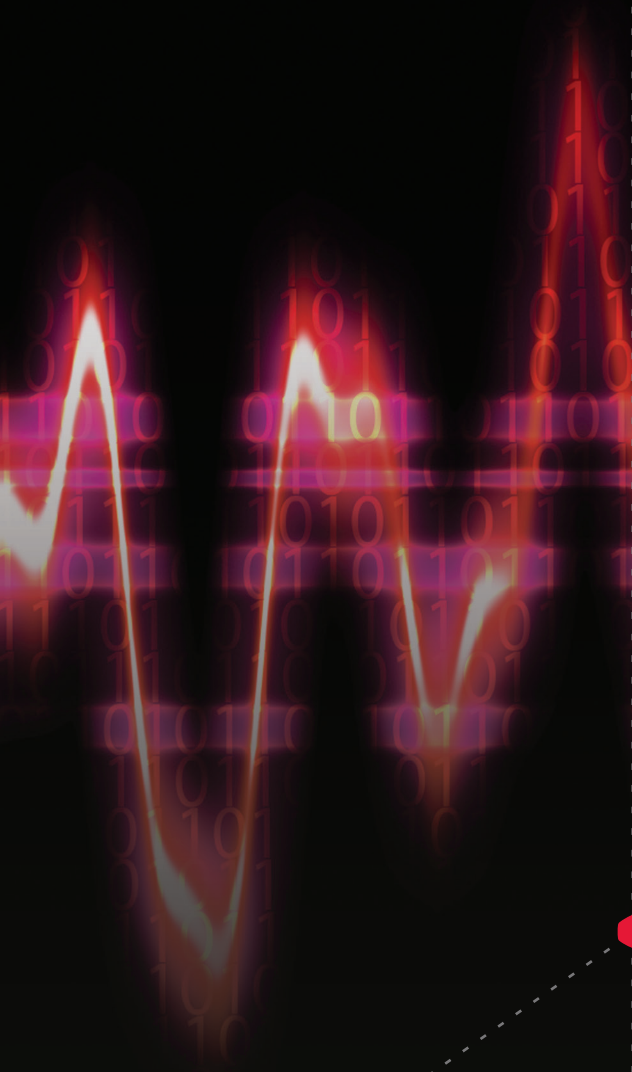


S&P CAPITAL IQ
McGRAW HILL FINANCIAL

Equity Market Pulse

Quantamental Research

- *Global Trends in Equity Market Fundamentals and Valuations*
- *Performance in Regional Equity Markets*
- *Regional Investment Style Returns*
- *Quantamental Investment Research*

Q1 2015

ISSUE NO. 3

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 in the Americas, Europe and Asia, it provides perspective on fundamentals, valuations and investment strategy effectiveness. The analysis is broken into five themes:

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

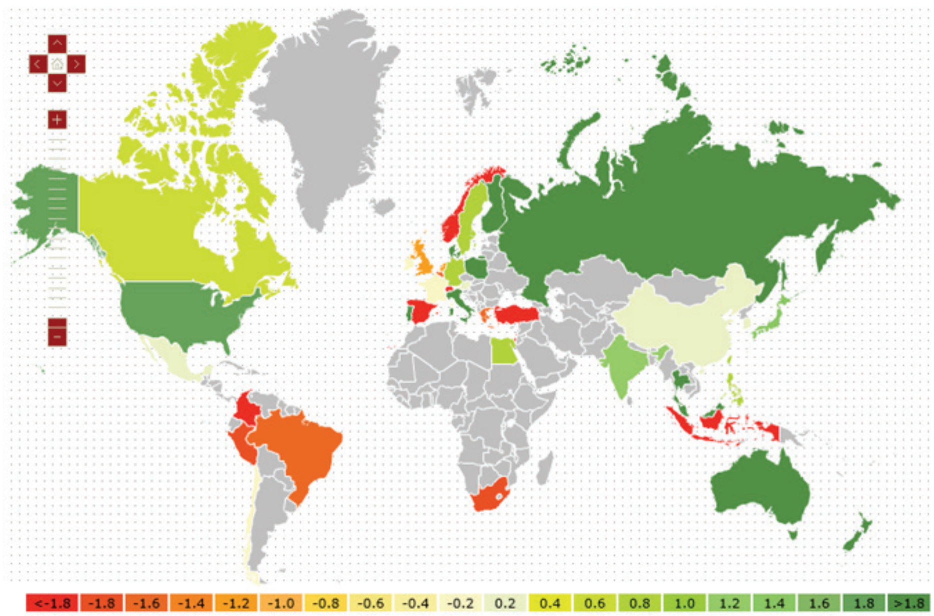
Valuation—Analysis of earnings, sales, and cash flow-based valuations metrics.

