S&P CAPITAL IQ
McGRAW HILL FINANCIAL

GLOBAL EQUITY RESEARCH
Sector Watch

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Sam Stovall
Chief Equity Strategist
and author of
The Seven Rules of Wall Street
55 Water Street
New York, NY 10041
212-438-9549
sam.stovall@spcapitaliq.com

SHOCKS & STOCKS

"How Do You Solve a Problem Like Syria?"

During the month that was, the S&P 500 fell 3.1% in price, and dragged all 10 sectors down with it. The Financials and Utilities each declined more than 5%, while Information Technology and Materials each slipped less than 1%. In addition, 86% of the 132 sub-industries in the "500" declined during the month led by Health Care Facilities (-12.5%), Specialized Consumer Services (-11.2%), Trucking (-10.1%), Retail REITs (-9.3%), and Specialty Stores (-9.3%). The five best performing sub-industries were Motorcycle Manufacturers (+5.7%), Gold (+5.9%), Diversified Metals & Mining (+6.9%), Tires & Rubber (+8.8%), and Computer & Electronics Retail (+12.4%).

By asset class, the S&P GSCI Commodities index was the sole positive performer, while all domestic and international equity, REIT and preferred stock indices declined, even when adding in dividends. And despite much of the negative rhetoric surrounding bonds, the Barclay's Aggregate Index posted the smallest total return decline.

On a year-to-date basis, however, all nine of the large-, mid-, and small-cap U.S indices listed advanced from 13% to 21% through August 30. In addition, U.S. preferred stocks and global commodities rose. Domestic bonds recorded a negative total return, however, along with the S&P Int'l Dividend Opportunities, MSCI-Emerging Markets, and S&P Emerging Markets Low Volatility Indices. But it has not been a total loss overseas, as the MSCI-EAFE, S&P Int'l Developed Low Volatility, and ACWI ex. U.S. Small Cap Indices recorded positive returns.

Asset Class Total Returns (Data as of 8/30/13)

Asset Class Investment Index	% Total Returns Month to Date	Year to Date	2008	Cum. Since '00	Std. Dev. Since '00
Equities					
US: Large-, Mid-, and Small-Cap					
S&P 500 Index	(2.9)	16.2	(37)	44	15.9
S&P 500 Equal Weight	(2.8)	19.2	(40)	182	18.3
S&P 500 High Quality Rankings	(3.3)	17.1	(33)	144	15.2
S&P 500 Dividend Aristocrats	(3.8)	16.7	(22)	231	14.4
S&P 500 Low Volatility	(4.8)	13.2	(21)	228	11.5
S&P MidCap 400	(3.7)	17.1	(36)	218	18.2
S&P MidCap 400 Low Volatility	(4.0)	17.4	(35)	292	19.5
S&P SmallCap 600	(2.4)	21.1	(31)	233	19.7
S&P SmallCap 600 Low Volatility	(4.8)	17.0	(18)	414	13.9
International: Developed					
MSCI-EAFE	(1.3)	8.5	(43)	43	18.0
S&P Int'l. Dividend Opportunities	(1.5)	(0.8)	(51)	284	21.4
S&P Int'l. Developed Low Volatility	(2.3)	6.5	(30)	300	12.9
MSCI-ACWI ex. US Small Caps	(0.8)	6.3	(50)	152	19.9
International: Emerging Markets					
MSCI Emerging Markets	(1.7)	(9.9)	(53)	173	23.7
S&P Emerging Mkts. Low Volatility	(3.0)	(6.0)	(34)	452	15.9
Other					
S&P Preferred Stock*	(2.2)	1.5	(26)	64	19.4
Commodities					
S&P GSCI	3.4	2.6	(46)	81	23.8
Real Estate					
S&P Global REITs	(5.6)	(1.6)	(45)	328	19.8
Fixed Income					
Barclay's Aggregate	(0.5)	(3.0)	6	131	3.9

Source: S&P Capital IQ, Barclay's, Bloomberg, WSJ. *Series started in August 2003.

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Despite the tune from *The Sound of Music* streaming through my head, I can't help but wonder how the U.S. will attempt to solve the Syrian situation. Also, what will be the magnitude of market fallout from the expected retribution of Syria for its use of chemical weapons? Even though the rebellion in Syria started more than two years ago, and many are willing to quickly dismiss the fallout from a targeted U.S. strike, the response by Syria's neighbors, as well as China and Russia, pose increased uncertainty. Recently, Alec Young, S&P Capital IQ's Global Equity Strategist, reminded us that "Syria is not a major exported of oil. However, 17% of global oil supply flows through the Straits of Hormuz. Will Iran mine this crucial waterway should the U.S. strike? The U.S. may go for Syria's chemical weapons capability instead of regime targets so as to minimize odds of an Iranian overreaction. Also Iran is a gasoline importer, so why would they block the Strait? An attack on weapons targets is the most likely action, in my view, leaving Assad in power but less able to launch future chemical attacks."

