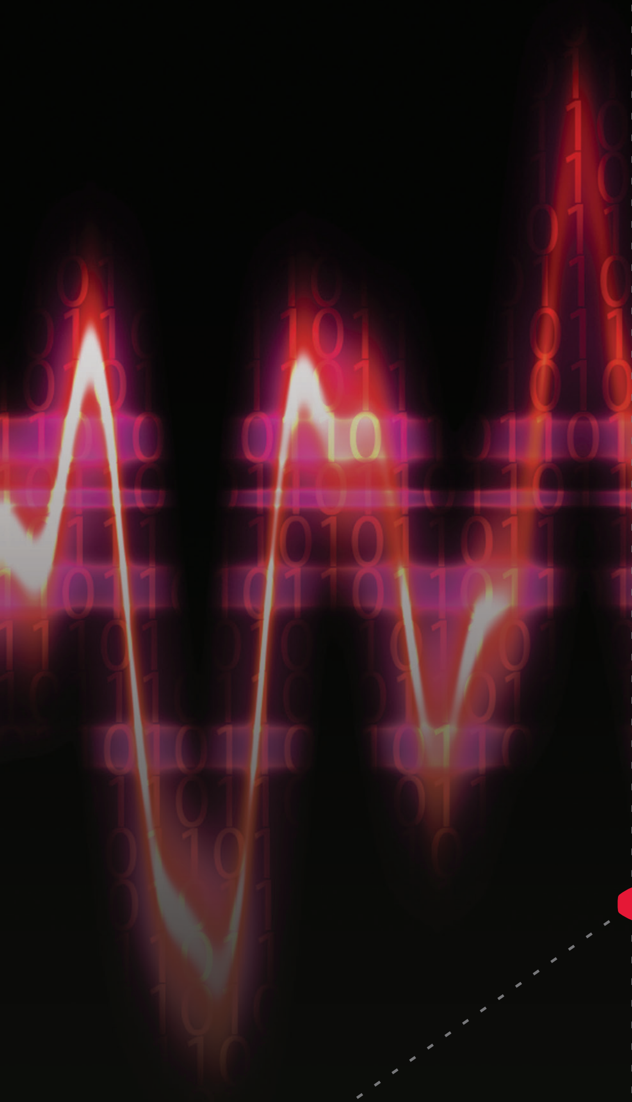

S&P CAPITAL IQ
McGRAW HILL FINANCIAL

Equity Market Pulse

Quantamental Research

- *SPOTLIGHT: Developed Europe*
- *Global Growth Estimates*
- *Global Valuation Analysis*
- *Global Operating Analysis*
- *Risk and Return by Region*
- *Investment Strategy Performance*

Q2 2015

ISSUE NO. 4

S&P CAPITAL IQ
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Equity Market Pulse

Introduction

Equity Market Pulse provides professional investors with insights into global equity market fundamentals and performance at a glance. Spanning developed and emerging markets, it provides perspective on growth, valuations, operating efficiency and investment strategy. Our global analysis is broken into five themes:

Growth—Bottom-up analyst growth estimates by region using S&P Capital IQ consensus estimates.

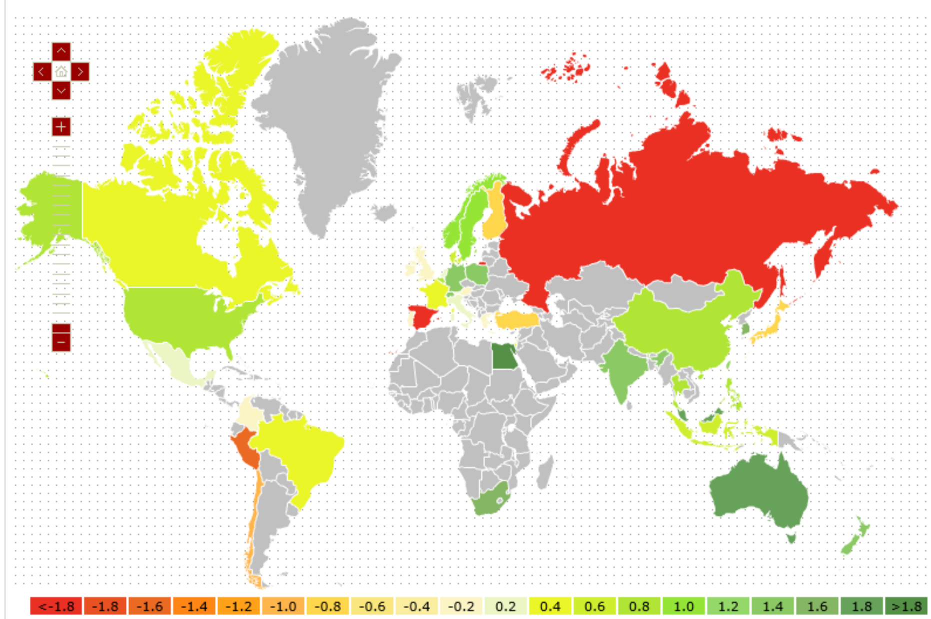
Valuation—Analysis of earnings, sales, and cash flow-based valuations metrics.

