

# Capital Markets Review

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## Q3 2016

Reviewing the quarter ended June 30, 2016



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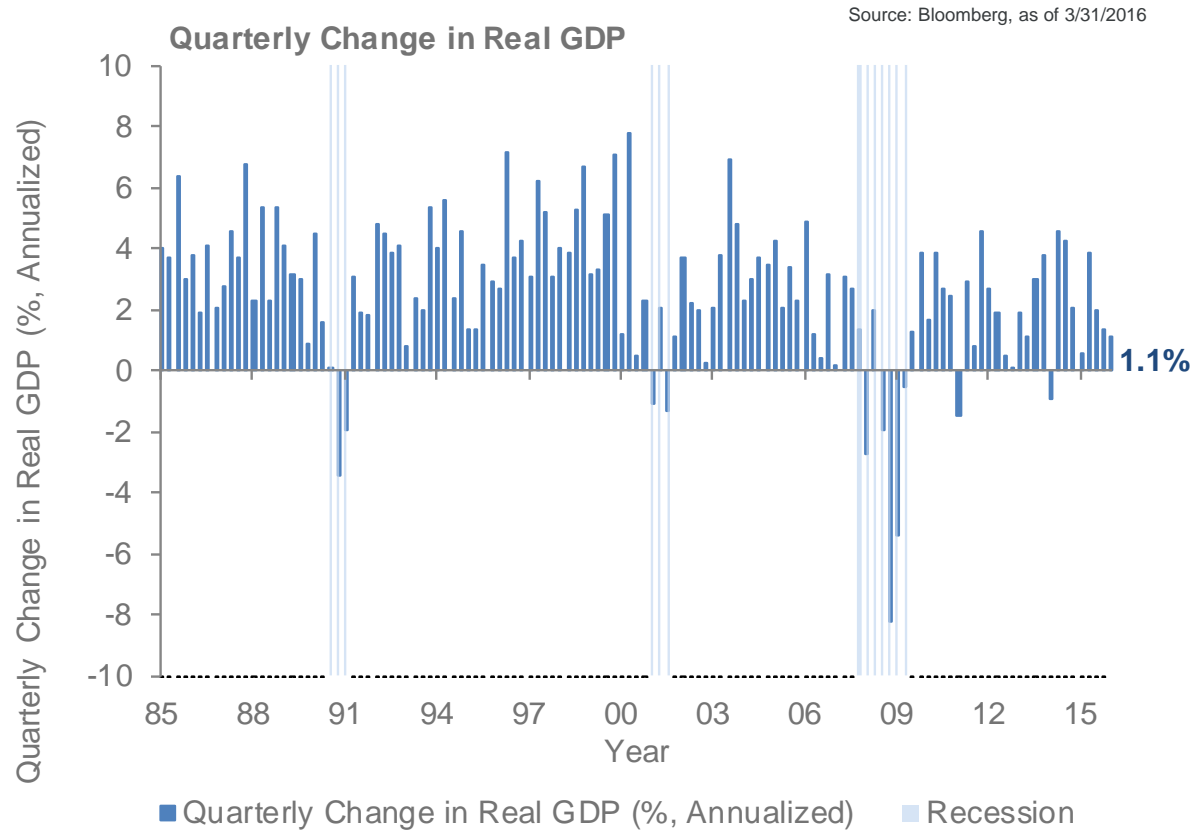
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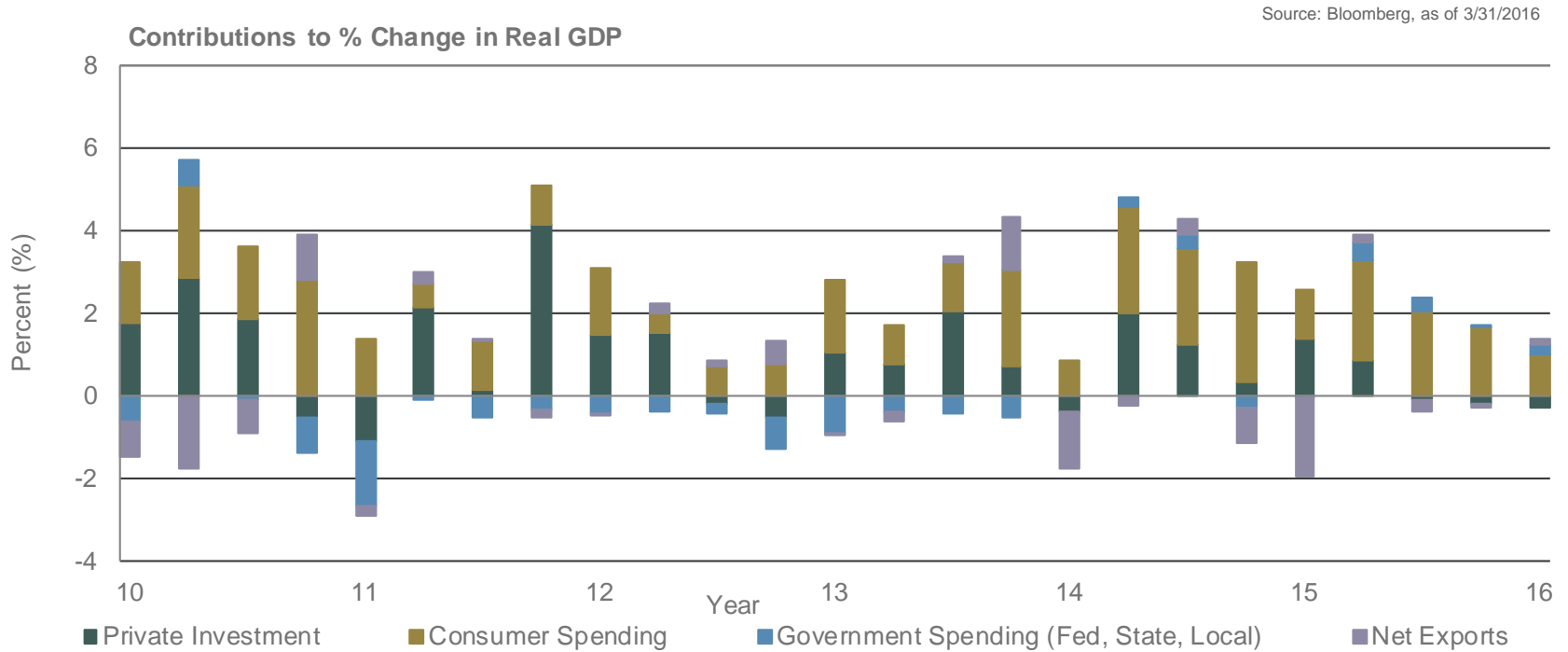
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Real gross domestic product increased at an annual rate of 1.1 percent in the first quarter of 2016, falling from 1.4 percent in the previous quarter

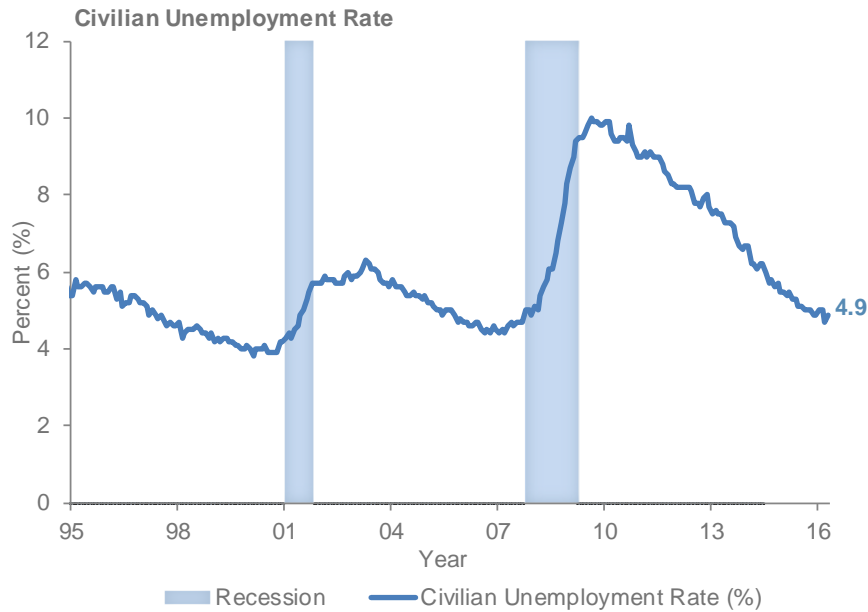


The slowdown in real GDP primarily reflected negative contributions from nonresidential fixed investment, private inventory investment, and federal government spending.

