Market Recap
Aug 2019

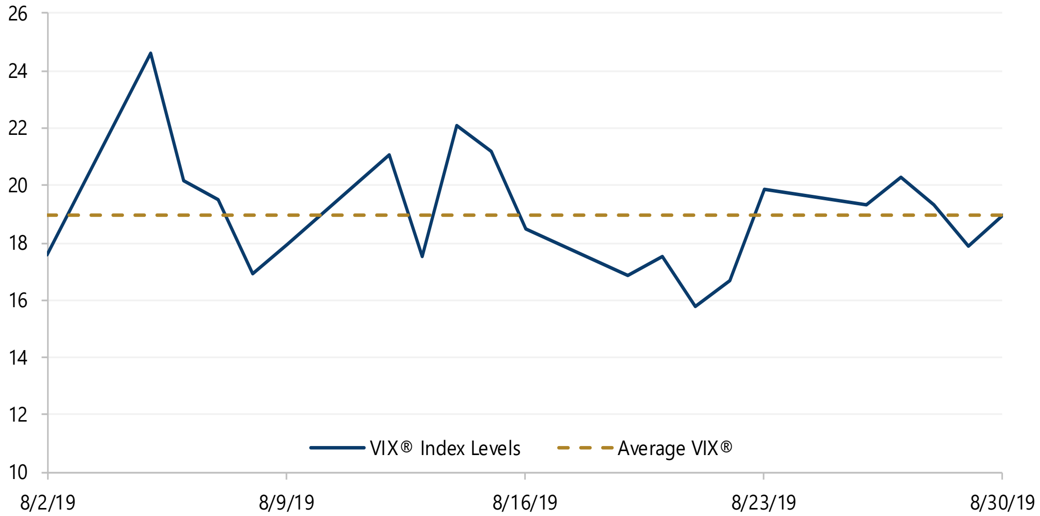
August proved to be a bumpy ride for the S&P 500® Index which dropped 1.58% for the month and brought its year-to-date return to 18.34%. The modest decline masks a relatively volatile month in which there were three separate one-day declines of over 2.50%. The last time a month included three one-day declines of that magnitude was September 2011 when the equity market was reeling from the credit rating downgrade of the U.S. government.

The on-going trade war between the U.S. and China was a key driver of equity market volatility in August. Investor hopes that two days of trade talks at the end of July would result in improved relations between the two countries were dashed when President Trump announced that $300 billion worth of Chinese goods, already subject to a 25% tariff, would face an additional 10% tariff effective September 1. On August 5, the S&P 500® Index declined 2.97% as China responded by halting purchases of U.S. agricultural products and the Chinese yuan fell sharply relative to the U.S. dollar. On August 14, weak economic reports out of Europe and China stoked fears that the trade war was putting the global economy on track for a recession and the S&P 500® Index dropped 2.90% to its lowest closing value of the month. The loss brought the total decline of the S&P 500® Index to 5.99% from its all-time high on July 26. On August 23, the S&P 500® Index fell 2.59% when China announced tariffs on $75 billion of U.S. imports beginning September 1.

