

Sector Investing

A Powerful Portfolio Construction Tool

How Can Sectors Enhance Your Core?

As economic variables and business cycles impact segments of the economy differently, sector-based investment strategies can help you align and adjust your portfolios based on:

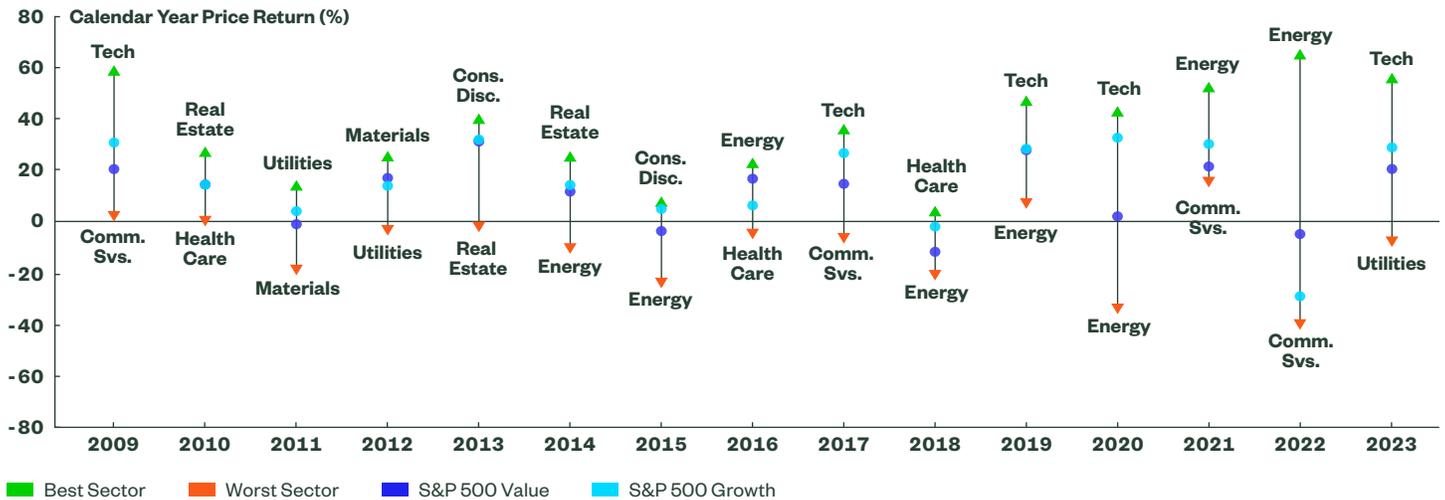
- Macroeconomic or thematic trends
- Shifts in stock fundamentals
- Technical indicators such as momentum

And the transparency of sector-based exchange traded funds (ETFs) means you can implement sophisticated strategies with great precision.

Pursue Alpha: Wide Dispersion and Changing Leaders Create Opportunities

Sectors have historically exhibited wider dispersion than styles. A wider dispersion provides investors more opportunities to deliver more than just market beta by overweighting winners and underweighting losers.

