State Street Multi-Asset Builder Fund

2020 – From Virus to Vaccine

STATE STREET GLOBAL ADVISORS

- Strong trade rebound helped markets end the year positive
- Progress on a vaccine also helped to improve investor sentiment
- 2020 will still have a lingering effect into 2021 with plenty of events in the distance to keep an eye on

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2020 will be the year that none of us will forget but will be glad to leave behind us – although we aren't out of the woods yet. The impact of COVID-19 will continue to linger into 2021 and likely beyond, but looking back, 2020 was the year no one could have predicted.

We started 2020 thinking that things would be on a better footing as 2019 had seen bush fires and floods but the start of the year looked more promising. Recessionary fears had subsided, a Brexit decision was finally made – although that saga would and does continue to go on, and the U.S. and China eased trade tensions with the signing of the first phase of their trade agreement.

China would grab more headlines throughout 2020 though, and the start of the year saw the first headlines around the Coronavirus in China. By the middle of the month, the first cases outside of China, in Thailand to start with, began being reported. At this stage markets hadn't fully grasped the impact that COVID-19 would have and the S&P/ASX 200 Index and S&P 500 Index were both up almost 5% in January 2020[1].

By the end of the month and as the spread continued, the World Health Organization (the WHO) declared the novel Coronavirus outbreak (2019-nCoV) a Public Health Emergency of International Concern (PHEIC). Markets would take note and give up most of the January gains in February. As the spread continued across the globe, on 11th March 2020 the WHO officially declared COVID-19 as a pandemic, which saw markets aggressively sell off amid supply chain disruptions that would see fights break out in supermarkets over toilet paper. The total drawdown (peak to trough fall) for the S&P/ASX 200 Index was over 35%, but the last week of March would see the beginning of a V-shaped recovery[2] as central banks intervened with additional liquidity.

Markets would continue to recover over the remainder of the year but headline index performance numbers would be a little misleading. While the MSCI World Index (local) was up 16.5% for 2020[3] there were large sector dispersions. The best performing sectors were I.T (+44.3%) and followed by Consumer Discretionary (+37.0%) as the world adjusted to being in lockdown. The Energy sector was the worst performing (-30.4%) although showed signs of a recovery towards the end of the year.

Overall, trade mounted a strong rebound heading into the second half of the year helping markets end the year in positive territory. Progress on a vaccine that began to be rolled out in the UK in December, with approvals following in the US and in Europe also helped to improve investor sentiment. Even the contested US election could not

[1] Source: Bloomberg Finance L.P., as of 31 January 2020.
[2] A V-shaped recovery is a type of economic recession and recovery that resembles a "V" shape in charting. A V-shaped recovery involves a sharp rise back to a previous peak after a sharp decline in these metrics.
[3] Source: Bloomberg Finance L.P., as of 31 December 2020.

significantly dent confidence. However the appearance of a more contagious strain in the UK has tempered views around the speed of the return to normality. While vaccine approval is positive, now focus turns to how quickly the vaccines can be distributed. The time that will be needed to get the majority of the population vaccinated will mean we will have to contend with the virus and further outbreaks for a little while longer. And while the focus is mainly on the vaccine, the start of the year has highlighted a raft of other issues that investors will need to contend with.

The UK may have officially left the European Union (EU) with a trade deal at the end of the year but expect further Brexit fall out. The UK/European relationship isn't the only one to keep an eye on. China's relationship with the US and Australia has been increasingly strained through 2020 and that could have longer lasting impacts to trade. The US is also one to watch, President Trump may have finally conceded but not before inciting a siege on the state capital. Joe Biden will be the next US president but we should also keep a close eye on how US policy will evolve both domestically (potential tax hikes) as well as internationally. 2020 might be behind us but it's effects continue to linger on and 2021 still has plenty of events on the horizon to keep an eye on.

Portfolio positioning and performance[4]

Global equity markets were higher again in December 2020 as markets consolidated the large gains seen in November. Overall risky assets trended higher in December, as positive news on the Covid-19 vaccine rollout, the US pandemic relief bill and the UK-EU post-Brexit trade deal outweighed the surge in Covid-19 cases and boosted investors' optimism.

SSGA's Market Risk Indicator (MRI) was largely consistent with these moves finishing December 2020 in Low Risk Regime. The signal started in Low Risk Regime and moved higher, entering Normal Regime in the first half of the month. It reversed course in mid-December and started easing, switching back to Low Risk Regime and settling there until the end of the month.

On the economic front, manufacturing continued to show sustained resilience globally, whereas services lagged given social distancing requirements. In the US, housing and personal spending registered robust gains. China continued its sustained economic recovery, led by growth in exports and manufacturing. Rising COVID-19 cases in Europe saw tighter restrictions across many countries including the UK, which imposed a shut down amid a sharp spike in cases. Looking forward, we continue to expect a strong global economic recovery as the vaccine is implemented globally, thus our outlook does remain optimistic.

Within growth assets, local equity markets (S&P/ASX 200 Index – Net Total Return) saw positive returns, and were up 1.2% for the month. Global equity markets were also positive with the US (MSCI US Index – Net total Return Local) up 4.1%, Europe (MSCI Europe Index – Net Total Return Local) up 2.2% and Japan (MSCI Japan Index – Net Total Return Local) up 3.1%. Emerging markets (MSCI EM Index – Net Total Return Local) were also positive, up 7.4% over the month. In the fixed income space, Australian government bond yields were again mixed, as shorter duration bond yields were flat whilst longer duration yields moved higher over the month. Our exposures to credit with a shorter duration profile, posted marginally negative returns for the month. Across our alternatives exposures, our investments in commodities added to performance but our emerging markets bonds exposure posted negative returns with both negatively affected by a strong Aussie dollar.

Looking into our average positioning across the portfolio for the month of December, the Growth assets allocations have been approximately 64% for the State Street Multi-Asset Builder Fund. Our exposure preferences in December were an overweight exposure to equities but we maintained a diversified exposure to fixed income, alternatives and cash across the remainder of the portfolio. Performance wise, our diversified exposures across equities, fixed income and alternatives resulted in the portfolio delivering a positive return in December.

[4]Source: Bloomberg Finance, L.P., SSGA as at 31 December 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.

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