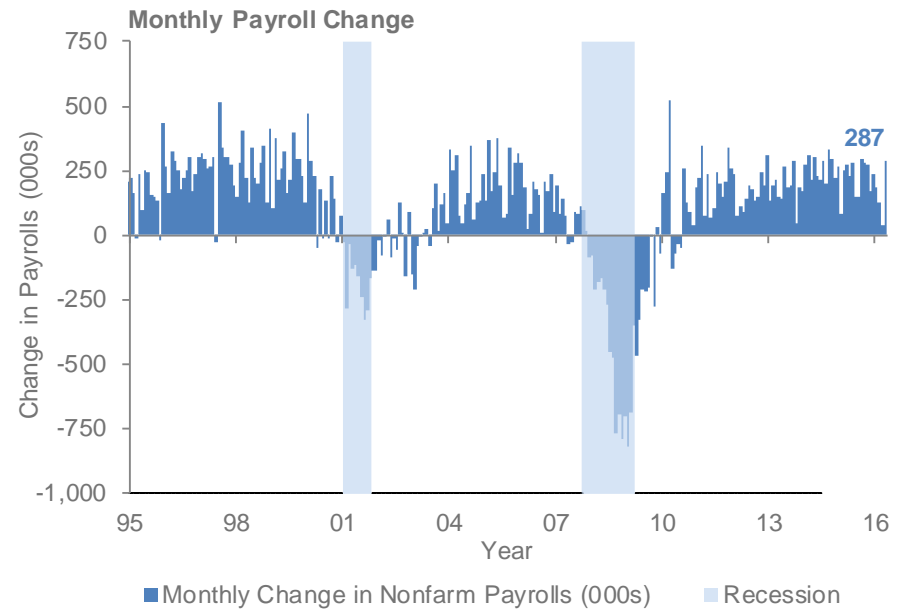


Jobs grew by 287,000 in June, and unemployment is hovering around 5 percent. Job growth occurred in leisure and hospitality, health care and social assistance, financial activities, and information industries.

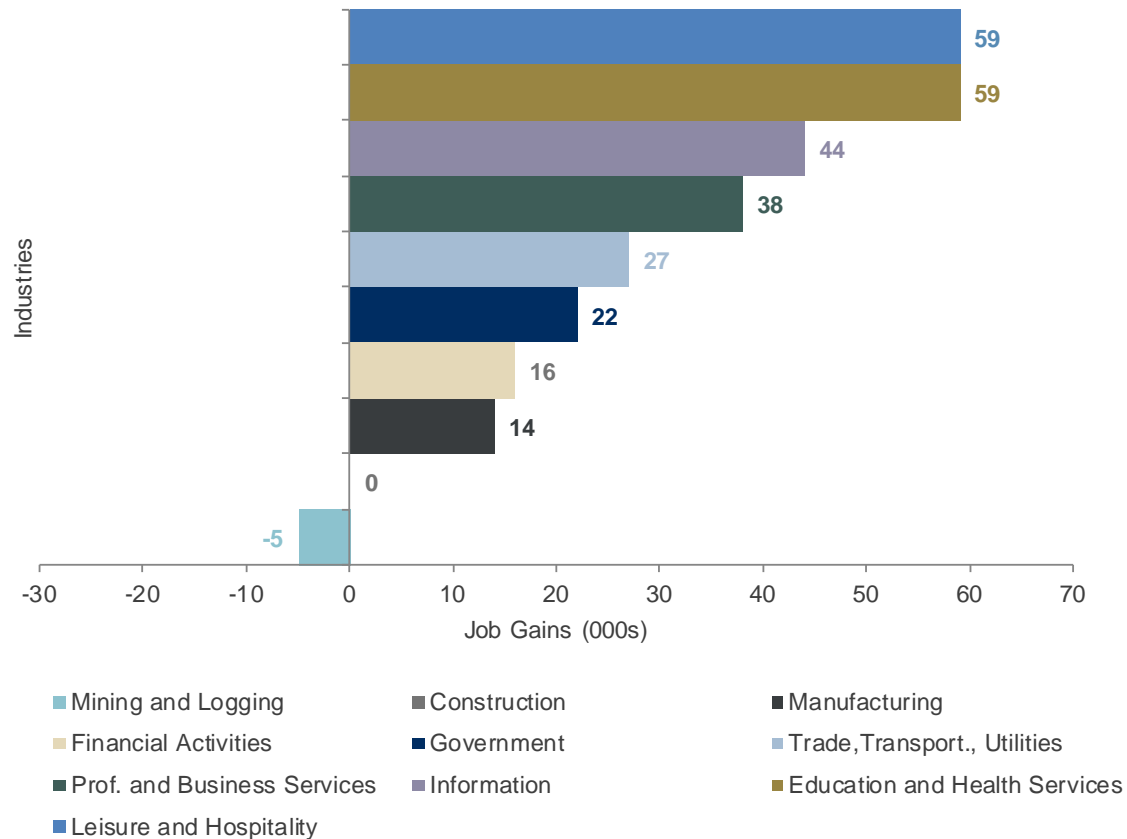
Source: Bloomberg, as of 6/30/16



Source: Bloomberg, as of 6/30/16

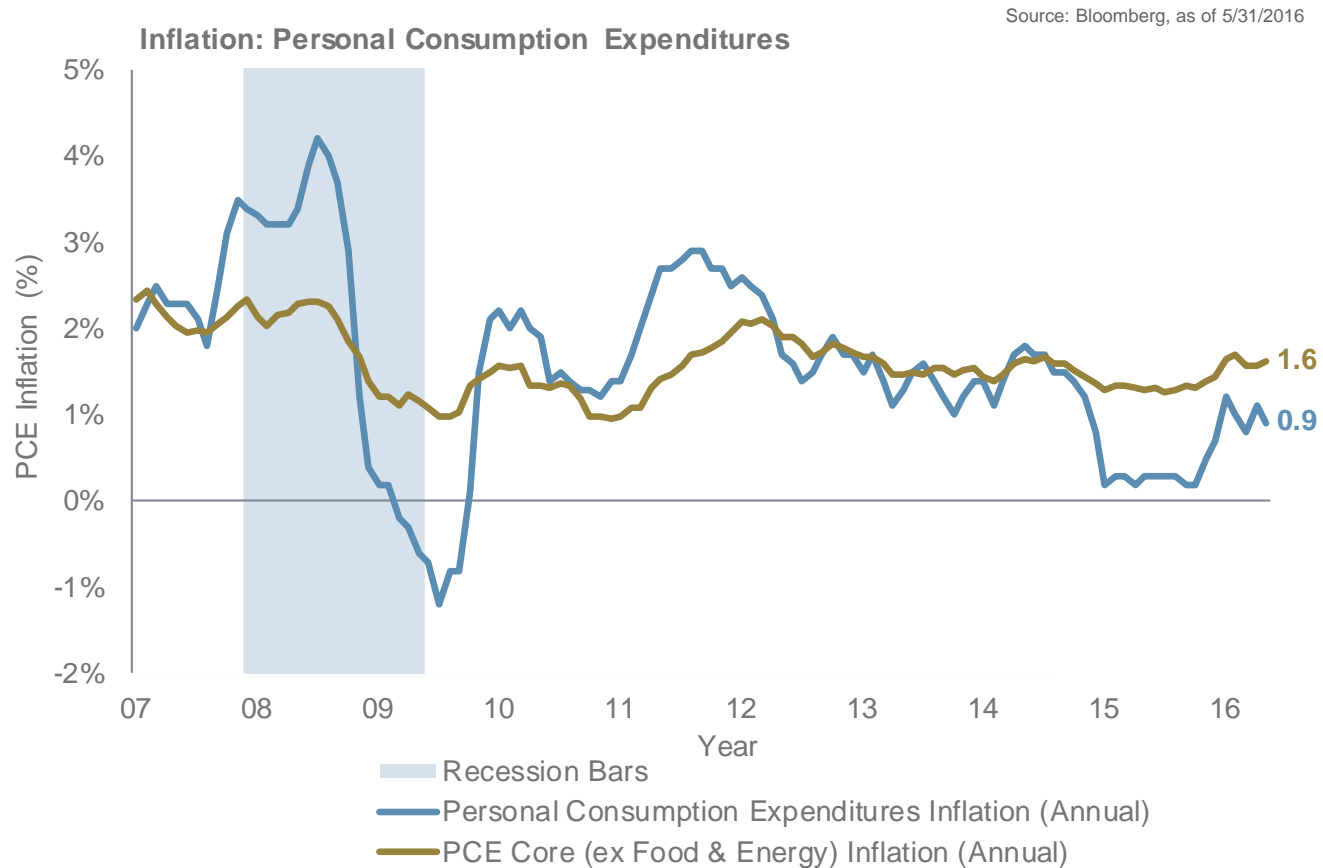


The largest job gains occurred in leisure and hospitality, health care and social assistance. Employment in information also increased, largely due to the return of workers from a strike.



