

Sector Primer Series: Financials

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INTRODUCTION

Developed in 1999 and jointly managed by S&P Dow Jones Indices and MSCI, the Global Industry Classification Standard® (GICS®) assigns companies to a single classification at the sub-industry level according to their principal business activity using quantitative and qualitative factors, including revenues, earnings, and market perception. The sector is the first level of the four-tiered, hierarchical industry classification system that includes 11 sectors, 24 industry groups, 69 industries, and 158 sub-industries, as of Dec. 31, 2018.

The Financials sector comprises companies primarily engaged in Banking, Diversified Financials, and Insurance. The sector includes, but is not limited to:

- Companies that have conventional banking operations;
- Financial institutions primarily engaged in investment banking and brokerage services;
- Insurance and reinsurance brokerage firms;
- Financial exchanges and providers of financial decision-making support tools and products, including ratings agencies; and
- Companies with significantly diversified holdings across three or more sectors, none of which contribute a majority of profit and/or sales.

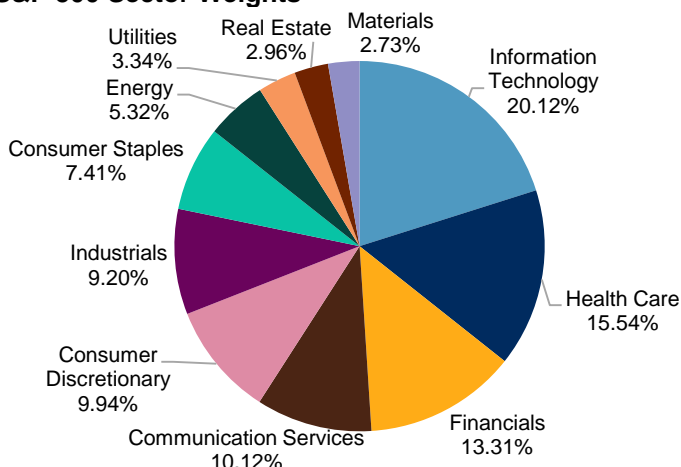
Exhibit 1: GICS of the Financials Sector				
SECTOR	INDUSTRY GROUP	INDUSTRY	SUB-INDUSTRY	
Financials Code (40)	Banks Code (4010)	Banks Code (401010)	Diversified Banks Code (40101010)	
			Regional Banks Code (40101015)	
		Thriffs & Mortgage Finance Code (401020)	Thriffs & Mortgage Finance Code (40102010)	
	Diversified Financials Code (4020)		Diversified Financial Services Code (402010)	Other Diversified Financial Services Code (40201020)
				Multi-Sector Holdings Code (40201030)
				Specialized Finance Code (40201040)
			Consumer Finance Code (402020)	Consumer Finance Code (40202010)
				Asset Management & Custody Banks Code (40203010)
			Capital Markets Code (402030)	Investment Banking & Brokerage Code (40203020)
				Diversified Capital Markets Code (40203030)
			Financial Exchanges & Data Code (40203040)	
		Mortgage Real Estate Investment Trusts (REITs) Code (402040)	Mortgage REITs Code (40204010)	
	Insurance Code (4030)			Insurance Brokers Code (40301010)
				Life & Health Insurance Code (40301020)
				Multi-line Insurance Code (40301030)
			Property & Casualty Insurance Code (40301040)	
			Reinsurance Code (40301050)	
	Insurance Code (403010)			

Source: S&P Dow Jones Indices LLC, MSCI. Data as of Dec. 31, 2018. Table is provided for illustrative purposes.

COMPOSITION

Created in 1957, the [S&P 500®](#) was the first broad U.S. market-cap-weighted stock market index. Today, it is the basis of many listed and over-the-counter investment instruments. The [S&P 500 Financials Index](#) comprises all companies included in the S&P 500 that are classified as members of the GICS Financials sector.

The Financials sector is the third most heavily weighted of the 11 sectors within the S&P 500. As of Dec. 31, 2018, the Financials sector represented 13.31% of the S&P 500 (see Exhibit 2). Since the index is market capitalization weighted, this sector has an above-average influence on the overall index performance.

