STATE STREET GLOBAL ADVISORS SPDR®

August 31, 2020
US-Listed Monthly Flash Flows

Once More Unto the Breach

Matthew Bartolini, CFA
Head of SPDR Americas Research
State Street Global Advisors

- Global equity markets rallied back to pre-crisis highs; however, not everyone has participated, as only 41% of stocks are above their own respective pre-crisis highs.
- Sector ETFs took in $4 billion in August, their seventh month of inflows this year. Technology led, while cyclical sectors also powered the flows on the month.
- Fueled by strong returns and supportive macro trends, gold ETFs took in over $2 billion in August – their eighth consecutive month of more than $1 billion of inflows.
- Bond funds snapped their monthly streak of more than $20 billion of inflows. However, the August flows (+$16 billion) were still above the five-year median, as usage remains strong, with calendar-year flows nearing a record.

Flash Thoughts

King Henry V uttered, "Once more unto the breach, dear friends, once more," at the siege of Harfleur in the third act of Shakespeare's seminal play, aiming to motivate his troops ahead of launching continuous assaults on the gaps of the city walls. The motivation was necessary, as the English forces had already been through a lot, had been beaten back and were weary of the prospects ahead of success. There was a real need for courage and a steely resolve to be able to forge ahead.

With the standard 60/40 portfolio sitting on current year-to-date gains against a backdrop of an elevated risk regime,[1] investors may need to find a steely resolve similar to the one that King Henry's forces did back in September of 1415. Like a vast city wall littered with battalions ready to strike upon any move, a quintet of risks are standing in front of global capital markets as summer turns into fall in an already battle-torn 2020.

1. *The pandemic:* Cases continue to rise around the world (albeit more slowly), creating confusion and delaying any return to normalcy. The next outbreak is always the most feared, and in many parts of the world, the weather is starting to turn colder, and the pandemic will converge with the seasonal flu – leading to some issues on deciphering which of the two illnesses people may have. However, not all pandemic risks are to the downside. There have been encouraging advancements on a potential vaccine, as well as improved testing.
2. *The reopening of schools:* Whether it is an online-only, hybrid, or in-person process for the 2020/2021 school year, the pandemic back-to-school lifestyle will be inherently disruptive and confusing, and it will lead to an array of potential risks.

These risks include increased case rates as people once again congregate more regularly, to the heightened stress and potential lack of productivity from parents having to juggle working while ensuring that their child is able to learn in this new abnormal.

3. *Earnings season without the low bar:* Sizable second-quarter earnings surprises fueled gains over the past few months, considering that 84% of S&P 500 firms surprised to the upside and by a magnitude of 23%[2] – both figures are records. The eye-popping results were made possible by the fact that leading up to the quarter, a low bar was set, as second-quarter estimates were slashed by 37%[3] — this figure is also a record. The third-quarter earnings season is unlikely to have the same low bar, as estimates have actually improved by three percentage points since June.[4] While still projecting a decline, without a vastly lowered bar and more data on post-pandemic operations, the price reaction from the earnings season may not be the same — and the terrain a bit tougher to trudge through. This is not confined to the US, either, as global earnings estimates have also not been slashed to the degree that they were in Q2.[5]

4. *Elevated valuations:* US stocks have not been this richly valued since the dot-com era, and by some metrics (e.g., next-12-month price-to-earnings), they are trading higher than they were back at the dawn of the millennium.[6] Overseas, there are more constructive valuations. However, considering that US equities make up more than 50% of global benchmarks,[7] the nosebleed multiples do not portend to a great margin of safety if investors no longer wish to pay more than $26 for next year's earnings.

5. *The election:* This is the proverbial elephant and donkey in the room for the rest of the year. Over the next few weeks, the rhetoric will intensify — all during a time of heightened social unrest that can no longer be separated from any election discussion. For the month of September, the election will likely produce more noise than actionable news. Following the debates, more tangible information will be able to be gleaned on platforms and polling behavior. Given the unorthodox nature of this election, the historical trend of election months typically being more volatile than nonelection fall months is likely to continue.

Whether it was the speech delivered at Harfleur or the famous speech ahead of the Battle of Agincourt (St. Crispin's Day Speech), in which King Henry asked to "steel my soldiers' hearts," a similar amount of fortitude may be necessary as investors once more go unto the breach in a tumultuous 2020. While investors are unlikely to run full steam into city wall gaps to seek success,[8] there are three potential tactics to consider as we forge ahead:

1. Diversification: Ensuring portfolios are appropriately diversified with potential defensive positions, such as gold, that may be able to parry on any uptick in volatility

2. Don't panic: Nerves of steel may be required to not hastily change a strategic asset allocation mix. After all, some of the S&P 500's best days have followed the worst.[9]

3. Focus on the future: COVID-19 has created a new trendline for our society, and new innovative growth opportunities have emerged that may help position for our new reality

Streak Stopped but Still Going Strong

The Data: The four-month streak of over $20 billion in monthly bond ETF flows ended in August, as the asset class took in *only* $16 billion last month. Sizable outflows from government funds dragged the segment lower, partially offsetting the strength in all other areas. While not over $20 billion, the $16 billion is still above the five-year median monthly flows (+$10.5 billion).

With the inflows in August, bond ETFs have now amassed $142 billion this year. This is roughly $13 billion shy of the 2019 record, leading to this year likely being the new record holder, given that there are still four months left to go. If we were to extrapolate out the current year-to-date totals with the historical five-year median flow figure, the estimated 2020 tally would be $183 billion. If we were to take a more aggressive approach and use the 2020 median of $19 billion, the 2020 calendar-year flows could reach $220 billion. Either way, the question isn't whether or not the 2019 record will be broken, but broken by how much.

