

U.S. Equities July 2018

KEY HIGHLIGHTS

- The [S&P 500®](#) was up 3.60% in July, bringing the YTD return to 5.34%.
- The [Dow Jones Industrial Average®](#) gained 4.71% for the month and was up 2.82% YTD.
- The [S&P MidCap 400®](#) was up 1.68% for the month and up 4.42% YTD.
- The [S&P SmallCap 600®](#) was up 3.10% in July and up 12.03% YTD.

Exhibit 1: Index Returns

INDEX	1-MONTH (%)	3-MONTH	YTD (%)	1-YEAR (%)
S&P 500	3.60	6.35	5.34	14.01
Dow Jones Industrial Average	4.71	5.18	2.82	16.10
S&P MidCap 400	1.68	5.98	4.42	12.71
S&P SmallCap 600	3.10	10.70	12.03	21.45

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes. Returns shown are price returns.

MARKET SNAPSHOT

We are all just big kids (even the few of us who actually matured), and every kid loves a three-ring circus, which is exactly what we had this month. By the end of the month, the kids were leaving with happy faces for their August summer holiday schedule (for the few) or a short break (for most of us who didn't take it in July) to celebrate a fourth consecutive month of gains (6.64% cumulative), with July being the best (3.60%). These four months just happen to coincide with the impact of the new reduced tax rate schedule, which was quantified as a blow-out Q1 2018 earnings record (and stronger-than-expected sales), and the current Q2 2018 earnings season, which, to date (based on the 74.8% of issues that have reported), has produced an unusually high beat rate (80% versus the historical 67% rate), along with a second consecutive quarter of higher sales (10.3% year-over-year, which may set a record), as well as record margins. Not that earnings have always been something to tweet (Twitter [TWTR]; still up 32.7% YTD after July's 27.0% decline) or Facebook (FB; off 2.2% YTD, after July's 11.2% loss) about, but the bottom line was much higher (especially at Amazon [AMZN]; up 4.6% for July and up 52.0% YTD), with optimism again running high (the S&P 500 was 1.97% away from a new closing high; the last was Jan. 26, 2018, at 2,872.87).

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

If earnings were the center ring of the three, trade was in the second, as public talks led to a U.S.-EU agreement and NAFTA talks moved closer to a deal, with the Street expecting it after the end of summer. This left the sub-trade level with China as the main event (with reports that talks will restart soon).

The third ring (and not as exciting, but fundamental to investing) was the economy, which produced lower-than-expected results for housing data. However, the economy was still building, and the first look at Q2 2018 GDP posted a significant increase (4.1% for Q2 2018 versus a restated 2.2% from 2.0% for Q1), even if it was less than the Street had hyped about.

Therefore, the question is: Who doesn't love a circus? Just hope the answer is not the clown who buys into the hope that the circus lasts forever.

It was also a month made for a debate—or at least a score of rewrite experts, who could reinterpret events with a never-ending changing slant. The view from Wall Street was, “What, me worry?” since, if it didn't affect stocks, it doesn't affect me. That was the impact (or lack of it) on the Street from a host of events, from the two-hour (part one) Trump-Putin get-together (with part two planned at the White House sometime before the U.S. Nov. 6, 2018, mid-term elections) to the “very” public discussion on trade, which on an overall basis, appears to be progressing from public talk to private negotiations to agree-to-agree—but it remains a show in progress. Not that there hasn't been (and won't be) any short-term market knee-jerk reactions, but, as stated, the S&P 500 was 1.97% away from its all-time high, and the aging bull is set to become the longest-running one in S&P 500 history on Aug. 22, 2018.

The public verbiage continued and grew, depending on your political, economic, or financial view, but so did the market, both in the U.S. (for the fourth consecutive month) and in non-U.S. markets, which are having a harder time (a nice way of saying that they have lost 3.16% YTD). However, it is always better to debate the trials and tribulations of the month with a gain (the U.S. was up 3.25%, versus a gain of 1.91% for non-U.S.) than a loss. What moved the market was old-fashioned earnings, which were coming in with an 80% beat rate for the U.S. (based on the almost 75% reported), as sales increased 10.3% year-over-year. At this point, earnings are driving the market, and it appears to be the reduced tax rates that are driving the earnings (and potential sales via lower taxes for consumers).

Trade remained a page-one story and is expected to stay there; late-month rumors of new talks between the U.S. and China, as well a public call for more tariffs (from Trump advisers), kept the public view and market reaction alive. While the market is not numb to public debate, it does seem to have reduced and shortened the impact (and swings). At this point all is well at Broad and Wall, as optimism dominates portfolios, even as the talk centers on evaluations, an aging bull, and (eventually) higher interest rates. The trade debate is expected to continue in August, along with the short-term volatility—more on specific issues and groups than the rising or falling tide for the entire market. Earnings will turn to retail, and hopefully give a clearer picture of how consumers are spending their new-found tax savings, as well as their collective view of the economy (and prospects). Historically, August posts gains 58.9% of the time, with an average gain of 3.87% for the up months and a 4.01% average decrease for the down months, with an overall average gain of 0.69%.

There are various earnings takeaways for Q2 2018. With 74.8% of the market value reported (62.4% of the issues), an amazing 80% of the issues have beaten their operating estimate, as EPS are setting a third consecutive record quarter (with more expected). Operating margins, which set a record of 11.40% last quarter (the prior record was 10.27%, the average is 8.08%), were running even higher

(although retail has yet to report), at 11.69%. Sales posted a strong 10.3% year-over-year gain, a potential new record.

