

# 2021 ETF Market Outlook

## Michael Arone, CFA

Chief Investment Strategist, US SPDR Business

## Matthew Bartolini, CFA

Head of SPDR Americas Research

Charles Dickens wrote “A Tale of Two Cities” more than 160 years ago, in 1859. Yet, remarkably, the book’s famous first sentence — “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of light, it was the season of darkness, it was the spring of hope, it was the winter of despair.” — almost perfectly describes investor sentiment for 2020.

Nine months into the pandemic, many markets have eclipsed previous all-time highs. And two COVID-19 vaccines that are roughly 95% effective in human clinical trials have fueled optimism that the pandemic nightmare may end soon, creating enthusiasm for a robust economic and earnings recovery in 2021.

For all 2020’s tumult, the year began with a truce; the Phase One trade deal ended a long, hard-fought US-China trade war. Markets, which were coming off a solid 2019, were building momentum in the first couple of months of 2020 and reached fresh new highs. But by March, COVID-19 and its aftershocks exposed fragile cracks in our health, social, political and economic structures.

In response, politicians and central bankers acted quickly and aggressively to address the economic and capital market challenges. Substantially expanding the playbook created in the aftermath of the Global Financial Crisis, policymakers may have prevented a repeat of the Great Depression. Their bold actions also bought valuable time for health experts to work toward a solution to the COVID-19 crisis, while markets and the economy began the long road to recovery. This empowered investors to look beyond the economic and corporate profit carnage of the second quarter to a potentially brighter future in a post-pandemic world. As a result, markets rallied throughout the summer — especially stay-at-home technology stocks — as households and businesses adapted to the pandemic-plagued environment.

By fall, investors suffered some brief moments of doubt as several well-known risks tilted more negatively. COVID-19 cases surged as flu season commenced. Anxiety regarding the approaching US election rose. Meanwhile, Republicans and Democrats failed to reach a compromise on a second pandemic relief package, and US-China tensions reignited. All of this kept measures of market volatility elevated, and investors’ nerves frayed.

---

Thankfully, investors' fears have subsided since the election. Market participants seem increasingly comfortable that the new balance of power — a Biden administration, reconstituted Congress and conservative Supreme Court — will help ensure that the US government's clever checks and balances will function to prevent most of the extreme policy ideas on the left or right from becoming law. Also, the potentially powerful duo of Janet Yellen, who has been nominated for US Treasury Secretary, and Federal Reserve Chairman Jay Powell has bolstered investor confidence that more fiscal and monetary stimulus is likely on the way.

### **The Road Ahead**

Rising anticipation of the inevitable defeat of COVID-19 has resulted in greater expectations for a robust economic and earnings recovery in 2021. Cyclical value sectors and industries, small-cap, international developed, and emerging market investments have already started to close the performance gap with the previously high-flying US large-cap technology and growth stocks. This increased market breadth is healthy and further underscores the strength in the market's recent rally.

However, investors must reconcile whether this is another head fake in a long line of head fakes or a more permanent change in market leadership. As the economy and earnings accelerate and the pandemic fades, this underlying shift in market dynamics is likely to last for long stretches in 2021.

Yet the structural challenges of rising debt, yawning deficits, aging demographics, and the disinflationary forces of technology continue to provide considerable obstacles for the economy, interest rates and inflation to reach escape velocity beyond the next year or so. As a result, it's not about cyclical value or secular growth in 2021. Rather, it's about balancing cyclical and secular change in investment portfolios.

Investors' single biggest challenge may continue to be in fixed income allocations. Historically, fixed income investments have delivered diversification, capital preservation and income benefits to investors. But more than a decade of falling interest rates and central bank interference in markets has permanently distorted the fixed income landscape. Endlessly low interest rates have deprived investors of much-needed income. This has forced them to uncomfortably extend fixed income maturities, reduce credit quality, and increase investments in hybrid securities (e.g., convertible bonds and preferred stocks) to generate sufficient yield. In many instances, the compensation investors are receiving for accepting these additional risks is often inadequate.

If, as expected, the economy and inflation continue to rebound, it will put upward pressure on interest rates and bond prices will fall. Higher rates could also result in increased credit defaults, especially in speculative fixed income securities. And, greater exposure to non-investment-grade bonds and hybrids has increased correlations between bond and equity allocations, weakening some of the diversification and capital preservation benefits of certain fixed income investments.

Navigating an increasingly difficult fixed income environment will continue to be a struggle for many investors in 2021. There are no easy choices — only tradeoffs. Investors may need to use a variety of fixed income investments — including agency mortgage-backed securities, emerging market debt, senior loans and preferreds — to pursue scarce income, while carefully balancing risks.

---

As a tumultuous 2020 draws to a close, the subtle underlying shifts in stock and bond markets extend to global policy coordination too. The pandemic and its hardships have highlighted the need for greater global cooperation. The tough isolationist rhetoric of the past four years is beginning to soften. World leaders recognize that deepening collaboration will better prepare them to tackle complicated health, social, trade and climate challenges. President-elect Joe Biden has pledged to rejoin the World Health Organization and Paris Climate Agreement. Fifteen Asia-Pacific nations formed the world's largest free-trade bloc in November. Globalization trends are resurfacing and will likely continue in 2021.

Shrinking trade, a significant headwind for global growth in recent years, may soon start expanding again. This just might be the catalyst needed to unlock long-anticipated relative value opportunities in international developed and emerging markets. In addition, increased global policy efforts to address climate change are likely to keep shares in environmental, social and governance (ESG), clean power and alternative energy investments well bid.

As the global economy and corporate profits continue to recover, investors should consider these three themes when building portfolios for the approaching post-pandemic environment:

1. Barbell cyclical and secular change
2. Balance risk in the pursuit of income
3. Position for more global cooperation

---

## Theme 1

---

### Barbell Cyclical and Secular Change

The positive news about COVID-19 vaccines, along with encouraging economic data,<sup>1</sup> has put the global economy on a clearer path to recovery. However, the lingering pandemic and the systemic behavioral change it has caused have punctured the equilibrium of societal norms — creating both continued uncertainty and new opportunities.

Although broad global equity markets are likely to finish the year with gains<sup>2</sup> and the S&P 500 Index has posted a 1% gain on 27% of the trading days so far this year (the best percentage for a calendar year since 1938),<sup>3</sup> the pandemic continues to create an uncomfortable environment of constant change that, unfortunately, is unlikely to relent when the calendar flips to 2021.

While we are likely embarking on a period of recovery, at the same time, we must adjust to the continued evolution of corporate and consumer behaviors resulting from the pandemic. Therefore, we look to 2021 for a “recov-olution” — a period of transition that will require balancing the cyclical opportunities stemming from an ongoing *recovery* alongside longer-term secular positions aimed at capturing the *evolutionary* impacts COVID-19 will continue to have on our society.

---

A Hopeful Recovery,  
but Not an Easy One

---

While the S&P 500 Index has posted the highest percentage of 1% gains in a calendar year since 1938, it has also posted losses of less than -1% on 20% of the trading days so far this year — the most since the Great Financial Crisis.<sup>4</sup> And the CBOE VIX Index has spent 190 days above a level of 20, a tally higher than that of the past seven years combined,<sup>5</sup> underscoring how the pandemic has created abnormally high levels of volatility.

---

Unfortunately, a similarly high macro risk regime is likely to persist in 2021 due to the resurgence of COVID-19 cases, which now exceed the first wave in March.<sup>6</sup> And while the recent positive vaccine news from Pfizer and Moderna<sup>7</sup> is encouraging, there is a difference between having a vaccine and getting people vaccinated. Currently, if all approvals come in on time, only 25 million people could potentially receive the Pfizer vaccine by year end.<sup>8</sup> The logistics of distributing the vaccine also present challenges — in particular, delivering it to developing nations.<sup>9</sup> Not to mention, only 51% of Americans have indicated that they would take the vaccine.<sup>10</sup>

This high-risk regime, however, has been supported by significant monetary and fiscal stimulus and has led to positive market gains on the year. Not surprisingly, though, given the questions surrounding the sustainability of firm operations and the likelihood of future growth with so many unknowns facing our society, Quality has been one of the best-performing factors in the US and around the world, posting positive excess returns of 3.7% for the US, 10.4% for developed ex-US, 1.9% for emerging markets, and 9.6% for global universes in 2020.<sup>11</sup>

The factor landscape changed following the positive vaccine news, however. Value, a more cyclical exposure that has been out of favor for the past decade — evidenced by it outperforming Growth in just 14% of the 129 rolling five-year periods since the end of 2009<sup>12</sup> — has had a recent resurgence. Value stocks have rallied 17.7% so far in November, compared with 10.3% for Growth and 9.7% for the broader market.<sup>13</sup> This trend of a resurgent value trade, based on the hopes of a recovery, had been building for the past three months. Value has bested growth on nearly 60% of the trading days in the past three months — well above the full-year rate of 42% for 2020 and the average rate of 47% for the past decade.<sup>14</sup>

Value's resurgence is not a complete surprise. To a degree, it follows the conventional playbook in a not-so-conventional time. If growth is expected to broadly improve from a more open economy as a result of a vaccine and the ability to test at home,<sup>15</sup> then, all else being equal, investors should likely seek out the cheaper source of growth. For example, if two stocks are expected to grow earnings by 10%, and one trades at a price-to-earnings multiple of 21 and the other at 13, the latter will likely be chosen when there is more widespread growth — the inverse of when growth is scarce and investors are willing to buy growth at any price.

