

# **Sector Investing**

## A Powerful Portfolio Construction Tool



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# How Can Sectors Enhance Your Core?

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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.

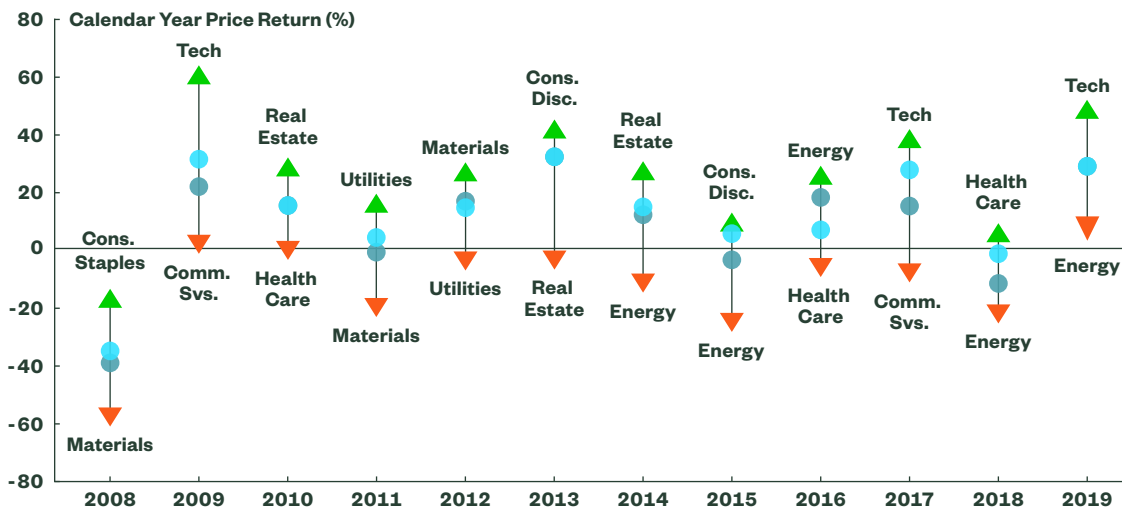
## Pursue Alpha: Wide Dispersion and Changing Leaders Create Opportunities

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

- ▲ Best Performing Sector
- ▼ Worst Performing Sector
- S&P 500 Value
- S&P 500 Growth



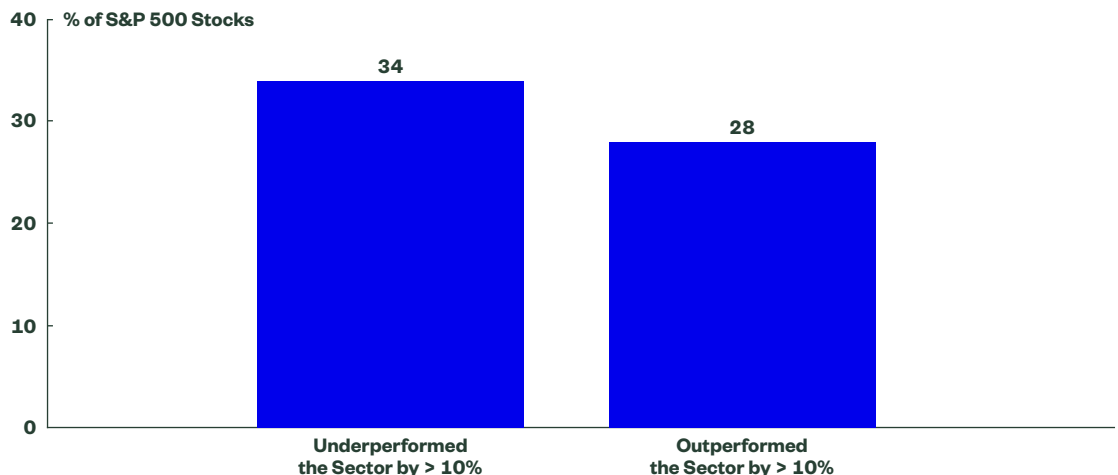
Source: FactSet, as of 12/31/2019. Past performance is not a guarantee of future results.

## 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 2019 yearly average. Under/outperformance is relative to each stock's respective S&P 500 equal-weighted sector returns. Performance quoted represents past performance, which is no guarantee of future results. 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

