

Sector Compass

Where to Turn Next

Q2 2020

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Executive Summary

Summary of market activity for the last three months, plus an outlook for the quarter ahead.

Turning to Opportunities

As investors look to take advantage of lower equity markets, sectors offer the opportunity for diversification that a single stock investment does not provide. Sectors also offer the opportunity to target parts of the economy that may be more defensive or have been overly marked down given their long-term prospects.

What a quarter to start the year. The size and speed of index moves were unprecedented. It is hard to remember the optimism for equity investment that existed at the start of 2020 post the phase one trade deal between China and the US. Together with hopes of a long-awaited recovery in European economies and geopolitical tensions surrounding the US air strike on Iran, we saw high demand for cyclical sectors and Energy.

From mid-January onwards the market saw a rising tide of bad news surrounding the new COVID-19 outbreak and the measures to manage its spread. When the virus reached western countries, equities responded dramatically. As in other times of high volatility, dispersion of performance between sectors expanded — providing opportunity for investors brave enough to trade and those operating on a relative basis to make large gains.

The previous bull market, lasting 11 years, had been unloved and investors were not heavily committed, which provided some initial relief as sentiment turned more negative. However, that did not help in March. The equity flows figures in this document, gathered both for sector ETFs and for institutional investor activity, show the net result over the whole quarter.

Paths to Recovery

We expect to remain in difficult equity markets for the next few months as we wait for the reverberations of this crisis to filter through and see the full impact on earnings. As such, it is more difficult than usual to opine on the best sector opportunities. However, while we are not sure of the usefulness of earnings forecasts or valuations currently, we can look closer at the speed of earnings downgrades and the implications of the COVID-19 crisis on different industries' supply models and demand expectations.

Using this thought process, and considering the weakness of the macro backdrop, we have made three sector picks that are either defensive or benefit from secular trends. All industries will see some impact from the global pandemic but perhaps the sectors we have chosen could see less pain or a positive reinforcement of behavioural trends. It is interesting to think about these sectors in the context of different possible paths to recovery.

Quick Recovery

In the first scenario, there is rapid and effective control of the virus. This is what everybody hopes for on a human level. In this case, the huge public health response is successful within a few months, and new measures, such as antibody testing, allow workers with immunity to return to their workplace, then gradually consumers resume their usual behaviour. We would expect that earnings in defensive sectors hold up better. Thus far, underlying earnings revision trends reflect this, with Health Care proving the most resilient.

Other sectors could see global demand for restocked goods respond quickly as the economy stabilises and supply chains are mended. Technology and Communication Services fall into this group. More cyclically sensitive sectors, such as Industrials and Consumer Discretionary, could also prosper if the recovery is close to a V-shape.

Delayed Recovery

However, it is highly probable that there will be bumps in the path to economic recovery. In this scenario, across the world we may see an effective response to the virus later in Q2, but followed by re-occurrence of the virus spread, which would require delaying or re-imposing physical distancing measures.

Over the coming year(s), massive fiscal and monetary policy stimulus will be pumped into economies, which should eventually create an earnings recovery. In this scenario, Health Care may still be interesting, as significantly more money will be spent on the products and services of the sector.

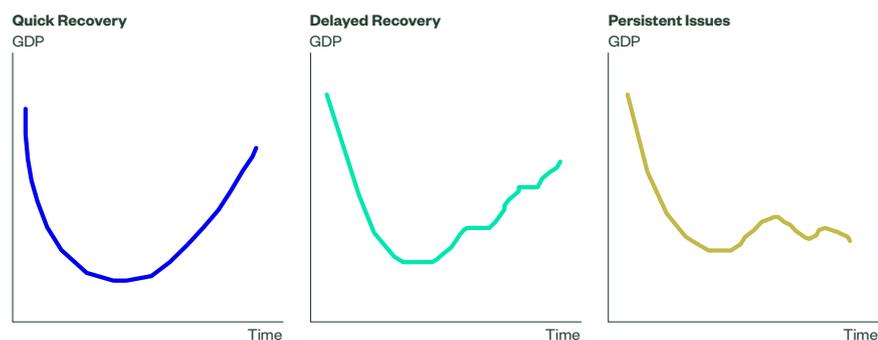
Technology may also represent an opportunity for relative outperformance as businesses faced with their workers being remote for a longer period will need to further enhance their IT access. Otherwise, a defensive sector such as Consumer Staples could gain investor attention given the product range of food, beverages, tobacco and household goods.

Persistent Issues

If it takes much longer to stop the escalation of the pandemic than the market currently assumes, investment options become more limited. In the event where the current public health response does not alter the curve of infection, economic activity will be curtailed, and further fiscal and monetary policy response would be necessary to stave off wide-spread bankruptcies and a potential banking crisis.

In a longer recessionary environment, there are still relative investment opportunities. Investors would seek some protection from downside risk and lower volatility options. Utilities would fit the case for low volatility and a negative correlation against the rest of the earnings market. Health Care may still be considered an option for its defensive characteristics.

Three Scenarios for the Economic Impact of COVID-19



Source: State Street Global Advisors, as of 31 March 2020. The above diagram is for illustrative purposes only.

Sector Performance and ETF Flows

Regional sector performance highlighting dispersion between top and bottom performance. Flows into sector ETFs split between US and European domicile, worth more than \$400 billion in AUM.*

*Source: Morningstar, as of 31 March 2020.

