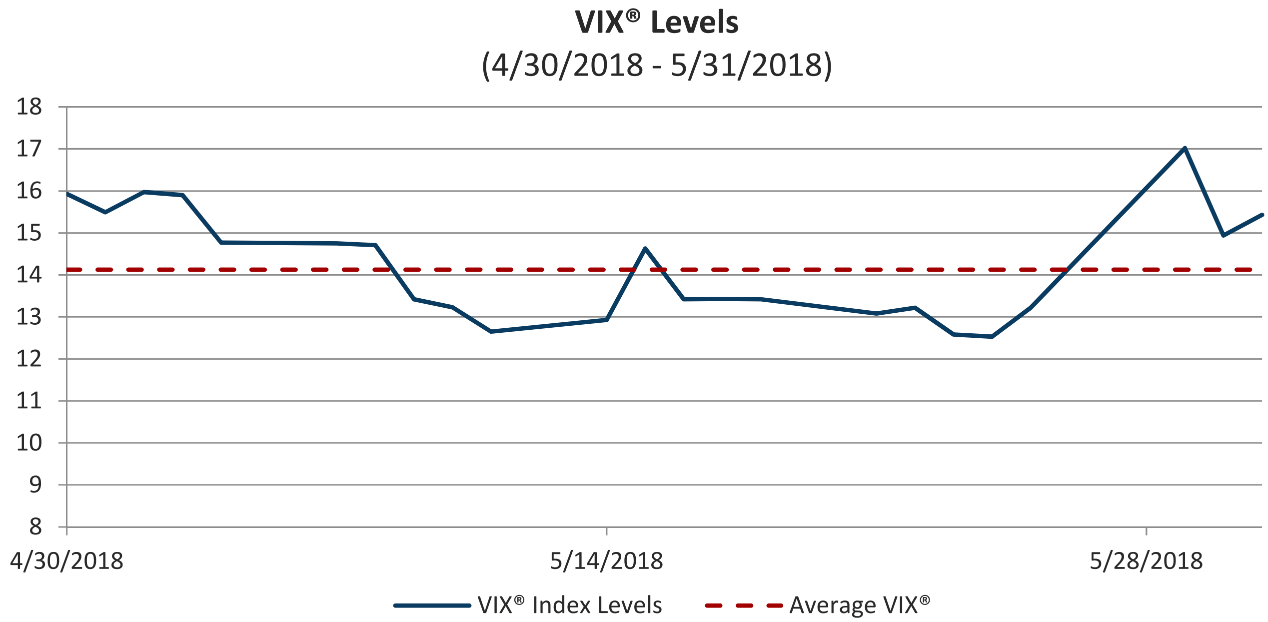
May 2018

The S&P 500® Index returned 2.41% in May, bringing its year-to-date return to 2.02%. The month began with an advance of 3.41% through May 23rd and then declined 0.97% from the 23rd through month-end amidst an uptick in volatility. Month-end volatility was driven by concerns over the impact of Italian politics on the stability of the Euro and the Trump administration's expansion of steel and aluminum tariffs to include Canada, Mexico and Europe. May's equity market advance was a continuation of its recovery from the 10.10% correction it experienced from its 2018 high on January 26th to its year-to-date low on February 8th. The S&P 500® Index returned 5.52% from February 8th through May 31st, a partial recovery that left it 5.14% below its 2018 highwater mark.

Data releases in May suggested the market backdrop of an expanding economy and robust earnings growth remained intact. While the recent trend of relatively elevated inflation measures also continued, price and wage data indicated inflation was not an immediate threat. The equity market weakness over the last half of April carried over into the first few days of May as the Federal Reserve Open Markets Committee met. However, the market rose after the Fed's announcement on May 2nd that short-term policy rates would remain unchanged and by an employment report on May 4th that showed benign wage pressure despite a decline in the unemployment rate to an 18-year low of 3.9%.