Operating Performance—Trends in operating performance including return on equity (ROE) and its components.

Risk/Return—Tracks the dynamics of equity market returns and volatility.

Strategy Returns—Examines the performance of eight common investment strategies employed by global investors.

12-Month minus 1-Month Price Momentum—
Excess Returns of Top 20% of Stocks Year to Date by Country (as of May 31, 2015)



Source: S&P Capital IQ Alpha Factor Library. Scale shows color code for percentage average monthly excess returns YTD for the strategy.

Executive Summary

- We begin this issue with a spotlight on developed Europe, which has the highest estimated growth rates and most attractive valuations among developed markets.
- **A trend toward global earnings per share (EPS) growth continues to synchronize across regions in 2015**, with developed Europe and Japan now leading in terms of estimated earnings growth.
- EPS declines in major energy and materials stocks are masking the overall EPS growth trends in the U.S., the UK, and Canada. Excluding energy and materials, all of these regions show relatively strong 2015 earnings growth.
- While 2015 EPS revision trends have flattened out in most developed markets, they continue to decline in emerging and commodity-related markets.
- Investment strategies that have outperformed year to date include growth and momentum related factors (see heat map above). However, investors have simultaneously remained cautious, with small caps and high-volatility issues underperforming.

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SPOTLIGHT

Developed Europe – Renewed Growth Supported by Attractive Valuations

Earnings Growth Forecasts (As Of June 5, 2015)

Developed Europe	CY 2015E(%)	CY 2016E(%)
Germany (EUR)	14.5	11.7%
France (EUR)	11.8	13.4%
United Kingdom (GBP)	(5.6)	12.8%
Italy (EUR)	17.4	17.2%
Spain (EUR)	14.3	16.8%

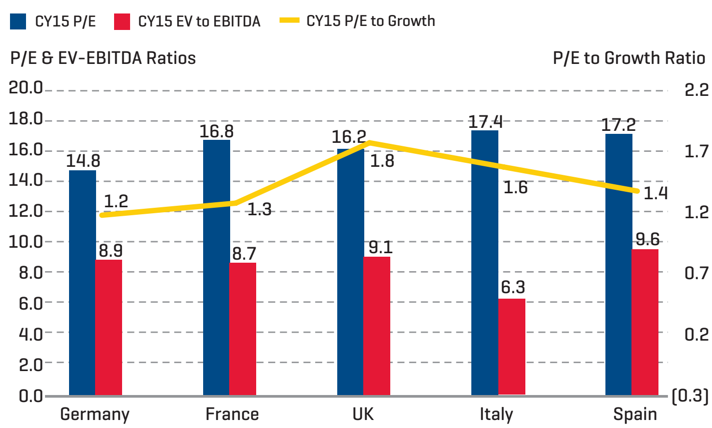
Revenue Growth Forecasts

Developed Europe	CY 2015E(%)	CY 2016E(%)
Germany (EUR)	5.1	3.9
France (EUR)	4.4	5.0
United Kingdom (GBP)	(9.4)	8.0
Italy (EUR)	(0.8)	4.3
Spain (EUR)	3.3%	6.0

Source: S&P Capital IQ Estimates and S&P Quantamental Research. Countries are sorted by nominal GDP.

