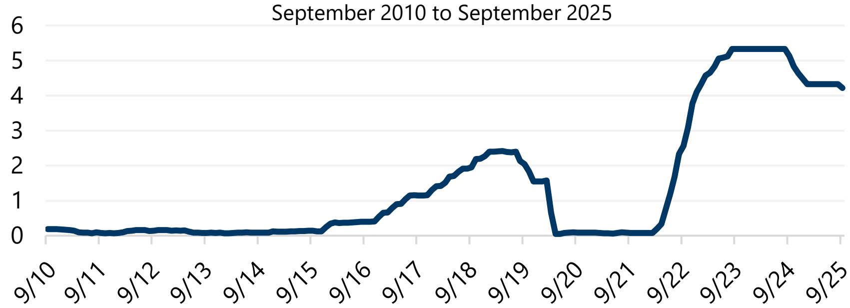
Markets Like Easing Money

On September 17, 2025, the U.S. Federal Reserve (the Fed) lowered the Federal Funds rate by 25 basis points to 4.25%. The S&P 500® Index f nished that day at 6,600.35, nearly unchanged from the prior close, and would go on to make new all-time highs in October. Meanwhile, implied volatility as measured by the Cboe® Volatility Index (the VIX®) closed September 17 at 15.72 – well below the since 1990 average of 19.46 – before climbing higher in October due in part to the ongoing U.S. government shutdown and revised trade tensions with China.

Fed Funds Effective Rate

September 2010 to September 2025



Source: Federal Reserve Bank of St. Louis

Based on rate cut history going back to 1990, this initial reaction is consistent with prior market behavior following the Fed's f rst cut to interest rates in a reduction cycle – equity markets seem to immediately respond positively to the news.

- Historically, the S&P 500® Index has had an initial rally averaging 4.76% over a duration of approximately two months.
- Over a longer period, equity markets continued their rise following an initial rate cut. The average 12-month return of the S&P 500® Index after the Fed's initial cut was 6.99%.

Hedged equity strategies participated, too, and fared well. Consider the Cboe® S&P 500 BuyWrite℠ Index (BXM℠) and the Cboe® S&P 500 PutWrite℠ (PUT℠) both represent passive, rules-based approaches to option writing.

- Following an initial rate cut, the average 12-month return of the BXM℠ and PUT℠ was 4.78% and 8.67%, respectively.

Easing Money Isn't Always Easy

However, initial rate cuts do not necessarily create rosy market environments nor are they always the panacea of which they appear. Consider seven prior episodes of Fed rate cuts since 1990.

- In the year following the initial rate cut, the S&P 500® Index averaged a drawdown of 19.38%, with an average duration of f ve-and-a-half months.
- Hedged equity strategies delivered on protection during these periods as well. The average drawdown for the BXM℠ was 14.02% and the PUT℠ was 12.66%.
- The average VIX® high was 46.53 during those drawdowns.

12-Months Post Fed Funds Rate Cut: **Markets Advance but Not Without Drawdown and Volatility**

