Bond Compass

Q1 2022

Preparing for Normalisation

04 **Investor Sentiment — Flows and Holdings**

09 **PriceStats® Analysis**

13 **Q1 Investment Outlook**

STATE STREET GLOBAL ADVISORS SPDR®

A Leader in Fixed Income Index Investing

$608

billion in indexed fixed income assets

The Scale to Specialise

- State Street Global Advisors' global scale enables our portfolio managers, traders and investment strategists to be sector specialists and based in their geographic markets
- Our dedicated capital markets teams provide 24-hour coverage across global markets, offering enhanced liquidity and cost-efficient* trading strategies
- Entrusted with $608 billion in indexed fixed income assets, managing 30+ currencies across 40 different countries**

25

years of bond index investing experience

Proven Track Record

- 25 years of bond index investing — our first fixed income index fund launched in 1996
- Manage more than 100 fixed income index strategies, providing choice for investors
- More than 100 fixed income professionals dedicated to conducting research, managing risks and costs, and supporting our clients

100+

fixed income index strategies

Innovative Solutions for Bond Investors

- Comprehensive range of cost-effective* ETFs
- Offering access to government and corporate bonds across the yield curve, using a consistent index methodology

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

** State Street Global Advisors, as of 30 September 2021.

Contents

04 **Investor Sentiment — Flows and Holdings**

A snapshot of global fixed income flows, holdings and valuations, based on data provided by State Street Global Markets.

09 **PriceStats®**

Quarterly measure of inflation based on prices from millions of items sold by online retailers, helping investors anticipate and evaluate the impact of inflation.

13 **Q1 Investment Outlook**

State Street Global Advisors has identified the key considerations for investors in the coming quarter.

Investor Sentiment — Flows and Holdings

A snapshot of global fixed income flows, holdings and valuations, based on data provided by State Street Global Markets.*

* The fixed income flows and holdings indicators produced by State Street Global Markets, the investment, research and trading division of State Street Corporation, are based on aggregated and anonymised custody data provided to it by State Street, in its role as custodian. State Street Global Advisors does not have access to the underlying custody data used to produce the indicators.

Fixed Income Flows and Holdings

State Street Global Markets builds indicators of aggregated long-term investor behaviour in fixed income markets from a substantial subset of $12 trillion worth of fixed income assets under custody and administration at State Street.* This captures behavioural trends across tens of thousands of portfolios and is estimated to cover just over 10% of outstanding fixed income securities globally.

The Swarming Kettle of Hawks

Monetary authorities finally called "no mas" to the inflation threat, with several developed market (DM) central banks raising rates or signaling that rate hikes are coming soon. This comes as no surprise to emerging market (EM) bankers who tightened financial conditions for the better part of 2021, even as their larger counterparts espoused the belief that surging prices were temporary. While we think that many still view supply chain and energy induced inflation as transitory, more problematic structural concerns have emerged in wages, services and shelter costs. Our PriceStats® readings on inflation show just how stubborn higher prices have become, with DM inflation near 4% and EM inflation more than 15% (see Figure 2 in PriceStats®).

While not alone, the US Federal Reserve's (Fed's) hawkish pivot was notable in how quickly it shifted gears toward rate hikes. Although it was considered one of the most dovish central banks in our MKT MediaStats sentiment index just six months ago, the market now expects six US rate hikes over the next two years. For the Fed, the past quarter has included the start of the taper process, an acceleration of the taper schedule and strong signals that it will start raising rates in mid-2022. Not to be outdone, the Bank of England and Norges Bank both raised rates in the fourth quarter, with signals that the normalisation process will continue in 2022. There were a few holdouts, however, as the European Central Bank (ECB) and Bank of Japan (BOJ) continue to sound uber-dovish. Overall, we added 400 basis points into 2022 G-10 rate hike expectations in the fourth quarter, with all but the BOJ expected to roll out some form of tightening this year.**

Despite the general agreement that hikes are coming, the dispersion in views on where rates settle has never been wider. Therefore, we may see aggressive hikes from the likes of the Fed, Bank of Canada, Norges Bank and the Reserve Bank of New Zealand this year, but hardly a peep from the ECB, BOJ, Riksbank and the Swiss National Bank. Longer term, expectations are that hikes will be shallow and most likely fall short of prior rate normalisation cycles. While this would generally be supportive of risk assets, the potential for a rapid upwind of rate cuts raises the specter that central banks will begin to normalize balance sheets, which proved problematic the last time the Fed embarked on quantitative tightening.

These crosscurrents have left the markets in a precarious position, and we have seen investor behavior recently turn negative across the rate markets, with our shorter-term indicators pointing at selling across both DM and EM. Demand for Treasury Inflation-Protected Securities (TIPS) nonetheless remains strong, indicating continued inflation concerns even as longer-term expectations remain well anchored. Constructing a soft landing has never been easy for central bankers and, for the moment, investors are cautiously approaching fixed income assets.

* State Street Global Markets, as of 30 September 2021. ** State Street Global Markets, as of 31 December 2021.

