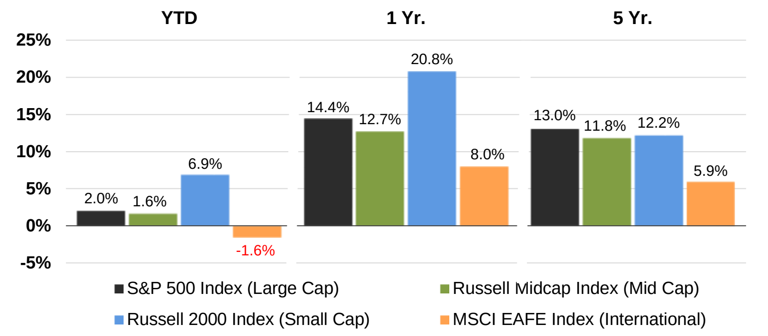
STATE FARM® MARKET RECAP

As of May 31, 2018

EQUITIES RECAP

- Global equity markets posted mixed results in May, with the U.S. markets advancing, while international developed and emerging markets declined.
- In the U.S., equities regained upward momentum in May, with all of the major indices posting positive gains. Small-cap stocks, as measured by the Russell 2000® Index, led the rally by gaining 6.1% for the month. Large- and mid-cap stocks also closed the month in positive territory, with the S&P 500® Index and Russell MidCap® Index, posting total returns of 2.4% and 2.3%, respectively.
- International equity markets mostly trailed domestic equities, as both the strengthening of the U.S. dollar and geopolitical concerns abroad weighed heavily on international stocks. For the month, the MSCI EAFE Index declined -2.3%, while the MSCI Emerging Market Index (not shown) declined -3.5%, in U.S. dollar terms.

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

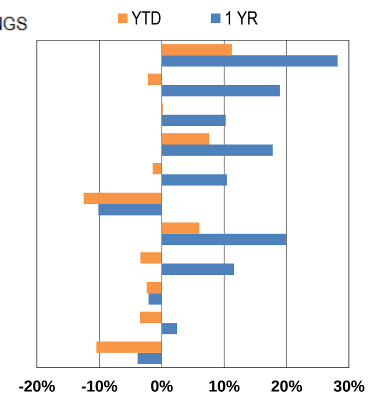


U.S. EQUITIES

- U.S. equities resumed their march higher in May, helped by positive earnings results as companies represented in the S&P 500 Index reported an average of more than 20% year-over-year earnings growth in the first quarter. The major indices moved back into positive territory with the S&P 500 Index gaining 2.4%, its best monthly performance since January. Over the longer 1- and 5-year time periods, the broad U.S. stock market index gained 14.4% and 13.0%, respectively.
- For the month, 7 of the 11 sectors posted positive total returns, up from 6 in April and 3 in March. The Information Technology sector gave the biggest support to the index, posting a 7.4% total return and increasing its year-to-date (ytd) gain to 11.3%, the best sector in the index. The U.S. decision to exit the Iran nuclear deal added further support for oil prices helping the Energy sector post a 3.0% total return for the month and 6.1% ytd. Meanwhile, Consumer Staples which fell -4.3% in April and another -1.5% in May, has struggled the most ytd, down -12.5%.

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

SECTOR	WEIGHTINGS
Information Technology	26.0%
Financials	14.2%
Health Care	13.9%
Consumer Discretionary	12.9%
Industrials	9.9%
Consumer Staples	6.7%
Energy	6.3%
Utilities	2.8%
Materials	2.8%
Real Estate	2.7%
Telecommunications Services	1.8%



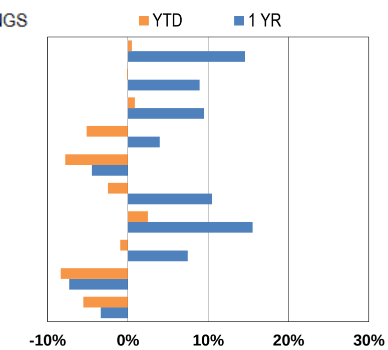
Ranked by highest to lowest index weighting.
Source: S&P Capital

GLOBAL EQUITIES

- International equity markets sold off in May, as both the stronger U.S. dollar and political turmoil in Italy put pressure on overseas markets. With Italy's election unresolved, investors worried about Italy's possible exit from the European Union, and the repercussions such an event may have on the European banking system and the value of the Euro. For the month, the MSCI EAFE Index declined -2.3%, which lowered its year-to-date return into negative territory, down -1.6%.
- In Japan, the recovery in stock prices in April continued into the first half of May but was followed by a sharp sell-off which left the overall market down -1.0% in U.S. dollar terms at month-end. The Japanese currency (yen) saw a similar change in direction mid-month to end stronger against most major currencies. Year-to-date, the MSCI Japan Index returned 0.5%, in U.S. dollar terms, helped by a 3% gain in the yen.

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

COUNTRY	WEIGHTINGS
Japan	24.7%
United Kingdom	18.0%
France	10.9%
Germany	9.5%
Switzerland	7.5%
Australia	6.7%
Hong Kong	3.6%
Netherlands	3.5%
Spain	3.0%
Sweden	2.5%

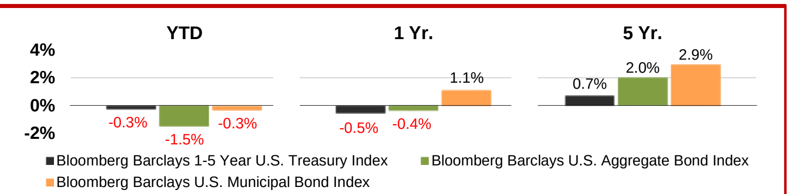


Ranked by highest to lowest country weighting.
Weightings as of 05/31/2018.
Returns are in U.S. dollars with dividends reinvested.

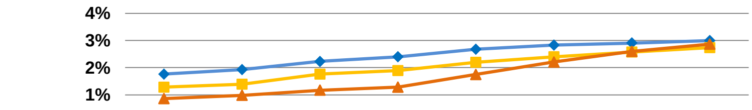
FIXED INCOME RECAP

- The U.S. fixed income markets advanced in May, as investors sought out the relative safety of government securities. For the month, the Bloomberg Barclays U.S. Aggregate Bond Index posted a 0.7% total return. Over the longer 1- and 5-year time periods, investment grade bonds recorded annualized total returns of -0.4% and 2.0%, respectively.
- U.S. municipal bonds rallied in May, with the Bloomberg Barclays Municipal Bond Index posting a 1.2% total return but remained in negative territory ytd. 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 1.1% and 2.9%, respectively.
- The U.S. Treasury yield curve flattened in May, with yields on shorter-term maturities rising, while longer-term issues declined. The yield on the 10-year U.S. Treasury note closed the month at 2.83%, down twelve basis points from 2.95% in April, but traded as high as 3.11% mid-month. Meanwhile, the yield for the 30-Year U.S. Treasury bond closed the month at 3.00%, down eleven basis points from 3.11% at the end of April.

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



U.S. TREASURY YIELD CURVES



	1 Mo.	3 Mo.	1 Yr.	2 Yrs.	5 Yrs.	10 Yrs.	20 Yrs.	30 Yrs.
5/31/2018	1.76%	1.93%	2.23%	2.40%	2.68%	2.83%	2.91%	3.00%
12/31/2017	1.28%	1.39%	1.76%	1.89%	2.20%	2.40%	2.58%	2.74%
5/31/2017	0.86%	0.98%	1.17%	1.28%	1.75%	2.21%	2.60%	2.87%

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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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 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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