Commentary | Second Quarter 2023

Investment Research Update

From the desk of

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Director of Quantitative Market Strategy

Performance Summary: Technology Takes the Lead

Investors weighed a shifting outlook during the first quarter, as inflation fell but stayed high, the U.S. Federal Reserve raised interest rates more slowly, and a bank crisis unfolded. The information technology, communication services, and consumer discretionary sectors led the stock market during the quarter as investors turned their focus to cyclical stocks. Financials, energy, and health care were the bottom performers for the quarter.

Sector	Performance as of 3/31/23				Weight in S&P 500®
	Latest Quarter	1-Year	3-Year Annualized	Dividend Yield	
Communication Services	20.5%	-17.8%	9.4%	0.9%	8.1%
Consumer Discretionary	16.1%	-19.6%	14.5%	0.9%	10.1%
Consumer Staples	0.8%	1.2%	14.7%	2.5%	7.2%
Energy	-4.7%	13.6%	48.4%	3.7%	4.6%
Financials	-5.6%	-14.2%	18.1%	1.9%	12.9%
Health Care	-4.3%	-3.7%	15.4%	1.7%	14.2%
Industrials	3.5%	0.2%	21.7%	1.6%	8.7%
Information Technology	21.8%	-4.6%	24.3%	0.9%	26.1%
Materials	4.3%	-6.3%	23.9%	2.0%	2.6%
Real Estate	2.1%	-19.6%	10.1%	3.4%	2.6%
Utilities	-3.2%	-6.2%	10.3%	3.1%	2.9%
S&P 500®	7.5%	-7.7%	18.6%	1.6%	

Past performance is no guarantee of future results. Sectors defined by the Global Industry Classification Standard (GICS®); see Index Definitions for details. Performance metrics reflect S&P 500 sector indexes. Changes were made to the GICS framework on 9/24/18; historical S&P 500 communication services sector data prior to 9/24/18 reflect the legacy telecommunication services sector. The top three performing sectors over each period are shaded green; the bottom three are shaded red. It is not possible to invest directly in an index. All indexes are unmanaged. Percentages may not total 100% due to rounding.
Source: Haver Analytics, Morningstar, FactSet, Fidelity Investments, as of 3/31/23.

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Scorecard: Several Cyclical Sectors Look More Attractive

The signals appear mixed overall. That said, there may be a higher margin of safety in several cyclically oriented sectors, mainly due to relative valuations. With core inflation continuing decline at the end of the quarter, and rates appearing nearer to the end of the tightening cycle, sectors including consumer discretionary, information technology, and industrials may offer opportunities.

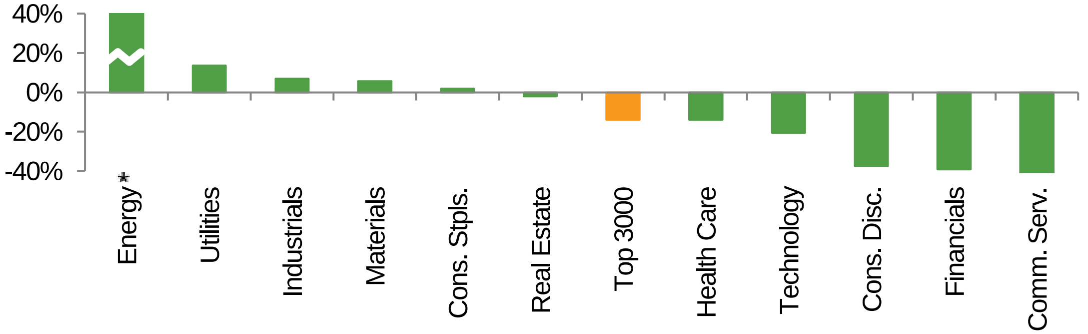
Sector	Strategist View (■ Overweight ■ Neutral ■ Underweight)	Time Horizon View: Longer — Fundamentals	Valuations	Shorter — Relative Strength	Comments
Communication Services	Underweight	–		+	Defensive characteristics may hinder performance
Consumer Discretionary	Overweight		–		Increasingly constructive contrarian indicators, median valuation compelling
Consumer Staples	Underweight		–		Valuation presents a headwind
Energy	Underweight New since Q4	+	+	–	Top-decile historical fundamentals appear unlikely to be sustained
Financials	Overweight	–			Recovering fundamentals bolster the outlook
Health Care	Overweight		+	–	Good combination of fundamentals and valuation
Industrials	Overweight	+		+	Fundamentals and relative strength look attractive
Information Technology	Overweight New since Q4				Bottom-quarter fundamentals may offer a contrarian buy signal
Materials	Overweight	+		+	Valuation and economic indicators look supportive
Real Estate	Underweight	–	+		Elevated valuation likely to be a headwind
Utilities	Underweight		–	–	Defensive characteristics may hinder performance

Past performance is no guarantee of future results. Strategist view, fundamentals, valuations, and relative strength are based on the top 3,000 U.S. stocks by market capitalization. Sectors defined by the GICS; see Index Definitions for details. Historical communication services data has been restated back to 1962 to account for changes to the GICS framework made on 9/24/18. **Strategist view** is as of the date indicated based on the information available at that time and may change based on market or other conditions. This is not necessarily the opinion of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information. Overweight and underweight views represent opportunistic tilts in a hypothetical portfolio relative to broad market sector weights. Sector weights may vary depending on an individual's risk tolerance and goals. Time horizon view factors are based on historical analysis and are not a qualitative assessment by any individual investment professional. The top three sectors based on each time horizon view metric are shaded green; the bottom three are shaded red. See Glossary and Methodology for details. It is not possible to invest directly in an index. All indexes are unmanaged. Source: Haver Analytics, FactSet, Fidelity Investments, as of 3/31/23.

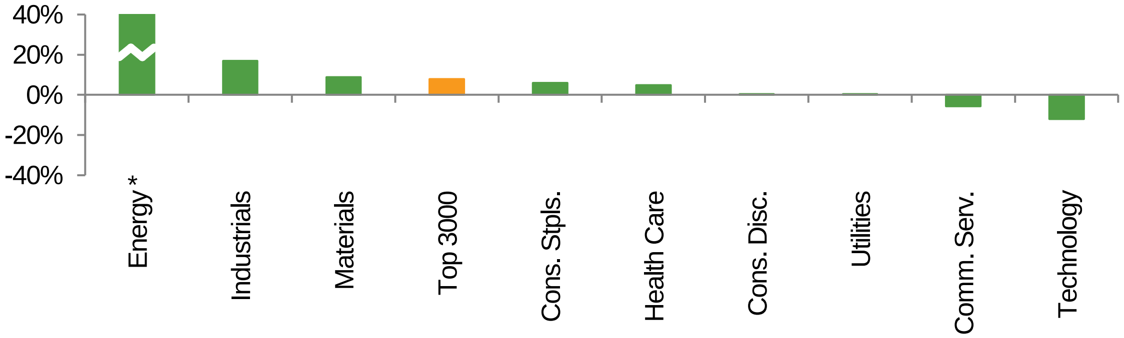
Fundamentals: Energy, Industrials, and Materials Led

Energy led the fundamentals rankings, coming in first in earnings per share (EPS) growth, EBITDA (earnings before interest, taxes, depreciation, and amortization) growth, and return on equity (ROE). The industrials and materials sectors also scored well. Financials was the worst performing sector, ranking 10th in EPS growth and ninth in ROE. Real estate and communications services also posted relatively poor fundamentals.

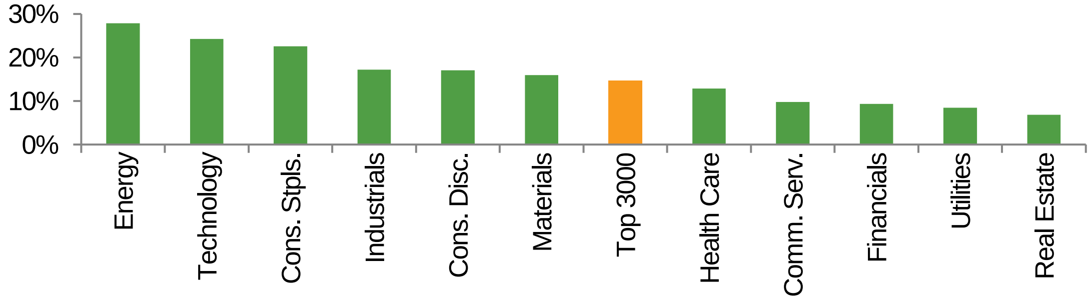
EPS Growth (Last 12 Months)



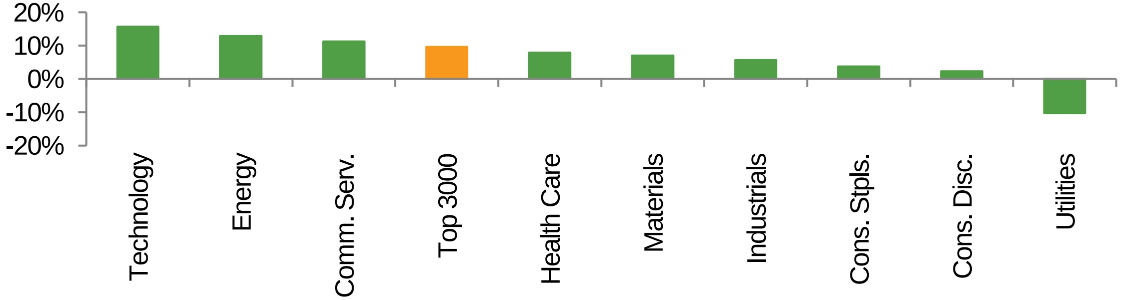
EBITDA Growth (Last 12 Months)



Return on Equity (Last 12 Months)



Free-Cash-Flow Margin (Last 12 Months)



Fundamentals: Strong and improving fundamentals historically have been an intermediate-term indicator of sector performance. Our analysis gives a view of how each sector has done in terms of growth and profitability.

Past performance is no guarantee of future results. EPS = earnings per share. EBITDA = earnings before interest, taxes, depreciation, and amortization. * EPS growth value over the last 12 months for energy was 205%; EBITDA growth for energy over the same period was 83.7%. The financials and real estate sectors are not represented in the EBITDA growth or free-cash-flow margin charts because of differences in their business models and accounting standards. See Glossary and Methodology for further explanation. Sectors based on the top 3,000 U.S. stocks by market capitalization and defined by GICS. Communication services data restated back to 1962.

