

# SPDR® Smart Beta Dashboard

## SPDR Americas Research Team

Although global equities posted double-digit gains in 2019, investors positioned defensively from the factor flow perspective. Quality witnessed a 96% increase in start-of-year assets in light of the earnings and economic slowdowns. Even though Minimum Volatility underperformed the broad market across all regions in Q4 and 2019, the factor still took in \$22 billion for the year, representing 41% of its start-of-year assets. Dividend Yield took in the most yearly net inflows among all smart beta categories, as equity dividends have become more attractive to income seeking investors in a low-rate environment.

In the US, corporate earnings are on track to decline for a fourth straight quarter. Globally, downgrades have outpaced upgrades for 2020 earnings. Therefore, quality firms may remain sought after and continue the performance trends witnessed in 2019. Given stretched valuations and ongoing geopolitical tensions, investors may also want to consider Value and Minimum Volatility as part of their portfolio when staying invested.

### Smart Beta Spotlight

<b>SDY</b>	SPDR S&P Dividend ETF
<b>QUS</b>	SPDR MSCI USA StrategicFactors ETF
<b>QEFA</b>	SPDR MSCI EAFE StrategicFactors ETF
<b>LGLV</b>	SPDR SSGA US Large Cap Low Volatility Index ETF

**Figure 1: US-Listed Smart Beta Factor ETF Fund Flow Heatmap**

Factors	Fund Flow (\$M)			Flows as % of Start of the Period AUM		
	QTD (\$M)	6 Months (\$M)	12 Months (\$M)	QTD (%)	6 Months (%)	12 Months (%)
Dividend	11,602	17,663	27,238	5.9	9.3	17.1
Low Volatility	2,099	10,297	22,035	2.5	14.0	41.0
Momentum	-1,271	-809	-777	-7.6	-4.9	-5.6
Multi-Factor	715	1,853	7,025	1.5	4.0	19.5
Quality	4,650	6,472	10,854	23.1	35.7	96.1
Size	1,132	691	1,705	6.1	3.6	11.1
Value	1,813	2,322	2,504	4.5	5.7	7.0

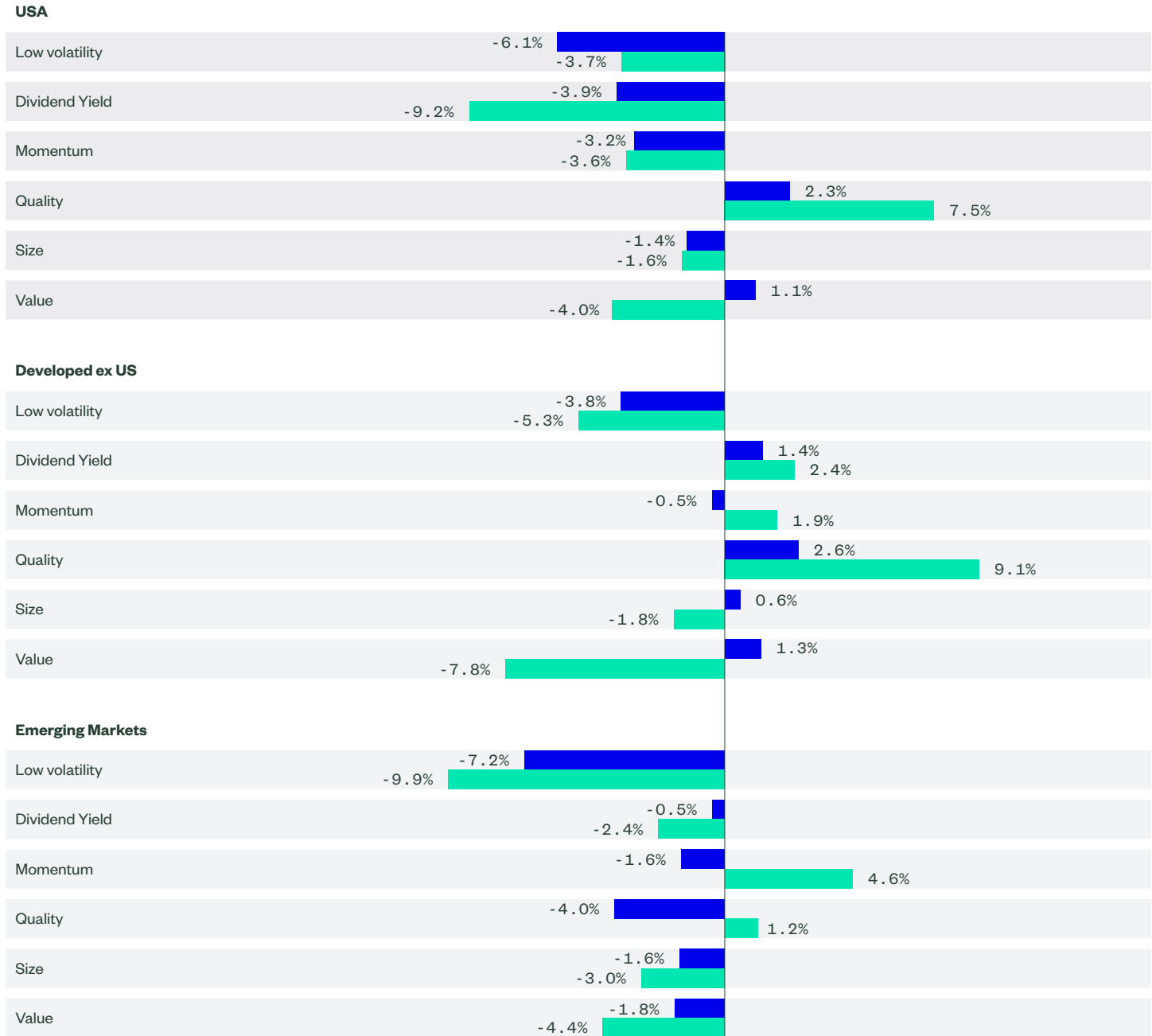
Source: SPDR Americas Research, Bloomberg Finance L.P., as of 12/31/2019.

