GLOBAL MARKET OUTLOOK MID-YEAR 2017
Upturn Goes Global

STATE STREET GLOBAL ADVISORS®
Mixed signals coming out of the US economy have raised questions about whether we can still confidently speak of global reflation rather than modest expansion. Still global growth for 2017 is slated to improve for the first time in three years and we have seen better-than-expected strength in the Eurozone, Japan and China. This has set the stage to support risk assets for the remainder of the year.

Global equity investors certainly see the glass as half full, as US equities continue to flirt with new highs, even as the promise of fiscal stimulus from the Trump administration fades further into the distance. Concerns over stretched valuations in US equities have prompted caution and led investors to look for opportunity in the Eurozone, Japan and select emerging markets.

The elongated credit cycle continues to attract yield-hungry investors, as the 10-year US Treasury yield remains stubbornly low at around 2.2%. Even in the face of the Fed’s second rate hike this year, the benchmark yield has declined, weighing on global government bonds.

The UK’s surprise hung parliament vote and darkening clouds over the Trump administration have put political risk back on the agenda, though markets seem remarkably complacent. While safe havens are scarce, quality opportunities for income and growth remain the watchword for investors, with a careful eye on valuations.
Global GDP Growth Set to Improve for First Time Since 2014

The outlook for the global economy in the second half of the year is characterized by a broad-based cyclical upswing offset by structural headwinds. Overall global growth is now projected to accelerate to 3.4% this year, which would be the best performance since 2014. Growth in the Eurozone, China and Japan has surprised to the upside, as recessions end in Russia and Brazil, though President Michel Temer’s political woes could threaten further needed reforms. In general, the weakest links in the global economy chain have strengthened this year.

Broad measures of global real activity have improved. World trade, industrial production and manufacturing activity have all rebounded and labor markets have strengthened. The end of the energy and commodities recession, even at current prices, is a favorable trend. Capex is bottoming out and commodity exporters are doing better on stronger terms of trade.

At the same time, aging demographics and weak productivity continue to pose a structural drag on growth.

IN DEPTH: Read Macro Insights »
Good portfolio practices suggest every investor needs a measure of inflation or purchasing power protection. However, given the muted inflation we expect to see for the foreseeable future, investors might want to consider real assets like real estate, which will provide not only protection but also growth and income.

Expectations for growth and inflation are the two most powerful forces on asset prices. Despite central banks’ best efforts since the global financial crisis, inflation remains stubbornly low in most advanced economies. Following a big step up in headline inflation in 2016 because of higher oil prices, that bump has receded, as oil has dropped 20% since February. Even with broad-based improvements in global growth, the cyclical upturn has not yet pushed core inflation higher.

In the list of upside growth surprises, the US is conspicuous by its absence after a weak first quarter when consumer spending turned down. This is likely temporary, but stronger business investment might be able to pick up the slack.

Residential construction surged 13.7% (annualized) in the first quarter, while business fixed investment jumped 9.4% (annualized).

Core manufacturing shipments have turned up as the stabilization of oil prices has rekindled exploration in the mining sector. Core manufacturing orders, a leading indicator of capital spending, continue to point higher, suggesting the recovery has further to go.

Meanwhile, the economy is at or very close to full employment, though with no signs of meaningful acceleration in wage growth, as inflation still eludes the Fed’s target.
### Stronger-Than-Expected Earnings Drive Equities Higher

The S&P 500 Index Valuation Metrics chart looks at US equities across multiple valuation metrics over a more than 25-year time horizon, spanning three bull markets and two bubble bursts. Only dividend yield falls even close to the median, or 50th percentile. All other metrics, apart from the trailing 12-month price to earnings measures, trade in the top quartile of richness. The tech stock sell-off at the year’s halfway mark fed speculation about how much longer the US bull equity market has to run.

#### Sales and Earnings Beat Expectations

The S&P 500 earnings season in the ninth year of this economic expansion. Earnings rebounded after hitting a soft patch from 2015 through the first half of 2016. In Q1, year-over-year earnings growth touched its highest level since 2011. Roughly 70% of companies in the S&P 500 beat earnings estimates. Those strong earnings continued to send stocks higher, stoking concerns about stretched valuations.