Exhibit 2: S&P 500 Sector Weights

Financials is the third most heavily weighted of the 11 sectors within the S&P 500...

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Chart is provided for illustrative purposes.

As of Dec. 31, 2018, there were 67 companies with a total float-adjusted market capitalization of USD 2,798,477.92 million in the S&P 500 Financials Index. The two largest companies in the sector were Berkshire Hathaway (BRK.B) and JPMorgan Chase & Co (JPM), with float-adjusted market caps of USD 397,210.05 million and USD 324,626.62 million, translating to S&P 500 weights of 1.89% and 1.54%, respectively. These two companies were not only the largest companies within the Financials sector, but also the fifth and seventh largest in the S&P 500. The mean market cap was USD 41,768.33 million, the median market cap was USD 19,815.22 million, and the minimum market cap was USD 3,614.96 million. The top 10 Financials holdings made up 7.56% of the S&P 500 (see Exhibit 3).

...representing 13.31% of the S&P 500 at year-end 2018.

Exhibit 3: Snapshot of the Top 10 Holdings in the S&P 500 Financials Index

CONSTITUENT NAME	TICKER	S&P 500 INDEX WEIGHT (%)	S&P 500 FINANCIALS INDEX WEIGHT (%)
Berkshire Hathaway	BRK.B	1.89	14.19
JPMorgan Chase & Co	JPM	1.54	11.60
Bank of America Corp	BAC	1.07	8.04
Wells Fargo & Co	WFC	0.93	6.98
Citigroup Inc	C	0.60	4.54
US Bancorp	USB	0.33	2.48
CME Group Inc	CME	0.32	2.41
American Express Co	AXP	0.32	2.39
Chubb Limited	CB	0.28	2.13
Goldman Sachs Group Inc	GS	0.27	2.07
Total		7.56	56.81

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Table is provided for illustrative purposes.

Financials was the top sector weight in the [S&P MidCap 400®](#) and [S&P SmallCap 600®](#), at 16.35% and 19.09%, respectively, as of Dec. 31, 2018. Overall, in the [S&P Total Market Index](#), which consists of over 3,800 stocks—including those in the S&P 500, S&P MidCap 400, S&P SmallCap 600, and micro caps—the Financials sector was the third largest, with 664 securities and a weight of 13.93%.

Financials was the top sector weight in the S&P MidCap 400 and S&P SmallCap 600.

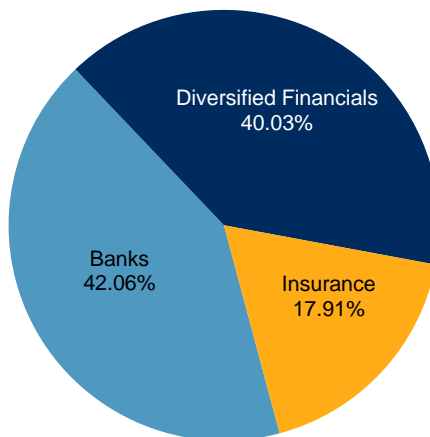
GICS is a four-tiered, hierarchical industry classification system that organizes companies quantitatively and qualitatively. Under the GICS structure, the Financials sector has 3 industry groups, 7 industries, and 17 sub-industries. Within the S&P 500 Financials Index, as of Dec. 31, 2018, Banks had the heaviest of the three industry group weights, with approximately 42% of the sector. Diversified Financials was nearly that of Banks at a 40% weight, and Insurance accounted for the remaining 18%. Banks and Insurance each have only one industry represented in the S&P 500, thus the Banks industry and Insurance industry match the weight of their respective industry group. Capital Markets (20.74%) and Diversified Financial Services (14.37%) were the two largest of the four industries under the Diversified Financials Industry Group.

On the sub-industry level, the heaviest weight was Diversified Banks at 33.64%. These are large, geographically diverse banks with a national footprint; they have significant business activity in retail banking and small and medium corporate lending and provide a diverse range of financial services. Revenues are derived primarily from conventional banking operations. The second-heaviest weight was the Multi-Sector Holdings sub-industry at 14.37%, comprised almost entirely of Berkshire Hathaway. Third was Regional Banks, at 8.42%. In the S&P 500 Financials Index, Diversified Banks was made up of only five companies and Multi-Sector Holdings only two companies. The Regional Banks sub-industry had 13, which was the most out of the 17 Financials sub-industries.

