SPDR® ETFs
Fixed Income
Chart Pack

Charts for the Latest Bond Market Insights and Analytics
Q4 2019

Please see Appendix A for more information on investment terms used in this Chart Pack.
With interest rates rising modestly, rate sensitive sectors posted losses in September. Below investment grade credit gained, however.

Long-term IG Corporates have had the best returns year to date and over the past year, but it has come with drawdowns similar to US High Yield.

Yield Curve
The yield curve steepened in September, as the geopolitical unrest that pushed yields to three year lows in August slightly abated and the Fed cut short term rates.

US Treasury Curve

Source: Bloomberg Finance, L.P. As of September 30, 2019. Past performance is not a guarantee of future results.
While the yield curve steepened in September, it still remains flat as the long end remains constrained by slow growth dynamics.

Source: Bloomberg Finance, L.P. As of September 30, 2019. Past performance is not a guarantee of future results. The term premium is the excess yield that investors require to commit to holding a long-term bond instead of a series of shorter-term bonds. The copper-to-gold ratio indicates the potential of economic growth as gold is more of a defensive asset while copper is more cyclical.
Low Rates & Rate Uncertainty

Global rates are low and both the market as well as policy makers lack consensus on the path for short term US rates for the remainder of 2019.

Market Implied Probability of Fed Actions by the end of 2019

Bloomberg Barclays Global Agg Index Allocation by Yield (%)

% of Fed Members with Different 2019 Policy Rate Projections than the Majority

26% of global bonds have a negative yield, and over 60% yield less the S&P 500

Source: Bloomberg Finance, L.P. As of September 30, 2019. Past performance is not a guarantee of future results.
Credit Trends

The dovish tone among global central banks drove risk-on sentiment in credit markets, with high yield spreads tightening further below long-term averages.

Credit Spreads

Credit Spread Changes in Basis Points

Credit Spread Current vs. 20-Yr Averages

Credit Trends (Continued)

Due to the sizeable spread compression for fixed rate high yield, it now trades at the most negatively convex level ever. Loans, however, yield more than fixed rate HY.

High Yield Bond Convexity

Yields on High Yield versus Loans

Last time HY was this convex, the market sold off

Credit Attribution

High yield credit registered a gain in September as the positive spread return offset the negative impact from the curve change. IG, however, was not as lucky.

US High Yield Attribution

- Spread tightening has driven 60% of the return for HY in 2019

US IG Corporate Attribution

- The change in the curve has driven 60% of the return for IG credit in 2019

Convertibles Attribution

As a result of increased issuance after high levels of equity sensitivity in 2018, convertibles now have more bond-like characteristics — despite a 13% return in 2019.

Given this profile, and US equities near all-time highs, converts may be a low volatility way to buy the rally.

A low delta and high premium indicates convertible securities are more bond-like than stock-like.
EM Debt Attribution
A softening of trade tensions and a Federal Reserve rate cut boosted emerging market ("EM") currencies in September, benefiting EM local debt returns.

EM Local Sovereign Debt Attribution

- Curve Change
- Curve Carry
- Spread Return
- Currency Return

80% of the Sept. return was from strengthening EM currencies

EM Local Sovereign Debt Return Correlation to EM Currencies (2009–2019)

Correlation: 94%
Correlation: 90%

80% of the Sept. return was from strengthening EM currencies

Source: Bloomberg Finance, L.P. As of September 30, 2019
EM Local – Bloomberg Barclays EM Local Sovereign Bond Index.
Past performance is not a guarantee of future results.
ETF Fund Flow Trends

Fixed Income ETF flows are 8% ahead of 2017’s record setting pace, and one year after posting their first year of outflows HY ETFs have a record inflow total.

Source: Bloomberg Finance, L.P. As of September 30, 2019. Past performance is not a guarantee of future results.
ETF Fund Flow Trends (continued)

With rates falling, the demand for higher levels of income has led to renewed interest in preferred securities.

Preferred ETFs Net Flows vs. Real 10 Year Yields

Ultra-Short/Short Term Treasury Minus Interm./Long Term Flows

Source: Bloomberg Finance, L.P. As of September 30, 2019. Past performance is not a guarantee of future results.
Bond Market Outlook

Striking a balance between yield and duration is a daunting task within the core of portfolios with investment grade global fixed income sectors.

