
S&P Global

Market Intelligence

H2O: SECOND-HALF OUTLOOK

Will Earnings, Stocks and the Economy Keep Their Heads Above Water?

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REVIEW: Climbing a Wall of Worry

- Strategists expected the FOMC to hike rates 4X in 2016
- S&P 500® prices slumped 10.5% through February 11
- Oil prices fell below \$30/bbl. in Feb. (at \$105 two years earlier)
- Brussels bombing
- US presidential primaries/debates
- S&P 500® bull market celebrates 7th birthday (maybe)
- S&P 500® 2016e EPS growth drops from 8% to -0.5%
- Brexit vote

Source: S&P Global Market Intelligence.

REVIEW: First-Half Performances

S&P 1500 Sector/Sub-Industry Price Returns: YTD Through 6/30/16

Assets Classes/Sectors	% Chg.	Best S&P 1500 Sub-Ind.	% Chg.
Utilities	21.8	Gold	113.5
Telecom. Services	21.7	Coal & Consumable Fuels	96.8
Energy	13.8	Diversified Metals & Mining	46.7
Consumer Staples	9.3	Precious Metals	38.4
Materials	8.7	Independent Power Producers	32.7
S&P MidCap 400	7.0	Security & Alarm Services	32.4
S&P SmallCap 600	5.5	Steel	30.7
Industrials	5.4	Worst S&P 1500 Sub-Ind.	% Chg.
S&P Composite 1500	3.1	Human Resource & Empl. Svcs.	(15.1)
S&P 500®	2.7	Biotechnology	(15.2)
Consumer Discretionary	0.1	Investment Banking & Brokerage	(19.2)
Global 1200	(0.1)	Oil & Gas Refining & Marketing	(19.7)
Health Care	(0.2)	Tires & Rubber	(21.5)
Information Technology	(0.8)	Airlines	(23.9)
Financials	(2.8)	Real Estate Services	(28.8)

Source: S&P Dow Jones Indices. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns exclude dividends. Past performance is no guarantee of future results. Data 12/31/15-6/30/16.

PREVIEW: A Summary of Assumptions

- U.S. GDP growth to remain in the “terrible twos” during H2
- No recession on the 12-month horizon
- FOMC likely to take a “wait and see” approach
- EPS to map out “V”-shaped H2 recovery; up 13%+ in 2017e
- S&P 500 new all-time high delayed
- Seasonal price softness and volatility ahead in Q3
- S&P 500 Aug.-Oct. return predictive of presidential election outcome
- International markets: Near-term caution, long-term reversion to the mean?
- Strategies: Focus on quality; thinking like a landlord

Source: S&P Global Market Intelligence.

How Did the S&P 500 Respond to Brexit?

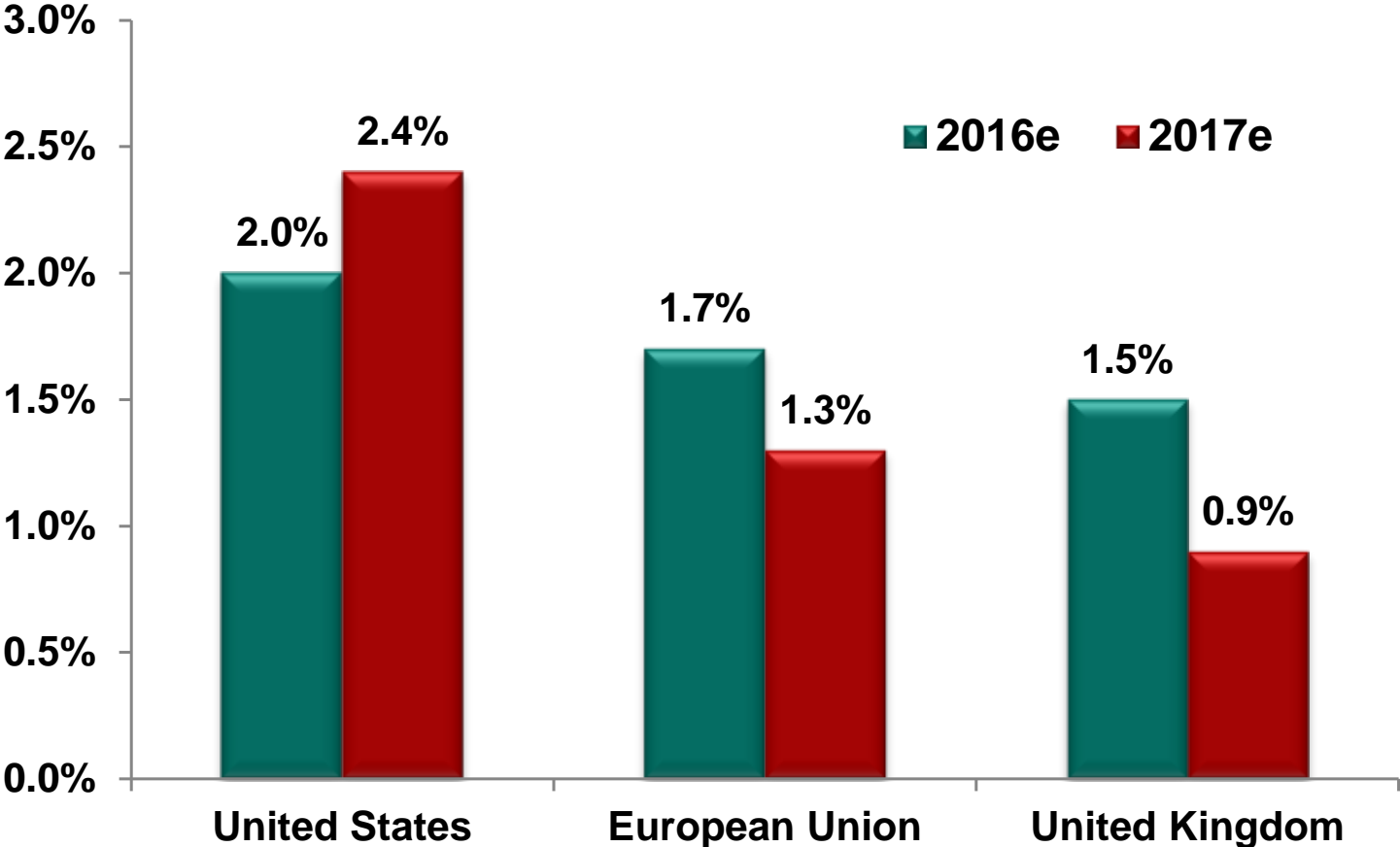
SHOCKS TO THE SYSTEM: S&P 500 Price Reactions Since WWII

