Q2 2025 SAFI commentary

Product Commentary
Q2 2025

Value continues to lead the way in a carry-focused environment, for now

Key takeaways

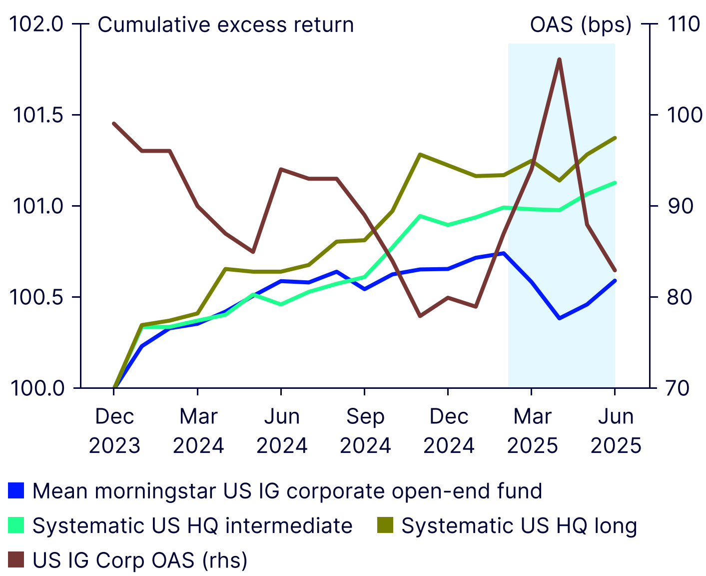
- Our Systematic US High Quality Corporate Bond funds continue to perform well in different market environments, delivering consistent, efficient risk-adjusted alpha (+16bps for intermediate 1-10 year, +14bps for long 10+ year in Q2).
- Our live SAFI strategies have outperformed fundamental active peers in both risk-on and risk-off periods, as seen in much of 2025.
- Factor contribution to outperformance is robust and diversified, with value leading the way overall, and momentum contributing in the intermediate strategy.

SAFI has outperformed fundamental peers in the post-April risk-on environment

Market volatility in the wake of so-called "Liberation Day" in early April gave way to optimism that trade deals would come to fruition in May and June, as the Trump administration in April delayed their original punitive reciprocal tariff levels. Despite some gyrations in trade policy announcements, including a re-escalation of the trade war in early July, equities continue to post record highs, and investment grade corporate bond spreads are now back under 80 basis points (bps) as of mid-July.[1]

Within that round-trip period for credit since February, our SAFI portfolios have performed well on both a standalone and peer-relative basis. The intermediate strategy experienced no excess return drawdown in 2025 YTD, and our long strategy experienced about a 10bps excess return drawdown, while the mean Morningstar US investment grade corporate bond open-end fund underperformed by 36bps, all net of management fees. Performance in the ensuing recovery within our SAFI funds has also been strong, maintaining that relative outperformance over fundamental peers. Figure 1 also shows that SAFI held steady across different market environments.

Figure 1: SAFI has outperformed fundamental IG managers on the downside, and has maintained performance in IG recovery



Sources: State Street Investment Management, Morningstar, Bloomberg. As of June 30, 2025.

Figure 2: Systematic US high quality corporate bond fund (intermediate and long) performance

	Intermediate (1-10Yr) Portfolio				Long (10+ Yr) Portfolio			
	QTR (%)	YTD (%)	1 Year (%)	Since SAFI Inception (%)*	QTR (%)	YTD (%)	1 Year (%)	Since SAFI Inception (%)*
Systematic US High Quality Corporate Bond (Gross)	2.19	4.67	8.29	5.57	1.26	3.85	5.44	0.86
Benchmark	2.03	4.40	7.51	4.72	1.13	3.67	4.62	-0.12
Excess Return (Gross)	0.16	0.27	0.78	0.85	0.14	0.18	0.82	0.98
Systematic US High Quality Corporate Bond (Net)	2.19	4.67	8.27	5.55	1.26	3.85	5.43	0.85
Benchmark	2.03	4.40	7.51	4.72	1.13	3.67	4.62	-0.12
Excess Return (Net)	0.16	0.26	0.76	0.84	0.13	0.18	0.80	0.97
Tracking Error Volatility	—	—	0.21	0.31	—	—	0.38	0.42
Information Ratio	—	—	3.62	2.69	—	—	2.12	2.30