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.

Analysts' Long Term Growth Rate—Excess Returns of Top 20% of Stocks Year to Date as of Feb 28, 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 see a global earnings lift reflected in analyst earnings growth estimates for 2015, with Japan, Europe (ex-UK), and Latin America all estimated to move from earnings declines in 2014 to growth in 2015.
- Japan shows particular improvement, with the highest estimated EPS growth of all regions, positive EPS revisions and moderate valuations. Market returns in Japan have been rising, while volatility has fallen.
- EPS revision trends are also rising in emerging Europe (primarily Russia), with trends in the U.S. and emerging Asia remaining stable over the past 12 months.
- P/E to growth (PEG) ratios still appear reasonable for emerging markets (at or below 1.0) and for developed Europe ex-UK, Japan and developed Asia (at or below 1.5X). However, commodities-rich Canada shows an alarming combination of a 2.0 PEG ratio and a steep projected EPS decline.
- Europe appears inexpensive relative to other regions on a free cash flow to price basis, with yields ranging from 4.4% to 5.4%. The U.S. and emerging Asia also offer significant cash yields. Multiple expansion continues globally.
- Of the eight investment strategies we track for this publication, analyst EPS revisions and return on equity take the top spots over the past 12 months. Volatility and small market cap strategies performed the worst. We view this as indicative of increased emphasis on fundamentals, as the global bull market matures.

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Global Growth Estimates—EPS and Sales Growth

Earnings Growth Forecasts, As Of February 28, 2015

Americas	CY 2014E	CY 2015E	CY 2016E
S&P 500 Index	0.6%	0.6%	13.2%
S&P/TSX Composite Index	1.2	-11.1	20.7
S&P Latin America BMI	-27.2	14.1	19.3
Europe	CY 2014E	CY 2015E	CY 2016E
S&P United Kingdom BMI	-0.1%	-9.1%	14.5%
S&P Europe ex UK BMI	-13.6	6.9	12.6
S&P European Emerging BMI	-4.2	62.7	14.9
Asia	CY 2014E	CY 2015E	CY 2016E
S&P Japan BMI	-5.4%	14.6%	10.8%
S&P Asia Pacific Ex-Japan BMI	2.8	0.5	9.3
S&P Asia Pacific Emerging BMI	5.7	6.2	13.2

Sales Growth Forecasts, As Of February 28, 2015

Americas	CY 2014E	CY 2015E	CY 2016E
S&P 500 Index	3.4%	-0.8%	6.2%
S&P/TSX Composite Index	8.7	-6.4	8.1
S&P Latin America BMI	-3.9	-3.5	9.0
Europe	CY 2014E	CY 2015E	CY 2016E
S&P United Kingdom BMI	-6.8%	-8.5%	7.8%
S&P Europe ex UK BMI	-11.2	-4.0	4.4
S&P European Emerging BMI	-10.2	-13.1	12.3
Asia	CY 2014E	CY 2015E	CY 2016E
S&P Japan BMI	-6.9%	2.8%	3.6%
S&P Asia Pacific Ex-Japan BMI	-3.5	1.4	6.1
S&P Asia Pacific Emerging BMI	4.1	4.0	9.9