Yet, just as we likely have experienced a once-in-a-lifetime pandemic, we also expect a once-in-a-lifetime recovery that is difficult to model with any certainty. With the prospects for an uneven recovery, potentially featuring run-ups in Value and questions on the sustainability of earnings growth that may lead to further gains for higher-quality stocks, a portfolio's core should reflect these two distinct style traits — creating additional balance that allows for more specific “recov-olution” positioning elsewhere for the potential cyclical and secular changes ahead.

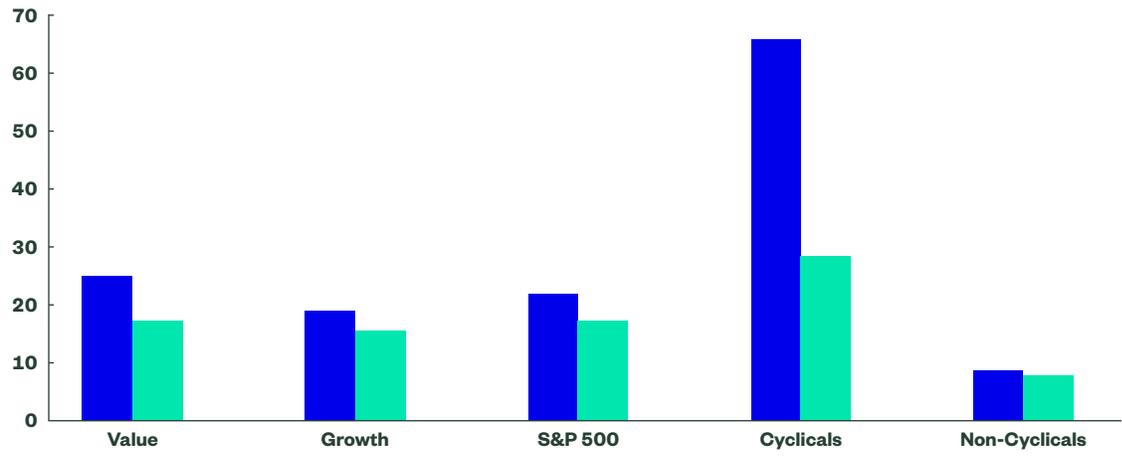
---

## Banking on a Cyclical Recovery

To more directly position for cyclical change in a high-conviction manner, there are a few options from a style and sector perspective. All are value/cyclically oriented, given the premise that if growth is plentiful, then consider favoring the market that offers the cheaper price to access that growth. As shown in Figure 1, when compartmentalizing the US equity market by cyclicals and non-cyclicals — or even value versus growth — we can see how lofty earnings-per-share (EPS) growth is expected to be over the next two years for the cyclical/value components of the market. Given the difference in valuations,<sup>16</sup> and with these expectations, it may not be a surprise to see sentiment shift upward resulting from more positive economic and vaccine data.

Figure 1  
**Earnings-per-Share Growth Projections (%)**

■ 2021  
 ■ 2022



Source: FactSet for value, growth, and S&P 500 as defined by the S&P 500 Value, S&P 500 Growth, and S&P 500 Index as of November 17, 2020. Cyclical and Non-Cyclical as defined by Standard & Poor's, Thomson Financial, FactSet and Credit Suisse as of November 17, 2020.

Buying Value, however, may not be the highest conviction position for a recovery. What's inside Value from a sector perspective may provide more precise positioning. As part of the recovery, we are likely to see a steeper yield curve — likely driven by a move up in long-term rates, as short-term rates are expected to remain anchored to the zero bound as a result of the accommodative Federal Reserve policies.<sup>17</sup> Cyclical exposures like Value, small cap, small-cap value, and dividend equities all have a lower correlation to the US 10-year yield than banks do (55% correlation).<sup>18</sup> And this makes sense, given that those other exposures contain sectors that may react inversely to the curve (Utilities, Real Estate), while banks, as a result of their operations that focus primarily on the ability to borrow short term and lend to clients long term, have historically benefited from higher rates and a steeper curve. If we were to run down a cyclical recovery checklist, we would want to see:

- *Positive relationship to yields:* Banks have a high correlation to the US 10-year yield?
- *High expected EPS growth:* Banks are forecasted to grow their earnings by 27.24% and 24.41% in 2021 and 2022, respectively<sup>19</sup> — rates that are above broad market figures. Additionally, Financials, as a sector, has the strongest EPS momentum out of any other sector as we close out 2020 — as measured by the change in 2020 forecasts over the past three months<sup>20</sup>
- *Constructive valuations:* Bank stocks, measured by price-to-book,<sup>21</sup> trade in the bottom 13th percentile relative to their own valuation history, as well as in the bottom 3<sup>rd</sup> percentile relative to the S&P 500<sup>22</sup>

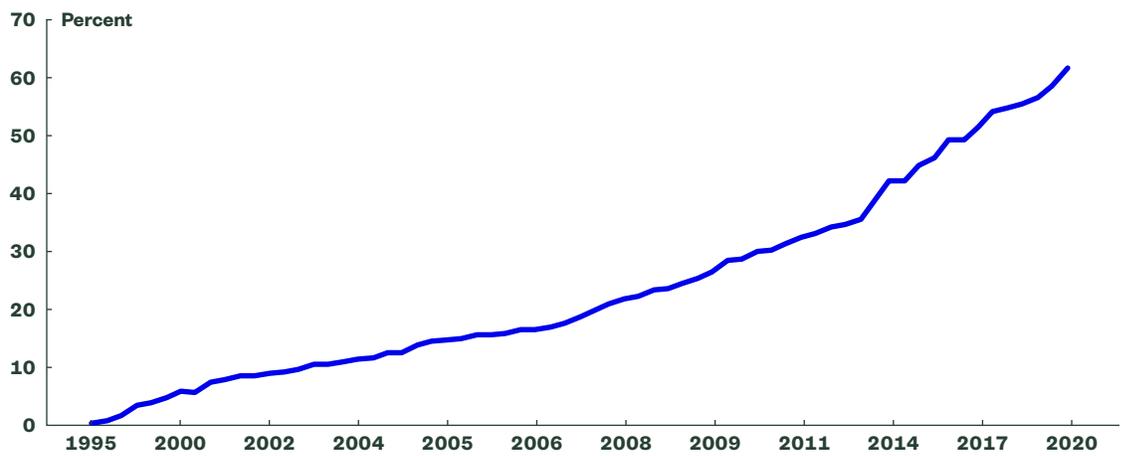
While not on the checklist, positioning trends for banks may add to the potential upside if a cyclical recovery takes. Per the Bank of America Fund Manager Survey, shorting banks was the second-most crowded trade as of November 17, 2020,<sup>23</sup> and a turn in sentiment may lead to short covering and, therefore, upward price appreciation for banks as result. Altogether, if an economic recovery does take shape, cyclical assets are likely to benefit as a result of the broad-based increase of economic growth, and bank stocks may be the ideal cyclical change candidate for 2021.

Technological innovation will continue reshaping our way of life. It will touch every industry and be the catalyst for new ones (like telehealth and e-learning). We are likely to see demand for advanced medicine, improved structural health care processes, and remote access capabilities to support reduced-contact interactions. Digital payments will become more standard, while video games, streaming networks, virtual reality, social media and interactive home workout equipment will likely move from being “discretionary” items to “staples” in the future.

COVID-19 has also shifted our mindset toward infrastructure spending, given the number of individuals working from home and relying on connected devices. It has also highlighted the need for crowd management, building safety protocols, and smart grids for the change in power consumption. A Barclays report estimates that Smart Cities have the potential to generate \$20 trillion in economic benefits by 2026.<sup>24</sup> There is precedent to support this prediction, as back in 2008, coming out of the Great Financial Crisis, South Korea put almost 80% of its stimulus spending toward sustainable measures, and the International Monetary Fund recognized the country’s recovery as one of the swiftest and most successful in the world.<sup>25</sup> For today’s recovery, governments are seeking to use the same playbook, as President-elect Biden’s infrastructure agenda is focused on investing in modern and sustainable infrastructure, and recently, the European Commission’s €750 billion economic stimulus plan featuring sustainable infrastructure renovation was agreed upon by Parliament.<sup>26</sup>

While COVID-19 is a humanitarian crisis first, it has also resembled a global security event in terms of travel restrictions, compromised video-hosting platforms, and brought about a near-total transition to digital payments — leading to the need to have more improved cybersecurity measures in a more digital world. As shown in Figure 2, the trend of digital connectivity has been growing over the past few years, and given our new digitally connected but physically separate world, this trend is likely to strengthen — mainly from the rising number of connected devices. Prior to the pandemic, the average US household had 10 connected devices<sup>27</sup> — up from five a few years prior<sup>28</sup> — and this number is likely to increase to potentially 20 by 2025.<sup>29</sup> This follows the similar pattern of data usage by zettabytes, as from 2015 to 2019, data volumes increased 165%, and they are expected to increase by 263% from now to 2024.<sup>30</sup>

Figure 2  
**Growth of the  
Internet: Percentage  
of World Population  
with Access**



Source: Internet World Stats as of 06/30/2020.