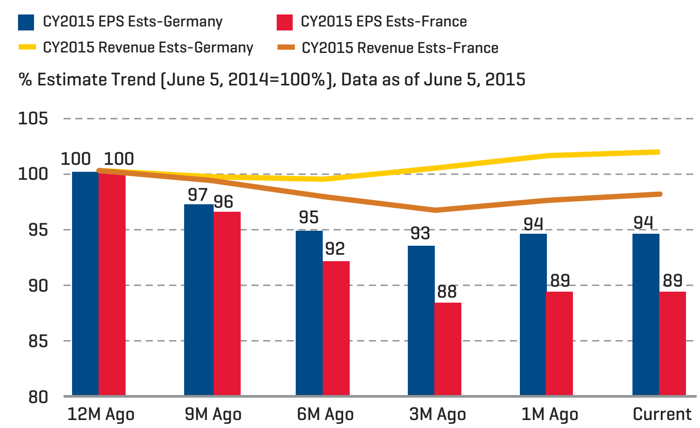
- **Developed Europe ex-UK has the highest projected long-term growth rate of any developed region at 12.1%, while valuation multiples are among the lowest of any developed region (see page 5).**
- Earnings growth in Europe's five largest economies is estimated to rise significantly in 2015 versus 2014 (excluding energy and materials 2015 UK EPS growth would be 8.4%).
- **We focus on Germany and France, where double-digit estimated EPS growth is supported by strong projected revenue growth** and P/E to growth multiples are among the lowest in developed Europe.

Developed Europe Valuations—CY15 Estimates (June 5, 2015)



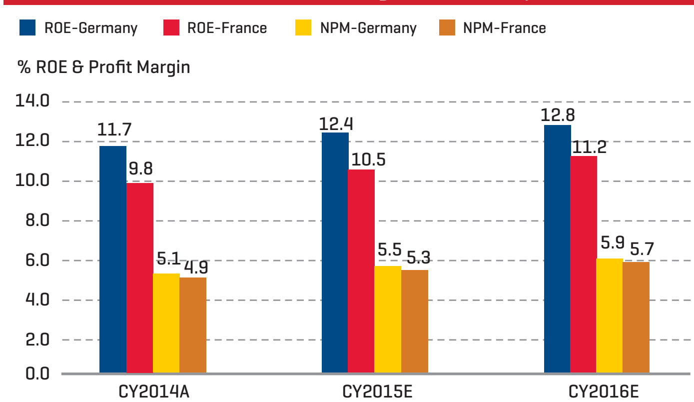
Source: S&P Capital IQ Quantamental Research.

CY 15 EPS/Revenue Estimate Trends—Germany & France



Source: S&P Capital IQ Quantamental Research. Data as of June 5, 2015.

Actual & Estimated ROE/Net Margin—Germany & France



Source: S&P Capital IQ Quantamental Research. Data as of June 5, 2015.

- **We note significantly improved EPS revision trends in Germany and France over the past three months.** In addition, revenue revisions have begun to trend upward over the past three to six months, signaling expected economic improvement.
- **Capital efficiency is also improving, with ROE projected to rise in 2015 and 2016 in Germany and France, on higher net profit margins (NPM).** This is in contrast to trends in the U.S., Canada, and the UK, which are all estimated to see declining ROE in 2015 (see page 6)

Global Growth Estimates—EPS and Sales Growth

Earnings Growth Forecasts (As Of June 5, 2015)

Americas	CY 2014E	CY 2015E	CY 2016E
S&P 1500 Index (USD)	6.4%	0.0%	12.5%
S&P/TSX Composite Index (CAD)	12.4%	-8.9%	21.7%
S&P Latin America BMI (BRL)	-16.2%	6.1%	23.2
Europe	CY 2014E	CY 2015E	CY 2016E
S&P United Kingdom BMI (GBP)	3.4%	-5.6%	12.8%
S&P Europe ex UK BMI (EUR)	1.6%	13.9%	13.2%
S&P Europe Emerging BMI (EUR)	-36.6%	24.4	16.8%
Asia	CY 2014E	CY 2015E	CY 2016E
S&P Japan BMI (JPY)	7.8%	13.7%	15.4%
S&P Asia Pacific Ex-Japan BMI (USD)	1.0%	4.1%	8.3%
S&P Asia Pacific Emerging BMI (CNY)	3.9%	7.3%	15.4%

