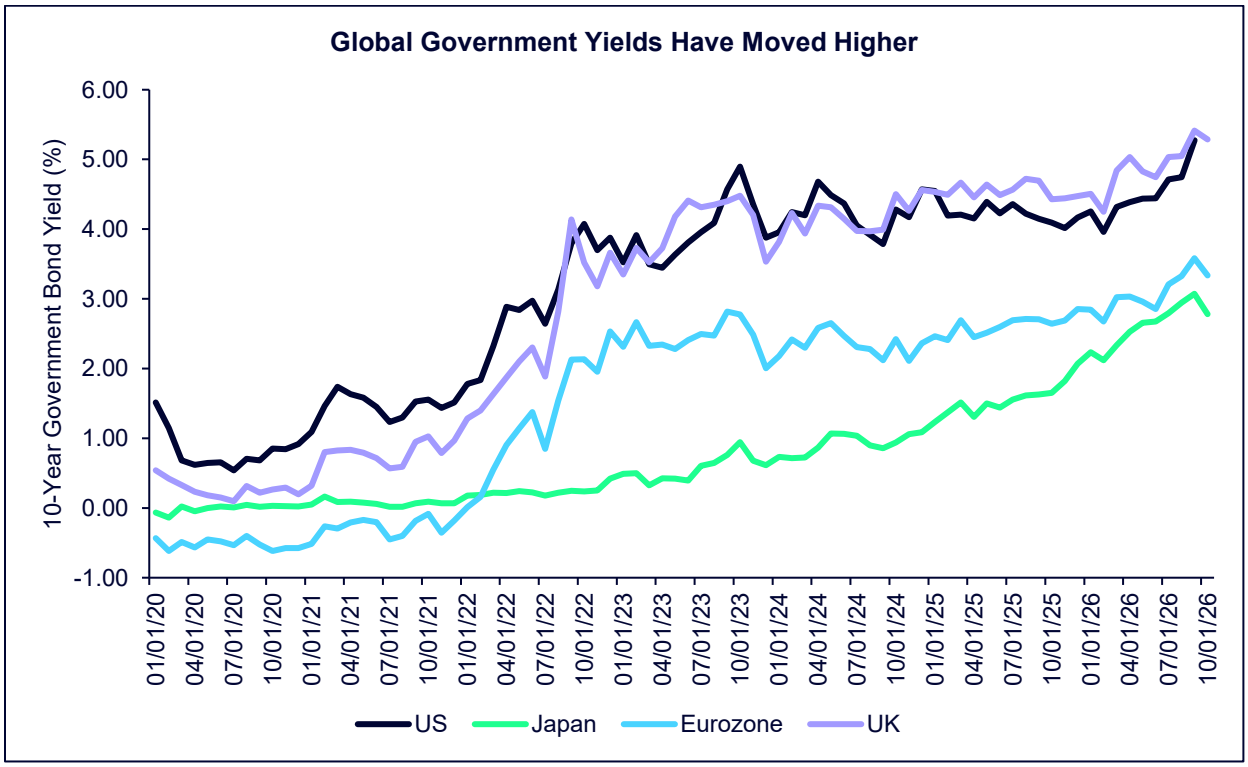
STATE STREET INVESTMENT MANAGEMENT

COMMENTARY
November 5, 2026

Mind on the Market

Chart of the Week



Source: FactSet, as of October 30, 2026.

Interest rates have shifted significantly higher across major developed markets. US, UK, and Eurozone 10-year yields are near their highest levels in more than a decade and a half, while Japanese yields are at multi-decade highs. Persistent inflation and resilient growth have contributed to the move, while rising government borrowing worldwide has expanded the global supply of sovereign debt, pushing yields higher to attract investors. As financing costs rise, differences in debt levels across equity markets may become increasingly important for investors.