Green highlights the top two segments, orange the bottom two segments for a given period. **Past performance is not a guarantee of future results.** Chart is intended to be read vertically.

## Figure 2: MSCI Factor Index Excess Return by Region

Quality was the only factor outperforming the broad market across all regions in 2019, while Min. Vol., Value and Size underperformed.

■ Previous Quarter ■ 1 Year



Source: FactSet, as of 12/31/2019. MSCI Minimum Volatility, MSCI Enhanced Value, MSCI Quality, MSCI Equal Weighted, MSCI High Dividend Yield and MSCI Momentum indices within each region are used to represent regional factor performance. Excess return is calculated based off MSCI EAFE, MSCI USA and MSCI Emerging Markets Indices respectively. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. **Past performance is not a guarantee of future results.**

### Figure 3: MSCI World Factor Quarterly Performance Quilt Chart (%)

Value rebounded in Q4, after underperforming the broad market for six consecutive quarters. Minimum Volatility lagged the broader market by the most since Q3 2016 amid easing US-China trade tensions and diminished Brexit uncertainty.

■ MSCI World Enhanced Value Index    
 ■ MSCI World Minimum Volatility Index    
 ■ MSCI World Equal Weighted Index    
 ■ MSCI World  
■ MSCI World Quality Index    
 ■ MSCI World High Dividend Yield Index    
 ■ MSCI World Momentum Index

2016				2017				2018				2019			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
6.06	5.10	7.97	5.29	8.29	6.44	7.26	7.08	2.84	3.53	7.87	-7.28	15.70	5.76	3.19	11.40
3.77	5.01	6.36	1.86	7.92	5.05	6.05	7.02	0.06	2.31	6.99	-8.71	13.14	4.76	1.56	9.31
1.42	2.98	4.87	0.92	6.53	4.20	4.84	6.83	-0.88	1.73	6.02	-13.42	12.48	4.00	1.09	8.56
1.13	1.01	4.82	-0.32	6.38	4.03	4.61	5.57	-1.03	0.91	4.98	-13.72	11.61	3.95	0.53	8.14
-0.33	0.27	2.59	-1.09	5.91	3.36	4.43	5.51	-1.25	0.40	4.79	-13.88	10.59	3.10	0.26	7.10
-0.35	-0.44	0.65	-1.21	5.57	3.20	4.40	4.44	-1.28	-0.23	3.57	-14.01	10.34	2.86	0.07	6.43
-3.92	-1.01	-0.89	-2.71	4.72	2.77	2.94	3.50	-3.15	-2.50	2.57	-15.33	8.94	-0.15	-0.23	3.02

Source: FactSet as of 12/31/2019. Past performance is not a guarantee of future results.

