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TRENDS & IDEAS

STRENGTH IN EQUITY MARKETS HELPS YEAR-TO-DATE ETF PERFORMANCE

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Although April was a lackluster month for global equities, strong year-to-date performance has helped to fuel sizable returns for U.S.-traded exchange-traded funds (ETFs).

In the first four months of 2012, there were 609 equity ETFs with a positive year-to-date total return, including about 23 ETFs that were up more than 20%, according to the S&P Capital IQ MarketScope Advisor (MSA) database. In comparison, of the equity ETFs that were available for the full four-month period, we found only 21 with a negative total return. In 2012's first four months, the S&P 500 Index had a positive total return of 11.9%.

The positive returns from equity ETFs were broad-based. Among equity ETFs classified as having more of a domestic stock emphasis, 339 were in positive territory, along with 266 equity ETFs that had more of an international or global emphasis. This is not surprising, given generally favorable returns of various overseas stock markets. On a price-only basis, the S&P Global Broad Market Index, excluding the U.S., was up 9.1% year-to-date.

Among the 11 equity ETFs with a total return of more than 25% in 2012's first quarter, we see seven of them having an emerging or frontier market emphasis. The other four top performers had more of a U.S. holdings concentration. Also, we see at least six of the 11 ETFs having a sector emphasis, including two apiece in Health Care, Consumer Discretionary and Financials.

The 11 equity ETFs with a total return of greater than 25% were led by Market Vectors Vietnam ETF (VNM 21, Not Ranked), at plus 43%, followed by Market Vectors Egypt Index ETF (EGPT 13, NR) and First Trust NYSE Arca Biotechnology Index Fund (FBT 44, Underweight), at plus 37% and plus 35%, respectively.

In arriving at an Overall Ranking for equity ETFs, S&P Capital IQ Equity Research utilizes up to 10 analytical elements in the Performance Analytics, Risk Considerations and Cost Factors categories. This includes assessments of both an ETF's holdings and of characteristics pertaining to the ETF security. Six of the 10 analytical metrics are proprietary to S&P Capital IQ Equity Three of the Performance Analytics inputs are proprietary, including S&P Capital IQ equity analyst STARS opinions on stocks of companies owned by ETFs. Also, the more than 700 reports that S&P Capital IQ provides on equity ETFs offer details on how much coverage is available on the five holdings-based analytics utilized in the ranking system. The other five analytical inputs relate to the ETF security itself.

Among the 11 top-performing year-to-date equity ETFs, S&P Capital IQ Equity Research currently has an Overall Ranking of Overweight on only one of them Market Vectors India Small-Cap Index ETF (SCIF 11, Overweight). However, for SCIF, there was sufficient input data available for only five of the 10 analytical items in our ranking model. Also, three of the 11 equity ETFs iShares MSCI Turkey Investable Market Index Fund (TUR 52, Marketweight), Market Vectors Biotech ETF (BBH 46, Marketweight), and SPDR S&P Homebuilders ETF (XHB 22, Marketweight) are receiving an Overall Ranking of Marketweight, and the remainder were either ranked Underweight or an Overall Ranking was not available.

Looking further at 2012 top performers that have a domestic equity emphasis, we found two such ETFs with a total return of more than 20% that are currently receiving an Overall Ranking of Overweight from S&P Capital IQ Equity Research. These two, iShares Dow Jones U.S. Financial Services Index Fund (IYG 56, Overweight) and PowerShares KBW Bank Portfolio (KBWB 25, Overweight), are each classified as Financials sector ETFs.

TAKEAWAY: Year-to-date performance for equity ETFs is generally looking good.

POSITIVE IMPLICATIONS:

iShares Dow Jones	Overweight	
US Financial Services		[IYG]
Index Fund		
Market Vectors India	Overweight	[SCIF]
Small-Cap Index ETF		
PowerShares KBW	Overweight	[KBWB]
Bank Portfolio		

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The largest of the top-performing ETFs (based on market capitalization), is SPDR S&P Homebuilders ETF, which was recently at \$1.3 billion, while the smallest was EGPT, at \$47 million. XHB was also the oldest of the 11 ETFs (inception date January 2006), while BBH was the newest (December 2011). Four of the 11 top-performing ETFs had debuted since the start of 2010.

As of early May 2012, S&P Capital IQ is providing an Overall Ranking on 665 equity ETFs, with 167 of them receiving an overall appraisal of Overweight.

S&P Capital IQ Equity Research's ETF analytical product offers a quantitative ranking methodology that combines input from holdings-based analyses and multivariate analysis of the security, producing output grouped according to Performance Analytics, Risk Considerations and Cost Factors categories. The ETF analysis bubbles up to an Overall S&P ETF Ranking (Overweight, Marketweight, or Underweight) of an ETF security relative to all other equity ETFs on which we have an Overall Ranking.

S&P's Capital IQ MarketScope Advisor product can go far beyond identifying 2012's best and worst year-to-date performers. Currently, we have 167 equity ETFs with an Overall Ranking of Overweight. This includes 135 that are classified as U.S. ETFs, and 32 that are categorized as international or global. Also, 38% (64) of all the Overweights are considered to be sector ETFs. In terms of age, 124 of the top-ranked ETFs were launched prior to 2010, and the remaining 43 were introduced since then.

Twelve of the ETFs receiving an Overall Ranking of Overweight had a 12-month yield of more than 3%, while 17 of them had a yield of less than 1%. Thirty-nine of the top-ranked ETFs also had an Overall ranking of Overweight in each of S&P three primary analytical categories Performance Analytics, Risk Considerations and Cost Factors.

As with all investments, S&P Capital IQ Equity Research believes that investors should look to make selections that are suitable for their objectives and risk profiles. Also, S&P Capital IQ's analytical inputs for assessing ETFs are constantly being updated.

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