

Investing in uncertain times

Fundamental Growth and Core Equity

Michael Solecki, CFA
Chief Investment Officer

Chris Sierakowski, CFA
Head of North America Portfolio
Management and US Equity
Portfolio Manager

John Flynn, CFA
Portfolio Manager

William Killeen, CFA
Portfolio Manager

Noble Alden, CFA
Active Fundamental Equity
Research Analyst

Contents

3	Introduction
4	A conversation with State Street Active Fundamental Equity portfolio managers
8	Spotlight on the confidence quotient
8	How near-term events can affect quality
10	Stock study: From trash to treasure—uncovering quality in the waste sector
10	Favorable market position and scale
11	Moated business models anchored by large entry barriers
11	Structural growth and defensive characteristics
11	Recycling and renewable energy investments fuel returns and growth
12	Spotlight on Waste Management

Introduction



Michael Solecki, CFA
CIO, Fundamental Equity

Markets began 2025 relatively stable before shifting US tariff policy introduced massive uncertainty. Investors had prepared for a challenging period as the Trump administration unveiled its economic priorities, but frequent changes in tariff targets and amounts created more uncertainty than expected, and historic volatility followed. Volatility eased in late April and May, and markets regained their losses. Uncertainty remains high, however.

State Street Investment Management's house view is that the US economy will slow for the rest of the year but is unlikely to enter recession. Although we expect the Federal Reserve to continue exercising caution on interest rates in the near term, we anticipate opportunities for rate cuts later in the year. Inflation should decline, but we expect it to be sticky on the way down as changes to supply chains constrain inventory.

We continue to see the wisdom of an active and long-term investment approach, especially one focused on quality companies that have shown the ability to produce durable growth and trade at reasonable valuations. We are particularly focused on opportunities in advanced manufacturing and automation, with an eye toward identifying companies that will benefit from supply chain disruption and reshoring. In addition, the explosion of artificial intelligence (AI)

presents opportunities to seek promising investments in AI businesses and to identify companies that are integrating AI into their existing processes in ways that boost their competitive advantage.

The articles that follow explain our thinking about topics of particular concern. In the first piece, our Active Fundamental Equity team discusses their responses to 2025 market volatility, including the portfolio adjustments they have made to date. Next, we discuss how our proprietary confidence quotient informs our investment process, including a look at how tariffs and trade disruption affect our assessment of a company's quality. Finally, we share a deep dive into the often-overlooked waste sector, where careful analysis reveals a number of high-quality companies with appealing business models.

A conversation with State Street Active Fundamental Equity portfolio managers



Chris Sierakowski, CFA
Head of North America
Portfolio Management
and US Equity Portfolio
Manager



John Flynn, CFA
Portfolio Manager



William Killeen, CFA
Portfolio Manager

Equity markets have obviously been volatile this year, and the United States is the epicenter of that volatility. Chris, as a US equity portfolio manager, how have the markets looked to you?

CS: Uncertainty is the universal theme in the US economy right now. The Fed is currently on the sidelines as it weighs its dual mandate and the conflicting policy actions needed to address a stagflationary impulse from a self-induced trade war. The US market saw a steep decline as concerns around Trump's aggressive tariff policy weigh on growth expectations and stoke fears of inflation returning. This was followed by an equally steep recovery. While the market is signaling increased optimism and State Street's house view remains that the US will avoid a recession, the risks remain elevated.

What we saw in the S&P 500 in the first quarter was a significant market rotation toward defensives and low-volatility names and away from growth and momentum stocks. Also caught up in the sell-off was quality, which also underperformed, albeit to a lesser extent than growth and momentum.

John and William, you manage global equity portfolios. For the most part, non-US markets, at least prior to the tariff announcement, had outperformed the US. How are you thinking about the impact of tariffs?

JF: Global equity markets had been bracing for an April 2 tariff announcement from the Trump administration for most of the first quarter. We saw this through defensive rotation and positioning. But

the new tariff policies were certainly more severe and widespread than expected. After April 2, there were few safe havens, as volatility was broad across sectors and regions, and correlations rose.