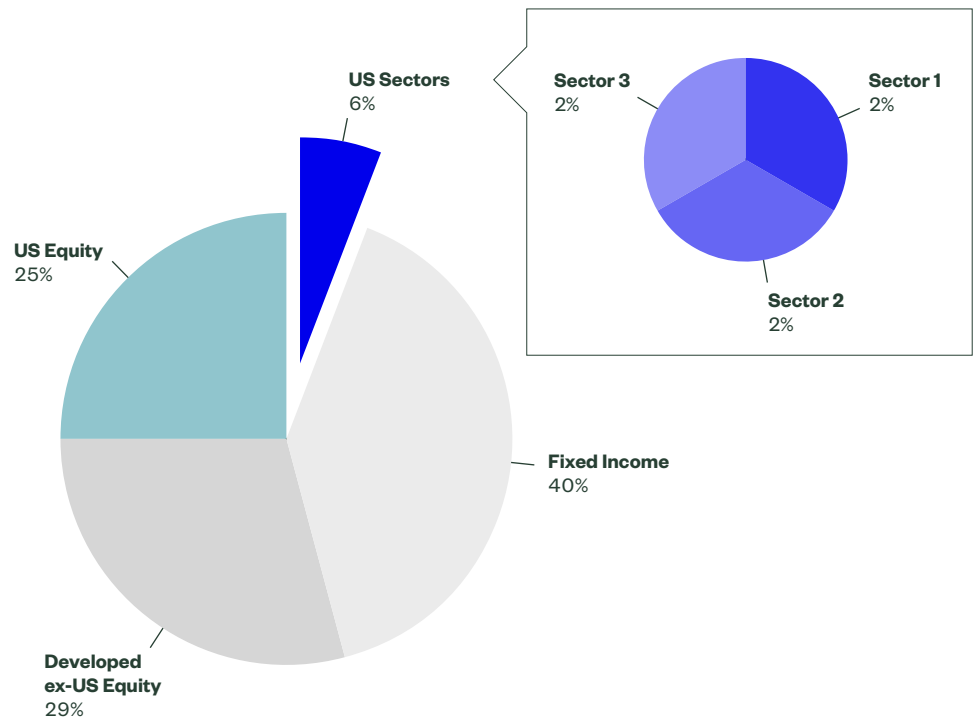
**Top-Down** Analyze business cycles to position towards sectors that potentially could benefit more from the current economic phase

**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.

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# Implement Your Strategy With SPDR ETFs

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GICS Sectors

22

GICS Industries

7

S&P Kensho  
New Economy Sectors

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**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 ownership<sup>1</sup>

**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 exposures<sup>2</sup>

**SPDR Kensho New Economies Sector ETFs** These funds seek to track indices designed to capture US-listed firms whose products and services are driving innovation at the heart of the new economy, with no constraints for traditional sector classifications

<sup>1</sup> Source: Bloomberg Finance L.P., as of 12/31/2019. Based on total assets, 3-Month average trading volume and 30-day average bid/ask spread.

<sup>2</sup> Source: FactSet, as of 12/31/2019.

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# SPDR ETFs Sector Research & Resources

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**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

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

**Sectors & Industries Spotting Trends** A brief overview of recent sector and industry trends and actionable ideas to harness them

**Sectors: How to Do More for the Core** An educational presentation to explain the case for sector investing and how to construct a sector portfolio. Available for CE credits

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

**State of Sector Investing Webcast** Quarterly live webcast hosted by the SPDR Investment Strategy and Research teams to discuss trends, uncover sector opportunities and answer investors' most-asked questions