Source: Bureau of Labor Statistics, as of 6/30/2016, a preliminary estimate of the net number of jobs in the various industries in the latest month.

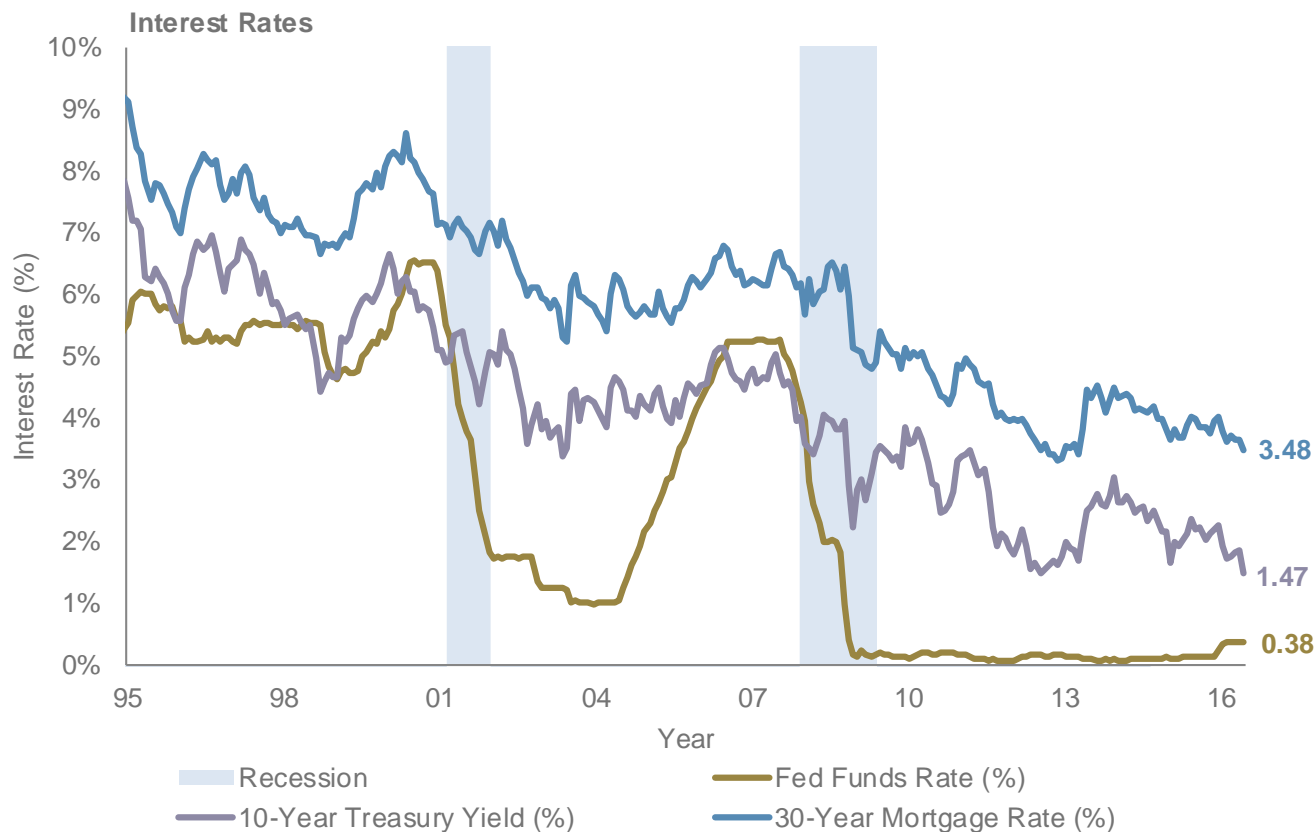
Inflation remains low, but Federal Reserve officials expect a gradual increase back to their two percent target as the transitory impact of low prices of oil and other commodities diminishes.



\*Personal Consumption Expenditure (PCE) is the preferred measure of inflation by the Bureau of Economic Analysis.

Long-term interest rates should drift gradually higher as the economy improves and the Federal Reserve raises short-term rates. However, we should see a continued flight to safety (lower bond yields) from foreign fixed-income investors due to global economic uncertainties and lack of positive yield abroad.