While these trends existed prior to COVID-19, the pandemic has pushed the adoption of certain behaviors up by a few years — creating new future growth opportunities. These behavioral changes are not one-offs for our society, but transcendent trends that will impact future generations across a variety of different parts of our economy.

Overlooking these broad-based innovation trends may reduce a portfolio's opportunity for growth and its potential participation in secular change. In fact, if we compile all broad innovation thematic ETFs into one portfolio and average the consensus analyst estimates of these innovative firms' 3–5 year EPS growth, we find that all of the stocks in the thematic ETF portfolio are expected to grow earnings by 19% over this time period, versus growth of just 12% for the average S&P 500 firm.<sup>31</sup>

This inflection point of behaviors may present opportunities that are not currently well represented in traditional market exposures. When targeting these broad-based thematic trends where idiosyncratic or firm-specific risk can be elevated, since not all firms innovate successfully, a diversified investment approach that is non-market-cap weighted can be optimal.

## Implementation Ideas

These funds may help investors seeking to balance the recovery and systemic change:

To tailor the core with strategies that balance the potential for a recovery impacting sentiment on cyclical assets (Value) while seeking to mitigate concerns on the sustainability of growth (Quality), consider:	<b>QUS</b> <b>SPDR® MSCI USA StrategicFactors ETF</b>
To focus on the cyclical change with a dedicated high-conviction cyclical exposure, consider:	<b>KBE</b> <b>SPDR® S&amp;P Bank ETF</b>
To directly amplify the vast secular change likely to occur across our society, and gain broad exposure to innovation, consider:	<b>KOMP</b> <b>SPDR® S&amp;P Kensho New Economies Composite ETF</b>

## Theme 2

### Balance Risk in the Pursuit of Income

The COVID-19 pandemic has distorted human interactions, corporate culture, and overall societal norms. It has also upended fixed income portfolios with generation-defining ramifications.

The policy responses and the general risk-off behavior in a heightened macro risk regime have pushed interest rates to historic lows. Yes, after the Global Financial Crisis (GFC), central bank rates went to zero — or near zero. But, for the decade after the GFC, US 10- and 30-year rates averaged around 2.3% and 3.2%, respectively.<sup>32</sup> Today, they are trading around 0.90% and 1.65%, respectively, with the yield on the broader Bloomberg Barclays U.S. Aggregate Bond Index (Agg) hovering around 1.23%.<sup>33</sup>

The challenge in structuring today's fixed income portfolios is how to diversify the sources of risk

The Lower the Yield, the Higher the Probability of Lower Future Returns

in and outside of the core in order to pursue income needs and ensure portfolio diversification.

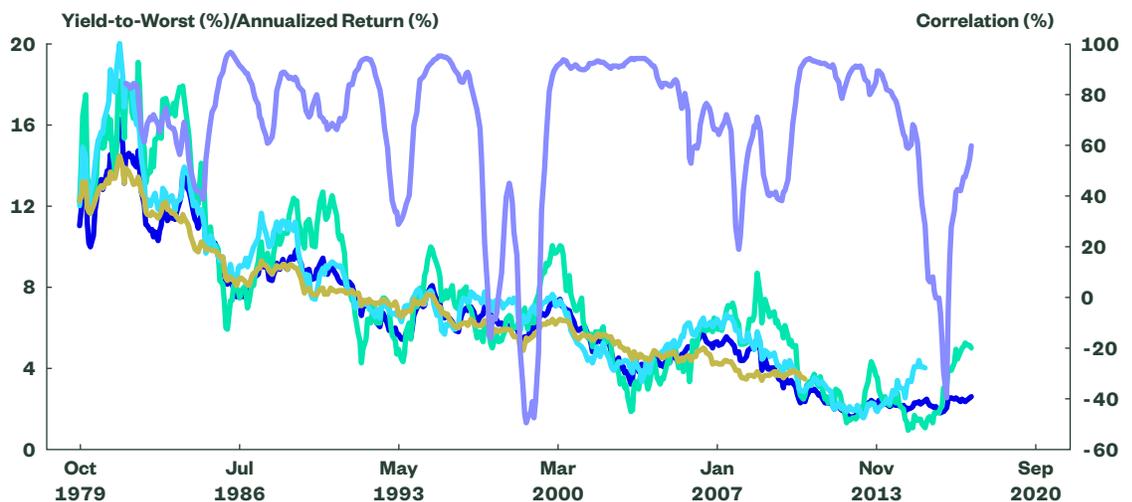
For bonds, there is a strong relationship between the yield at the time of purchase and the subsequent returns. This makes sense, given that the mathematics behind a bond's yield equate to the expected cash flows from the coupon as well as any price movement related to trading at a premium (negative return expectation as the bond moves closer to maturity at par) or a discount (positive return expectation as the bond moves closer to maturity at par).

Extending the time horizon only magnifies this relationship. For instance, on a three-year subsequent return basis, the straight-line correlation to the yield at the time of purchase for the Agg is 93%, with the five- and 10-year figures at 98%.<sup>34</sup> As shown in Figure 3, the trend between yield and future returns has persisted over time. As yields move lower, so do the subsequent future returns. However, when viewing the correlation between yield and rolling returns on a similar rolling basis, there can be brief periods of decoupling — even if the long-term average is over 90%.

The sizable reduction in interest rates today has led to notable duration-induced price appreciation — core Agg bonds are up 7% so far in 2020<sup>35</sup> — with this historical relationship decoupling. Yet, this price appreciation will likely dampen potential future returns as the correlation may mean revert — as it has done historically after prior rolling correlation decouplings during other severe risk events (dot-com bust and GFC). In fact, the relationship has already started to mean revert today.

Figure 3  
Agg Yield vs. Subsequent Returns

- Yield-to-Worst
- Subsequent 3-Year Return
- Subsequent 5-Year Return
- Subsequent 10-Year Return
- Rolling 3-Year Correlation of Yield-to-Worst and 3-Year Return



Source: Bloomberg Finance L.P., as of November 16, 2020. **Past performance is not a guarantee of future results.** Index returns are unmanaged and do not contain fees. The correlation coefficient measures the strength and direction of a linear relationship between two variables. It measures the degree to which the deviations of one variable from its mean are related to those of a different variable from its respective mean, with 0 being uncorrelated and 1 being perfectly correlated.

With the current yield environment at a near-record low for core bond sectors (1.23%),<sup>36</sup> and based on the relationship above, investors could expect a similarly low annualized return from core bonds over the next three to five years (i.e., around 1%). Yet, the low return is not being met by lower risk. The duration of an Agg exposure is six years,<sup>37</sup> a problematic profile if rates do eventually rise. A modest rise of 50 basis points to the Agg's yield would still result in a theoretical 1.27% capital loss, as the yield today is far too low to offset any impact duration has on price.<sup>38</sup>

Today's low and asymmetrical income and risk/return profile is an issue for an exposure that often comprises a large part of an investor's portfolio.

---

## Overweighting Mortgage-Backed Securities in the Core

While we expect today's generationally low rates to remain low for some time, the US Treasury curve may bear-steepen (long-term rates rise faster than short-term rates do) over the coming months, driven by three variables:

- 1** The Federal Reserve keeping its policy rates low,<sup>39</sup> anchoring short-term rates to the zero bound.
- 2** The US Treasury continuing to borrow to fund stimulus programs, putting upward pressure on long-term rates.
- 3** Positive vaccine news spurring longer-term growth expectations, lifting term premiums that have already climbed 36 basis points over the past three months<sup>40</sup> even higher.

A higher US 10-year yield may improve income prospects, but it doesn't overcome the asymmetrical risk/return profile of Treasuries and, therefore, the Treasury-heavy Agg. As a result, investors should consider overweighting mortgage-backed securities (MBS) in the core, as the sector has provided higher income than Treasuries (1.34% versus 0.61%) while offering more balance from a risk perspective (4.5 years less in duration, and lower historical volatility of 2.43% versus 4.87%).<sup>41</sup> Additionally, MBS have had a higher yield, lower duration, and less historical volatility (1.34%, 2.5 years, and 2.43%, respectively) than the broader Agg itself (1.19%, 6.22 years, and 3.71%, respectively).<sup>42</sup> And MBS' historical negative correlation to equities (-22%) may allow them to be a potential diversification tool as well.<sup>43</sup>

MBS also have potential advantages over another core sector — investment-grade corporates. MBS yield 61 basis points less than investment-grade credit, but with lower duration (2.5 versus 8.77 years), reduced spread risk (54 versus 114 basis points), and less historical volatility (2.43% versus 4.56%).<sup>44</sup> Optimizing the broad corporate bond index to obtain a duration similar to MBS' 2.5 years would equate to a yield on corporates of just 0.77%<sup>45</sup> — indicating that MBS offer a higher yield on a duration-adjusted basis. This structurally unique yield per unit of risk exposure may result in a higher yield in the core without adding risk (in fact, volatility is reduced, as discussed above), allowing income-seeking investors to take risk elsewhere.