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Weekly Highlights

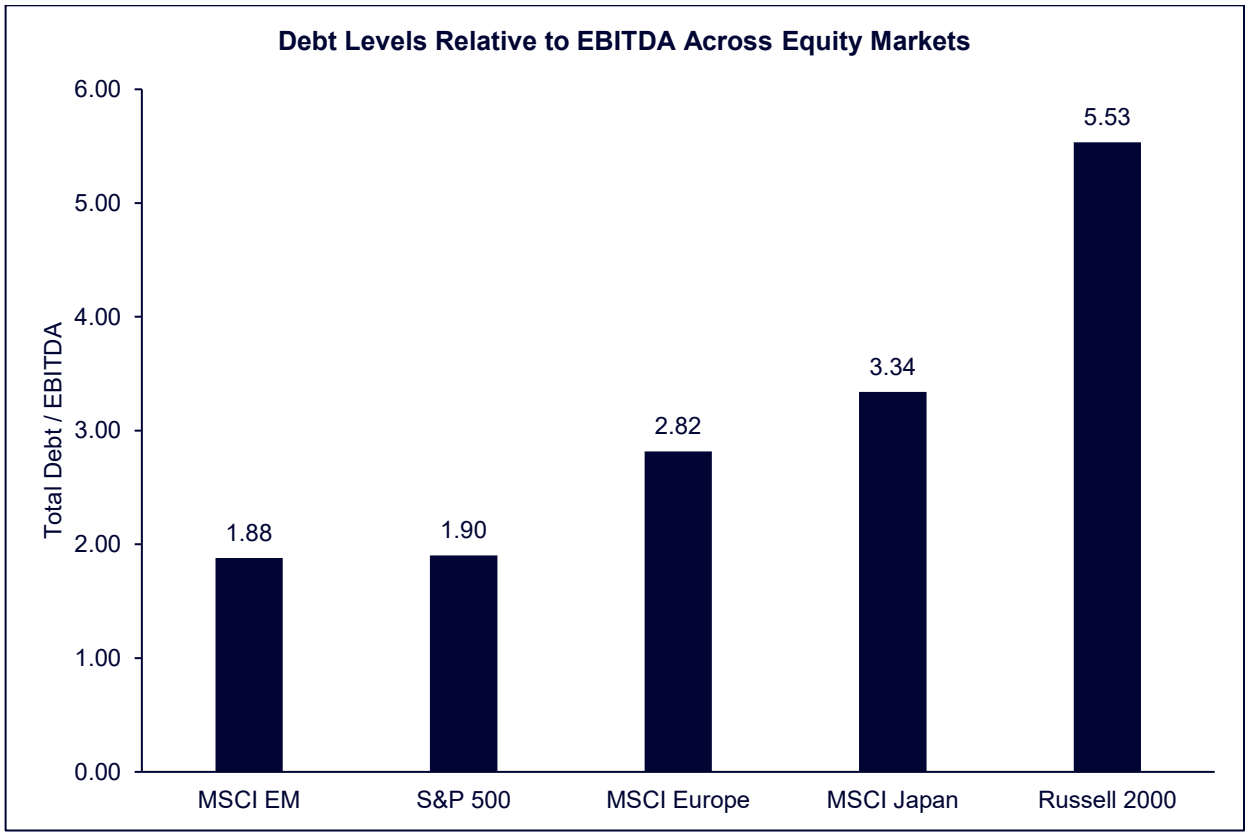
Average US 10-Year Yield during the 2010s	Average Japanese 10-Year Yield during the 2010s	Number of 25 basis point Fed Rate Hikes Currently Priced Over the Next 12 Months
2.38%	0.45%	2
Source: FactSet. Average of month-end yields from 12/2009-12/2019.	Source: FactSet. Average of month-end yields from 12/2009-12/2019.	Source: CME Group. As of 11/4/2026.

Where Higher Rates Matter Most

For much of the period following the Global Financial Crisis, companies benefited from an exceptionally low cost of debt. That environment looks unlikely to return anytime soon. Markets are currently pricing in further rate hikes over the next year, and we expect rates to remain structurally higher than they were through much of the 2010s.

Higher borrowing costs will not affect companies uniformly or all at once. Much depends on the amount of debt companies carry, the rates at which that debt is financed, and the profitability available to support it. This puts renewed focus on corporate balance sheets, particularly during a period of heightened AI spending.

The key question for equity investors is therefore not simply whether rates remain elevated, but which parts of the market are best positioned to absorb them, and what that may mean for corporate earnings and, ultimately, equity performance. One place to start is debt levels relative to operating earnings, which vary significantly across equity markets.