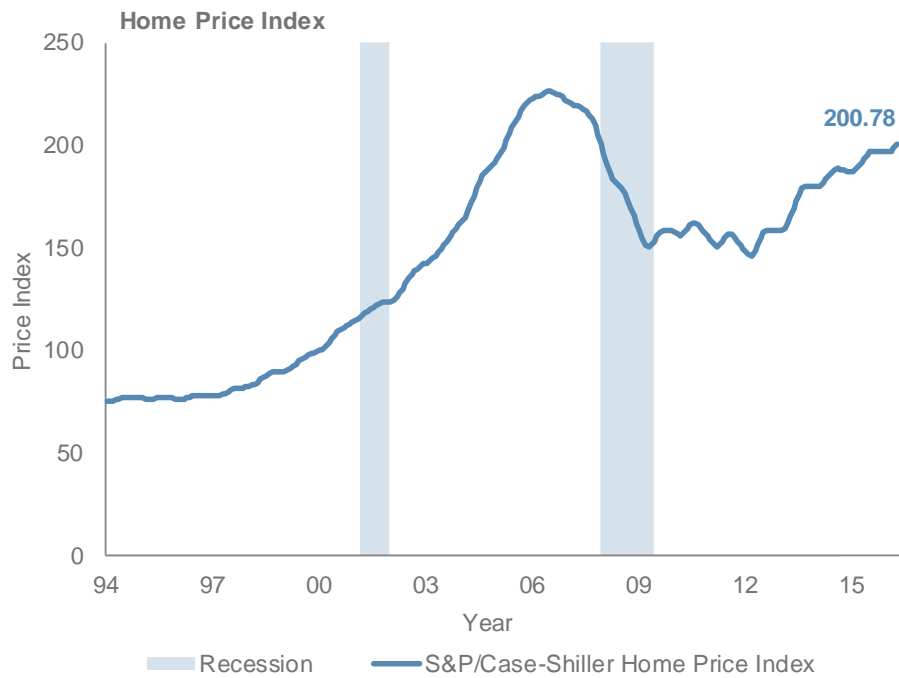
Source: Bloomberg, as of 6/30/2016



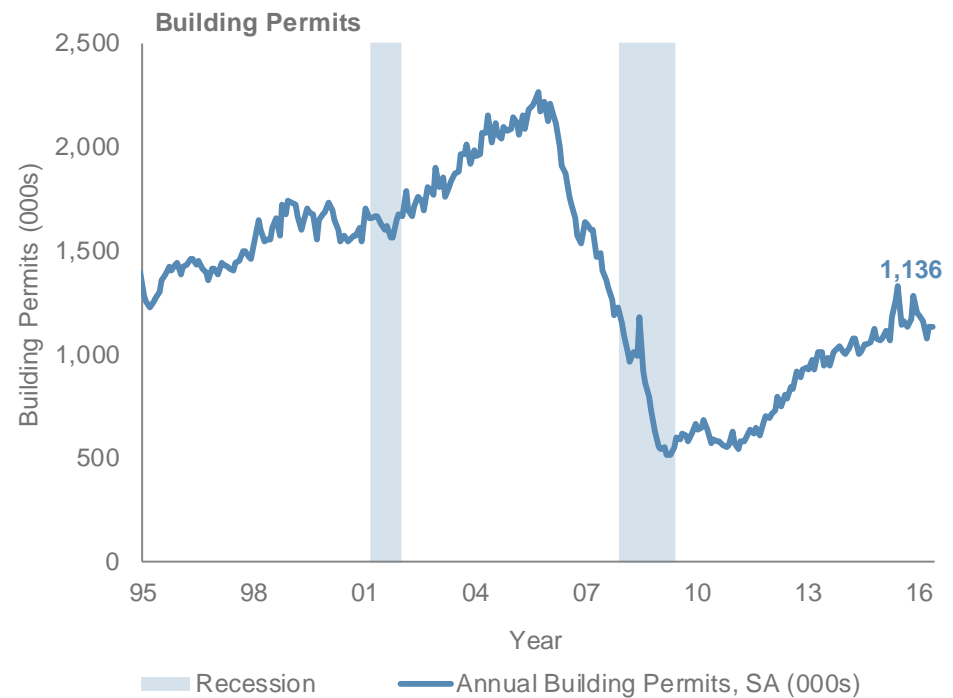


U.S. home prices continue to recover from post-financial crisis lows, driven by low mortgage rates and lean inventory levels. Building permits have yet to pick up due, in part, to limited access to credit and increased building costs.

Source: Bloomberg, as of 4/30/2016



Source: U.S. Census Bureau, as of 5/31/2016



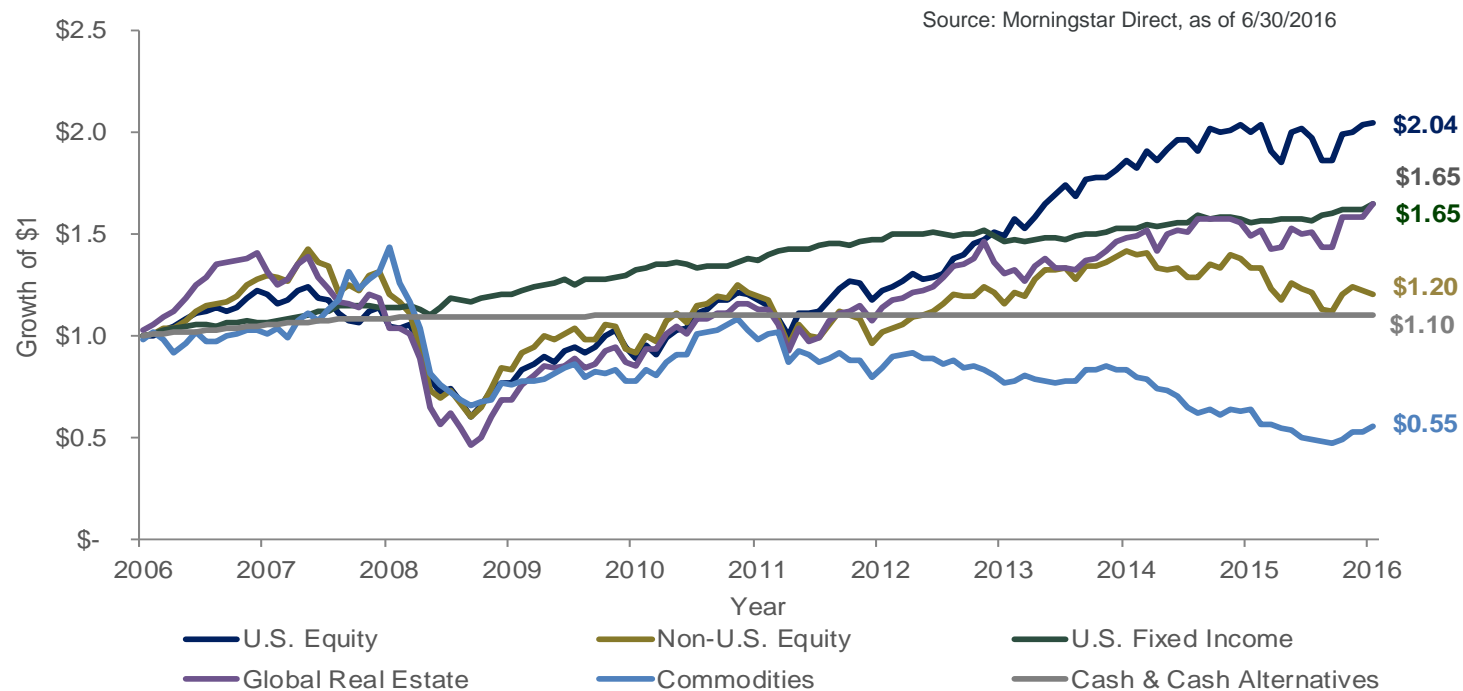
“Consumer confidence rebounded in June, after declining in May. Expectations regarding business and labor market conditions, as well as personal income prospects, improved moderately. Overall, consumers remain cautiously optimistic about economic growth in the short term.”

- Lynn Franco, Director of Economic Indicators at The Conference Board

Source: Bloomberg, as of 6/30/2016



# ASSET CLASS RETURNS: GROWTH OF A DOLLAR



	QTD	YTD	1-Year	3-Year	5-Year	10-Year
<b>U.S. Equity</b>	2.63%	3.62%	2.14%	11.13%	11.60%	7.40%
<b>Non-U.S. Equity</b>	-0.64%	-1.02%	-10.24%	1.16%	0.10%	1.87%
<b>U.S. Fixed Income</b>	2.21%	5.31%	6.00%	4.06%	3.76%	5.13%
<b>Global Real Estate (REITs)</b>	3.30%	8.35%	9.59%	7.07%	6.95%	4.82%
<b>Commodities</b>	12.78%	13.25%	-13.32%	-10.55%	-10.82%	-5.59%
<b>Cash &amp; Cash Alternatives</b>	0.06%	0.12%	0.14%	0.07%	0.06%	0.96%

Past performance is not indicative of future results. Please see slide 28-30 for asset class definitions.