Revenue Growth Forecasts

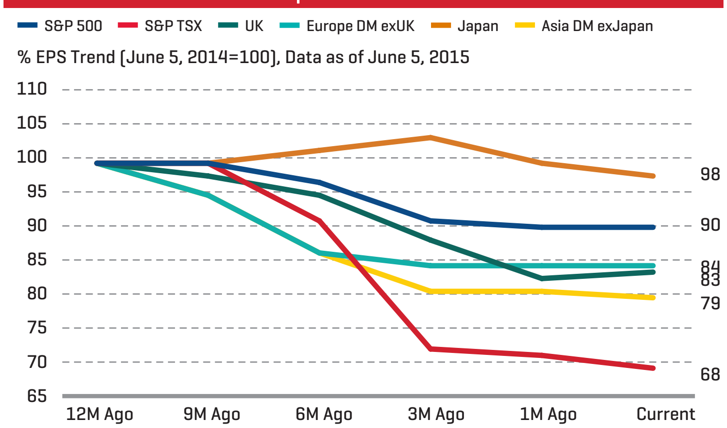
Americas	CY 2014E	CY 2015E	CY 2016E
S&P 1500 Index (USD)	4.1%	(1.3%)	6.1%
S&P/TSX Composite Index (CAD)	19.3%	(0.1%)	7.0%
S&P Latin America BMI (BRL)	8.1%	10.7%	7.7%
Europe	CY 2014E	CY 2015E	CY 2016E
S&P United Kingdom BMI (GBP)	(0.1%)	(9.4%)	8.0%
S&P Europe ex UK BMI (EUR)	0.7%	4.4%	4.6%
S&P Europe Emerging BMI (EUR)	(6.6%)	2.5%	11.6%
Asia	CY 2014E	CY 2015E	CY 2016E
S&P Japan BMI (JPY)	1.7%	2.8%	4.5%
S&P Asia Pacific Ex-Japan BMI (USD)	(3.0%)	(2.5%)	6.3%
S&P Asia Pacific Emerging BMI (CNY)	6.3%	2.7%	10.7%

Source: S&P Capital IQ Estimates and S&P Quantamental Research.

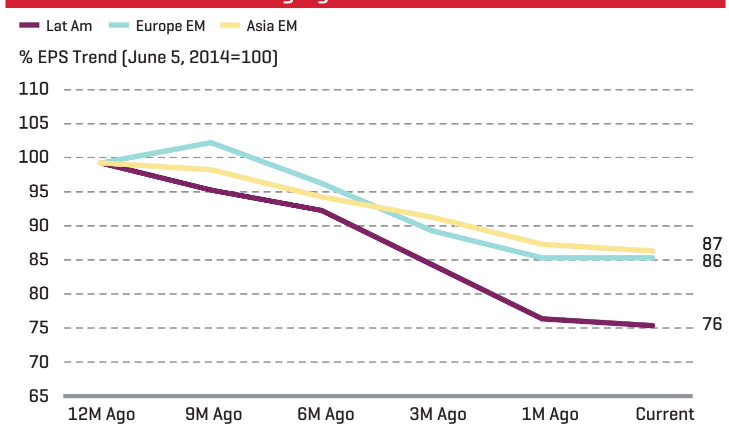
- Falling energy sector estimates are masking a 2015 trend toward global growth. EPS growth estimates, excluding energy, for the S&P Composite 1500®, the S&P United Kingdom BMI, and the S&P/TSX Composite for 2015 are positive 6.3%, 8.4%, and 7.5%, respectively[1].
- Developed Europe ex-UK has the strongest forecasted growth profile for 2015, in local currency terms. However, European growth is significantly less impressive when looked at in terms of U.S. dollars.
- Japan continues to have a strong growth profile, with 14% estimated EPS on 3% revenue growth for 2015 and further strong growth predicted for 2016.
- Although Emerging Europe (primarily Russia and Turkey) is showing strong estimated growth, we caution that estimates for this region have been volatile.
- Latin America has seen its 2015 growth trend weaken considerably over the past several months as estimates have been revised sharply downward (see estimate trend, below). About 21% of the index by market cap is in energy and materials.