Equity ETF flows remained somewhat constrained in August, even as the broader market rallied back to new all-time highs. The $17.3 billion of inflows in August is below the five-year median figure (+$20 billion).

Flows into commodity funds continue to shine, led by precious metal exposures, such as gold. In fact, while bond ETFs saw an end to their record streak, gold funds' streak of more than $1 billion of monthly inflows continued in August. The more than $2 billion of inflows last month brings the record to eight consecutive months.

My Take: There is not much to read into the below-median equity flows for August, as the historical relationship between flows and returns are loose – at best. Dating back to 2011, monthly equity ETF flows have only a 30% historical correlation with returns on the S&P 500 Index. Part of the reason for the low correlation is the multi-use nature of ETFs. For instance, during a market downturn – like the one we witnessed in March – flows can still be positive – like they were in March – as investors seek out market hedges and use ETFs to short a specific market segment.

This desire to "go short" may require shares to be created if there is not enough supply in the open market. As shares are created, this is recorded as an inflow. Those shares are then lent out. This process is known as long-to-lend, and this nuance is one of the reasons why flows as a predictive indicator are not significant (i.e., an inflow could be a result of a bearish viewpoint).

The below median level flows, however, combined with near-median trading volumes for equity ETFs — as well as for stocks in the S&P 500 in August — do portend to a low-participation rally.[10] This is further reinforced by low positioning in S&P 500 futures (sitting in the 12th percentile over the past five years) and high cash positions as defined by money market assets (sitting in the 92nd percentile over the past five years and just shy of the maximum level following the onset of the pandemic).[11] One could argue that the outsized bond flows are a further indicator of a low-participation rally. However, for bond ETF flows in particular, they have been driven by equity-sensitive bond segments, as investors seek out areas to participate in the rally that have less volatility than straight equities. So, investors may be participating, but they are doing it in a non-straightforward way. Either way, if gains continue to persist, there could be a fall season capitulation leg to this current rally as more investors on the sidelines start to come back in.

Seasonality would also suggest that flows are likely to increase over the next four months, given that historically, fourth-quarter flows have been $30 billion, on average, over the past 10 years – a figure that is more than double the other quarterly averages. Not to mention, the multi-use nature of ETFs are likely to be relied upon for tactical positioning in what is expected to be a very uncertain next few months as a result of the current quintet of events now converging simultaneously.

Figure 1

Asset Class

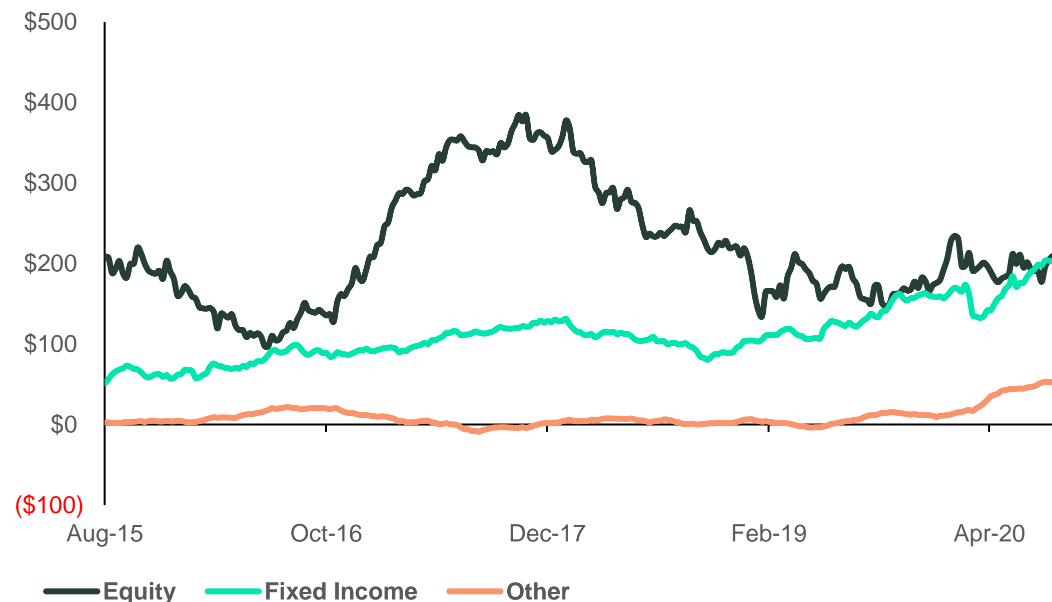
In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Equity	17,310	88,832	39,225	211,361	2.57%
Fixed Income	15,968	141,858	76,329	200,688	16.72%
Commodity	3,169	46,134	15,488	48,016	56.26%
Specialty	485	1,141	1,326	1,610	42.07%
Mixed Allocation	70	119	-220	1,176	0.82%
Alternative	155	661	285	653	20.60%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

The strong flows into fixed income ETFs as of late at one point pushed their rolling 12-month flow figure to a record high and above that of equity ETFs – a feat that has never happened before, as shown below. The "Other" category is also at a record flow figure for any 12-month period, predominantly driven by flows into gold-backed ETFs. While those two areas are at record highs, equity flows' rolling 12-month figure is 49% below its maximum all-time level (another potential sign of a low-participation rally). As a result, even with two categories at record highs, the combined $513 billion of inflows over the past 12 months for all ETFs are 12% below their maximum level.