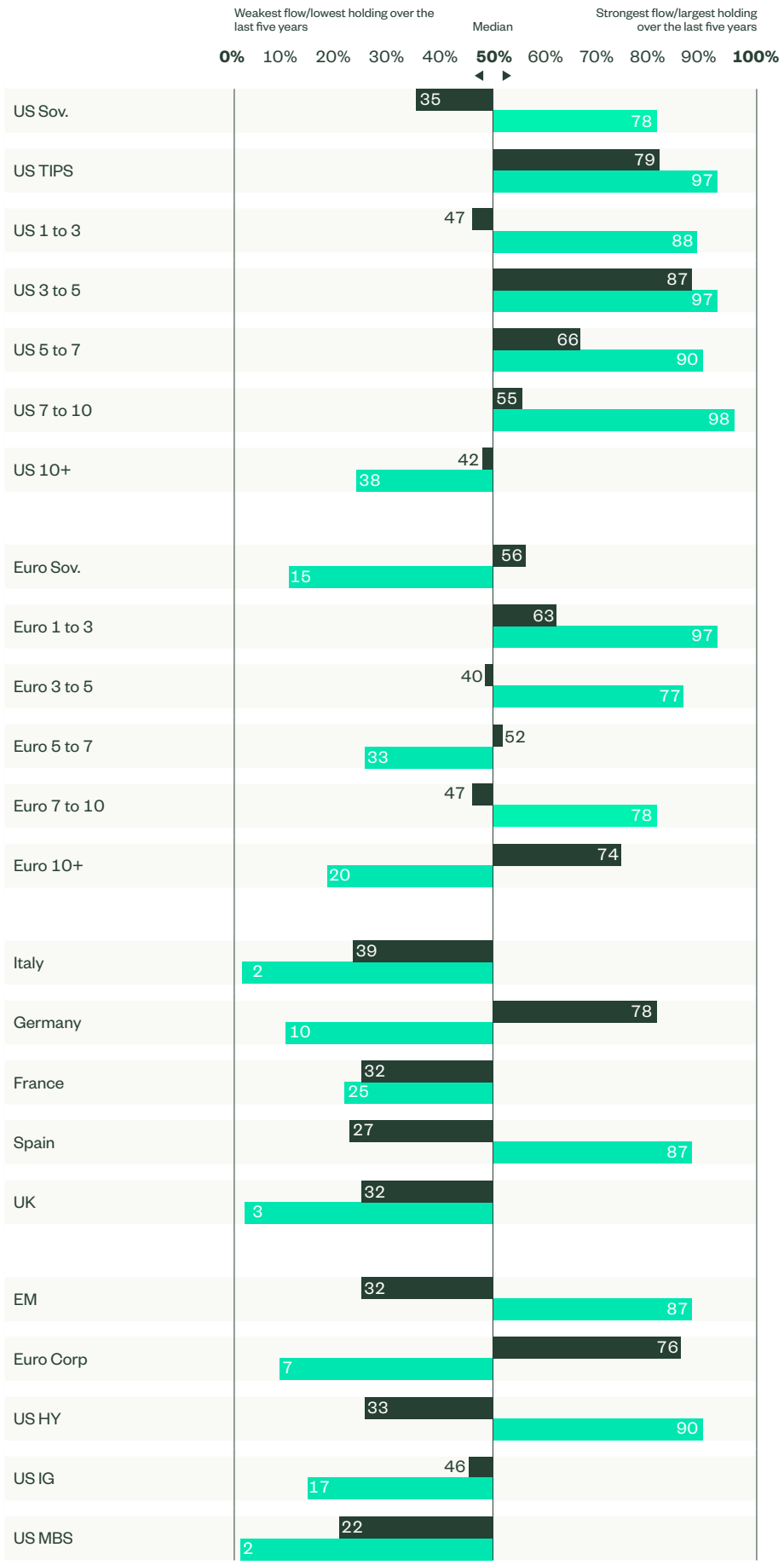
Q4 2021
Flows & Holdings

90-Day Flows

Holdings*

These metrics are generated from regression analysis based on aggregated and anonymous flow data in order to better capture investor preference and to ensure the safeguarding of client confidentiality.
The figures are shown as percentiles, expressing the flows and holdings over the last quarter, relative to the last five years. The benefit of this approach is that it provides perspective on the size of flows and holdings compared to their historical trends, whereas a single, dollar figure provides less context.

For more information please visit globalmarkets.statestreet.com



Source: State Street Global Markets, as of 31 December 2021. Flows and holdings are as of date indicated. They should not be relied thereafter. *As at quarter end.

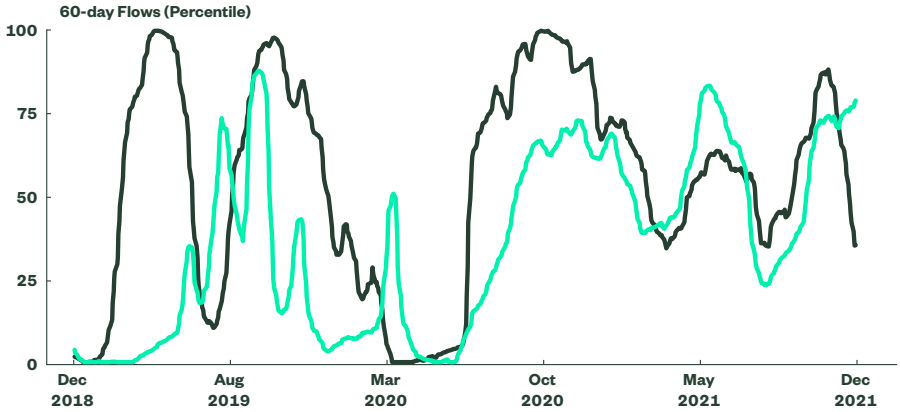
Safety First for Treasuries

Demand for US Treasuries has waned as the Fed has repeatedly turned more hawkish, first by accelerating the taper timeline and then by signaling the potential for three rate hikes in 2022. Inflation, which the Fed no longer describes as transitory, was largely behind this rapid change in outlook and remains the top market risk for many investors. It's therefore no surprise that demand for inflation-protected securities remains in the top quartile, even as overall Treasury demand fell below neutral. A closer look at our Treasury flows shows that robust demand continues at the belly of the curve, an indication that overall rate hikes may prove shorter and shallower than expected. At the same time, buying has waned longer out the curve, which when combined with TIPS demand indicates that we are not out of the inflation woods just yet, even as the Fed is signaling a willingness to try to contain prices. If these crosscurrents seem at odds with each other at times, it's just a sign of the challenging economic environment that greets us in 2022.

Surging Demand for TIPS


US Treasuries

US TIPS Demand



Source: State Street Global Markets, as of 31 December 2021.

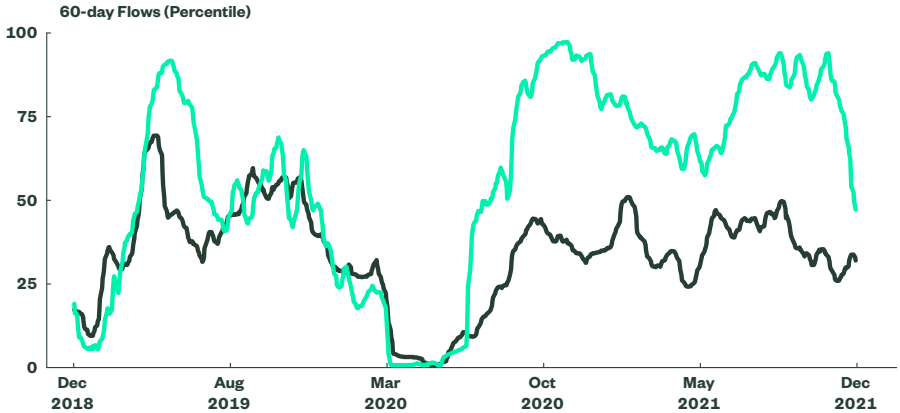
Safety First for Sovereign Bonds

Emerging market investors faced a formidable wall of worry in 2021, with uneven vaccination schedules and surging inflation high on the list of concerns. With another year of negative currency returns eroding much of the yield advantage offered by local currency bonds, investors notably favoured developed market sovereigns for the better part of 2021. As the chart indicates, our flows show that real money investors have been net sellers of EM local currency bonds relative to benchmarks since last spring, a trend that continued into year end. And while positioning has fallen to neutral, many of the concerns that challenged EM in 2021 carry into the new year. In particular, inflation remains an ongoing headwind, despite 25 percentage points of rate hikes across the EM complex. The hawkish pivot from DM central banks has notably eroded buying in those markets, with rate hikes in 2022 now expected across much of the G-10. This has nonetheless narrowed the yield advantage enjoyed by EM sovereigns, which may be further challenged if overall tighter financial conditions drive market volatility. For the moment, it seems that investors will continue to favour the safety of the DM over EM debt markets.

