

# Overcoming Home Sector Biases with U.S. Equities

**S&P Dow Jones Indices**

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**S&P Dow Jones  
Indices**

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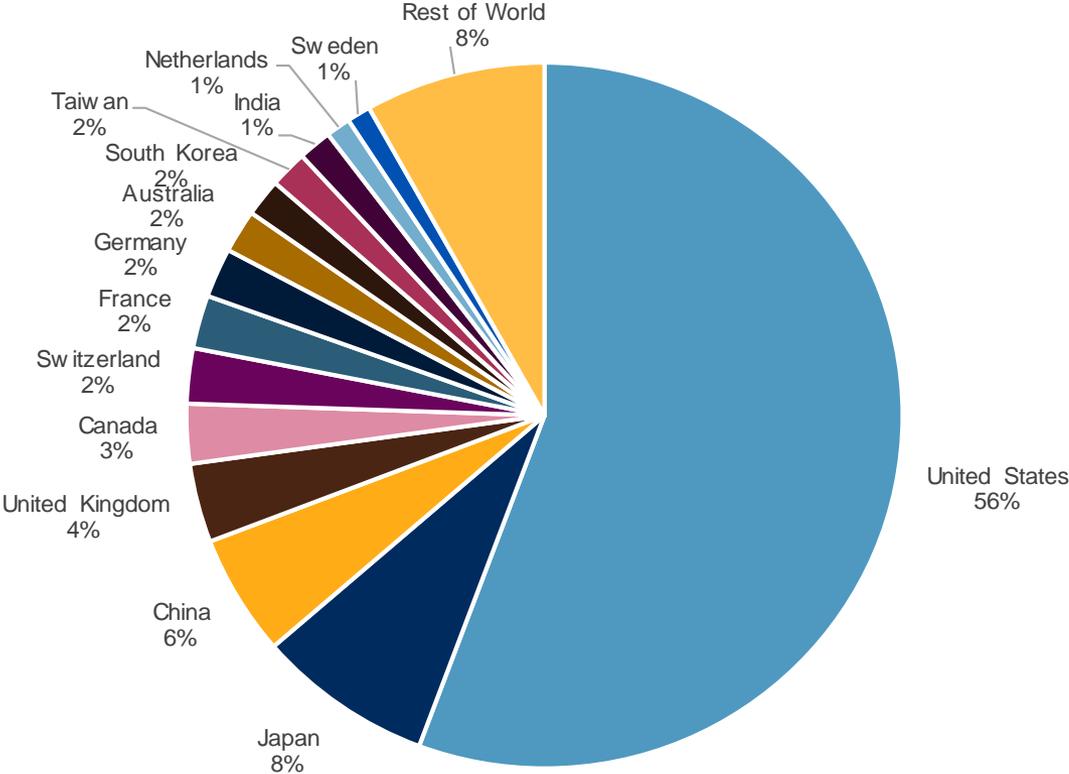
# Overview

- Global relevance of U.S. equities
- Characteristics of the S&P 500®, S&P MidCap 400®, and the S&P SmallCap 600®
- S&P Indices Versus Active (SPIVA®) Scorecards