Figure 2

Rolling 12-Month Asset Class Flows
($ Billions)

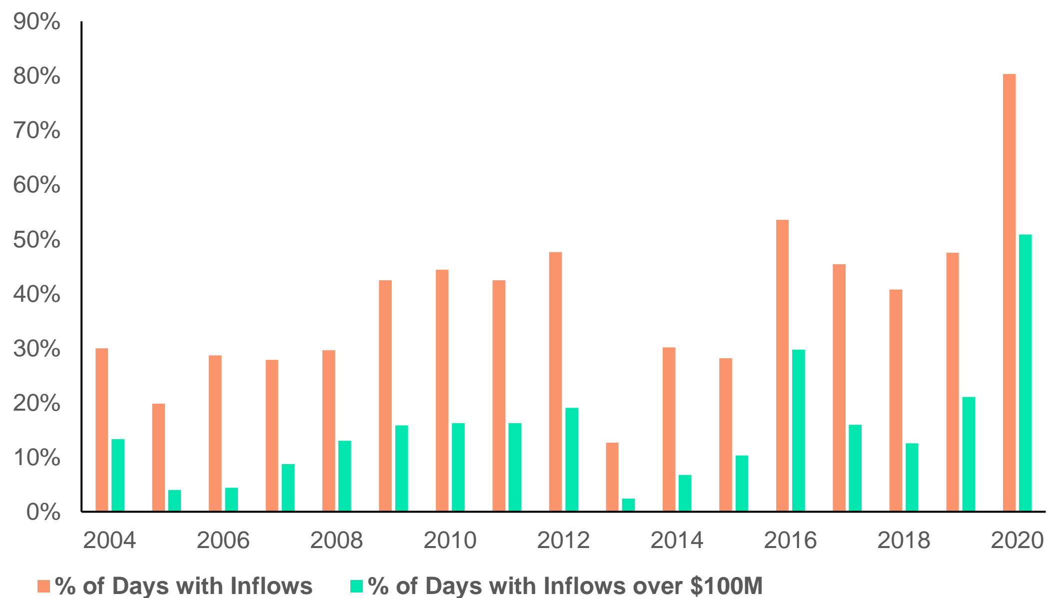


Past performance is not a guarantee of future results. Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

The magnitude of gold flows in 2020 has been well documented, considering that year-to-date totals are over $30 billion – a figure more than twice that of the prior calendar-year record. However, what has not been well documented has been the fund flow persistence for gold funds as a category. As shown below, gold funds, as a category, have had inflows on over 80% of the days in 2020. This is more than double the typical calendar-year average (36%) and 26 percentage points higher than the prior record, which was set in 2016. And it's not just days of inflows, but also days with inflows of over $100 million. On 51% of the days so far this year, gold funds, as a category, have had inflows of more than $100 million – another record in a banner year for the category.

Figure 3

Gold Category Percent of Days with Inflows
($ Billions)



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

Still Stuck at Home, but the Trend Is Moving Overseas

The Data: US-focused ETFs took in $8 billion in August, rebounding from over $5 billion of outflows in July. Non-US-focused ETFs had roughly the same inflows in August. However, the devil is in the details. The strength of the global category is really driven by thematic ETFs that have a global focus. This is why we have further broken out thematic flows later in this document based on a newly built classification scheme, as those exposure are beginning to take on a greater importance in investors' portfolios as they position for a post-pandemic world. After removing those funds from the global category, the non-US total falls to roughly $6 billion instead of $8 billion.

In the thematic-adjusted non-US category, the flows were primarily driven by international developed exposures once again this month, as they have been all year. Emerging market funds (EM) had outflows for the second consecutive month, even though EM equities have outpaced developed ex-US equities by 5% and 7% over the past two months and in 2020 so far, respectively.

My Take: Relative interest overseas has picked up as of late, but it still remains constrained, as the flows into EM have yet to return. The subdued EM flows — combined with the still net negative flows year to date for the more tactical regional and single-country exposures — suggest that investors are hesitant to fully wade back into international waters. This is occurring even as valuations and better case rates relative to the US that may lead to higher economic growth for the rest of 2020 and into 2021 create a constructive opportunity to trim any home bias that has been built up over the years.

Figure 4

Equity Geographical

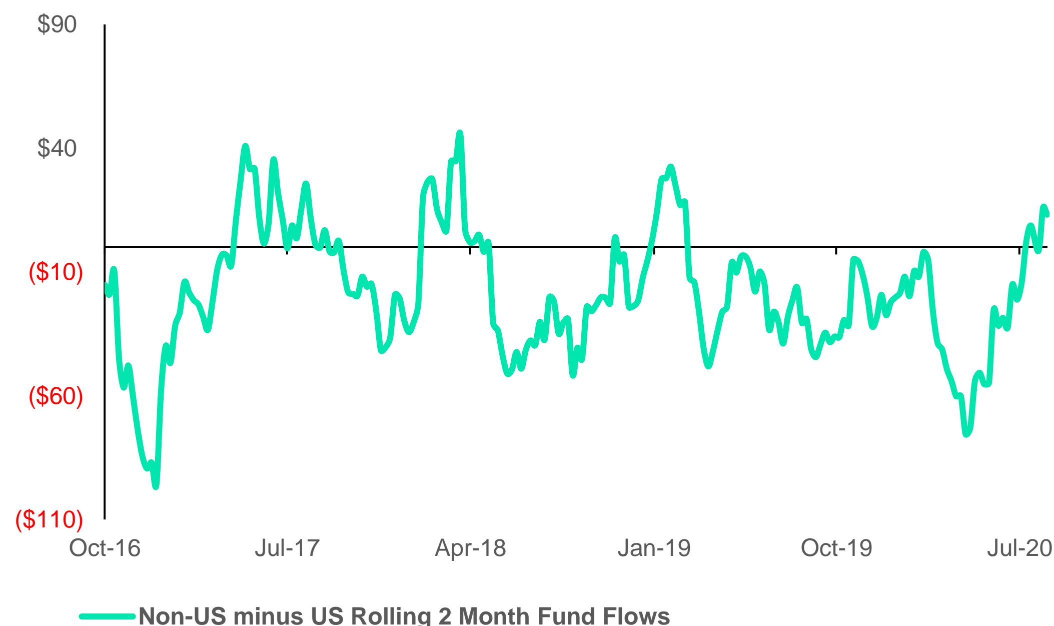
In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
U.S.	8,073	84,679	16,268	170,507	3.29%
Global	3,279	13,523	8,854	17,495	12.42%
International-Developed	5,178	9,716	5,194	27,660	2.39%
International-Emerging Markets	-138	-13,302	696	-5,602	-6.77%
International-Region	515	-1,016	4,130	50	-1.93%
International-Single Country	73	-6,214	4,298	-678	-6.54%
Currency Hedged	-390	-4,237	-1,281	-4,537	-21.6%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of July 31, 2020

