

## U.S. Equities May 2017

### KEY HIGHLIGHTS

- The [S&P 500®](#) gained 1.16% in May, bringing its YTD return to 7.73%.
- The [Dow Jones Industrial Average®](#) returned 0.33% for the month and was up 6.31% YTD.
- The [S&P MidCap 400®](#) was down 0.64% for the month and up 3.68% YTD.
- The [S&P SmallCap 600®](#) returned -2.25% in May, with a -0.69% return YTD.

Exhibit 1: Index Returns

INDEX	1-MONTH (%)	YTD (%)	1-YEAR (%)
S&P 500	1.16	7.73	15.01
Dow Jones Industrial Average	0.33	6.31	18.11
S&P MidCap 400	-0.64	3.68	15.31
S&P SmallCap 600	-2.25	-0.69	18.01

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

### MARKET SNAPSHOT

In May, the S&P 500 posted seven new closing highs, global politics increased in opposing positions, and terrorism continued across Europe and the Middle East, along with a few missile launches thrown in from Asia (and one anti-missile test from the U.S.). There was some fear but no surrender from politics or terrorism, and there was absolutely no fear in the official VIX® equity market “fear gauge,” as it traded at a low of 9.56, a level not seen since December 2006 (9.39), compared to October 2008’s 89.53 high, August 2015’s 53.89 high, or even the 23.01 election high in November 2016. But as the man said, “there is nothing to fear but fear itself,” although naked calls can still be scary, with Spotify’s potential Q1 2018 direct listing with no underwriting scaring brokers and bank CFOs. Sticking to the market gains, they were not limited to the S&P 500, as global non-U.S. markets continued their 2017 gains (helped by inflow), as they now caught up with the U.S. on a post-U.S. election basis. However, over the three-year period, it remained a U.S. recovery, with global markets still in the red compared to double-digit gains in the U.S. However, that is yesterday (as of May 31, 2017’s close), and you can’t buy yesterday.

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*S&P Dow Jones Indices’ Market Attributes® series provides market commentary highlighting developments across various asset classes.*

Left out of the new highs, but still posting gains, was the dear old Dow (last new closing high was on March 1, 2017), which was weighed down by two of its largest weightings: Goldman Sachs (GS) and International Business Machinery (IBM). Of course, Apple (AAPL) did set new highs, which helped, but while it remains the largest public issue in the world, The Dow is price weighted, so Goldman (along with 3M, Boeing, and others) counts more than Apple. This would not be the case if Apple didn't split—then again, not sure how (in terms of mechanics) it could have been added to The Dow if it didn't. The bottom line is that May was profitable for stocks, even as the drama continued, with the key question being how long can the disconnect continue? The answer could be forever, but I think not. June will be a month of investigation for the Trump administration, which is expected to answer the situation with a push on legislation, specifically taxes, which could help support the market (long time with no correction). While health care will try to get through the Senate in June, the dollars may not make cents, and taking away benefits once given appears unlikely. At this point, “repeal and replace” seems like it may be “adjust and delay.” Also making the June highlights will be the FOMC June 13-14, 2017 meeting, with the possibility of the U.S. Fed increasing rates, or they may wait for the July 25-26, 2017 meeting. Hike or no hike, rates haven't moved up this year, meaning the savings on interest costs are still helping EPS, even if buybacks appeared to have slowed their impact on EPS.

The House of Representatives narrowly approved (217 for and 213 against) the “repeal and replace” legislation to the Affordable Care Act (ACA; Obamacare), scoring a victory for Trump and his party. The Congressional Budget Office then scored the legislation reform, concluding that it would save USD 119 billion over 10 years, but increase uninsured individuals by 23 million by the end of 2026. The bill move to the Senate, where it is expected to undergo significant modification, with many seeing it as a change to the existing act rather than as a “repeal and replace.” Congress negotiated a federal funding bill for approximately USD 1.1 trillion to fund the government through the end of September 2017, at which time the deadline starts again. Both sides had some victories in the agreement, with Trump being a bit more vocal about what he did not get, tweeting about a future fight and a potential government shutdown. President Trump's fiscal 2018 budget proposal contained USD 3.6 trillion in tax cuts over the next 10 years, with increases in spending on defense and infrastructure and cuts in spending on Medicaid, food stamps, and social welfare programs. Reports said Secretary of State Tillerson was considering a plan to cut 2,300 state department jobs (of its current 75,000) and to cut the department's budget by 26%. Trump's first international trip started with the Middle East in Riyadh, where he asked countries to confront terror, and Jerusalem, where he preached harmony. Then he moved on to Italy where he met the Pope, as the two tried put the past behind them, and Brussels, where he told the NATO members to pay-up for their military obligation. While the tour was considered a success (via an absence of negatives), remarks from Germany's Merkel spoke of Europe now taking more control of its own future (without the U.S.) Domestic issues continued in the U.S. while Trump was abroad, and they were seen as intensifying, as several investigations continued (Russian connections, Cuomo firing, Flynn connection, etc.), with concern that they were sidelining legislative initiatives.

In central bank activity, the FOMC met and made a unanimous decision to take no action on interest rates, as was expected, but it noted that future conditions seemed accommodative to a rate increase. There was also no change in the current balance sheet policy, as it gave no new indications on when that will start to be unloaded. The Fed noted that labor markets have continued to improve, as economic activity has slowed and underpinning growth has continued. The S&P 500 ticked up just before the announcement, then a little after it, and then it moved back to where it was—resulting in no change (just like the FOMC, for now). The expectation many were left with was for two rate increases

in 2017, one in June (13-14; the favorite) or July (25-26), then another in September (19-20) or November (Oct. 31-Nov. 1, 2017), depending on conditions, with a separate statement for the balance sheet later in the year—November (Oct. 31-Nov. 1) or December (12-13). The FOMC notes were released from the May 3, 2017 meeting, when no action was taken, as some members appeared anxious about increasing rates, leaving the market to expect a June interest rate increase (June 13-14). The Fed also indicated that it would reduce its balance sheet (fixed instruments) later in the year, but gave few details.