The earnings season is going much better than expected, although retail has yet to report, and there were issues, as Facebook demonstrated via missed sales and a forward warning. However, overall guidance has been positive, as reduced tax rates again appear to have fueled earnings to a new record. Underlying the “happy days” is concern over how much growth is being generated absent the tax cuts, with the increase (and potential record level) in sales helping to calm markets. Once lower taxes are fully baked in, fundamentals such as sales may become the key determinant—even as currency gains and losses remain in the headlines and analysis. For the Q3 2018 period, 315 issues have reported their Q2 2018 results, with 253 beating estimates, 42 missing, and 20 meeting; 227 of the 310 (73.2%) issues with full compatible reporting beat on sales. Sector beats are numerous, with energy the lone exception; 9 of the 20 issues have beat on earnings, a 45.0% rate. The next “worst” sector is real estate, which has a 55.0% beat rate (11 of 20), compared with the index historical beat rate of 67%. For 2018, company guidance continued to be positive, as the third and fourth quarters of 2018 held their estimate levels (up 0.4% and up 0.1%, respectively). For the full year, 2018 earnings are on track to post a 27.0% gain over 2017 (with taxes getting most of the credit), as 2019 estimates are pointing to an 11.7% gain over 2018 (but are still being seen as optimistic, which at this point in the calendar would be typical).

The July 2018 cash dividend of USD 3.20 per share marked a 10.3% gain over the July 2017 payment; the YTD USD 29.10 dividend payment was up USD 8.98. There were 259 dividend increases YTD, with only one decrease. The lone decliner, Wyndham Worldwide, did a spinoff (with the two dividends rated the same as the pre-spinoff rate). There were no parallels in recent index history to compare this to (going back to 2003). For July, the median dividend increase was 13.04%, up from June’s 10.26%, with May at 12.00% and the YTD median at 10.26%. The average increase was 17.95% (last month’s was 12.29%). Year-to-date, the average increase was 14.29% (June was 13.55%), up from 2017’s 11.36%. Based on the historical schedules and released August dates, next month is expected to be a record month for payments, passing the USD 56 billion mark. With the trailing 12-month payment (through July) up 7.9% year-over-year, 2018 is expected to set another record. Given the environment, availability of cash, increased income expectations, and the “desire” of companies to show shareholder return, the return to a double-digit actual cash payment gain (year-over-year) seems feasible, but at this point, appears to be a long shot (but it’s a nice area to be in).

With 57.3% of the buybacks reported (USD 107.4 billion), Q2 2018 is running 1.9% below the record Q1 2018 period and 62.6% ahead of Q2 2017. Apple spent over USD 20 billion in Q2 2018 (the second highest buyback in a quarter in index history), down from their Q1 2018 index record of USD 23 billion.

Trump nominated Brett M. Kavanaugh (53) to replace Anthony M. Kennedy (82) on the Supreme Court (which is a lifetime position), starting the political battle for congressional approval. The Street sees Kavanaugh as a conservative, who will not extend federal control or mandates on business, and (given the congressional makeup) expects him to be approved. Meanwhile, U.S. Environmental Protection Agency head Scott Pruitt resigned amid an ethics allegation. Trump attended the NATO summit, and non-U.S. members agreed to substantially increase their commitment to defense after Trump’s insistence; Trump then fully committed to NATO.

The U.S. Commerce Department lifted the U.S. ban on Chinese telecommunication services issue ZTE (ZTCOY) for doing business with Iran and North Korea, with the requirement that ZTE put USD 400

million in an escrow account, pay a USD 1 billion fine, and replace the board of directors and senior management.

Trump met with Putin in Helsinki for two hours, as the two appeared comfortable and friendly—a sharp contrast to Trump’s recent meeting with EU members. The U.S. domestic reaction was mostly negative to his “friendliness” and “acceptance.” The market did not react to the meeting. Trump also said he is willing to meet Iran’s president with no preconditions. The two-day G-20 finance ministers meeting in Argentina ended with no consensus, but a warning over tariffs. Trump announced USD 12 billion in aid to assist farmers through the current trade tariff issue.

Trump implemented USD 34 billion in tariffs on Chinese imports; China responded with USD 34 billion in tariffs on U.S. imports, and Trump warned he would add levies on USD 500 billion in Chinese goods. Trump released his list of tariffs on Chinese imports, amounting to USD 200 billion, scheduled to be implemented in September 2018. China’s trade surplus with the U.S. set a record of USD 28.9 billion, as exports increased 5.7%, with imports from the U.S. up 4.0%. The EU was reported to be considering tariffs if the U.S. goes ahead with punitive tariffs on EU car imports, but it also said it would consider cutting them, as negotiations continued. Trump met with European Commission President Jean-Claude Juncker and the two agreed to work toward reducing the tariffs on non-auto industrial goods, with the EU saying it would purchase more liquefied natural gas from the U.S. The agreement kept the current cross-tariffs (U.S. and EU) in place, as additional negotiations were planned to alleviate them. U.S. markets responded with a strong upswing.

The 10-year U.S. Treasury Bond closed the month at 2.96%, up from last month’s 2.86% (2.41% for year-end 2017 and 2.45% for year-end 2016). The pound closed down, at 1.3123 from 1.3205 in June (1.3498 for year-end 2017 and 1.2345 for year-end 2016), the euro moved up to 1.1693 from 1.1685 (1.2000, 1.0520), the yen closed at 111.84 from 110.68 (112.68, 117.00), and the yuan closed at 6.814 from last month’s 6.6225 (6.5030, 6.9448). Oil decreased to close at USD 68.43 from June’s USD 74.31, but it was up from May’s USD 66.93 (USD 60.09 for year-end 2017 and USD 53.89 for year-end 2016). U.S. gasoline pump prices (EIA, all grades) decreased, closing the month at USD 2.911, a tick down from last month’s USD 2.913 per gallon (USD 2.589, USD 2.364). Gold was down for the month, closing at USD 1,232.90 from May’s 1,254.40 (USD 1,305.00 for year-end 2017 and USD 1,152.00 for year-end 2016). VIX closed at 12.84, trading as high as 18.08 and as low as 11.44, down from June’s 16.09 (11.05 at year-end 2017 and 14.04 at year-end 2016).