- **Current Percentile**
  - Current: 75%
  - Median: 69%
  - Above/Median: 10%
  - Below/Median: 13%

- **Above/Median**
  - 15%
  - 12%
  - 36%
  - 21%

- **Below/Median**
  - 48%

*Source: Bloomberg Finance L.P. as of May 18, 2017. Characteristics are as of the date indicated and are subject to change. Past performance is not a guarantee of future results.*
Surprises to the Upside, Even as Structural Flaws Persist

One of the biggest upside surprises so far this year has been the Eurozone rebound and sustained rally in European equities. Eurozone manufacturing and services PMIs (Purchasing Managers Index) are at multi-year highs. Unemployment has fallen to 9.3%, its lowest level since March 2009, and the number of unemployed workers is declining faster than in the US.

Moreover, not only have the most feared electoral outcomes going into 2017 been averted, but French President Emmanuel Macron’s new pro-EU centrist party has achieved a stronger-than-expected showing in parliamentary elections. Together with the setbacks of hard Brexeters in the UK general election, the Franco-German axis of Eurozone support seems stronger than ever.

Robust leadership will be needed to resolve the monetary union’s structural contradictions. Without fiscal transfers, strong members like Germany will be doomed to boom, while weaker members like Italy will be doomed to bust, and the European project will remain at risk.
Equities Reap the Benefits of Corporate Governance Improvements

After years of attempts at policy stimulus and structural reform, Japan's economy is on track to perform better than we expected this year, albeit far from an upside breakout given its demographic headwinds. Gross domestic product (GDP) rose to 2.2% (annualized) in the first quarter, and we have modestly raised our expectations for 2017 to 1.25% on some upside surprises in the short term. While the structural impact of Abenomics has been limited, we do see little moves in the right direction.

Meanwhile, new incentives for better governance have encouraged companies to focus on shareholder returns, increasing dividends, repurchasing shares and improving returns on equity. Following several years of robust gains, company earnings were up another 28% in the first quarter, with more surprises than in any other developed market. In a new departure, Japanese price to book and price to earnings multiples are now on par with developed country peers. Dividend yields have increased impressively, almost equal to the US and could go even higher as more companies raise payouts.
Balancing Job Creation Demands with Unwinding Debt Overhang

China started the year stronger than expected, with GDP rising 6.9% year over year. While it’s quite likely that will be the peak for the year, we expect growth will exceed the 6.5% government target, largely due to policy-induced demand.

China’s rebalancing away from an export- and investment-driven growth model toward one driven more by domestic demand has progressed further than many realize. The services sector is now the country’s largest employer, outstripping agriculture and industry. Monthly foreign exchange reserves have stopped plummeting, suggesting that the authorities have a better handle on capital outflows. Meanwhile, exports as a percentage of GDP are far below those of Germany, which might explain why the

US president’s Twitter tirades have shifted from Beijing to Berlin. China’s PMIs for manufacturing and services have stabilized, along with producer pricing power. This has helped boost industrial profits.

China’s main structural challenge remains the huge build-up of debt used to support its domestic investment. Yet with the Chinese Communist Party Congress approaching in the autumn, authorities will be mostly focused on ensuring political, social and financial stability, which might put more attention on jobs than debt.

The inclusion of China A-shares in the MSCI Emerging Markets Index this year marks a milestone in deepening China’s integration into global capital markets, as its leaders seek to fill more of the global power vacuum left by the US.
Globalization vs Protectionism Keeps Political Risk on the Table

Optimistic supporters of globalization hope that 2017 might turn the tide against anti-establishment populism, after nationalist movements in France and the Netherlands suffered electoral defeats. Nevertheless, we believe policy uncertainty will remain elevated due to political shifts across the world. In fact, the Global Economic Policy Uncertainty Index is higher than during the global financial crisis.

Populist politics, protectionism and weaker international governance are still the dominant geopolitical risks and military conflict with North Korea would be the main wild card.

Investors this year have so far shrugged off political surprises in the UK and US, but with a debt ceiling debate in the US, German elections and Chinese Communist Party deliberations on the horizon for the second half of the year, there is still room for market upsets.

As the US deepens divisions with traditional allies and abandons international agreements, there is likely to be less global policy coordination than in the past in the event of an economic or geopolitical shock. The international postwar consensus has collapsed, with the contours of the new order still forming.

IN DEPTH: Read *Globalization and Its Populist Discontents* »
Equities and Credit Have Room to Run

In our tactical positioning, we have a fairly optimistic view of risk in global markets, though we are cognizant that geopolitical instability still serves as a threat to the improving growth backdrop. Our allocations include a broad positive positioning across equity markets, with the bulk of the overweight supporting large cap US and non-US developed market equities in Europe and Asia Pacific. We have also moved from neutral to a slight overweight in emerging markets.