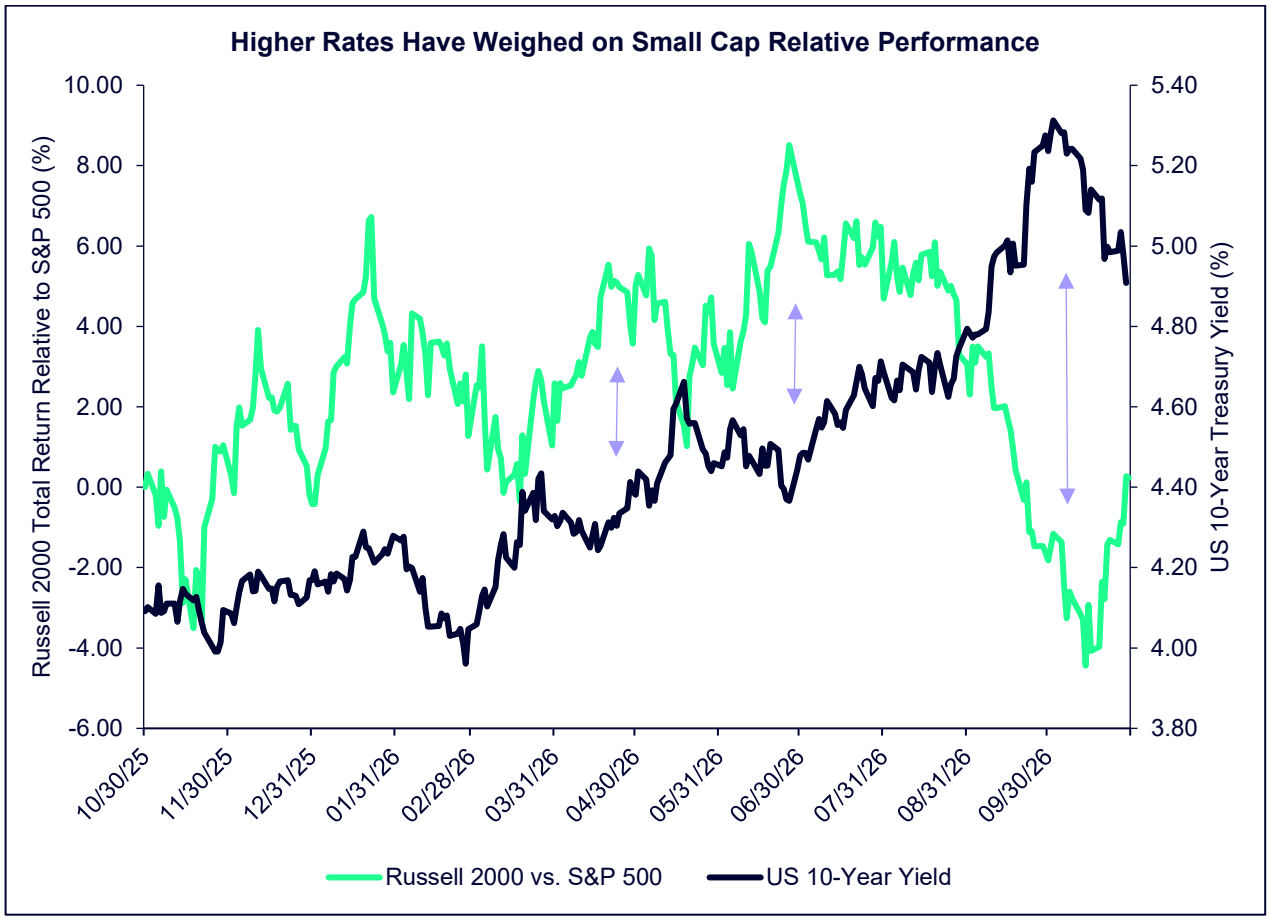
Source: FactSet, Russell, S&P, MSCI, as of October 30, 2026.

Debt levels alone tell only part of the story; what matters is companies' ability to service that debt. Debt-to-EBITDA captures both, measuring debt against the operating earnings available to support it, with lower ratios generally indicating a greater capacity to cover debt costs. On this measure, the contrast is most pronounced at the ends of the spectrum. US large caps and emerging markets currently sit at the lower end of the range, while Europe and Japan carry somewhat higher ratios. Small caps remain the clear outlier, with debt levels that are substantially higher relative to earnings.

Emerging markets are particularly notable given how much the picture has changed. MSCI EM debt-to-EBITDA has declined from roughly 2.6x in June 2024 to 1.9x today (FactSet, as of 10/30/26), bringing it roughly in line with the S&P 500, as profitability has improved meaningfully over that time period. The improvement has coincided with the growing influence of large technology companies tied to the AI investment cycle. Their strong earnings growth has increasingly shaped the profitability profile of the broader EM index, similar to the dynamic seen among US large caps.

Small caps present a different picture. Higher debt levels relative to earnings leave smaller companies more exposed to rising financing costs. Moreover, thinner earnings provide less of a cushion as those costs rise. These characteristics may help explain why small-cap relative performance has been particularly sensitive to moves in interest rates.

Recent market performance reflects that exposure. Over the past year, rising US 10-year Treasury yields have tended to coincide with periods of small-cap underperformance relative to the S&P 500, most clearly in September and early October.



Source: FactSet, Russell, S&P, as of October 30, 2026.

The shift is notable because small caps had built a meaningful lead over large caps for much of the last year. As Treasury yields moved sharply higher in September, that lead was fully erased, with the Russell 2000 briefly trailing the S&P 500 (FactSet, as of 10/30/26). While rates are not the only driver of equity

returns, the reversal highlights how different areas of the market can respond differently to changes in financing conditions.

For investors, we believe a structurally higher-rate environment will place a greater premium on companies' ability to support their debt. Markets with stronger profitability and more manageable debt levels should be better positioned as financing costs remain elevated. More rate-sensitive areas could benefit if yields decline, but the reason rates are moving will matter. A decline driven by moderating inflation would have very different implications than one driven by weaker economic growth.

Source: FactSet, Russell, S&P, MSCI, CME Group, State Street Investment Management. Data as of 10/30/2026 unless otherwise stated.

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*This figure is presented as of September 30, 2026 and includes ETF AUM of $2,285.83 billion USD of which approximately $171.88 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.

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Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small-sized companies may involve greater risks than in those of larger, better known companies.

Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise bond values and yields usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities.

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may

involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

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. US Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.

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