A specific trend emerges when focusing purely on non-US exposures (i.e., excluding global funds). And it does indicate that investors have started to look overseas a bit more recently. As shown below, the rolling two-month flow differential between non-US- and US-focused exposures has risen, albeit it is well below any highs. The latter point reinforces the views stated above — that some trepidation about going all-in on an overseas allocation still exists.

Figure 5

Non-US Minus US Rolling Two-Month Fund Flows



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

In Recovery Mode

The Data: With over $4 billion, sectors again posted inflows last month, in the aggregate. This was the seventh month so far in 2020 that sector flows were positive. Cyclicals outpaced defensives last month. Or, to put it another way, recovery sectors (Consumer Discretionary, Materials, and Real Estate) outpaced recession sectors (Utilities, Health Care, and Consumer Staples) when using the definitions we outlined in our 2019 study. Technology-focused ETFs continued to receive inflows, with almost $1 billion in August, and they still lead sector flows year to date.

My Take: Flows have followed returns, to a degree. Technology, Consumer Discretionary, and Industrial stocks all outperformed the broad S&P 500 Index in August. And those three sectors had the strongest flows. But after that, there is little connection, as Utilities were down on the month yet produced inflows. Short interest noticeably declined on Utilities, so perhaps the inflows were related to short covering.

Overall, as the economy continues to reopen and be on the path to recovery, the more cyclical sectors are likely to benefit as consumption and industrial activity potentially rebound closer to pre-pandemic levels. The one exception would be Real Estate – a sector that has historically done well in a recovery, as we identified in the 2019 study – given how the COVID-19 pandemic has upended trends in commercial real estate (i.e., less need for office space, given the rise of working from home).

Figure 6

Sector Flows

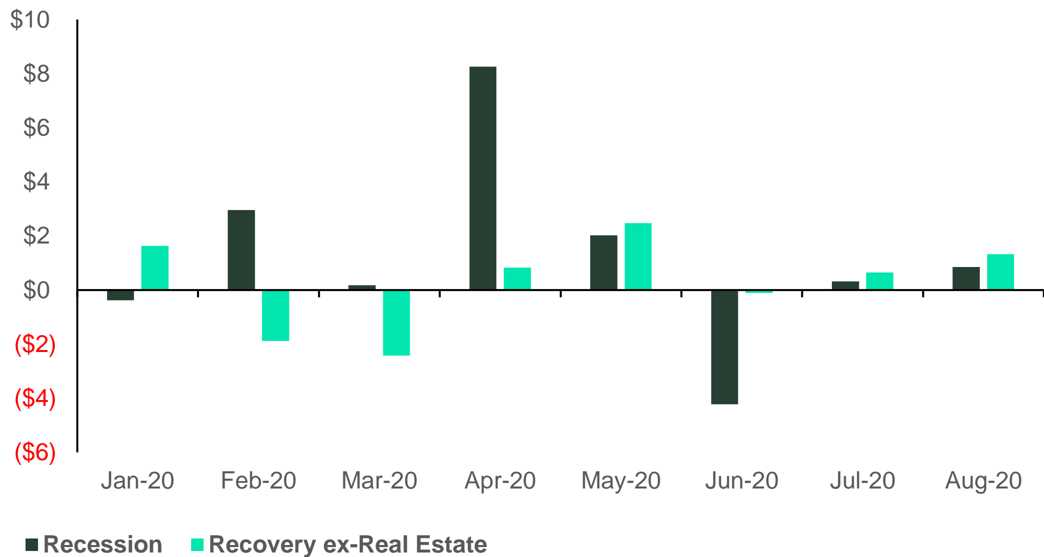
In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Technology	1,092	8,623	2,668	11,749	8.55%
Financial	703	-1,306	1,548	-917	-2.58%
Health Care	-100	7,959	-2,179	7,040	12.84%
Consumer Discretionary	1,156	2,595	2,911	1,350	11.45%
Consumer Staples	-201	107	-1,482	-696	0.48%
Energy	-186	5,362	1,433	6,903	12.40%
Materials	444	-253	-977	1,070	-0.80%
Industrials	993	1,629	2,970	1,997	6.24%
Real Estate	-469	-5,227	-2,224	-2,602	-6.72%
Utilities	827	1,347	159	1,018	6.93%
Communications	32	2,831	292	3,448	27.66%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

This recession-versus-recovery flow story has been on display for the past few months, as shown below, after removing the troubled Real Estate sector. Flows into recovery sectors have outpaced recession sectors in each of the past four months. The net performance differential has also been favorable towards recovery sectors (once again, only when removing Real Estate), as the average monthly return of an equally weighted recovery basket of sectors has outperformed the recessionary basket in each of the past five months.[12]

