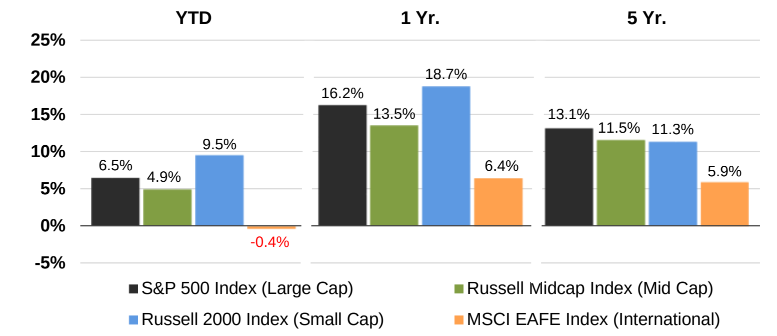
STATE FARM® MARKET RECAP

As of July 31, 2018

EQUITIES RECAP

- Global equity markets traded higher in July, with both Developed markets, including the U.S., and Emerging markets posting positive returns.
- U.S. equities posted positive returns in July, led by the large-cap benchmark S&P 500® Index posting a 3.7% total return. Mid- and small-cap stocks, as measured by the Russell MidCap® Index and Russell 2000® Index, also closed the month in positive territory, returning 2.5% and 1.7%, respectively.
- International equity markets rebounded in July despite international trade concerns between the U.S. and China. For the month, the MSCI EAFE Index, representing international developed markets, returned 2.5% for the month and now stands at -0.4% year-to-date (ytd), in U.S. dollar terms. Meanwhile, international emerging markets, as measured by the MSCI Emerging Market Index (not shown) advanced 2.2% in June, and remains the as the year's worst performing global equity asset class, down -4.6% ytd.

EQUITIES MARKET PERFORMANCE Total Returns for Periods Ended July 31, 2018

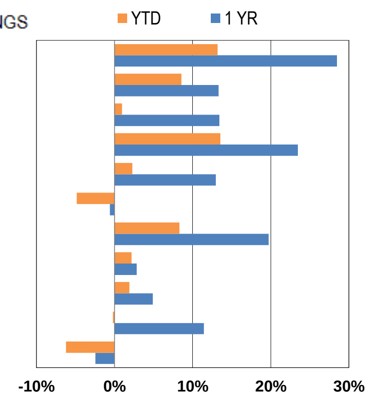


U.S. EQUITIES

- U.S. equities continued to march higher in July, with the S&P 500 Index recording its fourth consecutive month of positive gains. For the first time since February, large-cap domestic equities outperformed small-cap equities, as the S&P 500 Index returned 3.7% and the Russell 2000 Index returned 1.7%. Economically, the unemployment rate declined to 3.9%, the second lowest rate in the last 48 years, and second-quarter Gross Domestic Product (GDP) was reported at 4.1%, the highest rate in almost 4 years.
- From a sector perspective, all eleven sectors posted positive total returns for the month, an event last seen in November 2017. The Industrials and Financials sectors led the group, up 7.3% and 5.3% in July, helped by rising interest rates, and strong economic growth. The Real Estate sector did the worst for the month but still managed to post a 1.1% gain. Year-to-date, eight of the eleven sectors posted positive total returns led by Consumer Discretionary and Information Technology, posting total returns of 13.5% and 13.2%, respectively.

PERFORMANCE OF THE S&P 500 INDEX Total Returns for Periods Ended July 31, 2018

SECTOR	WEIGHTINGS
Information Technology	25.6%
Health Care	14.5%
Financials	14.1%
Consumer Discretionary	12.7%
Industrials	9.9%
Consumer Staples	6.9%
Energy	6.2%
Utilities	2.9%
Real Estate	2.8%
Materials	2.6%
Telecommunications Services	1.9%



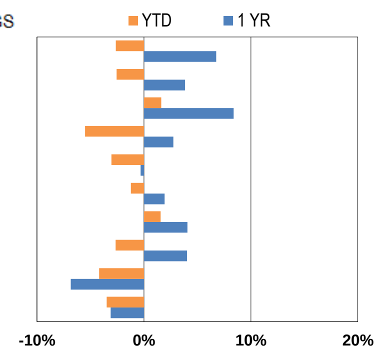
Ranked by highest to lowest index weighting.
Source: S&P Capital

GLOBAL EQUITIES

- International equity markets rebounded in July, with both developed and emerging markets posting positive returns. Eurozone equities also moved higher in July after the European Central Bank indicated no change to its accommodative monetary policy, announcing to keep interest rates the same for at least another year. For the month, the MSCI Europe Index (not shown) increased 3.3% in U.S. dollar terms, lifting its 2018 return back to even.
- After a sharp decline early in the month, the Japanese equity market subsequently recovered to record a gain of 0.4%, in U.S. dollar terms. For the second consecutive month, the market was led by the oil and coal sector, followed by a strong performance by the bank sector. Year-to-date through July, the MSCI Japan Index declined -2.6%, in U.S. dollar terms.

