

SPDR® Smart Beta Dashboard

SPDR Americas Research Team

Despite choppy markets, investors remained optimistic as global economies began to reopen in Q2. Even with the slow pace, a reopening trade took place. Historically defensive, recessionary-based sectors witnessed large redemptions, while cyclical sectors saw positive trend reversals. Based on this apparent rotation, investors may be expecting a recovery, even though an increase in COVID-19 cases has curtailed some reopenings. Over 70% of the smart beta outflows in the past quarter have been from Low Volatility and Dividend strategies — two darlings that helped propel the category over the past five years. Multifactor ETFs, another area of prior growth, have also had outflows.

Only two factors in the US, Momentum and Quality, have seen positive excess returns so far in 2020. Momentum’s excess returns were also evident on a global scale, with positive relative performance in both developed ex-US and emerging markets. Quality saw inflows as investors maintained a preference for firms with clean balance sheets and high profitability. High-growth mega cap firms have pushed the broader S&P 500 return higher in 2020. With the exception of Momentum, many factors have little, or no, exposure to the best-performing stocks in 2020.

Smart Beta Spotlight

QUS SPDR MSCI USA StrategicFactors ETF

QEFA SPDR MSCI EAFE StrategicFactors ETF

Chaotic markets can create deviations from the norm across asset classes. Therefore, a balanced factor exposure that includes Low Volatility to mitigate downside risk while still providing potential upside capture may help investors navigate the uncertainties.

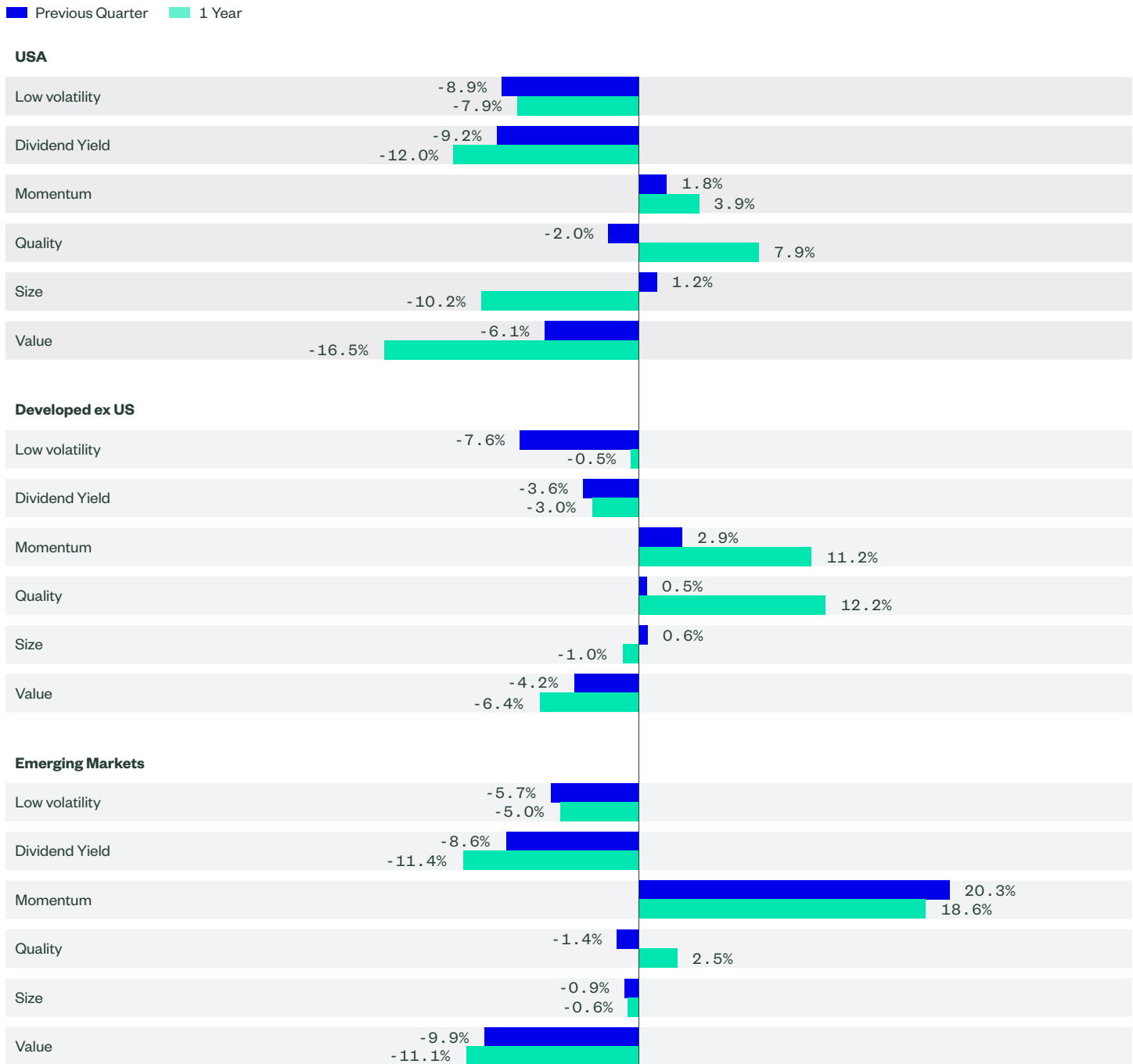
Figure 1: US-Listed Smart Beta Factor ETF Fund Flow Heatmap