Overall, in the S&P Total Market Index, the Financials sector was the third largest.

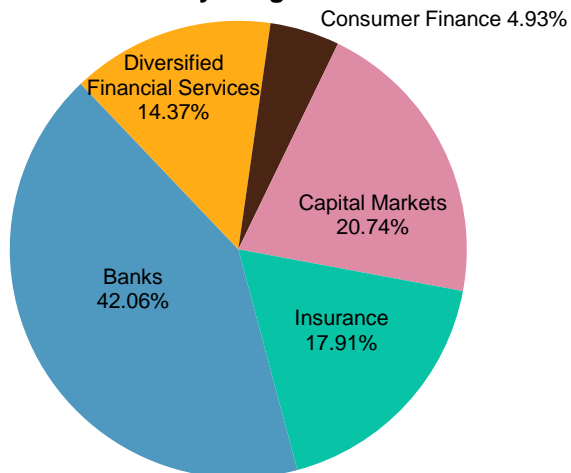
Exhibit 4: Industry Group, Industry, and Sub-Industry Weights in the S&P 500 Financials Index

Industry Group Weights

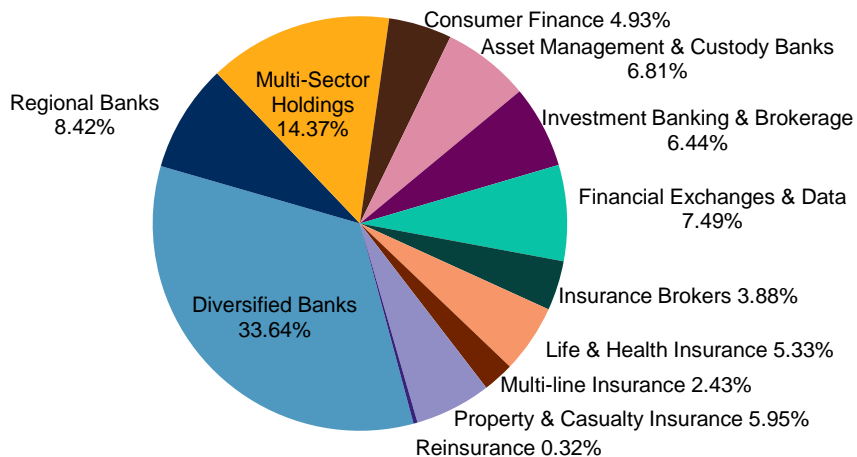


Within the S&P 500 Financials Index, Banks had the heaviest of the three industry group weights, with approximately 42% of the sector.

Industry Weights



Sub-Industry Weights



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Charts are provided for illustrative purposes.

Since the development of the GICS structure in 1999, the composition characteristics of the Financials sector have evolved.