Sector Performance

In Q1, defensive sectors outperformed cyclicals and growth sectors outperformed value. Much of the relative performance was related to each sector’s sensitivity to bond yields. Almost all suffered double-digit falls. The relative momentum accelerated through the quarter as economic and earnings forecasts were rapidly downgraded in response to health care policy action to stem the spread of the virus. There was some interim relief after unprecedented levels of government policy stimulus.

Technology fell the least among sectors in the US and outperformed elsewhere as well, on hopes that many orders lost during the first half of the year would be fulfilled in the second half. Meanwhile, Health Care benefited from relaxation of worries over US political action on the sector, the defensive nature of its operations and hopes of medical help in stopping the virus spread.

Energy suffered major earnings downgrades on severe oil price weakness. The twin factors were lower demand (from China’s shutdown and expectations of a global economic recession) and the failure of OPEC+ talks to reach agreement on supply targets with Saudi Arabia and Russia threatening to ramp up their production in response.

World Sectors				US Sectors				Europe Sectors			
March (%)		YTD (%)		March (%)		YTD (%)		March (%)		YTD (%)	
Health Care	-3.6	-11.5	Health Care	Health Care	-3.9	-12.0	Tech	Health Care	-2.3	-7.0	Health Care
Cons Staples	-4.9	-13.2	Tech	Cons Staples	-5.6	-12.8	Health Care	Cons Staples	-5.1	-11.9	Utilities
Tech	-9.3	-13.3	Cons Staples	Tech	-8.7	-13.2	Cons Staples	Tech	-12.1	-12.8	Cons Staples
Utilities	-11.6	-13.8	Utilities	Utilities	-10.0	-13.7	Utilities	Materials	-12.1	-16.8	Tech
Comm Servs	-11.9	-17.5	Comm Servs	S&P500 NR	-12.4	-17.5	Comm Servs	MSCI Europe NR	-14.3	-22.6	MSCI Europe NR
MSCI World NR	-13.2	-21.1	MSCI World NR	Comm Servs	-12.8	-19.4	Real Estate	Energy	-15.4	-24.5	Comm Servs
Materials	-13.4	-22.0	Cons Discret	Materials	-14.2	-19.7	S&P500 NR	Comm Servs	-16.3	-24.7	Materials
Cons Discret	-14.6	-23.3	Real Estate	Cons Discret	-15.0	-21.6	Cons Discret	Utilities	-16.5	-28.0	Industrials
Industrials	-17.7	-26.1	Industrials	Real Estate	-15.1	-26.4	Materials	Cons Discret	-18.7	-29.2	Cons Discret
Real Estate	-18.2	-26.4	Materials	Industrials	-19.2	-27.2	Industrials	Industrials	-20.2	-29.3	Real Estate
Financials	-22.3	-31.8	Financials	Financials	-21.4	-32.0	Financials	Real Estate	-23.2	-33.1	Energy
Energy	-29.4	-44.8	Energy	Energy	-35.4	-50.9	Energy	Financials	-24.2	-33.1	Financials

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 31 March 2020. Past performance is not a guarantee of future results. The universes for the above charts are the MSCI World, S&P Select Sectors, and MSCI Europe. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index Performance is not meant to represent that of any particular fund.

* This information should not be considered a recommendation to invest in a particular sector, or securities therein, shown above.

Sector ETF Flows

Sector popularity diverged markedly, as reflected in the flows. For most of Q1, growth, quality and low volatility characteristics were in favour, which benefitted the more defensive sectors and IT.

Interestingly, amid the extreme falls in the stock market there was net buying of sector ETFs with a European domicile (most likely representing European investors). However, US investors, who more typically trade in US-domiciled sector ETFs, took net money out of sector ETFs late in the quarter after record inflows in January.

Large inflows went into US and World Technology sector ETFs, which contain the largest global players in the software and hardware industries, having the attractive products and services offering strong long-term growth. Financials ETFs suffered outflows as investors worried about the impact of lower bond yields on the net interest income margins of banks. Of note, there were over \$2.7 billion of net inflows into US-domiciled Energy funds despite significant turmoil in the oil market. Some of the behaviour is explained by investors covering short calls elsewhere.

	US-Domiciled (\$mn)		European-Domiciled (\$mn)	
	March	YTD	March	YTD
Communication Services	331	1,068	-17	33
Consumer Discretionary	-1,585	-1,306	-155	-157
Consumer Staples	185	937	180	282
Energy	1,307	2,743	21	236
Financials	-2,114	-4,268	-1,369	-1,471
Health Care	859	964	298	702
Industrials	-1,319	-1,837	-3	83
Materials	-832	-1,378	-140	336
Real Estate	-2,286	-913	-180	-33
Technology	1,006	3,051	241	1,391
Utilities	-860	861	-196	269

Source: Bloomberg Finance L.P., State Street Global Advisors, as of 31 March 2020. Flows shown above are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Methodology We collect and aggregate flow figures for all sector and industry ETFs domiciled in the US and Europe. As of March 2020, this set includes approximately 350 ETFs and more than \$350 billion in AUM invested in US-domiciled funds and 350 ETFs and more than \$35 billion in AUM invested in European-domiciled funds. The flow figures include ETFs invested across regions (including US, Europe and World). They are calculated as the net figure of buys minus sells. **The green boxes signify the two highest flow figures for each period, while the red boxes signify the two lowest flow figures.**

Institutional Flows and Positioning

The direction of flows and relative positioning of institutional sector flows, referencing \$19.3 trillion of equity assets under custody.*

*Source: State Street, as of 31 December 2019.