The FOMC notes from its June 12-13, 2018, meeting (at which it increased interest rates for the second time this year) said it planned to raise interest rates over the next year to a level that would no longer spur growth. At his semiannual testimony before Congress, Fed Chair Jerome Powell said the Fed would gradually increase interest rates. Separately, Trump criticized the Fed for increasing interest rates and said the increases would stop. The Fed Beige Book’s view slightly declined (as of July 9, 2018); the term “modest-to-moderate” was used, along with some concern over the effect of tariffs on manufacturing. The Central Bank of Turkey met and kept rates unchanged, when many expected an increase of 100 bps to fight inflation. The Bank of Japan made no change to its interest rates, saying that it would maintain “extremely low” interest rates. On July 31, 2018, the FOMC started its two-day meeting, with the expectation that it they would not increase interest rates at the meeting.

INDEX REVIEW

S&P 500

The S&P 500 posted a broad 3.60% (3.72% with dividends) gain in July, its fourth consecutive month of gains (0.48% for June, 2.16% for May, and a 0.27% gain in April; cumulatively 6.67%). The three-month return was 6.35% (6.87%), the YTD was 5.34% (6.47%), and the one-year return was 14.01% (16.24%). The gains left the S&P 500 1.97% off its Jan. 26, 2018, closing high (2,872.87), as the aging bull is set to become the longest-running bull market on Aug. 22, 2018 (at 113.4 months), boasting a return of 316% (407% with dividends). The market has been digesting the positive earnings; the tax reduction has made it easy for companies to book record profits, and they have shared some of them with shareholders via higher dividends and buybacks. With almost 75% of the earnings reported, there have been a few disappointments, as growth issues (such as Facebook and Twitter) appeared more at risk if they disappointed. Retail reports will start soon, and the market will start to focus on consumer spending (including how and if individuals are spending their tax savings) and the pre-school season.

July's volatility decreased, as none of the 21 trading days moved 1%—June had two (one up and one down) and May had three (two up and one down). The high/low spread, however, increased to 5.52% after last month's drop to 3.70%, which was up from May's 5.69%; July was more in line with the 5.38% one-year average. Trading volume decreased 17% from June and was 13% lower than the one-year average, which is typical of the summer start, and July 2018 was 2% higher year-over-year from July 2017 trading.

Sector return variance decreased for the third consecutive month and the S&P 500 continued to move up. For the month, the spread between the best (industrials) and worst (real estate) sector was 6.25%, down from June's 7.13%, May's 9.41%, and April's 13.81%; the one-year average is 10.33%. The spread was 22.63% YTD.

For the month, all 11 sectors posted gains, an event last seen in November 2017, up from 8 in June and 7 in May. The results reflected the broad earnings gains, which overpowered trade unknowns (but not a few issue warnings). Industrials did the best for the month, rebounding 7.25% after last month's 3.43% decline, when it was the worst performing group; year-to-date, the sector turned positive, up 1.25%, and it was up 28.44% from the U.S. Nov. 8, 2016, election. Health care also did well, up 6.48% for the month and up 6.54% YTD, while financials added 5.15% and was just short of being positive YTD, off 0.02% (but up 39.82% from the U.S. election). Information technology gained a sub-par 2.04%, as disappointments from Facebook and Twitter took their toll; the sector is up 12.41% YTD and up 55.51% since the election (the best of any group). Real estate did the worst, but it still gained 1.0013%, which was a tick below telecommunication services, which posted a 1.0028% gain, as real estate turned positive YTD, up 0.03%, but telecommunication services was negative, down 9.92% YTD (the worst-performing sector in the index). Consumer groups continued to vary, as consumer discretionary added 1.71% and was up 12.71% YTD, with consumer staples up 3.88% but down 6.43% YTD.

Positive breadth grew, as 381 issues gained in July (an average gain of 5.65% each), up from June's 284 gainers and May's 279, and 54 issues gained at least 10% (versus 32 last month). For the month, 124 issues declined (an average loss of 4.57% each), down from 221 issues last month and 226 in May, as 15 issues declined at least 10% (16 fell at least 10% last month). Year-to-date, breadth turned positive, as 289 (245 last month and 230 in the prior month) issues gained (an average of 15.49%

each), with 154 (121) up at least 10%, and 58 of them up at least 25%; 216 (260) issues declined (an average of 9.83% each), as 85 (114) were off at least 10% YTD, with 16 of them down at least 25%.

The Dow®

The new kid on the block shined this month, as last month's addition (on June 26, 2018) to the Dow Jones Industrial Average, drug store issue Walgreens Boots Alliance (WBA), thanked The Dow by gaining 12.67% for July, the best of any DJIA issue. The gain, however, was not enough to lift Walgreen into the black YTD, as the issue remained down 6.89% for 2018. As for General Electric (GE), which left The Dow to make room for Walgreens (and is still in the S&P 500), it managed a 0.1% gain in July, which left GE off 20.5% YTD. The Walgreens gain help lift The Dow (but given The Dow's price weighting, would have been much nicer if Walgreens had done a 1-for-2 reverse stock split) to post a 4.71% gain for the month, easily surpassing the other headline indices, but it was not enough to make up for the underperformance in the rest of 2018.

For June, The Dow closed at 25,415.19, up 4.71% (4.83% with dividends) from June's 24,271.41 close, when it was down 0.59% (down 0.49% with dividends), and May's 24,415.84 close, when it gained 1.05% (1.41% with dividends). For the three-month period, The Dow added 5.18% (5.80% with dividends), the worst of the group, with the YTD result turning positive, up 2.82% (4.07% with dividends), again leaving The Dow as the worst performer of the four headline indices; the one-year return was 16.10% (18.75% with dividends). From its last closing high of 26,616.71 on Jan. 26, 2018, The Dow has declined 4.51%.

