TARGET QUALITY OVER QUANTITY OF GROWTH

In our late cycle environment, seek companies with high profitability and healthy balance sheets that trade at reasonable valuations.

US corporate profits in 2018 have been growing at the fastest pace since 2010, but that rate is unlikely to continue in 2019. Rising input costs, a tight labor market and gradually tightening financial conditions all point to the later stage of the business cycle.

Analysts’ lower expectations on 2019 growth were one of the driving forces behind the October and November selloffs. Companies missing earnings expectations were punished more than average, while beats were rewarded less, underscoring increasing concerns that we have passed peak growth.¹

From a valuation perspective, with declining growth prospects, investors have been unwilling to pay for stocks’ lofty valuations, evidenced by high Book-to-Price stocks underperforming low Book-to-Price stocks by 3.6% since the start of Q3.²

This is not to say we expect an imminent economic contraction. Corporate earnings probably will grow in the high single digits in 2019. And the tight labor market and potential for more fiscal stimulus, such as a bipartisan infrastructure bill, may support domestic demand. Nevertheless, as economic growth decelerates, downside risks have increased due to tightening monetary policy, weakening global growth and prolonged trade tensions.

<table>
<thead>
<tr>
<th>Ticker</th>
<th>Fund</th>
<th>Expense Ratio</th>
<th>Why Now?</th>
</tr>
</thead>
<tbody>
<tr>
<td>SDY</td>
<td>SPDR® S&amp;P® Dividend ETF</td>
<td>0.35%</td>
<td>Long-term dividend growth companies exhibit higher quality traits in terms of higher profitability, stronger balance sheets and less earnings variability than pure high dividend companies.³ These higher quality traits have translated into persistent outperformance over the broad market, as well as high dividend yield strategies, when the broad market was down.</td>
</tr>
<tr>
<td>QUS</td>
<td>SPDR MSCI USA StrategicFactors℠ ETF</td>
<td>0.15%</td>
<td>The MSCI USA Factor Mix A-Series Capped Index — a blend of quality, value and minimum volatility factors — stood strong during the October and November selloffs, providing a smoother return path than single factors.⁴</td>
</tr>
</tbody>
</table>

Figure 1: A Slowdown of S&P 500® Earnings and Sales Growth

Source: FactSet, as of 11/16/2018.
Passively managed funds hold a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

A “value” style of investing emphasizes undervalued companies with characteristics for improved valuations. This style of investing is subject to the risk that the valuations never improve or that the returns on “value” equity securities are less than returns on other styles of investing or the overall stock market. Although subject to the risks of common stocks, low volatility stocks are seen as having a lower risk profile than the overall markets. However, a fund that invests in low volatility stocks may not produce investment exposure that has lower variability to changes in such stocks’ price levels. A “quality” style of investing emphasizes companies with high returns, stable earnings, and low financial leverage. This style of investing is subject to the risk that the past performance of these companies does not continue or that the returns on “quality” equity securities are less than returns on other styles of investing or the overall stock market.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions. ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs’ net asset value. Brokerage commissions and ETF expenses will reduce returns.

While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress.

Non-diversified funds that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole.

Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

Diversification does not ensure a profit or guarantee against loss.

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