Figure 7

Sector Flows: Recession Versus Recovery (ex-Real Estate)
($ Billions)



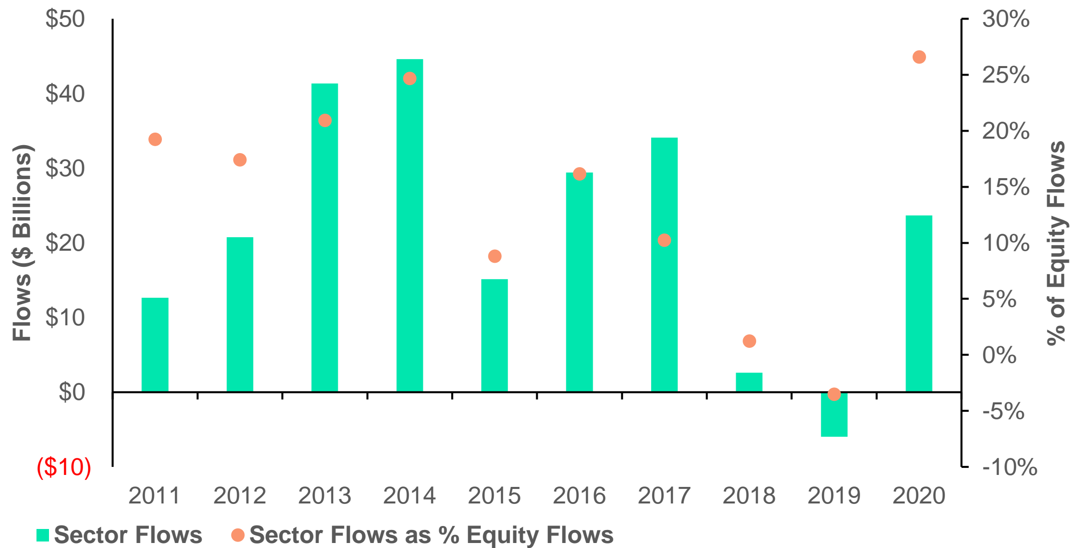
Past performance is not a guarantee of future results. Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

Flows into sector funds have topped $20 billion this year, at $24 billion, and that doesn't include the $15 billion deposited into the nontraditional thematic ETFs to be discussed later in this article. The $24 billion reverses a two-year trend of muted flows, and it reflects a specific investor behavior trend in 2020 – harnessing elevated dispersion and discretely positioning sectors based on market trends rather than indiscriminately buying broad beta. As shown below, the $24 billion figure is the highest since 2017, and as a percent of overall equity flows, this year's sector flows are the highest they've been in the past 10 years.

Given that we have another looming election and that, historically, the fourth quarter has been the strongest time of year for sector flows, that $24 billion figure is likely to increase and could perhaps reach levels seen earlier in the decade.

Figure 8

Annual Sector Flows



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

Almost a Straight Flush for Fixed Income Flows

The Data: Only one bond sector had outflows in August, and six out of the 11 sectors had more than $1 billion of inflows. Preferreds were just $56 million away from being the seventh bond sector with over $1 billion of inflows. The persistence of the inflows is also strong, as the same six segments — Aggregate, Inflation Protected, Mortgage Backed, IG Corporate, High Yield, and Municipals — all had inflows on more than 80% of the days in each of the past three months. Some sectors are well north of 90%, having inflows on almost every day in the past few months.

My Take: While certain segments (Aggregate, IG Corporate, and High Yield) have led in a somewhat concentrated fashion, the strength throughout the bond ETF ecosystem is a larger reflection of increasing usage across many client dimensions leveraging an array of portfolio implementation use cases.

Figure 9

Fixed Income Flows

In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Aggregate	6,982	41,138	29,560	65,561	15.41%
Government	-5,911	14,296	-10,242	15,726	9.68%
Inflation Protected	3,089	6,143	8,570	8,098	13.66%
Mortgage-Backed	1,188	4,963	2,500	9,347	13.12%
IG Corporate	5,129	45,106	26,499	54,400	27.06%
High Yield Corp.	2,418	21,722	9,305	29,114	38.74%
Bank Loans	230	-2,364	257	-372	-22.78%
EM Bond	558	-804	1,662	-505	-2.78%
Preferred	946	2,004	1,434	4,353	5.85%
Convertible	151	306	575	739	5.89%
Municipals	1,025	8,146	5,496	12,809	16.6%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of May 31, 2020

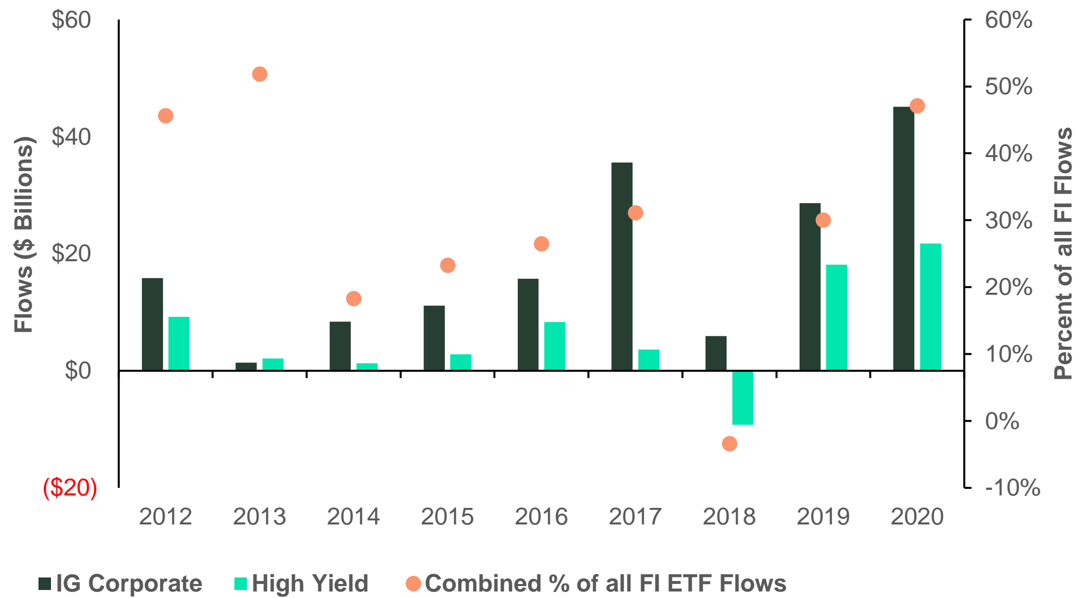
The flows into high yield and IG corporate are at record highs in 2020, but they are also taking in a larger share of the flows than they have over the past few years, as shown below. The combined $66 billion into IG corporate and high yield equates to almost 50% of all bond ETF flows, far greater than their average over the past five years (28%).