EM Local Sell-Off Continues


Emerging Markets Local Currency Sovereign

Developed Markets Sovereign

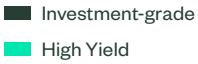


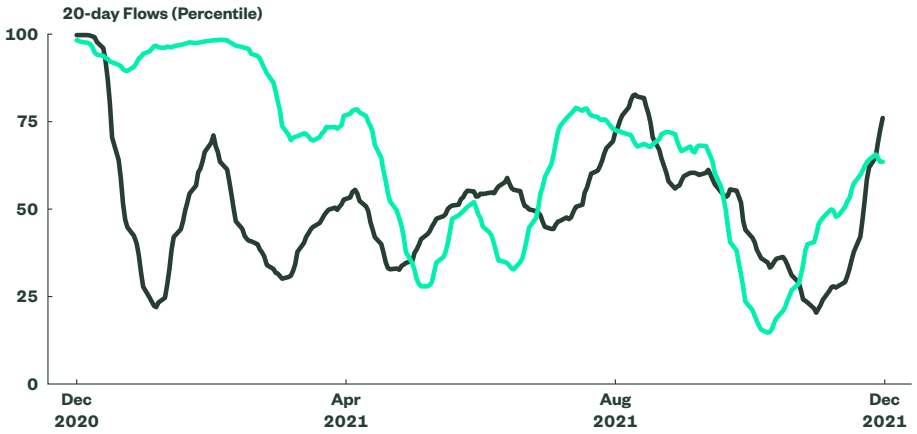
Source: State Street Global Markets, as of 31 December 2021.

Reaching for Corporate Yield

While global rates saw their most significant repricing since the 2013 taper tantrum, absolute yields nonetheless remained near their all-time lows. This has created a reach for yield across spread products, particularly corporate bonds, which saw spreads compress to their lowest recorded levels this past summer. Low funding costs ultimately drew a plethora of issuers to the primary market, with high yield sales setting a record, while investment-grade bonds were just behind 2020's record sales. Spreads and overall yields buckled under the weight of all this issuance, and real money flows were underweight for much of the fall. More recently, we have seen investors again reach for yield, with a reversal of selling in both high yield and investment-grade sectors, pushing our 20-day moving averages back toward their summer highs. Given that high yield was one of the few fixed income sectors to report positive gains last year, we suspect that this demand will continue as long as Treasury yields remain contained.

Investors Reaching for Yield





Source: State Street Global Markets, as of 31 December 2021.

PriceStats®

Quarterly measure of inflation based on prices from millions of items sold by online retailers, helping investors anticipate and evaluate the impact of inflation.

PriceStats®

PriceStats® provides high-frequency measures of inflation and real exchange rates drawn from prices on millions of items sold by online retailers. This real-time pulse of global economic trends helps investors anticipate and evaluate the impact of inflation, including the impact on monetary policy and the degree of exchange rate misalignments.

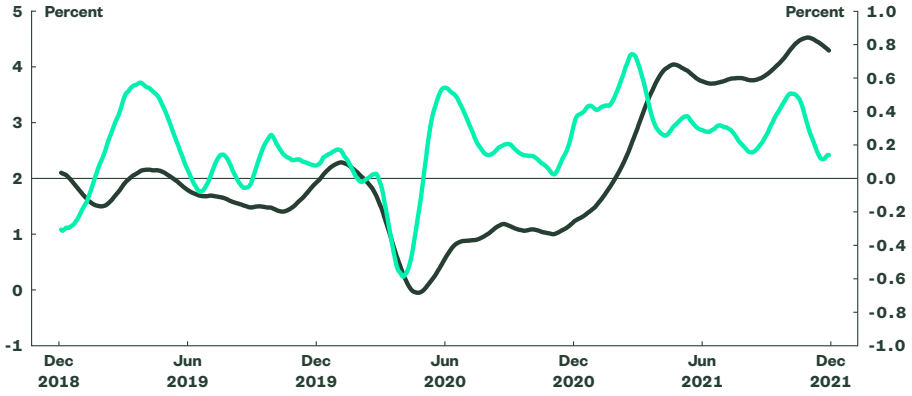
This information is available on a daily basis from State Street Global Markets: globalmarkets.statestreet.com.

Stability in the Woods

If there was a standout development in 2021, it was the rise in inflation — and how a "transitory" price surge proved to be far more stubborn than expected. The US Federal Reserve (Fed) has certainly taken notice, penciling in three rate hikes for 2022 while dropping the term transitory from its communications. Nonetheless, it expects prices to settle down by the second half of 2022, with an "average" inflation projection of 2.3% in 2023. To say that this is the most important economic forecast in the financial markets is not an overstatement.

PriceStats is showing signs of moderating inflation, with the potential front-loading of prices before the holidays. As the chart below indicates, the monthly gains in December prices were near the year's lowest, although the elevated gains for 2021 underscore that we are far from being out of the woods. Additionally, the historical pattern of falling monthly prices in the fourth quarter in anticipation of holiday sales was not evident in 2021. Instead, we had to settle for a slowing of monthly patterns as we wait to see whether the Fed's view of stabilising prices in mid-2022 comes to fruition.

PriceStats: US Inflation



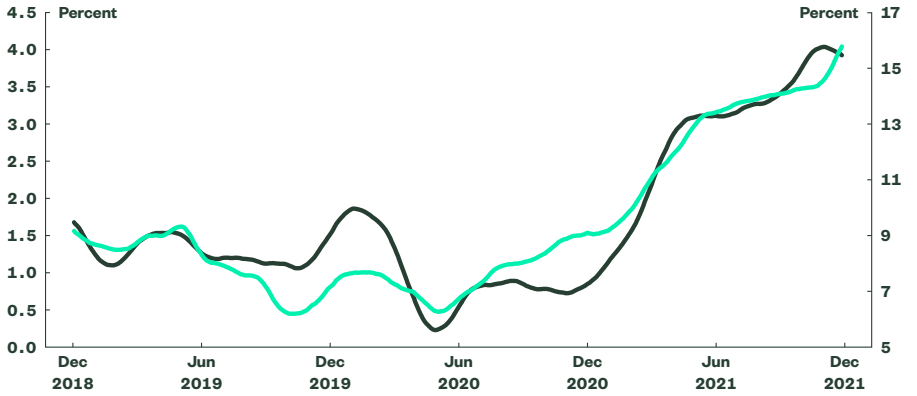
Source: State Street Global Markets, as of 31 December 2021.

