

## U.S. Equities August 2017

### KEY HIGHLIGHTS

- The [S&P 500®](#) gained 0.05% in August, bringing its YTD return to 10.40%.
- The [Dow Jones Industrial Average®](#) returned 0.26% for the month and was up 11.06% YTD.
- The [S&P MidCap 400®](#) was down 1.69% for the month and up 4.23% YTD.
- The [S&P SmallCap 600®](#) returned -2.69% in August, with a 0.29% return YTD.

Exhibit 1: Index Returns

INDEX	1-MONTH (%)	YTD (%)	1-YEAR (%)
S&P 500	0.05	10.40	13.85
Dow Jones Industrial Average	0.26	11.06	19.28
S&P MidCap 400	-1.69	4.23	10.62
S&P SmallCap 600	-2.69	0.29	11.60

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

### MARKET SNAPSHOT

If you thought Trump would take August off, or even take it easy, you were wrong; he continued with direct actions, opinions, and of course Twitter (TWTR), which was up 5.1% in August but remained down 8.0% from Trump's election. Before you Snap (SNAP; IPOed in April 2017 at USD 17, now at USD 14.65), Twitter was already down 29.3% from its Nov. 7 2013, USD 26 IPO, when it reached USD 50 (now at USD 16.91)—maybe it can call Blue Apron for dinner (APRN; IPOed in June 2017 at USD 10, now at USD 5.23) and have it delivered via Uber (before the self-appraised USD 62 billion company tries an IPO in 18-36 months). Oh well, IPOs just aren't what they were 20 years ago, with the observation that 20 years ago, negative earnings were reported and accepted; now, earnings are positive, but too low to justify the premium.

Whether you felt Trump was good or not depended on your politics, and from where I sat, it appeared to be blind politics—you were either for or against, and it didn't matter the issue, it was just politics. However, from where I traded, politics didn't seem to matter—it was all fundamentals, as the Street watched, talked, shook their head at the politics, but traded issues. While more and more are saying the Street's ability to ignore Washington and focus on the facts is due to the new acceptance of verbal

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banter, the fact is that while some policy has changed, due more to executive order than Congressional legislation, the landscape has not, and stocks have continued to go on their way, meandering slowly up to new highs, as the economy, housing (helped by low inventory), employment (maybe not so much wages), and GDP continue to improve, with low inflation and interest rates (which have actually declined—I wonder what Draghi, Kuroda, and Yellen were actually saying in Jackson Hole). While multiples remain high, Q2 2017 actually beat estimates as earnings set a new record, replacing the old Q3 2014 record, with Q3 2017 estimates mostly predicting another record (up 7.6% over Q2 2017), as sales improved (5.7% year-over-year) and almost set a record.

The bottom line for what was a typical slow-trading August was that while there was so much negative news for the month, the S&P 500 managed a slight gain of 0.05%. Think about it, the buzzwords included “nuke,” “war,” “default,” and what have now become the “acceptable” terror attacks, with the market only 0.37% away from a new closing high. What is keeping this market up is fundamentals and a deaf ear to politics, neither of which is known for consistency. The good news is where we are now, the bad news for September is that Congress comes back Sept. 5, 2017, and needs to address the U.S. debt limit (USD 20 trillion, currently USD 19.98 trillion outstanding), the October 2018 fiscal U.S. budget issue (although a stop-gap measure has not been that uncommon in recent years), and then the Wall Street dream of tax reform. Then there all those political issues that could become very real, very quickly—yet there is no one selling (although insurance has gone up in price).

Dominating the news was a white supremacy rally in Charlottesville, Virginia, which ended in violence and the death of a counter-protester; the event went national, with Trump’s statement not satisfying many. In response, Merck’s (MRK) CEO Ken Frazier resigned from Trump’s Advisory Council in a “stand against intolerance,” followed by CEOs from Intel (INTC) and others. Trump then disbanded his council on manufacturing and the Strategic and Policy Forum, as reports said the council members had notified Trump that they were planning to resign. Trump then also ended his plan for a council on infrastructure, with Trump’s chief strategist Steve Bannon leaving his position on Aug. 18, 2017 (fourth senior Trump official to leave in five weeks), appearing to be pushed out. The issue has dominated the news, sidelined work on infrastructure planning, hurt cross-party cooperation on upcoming income tax reform, and heightened serious communications and moral issues for the White House. U.S. trade negotiations on the 23-year-old North American Free Trade Agreement (NAFTA) started, but mostly ran in the background (it could be a September issue). Hurricane Harvey struck the Texas gulf and continued to produce heavy rains, as insurance estimates were for USD 10-20 billion for covered damage, with the full damage estimated to be in the USD 75 billion area, with Texas saying it will need USD 125 billion. More reliable estimates should start in early September, as feet on the ground (and drones in the air) assess the damage. Finished fuel prices went up, as short-term shortages emerged, with gasoline prices expected to tick up nationally over the short run.

Going forward, as the U.S. reaches its debt limit of USD 20 trillion (currently at USD 19.98 trillion), Congress has started to negotiate a higher limit, with Trump saying that if he gets no money for his planned U.S.-Mexican wall, there will be no increase. If a deal is not reached, it could close the U.S. government. Right behind the September debt issue is the new October 2018 fiscal U.S. budget issue, although a stop-gap measure has not been that uncommon in recent years. Then, there is the near and dear to Wall Street issue of income tax, which is expected to turn up the political rhetoric. The bottom line going forward may be lots of political issues for the Street to pay attention to (and trade on).

In central bank activity, the Bank of England voted to keep rates unchanged (6-2), as it reduced its 2017 growth estimate to 1.75% from 1.9%, and to 1.6% from 1.8% for 2018. The minutes from the FOMC's July meeting were released and showed that some wanted to start balance sheet reduction, but some wanted to wait, with the key issue for those who wanted to wait being inflation—which is running below the 2% target. The FOMC is still on course for a Sept. 19-20, 2017, meeting, when it is expected to announce or schedule a start. The annual Federal Reserve Jackson Hole Economic Policy Symposium met, with Chair Yellen and ECB's Draghi speaking, but neither giving any indications of future policy moves.