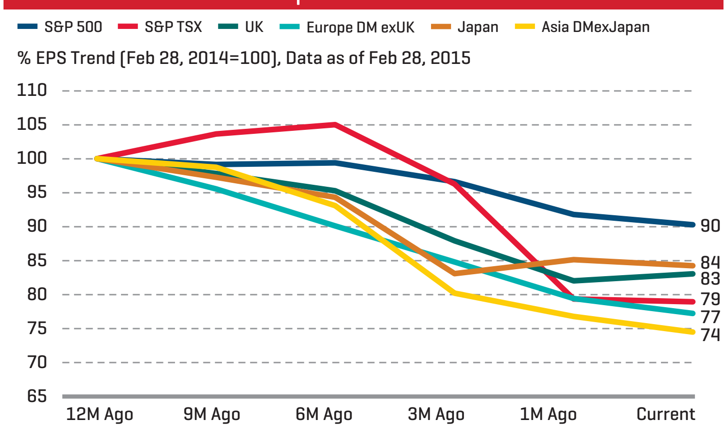
Source: S&P Capital IQ Estimates and S&P Quantamental Research. Indices are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to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

In this issue, we introduce bottom-up global growth estimates, based on S&P Capital IQ consensus estimates by calendar year. Estimates are aggregated by index and are fundamentally weighted (i.e., by earnings and revenues). All financial data is converted to U.S. dollars.

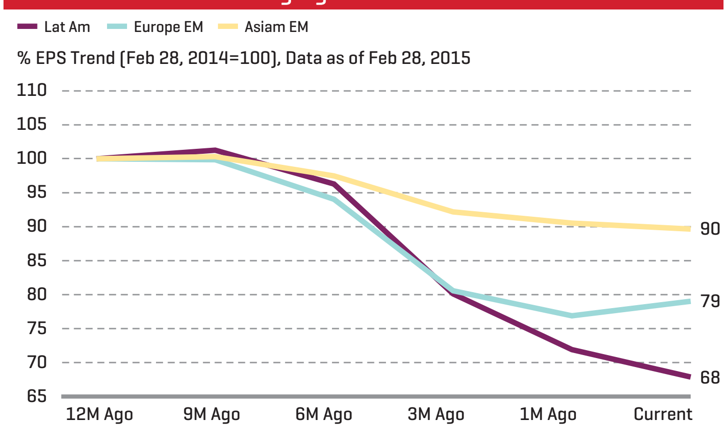
- Growth estimates are picking up globally. Seven of nine regions show expected earnings growth for 2015, versus only four regions that showed growth in 2014. Japan, developed-Europe (ex-UK), and Latin America are all estimated to recover in 2015 from significant declines recorded in 2014.
- The Asia Pacific region, led by Japan, has the highest combined estimates for EPS and sales growth, with emerging Asia evincing the most stable trend of all regions.
- The Emerging Europe BMI, which consists primarily of Russia and Turkey (72% of market cap), has high estimated EPS growth for 2015, but negative sales growth estimates. Estimates for this region have been extremely volatile in recent months.
- Latin America has a strong combined 2015 / 2016 EPS growth rate. However, it also has the worst EPS revisions trend (see below).
- Canada has both negative estimated earnings growth for 2015 and the highest P/E to long-term growth rate of all regions (see valuation discussion on page four).

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. 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. .

- Japan, the UK, emerging Asia, and emerging Europe are the only areas seeing recent positive earnings per share (EPS) revisions.
- The uptick in estimates in Japan is notable, since Japan also has the second highest estimated calendar year (CY) 15 EPS growth rate of any region (15%). Japan is also inexpensive with moderate P/E ratios and a low price-to-sales ratio (see next page).
- The S&P 500 has experienced the least downward earnings revisions (down 9.8%) over the past 12 months, followed closely by emerging Asia (down 10.2%), and Japan (15.8%).
- Latin America, which has the second highest projected CY 15 EPS growth of any region (14%), also has had the sharpest decline in CY 15 EPS estimates (down 26%).
- Canada has also been experiencing significant and persistent downward EPS revisions, although estimates appear to have stabilized recently. Estimates for Canada may reflect shifting oil prices.