---

## Adding Ancillary Bond Segments

In this abnormal yield-starved environment, generating income on par with historical figures requires investors to outlay more risk through duration (long-term Treasuries), credit (high-yield bonds) or equity-related exposures (high-yield dividend/preferred stocks), for example. Adding duration is likely unattractive, as extending out to long-term core bonds results in an only 1.5 percentage point increase in yield, but it is accompanied by a 10-year extension of duration.<sup>46</sup> With little uplift in yield — but a big increase in rate risk — that risk/return trade-off is vastly asymmetrical.

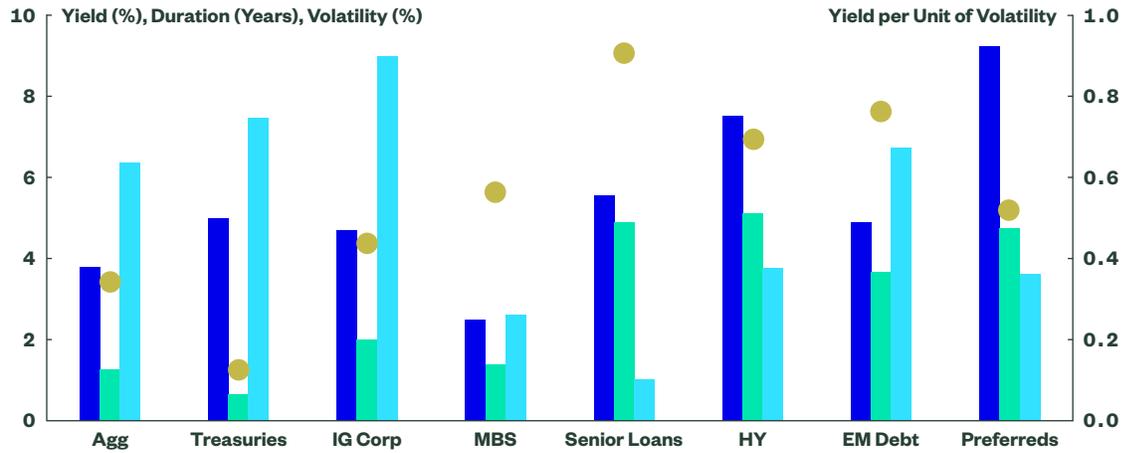
As a result, adding ancillary bond segments to the core may help to provide both income and diversification. Each of the three segments below carries a yield north of 3.5%, but with a different source of risk.

- *High yield bonds or senior loans:* Both sectors may offer yields close to 5%. However, in this market — where spreads are tight (20% below 20-year average),<sup>47</sup> defaults are elevated, and idiosyncratic risk is high — the profile and structure of senior loans represent a more ideal credit allocation. By bringing in duration and sitting higher in the capital structure, senior loans may be able to help navigate today's credit dynamics better than a traditional high yield allocation would, as senior loans have historically experienced lower default rates (4.3% vs. 5.8%) and higher recovery rates (46.7% vs. 15.3%).<sup>48</sup> And with a beta/correlation of only 0.23/0.63 to equities (versus 0.37/0.80 for high yield),<sup>49</sup> senior loans may provide similar income, but without adding as much implicit equity risk.
- *Emerging market local debt:* Emerging market local debt (EMD) currently yields 3.56%<sup>50</sup> — two full percentage points above traditional core US aggregate bonds. Yet, the uptick in yield is not from additional below-investment-grade risk, as 85% of issuers are rated investment grade.<sup>51</sup> And it is not from elevated rate risk, as EMD has a historical 9% correlation to the rate-sensitive Agg.<sup>52</sup> Instead, currency trends play a significant role in the risk and return profile of EMD, as the correlation between EM local sovereign debt monthly returns and EM local currency monthly returns is 92%, with the R-squared of the regression at 85% — indicating a strong fit and relationship.<sup>53</sup> As a result, the high levels of income are a function of associated currency/political risk. From a total return perspective, the currency risk may be rewarded over the coming months if the US dollar (USD) continues to weaken (USD is down 8% over the past six months),<sup>54</sup> given the US' waning yield advantages over other currencies and a ballooning public deficit that is likely to increase if a second stimulus bill is passed.
- *Preferred stock:* At 4.62%, the yield on preferreds is comparable to that on high yield bonds. However, unlike high yield, preferreds are mainly (80%) investment grade.<sup>55</sup> Additionally, with relatively low historical correlations to traditional stocks and bonds — 0.58 and 0.41, respectively — and a beta of 0.30 to stocks,<sup>56</sup> preferreds may help diversify portfolio income generation. Overall, preferreds may offer an income stream similar to that of high-yield exposures, but with potentially lower credit risk and equity sensitivity because they typically hold mostly investment-grade-rated securities from the highly regulated banking and insurance sectors.<sup>57</sup>

As shown in Figure 4, framing the income conversation as income per unit of volatility illustrates the potential benefit of these non-core bond sectors — as well as exposure to MBS in the core. With elevated ratios, they all may provide income in our low-rate environment without completely forcing a portfolio to pursue income from just one specific “risk bucket.” In addition, these market segments may still offer the necessary diversification when added to the broader portfolio, as correlations to traditional stocks and bonds are constructive.

Figure 4  
**Bond Profiles: Yield, Duration, Volatility**

■ 36-Month Standard Deviation  
 ■ Yield (%)\*  
 ■ Duration (Years)  
 ■ Yield per Unit of Volatility



Source: FactSet, Bloomberg Finance L.P., as of November 16, 2020. Agg = Bloomberg Barclays U.S. Aggregate Bond Index. Treasuries = Bloomberg Barclays U.S. Treasury Index. IG Corporate = Bloomberg US Corporate Bond Index. MBS = Bloomberg Barclays U.S. Securitized MBS, ABS and CMBS Index. Senior Loans = S&P LSTA US Leveraged Loan 100 Index. HY = Bloomberg Barclays U.S. Corporate High Yield Loans Index, EM Debt = Bloomberg Barclays EM Local Currency Government Diversified Index. Preferreds = Wells Fargo Hybrid and Preferred Securities Aggregate Index. \*Yield to worst used for all fixed income sectors, with current yield used for preferreds. **Past performance is not a guarantee of future results.**

### Implementation Ideas

These funds may help investors seeking to balance risk in the pursuit of income:

In the core, target mortgages to reduce volatility but seek higher income, and consider:	<b>SPMB</b> <b>SPDR® Portfolio Mortgage Backed Bond ETF</b>
Outside of the core, consider diversifying credit risk with senior loans; currency risk with emerging market debt; and a hybrid of credit and equity risk with preferreds, and consider:	<b>SRLN</b> <b>SPDR® Blackstone / GSO Senior Loan ETF</b> <b>EBND</b> <b>SPDR® Bloomberg Barclays Emerging Markets Local Bond ETF</b> <b>PSK</b> <b>SPDR® Wells Fargo® Preferred Stock ETF</b>

### Theme 3

#### Position for More Global Cooperation

By shifting away from the nationalistic policies of the Trump administration — during which international stocks underperformed US equities by 44%<sup>58</sup> — the Biden-Harris administration is likely to usher in a more global agenda with respect to trade, diplomacy, and climate policy.

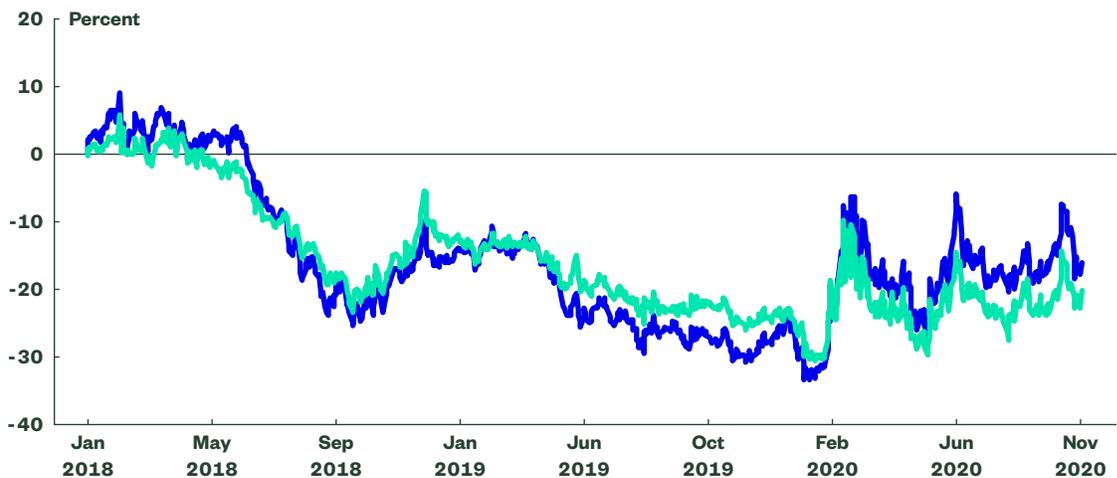
Unlike broader policy proposals, such as tax increases and a multi-trillion-dollar infrastructure spending plan that both depend on Congress to enact, the new administration can use executive orders and re-engage with international organizations to reshape trade and climate policies. Together with improving economic fundamentals and ongoing secular trends, these policy pivots on trade and the environment could jump-start investors' interest in Asian emerging market equities and potentially amplify the growth trajectory of clean power and clean technology companies.