In global events, which now include terrorist events, Kenyan voting results showed President Kenyatta's second term bid was approved, as opposition voters staged protests, which became violent, and reports were released of alleged voter fraud. Venezuelans voted at the end of July and gave President Maduro's government broad authority to redraft the constitution; opposition leaders called the election fraudulent and street violence over the issue continued into the following week. The U.S. then imposed sanctions against Maduro, stating human rights abuse and an illegitimate vote designed to advance an authoritarian regime. Street protests continued in Venezuela, as the newly created constitutional assembly assumed more power. Companies involved in Venezuela's oil production, which accounts for 95% of the country's foreign earnings, have removed workers (Chevron [CVX], Repsol [REPY], Statoil [STO], and Total [TOT]). In conflicts, tensions between the U.S. and North Korea continued to escalate, with the U.S. firing another intercontinental intercept missile (from California), hoping to intimidate North Korea. China banned imports of North Korean coal, iron, and seafood in compliance with U.N. sanctions (which they voted for) that were aimed at stopping North Korea's nuclear weapon program. North Korea reversed its plans to launch missiles close to the U.S. territory of Guam, but later in the month continued its testing via three missile launches; it then fired another one over Japan. Six French soldiers were struck by a car and injured near Paris; the driver was later arrested and the incident labeled as a terrorist act. In a tourist area of Barcelona, Spain, a van plowed into a crowded street, killing 16 and injuring over 100. The incident was also classified as a terrorist attack, with ISIS claiming responsibility. In what was seen as a related plot, 75 miles (120 kilometers) away from Barcelona, police killed five suspected terrorists as they drove their vehicle into a group of civilians.

In employment and layoffs, the August ADP Private Employment Report came in stronger than expected, at 237,000 when 185,000 was expected; last month was restated upward to 201,000 from the originally reported 178,000. In another favorable employment report, July's net new jobs beat the 178,000 estimate with 209,000; June's easy beat of 222,000 (when 170,000 was estimated) was revised up a tick to 231,000. The Unemployment Rate declined to 4.3%, as expected, from last month's 4.4% and was the lowest since 2001; the Participation Rate increased to 62.9% from last month's 62.8% (and 62.7% in May). The average work week was flat at 34.5 hours, as expected. Average Hourly Wages increased 0.3%, also as expected, to USD 26.36 (from USD 26.25), and the year-over-year gain remained at 2.5%. The overall takeaway from the Street was of another solid, slow-moving advance, with markets not reacting. The JOLTS June Report posted 6.163 million jobs currently open and ready to be filled, up from May's 5.7 million and much higher than the expected 5.6 million.

In U.S. economics, the July Manufacturing PMI came in at 53.3, slightly ahead of the 53.2 expectation (and up from June's 52.0%), while the ISM Manufacturing Index declined to 56.3 (56.2 was expected) from June's 57.8. The July Services PMI came in at 54.7, up from 54.2 in June, and the ISM non-

Manufacturing Index came in at 53.9, lower than the expected 56.9 and the 57.4 posted in June. The PPI posted a 0.1% decline for July, when it was expected to increase 0.1%, and the year-over-year rate was up 1.9%. The August PMI Flash Report came in at 56.0 when a lower 54.3 was expected, and Manufacturing came in at 52.5 (53.2 expected), with Services at 56.9 (when 54.8 was expected). The July CPI came in up 0.1%, when a 0.2% gain was expected, and the year-over-year rate was 1.7%. Core CPI also increased 0.1% when 0.2% was expected, with the year-over-year rate also at 1.7%. Industrial Production rose 0.2% for July, when 0.3% was expected, and capacity utilization was flat, as expected, at 76.7%. Construction Spending for June came in down 1.3%, when a gain of 0.5% was expected; the year-over-year rate was up 1.6%. Factory Orders for June came in 3.0% higher, when a 2.7% gain was expected; June's originally reported 0.8% decline was restated up to a 0.3% decline. The Wholesale Trade Report for June posted a 0.7% gain, slightly ahead of the 0.6% estimate. The Q2 2017 Productivity and Cost Report posted a 0.9% gain, significantly up from the restated 0.1% Q1 2017 level (originally released as flat). Unit Labor Costs increased 0.6%, less than the estimated 1.3%, as the prior quarter was restated to 5.4% from the originally reported 2.2%. Imports for July posted a 0.1% gain, as expected, and the year-over-year rate was 1.5%; exports increased 0.4%, when a 0.2% gain was expected, with a year-over-year rate of 0.8%. Personal Income for June came in flat when it was expected to increase 0.4%, and May was restated down to a 0.3% gain from the originally reported 0.4% gain. Consumer Spending for June gained 0.1%, as expected. Corporate Profits were up 8.1% year-over-year. Personal Income for July posted a 0.4% gain, as expected, and Consumer Spending increased 0.3%, when a 0.4% gain was expected. The July PCE Price Index increased 0.1%, as expected, and the year-over-year rate was 1.4%; Core PCE was also up 0.1%, with the year-over-year rate up 1.4%. Vehicle Sales for July declined, as Ford (F; down 2.8% for the week) said its sales declined 7.4% for the month, and General Motors (GM; off 1.2% for the week) reported a 15.4% decline. July retail sales increased 0.6%, when a lower 0.3% was expected; June was restated to 0.3%, when it originally was reported at -0.2%. Durable Goods Orders for July declined 6.8%, when a 5.8% decline was expected, and the year-over-year rate was up 4.2%. July's International Trade in Goods posted a 1.3% decline in exports, and imports fell 0.3%, with the resulting trade deficit at USD 65.1 billion. Advance Retail Inventories for July declined 0.2% (after a 0.6% June gain), and Wholesale Inventories gained 0.4% after a 0.6% June gain. Consumer Confidence for August came in at 122.9, beating the 120.6 estimate, as July was restated down to 120.0 from the originally reported 121.1 level. Q2 2017 GDP came in stronger than expected, at 3.0% when 2.8% was expected, and Real Consumer Spending was up 3.3% for the quarter.

