



# Zacks Midcap Core Index (ZAXMC) Commentary

Q2 Commentary as of 6/30/2017

During the second quarter of 2017, the Zacks Mid Cap Core Index posted a total return of 3.36% comparing with the S&P Midcap 400 Total Return Index, which returned 1.97%, and the Russell Midcap Total Return Index, which had a total return of 2.70%.

## The U.S. Economy

The overall U.S. economy is solid with steady earnings growth and generally positive economic news. GDP growth forecast remains optimistic thanks to solid consumer spending and increasing exports. Total non-farm payrolls grew more than 580,000, with the unemployment rate declining to 4.4%. Meanwhile, the Consumer Confidence Index has climbed back to pre-crisis levels. The U.S. core inflation rate was revised to a reasonable 1.7%.

## The U.S. Stock Market

The U.S. stock market experienced solid growth in the second quarter. The S&P 500 Index gained 3.09% while the Nasdaq 100 Index grew 4.19%. Size-wise, large-cap stocks outperform small-cap stocks. The S&P 400 Midcap Index returned 1.97% and the S&P 600 Smallcap Index reported total return of 1.71%.

At the sector level - Healthcare, Industrials, and Financials posted the strongest performance, while the Consumers, Energy and Telecommunication sectors relatively underperformed. Market volatility, as measured by the VIX Index, decreased to historically low levels.

## Zacks Midcap Core Strategy

The Zacks Midcap Core Strategy uses a proprietary, multi-factor approach to select constituents. The robust asset selection process and strong risk management are essential for asset growth. The selection process eliminates companies with inflated growth estimates making the Index tilt slightly towards value stocks and avoid highly volatile stocks without the capacity for price sustainability.

Short interest ratio, used as a market sentiment indicator, works well for this strategy as the screen has contributed to generating excess returns in recent years by removing the bottom 20% of the stocks with highest short interest ratios. The valuation factors add an additional level of safety which makes it less likely to include extremely expensive stocks.

The Zacks Midcap Core strategy also has a tendency to skew towards large cap stocks, which rallied nicely during the second quarter. The Index reported a higher yield with attractive valuation ratios compared with other major mid cap Indexes.

Zacks Index Services remains committed to its midcap core philosophy, which strategically selects constituents that meet strict inclusion criteria. The methodology includes the use of certain effective factors that are likely to continue to help our partners differentiate themselves from their peers and remain successful.

**Zacks Mid-Cap Core Characteristics**  
as of 6/30/2017

Index	Zacks Midcap Core Index	S&P Midcap 400 Total Return Index	Difference
ETF Ticker	CZA US	IJH US	
Div Yld	2.22	1.71	0.51
P/E	20.03	24.33	-4.30
P/CF	11.77	11.49	0.29
P/B	2.51	2.51	-0.01
Debt/Equity	108.16	92.56	15.60
Current Ratio	1.39	1.71	-0.33
Beta	1.02	1.09	-0.07
ROA	1.97	2.15	-0.18
ROC	7.43	6.97	0.46
ROE	9.18	8.17	1.01

Source: Bloomberg

**Zacks Mid-Cap Core Sector Attribution**  
as of 6/30/2017

	% AVERAGE WEIGHT			CONTRIBUTION TO RETURN (%)			TOTAL RETURN (%)		
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-
							3.55	1.95	1.61
<b>RESIDUALS</b>							0.16	0.10	0.06
<b>Holdings</b>	100.00	100.00	0.00	3.40	1.84	1.55	3.40	1.84	1.55
FINANCIALS	22.63	16.08	6.54	1.34	0.15	1.19	5.66	0.92	4.74
INDUSTRIALS	16.58	14.77	1.81	0.15	0.51	-0.35	0.99	3.52	-2.54
INFORMATION TECHNOLOGY	11.97	17.61	-5.64	0.60	0.75	-0.15	4.88	4.33	0.55
HEALTH CARE	7.80	8.92	-1.11	1.15	1.00	0.16	16.18	11.69	4.49
REAL ESTATE	7.78	9.89	-2.10	0.23	0.07	0.16	2.98	0.67	2.31
UTILITIES	7.40	5.56	1.84	-0.04	0.01	-0.05	-0.65	0.12	-0.77
ENERGY	7.39	3.29	4.10	-0.35	-0.71	0.36	-4.55	-19.06	14.51
MATERIALS	6.76	7.81	-1.05	0.10	0.07	0.04	1.51	1.03	0.48
CONSUMER DISCRETIONARY	6.10	11.78	-5.68	0.24	0.22	0.01	4.31	1.90	2.40
CONSUMER STAPLES	5.59	3.87	1.72	-0.03	-0.15	0.13	-0.47	-4.03	3.56
TELECOMMUNICATION SERVICES	0.00	0.27	-0.27		-0.06	0.06		-19.87	19.87

Source: Bloomberg



## INDEX SERVICES

A DIVISION OF ZACKS  
INVESTMENT MANAGEMENT

### Zacks Index Services

227 West Monroe Street, Suite 4350  
Chicago, IL 60606-4900

## DISCLOSURE

**Past performance is no guarantee of future results. Inherent in any investment is the potential for loss.**

*This material is being provided for informational purposes only and nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. All information is current as of the date of herein and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole.*

*S&P 400 Midcap Index: Standard and Poor's Midcap 400 Index is a capitalization-weighted index which measures the performance of the mid-range sector of the U.S. stock market. The index was developed with a base level of 100 as of December 31, 1990. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.*

*Russell Midcap Index: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.*

*S&P 500 Index: Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-43 base period. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.*

*NASDAQ 100 Index: The NASDAQ-100 Index is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international issues listed on the NASDAQ. No security can have more than a 24% weighting. The index was developed with a base value of 125 as of February 1, 1985. Prior to December 21, 1998 the Nasdaq 100 was a cap-weighted index. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.*

*S&P 600 Smallcap Index: The Standard & Poor's Smallcap 600 Index is a capitalization-weighted index that measures the performance of selected U.S. stocks with a small market capitalization. The index was developed with a base value of 100 as of December 31, 1993. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.*

(continued)



**INDEX  
SERVICES**

A DIVISION OF ZACKS  
INVESTMENT MANAGEMENT

**Zacks Index Services**

227 West Monroe Street, Suite 4350  
Chicago, IL 60606-4900

*VIX Index: The Chicago Board Options Exchange Volatility Index reflects a market estimate of future volatility, based on the weighted average of the implied volatilities for a wide range of strikes. 1st & 2nd month expirations are used until 8 days from expiration, then t*

**DISCLOSURE (continued)**

*the 2nd and 3rd are used. The index does not reflect advisory fees. The volatility of the benchmark may be materially different from the individual performance obtained by a specific investor. An investor cannot invest directly in an index.*

*iShares Core S&P Mid-Cap ETF: iShares Core S&P Mid-Cap ETF is an exchange-traded fund incorporated in the USA. The ETF tracks the performance of the S&P Midcap 400 Index. The ETF holds midcap U.S. stocks. Its investments are chosen using a representative sampling strategy to track the Index. The ETF weights the holdings using a market capitalization methodology and rebalances quarterly. An exchange traded fund typically includes embedded expenses that may reduce the fund's net asset value, and therefore directly affect the fund's performance and indirectly affect a Client's portfolio performance or an index benchmark comparison.*