Inflation, the Global Edition

COVID-19 sparked a global pandemic, and the inflation surge that it produced has been a worldwide problem. With the developed world and emerging countries experiencing COVID much differently, it's no surprise that differences have emerged between developed market (DM) and emerging market (EM) inflation profiles.

As the chart below shows, prices continue to rise faster in most of the emerging countries we track. The PriceStats EM series stood in excess of 15% at year end, versus an overall DM reading of 3.9%. As a result, EM central banks have been at the forefront of this rate hiking cycle, with 10 countries raising their policy rates by more than 25 percentage points over the course of 2021. With currency devaluation contributing to higher food and fuel prices, and the fact that a disproportionate share of EM spending goes to these categories, the emerging world will continue to struggle with high prices to start the new year.

PriceStats: Developed vs. Emerging Market Inflation



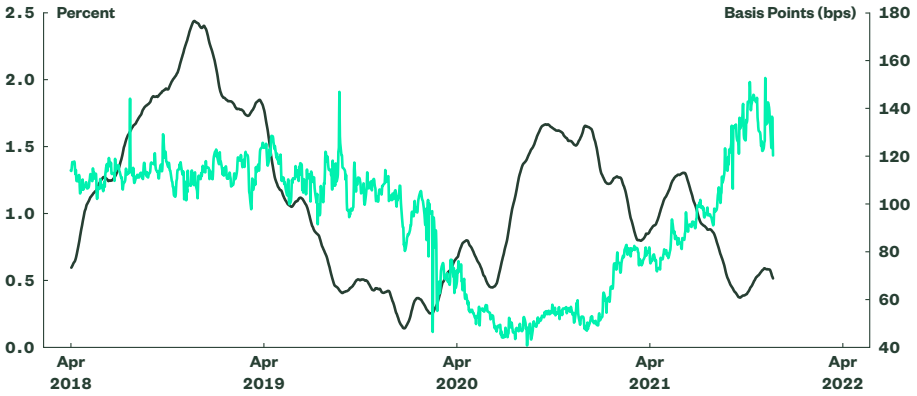
Source: State Street Global Markets, as of 31 December 2021.

Swept Up in the Inflation Wave

Inflation is rising even in historically slow growing countries/regions such as Japan and the eurozone, where PriceStats signals are experiencing yearly gains in excess of 3%. Yet while the Fed has abandoned its transitory tone, leaders at the European Central Bank (ECB) and Bank of Japan believe that prices will likely settle down soon; they remain more concerned about deflation than inflation. For the moment, investors remain sanguine about rate hikes in Europe and Japan, expecting only minimal changes this year. This has created extreme disparities across regional rate expectations, including the widening schism between the UK and the eurozone.

As illustrated in the chart below, the inflation gap between the two has narrowed substantially and is well below 10-year averages, driven mainly by rapidly rising inflation in the eurozone. However, we have not seen equal movement in rate expectations, which have been growing for the Bank of England but remain relatively subdued for the ECB. Therefore, the spread between the two-year rate expectations is at historic levels, despite very similar current inflation dynamics. These extreme relationships hint that some form of reversion is forthcoming, most likely via either slowing eurozone prices or rate spreads to compensate for above-average prices.

A Widening Gap: Inflation vs. Rate Expectations



Source: State Street Global Markets, as of 31 December 2021.

Q1 Investment Outlook

State Street Global Advisors has identified key considerations for investors in the coming quarter.

Investment Theme #1

Sustained Growth Momentum: Sticking with High Yield

- **The solid growth backdrop and rising yield environment mean that we continue to favour high yield exposure. Its lower duration and high coupon should support returns in an otherwise bond-unfriendly backdrop.**

COVID weighed on growth at the close of 2021 but expectations for 2022 remain robust, with State Street Global Advisors forecasting 4.4% for both the US and Europe.[1] Above-target inflation, coupled with still-strong growth, set the scene for the Federal Reserve (Fed) to start its tightening cycle and the market has now priced in more than 3 rate rises from the Fed during the course of 2022. The ECB is on a more shallow trajectory but is expected to cease bond purchases under its emergency PEPP scheme at the end of Q1 2022. There is around a **50% chance of a 25bp rate rise** priced in by the end of 2022.[2]

COVID waves could still curtail growth, but with many G10 countries opting to vaccinate and keep their economies open, dips in growth expectations have become increasingly shallow. As a result, we continue to favour high yield exposure for a few reasons: returns from the coupon; a favourable growth backdrop; and avoiding a fight with the Fed.

Much of the Return Comes from the Coupon

In an environment where the economic backdrop is likely to push bond yields higher, the coupon will provide a key source of returns. For example, in 2021, all of the 3.33% total return from the Bloomberg Liquidity Screened Euro High Yield Index was accounted for by coupon payments. With the yield to worst on this index being just over 2.8%, this comfortably outstrips yields available on either investment grade (0.5%) or government bond strategies (0.16%).[3] In the US market, the Bloomberg SASB U.S. Corporate High Yield Ex-Controversies Select Index has a yield to worst of just over 4% against 2.28% for investment grade and 1.23% for Treasuries.

In addition, high yield bonds typically have a shorter duration than investment grade funds. The Bloomberg SASB U.S. Corporate High Yield Ex-Controversies Select Index has an option-adjusted duration of 4.0 against 8.65 for its investment grade counterpart, meaning its price is half as sensitive to moves higher in yields.

Strong Growth Still Makes for a Favourable Backdrop for Corporates

Strong economic growth should underpin earnings and help to sustain tight credit spreads. There are several potential challenges that companies face, not least high inflation and the potential for it to push wages higher. Rising central bank interest rates may also negatively affect earnings (outside of banks) but growth is forecast to remain stronger than trend, meaning there should be scope to pass on some of the rise in costs to the end user.