While some aspects of the US tariff policy were disappointing, we see the action as multifaceted and subject to change. We take a bottom-up approach in assessing impact and consider four broad areas:

- 10% across-the-board tariffs, as well as those on automobiles, which are meant to address global imbalances
- Additional country-level tariffs that appear more negotiable
- Tariffs on Mexico and Canada specifically, which relate to border security
- Policy stance toward China (and, by extension, back-door exporters such as Vietnam), which is clearly the most confrontational, tied to national security, and difficult to predict

Additionally, certain strategic products in sectors such as health care, materials, and IT should maintain exemptions.

WK: As John said, this action is multifaceted and may change. It's perhaps too early to call this a new paradigm, but markets don't like ambiguous messages around the sustainability of corporate earnings, even if this turns out to be the first exchange in a protracted bargaining process in international trade. A reversal of globalization, with the attendant dismantling of supply chains that have metamorphosed over 20 to 30 years, is less appealing.

In terms of understanding the implications of these actions on firms in the longer term, we also take a bottom-up approach. Regional weightings are more a residual of stock picking, risk management considerations aside. Understanding the robustness of business models to these actions is a good place to start.

The idea of comparative advantage is a cornerstone of international trade. Comparative advantage

describes how countries benefit from specializing in the production of goods and services where they have a relative advantage—lower input cost, technological advantage, lower labor cost, abundance of natural resources, etc. They monetize that comparative advantage by trading with other countries in goods where they have less of an advantage.

Comparative advantage coincides with the competitive positioning of the companies we invest in. For instance, while there are many highly skilled semiconductor design companies in the US (Nvidia, AMD, Qualcomm), there are very few foundries (manufacturers) of semiconductors. Asia dominates foundry capacity and thus the supply chain for iPhones, laptops, and other devices, and building foundry capacity outside Asia on the scale that is required is not workable in the short term. So while polarization of comparative advantage drives the fundamental strength of these companies at one level, it also brings them into the crosshairs of trade restrictions. That said, semiconductors have received relatively judicious consideration when it comes to tariffs. If common sense prevails, comparative advantage will leave a level playing field for trade. The fundamentals of the industry remain sound.

Perhaps the auto industry is the opposite of the above: highly competitive with less clear comparative advantage and therefore less attractive. I know where I want to be positioned.

Your active fundamental process is forward-looking and long-term. How do you maintain that approach in this environment?

JF: When assessing companies in this context, we have considered both the risk of direct impacts on a company's business as well as any indirect or potential retaliatory effects. While this process is ongoing, we feel that the Global Equity Select portfolio, which I co-manage with Esther Baroudy, is well positioned to withstand direct impacts from the recent tariff policy through pricing power, supply chain adjustment, and other management action. Clearly, there will be indirect near-term implications for sentiment and global growth that will be more difficult to avoid. We believe that our

focus on quality will serve well in navigating any current slowdown.

By managing risk and focusing on quality, we aim to position the portfolio for long-term opportunities rather than trying to time entry and exit.

WK: We respond in this environment by revisiting the original investment cases, though of course weighing the tariff risk is complex. The consumer discretionary space serves as a good example. This sector, and particularly apparel, is characterized by a large reliance on international supply chains. Stocks like Nike, Adidas, and Skechers (global mass market leisure/athletic shoes) have been hit hard as they rely heavily on China and Vietnam for finished product. A change in tariffs further complicates the outlook in a sector with pronounced economic cycles.

Companies with strong business models typically have both strong brands and strong distribution. However, tariffs on Vietnam and China would impact earnings significantly. As we weigh margin of safety in this sector, we consider the viability of relocating manufacturing to other countries, for which there is plenty of precedent. There is also scope for increasing pricing to compensate for tariffs on imported goods. Strength of balance sheet is also important.

Chris, would you add anything there? What are you hearing from your companies?

CS: I would reiterate what John said on quality. Our core investment philosophy remains focused on quality, durable growth, and reasonable valuation, and we continue to take a longer-term investment perspective. But as part of our risk management, we will buy and sell around valuation. For example, we trimmed many of our outperforming large- and mega-cap quality names in the second half of 2024, which helped earlier this year as many of these quality names underperformed.

