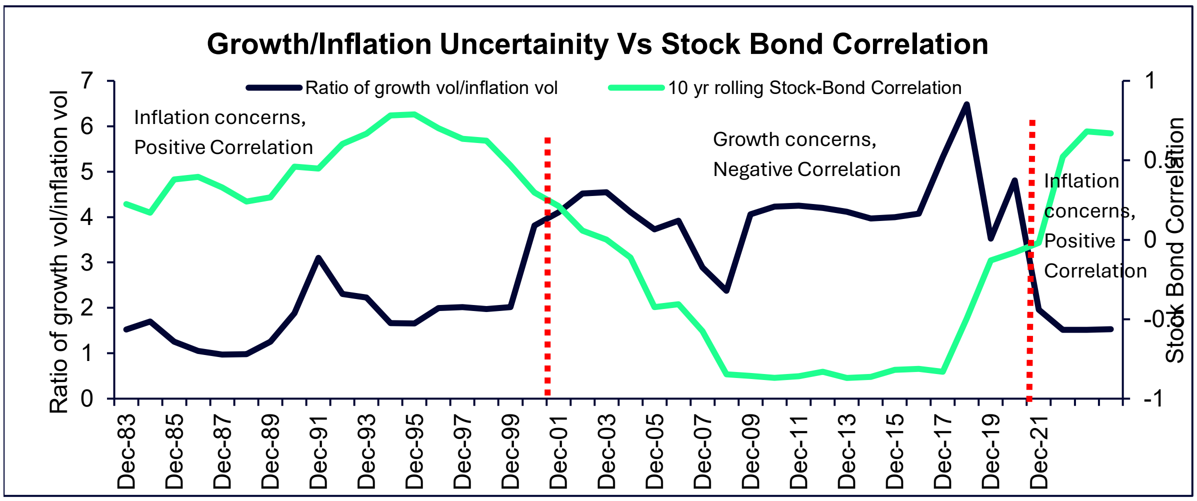
STATE STREET INVESTMENT MANAGEMENT

COMMENTARY
October 2, 2025

Mind on the Market

Chart of the Week



Source: State Street Investment Management, FactSet, Bloomberg Finance L.P. Annual Data as of December 31,2024. Stock Bond Correlation calculated using Bloomberg US Treasury Total Return Index and S&P 500 Total Return Index as proxies. 10 year volatility of YoY Industrial Production is taken as proxy for Growth volatility (uncertainty) and 10 year volatility of US CPI is taken as proxy for Inflation volatility (uncertainty).

Inflation and economic growth uncertainties affect stock-bond correlations differently: inflation shocks typically lead to positive correlations, with stocks and bonds moving together due to its adverse effects on both. Economic growth uncertainty drives negative correlations as investors seek safety in bonds while stocks can suffer. For this exercise, we use the volatility of industrial production to proxy economic growth volatility, and the volatility of CPI to proxy inflation volatility. A falling Growth vol/Inflation vol ratio signals dominant inflation concerns and a rising ratio reflects growth worries. Before 2000, inflation uncertainty dominated (Ratio of Growth vol/Inflation vol falling) and correlations were positive. From 2000–2021, growth uncertainty increased (Ratio rising), turning correlations negative. Over the past few years inflation concerns have returned again, making way for the return of positive correlations, something we believe is likely to reverse.

