State Street Multi-Asset Builder Fund

STATE STREET GLOBAL ADVISORS

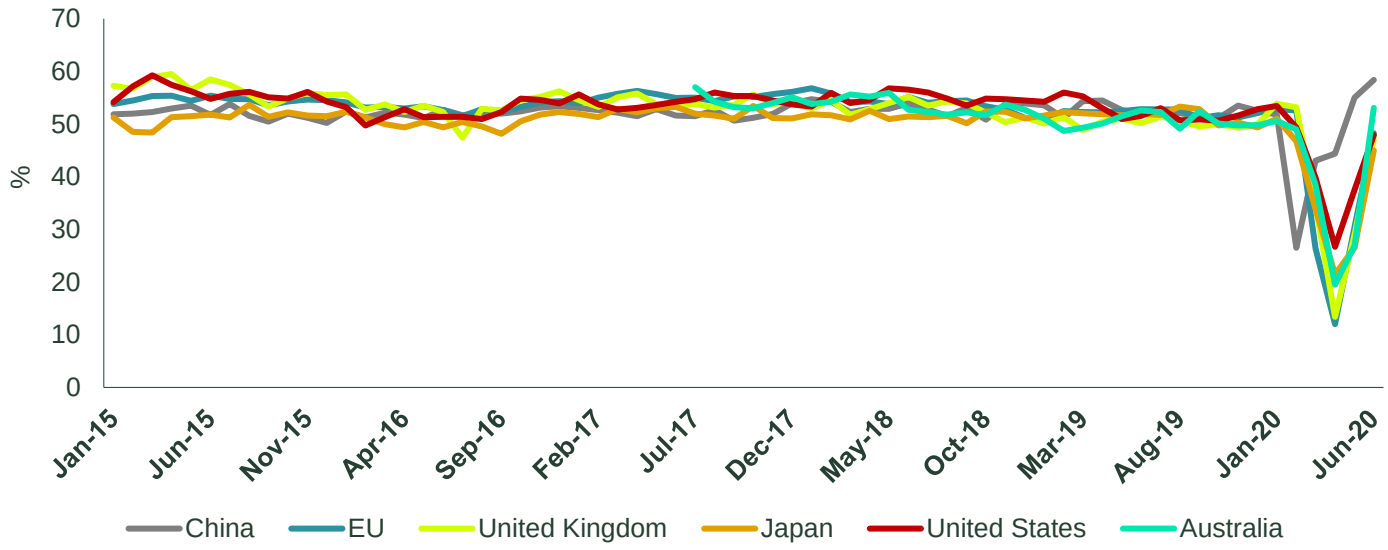
Second Wave

- Stimulus support and re-opening plans are working
- Geo-political tensions and elections are ahead but immediate threat to market recovery is from further waves of infections
- Investor sentiment is improving but market volatility is still relatively high and risk remains skewed to the downside