Given the uncertainty I mentioned previously, management teams do not have much visibility into the year ahead. So far in this first-quarter earnings season, results have been decent, but guidance has been weaker, reflecting that uncertainty.

JF: The earnings season has been volatile, as companies have struggled to provide guidance in an uncertain environment. We do believe a confident message from companies about the pathway for AI development, combined with a degree of certainty from the US administration around trade and other policy, can create a more positive environment for markets moving into the second half of the year.

What about this year? Have you made any changes in the face of this volatility?

WK: As valuations got a little richer toward the end of 2024 and the MSCI World Index moved up to 20 times forward earnings, we adopted a slightly more defensive stance across portfolios. We added to positions in health care and consumer staples and trimmed back some names in technology, materials, and other cyclical sectors. As a value manager with a focus on margin of safety, we are quite balance sheet-focused. In this environment of weakening economic activity and input price volatility, we are focused on companies that can absorb negative operating leverage and working capital intensity and have good control of the cost of debt funding.

CS: During the market turbulence in the first quarter and into April, I would categorize our portfolio changes in a few broad themes. One was to reduce the most economically sensitive names that would be most exposed should the US economy edge lower into a recession. The second theme was to add to our defensive positioning where we still found decent risk and reward. Lastly, given our longer-term investment horizon and desire to take advantage of market volatility, we started rotating back into some of our highest-quality long-term compounders while also looking for new names with attractive entry points.

JF: Our analysis did not lead to significant reallocation of the portfolio. We did, however, make adjustments to recognize risk and take advantage of market volatility. One example, which would fall into Chris' second theme of reducing exposure to economically sensitive names, was our reduction in Infineon Technologies, a German maker of power semiconductors serving the automotive

market. Current events have led to greater disruption for the auto industry. While the shift to electric vehicles is a secular trend, we have more confidence in current developments around agentic and physical AI applications and have continued to build a position in Nvidia instead.

Have you made any geographical changes?

JF: Geographically, our largest weight remains the US as we continue to find the greatest combination of quality and durable growth coming from US corporations. We do maintain diversification as well, with roughly 20% of the portfolio in Europe and the remainder in emerging markets ex-China and Japan.

Most of our developed market companies operate globally. As I mentioned, we feel we are well placed to manage any tariff requirements as well as navigate the current macroeconomic concerns, which have become global in nature.

William, you manage a value-oriented strategy. The value factor outperformed significantly in the first quarter, but so far in the second quarter, it's been more volatile. How are you thinking about that?

WK: Value outperformed core by about 6% in the first quarter (USD) but has lost a little ground since. Value outperformed due to a combination of less exposure to falling technology and consumer discretionary stocks in the first quarter and more exposure to financials and defensive sectors. If the MSCI World Value Index is a reference point for the composition of value, then defensive sectors make up 30%–35% of that index, compared to 20%–25% for the core index. Technology makes up some 8% of the value index. On the other hand, financials make up almost 30% of the value space, so there is a barbell in terms of cyclical versus defensive exposures. Overall, value should be a more defensive style in a cyclical downturn, in my opinion. Ultimately, financials have significant negative leverage to contracting economic activity.

The best defensive strategy in these markets is one that focuses on strong fundamentals including strong competitive positioning, margin of safety in valuation, and robust capital position on the balance sheet. As a value manager, I, too, believe that quality as a factor will reestablish itself as a major driver of relative performance in the quarters ahead.

Spotlight on the confidence quotient

The Active Fundamental Equity team uses a proprietary framework called the confidence quotient (CQ) to evaluate the quality of a company. There are many definitions of the term “quality” in the investing world. Most are quantitative in nature and therefore tend to be backward-looking. In contrast, the CQ is a forward-looking qualitative assessment made by our experienced fundamental research analysts. Rather than focusing on quantitative factors such as earnings volatility, the CQ seeks to identify the characteristics of companies with durable competitive advantages, including a strong business model, pricing power, business moats, solid balance sheets, and trustworthy management. Like quant metrics, the CQ is a scoring system and therefore can be measured over time.