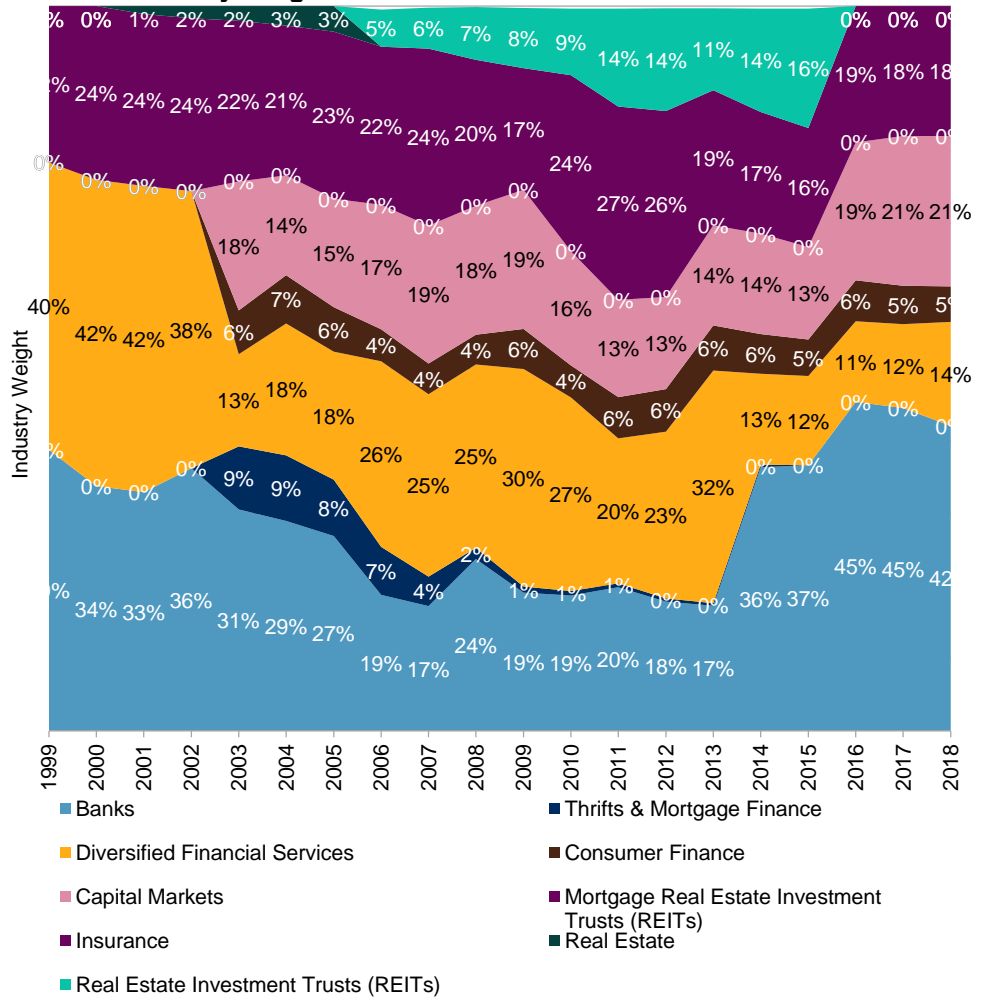
Two key features of GICS are that it is reliable and evolving. The structure correctly reflects the current state of industries in the equity investment universe. Additionally, annual reviews are conducted by S&P Global and MSCI to ensure that the structure remains fully representative of the current global market. Since the development of the GICS structure in 1999, the composition characteristics of the Financials sector have evolved. Industry weights have changed dramatically since the application of the GICS structure in 1999. Between Dec. 31, 1999, and Dec. 31 2018, an industry from each of the three industry groups was the heaviest weighted within the sector. As of year-end 2018, the Diversified Financial Services industry was heaviest 10 times, Banks 8 times, and Insurance twice. The largest change over the 20-year period was to the Diversified Financials industry, which made up 40% of Financials on Dec. 31, 1999, and was reduced to 14% as of Dec. 31, 2018. As evidence of the evolution of GICS, this industry's weight changed significantly in 2003 after the Capital Markets industry was created and companies such as Morgan Stanley (MS) and Goldman Sachs Group (GS) were moved out of Diversified Financial Services to the new industry. Another significant change occurred in 2014, when JPMorgan Chase & Co and Bank of America Corp (BAC) were reclassified from Diversified Financials to Banks.

Perhaps the most significant change occurred in 2016...

Perhaps the most significant change to the Financials sector occurred in 2016, when the Real Estate industry group was removed from the Financials sector in order to create a separate Real Estate sector. The first two Real Estate companies were added to the S&P 500 in 2001. Prior to becoming its own sector, the Real Estate industry group rapidly increased to 25 companies and 16% weight in the Financials sector by the end of 2015.

...when the Real Estate industry group was removed from Financials in order to create a separate Real Estate sector.

Exhibit 5: Industry Weights of the S&P 500 Financials Sector



The Financials sector tends to have higher dividend yield than its corresponding size benchmark

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1999, through Dec. 31, 2018. Chart is provided for illustrative purposes.

FUNDAMENTALS

From a fundamentals perspective, the Financials sector has carried lower price-to-earnings ratios and higher price-to-sales ratios when compared with the broader market. The sector also tends to have higher dividend yield than its corresponding size benchmark (see Exhibit 6).