In global events, North Korea launched an unsuccessful missile test, which appeared to go against the wishes of North Korea's main ally, China. South Korea elected a new president, Moon Jae-In, who campaigned on new talks with North Korea, as North Korea answered with new missile tests, and the U.S. answered with an anti-missile test; tensions continued to mount. Moderate-independent Macron handily won the French election (66%) against conservative Le Pen, as the pro-national European movement appeared to be stopped (for now). Macron will now need to build a coalition, with assembly elections scheduled for June 11 and 18, 2017. Markets didn't react to the expected result. OPEC (along with others) agreed to extend its oil output cut through March 2018, even as current limitations have not pushed up prices; the market pushed oil prices lower, on what was viewed as a less-than-expected action. Twenty-two people were killed and 59 wounded at a pop concert (Ariana Grande) in Manchester, England, with domestic-grown terrorism blamed (UK born and "radicalized.") The issue became political as information shared between the UK and the U.S. became public, resulting in UK Prime Minister May publicly complaining and Trump calling for an investigation into the leak (with the U.S. admitting it was responsible for the leak). It was the second instance of "leaked" information, after Trump revealed information to Russia that was reportedly supplied by Israel to the U.S. In Egypt, an attack on a bus of Christians heading to a monastery resulted in the death of 29 people, as Egypt launched an air strike at Libyan positions, and a bomb in Afghanistan (Kabul, near the foreign embassies) killed at least 80 people and wounded at least 300.

In employment and layoffs, the ADP Private Employment Report for April came in at 177,000, slightly ahead of the 170,000 that was expected; it had significantly beaten for the past two reports. The April employment report beat estimates, as it posted 211,000 net new jobs, when 185,000 were expected, and it slightly restated March down to 79,000 from the originally reported 98,000. The unemployment rate was expected to increase to 4.6%, but instead it continued to decline, coming in at 4.4%, down from last month's 4.5% and February's 4.7%; it was the lowest rate since May 2007. The participation rate declined to 62.9% from last month's 63.0%. The average work week increased to 34.4 hours, as expected, from last month's 34.3. Average hourly wages moved up 0.3%, also as expected, and were up 2.5% year-over year (up USD 26.19 from USD 26.14). The March JOLTS report posted 5.743 million currently available jobs, a tick higher than the estimate (5.725 million).

In global economics, the official China PMI Manufacturing Index declined to 51.2 (its sixth consecutive decline), and the service component fell to 54.0. The eurozone April IHS Markit's Manufacturing PMI increased to 56.7 from March's 56.2, a six-year high. Moody's Ratings downgraded China's rating to 'A1' (approximate S&P Global Ratings equivalent of 'A+') from 'Aa3' ('AA'), citing concern over the country's slowing economy. Germany's Q1 2017 GDP came in up 0.6% from the prior quarter's 0.4% rate, as the annual rate was 2.4%. Of note, both Venezuela and Puerto Rico continued to have liquidity problems. Mexico said it could trade with China, as it was set to talk with the U.S. on issues. The MSCI is scheduled to announce on June 20, 2017, if it will include China's domestic A-shares in its emerging market index (years in the process).

In U.S. economics, Personal Income for April came in up 0.4%, as expected, and Consumer Spending also increased 0.4%, as expected. The PCE Price Index rose 0.2% (as expected), with the year-over-year rate up 1.7%, while Core PCE increased 0.2% (0.1% was expected), with the year-over-year rate up 1.5%. The PMI Manufacturing Index for April came in at 52.8, as expected, down from March's 53.3, as the ISI Manufacturing Index for April came in at 54.8, lower than the expected 56.5 and lower than March's 57.2 posting. The Service PMI for April came in at 53.1, beating the 52.3 estimate (March was 52.3), as the ISM Non-Manufacturing Index for April came in up 57.5, when it was expected to be flat from March's 55.8. The PPI for April increased 0.5%, when a lower 0.2% gain was expected, as the year-over-year gain was 2.5%; Core PPI was up 0.4% (0.2% was expected), and the year-over-year gain was 1.9%. Consumer Prices increased 0.2% for April (as expected), and the year-over-year rate was 2.2%, with Core CPI up 0.1% (0.2% was expected) and up 1.8% year-over-year. Auto sales disappointed, with April sales missing estimates, as they declined 4.7% and paled compared with last year's superb April. Construction Spending for April unexpectedly declined 0.2% when it was expected to increase 0.5%, as the year-over-year rate was up 3.6%. International Trade for April showed a USD 67.6 billion deficit, as exports declined 0.9% and imports increased 0.7%. Import prices increased 0.5% for April, when a lower 0.1% was expected, as the year-over-year gain was 4.1%; export prices grew 0.2% (0.1% was expected) and were up 3.0% year-over-year. Productivity for Q1 2017 posted an unexpected 0.6% decline, when it was expected to be flat, as the Unit Labor cost increased 3.0%. Factory Orders for March came in up 0.2%, missing the 0.4% expectation. Industrial Production increased 1.0% for April, when a lower 0.4% gain was expected, as Capacity Utilization increased to 76.7% from March's 76.1%. Wholesale Trade for March increased 0.2%, as expected. Business Inventories increased 0.2% for March. The Labor Market Conditions Index increased 3.5% from the originally reported 0.4% gain. Consumer Sentiment rose to 97.7 in May (preliminary), up from April's 97.0. Consumer Confidence for May came in 117.9, down from April's 119.4 and lower than the 119.0 that was expected. The Leading Indicator Report for April increased 0.3%, as expected. The Q1 2017 GDP update came in at 1.2%, up from the initial 0.7% report (from April 28, 2017) and higher than the 0.8% expectation. While the level remains lower than desired, the beat was a welcome sign, and the final Q1 2017 GDP will be released on June 29, 2017. The GDP Price Index came in with a 2.2% gain (2.3% was expected). The Fed Beige Book (of economic conditions) showed modest growth in 9 of its 12 districts, with Boston and Chicago down and New York flat. Consumer spending appeared to weaken in some areas. The report spoke of tightening labor markets for certain skilled jobs.