Source: State Street Investment Management. As of June 30, 2025. The Systematic US High Quality Corporate Bond portfolios were converted to the SAFI investment process as December 31, 2023. Past performance is not a reliable indicator of future performance. Performance returns for periods of less than one year are not annualized. The performance figures contained herein are provided on a gross and net of fees basis. Gross of fees do not reflect and net of fees reflect the deduction of advisory or other fees which could reduce the return.
*Inception Date: December 31, 2023. Fund history predates this period; however, it was not managed using the SAFI approach. The benchmark for the SAFI intermediate strategy is the Bloomberg Intermediate Corporate ex Baa Index. The benchmark for the SAFI long strategy is the Bloomberg Long Corporate A+ Index.

Consistent and efficient alpha generation, with information ratios north of 2.0

Our intermediate and long systematic credit strategies continued to deliver strong performance in Q2, beating their A-or-better benchmarks by 16bps and 14bps, respectively, on a gross-of-fee basis. Importantly, SAFI is producing *efficient* alpha, with since-inception information ratios ranging from 2.3 to 2.7.

Value performance

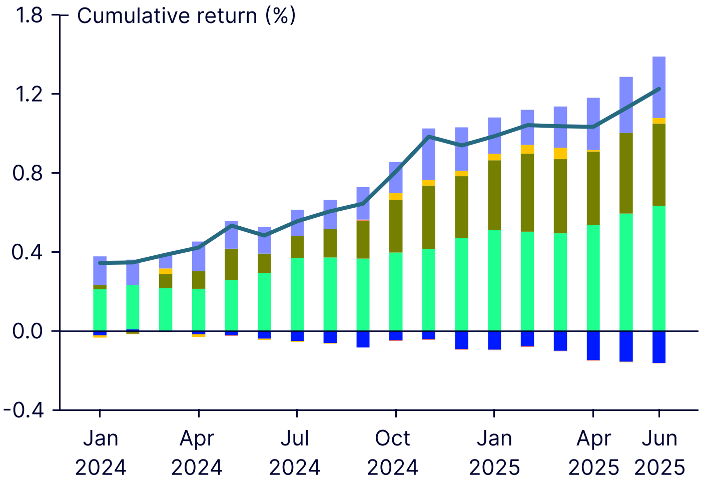
After a challenging April (discussed in our most recent commentary), May and June represented a risk-on, spread tightening period. This type of environment is constructive for the value factor to outperform, and indeed that is what we observed: value contributed 14bps and 24bps to excess returns in Q2 in the intermediate and long strategies, respectively. As mentioned in previous publications (all SAFI insights can be accessed at this landing page), our SAFI portfolios offer factor diversification between value, momentum, and sentiment, driving outperformance through the cycle. If value tends to behave more pro-cyclically, momentum represents the flip side of the factor equation and tends to behave more counter-cyclically.