Pending Home Sales for June posted a 1.5% gain, when a lower 0.9% gain was expected. Housing starts for July missed their annualized 1.225 million units, coming in at 1.155 million, as permits almost matched their estimate, posting an annualized 1.223 million units. New Home Sales for July missed the expected 610,000 annualized rate, coming in at 571,000 units. Existing Home Sales for July came in at an annualized 5.44 million units when 5.65 million were expected, representing a 1.3% monthly decline, and the year-over-year rate was up 2.1%. Pending Home Sales for July posted a 0.8% decline, when a 0.4% gain was expected. The FHFA Housing Price Index for June increased 0.1%, when a 0.5% gain was expected, and the year-over-year gain was 6.5%. The August Housing Market Index came in at 68, beating the expected 65 level. The S&P CoreLogic Case-Shiller Home Price Index for June posted a 0.7% gain, with a year-over-year rate of 5.8% (up from May's 5.7%)

It was a good earnings season, as bottom-line and top-line numbers beat expectations and supported the market. With Q2 2017 reports coming to an end, the posted results showed that 500 issues (the S&P 500 has 500 companies, but 505 issues) had reported, with 352 issues beating their operating

earnings estimates (70.4%; the historical average is 67%), 101 missing (20.2%), and 47 meeting (9.4%). Information technology had the best record, with 57 of 67 issues beating estimates (85.1%), and health care was next, reporting 49 beats from the 60 reported (81.7%). Real estate did the worst, as 15 of 31 issues beat (48.4%), and 20 of 34 energy issues beat (58.8%). The quarter is set to post a new earnings record, replacing the Q3 2014 record. On the sales front, the results remained positive, although retail has been disappointing, with 344 of 498 issues beating—a 69.1% rate. September earnings news will start to look toward the third quarter, as estimates have ticked down 1.6% and are projected to increase 7.7% over Q2 2017; this would set another earnings record, and a 14.6% increase over Q3 2016 is expected. Company guidance and analyst changes typically make the news and could affect trading on a sub-industry level.

Interest rates moved down in August, as comments from the U.S. Fed led to expectations of slower interest rate increases. The 10-year U.S. Treasury Bond closed at 2.12%, down from last month's 2.29% and down from year-end 2016's 2.45%. The 30-year U.S. Treasury Bond closed at 2.73%, down from last month's 2.90% (3.07% at year-end 2016). The euro closed at 1.1904, up from last month's 1.1833 (1.0520 at year-end 2016); the British pound sterling closed at 1.2929, down from last month's 1.3194 (1.2345); the yen closed at 109.95 from last month's 110.29 (117.00; reverse reference, which is usually used); and the yuan closed at 6.5906, down from last month's 6.78266 (6.9448). Gold closed at USD 1,327.90, up from last month's USD 1,276.30 (year-end 2016 USD 1,152.00). Oil moved down, as supply concerns continued, to close the month at USD 47.07 from last month's USD 50.25 (USD 53.89). U.S. gasoline pump prices (all grades) declined, closing the month at USD 2.399, down from last month's USD 2.426 per U.S. gallon (USD 2.419). VIX®, "the fear factor," closed the month at 10.69, up from last month's 10.58 close (14.04 at year-end 2016; 23 before the U.S. Nov. 8, 2016, election), as it traded in a wide range, as high as 17.28 and as low as 9.52.

On an issue level, Apple beat estimates, as its forecast communicated strong expected sales for a future iPhone release, expected on Sept. 12, 2017. Generic drug issue Teva Pharmaceutical (TEVA) declined 36.5% for the month, as prior acquisition costs became a concern, as well as its inability to find a new chief executive. Express package delivery issue FedEx (FDX) said it would not charge extra for holiday deliveries in 2017; competitor UPS (UPS) currently does plan to charge extra. Electric auto maker Tesla (TSLA; up 0.3% for the week) said it planned to raise USD 1.5 billion in bond offerings to finance production; the company currently has USD 7.1 billion outstanding. Fast food restaurant McDonald's (MCD) said it will open 2,000 new restaurants in China, bringing the total to 4,500 by 2022. Investor Bill Ackman has taken a position in payroll and services issue ADP (ADP), seeking board representation. Entertainment issue Walt Disney (DIS) missed on sales and said it would launch a streaming service and remove its content from Netflix (NFLX). Web retailer Amazon (AMZN) sold USD 16 billion in debt offerings to finance its Whole Foods (WFM) acquisition. After the acquisition, Amazon reduced prices on 100 items, as it set up Amazon Prime specials. The U.S. Air Force announced its planned USD 500 billion replacement of the Minuteman Missile system, with Boeing (BA) and Northrop Grumman (NOC) among the first contracts signed. Car riding services issue Uber appointed Expedia's (EXPE) Dara Khosrowshahi as CEO, after a nine-week search; in a speech he said Uber could do an IPO in 18-36 months and has a current value of USD 62.5 billion.

## INDEX REVIEW

### S&P 500

As for August, the S&P 500 was in the red for most of the month, but pulled through at the end, managing a slight gain, as slow trading was the norm. For the month, the S&P 500 posted a gain of 0.05% (0.31% with dividends), down from last month's broad increase of 1.93%, and the YTD return was 10.40% (11.93% with dividends). From the Nov. 8, 2016, election, the index was up 15.52% (17.51% with dividends), which left most investors happy and content, even if they are concerned and wary—with good reason to be concerned, as September brings the Big 3 (debt limits, budgets, and income tax reform).