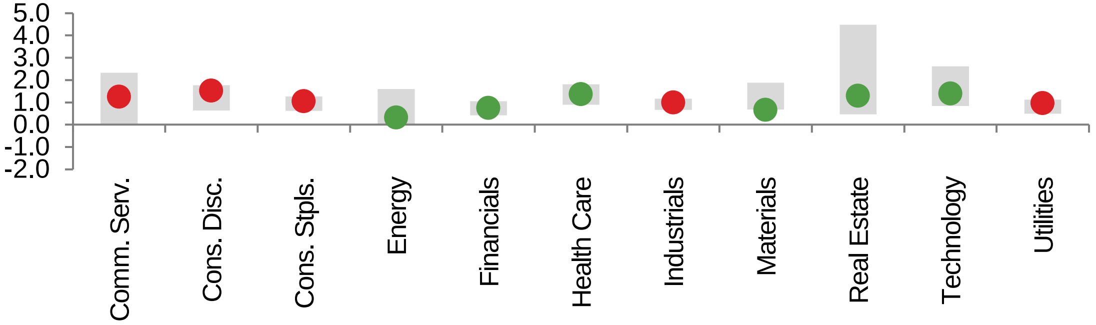
Source: Haver Analytics, Fidelity Investments, as of 3/31/23.

Valuations: Energy, Real Estate, and Health Care Looked Cheap

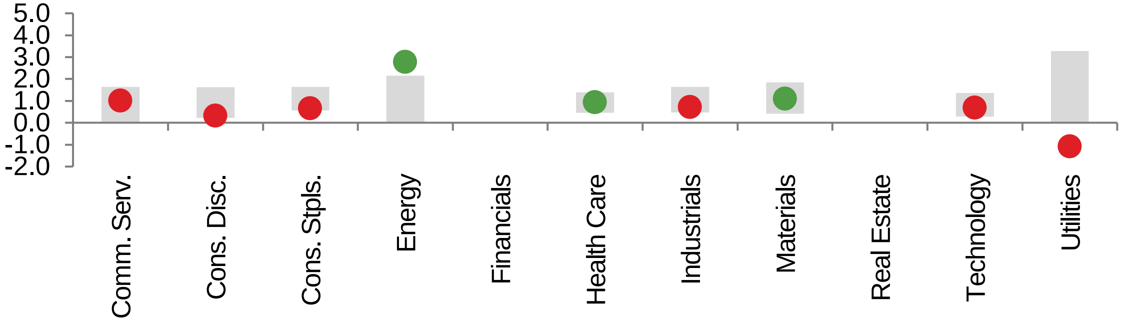
Energy had the cheapest quarter-end valuations, ranking least expensive in price-to-earnings and free-cash-flow yield. Real estate and health care also looked relatively inexpensive for the quarter. Consumer discretionary, utilities, and consumer staples had the highest aggregate valuations.

Historical Range   Current: Green/Red = Cheap/Expensive Relative to Historical Average

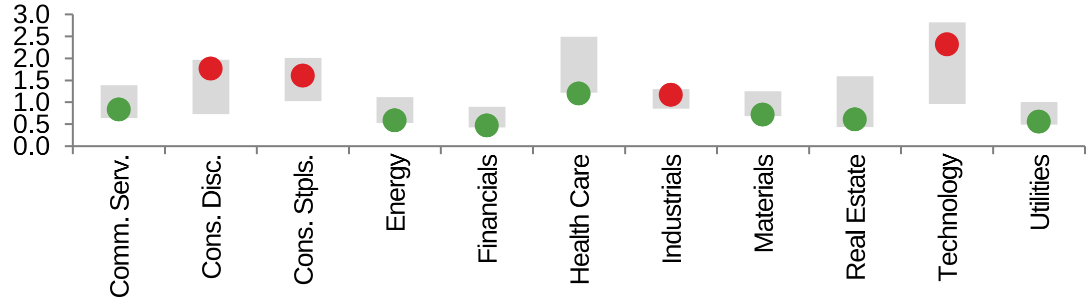
Price-to-Earnings Ratio; Forward Price/Earnings Ratio Relative to Top 3,000 Stocks



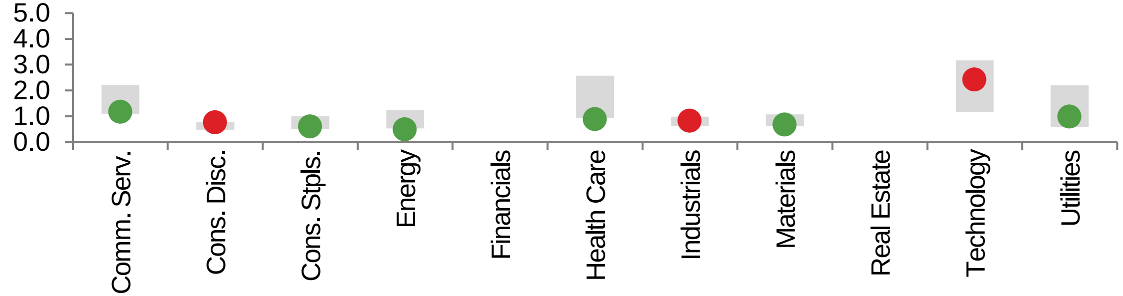
Free-Cash-Flow Yield; Free-Cash-Flow Yield Relative to Top 3,000 Stocks



Price-to-Book Ratio; Forward Price/Book Ratio Relative to Top 3,000 Stocks



Price-to-Sales Ratio; Forward Price/Sales Ratio Relative to Top 3,000 Stocks



Valuations: On their own, valuations are only a moderately effective indicator of future sector performance, but when combined with other factors, they can be a useful tool in determining the risk-and-reward profile.

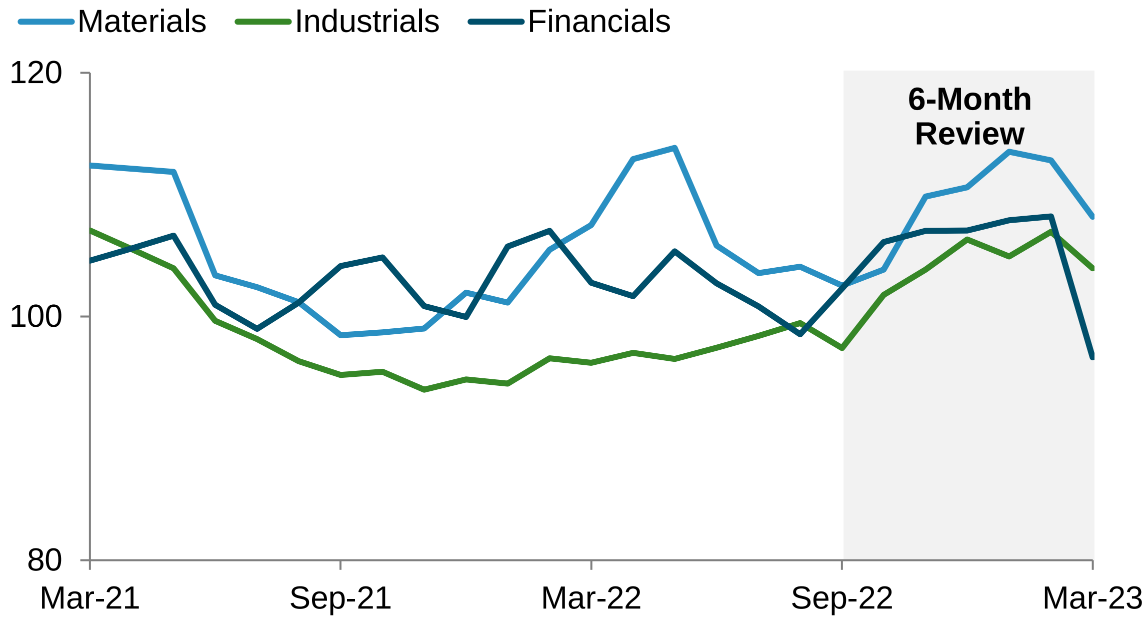
Past performance is no guarantee of future results. Free-cash-flow yield reflects free cash flow divided by market price per share; it is the inverse of the price-to-free-cash-flow ratio. Historical range excludes the top and bottom 5%. Green or red circles indicate if current levels are below or above the historical average, which excludes the top and bottom 5%. The financials and real estate sectors are not represented in the free-cash-flow yield or price-to-sales charts because of differences in their business models and accounting standards. See the Glossary and Methodology for further explanation. Historical range since January 1962. Sectors based on the top 3,000 U.S. stocks by market capitalization and defined by GICS. Communication services data restated back to 1962. Source: Haver Analytics, Fidelity Investments, as of 3/31/23.

Relative Strength in Materials, Industrials, Financials

The materials, industrials, and financials sectors exhibited the greatest strength based on our relative price momentum score the past six months. Conversely, consumer discretionary, utilities, and consumer staples exhibited weakness based on relative price momentum.

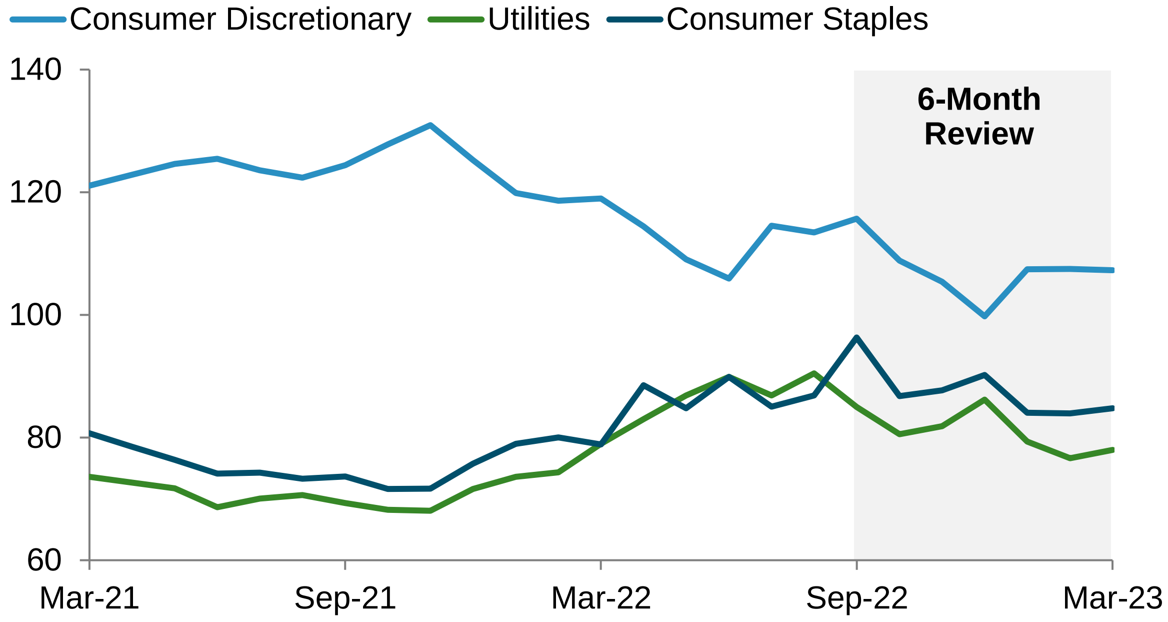
Sectors Exhibiting Relative Strength

Price Relative to the Russell 3000 Index



Sectors Exhibiting Relative Weakness

Price Relative to the Russell 3000 Index



Relative Strength: Stocks and sectors that have outperformed the broader market have tended to continue to do so.