Raf Choudhury
Head of Investment Strategy & Research, Australia

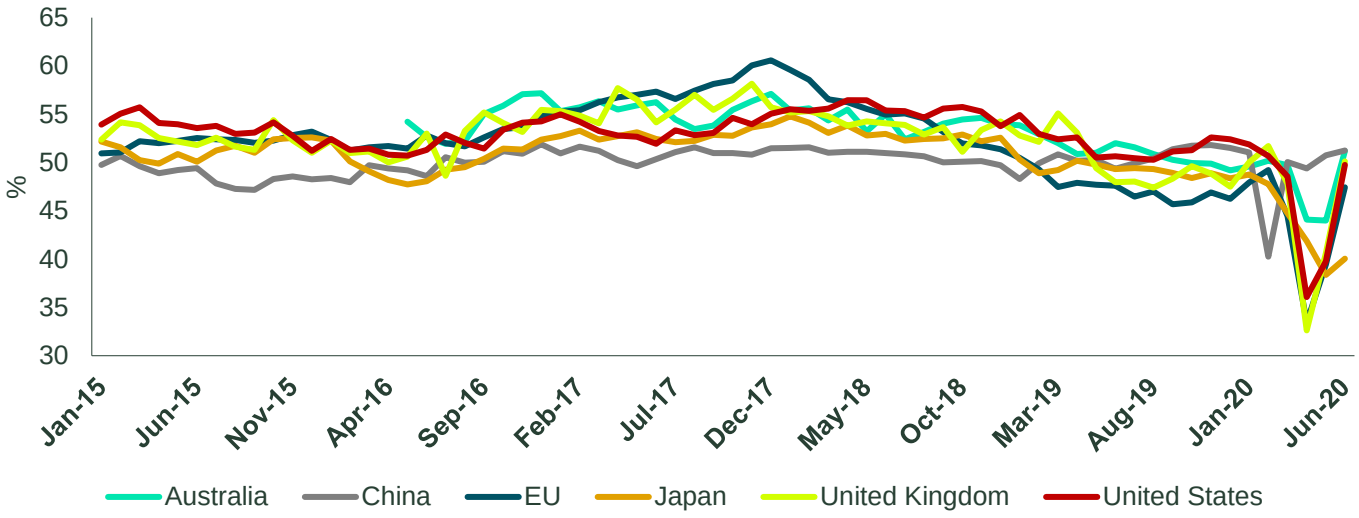
The first half of the year saw an unprecedented shock as a result of the COVID-19 crisis and the subsequent government-imposed lockdowns to contain the spread. Policy makers responded with massive, broad-based fiscal and monetary stimulus to support affected workers and businesses in record time. Recent economic data indicates that the stimulus support and re-opening plans are working, and the economic recovery has begun. As seen in Figure 1, services activity is back/close to pre-COVID levels although as seen in Figure 2, manufacturing hasn't recovered to the same extent as it suffers from the slowdown of global trade and domestic economic activity.

Figure 1: **Services Purchasing Managers Index**



Sources: Macrobond, SSGA Economics, IHS Markit as of 7 July 2020.

Figure 2: **Manufacturing Purchasing Managers Index**



Sources: Macrobond, SSGA Economics, IHS Markit as of 7 July 2020.

However, risks to recovery remain with increased geo-political tensions between the United States (US) and China over Hong Kong and concerns around the further handling of the COVID-19 crisis across the world. As countries ease lockdown measures, the disease may regain traction, forcing affected economies into a second lockdown.

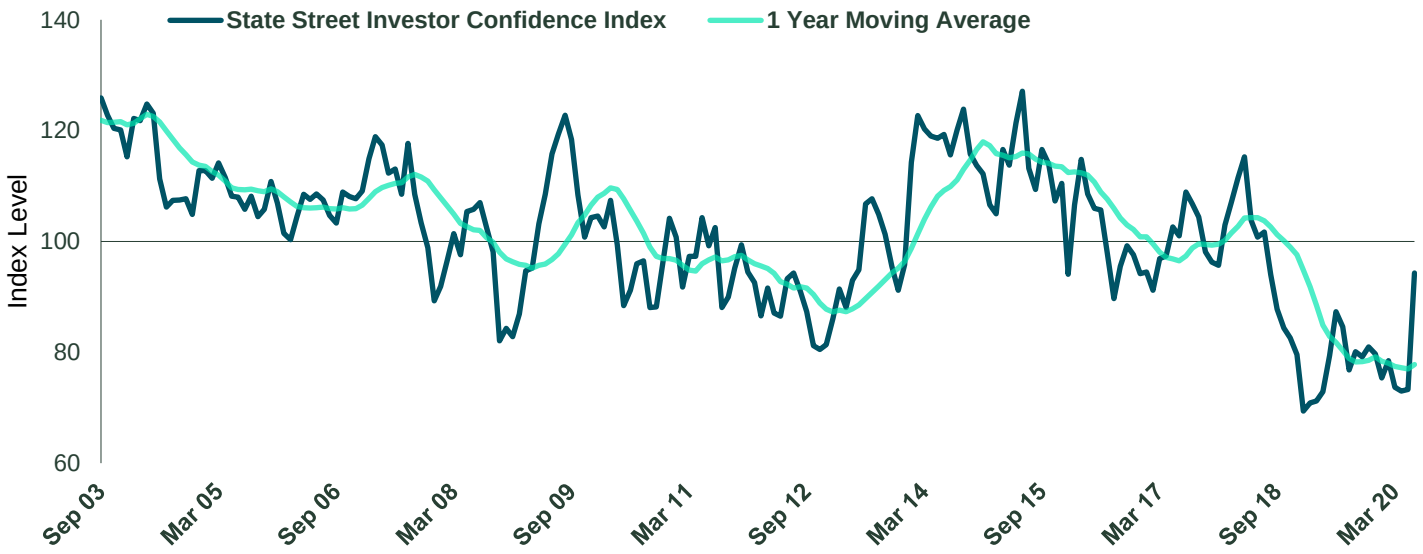
As we progress into the second half of the year, front of mind is the potential impact from a second wave of infections. There are also other headwinds to deal with; geo-political tensions between the US and China over Hong Kong as well as US elections later this year. For now though, the immediate concern is still around the spread and impact of COVID-19 and the second wave risks.