# ASSET CLASS RETURNS

Source: Morningstar Direct, as of 6/30/2016

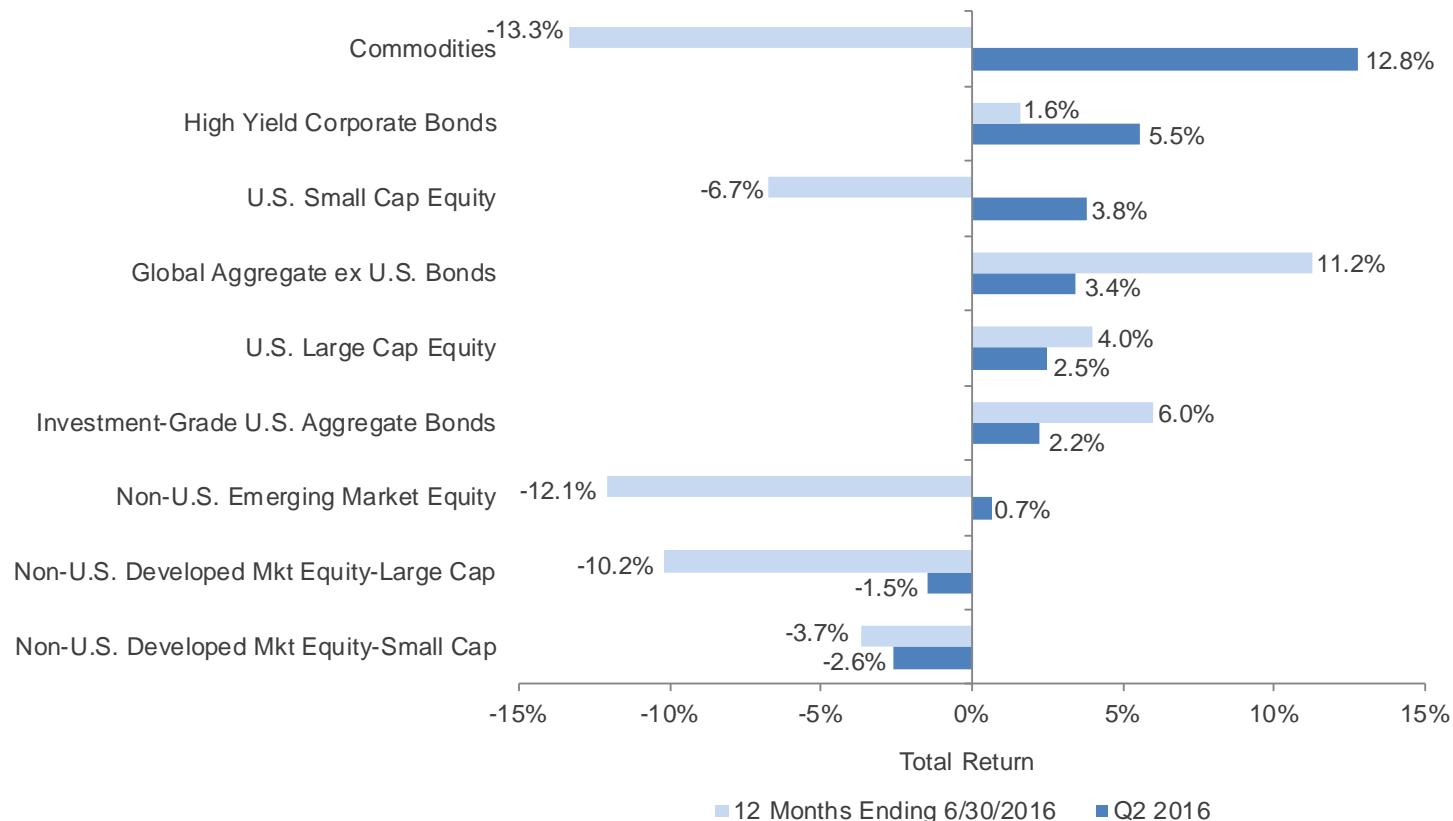
2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD 2016	
Non-U.S. Equity 16.7%	Fixed Income 5.2%	Non-U.S. Equity 41.5%	Real Estate 19.3%	Fixed Income 7.8%	Real Estate 29.0%	U.S. Equity 33.6%	Real Estate 13.9%	Fixed Income 0.6%	Commodities 13.3%	Best ↑ ↓ Worse
Commodities 16.2%	Cash & Cash Alternatives 1.8%	Real Estate 40.2%	U.S. Equity 16.9%	Blended Portfolio 2.7%	Non-U.S. Equity 16.8%	Non-U.S. Equity 15.3%	U.S. Equity 12.6%	U.S. Equity 0.5%	Real Estate 8.4%	
Blended Portfolio 7.8%	Blended Portfolio -21.7%	U.S. Equity 28.3%	Commodities 16.8%	U.S. Equity 1.0%	U.S. Equity 16.4%	Blended Portfolio 13.9%	Blended Portfolio 7.1%	Cash & Cash Alternatives 0.0%	Fixed Income 5.3%	
Fixed Income 7.0%	Commodities -35.7%	Blended Portfolio 20.2%	Blended Portfolio 11.9%	Cash & Cash Alternatives 0.1%	Blended Portfolio 11.0%	Real Estate 1.6%	Fixed Income 6.0%	Blended Portfolio -0.2%	Blended Portfolio 3.8%	
U.S. Equity 5.1%	U.S. Equity -37.3%	Commodities 18.9%	Non-U.S. Equity 11.2%	Real Estate -8.7%	Fixed Income 4.2%	Cash & Cash Alternatives 0.1%	Cash & Cash Alternatives 0.0%	Real Estate -1.2%	U.S. Equity 3.6%	
Cash & Cash Alternatives 4.7%	Non-U.S. Equity -45.5%	Fixed Income 5.9%	Fixed Income 6.5%	Commodities -13.3%	Cash & Cash Alternatives 0.1%	Fixed Income -2.0%	Non-U.S. Equity -3.9%	Non-U.S. Equity -5.7%	Cash & Cash Alternatives 0.1%	
Real Estate -5.0%	Real Estate -50.2%	Cash & Cash Alternatives 0.2%	Cash & Cash Alternatives 0.1%	Non-U.S. Equity -13.7%	Commodities -1.1%	Commodities -9.5%	Commodities -17.0%	Commodities -24.7%	Non-U.S. Equity -1.0%	

Blended Portfolio Allocation: 45% U.S. Equity / 15% Non-U.S. Equity / 40% Fixed Income

Past performance is not indicative of future results. Please see slide 28-30 for asset class definitions.

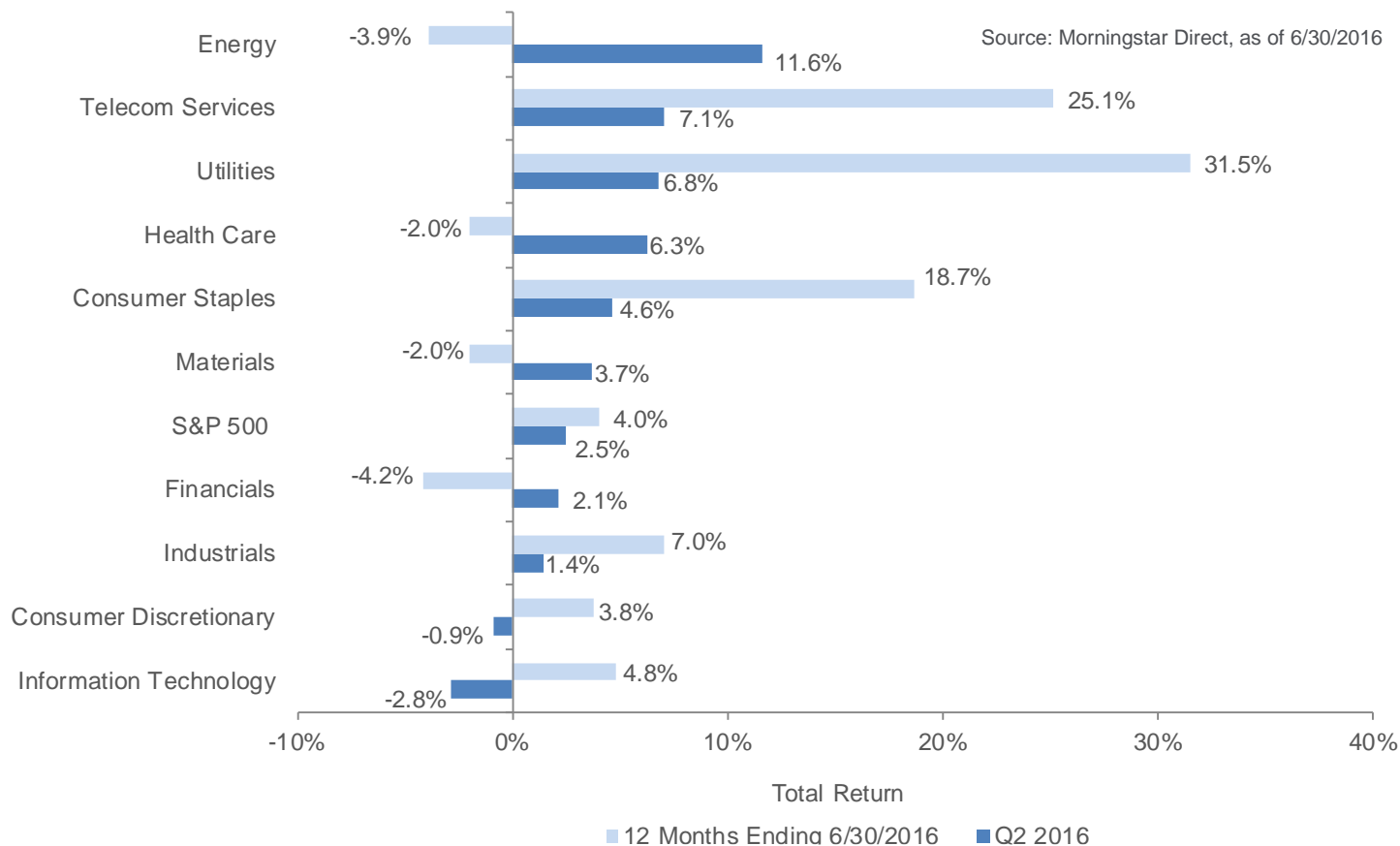
Spurred by a rebalance in oil markets, the Bloomberg Commodities Index surged nearly 13% in the second quarter after falling to its lowest level in 25 years in January. Meanwhile, equities, barring non-U.S. developed markets, earned modest single-digit returns.