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Weekly Highlights

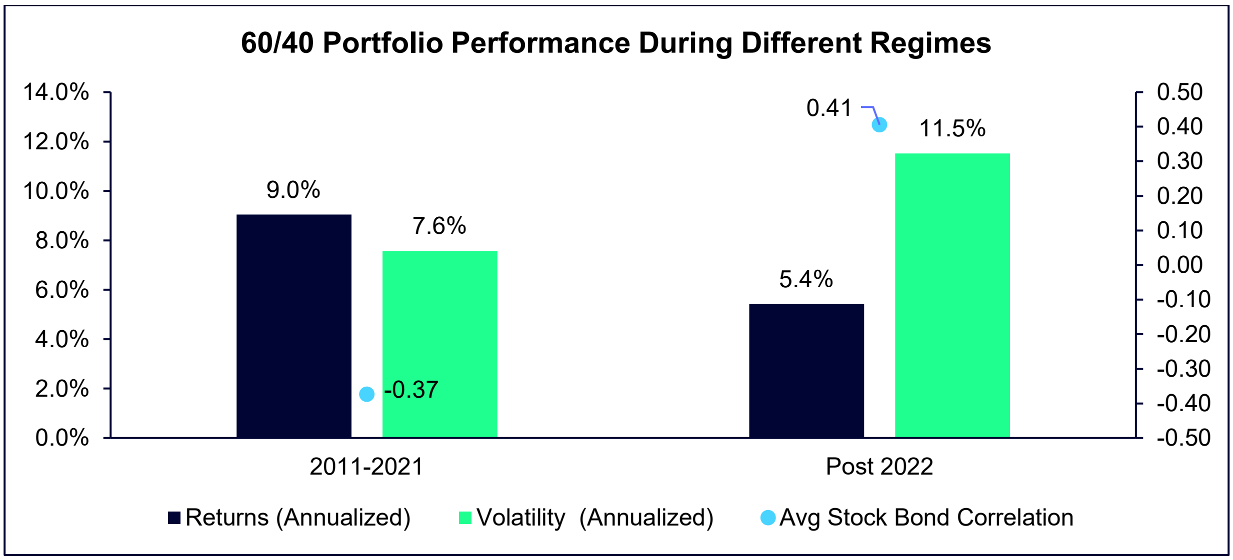
Average stock-bond correlation from 2011-2021	Average stock-bond correlation post 2022	YTD Returns of 60/40 portfolio
-0.37	+0.41	+10.48%
The average stock bond correlation is calculated using average of 36 month rolling correlation. Data as of September 2025.	The average stock bond correlation is calculated using average of 36 month rolling correlation. Data as of September 2025.	60/40 Portfolio is constructed using S&P 500 Total Return Index as proxy for equities and Bloomberg US Treasury Total Return Index as proxy for bonds. Data as of September 2025.

Performance of 60/40 Portfolio in Different Regimes

For decades, the 60/40 portfolio-a strategic allocation of 60% equities and 40% fixed income, has represented a core foundational approach to portfolio construction for both institutional and retail investors. Rooted in Modern Portfolio Theory, this framework leverages the principle that combining assets with low or negative correlation can enhance risk-adjusted returns. Historically, equities delivered capital appreciation while bonds provided income and acted as a ballast during equity drawdowns, creating a robust diversification benefit.

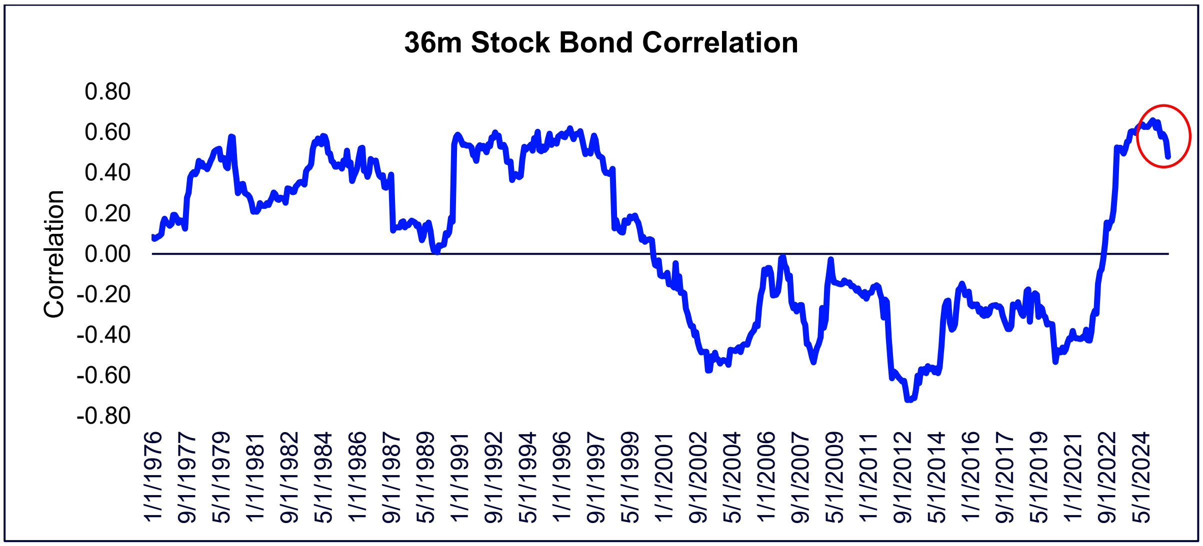
This negative correlation was the key to the strategy's success. When equity markets faltered, duration exposure in bonds typically rallied, cushioning portfolio volatility. Thanks to its simplicity and effectiveness, this asset allocation approach has remained a popular choice among investors for decades.