World

Our equity flow and holdings data is unique, gathered from the anonymised State Street custody holdings of thousands of institutional investors. The World figures incorporate investor behaviour over a broad range of markets, capturing activity in individual stocks as well as mutual funds and REITs. The most striking move in Q1 was in Energy holdings. The relative outflow was as large as at any point over the past five years. The lower chart shows how the momentum of selling gathered pace after the OPEC+ talks failed to reach agreement and the Brent crude oil price fell to \$23 per barrel.

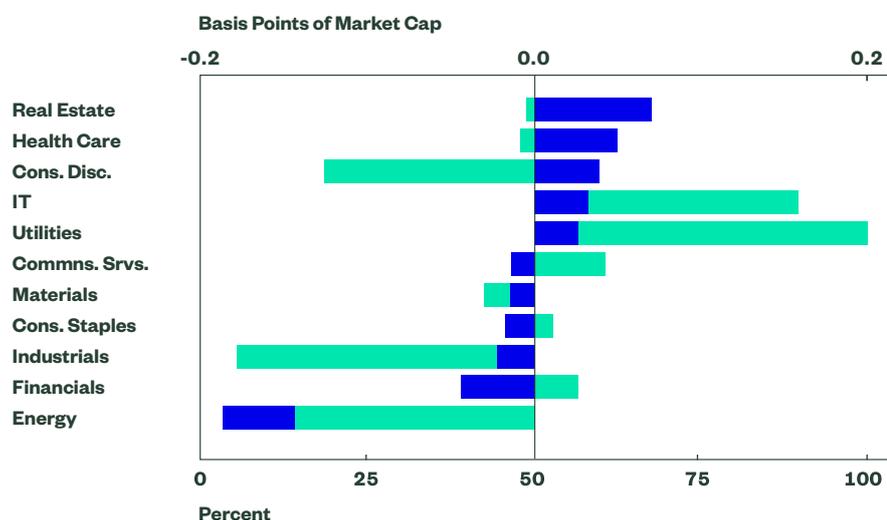
Moving in the opposite direction were relatively strong flows into Real Estate and Health Care stocks. Health Care is one of our Sector Picks for the coming quarter, reflecting the defensive nature of operations and the strength of the earnings outlook while other sectors are enduring significant downgrades. Institutional investors have been building up from an underweight position in portfolios.

Overall, we see that investors reacted to the tumult in markets by adding to their traditionally lower risk equity holdings, including Utilities, and reducing more economically sensitive businesses. This leaves investors with relatively overweight positioning in Utilities and other defensive sectors, and underweight cyclical sectors, with the most pronounced positioning being Industrials.

Flows and Holdings

Active Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

- Holdings (lower axis)
- 3-month flow (upper axis)

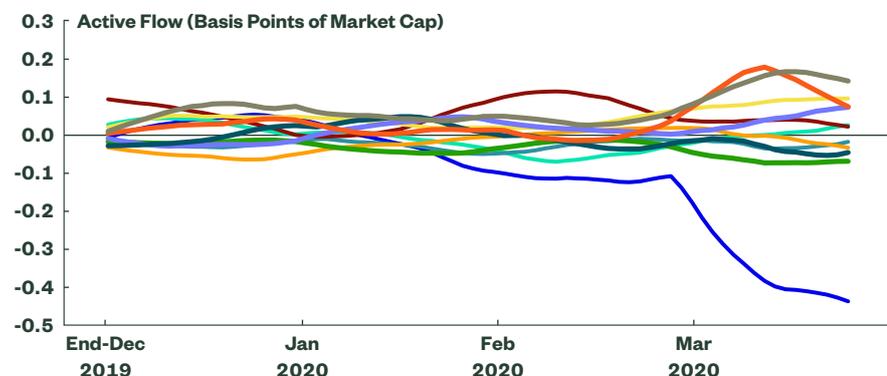


Source: State Street Global Markets. Data are as of 31 March 2020. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Progression of Active Flows

Trend of Flows Over Past Quarter

- Energy
- Materials
- Industrials
- Cons. Disc.
- Cons. Staples
- Health Care
- Financials
- Info. Tech.
- Communication
- Utilities
- Real Estate



Source: State Street Global Markets. Data are as of 31 March 2020. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. The universes for the above charts are the MSCI ACWI, MSCI US and MSCI Europe. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

US

Drilling down into US holdings, we see similar trends to World in Q1. Real Estate has been in and out of favour with institutional investors over recent quarters, often in response to bond yields. Given the monetary policy response to the COVID-19 crisis, bond yields have fallen significantly, helping the relative attraction of this bond-proxy sector. The sensitivity of each sector against moves in the generic US 10-year bond yield can be seen on page 22.

Institutional investors also added money to the Consumer Discretionary sector, whose biggest constituent is Amazon, on expectations of higher demand for the services of the online marketplace.* This comes from a heavily underweight position in the sector as a whole. Interestingly, this is in direct contrast to the behaviour in Consumer Staples assets.