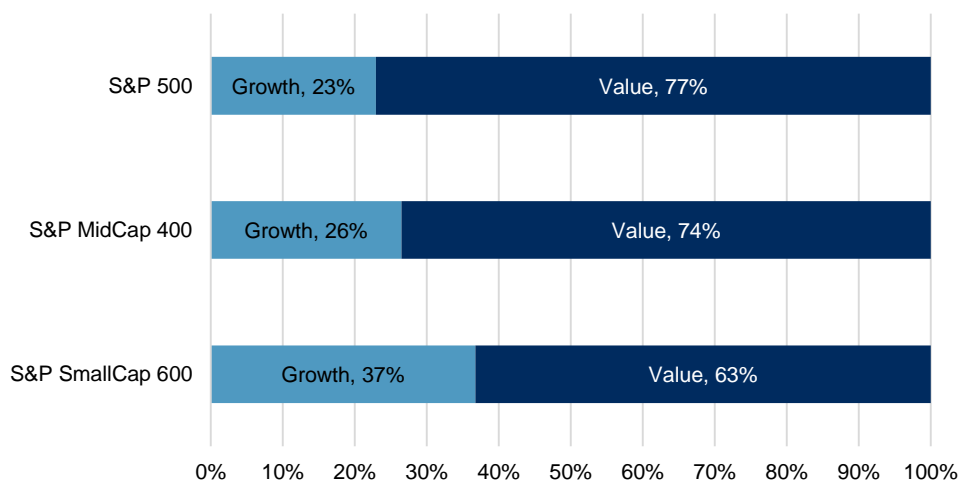
Exhibit 6: Fundamental Data Comparison

INDEX	12-MONTH TRAILING P/E	ONE-YEAR FORWARD P/E	PRICE-TO-BOOK VALUE	PRICE-TO-SALES RATIO	INDICATED DIVIDEND YIELD (%)
S&P 500	18.94	15.55	3.00	1.87	2.23
S&P 500 Financials Index	12.86	11.36	1.30	1.87	2.40
S&P MidCap 400	23.27	15.45	2.00	1.11	1.90
S&P MidCap 400 Financials Index	13.90	11.70	1.26	1.76	2.61
S&P SmallCap 600	36.24	17.11	1.81	0.84	1.76
S&P SmallCap 600 Financials Index	16.36	13.92	1.36	1.70	2.82

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

The Financials sector tends to be strongly tilted toward the value factor.

The Financials sector tends to be strongly tilted toward the value factor. Large-cap Financials companies were historically most strongly tilted toward value (see Exhibit 7). As of Dec. 31, 2018, S&P 500 Financials Index companies averaged 77% value and 23% growth. The average was 74% value and 26% growth for Financials companies in the S&P MidCap 400 and 63% value and 37% growth in the S&P SmallCap 600.

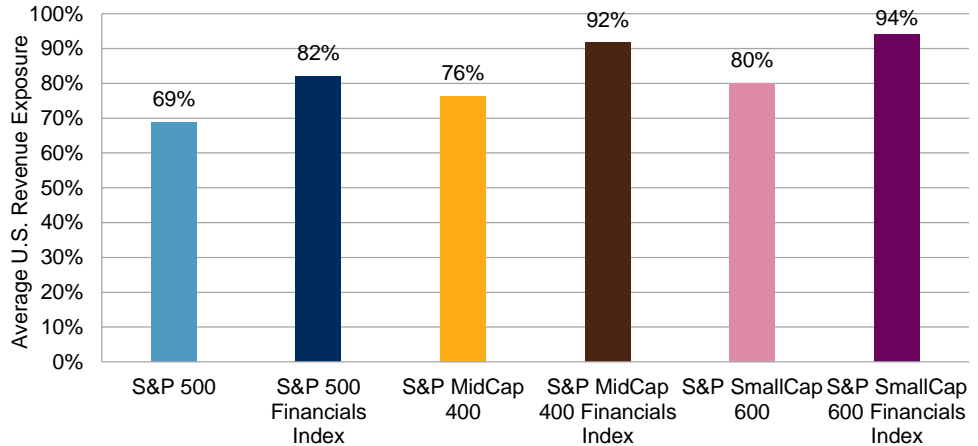
Exhibit 7: Growth and Value Factor Tilts of the Large-, Mid-, and Small-Cap Financials Sector

As of Dec. 31, 2018, S&P 500 Financials Index companies averaged 77% value and 23% growth.