# Global Relevance of U.S. Equities

U.S. companies account for most of the global equity market capitalization

### S&P Global BMI Index Weight (October 30, 2020)

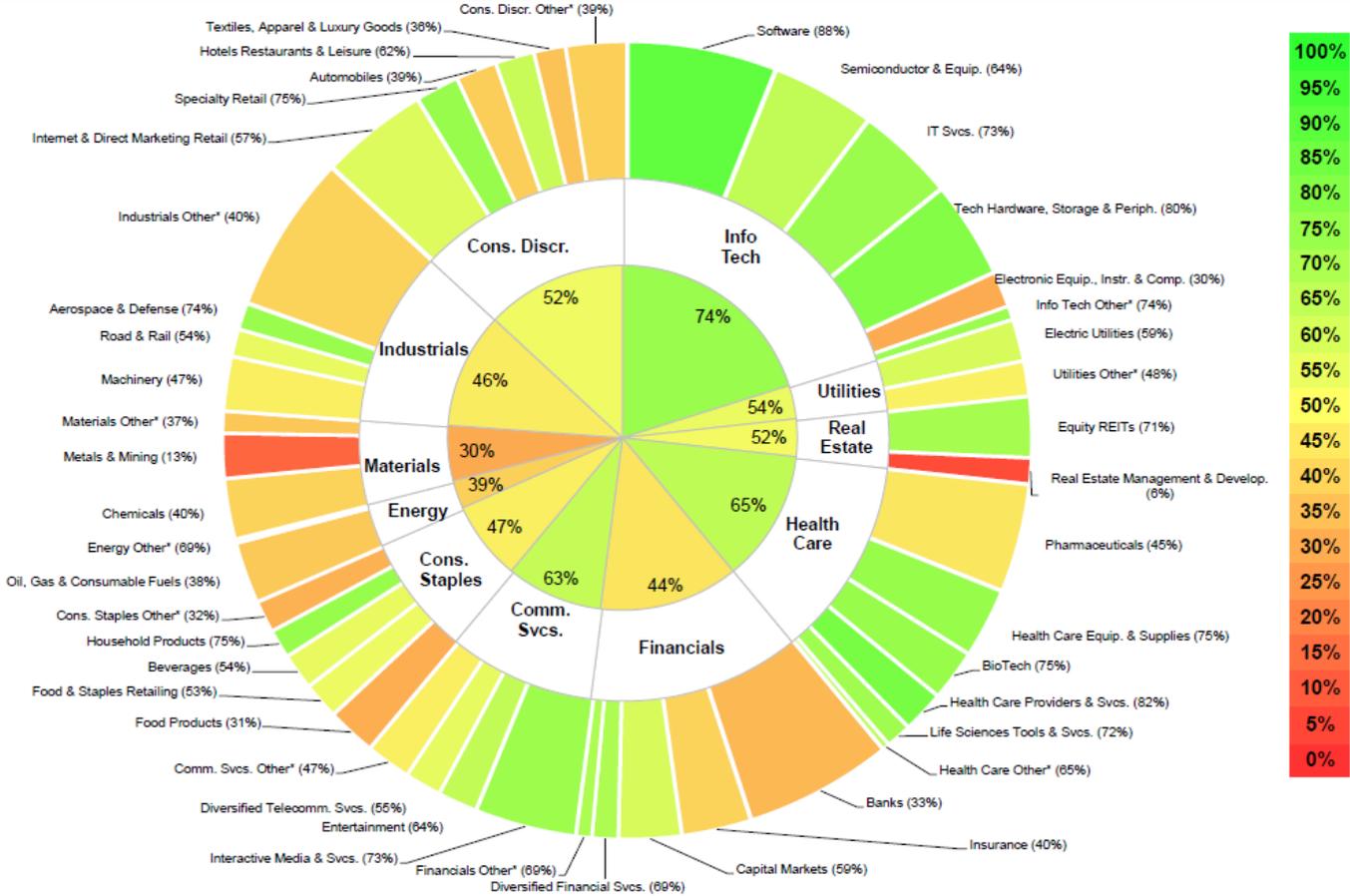


Source: S&P Dow Jones Indices LLC. Data as of Oct. 30, 2020. Chart shows index market capitalizations, in USD trillions, of country components of the S&P Global BMI. Past performance is no guarantee of future results. Chart provided for illustrative purposes only.

# Important to Have A View on U.S. Equities

## U.S. companies represent sizeable chunks in most global industries

S&P GLOBAL BMI - SECTORS & INDUSTRIES: US COMPANY WEIGHTS



Source: S&P Dow Jones Indices LLC. Data as of Oct. 30, 2020. Chart shows the weight in each S&P Global BMI sector and industry represented U.S. domiciled companies. Past performance is no guarantee of future results. Chart provided for illustrative purposes only.

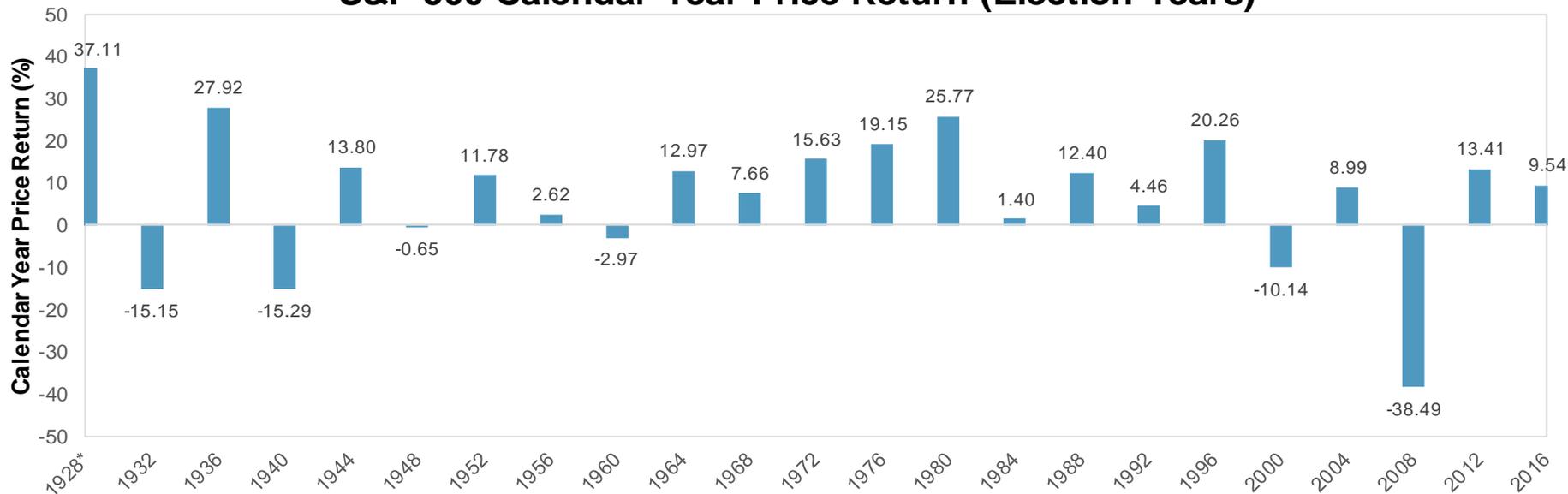
# S&P 500®: Gauging the Performance of U.S. Equities