Global Growth Estimates—EPS Estimate Revisions

CY 15 EPS Trend—Developed Markets



CY 15 EPS Trend—Emerging Markets



Source: S&P Capital IQ Estimates and S&P Quantamental Research.

- Commodity-related markets continue to have the worst estimate revision trends for 2015. TSX EPS estimates are down 32% from 12 months ago (energy and materials are 31% of market cap), and Latin American estimates are down 24%.
- Likewise developed Asia ex-Japan EPS estimates are down 21%, as BHP Billiton and Rio Tinto (Australia) have both seen estimates cut in half.
- Japan has the strongest EPS estimate trend followed by the S&P 1500, although previously rising Japanese estimates have recently been adjusted downward.
- Revision trends in developed Europe (ex UK) have flattened out and begun to turn positive.

[1]The UK estimate also excludes materials sector stocks.

Global Valuations Analysis

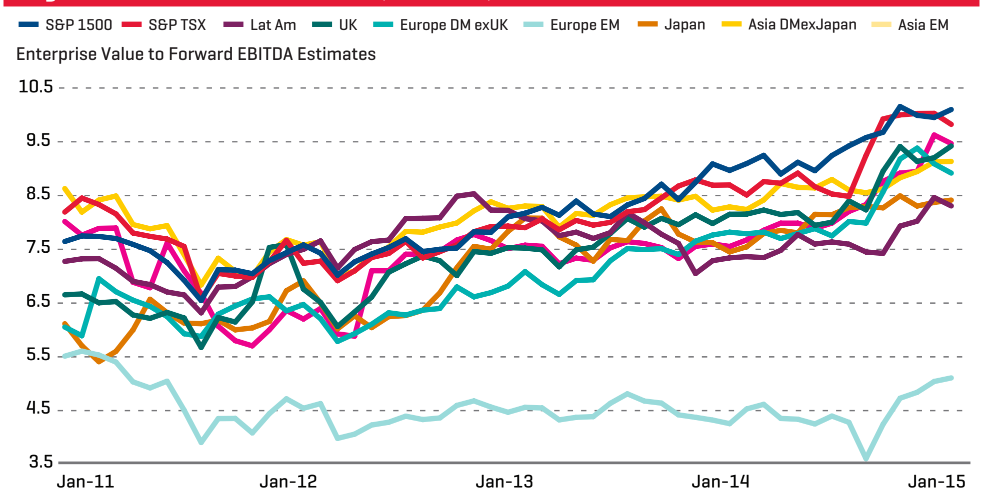
Regional Market Metrics (As Of June 5, 2015)

Americas	S&P 500	S&P TSX	Latin America
CY 2015 P/E	17.9	18.7	15.7
CY 2016 P/E	15.9	15.4	12.7
Proj LT Growth Rate (Median)	11.2%	8.3%	13.4%
CY 2015 P/E to Growth Ratio	1.6	2.3	1.2
CY 2015 EV/EBITDA	10.5	10.9	8.3
CY 2015 Free Cash Flow Yield	4.5%	3.0%	2.2
Europe	**United Kingdom**	**Europe DM exUK**	**Europe EM**
CY 2015 P/E	16.3	16.8	7.6
CY 2016 P/E	14.5	14.9	6.4
Proj LT Growth Rate (Median)	9.2%	12.1%	12.8%
CY 2015 P/E to Growth Ratio	1.8	1.4	0.6
CY 2015 EV/EBITDA	9.2	9.0	4.3
CY 2015 Free Cash Flow Yield	4.1%	4.3%	5.8%
Asia	**Japan**	**Asia DM exJapan**	**Asia EM**
CY 2015 P/E	17.6	14.1	14.7
CY 2016 P/E	15.3	13.1	12.9
Proj LT Growth Rate (Median)	9.7%	10.0%	16.3%
CY 2015 P/E to Growth Ratio	1.8	1.4	0.9
CY 2015 EV/EBITDA	8.5	9.2	9.7
CY 2015 Free Cash Flow Yield	3.8%	4.3%	2.7%

Source: S&P Capital IQ Quantamental Research.