From a global perspective, Australia has had better success with dealing with the virus and its spread, despite a second wave of infections in Victoria. Elsewhere the virus is still causing significant disruptions. Globally cases have now topped 13.1 million with fatalities exceeding 573,000. Mexico has overtaken France as having the fifth-deadliest outbreak, while cases in India continue to rise as it moves up the ranks to record the third highest number of cases[1].

The impact from the second wave may not be as great as the first wave. The world is certainly in a better position to deal with isolated outbreaks and should result in what is hopefully a more manageable burden on national health systems. Additional waves of infections, until there is a cure, is something that has been highlighted since the start of the outbreak. However, we believe fears around further waves of infections will continue to create a lot of market and investor uncertainty. Despite this, investor confidence has improved over the last few months since the start of the outbreak.

[1] Source; John Hopkins University & Medicine as at 14 July 2020.

Figure 3: **State Street Investor Confidence Index**



Source: Bloomberg Finance, L.P., as of 30 June 2020. State Street Confidence Indexes Measures investor confidence or risk appetite quantitatively by analysing the actual buying and selling patterns of institutional investors. The index assigns a precise meaning to changes in investor risk appetite: the greater the percentage allocation to equities, the higher risk appetite or confidence. A reading of 100 is neutral; it is the level at which investors are neither increasing nor decreasing their long-term allocations to risky assets. The results shown represent current results generated by State Street Investor Confidence Index. The results shown were achieved by means of a mathematical formula in addition to transactional market data, and are not indicative of actual future results which could differ substantially.

Nevertheless, the key market for concern is the US. In the US there is still a rapidly rising number of cases whereas the number of new cases across Europe and parts of Asia, including China are on the decline. With the US not having fully dealt with the first wave and the risks of a second wave high, market volatility has remained elevated – although down from the highs seen at the peak of the epidemic. With the recovery we have seen and at current market levels, risks are skewed to the downside, and investors should still remain cautious as volatility will continue to remain high and markets could see another leg down if further waves occur that require economies to again be shut down.

Portfolio positioning and performance[2]

Global equity markets continued their recovery in June as the heightened fears surrounding COVID-19 continued to abate, with markets pricing in a strong economic recovery buoyed by the ongoing improvement in global economic data as economies increased their re-openings. Risks do remain however as geopolitical tensions between the US and China increased and the number of global COVID-19 cases continued to increase across some developed economies including the US. Within growth assets, local equity markets (S&P/ASX 200 Net total return Index) saw positive returns and were up 2.6% for the month. Global equity markets were also positive with the US (MSCI US Net total return local Index) up 2.2%, Europe (MSCI Europe Net total return local) up 3.2%, whilst Japan (MSCI Japan Net total return local) was up a marginal 0.1%. Emerging markets (MSCI EM Index Net total return local Index), posted strong returns up 6.6% outperforming developed markets. In the fixed income space, government bond yields moved marginally lower in line with corporate spreads resulting in positive returns for the asset class. Across our alternatives exposures, our investments in both commodities and emerging