From negotiating trade deals to regulating intellectual property, competition will always define the US-China relationship. However, Biden's more diplomatic and partnership approach — a reprieve from the Trump administration's harsh rhetoric and punitive tariffs — is likely to make trade policy less confrontational and more predictable.

This shift in tone and policy may lay the foundation to restore investor confidence in China and other Asian countries that have been negatively impacted by the trade tensions over the past three years. As shown in Figure 5, while both markets have trailed US equities since the onset of the Trump administration's trade war — which intensified in March 2018 with 25% tariffs on steel imports and 10% tariffs on aluminum imports<sup>59</sup> — sentiment has shifted recently, coinciding with Biden's improving polling numbers and subsequent victory. Yet even with this recent rally, Chinese equities are still down 12% relative to US equities since the end of 2017<sup>60</sup> — an indication of the potential upside of a “back-to-even” rally if trade tensions thaw and the tariffs are reduced/removed in favor a more cooperative trade agreement.

Figure 5  
**China and Emerging Asia Performance Relative to the S&P 500**

■ S&P China BMI Index Excess Cumulative Return  
■ S&P Emerging Asia BMI Index Excess Cumulative Return



Source: Bloomberg Finance L.P., as of 11/17/2020. **Past performance is not a guarantee of future results.** It is not possible to invest directly in an index.

Improved regional integration could further rejuvenate the region's growth and support economic recovery. China and 14 other Asia-Pacific countries recently signed the Regional Comprehensive Economic Partnership (RCEP) to reduce tariffs, enhance market access and increase economic cooperation within the region.<sup>61</sup> The pact covers about 30% of the world's population, with a combined gross domestic product (GDP) of \$26 trillion and trade volume of \$10 trillion. It's expected to raise global national incomes by an estimated annual \$186 billion by 2030 and increase trade among members by an estimated \$428 billion.<sup>62</sup>

The potential for greater regional cooperation combined with an easing of US-China trade tensions may compound China's already strong growth. As the bright spot in a gloomy 2020 global economy, China's Q3 GDP growth improved to 4.9% from 3.2% in Q2 and -6.8% in Q1,<sup>63</sup> when the country imposed a nationwide lockdown to contain the spread of COVID-19. The economic recovery strengthened in October, as both domestic consumption and fixed-asset investment grew at a faster pace than during the prior month, paving the way for greater growth in the final quarter of 2020.<sup>64</sup> Forecasted to be the only major country with positive growth in 2020, China also leads global growth expectations for 2021. In fact, China's 8.2% expected growth rate is more than 5 percentage points higher than the US's rate of 3.1%.<sup>65</sup>

This upside potential in Chinese equities also comes with constructive relative valuations. The region's forward price-to-earnings, price-to-sales, and price-to-book ratios<sup>66</sup> are trading at a discount that is either at or below the historical median relative discount to US stocks, indicating growth/upside exposure at a reasonable price.

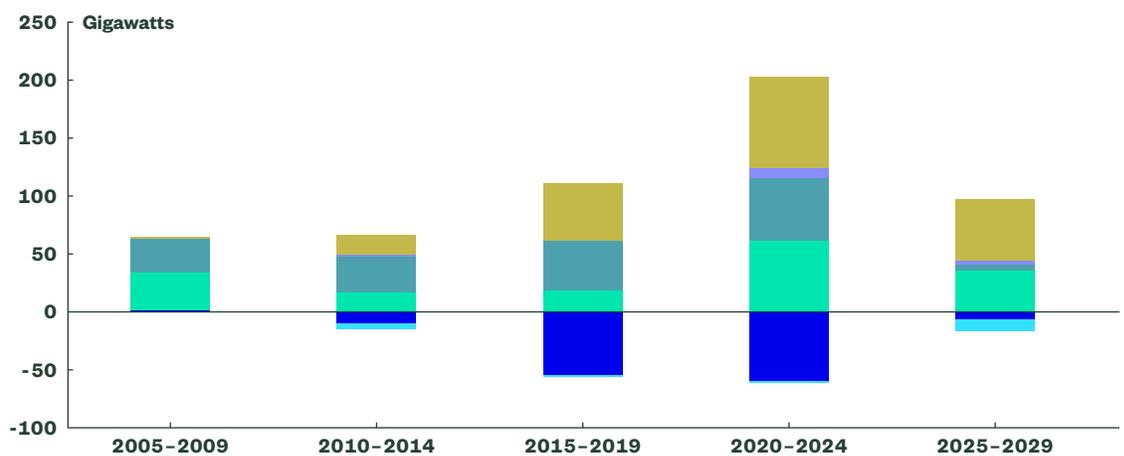
## Elevating Climate Change Initiatives on the World Stage

According to Biden's transition website, climate change is one of the four priorities that his administration will focus on from Day One.<sup>67</sup> Calling for a carbon pollution-free power sector by 2035, the new administration has pledged to invest in clean infrastructure and technologies, public transportation and electric vehicles, and environmental justice.<sup>68</sup>

While Biden's ambitious clean infrastructure stimulus plan may be watered down given the composition of Congress, there are other ways that he can push forward his environmental agenda. Biden has pledged to immediately rejoin the Paris Agreement,<sup>69</sup> which places voluntary limits on nations' greenhouse gas emissions. He also could reinstate climate and environmental regulations that the Trump administration has either revoked or rolled back, including vehicle and power plant emission standards.<sup>70</sup> Biden also could issue an executive order to ban new oil and gas drilling on federal lands and direct federal agencies (the Environmental Protection Agency and Department of Energy) to craft new rules and regulations on emission standards and how companies assess climate risk. These policy initiatives are likely to fuel America's transition to clean energy, boosting demand for clean technology and environmentally friendly energy solutions.

Another tailwind is that as people continue to work remotely and spend more time at home, energy consumption expenses will transition from businesses to households — leading to even greater demand for cost-efficient energy. In fact, the cost to generate renewables has already fallen by 40% (wind) and 80% (solar) over the past decade.<sup>71</sup> And based on the pre-Biden regulatory environment — without even accounting for the policies he is likely to put forth or changing energy-consumption needs due to COVID-19 — wind and solar energy are projected to account for more than 60% of the new electricity-generating capacity over the next decade, as shown in Figure 6.

Figure 6  
**Annual Electricity-Generating Capacity: Additions and Retirements**



Source: Annual Energy Outlook 2020, U.S. Energy Information Administration.

Overall, Biden's climate change agenda will likely accelerate an already strong secular trend line, amplifying the growth trajectory of the clean power industry. Even during the more pro-fossil fuel Trump administration, the shift to more renewable forms of energy had begun, as advances in clean technology significantly reduced the costs and improved the efficiency and accessibility of wind and solar energy. And while there was little support at a national level, state-level environmental targets, private funding<sup>72</sup> and the public's interest in climate change have fueled US renewable energy consumption growth for the fourth consecutive year in 2020 — exceeding coal consumption for the first time on record in June 2020.<sup>73</sup>

Shares of clean power stocks have recently shown strong performance, reflecting the already budding trend. In 2019, clean power firms outperformed the S&P 500 Index and the S&P 500 Energy sector by 31% and 51%, respectively.<sup>74</sup> However, the pandemic's impact and Biden's win have turbocharged the industry's performance, lifting it by 89% year to date, compared with 14% for the S&P 500 Index and a -36% loss for the traditional Energy sector.<sup>75</sup>

Despite this outstanding performance over the past two years, the clean power industry's total market cap is much smaller than the traditional Energy sector's market cap during the energy boom in the early 2010s. Clean power accounts for just 2% of the market cap of the Russell 3000 Index — compared with 10% for the traditional Energy sector at its peak.<sup>76</sup> Given the expectations for capacity additions, behavioral shifts, and the Biden administration's transformative global policy initiatives, the share of power generated from clean energy sources is likely to surge — indicating that clean power stocks may still have room to run.

---

## Implementation Ideas

With more global coordination emanating from 1600 Pennsylvania Avenue, investors may want to consider overweighting the two areas that we believe are most likely to be directly impacted by the new administration's agenda.

To position for improving global trade relationships, consider:	<b>GXC</b> <b>SPDR® S&amp;P China ETF</b>
To position for an emphasis on global climate policy and clean fuel, consider:	<b>CNRG</b> <b>SPDR® S&amp;P Kensho Clean Power ETF</b>

---

## Contributor

**Anqi Dong, CFA, CAIA**  
Senior Research Strategist

**Basis Point (bp)** A unit of measure for interest rates, investment performance, pricing of investment services and other percentages in finance. One basis point is equal to one-hundredth of 1 percent, or 0.01%.