Of the 11 sectors, 5 gained for the month, down from all 11 last month (five were up in June). Information technology did the best, up 3.24%, and Apple (AAPL) added 10.3%, closing at a new high; absent Apple, information technology would have been up 1.89%, and the 0.05% S&P 500 gain would have been a 0.33% decline. Year-to-date, information technology was up 25.27%, the best of any sector, and it was up 22.31% absent Apple's 41.6% gain. Utilities posted a strong month, adding 2.68%, as risk-off was on for a while, and the sector was up 12.34% YTD. Health care added 2.68% and was up 17.74% YTD, as healthcare legislation appeared to leave the room. The gain pushed the sector up to be the second largest in the index (behind information technology); it passed financials, which declined 1.85% on lower rates and was up 5.67% YTD (but up 23.12% from the U.S. Nov. 8, 2016, election). Energy did the worst, off 5.71% for the month and down 16.75% YTD, the worst of any group. The main difficulty still appears to be the supply of oil, as its price continued to decline. The closing of some refineries and delivery pipelines due to Hurricane Harvey is seen as helping short-term gasoline prices, but as long as supply remains high, the pressure will remain (OPEC and non-OPEC producers are scheduled to meet in Vienna on Sept. 22, 2017). Telecommunication services declined 3.09% for the month and was down 11.19% YTD, as competition and margin pressure continued.

Breadth turned negative, even as the overall market posted a slight gain. For the month, 232 issues gained (an average of 3.80% each), down from last month's strong 326 (349 the prior month), with 12 of them down at least 10% (10 last month); 272 were down (an average decline of 5.65%), up from July's 179, with 44 of them down at least 10% (15 last month). Year-to-date, breadth remained strongly positive; 331 issues were up, with 101 of them up at least 25%, and 171 issues were down, with 30 of them down at least 25%.

### The Dow®

Similar to the S&P 500, the Dow Jones Industrial Average struggled for the month; it set two new closing highs early in the month (the last one on Aug. 7, 2017, at 22,119.42) but then fell victim to slow trading and geopolitical issues.

For the month, The Dow closed at 21,048.10, up 0.26% (0.65% with dividends) from last month's 21,891.12, when it was up 2.54%, with June up 1.62%. The low return, however, was the best of any of the headline indices covered here; the S&P 500 barely managed to stay positive, and the S&P MidCap 400 and S&P SmallCap 600 were in the red for August.

Year-to-date, The Dow was up 11.06% (13.01% with dividends), also the best of the group, and the one-year change was up 19.28% (22.29% with dividends), with The Dow again leading the pack. The five-year return was 90.04%, slightly trailing the other three indices.

For the month, it was all Apple—literally, as Apple's 10.3% gain (the best in The Dow) represented 184% of The Dow's gain, meaning excluding Apple, The Dow was down 0.23%. Similarly, The Dow's 11.06% YTD gain would have been 5.38% without Apple's 41.6% gain—all nice for the upside. September, however, may be doubling down on Apple, as part of the run-up is due to their scheduled Sept. 12, 2017, event, at which most expect the new iPhone 8 to make its first appearance. There has been a great deal of expectation concerning the iPhone 8 this year, with the impact on the index also being a "great deal."

Other information technology issues also did well; charge card issue Visa (V) added 3.98% for the month (up 32.68% YTD) and software issue Microsoft (MSFT) gained 2.85% (up 20.33% YTD). Consumer discretionary issues slid, as athletic footwear and apparel issue NIKE (NKE) declined 10.57% but remained up 3.90% YTD, and Disney fell 7.94% for the month and headed into the red YTD, off 2.90%. Notably, insurance issue Travelers (TRV) fell 5.39%, as Hurricane Harvey hit the Texas area; the issue was down 1.01% YTD.

For the month, 14 issues gained (an average of 2.80% each) and 16 declined (an average loss of 2.72%); year-to-date, 21 were up (an average of 17.77%), with nine down (an average 9.34% decline).

Of note, E I du Pont de Nemours (DD) was merged into merged into Dow Chemical (DOW) on Sept. 1, 2017, which then changed its name to DowDuPont (DWDP). Du Pont was added to the Dow Jones Industrial Average in 1920, taken out in 1925, and then added back into the index in 1937. Dow Chemical was never in the DJIA. After the merger, DowDuPont will take duPont's place in The Dow.

## **S&P MidCap 400**

The S&P MidCap 400 posted a 1.69% decline for the month, after July's 0.80% gain and June's 1.45% gain; it posted a 0.53% three-month gain, the worst of the headline indices, with its YTD return up 4.23%—ahead of the S&P SmallCap 600's 0.29% but behind the S&P 500's 10.40%.

Of the 11 sectors, two posted gains, down from eight last month and six in June. Utilities did the best, as investors sought refuge, up 1.24% for the month and up 8.73% YTD. Materials was the other positive sector, up 0.048% for the month and up 9.10% YTD. Energy did the worst, as oil prices declined along with the need for services and specialty equipment, falling 8.19% for the month and down 35.36% YTD, the worst of any mid-cap sector. Consumer staples fell 4.69% and was off 4.56% YTD, while consumer discretionary lost 3.18% but remained positive YTD, up 1.88%. Financials declined 3.57%, and the sector was in the red YTD, off 0.49%.

Breadth turned strongly negative, as 148 issues gained (an average gain of 4.53% each), down from last month's 228 and June's 256 gainers; 251 issues declined (an average fall of 6.73%), up from July's 168 and June's 144. Moves of at least 10% increased overall, as 14 gained at least 10% (an average of 14.74% each), down from July's 28 issues, but 56 fell at least 10% (average loss of 16.14%), up from July's 23. Year-to-date, breadth remained positive, but declined, as 204 issues were up (232 were up in July), and 192 issues declined (163 were down in July).

## **S&P SmallCap 600**

After doing the best of any of the headline indices in July (up 3.78%) and June (up 2.85%), the S&P SmallCap 600 pulled back 2.69% in August, doing the worst of any group. The loss left the three-month gain at 0.99% and the YTD return at a minimal 0.29%, the lowest of the four indices. The index was up 11.60% for the one-year period, better than the S&P MidCap 400 but less than the S&P 500.