[2]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.

markets bonds posted strong local returns but with a strong AUD over the month reduced the returns from a portfolio perspective. Looking into our average positioning across the portfolio for the month of June, the Growth assets allocations have been approximately 14% for the State Street Multi-Asset Builder Fund. Our exposure preferences in June was an underweight in global equities relative to fixed income / cash as we maintained our de-risking from earlier in the year with the portfolio mitigating the negative returns seen in equity markets year to date. Performance wise, we maintained our diversified exposures across equities, fixed income and alternatives resulting in the portfolio delivering a small negative return in June.

Important Disclosures

ssga.com

Issued by State Street Global Advisors, Australia Services Limited (AFSL Number 274900, ABN 16 108 671 441) (“SSGA, ASL”). Registered office: Level 14, 420 George Street, Sydney, NSW 2000, Australia · Telephone: +612 9240-7600 · Web: www.ssga.com. State Street Global Advisors, Australia, Limited (AFSL Number 238276, ABN 42 003 914 225) (“SSGA Australia”) is the Investment Manager.

References to the State Street Multi-Asset Builder Fund ("the Fund") in this communication are references to the managed investment schemes domiciled in Australia, promoted by SSGA Australia, in respect of which SSGA, ASL is the Responsible Entity. This general information has been prepared without taking into account your individual objectives, financial situation or needs and you should consider whether it is appropriate for you. You should seek professional advice and consider the product disclosure document, available at www.ssga.com, before deciding whether to acquire or continue to hold units in the Funds.

Investing involves risk including the risk of loss of principal.

Risk associated with equity investing includes stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions.

The views expressed in this material are the views of the SSGA’s Investment Solutions Group through the period ended 29 May 2020 and are subject to change based on market and other conditions. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. 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.

Characteristics are as of the date indicated, subject to change, and should not be relied upon as current thereafter.

Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss. Investments in issuers in different countries are often denominated in different currencies.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Bloomberg Finance L.P. and its affiliates (collectively, “Bloomberg”) do not approve or endorse this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.

Standard & Poor's and S&P are registered trademarks of Standard & Poor's Financial Services LLC ("S&P") and Dow Jones is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones") and have been licensed for use by S&P Dow Jones Indices LLC and sublicensed by SSGA. The S&P/ASX indices are a product of S&P Dow Jones Indices LLC, and has been licensed by SSGA. The SSGA strategies contained within are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC, Dow Jones, S&P, their respective affiliates, and none of S&P Dow Jones Indices LLC, Dow Jones, S&P, nor their respective affiliates make any representation regarding the advisability of investing in such product(s).

MSCI indices are the exclusive property of MSCI Inc. ("MSCI"). MSCI and the MSCI index names are service mark(s) of MSCI or its affiliates and have been licensed for use for certain purposes by State Street Global Advisors ("SSGA"). The financial securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such financial securities. No purchaser, seller or holder of this product, or any other person or entity, should use or refer to any MSCI trade name, trademark or service mark to sponsor, endorse, market or promote this product without first contacting MSCI to determine whether MSCI's permission is required. Under no circumstances may any person or entity claim any affiliation with MSCI without the prior written permission of MSCI.

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 information provided does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. You should consult your tax and financial advisor. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information.

This document may contain certain statements deemed to be forward-looking statements. All statements, other than historical facts, contained within this document that address activities, events or developments that SSGA expects, believes or anticipates will or may occur in the future are forward-looking statements. These statements are based on certain assumptions and analyses made by SSGA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes are appropriate in the circumstances, many of which are detailed herein. Such statements are subject to a number of assumptions, risks, uncertainties, many of which are beyond SSGA's control. Please note that any such statements are not guarantees of any future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

All material has been obtained from sources believed to be reliable.

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 Australia’s express written consent.

© 2020 State Street Corporation. All Rights Reserved.

2987664.1.5.ANZ.RTL | Exp. Date: 31/07/2021