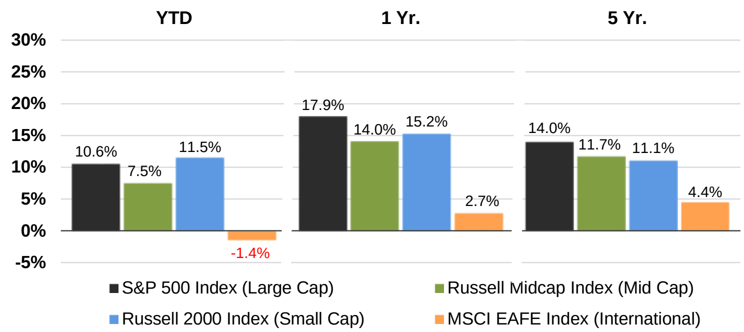
STATE FARM® MARKET RECAP

As of September 30, 2018

EQUITIES RECAP

- Global equity markets climbed modestly higher in September, closing out a positive but turbulent third quarter.
- In the U.S., equities posted mixed results in September as large-cap stocks finished the month in positive territory, whereas small- and mid-cap stocks experienced losses. For the month, the benchmark S&P 500® Index posted a 0.6% total return and advanced its year-to-date gain to 10.6%.
- International equity markets also posted mixed returns in September, as the U.S. dollar weakened from current highs and trade and global growth concerns lessened. For the month, the MSCI EAFE Index, representing international developed markets, returned 0.9% in U.S. dollar terms. Meanwhile, international emerging markets, as measured by the MSCI Emerging Market Index (not shown), declined -0.5% for the month.

EQUITIES MARKET PERFORMANCE Total Returns for Periods Ended September 30, 2018

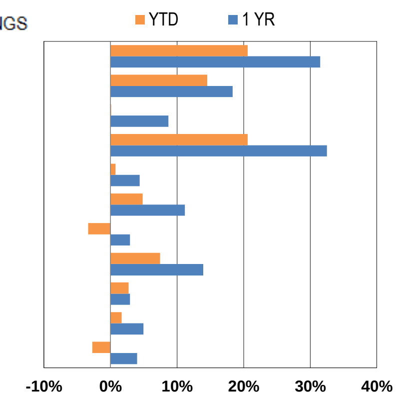


U.S. EQUITIES

- U.S. equities closed the third quarter near record highs, with the S&P 500 Index experiencing its best quarterly performance in nearly five years. The benchmark U.S. large-cap index gained 7.7% for the quarter to bring its year-to-date return to 10.6%. Small- and mid-cap stocks pulled back in September, impacted by the weakening of the U.S. dollar. Through the third-quarter of the year, small-cap stocks outpaced mid- and large-cap stocks, posting a 11.5% total return.
- Sector performance was mixed for September, with six of the 11 sectors posting positive total returns. Telecommunications led the way, gaining 4.3%, as the sector was renamed the Communications Services sector. The sector reshuffling included companies from the Information Technology sector and the Consumer Discretionary sector. In all, approximately 22% of the Consumer Discretionary and 21% of Information Technology weights moved over to the newly named sector. For the third-quarter, the Health Care sector was the top performer, gaining 14.5%, followed by the Industrials sector, which posted a 10.0% total return.

PERFORMANCE OF THE S&P 500 INDEX Total Returns for Periods Ended September 30, 2018

SECTOR	WEIGHTINGS
Information Technology	21.0%
Health Care	15.0%
Financials	13.3%
Consumer Discretionary	10.3%
Communication Services	10.0%
Industrials	9.7%
Consumer Staples	6.7%
Energy	6.0%
Utilities	2.8%
Real Estate	2.7%
Materials	2.4%



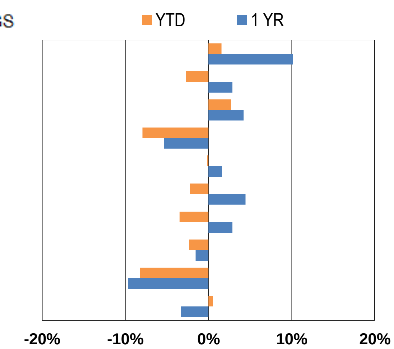
Ranked by highest to lowest index weighting.
Source: S&P Capital

GLOBAL EQUITIES

- International equity markets posted modest gains in September, with the MSCI EAFE Index advancing 0.9% but remaining in negative territory year-to-date, down -1.4%. Eurozone equities posted gains for the quarter after the European Central Bank announced that interest rates would remain on hold at least through the summer of 2019. Meanwhile, emerging markets continued to struggle in September over higher U.S. short-term interest rates and trade disputes between the U.S. and China. The MSCI EM Index (not shown) declined -0.5% for the month, and has lost -7.7% year-to-date, in U.S. dollar terms.
- The Japanese equity market traded higher in September, as the Japanese currency (yen) weakened against the U.S. dollar, helping to boost corporate profits. The MSCI Japan Index gained 3.0% for the month and advanced its year-to-date gain to 1.6%, in U.S. dollar terms.