- Widely regarded as the best single gauge of the US equities market
- Over USD 11.2 trillion indexed or benchmarked to index as of Dec. 2019\*\*

## Key Characteristics

- Represents over 80% of the U.S. float-adjusted equity market cap
- At time of addition, companies must meet certain inclusion criteria (e.g. history of positive earnings)
- Supported by GICS® industry classification system.
- Long history

### S&P 500 Calendar Year Price Return (Election Years)

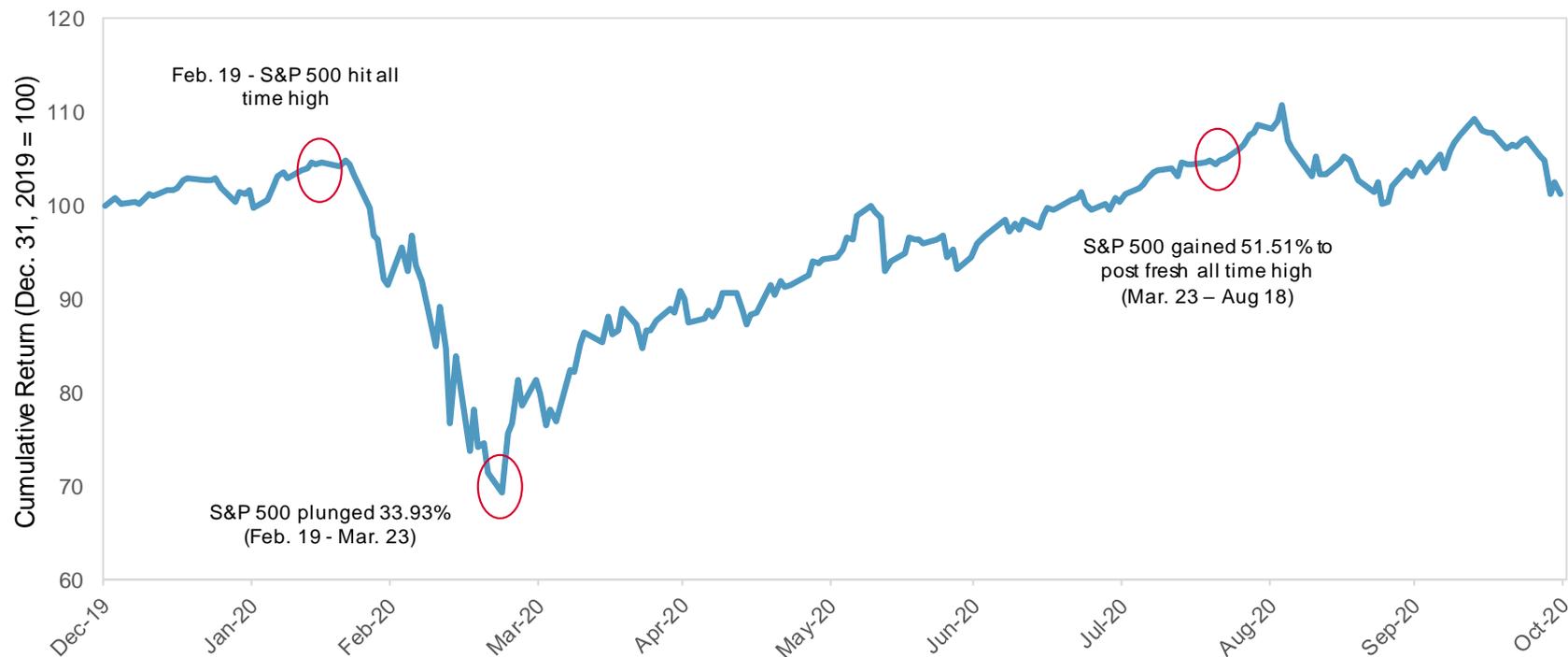


Source: S&P Dow Jones Indices. Chart shows S&P 500 calendar year price returns during U.S. Presidential election years between 1928 and 2016. \*Data begins on January 3, 1928. Past performance is no guarantee of future results. \*\*[Survey of Indexed Assets 2019](#), S&P Dow Jones Indices. Chart provided for illustrative purposes only. This chart may reflect 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 Story of the S&P 500 in 2020

Sizeable swings in U.S. equities reflect investors' changing sentiment

## S&P 500 Price Return (Dec. 31, 2019 – Oct. 30, 2020)



Source: S&P Dow Jones Indices LLC. Chart based on daily price returns, in USD, between Dec. 31, 2019 and Oct. 30, 2020. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