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Chart is provided for illustrative purposes.

According to data from the FactSet Geographic Revenue Exposure (GeoRev™) database, Financials companies have had a relatively more insulated revenue exposure from regions outside the U.S. compared with the broader U.S. equities market. Generally, if applying U.S. equities to get international exposure is a goal, large-cap companies do the most global business. As of Dec. 31, 2018, S&P 500 Financials companies had an average U.S. revenue exposure of 82%. Small-cap Financials companies were more insulated from foreign markets, with an average of approximately 94% of revenue sourced domestically (see Exhibit 8).

Exhibit 8: Average U.S. Revenue Exposure



Over the past 10 years, Financials was one of the lower performing of the 11 GICS sectors

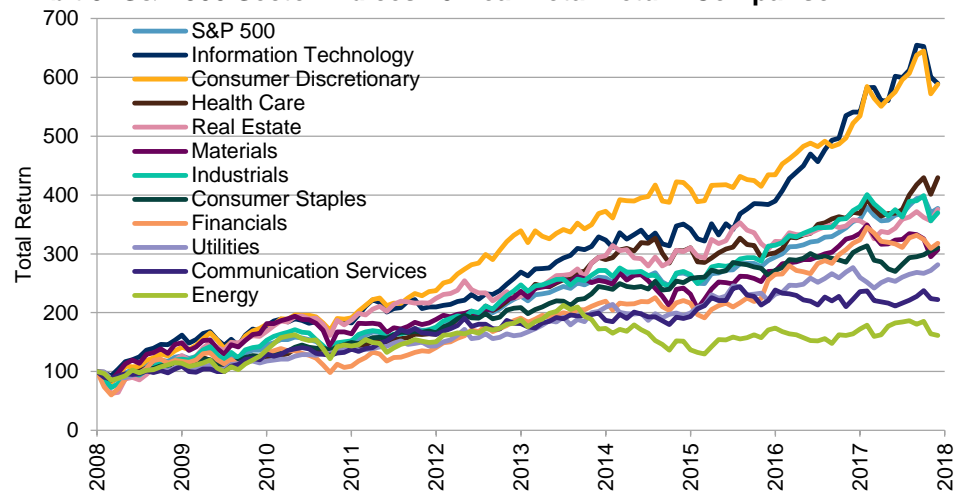
Source: S&P Dow Jones Indices LLC, FactSet GeoRev database. Data as of Dec. 31, 2018. Chart is provided for illustrative purposes.

PERFORMANCE

Over the past 10 years, Financials was one of the lower performing of the 11 GICS sectors. The 10.92% 10-year annualized return was better than Energy, Communication Services (formerly Telecommunication Services), and Utilities (see Exhibit 9). As the third most heavily weighted sector in the S&P 500, a fair amount of the benchmark index’s performance over the 10-year period can be attributed to these companies. As a whole, the S&P 500 outperformed Financials. Notably, the Financials sector has the highest risk, defined by standard deviation, calculated based on total returns of monthly values. On a total return basis, the S&P 500 Financials Index offered a 10-year annualized risk-adjusted return of 0.50, which was the second worst, outperforming only the Energy sector (see Exhibit 10).

As a whole, the S&P 500 outperformed Financials.

Exhibit 9: S&P 500 Sector Indices 10-Year Total Return Comparison



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Indices rebased to 100 on Dec. 31, 2008. Performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibit 10: Annualized Returns of S&P 500 Sector Indices