This year's figure rivals the levels witnessed back in 2012 and 2013, when there were fewer options (i.e., fewer fixed income ETFs and market exposures) to select from, and it would not have been unrealistic to see such high flow percentage ranks back then.

In our current landscape, there are far more choices. So, the large share of flows for IG corporate and high yield reflects a more tactical shift from investors seeking out potential yield and total return opportunities.

Figure 10

High Yield and Investment-Grade Annual Flows

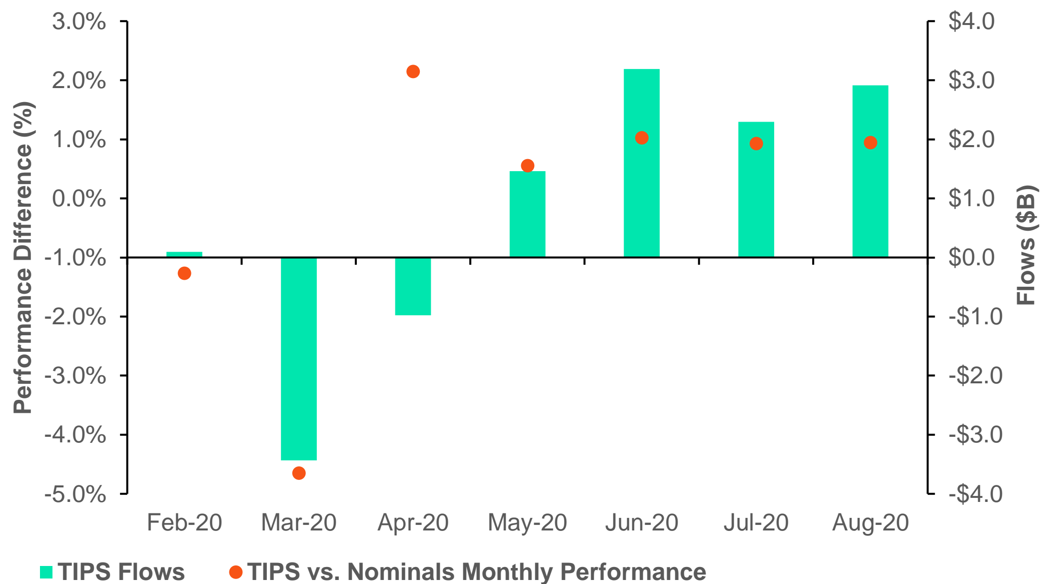


Past performance is not a guarantee of future results. Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

With Treasury Inflation-Protected Securities (TIPS) outpacing nominal Treasuries every month over the past five months, TIPS ETFs are back in favor, as shown below. TIPS ETFs have taken in almost $9 billion in the past five months, and this trend is likely to continue, given the recent comments from the Federal Reserve[13] as well as the likelihood of increased treasury issuance to fund current and future fiscal stimulus. Investors, however, may be well served by ensuring that all inflation playbook options are on the table.

Figure 11

TIPS Flows Versus TIPS Relative Performance



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

Back to the Future

The Data: After posting a record $3 billion in June and July, these NextGen Trends funds took in over $4 billion in August. The flows were led by funds targeting broad-based innovation, as well as strategies focused on firms creating more renewable forms of power generation.

After three straight months of more than $3 billion of inflows, assets have grown to more than $50 billion for this category of funds. The $16 billion of inflows this year represents a 47% increase from this segment's start-of-year assets. Future Communications and New Consumer have witnessed the largest relative increase in 2020.

My Take: The flows we have witnessed since the onset of the pandemic reflect investors' realization of the societal sea change we are experiencing — and will likely continue to experience.

Similar to the traditional sector flow trends discussed above, these flows represent an acute investor behavior on our post-pandemic world: discreetly sourcing investment opportunities based on a specific market trend that may not be well represented in traditional beta tools. And these flows have been rewarded, as over 70% of these NextGen trends' funds have outperformed the S&P 500 Index since the end of March, with the average outperformance tallying 17%, given that the average fund is up 54% and the best performing is up 196%.