**S&P Dow Jones  
Indices**

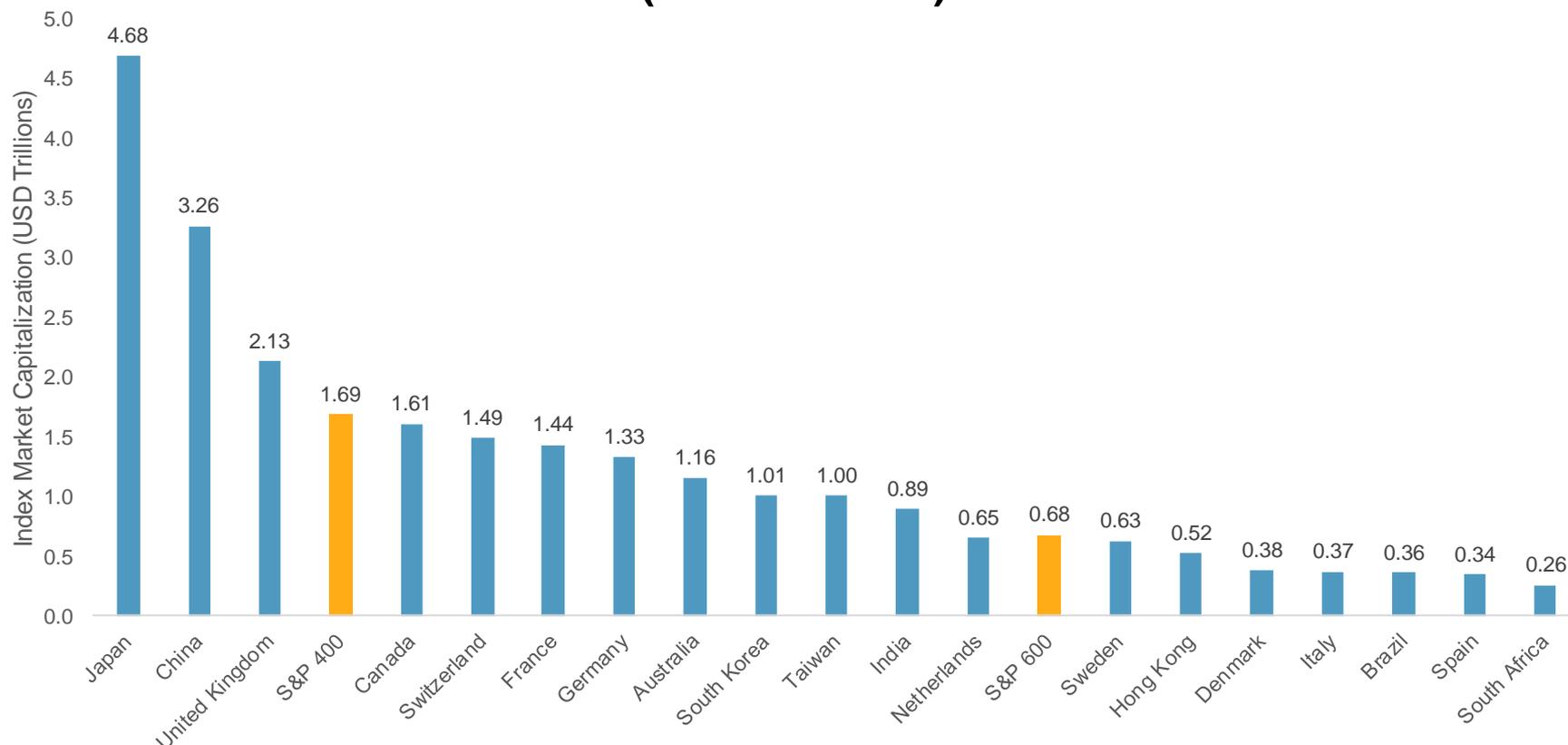
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# U.S. Mid & Small Caps: Larger Than Several Countries