Global Valuations Analysis

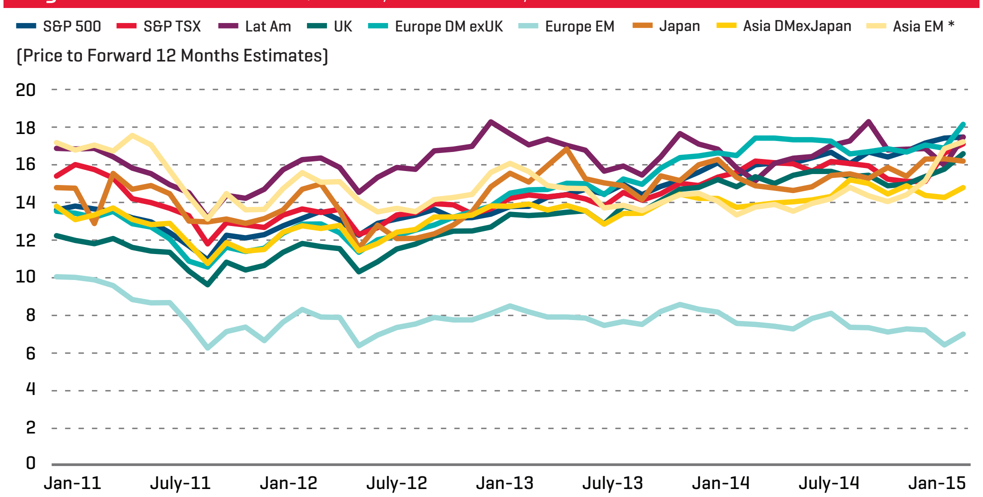
Regional Market Metrics As Of February 28, 2015

Americas	S&P 500	S&P TSX	Latin America
CY 2015 P/E	17.5	18.3	14.0
CY 2016 P/E	15.5	15.3	11.9
Proj LT Growth Rate (Median)	10.5%	9.3%	13.4%
CY 2015 P/E to Growth Ratio	1.7	2.0	1.0
CY 2015 Price to Sales	1.83	1.59	1.28
CY 2015 Free Cash Flow Yield	4.2%	3.3%	1.5%
Europe	**United Kingdom**	**Europe DM exUK**	**Europe EM**
CY 2015 P/E	15.8	16.8	2.4
CY 2016 P/E	13.9	14.7	2.2
Proj LT Growth Rate (Median)	9.0%	11.5%	11.5%
CY 2015 P/E to Growth Ratio	1.8	1.5	0.2
CY 2015 Price to Sales	1.31	1.16	0.82
CY 2015 Free Cash Flow Yield	4.9%	4.4%	5.4%
Asia	**Japan**	**Asia DM exJapan**	**Asia EM**
CY 2015 P/E	15.2	13.8	12.9
CY 2016 P/E	13.7	12.6	11.4
Proj LT Growth Rate (Median)	9.9%	10.0%	17.0%
CY 2015 P/E to Growth Ratio	1.5	1.4	0.8
CY 2015 Price to Sales	0.72	1.16	1.30
CY 2015 Free Cash Flow Yield	3.1%	3.8%	5.0%

Source: S&P Capital IQ Quantamental Research. 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 gap between developed and emerging P/E to growth ratios continues to widen[1]. For example, Latin America currently sells at 1.0X consensus growth while the S&P 500 sells at 1.7X growth.
- **Europe has the highest free cash flow (FCF) yield, selling at an average FCF to price ratio of about 5%**[2]. Emerging Asia and the S&P 500 also have relatively high FCF yields.
- **Using estimated CY 15 and CY 16 EPS growth estimates** (from Growth table on page 3), **Japan and Latin America are selling at the lowest P/E to growth (PEG) ratios**—Japan CY 15 PEG 1.0, CY 16 1.3; Latin America CY 15 1.0 and CY 16 0.6. (We exclude emerging Europe, due to its high estimate volatility.)
- Japan also has the lowest price to trailing sales ratio, at 0.72, at least partly reflecting Japan's low profit margins relative to sales (see Return on Equity Analysis, on next page).
- Canada has the highest P/E to long-term growth ratio at 2.0X, despite negative estimated EPS growth for 2015.