Source: Morningstar Direct, as of 6/30/2016



Past performance is not indicative of future results. Please see slide 28-30 for asset class definitions.

The continued recovery in oil prices has had a positive impact on energy stocks, making energy the top performing S&P 500 sector in the second quarter. Information technology was the worst performer due, in part, to reductions in capital spending.



Returns are based on the GICS Classification model. Returns are cumulative total return for stated period, including reinvestment of dividends. Past performance is not indicative of future results.

Over the past ten years, growth-oriented stock prices rose 99%, while value-oriented only rose 40%\*. Value stocks are gaining appeal as they offer less volatility and traditionally higher dividend yields.

**Q2 2016 Total Return**

	Value	Blend	Growth
Large	4.6%	2.5%	0.6%
Mid	4.8%	3.2%	1.6%
Small	4.3%	3.8%	3.2%

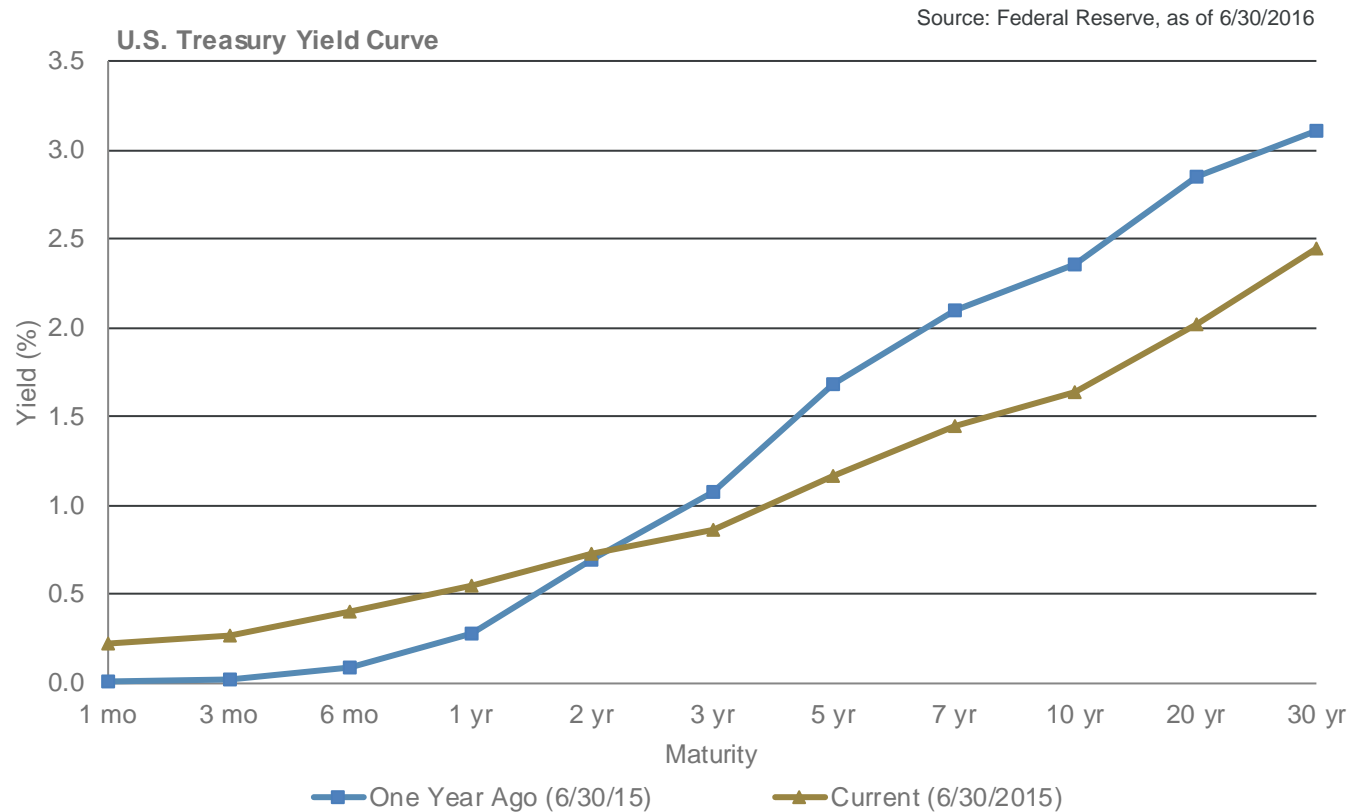
**12-Month Total Return**

	Value	Blend	Growth
Large	2.9%	2.9%	3.0%
Mid	3.2%	0.6%	-2.1%
Small	-2.6%	-6.7%	-10.8%

Source: Morningstar Direct, as of 6/30/2016

Style box returns based on the GICS Classification model. All values are cumulative total return for stated period including reinvestment of dividends. The indices used from left to right, top to bottom are: Russell 1000 Value Index, Russell 1000 Index, Russell 1000 Growth Index, Russell Mid-Cap Value Index, Russell Mid-Cap Blend Index, Russell Mid-Cap Growth Index, Russell 2000 Value Index, Russell 2000 Index and Russell 2000 Growth Index. Past performance is not indicative of future results. Please see slide 28-30 for index definitions.

“According to Citigroup, U.S. Treasuries now account for nearly 60% of all positive-yielding sovereign debt and also represent ~90% of all positive yields with a short maturity of less than one year, leading us to question how much U.S. monetary policy will really influence the short-end of the yield curve if T-bills are the only game in town for short-term, high-quality debt.” – *Benjamin Streed, CFA, Strategist, Retail Fixed Income*





“Global demand for positive yield has spilled over to the corporate space, and concessions on investment-grade bonds are disappearing. There's strong supply and demand is robust. As a result, spreads are tightening.”

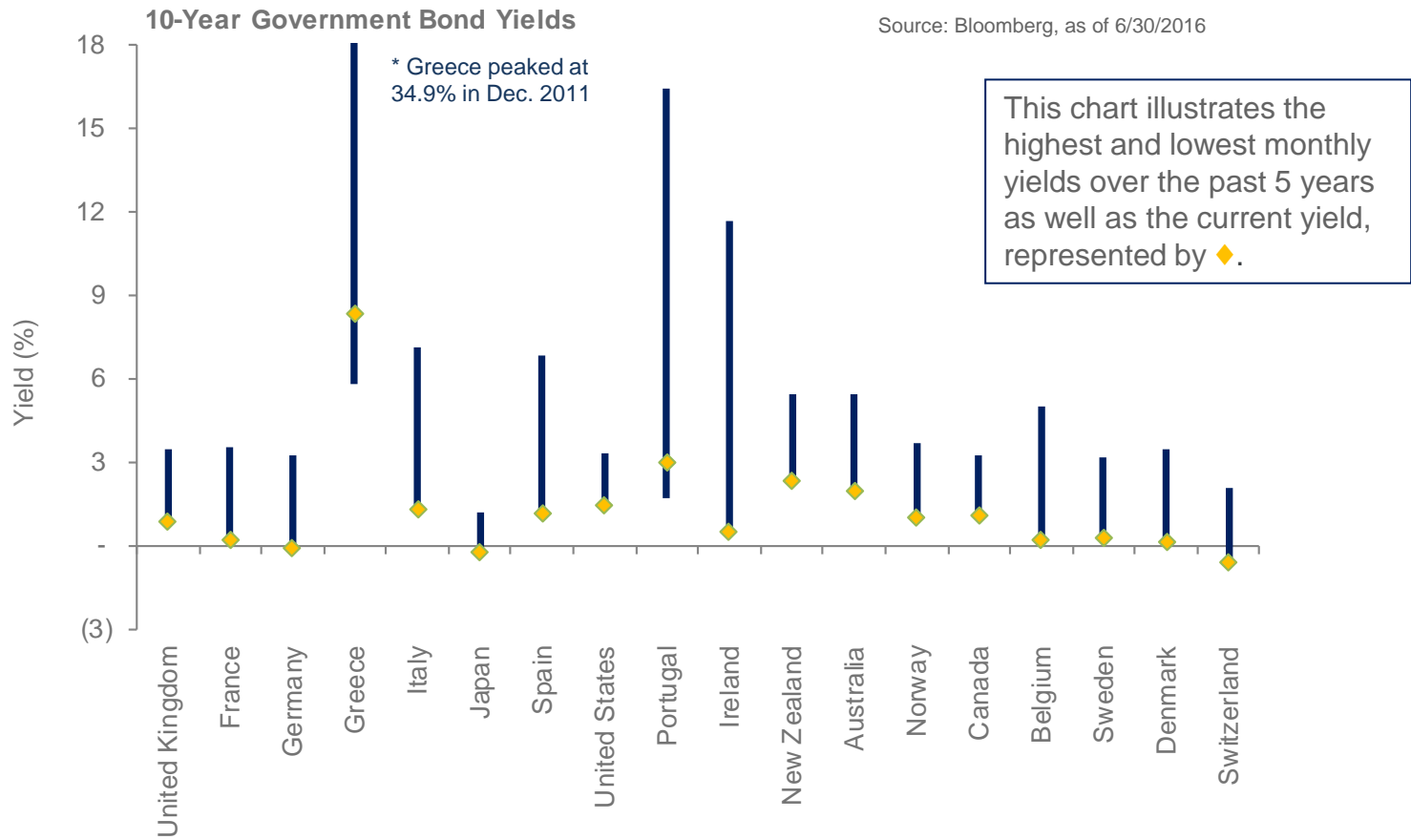
– Benjamin Streed, CFA, Strategist, Retail Fixed Income