Bearish positions across fixed income assets fund the equity overweight, with a neutral stance in both real estate securities and commodities.

The potential for a continued rise in US rates, especially at the front end of the yield curve, leaves us underweight intermediate-term US bonds. We also remain underweight government bonds outside the US, where long-term rates relative to fundamentals appear less aligned — particularly as markets digest the deceleration in central bank bond-buying programs. And with spread compression near cycle lows, we are neutral to US high yield and intermediate investment grade credit. We have a small overweight to long duration bonds, as we expect the US yield curve to flatten more amid continued monetary tightening and subdued inflation.

IN DEPTH: Read Global Equities Have Room to Run »
International Equities Continue to Outperform

Relative performance across asset classes as of the end of May showed that equities outside the US, especially emerging market equities, continued to outperform along with high yield, while government bonds and commodities struggled.


Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Past performance is not a guarantee of future results.
US Equities High Above Historical Valuations

Major global equity indices outside the US are at or near historical averages. The US appears most overvalued, as large caps are trading at 10-year highs and small caps are not far behind. Japan and Europe are trading above 10-year average valuations, but remain well below the high-water mark.

Source: SSGA Investment Solutions Group (ISG)
In a global search for yield, investors have pushed credit spreads below three-year averages, with the exception of US MBS and US agency bonds. High yield spreads have continued to tighten. We have recently reduced our overweight to high yield bonds as we believe that further significant spread tightening is unlikely.
Quality Outshines, as Value and Size Pricier, Low Vol at Fair Value

Our book-to-price spreads show all four factors close to their historical spreads, as Low Vol has come down from the valuation extremes we saw last year.

Value and Size have recently become more expensive, while Quality (low debt/equity, low EPS variability, high ROE) remains attractive. Low Volatility has moved from expensive toward neutral or fair value.
Growth-seeking investors continue to look to emerging markets, but what’s the best way to achieve exposure?

When it comes to equities, Emerging Markets (EM) profit margins historically exceeded DM margins, but that trend reversed after the global financial crisis, and EM return on equity now lags the cost of equity. As China’s expansion has slowed, technology and automation have eroded EM’s competitive advantage of cheap labor, putting the persistence of the EM growth premium into doubt. And valuation relative to the MSCI World Index is not as attractive when we remove the influence of deeply discounted state-owned entities in the MSCI EM Index. These challenges highlight the need to be selective within EM equities, taking time to conduct thorough analyses and identify companies that can reap the greatest benefit from the current environment.

On the EM debt side, we find a large, diverse and relatively liquid market to help close the income gap. The low yield environment has made EM debt valuations particularly attractive. At the index level, EM debt has provided more income than DM bonds, while acting enough like a growth asset to outpace EM equities. Investing in EM debt has also provided diversification, thanks to low-to-moderate correlations with equities and fixed income across the globe. As 90% of active EMD managers have underperformed over the last five years, we find the case for index investing in EMD compelling.

IN DEPTH: Read Opportunity, Trade or Value Trap? »

Source: Factset, MSCI, BofA ML

The Inflation Conundrum: Weak Demand or Something Else?

While the year started with concerns about a potential spike in US inflation ahead of the stimulus policies that President Trump campaigned on, recent inflation data has been muted. Even globally, as unemployment has fallen across advanced economies, in some cases to multi-decade lows, those tighter labor markets are not feeding through to wage gains and higher prices. So we have seen a flattening of the Phillips Curve, the traditional inverse relationship between unemployment and inflation.

In the early stages of the recovery from the global financial crisis, this disconnect could be attributed to slack in the labor market and weak demand, the classic secular stagnation argument. But with broad improvements in economic growth and big declines in unemployment, that argument becomes more difficult to make.

The most important implication of this disconnect is that the equilibrium rate of unemployment for the economy may be lower than we think. Central banks have repeatedly lowered their estimates of NAIRU (non-accelerating inflation rate of unemployment).

The Fed can also be more patient in hiking interest rates and let the economy run hotter longer, especially as they have more tools to fight high inflation than deflation.

If weak demand is not a wholly satisfactory explanation for low inflation, what else might be happening?