The figure below shows the valuation of high-CQ companies relative to low-CQ companies over time. We expect the highest quintile to trade at a premium to the lowest CQ, as it did as of March 2025. But this premium is at a seven-year low. While this derating has been painful, it also represents opportunity.

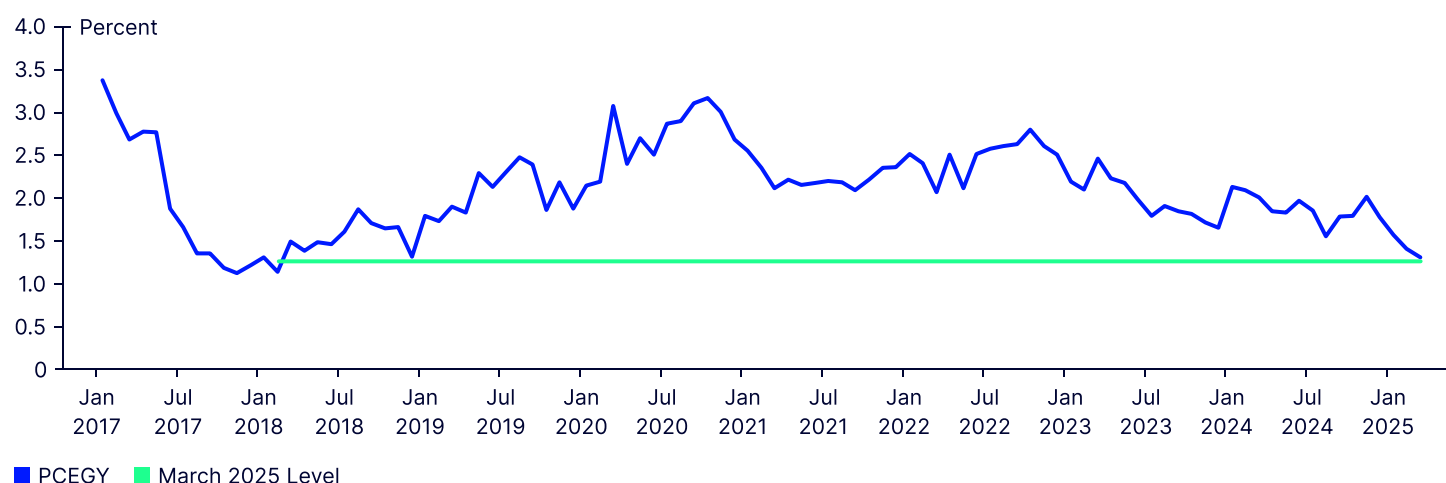
For the long-term investor, this is a chance to buy the highest-quality companies, as measured by our time-tested framework, at historic discounts.

How near-term events can affect quality

Our process is long-term, so in times of market volatility and economic uncertainty, we try to look “across the valley,” with a focus on company fundamentals. We can’t predict future events. But we can say that based on years of experience, companies with quality attributes will be best able to navigate the turmoil.

However, that doesn’t mean we ignore near-term events. We recognize that recent events around tariffs and trade wars can disrupt a business model and therefore lower our assessment of a company’s quality. In the examples that follow, our analysts believe recent events will affect two companies’ prospects differently.

Figure 1: Top CQ quintile valuation relative to bottom CQ quintile valuation (PCEGY)



Source: State Street Investment Management, as of March 31, 2025. PCEGY = Price to cash earnings divided by long-term expected growth plus dividend yield. PCEGY is a valuation metric used by the State Street Active Fundamental Equity team.

Potential winner: United Rentals, supplying the equipment to rebuild America's manufacturing complex

United Rentals is one of the largest commercial and construction equipment renters in the world, serving customers in the commercial, construction, industrial, and residential sectors. It operates through a network of some 1,355 locations in the United States and Canada, providing general construction and industrial equipment, aerial work platforms, trench safety equipment, power equipment, and general tools and light equipment.