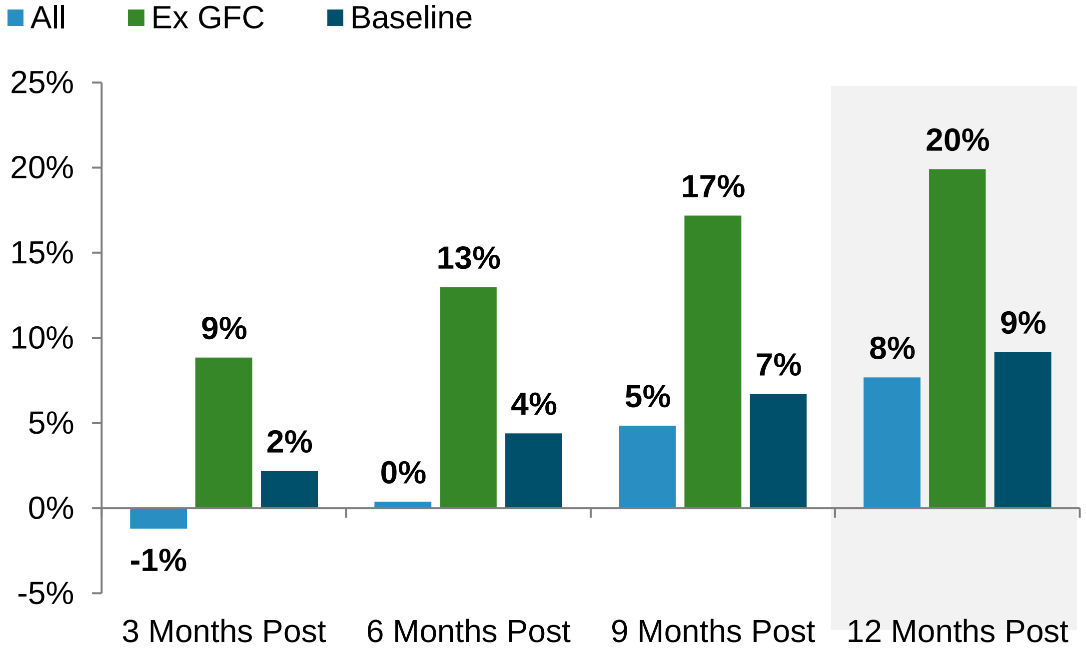
Past performance is no guarantee of future results. Relative strength compares the performance of each sector with the performance of the broad market, based on changes in the ratio of the securities' respective prices over time. See Glossary and Methodology for further explanation. Charts represent performance of sectors based on the top 3,000 stocks by market capitalization relative to the Russell 3000 Index. It is not possible to invest directly in an index. All indexes are unmanaged. Source: FactSet, Fidelity Investments, as of 3/31/23.

How Does the Banking Crisis Affect the Market Outlook?

History suggests the recent banking sector crisis may present an investment opportunity—although not for financials stocks. Financials in the S&P 500 dropped 4% on March 9. Financials sell-offs of this magnitude or more have happened just 1% of the time since 1989. Outside of 2007–2009, the S&P 500 index has returned an average of 20% over the next 12 months following a decline of 4% or greater for financial stocks (left). Notably, financial stocks trailed the market over the same time frame (right).

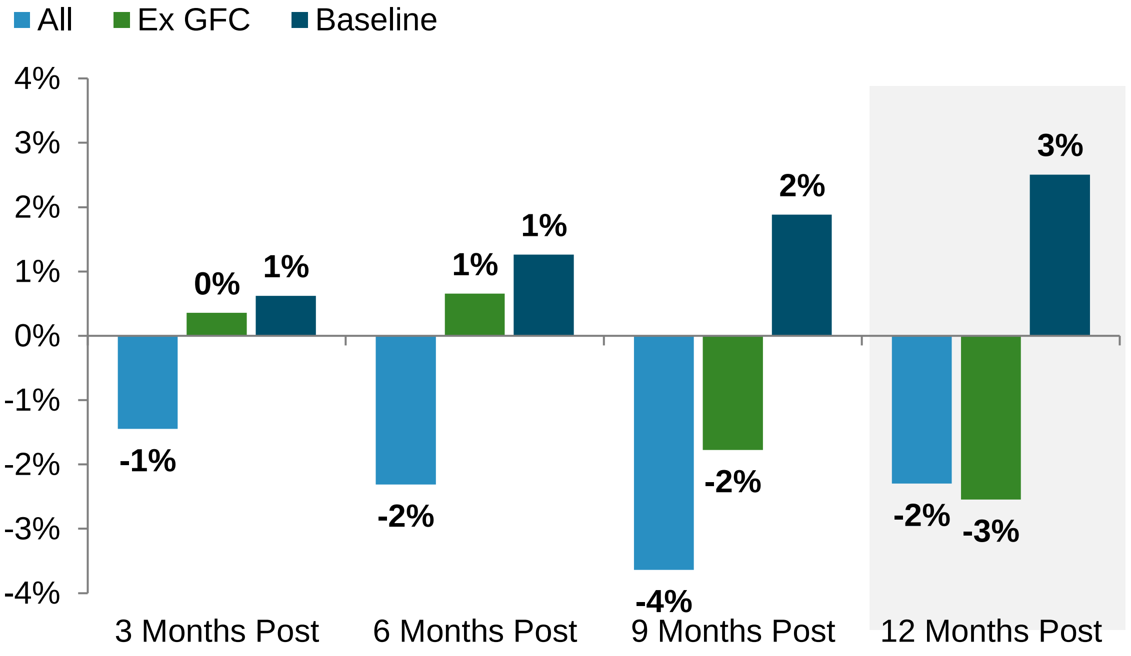
After Financial Sector Swoons, the Market Has Gained

Average S&P 500 Returns After One-Day Sell-Offs of 4% of More for the Financials Sector, 1989–Present



Financials Have Struggled After Big Sector Sell-offs

Average Financials Returns Relative to the S&P 500 After a One-Day Sell-off of 4% or More for the Financials Sector, 1989–Present



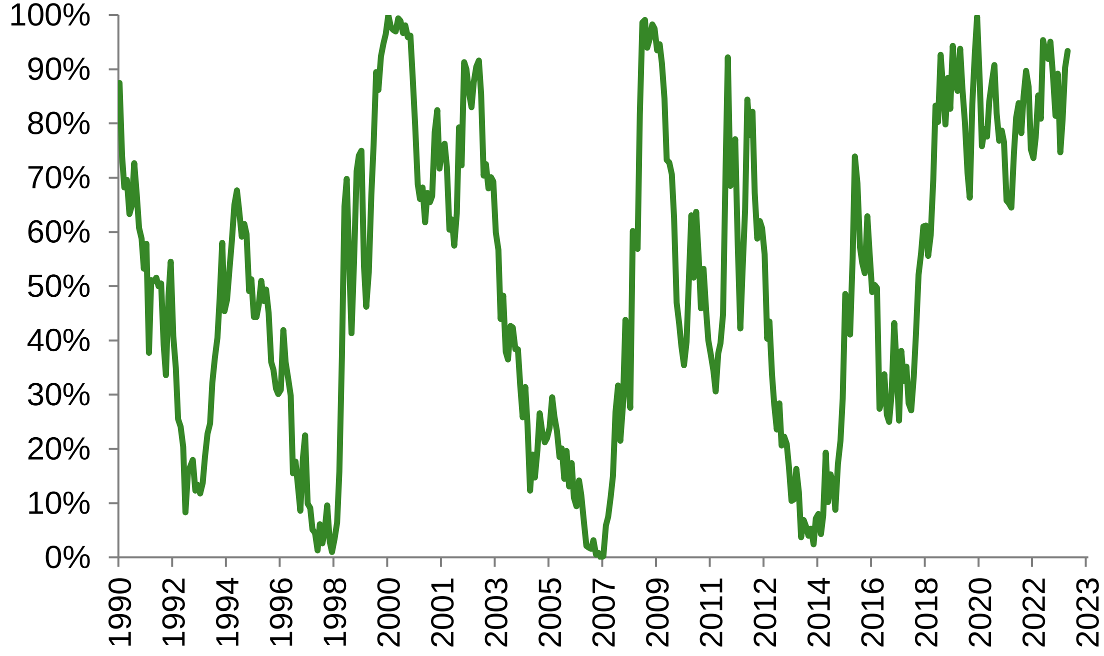
Past performance is no guarantee of future results. GFC = Global Financial Crisis of 2007–2009. Based on S&P 500 index data. Data analyzed daily since 1989. Financials measured as stocks in the S&P 500 Financials Index. One-day financials sell-offs of 4% or more occurred in 1% of instances observed in this time frame. Indexes are unmanaged. It is not possible to invest directly in an index. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. LEFT: Baseline refers to S&P 500 returns in all three, six, nine, and 12-month periods (not only post sell-off periods).

Equity Valuation Spreads Are Wide—A Good Sign in the Past

As of the end of February, valuation spreads—the difference in valuations between the market's cheapest and most expensive stocks—were in the top 10% of their historical range (left). Wide valuation spreads, which suggest investors are fearful, historically have been a contrarian bull signal. Since 1990, the S&P 500 has gained an average of 8% over six-month periods after stock valuations reached top-decile spreads (right).