The May Housing Market Index came in at 70, when it was expected to be flat at 68. Housing Starts for April missed the annualized 1.256 million sales target, coming in at 1.172 million, although single-family homes were up 0.4%. Permits also fell short, coming in at 1.229 million when 1.271 million was expected. Existing Home Sales for April posted a 2.3% decline, coming in at 5.57 million units (annualized) when a 5.65 million rate was expected; the year-over-year rate was up 1.6%. New Home Sales for April came in at an annualized 569,000 new homes, less than the 602,000 expected. Pending Home Sales declined 1.3% for April, when a 0.5% increase was expected, as March was revised down to -0.9% from the originally reported -0.8%. The FHHA House Price Index for April posted a 0.6% gain and was up 6.2% year-over-year. The S&P CoreLogic Case-Shiller Home Price Index rose 1.0% and was up 5.9% year-over-year.

With only a few issues left, Q1 2017 is being classified as a success, with earnings posting a 3.8% gain over Q4 2016 and a 20.9% gain over a depressed Q1 2016. The tally of issues showed 495 issues have reported, representing 97.3% of the market value, with 367 issues beating their operating earnings estimates (74.1%; the historical average is 67%), 93 missing, and 35 meeting. Information

technology posted an 88% beat rate, with telecommunication services posting half missing and half meeting. Sales posted a 2.7% decline from the Q4 2016 holiday season, but were up 6.9% year-over-year, which is the period more commonly used for sales. Financials sales improved 28.7%, as the depressed Q1 2016 made beats easy (and necessary). Share count reduction via excess buybacks slowed considerably in Q1 2017; 14.1% of the issues reduced their year-over-year shares by at least 4%, therefore increasing their EPS by at least 4%, compared to 19.4% in Q4 2016 and an average 23.6% over the prior two years. Guidance remained general, but mostly positive, as negative warnings remained limited. Overall, Q2 2017 is expected to set a new operating earnings record, at USD 31.10, surpassing the Q3 2014 USD 29.60 record. Earnings had declined to a low of USD 23.06 in Q4 2015, with a helping hand from energy. At this point, Q3 and Q4 2017 are also expected to post new highs, therefore making 2017 a potential record year. The estimates appear to incorporate a continuance of a slowly improving economy, with two expected FOMC interest rate increases (of 0.25% each). Notable is the absence of potential positive income tax legislation (or repatriation, which was seen as helping M&A, buybacks, and dividends—in that order), or any downturn in the economy, due either to consumer actions or events in Washington, both of which remain major unknowns. The bottom line at this point appears to be that earnings are good and expected to continue up, even if actual results fall short of current growth estimates.

Interest rates ticked down in May, as the U.S. FOMC was expected to increase interest rates in June (13-14). The 10-year U.S. Treasury Bond closed at 2.25%, down from last month's 2.28% and down from year-end 2016's 2.45%. The 30-year U.S. Treasury Bond closed at 2.92%, down from last month's 2.95% (3.07% at year-end 2016). The euro closed at 1.1165, up from last month's 1.0868 (1.0520 at year-end 2016); the British pound sterling closed at 1.2786, down from last month's 1.2793 (1.2345); the yen closed at 111.41 from last month's 109.73 (117.00; reverse reference, which is usually used); and the yuan closed at 6.8556, down from last month's 6.8836 (6.9448). Gold closed at USD 1,268.30, up from last month's USD 1,277.90 (year-end 2016 USD 1,152.00). Oil moved up for most of the month, and then fell back, as OPEC continued its production limit. Oil closed the month at USD 49.49, slightly up from last month's USD 49.21 (USD 53.89). U.S. pump prices were basically flat, even as oil declined, closing the month at USD 2.399, down from last month's USD 2.436 per gallon (2.309). VIX, "the fear factor," continued down, closing at 9.90, as it traded as low as 9.56—its lowest level since December 2006 (9.39), down from last month's 10.94 close (14.04 at year-end 2016; 23 before the U.S. Nov. 8, 2016 election).

On an issue level, Apple posted several new highs before it released earnings, as it beat estimates but posted mild iPhone demand, which increased the pressure on its upcoming iPhone 8, which is expected to be released later in the year. Apple increased its dividend by 10.5% (USD 13.2 billion annually) to become the largest dividend payer in the world (displacing Exxon Mobil [XOM]). Apple also continued to accumulate cash, now at USD 257 billion (AT&T is worth USD 233 billion), and to reduce its shares (reducing them by 21% over the past four years and therefore increasing its EPS by 21%). Exxon Mobil's outlook was revised to 'negative' from 'stable' by S&P Global Ratings, signaling it's 'AA+' rating could be lowered. The U.S. Justice Department filed a civil suit against Fiat Chrysler (FCAU) over the company's software used to report diesel car emissions. Fiat, without admitting wrongdoing, said a software update could address the issue. Separately, a class action filed against General Motors (GM) accused it of installing defective emission testing devices in its trucks. Unrelated, Ford (F) said it will replace its CEO Mark Fields; the company has seen profits decline and has come under outside pressure. Uber decided to let its key engineer, the ex-Google executive, hail a cab, as the court fight between Alphabet and Uber over the driverless-car issue continued. Amazon (AMZN) added its name to issues that traded at USD

1,000, as it closed lower, leaving Priceline Group (PRLN) as the only S&P 500 issue above it. S&P Dow Jones Indices announced that it would add financial and economic research & data provider IHS Market (INFO) to the S&P 500, as it removed broadcasting issue TEGNA (TGNA) after the close of business on June 1, 2017.