IN DEPTH: Read The Inflation Conundrum »
The answer to the puzzle of low inflation might lie on the supply side rather than on the demand side. For example, one reason for the decline in core US inflation this year has been the precipitous drop in the cost of wireless phone services. To the consumer, this has the effect of a supply shock, though not in the same way as an OPEC decision to pump more oil out of the ground. In this case, consumers can buy more with the same wages and such a benefit is harder to capture in GDP data.

Similarly, when we look at the historically low rates of food inflation in a number of countries, we suspect part of the force behind that might be technology-driven distribution efficiencies. So as the new titans of retail like Amazon increase their footprint in food markets with the purchase of big food retailers like Whole Foods, they can pass some of these new efficiencies to consumers in the form of lower prices. Like the reduced cost of cell phone services, these lower food prices mean consumers are better off with the same level of income, reducing the urgency to bargain for higher pay.

At some point lower unemployment boosts workers’ bargaining power so much that they will demand higher wages because they can. But this may take a while. In the meantime, unemployment can continue to fall without triggering as much inflation as would have been the case in the past.

As structural changes to the global economy alter basic dynamics, economists will need to rethink some of the fundamental relationships between growth, productivity and inflation.

**IN DEPTH:** Read *The Inflation Conundrum* »
Where Does the US Dollar Go from Here?

The trade-weighted dollar has given up about half of its post-election gains since November, sparking debate about whether the dollar bull run is winding down. We think it is too soon to declare the start of a dollar bear market, and instead expect the dollar to trade sideways for the rest of the year.
To Hedge or Not to Hedge?

To hedge or not to hedge depends on the investor’s base currency. The recent plunge in the British pound is a great opportunity to begin hedging or increase hedges.

The US dollar rally since 2011 has matured, providing a further opportunity to lighten up and take some profit on open hedges.

The Japanese yen and Swiss franc have long-standing mis-valuations. Investors should not be lulled into a false sense of stability, however. An eventual reversion to fair value is a major risk and warrants aggressive hedge ratio adjustments.

IN DEPTH: Read To Hedge or Not to Hedge? »

Source: SSGA
CONTRIBUTORS

Lori M. Heinel
Deputy Global Chief Investment Officer
Bio »

Elliot Hentov
Head of Policy and Research
Bio »

Patricia Hudson
Global Head of Investment Communications
Bio »

Aaron R. Hurd
Senior Portfolio Manager
Bio »

Lorne Johnson
Senior Portfolio Manager
Bio »

Richard F. Lacaille
Global Chief Investment Officer
Bio »

Gaurav Mallik
Portfolio Strategist
Bio »

Simona Mocuta
Senior Economist
Bio »

Niall O’Leary
Head of EMEA Portfolio Specialists
Bio »

Christopher Probyn
Chief Economist
Bio »
Abenomics
The nickname for the multi-pronged economic program of Japanese Prime Minister Shinzō Abe that seeks to remedy two decades of stagnation by increasing the nation’s money supply, boosting government spending and enacting reforms to make the economy more competitive.

Bloomberg Barclays 1-3 Credit Index
An index composed of US dollar-denominated, investment-grade corporate, sovereign, supranational, local authority and non-US agency bonds with remaining maturities between one and three years.

Bloomberg Barclays 1-3 Month Treasury Bill Index
An index that includes all publicly issued zero-coupon US Treasury Bills that have a remaining maturity of less than three months and more than one month, are rated investment grade, and have $250 million or more of outstanding face value. In addition, the securities must be denominated in US dollars and must be fixed rate and non-convertible.

Bloomberg Barclays Intermediate Treasury Index
An index that includes all publicly issued, US Treasury securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have $250 million or more of outstanding face value.

Bloomberg Barclays Long Credit Index
An index that measures the performance of the long-term sector of the US investment bond market, which includes investment grade corporate debt and sovereign, supranational, local authority and non-US agency bonds that are dollar denominated and have a remaining maturity of greater than or equal to 10 years.

Bloomberg Barclays Long Treasury Index
An index that includes all publicly issued US Treasury securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

Bloomberg Barclays Aggregate Bond Index
A market value-weighted index that tracks the daily price, coupon, pay-downs, and total return performance of fixed-rate, publicly placed, dollar-denominated, and non-convertible investment grade debt issues with at least $250 million par amount outstanding and with at least one year to final maturity.

Bloomberg Barclays High Yield Index
An index that 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-EM countries are included. Original issue zeroes, step-up coupon structures, and 144-As are also included.