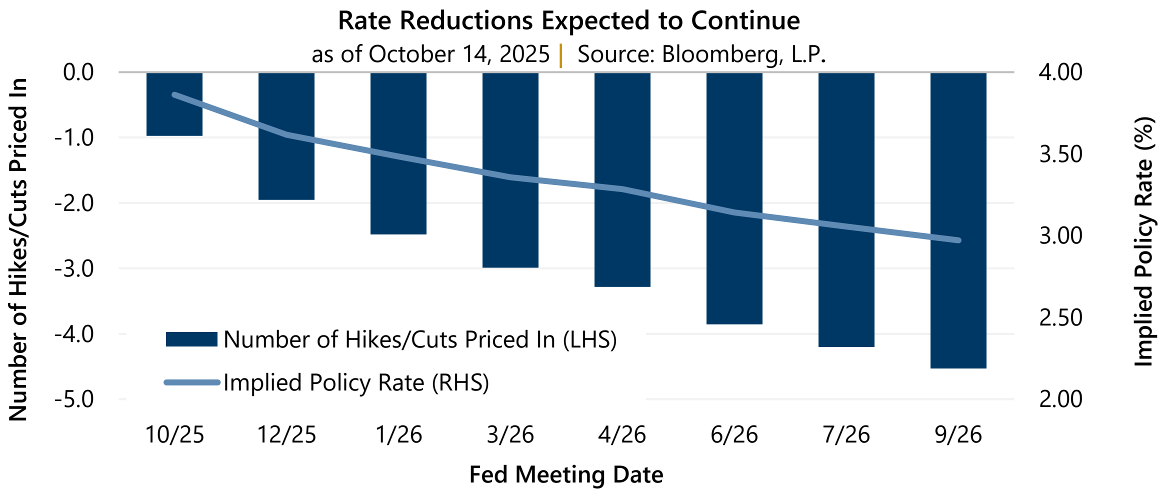
	S&P 500® Index Max Drawdown	S&P 500® Index Return	BXM℠ Index Max Drawdown	BXM℠ Index Return	PUT℠ Index Max Drawdown	PUT℠ Index Return	VIX® Closing High
July 13, 1990	-18.87%	7.24%	-13.05%	9.85%	-9.69%	11.82%	36.47
July 6, 1995	-2.07%	21.45%	0.19%	17.38%	0.30%	15.90%	20.70
September 29, 1998	-8.49%	22.53%	-4.78%	27.49%	-3.95%	25.80%	45.74
January 3, 2001	-29.09%	-12.37%	-23.16%	-11.03%	-22.55%	11.11%	43.74
September 17, 2007	-24.57%	-20.03%	-11.68%	-10.12%	-8.74%	-6.97%	36.22
July 31, 2019	-33.79%	11.96%	-30.23%	-8.48%	-28.92%	-5.44%	82.69
September 19, 2024	-18.75%	18.14%	-15.46%	8.34%	-15.04%	8.50%	60.13
Average	**-19.38%**	**6.99%**	**-14.02%**	**4.78%**	**-12.66%**	**8.67%**	**46.53**

Source: Bloomberg, L.P.

Past performance does not guarantee future results.

Hedged Equity for the Ride

As of October 14, 2025, the Fed Funds Futures curve shows the market pricing in further interest rate cuts over the next 12 months with an implied policy rate settling near 3% by September 2026. A reduction, but in line with the Fed Funds average since 1990 of 2.87% (and still well beyond the post–Global Financial Crisis average of 1.29%).



Navigating the market's response to monetary policy is inherently complex, as outcomes are often widespread and difficult to anticipate. This uncertainty highlights the value of hedged equity strategies, like those pioneered by Gateway, which are designed to provide equity market exposure while actively managing downside risk. The current environment may be particularly advantageous, as interest rates above the zero-bound enhance the cash flow generated from our option-writing strategies. This can serve to both buffer against drawdowns and create a durable source of potential returns, a benefit that may persist even if the Fed eventually moves to lower rates.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization. • The Cboe S&P 500 BuyWrite Index (BXMSM) is a benchmark index designed to track the performance of a hypothetical buy-write strategy on the S&P 500® Index. The BXM is a passive total return index based on (1) buying an S&P 500 stock index portfolio, and (2) "writing" (or selling) the near-term S&P 500® Index (SPXSM) "covered" call option, generally on the third Friday of each month. The SPX call written will have about one month remaining to expiration, with an exercise price just above the prevailing index level (i.e., slightly out of the money). The SPX call is held until expiration and cash settled, at which time a new one-month, near-the-money call is written. PUT is a benchmark strategy designed to measure the performance of a hypothetical protective put approach on the S&P 500® Index. The strategy involves holding a long position in the S&P 500® and purchasing a near-term, at-the-money S&P 500® Index (SPX) put option, generally on the third Friday of each month. The put option is held until expiration and cash settled, at which time a new one-month, at-the-money put is purchased. This approach seeks to provide downside protection while maintaining equity market exposure. • The Cboe Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500® stock index option prices. The Cboe Volatility Index® (VIX®) reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes, first and second month expirations are used until eight days from expiration, then the second and third are used.

Important Information

Past performance does not guarantee future results. Data source: Federal Reserve Bank of St. Louis and Bloomberg, L.P.

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

All investing involves risk, including the risk of loss. Investment risk exists with equity, fixed income, and alternative investments. There is no assurance that any investment will meet its performance objectives or that losses will be avoided.
Diversification does not guarantee a profit or protect against a loss.
Short selling is speculative in nature and involves the risk of a theoretically unlimited increase in the market price of the security that can, in turn, result in an inability to cover the short position and a theoretically unlimited loss.
A long position is the purchase of a security with the expectation that the asset will rise in value.
A short position is the sale of a borrowed security with the expectation that the asset will fall in value.
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