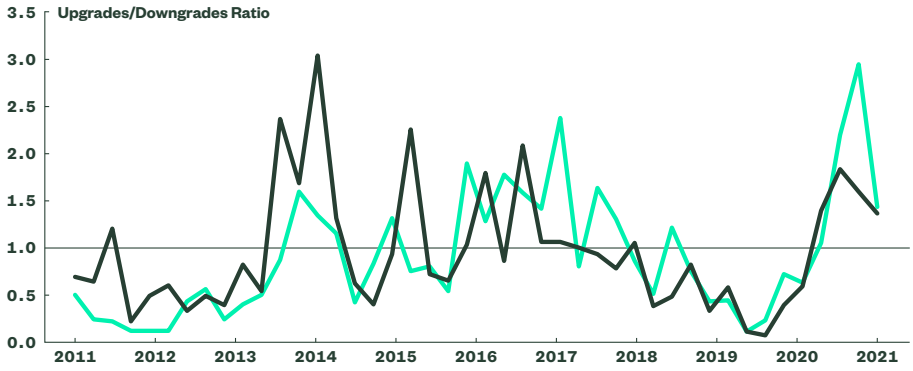
Furthermore, companies entered 2022 in good financial shape. The upgrades/downgrades ratio did slip from the highs in Q4 2021 but it remains firmly in positive territory both in Europe and the US.

1 Source: Global Macro Policy Quarterly by State Street Global Advisors GMPR Quarterly (December 2021) (ssga.com).

2 Source: Bloomberg Finance L.P., as of **5 January 2022**.

3 The yield to worst levels reference the Bloomberg SASB Euro Corporate Ex-Controversies Select index and the Bloomberg Euro-Aggregate: Treasury Index for EUR and the Bloomberg SASB U.S. Corporate Ex-Controversies Select index and the Bloomberg U.S. Treasury Index for USD. Source Bloomberg Finance L.P., as at 31 December 2021.

Figure 1
Upgrades/ Downgrades Ratio for Western Europe Off the Highs but Still Well Above 1

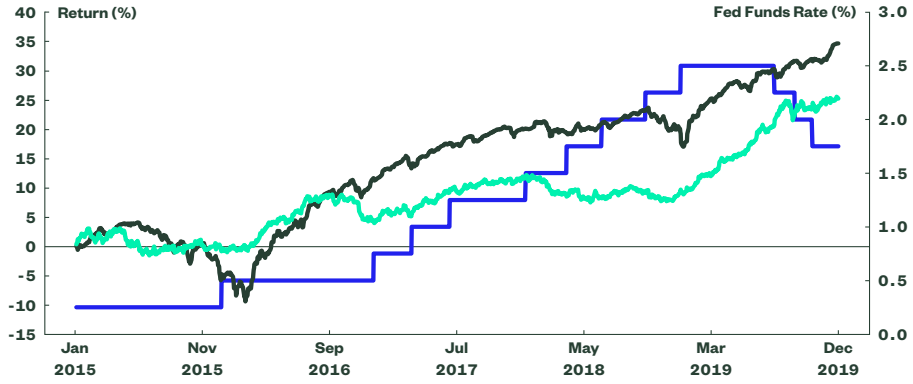


Source: S&P, Moody's and Bloomberg Finance L.P., as of 31 December 2021.

Don't Fight the Fed

Looking at the 2016 policy cycle, high yield had a shaky start but then provided solid returns for the duration of the tightening. A key reason for the negative returns into the first rate rise was that the Fed tightened policy in a weakening growth environment; the manufacturing ISM had dropped below 50 by the end of 2015. Therefore, there were real concerns that policy tightening would kill growth. This proved not to be the case and the better performance of US high yield over the remainder of the tightening cycle coincided with the recovery in the ISM.

Figure 2
High Yield Returns Outstripped Those of Treasuries During the Last Fed Tightening Cycle



Source: Bloomberg Finance L.P., as of 1 January 2022. Returns are since 31 December 2014, derived from the Bloomberg U.S. Corporate High Yield Bond Index and the Bloomberg U.S. Treasury Index. Past performance is not an indicator of future returns. It is not possible to invest directly in an index. 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 as applicable.

This return profile was not reflected by Treasuries, where the lower coupon and longer duration worked against them. They initially put in a better performance around the first rate rise but then returns stagnated for much of the tightening cycle, with a meaningful upturn not arriving until the final rate rise. With the latest signals from the Fed suggesting the potential for rapid rate rises and a run-down of the balance sheet, 2022 could prove to be a similar environment.

Investment Theme #2

Emerging Market Debt: A More Defensive Twist

- **The high yield on emerging market debt makes it appealing, but 2021 proved that many other factors also have to align to produce positive performance. We look to other strategies, such as Chinese bonds, to raise returns and diversify risk. An alternative is inflation-linked bonds, which can provide some protection against surging price pressures.**

Emerging market (EM) debt had a tricky 2021 and failed to deliver on its potential. The combination of fears over Federal Reserve (Fed) tapering, the resilience of the USD and high domestic inflation forcing their own central banks to tighten, all resulted in weakness through both the currency and the bond price.

We still see the potential for positive returns, not least because there are yields in excess of 5%[1] on offer. But in an environment of Fed policy tightening, which pushes US Treasury yields higher and supports the USD, it is unclear what the near-term catalyst for performance will be. In addition, there are few signs that the high inflation that drove local central banks to tighten policy is easing, with the PriceStats® measure of inflation still pointing to strong rises in price pressures (see the PriceStats® section of the Bond Compass).

Playing a More Defensive Game

There are still ways that investors can access the higher yields on offer and diversification benefits of EM debt without being exposed to all of the risks. One way is through Chinese government bonds.

- Yields are at the lower end of the EM spectrum but remain high relative to developed markets. The yield to worst on the Bloomberg China Treasury 100BN Index was just below 2.7% at the close of 2021 against 1.23% for the Bloomberg U.S. Treasury Index.[2] Moreover, Chinese CPI is relatively subdued at 1.5% year on year, meaning real yields are positive, unlike in most of developed markets.

- In contrast to many other central banks, a slowing economy means that the PBoC is currently easing monetary policy. This should support Chinese debt even if the sell-off in US Treasuries continues and therefore provides significant diversification benefits to a fixed income portfolio.

- The CNY is on a managed float and, as a result, has remained firm versus the USD. This is in contrast to other EM currencies that depreciated significantly versus the USD in 2021 due to high inflation and uncertainty over the impact of COVID.

- The flow backdrop should be supportive, with Chinese government bonds being included in the FTSE World Government Bond index from October 2021. There should be regular monthly inflows from investors wanting to reflect the construction of that index. In addition, Honk Kong's Financial Services and the Treasury Bureau announced in December that the Hong Kong Mandatory Provident Fund should be able to invest in Chinese government bonds from mid-2022.

1 The yield to worst on the Bloomberg Emerging Markets Local Currency Liquid Government Index was 5.2%. Source: Bloomberg Finance L.P., as at 31 December 2021.