Regional Market Valuation, January 2011—January2015



Source: S&P Capital IQ Quantamental Research. 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

- With the exception of emerging Europe—primarily Russia, which has been battered by falling oil prices and economic sanctions—P/E multiples have been expanding globally over the past four years.
- Valuations multiples have moved strongly upward over the past few months in a variety of regions: developed Europe, the UK, the U.S. (S&P 500), Canada, and emerging Asia.

[1] For P/E to growth ratios, we use S&P Capital IQ analyst consensus long-term (5-year) growth rates.

[2] Free cash flow yield = trailing twelve month (TTM) operating cash flow minus TTM capital expenditures as a percent of total enterprise value. Aggregates are fundamentally weighted.

Global Operating Performance—Return on Equity Analysis

Dupont Analysis: Return On Equity = Net Profit Margin* Asset Turnover* Leverage, As of February 28, 2015

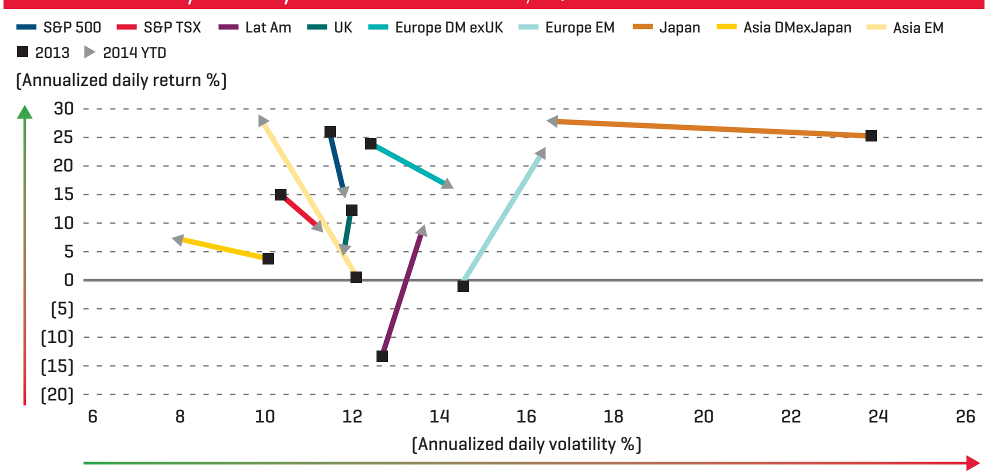
Americas		S&P 500		S&P TSX		Latin America	
		Current	February 2014	Current	February 2014	Current	October 2013
Return on Equity	(Profit / Equity)	14.9% ▲	14.9%	10.0% ▲	7.7%	10.3% ▼	11.0%
Net Profit Margin	(Profit / Sales)	9.3%	9.5%	8.0%	6.6%	8.6%	9.0%
Turnover	(Sales / Assets)	0.35	0.35	0.17	0.16	0.28	0.29
Leverage	(Assets / Equity)	4.6	4.5	7.6	7.4	4.3	4.3
Europe		**United Kingdom**		**Europe DM exUK**		**Europe EM**	
		Current	February 2014	Current	February 2014	Current	October 2013
Return on Equity	(Profit / Equity)	9.9% ▼	11.2%	9.0% ▲	8.9%	8.2% ▼	12.7%
Net Profit Margin	(Profit / Sales)	6.0%	6.6%	5.6%	5.1%	7.4%	11.8%
Turnover	(Sales / Assets)	0.20	0.22	0.21	0.22	0.31	0.36
Leverage	(Assets / Equity)	8.2	7.8	7.6	7.9	3.5	3.0
Asia		**Japan**		**Asia DM exJapan**		**Asia EM**	
		Current	February 2014	Current	February 2014	Current	October 2013
Return on Equity	(Profit / Equity)	8.3% ▼	8.4%	9.6% ▼	10.0%	14.0% ▼	14.5%
Net Profit Margin	(Profit / Sales)	4.7%	4.6%	8.1%	8.0%	10.0%	10.1%
Turnover	(Sales / Assets)	0.32	0.32	0.28	0.30	0.22	0.22
Leverage	(Assets / Equity)	5.5	5.7	4.2	4.2	6.5	6.6