Market Shock Events	Event Date	% Change		Calendar Days to	
		One Day	Total	Bottom	Recovery
Brexit Vote	06/24/16	(3.6)	(5.3)	4	15
Greek Referendum/NYSE Glitch	06/29/15	(2.1)	(2.6)	10	16
Taper Tantrum	05/22/13	(0.8)	(5.8)	34	51
Boston Marathon Bombing	04/15/13	(2.3)	(3.0)	4	15
U.S. Debt Downgrade	08/05/11	(6.7)	(6.7)	1	11
Japanese Tsunami	03/11/11	(0.6)	(3.6)	6	14
Flash Crash	05/06/10	(3.2)	(4.7)	2	7
Lehman Bankruptcy	09/15/08	(4.7)	(46.0)	176	828
London Subway Bombing	07/05/05	(0.8)	(0.8)	1	4
Madrid Bombing	03/11/04	(1.5)	(2.9)	14	20
U.S. Terrorist Attacks	09/11/01	(4.9)	(11.6)	11	31
Collapse of L.T. Cap. Mgmt.	09/23/98	(2.2)	(10.0)	16	29
Iraq's Invasion of Kuwait	08/02/90	(1.1)	(16.9)	71	189
Crash of 1987	10/19/87	(20.5)	(20.8)	47	368
Reagan Shooting	03/30/81	(0.3)	(0.3)	1	2
Nixon Resignation	08/08/74	(1.3)	(24.6)	57	208
OPEC Oil Embargo	10/17/73	(0.2)	(0.9)	1	3
Kennedy Assassination	11/22/63	(2.8)	(2.8)	1	1
Eisenhower Heart Attack	09/25/55	(6.6)	(10.6)	17	51
Pearl Harbor Attack	12/07/41	(4.4)	(20.4)	143	308
Averages		(2.2)	(5.5)	11	18

Source: S&P Global Market Intelligence. Data: 12/7/41-7/15/16.

Global Economic Growth Likely Pressured by Brexit

U.S., E.U. & U.K. Real GDP Growth Projections for 2016 and 2017



Source: S&P Global Economics. Data as of 7/1/16.

Bull Markets Typically End with a Bang, not a Whimper

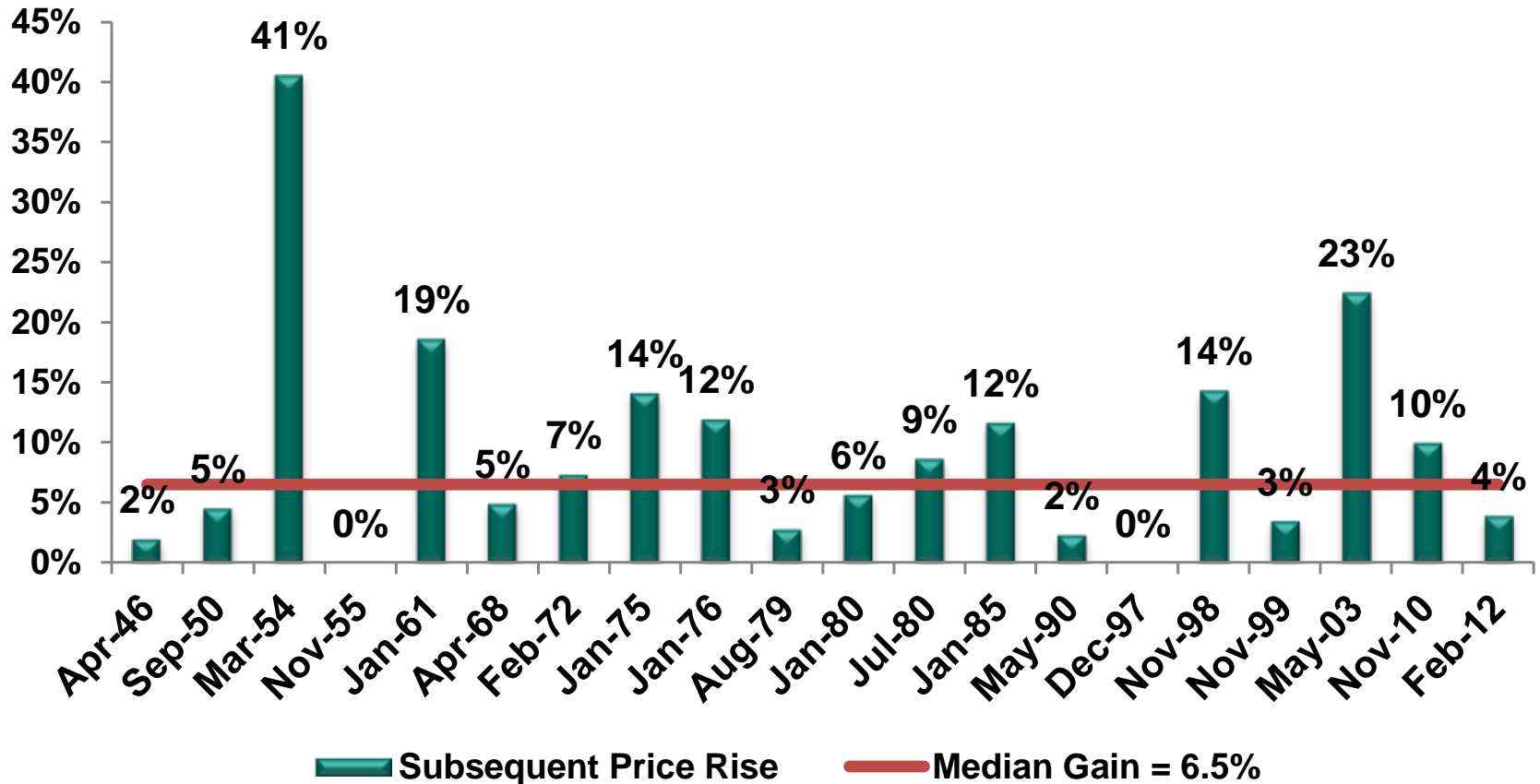
Average Annual Price Performances and Cumulative Gains for S&P 500 Bull Markets Since WWII

Start	End	Annual Annual S&P 500 Price % Changes								
		Yr. 1	Yr. 2	Yr. 3	Yr. 4	Yr. 5	Yr. 6	Yr. 7	Yr. 8	Yr. 9
05/17/47	06/15/48	21.2								
06/13/49	08/02/56	42.1	11.9	13.1	(2.3)	20.0	38.6	17.2		
10/22/57	12/12/61	31.0	9.7	(4.8)	27.6					
06/26/62	02/09/66	32.0	17.9	2.0						
10/07/66	11/29/68	32.9	6.6							
05/26/70	01/11/73	43.7	11.1	(2.5)						
10/03/74	11/28/80	38.0	21.2	(7.1)	6.1	6.8	18.0			
08/12/82	08/25/87	58.3	2.0	13.4	29.7	36.6				
12/04/87	07/16/90	21.4	29.3							
10/11/90	03/24/00	29.1	5.6	14.5	1.1	24.4	20.9	38.0	1.8	35.6
10/09/02	10/09/07	33.7	8.0	6.6	12.9	15.9				
03/09/09	???	68.6	15.7	3.9	13.2	21.1	10.7	(4.3)		
Average	11	38%	13%	4%	13%	21%	22%	17%	2%	36%

Source: S&P Global Market Intelligence. Past performance is no guarantee of future results. Data: 12/31/45-3/9/16.