For the month, 25 of the 30 issues gained, with an average gain of 5.87%, up from last month's 17 (and the prior month's 16), as 3 issues gained at least 10% (1 did so last month); the five decliners averaged a loss of 2.01%, with none of them down at least 10% (1 was last month). For the 3-month period, 23 issues gained (versus 18 issues at the end of June), with 7 up at least 10% (7 last month); 7 were down (12 last month), and none were down at least 10% (3 last month). Year-to-date, breadth turned positive, as 17 issues gained (an average of 10.79% each), up from 12 last month, with 13 down (with an average decline of 6.58%), versus 18 in June; 9 issues added at least 10% YTD, as 1 declined at least 10%.

Issues continued to vary in July, as they have all year; breadth improved and earnings were mostly positive, with rising sales. As mentioned previously, newcomer Walgreens did the best, while JPMorgan Chase (JPM) posted a 10.32% gain for the month, with a 7.49% YTD gain, and health care pharmaceutical issue Pfizer (PFE) was up 10.06% for the month and up 10.24% YTD. Last month's big winner, athletic footwear issue NIKE (NKE), which gained 10.97% in June, was this month's worst performer, off 3.48%; the issue was up 22.96% YTD and up 51.31% from the U.S. Nov. 8, 2016, election. Semiconductor maker Intel (INTC) fell 3.24% (up 4.20% YTD), as network product maker Cisco Systems (CSCO) lost 1.72% (and was up 10.24% YTD). Of note was Apple (AAPL), which gained 2.80% (sub-par compared with The Dow overall) after last month's 0.94% loss, and it was up 12.44% YTD, as it beat earnings after the close on the last day of the month and traded higher in the aftermarket. Business systems maker International Business Machines (IBM) added 3.74% (after June's 1.14% decline), and it was off 5.53% YTD.

S&P MidCap 400

The S&P MidCap 400 posted a 1.68% gain, the lowest of any of the four headline indices, after last month's mild 0.27% gain and the prior month's strong 3.95% gain. Year-to-date, the index was up 4.42%, with the one-year gain at 12.71% (the lowest of the four).

While the large caps had a broad gain, with all sectors up, the mid caps posted gains for 6 of the 11 sectors for the month, down from 7 last month and 9 the month before that. Sector returns continued to vary, as the spread between the best and worst group increased to 13.20% from 10.79% in June, while investors differentiated based on earnings (and trade issues). The short-term, three-month spread was 24.41% (27.94% in June), with the one-year spread at 57.02% (56.23%), demonstrating the blending of sectors (energy was up 34.90% for the one-year period, while telecommunication services was down 22.11%). Telecommunication services again reversed itself; it did the worst in July, off 7.91%, after it did the best last month, up 7.32%, posting a 9.17% YTD decline, the worst of any sector in the S&P MidCap 400. Consumer staples was the next worst, off 2.59%, as it remained in the red YTD, off 2.29%; consumer discretionary fell 1.70% and was off 1.51% YTD. Industrials did the best, up 5.29%, breaking into the black, up 1.30% YTD. Health care also outperformed, up 5.07%; it is up 24.52% YTD and up 49.78% over the two-year period.

Breadth remained positive and increased for the month, as 239 issues gained (an average of 6.16% each), up from June's 215 issues, but down from May's 278 gainers; 159 issues declined (an average of -4.82% each), down from last month's 184 issues but up from May's 121. For the month, 46 issues (36 last month) gained at least 10% (average 15.18%), as 16 (20) declined at least 10% (average loss of 14.43%). Year-to-date, breadth remained positive and improved, with 227 (204) gaining (average 15.70%) and 167 (187) declining (-12.71%), as 122 (107 last month) were up at least 10% and 82 (89) were down at least 10%.

S&P SmallCap 600

The S&P SmallCap 600 did as it has been doing, and continued going up. For July, the index added 3.10% (second to The Dow), after adding 0.89% last month and 6.54% in May; the three-month return posted a double-digit gain of 10.70%. The S&P SmallCap 600 was up 12.03% YTD and up 21.45% for the one-year period, both the best of the headline indices.

The gains were broad, as all 11 of the sectors increased, up from 10 in June, when information technology posted a 0.01% decline; May also had 11 for 11. Sector variance decreased; the difference between the best and worst sector was 6.33%, down from June's 7.97% and up from May's 6.13%. Industrials, similar to the large and mid caps, did the best, adding 6.57% and posting an 11.89% YTD gain (which was still less than the index's 12.03%). Materials added 4.28%, to post a 5.68% YTD gain, with health care up 3.69% and posting a 35.18% YTD gain (the best of any sector in any of the core indices).

For the month, breadth remained positive and improved, as 377 issues gain in July (an average of 7.61% each), up from June's 338 but down from May's 465. On the down side, 224 fell (an average decline of 5.88%), down from last month's 262, but up from 132 in May. Gains of at least 10% increased to 94 from last month's 71 (188 the month before that), with 38 (43 last month and 50 the month before that) issues off at least 10%. Year-to-date, breadth improved, as 381 issues were up (an average gain of 27.84%), from June's 358, while 220 (242) were down (with an average loss of

14.72%). Year-to-date, 67.1% of the index has moved up at least 10%; 277 (246) moved up and 126 (131) moved down at least 10%, as 159 issues have moved up at least 25% and 40 have declined at least 25%.

S&P Global BMI

Markets posted broad gains for July, as trade war issues remained a key driver abroad, where it appeared to have more of an impact, with earnings driving the U.S. market more. By month's end, trade concerns did ease, helped by the U.S.-EU agreement and NAFTA negotiations appearing to be on track for an agreement by the end of the quarter. That would leave China as the major ongoing concern.

The results for July left global shareholders with a lot to celebrate, as the S&P Global BMI increased USD 1,378 billion for the month and turned positive year-to-date, up 350 billion. However, the global breakdown still came down to "location, location, location" (meaning the U.S. and non-U.S.).