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	-3,196	-42	17,815	-2.0	0.0	9.3
Low Volatility	-3,772	-4,892	5,429	-5.7	-5.6	7.4
Momentum	-238	-716	-1,530	-2.0	-4.5	-9.6
Multi-Factor	-2,001	-2,658	-684	-5.4	-5.0	-1.4
Quality	1,942	4,669	11,192	7.9	15.8	54.6
Size	-758	-3,140	-2,400	-5.9	-14.7	-12.5
Value	-1,451	-1,536	763	-5.0	-3.5	2.0

Source: SPDR Americas Research, Bloomberg Finance L.P., as of 06/30/2020. 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

Momentum outperformed across all regions last quarter, while Value and Dividend Yield underperformed.



Source: FactSet, as of 06/30/2020. 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 (%)

Momentum continues to outperform in 2020, while Value, Yield and Minimum Volatility returns are muted.

■ 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				2020	
Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
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	-14.47	21.98
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	-15.31	19.61
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	-15.56	19.36
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	-21.05	18.52
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	-21.82	11.08
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	-25.89	11.05
-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	-26.80	9.84

Source: FactSet as of 06/30/2020. Past performance is not a guarantee of future results.

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

Quality and Momentum continue to benefit in 2020 from their overweight to Tech and underweight to Financials and Energy.

	Comm. Services	Cons. Disc.	Cons. Staples	Energy	Financials	Health Care	Industrials	Info. Tech.	Materials	Real Estate	Utilities
MSCI World Minimum Volatility Index	4.01	-4.99	5.35	-3.07	-0.56	-0.71	-1.99	-5.35	1.32	1.02	4.97
MSCI World High Dividend Yield Index	-0.23	-5.41	8.59	2.12	-0.41	6.10	0.59	-14.06	0.19	-1.71	4.23
MSCI World Momentum Index	1.47	-0.77	-4.76	-3.07	-9.46	16.73	-6.66	7.91	-0.52	-0.16	-0.71
MSCI World Quality Index	-2.94	-2.55	5.18	-3.08	-8.73	6.12	-0.34	14.59	-2.34	-2.57	-3.33
MSCI World Equal Weighted Index	-2.79	0.12	-0.85	0.02	3.26	-4.75	6.03	-9.87	3.51	3.60	1.72
MSCI World Value Weighted Index	-1.36	-0.80	-1.23	3.72	14.82	-5.41	0.62	-12.02	1.26	-0.22	0.63

Source: FactSet, as of 06/30/2020. 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 Q1 Daily Excess Return Correlations

Correlations among factors continue to remain elevated in this risk-off environment. Quality was still negatively correlated to most factors, providing a good source of diversification for a factor portfolio.

	Value	Quality	Low Volatility	Dividend Yield	Size	Momentum
Value	1.00	–	–	–	–	–
Quality	-0.66	1.00	–	–	–	–
Low Volatility	-0.21	0.28	1.00	–	–	–
Dividend Yield	0.49	-0.34	0.42	1.00	–	–
Size	0.83	-0.67	0.03	0.49	1.00	–
Momentum	-0.55	0.76	0.49	-0.27	-0.42	1.00

Source: FactSet, as of 06/30/2020. 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 shaded in green.

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

Low 10-year yields and muted inflation expectations continued to weigh on Value's performance but were supportive for Momentum.

	U.S. 10 Year Yield (36 Month)	U.S. 10 Year — 2 Year Yield (36 Month)	10 Year Breakeven Inflation Rate (36 Month)
Value	0.90	1.35	2.32
Quality	-0.16	-0.04	-0.61
Low Volatility	0.70	-1.87	1.18
Dividend Yield	0.78	-0.61	1.20
Size	0.41	-0.12	1.13
Momentum	-0.31	1.89	-0.34

Source: FactSet, as of 06/30/2020. 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 shaded 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 World 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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