Yield and Duration Profiles

- Yield to Worst (%)
- Yield Per Unit of Duration
- Option Adjusted Duration (Years)

Yield and Equity Sensitivity for High Income Opportunities

- Yield
- 10 Year Correlation to S&P 500 Index

Appendix A

Definitions

Basis Point: One hundredth of one percent, or 0.01%.

The Bloomberg Barclays US Treasury Bill Index tracks the market for treasury bills issued by the US government. US Treasury bills are issued in fixed maturity terms of 4-, 13-, 26- and 52-weeks. The US Treasury Bill Index is a component of the US Short Treasury Index along with US Treasury notes and bonds that have fallen below one year to maturity.

The Bloomberg Barclays Global Aggregate Index is a measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index tracks agency mortgage pass-through securities (no longer incorporates hybrid ARM) guaranteed by Ginnie Mae (GNMA), Mae (FNMA), and Freddie Mac (FHLMC). The index is constructed by grouping individual TBA-deliverable MBS pools into aggregates or generics based on program, coupon and vintage.

Bloomberg Barclays US Aggregate Index: A benchmark that provides a measure of the performance of the US dollar denominated investment grade bond market, which 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 US Corporate 1–3 Year Index: The Index includes publicly issued US dollar denominated corporate issues that have a remaining maturity of greater than or equal to 1 year and less than 3 years, are rated investment grade.

Bloomberg Barclays US Corporate Bond Index: The Bloomberg Barclays US Corporate Bond Index measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The Bloomberg Barclays Emerging Markets Local Currency Liquid Government Index is a country-constrained, more liquid version of the flagship Emerging Markets Local Currency Government Index, which is designed to provide a broad measure of the performance of local currency Emerging Markets (EM)

Bloomberg US Treasury Index: The Bloomberg US Treasury Bond Index is a rules-based, market-value weighted index engineered to measure the performance and characteristics of fixed rate coupon US Treasuries which have a maturity greater than 12 months.

The Bloomberg Barclays US Convertible Liquid Bond Index is designed to represent the market of U.S. convertible securities, such as convertible bonds.

Credit Spread: A credit spread is the difference in yield between a US Treasury bond and a debt security with the same maturity but of lesser quality.

Parity: The value of the underlying equity if the convertible is converted. It is equal to the current stock price multiplied by the number of shares for which the bond may be exchanged.

S&P/LSTA US Leveraged Loan 100 Index: The S&P/LSTA US Leveraged Loan 100 Index is designed to reflect the largest facilities in the leveraged loan market.

Delta: The sensitivity of one asset to an underlying derivative

Spread Changes: Changes in the spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating.

Parity: The value of the underlying equity if the convertible is converted. It is equal to the current stock price multiplied by the number of shares for which the bond may be exchanged.

Standard Deviation: Measures 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.

Yield: The income produced by an investment, typically calculated as the interest received annually divided by the investment’s price.

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 steepened, it means the difference in yields between short term and long term bonds increases.

Yield to Worst: Yield to worst is an estimate of the lowest yield that you can expect to earn from a bond when holding to maturity, absent a default. It is a measure that is used in place of yield to maturity with callable bonds.
Appendix B

Important Disclosures

The views expressed in this material are the views of SPDR Americas Research Team 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.

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All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment.

**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.

The values of **debt securities** may decrease as a result of many factors, including, by way of example, general market fluctuations; increases in interest rates; actual or perceived inability or unwillingness of issuers, guarantors or liquidity providers to make scheduled principal or interest payments; illiquidity in debt securities markets; and prepayments of principal, which often must be reinvested in obligations paying interest at lower rates.

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

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

Investments in **mid-sized companies** may involve greater risks than in those of larger, better known companies, but may be less volatile than investments in smaller companies.

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

**Value stocks** can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

**Foreign investments** involve greater risks than US investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.

Because of their narrow focus, **sector funds** tend to be more volatile.

**Commodities** investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors Bond funds contain interest rate risk (as interest rates rise bond prices usually fall); the risk of issuer default; issuer credit risk; liquidity risk; and inflation risk.

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