## S&P 400 & S&P 600 market cap exceeds several S&P Global BMI countries

### Index Market Capitalization (USD Trillions)

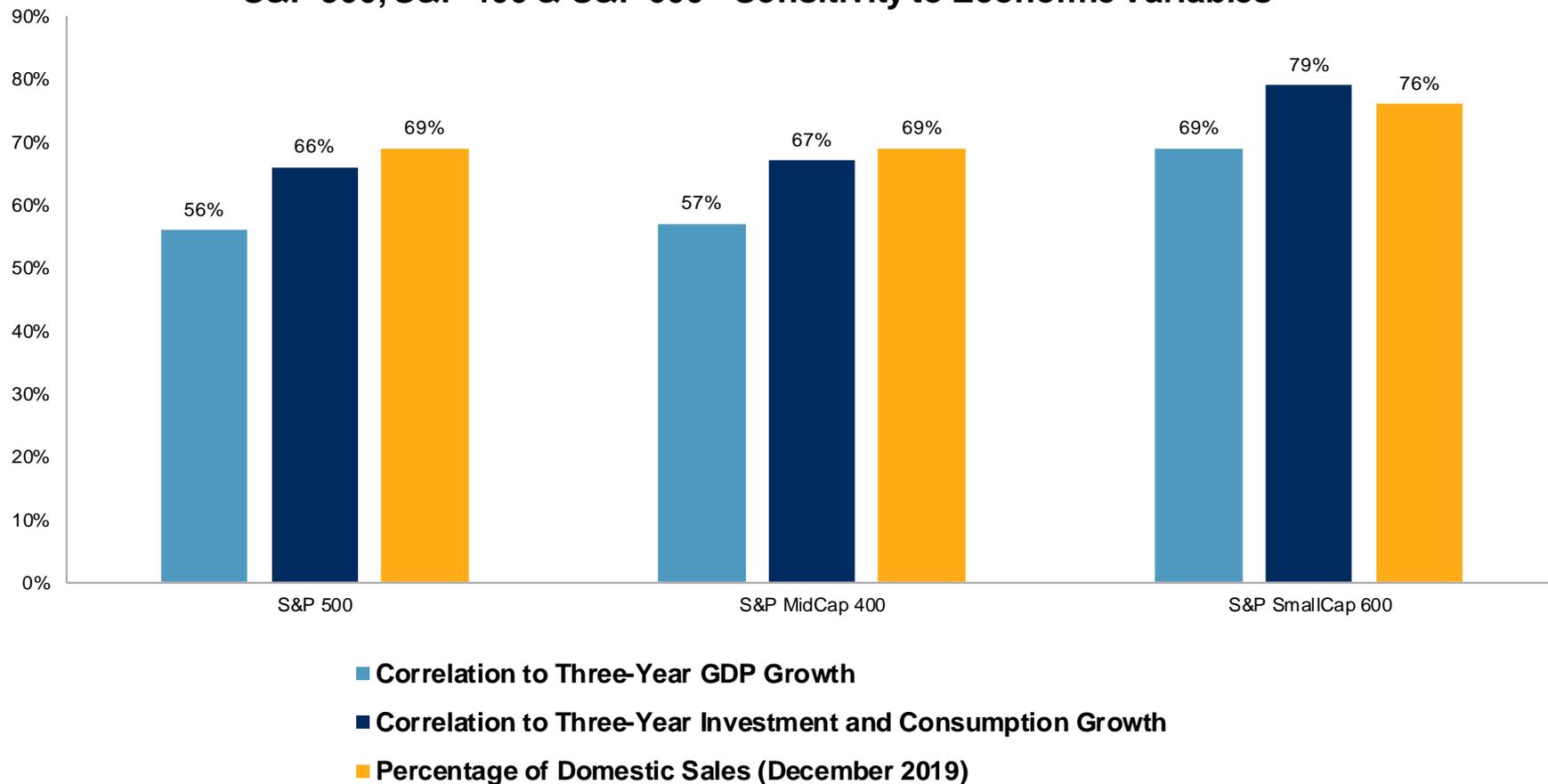


Source: S&P Dow Jones Indices LLC. Data as of Oct. 30, 2020. Chart shows index market capitalizations, in USD trillions, of several country components of the S&P Global BMI and the S&P 400 and S&P 600. Past performance is no guarantee of future results. Chart provided for illustrative purposes only.

# Smaller U.S. Companies Offered Different Exposures

## S&P 400 & S&P 600 companies have been more sensitive to U.S. economy

S&P 500, S&P 400 & S&P 600 - Sensitivity to Economic Variables

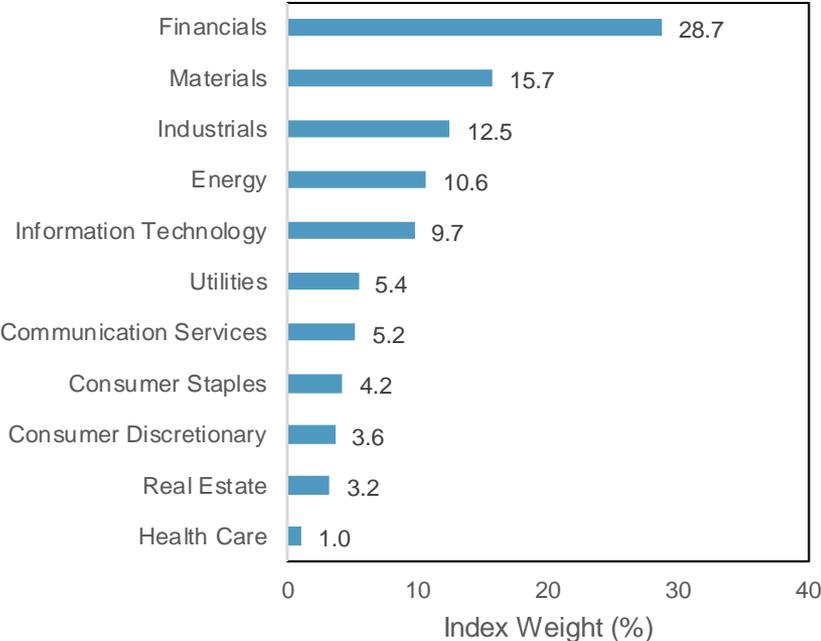


Source: "S&P Composite 1500: An Efficient Measure of the U.S. Equity Market", S&P Dow Jones Indices LLC, U.S. Bureau of Economic Analysis. Data from December 1994 to December 2019. Percentage of domestic sales calculated via sales-weighted average among constituents. Past performance is no guarantee of future results. Table is provided for illustrative purposes.

