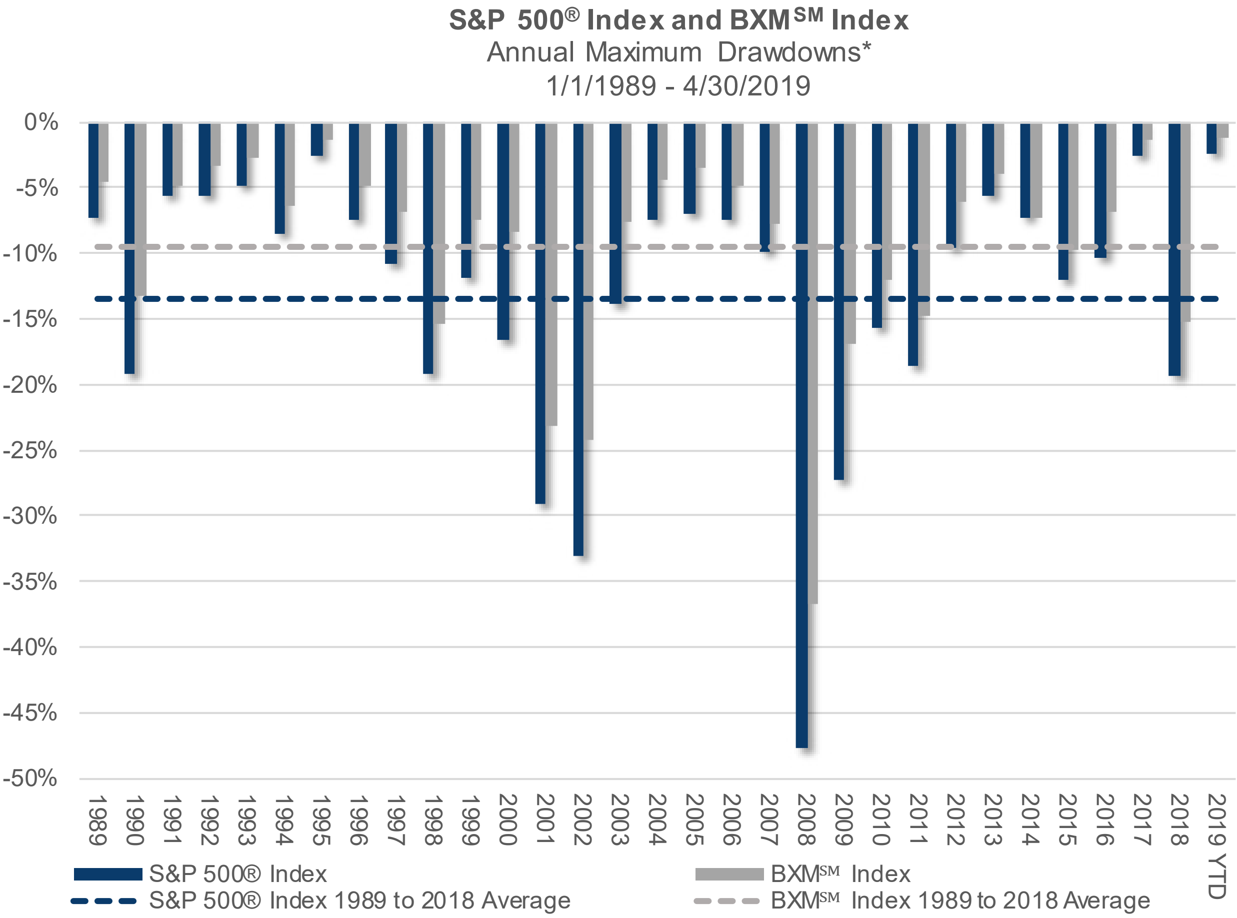
The equity market's rapid return to all-time highs after the extreme decline of Q4 2018 creates an opportunity for investors to re-evaluate their allocations. The current lofty heights of equity market pricing and valuation may give some investors the sense that the other shoe is about to drop. Indeed, from a historical perspective, downside equity market volatility in 2019 seems quite likely: the average intra-year peak-to-trough drawdown for the S&P 500® Index from 1989 through 2018 is over 13%, while so far in 2019 the largest drawdown was a one-day slide of just 2.45%. On the other hand, recession fears and other concerns that drove equity markets lower in 2018 have subsided and fundamentals have been better than expected so far this year. With this backdrop, the anticipation of additional equity market gains may not be unreasonable.



*Based on daily returns. Sources: Bloomberg, L.P. and Morningstar Direct℠

Digging a bit deeper into the equity market drawdowns since 1989 uncovers a pattern that may give pause to optimistic investors. Historically, downside volatility has not frequently materialized early in a given year. In 21 of the last 30 years, the bottom of the market's peak-to-trough declines have fallen after April 30. Additionally, the maximum drawdown periods for the S&P 500® Index occurred during the first four months of the year only nine times, while 14 drawdown periods occurred post-April. Seven drawdown periods started before April 30 and ended later in the year.

On the other hand, investors who have invested in the equity market over the last eight months of a year have not fared too badly on average. The return for the S&P 500® Index from April 30 to December 31 has averaged 6.75% for the last 30 years. Moreover, despite the low point of the market's drawdowns frequently occurring in the last eight months of a year, the April to December cumulative return was positive in all but seven years.

Investors may be tempted to respond to recent extreme directional moves in the equity market by making significant adjustments to their allocations to stocks, bonds and cash in order to dampen the volatility of their portfolios. Investors may be just as tempted to lessen their exposure to the recent low returns of bonds in favor of the strong recent returns of stocks. Investors looking to make portfolio adjustments may benefit from low volatility equity strategies, such as Gateway's, that offer a middle ground between stocks and bonds. Strategies that offer the potential for both consistent participation in equity market advances and reliable protection against equity market declines may prove valuable as the equity market's future path plays out.

Using the Cboe® S&P 500 BuyWrite℠ Index (the BXM℠) as a proxy shows that an index-option based approach has been an effective way to achieve a low volatility equity profile. The BXM℠ has consistently experienced shallower maximum drawdowns relative to the S&P 500® Index since 1989. Moreover, for the April to December periods since 1989, the BXM℠ has captured 85% of the S&P 500® Index's average return while delivering negative returns over the April to December periods less often.

April to December Returns Since 1989 (%)

	Avg. Return*	Max Return	Min Return	# of Negative Periods
S&P 500® Index	6.75	29.69	-33.66	7
BXM℠ Index	5.74	24.56	-27.84	5

*Average return is calculated by averaging the returns of the April to December periods from 1989 through 2018.
Data Source: Bloomberg, L.P.

Though recent returns may give investors a sense of what may lie ahead for the equity market, the future remains as uncertain as ever. In this uncertain environment, Gateway's low volatility equity strategies may have appeal for investors looking to lower portfolio risk while preserving the potential for participation in equity market upside.

For more information and access to additional insights from Gateway Investment Advisers, LLC, please visit www.gia.com/insights.