Again, there was a significant move in Energy flows, with investors now holding a large underweight position.

Flows and Holdings

Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

- Holdings (lower axis)
- 3-month (upper axis)

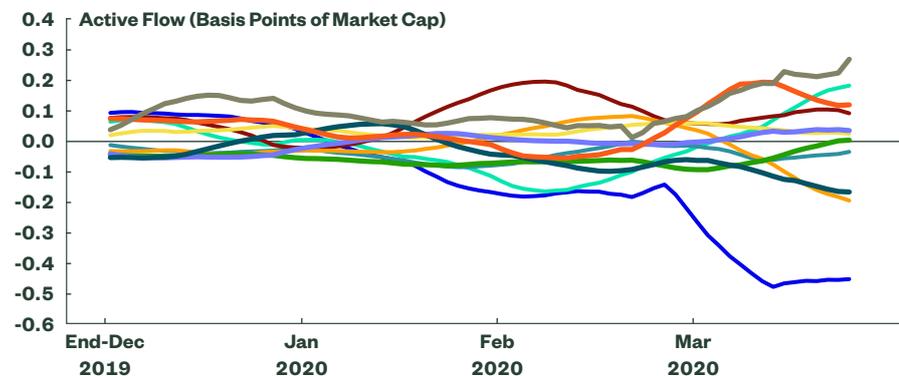


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Europe

The Q1 trends in European equity flows were dramatic. There was a large move out of Energy stocks, for the reasons noted earlier, and over the same period there were relative net inflows into Information Technology. The IT sector fell sharply in the first two weeks of March; presumably institutional investors were taking advantage of this opportunity to buy growth stocks. Institutional investors have typically been underweight in European IT stocks.

Communication Services names also gained popularity in Q1. In Europe, this sector mainly comprises telecommunication service providers, which have a relatively stable revenue stream and could benefit from enhanced investment into 5G communications.

Unlike the other regions, there were relative net outflows from Real Estate, where investors have been worrying about the impact of COVID-19 containment measures on the income of retail and office portfolios. This has been a major overweight position in portfolios.

Flows and Holdings

Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

Holdings (lower axis)
3-month (upper axis)

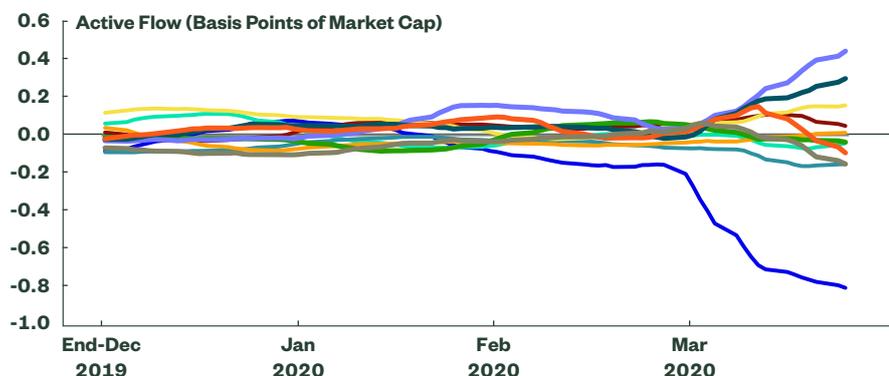


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Progression of Active Flows

Trend of Flows Over Past Quarter

- Energy
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Sector Picks

Ideas for the quarter ahead based on macroeconomic indicators, aggregated earnings, valuation metrics, flows, holdings and potential drivers for each sector.

Health Care

Protecting the World's Population

World	US	Europe
✓	✓	✓

US Regulatory Fears Reduced

The progress of the US Democratic primaries has reduced the risk of some of the toughest regulatory proposals from being enacted. US Health Care stocks jumped after the former Vice President Joe Biden emerged as Democratic Party frontrunner on Super Tuesday, suggesting that investors prefer Biden's vision of expanding the Affordable Care Act to what could have been the plans from alternative candidates.

There are still threats from the current administration but these may also now be reduced. The Trump administration has suggested multiple ideas aimed at reducing how much Medicare pays for drugs. This had previously stalled, given fierce opposition by pharmaceutical companies and members of both political parties in Congress. Now, however, the need to mount a rapid response to the coronavirus threat gives the industry a powerful argument against price influence.

Emergency Government Spending May Directly Benefit Health Care Services Worldwide

There will be many headlines on spending to beat the coronavirus pandemic, but this will not benefit the sector universally. Industries within the sector have different drivers and economic sensitivities.

To be clear, many companies will be negatively impacted by knock-on effects from the virus, such as the cancellation of routine operations and delays to clinical and regulatory timelines and research spending. Disruption to the health care supply chain (already suffering shortages in sample tests, masks, gowns, etc.) and reduced availability of generic drugs, given heavy reliance on China for production of active pharmaceutical ingredients, are also problematic. However, for technology companies in the sector the pandemic could produce growth. Hospitals and distribution peers could benefit from rising admissions growth and shipment of supplies.