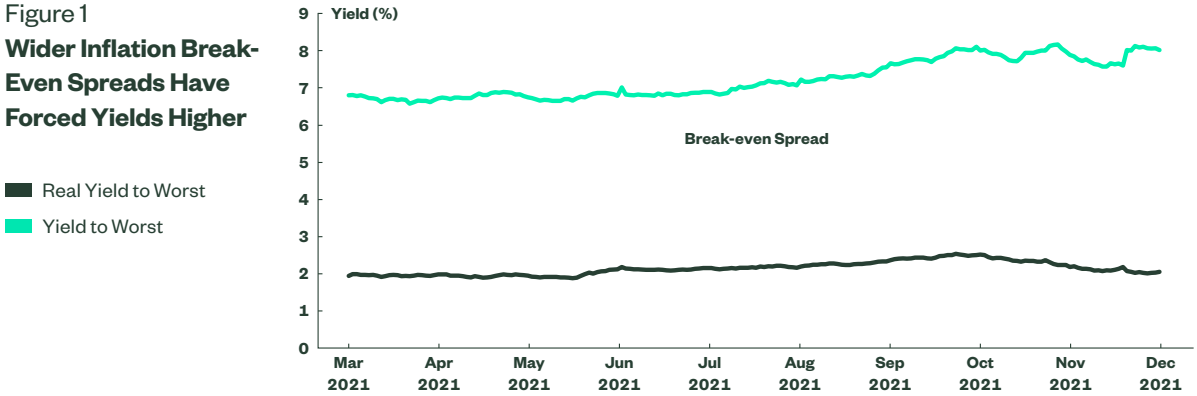
2 Source: Bloomberg Finance L.P., as at 31 December 2021.

Protection from Inflation

China's CPI has remained well contained, but it is not the case in most of the rest of the EM complex. So while yields are high in nominal terms they are often low or negative in real terms. One way of protecting against this is through an inflation-linked bond fund.

As detailed in the PriceStats® section, EM inflation shows little sign of abating. This should support the coupon payments on inflation-linked bonds. As can be seen in Figure 1, the yield on the Bloomberg EM Inflation-Linked 20% Capped Index had risen to around 8% by the end of 2021, largely due to the widening of break-even spreads.[3]

Figure 1
Wider Inflation Break-Even Spreads Have Forced Yields Higher



Source: Bloomberg Finance L.P., as of 31 December 2021.

Even if inflation does start to ease, the lagged nature of the coupon payments (for instance, the current coupon paid out references inflation 4 months ago for South Africa and Russia) means that coupons should remain high for the coming quarter.

Inflation-linked bonds remain subject to many of the same risks as nominal bonds. For example, the catastrophic performance of Turkish debt and the lira were a key drag on returns of the Bloomberg EM Inflation-Linked 20% Capped Index in 2021. However, the high nominal yield should act to offset bond price declines as a result of central bank tightening, while at the same time benefitting if the USD does start to soften.

3 The yield to worst on the Bloomberg EM Inflation-Linked 20% Capped index averaged 8.01% during the final week of 2021. Source: Bloomberg Finance L.P., as of 31 December 2021.

Investment Theme #3

Riding Out The Fed Cycle: Short Duration

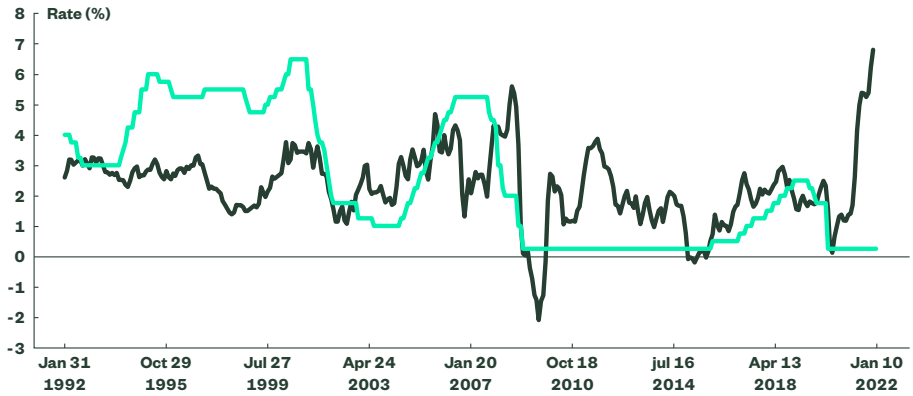
- **Yields could continue their rise as central bank tightening moves up a gear. This should favour short-duration strategies where the short end of the curve already prices in rate rises. Investment grade exposures would be preferred given better carry than government bonds.**

It has been a tricky start to 2022 for bond investors, with yields pushing higher on the back of the pivot by the Federal Reserve (Fed) toward a more aggressive policy stance. While the Fed continues to buy US Treasuries, rhetoric from the FOMC that it will accelerate policy tightening as a result of the persistently high level of inflation has seen the December 2022 Fed Funds Future move from pricing rates at 20–30bp at year-end to 95bp.[1]

This pricing of between 3 and 4 rate hikes is aggressive and should see the front end of the curve fairly well protected. In short, it is difficult to see the Fed delivering more than 4 hikes this year. However, that does not mean that the bond market sell-off has run its course. The market still prices a relatively low terminal rate. The 1-month USD overnight index swap rate (a proxy for the Fed Funds rate) is at just 1.75% 5 years forward. So the market is projecting a contained rate hike cycle but the peak would be low relative to the Fed's dot plot (2.5%) and in the context of such a high inflation rate.

Many of the factors driving inflation are supply related and therefore not likely to be affected by policy rates. However, as Figure 1 illustrates, the Fed Funds rate peaks in previous cycles have at least been somewhere near to the highs in inflation, otherwise real rates remain heavily negative and are therefore insufficient to bear down on aggregate demand. While inflation is set to ease from the highs there are risks that the market starts to question the assumption of a low terminal rate and this could see yields in the belly of the curve continue to push higher.

Figure 1
The Top to Fed Funds Rate has Historically been Above US Inflation



Source: Bloomberg Finance L.P., as of 31 December 2021.

1 Source Bloomberg Finance L.P., as of 10 January 2022.

Sticking to Short-duration Strategies

A focus on short-duration strategies would reduce investor sensitivity to any further upside rate risk. For instance, the Bloomberg 0–3Y EUR Corporate Index has less than 30% of the duration of the all-maturities index, meaning price losses suffered for a given rise in rates will be more than 3 times greater for holders of the all-maturities index.