### Figure 4: Sector Over/Underweight vs. MSCI World Index (%)

Quality's heavy overweight in Tech and Health Care contributed 40% of its outperformance over the broad market in Q4. Momentum reduced its overweight in Tech, while adding defensive sectors during the November rebalancing.

	Comm. Services	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Info. Tech.	Materials	Real Estate	Utilities
MSCI World Minimum Volatility Index	2.44	-2.93	5.08	-4.45	2.06	-4.57	-2.27	-5.37	0.09	4.84	5.08
MSCI World High Dividend Yield Index	0.63	-4.44	6.50	1.87	-3.26	6.77	-0.36	-10.56	0.87	-1.84	3.83
MSCI World Momentum Index	-3.64	-0.81	4.30	-4.43	-8.60	1.14	-1.52	3.16	0.85	4.38	5.17
MSCI World Quality Index	0.49	0.19	1.90	-4.92	-12.51	6.18	1.06	16.42	-2.49	-2.88	-3.42
MSCI World Equal Weighted Index	-2.29	1.76	-1.11	-0.78	-0.33	-3.71	5.12	-6.97	3.39	3.23	1.70
MSCI World Value Weighted Index	-0.99	0.04	-1.14	2.29	10.54	-3.66	-0.46	-8.05	1.21	-0.45	0.69

Source: FactSet, as of 12/31/2019. Exposures are as of the date indicated, are subject to change and should not be relied upon as current thereafter. Green highlights the top three overweighted sectors, orange the bottom three underweighted sectors.

## Figure 5: MSCI World Factor Q4 Daily Excess Return Correlations

Momentum has become more positively correlated to Low Volatility, while Size and Value moved along with each other.

	Value	Quality	Low Volatility	Dividend Yield	Size	Momentum
Value	1.00	–	–	–	–	–
Quality	-0.53	1.00	–	–	–	–
Low Volatility	-0.29	-0.22	1.00	–	–	–
Dividend Yield	0.31	-0.53	0.33	1.00	–	–
Size	0.74	-0.64	0.09	0.32	1.00	–
Momentum	-0.69	0.59	0.50	-0.19	-0.46	1.00

Source: FactSet, as of 12/31/2019. Minimum Volatility, Value, Quality, Size, Dividend Yield and Momentum are represented by the MSCI World Minimum Volatility Index, MSCI World Enhanced Value Index, MSCI World Quality Index, MSCI World Equal Weighted Index, MSCI World High Dividend Yield Index and MSCI World Momentum Index. Correlation is calculated using daily excess returns of factor indices over the MSCI World Index. Most negative correlations are shaded in orange. Most positive correlations are shared in green.

## Figure 6: MSCI USA Factor Index Beta Sensitivities to Macro Indicators

The steepening of the yield curve weighed on Low Volatility and Dividend Yield performance.

	U.S. 10 Year Yield (36 Mth)	U.S. 10 Year — 2 Year Yield (36 Mth)	10 Year Breakeven Inflation Rate (36 Mth)
Value	-0.43	0.37	-0.82
Quality	-0.22	-0.12	-0.20
Low Volatility	0.55	-0.56	0.28
Dividend Yield	0.43	-0.25	-0.10
Size	0.12	-0.01	-0.06
Momentum	-0.14	1.78	0.69

Source: FactSet, as of 12/31/2019. Minimum Volatility, Value, Quality, Size, Dividend Yield and Momentum are represented by the MSCI USA Minimum Volatility Index, MSCI USA Enhanced Value Index, MSCI USA Quality Index, MSCI USA Equal Weighted Index, MSCI USA High Dividend Yield Index and MSCI USA Momentum Index. Beta sensitivity is calculated using monthly excess returns over the MSCI USA Index and monthly macro indicator data in 36 months. Characteristics are as of the date indicated, are subject to change and should not be relied upon as current thereafter. The lowest five numbers are shaded in orange. The highest five numbers are shared in green.