PERFORMANCE OF MSCI EAFE INDEX Total Returns for Periods Ended July 31, 2018

COUNTRY	WEIGHTINGS
Japan	23.8%
United Kingdom	17.9%
France	10.9%
Germany	9.5%
Switzerland	7.7%
Australia	6.9%
Hong Kong	3.6%
Netherlands	3.6%
Spain	3.0%
Sweden	2.6%

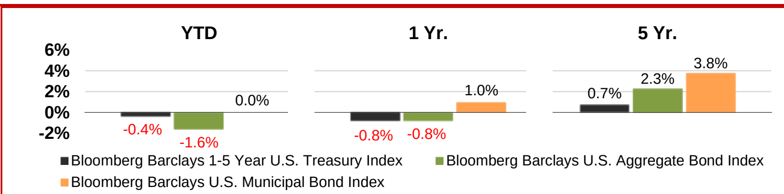


Ranked by highest to lowest country weighting.
Weightings as of 06/30/2018.
Returns are in U.S. dollars with dividends reinvested.

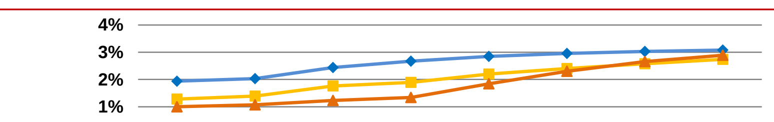
FIXED INCOME RECAP

- The U.S. fixed income markets produced mixed returns in July, as longer-term yields trended higher. For the month, the Bloomberg Barclays U.S. Aggregate Bond Index total return was flat at 0.0%. Over the longer 1- and 5-year time periods, investment grade bonds recorded annualized total returns of -0.8% and 2.3%, respectively.
- U.S. municipal bonds posted positive returns and outperformed their taxable counterparts in July, with the Bloomberg Barclays Municipal Bond Index recording a 0.2% total return. Over the longer 1- and 5-year time periods, municipal bonds, as measured by the Bloomberg Barclays U.S. Municipal Bond Index, recorded annualized total returns of 1.0% and 3.8%, respectively.
- U.S. Treasury yields trended moderately higher in July, resulting in a further flattening of the yield curve. At month end, the yield on the benchmark 10-year U.S. Treasury Note closed seven basis points higher than month-end June at 2.96%, while the yield for the 30-Year U.S. Treasury Bond moved up ten basis points to close the month at 3.08%.

U.S. BOND MARKET PERFORMANCE Total Returns for Periods Ended July 31, 2018



U.S. TREASURY YIELD CURVES



	1 Mo.	3 Mo.	1 Yr.	2 Yrs.	5 Yrs.	10 Yrs.	20 Yrs.	30 Yrs.
7/31/2018	1.94%	2.03%	2.44%	2.67%	2.85%	2.96%	3.03%	3.08%
12/31/2017	1.28%	1.39%	1.76%	1.89%	2.20%	2.40%	2.58%	2.74%
7/31/2017	1.00%	1.07%	1.23%	1.34%	1.84%	2.30%	2.66%	2.89%

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

Securities, insurance and annuity products are not FDIC insured, are not bank guaranteed and are subject to investment risk, including possible loss of principal.

Past performance is no guarantee of future results.

It is not possible to invest directly in an index.

Diversification, Automatic Investment Plans and Asset Allocation do not assure a profit or protect against loss.

Investing involves risk, including potential for loss. Current and future portfolio holdings are also subject to risk.

Bonds are subject to interest rate risk and may decline in value due to an increase in interest rates.

The stocks of small companies are more volatile than the stocks of larger, more established companies.

Foreign investments involve greater risks than U.S. investments, including political and economic risks and the risk of currency fluctuations.

Emerging markets involve greater risks than U.S. investments due to lower trading volume, political and economic instability, and other governmental limitations on foreign investment policy.

The S&P 500® Index tracks the common stock performance of 500 large U.S. companies.

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The Standard & Poor's Growth Index is comprised of the growth companies within the S&P 500 Index.

The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index.

The Russell 2000® Index tracks the common stock performance of the 2,000 smallest U.S. companies in the Russell 3000 Index.

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The Morgan Stanley Capital International (MSCI EAFE) Index captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada.

The MSCI Emerging Markets Index captures large- and mid-cap representation across 23 Emerging Markets (EM) countries.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets countries in Europe.

The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese stock market.

The Bloomberg Barclays 1-5 Year U.S. Treasury Index measures the performance of short-term U.S. Treasury Securities maturing within one to five years.

The Bloomberg Barclays U.S. Aggregate Bond Index represents debt securities in the U.S. investment grade fixed rate bond market.

The Bloomberg Barclays Municipal Bond Index is an unmanaged index representative of the tax-exempt bond market .

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