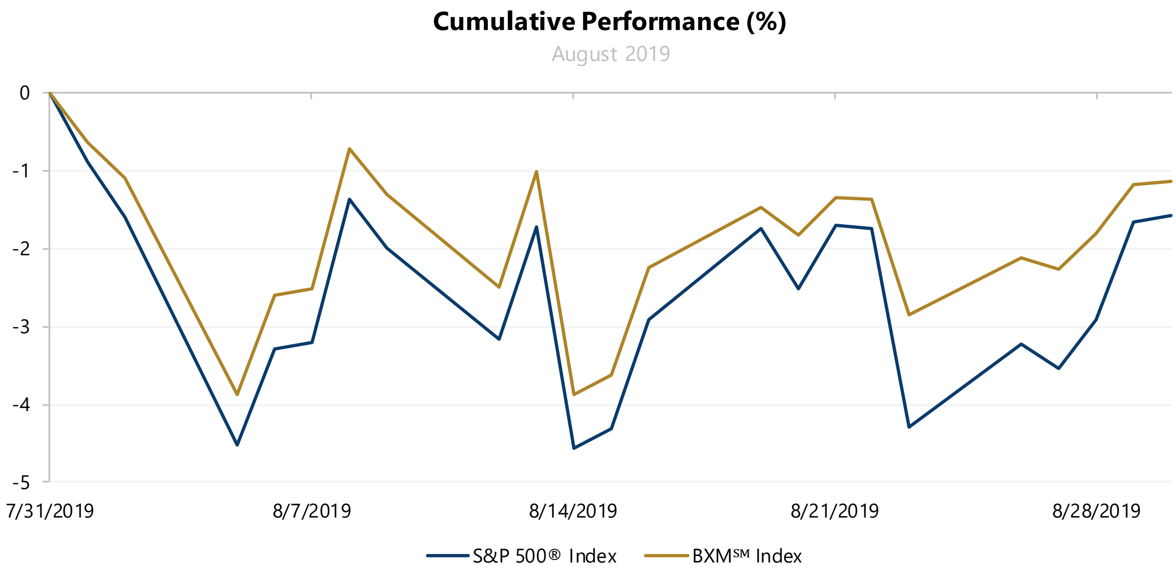
Domestic data released in August suggested the market's foundation remained solid, though evidence of slower growth for the economy and corporate profits started to accumulate. The second estimate of Gross Domestic Product growth for Q2 2019 was revised from 2.1% to 2.0%, though consumer spending remained a bright spot given a solid labor market. The unemployment rate held steady at 3.7% in July with nonfarm payrolls hitting the top of the range of consensus expectations. Corporate earnings growth remained positive but has fallen off the torrid pace of 2018. With over 95% of S&P 500® Index companies reporting, aggregate Q2 operating earnings grew more than 1% quarter-over-quarter and over 10% year-over-year. Over 82% of those companies have met or exceeded analyst estimates. The July Consumer Price Index, released on August 13, showed a 1.8% year-over-year increase, at the top of consensus expectations.

VIX® Levels

August 2019



Implied volatility, as measured by the Chicago Board Options Exchange (Cboe®) Volatility Index (VIX®), averaged 18.98 in August. VIX® opened the month at 17.87 before it reached a high point of 24.59 on August 5. From there it found a low of 15.80 on August 21 before ending the month at 18.98. In a reversal from historic norms, realized volatility, as measured by the annualized standard deviation of daily returns, exceeded the average level of implied volatility for the month. The standard deviation of the S&P 500® Index was 22.70% in August, resulting in a differential of nearly four percent between the two statistics.



The Cboe® S&P 500 BuyWrite℠ Index (the BXM℠) declined 1.14% in August, bringing its year-to-date return to 10.16%. On the third Friday of the month, the BXM℠ wrote a new index call option as the option it wrote the previous month expired. The premium the BXM℠ collected on its written index call option helped mitigate market declines in August. The premium collected as a percentage of the BXM's℠ underlying value was 1.95% for the month, which assisted in providing 44 basis points (bps) of downside protection relative to the S&P 500® Index.

The Bloomberg Barclays U.S. Aggregate Bond Index increased 2.59% in August as investors fled the uncertainty of the equity markets. The yield on the 10-year U.S. Treasury Note (the 10-year) started August at 1.89%, its high for the month. From there it declined sharply and fell below 1.50% for the first time since July 2016. On August 27, the yield on the 10-year reached 1.47%, its low for the month and more than 175 bps below its recent peak of 3.24% on November 8, 2018. The 10-year yield also fell below the yield of the 2-year U.S. Treasury Note, an inversion of the yield curve that in the past has preceded recessionary periods. The 10-year yield rose slightly at month-end to finish August at 1.50%.

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.

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