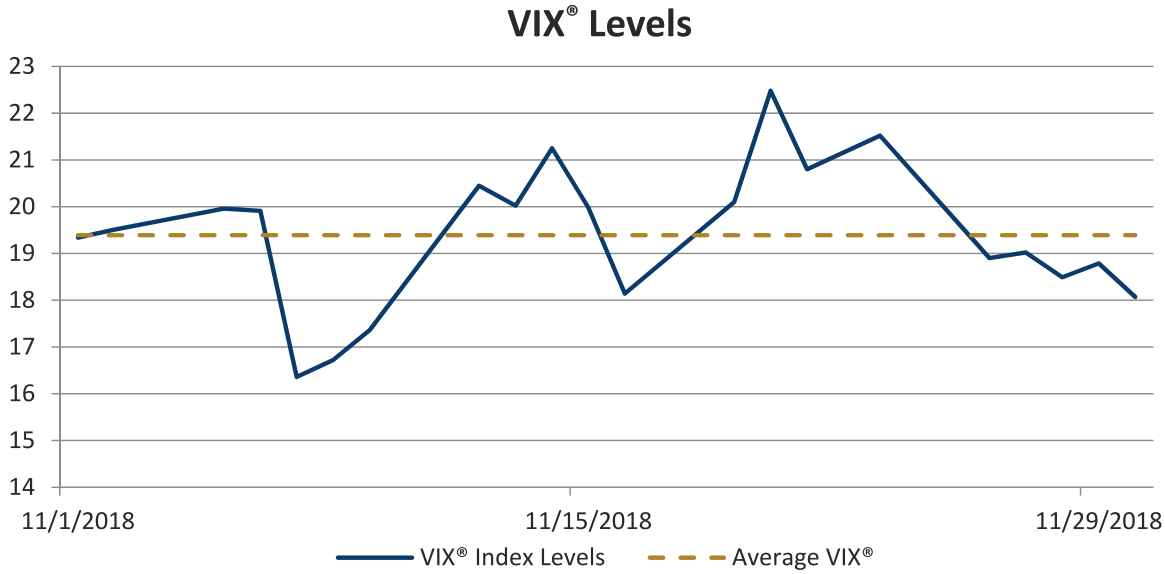
Market Recap

Nov. 2018

U.S. equity markets kept investors on high-alert last month, delivering a roller coaster return pattern. The S&P 500® Index returned 2.04% in November, bringing its year-to-date return to 5.11%. The month began with the continuation of a market rally that started in the final days of October with the S&P 500® Index climbing 3.79% from October 31st through November 7th. However, as Thanksgiving approached, investors processed a buffet of concerns including: ongoing trade tensions between the U.S. and China, downward revisions in earnings growth estimates, an increasingly volatile oil market, growing uncertainty related to Brexit negotiations and an ugly selloff in some of the largest tech names. Between November 7th and 23rd, the S&P 500® Index declined 6.29%. In comparison, the tech-heavy Nasdaq Composite Index declined 8.23% during the same period. The month ended with a rally, helped by a strong start to the holiday sales season and dovish rhetoric from Federal Reserve (Fed) Chairman Powell indicating that current policy rates were near the neutral stance policy makers are seeking. From November 23rd through the 30th, the S&P 500® Index returned 4.91%.

Although equity markets may have prematurely compounded holiday stress, fundamentals and earnings growth continued to reflect a stable economic environment. The second revision of Q3 GDP left the total growth rate unchanged at 3.5%. Investors have also closely watched inflation data with concern that an unexpected pop may force the Fed to accelerate its normalization efforts. October's Consumer Price Index reported a 2.5% year-over-year (YoY) increase - near the upper end of consensus expectations but within range to provide investors with an early dose of holiday cheer. The employment picture also remained rosy with October's non-farm payrolls report reflecting significant growth, effortlessly exceeding expectations, and allowing the unemployment rate to hold steady at 3.7%. Finally, with over 95% of companies reporting as of November 28th, earnings growth showed no sign of a deep freeze. Of those that have reported, nearly 85% have either met or beat expectations. These reports put aggregate Q3 and YoY earnings on track to grow 7.2% and 27.0%, respectively. For investors to find YoY earnings growth rates this high, they would need to look back to 2010 and, prior to that, to 1993.