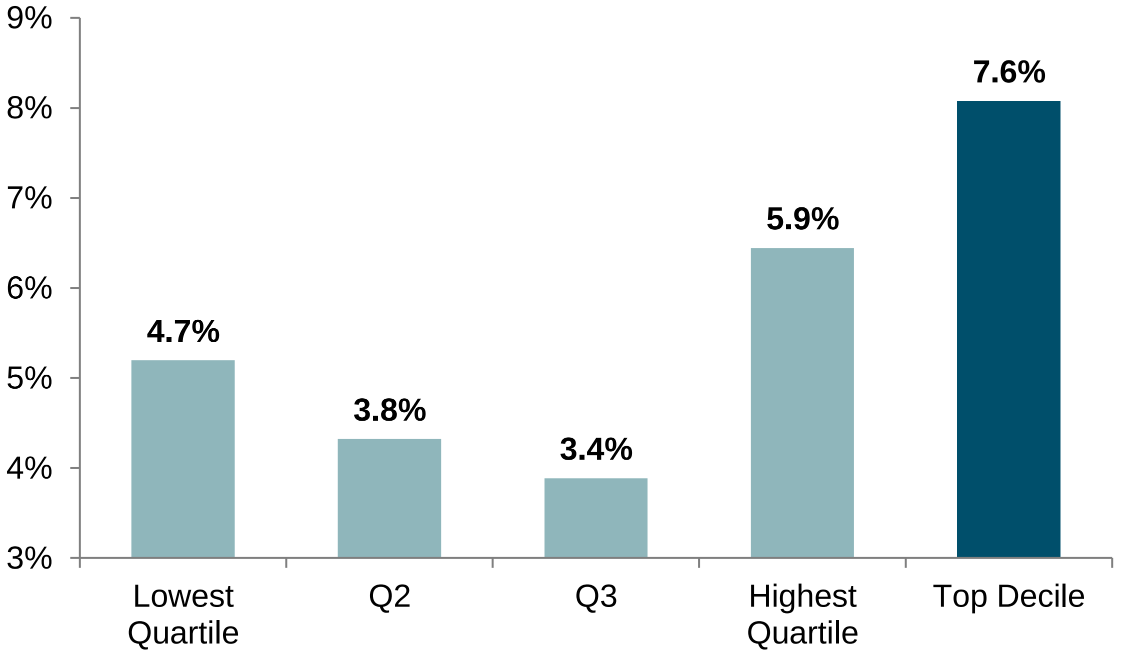
Valuation Spreads Are in Their Top Decile

Valuation Spread Percentile Rank: S&P 500 vs. Forward EPS Yield



High Valuation Spreads Have Prefaced Strong Stock Returns

Rolling NSM S&P 500 Returns in Percentiles of Forward EPS Valuation Spread, 1990–Present



Past performance is no guarantee of future results. Based on the S&P 500 index data analyzed monthly since 1990. Forward EPS: Forward earnings per share. Equity valuation spreads calculated using the average forward price-to-earnings ratio of the most expensive quartile of stocks in the S&P 500 minus the average forward price-to-earnings ratio of the least expensive quartile of stocks in the S&P 500, based on an average of analysts' published earnings estimates for the next 12 months. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. **RIGHT:** NSM is next six months.

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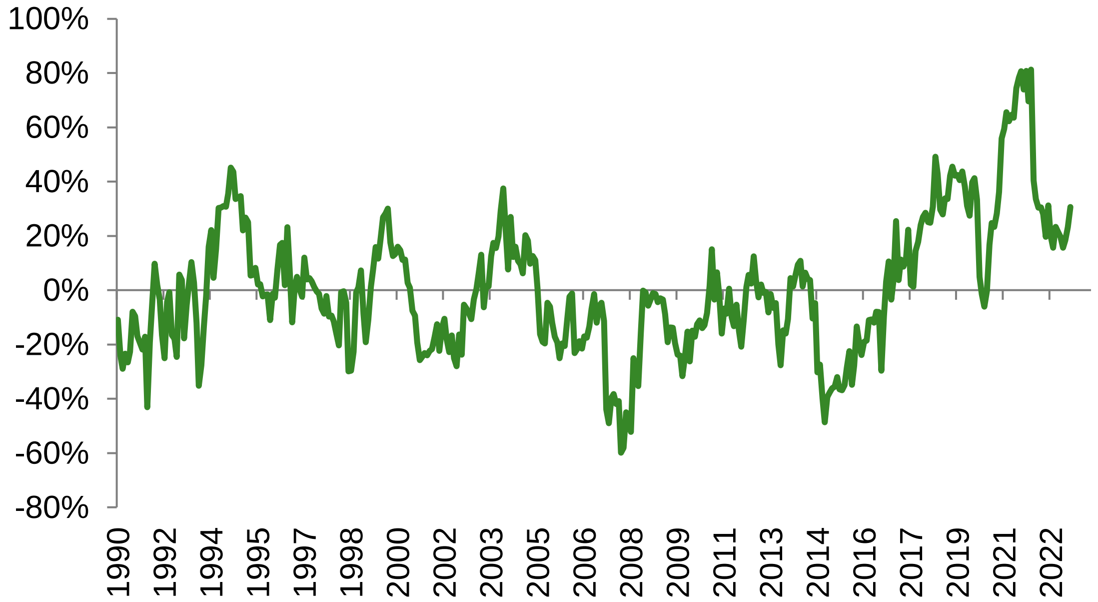
The Historically Smarter Market Is Less Worried

Equity investors appeared more fearful than bond investors in the first quarter (left). While equity valuation spreads were in their top decile, spreads for high-yield bonds were just above the middle of their historical range. Since 1990, the bigger the differential between equity valuation spreads and high-yield bond spreads, the larger the S&P 500's six-month volatility-adjusted return (right).

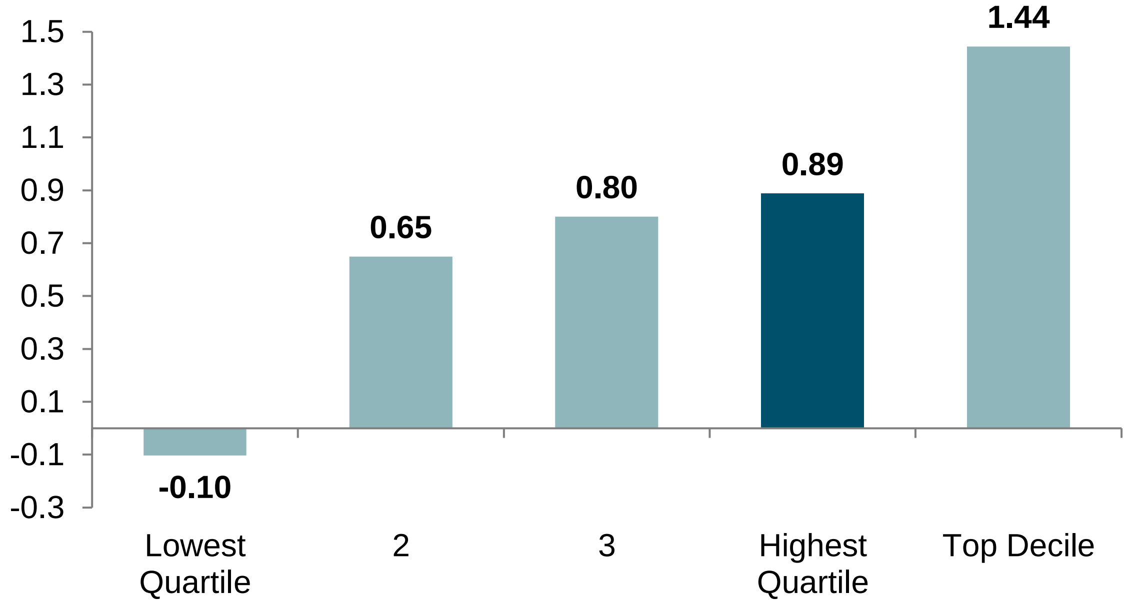
Equity Markets Are More Fearful Than Credit Markets

Percentile Rank Differential in Equity Valuation Spreads vs. High-Yield Spreads



More Fear in Stocks Than Bonds Has Been Good for Equity Investors

NSM S&P 500 Information Ratio in Percentiles of Equity Valuations vs. Percentiles of High Yield Spreads, 1990–Present



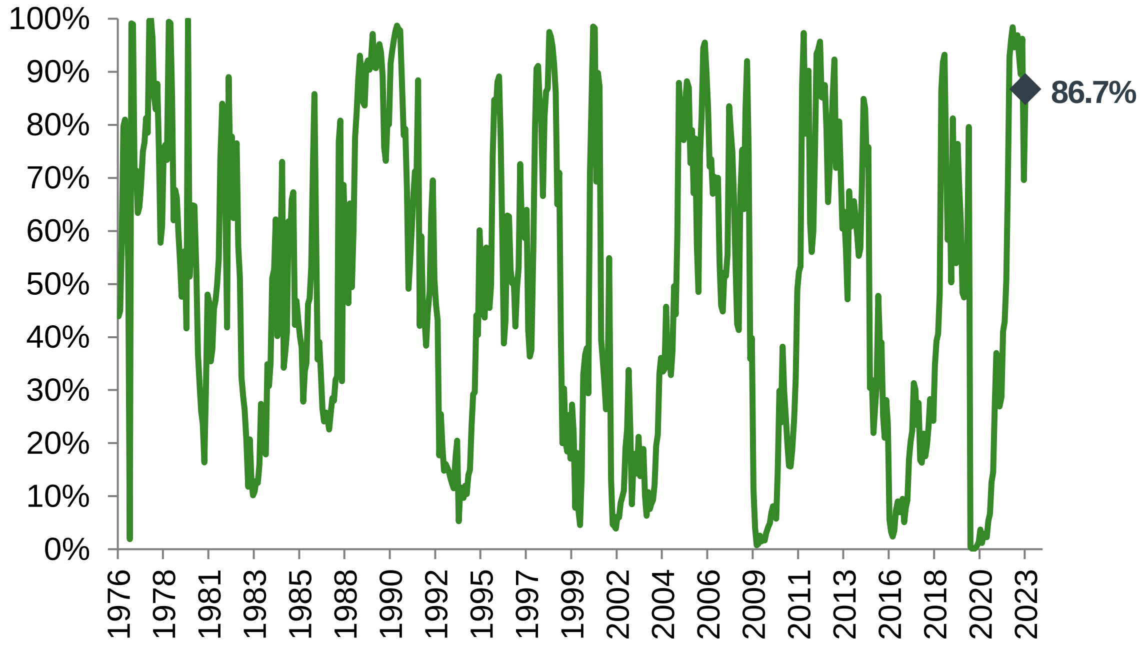
Past performance is no guarantee of future results. Data analyzed for the S&P 500 index monthly since 1990. High-yield spreads defined as the difference between the average yield-to-worst of the Bloomberg US Corporate High Yield Index and the yield on the 10-year Treasury note. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. **LEFT:** EPS: Earnings per share. EPS yield is the average per-share earnings yield of the stocks analyzed. Equity valuation spreads calculated using the average forward price-to-earnings ratio of the most expensive quartile minus the average forward price-to-earnings ratio of the least expensive quartile, based on an average of analysts' published earnings estimates for the next 12 months.
RIGHT: NSM is next six months. Equity valuation spreads calculated using the average forward price-to-earnings ratio of the most expensive quartile minus the average forward price-to-earnings ratio of the least expensive quartile, based on an average of analysts' published earnings estimates for the next 12 months. Information ratio is calculated as the excess return divided by the tracking error.