Momentum performance

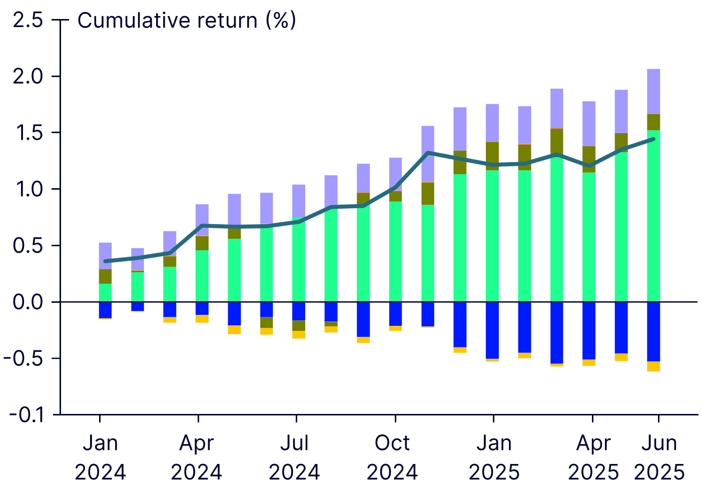
The momentum factor that we use is a cross-asset indicator, using equity returns over different horizons to determine an issuer's [un]attractiveness. It can help bond investors get out of trouble in the case of an issuer whose equity price has deteriorated significantly. Using momentum along with value in a portfolio can help to avoid "value traps" during spread widening episodes—i.e., an issuer whose bonds are cheap for a good reason, and likely to get cheaper. In Q2, the momentum factor contributed modestly to outperformance in the intermediate strategy (+4bps), and detracted in the long strategy (-11bps).

Outside of April, 2025 has not been a strong year for momentum. On the other hand, value has been able to capitalize on value creation in the aftermath of April's spread widening and has been highly additive to outperformance. We view this factor diversification as a core strength of our SAFI approach.

Figure 3: Attribution data
Intermediate strategy



Long strategy



Source: State Street Investment Management. As of June 30, 2025. "Other" comprises pricing difference, implied volatility, management fee, and interest rate derivative basis. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Looking ahead: the tug of war continues

Our Fundamental Active Fixed Income team likes to say that there is a tug of war in credit between fundamentals and technicals vs. valuations right now. Spreads are at historically tight levels, implying that investors aren't being compensated to take on incremental credit risk. On the other hand, credit fundamentals (balance sheets and corporate earnings) still look healthy, and with all-in yields as high as they are, there continues to be strong demand for US credit across the board (pensions, insurance, retail, and overseas demand). As a result, the team takes a somewhat conservative view on credit, seeking to avoid carry drag over an extended period, but also recognizing the risk of being aggressively overweight and facing a more substantial repricing given the wide range of possible macroeconomic and geopolitical outcomes moving forward.

These views jive with how our signals tend to tilt the portfolio at different points in the credit cycle, including the current environment.[2] Things look good until they don't; spreads are likely to move wider before you see a clear trend in deteriorating fundamentals. In this tight-spread, carry-focused environment, the data tell us that value can still deliver outperformance when valuations are rich.

At the same time, be aware of momentum signals telling you when to start tilting the portfolio toward more defensive sectors, when certain issuers are expected to out/underperform more, etc. Until we see a true turn in the cycle, value will likely continue to lead the charge on the performance front.

Overall, our SAFI approach is working well, continuing to deliver consistent and efficient risk-adjusted alpha, and importantly, exhibiting attractive upside/downside capture qualities relative to fundamental peers. What's the benefit of SAFI for clients at the end of the day? Competitive and complementary alpha, with the ability to update "views" rapidly, objectively, at scale, and at an attractive fee level vs. fundamental peers.

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* This figure is presented as of June 30, 2025 and includes ETF AUM of $1,689.83 billion USD of which approximately $116.05 billion USD in gold assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Investment Management are affiliated. Please note all AUM is unaudited.

Endnotes

1 Source: Barclays, US Corporate Investment Grade Index, OAS, as of July 15, 2025. See: S&P, Nasdaq again close at record highs, trade choppy | Reuters.

2 Note: In our SAFI strategies, we do not try to time factor performance by, for example, employing a dynamic factor weighting approach. Rather, we value a more transparent approach in which we equal weight the factors.

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This document provides summary information regarding the Strategy. This document should be read in conjunction with the Strategy's Disclosure Document, which is available from SSGA. The Strategy Disclosure Document contains important information about the Strategy, including a description of a number of risks.

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