Figure 12

Thematic Flows

In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
NextGen Trends	***4,126***	***15,767***	***10,158***	***16,310***	***47%***
Broad Innovation	1,154	4,681	3,262	4,721	92%
Clean Energy	770	1,814	1,112	2,123	29%
Cloud Computing	216	2,583	1,099	2,502	92%
Democratized Banking	242	544	432	585	83%
Final Frontiers	3	21	11	22	107%
Future Communication	575	2,682	1,739	2,807	197%
Future Security	132	689	385	758	25%
Human Evolution	614	1,668	1,165	1,852	91%
Intelligent Infrastructure	20	73	40	104	39%
New Consumer	247	737	581	719	110%
Robotics & AI	142	244	303	97	8%
Smart Mobility	14	30	28	21	38%

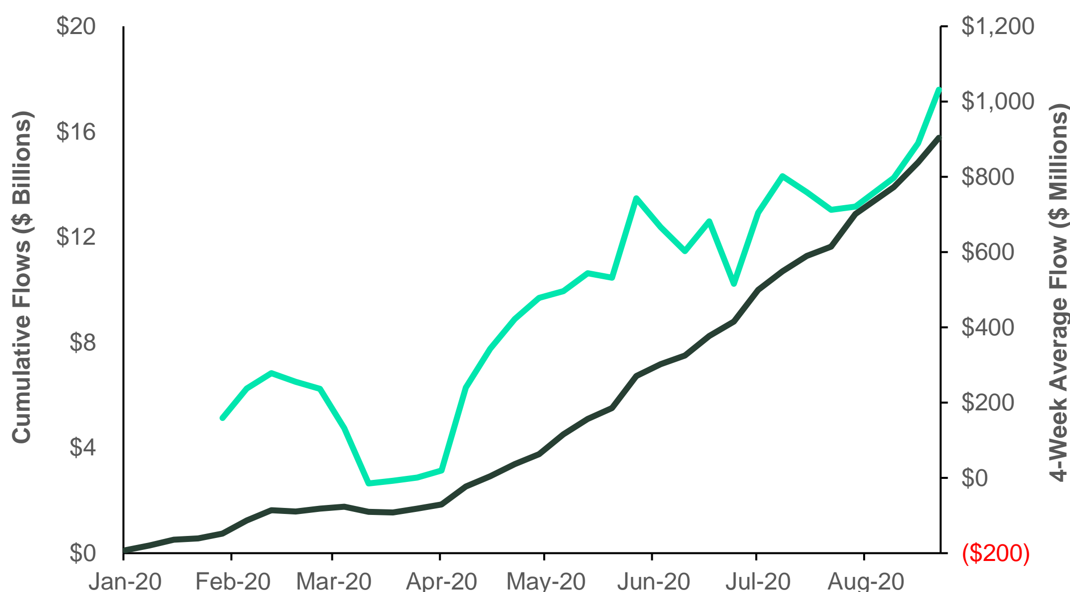
Top two and bottom two categories per period are highlighted**. Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

The inflection point in our global society from COVID-19 is likely to lead to an increasing need for innovative technologies that allow for more contactless interactions, advanced medicine, digital connectivity and intelligent infrastructure.

This inflection point has led to a new interest in vehicles that may be able to obtain specific post-pandemic societal sea change exposures, and it helps explain the parabolic rise we have witnessed in assets since the onset of COVID-19. As shown below, the cumulative growth in thematic ETFs has been impressive, as has the four-week average flow figure – a metric that has been above $400 million since late April.

Figure 13

Thematic Cumulative Flows and Weekly Average Flows



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

Some Style Choices Made, None Bold

The Data: Broad market exposures had the most inflows in August, followed by small cap. The small-cap flows represent 1% of their start-of-month assets and are a reversal from last month, when the category was in outflows. Value also witnessed a reversal from last month — taking in the most out of any style — and it now has positive flows over the past three months.

My Take: The positive flows into two recovery-centric styles (small cap and value exposures) is a healthy sign for investor confidence. However, the up-and-down flows from month to month do reflect some investor unease on the strength of these two broader recovery segments, given lackluster returns over the past few years and as of late. Both small caps and value stocks underperformed the broader market in August and still remain below their pre-crisis highs. Rather than utilize a style framework to position in this recovery, investors have clearly chosen to make specific recovery positioning adjustments with sectors – as discussed earlier.

Figure 14

US Style Flows

In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Broad Market	3,973	26,140	7,142	44,001	9.18%
Large-Cap	-2,313	33,146	2,739	87,286	4.22%
Mid-Cap	13	-4,484	-2,271	-2,560	-2.13%
Small-Cap	1,726	3,234	3,692	10,893	1.46%
Growth	331	22,847	578	26,213	7.09%
Value	2,008	6,013	2,551	20,497	2.37%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

Treasury a Treasure Chest of Outflows

The Data: Government bond ETFs had outflows across all four major maturity points we track. Ultra-short bond ETFs have now been in outflows for four consecutive months – their longest stretch since 2015.

My Take: With equity markets above technical indicators and at all-time highs, tactical trend-followers have continuously sold their defensive positions to re-risk.

Figure 15

Maturity Flows

In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Ultra Short	-2,460	4,211	-8,450	983	12.49%
Short Term	-209	7,151	-875	9,457	14.40%
Intermediate	-1,960	2,673	-2,642	3,893	6.75%
Long Term (>10 yr)	-1,519	-952	877	338	-4.2%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

Factors Reverse Course

The Data: Smart beta flows were positive in August, breaking a five-month streak of outflows. However, the fanfare should be tempered, as not all segments had inflows and the broader category continues to be held back by outflows in low-volatility ETFs. With another month of outflows for that factor category, the year-to-date outflows are over $6 billion and represent a 7% decline in start-of-year assets. Dividend strategies once again had outflows as well. The inflows were centered on value and multifactor — two areas that still remain in net outflows for 2020.