## INDEX REVIEW

### S&P 500

May continued the positive market action, as the S&P 500 posted seven new closing highs, trading and closing the month above 2,400 for the first time (it had closed above 2,300 for the first time on Feb. 9, 2017 and above 2,000 on Aug. 26, 2014). While the news of Trump, politics, and terrorism dominated the airwaves and print, it was earnings that calmed the market, as actions (trades) focused on profits, guidance, and the economy, even as talk was of other items. Hope of income tax reform and repatriation continued, as did the speculation via research on which issues would benefit, but the reality appeared to be that few were putting their trades where the speculation was. If more detailed legislation or even detailed test balloons appear at some point, things could change, but for now there are just too many branches on that tree to take a “reasonable” position on. That said, most believe reform and repatriation are coming, but when and what it will look like is speculative. For the month, the index posted a broad 1.16% gain after April’s 0.91% increase, which was after March’s break in the action, when it posted a minor 0.04% decline. Trading was calm, except for on May 17, when the index fell 1.82%, as reports surfaced that Trump asked Comey to pull back on the Flynn investigation. However, even that decline was classified as calm compared to more volatile days of the past. Absent that day, only one day moved over 0.5% (May 19, up 0.68), as VIX traded at lows not seen since December 2006: there was little fear in the market. Year-to-date, the index was up 7.73% and up 8.66% with dividends, as post-Nov. 8, 2016 gains were solidly in double-digit territory—up 12.72% and up 14.08% with dividends. There was continued concern of a correction and some profit takings, but little was seen in terms of actual sells, as some option coverage was noted.

In sectors, returns were not as universal, as 7 of the 11 groups posted gains, the same as in April. Information technology was the standout, adding 4.15% for the month and up 19.67% YTD (the best of any sector), as it made up for its subpar post-election to year-end 2016 performance; the group was up 15.66% from the election. There was concern of the sector being top-heavy, but with 75.6% of the issues up, the gains were broad. Utilities also did well, adding 3.63% and boosting its YTD return to 10.07%. Consumer groups gained, but were mixed; consumer discretionary added 0.98% for the month and was up 11.72% YTD, while consumer staples was up 2.65% and up 9.36% YTD. Energy was again the big decliner, falling 3.96% in May as oil prices closed the month down. Year-to-date, the sector was off 13.58%, the worst of any group, as its one-year return was in the red, off 3.49%. Financials also declined, along with interest rates, falling 1.41% for the month, as some concern emerged over Q2 2017 trading profits; year-to-date, the sector was in the red, off 0.33%, though it remained up 16.13% from the election.

Breadth remained constant; as 283 issues gained for the month (average gain of 4.62), slightly up from April’s 280 (and 239 in March), as 221 issues declined (average fall of 5.39%), down from last month’s 225 (and 265 in March). For the month, 26 issues moved up at least 10% (average gain of 14.61%), up from 12 last month, as 32 declined at least 10% (average loss of 14.61%—same as the gain average),

up from 12 last month. One issue gained at least 25% (none did last month) and one declined at least 25% (none did last month either).

Year-to-date, breadth remained strongly positive, although it declined again, as 330 issues gained, down from 345 last month and 350 in the prior month, with 211 of them up at least 10% (176 last month), and 64 of those up at least 25% (36). On the down side, 173 issues declined YTD (159 last month and 154 the month before that), as 84 were down at least 10% (49), and four of those were down at least 25% (the same as last month). Trading volatility increased and was relatively calm, with few sudden moves and even fewer swings. Trading increased 22% for the month after last month's 20% decline (and the 18% gain the month before that), as it was 5% above the one-year average and 7% above the five-year average. Volatility, as measured by the high over the low, remained low, coming in at 2.80% from April's 2.97%—less than the one-year 3.82% average and significantly less than the five-year 5.33% average. From the Nov. 8, 2016 election, 390 were up (402 last month), as 115 issues were down (103), as 10 of the 11 sectors were positive (information technology was up 20.92% while energy was down 6.13%).

### **The Dow®**

The Dow Jones Industrial Average closed the month at 21,008.65, posting a 0.33% gain from April's 20,940.51, when it added 1.34%. The 0.33% gain paled in comparison to the S&P 500's 1.16% gain, but it was still positive, compared to the S&P MidCap 400's 0.64% decline and the S&P SmallCap 600's 2.25% fall. Year-to-date, The Dow was up 6.31%, which again was subpar to the S&P 500 (7.73%), but better than the mid- (3.68%) and small-cap indices (-0.69%). Adding insult to gains was The Dow's inability to post a new high for another month, compared to the S&P 500's seven new closing highs. What ailed The Dow was what helped it before. Specifically, investment banking and money management firm Goldman Sachs, which led the index up post-election, fell 5.6% in May, and since Goldman is the heaviest-weighted issue in the index, its fall cut The Dow's gain for the month by over 50%; the issue was down 11.77% YTD. Business system maker International Business Machines declined 5.57% for the month, also taking The Dow down due to its weight; IBM was off 8.05% YTD. Also on the list was entertainment and theme park issue Walt Disney (DIS), which fell 6.63% but remained up 3.57% YTD. Helping The Dow was fast-food restaurant issue McDonald's (MCD), which added 7.83% in May and was up 23.96% YTD, along with Apple, which set new highs to finish the month up 6.34% and up 31.89% YTD (with a market value of USD 801 billion). Breadth was positive, as 16 of the 30 issues gained (average increase of 3.44%), the same rate as last month, as 14 declined (average loss of 3.85%). No issue moved more than 10% (up or down). Year-to-date, 22 issues were up (average gain of 11.35%), as 8 were down (average decline of 9.24%). Twelve issues were up at least 10%, while five were down at least 10%. One issue was up at least 25% (Apple), with none down at least 25%. Consumer staples did well, as soft drink maker Coca-Cola (KO) added 5.38% and was up 9.67% YTD, and discount superstore Wal-Mart added 4.55% and was up 13.72% YTD. Financials mostly declined, as the expected speed of interest rate increases remained slow, with some concern over Q2 2017 trading emerging late in the month. JPMorgan Chase fell 5.57% and was off 4.80% YTD, as travel-related and charge card issue American Express (AXP) fell 2.91% but was up 3.86% YTD.