Beyond Breakeven

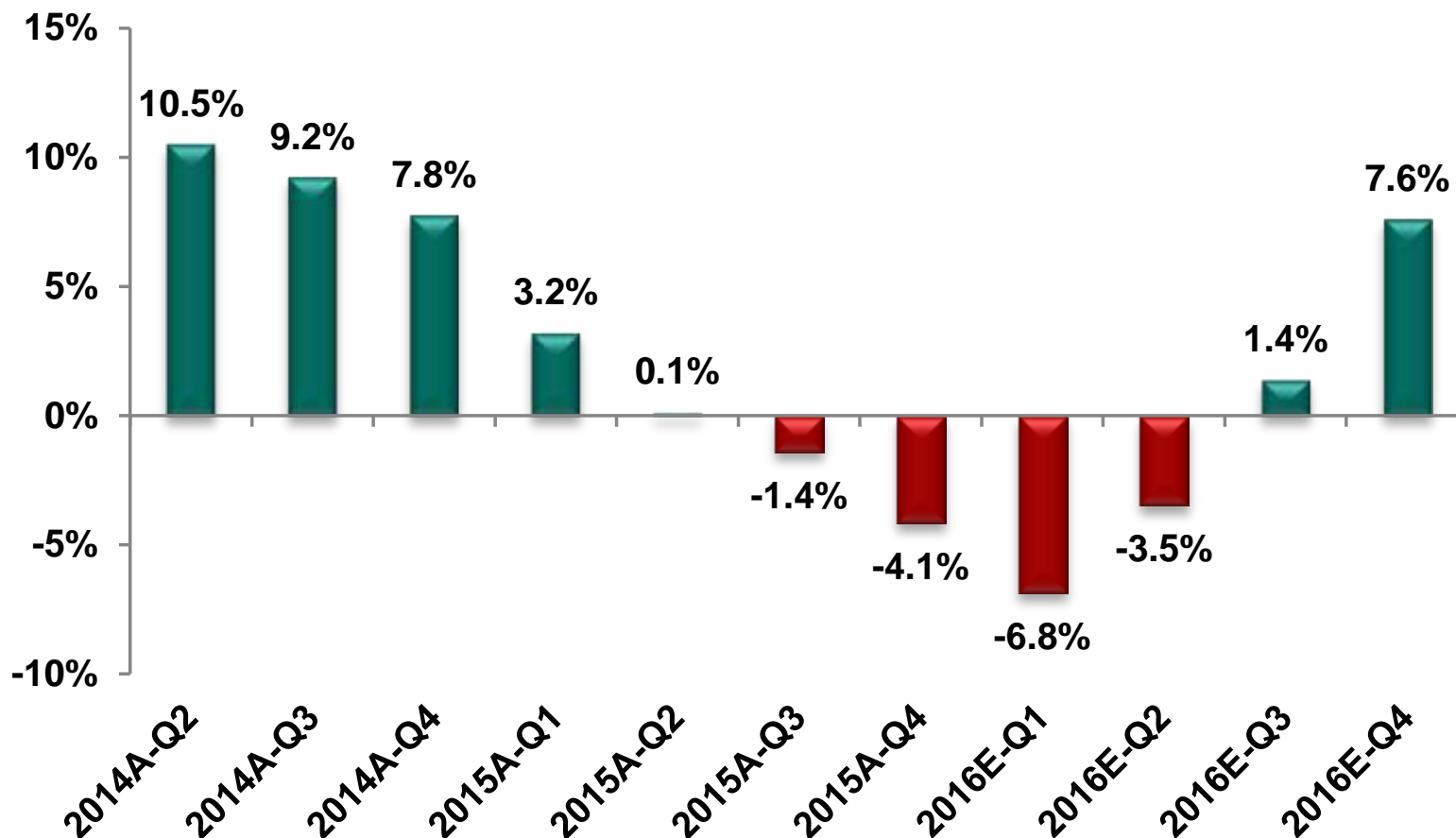
The S&P 500 Rose a Median 6.5% in Price After Getting Back to Breakeven from a Correction, Before Falling into Another Decline of 5% or More.



Source: S&P Global Market Intelligence. Past performance is no guarantee of future results. Data: 12/31/45-4/3/12.

We Look for a V-Shaped Recovery

Year-Over-Year Changes in S&P 500 Operating EPS Actuals/Estimates



Source: S&P Global Market Intelligence. Data as of 7/26/16.

Price Appreciation Potential

The “Rule of 20” Says that Stocks Can Still Climb, Provided EPS Continues to Recover and Inflation Remains Subdued

Y/Y % Chg. in Core	Based on Oper. EPS	
	2016E	2017E
CPI	<u>\$116.87</u>	<u>\$133.11</u>
2.0	2104	2396
2.1	2092	2383
2.2	2080	2369
2.3	2069	2356
2.4	2057	2343
2.5	2045	2329

Source: S&P Global Market Intelligence, U.S. Bureau of Labor Statistics. Past performance is no guarantee of future results. Data as of 7/26/16.