**Bloomberg Barclays EM Local Currency Government Diversified Index (Underlies SPDR ETF “EBND”)** A benchmark designed to measure the performance of fixed-rate local currency sovereign debt of emerging market countries. The index includes government bonds issued by countries outside the US in local currencies that have a remaining maturity of one year or more. They must be rated B3/B-/B- or higher, be fixed-rate and have certain minimum amounts outstanding, depending on the currency denomination of the bonds.

**Bloomberg Barclays U.S. Aggregate Bond Index** A benchmark that provides a measure of the performance of the US dollar-denominated investment-grade bond market. The “Agg” includes investment-grade government bonds, investment-grade corporate bonds, mortgage pass-through securities, commercial mortgage-backed securities and asset-backed securities that are publicly for sale in the US.

**Bloomberg Barclays U.S. Convertibles Liquid Bond Index** An Index designed to represent the market of U.S. convertible securities, such as convertible bonds and convertible preferred stock. Convertible bonds are bonds that can be exchanged, at the option of the holder or issuer, for a specific number of shares of the issuer’s equity securities. Convertible preferred stock is preferred stock that includes an option for the holder to convert to common stock.

**Bloomberg Barclays U.S. Corporate Bond Index** A fixed-income benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg Barclays U.S. Corporate High Yield Index** A fixed-income benchmark of US dollar-denominated, high-yield and fixed-rate corporate bonds. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays U.S. MBS Index** A benchmark designed to measure the performance of the US agency mortgage pass-through segment of the U.S. investment-grade bond market. The term “U.S. agency mortgage pass-through security” refers to a category of pass-through securities backed by pools of mortgages and issued by US government-sponsored agencies.

**Bloomberg Barclays U.S. Treasury Bond Index** A benchmark of US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

**Mortgage-Backed Securities** Pooled securities that are backed by mortgage loans. Agency mortgage-backed securities refer to securities backed by pools of mortgages issued by US government-sponsored enterprises such as Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC).

**MSCI ACWI Index, or MSCI All Country World Index** A free-float weighted global equity index that includes companies in 23 emerging market countries and 23 developed market countries and is designed to be a proxy for most of the investable equities universe around the world.

**Price-to-Book Ratio, or P/B Ratio**

A valuation metric that compares a company's current share price against its book value, or the value of all its assets minus intangible assets and liabilities. The P/B is a ratio of investor sentiment on the value of a stock to its actual value according to the Generally Accepted Accounting Principles (GAAP). A high P/B means either that investors have overvalued the company, or that its accountants have undervalued it.

**Price-to-Earnings Multiple, or P/E Ratio**

A valuation metric that uses the ratio of the company's current stock price versus its earnings per share.

**Price-To-Sales** Share price divided by per share revenue.

**Russell 3000® Index** A capitalization-weighted equities benchmark that is designed to reflect the entire US stock market. The index measures performance of the 3,000 US public companies and represents about 98% of the market cap of US stocks. It is a composite index that combines the Russell 1000 Index of large-cap US stocks as well as the Russell 2000® Index of small-cap US stocks.

**S&P Composite Banks GICS Subindustry Index** The S&P GSCI is a composite index of commodities that measures the performance of the commodity market. The S&P GSCI is made up of 24 exchange-traded futures contracts that cover physical commodities spanning five sectors. The S&P GSCI is designed to be investable, and there are ETF products designed to track its performance.

**S&P 500® Growth Index** A market-capitalization-weighted index developed by Standard and Poor's consisting of those stocks within the S&P 500 Index that exhibit strong growth characteristics.

**S&P 500® Index** A popular benchmark for U.S. large-cap equities that includes 500 companies from leading industries and captures approximately 80% coverage of available market capitalization.

**S&P 500® Value Index** A market-capitalization-weighted index developed by Standard and Poor's consisting of those stocks within the S&P 500 Index that exhibit strong "value" characteristics.

**S&P 500 High Dividend Yield Index**

An index of small-cap stocks managed by Standard and Poor's. It tracks a broad range of small-sized companies that meet specific liquidity and stability requirements. This is determined by specific metrics, such as public float, market capitalization, and financial viability, among a few other factors.

**S&P SmallCap 600 Index** Market capitalization-weighted measure of the performance of small cap equities within the United States, with constituents required to demonstrate profitability prior to gaining initial inclusion.

**S&P 600 Small Cap Value Index** An index of small-cap stocks managed by Standard and Poor's. It tracks a broad range of small-sized companies that meet specific liquidity and stability requirements. This is determined by specific metrics, such as public float, market capitalization, and financial viability, among a few other factors.

**S&P China BMI, or S&P China Broad Market Index** A broad benchmark that defines and measures the full investable universe of publicly traded companies domiciled in China and are legally available to foreign investors.

**S&P/LSTA US Leveraged Loan 100 Index** A benchmark that is designed to reflect the largest loan facilities in the leveraged loan market. It mirrors the market-weighted performance of the largest institutional leveraged loans based upon market weightings, spreads, and interest payments. The index consists of 100 loan facilities drawn from a larger benchmark, the S&P/LSTA (Loan Syndications and Trading Association) Leveraged Loan Index (LLI).

---

## Glossary

**Standard Deviation** A statistical measure of volatility that quantifies the historical dispersion of a security, fund or index around an average. Investors use standard deviation to measure expected risk or volatility, and a higher standard deviation means the security has tended to show higher volatility or price swings in the past. As an example, for a normally distributed return series, about two-thirds of the time, returns will be within 1 standard deviation of the average return.

**VIX®, VIX Index or CBOE Volatility Index** The VIX, often referred to as the equity market's "fear gauge," is a measure of market risk based on expectations of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options — both calls and puts. The VIX volatility measure is meant to be forward looking.

**Wells Fargo Hybrid and Preferred Securities Aggregate Index** A modified market-capitalization-weighted benchmark designed to measure the performance of non-convertible preferred stock and securities that are equivalent to preferred stock. Constituents include depositary preferred securities, perpetual subordinated debt and some securities issued by banks and other financial institutions that are eligible for capital treatment.

**Yield Curve** A graph or line that plots the interest rates or yields of bonds with similar credit quality but different durations, typically from shortest to longest duration. When the yield curve is said to be "flat," it means the difference in yields between bonds with shorter and longer durations is relatively narrow. When the yield curve is said to be "steep," it means the difference in yields between bonds with shorter and longer durations is relatively wide.

---

## Endnotes

- 1 The JP Morgan Global Composite PMI reading is above 50 — a sign of expansion — and 2% above the pre-pandemic level as of November 19, 2020, per Bloomberg Finance L.P.
- 2 At the time of this writing the MSCI ACWI IMI Index is up 9.24% as of November 19, 2020, per Bloomberg Finance L.P.
- 3 In 2020, 27% of the trading days for the S&P 500 Index have produced a gain of more than 1%. This is the most since 1938, when that occurred on 30% of the trading days, based on data from Bloomberg Finance L.P., as of November 19, 2020.
- 4 Based on data from Bloomberg Finance L.P., as of November 19, 2020.
- 5 Based on data from Bloomberg Finance L.P., as of November 19, 2020, the last seven years totaled 172 days.
- 6 "Covid-19: Pandemic Shatters More Records in U.S., as States and Cities Tighten Restrictions", New York times, November 15, 2020.
- 7 "Pfizer and Moderna: How 2 very different companies developed a COVID vaccine", ABC News, November 19, 2020.
- 8 "A timeline of when Pfizer's new coronavirus vaccine could reach ordinary people — a process likely to take months", Business Insider November 9, 2020. "Fauci sees Wide U.S. Vaccine Availability by April", Bloomberg November 10, 2020.
- 9 "Vaccine Diplomacy Is the New Space Race," Bloomberg November 17, 2020, "Bill Gates Urges U.S. to Help Poorer Countries Get Vaccine", Bloomberg August 4, 2020.
- 10 "U.S. Public Now Divided Over Whether to Get COVID-19 Vaccine", Pew Research Center September 17, 2020.
- 11 Based on the year-to-date returns for the MSCI USA, EAFE, Emerging Market, ACWI Quality Indexes versus the MSCI USA Index as of November 18, 2020 per Bloomberg Finance L.P., data.
- 12 S&P 500 Pure Value Index has only outperformed the S&P 500 Growth Index 18 out of the 129 periods since the end of 2009, per Bloomberg Finance L.P., data as of November 18, 2020.
- 13 Bloomberg Finance L.P., as of November 19, 2020 based on the performance of the S&P 500 Pure Value and S&P 500 Pure Growth Index, as well as the S&P 500 Index.
- 14 Based on the daily returns for the S&P 500 Pure Value and S&P 500 Pure Growth Index as of November 19, 2020 per Bloomberg Finance L.P., data value has beaten growth on 56% of the days.
- 15 "FDA Clears First Covid-19 Test Performed Fully at Home", Wall St. Journal November 18, 2020.
- 16 Value stocks trade at 31% discount to growth stocks based on price-to-sales ratios compared to a 25-year average of a 50% discount based on Bloomberg Finance L.P., data for the S&P 500 Value and S&P 500 Growth Index.