We prefer investment grade (IG) credit exposures to government bonds for three reasons:

1. Yields are still historically low and IG exposure offers more by way of carry as spreads to government bonds have widened from their tightest levels seen over the summer.[2] We see limited risk of a material spread widening given the strong underlying growth expected in 2022 — indeed, if growth materially disappoints then the Fed will most likely pause or delay the tightening cycle (see Theme 1 for a wider discussion on this).

2. The State Street flows tracker suggests that there has been a swing in investor preferences away from Treasuries (outside of TIPS), but flows into IG credit have picked up.

3. Short-end IG credit funds typically have large exposure to bank bonds — both the Europe and US Bloomberg 0–3 Year corporate bond indices have a sector allocation of more than 39% to banking bonds. Unlike regular corporates, higher yields and steeper curves typically boost banking profits and thus should not be associated with any deterioration in credit quality.

For EUR exposures there is the added backstop that the ECB continues to purchase corporate bonds. While the PEPP is scheduled to come to a close at the end of Q1 2022, purchases under the CSPP programme are likely to continue and, in 2021, these purchases averaged EUR 1.5 billion per week.

2 The option-adjusted spread on the Bloomberg 0–3Y EUR Corporate Index has widened out above 56bp from tights of 48.2bp and the Bloomberg 0–3Y US Corporate Index has widened to 47bp from 34.2bp. Source Bloomberg Finance L.P., as of 10 January 2022.

Important Information

Information Classification:
General Access

Marketing communication.
For professional clients use only.

State Street Global Advisors Worldwide Entities

Abu Dhabi: State Street Global Advisors Limited, ADGM Branch, Al Khatem Tower, Suite 42801, Level 28, ADGM Square, Al Maryah Island, P.O Box 76404, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. T: +971 2 245 9000. **Australia:** State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services License (AFSL Number 238276). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240-7600. F: +612 9240-7611. **Belgium:** State Street Global Advisors Belgium, Chaussée de La Hulpe 185, 1170 Brussels, Belgium. T: +32 2 663 2036. State Street Global Advisors Belgium is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Canada:** State Street Global Advisors, Ltd., 1981 McGill College Avenue, Suite 500, Montreal, Qc, H3A 3A8, T: +514 282 2400 and 30 Adelaide Street East Suite 800, Toronto, Ontario M5C 3G6. T: +647 775 5900. **France:** State Street Global Advisors Europe Limited, France Branch ("State Street Global Advisors France") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors France is registered in France with company number RCS Nanterre 899 183 289, and its office is located at Coeur Défense — Tour A — La Défense 4, 33e étage, 100, Esplanade du Général de Gaulle, 92 932 Paris La Défense Cedex, France. T: +33 1 44 45 40 00. F: +33 1 44 45 41 92. **Germany:** State Street Global Advisors Europe Limited, Branch in Germany, Brienner Strasse 59, D-80333 Munich, Germany ("State Street Global Advisors Germany"). T: +49 (0)89 55878 400. State Street Global Advisors Germany is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103-0288. F: +852 2103-0200. **Ireland:** State Street Global Advisors Europe Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered Number: 49934. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Europe Limited, Italy Branch ("State Street Global Advisors Italy") is a branch of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Italy is registered in Italy with company number 11871450968 — REA: 2628603 and VAT number 11871450968, and its office is located at Via Ferrante Aporti, 10 - 20125 Milan, Italy. T: +39 02 32066 100. F: +39 02 32066 155. **Japan:** State Street Global Advisors (Japan) Co., Ltd., Toranomon Hills Mori Tower 25F 1-23-1 Toranomon, Minato-ku, Tokyo 105-6325 Japan. T: +81-3-4530-7380. Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345), Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association. **Netherlands:** State Street Global Advisors Netherlands, Apollo Building 7th floor, Herikerbergweg 29, 1101 CN Amsterdam, Netherlands. T: +31 20 7181 000. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Europe Limited, registered in Ireland with company number 49934, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. **Singapore:** State Street Global Advisors Singapore Limited, 168, Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Reg. No: 200002719D, regulated by the Monetary Authority of Singapore). T: +65 6826-7555. F: +65 6826-7501. **Switzerland:** State Street Global Advisors AG, Beethovenstr. 19, CH-8027 Zurich. Registered with the Register of Commerce Zurich CHE-105.078.458. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorised and regulated by the Financial Conduct Authority. Registered in England. Registered No. 2509928. VAT No. 5776591 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000. F: 020 3395 6350. **United States:** State Street Global Advisors, 1 Iron Street, Boston, MA 02210-1641. T: +1 617 786 3000.

ETFs trade like stocks, are subject to investment risk and will fluctuate in market value. The investment return and principal value of an investment will fluctuate in value, so that when shares are sold or redeemed, they may be worth more or less than when they were purchased. Although shares may be bought or sold on an exchange through any brokerage account, shares are not individually redeemable from the fund. Investors may acquire shares and tender them for redemption through the fund in large aggregations known as "creation units." Please see the fund's prospectus for more details.

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

Diversification does not ensure a profit or guarantee against loss.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent.

Investing in foreign domiciled securities may involve risk of capital loss from unfavourable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

The views expressed in this material are the views of SPDR EMEA Strategy and Research through 31 December 2019 and are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected. BLOOMBERG®, a trademark and service mark of Bloomberg Finance L.P. and its affiliates, and BARCLAYS®, a trademark and service mark of Barclays Bank Plc, have each been licensed for use in connection with the listing and trading of the SPDR Bloomberg Barclays ETFs.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. International Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

ICE Data Indices, LLC ("ICE Data Indices") and its indices may not be reproduced or used for any other purpose. ICE Data Indices' data is provided "AS IS". ICE Data Indices, its affiliates and its third party suppliers provide no warranties, has not prepared or approved this report, has no liability, and does not endorse SSGA or guarantee, review, or endorse its products. For the full copy of the disclaimer please refer to the Fund supplement.

Standard & Poor's®, S&P® and SPDR® are registered trademarks of Standard & Poor's Financial Services LLC (S&P); Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJI) and sublicensed for certain purposes by State Street Corporation. State Street Corporation's financial products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and third party licensors and none of such parties make any representation regarding the advisability of investing in such product(s) nor do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index.

International Government bonds and corporate bonds generally have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns.

All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment.

Investing in high yield fixed income securities, otherwise known as "junk bonds", is considered speculative and involves greater risk of loss of principal and interest than investing in investment grade fixed income securities. These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

The units of the Sovereign Bond Flow Indicators are standardised by debt outstanding at each point in the curve and then for the aggregates are duration weighted. State Street Global Markets ('SSGM') then aggregate the indictors into percentiles to gauge the significance of a flow or positioning metric over a variety of time periods and countries. SSGM's use is aimed at being a simple way of ranking flow and positioning indicators relative to their own history. For all of the flow indicators within the State Street Bond Compass, State Street Global Markets calculates the percentiles based on the distribution of flows over the last five years using the daily aggregate time periods shown in the charts. As a guide a 100th percentile reading represents the strongest buying in five years; and a zero percentile equals the strongest selling. A reading in the 50th percentile would signal that net flows in the asset over the period are at their average level, typically close to zero.