INT'L MARKETS: Greater Risk/Lower Valuations

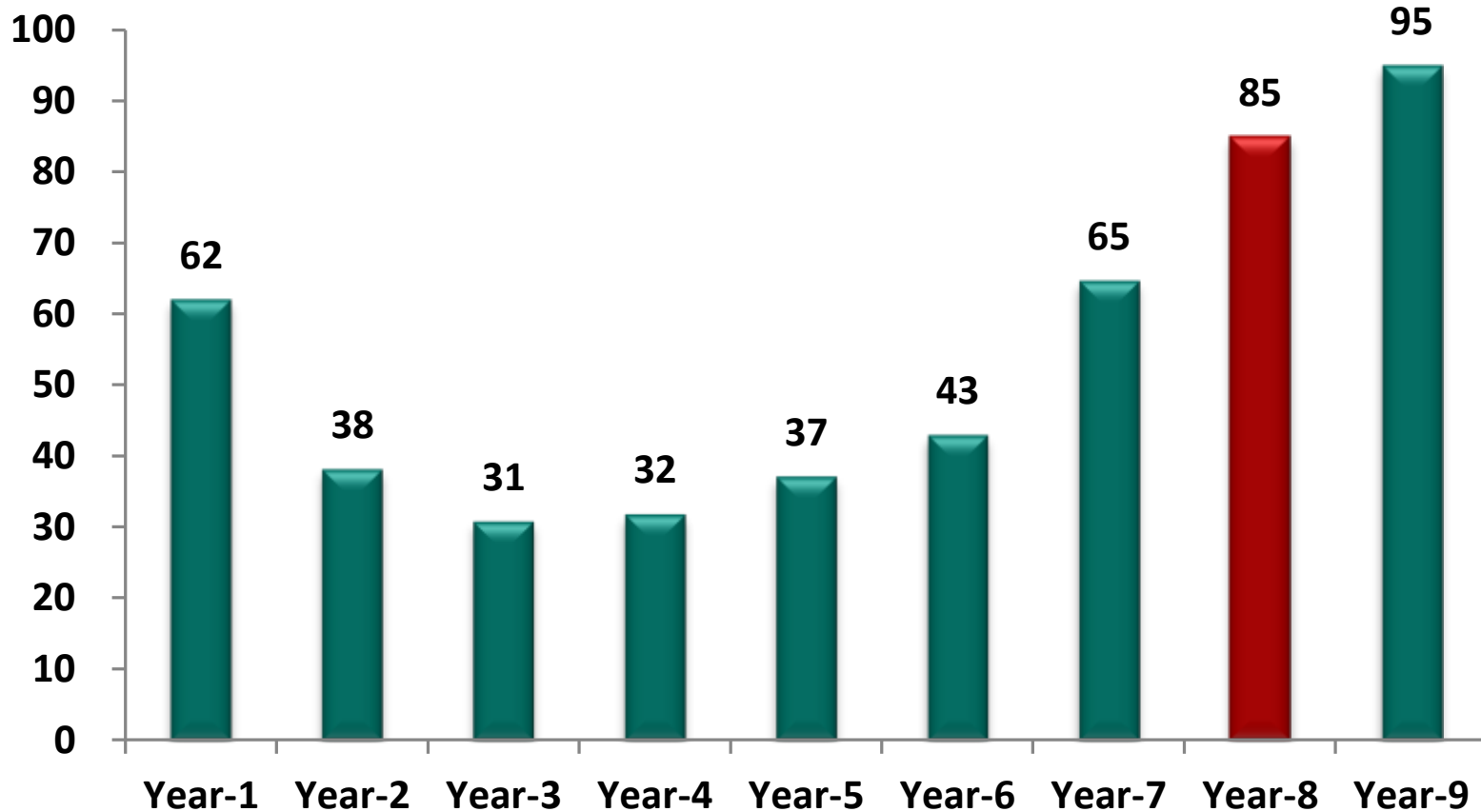
EPS Growth Expectations and Valuations for 2016

Global Market	Index	2016E		Div.
		EPS %	P/E	Yield
S&P 500	SPX	(0.3)	18.6	2.1%
S&P MidCap 400	MID	29.8	21.6	1.6%
S&P SmallCap 600	SML	67.0	22.6	1.4%
Developed Int'l.	MXEA	33.6	15.5	3.4%
Emerging Markets	MXEF	10.2	13.1	2.7%
Frontier Markets	MXFM	(7.0)	10.7	4.2%
Int'l Small Caps.	MXEASC	82.9	16.5	2.6%

Source: S&P Global Market Intelligence, Bloomberg. Data as of 7/26/16.

Bull Markets: They Become More Unstable with Age

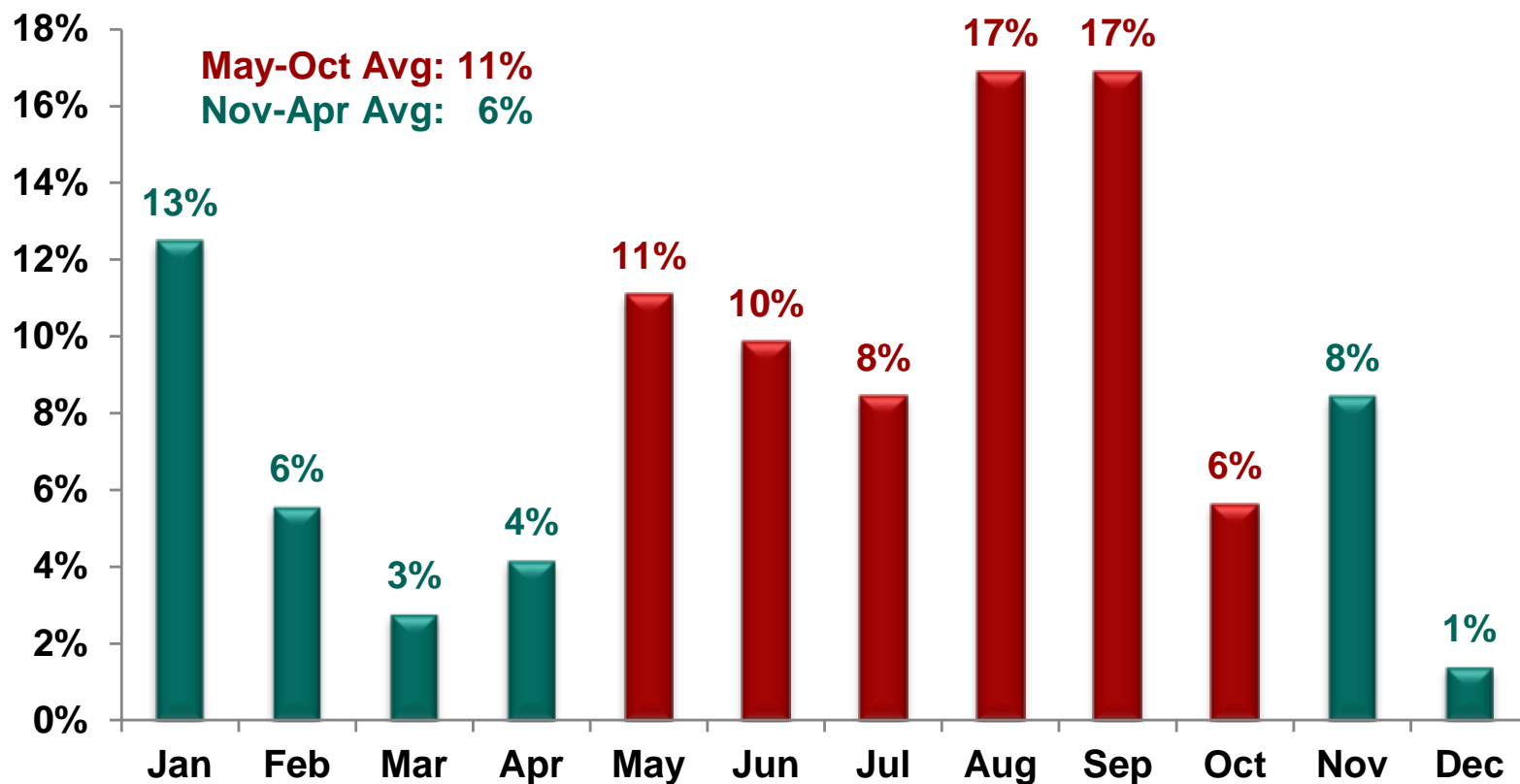
Average Number of Days S&P 500 Closed Up/Down by 1% or More During Each Bull Market Year Since WWII



Source: S&P Global Market Intelligence. Past performance is no guarantee of future results. Data: 12/31/45-7/26/16.

“Sell in May” Hasn’t Gone Away

Frequency of a Monthly Decline in the S&P 500 of 5% or More Since 1945



Source: S&P Dow Jones Indices. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns exclude dividends. Past performance is no guarantee of future results. Data 12/31/45-7/26/16.