Stocks Tended to Advance When Defensive Sectors Were Expensive

Another potentially bullish signal: In the first quarter, defensives stocks traded at a big premium to cyclicals (left). Since 1976, when the valuation difference between defensive and cyclical sectors was in its top quartile based on price to forward earnings, the S&P 500 advanced over the next 12 months 90% of the time, with cyclicals typically outperforming (right).

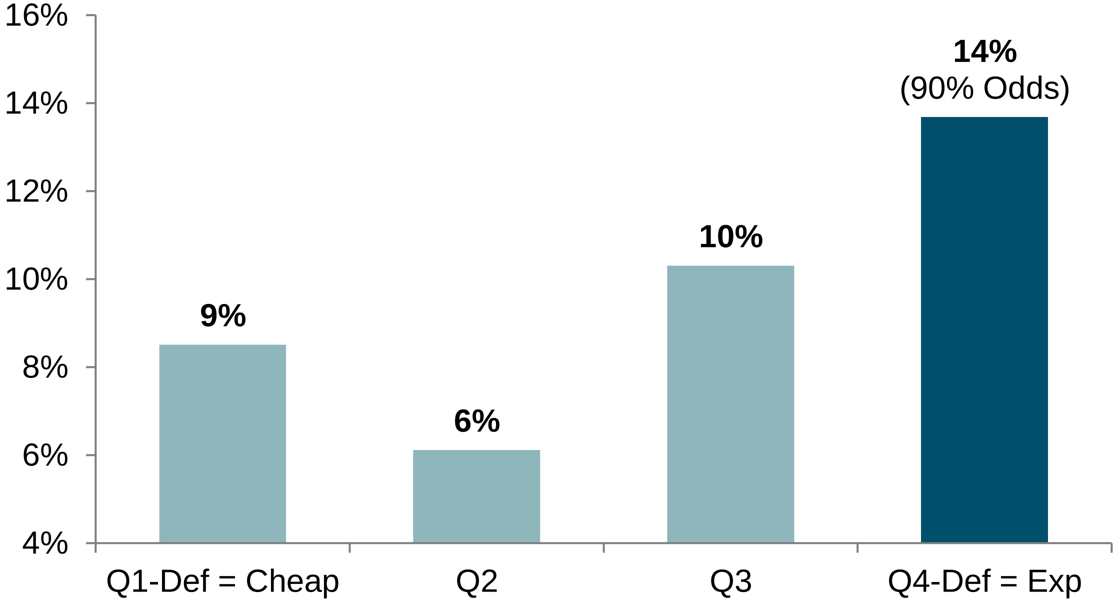
Defensive Sectors Are Expensive Relative to Cyclicals

Percentile Rank of Defensive Sectors' Relative Forward PE vs. Cyclical Sectors' (ex Energy)



The Market Has Tended to Advance After Defense Became Expensive

NTM Advance in Quartiles of Defensive Sector Relative Valuations



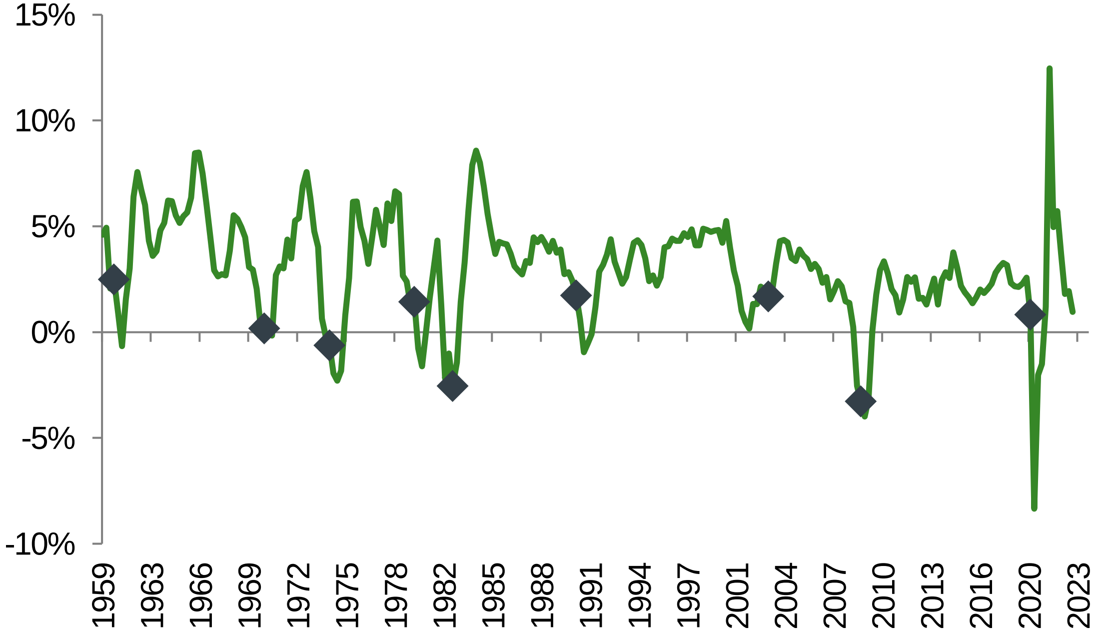
Past performance is no guarantee of future results. Analysis based on a Fidelity list of top 3,000 stocks by market capitalization using monthly data since 1976. Source: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. **LEFT:** Forward P/E: Forward price-to-earnings ratio. Cyclical sectors analyzed: materials, industrials, financials, consumer discretionary, information technology, communication services and real estate. Defensive sectors analyzed: utilities, health care, and consumer staples. Energy does not behave consistently like a defensive or cyclical sector, so it was excluded from this analysis. A forward P/E ratio typically uses an average of analysts' published earnings estimates for the next 12 months. **RIGHT:** NTM is next 12 months.

Stocks Can Recover ahead of Real GDP

Real (adjusted for inflation) U.S. gross domestic product (GDP) growth has fallen below 1%, a level consistent with previous recessions (left). Historically, the market has recovered before real GDP has—and this could be happening already. In the past, stocks have tended to advance over the 12 months after real GDP growth reached less than 1%. Cyclicals have led the way, and consumer discretionary has outperformed 74% of the time.

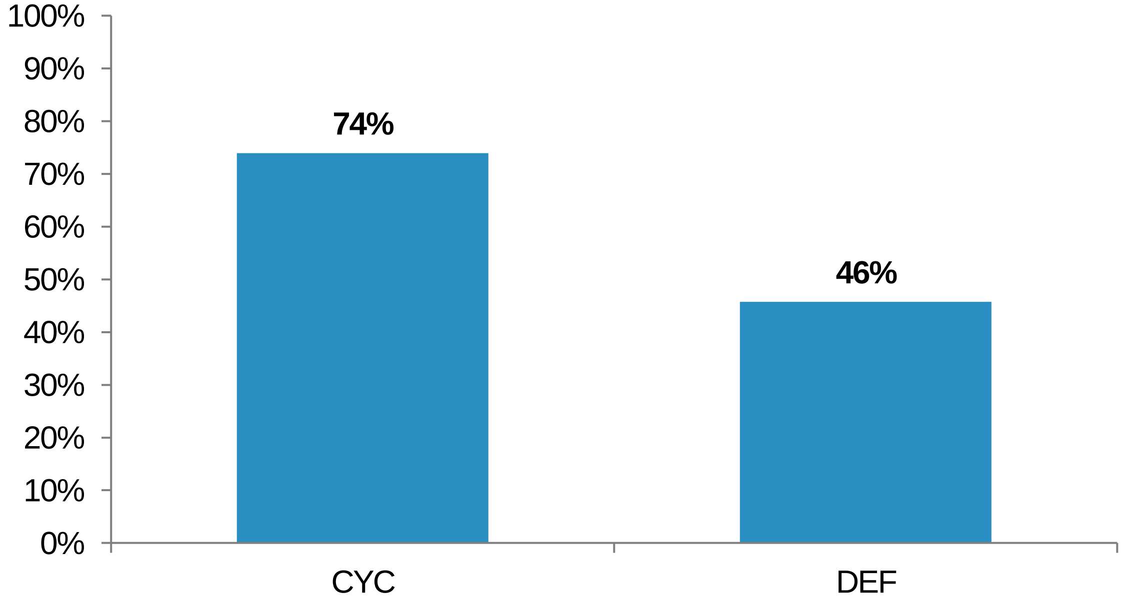
Watching the Decline of Real GDP

Year-Over-Year Percent Change in Real GDP



Cyclicals Have Led in Recessionary Market Recoveries

Sector Odds of Outperformance (ex Energy) One Year After Sub-1% GDP Growth



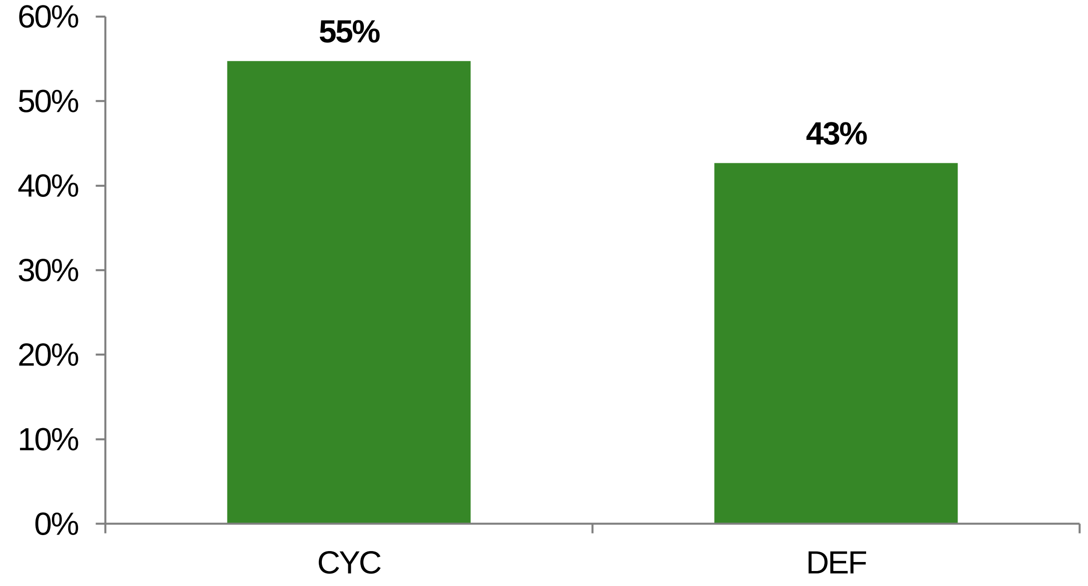
Past performance is no guarantee of future results. Analysis based on Fidelity top 3,000 stocks by market capitalization using monthly data since 1959. Source: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. **LEFT:** GDP: Gross domestic product. Real GDP is adjusted for inflation. Diamonds on the chart indicate past U.S. recessions, as defined by the National Bureau of Economic Research. **RIGHT:** CYC: Cyclical sectors. DEF: Defensive sectors. Cyclical sectors include communication services, consumer discretionary, financials, industrials, materials, real estate, and technology. Defensive sectors include consumer staples, health care, and utilities. Energy does not behave consistently like a defensive or cyclical sector, so it was excluded from this analysis.