United Rentals is uniquely positioned to benefit from the resurgence of construction activity that will come from the “reshoring” of US manufacturing. It is also one of the very few rental companies that can support the equipment required for mega projects such as leading-edge semiconductor foundries.

—Anthony Mariani

Potentially disrupted: Best Buy, caught between tariffs and a hard place

Best Buy is the largest specialty consumer electronics retailer in the United States. This is a competitive, highly discretionary category in retail, with EBIT margins below 5%. While Best Buy directly imports only 2%–3% of the products it sells, the company estimates that its vendor base is reliant on China for 55% of goods it sells and Mexico for 20%. Key vendors including Apple, Samsung, HP, Sony, and LG comprise 55% of product purchases. On Best Buy's 2024 Q4 earnings call, management estimated that a 10% tariff on Chinese imports might hurt annual comps by 1%. The company said the impact of incremental tariffs on comps would not be linear.

Since this earnings call, the Trump administration announced upward of 145% tariffs on China and 10% tariffs on Mexico. We believe Best Buy's sales, margins, and earnings would be down sharply in 2025 as these tariffs are passed on to consumers. On April 11, the Trump administration rolled back the reciprocal tariffs impacting electronics while maintaining base level tariffs of 20% on China and 10% on Mexico. Even under this more moderate tariff scenario, we see declining earnings per share at Best Buy. With the prospect for Section 232 “sectoral tariffs” on this category later in the year, Best Buy and its vendor partners are operating in an extremely difficult planning environment.

—Jeff Looby

Stock study: From trash to treasure—uncovering quality in the waste sector



Noble Alden, CFA
Active Fundamental
Equity Research Analyst

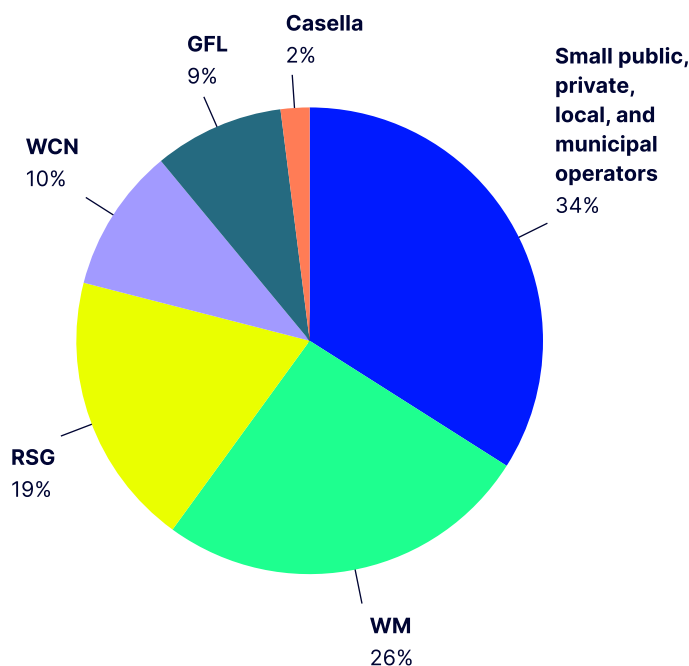
Waste companies have historically been perceived to have unexciting, utility-like business models with limited innovation opportunities. In reality, the industry can offer investors both defensive and structural growth characteristics. Many industry participants have also been investing in new business lines such as recycling and renewable energy to capture incremental growth over the legacy solid waste business and support sustainable outcomes while also delivering strong returns on invested capital.

Overall, the waste industry's recurring revenue model, pricing power, and disciplined capital allocation principles position these firms as quiet compounders with attractive fundamentals during times of uncertainty.

Favorable market position and scale

Waste companies generally have robust market positions and significant barriers to entry, and therefore tend to score high in our confidence quotient (CQ) framework. The majority of the industry is concentrated, often resulting in regional monopolies or oligopolies that are dominated by a few large, well-established players often referred to as the Big 4: Waste Management (WM), Republic Services (RSG), Waste Connections (WCN), and GFL. Large companies derive substantial benefits from economies of scale, enabling them to build route density, optimize fleet logistics, and negotiate favorable terms for equipment procurement—advantages that are unavailable to smaller competitors.