Figure 1
Wide Dispersion and Changing Leaders

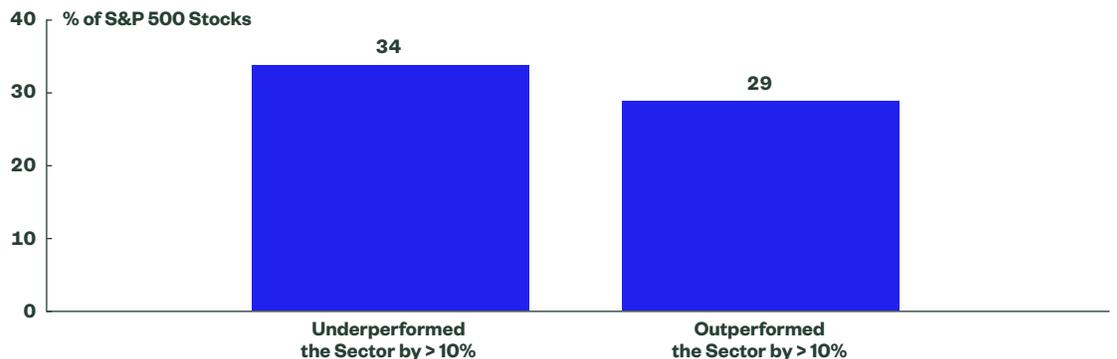


Source: FactSet, as of December 31, 2023. **Past performance is not a reliable indicator of future performance.**

Increase Diversification: Some Sectors Zig When the S&P 500 Zags

Sector investing can help you capture thematic trends without shouldering much stock-specific risk. And, given their wide range of correlations to the broad equity market, sectors also can potentially improve diversification for a core US equity exposure.