The S&P Global BMI was up 2.60% for the month, but excluding the U.S.'s 3.25%, it was up 1.91%; year-to-date, the index was up 1.27%, but without the U.S.'s 5.62% gain, it was down 3.16%. Emerging markets were up 2.08% for the month and off 5.29% YTD, while developed markets were up 2.66% for the month and up 2.04% YTD; excluding the U.S., they were up 1.86% and down 2.58%, respectively.

For July 2018, the S&P Global BMI increased USD 1.378 trillion in market value (down USD 0.654 trillion in June), with the U.S. portion up USD 0.876 trillion (down USD 0.045 trillion last month), and the non-U.S. portion was up USD 0.502 trillion (down USD 0.609 trillion last month). Year-to-date, global markets were up USD 0.350 trillion to USD 55.139 trillion.

For July, global markets increased 2.60%, after June's 0.82% decline and May's 0.09% gain, as 40 of the 48 posted gains, up from 12 gainers last month, with the U.S. dominance (and outperformance) continuing to affect the overall results. For July, the U.S. gained 3.25% (up 0.52% last month), as the global ex-U.S. return for July was 1.91% (June was -2.25%). For the three-month period, the S&P Global BMI was up 1.27%, with the U.S. up 6.47%, and globals excluding the U.S. were down 2.81%; year-to-date, the index was up 1.27%, but excluding the U.S.'s 5.62%, it was down 2.81%. For the one-year period, the U.S. outperformed; global markets were up 9.03%, and absent the U.S.'s 14.29% return, they were up 3.73%. Since the U.S. election (Nov. 8, 2016), the non-U.S. global market underperformed the U.S., returning 21.42% while the U.S. gained 32.43%. Over the longer term, the U.S. has also done better, as the global three-year return was 22.66%, but absent the U.S.'s 33.08%, the three-year return was 12.51%.

Sector variance declined, as all 11 groups gained for the month, up from 6 gainers last month (and 8 the month before that). The spread between the best (health care, up 5.10%) and worst (consumer discretionary, up 0.58%) sectors for the month was 4.52%, slightly down from last month's 4.57%, and substantially down from the prior month's 11.50% spread. Year-to-date, information technology did the best, up 8.09%, as telecommunication services did the worst, off 8.56%.

Emerging markets broke into the black in July, posting a 2.08% gain after June's 4.32% decline and May's 3.17% fall, as the three-month return remained in the red, off 5.44%, with the year-to-date return down 5.29%. For July, 17 of 23 markets were positive, up from 5 in June and 3 in May. The one-year

return remained positive, though it continued to slide; it was up 2.98% in July, compared with 6.45% in June and 11.81% in May. Over the two-year period, emerging markets increased 24.27% (27.08% in June and 37.01% in May) and their three-year return was up 20.44% (10.20% in June and 10.64% in May). Brazil did the best, up 11.29%, though it remained in the red year-to-date, off 9.97%. Poland was next, as it added 9.62% but was down 11.85% YTD, with Mexico, which did the best last month, next, adding 9.36%, as it turned positive YTD, up 5.34. Turkey did the worst, off 7.22%, and its YTD loss was 35.87% (the worst of any S&P Global BMI market). Egypt was next, off 3.85% (up 4.84% YTD), followed by China, which declined 3.07% (off 5.18% YTD).

Developed markets continued to be profitable, as they were up 2.66% overall and up 1.86% excluding the U.S. For the three-month period, developed markets were up 2.73%, but down 2.09% without the U.S.; the YTD gain was 2.73%, but excluding the U.S. was -2.54%. Of the 25 markets, 23 gained, up from 8 last month and 7 in May. Luxembourg did the best, as it added 8.74% and was up 3.63% YTD, and Sweden was next, gaining 6.02% but remaining 3.07% in the red YTD, with Denmark third, adding 5.84% and off 0.49% YTD. On the down side, Korea again did the worst, declining 1.93% after last month's 7.30% fall, and it was down 11.05% YTD, followed by Ireland, which lost 1.47% (off 2.34% YTD), and then Japan, up 0.14% (off 2.66% YTD). Of note was Germany's 4.29% gain after June's 2.69% decline, bringing its YTD loss to 5.17%.

Also of note, S&P DJI announced that it would classify Saudi Arabia as an emerging market beginning in March 2019 (quarterly rebalancing). Separately, Saudi Arabia has been preparing an IPO of Saudi Aramco.