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### Glossary

**Dividend Yield Factor** A factor which screens for companies with a higher than average dividend yield relative to the broad market, and which have demonstrated dividend sustainability and persistence.

**Excess Returns** A security's return minus the return from another security in the same time period.

**Low Volatility Factor Stocks** seen as having a lower risk profile than the overall markets. However, a portfolio comprised of low volatility stocks may not produce investment exposure that has lower variability to changes in such stocks' price levels.

**Momentum Factor** The tendency for a security to maintain a certain direction of price trajectory. This tendency is well documented in academic research, which has made "momentum" one of the six smart beta factors that are systematically being isolated in new-generation strategic indexes.

**MSCI EAFE Index** An equities benchmark that captures large- and mid-cap representation across 21 developed market countries around the world, excluding the US and Canada.

**MSCI Emerging Market Index** The MSCI Emerging Markets Index captures large and mid-cap representation across 23 emerging markets countries. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI USA Enhanced Value Index** The MSCI USA Enhanced Value Index captures large and mid-cap representation across the US equity markets exhibiting overall value style characteristics. The index is designed to represent the performance of securities that exhibit higher value characteristics relative to their peers within the corresponding GICS® sector.

**MSCI USA Equal Weighted Index** The MSCI USA Equal Weighted Index include the same constituents as it's the MSCI USA Index but equally weight them.

**MSCI USA High Dividend Yield Index** The MSCI USA High Dividend Yield Index is based on the MSCI USA Index, its parent index and includes large and mid-cap stocks. The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The index also applies quality screens and reviews 12-month past performance to omit stocks with potentially deteriorating fundamentals that could force them to cut or reduce dividends.

**MSCI USA Index** The index is designed to measure the performance of the large and mid cap segments of the US market.

**MSCI USA Minimum Volatility Index** The MSCI USA Minimum Volatility (USD) Index aims to reflect the performance characteristics of a minimum variance strategy applied to the MSCI large and mid cap equity universe. The index is calculated by optimizing the MSCI USA Index, its parent index, for the lowest absolute risk (within a given set of constraints). Historically, the index has shown lower beta and volatility characteristics relative to the MSCI World Index.

**MSCI USA Quality Index** The MSCI USA Quality Index is based on MSCI USA, its parent index. The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.

**MSCI World Enhanced Value Index** The MSCI World Enhanced Value Index is based on the MSCI World Index, which includes large and mid-cap stocks across 23 Developed Markets (DM) countries.\* The index is designed to represent the performance of securities that exhibit higher value characteristics relative to their peers within the corresponding GICS® sector.

**MSCI World Equal Weighted Index** The MSCI World Equal Weighted Index include the

same constituents as its the MSCI World Index but equally weight them.

**MSCI World High Dividend Yield Index** The MSCI World High Dividend Yield Index is based on the MSCI World Index, its parent index and includes large and mid-cap stocks across 23 Developed Markets (DM) countries.\* The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent. The index also applies quality screens and reviews 12-month past performance to omit stocks with potentially deteriorating fundamentals that could force them to cut or reduce dividends.

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**MSCI World Quality Index** The MSCI World Quality Index is based on MSCI World, its parent index, which includes large and mid-cap stocks across 23 Developed Market (DM) countries.\* The index aims to capture the performance of quality growth stocks by identifying stocks with

high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage. The MSCI Quality Indexes complement existing MSCI Factor Indexes and can provide an effective diversification role in a portfolio of factor strategies.

**Quality Factor** One of the six widely recognized, research-based smart beta factors that refers to "quality" equities. Companies whose stocks qualify exhibit consistent profitability, stability of earnings, low financial leverage and other characteristics consistent with long-term reliability such as ethical corporate governance.

**Size Factor** A smart beta factor based on the tendency of small-cap stocks to outperform their large-cap peers over long time periods.

**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.

**Value Factor** One of the basic elements of "style"-focused investing that focuses on companies that may be priced below intrinsic value. The most commonly used methodology to assess value is by examining price-to-book (P/B) ratios, which compare a company's total market value with its assessed book value.

\* DM countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and the US.

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