Two areas are particularly interesting, the first being the supply of COVID-19 testing kits, where Roche, among others, is a name to watch.* The second is vaccine development for COVID-19. A vaccine is estimated to take at least 1.5 years to develop and release (although this is a fast-moving story). The company mentioned most in this respect is Gilead Sciences, a US biotech company, and among the major pharmaceutical companies, GlaxoSmithKline has the largest vaccine franchise by sales, followed by Merck, Sanofi and Pfizer.* Buying the whole sector is one way of trying to capture the successful entity.

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Defensive Sector

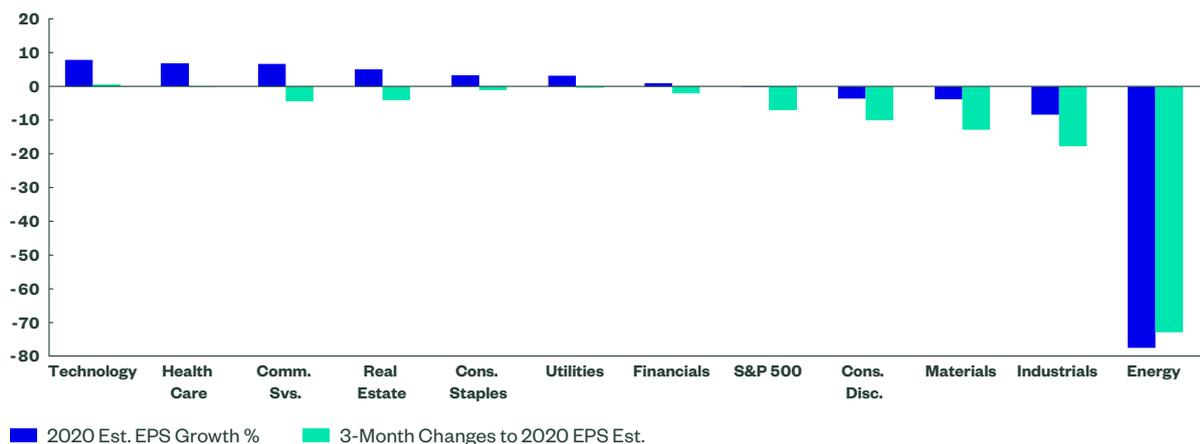
Health Care is defensive by nature of its products supplied and services offered, which can be seen in relatively stable earnings growth, as shown below. The sector has experienced small downgrades to earnings forecasts so far this year compared with the rest of the market. Defensiveness can also be demonstrated by the low beta and volatility of share prices.

The sector is often seen as a quality play with high returns and relatively low debt/equity. Most companies appear to have robust enough cash flow to continue to service dividends, which will not be the case across all sectors.

Supportive Investor Behaviour

Flash flows for sector ETFs show that European-domiciled Health Care ETFs (representing funds tracking European, US and World Health Care indices) have been the second most popular year to date. Meanwhile, data published by State Street Global Markets over the past week showed that institutional investors were relative net buyers of health care stocks in Europe, US and globally and they were coming from large underweight positions on average.

Forecast EPS Growth & Recent Changes by S&P Sector (%)



Source: FactSet, as of 31 March 2020. The above estimates based on certain assumptions and analysis. There is no guarantee that the estimates will be achieved.

Technology

The Benefits of Staying at Home

World	US	Europe
✓	✓	✓

Short-Term Pain for Long-Term Gain?

Technology has been a popular sector in recent years as investors look to gain exposure to secular growth trends such as digitalisation, cloud computing and the possibilities 5G and artificial intelligence. Nevertheless, despite its impressive growth rates and quality characteristics, the sector did look expensive at the end of last year. Following significant share price falls in Q1, investors now have an opportunity to access Technology's long-term attractions at lower levels.

How might Technology companies fare in the COVID-19 crisis? The impact overall is undoubtedly negative. Technology is not a defensive sector, as it depends significantly on corporate capital expenditure. Normally such expenditure would be reined in during difficult economic times, but with the working-at-home dynamic, spending priorities are likely to change and there could be positive benefits to some stocks.

Software Applications and Services Could See a Stay-at-Home Benefit

Share prices in this industry group have held up relatively well in the first quarter (total returns for MSCI World Software were -10% compared with MSCI World Index at -21%). Several software providers have produced positive returns of over 30% on an expected uplift in demand for their products that facilitate web conferences, remote desktop access and cyber security, among other services.

Software providers are well placed for the long term, as many industries are still early in their digital transformations and require significant software investments. However, most software companies will suffer some waning sales amid global economic slowdown. Where there may be relief is from the millions of employees worldwide suddenly being forced to work from home producing a surge in demand for communication, collaboration and security software solutions. The longer the COVID-19 impact, the more likely that corporations will accelerate their move to adopt new applications and cloud-based services.

Hardware Hit on Supply and Demand Side

Hardware stocks have been weaker than the rest of the sector so far this year (MSCI World Hardware is down -17%) but they have still outperformed the broader market. Hardware products encompass PCs, smartphones, storage and data networking equipment. The largest customer bases come from consumer product and corporate buyers.