The decline was widespread, as 3 of the 11 sectors gained, down from 10 last month. Telecommunication services did the best, rebounding 6.09%, and it was positive YTD, up 2.07%. Utilities did well, up 3.03%, as safety and yield were appreciated; the sector was up 16.22% YTD. Health care was the third positive sector for the month, up 1.97% and up 20.39% YTD, the best small-cap sector. On the down side was, again, energy, which declined 9.54%; year-to-date, its loss grew to 42.56%, the worst return of any sector in any of the headline indices. Consumer groups did poorly, as consumer staples fell 1.86% and was off 2.68% YTD, while consumer discretionary declined 4.64% and was off 1.26% YTD. Financials fell 5.02%, posting a 6.83% YTD loss.

For the month, breadth turned negative, with 220 issues gaining (an average of 7.66% each), down from July's 324 issues and June's 424, and 381 issues declined (an average loss of 8.98%), up from last month's 274 issues and June's 172. There were 59 issues that gained at least 10% (an average of 17.95%), the same as in July (101 in June), as 117 (59 in July and 32 in June) issues fell at least 10% (with an average loss of 19.22%). Significant movements had 14 issues up at least 25% (nine last month), with 26 down at least 25% (versus nine last month). Year-to-date, breadth remained negative; 252 issues were up (298 last month) and 347 were down (300 last month), and 102 issues were up at least 25% and 112 were down at least 25%.

## **S&P Global BMI**

Global markets managed a small gain, extending their streak to 10 consecutive months of gains. For August, the S&P Global BMI increased 0.17%, with 30 of the 47 markets gaining, compared with 44 gainers in July (and 30 in June).

The U.S. continued as a sub-par performer, posting a 0.04% decline after last month's 1.79% gain, as global markets posted a gain of 0.38% excluding the U.S. For the three-month period, global markets gained 3.25%, and the U.S. posted a sub-par 2.52%, leaving the index up 3.99% excluding the U.S. A similar statistic was posted for the YTD return, as global markets were up a double-digit 13.31%, and absent the U.S.'s 9.83% return, they were up 17.08%. The non-U.S. global gains continued to outperform the U.S. gain from the post-election period since Nov. 8, 2016—non-U.S. markets gained 16.68% and the U.S. gained 15.82%. Over the longer term, the U.S. still dominates the gains. The global three-year return was 11.60%, but absent the U.S.'s 22.12%, the three-year return was 1.66%.

Sectors varied greatly, as 6 of the 11 posted gains. Energy continued to decline, off 3.13% for the month and down 10.36% YTD, the worst of any sector. Utilities did the best in August, up 2.57% and up 14.90% YTD. Information technology increased 2.44% and boasted a 27.72% YTD gain, the best of any sector.

Emerging markets not only continued to do better than developed, but they posted a broad 2.78% gain after last month's 5.53% increase (June was up 1.19%). Breadth remained strong, although it declined, as 17 of the 22 markets posted gains, down from 20 last month (15 in June). For the three-month



period, emerging markets added 8.98%; their YTD gain was 24.96%, bringing their one-year gain to 21.15%. Their gain over the two-year period was 33.38%, and their three-year return was only 1.54%—showing the volatility of the period. Russia did the best, up 8.53%, remaining in the red YTD, off 1.87%. Hungary was next, with a 7.32% gain and up 32.91% YTD, and Peru added 6.72% and was up 22.11% YTD. China added 3.71%, and Greece continued up but added a sub-par 0.83%; it was up 32.72% YTD but still down 57.15% over the three-year period. Qatar did the worst, off 9.73%, and it remained down 14.38% YTD, the worst of any market. The Philippines fell 2.24% and was up 12.04% YTD, and the U.A.E. declined 0.91% but remained up 3.34% YTD.

Developed markets posted a 0.13% decline, and that decline increased to 0.24% absent the U.S.; last month, developed markets posted a broad 2.30% advance, up 2.54% excluding the U.S. (June was up 0.97%). For the month, 13 of the 26 markets gained, down from last month's 23 and 15 in June. Developed markets were up 2.62% for the three-month period (2.73% excluding the U.S.), up 12.10% YTD (115.14%), and up 16.31% from the Nov. 8, 2016, election (16.90%). Denmark did the best, up 3.24% for the month and up 30.96% YTD. Portugal was next, adding 2.51% for the month and it up 21.99% YTD, but it was still down 19.50% over the three-year period. Norway added 1.94% and was up 14.55% YTD, as Italy posted a 1.36% August gain and was up 27.03% YTD, but it was down 2.77% over the three-year period. Israel did the worst, off 10.69% (led down by Teva Pharmaceutical), but it remained positive YTD, up 0.52%. The UK fell 1.72%, trimming its YTD return to a 9.35% gain, with Korea falling 2.21% but up 26.42% YTD. Germany added 0.65% for the month (up 18.89% YTD) and Japan gained 0.29% (up 12.34% YTD).