**SPDR Blog** The most current SPDR perspectives on the market environment, sector and industry trends



## SPDR Suite of Sectors & Industries

Ticker	Fund Name	GICS Sector	Expense Ratio (%)	
			Gross <sup>1</sup>	Net
<b>GICS Sectors (Capped Market Cap Weighted based off the S&amp;P 500)</b>				
<b>XLV</b>	Consumer Discretionary Select Sector SPDR Fund	Consumer Discretionary	0.13	0.13
<b>XLC</b>	Communication Services Select Sector SPDR Fund	Communication Services	0.15	0.13 <sup>2</sup>
<b>XLP</b>	Consumer Staples Select Sector SPDR Fund	Consumer Staples	0.13	0.13
<b>XLE</b>	Energy Select Sector SPDR Fund	Energy	0.13	0.13
<b>XLF</b>	Financial Select Sector SPDR Fund	Financial	0.13	0.13
<b>XLV</b>	Health Care Select Sector SPDR Fund	Health Care	0.13	0.13
<b>XLI</b>	Industrial Select Sector SPDR Fund	Industrials	0.13	0.13
<b>XLB</b>	Materials Select Sector SPDR Fund	Materials	0.13	0.13
<b>XLRE</b>	Real Estate Select Sector SPDR Fund	Real Estate	0.13	0.13
<b>XLK</b>	Technology Select Sector SPDR Fund	Technology	0.13	0.13
<b>XLU</b>	Utilities Select Sector SPDR Fund	Utilities	0.13	0.13
<b>Kensho New Economy Sectors</b>				
<b>HAIL</b>	SPDR S&P Kensho Smart Mobility ETF	—	0.45	0.45
<b>SIMS</b>	SPDR S&P Kensho Intelligent Structures ETF	—	0.45	0.45
<b>FITE</b>	SPDR S&P Kensho Future Security ETF	—	0.45	0.45
<b>CNRG</b>	SPDR S&P Kensho Clean Power ETF	—	0.45	0.45
<b>ROKT</b>	SPDR S&P Kensho Final Frontiers ETF	—	0.45	0.45
<b>KOMP</b>	SPDR S&P Kensho New Economies Composite ETF	—	0.20	0.20
<b>GICS Industries (Modified Equal Weighted based off the S&amp;P Total Market Index)</b>				
<b>XHB</b>	SPDR S&P Homebuilders ETF	Consumer Discretionary	0.35	0.35
<b>XRT</b>	SPDR S&P Retail ETF	Consumer Discretionary	0.35	0.35
<b>XES</b>	SPDR S&P Oil & Gas Equipment & Services ETF	Energy	0.35	0.35
<b>XOP</b>	SPDR S&P Oil & Gas Exploration & Production ETF	Energy	0.35	0.35
<b>KBE</b>	SPDR S&P Bank ETF	Financial	0.35	0.35
<b>KCE</b>	SPDR S&P Capital Markets ETF	Financial	0.35	0.35
<b>KIE</b>	SPDR S&P Insurance ETF	Financial	0.35	0.35
<b>KRE</b>	SPDR S&P Regional Banking ETF	Financial	0.35	0.35
<b>XBI</b>	SPDR S&P Biotech ETF	Health Care	0.35	0.35
<b>XHE</b>	SPDR S&P Health Care Equipment ETF	Health Care	0.35	0.35
<b>XHS</b>	SPDR S&P Health Care Services ETF	Health Care	0.35	0.35
<b>XPH</b>	SPDR S&P Pharmaceuticals ETF	Health Care	0.35	0.35
<b>XAR</b>	SPDR S&P Aerospace & Defense ETF	Industrials	0.35	0.35
<b>XTN</b>	SPDR S&P Transportation ETF	Industrials	0.35	0.35
<b>XME</b>	SPDR S&P Metals & Mining ETF	Materials	0.35	0.35
<b>XWEB</b>	SPDR S&P Internet ETF	Technology	0.35	0.35
<b>XSD</b>	SPDR S&P Semiconductor ETF	Technology	0.35	0.35
<b>XSW</b>	SPDR S&P Software & Services ETF	Technology	0.35	0.35
<b>XTH</b>	SPDR S&P Technology Hardware ETF	Technology	0.35	0.35
<b>XTL</b>	SPDR S&P Telecom ETF	Telecommunications	0.35	0.35

Ticker	Fund Name	GICS Sector	Expense Ratio (%)	
			Gross <sup>1</sup>	Net
<b>Industries (Modified Equal Weighted, Non-GICS Defined)</b>				
<b>XNTK</b>	SPDR NYSE Technology ETF	Technology	0.35	0.35
<b>XITK</b>	SPDR FactSet Innovative Technology ETF	Technology	0.45	0.45

Source: State Street Global Advisors, 12/31/2019.

Prior to 06/25/2019, the SPDR S&P Kensho Smart Mobility ETF was known as the SPDR Kensho Smart Mobility ETF. Prior to 06/25/2019, the ticker for HAIL was XKST. Prior to 06/25/2019, the SPDR S&P Kensho Intelligent Structures ETF was known as the sPDR Kensho Intelligent Structures ETF. Prior to 06/25/2019, the ticker for SIMS was XKII. Prior to 06/25/2019, the SPDR S&P Kensho Future Security ETF was known as the SPDR Kensho Future Security ETF. Prior to 06/25/2019, the ticker for FITE was XKFS. Prior to 06/25/2019, the SPDR S&P Kensho Clean Power ETF was known as the SPDR Kensho Clean Power ETF. Prior to 06/25/2019, the ticker for CNRG was XKCP. Prio to 06/25/2019, the SPDR S&P Kensho Final Frontiers ETF was known as the SPDR Kensho Final Frontiers ETF. Prior to 06/25/2019, the ticker for ROKT was XKFF. Prior to 06/25/2019, the SPDR S&P Kensho New Economies Composite ETF was known as the SPDR Kensho New Economies Composite ETF.

- 1 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.
- 2 SSGA Funds Management, Inc. (the "Adviser") has contractually agreed to waive its advisory fee and reimburse certain expenses, until January 31, 2022, so that the annual Fund operating expenses of the Fund are limited to no more than 0.1345% of the Fund's average daily net assets (exclusive of non-recurring account fees and expenses). This contractual fee waiver and/or reimbursement does not provide for the recoupment by the Adviser of any amounts waived or reimbursed. The Adviser may continue such waiver and/or reimbursement from year to year, but there is no guarantee that the Adviser will do so after January 31, 2022. The waiver and/or reimbursement may not be terminated prior to January 31, 2022 except with the approval of The Select Sector SPDR Trust's Board of Trustees.



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### Glossary

**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.

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

**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).

**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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### Important Risk Information

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Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

Diversification does not ensure a profit or guarantee against loss.

**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.

**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.

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