PERFORMANCE OF MSCI EAFE INDEX Total Returns for Periods Ended September 30, 2018

COUNTRY	WEIGHTINGS
Japan	24.1%
United Kingdom	17.2%
France	11.1%
Germany	9.6%
Switzerland	8.3%
Australia	6.9%
Hong Kong	3.6%
Netherlands	3.6%
Spain	3.0%
Sweden	2.6%

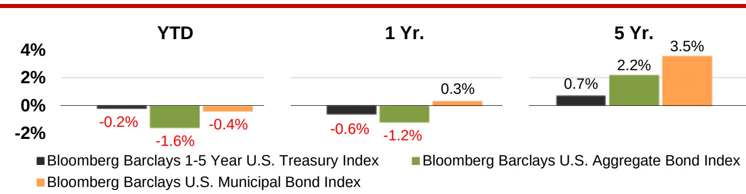


Ranked by highest to lowest country weighting.
Weightings as of 07/31/2018.
Returns are in U.S. dollars with dividends reinvested.

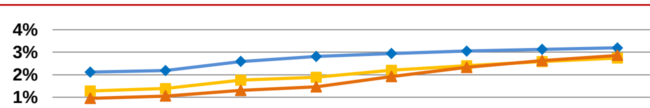
FIXED INCOME RECAP

- The U.S. fixed income markets fell modestly in September, after the Federal Reserve raised its benchmark interest rate target by 0.25% to a range of 2.00% - 2.25%. For the month, the Bloomberg Barclays U.S. Aggregate Bond Index posted a negative total return of -0.6%. Over the longer 1- and 5-year time periods, investment grade bonds recorded annualized total returns of -1.2% and 2.2%, respectively.
- After four consecutive months of positive gains, U.S. municipal bonds lost ground in September, with the Bloomberg Barclays Municipal Bond Index posting a -0.7% total return. Over the longer 1- and 5-year time periods, municipal bonds recorded annualized total returns of 0.3% and 3.5%, respectively.
- The U.S. Treasury yield curve shifted upward in September, as yields increased across all maturities. At month end, 10-year and 30-year Treasury yields rose by 19 basis points and 17 basis points to 3.05% and 3.19%, respectively.

U.S. BOND MARKET PERFORMANCE Total Returns for Periods Ended September 30, 2018



U.S. TREASURY YIELD CURVES



	1 Mo.	3 Mo.	1 Yr.	2 Yrs.	5 Yrs.	10 Yrs.	20 Yrs.	30 Yrs.
9/30/2018	2.12%	2.19%	2.59%	2.81%	2.94%	3.05%	3.13%	3.19%
12/31/2017	1.28%	1.39%	1.76%	1.89%	2.20%	2.40%	2.58%	2.74%
9/30/2017	0.96%	1.06%	1.31%	1.47%	1.92%	2.33%	2.63%	2.86%

MARKET COMMENTARY - U.S. Tax Reform: Potential Tailwind for U.S. Stocks

One of the most attention-grabbing headlines of 2017 was when Congress approved a $1.5 trillion tax cut in late December, the most extensive rewrite of the U.S. tax code in thirty years. Designed to boost both short- and long-term U.S. economic growth through increased productivity and competiveness, the tax reform bill contained across-the-board tax rate reductions for households, small businesses and corporations. While the details of this major tax rewrite are abundant, the most significant points outlined in the "Tax Cuts and Jobs Act" are to reduce the corporate tax rate from 35% to 21%, while also reducing individual tax rates across six of the seven tax brackets. [1]

For many investors, the tax bill will increase after-tax income either directly through lower personal taxes, or potentially indirectly, through the impact of higher dividends or stock prices resulting from the cut in corporate taxes. For U.S. corporations, lower corporate taxes mean potentially higher corporate earnings, which generally tend to be a net positive for U.S. stock prices. At the end of 2017, the 1-year forward price-to-earnings ratio (P/E) for the S&P 500® Index was trading at 18.2 times expected earnings, well above historic averages.[2] With the new tax law changes, it's estimated the net earnings increase for the S&P 500 will be between 12% to 16% as the effective tax rates decline from approximately 27% to somewhere in the estimated range of 15% to 18%. Therefore, the earnings increase results in a 10% to 15% drop in the S&P 500 forward P/E ratio, bringing it much closer to historic norms.

Another important element of the new tax law relates to provisions for repatriating earnings that U.S. corporations have generated abroad. While disclosures of foreign untaxed earnings is not uniform, there is approximately $2.0 to $2.5 trillion[3] in earnings reinvested overseas held by U.S. firms. Being able to repatriate overseas income held in cash may spur further investments in areas such as, capital expenditures, acquisitions, paying down debt, share buybacks and dividend increases and many more.

The passage of the 2017 tax bill is a landmark event and potential tailwind for U.S. stocks. However, the stock market has been pricing in these effects over the past few months and how much of an impact tax reform will have on economic growth is still uncertain. On-going concerns of rising interest rates, tariffs and related trade wars and other unforeseen events could partially offset the benefits gained from the GOP tax bill. With this in mind, investors should maintain a long-term time horizon when investing and avoid quick decisions based on political and legislative developments. State Farm® is here to help you with these and other financial or insurance needs you may have.

[1] IRS.gov, [2] S&P Capital, [3] Citi Group

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