INDEX NAME	1-YEAR	3-YEAR	5-YEAR	10-YEAR
ANNUALIZED RETURN (%)				
S&P 500 Financials	-13.03	9.28	8.16	10.92
S&P 500	-4.38	9.26	8.49	13.12
S&P 500 Communication Services	-12.53	2.17	2.58	7.51
S&P 500 Consumer Discretionary	0.83	9.55	9.69	18.35
S&P 500 Consumer Staples	-8.38	3.09	6.26	10.96
S&P 500 Energy	-18.10	1.07	-5.56	3.50
S&P 500 Health Care	6.47	8.14	11.12	14.65
S&P 500 Industrials	-13.29	7.65	5.95	12.68
S&P 500 Information Technology	-0.29	16.37	14.93	18.36
S&P 500 Materials	-14.70	7.22	3.84	11.07
S&P 500 Real Estate	-2.22	3.87	8.84	13.28
S&P 500 Utilities	4.11	10.72	10.74	10.46
RISK				
S&P 500 Financials	16.57	16.46	14.69	21.95
S&P 500	15.33	10.95	10.94	13.60
S&P 500 Communication Services	13.60	15.90	14.40	14.54
S&P 500 Consumer Discretionary	19.89	13.58	13.69	16.54
S&P 500 Consumer Staples	15.13	11.39	11.35	11.32
S&P 500 Energy	23.75	18.71	18.95	19.33
S&P 500 Health Care	18.47	13.69	13.06	13.33
S&P 500 Industrials	20.11	14.59	13.53	18.11
S&P 500 Information Technology	18.65	15.29	14.53	16.10
S&P 500 Materials	15.36	14.51	15.34	19.50
S&P 500 Real Estate	14.46	13.01	13.08	21.48
S&P 500 Utilities	9.80	12.39	12.78	12.62
ANNUALIZED RISK-ADJUSTED RETURNS				
S&P 500 Financials	-0.79	0.56	0.56	0.50
S&P 500	-0.29	0.85	0.78	0.96
S&P 500 Communication Services	-0.92	0.14	0.18	0.52
S&P 500 Consumer Discretionary	0.04	0.70	0.71	1.11
S&P 500 Consumer Staples	-0.55	0.27	0.55	0.97
S&P 500 Energy	-0.76	0.06	-0.29	0.18
S&P 500 Health Care	0.35	0.59	0.85	1.10
S&P 500 Industrials	-0.66	0.52	0.44	0.70
S&P 500 Information Technology	-0.02	1.07	1.03	1.14
S&P 500 Materials	-0.96	0.50	0.25	0.57
S&P 500 Real Estate	-0.15	0.30	0.68	0.62
S&P 500 Utilities	0.42	0.86	0.84	0.83

On a total return basis, the S&P 500 Financials Index offered a 10-year annualized risk-adjusted return of 0.50, outperforming only the Energy sector.

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Risk is defined as standard deviation calculated based on total returns using monthly values. Performance based on total return in USD. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The Financials sector has been most highly correlated with Industrials and least correlated with Utilities.

The Financials sector has been most highly correlated with Industrials and least correlated with Utilities. Exhibit 11 shows that as of Dec. 31, 2018, the S&P 500 Financials Index (TR) had a correlation of 0.87 with the S&P 500 Industrials Index (TR), based on 10 years of monthly returns. The correlation was 0.20 with the S&P 500 Utilities Index (TR). Correlation with other major country indices also varied. Of the indices tested that were composed of companies domiciled outside of the U.S., the S&P 500 Financials Index was most highly correlated with the S&P Developed Ex-U.S. BMI (0.78) and S&P Germany BMI (0.78). It was least correlated with the S&P China BMI (0.57).

Exhibit 11: Correlations of the S&P 500 Financials Index

S&P 500 SECTOR (TR)	CORRELATION	INDEX (TR)	CORRELATION
Industrials	0.87	S&P Developed Ex-U.S. BMI	0.78
Consumer Discretionary	0.80	S&P Germany BMI	0.78
Materials	0.78	S&P Global Ex-U.S. BMI	0.77
Real Estate	0.70	S&P France BMI	0.73
Information Technology	0.68	S&P Switzerland BMI	0.72
Energy	0.62	S&P United Kingdom BMI	0.71
Health Care	0.62	S&P Australia BMI	0.69
Consumer Staples	0.55	S&P Canada BMI	0.69
Communication Services	0.36	S&P Emerging BMI	0.66
Utilities	0.20	S&P Japan BMI	0.64
		S&P Korea BMI	0.62
		S&P China BMI	0.57
		S&P United States BMI	0.88
		S&P 500	0.88
		S&P Developed BMI	0.86
		S&P Global BMI	0.85
		S&P MidCap 400	0.83
		S&P SmallCap 600	0.83

Of the indices tested that were composed of companies domiciled outside of the U.S., the S&P 500 Financials Index was most highly correlated with the S&P Developed Ex-U.S. BMI and S&P Germany BMI.