PERFORMANCE RECAP

Exhibit 2: Monthly Returns							
S&P 500	PRICE	1-MONTH (%)	3-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	FR 12/99 (%)
Energy	569.16	1.36	4.52	6.70	16.26	12.03	167.56
Materials	374.38	2.95	4.95	-1.20	9.46	29.88	134.04
Industrials	645.78	7.25	6.36	1.25	10.77	38.27	136.22
Consumer Discretionary	885.15	1.71	7.25	12.71	21.81	39.22	195.73
Consumer Staples	549.60	3.88	6.25	-6.43	-3.42	6.68	164.17
Health Care	1028.39	6.48	8.11	7.54	11.40	16.24	214.70
Financials	463.85	5.15	1.87	-0.02	11.46	36.90	44.18
Information Technology	1243.45	2.04	8.89	12.41	26.83	74.63	54.00
Telecommunication Services	149.60	1.00	0.92	-9.92	-7.56	-1.39	-53.66
Utilities	268.11	1.83	2.57	0.28	-0.71	20.11	88.23
Real Estate	203.92	1.00	6.99	0.03	1.33	11.05	-
S&P 500	2816.29	3.60	6.35	5.34	14.01	33.86	91.68
DOW JONES INDUSTRIAL AVERAGE	PRICE	1-MONTH (%)	3-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	FR 12/99 (%)
Dow Jones Industrial Average	25415.19	4.71	5.18	2.82	16.10	43.67	121.06
S&P MIDCAP 400	PRICE	1-MONTH (%)	3-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	FR 12/99 (%)
Energy	481.98	-1.70	8.79	14.16	34.90	-9.10	174.69
Materials	517.60	3.46	5.46	1.11	11.35	48.89	366.44
Industrials	1037.96	5.29	8.53	1.30	15.92	46.97	483.07
Consumer Discretionary	783.64	-1.70	3.40	-1.51	10.30	7.97	293.96
Consumer Staples	1687.30	-2.59	1.41	-2.29	-0.31	1.60	868.51
Health Care	1989.43	5.07	16.80	24.52	27.82	50.24	1024.51
Financials	1018.38	1.56	-0.07	0.76	9.31	38.06	207.81
Information Technology	2481.87	2.08	6.37	7.33	15.40	54.25	194.53
Telecommunication Services	133.97	-7.91	-7.61	-9.17	-22.11	-49.79	-71.68
Utilities	552.28	1.95	5.23	4.63	5.28	40.34	298.70
Real Estate	232.78	-0.66	8.37	2.19	1.21	-	-
S&P MidCap 400	1984.49	1.68	5.98	4.42	12.71	32.04	346.28
S&P SMALLCAP 600	PRICE	1-MONTH (%)	3-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	FR 12/99 (%)
Energy	627.69	1.59	6.65	11.73	29.03	-14.15	303.92
Materials	558.42	4.28	7.80	5.68	18.42	48.53	305.06
Industrials	1184.63	6.57	14.07	11.89	27.81	55.50	492.49
Consumer Discretionary	609.56	0.93	9.73	8.96	21.84	22.22	349.76
Consumer Staples	1925.26	2.99	15.65	8.58	17.80	41.27	865.77
Health Care	3186.54	3.69	16.24	35.18	53.96	81.43	1660.13
Financials	1130.41	2.95	5.63	8.94	15.83	45.84	285.92
Information Technology	732.30	2.13	10.10	9.72	8.99	64.25	167.78
Telecommunication Services	3.14	0.32	10.56	10.56	12.54	36.52	-95.72
Utilities	981.21	1.83	5.74	2.26	4.94	55.24	422.75
Real Estate	199.70	0.24	11.75	-1.82	-4.15	-	-
S&P SmallCap 600	1048.88	3.10	10.70	12.03	21.45	47.18	430.30

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. 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 (%)	3-MONTH (%)	YTD (%)	1-YEAR (%)	3-YEAR (%)	5-YEAR (%)	10-YEAR (%)
S&P 500	3.72	6.87	6.47	16.24	42.46	85.26	175.51
S&P MidCap 400	1.76	6.41	5.31	14.50	38.58	74.13	188.72
S&P SmallCap 600	3.16	11.06	12.84	23.11	53.48	90.82	220.92
S&P Composite 1500	3.57	6.97	6.58	16.33	42.50	84.54	178.13
Dow Jones Industrial Average	4.83	5.80	4.07	18.75	54.79	85.14	190.51

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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

BMI MEMBER	1-MONTH (%)	3-MONTH	YTD (%)	1-YEAR (%)	2-YEAR (%)	3-YEAR (%)
Global	2.60	1.86	1.27	9.03	25.33	22.66
Global Ex-U.S.	1.91	-2.81	-3.16	3.73	20.36	12.51
Emerging	2.08	-5.44	-5.29	2.98	24.27	20.44
Brazil	11.29	-14.90	-9.97	-3.03	12.85	29.23
Poland	9.62	-4.96	-11.85	-5.45	39.61	10.88
Mexico	9.36	2.18	5.34	-7.02	5.41	-6.01
Qatar	9.24	8.02	14.45	3.99	-3.01	-14.11
Thailand	6.88	-9.51	-5.89	7.65	15.36	24.57
Philippines	6.38	-4.86	-15.59	-10.04	-14.34	-10.95
Czech Republic	5.87	-0.97	2.31	15.47	28.88	12.52
U.A.E.	5.54	0.22	-1.60	-7.53	-4.04	-17.87
India	5.25	-0.82	-4.60	4.02	29.29	26.63
South Africa	5.04	-7.22	-11.78	2.59	7.73	4.10
Malaysia	4.91	-5.91	-2.25	6.98	10.08	0.66
Chile	4.05	-9.70	-7.88	6.03	29.23	38.31
Indonesia	2.48	-5.95	-13.97	-9.40	-4.44	9.98
Hungary	2.40	-13.92	-15.58	-8.46	26.25	52.57
Peru	2.24	-4.87	5.30	21.10	41.60	66.69
Taiwan	1.90	0.53	0.51	3.95	27.50	30.24
Russia	1.52	0.91	1.10	16.69	30.35	38.09
Greece	-0.64	-13.80	-8.93	-9.88	29.14	-23.19
Pakistan	-1.17	16.05	-14.23	57.97	29.50	14.31
Colombia	-1.85	-5.04	4.50	6.58	23.74	14.07
China	-3.07	-7.29	-5.18	6.49	42.18	27.59
Egypt	-3.85	-14.68	4.84	16.14	-4.79	-15.96
Turkey	-7.22	-23.26	-35.87	-	-	-

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. 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 July Performance