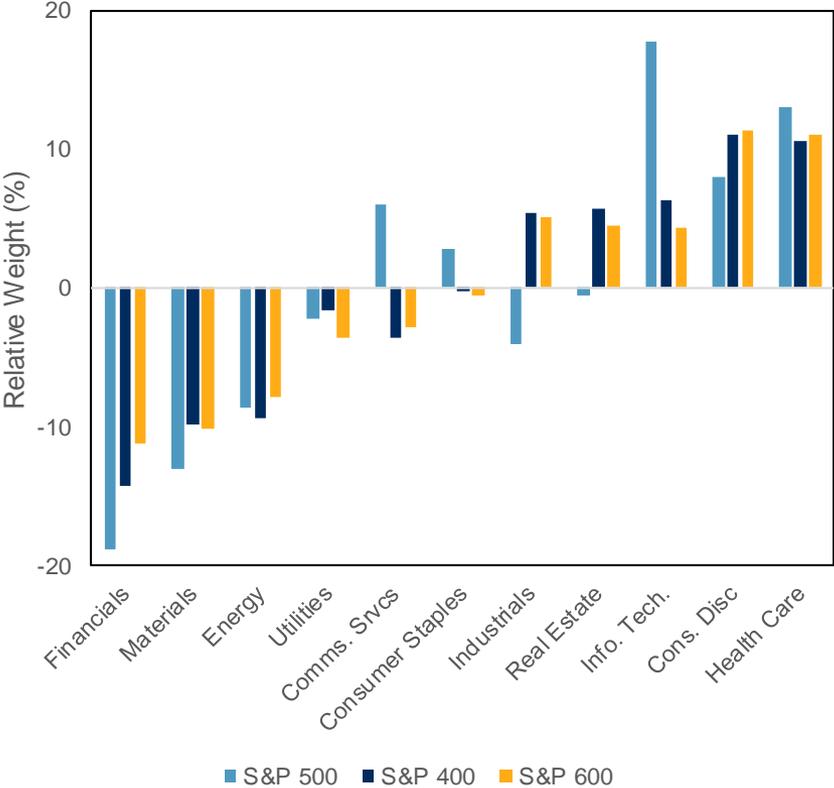
# U.S. & Canada Have Different Sector Weights

## May help to diversify domestic sector biases

**S&P/TSX Composite Index Weights  
(Oct. 30, 2020)**



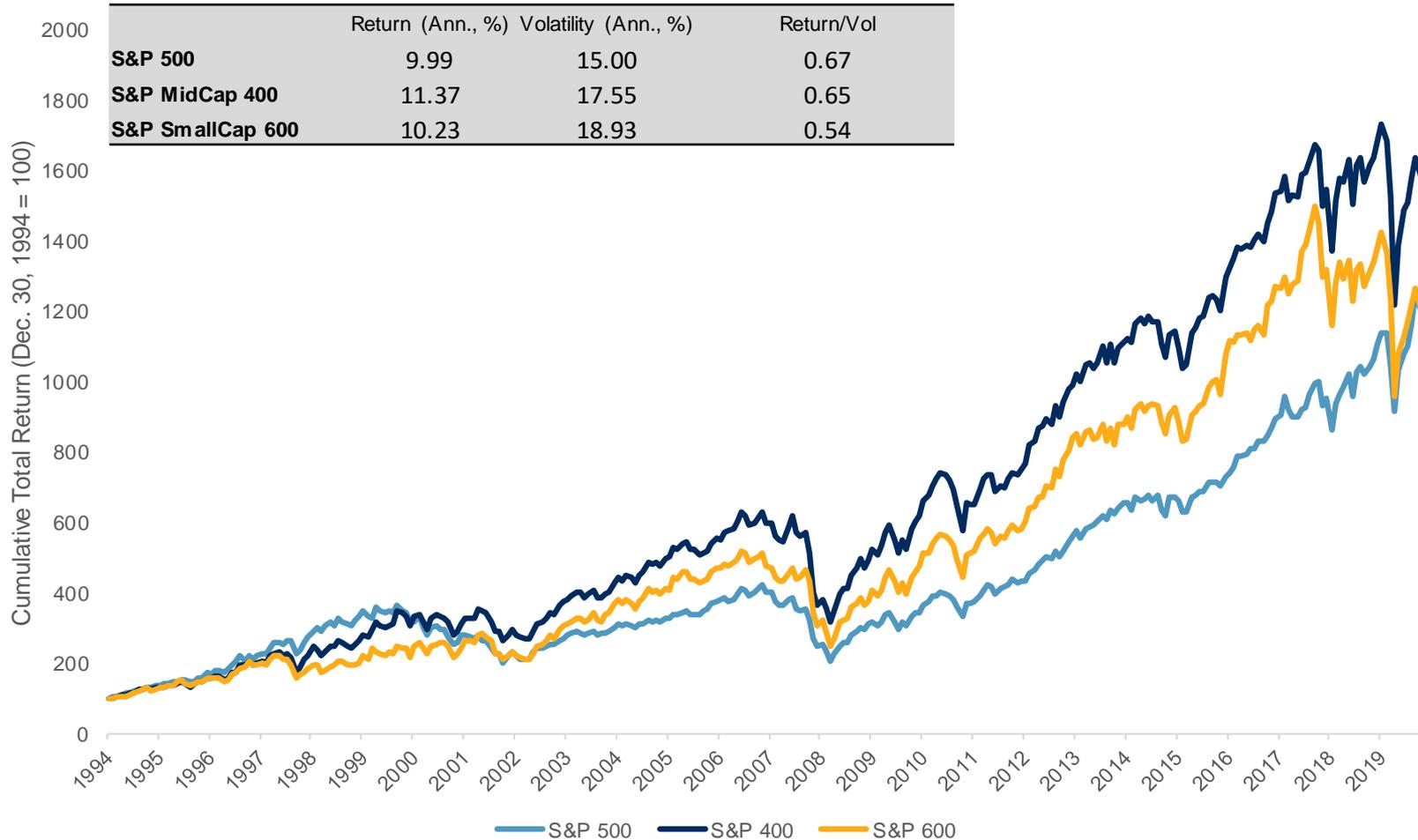
**Relative Sector Weights Vs S&P/TSX  
Composite (%)**