Tech Has Stood Out After Yields Have Fallen

The banking crisis drove down yields on two-year Treasury notes in March. Equities historically have gotten a boost after top-quartile monthly declines in bond yields. Cyclical sectors have tended to outperform, particularly technology and consumer discretionary. Defensive sectors, especially utilities and consumer staples, have tended to lag.

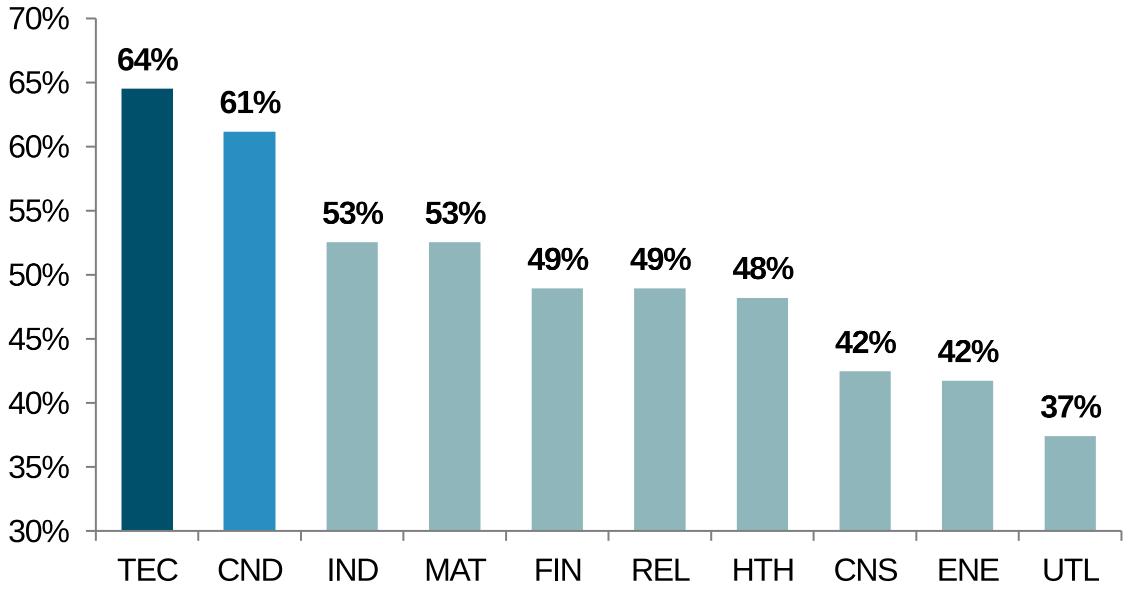
Cyclicals Have Led After Big Yield Declines

Cyclical vs. Defensive Sector Leadership (ex Energy) Six Months Following Top-Quartile One-Month Yield Declines, 1976–Present



Technology Stocks Have Led After Big Yield Declines

Next-Six-Month Odds of Sector Performance Following Top-Quartile One-Month Yield Declines, 1976–Present



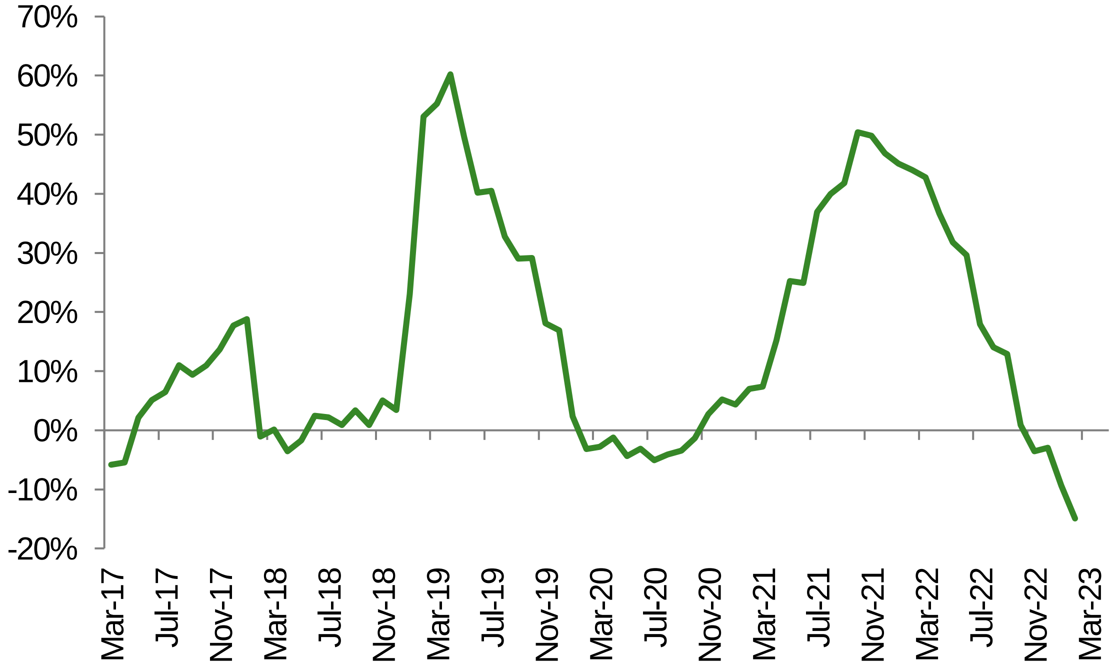
Past performance is no guarantee of future results. Analysis based on Fidelity list of the top 3,000 stocks by market capitalization. Data gathered monthly. Source: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. **LEFT:** Yield declines calculated for 2-Year U.S. Treasury yields. Cyclical sectors include communication services, consumer discretionary, financials, industrials, materials, real estate, and technology. Defensive sectors include consumer staples, health care, and utilities. Energy does not behave consistently like a defensive or cyclical sector, so it was excluded from this analysis. **RIGHT:** Sector breakdown defined by Fidelity Investments. TEC: Information technology. CND: Consumer discretionary. IND: Industrials. MAT: Materials. FIN: Financials. REL: Real estate. HTH: Health care. CNS: Consumer staples. ENE: Energy. UTL: Utilities.

Falling Earnings May Make Tech Stocks Appealing

Technology earnings have plummeted (left). This has pushed up the sector's average price-to-earnings ratio. Counterintuitively, technology stocks have outperformed, on average, during the 12 months after bottom-quartile year-over-year earnings growth, likely because their earnings outlooks subsequently improved (right). The sector performed even better when its valuations were high to start those periods.

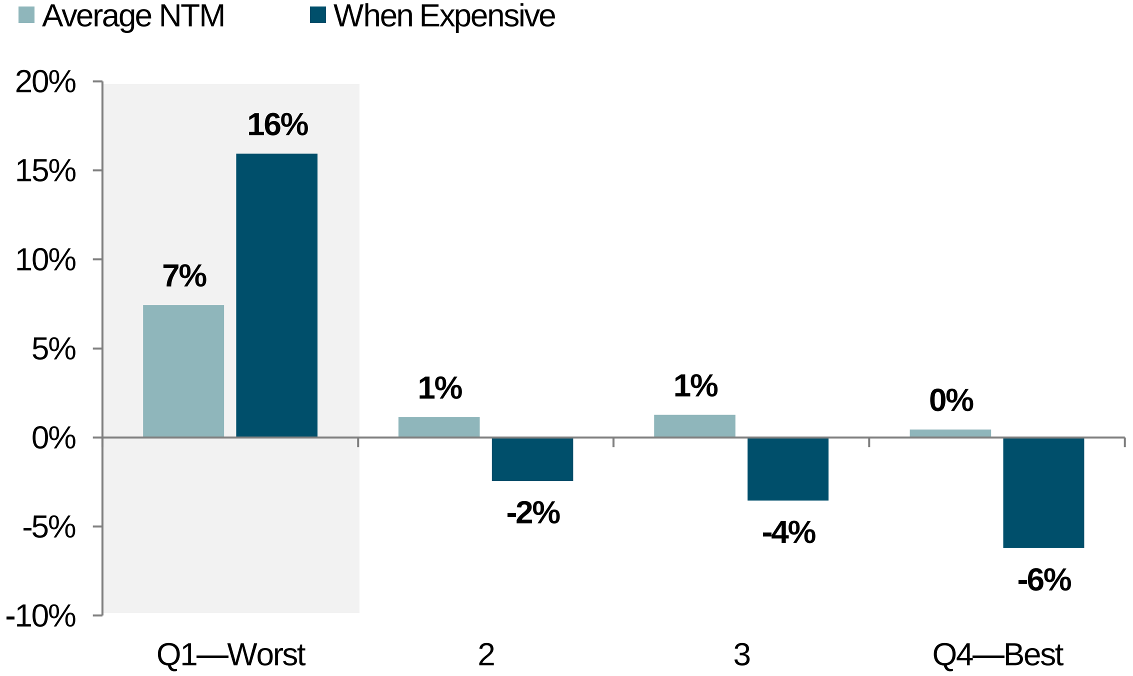
Tech Earnings Have Tanked

Percent Year-Over-Year Change in Information Technology Earnings



After Weak Earnings, Technology Performed Best When It Was Expensive

Relative Performance in Quartiles of Prior EPS Growth, 1962–Present



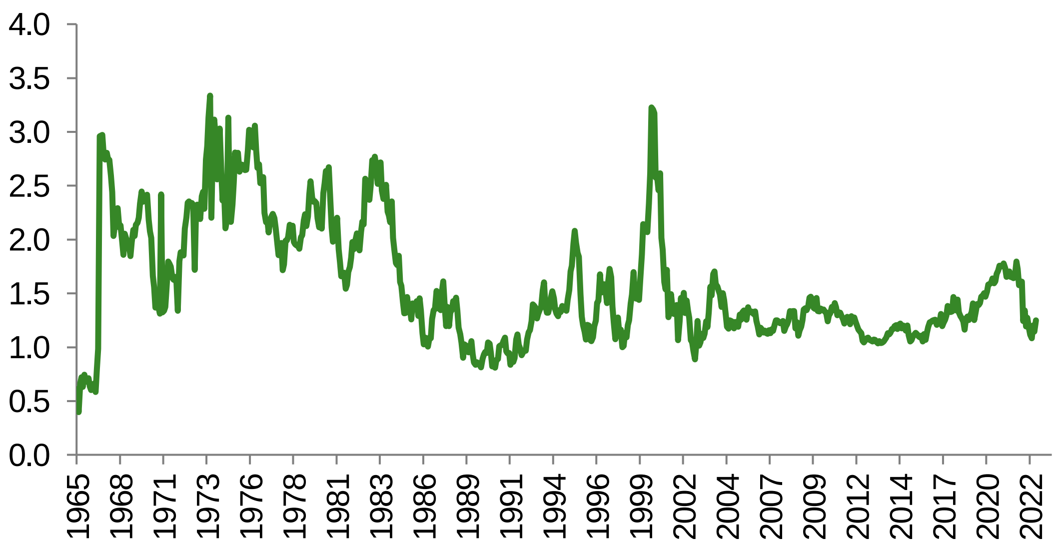
Past performance is no guarantee of future results. Analysis based on Fidelity top 3,000 stocks by market capitalization. Data gathered monthly. Source: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. **RIGHT:** EPS: Earnings per share. NTM: Next twelve months. "When expensive" signifies forward price-to-earnings ratios in the top half of the sector's historical range. A forward P/E ratio typically uses an average of analysts' published earnings estimates for the next 12 months.