Seasonal Softness

Average S&P 500 Sector Price Performances by Quarter Since 1990

S&P 500 Sector	Average Price % Changes			
	Q1	Q2	Q3	Q4
Consumer Disc.	3.5	2.0	(1.8)	6.3
Consumer Staples	0.4	2.3	0.6	6.3
Energy	2.9	3.3	(0.0)	1.9
Financials	1.6	2.4	(0.4)	4.4
Health Care	0.5	3.5	0.8	5.9
Industrials	2.0	2.2	(1.3)	5.9
Info. Technology	3.3	2.8	(0.2)	6.6
Materials	2.2	1.8	(2.6)	5.7
Telecom Services	(0.5)	1.4	(1.2)	4.5
Utilities	(0.5)	2.0	0.6	2.8
S&P 500	1.6	2.2	(0.7)	5.0

Source: S&P Dow Jones Indices. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns exclude dividends. Past performance is no guarantee of future results. Data 12/31/89-6/30/16.

Presidential Elections: Challenging Second Terms

S&P 500 Price Performances And Frequencies Of Advance During The Four-Year Presidential Cycle Since WWII

Year	Term	S&P 500 1944-Present	
		% Change	Up?
Year 1	All Years	7.6%	59%
	>First Term	6.2%	61%
	>Second Term	9.8%	60%
Year 2	All Years	5.3%	61%
	>First Term	0.5%	44%
	>Second Term	13.8%	90%
Year 3	All Years	16.1%	75%
	>First Term	17.5%	72%
	>Second Term	11.5%	70%
Year 4	All Years	6.1%	71%
	>First Term	10.2%	83%
	>Second Term	-3.3%	50%
Averages	All Years	8.6%	66%
	>First Term	8.6%	65%
	>Second Term	8.5%	67%

Source: S&P Global Market Intelligence, S&P Dow Jones Indices. Second Terms: 1952, 1960, 1968, 1988, 2000, and 2008. Past performance is no guarantee of future results. Data: 12/31/45-12/31/15.

Presidential Predictor: Reelection or Replacement?

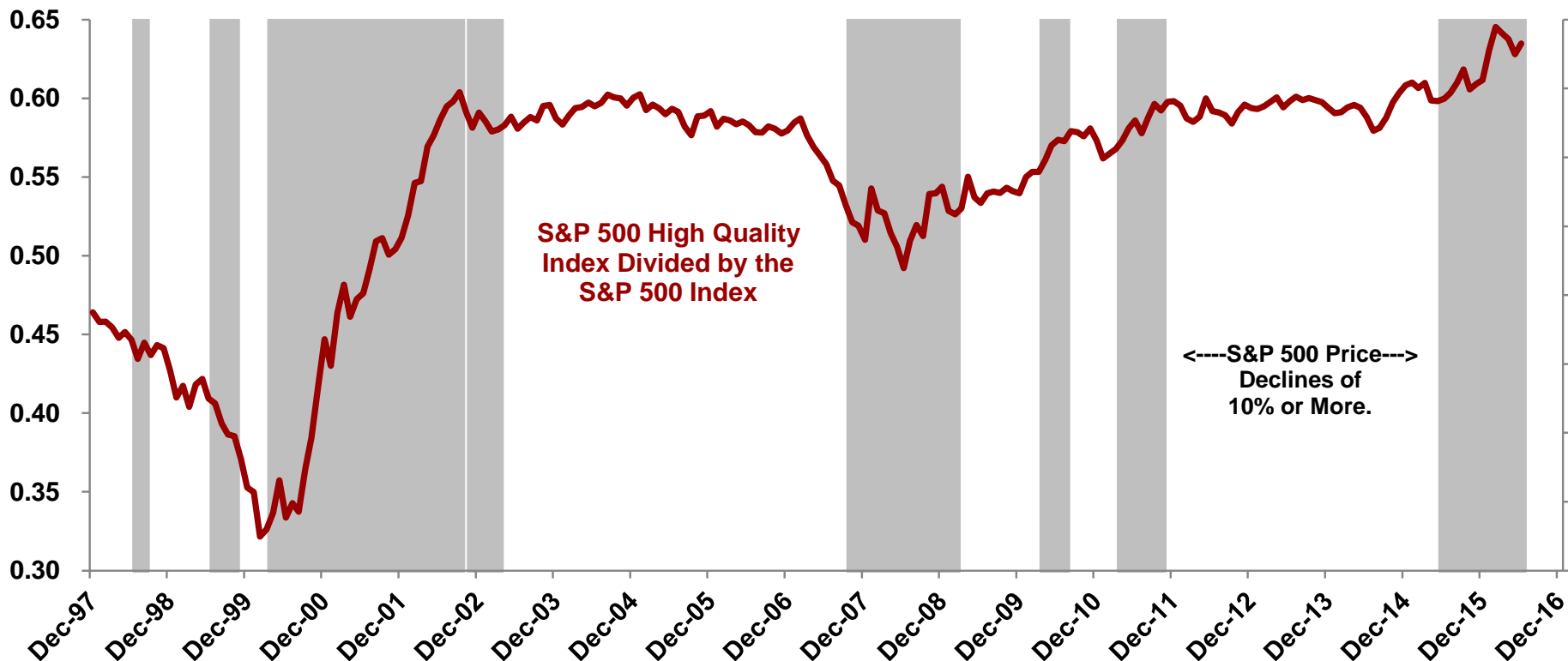
The S&P 500's Price Return July 31 thru Oct. 31 Has Typically Been a Reliable Indicator of Presidential Party Reelection or Replacement

Election Year	Candidates		S&P 500 Aug.-Oct.	Correct Prediction?	
	Democrat	Republican		Reelection	Replacement
1944	FDR	Dewey	0.6	1	
1948	Truman	Dewey	4.4	1	
1952	Stevenson	Eisenhower	(3.5)		1
1956	Stevenson	Eisenhower	(7.7)		0
1960	Kennedy	Nixon	(3.8)		1
1964	Johnson	Goldwater	2.0	1	
1968	Humphrey	Nixon	5.8	0	
1972	McGovern	Nixon	3.9	1	
1976	Carter	Ford	(0.5)		1
1980	Carter	Reagan	4.8	0	
1984	Mondale	Reagan	10.2	1	
1988	Dukakis	Bush	2.6	1	
1992	Clinton	Bush	(1.3)		1
1996	Clinton	Dole	10.2	1	
2000	Gore	Bush	(0.1)		1
2004	Kerry	Bush	2.6	1	
2008	Obama	McCain	(23.6)		1
2012	Obama	Romney	2.4	1	
			Success Rate	82%	86%

Source: S&P Global Market Intelligence, S&P Dow Jones Indices. Past performance is no guarantee of future results. Data: 12/31/45-10/31/12.

High Quality vs. S&P 500?