Figure 2
The Odds Don't Favor Stock Pickers

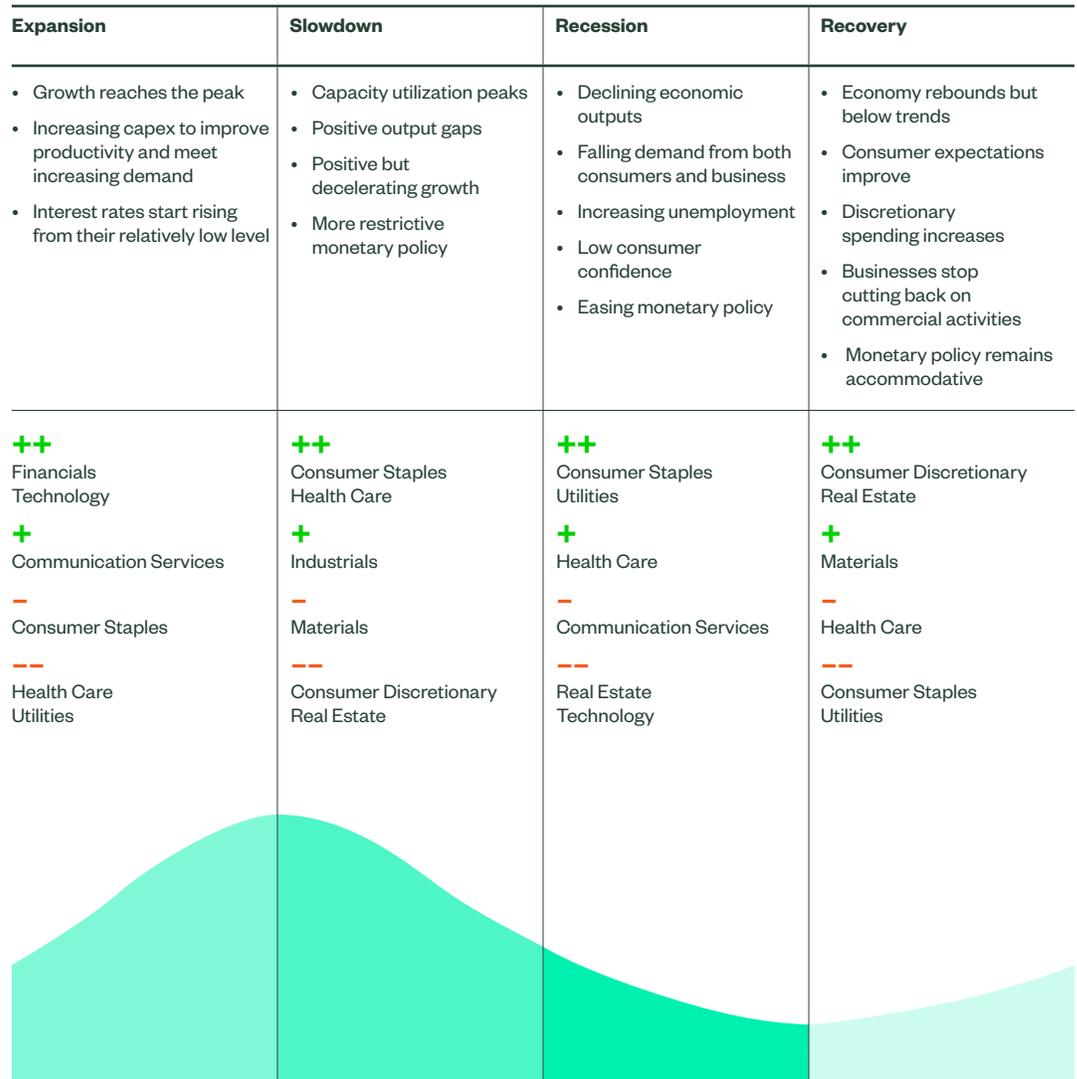


Source: SPDR Americas Research, FactSet, January 2003–December 2023 yearly average. Under/outperformance is relative to each stock's respective S&P 500 equal-weighted sector returns. **Past performance is not a reliable indicator of future performance.** The index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. It is not possible to invest in an index.

Capture Economic Trends: Think about Tilts and Themes

Figure 3
A Sector Road Map: Potential Sector Performance Over the Business Cycle

Because sectors are closely aligned to specific economic variables and business cycles, sector investing may help you align portfolios with the macro environment or capture secular growth.



Source: SPDR Americas Research. ++/-- indicates the best/worst two performing sectors. +/- indicates the third best/worst performing sectors. The Energy sector did not make the top/bottom three sectors during any cycles, as it is less sensitive to US economic cycles but more driven by global supply and demand of crude oil. **For illustrative purposes only.**

How To Construct Sector Portfolios

Choose Your Sectors Based on These Types of Analysis

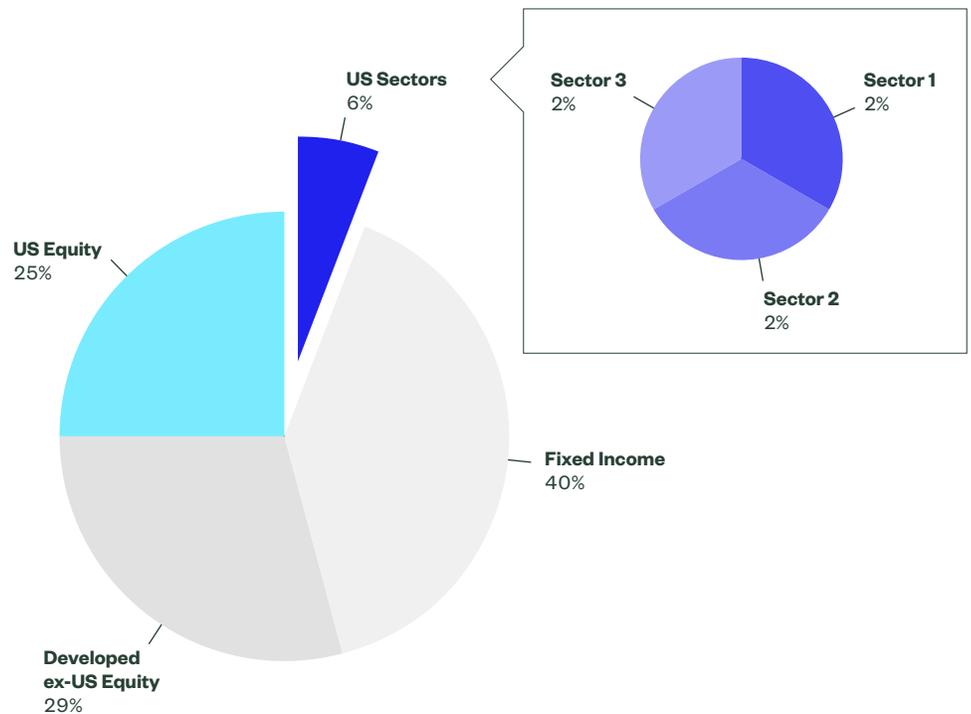
Top-Down Analyze business cycles to position towards sectors that potentially could benefit more from the current economic phase