Semiconductor Stocks Look Inexpensive

Although technology looked expensive on both trailing and forward earnings in the first quarter, certain sub-sectors looked historically cheap on book value. The standout was semiconductors, which reached bottom-quartile price-to-book ratios (left). From comparable levels in the past, semiconductor stocks have outperformed the market over the next 12 months, on average, even when earnings declined (right).

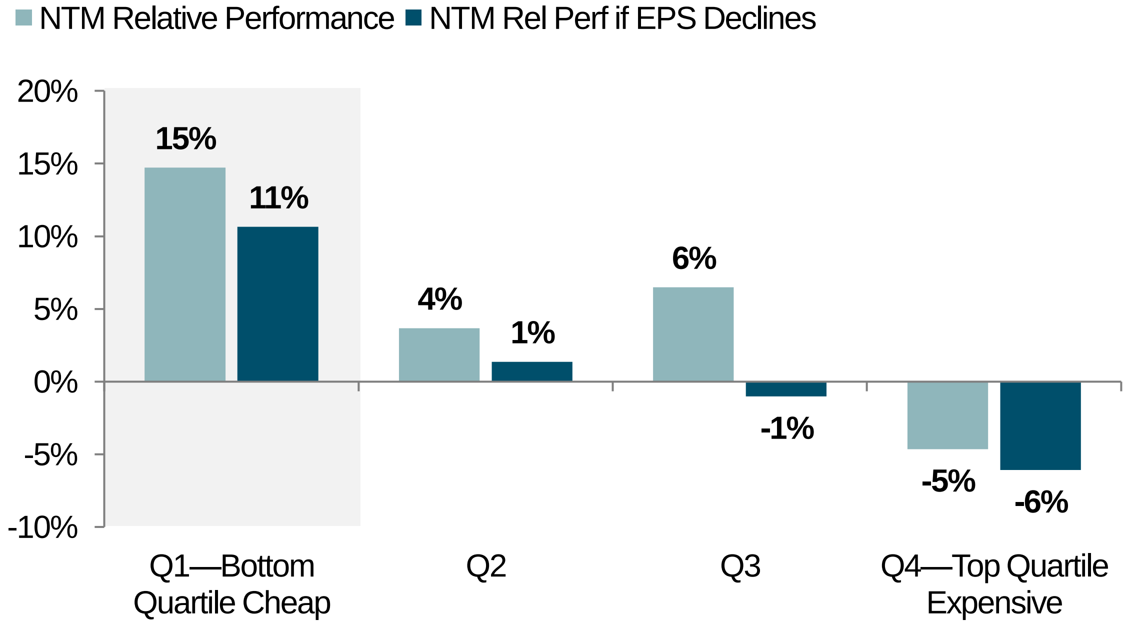
Semiconductor Stocks Look Cheap

Semiconductor Industry Relative Price-to-Book



Semiconductors Have Outperformed After Bottom-Quartile Price-to-Book Ratios

NTM Average Relative Performance in Quartiles of Relative P/Book, All Instances and When EPS Declines, 1965–Present



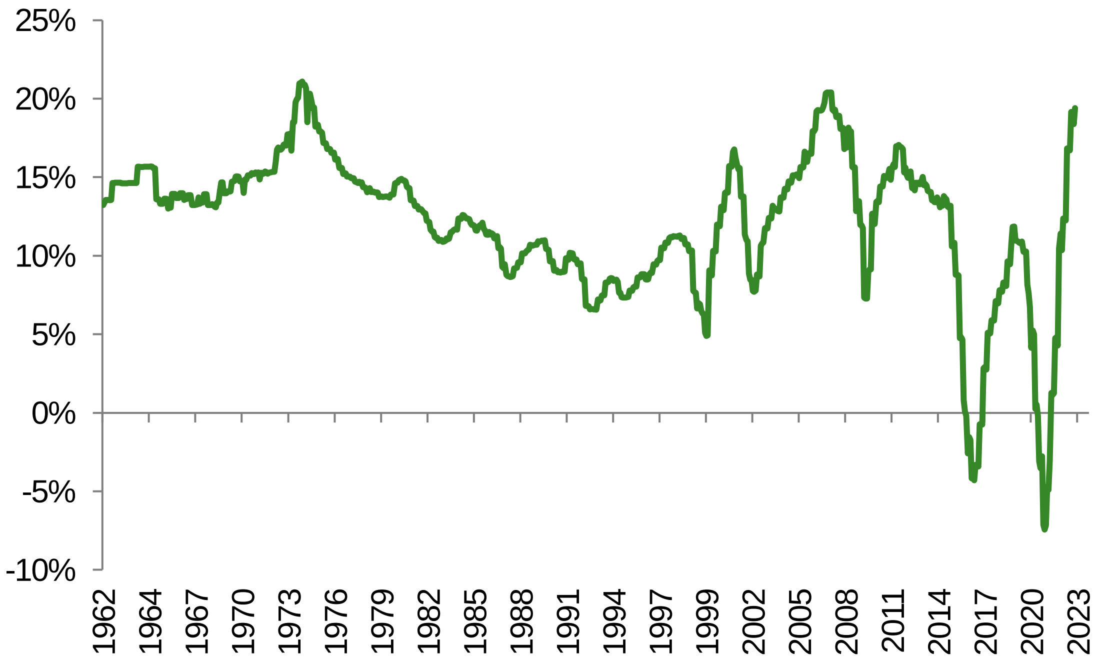
Past performance is no guarantee of future results. Analysis based on Fidelity top 3,000 stocks by market capitalization since 1965. Data gathered monthly. Source: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. **LEFT:** Price-to-Book is the aggregate stock price of semiconductor stocks among the 3,000 divided by the aggregate per-share book value. **RIGHT:** NTM is next twelve months. P/Book: Price-to-book. EPS: Earnings per share.

Energy Earnings Historically Have Struggled After High Margins

Energy-sector margins have reached the top decile of their historical range and could be peaking (left). Since 1962, the sector's earnings have tended to fall substantially after margins reached comparable levels: -10% overall over the next 12 months and -20% during periods when crude prices fell (right).

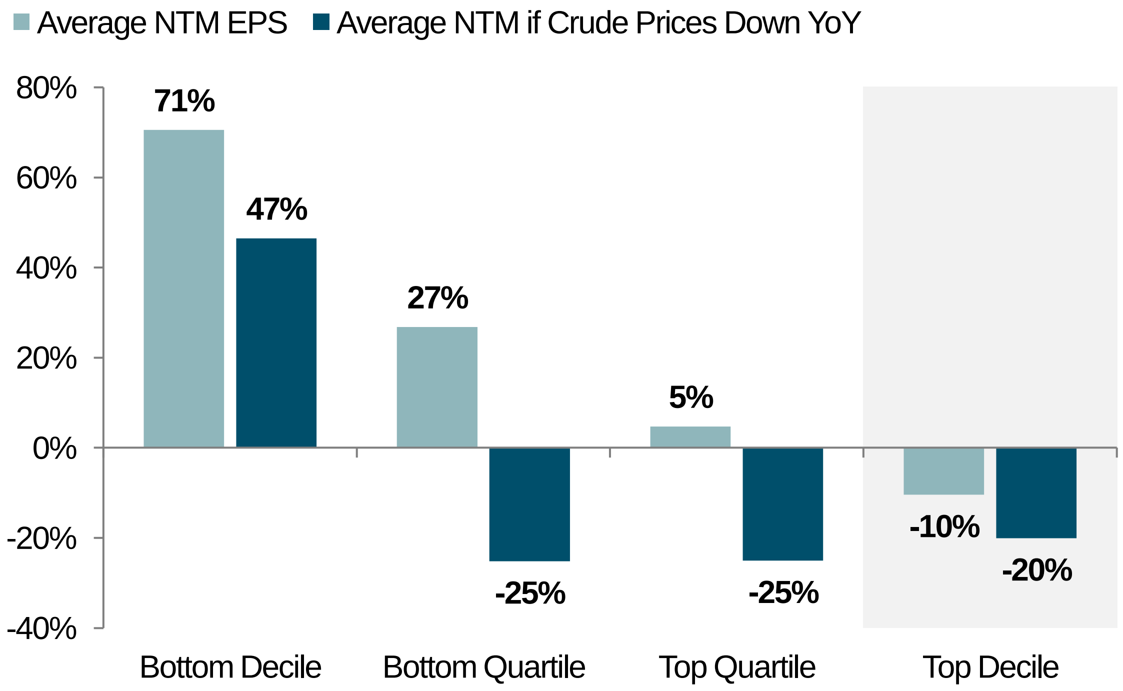
Energy Margins May Be Peaking

Energy EBIT/Sales



In Energy, High Margins Have Been Bad for Future Earnings Growth

Average NTM EPS Growth in Quartiles and Deciles of Operating Margin, 1962–Present