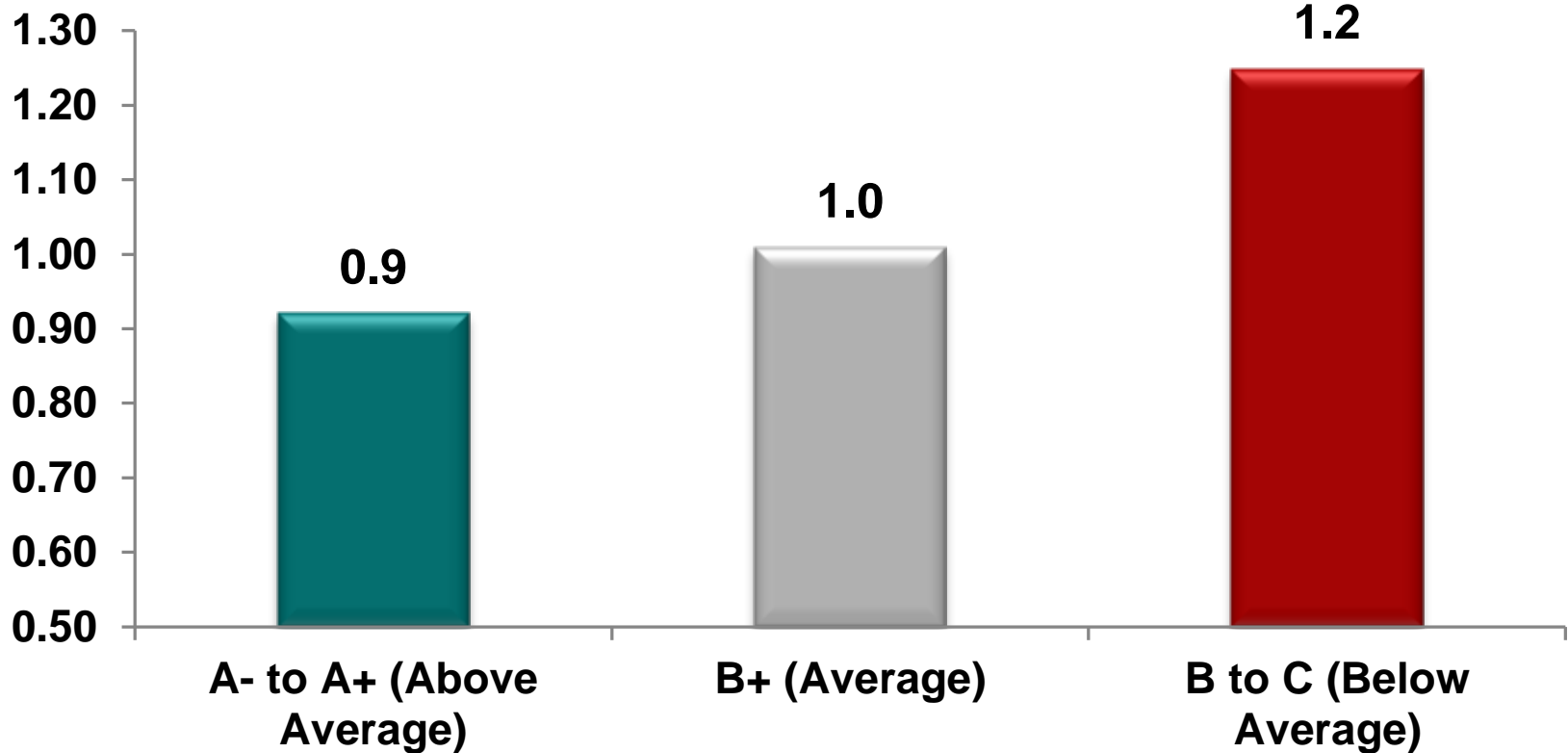
Investors Tend to Favor Stocks with Above-Average Consistencies of Raising EPS and Dividends During Challenging Times



Source: S&P Global Market Intelligence. Past performance is no guarantee of future results. Data as of 6/30/16

Higher Quality, Lower Betas

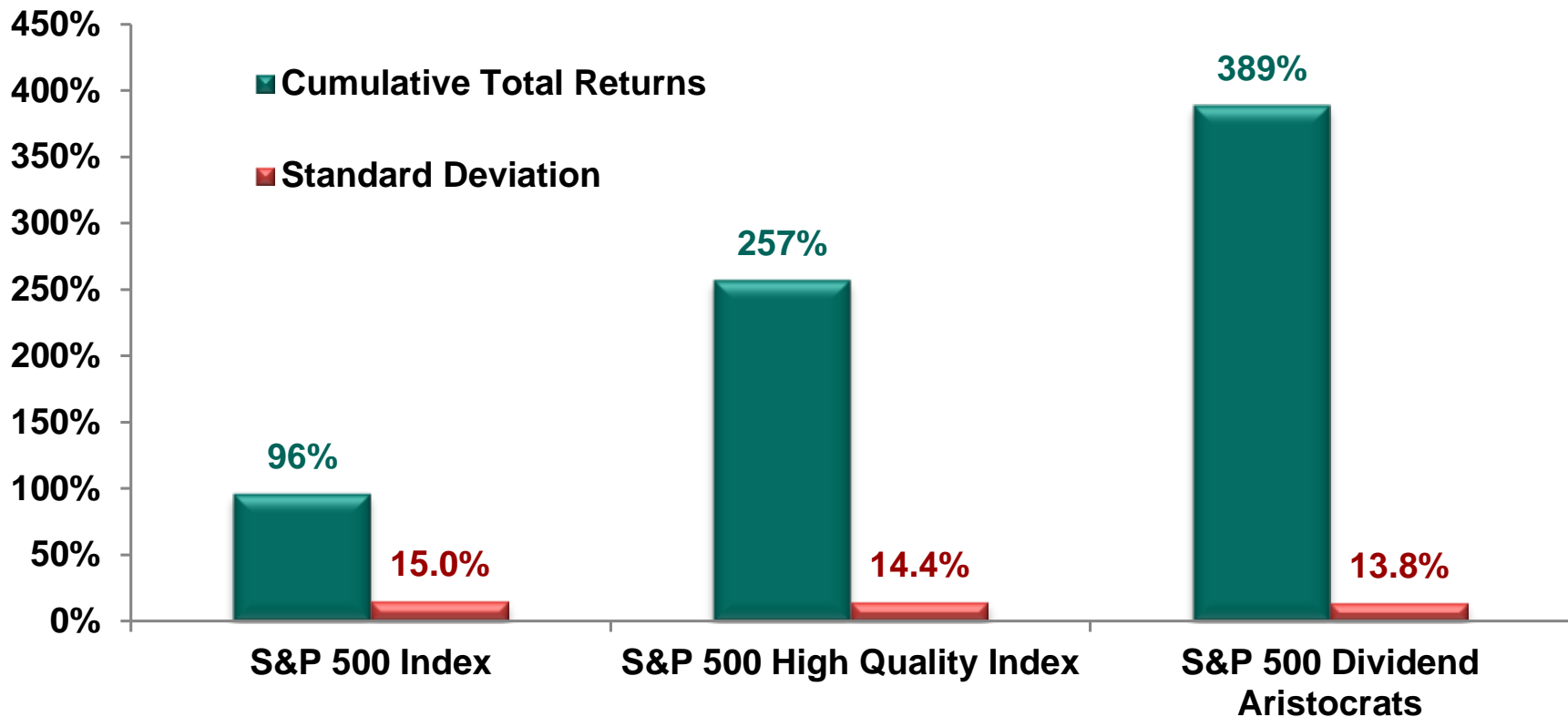
Average Beta by Quality Rank for Companies in the S&P 500



Source: S&P Global Market Intelligence. Data as of 6/30/16.