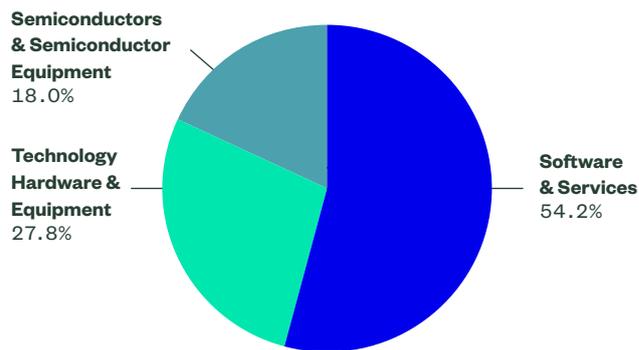
PC and smartphone manufacturers were hit early on in this pandemic by a lack of supply of electronic components from China, as disruptions stemming from the Wuhan lockdown may continue for months. However, there is hope that pent-up demand lost in the first two quarters of 2020 could see a revival later in the year. There is less optimism for other big hardware suppliers, which face a long-term fall in sales of servers and storage if the move from on-premise to public clouds is accelerated.

Semiconductors Traditionally Lead the Broader Market

Semiconductor share prices fell hard initially but they partially recovered at the end of Q1 (MSCI World Semiconductors is down -16% YTD). Chip manufacturers are highly cyclically sensitive, typically leading an economic upturn or downturn, and therefore can show more volatile performance.

As a whole, semiconductor companies are better positioned to weather a downturn from the coronavirus, as smartphones and cloud improvements may help offset weakness in corporate IT spending. Unlike hardware, chipmakers have the public cloud as a third key end-market. Consensus forecasts see pronounced drops in chip sales in the first half of 2020 as auto manufacturers and industrial users cut orders, with a second half revival dependent on the breadth and severity of the crisis. In the long term, semiconductors are essential to scale the delivery of IT infrastructure plans.

Sector Breakdown by industry Group (%)
MSCI World
Information Technology



Source: Bloomberg Finance L.P., as of 31 March 2020.

Communication Services

Benefiting from the Online Response

World	US	Europe
✓	✓	✓

A Mixed Sector

The sector offers large cap companies, valuable brand names, significant long-term growth prospects and exposure to secular trends related to e-commerce, social media and internet usage. These characteristics may be appealing at this difficult time in stock markets. Sector constituents give a mixed exposure to cyclical businesses, such as those that are related to advertising and may experience a sharp downturn during the COVID-19 crisis, with those like telecommunications providers that offer relatively defensive earnings.

At a regional level, European Communications (a SPDR Sector Pick in Q1) looks relatively attractive in the current scenario given its split of businesses (77% of market cap versus 21% of S&P sector market cap). In the US, the large interactive media players, Facebook and Alphabet (Google) comprise 47% of the sector.* Earnings for these internet companies are likely to be interrupted by a fall in advertising revenue, but the significant rise in users could well be monetised in another form, making them interesting from a different perspective.

Haven in Telecommunication Services

Telecommunications service providers appear poised on the brink of an industry revolution. 5G wireless technology for digital telephone networks will serve a diverse set of needs, bringing greater reliability, latency, speed, mobility and security of connectivity. The network providers have been penalised price-wise in the past for high levels of capital expenditure and licence costs, but less time has been spent thinking about the rewards in terms of increased users and spend. Some of this will be forgotten in the near term as there are likely to be delays to 5G network roll-out and 5G auctions during this period of lockdown and disruption, although there may be stimulus for enhanced infrastructure spending thereafter.

Telecommunication services offer a relative haven because of the perceived necessity of spend for consumers on phone line usage. Furthermore, providers of broadband and mobile phone services may experience less churn from customers and bigger data volumes. A rise in customer upgrades for faster internet connections to facilitate home access for work and entertainment during the virus lockdown is also expected.

* This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

Internet Giants will Suffer Lost Advertising Revenue but Gain Users

Advertising revenue has suffered for months from cancellation of business from travel and automotive companies that saw early disruption from the Chinese lockdown and, more recently, from campaigns linked to major sporting events. Revenue will fall further as companies worldwide seek to cut costs.

There are two types of businesses in this sector that will be impacted by a downturn in advertising spend: 1) the relatively small agencies that commission on behalf of the end-customer and 2) the platforms for advertising. By company size, the internet platforms dominate, with digital advertising having rapidly increased its market share from other media (radio, television, newspapers, etc.) in recent years. We expect that, in this downturn, the rate of transitions will accelerate.

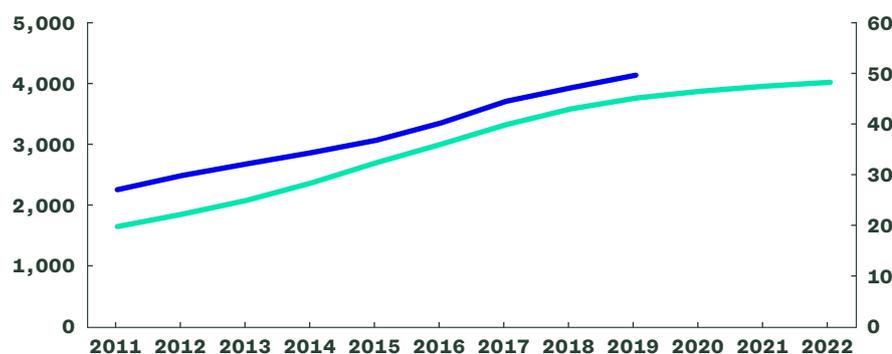
While heavily reliant on advertising revenue, the two largest stocks in the sector, Alphabet and Facebook, have seen a significant increase in use of their services — such as YouTube, WhatsApp and Instagram — as people stuck at home seek to stay in contact. Inevitably, these companies will seek to monetise their enhanced popularity through other means, such as e-commerce or commission on virtual gifting.

