State Street Multi-Asset Builder Fund

STATE STREET GLOBAL ADVISORS

FOMO – Temptation is High But is the Timing Right?

- The market rally is not an economic driven rally but based on improving sentiment around COVID-19 – meaning it could quickly change
- Volatility remains high although lower than the near term
- Risks are increasingly skewed disproportionately to the downside

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The bear market bounce or relief rally continued through May but might be showing signs of losing momentum. The rally in April came after the initial shock of the coronavirus pandemic and deep and rapid plunge in global equities. Technical analysts will point to the fact that the market was in extreme oversold territory. Momentum behind the rally has built since, as markets have grasped hold of any positive COVID-19 related news that has emanated. Through May the good news continued to out weighted the bad. As the rally continues, investors are beginning to suffer from FOMO – fear of missing out. However, rather than succumbing to such urges, this might be the time when investors should hold their nerve and wait for clearer signs of a sustainable recovery.

At the start of the year we had cautioned that valuations were already stretched, and the double digit returns in 2018 had been driven by multiple expansion. For markets to continue to march forward we were looking for earnings to come through. Equity markets are not far from the levels they saw at the start of the year but with the impact of COVID-19, it is clear earnings support will be lacking, at least for the rest of 2020. Markets might be looking past this to longer term earnings but what is also sustaining the current rebound is, in part, the extreme levels of central bank support.

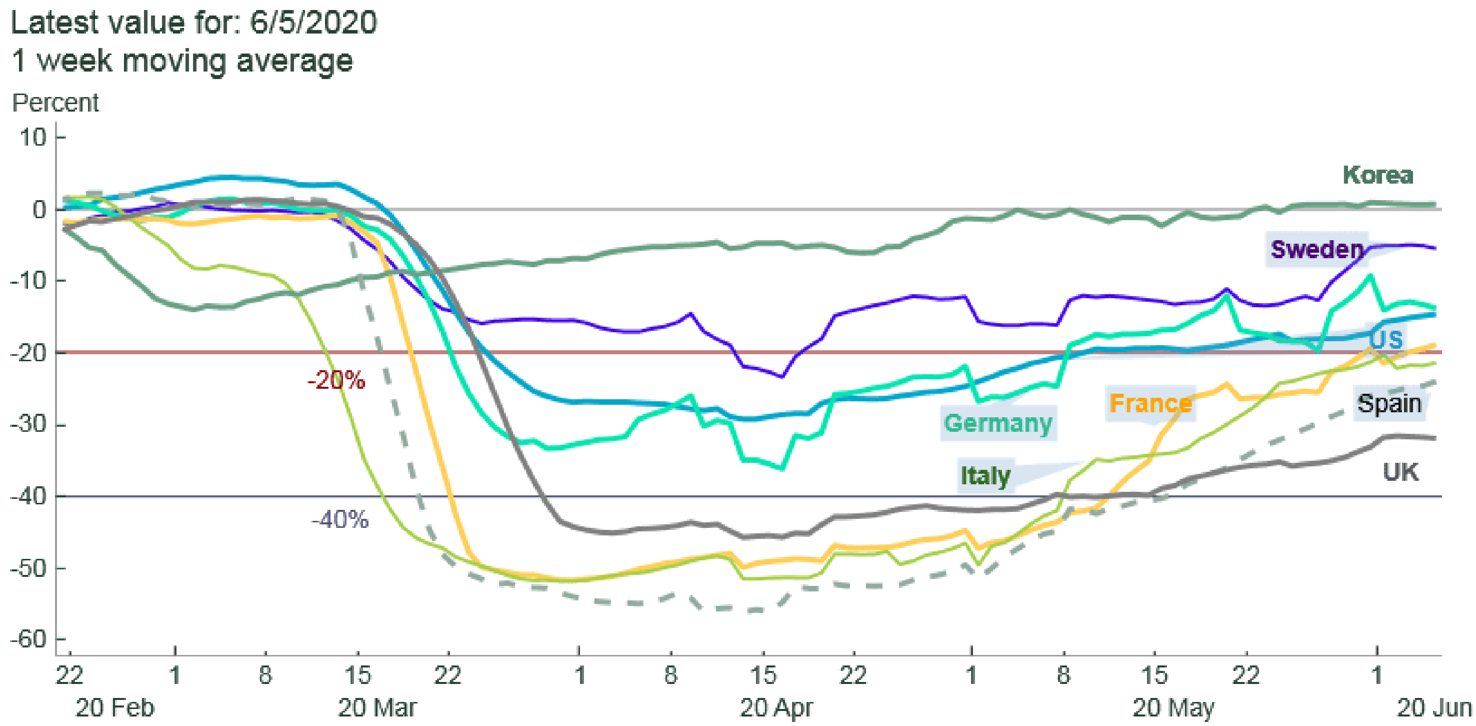
While the Fed is no longer buying Treasuries at the same rate as in late March, they are still there supporting financial markets. However the market rally which aligned with the FED’s increasing balance sheet has also tapered along with the rate of Fed purchases.

