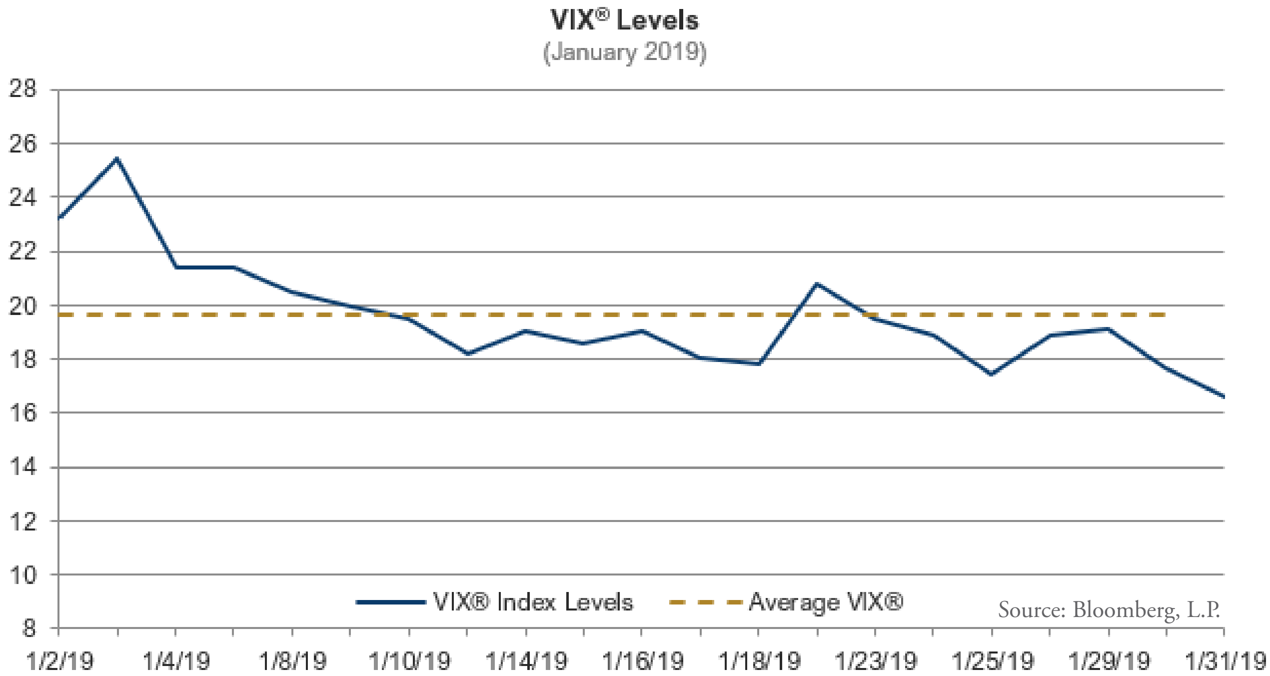
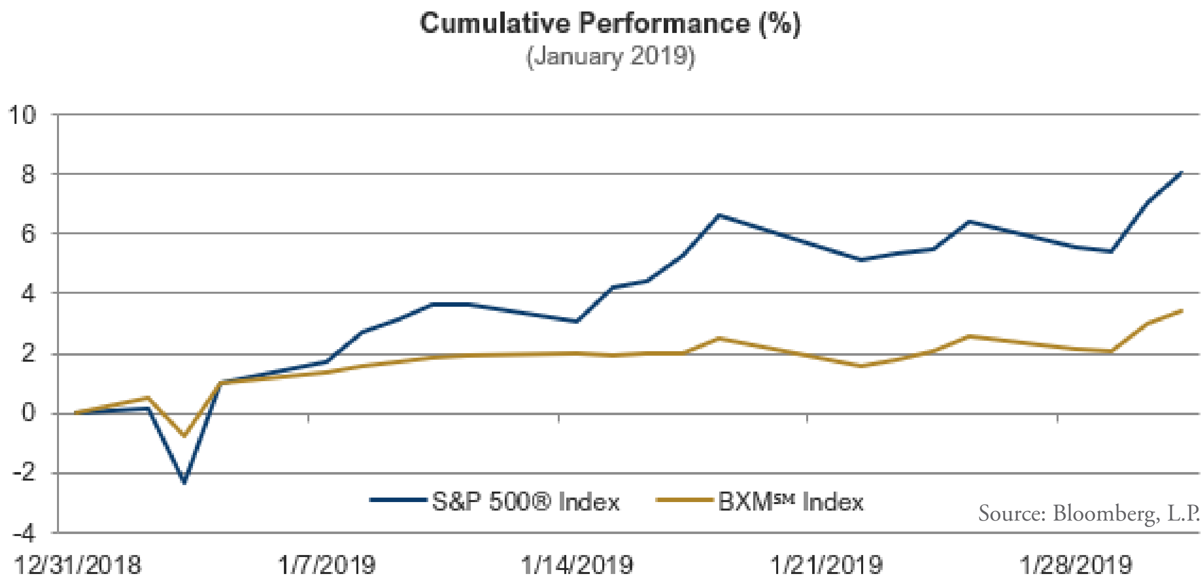
The S&P 500® Index advanced 8.01% in January. January's return was the strongest start to a year since 1987 and extended a rally that started after equity markets approached bear territory near the end of 2018. From its closing value on December 24, 2018 through the end of January, the S&P 500® Index returned 15.22%. Despite the strong advance, equity market implied volatility did not collapse as it had during sharp recoveries in recent years.