Some Business Winners of Stay at Home

There are two other groups of media companies worthy of consideration at this time. First, the subscription service providers (the best known is Netflix) and gaming companies that have seen a spike in demand for their content. Second, cable operators that should see greater demand for their broadband networks, which should help offset the loss from the entertainment provision of the sector, such as theme parks, sports cancellations and movie delays.

Internet Usage & Advertising Share

■ Internet Users (M)
■ Internet Share of Total Global Ad Spend (%)



Source: Bloomberg Finance L.P., as at 31 March 2020. The chart contains forecast estimates from 2020 onwards. There is no guarantee that these forecasts will be met.

Implementing Sector Investing

Sector index metrics to help investors compare sectors.

Sector Index Metrics

	Fundamental Growth Forecasts & Valuations								
	Est. 2yr EPS Growth (% p.a.)*	3mth Change to 1yr EPS Growth Forecast (%)	Forward P/E**	Forward Relative P/B**	Relative CAPE	Relative CAPE (10yr Avg)	ROE (%)	Debt/Equity (%)	12mth Div. Yield (%)***
MSCI World Sector Indices									
MSCI World Index	–	–	13.5	–	–	–	10.5	133	2.97
Comm. Services	7.4	-1.7	13.8	1.13	1.50	1.39	10.5	99	2.16
Consumer Disc.	6.2	-14.2	14.6	1.26	1.07	1.14	11.7	121	2.11
Consumer Staples	4.4	0.2	16.5	1.81	1.23	1.13	20.6	100	3.20
Energy	1.1	-58.5	14.5	0.45	0.35	0.60	4.6	58	8.00
Financials	1.5	-6.0	8.4	0.42	0.57	0.59	8.1	221	4.78
Health Care	8.8	5.3	14.0	1.71	1.47	1.08	24.3	83	2.18
Industrials	5.2	-9.7	13.0	1.13	0.98	1.09	12.1	103	2.73
Materials	3.1	-11.9	12.7	0.72	0.79	0.98	8.3	56	3.80
Real Estate	-0.4	-6.8	19.0	0.58	1.19	1.23	5.1	79	4.42
Technology	9.0	0.5	17.4	2.62	1.52	1.27	37.0	71	1.55
Utilities	2.1	1.0	14.9	0.83	1.05	0.93	11.5	135	4.25
US S&P Select Sector Indices									
S&P 500 Index	–	–	14.4	–	–	–	17.8	115	2.39
Comm. Services	10.8	2.1	13.5	0.90	1.35	1.51	15.7	92	1.25
Consumer Disc.	9.9	-7.6	15.1	2.02	1.24	1.14	22.5	242	2.02
Consumer Staples	4.8	2.8	16.6	1.70	0.99	0.93	27.4	130	3.22
Energy	9.1	-66.6	17.5	0.31	0.28	0.69	2.7	50	7.96
Financials	3.7	-2.6	9.0	0.36	0.82	0.55	10.4	144	3.27
Health Care	8.7	6.1	12.9	1.24	1.18	0.99	26.4	93	2.04
Industrials	7.9	-16.6	12.7	1.27	0.84	0.98	16.0	146	2.47
Materials	6.5	-5.6	13.6	0.68	0.79	1.03	8.7	65	2.99
Real Estate	-3.8	-10.5	31.7	0.48	1.66	1.74	7.7	122	3.96
Technology	8.2	1.3	17.6	2.30	1.13	1.04	40.7	83	1.59
Utilities	4.5	4.2	16.4	0.69	1.66	1.74	10.6	138	3.77
MSCI Europe Sector Indices									
MSCI Europe Index	–	–	11.8	–	–	–	8.0	164	4.46
Comm. Services	6.7	-0.8	10.7	0.85	0.77	0.87	5.1	148	5.92
Consumer Disc.	4.3	-23.7	11.3	0.99	0.95	1.51	10.2	109	3.21
Consumer Staples	3.5	-2.0	15.5	2.02	1.42	1.41	17.4	89	3.49
Energy	0.8	-50.6	11.9	0.62	0.54	0.67	5.3	59	8.81
Financials	-0.5	-9.1	7.3	0.43	0.61	0.61	7.8	287	7.04
Health Care	8.4	6.3	14.4	2.39	1.55	1.21	25.6	68	3.05
Industrials	2.9	-10.5	13.0	1.61	1.30	1.46	14.8	106	3.47
Materials	1.3	-8.2	12.0	0.97	1.02	1.15	6.5	54	4.73
Real Estate	0.8	-1.1	12.5	0.49	0.98	1.12	5.8	77	6.02
Technology	13.7	7.5	16.4	2.30	3.70	3.25	11.9	54	1.57
Utilities	5.2	3.7	13.1	1.10	1.01	0.71	12.1	128	5.44

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 31 March 2020. Past performance is not a guarantee of future results. The above estimates based on certain assumptions and analysis made. There is no guarantee that the estimates will be achieved.

* Calculated as a 2-year average of consensus forecasts for adjusted EPS using BEst (Bloomberg Estimates).