BMI MEMBER	1-MONTH (%)	3-MONTH	YTD (%)	1-YEAR (%)	2-YEAR (%)	3-YEAR (%)
Developed	2.66	2.73	2.04	9.75	25.49	22.92
Developed Ex-U.S.	1.86	-2.09	-2.58	3.95	19.42	10.67
Luxembourg	8.74	1.97	3.63	7.39	27.02	11.26
Switzerland	6.02	3.27	-3.07	-0.08	13.28	0.59
Denmark	5.84	2.46	-0.49	4.27	11.98	12.88
Sweden	5.54	2.88	-2.21	-1.89	17.54	9.20
Austria	5.16	-4.02	-1.64	8.84	64.78	49.83
Germany	4.29	-3.23	-5.17	3.81	25.53	15.24
Netherlands	3.48	0.09	1.29	5.29	35.04	24.15
Portugal	3.33	1.72	4.74	10.70	23.89	10.55
France	3.27	-3.23	0.95	7.54	31.68	18.20
United States	3.25	6.47	5.62	14.29	30.14	33.08
Italy	3.04	-9.89	-1.32	2.18	37.27	0.50
Israel	2.97	9.18	5.11	2.22	0.41	-13.68
Spain	2.61	-4.46	-4.22	-6.54	20.34	-6.57
Belgium	2.32	-1.38	-4.68	-5.38	3.06	3.50
Australia	1.93	3.72	-1.18	3.16	12.10	13.89
Canada	1.89	3.63	-2.33	4.69	13.76	14.40
Norway	1.42	1.21	6.94	13.64	39.93	21.90
Hong Kong	1.42	-3.45	-2.53	4.04	19.02	8.40
Singapore	1.06	-11.25	-5.86	0.17	15.31	6.65
Finland	0.71	-2.61	4.23	3.98	23.18	20.55
United Kingdom	0.57	-1.85	-2.44	4.37	14.36	-2.85
New Zealand	0.39	2.03	0.92	2.52	7.38	38.96
Japan	0.14	-3.40	-2.66	7.20	20.78	17.33
Ireland	-1.47	-1.26	-2.34	5.41	23.52	15.45
Korea	-1.93	-13.20	-11.05	-1.30	19.84	27.44

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. 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	2015	2016	2017	ESTIMATED 2018
S&P 500	14.73	22.69	22.62	17.83
S&P 500 Consumer Discretionary	16.89	22.17	25.12	21.94
S&P 500 Consumer Staples	15.96	22.18	20.10	18.55
S&P 500 Energy	12.03	-38.97	42.83	19.49
S&P 500 Financials	13.46	16.83	17.44	13.61
S&P 500 Health Care	14.68	21.02	22.81	18.20
S&P 500 Industrials	14.76	19.49	21.32	17.20
S&P 500 Information Technology	14.19	22.20	24.58	19.10
S&P 500 Materials	16.20	38.50	21.79	16.13
S&P 500 Telecommunication Services	43.21	14.02	14.70	10.07
S&P 500 Utilities	14.84	22.21	18.45	16.92
S&P 500 Real Estate	-	-	-	37.35
INDEX	2015	2016	2017	ESTIMATED 2018
S&P MidCap 400	18.71	30.41	25.41	18.87
S&P 400 Consumer Discretionary	18.19	20.80	18.47	15.68
S&P 400 Consumer Staples	16.80	23.84	22.93	18.88
S&P 400 Energy	22.82	-4.95	-301.24	57.65
S&P 400 Financials	18.61	25.05	19.66	14.38
S&P 400 Health Care	21.24	27.39	38.54	24.73
S&P 400 Industrials	15.55	21.56	22.72	18.60
S&P 400 Information Technology	23.60	40.03	33.26	21.55
S&P 400 Materials	17.93	28.08	18.84	13.17
S&P 400 Telecommunication Services	34.07	13.29	-11.77	24.27
S&P 400 Utilities	15.52	23.42	21.10	21.14
S&P 400 Real Estate	-	-	-	28.25
INDEX	2015	2016	2017	ESTIMATED 2018
S&P SmallCap 600	22.04	42.43	33.63	21.11
S&P 600 Consumer Discretionary	21.45	23.16	25.37	16.41
S&P 600 Consumer Staples	18.26	20.41	30.17	20.50
S&P 600 Energy	77.57	-2.48	-30.62	30.18
S&P 600 Financials	20.10	26.37	21.02	15.48
S&P 600 Health Care	21.59	43.30	-695.75	42.99
S&P 600 Industrials	17.85	24.72	26.77	21.27
S&P 600 Information Technology	31.37	41.01	31.70	21.61
S&P 600 Materials	22.56	46.69	24.03	17.32
S&P 600 Telecommunication Services	24.20	36.50	-	-157.00
S&P 600 Utilities	16.69	23.40	27.10	24.54
S&P 600 Real Estate	-	-	-	-

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Exhibit 7: Operating EPS Changes