Many of the issues concerning investors in late 2018 subsided in January as trade tensions eased, the Federal Reserve turned slightly more dovish, and corporate earnings growth remained solid. While an extended government shutdown may have delayed the delivery of some economic data, its effect was seemingly limited as data releases in January continued to suggest a healthy economic backdrop along with positive initial Q4 corporate earnings reports. The first estimate of Q4 GDP growth came in at 2.6%, in line with consensus estimates, supported by strong US consumer spending. Aggregate operating earnings for S&P 500® Index companies grew 3.4% in Q4, 24.9% year-over-year, with over 76% of companies meeting or exceeding analyst estimates. The employment report for December, released on January 4, was also stellar as non-farm payroll growth far exceeded expectations. The unemployment rate ticked up to 3.9% in December, with the participation rate increasing to 63.1%. The December Consumer Price Index, released on January 11, showed a 1.9% increase which was consistent with expectations.

Implied volatility, as measured by the Chicago Board Options Exchange (Cboe®) Volatility Index (VIX®), averaged 19.57 for the month. VIX® opened the month at 25.42, peaking shortly thereafter at 25.45 on January 3, before closing the month at its lowest point of 16.57. Relative to the last three significant equity market drawdowns occurring in Q1 2018, Q1 2016 and Q3 2015, VIX® levels were higher one month after the Q4 2018 market low.



The Cboe® S&P 500 BuyWrite℠ Index[1] (the BXM℠) had a return of 3.43% for January, underperforming the S&P 500® Index by 458 basis points (bps). The BXM's℠ lagging performance relative to the S&P 500® Index for the month was primarily due to the equity market's rapid advance significantly outpacing the return potential from premiums collected by the BXM℠ when it wrote index call options on December 21 and January 18. The BXM℠ returned 2.00% from the beginning of the year through January 17, the day prior to the expiration of its January call option. Though the nearly 2% premium collected by the BXM℠ (when it wrote that contract in December) was above average due to December's elevated implied volatility, it limited the BXM's℠ participation in the 5.24% return of the S&P 500® over the same period. When the BXM's℠ index call option expired on January 18, it wrote a new index call option with a February expiration that collected a premium of 1.98%. This premium helped the BXM℠ generate a return of 1.40% from January 17 through month-end but was insufficient to keep pace with the S&P 500® Index's advance of 2.63% over the same period.



Fixed Income Markets

The Bloomberg Barclays U.S. Aggregate Bond Index returned 1.06% in January. The yield on the 10-year U.S. Treasury Note (the 10-year) ended the month at 2.63%, declining slightly from its 2018 close of 2.69%. In January, the 10-year dropped to a low of 2.55% on January 3 before climbing to its intra-month peak of 2.78% on January 18.