Thematic Survey macroeconomic data (oil, inflation, rates) to position according to changes in certain macroeconomic variables. Identify cyclical or secular industry trends to harness the growth potential within a particular segment of the economy

Bottom-Up Use aggregated company-level data to identify sectors with attractive fundamental characteristics, such as cheaper valuations and/or stronger earnings sentiment

Technical Evaluate recent performance to overweight/underweight sectors with strong price momentum

Figure 4
Carve out a Portion of US Equity Exposure for Sectors



Source: SPDR Americas Research. For illustration purposes.

Implement Your Strategy With SPDR ETFs

#1

first and largest sector
ETF provider in the world¹

\$290B

in sector
strategies globally²

25+

years of experience
managing sector ETFs

11

GICS Sectors

20

Industries

6

S&P Kensho
New Economy Sectors

Select Sector SPDR Funds As the largest US sector ETF suite, Select Sector SPDR funds have historically traded with greater volume and tighter bid/ask spreads compared to other sector ETF families, which may lead to lower total cost of ownership³

SPDR Industry Funds With a modified equal weighted methodology, SPDR Industry funds offer broader industry coverage with a small-cap tilt and entail less concentration risk than market cap weighted exposures⁴

SPDR Kensho New Economies Sector ETFs These thematic ETFs are designed to target emerging technologies and innovation reshaping the global economy, such as clean power, intelligent infrastructure and smart transportation

SPDR ETFs Sector Research & Resources

SPDR Sector & Industry Dashboard A summary of the past quarter's equity market environment and a quick look at sector performance, ETF flows, correlation and dispersions, fundamentals and positioning

Thematic Next-Generation ETF Trends Dashboard Quarterly review of flow and performance trends in the thematic ETF space

SPDR Sector Scorecard Monthly quantitative evaluation on the S&P 500 sectors' valuation, momentum, sentiment and volatility

Spotting Sector Trends Quarterly sector investment opportunities to harness recent sector and industry trends

Sectors Business Cycle Analysis A whitepaper to deep dive into our research approach to assess how different sectors performed through various business cycles

Sector Insights The most current SPDR perspectives on the market environment, sector and industry trends