- **Valuation multiples have continued to expand globally, as earnings growth trends have strengthened[2].** The S&P Composite 1500® and Canada appear most expensive both from a P/E and an EV to EBITDA point of view. However, the U.S. also has the highest FCF yield of any region (excluding emerging Europe), at 4.5%.
- **UK and developed Europe P/E and EV/EBITDA ratios appear attractive relative to their 2015 growth profiles,** and cash flow yields are also relatively strong in these regions.
- **Japan has the lowest EV/EBITDA ratio of any developed region,** but P/E ratios are currently higher than in Europe, due to strong Japanese stock market appreciation.
- A strong market rally has sent Chinese valuations (not shown) spiking upward, with a P/E ratio of 14X 2015 estimates, versus a forward P/E of 9X just one year ago. China EPS growth, ex-energy, is estimated at 13% for 2015. Indian valuations have also climbed significantly, with a 2015 P/E of 18X and EV/EBITDA of 10X.
- We believe the low valuation multiples afforded to emerging Europe shares reflect the risk inherent in these economies (Russia, Turkey).

Regional Market Valuation, January 2011—May 2015



Source: S&P Capital IQ Quantamental Research. Data as of May 31, 2015.

[2]Note: enterprise value to EBITDA and free cash flow yield ratios exclude banks.

Global Operating Performance—Return on Equity Analysis

Dupont Analysis: Return On Equity = Net Profit Margin * Asset Turnover * Leverage (Excludes Banks)

Americas		S&P 1500 (USD)		S&P TSX (CAD)		Latin America (BRL)	
		2014	2015E	2014	2015E	2014	2015E
Return on Equity	(Profit/Equity)	17.1%	15.4%	10.9%	8.8%	8.9%	9.0%
Net Profit Margin	(Profit/Sales)	9.0%	9.1%	7.7%	6.5%	6.2%	6.0%
Turnover	(Sales/Assets)	0.54	0.53	0.35	0.35	0.54	0.53
Leverage	(Assets/Equity)	3.5	3.2	4.0	3.9	2.6	2.8
Europe		**United Kingdom (GBP)**		**Europe DM ex UK (EUR)**		**Europe EM (EUR)**	
		2014	2015E	2014	2015E	2014	2015E
Return on Equity	(Profit/Equity)	15.1%	12.9%	11.3%	11.9%	18.8%	21.4%
Net Profit Margin	(Profit/Sales)	7.3%	7.2%	5.8%	6.2%	12.8%	16.4%
Turnover	(Sales/Assets)	0.53	0.49	0.37	0.36	0.66	0.63
Leverage	(Assets/Equity)	3.9	3.7	5.3	5.3	2.2	2.1
Asia		**Japan (JPY)**		**Asia DM ex Japan (USD)**		**Asia EM (CNY)**	
		2014	2015E	2014	2015E	2014	2015E
Return on Equity	(Profit/Equity)	7.6%	8.5%	9.0%	8.9%	11.9%	11.9%
Net Profit Margin	(Profit/Sales)	3.8%	4.3%	6.6%	7.1%	6.9%	7.3%
Turnover	(Sales/Assets)	0.64	0.64	0.52	0.50	0.51	0.48
Leverage	(Assets/Equity)	3.2	3.1	2.6	2.5	3.4	3.3

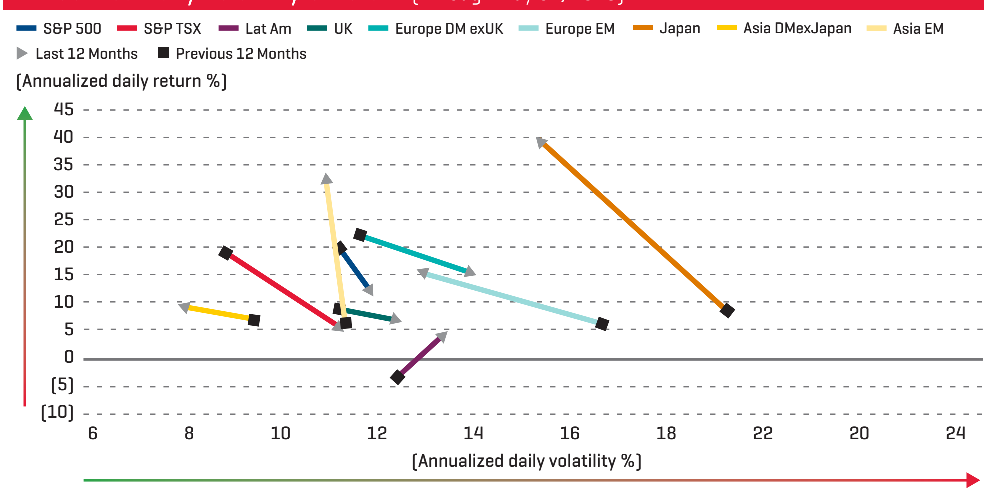
Source: S&P Capital IQ Quantamental Research. Data as of June 5, 2015.