*Note: Highlighted cells are noteworthy changes to components of ROE, as discussed in the commentary below.
Source: S&P Capital IQ Quantamental Research. 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.

- **For the third Equity Market Pulse issue in a row, the U.S. and Asia EM maintained the highest ROE of all regions by far,** on strong profit margins and good asset turnover. These regions also have the most stable estimated earnings trends.
- Likewise, for the third issue in a row, Emerging Europe showed a large drop in ROE, as falling oil prices and a depreciating Ruble continued to affect Russian fundamentals in US dollar terms.
- **Developed Europe saw a notable improvement in profit margins, and is forecast to grow earnings by 7% in 2015, despite a 4% estimated sales decline** (see Growth table on page 3).
- Canada showed marked improvement in return on equity (ROE), net profit margin, and asset turnover year over year. Despite these improvements, earnings and sales growth estimates for 2015 are negative (see page 3).
- The UK, which in previous issues had seen rising ROE, suffered a 130 bps decline, on lower profit margins and turnover. The UK is estimated to post decreased CY 15 earnings (see page 3).

Risk & Return in Regional Equity Markets

Annualized Daily Volitility & Return As Of February 28, 2015



Source: S&P Capital IQ Quantamental Research. 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.

- **Japan had the highest returns in local currency over the past 24 months at 53%, while volatility of returns is decreasing sharply.**
- **Both emerging and developed Asia have also experienced an ideal combination of increased returns and decreasing volatility.** Emerging Asia has had the second highest market returns over the past 12 months (to Japan) at 27.5%.
- Last 12-month returns (Feb 2015) are positive in all regions, and increased over the prior twelve-month period (Feb 2014) in five out of the nine regions.

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 February 2014 and the 12 months ended February 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—February 28, 2014 to February 28, 2015

Representative Factor	Forecast EPS Revisions	Return on Equity	Net Profit Margin	Trailing 1Y EPS Growth	Forward E/P	12M minus 1M Return	12M Return Volatility	Market Cap
Style	**Analyst Expectations**	**Capital Efficiency**	**Earnings Quality**	**Growth**	**Valuation**	**Price Momentum**	**High Volatility**	**Small Size**
S&P 500	0.0%	0.1%	(0.2%)	(0.3%)	(0.1%)	(0.0%)	0.1%	0.0%
S&P TSX	(0.7%)	0.6%	(0.3%)	(0.9%)	(0.3%)	0.1%	(1.6%)	(0.6%)
Latin America	0.0%	0.6%	1.2%	1.0%	(0.4%)	0.7%	(1.9%)	(2.0%)
United Kingdom	0.4%	0.1%	0.5%	0.4%	0.2%	(0.2%)	(0.8%)	(0.2%)
Europe Developed exUK	0.3%	0.8%	0.5%	0.5%	(0.1%)	(0.1%)	(1.5%)	(0.8%)
Europe Emerging	0.5%	0.7%	0.0%	1.2%	1.3%	(1.7%)	0.3%	(0.1%)
Japan	0.2%	(0.1%)	0.1%	(0.5%)	0.1%	(0.4%)	(0.9%)	(0.1%)
Asia Developed exJapan	0.3%	(0.1%)	0.4%	0.0%	(0.9%)	0.7%	(1.2%)	(0.6%)
Asia Emerging	1.0%	0.7%	0.7%	0.3%	0.8%	(0.2%)	0.2%	(0.8%)
Number of Regions Outperforming	8 of 9	7 of 9	7 of 9	6 of 9	4 of 9	3 of 9	3 of 9	1 of 9