Source: S&P Dow Jones Indices LLC. Correlations based on monthly total return data from January 2009 to December 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Within the Financials sector of the GICS structure, companies are bucketed into industry groups, industries, and sub-industries. These groupings, based on qualitative and quantitative factors, are increasingly more specific to the types of companies included. Due to this fact, performance of companies within the sector can vary. Exhibit 12 shows the annualized returns of the company groupings within the Financials sector.

Exhibit 12: Annualized Returns of the S&P 500 Financials Index GICS Subindices

INDEX	ANNUALIZED RETURN (%)			
	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500 Financials	-13.03	9.28	8.16	10.92
INDUSTRY GROUP				
S&P 500 Banks	-16.44	8.38	8.20	9.59
S&P 500 Diversified Financials	-9.92	10.69	7.52	10.66
S&P 500 Insurance	-11.21	6.65	6.09	11.01
INDUSTRY				
S&P 500 Banks	-16.44	8.38	8.22	9.82
S&P 500 Diversified Financial Services	2.28	16.28	12.64	10.90
S&P 500 Consumer Finance	-16.52	6.26	0.96	16.47
S&P 500 Capital Markets	-15.19	7.45	5.39	10.61
S&P 500 Insurance	-11.21	6.65	6.09	11.01
SUB-INDUSTRY				
S&P 500 Diversified Banks	-15.93	8.36	8.31	9.95
S&P 500 Regional Banks	-18.18	8.73	7.77	9.28
S&P 500 Multi-Sector Holdings	2.28	15.40	10.95	9.19
S&P 500 Consumer Finance	-16.52	6.26	0.96	16.47
S&P 500 Asset Management & Custody Banks	-24.14	3.15	2.02	9.00
S&P 500 Investment Banking & Brokerage	-24.66	5.90	5.63	10.69
S&P 500 Financial Exchanges & Data	9.32	n/a	n/a	n/a
S&P 500 Insurance Brokers	5.50	15.31	12.23	14.32
S&P 500 Life & Health Insurance	-20.77	4.82	1.93	8.99
S&P 500 Multi-line Insurance	-24.44	-5.58	-1.11	8.06
S&P 500 Property & Casualty Insurance	-4.69	10.51	11.34	13.25
S&P 500 Reinsurance	0.73	N/A	N/A	N/A

Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2018. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

Financials is the third largest of the 11 GICS sectors in the U.S. market.

The sector has evolved over the last 20 years, with the addition of the Capital Markets industry and removal of the Real Estate Industry Group.

Over the past 10 years, Financials has not outperformed the broader benchmarks nor most of the other 10 sectors.

In terms of revenue exposure, Financials sources more revenue domestically than the S&P 500 companies as a whole.

CONCLUSION

Financials is the third largest of the 11 GICS sectors in the U.S. market. The sector accounts for approximately 13% of the weight of the S&P 500. Within the sector, Banks and Diversified Financial Services have historically been the two highest-weighted industries. In the mid- and small-cap segments, Financials is the heaviest-weighted sector at 16% and 19%, respectively. The sector has evolved over the last 20 years, with the addition of new levels, such as the creation of the Capital Markets industry in 2003, and removal of others like the Real Estate industry group, which became its own sector. Over the past 10 years, Financials has not outperformed the broader benchmarks nor most of the other 10 sectors. Notably, Financials has had the highest risk of any sector based on standard deviation of monthly total returns. The Financials sector tends to strongly tilt toward the value factor, with large-cap having the strongest tilt.

In terms of revenue exposure, on average, Financials sources significantly more revenue domestically than S&P 500 companies as a whole. Additionally, Financials has varying correlations with different sectors and countries.

PERFORMANCE DISCLOSURE

The S&P 500 Real Estate was launched September 19, 2016. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at www.spdji.com. Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at www.spdji.com for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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