## **S&P MidCap 400**

The S&P MidCap 400 posted a 0.64% decline in May, after April's 0.76% gain, as it wedged itself between the large caps (up 1.16%) and small caps (down 2.25%). Year-to-date, the index was up 3.68%, with the one-year gain at 15.31%. Three of the eleven sectors gained for the month, down from seven last month. Information technology did the best, as it did in other indices, up 4.08% for the month and up 13.32% YTD. Health care gained 2.35% in May, easily outpacing the large- and small-cap groups, as it was up 16.60% YTD, the best of any sector in the headline indices. Utilities was the other gainer, up 1.35%, as it posted a 6.65% YTD gain. Telecommunication services did the worst, off 11.90%, as the sector was off 28.40% YTD. Energy fell 9.06%, as it posted a 28.38% YTD decline. Consumer groups fell; consumer discretionary lost 1.31% but was up 3.40% YTD) and consumer staples declined 3.18% and was off 1.56% YTD. Breadth turned negative, as 170 issues gained (average increase of 5.26%), down from last month's 235 gainers (185 in March), with 228 down (average decrease of 6.74%), up from 162 decliners last month (211 in March). Moves of at least 10% increased, as 22 issues gained at least 10% (average gain of 17.68%), up from 20 last month, but 46 fell at least 10% (average loss of 16.52%), up from 22 last month (and 19 the month before that). Year-to-date, breadth was positive, but declined, as 211 issues were up, down from April's 238 and 235 in March, and 185 were down, up from 161 last month (and 162 the month before that). There were 127 issues that gained at least 10% and 83 that fell at least 10%.

## **S&P SmallCap 600**

The S&P SmallCap 600 posted a broad 2.25% decline in May, as prices looked for support, but found little. The loss pushed the index into the red YTD with a 0.67% loss, as the one-year gains still stood at an impressive 18.01%, thanks to the index's 33.02% 2016 gain. Eight of the eleven sectors declined, up from three in April, when the index gained 0.85%. Utilities did the best, as safety was appreciated more, adding 2.35% for the month and up 8.38% YTD. Information technology added 2.08%, as the sector's tide lifted all boats; it was up 6.41% YTD. Health care was the other gainer, up a minor 0.19% and up 11.85% YTD, the best of any small-cap sector. Energy did the worst, declining 11.32% for the month, as its YTD fall was 32.94% and its one-year performance dropped into the red, off 9.13%. Telecommunication services lost 8.61%, putting its YTD return in negative territory, down 4.83%. Financials did poorly, off 4.57% for the month and down 8.19% YTD), with consumer staples declining 4.31% but still up 7.29% YTD. Breadth was weak, as almost two issues declined for every one that gained. For the month, 209 issues advanced (average increase of 7.66%), down from last month's 345 and 275 in March, as 391 issues declined (average fall of 9.14%), up from April's 251 and March's 322. Forty-six issues gained at least 10% (average gain of 19.52%), down from 65 last month, as 123 issues (over 20% of the index), fell more than 10%, compared to 58 decliners last month. Extreme movements had 11 issues up at least 25%, with 20 down at least 25%. Year-to-date, breadth was negative, with 247 (280 last month) up and 351 down (319), as 73 issues were up at least 25% and 87 were down at least 25%.



**S&P Global BMI**

From the U.S. Nov. 8, 2016 election to the end of 2016, the U.S. accounted for 89.4% of the S&P Global BMI. Year-to-date, it accounted for 35.1% of the index; from the U.S. election, it accounted for 47.5% of the gains, as it accounted for 50.7% of the market value. The S&P Global ex-US BMI added 1.75% in May, after a strong 2.02% in April, as the U.S. added a mediocre 0.80% after April's subpar 0.94%. Year-to-date, global markets were up 9.75% and up 12.59% excluding the 7.13% gain from the U.S. From the election, global markets ex-U.S. were up 13.01%, with the global markets (including the U.S. 12.97% return) up 13.00%.

Emerging markets added 1.44% in May (up 2.08% in April) and were up 14.66% YTD; the one-year return was up 22.54%, the two-year return was down 1.05%, and the three-year return was down 0.46%. Developed markets added 1.79%, after last month's 1.39% gain, with the ex-U.S. May return at 3.08%. Developed markets were up 9.24% YTD and up 12.08% excluding the U.S.); the one-year return was up 14.58% (13.53%), the two-year return was 7.82% (1.32%), and the three-year return was 11.92% (-1.55%).