## PERFORMANCE RECAP

Exhibit 2: Monthly Returns							
S&P 500	PRICE	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	FR 12/99 (%)
Energy	461.61	-5.71	-16.75	-8.67	-35.50	-13.48	117.00
Materials	344.67	0.77	10.41	13.24	8.36	53.26	115.47
Industrials	582.01	-0.17	8.17	14.96	25.43	85.06	112.90
Consumer Discretionary	712.13	-2.00	9.93	11.51	30.71	98.30	137.93
Consumer Staples	561.81	-1.27	5.65	1.00	21.13	53.53	170.04
Health Care	938.28	1.64	17.74	11.80	27.21	109.33	187.13
Financials	408.45	-1.86	5.67	23.67	30.08	100.82	26.96
Information Technology	1012.14	3.24	25.27	29.28	52.22	107.07	25.35
Telecommunication Services	156.85	-3.08	-11.19	-8.92	-2.32	3.67	-51.41
Utilities	277.28	2.68	12.34	11.59	26.79	51.30	94.67
Real Estate	202.98	0.86	6.70	-0.76	15.34	36.10	-
S&P 500	2471.65	0.05	10.40	13.85	23.37	75.72	68.23
DOW JONES INDUSTRIAL AVERAGE	PRICE	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	FR 12/99 (%)
Dow Jones Industrial Average	21948.10	0.26	11.06	19.28	28.36	67.66	90.90
S&P MIDCAP 400	PRICE	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	FR 12/99 (%)
Energy	328.01	-8.19	-35.36	-27.06	-65.42	-49.70	86.94
Materials	467.08	0.48	9.10	16.70	21.59	75.13	320.91
Industrials	885.82	-1.07	5.63	18.11	23.42	104.98	397.60
Consumer Discretionary	687.83	-3.18	1.88	2.84	6.87	60.52	245.79
Consumer Staples	1613.32	-4.69	-4.56	-6.85	11.33	114.96	826.04
Health Care	1550.55	-0.38	18.61	17.35	52.16	159.32	776.44
Financials	898.46	-3.57	-0.49	14.67	34.16	78.04	171.56
Information Technology	2148.25	-0.11	15.54	24.87	42.95	95.66	154.94
Telecommunication Services	169.28	-1.59	-35.37	-33.05	-37.90	-12.61	-64.22
Utilities	531.08	1.24	8.73	14.35	28.16	75.17	283.40
Real Estate	226.64	-1.46	-1.11	-	-	-	-
S&P MidCap 400	1730.88	-1.69	4.23	10.62	20.35	78.16	289.25
S&P SMALLCAP 600	PRICE	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	FR 12/99 (%)
Energy	440.05	-9.54	-42.56	-28.95	-75.42	-62.19	183.17
Materials	462.29	-1.97	-4.83	16.17	-3.85	59.99	235.33
Industrials	904.65	-2.40	-0.77	10.93	25.27	92.06	352.46
Consumer Discretionary	477.07	-4.64	-1.26	5.71	11.84	63.97	252.00
Consumer Staples	1603.85	-1.86	-2.68	-0.83	27.14	83.96	704.54
Health Care	2110.34	1.97	20.39	19.97	59.04	150.12	1065.68
Financials	926.84	-5.03	-6.83	12.82	31.20	68.83	216.42
Information Technology	649.14	-3.39	6.80	21.14	58.32	149.30	137.37
Telecommunication Services	2.96	6.09	2.07	20.82	27.86	22.07	-95.97
Utilities	963.32	3.03	16.22	22.51	60.54	94.21	413.22
Real Estate	204.09	-2.04	1.53	-	-	-	-
S&P SmallCap 600	840.43	-2.69	0.29	11.60	25.09	83.54	324.91

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

**Exhibit 3: Total Returns**

INDEX	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
S&P 500	0.31%	11.93	16.23	31.45	95.43	108.25
S&P MidCap 400	-1.53%	5.28	12.37	26.23	92.46	133.82
S&P SmallCap 600	-2.57%	1.13	13.11	30.41	96.12	128.68
S&P Composite 1500	0.09%	11.08	15.87	31.04	95.32	111.06
Dow Jones Industrial Average	0.65%	13.01	22.29	38.48	90.04	114.40

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Exhibit 4: S&P Global BMI, Emerging, Sorted by August Performance**

BMI MEMBER	1-MONTH (%)	3-MONTH (%)	YTD (%)	1-YEAR (%)	2-YEAR (%)	3-YEAR (%)
Global	0.17	3.25	13.31	14.95	20.99	11.50
Global Ex-U.S.	0.38	3.99	17.08	16.10	17.75	1.66
Emerging	2.78	8.98	24.96	21.15	33.38	1.54
Russia	8.53	4.83	-1.87	18.38	35.55	-8.16
Hungary	7.32	17.79	32.91	45.46	90.46	95.46
Peru	6.72	15.37	22.11	28.20	69.49	10.67
Brazil	6.37	15.93	21.06	23.11	65.75	-25.37
Poland	5.91	13.63	48.31	51.02	28.72	2.30
Chile	5.49	13.83	29.80	33.20	42.79	14.83
Turkey	3.97	14.34	40.88	21.64	21.62	-15.38
South Africa	3.73	5.96	16.51	17.67	13.46	-5.98
China	3.71	13.26	34.84	28.89	40.80	22.40
Thailand	2.88	6.54	13.13	8.30	26.14	-0.95
Colombia	2.36	2.80	12.28	8.20	25.33	-42.32
Czech Republic	1.98	6.17	24.50	23.73	-1.16	-11.92
Taiwan	1.60	5.92	23.76	23.01	39.47	9.86
Egypt	1.50	2.35	10.88	-16.95	-17.18	-41.59
Malaysia	0.88	0.81	15.45	1.61	13.13	-28.34
Greece	0.83	9.92	32.72	44.15	14.96	-57.15
Mexico	0.53	10.04	28.54	12.90	8.91	-18.99
Indonesia	-0.05	1.78	10.71	4.64	34.65	-5.58
India	-0.42	6.03	31.90	21.45	34.02	28.16
U.A.E.	-0.91	5.45	3.34	3.93	-4.09	-24.91
Philippines	-2.24	-1.79	12.04	-6.35	5.43	-2.35
Qatar	-6.52	-10.88	-14.38	-16.97	-19.51	-33.41