** Forward estimates refer to 12 months.

*** This measures the weighted average of gross dividend yield of the relevant index and the underlying stocks from the relevant ETF.

Sector Index Metrics (cont'd)

	Macro Sensitivities****			Risk Metrics*****		
	US 10yr Yield Sensitivity (36 Months)	Brent Crude Oil Price Sensitivity (36 Months)	Inflation (5yr-5yr Forward) Sensitivity (36 Months)	Beta (36 Months)	Volatility (36 Months) (%)	Correlation (36 Months)
MSCI World Sector Indices						
MSCI World Index	0.11	0.26	0.80	1.00	14.83	–
Comm. Services	0.09	0.22	0.73	0.81	14.34	0.86
Consumer Disc.	0.12	0.30	0.90	1.06	16.56	0.98
Consumer Staples	0.03	0.12	0.40	0.57	11.11	0.78
Energy	0.23	0.55	1.42	1.50	26.13	0.87
Financials	0.19	0.37	1.14	1.24	20.19	0.94
Health Care	0.06	0.10	0.56	0.67	12.67	0.80
Industrials	0.13	0.32	0.95	1.18	18.37	0.98
Materials	0.13	0.30	0.83	1.04	17.21	0.93
Real Estate	0.04	0.25	0.57	0.78	15.20	0.78
Technology	0.10	0.26	0.71	1.00	17.42	0.88
Utilities	0.02	0.16	0.27	0.53	12.94	0.63
US S&P Select Sector Indices						
S&P 500 Index	0.11	0.26	0.82	1.00	15.22	–
Commun. Services	0.10	0.29	0.85	0.95	17.18	0.86
Consumer Disc.	0.11	0.30	0.94	1.09	17.82	0.95
Consumer Staples	0.04	0.12	0.46	0.60	12.77	0.74
Energy	0.27	0.64	1.68	1.64	30.44	0.84
Financials	0.20	0.36	1.18	1.24	21.19	0.92
Health Care	0.07	0.10	0.62	0.69	13.76	0.79
Industrials	0.15	0.34	1.04	1.25	20.59	0.95
Materials	0.12	0.27	0.81	1.03	17.32	0.93
Real Estate	0.02	0.21	0.46	0.65	14.96	0.68
Technology	0.09	0.26	0.70	0.99	17.25	0.90
Utilities	0.01	0.14	0.22	0.46	13.61	0.53
MSCI Europe Sector Indices						
MSCI Europe Index	0.12	0.28	0.78	1.00	15.71	–
Comm. Services	0.10	0.19	0.61	0.86	18.06	0.77
Consumer Disc.	0.16	0.37	1.02	1.19	20.00	0.96
Consumer Staples	0.02	0.14	0.37	0.58	12.10	0.78
Energy	0.19	0.39	0.95	1.09	20.75	0.85
Financials	0.21	0.40	1.22	1.34	23.00	0.94
Health Care	0.03	0.08	0.33	0.55	12.17	0.73
Industrials	0.14	0.36	0.97	1.19	20.00	0.96
Materials	0.15	0.33	0.86	1.05	18.58	0.91
Real Estate	0.09	0.36	0.83	0.99	20.13	0.80
Technology	0.12	0.29	0.72	0.95	17.16	0.89
Utilities	0.02	0.21	0.35	0.75	17.11	0.71

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 31 March 2020. Past performance is not a guarantee of future results.

**** Sensitivity is beta to the macro variable, e.g. 10-year Treasury yield, Brent oil, and US 5yr-5yr forward as shown here.

***** Beta and volatility are based on index returns. Correlation is the 36-month correlation to the parent index.

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Methodologies

SPDR Sector Picks Explained Looking out three months, we consider which sectors stand to potentially benefit from a combination of top-down and bottom-up factors. Macroeconomic indicators greatly inform our research, along with aggregated earnings and valuation metrics. We also consider investor flows and positioning. Most importantly, we reflect on the likely drivers of each sector over the forecast period.¹

Access to 10% of World's Tradeable Securities² As part of State Street, we have access to information gleaned from our large global custody business. By aggregating \$19.3 trillion of equity assets, we can observe behavioural trends of this important investor constituent. This includes not only the direction of flows, but also the relative positioning of portfolios. These metrics are generated from regression analysis based on aggregated and anonymous flow data in order to better capture investor preference and to ensure the safeguarding of client confidentiality.

Investor Behaviour Indicators Explained Holdings measure investors' actual positions over and above the neutral positions embedded in their benchmarks. The figures are shown as percentiles and represent the investor holdings at month-end versus the last five years. This approach provides perspective on the size of holdings compared with their historical trends, whereas a single, dollar figure provides less context; 100% represents the largest holding in the last five years whilst 0% is the lowest holding.

Active Flows Indicates the value of net buying by large institutional investors (buys minus sells) expressed in terms of basis points of market capitalisation. These are flows in addition to the purchases or sales driven by shareholders allocating to the benchmark.

Top Chart Records the asset flow over the previous three months (60 trading days) versus the last five years.

Bottom Chart Shows trend of flows over previous three months (60 trading days).

Endnotes

- 1 Targets such as the type noted above are estimates based on certain assumptions and analysis made by State Street Global Advisors. There is no guarantee that the estimates will be achieved.
- 2 Source: State Street, as of 31 December 2019.

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