Figure 2: North America waste market share



Source: State Street Global Advisors analysis based on 2024 financial statements from the listed companies, and a total market size estimate of \$85 billion from GFL Environmental.

Moated business models anchored by large entry barriers

Developing and maintaining landfills is a capital-intensive endeavor that represents a significant financial and regulatory hurdle for potential new entrants. Upfront building costs are estimated between \$300,000 and \$800,000 per acre,¹ which would represent a total cost outlay of \$100 million–\$240 million for a 300-acre landfill, exclusive of annual operating costs.

Beyond capital outlays, regulatory complexities pose another obstacle. Landfill permitting processes in the US are rigorous and typically span multiple years. The number of solid waste landfills in the US has decreased over time, with 7,900 in 1988,² close to 2,000 in 2000,³ and approximately 1,500 open and operating landfills as of 2023.⁴

Existing landfills represent uniquely valuable assets that are difficult to replicate and bring significant value to haulers and communities, as they offer the final destination for waste. Owning landfills creates

stable pricing power, significant entry barriers, and competitive insulation for large waste peers.

Structural growth and defensive characteristics

It may come as a surprise that the companies running your local garbage routes have the potential to be high-growth businesses. Waste companies have grown revenues 7%+ annually since 2019.⁵ We can attribute this growth to a combination of pricing power, volume growth, and strategic mergers and acquisitions (M&A). Waste volumes historically trend with GDP, and collection contracts are typically negotiated over a multiyear period, making for a stable and recurring revenue stream that is also an essential service for homes and businesses.

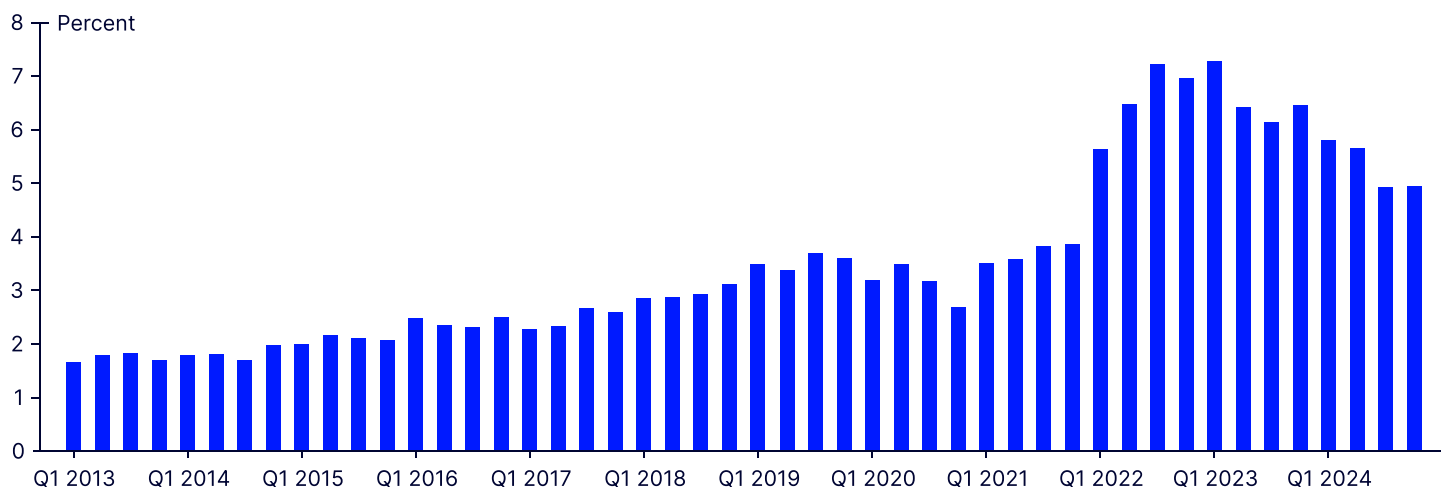
Companies have also exercised consistent pricing power, anchored by valuable disposal assets and index-linked pricing contracts. Moreover, waste services constitute only a small fraction of overall costs for the average customer, making it easier for them to absorb periodic price increases. This pricing power allows waste companies to price above cost inflation and strengthen margins.

