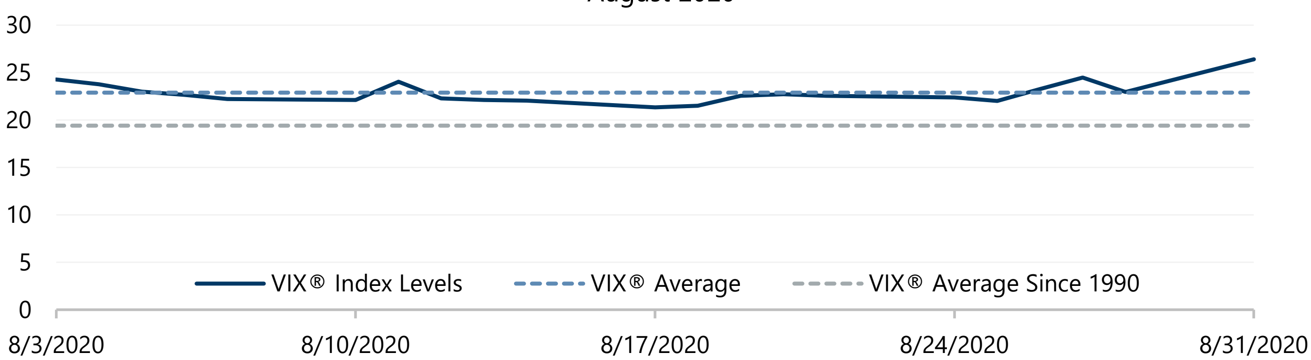
Market Recap
August 2020

The S&P 500® Index returned 7.19% for the month of August, bringing its year-to-date return to 9.74%. As the nation continued to navigate fits-and-starts in economic activity related to COVID-19 closures, data suggested a recovering macroeconomic backdrop. The S&P 500® Index has climbed 57.74% from its March 23, 2020 low through August 31, 2020, ending the month at a new all-time high.

The second estimate of Gross Domestic Product for the second quarter of 2020 showed that the U.S. economy shrunk at an annualized rate of -31.7%, an improvement from the first estimate of -32.9% and better than the consensus estimate. The unemployment rate, reflecting economic reopening efforts, declined from 11.1% in June to 10.2% in July while the July labor participation rate ticked down slightly to 61.4%. The July Consumer Price Index, released on August 12, reflected a 1.0% year-over-year increase, above consensus expectations. With over 97% of companies reporting, second quarter aggregate operating earnings were on track to decline 9.57% quarter-over-quarter and 18.88% year-over-year. More than 84% of the companies that have reported earnings met or exceeded analyst estimates.

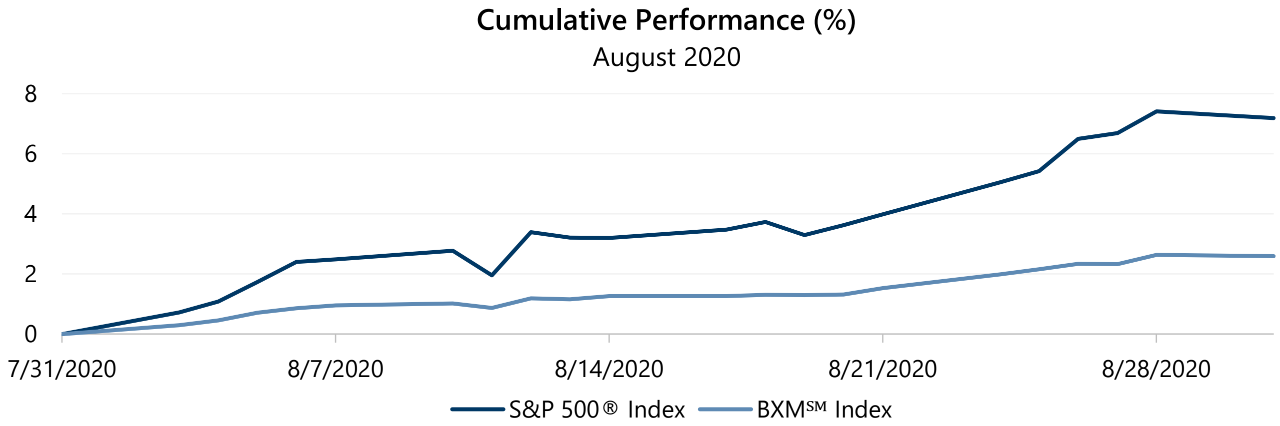
As the market advanced in August, the Cboe® Volatility Index (the VIX®) remained significantly above its historical average of 19.40 while realized volatility was low, resulting in the widest-ever positive margin between the two statistics. Implied volatility, as measured by the VIX®, averaged 22.89 in August, and realized volatility, as measured by the standard deviation of daily returns for the S&P 500® Index, came in at 8.10% for the month. The VIX® opened the month at 24.28 before drifting to an intra-month low of 21.35 on August 17. The VIX® ended the month at an intra-month high of 26.41.

VIX® Levels
August 2020



Source: Bloomberg, L.P.

The Cboe® S&P 500 BuyWrite℠ Index[1] (the BXM℠) returned 2.59% in August, underperforming the S&P 500® Index by 460 basis points and bringing its year-to-date return to -9.56%. On the third Friday of each month, the BXM℠ writes a new index call option as the option it wrote the previous month expires. The premiums the BXM℠ collects on its written index call options have significant influence on its return potential over a period when the market advances and help to mitigate market declines. The BXM's℠ underperformance relative to the S&P 500® Index was primarily due to the premiums collected by the BXM℠ when it wrote index call options on July 17 and August 21 providing insufficient return potential to keep pace with the equity market's rapid advance. Specifically, the BXM℠ generated a return of 1.53% from the beginning of August through August 21 as it earned the remaining time premium from the index call option it wrote in July. However, this was insufficient to keep pace with the 3.99% advance of the S&P 500® Index over the same period. On August 21, the BXM℠ wrote a new index call option with a September expiration as its August option expired and collected a premium of 1.76% as a percentage of the BXM's℠ underlying value. This premium helped the BXM℠ return 1.05% from its closing value on August 21 through month-end, but the BXM's℠ return lagged the 3.08% return of the S&P 500® Index over the same period.



Source: 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 returned -0.81% in August. The yield on the 10-year U.S. Treasury Note (the 10-year) climbed over the course of August, starting the month at 0.53% before rising to an intra-month high of 0.75%. The yield on the 10-year closed the month at 0.70%.

IMPORTANT INFORMATION

Sources: Morningstar Direct℠, Bloomberg, L.P. Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.

[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 index 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.

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