INDEX	Q3 2017 OVER Q3 2016 (%)	Q4 2017 OVER Q4 2016 (%)	Q1 2018 OVER Q1 2017 (%)	Q2 2018E OVER Q2 2017 (%)	Q3 2018E OVER Q2 2017 (%)	2017 OVER 2016 (%)	2018E OVER 2017 (%)
S&P 500	9.20	21.36	26.79	27.17	28.69	17.18	26.86
S&P 500 Consumer Discretionary	3.75	13.18	14.41	18.03	13.66	5.83	14.50
S&P 500 Consumer Staples	5.60	14.40	13.02	10.42	6.56	7.97	8.34
S&P 500 Energy	328.74	614.63	62.37	161.09	112.06	480.80	119.79
S&P 500 Financials	-12.29	13.31	15.37	23.21	40.88	11.77	28.17
S&P 500 Health Care	6.36	10.66	15.49	12.73	36.50	6.24	25.35
S&P 500 Industrials	7.33	19.85	40.19	20.45	16.89	11.90	23.94
S&P 500 Information Technology	32.18	38.80	48.54	40.70	27.62	33.20	28.70
S&P 500 Materials	9.92	31.73	18.83	30.67	38.54	31.95	35.10
S&P 500 Telecommunication Services	5.38	-23.62	32.96	38.21	41.61	3.25	45.87
S&P 500 Utilities	-5.48	27.50	18.67	11.76	5.79	6.29	9.08
S&P 500 Real Estate	-	-	-	-	-22.44	-	-2.50
INDEX	Q3 2017 OVER Q3 2016 (%)	Q4 2017 OVER Q4 2016 (%)	Q1 2018 OVER Q1 2017 (%)	Q2 2018E OVER Q2 2017 (%)	Q3 2018E OVER Q2 2017 (%)	2017 OVER 2016 (%)	2018E OVER 2017 (%)
S&P MidCap 400	-2.15	37.11	25.21	29.41	53.10	21.03	34.62
S&P 400 Consumer Discretionary	14.21	6.63	26.41	15.06	9.18	11.72	17.80
S&P 400 Consumer Staples	16.98	-0.66	40.17	14.11	14.95	4.50	21.45
S&P 400 Energy	-138.67	115.35	900.00	-97.81	139.25	96.99	622.50
S&P 400 Financials	-25.51	7.13	9.69	29.01	93.53	15.57	36.76
S&P 400 Health Care	37.27	16.00	15.97	135.24	32.31	3.43	55.87
S&P 400 Industrials	14.90	28.62	29.63	15.91	20.59	13.69	22.13
S&P 400 Information Technology	19.04	7.56	22.10	41.45	62.85	25.05	54.32
S&P 400 Materials	48.01	60.41	32.01	45.15	51.14	53.64	43.03
S&P 400 Telecommunication Services	-569.86	-324.44	183.04	133.42	143.44	-456.74	148.51
S&P 400 Utilities	1.67	10.38	10.62	18.05	-19.85	7.47	-0.15
S&P 400 Real Estate	-	-	-	-	33.10	-	13.19
INDEX	Q3 2017 OVER Q3 2016 (%)	Q4 2017 OVER Q4 2016 (%)	Q1 2018 OVER Q1 2017 (%)	Q2 2018E OVER Q2 2017 (%)	Q3 2018E OVER Q2 2017 (%)	2017 OVER 2016 (%)	2018E OVER 2017 (%)
S&P SmallCap 600	9.94	30.60	27.12	58.18	67.77	21.79	59.28
S&P 600 Consumer Discretionary	-8.01	28.81	40.37	49.01	79.01	0.67	54.60
S&P 600 Consumer Staples	-34.07	11.99	111.37	-7.14	66.54	-16.14	47.16
S&P 600 Energy	63.43	73.61	101.76	418.13	195.73	82.77	201.46
S&P 600 Financials	-2.22	21.07	25.29	39.97	53.65	16.81	35.81
S&P 600 Health Care	897.92	-576.47	677.54	16169.23	113.36	-133.02	1718.56
S&P 600 Industrials	11.55	68.94	8.91	37.77	26.24	19.27	25.82
S&P 600 Information Technology	18.85	24.59	6.00	56.25	59.77	36.28	46.71
S&P 600 Materials	-16.88	47.40	11.17	36.29	52.22	21.74	38.73
S&P 600 Telecommunication Services	-50.00	-200.00	0.00	-200.00	-100.00	-100.00	-
S&P 600 Utilities	-32.44	4.38	27.61	-12.58	-11.55	1.51	10.44
S&P 600 Real Estate	-	-	-	-	-	-	-

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. 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	JULY 2018	AVERAGE % CHANGE	3-MONTH	AVERAGE % CHANGE	YTD	AVERAGE % CHANGE
Up	381	5.65	361	9.94	289	15.49
Down	124	-4.57	144	-6.47	216	-9.83
Up >= 10%	54	13.76	151	16.69	154	24.81
Down <= -10%	15	-15.14	29	-16.97	85	-17.99
Up >= 25%	1	27.51	12	35.33	58	38.79
Down <= -25%	2	-26.34	4	-30.77	16	-30.46
Up >= 50%	0	0.00	2	61.72	10	64.84
Down <= -50%	0	0.00	0	0.00	0	0.00
S&P MIDCAP 400						
TYPE	JULY 2018	AVERAGE % CHANGE	3-MONTH	AVERAGE % CHANGE	YTD	AVERAGE % CHANGE
Up	239	6.16	281	12.70	227	15.70
Down	159	-4.82	115	-8.20	167	-12.71
Up >= 10%	46	15.18	139	20.38	122	24.93
Down <= -10%	16	-14.43	29	-19.04	82	-21.01
Up >= 25%	5	34.14	28	36.43	49	37.33
Down <= -25%	0	0.00	6	-33.75	24	-32.20
Up >= 50%	0	0.00	5	63.84	4	80.16
Down <= -50%	0	0.00	1	-59.62	1	-60.20
S&P SMALLCAP 600						
TYPE	JULY 2018	AVERAGE % CHANGE	3-MONTH	AVERAGE % CHANGE	YTD	AVERAGE % CHANGE
Up	377	7.61	455	18.77	381	27.84
Down	224	-5.88	146	-11.08	220	-14.72
Up >= 10%	94	17.33	290	26.24	277	36.46
Down <= -10%	38	-16.44	65	-19.16	126	-22.22
Up >= 25%	12	32.75	111	41.89	159	51.41
Down <= -25%	3	-34.10	11	-33.47	40	-34.75
Up >= 50%	1	57.51	23	69.76	57	80.38
Down <= -50%	0	0.00	0	0.00	3	-61.62
DOW JONES INDUSTRIAL AVERAGE						
TYPE	JULY 2018	AVERAGE % CHANGE	3-MONTH	AVERAGE % CHANGE	YTD	AVERAGE % CHANGE
Up	25	5.87	23	7.77	17	10.79
Down	5	-2.01	7	-2.74	13	-6.58
Up >= 10%	3	11.02	7	12.98	9	16.97
Down <= -10%	0	0.00	0	0.00	1	-11.97
Up >= 25%	0	0.00	0	0.00	0	0.00
Down <= -25%	0	0.00	0	0.00	0	0.00
Up >= 50%	0	0.00	0	0.00	0	0.00
Down <= -50%	0	0.00	0	0.00	0	0.00

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

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