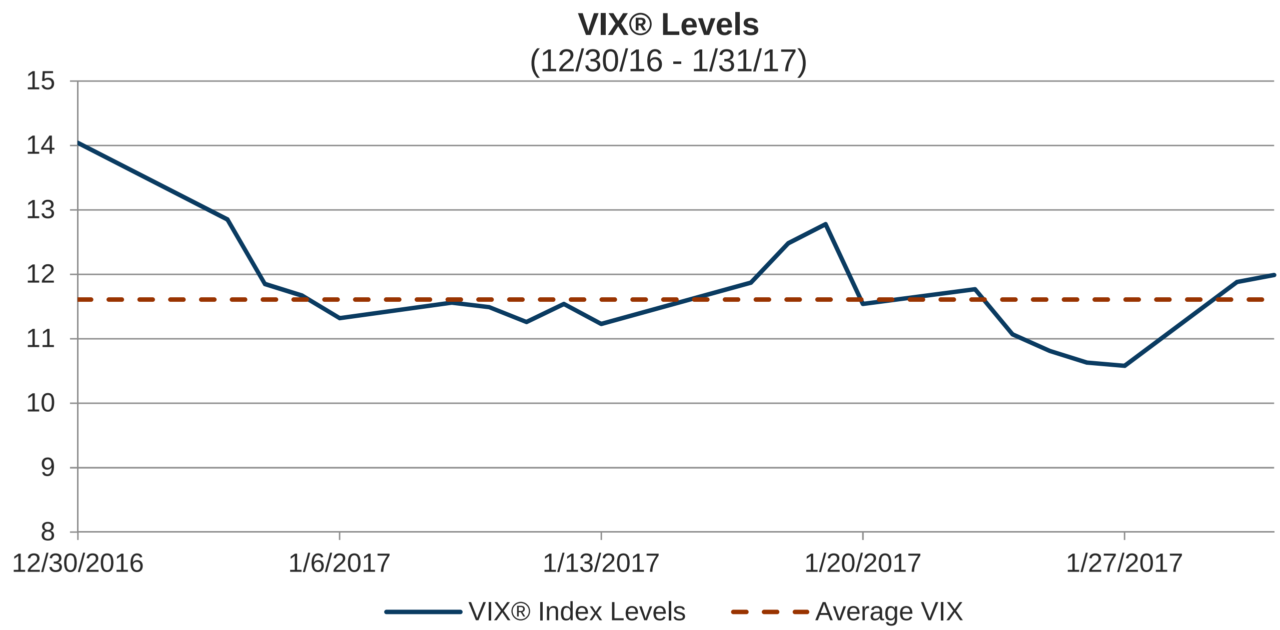
Market Recap

Equity Markets

The S&P 500® Index advanced 1.90% for January. Most of the return came in the first week of the month as the market recovered from a slight selloff at the end of December. After moving sideways mid-January, the market advanced again after the inauguration as the Trump administration took steps to make clear it intended to quickly move forward with its agenda of reducing regulations and reforming the tax code. The market advance was helped by mostly positive corporate earnings reports and economic data including the strongest Purchasing Managers Manufacturing Index report since March of 2015. Despite President Trump signing executive orders enacting significant changes to the Affordable Care Act, relations with Mexico and immigration, equity market volatility was well below average for the month and declined after the inauguration.

Implied volatility, as measured by the Chicago Board Options Exchange (CBOE®) Volatility Index (the VIX®), declined fairly steadily from its December 30th 2016 level of 14.04 to a closing low of 10.58 on January 27th while averaging 11.61 for the month.