## Endnotes

- 17 "Fed Will Keep Rates Unchanged Until at Least 2023", the New York Times, September 24, 2020.
- 18 The S&P Banking Select Industry Index has a 0.55 correlation to the US 10-year yield, the S&P 500 Value Index has a 0.33 correlation, the S&P 600 Index has a 0.38 correlation, the S&P 600 Small Cap Value Index has a 0.43 correlation, and the S&P 500 High Dividend Yield Index has a 0.35 correlation from 11/21/2015 to 11/19/2020 based on weekly granularity per Bloomberg Finance L.P., as of November 19, 2020.
- 19 Based on consensus analyst estimates for the S&P Composite Banks GICS Subindustry Index for earnings-per-share growth per Bloomberg Finance L.P., as of November 19, 2020.
- 20 FactSet as of November 16, 2020 as measured by the three-month change in 2020 EPS estimates. Financials have seen a 23% increase in their 2020 EPS estimates.
- 21 Price-to-book is a more appropriate valuation metric, as bank earnings can easily swing back and forth in large variations from one quarter to the next due to unpredictable, complex banking operations make price-to-earnings ratios unsuitable.
- 22 Based on data from 2002 to 2020 for the S&P Composite Banks GICS Subindustry Index and the S&P 500 Index per Bloomberg Finance L.P., data as of November 19, 2020.
- 23 Bank of America Merrill Lynch Fund Manager Survey, November 17, 2020.
- 24 "Sustainable & Thematic Investing: Rethinking Smart Cities: Prioritising Infrastructure", Barclays October 14, 2020.
- 25 "Green Stimulus Proposals for a post-Covid, Clean Energy Future", Bloomberg Finance L.P., 06/09/2020.
- 26 "COVID-19: the EU plan for the economic recovery", November 11, 2020.
- 27 Statista as of 03/31/2020.
- 28 "A third of Americans live in a household with three or more smartphones", Pew Research Center May 25, 2017.
- 29 "US households will have an average of 20 connected devices by 2025", Parks Associates June 15, 2020.
- 30 Source: Statista as of May 31, 2020. The figures from 2021 to 2024 were calculated by Statista based on 2020 The figures prior to 2020 are sourced from IDC. One Zettabyte (ZB) is approximately equal to a trillion Gigabytes.
- 31 As of November 19, 2020, based on consensus analyst estimates per Bloomberg Finance L.P. As of November 19, 2020 based on SPDR Americas Research based on 14 funds classified as Broad Innovation under the SPDR Americas Research thematic classification framework as described in <https://ssga.com/us/en/institutional/etfs/insights/classifying-nextgenopportunities-in-etfs>.
- 32 Bloomberg Finance L.P., as of November 16, 2020., based on rate levels from 12/2009 to 12/2019.
- 33 Bloomberg Finance L.P., as of November 16, 2020.
- 34 Bloomberg Finance L.P., as of November 16, 2020, calculations by SPDR Americas Research by calculating the long-term correlation of the yield and return streams for a specific period.
- 35 Bloomberg Finance L.P., as of November 16, 2020, based on the Bloomberg Barclays U.S. Aggregate Index.
- 36 Bloomberg Finance L.P., as of November 16, 2020 based on the yield-to-worst for the Bloomberg Barclays U.S. Aggregate Bond Index.
- 37 Bloomberg Finance L.P., as of November 16, 2020 based on the option adjust duration for the Bloomberg Barclays U.S. Aggregate Bond Index.
- 38 The return is based on the rates change (50 basis points) multiplied by the duration (6 years), plus the assumed return for a year given the higher rate (1.58%).  $(-0.50\% * 6) + 1.73\% = -1.27\%$ .
- 39 "Fed Signals Interest Rates to Stay Near Zero Through 2023", Wall St. Journal September 16, 2020.
- 40 Bloomberg Finance L.P., as of November 16, 2020 based on the Adrian Crump & Moench 10-Year Treasury Term Premium.
- 41 FactSet, Bloomberg Finance L.P., as of November 16, 2020 based on the index characteristics for the Bloomberg Barclays U.S. Treasury Index, and the Bloomberg Barclays U.S. Securitized Index. Volatility as measured by 36-month volatility of daily returns from 11/13/2017 to 11/13/2020.
- 42 FactSet, Bloomberg Finance L.P., as of November 16, 2020 based on the index characteristics for the Bloomberg Barclays U.S. Aggregate Bond Index, the Bloomberg Barclays U.S. Treasury Index, and the Bloomberg Barclays U.S. Securitized Index. Volatility as measured by 36-month volatility of daily returns from 11/13/2017 to 11/13/2020.
- 43 Bloomberg Finance L.P., as of November 16, 2020 based on the correlation of monthly returns between 11/18/2015 to 11/13/2020 between the Bloomberg Barclays U.S. Securitized Index and the S&P 500 Index.
- 44 FactSet, Bloomberg Finance L.P., as of November 16, 2020 based on the index characteristics for the Bloomberg Barclays U.S. Corporate Index, and the Bloomberg Barclays U.S. Securitized Index. Volatility as measured by 36-month volatility of daily returns from 11/13/2017 to 11/13/2020.
- 45 Bloomberg Finance L.P., as of November 16, 2020 based on the index characteristics for the Bloomberg Barclays U.S. Corporate Index optimized to have 2.5 years of duration.
- 46 Bloomberg Finance L.P., as of November 16, 2020 based on the yield and option adjusted duration figures for the Bloomberg Barclays U.S. Aggregate Bond Index and the Bloomberg Barclays U.S. Universal Bond 10+ Year Index.
- 47 Bloomberg Finance L.P., as of November 16, 2020 based on the 20-year average for the option adjusted spread of the Bloomberg Barclays U.S. Corporate High Yield Index.
- 48 J.P. Morgan Default Monitor, as of September 30, 2020. Loans default rates based on first lien loans data; note that first lien loans have represented over 95% of outstanding loans historically since 2005 (source: LCD).

## Endnotes

- 49 Bloomberg Finance L.P., 11/18/2015 to 11/13/2020, based on weekly returns. S&P/LSTA US Leveraged Loan Index used to represent Senior Loans and S&P 500 Index used to represent Senior Equities. The Bloomberg Barclays U.S. Corporate High Yield Index.
- 50 Bloomberg Finance L.P., as of November 16, 2020 based on the index characteristics for the Bloomberg Barclays EM Local Currency Government Diversified Index.
- 51 Bloomberg Finance L.P., as of November 16, 2020 based on the index characteristics for the Bloomberg Barclays EM Local Currency Government Diversified Index.
- 52 Bloomberg Finance L.P., as of November 16, 2020 based on monthly returns between the Bloomberg Barclays EM Local Currency Government Diversified Index and the Bloomberg Barclays U.S. Aggregate Bond Index from 11/15/2015 to 11/13/2020.
- 53 Bloomberg Finance L.P., as of November 16, 2020 based on monthly returns between the Bloomberg Barclays EM Local Currency Government Diversified Index and the MSCI EM Local Currency Index from October 2010 to October 2020.
- 54 Bloomberg Finance L.P., as of November 16, 2020 based on the Bloomberg Dollar Spot Index return from 5/15/2020 to 11/13/2020.
- 55 Bloomberg Finance L.P., as of November 16, 2020. 80% of the holdings within the Wells Fargo Hybrid Preferred Securities Index based on Bloomberg Composite Ratings of S&P, Moody's Fitch, and DRBS ratings.
- 56 Bloomberg Finance L.P., as of November 16, 2020 based on the monthly returns of the Wells Fargo Hybrid and Preferred Securities Aggregate Index versus the Bloomberg Barclays U.S. Aggregate Bond Index and S&P 500 Index from 11/15/2015 to 11/13/2020.
- 57 Bloomberg Finance L.P., as of November 16, 2020 67% of the Wells Fargo® Hybrid and Preferred Securities Aggregate Index is in Financials.
- 58 Bloomberg Finance L.P., as of November 18, 2020 based on the return of the MSCI ACWI-Ex US Index versus the S&P 500 Index.
- 59 "Trump to Impose Sweeping Steel and Aluminum Tariffs", New York Times March 1, 2008.
- 60 Based on the return of the S&P China Index and the S&P 500 Index from 11/30/2017 to 11/18/2020, per Bloomberg Finance L.P.
- 61 RCEP: A new trade agreement that will shape global economics and politics, Brookings, November 16, 2020.
- 62 East Asia Decouples from the United States: Trade War, COVID-19, and East Asia's New Trade Blocs, June 2020.
- 63 Bloomberg Finance L.P., as of November 16, 2020.
- 64 Bloomberg Finance L.P., as of November 16, 2020.
- 65 IMF World Economic Outlook, October 2020.
- 66 Price-to-earnings ratio is at the 53rd percentile, Price-to-book is at the 47th percentile, and Price-to-sales is at the 48th percentile relative to the ratios for the S&P 500 Index, per FactSet as of October 31, 2020 based on a 15-year lookback.
- 67 Biden's transition website: Buildbackbetter.com.
- 68 Biden's transition website: Buildbackbetter.com.
- 69 Here's how Biden could get the US to lead on climate change again, The Washington Post, November 17, 2020.
- 70 The Trump Administration Is Reversing More Than 100 Environmental Rules, New York Times, November 10, 2020.
- 71 IEA – Short-Term Energy Outlook as of 05/2020.
- 72 Amazon has committed \$2 billion for a new Climate Pledge Fund and reported it is on track to source 100% renewable power by 2025, Amazon Inc. June 23, 2020. Microsoft will launch a \$1 billion Climate Innovation Fund and seek to be carbon negative by 2030, Microsoft Inc. January 16, 2020.
- 73 Annual Energy Outlook 2020, U.S. Energy Information Administration.
- 74 Bloomberg Finance L.P., as of 12/31/2019. Clean power is represented by the S&P Kensho Clean Power Index. Traditional energy sector is represented by the Russell 3000 Energy Sector.
- 75 Bloomberg Finance L.P., as of 11/16/2020. Clean power is represented by the S&P Kensho Clean Power Index. Traditional energy sector is represented by the Russell 3000 Energy Sector.
- 76 FactSet, as of 11/16/2020. Clean power is represented by the S&P Kensho Clean Power Index. Traditional energy sector is represented by the Russell 3000 Energy Sector.