Source: S&P Dow Jones Indices LLC. Chart based on S&P/TSX Composite, S&P 500, S&P 400, and S&P 600 sector weights as of Oct. 30, 2020. Past performance is no guarantee of future results. Chart provided for illustrative purposes only.

# Mid Cap Companies Outperformed, Historically

## S&P 400 posted higher returns than the S&P 500 and the S&P 600



Source: S&P Dow Jones Indices LLC. Chart based on monthly total returns between Dec. 30, 1994 and Oct. 30, 2020. Past performance is no guarantee of future results. Chart is provided for illustrative purposes only.

# S&P U.S. Equity Indices Methodology

Inclusion Criteria	S&P 500, S&P 400 & S&P 600
Earnings Criterion	The sum of the most recent four consecutive quarters' as-reported earnings should be positive as should the most recent quarter *
Reconstitution of Stocks	Throughout the year, as corporate actions arise
Liquidity Criterion	The ratio of annual dollar value traded to float-adjusted market capitalization should be 1.00 or greater, and the stock should trade a minimum of 250,000 shares in each of the six months leading up to the evaluation date.
Market Capitalization	Unadjusted company market capitalizations of \$8.2 billion or more for the S&P 500, \$2.4 billion to \$8.2 billion for the S&P MidCap 400, and \$600 million to \$2.4 billion for the S&P SmallCap 600. These ranges are reviewed from time to time to assure consistency with market conditions. **
Public Float Criterion	At least 10% of shares publicly floated
IPO Seasoning	Twelve months required
Domicile of Constituents	U.S. Companies, based on multiple criteria such as fixed assets, revenues, and listing etc.
Sector Classification	Global Industry Classification Standard (GICS®)

Source: S&P Dow Jones Indices LLC. \*Prior to 2014, S&P DJI Earnings Criterion required four consecutive quarters of positive earnings, instead of the sum of the last four quarters being positive.

\*\*A company meeting the unadjusted company market capitalization criteria is also required to have a security level float-adjusted market capitalization that is at least 50% of the respective index's unadjusted company level minimum market capitalization threshold.

