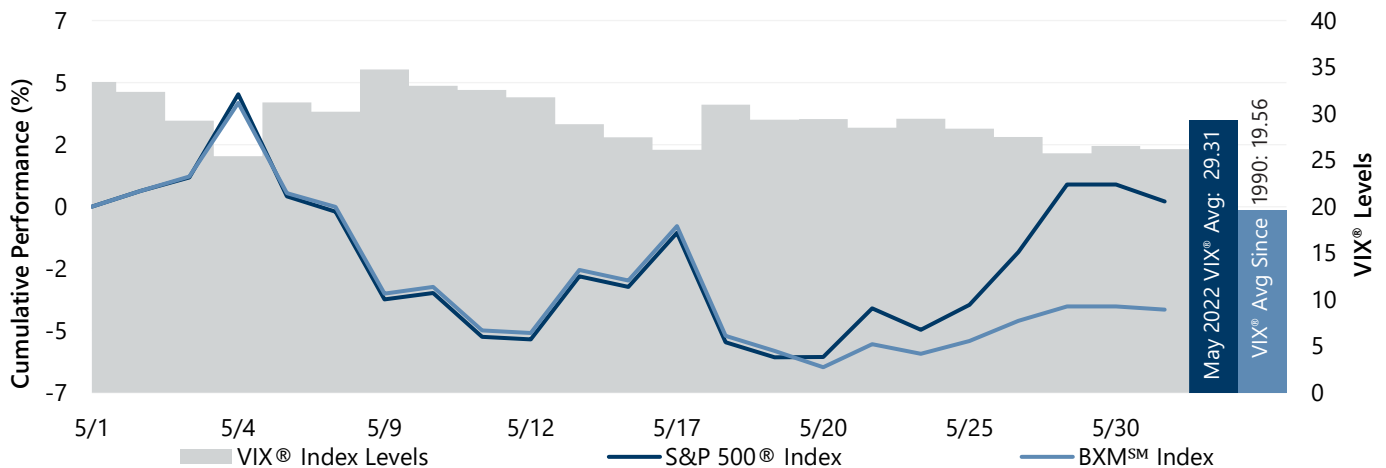


The S&P 500® Index returned 0.18% for the month of May, bringing its year-to-date return to -12.76%. The slightly positive monthly return of the equity market masked significant volatility experienced during a month in which the equity market fell into bear market territory on an intra-day basis. Market losses in the first three weeks of the month were driven by increasing concern about whether monetary policy can tame inflation without tipping the economy into recession. The S&P 500® Index reached a new year-to-date low on May 19, resulting in a loss of 18.20% from its 2022 peak on January 3. From May 4 to May 19, the S&P 500® Index declined 9.17%. The S&P 500® Index reversed course from May 19 through month-end with an advance of 5.98%.

U.S. macroeconomic data released in May continued to reflect the impact of persistent record-high inflation and the growing headwinds facing the economy. The second estimate of Gross Domestic Product for the first quarter of 2022 showed that the U.S. contracted by an annualized rate of 1.5%, slightly worse than the consensus expectation of a 1.3% contraction for the quarter. The unemployment rate was in line with the consensus estimate, holding steady at 3.6% from March to April, while the participation rate ticked down to 62.2%. The April Consumer Price Index, released May 11, continued its record-breaking streak with a year-over-year increase of 8.3% which was above the consensus expectation. First quarter aggregate operating earnings were on track to climb just 1.0% quarter-over-quarter while increasing nearly 40% year-over-year. With nearly 97% of companies reporting, over 80% met or exceeded analyst estimates.

Implied volatility, as measured by the Cboe® Volatility Index (the VIX®), averaged 29.31 in May. In a reversal of its typical relationship, realized volatility reached 31.24% for the month - as measured by the standard deviation of daily returns for the S&P 500® Index - and exceeded average implied volatility for the period. The breakdown of the typical relationship between implied versus realized volatility occurred as the S&P 500® Index selloff intensified during May, which was the second month in a row that realized volatility exceeded implied volatility. The VIX® opened May at 32.34, reached an intra-month low of 25.42 on May 4, then climbed to an intra-month high of 34.75 on May 9. The VIX® ended the month at 26.19.

May 2022 Market Path & Implied Volatility



Source: 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 BuyWriteSM Index¹ (the BXMSM) returned -3.73% in May, underperforming the S&P 500® Index by 391 basis points (bps) and bringing its year-to-date return to -7.52%. The BXMSM provided 49 bps of downside risk mitigation during the equity market drawdown from May 4 through May 19 with a return of -8.68% relative to the -9.17% return of the S&P 500® Index. On the third Friday of each month, the BXMSM writes a new index call option as the option it wrote the previous month expires. The premiums the BXMSM collects on its written index call options have significant influence on its return potential during market advances and help to mitigate market declines. The BXMSM began the month with an out-of-the-money (OTM) written call option due to the significant market decline over the second half of April. The combination of elevated market exposure from its OTM option and only a small amount of remaining time premium to earn resulted in significant participation in the equity market decline. From the beginning of the month through May 19, the day prior to the expiration of its written call option, the BXMSM returned -5.24%, while the S&P 500® Index returned -5.47%. On May 20, the BXMSM wrote a new index call option with a June expiration and collected a premium of 2.53%. Earning a portion of the premium it received contributed to the return of the BXMSM over the remainder of the month but was insufficient to keep pace with the rapid advance of the equity market. The BXMSM returned 1.59% from its closing value on May 19 through month-end, while the S&P 500® Index rallied 5.98% over the same period.

The Bloomberg U.S. Aggregate Bond Index (the Agg) returned 0.64% in May, bringing its year-to-date return to -8.92%. May was the first positive monthly return for the Agg since November 2021. The yield on the 10-year U.S. Treasury Note started May at 2.98%, rose to an intra-month high of 3.13% on May 6, then drifted to an intra-month low of 2.74% on May 27. The yield on the 10-year closed the month at 2.84%.

IMPORTANT INFORMATION

¹The BXMSM 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.

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

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