## PERFORMANCE RECAP

Exhibit 2: Monthly Returns							
S&P 500	PRICE	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	FR 12/99 (%)
Energy	479.19	-3.96	-13.58	-3.49	-30.90	0.56	125.27
Materials	332.25	-0.28	6.44	13.01	7.55	55.82	107.71
Industrials	575.95	1.19	7.04	19.07	23.82	92.32	110.68
Consumer Discretionary	723.76	0.98	11.72	15.11	39.20	113.01	141.81
Consumer Staples	581.55	2.65	9.36	7.88	25.94	67.43	179.53
Health Care	877.55	0.61	10.12	6.71	27.14	110.26	168.54
Financials	385.26	-1.41	-0.33	20.64	28.52	104.72	19.75
Information Technology	966.84	4.15	19.67	31.80	56.33	115.43	19.74
Telecommunication Services	158.76	-0.98	-10.11	-4.97	-0.96	13.68	-50.82
Utilities	271.69	3.64	10.07	9.48	25.86	50.11	90.75
Real Estate	196.25	0.45	3.16	0.54	15.49	41.20	-
S&P 500	2411.80	1.16	7.73	15.01	25.38	84.06	64.15
DOW JONES INDUSTRIAL AVERAGE	PRICE	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	FR 12/99 (%)
Dow Jones Industrial Average	21008.65	0.33	6.31	18.11	25.67	69.51	82.73
S&P MIDCAP 400	PRICE	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	FR 12/99 (%)
Energy	363.44	-9.06	-28.38	-19.68	-60.45	-39.23	107.13
Materials	451.51	-2.11	5.46	19.39	22.08	82.40	306.88
Industrials	872.50	-1.45	4.04	21.79	23.83	106.88	390.12
Consumer Discretionary	698.11	-1.31	3.40	10.12	13.88	71.00	250.96
Consumer Staples	1664.18	-3.18	-1.56	2.64	19.32	118.61	855.24
Health Care	1524.17	2.64	16.60	22.34	61.04	174.31	761.53
Financials	892.11	-2.59	-1.20	18.97	38.18	85.00	169.65
Information Technology	2106.96	4.08	13.32	29.95	49.60	102.50	150.04
Telecommunication Services	187.53	-11.90	-28.40	-28.20	-21.62	10.17	-60.36
Utilities	520.93	1.35	6.65	11.66	27.02	76.59	276.07
Real Estate	227.15	-2.29	-0.89	-	-	-	-
S&P MidCap 400	1721.69	-0.64	3.68	15.31	24.94	86.00	287.18
S&P SMALLCAP 600	PRICE	1-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	FR 12/99 (%)
Energy	513.76	-11.32	-32.94	-9.13	-72.10	-52.41	230.60
Materials	457.33	-4.46	-5.85	30.95	2.42	73.82	231.74
Industrials	904.57	-3.19	-0.78	19.53	24.36	103.51	352.42
Consumer Discretionary	488.57	-1.99	1.12	11.95	14.85	78.53	260.49
Consumer Staples	1619.17	-4.31	-1.75	7.29	31.38	97.75	712.22
Health Care	1960.61	0.19	11.85	16.66	54.87	153.92	982.97
Financials	913.29	-4.57	-8.19	18.59	32.44	77.38	211.80
Information Technology	646.78	2.08	6.41	31.87	70.64	165.25	136.51
Telecommunication Services	2.76	-8.61	-4.83	6.15	19.78	25.56	-96.24
Utilities	898.30	2.53	8.38	16.86	51.93	89.84	378.58
Real Estate	198.22	-2.47	-1.39	-	-	-	-
S&P SmallCap 600	832.17	-2.25	-0.69	18.01	27.44	94.38	320.73

Source: S&P Dow Jones Indices LLC. Data as of May 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	1.41	8.66	17.47	33.59	104.79	95.54
S&P MidCap 400	-0.49	4.30	17.16	31.00	100.94	118.82
S&P SmallCap 600	-2.13	-0.19	19.63	32.84	107.69	114.75
S&P Composite 1500	1.16	8.04	17.52	33.37	104.63	98.05
Dow Jones Industrial Average	0.71	7.47	21.16	35.47	92.21	100.93

Source: S&P Dow Jones Indices LLC. Data as of May 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 May Performance**

BMI MEMBER	1-MONTH (%)	3-MONTH (%)	YTD (%)	6-MONTH (%)	1-YEAR (%)	3-YEAR (%)
Global	1.75	4.19	9.75	11.99	15.31	10.68
Global Ex-U.S.	2.75	6.94	12.59	15.21	15.23	-1.35
Emerging	1.44	5.55	14.66	14.79	22.54	-0.46
Greece	10.27	22.09	20.74	21.90	12.21	-63.05
Hungary	8.20	11.91	12.84	21.95	32.76	39.23
Colombia	5.89	8.56	9.22	16.67	17.30	-39.82
Czech Republic	5.79	10.98	17.27	20.87	8.92	-18.17
Egypt	5.25	-2.73	8.33	14.06	-11.66	-34.25
Peru	4.24	0.21	5.84	6.57	21.71	-1.38
China	4.15	8.17	19.06	14.46	25.16	18.90
Turkey	3.00	14.02	23.21	26.86	3.91	-26.93
Philippines	2.72	9.08	14.08	14.84	1.38	4.36
Taiwan	1.92	5.25	16.84	15.70	26.90	8.55
South Africa	1.59	4.57	9.96	15.73	20.84	-6.59
Malaysia	0.94	8.81	14.51	15.00	6.25	-26.85
Thailand	0.91	1.98	6.18	7.97	14.42	5.57
India	0.82	10.83	24.40	23.74	25.78	29.77
Indonesia	0.71	6.87	8.77	13.97	20.57	-3.02
Mexico	0.54	11.08	16.81	16.96	4.28	-19.36
Poland	0.45	12.42	30.52	40.46	37.95	-15.87
Qatar	0.06	-5.98	-3.92	2.94	8.18	-27.26
Chile	-0.18	5.98	14.04	12.96	23.89	-4.61
U.A.E.	-0.56	-3.58	-2.00	2.99	6.43	-33.63
Russia	-4.93	-2.28	-6.39	4.35	18.29	-19.46
Brazil	-5.28	-9.72	4.43	5.13	40.78	-24.29

Source: S&P Dow Jones Indices LLC. Data as of May 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 May Performance**