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

**Exhibit 5: S&P Global BMI, Developed, Sorted by August Performance**

<b>BMI MEMBER</b>	<b>1-MONTH (%)</b>	<b>3-MONTH (%)</b>	<b>YTD (%)</b>	<b>1-YEAR (%)</b>	<b>2-YEAR (%)</b>	<b>3-YEAR (%)</b>
Developed	-0.13	2.62	12.10	14.27	19.70	12.56
Developed Ex-U.S.	-0.24	2.73	15.14	14.82	14.20	1.56
Denmark	3.24	8.97	30.96	16.90	17.28	28.04
Portugal	2.51	3.31	21.99	15.52	9.90	-19.50
Norway	1.94	11.88	14.55	23.26	21.98	-21.39
Italy	1.36	9.57	27.03	35.64	5.28	-2.77
Austria	1.11	9.36	40.64	49.20	47.72	30.38
Sweden	1.06	3.02	18.90	18.92	18.62	8.89
France	1.03	2.19	20.13	24.06	19.15	9.33
Hong Kong	0.99	4.12	20.94	13.97	20.10	4.44
Ireland	0.66	0.62	15.92	12.33	11.45	33.43
Germany	0.65	1.77	17.87	19.62	20.18	10.54
Finland	0.50	2.31	19.77	19.60	25.54	12.41
Japan	0.29	3.43	12.34	13.58	16.07	18.67
Canada	0.15	6.75	6.27	9.21	16.92	-16.47
Luxembourg	-0.03	8.42	15.65	21.40	12.80	-15.94
United States	-0.04	2.52	9.83	13.80	24.09	22.12
Australia	-0.62	6.82	10.86	11.48	24.09	-13.85
Netherlands	-0.64	4.56	25.92	24.78	28.26	28.61
Switzerland	-0.86	0.09	16.45	13.17	6.82	3.84
Belgium	-0.94	3.07	16.52	8.32	16.01	14.29
Spain	-1.24	0.55	24.27	25.48	6.35	-14.22
Singapore	-1.29	3.72	20.42	16.66	19.33	-9.12
United Kingdom	-1.72	-1.34	9.35	8.11	-1.08	-14.16
Korea	-2.21	0.85	26.42	16.87	33.59	4.46
New Zealand	-3.23	5.69	14.34	-0.05	45.29	14.00
Israel	-10.69	-9.27	0.52	-10.26	-18.22	-14.62

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

**Exhibit 6: Price-to-Earnings Ratios**

INDEX	2014	2015	2016	ESTIMATED 2017
S&P 500	14.73	22.69	23.26	19.47
S&P 500 Consumer Discretionary	16.89	22.17	21.39	20.57
S&P 500 Consumer Staples	15.96	22.18	22.18	20.70
S&P 500 Energy	12.03	-38.97	-132.27	32.97
S&P 500 Financials	13.46	16.83	17.17	14.58
S&P 500 Health Care	14.68	21.02	22.11	19.16
S&P 500 Industrials	14.76	19.49	21.50	18.73
S&P 500 Information Technology	14.19	22.20	26.65	20.70
S&P 500 Materials	16.20	38.50	26.47	19.68
S&P 500 Telecommunication Services	43.21	14.02	15.91	13.71
S&P 500 Utilities	14.84	22.21	20.28	19.12
S&P 500 Real Estate	-	-	-	38.52
INDEX	2014	2015	2016	ESTIMATED 2017
S&P MidCap 400	18.71	30.41	26.82	20.84
S&P 400 Consumer Discretionary	18.19	20.80	18.12	16.10
S&P 400 Consumer Staples	16.80	23.84	22.92	20.82
S&P 400 Energy	22.82	-4.95	-6.18	224.66
S&P 400 Financials	18.61	25.05	20.05	15.92
S&P 400 Health Care	21.24	27.39	31.07	24.88
S&P 400 Industrials	15.55	21.56	22.05	19.58
S&P 400 Information Technology	23.60	40.03	36.00	23.66
S&P 400 Materials	17.93	28.08	26.12	17.40
S&P 400 Telecommunication Services	34.07	13.29	53.07	-14.00
S&P 400 Utilities	15.52	23.42	21.81	21.64
S&P 400 Real Estate	-	-	-	31.92
INDEX	2014	2015	2016	ESTIMATED 2017
S&P SmallCap 600	22.04	42.43	32.83	23.69
S&P 600 Consumer Discretionary	21.45	23.16	19.99	18.48
S&P 600 Consumer Staples	18.26	20.41	21.08	23.14
S&P 600 Energy	77.57	-2.48	-3.70	-44.72
S&P 600 Financials	20.10	26.37	20.13	17.19
S&P 600 Health Care	21.59	43.30	152.15	63.26
S&P 600 Industrials	17.85	24.72	24.39	20.65
S&P 600 Information Technology	31.37	41.01	38.30	23.80
S&P 600 Materials	22.56	46.69	24.22	19.47
S&P 600 Telecommunication Services	24.20	36.50	42.29	74.00
S&P 600 Utilities	16.69	23.40	27.01	25.97
S&P 600 Real Estate	-	-	-	32.81

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Exhibit 7: Operating EPS Changes**