Bloomberg Barclays Intermediate Credit Index
An index representing the intermediate component of the US Credit Index, which includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.
**Bloomberg Gold Index**  
An index designed to track the price of gold.

**CAPE Shiller P/E**  
The cyclically adjusted price-to-earnings ratio is a valuation measure usually applied to the US S&P 500 equity market. Defined as price divided by the average of ten years of earnings (moving average), adjusted for inflation.

**Citigroup World Government Bond ex US Index**  
An unmanaged, market-capitalization-weighted index that tracks 10 government bond indices, excluding the US.

**Consumer Price Index (CPI)**  
A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the pre-determined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living; the CPI is one of the most frequently used statistics for identifying periods of inflation or deflation.

**Cost of Equity (COE)**  
A firm’s cost of equity represents the compensation the market demands in exchange for owning the asset and bearing the risk of ownership; it is often used as a capital budgeting threshold — that is, the rate of return a company requires to determine if an investment meets capital return requirements.

**CPB World Trade Monitor**  
A monthly time series that aggregates and summarizes data on both international trade and industrial production.

**Debt-to-Equity Ratio**  
Used to measure a company’s financial leverage, calculated by dividing a company’s total liabilities by its stockholders’ equity. The D/E ratio indicates how much debt a company is using to finance its assets relative to the amount of value represented in shareholders’ equity.

**Dividend Yield**  
A financial ratio that indicates how much a company pays out in dividends each year relative to its share price.

**Dow Jones AIG Commodities Index**  
A rolling commodities index composed of futures contracts on 19 physical commodities traded on US exchanges. The index serves as a liquid and diversified benchmark for the commodities asset class.

**Dow Jones US Select REIT Index**  
An index that is composed of companies whose charters are the equity ownership and operation of commercial real estate and which operate under the REIT Act of 1960.

**Earnings Per Share (EPS) Ratio**  
The portion of a company’s profit allocated to each outstanding share of common stock. The ratio serves as an indicator of a company’s profitability.

**Enterprise Value/EBITDA (EV/EBITDA)**  
A popular valuation multiple used to measure the value of a company. It is the most widely used valuation multiple based on enterprise value and is often used in conjunction with, or as an alternative to, the P/E ratio to determine a company’s fair market value.

**Euro Stoxx 50 Index**  
A market capitalization-weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. The universe for selection is found within the 18 Dow Jones EURO STOXX Supersector indices, from which members are ranked by size and placed on a selection list.
**GDP Deflator**
An economic metric that accounts for inflation by converting output measured at current prices into constant-dollar GDP. This specific deflator shows how much a change in the base year’s GDP relies upon changes in the price level.

**Gross Domestic Product (GDP)**
The monetary value of all the finished goods and services produced within a country’s borders in a specific time period.

**Group of Seven (G7)**
An informal bloc of industrialized democracies — Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States — that meets annually to discuss issues such as global economic governance, international security, and energy policy.

**Headline Inflation**
The raw inflation figure as reported through the Consumer Price Index (CPI) that is released monthly by the US Bureau of Labor Statistics. The CPI calculates the cost to purchase a fixed basket of goods, as a way of determining how much inflation is occurring in the broad economy. The CPI uses a base year and indexes the current year’s prices according to the base year’s values.

**JPM GBI-EM Index**
Comprehensive emerging market debt benchmarks that track local currency bonds issued by emerging market governments. The index is the first comprehensive global local emerging markets index.

**Low Volatility**
The volatility factor is a common driver of equity returns that is based on the observation that lower volatility stocks tend to generate a higher risk-adjusted return than high volatility stocks.

**MSCI EM Index**
A free float-adjusted market capitalization index designed to measure equity market performance in 23 global emerging market economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

**MSCI Europe Index**
An index that represents the performance of large and mid-cap equities across 15 developed countries in Europe. The Index has a number of sub-indices which cover various sub-regions market segments/sizes, sectors and covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Japan Index**
Designed to measure the performance of the large and mid-cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.
MSCI Pacific Index
An index that represents the performance of large and mid-cap equities across 5 Developed Markets (DM) countries — Australia, Hong Kong, Japan, New Zealand, and Singapore — in the Pacific region. With 469 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI World Index
A broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and does not offer exposure to emerging markets.

Non-Accelerating Inflation Rate of Unemployment (NAIRU)
The level of unemployment in an economy that does not cause inflation to rise.

Organization for Economic Co-operation and Development (OECD)
A group of 34 member countries that discuss and develop economic and social policy. OECD members are democratic countries that support free market economies.