Past performance is not indicative of future results. Please see slide 28-30 for index definitions.

“Accommodative monetary policy, particularly in Europe, has resulted in 20% of the world’s aggregate debt trading at negative yields. In 2014, that was zero. That’s a staggering number.”

– James Camp, CFA Managing Director of Fixed Income, Eagle Asset Management\*



\*An Affiliate of Raymond James & Associates and Raymond James Financial Services.

Bonds have offered substantially higher yields than equities up until the last seven years. This surprising phenomenon has now become the norm, at least for the near term.



Past performance is not indicative of future results. Please see slide 28-30 for index definitions.

"The only metric that looks overvalued is Shiller's Cyclical Adjusted Price Earnings model (CAPE), which at 26.1x earnings is about 10 points over its long-term average. Most of the other valuation tools are either marginally overvalued, or below their long-term average."

– Jeff Saut, Chief Investment Strategist, Equity Research



Recession Trailing 12-Month P/E (S&P 500) Avg P/E

The price-to-earnings ratio, or P/E, is a common measure of the value of stocks. It shows the relationship between a stock's price and the underlying company's earnings (or profits) per share of stock. In essence, it calculates how many dollars you pay for each dollar of a company's earnings. In very general terms, the higher the P/E ratio, the more likely the stock is to be overpriced.



Recession P/B (S&P 500) Avg P/B

The price-to-book ratio, or P/B, is a relative measure based on most recent price/accounting (book) value (quarterly, semiannual or annual data). Both price-to-earnings and price-to-book are accounting-based relative value measures.

Source: Bloomberg, as of 12/31/2015 Past performance is not indicative of future results. Please see slide 28-30 for index definitions.

After a short retreat from its January high, the U.S. dollar spiked in June following elevated global uncertainty including the UK's vote to leave the European Union.



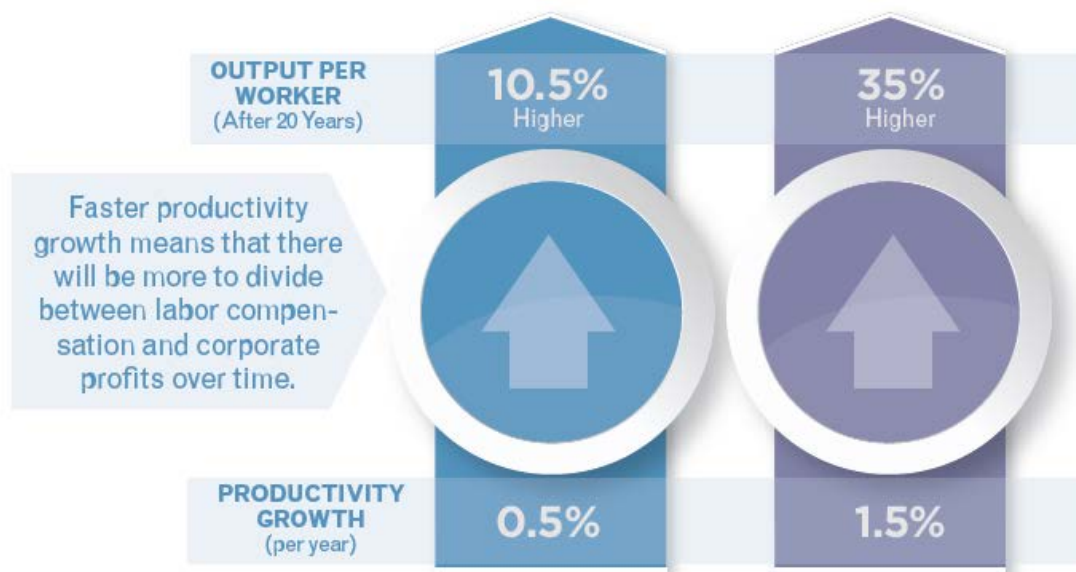
	6/30/2016	6/30/2015
Source: Bloomberg, as of 6/30/2016		
<b>U.S. Dollar (\$) / Japanese Yen (¥)</b>	103.2000	122.5000
<b>Euro (€) / U.S. Dollar (\$)</b>	1.1106	1.1147
<b>British Pound (£) / U.S. Dollar (\$)</b>	1.3311	1.5712

Oil prices have nearly doubled from February lows and the recovery is likely sustainable as market rebalancing continues to play out. After hitting a nearly seven-year low in December of last year, global economic uncertainty and accommodative U.S. monetary policy has kept gold prices afloat.



“Changes in the characteristics of the population have already had a significant impact on the U.S. economy. Over the next decade, slower labor force growth and aging populations will continue to alter the nature of the U.S. and global economies.”

– *Dr. Scott J. Brown, Ph.D., Chief Economist, Equity Research*



“The combination of slow labor input and slow productivity has important implications for the economy. Productivity growth is critical to improvements in the standard of living.”

For full theme articles, ask for a copy of the July 2016 Investment Strategy Quarterly.

“The demographic trend of an aging population is apparent in many developed countries. However, overall population disparity around the world, particularly within emerging economies, is skewed toward more youthful cohorts.”

– Peter Greenberger, Director of Mutual Fund Research & Marketing

*“The combination of an aging population and growing middle class is a primary driver of growth within the healthcare industry.”*



*“The highest utilization for mobile banking is among individuals in their mid- to late-30s. With nearly 60% of the world’s population under the age of 35, it is hard to imagine a shift away from this trend any time soon.”*

“The investment management industry is evolving to meet the challenge of a changing investor base. Sustainable investing strategies are gaining popularity as younger investors, among others, are seeking out companies that are not only fundamentally sound, but also consider corporate governance as well as the environmental and social impact of how they conduct business.”

For full theme articles, ask for a copy of the July 2016 Investment Strategy Quarterly.



“The challenges retirees face today are very different from those in the past. We are now living in a lower-returning, lower income-producing world, at least for the foreseeable future.”

- Nick Lacy, Chief Portfolio Strategist, Asset Management Services

## TOTAL RETURN EXPECTATIONS FOR A 60/40 PORTFOLIO OF STOCKS AND BONDS

		BOND PORTFOLIO RETURN			
		2%	3%	4%	5%
EQUITY PORTFOLIO RETURN	5%	3.8%	4.2%	4.6%	5.0%
	6%	4.4%	4.8%	5.2%	5.6%
	7%	5.0%	5.4%	5.8%	6.2%
	8%	5.6%	6.0%	6.4%	6.8%
	9%	6.2%	6.6%	7.0%	7.4%
	10%	6.8%	7.2%	7.6%	8.0%

A primary factor contributing to lower returns in the current market is lower-yielding fixed income. Will interest rates rise in the future and once again provide meaningful income to investors? Eventually, they should. The difficulty lies in predicting how long it will take and to what degree they will rise.