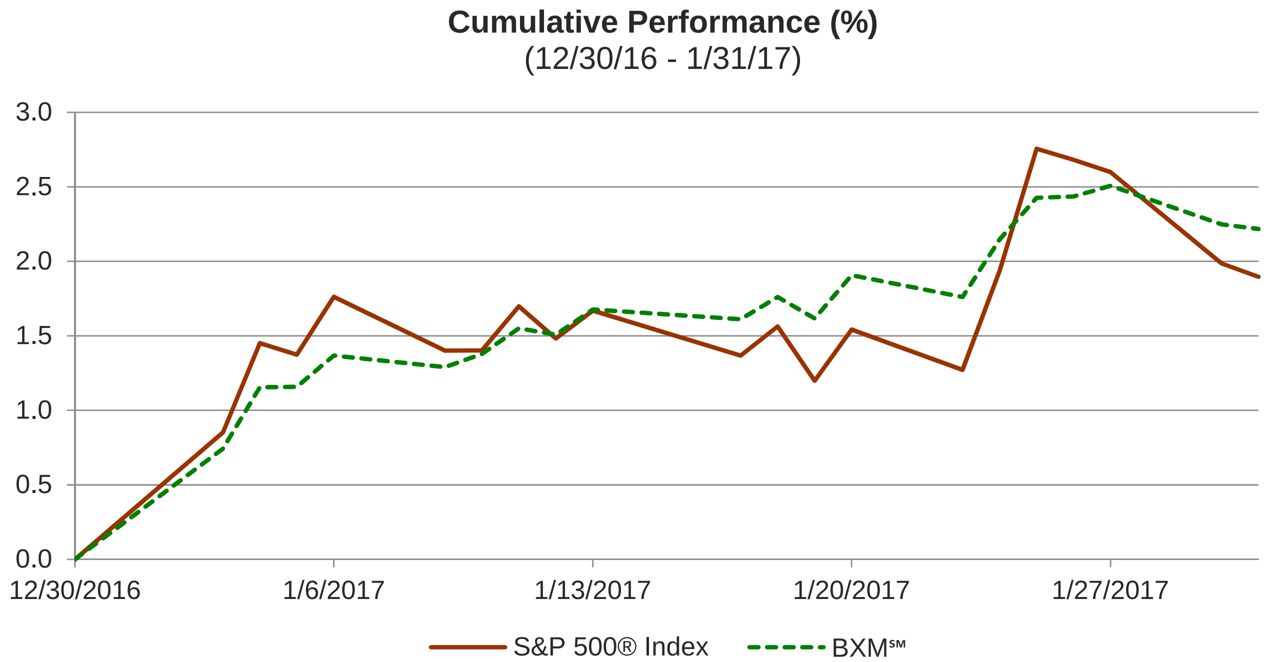
Datasource: Bloomberg, L.P.

The CBOE® S&P 500® BuyWrite Index (the BXM℠)[1] had a return of 2.22% for January. The BXM's℠ outperformance of the S&P 500® Index was primarily due to the BXM℠ beginning the year with its January expiration index call option having a strike price that was out-of-the-money and remaining time premium to-earn. The out-of-the-money strike price gave the BXM℠ more market exposure than usual, allowing for significant participation in the market's sharp advance as the year began. The remaining premium-to-earn allowed the BXM℠ to continue its advance as the market leveled out. The premium collected when the BXM wrote a new index call option on January 20th was sufficient to nearly match the return of the S&P 500® Index over the remainder of the month.

On January 20th, the BXM℠ gained 0.28% as it rolled from the expiring January index call option to a new index call option expiring in February. The S&P 500® Index gained 0.34% on the day of the option roll. With a SPXSET[2] of 2273.60, the BXM℠ paid $3.60 to retire the January index call option with a strike price of 2270. The new February index call option had a strike price of 2275 and a premium of $19.38 at the time of the roll. The differential between the SPXSET and the previous day's closing price of the S&P 500® Index hurt the BXM's℠ performance. The SPXSET was nearly 10 points higher than the 2263.69 closing price of the S&P 500® Index on January 19th. Had the SPXSET been below the strike price of the expiring call option, the BXM℠ would have paid nothing to retire it. However, the SPXSET resulted in the call option expiring over $3 in-the-money, detracting approximately 16 bps from the BXM's℠ return by increasing the price paid to retire the BXM's℠ expiring index call option. The timing of the roll helped the BXM's℠ performance as the S&P 500® Index advanced 0.39% during the BXM's℠ unhedged period from the market close on January 19th to 11:30 a.m. the following day of the roll. The S&P 500® Index declined over the remainder of the trading session.

[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 expiration.

[2] SPXSET determines the price at which the BXM℠ "buys back" the expiring index option as it rolls to a new one. SPXSET is based on the first available price of each company in the S&P 500® Index, rather than the opening price of the S&P 500® Index itself. Since it is common for a portion of the companies to not trade on the market open, the set price can and frequently does vary from the opening price of the S&P 500® Index.



Datasource: Morningstar Direct℠

The Bloomberg Barclays U.S. Aggregate Bond Index (the Aggregate) returned 0.20% for January. The yield on the 10-year U.S. Treasury was steady over the course of the month, falling slightly from 2.44% on December 30th to a January low of 2.33% on the 17th before rising to end the month at 2.45%.