In addition to organic growth levers, the industry fragmentation beyond large peers represents a \$5 billion–\$7 billion addressable M&A market composed of smaller local or regional operators that larger peers can acquire to supplement organic growth and extract synergies.⁶

Recycling and renewable energy investments fuel returns and growth

In recent years, large waste companies have made big strides investing in capabilities outside of traditional garbage collection. These strategic investments include major incremental capital expenditures in recycling automation and renewable natural gas projects fueled by landfill gas. Both capabilities help enable a circular economy by growing the industry's stream of recycled materials and repurposing landfill gases into renewable energy.

Figure 3: Average annual collection & disposal pricing



Source: Market cap weighted pricing basket across WM, RSG, and WCN. Source: Company reports, State Street FGC analysis, as of December 31, 2024.

Spotlight on Waste Management

WM stands out as a company that scores high in our CQ framework. WM is the largest solid waste operator in North America and benefits from leveraging its scale to internalize operations and maximize its existing footprint through bolt-on M&A.

Strategically, the company has been an industry pioneer investing in high-return sustainability-related projects like landfill-gas-to-energy and recycling. WM has consistently returned capital to shareholders through dividends and share repurchases. This capital allocation balance and overall business model resiliency make WM a strong candidate during a volatile market.

Endnotes

- https://www3.epa.gov/ttnecas1/docs/eia_ip/solid-waste_eia_nsps_proposal_07-2014.pdf
- https://www3.epa.gov/ttnecas1/docs/eia_ip/solid-waste_eia_nsps_proposal_07-2014.pdf
- <https://archive.epa.gov/epawaste/nonhaz/municipal/web/pdf/report-00.pdf>
- <https://www.epa.gov/lmop/lmop-landfill-and-project-database#comp>
- State Street Global Advisors' analysis based on 2024 financial statements for the largest three companies (Waste Management, Republic Services, and Waste Connections).
- GFL Environmental, as of December 31, 2024.

About State Street Investment Management

At State Street Investment Management, we draw from our global scale and market-tested expertise to help create original solutions and better outcomes for our clients and the world's investors.

statestreet.com/investment-management

State Street Global Advisors (SSGA) is now State Street Investment Management. Please go to statestreet.com/investment-management for more information.

State Street Investment Management Worldwide Entities

Important Information

The views expressed in this material are the views of the Fundamental Growth and Core Equity Team through the period June 30, 2025, and are subject to change based on market and other conditions.

This document contains certain statements that may be deemed forward looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

The stocks mentioned are not necessarily holdings invested in by SSGA. References to specific company stocks should not be construed as recommendations or investment advice. The statements and opinions are subject to change at any time, based on market and other conditions.

Investing involves risk including the risk of loss of principal.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

All information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information, and it should not be relied on as such.

The information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the applicable regional regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the "appropriate EU regulator") who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

Investing in foreign domiciled securities may involve risk of capital loss from

unfavourable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Past performance is not a guarantee of future results.

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

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 commodities entail significant risk and is not appropriate for all investors. Commodities investing entail significant risk as commodity prices can be extremely volatile due to a 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.

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.

Because of their narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies.

Narrowly focused investments and investments in technology stocks may involve greater risk of capital loss and higher price volatility.

The trademarks and service marks referenced herein are the property of their respective owners.

Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The information contained in this communication is not a research recommendation or 'investment research' and is classified as a 'Marketing Communication' in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This communication is directed at professional clients (this includes eligible counterparties as defined by the "appropriate EU regulator") who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

© 2025 State Street Corporation. All Rights Reserved.
ID3018500-8000645.4.1.GBL.INST 0725 Exp. Date: 07/31/2026