# Introduction to SPIVA

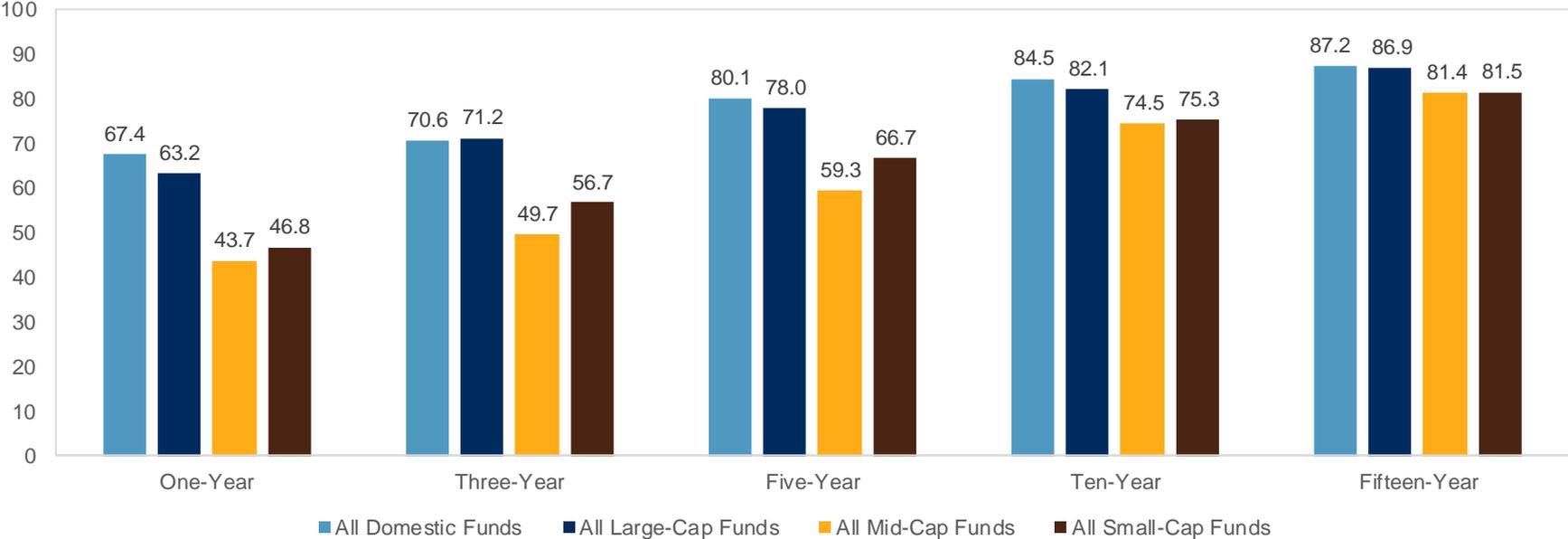
## S&P Indices Versus Active Scorecards

- SPIVA Scorecards are used to measure the **performance** of actively managed mutual funds against passive benchmarks:
  - Underperformance
  - Survivorship
  - Weighted Returns
  - Quartile Breakouts
- Analysis over various time horizons: 1-, 3-, 5-, 10-, 15-year
- Data sources: CRSP, Morningstar, Funddata
- Key methodology points:
  - Survivorship bias adjusted in weighted returns
  - Analysis of full opportunity set

# Mid-Year 2020 U.S. SPIVA Results

Many active managers found it difficult to beat benchmarks

### Proportion of Active U.S. Equity Funds That Underperformed

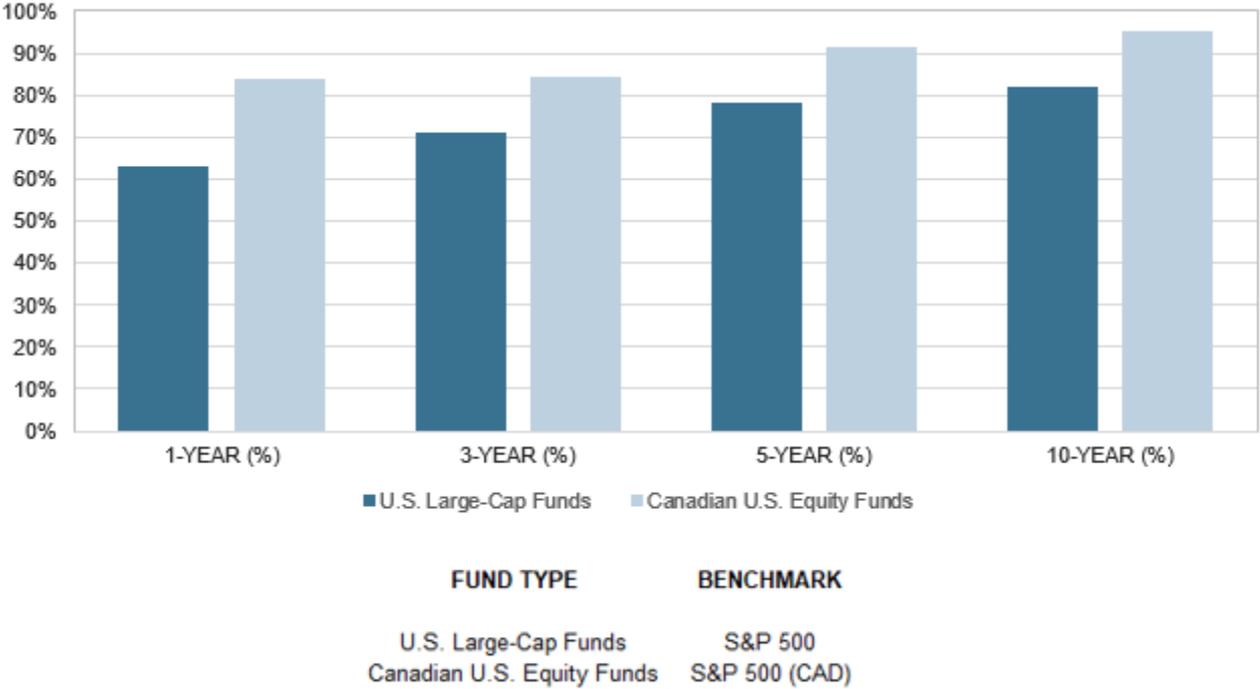


Source: S&P Dow Jones Indices LLC, CRSP. Data as of June 30, 2020. Past performance is no guarantee of future results. Chart provided for illustrative purposes only.

# Mid-Year 2020 SPIVA Results

Many active managers found it difficult to beat benchmarks

## Proportion of Active Equity Funds That Underperformed Benchmarks



Source: S&P Dow Jones Indices, SPIVA® Scorecards. Data as of June 30, 2020. Outperformance is based on equal-weighted fund counts. Index performance is based on total return. Past performance is no guarantee of future results. Chart is provided for illustrative purposes. European funds consolidate euro and pound denominated funds.

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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](http://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.

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