## ssga.com/etfs

The views expressed in this material are the views of Michael Arone and Matthew Bartolini through the period ended November 30, 2020 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 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 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.

**Investing** involves risk including the risk of loss of principal.

**ETFs** trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

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

**Foreign (non-US) securities** may be subject to greater political, economic, environmental, credit and information risks. Foreign securities may be subject to higher volatility than US securities, due to varying degrees of regulation and limited liquidity. These risks are magnified in **emerging markets**.

**Non-diversified funds** that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole.

**Clean power companies** may be highly dependent upon government subsidies, contracts with government entities, and the successful development of new and proprietary technologies. Clean power companies may be affected by competition from new and existing market entrants, obsolescence of technology, short product cycles, changes in exchange

rates, imposition of import controls, and depletion of resources. In addition, seasonal weather conditions, fluctuations in supply of and demand for clean energy products or services, and international political events may cause fluctuations in the performance of clean power companies and the prices of their securities. Risks associated with fluctuations in energy prices and supply and demand of alternative energy fuels, energy conservation, the success of exploration projects and tax and other government regulations can significantly affect clean power companies.

**Concentrated investments** in a particular sector or industry (technology sector and industrials sector) tend to be more volatile than the overall market and increases risk that events negatively affecting such sectors or industries could reduce returns, potentially causing the value of the Fund's shares to decrease.

When the **fund focuses its investments** in a particular industry or sector, financial, economic, business, and other developments affecting issuers in that industry, market, or economic sector will have a greater effect on the Fund than if it had not done so.

**Multi-cap Investments** include exposure to all market caps, including small and medium capitalization ("cap") stocks that generally have a higher risk of business failure, lesser liquidity and greater volatility in market price. As a consequence, small and medium cap stocks have a greater possibility of price decline or loss as compared to large cap stocks. This may cause the Fund not to meet its investment objective.

**Index-based funds** hold a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

A **"value" style** of investing emphasizes undervalued companies with characteristics for improved valuations. This style of investing is subject to the risk that the valuations never improve or that the returns on "value" equity securities are less than returns on other styles of investing or the overall stock market.

Although subject to the risks of common stocks, low volatility stocks are seen as having a lower risk profile than the overall markets. However, a fund that invests in low volatility stocks may not produce investment exposure that has

lower variability to changes in such stocks' price levels.

A **"quality" style** of investing emphasizes companies with high returns, stable earnings, and low financial leverage. This style of investing is subject to the risk that the past performance of these companies does not continue or that the returns on "quality" equity securities are less than returns on other styles of investing or the overall stock market.

KENSHO® is a registered service mark of Kensho Technologies Inc. ("Kensho"), and all Kensho financial indices in the Kensho New Economies® family and such indices' corresponding service marks have been licensed by the Licensee in connection with the SPDR Kensho Intelligent Structures ETF, SPDR Kensho Smart Mobility ETF, SPDR Kensho Future Security ETF, SPDR Kensho Clean Power ETF, SPDR Kensho Final Frontiers ETF and SPDR Kensho New Economies Composite ETF (collectively, the "SPDR ETFs"). The SPDR ETFs are not marketed, sold, or sponsored by Kensho, Kensho's affiliates, or Kensho's third party licensors.

Kensho is not an investment adviser or broker-dealer and Kensho makes no representation regarding the advisability of investing in any investment fund, other investment vehicle, security or other financial product regardless of whether or not it is based on, derived from, or included as a constituent of any Kensho New Economies® family index. Kensho bears no responsibility or liability for any business decision, input, recommendation, or action taken based on Kensho indices or any products based on, derived from, or included as a constituent of any such index. All referenced names and trademarks are the property of their respective owners.

**Bonds** generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise, bond prices 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.

Investing in **high yield fixed income securities**, otherwise known as "junk bonds", is considered speculative and involves greater risk of loss of principal and interest than investing in investment grade fixed income securities.

These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

Issuers of **convertible securities** may not be as financially strong as those issuing securities with higher credit ratings and may be more vulnerable to changes in the economy. Other risks associated with convertible bond investments include: Call risk which is the risk that bond issuers may repay securities with higher coupon or interest rates before the security's maturity date; liquidity risk which is the risk that certain types of investments may not be possible to sell the investment at any particular time or at an acceptable price; and investments in derivatives, which can be more sensitive to sudden fluctuations in interest rates or market prices, potential illiquidity of the markets, as well as potential loss of principal. Investments in **mortgage securities** are subject to prepayment risk, which can limit the potential for gain during a declining interest rate environment and increase the potential for loss in a rising interest rate environment. The mortgage industry can also be significantly affected by regulatory changes, interest rate movements, home mortgage demand, refinancing activity, and residential delinquency trends.

The value of the **debt securities** may increase or decrease as a result of the following: market fluctuations, increases in interest rates, inability of issuers to repay principal and interest or illiquidity in the debt securities markets; the risk of low rates of return due to reinvestment of securities during periods of falling interest rates or repayment by issuers with higher coupon or interest rates; and/or the risk of low income due to falling interest rates. To the extent that interest rates rise, certain underlying obligations may be paid off substantially slower than originally anticipated and the value of those securities may fall sharply. This may result in a reduction in income from debt securities income.

Investments in **Senior Loans** are subject to credit risk and general investment risk. Credit risk refers to the possibility that the borrower of a Senior Loan will be unable and/or unwilling to make timely interest payments and/or repay the principal on its obligation. Default in the payment of interest or principal on a Senior Loan will result in a reduction in the value of the Senior Loan and consequently a reduction in

the value of the Portfolio's investments and a potential decrease in the net asset value ("NAV") of the Portfolio.

**An actively managed fund** may underperform its benchmarks. An investment in the fund is not appropriate for all investors and is not intended to be a complete investment program. Investing in the fund involves risks, including the risk that investors may receive little or no return on the investment or that investors may lose part or even all of the investment.

**Intellectual Property Information**

BLOOMBERG®, a trademark and service mark of Bloomberg Finance L.P. and its affiliates, and BARCLAYS®, a trademark and service mark of Barclays Bank Plc, have each been licensed for use in connection with the listing and trading of the SPDR Bloomberg Barclays ETFs. Standard & Poor's, S&P and SPDR are registered trademarks of Standard & Poor's Financial

Services LLC (S&P); Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJ) and sublicensed for certain purposes by State Street Corporation. State Street Corporation's financial products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and third party licensors and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index. The funds or securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds or securities or any index on which such funds or securities are based. Wells Fargo® Hybrid and Preferred Securities Aggregate Index are trademarks of Wells Fargo & Company and have

been licensed for use by State Street Global Advisors. The product is not sponsored, issued or advised by Wells Fargo & Company or its affiliates and Wells Fargo & Company makes no representation regarding the performance of the index or this product.

**Distributor:** State Street Global Advisors Funds Distributors, LLC, member FINRA, SIPC, an indirect wholly owned subsidiary of State Street Corporation. References to State Street may include State Street Corporation and its affiliates. State Street Global Advisors Funds Distributors, LLC is the distributor for some registered products on behalf of the advisor. SSGA Funds Management has retained GSO/Blackstone Debt Funds Management LLC as the sub-advisor. State Street Global Advisors Funds Distributors, LLC is not affiliated with GSO / Blackstone Debt Funds Management LLC.

**Before investing, consider the funds' investment objectives, risks, charges and expenses. To obtain a prospectus or summary prospectus which contains this and other information, call 866.787.2257 or visit [ssga.com/etfs](http://ssga.com/etfs). Read it carefully.**

© 2020 State Street Corporation.  
All Rights Reserved.  
ID358657-3351326.1.2.AM.RTL 1120  
Exp. Date: 12/31/2021

**Not FDIC Insured  
No Bank Guarantee  
May Lose Value**