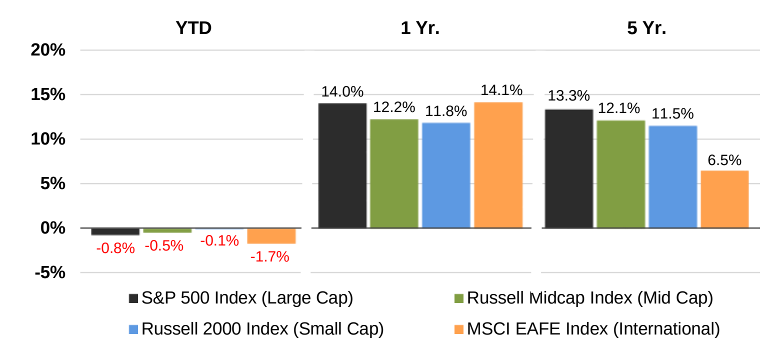
STATE FARM® MARKET RECAP

As of March 31, 2018

EQUITIES RECAP

- Global equity markets lost ground in March, pulled down by investor concerns over rising inflation, moderating economic growth, and the prospect of tightening monetary policy by global central banks.
- In the U.S., March was a challenging month for large-cap stocks, with the S&P 500® Index declining -2.5% and lowering its year-to-date total return into negative territory. Small- and mid-cap stocks fared much better for the month, with the Russell 2000® Index and Russell MidCap® Index, posting positive total returns of 1.3% and 0.1%, respectively.
- International markets held up better than the U.S. markets but still closed the month in negative territory. For the month, the MSCI EAFE Index declined -2.0% and returned -1.7% year-to-date. Meanwhile, emerging markets, as measured by the MSCI Emerging Market Index (not shown) declined -2.0% for the month, but gained 1.3% year-to-date, in U.S. dollar terms.

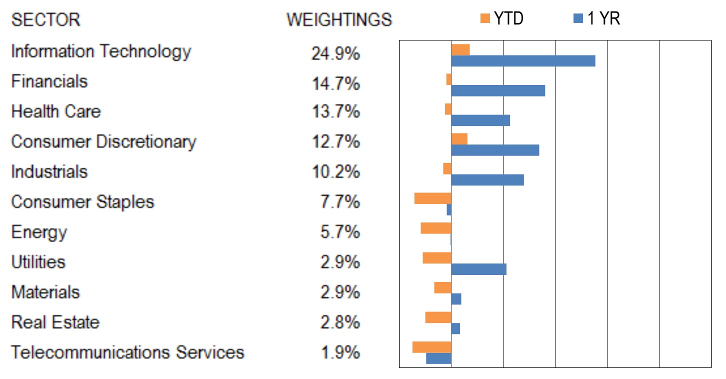
EQUITIES MARKET PERFORMANCE Total Returns for Periods Ended March 31, 2018



U.S. EQUITIES

- U.S. equities continued their downward trend in March, as volatility increased and the markets changed direction quickly. During the month, the S&P 500 Index had 12 days up at least 1% and 11 down at least 1%. In comparison, there were 4 and 4 such days in all of 2017. During the month, the bull market celebrated its ninth birthday on March 9th and is now up 290% or 16.2% annualized since the market low of March 9th, 2009. For the quarter, the S&P 500 Index declined -0.8%, its first quarterly loss since the third quarter of 2015.
- In terms of S&P sector performance, three of the eleven sectors posted positive returns for the month, led by Real Estate and Utilities, with both posting total returns of 3.8%. The Energy sector also finished the month in positive territory, up 1.7%, as oil prices rallied. The Information Technology sector fell into negative territory for March, down -3.9% and underperformed the S&P 500 Index by 1.4%. However, over the longer 1-year time period, Information Technology stocks have outpaced the other sectors by a wide margin, posting a total return of 27.7%.

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

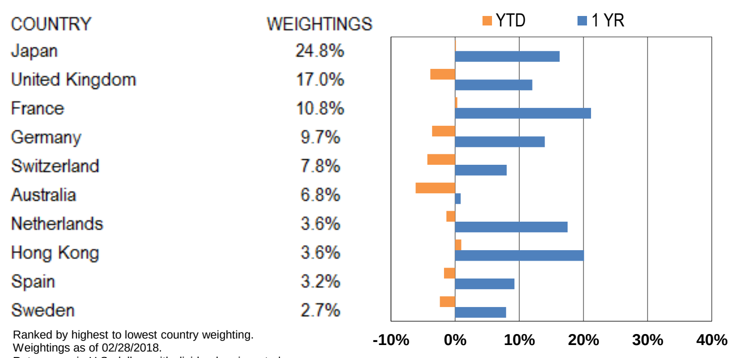


Ranked by highest to lowest index weighting.
Source: S&P Capital

GLOBAL EQUITIES

- International equity markets continued to move lower in March, closing out a turbulent quarter. For March, 10 of the 47 markets gained, compared with 4 last month and 46 of the 47 gaining in January. Emerging markets also lost ground in March, despite the price of crude oil moving higher amid lower inventories and higher demand for refined products. Since June 2017, oil prices have rebounded more than 50% as economic growth in several emerging countries has continued to improve.
- In Japan, a strong yen and mixed economic growth reports weighed on the equity markets. During the month, Japan's central bank kept its monetary policy unchanged, as the world's third-largest economy continued to struggle to gain momentum. Year-to-date through March, the MSCI Japan Index returned 0.1% in U.S. dollar terms, while the Japanese currency (yen) gained 6.0%.