ID890430-2228182.55.1.GBL.INST 0122
Exp. Date 30/04/2022

ご留意事項

本資料は、情報提供を目的として作成したものであり、金融商品取引法およびその他日本の法律に基づく開示資料ではありません。本資料は、ステート・ストリート・グローバル・アドバイザーズ株式会社を含むそのグループ会社が提供する外国籍ETF等に関する情報を含む投資情報の提供を目的として、グループ会社により作成された資料を元に作成しており、投資の勧誘等を目的とするものではありません。本資料には、日本国内での募集の取扱い等に係る金融庁への届出等がされていない外国籍ETFに関する情報も含まれています。国内の金融商品取引所に上場していないETFについて、金融商品取引法に基づいた発行者開示は行われていません。

本資料は各種の信頼できると考えられる情報・データに基づき作成しておりますが、当社はその正確性・完全性を保証するものではありません。こうした情報は不完全であるか、要約されている場合があります。また、本資料に記載している各種情報・データは、特に記載のない限り作成時点のものであり、これらは市場動向やその他の状況等によって随時変動し、あるいは変更されることがあります。

本資料に記載している各種シミュレーション・データは、過去のデータに基づき当社モデルを利用したバックテスト結果であり、将来の運用収益を保証するものではありません。実際の運用収益はバックテスト結果から大きく異なる可能性があります。過去の実績は将来の成果を保証するものではありません。本資料内の意見は全て当社あるいはグループ会社の判断で構成されており、事前に通知することなく変更される可能性があります。なお、本資料中のステート・ストリートに関する記述には、ステート・ストリート・コーポレーションおよびその関係会社が含まれる場合があります。 ステート・ストリートの関係会社は、本資料のETFに関するサービスを提供すると同時に、信託報酬ないしその他の報酬等を受け取ります。

＜登録商標等について＞

“Standard & Poor’s®” ”S&P®”、”SPDR®”は、Standard & Poor’s Financial Services LLC（以下「S&P」）の登録商標です。”Dow Jones”は、Dow Jones Trademark Holdings LLC（以下「ダウ・ジョーンズ」）の登録商標です。これらの登録商標は、S&P Dow Jones Indices LLC（以下「SPDJI」）が使用許諾を得ており、ステート・ストリート・コーポレーションは特定の目的の使用について再許諾を受けています。SPDJI、ダウ・ジョーンズ、S&P、それぞれの関連会社及び第三者の使用許諾者は、ステート・ストリートが提供する金融商品のスポンサーではなく、これらの商品の推奨・販売・宣伝もしていません。

また、 SPDJI、ダウ・ジョーンズ、S&P、それぞれの関連会社及び第三者の使用許諾者は、これらの商品への投資の適否に関していかなる意見表明もしておらず、関連する指数に係るいかなる過誤、遺漏ないし中断等に対しても責任を一切負いません。その他のインデックス、登録商標ないしサービスマークに関しては、各会社及びその関係会社に帰属し、ステート・ストリートが特定の目的で使用許諾を得ています。本資料のETFの合法性や適合性について、インデックスあるいは登録商標等の帰属する各会社及びその関係会社は、何ら判断を下していません。また、発行・後援・裏書・販売・宣伝もしていません。インデックスあるいは登録商標等の帰属する各会社及びその関係会社は、ETFに関していかなる保証も責任も負いません。また、ETFの資産運用や販売に関していかなる責任も負わず、管理運営に携わることもありません。

＜投資にかかるリスクについて＞

ETFは、主に株式や債券などの有価証券、また金などのコモディティ、あるいはその他の資産に投資を行います。投資対象としているこれらの資産の値動きにより、ETFの基準価額が下落することがあります。これらの資産への投資には、市場リスク、金利リスク、カントリーリスク、信用リスク、為替リスク、流動性リスク等、様々なリスクがあり、ETFも同様のリスクが伴います。これらのリスク要因により、ETFの市場価格が下落する場合があります。その為、投資元本を割り込む恐れがあります。ETFは流通市場において株式と同様に取引されますが、取引価格は変動し、基準価額を下回ることがあります。また、常に取引可能であるとは限らず、市場環境が悪化している場合は、取引価格が大幅なディスカウントとなる可能性があります。ETFには上場廃止リスクがあり、純資産規模が縮小するなど、運用が困難になった場合や、上場取引所の上場基準に合致しなくなった場合、上場廃止となることがあります。これらは主なリスクであり、ETFへの投資に係るリスクはこれらに限定されるものではありません。

なお、コモディティETFやコモディティ指数連動証券は、市場全体動向の変化、金利の変化、および対象資産となるコモディティへの投機や裁定に係る取引活動に加え、天候や病気、通商条件あるいは政治や規制の展開の様な他の要因によって影響を受ける可能性があります。

＜ETFの投資にかかる一般的な留意事項＞

① 元本保証はされていません。

② ETFの一口あたりの純資産額の動きと連動を目指す特定の指数等の動きが乖離する可能性があります。

③ 市場価格とETFの一口あたりの純資産額が乖離する可能性があります。

＜手数料・費用について＞

ETFを売買する際は、取扱いの金融商品取引業者の定める売買手数料がかかります。その他ETFを保有する際には、それぞれ個別に定められた費用がかかります。これらの費用には、運用会社・管理会社に支払う報酬、組入れ資産の売買の際に発生する手数料、ライセンス・フィー、監査費用等があります。これらは、運用の状況等によって変動するため、事前に上限額を示すことができません。本資料の掲載情報は作成時点のものであり、市場の環境その他の状況等により将来予告なく変更されることがあります。

※取得のお申し込みに当たっては、必ず上場有価証券等書面又はその他の開示書類の内容をご確認の上、ご自身でご判断下さい。

※購入のお申し込みや売買手数料等につきましては、当ETFを取扱いの金融商品取引業者（証券会社）までお問い合わせ下さい。

ステート・ストリート・グローバル・アドバイザーズ 株式会社

東京都港区虎ノ門1-23-1
虎ノ門ヒルズ森タワー25階
Tel: 03-4530-7152
金融商品取引業者 関東財務局長（金商）第345号
加入協会：一般社団法人 日本投資顧問業協会、一般社団法人 投資信託協会、日本証券業協会