S&P 500 Dividend Aristocrats

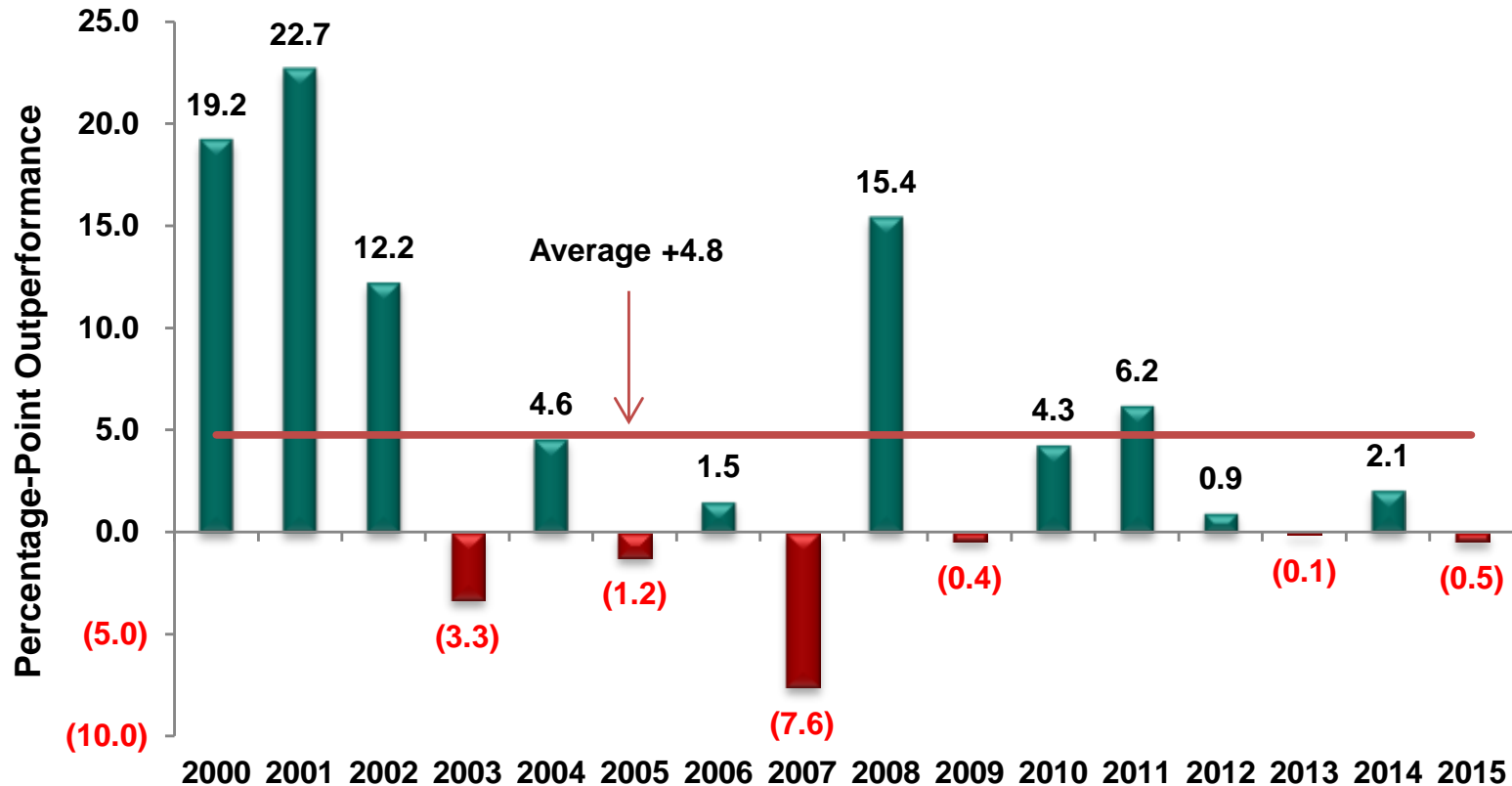
Superior Total Return During the “Lost Decade” and Beyond



Source: S&P Global Market Intelligence. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns include dividends. Past performance is no guarantee of future results. Data: 12/31/99-6/30/16.

Annual Outperformance: S&P 500 Dividend Aristocrats

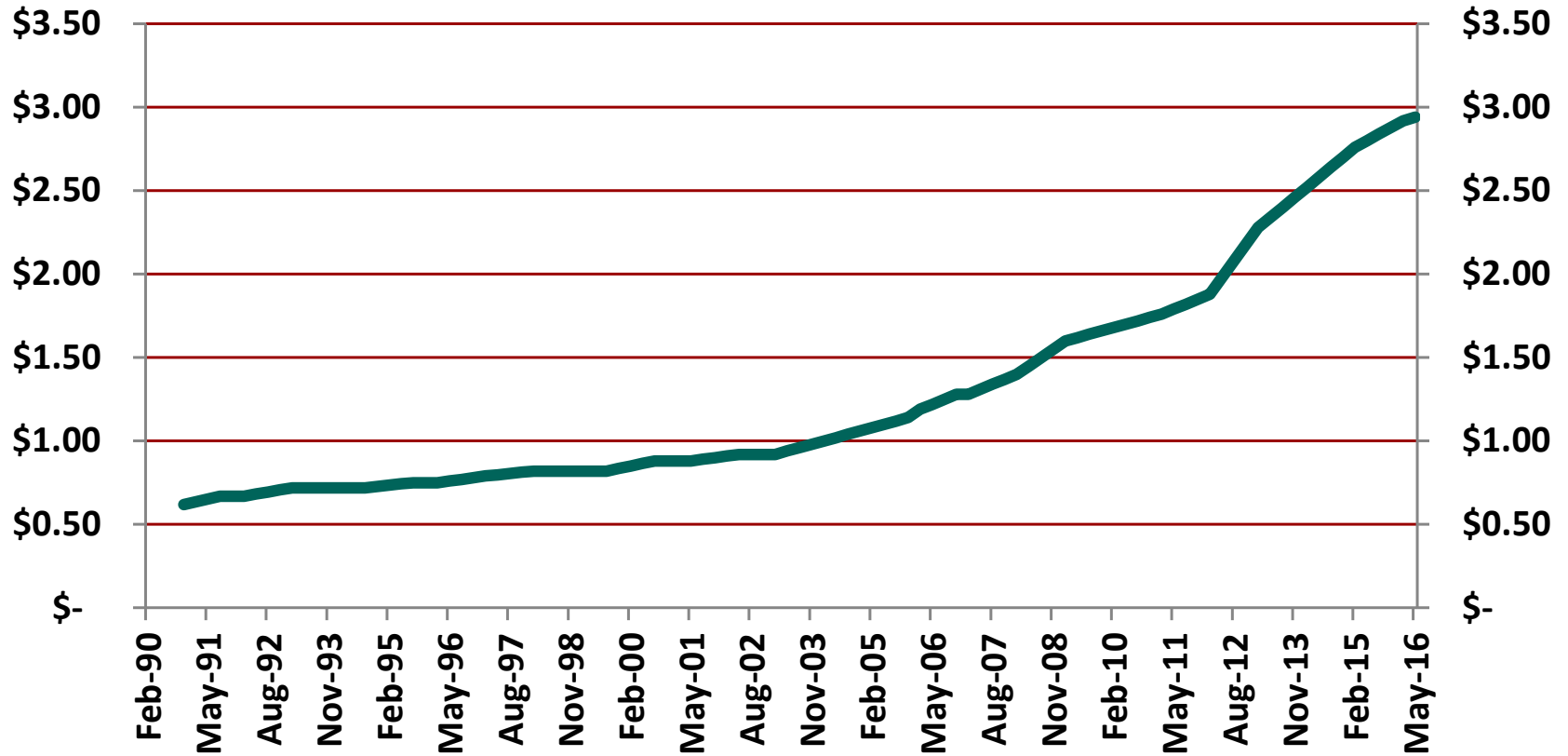
Annual Percentage-Point Outperformance of the S&P 500 Dividend Aristocrats over the S&P 500 Index