## DOWNSIDE RISKS FOR INCREASING EQUITY CAN BE IMPACTFUL

		BOND RETURN	2%	4%	6%
		STOCK RETURN	-10%	-15%	-20%
EQUITY	60%	-5.2%	-7.4%	-9.6%	
	70%	-6.4%	-9.3%	-12.2%	
	80%	-7.6%	-11.2%	-14.8%	
	90%	-8.8%	-13.1%	-17.4%	
	100%	-10.0%	-15.0%	-20.0%	

Whether investors decide to work longer and save more, or increase portfolio risk while lowering income needs, adjustments to these key inputs can increase the likelihood of achieving retirement goals.

For full theme articles, ask for a copy of the July 2016 Investment Strategy Quarterly.

Asset allocation does not guarantee a profit nor protect against loss. Past performance is not indicative of future results.

“Lifestyles are changing dramatically with the coming-of-age of the millennial generation, and homeownership is no longer perceived as fulfillment of the American Dream.”

– Paul Puryear, Director of Real Estate Research



## FACTORS AFFECTING HOMEOWNERSHIP FOR MILLENIALS

- Household incomes have not kept up with core inflation over the past 15 years
- Mortgage underwriting standards have tightened following the financial crisis of 2008
- Student debt burdens are currently approaching a balance of \$1.25 trillion
- Millennials are marrying later, starting families later, and choosing different housing lifestyles

For full theme articles, ask for a copy of the July 2016 Investment Strategy Quarterly.

# DISCLOSURE

Data provided by Morningstar Direct, Bloomberg.

This material is for informational purposes only and should not be used or construed as a recommendation regarding any security outside of a managed account.

There is no assurance that any investment strategy will be successful or that any securities transaction, holdings, sectors or allocations discussed will be profitable. It should not be assumed that any investment recommendation or decisions made in the future will be profitable or will equal any investment performance discussed herein.

Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product that attempts to mimic the performance of an index will incur expenses that would reduce returns. Past performance is not indicative of future results. The performance noted in this presentation does not include fees and costs, which would reduce an investor's returns.

- Fixed Income: subject to credit risk and interest rate risk. An issuer's ability to pay the promised income and return of principal upon maturity may impact the issuer's credit rating. Generally, when interest rates rise, bond prices fall, and vice versa. Specific-sector investing can be subject to different and greater risks than more diversified investments.
- Personal Consumption Expenditure Index (PCE): a measure of inflation, this index measures the price changes in consumer goods and services. Personal consumption expenditures consist of the actual and imputed expenditures of households; the measure includes data pertaining to durables, non-durables and services.
- Gross Domestic Product (GDP): a broad measurement of a nation's overall economic activity. It is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, including all private and public consumption, government outlays, investments and net exports that occur within a defined territory.
- Price-to-Earnings Ratio (P/E): a ratio for valuing a company that measures its current share price relative to its per-share earnings.
- Price-to-Book Ratio (P/B): A ratio used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.
- Small-cap and Mid-Cap Equity: generally involve greater risks, and may not be appropriate for every investor. International investing also involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility.
- High-Yield Fixed Income: not suitable for all investors. Risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only comprise a modest portion of your portfolio.
- Commodities: trading is generally considered speculative because of the significant potential for investment loss.
- U.S. Government Fixed Income: guaranteed timely payment of principal and interest by the federal government. U.S. Treasury Bills: A short-term debt obligation backed by the U.S. government with a maturity of less than one year.
- Fixed Income Sectors: Returns based on the four sectors of Barclays Global Sector Classification Scheme: Securitized (consisting of U.S. MBS Index, the ERISA-Eligible CMBS Index and the fixed-rate ABS Index), Government Related (consisting of U.S. Agencies and non-corporate debts with four sub sectors: Agencies, Local Authorities, Sovereign and Supranational), Corporate (dollar-denominated debt from U.S. and non-U.S. industrial, utility, and financial institutions issuers), and Treasuries (includes public obligations of the U.S. Treasury that have remaining maturities of one year or more).

Asset allocation and diversification does not guarantee a profit nor protect against loss. Dividends are not guaranteed and will fluctuate.

Past performance is not indicative of future results. Investing in international securities involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

The values of real estate investments may be adversely affected by several factors, including supply and demand, rising interest rates, property taxes, and changes in the national, state and local economic climate. Companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector including limited diversification.

# INDEX DESCRIPTIONS

Asset class and reference benchmarks:

ASSET CLASS	BENCHMARK
U.S. Equity	Russell 3000 TR
Non-U.S. Equity	MSCI ACWI ex US NR
U.S. Fixed Income	Barclays U.S. Aggregate Bond TR
Global Real Estate (prior to 2008)	NASDAQ Global Real Estate NR
Global Real Estate (2008-present)	FTSE EPRA/NAREIT Global Real Estate NR
Commodities	Bloomberg Commodity TR USD
Cash & Cash Alternatives	Citi Treasury Bill 3 Mon USD

**Bloomberg Commodity Total Return Index:** Formerly the Dow Jones-UBS Commodity Index TR (DJUBSTR), is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 3 Month U.S. Treasury Bills.

**Barclays 10-Year Municipal Bond Index:** A rules-based, market-value weighted index engineered for the long-term tax-exempt bond market. This index is the 10 year (8-12) component of the Municipal Bond Index.

**Barclays 10-Year U.S. Treasury Index:** Measures the performance of U.S. Treasury securities that have a remaining maturity of 10 years.

**Barclays U.S. Aggregate Bond Index:** Represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment-grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Barclays Global Aggregate ex-U.S. Bond Index:** Tracks an international basket of bonds that currently contains 65% government, 14% corporate, 13% agency and 8% mortgage-related bonds.

**Barclays High Yield Bond Index:** Covers the universe of fixed-rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures and 144-As are also included.

**Barclays U.S. Credit Index:** an index composed of corporate and non-corporate debt issues that are investment grade (rated Baa3/BBB- or higher).

**Citi 3-Month Treasury-Bill Index:** This is an unmanaged index of three-month Treasury bills.

# INDEX DESCRIPTIONS (continued)

FTSE EPRA/NAREIT Global Real Estate Index : designed to represent general trends in eligible listed real estate stocks worldwide. Relevant real estate activities are defined as the ownership, trading and development of income producing real estate.

MSCI All Country World Index Ex-U.S Index (ACWI ex U.S.): a market-capitalization-weighted index maintained by Morgan Stanley Capital International (MSCI) and designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets.

MSCI EAFE Index (Europe, Australasia, Far East): a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States and Canada. The EAFE consists of the country indices of 21 developed nations.

MSCI EAFE Growth Index: represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the growth style.

MSCI EAFE Small-Cap Index: an unmanaged, market-weighted index of small companies in developed markets, excluding the U.S. and Canada.

MSCI EAFE Value: represents approximately 50% of the free-float adjusted market capitalization of the MSCI EAFE index, and consists of those securities classified by MSCI as most representing the value style.

MSCI Emerging Markets Index: designed to measure equity market performance in 25 emerging market indexes. The three largest industries are materials, energy and banks.

MSCI Local Currency Index: a special currency perspective that approximates the return of an index as if there were no currency valuation changes from one day to the next.

NASDAQ Global Real Estate Index: the index measures the performance of real estate stocks which listed on an Index Eligible Global Stock Exchange. The index is market-capitalization weighted.

Russell 1000 Index: measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

Russell 1000 Value Index: measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 1000 Growth Index: measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell Mid-Cap Index: measures the performance of the 800 smallest companies of the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

Russell Mid-cap Value Index: measures the performance of those Russell Mid-cap companies with lower price-to-book ratios and lower forecasted growth values.

Russell Mid-Cap Growth Index: measures the performance of those Russell Mid-cap companies with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Index: measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell 2000 Value Index: measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index: measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000 Index: measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

## INDEX DESCRIPTIONS (continued)

Standard & Poor's 500 (S&P 500): measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market.

S&P 500 Consumer Discretionary: comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P 500 Consumer Staples: comprises those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

S&P 500 Energy: comprises those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P 500 Financials: comprises those companies included in the S&P 500 that are classified as members of the GICS® financials sector

S&P 500 Health Care: comprises those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P 500 Industrials: comprises those companies included in the S&P 500 that are classified as members of the GICS® industrials sector.

S&P 500 Information Technology: comprises those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

S&P 500 Materials: comprises those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

S&P 500 Telecom Services: comprises those companies included in the S&P 500 that are classified as members of the GICS® telecommunication services sector.

S&P 500 Utilities: comprises those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.