OUTPERFORMING STRATEGIES ⟵⟶ UNDERPERFORMING STRATEGIES

Source: S&P Capital IQ Quantamental Research. 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 over the last 12 months are fundamentally-based strategies: analyst EPS revisions, return on equity, and net profit margin.
- In our view, these factors reflect markets characterized by investor selectivity, which we see as consistent with a maturing global bull market where valuations have risen and "bargains" have become harder to find.
- Conversely, small market capitalization and highly volatile stocks have underperformed, reflecting increased risk aversion, in our view.
- Emphasizing stocks with strong analyst long-term growth (LTG) estimates is a strategy that performed strongly year to date across regions—see heat map on Executive Summary page. The LTG strategy looks for companies with the highest analyst-consensus 5-year EPS growth rates.

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.

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Our Recent Research

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?

- Companies with the strongest and weakest pension funding status globally.
- Global trends in pension funding and accounting.
- Companies with the most aggressive versus conservative pension accounting assumptions.
- Underfunded plans with the least and most three-year improvement in funding.

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.

- **Profitability-based strategies have historically produced excess returns on par with those generated by value-based strategies** and have historically produced higher excess returns than those generated by quality and price momentum strategies.
- Profitability-based strategies **have historically produced excess returns even after controlling for quality-, value- and price momentum-based strategies.**
- Profitability-based strategies **have historically consistently produced excess returns across different regions, time periods, and market capitalization categories.**
- **Highly profitable firms have historically consistently shown above average growth** with two-year top- and bottom-line growth rates that are 10% and 31% higher, respectively, than those for least profitable firms.
- **Profitability measures that are cleaner (i.e. higher up in the income statement such as gross profit) have historically shown higher excess returns and lower volatility** than measures that are lower in the income statement (e.g., net profit).
- **Gross profitability ratio has historically been 2.07x, 2.22x and 3.12x times more persistent than quality, value and momentum, respectively, after 5 years.**

NOVEMBER 2014

Equity Market Pulse – Quarterly Equity Market Insights Issue 2

Driven by S&P Capital IQ's™ proprietary data and analytics, Equity Market Pulse provides professional investors with insights into global equity market fundamentals and performance at a glance. Spanning developed and emerging markets in the Americas, Europe, and Asia, it provides perspective on valuations, operating efficiency, and investment strategy effectiveness.

- The **S&P 500® continues to be the preeminent regional performer i**n terms of both financial results and price appreciation Risk and Return: Tracks the dynamics of equity market returns and volatility.
- **Investor preference for developed markets continues,** as developed markets show rising P/E multiples versus the emerging markets on much stronger financial performance.
- **Emerging markets appear cheap** on a valuation-to-projected-growth basis, with forward P/E to earnings growth (PEG) ratios of less than half those of the developed market average.

OCTOBER 2014

Lenders Lead, Owners Follow - The Relationship between Credit Indicators and Equity Returns

This paper demonstrates a strong link exists between credit events and equity returns, suggesting a potential investment strategy. Whereas previous academic work focused on ratings changes within the U.S., this analysis takes a global perspective and includes the post-financial crisis period. Shareholders should note that even in a benign credit environment Standard & Poor's Ratings Services ("S&P Ratings Services") downgraded 68 U.S. speculative grade companies in the second quarter of 2014, and forecasts the rate of speculative grade defaults to increase next year to 2.2% from 1.6% in 2014. Year to date, there have been 303 instances where credit default swap spreads have widened by more than 50 basis points.