Phillips Curve
An economic concept developed by A. W. Phillips showing that inflation and unemployment have a stable and inverse relationship. The theory states that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment. However, the original concept has been somewhat challenged empirically due to the occurrence of stagflation in the 1970s, when there were high levels of both inflation and unemployment.

Price-to-Book (P/B) Ratio
A valuation metric that compares a company’s current share price against its book value, or the value of all its assets minus intangible assets and liabilities.

Price-to-Cash Flow (P/CF) Ratio
A stock valuation measure calculated by dividing a firm’s cash flow per share into its current share price. Financial analysts often prefer to value stocks using cash flow rather than earnings because earnings are more easily manipulated.

Price-to-Earnings (P/E) Ratio
A valuation metric that uses the ratio of the company’s current stock price versus its earnings per share.

Price-to-Sales (P/S) Ratio
A valuation metric for stocks calculated by dividing the company’s market cap by the revenue in the most recent year or, equivalently, divide the per-share stock price by the per-share revenue.

Purchasing Managers Index (PMI)
An indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The purpose of the PMI is to provide information about current business conditions to company decision makers, analysts and purchasing managers.

Purchasing Power Parity (PPP)
Compares different countries' currencies through a market “basket of goods” approach. According to this concept, two currencies are in equilibrium or at par when a market basket of goods (taking into account the exchange rate) is priced the same in both countries.

Quality
The quality factor is a common driver of equity returns that is based on the observation that healthy companies tend to outperform less healthy companies.
**Return on Equity (ROE)**
The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation’s profitability by revealing how much profit a company generates with the money shareholders have invested.

**Russell 1000 Growth Index**
A broadly diversified index predominantly made up of growth stocks of large US companies.

**Russell 1000 Index**
An index of approximately 1,000 of the largest companies in the US equity markets, the Russell 1000 is a subset of the Russell 3000 Index.

**Russell 1000 Value Index**
A broadly diversified index predominantly made up of value stocks of large US companies.

**Russell 2000 Index**
An index composed of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization.

**S&P 500 Index**
A market value weighted index of 500 stocks that reflects the performance of a large cap universe made up of companies selected by economists; the S&P 500 is one of the common benchmarks for the US stock market, and investment products based on the S&P 500 include index funds and exchange-traded funds.

**S&P EPAC Small Cap Index**
An index made up of the smallest companies within the S&P Broad Market Index from European and Pacific countries.

**S&P Mid Cap 400 Index**
An index that tracks the US mid-cap equities sector. To be included in the index, a stock must have a total market capitalization that ranges from roughly $750 million to $3 billion dollars.

**Size**
The size factor is a common driver of equity returns that is based on the observation that stocks of small companies tend to earn greater returns than stocks of larger companies.

**Value**
The value factor is a common driver of equity returns that is based on the observation that inexpensive stocks tend to outperform more expensive stocks.

**US Credit Corp Index**
An index that measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

**Trade-Weighted US Dollar**
A weighted average of the foreign exchange value of the US dollar against a subset of the broad index currencies that circulate widely outside the country of issue. Major currencies index includes the Eurozone, Canada, Japan, United Kingdom, Switzerland, Australia, and Sweden.
Get more market insights and investment implications on SSGA.com
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Marketing Communication.

State Street Global Advisors Worldwide Entities


Dubai: State Street Bank and Trust Company (Representative Office), Boulevard Plaza 1, 17th Floor, Office 1703 Near Dubai Mall & Burj Khalifa, P.O Box 26838, Dubai, United Arab Emirates. T: +971 (04) 4372800. F: +971 (04) 4372818.


Ireland: State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Incorporated and registered in Ireland at Two Park Place, Upper Hatch Street, Dublin 2. Registered Number: 145221. Member of the Irish Association of Investment Managers. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300.

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Netherlands: State Street Global Advisors Netherlands, Apollo Building, 7th floor, Herikerbergweg 29, 1101 CN Amsterdam. T: +31 (0)20 718 17 01. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Limited. State Street Global Advisors Limited is authorized and regulated by the Financial Conduct Authority in the United Kingdom.


Switzerland: State Street Global Advisors AG, Beethovenstrasse. 19, Postfach, CH-8027 Zurich. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16.


United States: State Street Global Advisors, One Lincoln Street, Boston, MA 02111-2900. T: +1 617 664 7727. Investing involves risk including the risk of loss of principal.

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