On May 30th, the second estimate of Q1 GDP growth came in at 2.2%, which was lower than the initial 2.3% estimate but in-line with consensus expectations. First quarter corporate earnings reports were the strongest in several years. With nearly all S&P 500® Index companies reporting first quarter results as of May 31st, aggregate quarterly operating earnings were up over 6% versus Q4 2017, the highest quarterly earnings growth rate since Q3 2010. Year-over-year earnings growth was nearly 19%, the highest rate since Q3 2011. In addition, over 82% of reporting companies met or beat consensus earnings expectations.

Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 14.12 for the month of May. The VIX® ended April at 15.93 and trended downward to a May low of 12.53 on May 24th before trending up over the last week and setting a monthly closing high of 17.02 on May 29th. The S&P 500® Index's realized volatility (as measured by its annualized standard deviation of daily returns) was 10.61%, resulting in a typically positive spread between implied and realized volatility.

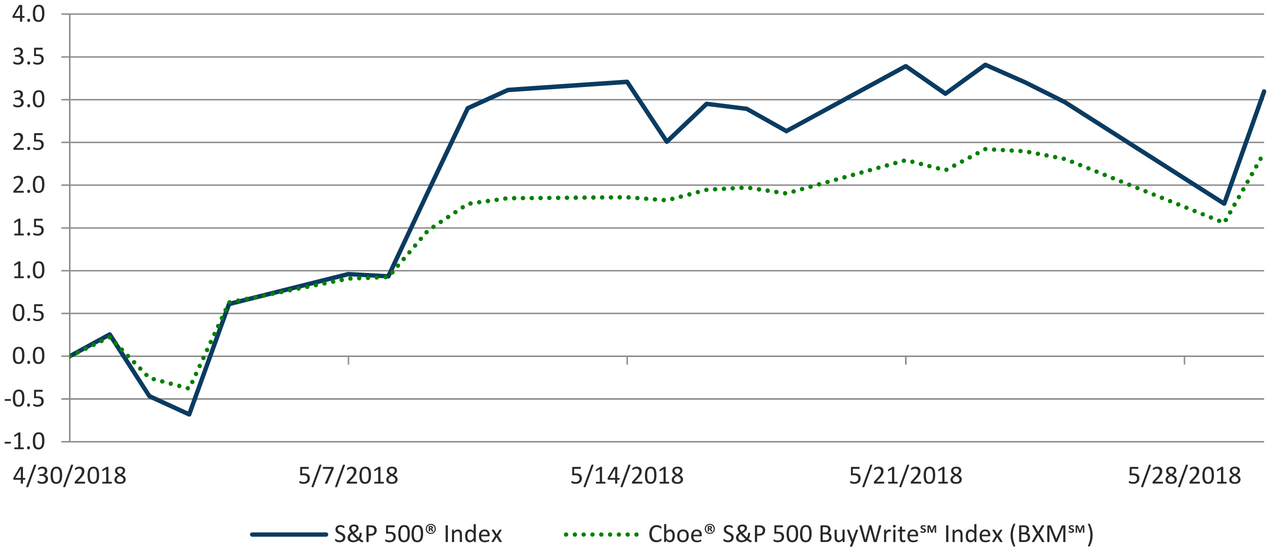


Datasource: Bloomberg, L.P.

The Cboe® S&P 500 BuyWrite℠ Index (the BXM℠) had a return of 2.09% for May, bringing its year-to-date return to 1.84%. The BXM℠ underperformed the S&P 500® Index during the equity market advance that began the month and delivered a modest amount of downside protection during the market decline that ended the month. From the beginning of the month through May 23rd, the BXM℠ returned 2.42%, lagging the S&P 500® Index by 99 basis points (bps). From May 23rd through month end, the BXM℠ returned -0.32%, delivering 65 bps of downside protection relative to the S&P 500® Index.

[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.

Cumulative Performance (%)
(4/30/2018 - 5/31/2018)



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

The Bloomberg Barclays U.S. Aggregate Bond Index (the Aggregate) returned 0.71% for May, bringing its year-to-date return to -1.50%. The yield on the 10-year U.S. Treasury Note rose to a year-to-date high of 3.11% on May 17th, its highest level since July 2011. From its high on the 17th, it dropped sharply to a May low of 2.78% on the 29th before rising to end the month at 2.86%, 9 bps lower than its 2.95% level at the end of April.

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