As a result we have an extremely fragile market where volatility, despite having fallen from extreme levels is likely to remain high and cautionary.

With economies slowly reopening there is positive news but there still remains a lot of uncertainty. Australia in particular has managed to contain the spread of the virus and social distancing measures have been taken on board and are proving to be effective. There are some positive signs in the US as well where certain states are also slowly reopening. Mobility trackers show the broad reopening across the globe, although at different rates.

Figure 1: **Google Mobility by Country (excluding Parks)**

Percent vs. baseline, average. (Retail & Recreations, Residential, Transit Stations, Workplaces, Grocery & Pharmacy)



Source: Macrobond, State Street Global Advisors Economics, Google as at 10 June 2020.

While things are starting to look better, there are still a number of headwinds to overcome and implications to understand. The real extent of that damage will likely become understood in the next phase, beginning with the number and impact of actual bankruptcies. There is also the risk of a second wave of infections. Although we are better prepared now than we were in March, markets may reprice accordingly on the back of further outbreaks.

The key is to understand that volatility will remain high and uncertainty will continue which will create unpredictability in stock prices. While it might be tempting to see the rally and look to jump back in, holding off a little while longer might be a more prudent approach. Especially in the context of still elevated market levels and high volatility, meaning markets are exposed to a disproportionate amount of downside risk if the recent relief rally ends.

Portfolio positioning and performance[1]

Global equity markets continued their strong recovery in May as the heightened fears surrounding COVID-19 continued to abate with the virus' global growth rate declining amongst major nations and a continuation of 'flattening' of curves indicative that the world was starting to gain control. In addition, the clear determination of global governments to support and bolster economic growth along with markets increasingly looking through the current economic malaise with expectations of a strong rebound in global economic growth being priced in saw a strong recovery in global markets. Within growth assets, local equity markets (S&P/ASX 200 Net total return Index) saw positive returns and were up 4.4% for the month. Global equity markets were also positive with the US (MSCI

[1]Bloomberg Finance, L.P. SSGA as at 29 May 2020. Past performance is not a reliable indicator of future performance. This information should not be considered a recommendation to buy or sell any security or sector shown. It is not known whether the securities or sectors shown will be profitable in the future. Characteristics are as of the date indicated, subject to change, and should not be relied upon as current thereafter. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income.

US Net total return local Index) up 5.1%, Europe (MSCI Europe Net total return local Index) up 3.9%, whilst Japan (MSCI Japan Net total return local Index) was up a strong 6.7%. Emerging markets (MSCI EM Index Net total return local Index), after a strong April, underperformed developed markets and were only able to post a small gain for the month, up 0.6%. In the fixed income space, shorter duration government bond yields were flat but corporate spreads tightened resulting in positive returns with our exposure to Australian corporate bonds up 1.9% for the month. Across our alternatives exposures, our investments in both commodities and emerging markets bonds posted strong returns but with a strong AUD over the month reduced the returns from the portfolio perspective. Looking into our average positioning across the portfolio for the month of May, the Growth assets allocations have been approximately 14% for the State Street Multi-Asset Builder Fund. Our exposure preference in May was an underweight in global equities relative to fixed income / cash as we maintained our de-risking from earlier in the year, mitigating some of the negative returns seen in markets year to date. Performance wise, we maintained our diversified exposures across equities, fixed income and alternatives resulting in the portfolio delivering a small positive return in May.

Important Disclosures

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