SPDR Suite of Sectors & Industries

Ticker	Fund Name	GICS Sector	Gross Expense Ratio (%)*
GICS Sectors (Capped Market Cap Weighted based off the S&P 500)			
XLV	Consumer Discretionary Select Sector SPDR Fund	Consumer Discretionary	0.09
XLC	Communication Services Select Sector SPDR Fund	Communication Services	0.09
XLV	Consumer Staples Select Sector SPDR Fund	Consumer Staples	0.09
XLE	Energy Select Sector SPDR Fund	Energy	0.09
XLV	Financial Select Sector SPDR Fund	Financial	0.09
XLV	Health Care Select Sector SPDR Fund	Health Care	0.09
XLI	Industrial Select Sector SPDR Fund	Industrials	0.09
XLV	Materials Select Sector SPDR Fund	Materials	0.09
XLV	Real Estate Select Sector SPDR Fund	Real Estate	0.09
XLV	Technology Select Sector SPDR Fund	Technology	0.09
XLV	Utilities Select Sector SPDR Fund	Utilities	0.09
Kensho New Economy Sectors			
HAIL	SPDR S&P Kensho Smart Mobility ETF	—	0.45
SIMS	SPDR S&P Kensho Intelligent Structures ETF	—	0.45
FITE	SPDR S&P Kensho Future Security ETF	—	0.45
CNRG	SPDR S&P Kensho Clean Power ETF	—	0.45
ROKT	SPDR S&P Kensho Final Frontiers ETF	—	0.45
KOMP	SPDR S&P Kensho New Economies Composite ETF	—	0.20
GICS Industries (Modified Equal Weighted based off the S&P Total Market Index)			
XHB	SPDR S&P Homebuilders ETF	Consumer Discretionary, Industrials	0.35
XRT	SPDR S&P Retail ETF	Consumer Discretionary	0.35
XES	SPDR S&P Oil & Gas Equipment & Services ETF	Energy	0.35
XOP	SPDR S&P Oil & Gas Exploration & Production ETF	Energy	0.35
KBE	SPDR S&P Bank ETF	Financial	0.35
KCE	SPDR S&P Capital Markets ETF	Financial	0.35
KIE	SPDR S&P Insurance ETF	Financial	0.35
KRE	SPDR S&P Regional Banking ETF	Financial	0.35
XBI	SPDR S&P Biotech ETF	Health Care	0.35
XHE	SPDR S&P Health Care Equipment ETF	Health Care	0.35
XHS	SPDR S&P Health Care Services ETF	Health Care	0.35
XPH	SPDR S&P Pharmaceuticals ETF	Health Care	0.35
XAR	SPDR S&P Aerospace & Defense ETF	Industrials	0.35
XTN	SPDR S&P Transportation ETF	Industrials	0.35
XME	SPDR S&P Metals & Mining ETF	Materials	0.35
XSD	SPDR S&P Semiconductor ETF	Technology	0.35
XSW	SPDR S&P Software & Services ETF	Technology	0.35
XTL	SPDR S&P Telecom ETF	Technology, Communication Services	0.35
Industries (Modified Equal Weighted, Non-GICS Defined)			
XNTK	SPDR NYSE Technology ETF	—	0.35
XITK	SPDR FactSet Innovative Technology ETF	—	0.45

Source: State Street Global Advisors, January 31, 2024.

* The gross expense ratio is the fund's total annual operating expenses ratio. It is gross of any fee waivers or expense reimbursements. It can be found in the fund's most recent prospectus.

Endnotes

- 1 State Street's Select Sector ETFs were launched in 1998 and were the first sector ETFs to launch. Largest sector ETF provider is measured by AUM, Bloomberg Finance L.P., as of December 31, 2023.
- 2 State Street Global Advisors, as of December 31, 2023.
- 3 Source: Bloomberg Finance L.P., as of December 31, 2023. Based on total assets, 3-Month average trading volume and 30-day average bid/ask spread.
- 4 Source: FactSet, as of December 31, 2023.

Glossary

Alpha The rate of return on a security or portfolio in excess of what would be predicted by an equilibrium model like the capital asset pricing model (CAPM).

Beta Measures the volatility of a security or portfolio in relation to the market, with the broad market usually measured by the S&P 500 Index. A beta of 1 indicates the security will move with the market. A beta of 1.3 means the security is expected to be 30% more volatile than the market, while a beta of 0.8 means the security is expected to be 20% less volatile than the market.

Correlation The historical tendency of two investments to move together. Investors often combine investments with low correlations to diversify portfolios.

Macro The part of the economics concerned with large scale or general economic factors such as interest rates and national productivity.

S&P 500 Index The S&P 500, or the Standard & Poor's 500, is an index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

Sector Investing The action of an investor or portfolio that invest assets into one or more sector of the economy such as Financials, Energy or Health Care.

Styles The investment approach or objectives used to make choices in the selection of securities for a portfolio, with the most common value and growth for equities.

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Concentrated Investments in a particular sector or industry 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 share to decrease.

Passively Managed Funds invest by sampling the Index, holding 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.

Select Sector SPDR Funds bear a higher level of risk than more broadly diversified funds.

Sector ETFs products are also subject to sector risk and non-diversified risk, which generally results in greater price fluctuations than the overall market.

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

Funds investing in a **single sector** may be subject to more volatility than funds investing in a diverse group of sectors.

While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of **market stress**.

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