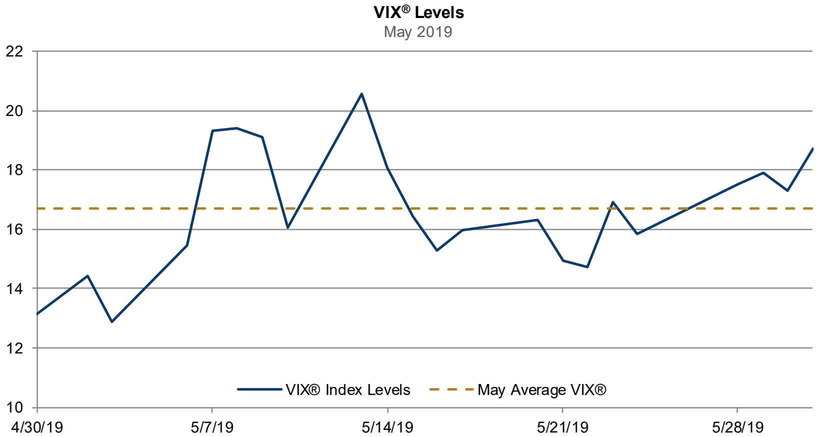
After a persistent upward climb in 2019, the S&P 500® Index produced its largest drawdown so far this year with a decline of 6.35% for the month of May. The loss brought its year-to-date return to 10.74%.

The market decline was largely driven by unease over trade and global economic growth. China-related news dominated headlines with rising concerns about the escalating trade war with the U.S. These concerns were compounded by signs of slowing growth in China. At the end of the month, President Trump tied trade policy to immigration policy and threatened Mexico with tariffs.

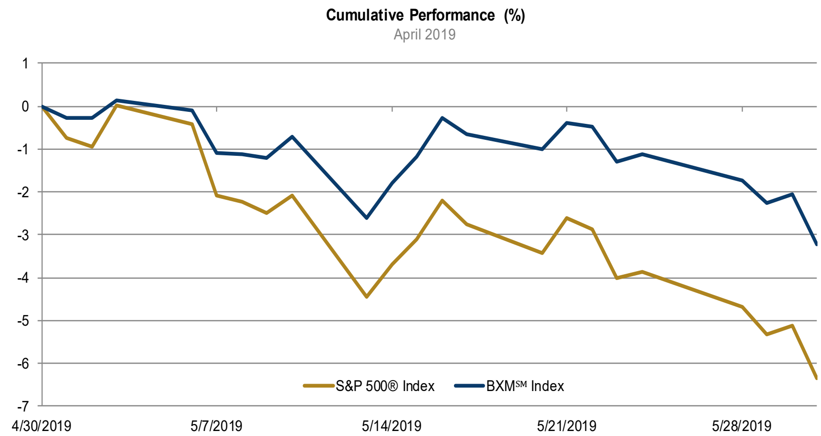
Domestically, data releases showed the market backdrop of economic expansion remained intact. The second estimate of Gross Domestic Product growth during the first quarter of 2019 came in at 3.1%, lowered slightly from the first estimate of 3.2% but aligned with consensus expectations. On the earnings front, with 96% of companies reporting, first quarter 2019 aggregate operating earnings for S&P 500® Index companies grew 1.1% bringing year-over-year growth to 15.9%. More than 80% of companies met or exceeded analyst estimates. The employment report for April, released May 3, confirmed labor market strength with non-farm payroll growth exceeding consensus expectations and the unemployment rate declining to 3.6%. The April Consumer Price Index, released on May 10, showed a 2.0% year-over-year increase which aligned with expectations.

Despite experiencing the 5th largest monthly loss for the S&P 500® Index since the current bull market began in March 2009, the implied volatility response to the equity market's decline was relatively muted. Implied volatility, as measured by the Chicago Board Options Exchange (Cboe®) Volatility Index (VIX®), averaged 16.72 for May. VIX® exceeded S&P 500® Index realized volatility, as measured by its annualized standard deviation of daily returns, of 14.04% for the month. VIX® opened the month at 14.80, bottomed at 12.87 on May 3 before peaking at 20.55 on May 13. VIX® then trended lower but remained relatively elevated in May, closing the month at 18.71.



Source: Bloomberg, L.P.

The Cboe® S&P 500 BuyWrite℠ Index (the BXM℠) had a return of -3.21% for May, providing 314 basis points (bps) of downside protection relative to the S&P 500® Index and bringing its year-to-date return to 4.96%. Outperformance relative to the S&P 500® Index for the month was primarily due to the downside protection from premiums collected from writing index call options. Specifically, the BXM℠ collected a premium of 1.17% on April 18 when it wrote its index call option with a May expiration and it collected a premium of 1.43% on May 17 when it wrote a new index call option with a June expiration. The BXM℠ began the month with its May call option slightly in-the-money due to the market advance over the last half of April. The combination of the intrinsic value of the call option combined with the remaining premium to earn helped the BXM℠ deliver downside protection as the market declined 2.20% from the beginning of the month through May 16, the day before the BXM's℠ May call option expired. The BXM℠ declined 0.28% over the same period. From May 16 through month end, the BXM℠ returned -2.93% as the premium collected on May 17 helped provide 131 bps of downside protection relative to the 4.24% decline of the S&P 500® Index. 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 1.78% in May, bringing its year-to-date return to an impressive 4.80%. The yield on the 10-year U.S. Treasury Note (the 10-year) started the month at 2.50%, peaked at 2.54% on May 2, then trended lower to end the month at its low point of 2.12%. The 10-year yield declined faster than that of shorter-term rates, inverting the yield curve with the 3-month and 10-year spread at 20 bps as of the end of the month. As the bond market rallied, Treasury futures markets began pricing-in a significant probability of a Federal Funds rate cut as early as July.

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.**

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 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.

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