Beginning with this issue of Equity Market Pulse, we use analyst estimates to construct the DuPont analysis. Values for 2014 are based on analyst-adjusted ("normalized") actual EPS and revenues, while values for 2015 are based on estimates. "Forward" common equity is estimated by adding estimated earnings to prior-year equity and subtracting estimated dividends, while total assets are estimated by applying estimated revenue growth rates to prior-year assets.

- Estimated ROE and profit margin trends are improving in developed Europe, Japan, and emerging Europe. However, we note that emerging Europe estimates have been volatile.
- ROE trends in the U.S., Canada, and the UK are deteriorating on declining/flat profitability and declining leverage, as projected equity growth outpaces profit growth in these regions. Profitability in all three regions is being held back by declining energy sector estimates.
- Developed and emerging Asia both see expected improvement in profit margins, but have declining or flat ROE driven by lower sales growth.

Risk & Return in Regional Equity Markets

Annualized Daily Volatility & Return (Through May 31, 2015)



Source: S&P Capital IQ Quantamental Research. Data as of May 31, 2015. Indices are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

- Overall, global returns have increased over the past 12 months, driven by Asia, and average global price volatility decreased, a sign of a continued bull market in our view.
- Japan, developed Asia, and emerging Asia all saw an ideal combination of rising prices and decreasing volatility over the past 12 months.
- Japan is most notable, with the highest local-currency returns, at 40%, and sharply decreased volatility of daily returns.
- S&P 1500 twelve month returns declined to 12% from 20% for the prior period, and volatility remained in the middle of the overall global range.

HOW TO READ THE CHART: Each point on the chart represents a combination of annualized total returns (left scale) and annualized price volatility (bottom scale). The lines show the change in return/volatility between the 12 months ended May 2014 and the 12 months ended May 2015. The arrow heads on the lines show the direction of travel chronologically.

Global Investment Strategy Performance

Equal-Weighted Excess Monthly Returns of Top 20% of Stocks (June 1, 2014 to May 31, 2015)

Representative Factor	Return on Equity	Trailing 1Y EPS Growth	12M minus 1M Return	Forecast EPS Revisions	Net Profit Margin	Forward E/P	Market Cap	12M Return Volatility
Style	**Capital Efficiency**	**Growth**	**Price Momentum**	**Analyst Expectations**	**Earnings Quality**	**Valuation**	**Small Size**	**High Volatility**
S&P 1500	0.2	(0.1)	0.3	(0.1)	(0.1)	0.1	(0.1)	(0.3)
S&P TSX	0.7	(0.8)	(0.0)	(1.0)	(0.7)	(0.7)	0.4	(0.3)
Latin America	0.8	0.8	0.6	(0.1)	1.1	(0.4)	(1.7)	(1.3)
United Kingdom	0.1	0.4	0.2	0.7	0.3	0.0	(0.2)	(0.4)
Europe Developed exUK	0.7	0.3	0.4	0.2	0.5	(0.3)	(0.9)	(1.3)
Europe Emerging	0.5	1.0	(0.7)	0.5	(0.3)	1.0	(0.2)	(0.1)
Japan	0.1	(0.3)	(0.1)	0.4	0.2	0.3	(0.2)	(0.7)
Asia Developed exJapan	0.1	0.0	1.0	0.2	0.4	(0.9)	(0.2)	(0.2)
Asia Emerging	0.5	0.1	0.5	1.2	0.2	0.9	(1.5)	(0.1)
# Regions Outperforming	9 of 9	6 of 9	6 of 9	6 of 9	6 of 9	5 of 9	1 of 9	0 of 9

OUTPERFORMING STRATEGIES ← → UNDERPERFORMING STRATEGIES

Source: S&P Capital IQ Quantamental Research. Data as of May 31, 2015. Indices are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

- The top three of our eight investment strategies emphasize profitability and growth. Investors have been attracted to companies with high values for return on equity, trailing EPS growth, and price momentum.
- In our view, these factors reflect markets characterized by improving growth prospects globally.
- Conversely, small market capitalization and highly volatile stocks have underperformed, reflecting continued risk aversion despite improving fundamentals.