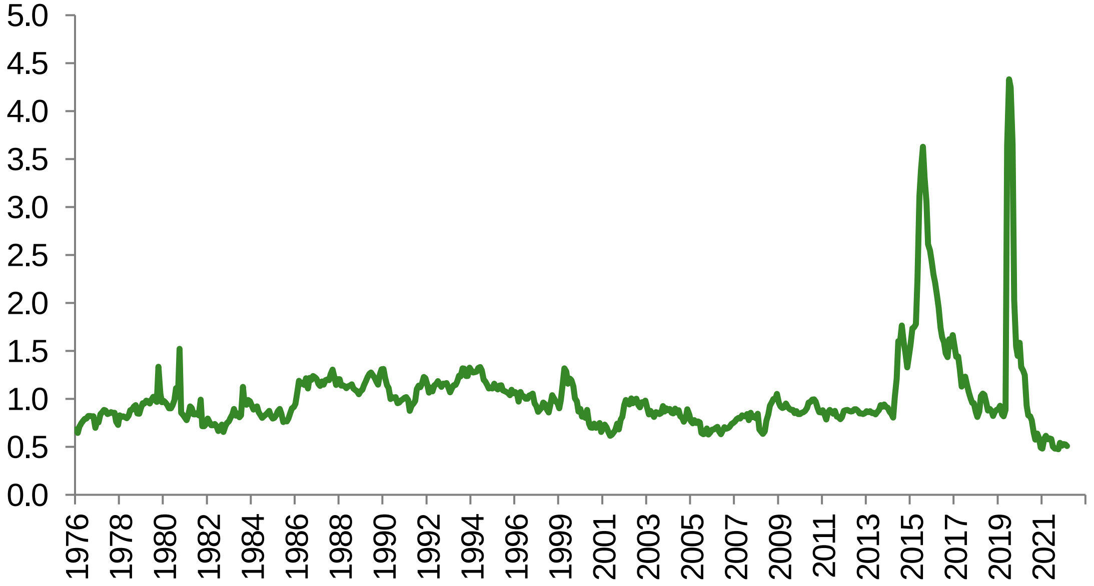
Past performance is no guarantee of future results. Analysis based on Fidelity top 3,000 stocks by market capitalization since 1962. Data gathered monthly. Source: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. **LEFT:** EBIT: Earnings before interest and taxes. EBIT is compared relative to aggregate revenue for energy stocks within the 3,000 stocks analyzed. **RIGHT:** NTM: Next twelve months. EPS: Earnings per share. YoY: Year over year. Operating margin measures pre-tax profit relative to revenue after accounting for variable production costs, such as wages.

But Earnings and Crude Prices Pose Headwinds for Energy

Energy bulls may point to the sector's low price-to-earnings ratio (left). It's true that, all else being equal, energy stocks have outperformed following bottom-quartile P/Es. But that hasn't been the case when earnings have declined: In those instances, the sector posted negative average returns, even from cheap valuations (right).

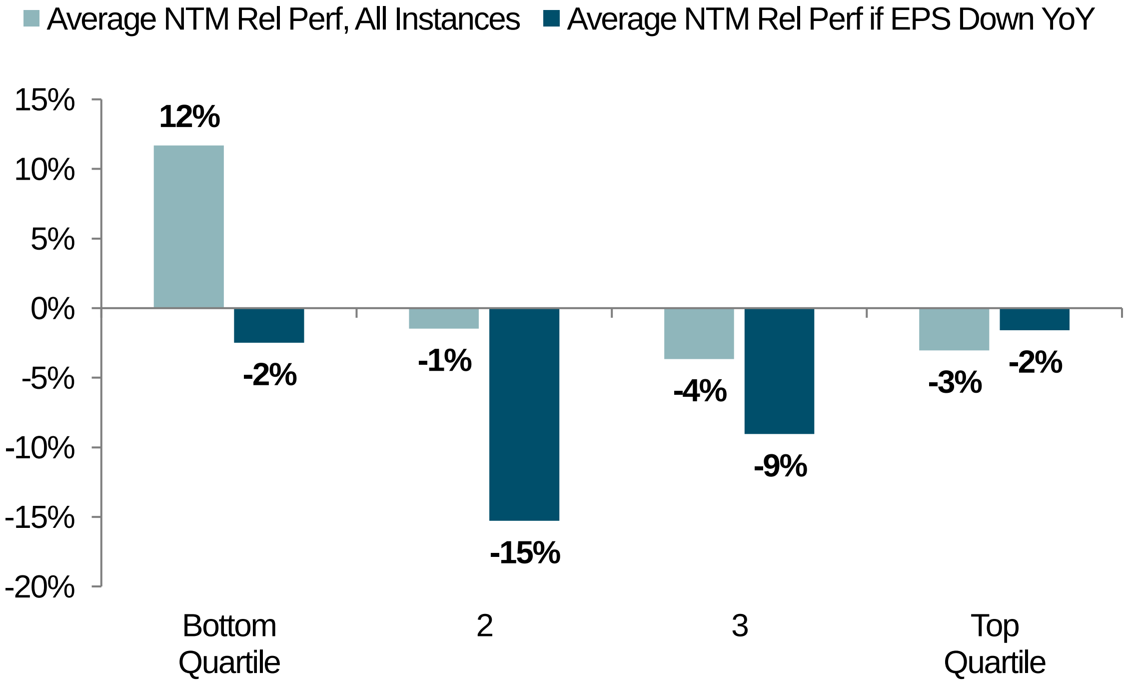
Energy Is Cheap

Energy Relative Fwd PE



But Low Energy Valuations Haven't Been Enough to Offset Weak Earnings

NTM Relative Performance from Fwd P/E Quartiles, 1976–February 2023



Past performance is no guarantee of future results. Analysis based on Fidelity top 3,000 stocks by market capitalization since 1976. Data gathered monthly. Source: Haver Analytics, FactSet, Fidelity Investments, as of 2/28/2023. LEFT: Fwd P/E: Forward price-to-earnings ratio. A forward P/E ratio typically uses an average of analysts' published earnings estimates for the next 12 months. RIGHT: NTM: Next twelve months. EPS: Earnings per share.

Glossary and Methodology

Glossary

Cycle Hit Rate: Calculates the frequency of a sector outperforming the broader equity market over each business cycle phase since 1962.

Dividend Yield: Annual dividends per share divided by share price.

Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA): A non-GAAP measure often used to compare profitability between companies and industries, because it eliminates the effects of financing and accounting decisions.

Earnings-per-Share Growth: Measures the growth in reported earnings per share over the specified past time period.

Earnings Yield: Earnings per share divided by share price. It is the inverse of the price-to-earnings (P/E) ratio.

Enterprise Value: A measure of a company's total value that includes its market capitalization as well as short- and long-term debt and cash on its balance sheet.

Free Cash Flow (FCF): The amount of cash a company has remaining after expenses, debt service, capital expenditures, and dividends. High free cash flow typically suggests stronger company value.

Free-Cash-Flow Margin: The amount of free cash flow as a percentage of revenue. High FCF margin often denotes strong profitability.

Free-Cash-Flow Yield: Free cash flow per share divided by share price. A high FCF yield often represents a good investment opportunity, because investors would be paying a reasonable price for healthy cash earnings.

Full-Phase Average Performance: Calculates the (geometric) average performance of a sector in a particular phase of the business cycle and subtracts the performance of the broader equity market.

Median Monthly Difference: Calculates the difference in the monthly performance of a sector compared with the broader market, and then takes the midpoint of those observations.

Price-to-Book (P/B) Ratio: The ratio of a company's share price to reported accumulated profits and capital.

Price-to-Earnings (P/E) Ratio: The ratio of a company's current share price to its reported earnings. A forward P/E ratio typically uses an average of analysts' published earnings estimates for the next 12 months.

Price-to-Sales (P/S) Ratio: The ratio of a company's current share price to reported sales.

Relative Strength: The comparison of a security's performance relative to a benchmark, typically a market index.

Return on Equity (ROE): The amount, expressed as a percentage, earned on a company's common stock investment for a given period.

Risk Decomposition: A mathematical analysis that estimates the relative contribution of various sources of volatility.

Methodology

Strategist View: Our sector strategist, Denise Chisholm, tracks key indicators that have influenced the historical likelihood of outperformance of each sector. This historical probability analysis informs the Strategist Views.

Fundamentals: Sector rankings are based on equally weighting the following four fundamental factors: EBITDA growth, earnings growth, ROE, and FCF margin. However, we evaluate the financials and real estate sectors only on earnings growth and ROE because of differences in their business models and accounting standards.

Relative Strength: Compares the strength of a sector versus the S&P 500 index over a six-month period, with a one-month reversal on the latest month; identifying relative strength patterns can be a useful indicator of short-term sector performance.

Relative Valuations: Valuation metrics for each sector are relative to the S&P 500. Ratios compute the current relative valuation divided by the 10-year historical average relative valuation, eliminating the top 5% and bottom 5% values to reduce the effect of potential outliers. Sectors are then ranked by their weighted average ratios, weighted as follows: P/E: 37%; P/B: 21%; P/S: 21%; and FCF yield: 21%. However, the financials and real estate sectors are weighted as follows: P/E: 65% and P/B: 35%.

Appendix

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This piece may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Past performance is no guarantee of future results.

Investing involves risk, including risk of loss.

All indexes are unmanaged. You cannot invest directly in an index. Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Because of its narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies. Sector investing is also subject to the additional risks associated with its particular industry. The Energy sector is defined as companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, or other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. Financials: companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, and insurance and investments.

The energy industries can be significantly affected by fluctuations in energy prices and supply and demand of energy fuels, energy conservation, the success of exploration projects, and tax and other government regulations.
The technology industries can be significantly affected by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants, and general economic condition.

Index Definitions: The Russell 3000® Index is a market capitalization-weighted index designed to measure the performance of the 3,000 largest companies in the U.S. equity market.

The S&P 500® index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of Standard & Poor's Financial Services LLC. Sectors and industries are defined by the Global Industry Classification Standard (GICS).

The S&P 500 sector indexes include the standard GICS sectors that make up the S&P 500 index. The market capitalization of all S&P 500 sector indexes together comprises the market capitalization of the parent S&P 500 index; each member of the S&P 500 index is assigned to one (and only one) sector.

The S&P CoreLogic Case-Shiller U.S. National Home Price Index is a composite of single-family home price indexes for the nine U.S. Census divisions and is calculated monthly. It is included in the S&P CoreLogic Case-Shiller Home Price Index Series, which seeks to measure changes in the total value of all existing single-family housing stock.

Appendix

Sectors are defined as follows: **Communication Services:** companies that facilitate communication or provide access to entertainment content and other information through various types of media. **Consumer Discretionary:** companies that provide goods and services that people want but don't necessarily need, such as televisions, cars, and sporting goods; these businesses tend to be the most sensitive to economic cycles. **Consumer Staples:** companies that provide goods and services that people use on a daily basis, like food, household products, and personal-care products; these businesses tend to be less sensitive to economic cycles. **Energy:** companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, or other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. **Financials:** companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, and insurance and investments. **Health Care:** companies in two main industry groups: health care equipment suppliers and manufacturers, and providers of health care services; and companies involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products. **Industrials:** companies whose businesses manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. **Materials**: companies that are engaged in a wide range of commodity-related manufacturing. **Real Estate:** companies in two main industry groups—real estate investment trusts (REITs), and real estate management and development companies. **Technology:** companies in technology software and services and technology hardware and equipment. **Utilities:** companies considered to be electric, gas, or water utilities, or companies that operate as independent producers and/or distributors of power.

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