INDEX	Q2 2016 OVER Q2 2015 (%)	Q3 2016 OVER Q3 2015 (%)	Q4 2016 OVER Q4 2015 (%)	Q1 2017 OVER Q1 2016	Q2 2017E OVER Q2 2016	2016 OVER 2015 (%)	2017E OVER 2016 (%)
S&P 500	-1.68	12.78	20.99	20.23	18.72	5.78	19.47
S&P 500 Consumer Discretionary	12.48	5.69	1.92	4.55	1.75	9.40	3.96
S&P 500 Consumer Staples	-1.25	8.99	8.83	4.90	6.19	4.15	7.15
S&P 500 Energy	-303.92	119.25	105.00	243.17	233.50	74.54	501.15
S&P 500 Financials	-6.19	17.25	16.50	24.86	27.84	3.43	17.74
S&P 500 Health Care	13.02	11.47	10.97	0.29	7.68	9.61	15.39
S&P 500 Industrials	2.59	-2.98	-7.62	8.33	12.46	-3.29	14.81
S&P 500 Information Technology	-6.66	2.78	13.28	28.27	30.83	0.00	28.75
S&P 500 Materials	29.55	198.40	674.29	176.65	-0.41	53.54	34.49
S&P 500 Telecommunication Services	-34.69	-9.09	-26.59	-3.57	45.83	-18.91	16.02
S&P 500 Utilities	-9.76	15.19	1400.00	2.46	14.18	21.51	6.07
S&P 500 Real Estate	-	-	-	-	-	-	-
INDEX	Q2 2016 OVER Q2 2015 (%)	Q3 2016 OVER Q3 2015 (%)	Q4 2016 OVER Q4 2015 (%)	Q1 2017 OVER Q1 2016	Q2 2017E OVER Q2 2016	2016 OVER 2015 (%)	2017E OVER 2016 (%)
S&P MidCap 400	10.45	17.84	54.76	34.11	21.12	16.33	28.71
S&P 400 Consumer Discretionary	13.68	16.43	13.17	7.07	19.79	16.22	12.51
S&P 400 Consumer Staples	-4.13	-3.77	4.23	1.16	0.33	-1.84	10.09
S&P 400 Energy	45.63	68.94	66.05	101.77	116.18	46.60	102.75
S&P 400 Financials	0.73	44.52	43.21	50.32	47.46	23.34	25.95
S&P 400 Health Care	8.62	-14.98	-11.62	1.12	-33.91	-0.04	24.86
S&P 400 Industrials	2.50	4.97	-8.27	3.85	7.59	0.95	12.57
S&P 400 Information Technology	22.07	44.10	33.38	68.15	30.80	25.83	52.11
S&P 400 Materials	23.45	37.16	38.99	93.36	32.97	12.24	50.17
S&P 400 Telecommunication Services	4.13	-82.86	-400.00	-450.00	-267.40	-84.76	-479.00
S&P 400 Utilities	0.25	5.44	55.19	14.54	0.00	15.08	0.78
S&P 400 Real Estate	-	-	-	-	-	-	-
INDEX	Q2 2016 OVER Q2 2015 (%)	Q3 2016 OVER Q3 2015 (%)	Q4 2016 OVER Q4 2015 (%)	Q1 2017 OVER Q1 2016	Q2 2017E OVER Q2 2016	2016 OVER 2015 (%)	2017E OVER 2016 (%)
S&P SmallCap 600	21.83	55.56	37.74	34.14	15.81	30.21	38.55
S&P 600 Consumer Discretionary	13.33	-4.69	48.74	-19.44	-6.39	17.47	8.17
S&P 600 Consumer Staples	8.70	10.61	-34.26	-40.92	-1.49	-1.26	-8.91
S&P 600 Energy	43.87	78.34	77.89	85.61	95.50	61.30	91.73
S&P 600 Financials	19.08	31.68	24.71	40.02	12.00	24.70	17.12
S&P 600 Health Care	-29.82	-89.44	-116.95	-119.35	-99.22	-65.95	140.52
S&P 600 Industrials	10.13	15.15	-23.24	21.23	-5.68	0.41	18.09
S&P 600 Information Technology	3.99	12.50	27.97	92.43	41.18	11.51	60.94
S&P 600 Materials	100.00	68.66	421.43	84.11	17.57	85.16	24.36
S&P 600 Telecommunication Services	0.00	-33.33	0.00	-150.00	-50.00	-12.50	-42.86
S&P 600 Utilities	10.90	103.56	-20.45	0.51	58.27	1.54	3.98
S&P 600 Real Estate	-	-	-	-	-	-	-

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

**Exhibit 8: Breadth of Change (Issues With Monthly Price Changes as Described by Type)****S&P 500**

TYPE	AUGUST 2017	AVERAGE % CHANGE	3-MONTH	AVERAGE % CHANGE	YTD	AVERAGE % CHANGE
Up	232	3.80	293	7.94	331	20.58
Down	273	-5.65	208	-7.90	171	-14.07
Up >= 10%	12	13.62	85	16.46	243	26.11
Down <= -10%	44	-14.72	61	-17.38	86	-23.52
Up >= 25%	0	0.00	11	32.79	101	39.73
Down <= -25%	2	-25.98	9	-29.98	30	-36.41
Up >= 50%	0	0.00	1	55.11	18	64.80
Down <= -50%	0	0.00	0	0.00	1	-50.30

**S&P MIDCAP 400**

TYPE	AUGUST 2017	AVERAGE % CHANGE	3-MONTH	AVERAGE % CHANGE	YTD	AVERAGE % CHANGE
Up	148	4.53	209	8.66	204	19.36
Down	251	-6.73	190	-9.57	192	-15.80
Up >= 10%	14	14.74	68	17.46	134	26.85
Down <= -10%	56	-16.14	75	-18.06	103	-25.16
Up >= 25%	0	0.00	9	32.29	59	40.13
Down <= -25%	6	-27.77	15	-31.57	39	-40.23
Up >= 50%	0	0.00	1	58.28	11	69.41
Down <= -50%	0	0.00	0	0.00	8	-57.77

**S&P SMALLCAP 600**

TYPE	AUGUST 2017	AVERAGE % CHANGE	3-MONTH	AVERAGE % CHANGE	YTD	AVERAGE % CHANGE
Up	220	7.66	325	12.57	252	29.36
Down	381	-8.98	276	-13.12	347	-21.35
Up >= 10%	59	17.95	150	21.95	176	39.80
Down <= -10%	117	-19.22	131	-22.43	232	-29.42
Up >= 25%	14	32.75	41	38.56	102	56.14
Down <= -25%	26	-33.06	40	-35.92	112	-42.80
Up >= 50%	1	51.88	5	58.16	43	84.80
Down <= -50%	2	-56.69	4	-56.53	30	-61.57

**DOW JONES INDUSTRIAL AVERAGE**

TYPE	AUGUST 2017	AVERAGE % CHANGE	3-MONTH	AVERAGE % CHANGE	YTD	AVERAGE % CHANGE
Up	14	2.80	18	7.65	21	17.77
Down	16	-2.72	12	-3.38	9	-9.34
Up >= 10%	1	10.27	5	15.05	13	24.27
Down <= -10%	1	-10.57	1	-10.34	4	-15.43
Up >= 25%	0	0.00	1	27.73	5	37.27
Down <= -25%	0	0.00	0	0.00	0	0.00
Up >= 50%	0	0.00	0	0.00	1	53.94

Source: S&P Dow Jones Indices LLC. Data as of Aug. 31, 2017. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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