Sell the Scare, Buy the Bombs

The U.S. stock markets have weathered a variety of unanticipated shocks over the past 70 years, including wars and near wars, assassinations and attempts, terrorist attacks, and financial collapses. And while the initial shock sent the S&P 500 down a median of nearly 2.5% during the subsequent trading day, the bottom was reached in only six days, and the "500" recouped all that was lost in just 14 days. Granted, even though selected events took much longer to play out than the medians would suggest, these extreme situations usually occurred within the confines of a long-term bear market and did not precipitate the initial decline. Examples of these include: 1) Pearl Harbor, 2) President Nixon's resignation, 3) the terrorist attacks on 9/11, and 4) the collapse of Lehman Brothers. So should history repeat itself, and there is no guarantee it will, unanticipated events that occur within bull markets that throw markets for a loop are typically assessed for their economic impact in short order, allowing opportunistic traders to step in and quickly push share prices back to breakeven and beyond.

SHOCKS TO THE SYSTEM: Market Declines and Recoveries Since WWII

	Closing Levels			Bottom			Days to
Market Shock Events	Prior Day	Next Day	% Chg.	Level	Days	% Chg.	Recover
Japanese Tsunami: 3/11/11	1304.28	1296.39	(0.6)	1256.88	3	(3.6)	6
Flash Crash: 5/6/10	1165.87	1128.15	(3.2)	1110.88	1	(4.7)	4
Lehman Bankruptcy: 9/15/08	1251.70	1192.7	(4.7)	676.53	121	(46.0)	285
Madrid bombing: 3/10/04	1140.58	1123.89	(1.5)	1093.95	10	(4.1)	18
Terrorist Attacks: 9/11/01	1092.54	1038.77	(4.9)	965.80	5	(11.6)	19
Collapse of LTCM: 9/23/98	1066.09	1042.72	(2.2)	959.44	11	(10.0)	9
Iraq's Invasion of Kuwait: 8/2/90	355.52	351.48	(1.1)	334.43	2	(5.9)	30
Program Trading: 10/19/87	282.70	224.84	(20.5)	223.92	33	(20.8)	223
Reagan shooting: 3/30/81	136.30	134.7	(1.2)	134.70	1	(1.2)	4
Nixon Resignation: 8/8/74	82.65	81.57	(1.3)	62.28	39	(24.6)	143
OPEC oil embargo: 10/17/73	111.30	110.05	(1.1)	109.16	6	(1.9)	10
Kennedy assassination: 11/22/63	71.62	69.61	(2.8)	69.61	1	(2.8)	2
Cuban missile crisis: 10/22/62	54.96	53.49	(2.7)	53.49	1	(2.7)	5
Pearl Harbor Attack: 12/7/41	9.38	8.97	(4.4)	8.37	18	(10.8)	257
Medians			**(2.4)**		**6**	**(5.3)**	**14**

Source: S&P Capital IQ. Past performance is no guarantee of future results.

Conclusion

Global asset classes suffered total-return setbacks in August, as exhaustion from the prior price surge likely allowed concerns over seasonality, Syria and sequestration to encourage unnerved investors to take profits. In addition, some think the impending military response to Syria's use of chemical weapons will trigger a market shock. If so, it would probably be one of the most anticipated of unanticipated events in modern history. What's more, a majority of prior market shocks have proven to represent buying opportunities more than reasons to sell. While we believe the equity markets will remain choppy in the near-term, we would be more concerned over a sharp decline in global economic growth projections and a resulting slowing of EPS growth expectations, neither of which we forecast in the coming quarters.

S&P Capital IQ
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A+	Highest	B-	Lower
A	High	C	Lowest
A-	Above Average	D	In Reorganization
B+	Average	NR	Not Ranked
B	Below Average		

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CAGR- Compound Annual Growth Rate
CAPEX- Capital Expenditures
CY- Calendar Year
DCF- Discounted Cash Flow
DDM– Dividend Discount Model
EBIT- Earnings Before Interest and Taxes
EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization
EPS- Earnings Per Share
EV- Enterprise Value
FCF- Free Cash Flow
FFO- Funds From Operations
FY- Fiscal Year
P/E- Price/Earnings
P/NAV– Price to Net Asset Value
PEG Ratio- P/E-to-Growth Ratio
PV- Present Value
R&D- Research & Development
ROCE- Return on Capital Employed
ROE- Return on Equity
ROI- Return on Investment
ROIC- Return on Invested Capital
ROA- Return on Assets
SG&A- Selling, General & Administrative Expenses
SOTP- Sum-Of-The-Parts
WACC- Weighted Average Cost of Capital

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S&P Capital IQ Global STARS Distribution as of March 31, 2013

Ranking	North America	Europe	Asia	Global
Buy	35.0%	27.7%	38.7%	34.3%
Hold	56.0	48.6	50.3	54.2
Sell	9.0	23.7	11.0	11.5
Total	100.0%	100.0%	100.0%	100.0%

5-STARS (Strong Buy): Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.
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3-STARS (Hold): Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.
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Relevant benchmarks: In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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Ranking	North America	Europe	Asia	Global
Buy	40.0%	42.3%	50.6%	45.2%
Hold	20.0	22.5	18.7%	20.0
Sell	40.0	35.2	30.7%	34.8
Total	100.0%	100.0%	100.0%	100.0%

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Stephen Biggar (US) stephen.biggar@spcapital.com
Lorraine Tan (Asia Pacific) lorraine.tan@spcapitaliq.com
Roger Hirst (Europe) roger.hirst@spcapitaliq.com

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