Source: S&P Dow Jones Indices. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns include dividends. Past performance is no guarantee of future results. Data 12/31/99-12/31/15.

INCOME INVESTORS: Think Like a Landlord

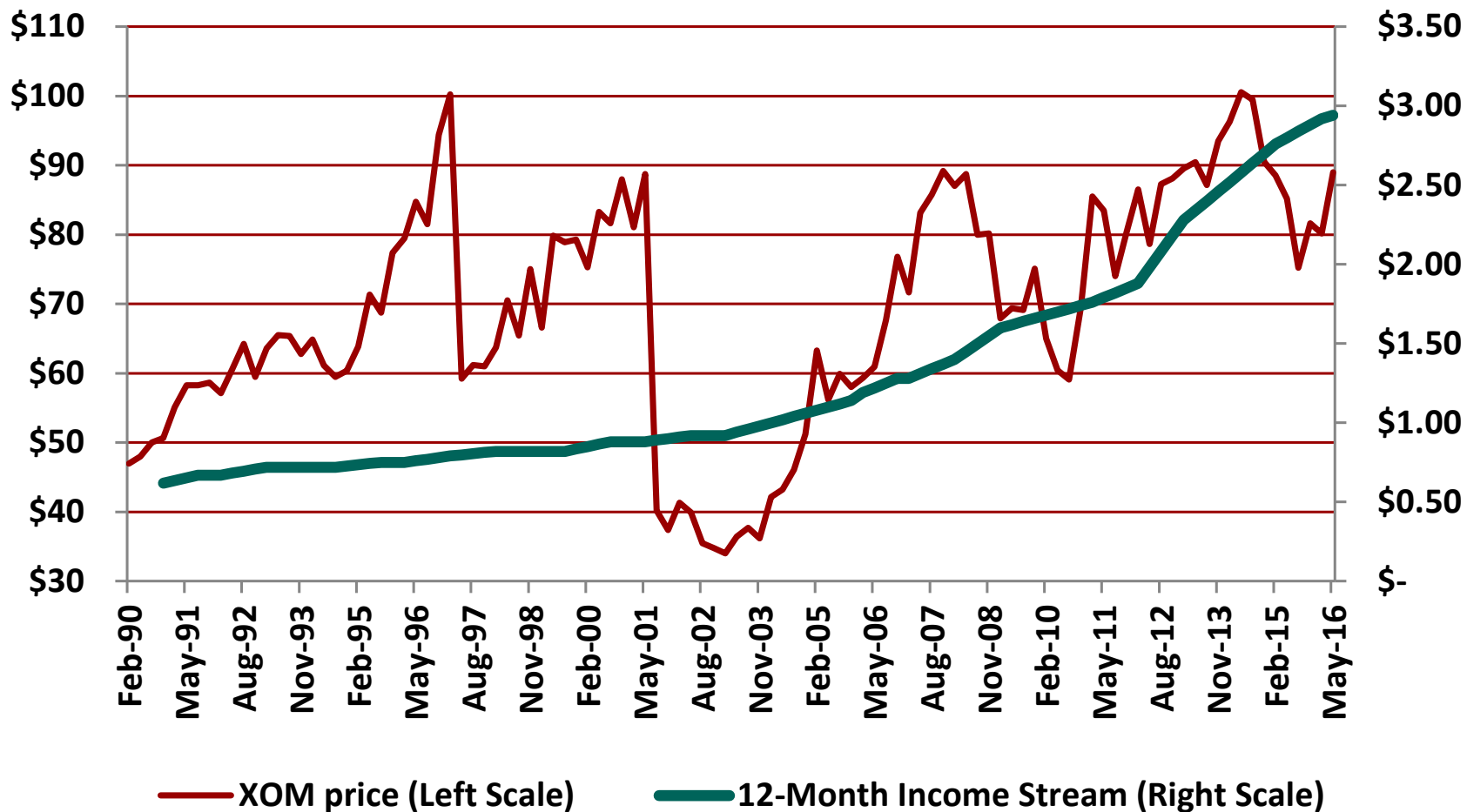
Ignore the Price Fluctuations and Focus on the Income Stream



Source: Yahoo Finance. Data as of 5/11/16.

INCOME INVESTORS: Think Like a Landlord

Ignore the Price Fluctuations and Focus on the Income Stream



Source: Yahoo Finance. Data as of 5/11/16.

Speaker Biography



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As Managing Director - U.S. Equity Strategy of S&P Global Market Intelligence, Sam Stovall serves as analyst, publisher and communicator of S&P's outlooks for the economy, market, and sectors. He is the Chairman of the S&P Investment Policy Committee, where he focuses on market history and valuations, as well as industry momentum strategies. Sam is the author of *The Seven Rules of Wall Street*, as well as *The Standard & Poor's Guide to Sector Investing*. He writes a weekly investment piece on S&P Global Market Intelligence's MarketScope Advisor platform. His work is also found in S&P's flagship weekly newsletter *The Outlook*.

Sam joined Standard & Poor's in April 1989. Prior to S&P, he served as Editor In Chief at Argus Research, an independent investment research firm in New York City.

He received an M.B.A. in Finance from New York University and a B.A. in History/Education from Muhlenberg College, in Allentown, PA. He is also a CFP® and is a Trustee of the Securities Industry Institute®, the executive development program held annually at The Wharton School of The University of Pennsylvania.

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