About S&P Capital IQ™ Equity Market Pulse

The content of the Equity Market Pulse is driven by S&P Capital IQ's fundamental data and analytics including S&P Capital IQ Estimates, Global Point-In-Time Fundamentals, and the Alpha Factor Library.

For more information about these and other data sets and analytical tools, please contact:

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Our Recent Research

MARCH 2015

Equity Market Pulse – Quarterly Equity Market Insights Issue 3

NOVEMBER 2014

Equity Market Pulse – Quarterly Equity Market Insights Issue 2

MAY 2015

Investing in a World with Increasing Investor Activism

Investor activism has gained mainstream acceptance as activists with larger-than-life personas have waged a string of successful campaigns. Activist hedge funds' assets under management (AUM) have swelled to $120 billion, an increase of $30 billion in 2014 alone. It was among the best performing hedge fund strategies in 2014 as well as over the last three- and five-year periods. In this report, we explore an investment strategy that looks to ride the momentum surrounding the announcement of investor activism. We further explore what, if any, changes to targeted companies activists are able to influence.

APRIL 2015

Drilling for Alpha in the Oil and Gas Industry – Insights from Industry Specific Data & Company Financials

During the recent slide in oil prices, clients frequently asked us which strategies have historically been effective in selecting stocks in declining energy markets. This report answers this question, along with its corollary: which strategies work in rising energy markets? We also explore the value of oil & gas reserve data used by fundamental analysts/investors, but not used in a majority of systematic investment strategies. The analysis in this report should help both fundamental and quantitatively-oriented investors determine how to best use industry-specific metrics when selecting securities from a pool of global oil & gas companies.

FEBRUARY 2015

U.S. Stock Selection Model Performance Review

Since the launch of the four S&P Capital IQ™ U.S. stock selection models in January 2011, the performance of all four models (Growth Benchmark Model, Value Benchmark Model, Quality Model, and Price Momentum Model) has been positive and 2014 was no exception. Our models' key differentiators - distinct formulation for large cap and small cap stocks, special treatment for the financial sector, sector neutrality to target stock specific alpha, and factor diversity - enabled the models to outperform across various market environments.

In this report, we review the underlying drivers of each model's performance over the 12 months ended December 31, 2014, document performance from January 2011 when the models went live, and provide full model performance history from January 1987.

JANUARY 2015

Global Pension Plans: Are Fully Funded Plans a Relic of the Past?

Despite global stock and bond market improvement, pension underfunding remains a significant problem for both retirees and investors. While U.S. companies are the best funded of the three developed regions we examine, only 38% of S&P 500 companies with pension obligations have a funding status (pension assets to liabilities) of 90% or better. We see trends that may keep pressure on global pension funding: the continued fall in interest rates in 2014, which will likely result in lower discount rates and corresponding higher pension obligations; a global decrease in employer contributions to pension plans over the past five years; and the potential for decreased investing returns following a six-year global equities bull market.

JANUARY 2015

Profitability: Growth-Like Strategy, Value-Like Returns Profiting from Companies with Large Economic Moats

Value-based strategies have been the favorite weapons in many investors' arsenals, historically yielding large returns and consistently outperforming. Most value investors focus on the price side of the equation – i.e., buying assets that are priced below their intrinsic values. Yet, there's another dimension to the value equation that has been complementary to value and just as critical in generating excess returns. Enter profitability. Profitability has historically worked as an investment strategy because instead of focusing on the cheapness of an asset it focuses on the productiveness of an asset - i.e., its ability to generate earnings for the investor. Our results from January 1996 to August 2014 show:The S&P 500® continues to be the preeminent regional performer in terms of both financial results and price appreciation Risk and Return: Tracks the dynamics of equity market returns and volatility.