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

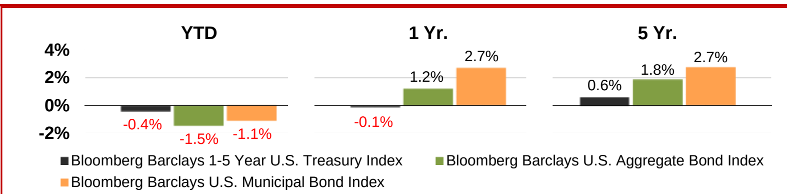


Ranked by highest to lowest country weighting.
Weightings as of 02/28/2018.
Returns are in U.S. dollars with dividends reinvested.

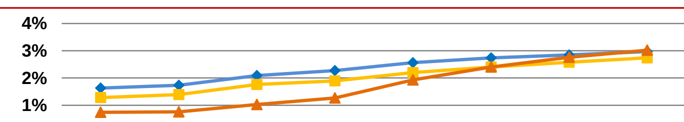
FIXED INCOME RECAP

- The U.S. fixed income markets posted modest gains in March, after the Federal Reserve raised short-term interest rates by 25 basis points to a range of 1.50% to 1.75%. For the month, the Bloomberg Barclays U.S. Aggregate Bond Index posted a 0.6% total return. Over the longer 1- and 5-year time periods, investment grade bonds recorded annualized total returns of 1.2% and 1.8%, respectively.
- U.S. municipal bonds ended the month on a positive note, up 0.4% on a total return basis, marking the first month this year where municipal bonds have posted a positive total return. Over the longer 1- and 5-year time periods, municipal bonds, as measured by the Bloomberg Barclays U.S. Bond Index, recorded annualized total returns of 2.7% for both periods.
- The U.S. Treasury yield curve flattened in March, as yields on shorter-term maturities moved marginally higher, while yields on intermediate and longer-dated maturities decreased. For the first three months of 2018, however, yields rose across all maturities with the 2-year U.S Treasury note climbing 38 basis points, the 10-year U.S. Treasury note up 34 basis points and the yield for the 30-year U.S. Treasury bond up 23 basis points.

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



U.S. TREASURY YIELD CURVES

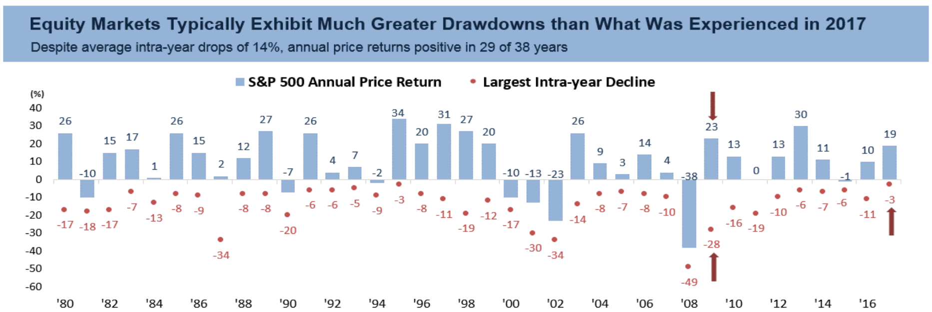


	1 Mo.	3 Mo.	1 Yr.	2 Yrs.	5 Yrs.	10 Yrs.	20 Yrs.	30 Yrs.
3/31/2018	1.63%	1.73%	2.09%	2.27%	2.56%	2.74%	2.85%	2.97%
12/31/2017	1.28%	1.39%	1.76%	1.89%	2.20%	2.40%	2.58%	2.74%
3/31/2017	0.74%	0.76%	1.03%	1.27%	1.93%	2.40%	2.76%	3.02%

MARKET COMMENTARY - Don't Overreact to Short-Term Market Changes

2017 was another banner year for the U.S. stock market, with the benchmark S&P 500® Index gaining 19.4% (21.8% with dividends) and extending the second longest bull market in U.S. history. While the percent age gains were significant, they were not unprecedented. What was uncommon about 2017 was the consistency of price appreciation and the absence of volatility (ups and downs) throughout the year. In fact, during the year, the S&P 500 Index gained or loss more than one percent on just eight trading days (4 to the upside and 4 to the downside) and the lowest level the market declined was just -3%.

While the S&P experienced historic low levels of volatility in 2017, investors shouldn't expect that trend to continue. The chart shows the annualized return for the S&P 500 Index from 1980-2017. During this time period, the average intra-year decline (or maximum drawdown) was -14%, well below the -3% the market experienced in 2017. Even during years when the stock market recorded positive annual returns, periods of sharp declines can appear throughout the year. For example, in 2009 the market experienced a price return of 23%, while that same year the year's largest decline was -28%.



Source: S&P Capital, J.P. Morgan Asset Management

While intra-year declines are common, investors should keep market volatility in perspective and stay focused on their long-term goals. Trying to time market swings—knowing when to invest and when to retreat is difficult, if not impossible. Investing to achieve retirement goals requires a long-term focus and maintaining a disciplined, unemotional investment approach may be your most prudent strategy. State Farm® is here to help you with these and other financial or insurance needs you may have.

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