<b>BMI MEMBER</b>	<b>1-MONTH (%)</b>	<b>3-MONTH (%)</b>	<b>YTD (%)</b>	<b>6-MONTH (%)</b>	<b>1-YEAR (%)</b>	<b>3-YEAR (%)</b>
Developed	1.79	4.05	9.24	11.70	14.58	11.92
Developed Ex-U.S.	3.08	7.29	12.08	15.32	13.53	-1.55
Korea	7.85	13.78	25.35	24.66	28.97	6.42
Portugal	7.43	17.54	18.08	24.14	9.71	-0.3576
Austria	6.35	20.34	28.61	33.77	40.34	0.0722
Finland	6.04	14.70	17.07	23.18	20.88	0.069
Denmark	5.75	15.19	20.17	26.12	1.46	0.1633
Switzerland	5.00	9.80	16.35	21.25	14.59	0.0138
Spain	4.81	20.20	23.59	32.51	21.20	-0.1763
Netherlands	4.48	14.35	20.43	25.35	20.79	0.1991
France	4.25	16.49	17.55	24.07	19.31	-0.0037
New Zealand	4.05	0.45	8.18	5.88	6.62	0.0621
Ireland	3.91	11.05	15.21	19.11	7.61	0.2763
United Kingdom	3.77	7.91	10.83	15.06	6.24	-0.142
Germany	3.64	11.46	15.82	23.76	20.92	-0.0016
Italy	3.59	16.51	15.94	30.51	16.44	-0.1912
Belgium	3.47	10.59	13.05	15.93	4.62	0.1035
Japan	3.07	3.15	8.61	9.72	13.52	0.1955
Singapore	2.89	5.28	16.10	14.11	14.23	-0.1139
Sweden	2.85	9.74	15.42	20.89	16.74	-0.0061
Hong Kong	1.96	6.78	16.16	9.15	16.90	0.0433
Norway	1.70	-1.14	2.39	5.81	10.45	-0.3184
Israel	0.99	3.12	10.80	10.46	0.48	-0.0449
United States	0.80	1.66	7.13	9.04	15.33	0.2413
Luxembourg	-0.13	-3.29	6.66	6.87	18.68	-0.2374
Canada	-0.30	-2.50	-0.45	1.20	6.12	-0.1593
Australia	-4.22	-3.15	3.79	6.02	9.74	-0.1692

Source: S&P Dow Jones Indices LLC. Data as of May 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	ESTIMATED 2016	ESTIMATED 2017
S&P 500	14.73	22.69	22.70	18.77
S&P 500 Consumer Discretionary	16.89	22.17	21.73	20.66
S&P 500 Consumer Staples	15.96	22.18	22.96	21.46
S&P 500 Energy	12.03	-38.97	-137.30	28.34
S&P 500 Financials	13.46	16.83	16.19	13.78
S&P 500 Health Care	14.68	21.02	20.68	17.31
S&P 500 Industrials	14.76	19.49	21.28	18.62
S&P 500 Information Technology	14.19	22.20	25.46	19.89
S&P 500 Materials	16.20	38.50	25.52	18.74
S&P 500 Telecommunication Services	43.21	14.02	16.10	13.55
S&P 500 Utilities	14.84	22.21	19.87	18.72
S&P 500 Real Estate	-	-	-	37.31
INDEX	2014	2015	ESTIMATED 2016	ESTIMATED 2017
S&P MidCap 400	18.71	30.41	26.68	20.34
S&P 400 Consumer Discretionary	18.19	20.80	18.39	16.57
S&P 400 Consumer Staples	16.80	23.84	23.64	20.39
S&P 400 Energy	22.82	-4.95	-6.84	198.60
S&P 400 Financials	18.61	25.05	19.90	16.13
S&P 400 Health Care	21.24	27.39	30.54	22.32
S&P 400 Industrials	15.55	21.56	21.71	19.53
S&P 400 Information Technology	23.60	40.03	35.30	21.77
S&P 400 Materials	17.93	28.08	25.25	17.09
S&P 400 Telecommunication Services	34.07	13.29	58.79	-16.38
S&P 400 Utilities	15.52	23.42	21.39	20.75
S&P 400 Real Estate	-	-	-	32.27
INDEX	2014	2015	ESTIMATED 2016	ESTIMATED 2017
S&P SmallCap 600	22.04	42.43	32.51	22.31
S&P 600 Consumer Discretionary	21.45	23.16	20.47	18.73
S&P 600 Consumer Staples	18.26	20.41	21.28	20.13
S&P 600 Energy	77.57	-2.48	-4.32	-34.85
S&P 600 Financials	20.10	26.37	19.84	16.40
S&P 600 Health Care	21.59	43.30	141.36	43.74
S&P 600 Industrials	17.85	24.72	24.39	19.85
S&P 600 Information Technology	31.37	41.01	38.16	21.71
S&P 600 Materials	22.56	46.69	23.96	18.14
S&P 600 Telecommunication Services	24.20	36.50	39.43	69.00
S&P 600 Utilities	16.69	23.40	25.18	23.90
S&P 600 Real Estate	-	-	-	32.07