My take: The lackluster flows are a reflection of the performance challenges for factor-specific strategies over the past few months. Dividend exposures have implicit value bias, and that factor has not been rewarded this year – as well as many other years. Low-volatility strategies mitigated some of the drawdown but have missed out quite considerably on the rally – underperforming the broad market by 16% since the bottom on March 23. Those are the two largest factor category types by assets, so they can really drive flows. Adding to the flow headwinds in 2020 is the fact that the third-largest (multifactor) category is also having some performance challenges. Many of the funds in that category include value as a factor, and they have been known to be underweight the large-cap, high-growth stocks leading this rally.

Figure 16

Smart Beta Flows

In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Dividend	-103	-1,031	-1,073	13,306	-0.46%
Growth	151	-404	119	-400	-6.89%
Low Volatility	-579	-6,438	-2,770	-1,753	-7.37%
Momentum	592	94	755	-1,327	0.58%
Multifactor	895	-1,784	201	-1,048	-3.40%
Quality	-121	4,645	234	9,842	15.84%
Size	186	-3,202	966	-2,188	-15.05%
Value	822	-860	-1,193	1,276	-1.99%

Top two and bottom two categories per period are highlighted**. Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

Active + ESG = Flow Strength in 2020

The Data: Active continues to be a force, taking in over $5 billion for the fourth consecutive month – pushing its year-to-date total to nearly $30 billion. ESG funds, however, took in more on a relative basis, as the nearly $2 billion represents a 46% increase of its start-of-month assets. While 56% is impressive, it is lower than the staggering 88% growth in assets for 2020 overall for ESG ETFs, as shown below.

My Take: The active flows are driven by fixed income ETFs, as that market segment continues to grow, given that identifiable track records are being developed. This creates more comfort for investors to implement active strategies via an ETF.

For ESG, as discussed in our recent paper, it has gone from tipping point to turning point, and these flows reflect that shift.

Figure 17

Strategy Flows

In Millions ($)	August	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Active	5,813	31,584	17,037	43,463	31.59%
Smart Beta	1,689	-11,420	-2,954	15,070	-2.32%
Sector Smart Beta	402	-904	401	-340	-6.67%
ESG	1,917	18,316	4,247	21,731	89.2%

Top two and bottom two categories per period are highlighted**. Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of August 31, 2020.

Footnotes

1 A mix of the MSCI ACWI Index and the Bloomberg Barclays US Aggregate Bond Index is up 5.8% as of August 31, 2020 this year, per Bloomberg Finance L.P. data

2 FactSet as of August 31, 2020

3 FactSet as of August 31, 2020

4 FactSet as of August 31, 2020

5 FactSet as of August 31, 2020

6 The next-12-month price-to-earnings ratio is at 26.83, higher than the 1999 level of 26.4

7 Based on the MSCI ACWI IMI Index, per Bloomberg Finance L.P. as of August 31, 2020

8 An investor version of running into city wall gaps is like buying a bunch of YOLO (you only live once) deep-out-of-the-money options on certan high-flying or beaten-up stocks

9 "Miss the Worst Days, Miss the Best Days", Michael Batnick 2019, https://theirrelevantinvestor.com/2019/02/08/miss-the-worst-days-miss-the-best-days/

10 Trading volumes for August are sitting at the historical median per Bloomberg Finance L.P. data as of August 31, 2020

11 Bloomberg Finance L.P. as of August 31, 2020

12 Bloomberg Finance L.P. as of August 31, 2020, calculations by SPDR Americas Research

13 "A Flexible Fed Means Higher Inflation", Wall St. Journal, August 30, 2020

Definitions

S&P 500 Index: A stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States

MSCI ACWI Index: MSCI ACWI Index is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world.

Bloomberg Barcalys US Aggregate Bond Index: The Bloomberg Barclays US Aggregate Bond Index measures the investment grade, fixed-rate taxable bond market.

Growth: Characterized by higher price levels relative to fundamentals, such as earnings.

Value: Characterized by lower price levels relative to fundamentals, such as earnings.

Quality: Charcaterized by stable earnings, high return-on-equity, and low debt

Low Volaitlity: Charcaterized by low levels of standard deviations or low beta

Smart Beta: A term for rules-based investment strategies that don't use conventional market-cap weightings.

ESG: An investing style focsued on enivornmental, social, and governance

TIPS: Treasury Inflation-Protected Securities (TIPS) are a form of U.S. Treasury bond designed to help investors protect against inflation. These bonds are indexed to inflation, have U.S. government backing, and pay investors a fixed interest rate as the bond's par value adjusts with the inflation rate.

ssga.com

State Street Global Advisors Worldwide Entities
https://www.ssga.com/global/en/our-insights/state-street-global-advisors-worldwide-entities.html

Important Risk Information

This material or any portion thereof may not be reprinted or redistributed without the written consent of State Street Global Advisors.

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.

The views expressed in this material are the views of the SPDR Research and Strategy team and are subject to change based on market and other conditions. It should not be considered a solicitation to buy or an offer to sell any security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. There is no representation or warranty as to the current accuracy of such information, nor liability for decisions based on such information. Past performance is no guarantee of future results.

Unless otherwise noted, all data and statistical information were obtained from Bloomberg LP and SSGA as of August 31, 2020. Data in tables have been rounded to whole numbers, except for percentages, which have been rounded to the nearest tenth of a percent.

The research and analysis included in this document have been produced by SSGA for its own investment management activities and are made available here incidentally. Information obtained from external sources is believed to be reliable and is as of the date of publication but is subject to change. This information must not be used in any jurisdiction where prohibited by law and must not be used in a way that would be contrary to local law or legislation. No investment advice, tax advice, or legal advice is provided herein.

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 (SPDJI) 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.

State Street Global Advisors Funds Distributors, LLC, member FINRA, SIPC, One Iron Street, Boston, MA 02210.
Expiration Date: 9/30/2021 2848832.10.1.GBL.RTL