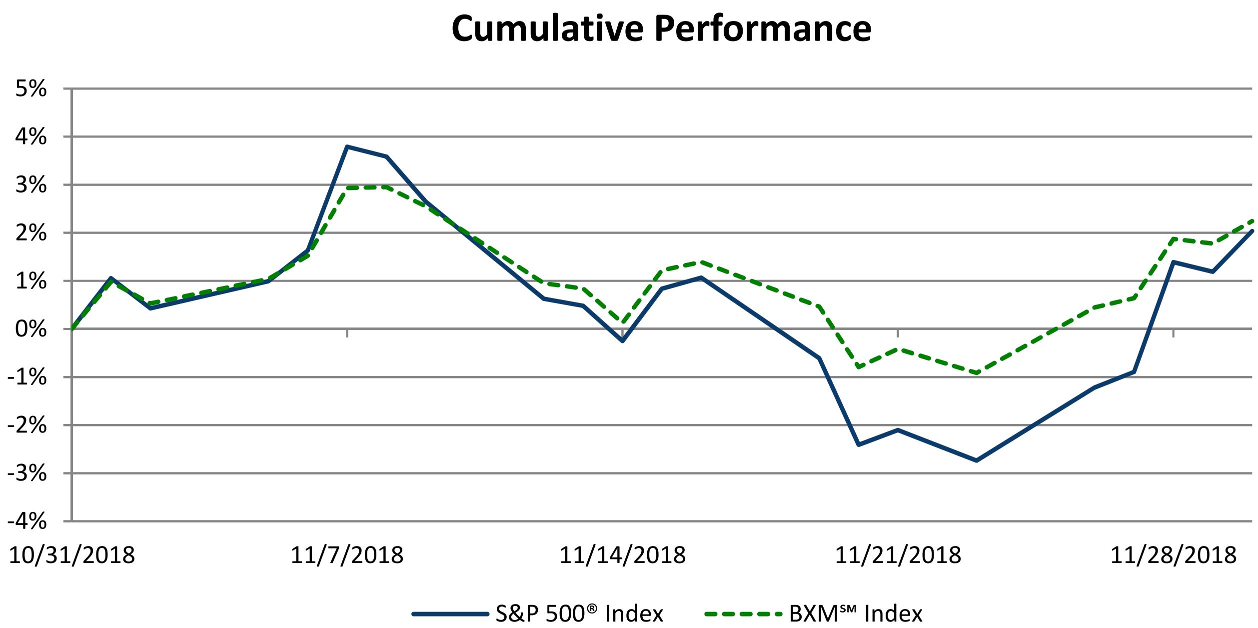
Implied volatility, as measured by the Cboe® Volatility Index (VIX®), averaged 19.39 in November. The VIX® began trending down as the market rallied at the start of the month, reaching an intra-month low of 16.36 on November 7th. As in October, the implied volatility response to equity market downside was relatively muted, peaking on November 20th at 22.48. Despite this relatively muted response, average implied volatility exceeded realized volatility for the month with the annualized standard deviation of daily returns coming in at 18.85%, resuming its typical relationship.



Datasource: Bloomberg, L.P.

The Cboe® S&P 500 BuyWrite℠ Index (BXM℠) had a return of 2.24% for November, outperforming the S&P 500® Index by 20 basis points (bps) and bringing its year-to-date return to 3.21%. The outperformance by the BXM℠ relative to the S&P 500® Index for the month was primarily due to the downside protection provided by the premium collected when writing a new index call option upon the BXM's November index call option expiration. On November 16th, the BXM℠ collected a premium of $54.41 for writing a new index call option with a December expiration and a near-the-money strike price of 2735. The S&P 500® Index declined 3.77% from November 16th to a closing value of 2633 on November 23rd and the BXM℠ delivered 149 bps of downside protection with a return of -2.28%. The market decline resulted in the BXM℠ having more market exposure than usual due to its index call option being out-of-the-money. The BXM's℠ market exposure, combined with the remaining time premium on its index call option, allowed it to have considerable participation in the month-end market rally. The S&P 500® Index returned 4.91% from November 23rd to the 30th while the BXM℠ returned 3.19% over the same period.

[1]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.**

The bond market advanced in November as the Bloomberg Barclays U.S. Aggregate Bond Index returned 0.60% for the month, bringing its year-to-date return to -1.79%. The yield on the 10-year U.S. Treasury ended the month below where it began after first rising to a high of 3.24% on November 8th, and then declining to end the month at 2.99%, 15 bps below its 3.14% level at the end of October.