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

**Exhibit 7: Operating EPS Changes**

INDEX	Q1 2016 OVER Q1 2015 (%)	Q2 2016 OVER Q2 2015 (%)	Q3 2016 OVER Q3 2015 (%)	Q4 2016 OVER Q4 2015	Q1 2017E OVER Q1 2016	2016 OVER 2015 (%)	2017E OVER 2016
S&P 500	-7.13	-1.68	12.78	20.99	20.86	5.78	20.94
S&P 500 Consumer Discretionary	20.12	12.48	5.69	1.92	4.81	9.40	5.23
S&P 500 Consumer Staples	0.00	-1.25	8.99	8.83	5.25	4.15	6.99
S&P 500 Energy	-464.58	-303.92	119.25	105.00	243.17	74.54	584.53
S&P 500 Financials	-11.49	-6.19	17.25	16.50	24.86	3.43	17.49
S&P 500 Health Care	3.35	13.02	11.47	10.97	-0.10	9.61	19.46
S&P 500 Industrials	-5.31	2.59	-2.98	-7.62	8.67	-3.29	14.30
S&P 500 Information Technology	-12.24	-6.66	2.78	13.28	31.26	0.00	27.96
S&P 500 Materials	-45.95	29.55	198.40	674.29	176.65	53.54	36.18
S&P 500 Telecommunication Services	-3.45	-34.69	-9.09	-26.59	-3.57	-18.91	18.86
S&P 500 Utilities	-4.69	-9.76	15.19	1400.00	2.46	21.51	6.14
S&P 500 Real Estate	-	-	-	-	-	-	-
INDEX	Q1 2016 OVER Q1 2015 (%)	Q2 2016 OVER Q2 2015 (%)	Q3 2016 OVER Q3 2015 (%)	Q4 2016 OVER Q4 2015	Q1 2017E OVER Q1 2016	2016 OVER 2015 (%)	2017E OVER 2016
S&P MidCap 400	-7.39	10.45	17.84	54.76	35.62	16.33	31.16
S&P 400 Consumer Discretionary	24.23	13.68	16.43	13.17	11.91	16.22	10.93
S&P 400 Consumer Staples	-3.46	-4.13	-3.77	4.23	3.83	-1.84	15.95
S&P 400 Energy	-451.52	45.63	68.94	66.05	101.77	46.60	103.45
S&P 400 Financials	6.02	0.73	44.52	43.21	50.32	23.34	23.40
S&P 400 Health Care	24.73	8.62	-14.98	-11.62	1.04	-0.04	36.85
S&P 400 Industrials	4.65	2.50	4.97	-8.27	3.37	0.95	11.20
S&P 400 Information Technology	-3.15	22.07	44.10	33.38	73.67	25.83	62.15
S&P 400 Materials	-37.42	23.45	37.16	38.99	94.41	12.24	47.76
S&P 400 Telecommunication Services	-95.61	4.13	-82.86	-400.00	-450.00	-84.76	-458.93
S&P 400 Utilities	5.31	0.25	5.44	55.19	14.54	15.08	3.08
S&P 400 Real Estate	-	-	-	-	-	-	54.05
INDEX	Q1 2016 OVER Q1 2015 (%)	Q2 2016 OVER Q2 2015 (%)	Q3 2016 OVER Q3 2015 (%)	Q4 2016 OVER Q4 2015	Q1 2017E OVER Q1 2016	2016 OVER 2015 (%)	2017E OVER 2016
S&P SmallCap 600	8.72	21.83	55.56	37.74	34.14	30.21	45.70
S&P 600 Consumer Discretionary	17.58	13.33	-4.69	48.74	-20.19	17.47	9.30
S&P 600 Consumer Staples	20.86	8.70	10.61	-34.26	-40.47	-1.26	5.72
S&P 600 Energy	28.88	43.87	78.34	77.89	86.67	61.30	87.61
S&P 600 Financials	23.24	19.08	31.68	24.71	40.02	24.70	20.96
S&P 600 Health Care	-26.65	-29.82	-89.44	-116.95	-120.76	-65.95	223.14
S&P 600 Industrials	-3.16	10.13	15.15	-23.24	20.48	0.41	22.86
S&P 600 Information Technology	-5.99	3.99	12.50	27.97	95.22	11.51	75.75
S&P 600 Materials	13.03	100.00	68.66	421.43	84.74	85.16	32.06
S&P 600 Telecommunication Services	0.00	0.00	-33.33	0.00	-150.00	-12.50	-42.86
S&P 600 Utilities	-6.82	10.90	103.56	-20.45	0.51	1.54	5.38
S&P 600 Real Estate	-	-	-	-	-	-	-

Source: S&P Dow Jones Indices LLC. Data as of May 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)**

<b>S&amp;P 500</b>						
<b>TYPE</b>	<b>MAY 2017</b>	<b>AVERAGE % CHANGE</b>	<b>3-MONTH</b>	<b>AVERAGE % CHANGE</b>	<b>YTD</b>	<b>AVERAGE % CHANGE</b>
Up	283	4.62	272	9.03	330	15.78
Down	221	-5.39	231	-8.93	173	-11.28
Up >= 10%	26	14.61	89	17.49	211	22.02
Down <= -10%	32	-14.61	83	-16.19	84	-18.77
Up >= 25%	1	38.40	13	31.65	64	35.01
Down <= -25%	1	-26.94	7	-28.62	18	-30.64
Up >= 50%	0	0.00	0	0.00	4	57.95
Down <= -50%	0	0.00	0	0.00	0	0.00
<b>S&amp;P MIDCAP 400</b>						
<b>TYPE</b>	<b>MAY 2017</b>	<b>AVERAGE % CHANGE</b>	<b>3-MONTH</b>	<b>AVERAGE % CHANGE</b>	<b>YTD</b>	<b>AVERAGE % CHANGE</b>
Up	170	5.26	173	10.83	211	15.64
Down	228	-6.74	223	-10.60	185	-12.74
Up >= 10%	22	17.68	79	18.40	127	22.68
Down <= -10%	46	-16.52	90	-18.59	83	-22.29
Up >= 25%	5	28.43	12	35.49	38	37.03
Down <= -25%	4	-34.47	16	-35.05	26	-36.18
Up >= 50%	0	0.00	1	59.88	7	61.15
Down <= -50%	0	0.00	1	-55.29	2	-56.01
<b>S&amp;P SMALLCAP 600</b>						
<b>TYPE</b>	<b>MAY 2017</b>	<b>AVERAGE % CHANGE</b>	<b>3-MONTH</b>	<b>AVERAGE % CHANGE</b>	<b>YTD</b>	<b>AVERAGE % CHANGE</b>
Up	209	7.66	261	14.58	247	20.35
Down	391	-9.14	340	-14.77	351	-17.92
Up >= 10%	46	19.52	133	23.95	154	29.88
Down <= -10%	123	-18.23	186	-22.56	234	-24.58
Up >= 25%	11	35.66	44	39.01	73	44.91
Down <= -25%	20	-34.84	56	-37.59	87	-38.18
Up >= 50%	1	51.90	10	64.91	20	71.79
Down <= -50%	3	-52.16	9	-56.82	16	-61.56
<b>DOW JONES INDUSTRIAL AVERAGE</b>						
<b>TYPE</b>	<b>MAY 2017</b>	<b>AVERAGE % CHANGE</b>	<b>3-MONTH</b>	<b>AVERAGE % CHANGE</b>	<b>YTD</b>	<b>AVERAGE % CHANGE</b>
Up	16	3.44	15	7.76	22	11.35
Down	14	-3.85	15	-6.16	8	-9.24
Up >= 10%	0	0.00	3	13.51	12	16.65
Down <= -10%	0	0.00	2	-14.98	5	-12.13
Up >= 25%	0	0.00	0	0.00	1	31.89

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

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