However, the post-pandemic period has fundamentally challenged this long-standing paradigm. The inflation shock of 2022 upended the traditional stock-bond relationship. With CPI surging well above the Fed's 2% target and policy rates rising at the fastest pace in decades, both equities and Treasuries sold off in tandem. The result was stark: the 60/40 portfolio delivered one of its worst calendar-year performances in modern history, declining 16.7% in 2022. Elevated rate volatility, coupled with heightened macroeconomic and policy uncertainty, ushered in what many now refer to as a "new regime" for traditional asset allocation, one defined by compressed return expectations and structurally higher portfolio volatility. This transition to a world of persistent interest rate volatility and greater macro-policy unpredictability has reshaped the investment landscape. As the accompanying chart illustrates, 60/40 portfolio outcomes over the past three years, when the average stock-bond correlation spiked to 0.41, reflect this shift, with diminished return potential and increased volatility compared to the prior decade, when the average correlation stood at -0.37.



Source: State Street Investment Management, FactSet, Bloomberg Finance L.P. Data as of September 30,2025. 60/40 Portfolio is constructed using S&P 500 Total Return Index as proxy for equities and Bloomberg US Treasury Total Return Index as proxy for bonds. Annualized return and volatility figures are calculated using monthly returns .Stock Bond Correlation calculated using Bloomberg US Treasury Total Return Index and S&P 500 Total Return Index as proxies. The average stock bond correlation is calculated using average of 36 month rolling correlation.

A key driver of this regime shift was the breakdown in diversification. Stock-bond correlations, which had been persistently negative for over a decade post-GFC, turned positive as inflation became the dominant macro variable. Since early 2022, equities and bonds declined simultaneously for 14 consecutive months, representing 31% of the time. This erosion of the hedging property fundamentally questioned the efficacy of the 60/40 portfolio construct.



Source: State Street Investment Management, FactSet, Bloomberg Finance L.P. Monthly Data as of September 30,2025. Stock Bond Correlation calculated using Bloomberg US Treasury Index and S&P 500 as proxies.

However, recently the macro narrative has pivoted from inflation concerns to growing fears of economic slowdown. With core PCE now below 3% and long-term inflation expectations anchored near 2% , the Fed has turned its attention to supporting growth, prompting rate cuts. The Fed's 2025 GDP forecast, initially at 2.1% in December 2024, was revised down to 1.6% by September , reflecting the impact of tariffs, policy uncertainty, and a cooling labor market. Consequently, the 36-month stock bond correlation appears to have eased from its peak of 0.66 in December 2024 to 0.48 by September 2025. Looking at the shorter 12-month horizon, the correlation has dropped even more sharply-from a high of 0.80 in July 2024 to just 0.16 currently. This shift indicates an improving potential for diversification. Against this setting, the traditional 60/40 portfolio has delivered a robust year-to-date annualized return of 14.2%, with volatility compressing to 7.3%. If current trends persist, bonds may reclaim their role as effective diversifiers, reinforcing the strategic relevance of the 60/40 allocation in multi-asset portfolios.

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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

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Marketing Communication

Important Risk Discussion

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Currency Risk is a form of risk that arises from the change in price of one currency against another. Whenever investors or companies have assets or business operations across national borders, they face currency risk if their positions are not hedged.

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds generally have more moderate short-term price

fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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