State Street Multi-Asset Builder Fund

Mixed Signals Leading to a Continued Lack of Confidence

- State Street Investor Confidence Index remains low
- Debt spreads still wide signaling high level of risk aversion
- Equity markets are grasping onto any good news and trying to overlook the bad to sustain the rally but earnings will be key

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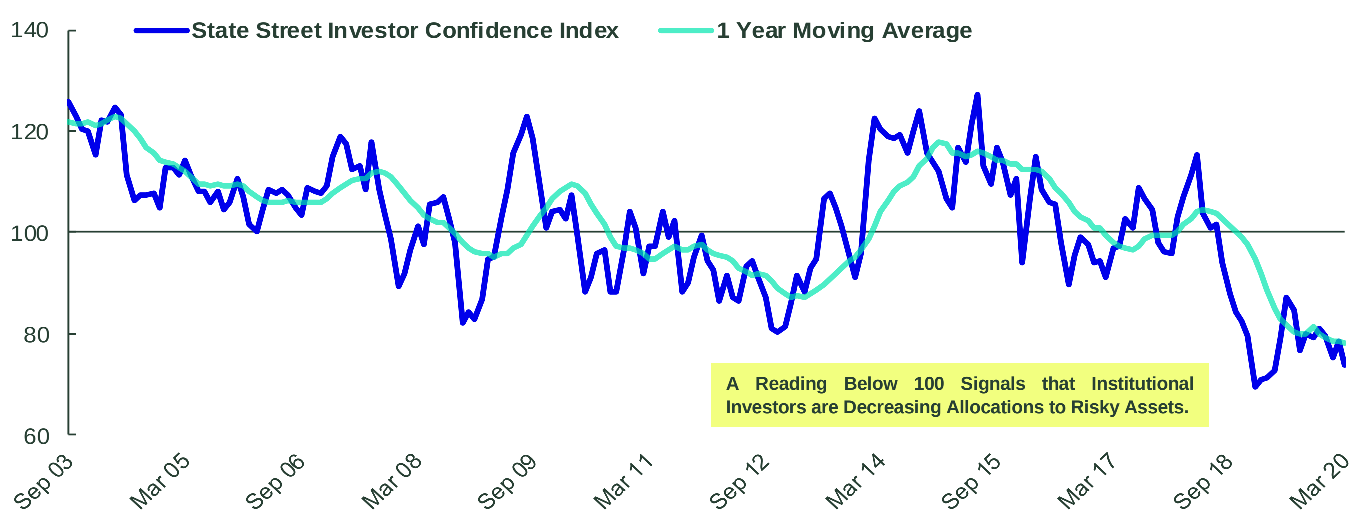
While April brought about the start of a new quarter it also provided investors with some relief. Having seen almost 30% wiped off, the equity market rebound that began in March continued through April. Despite some faltering at the start of April into negative territory, the main equity markets were up for the month. The Eurostoxx, FTSE 100 and Japan's Topix Index were up 4%-5% while the ASX 200 TR Index was up almost 9% and the S&P 500 Index up almost 13%. Even emerging markets posted positive returns with the MSCI Emerging Markets Index (in USD) up just over 9%. All these markets also saw a sharp decline in implied volatility, a measure of investor sentiment. However that alone doesn't paint the whole picture. While indices like the VIX Index continue to fall, the absolute level still reflects the uncertainty and fear that investors have. Having fallen from just 80 to 34 by the end of April, it's easy to forget that it was at 12.5 as we started the year. So still almost 300% higher than at the start of 2020 and despite positive steps in relation to COVID-19 there are still a number of risks and headwinds. The fall in the VIX Index from the highs in the 80's reflects the repricing of the market and forward looking expectations around growth and estimates around the impact on company earnings. It's also reflecting that equity markets at these levels might be enticing some investors back in. However measures like of State Street's Investor Confidence Index still show that investors are hesitant.

Figure 1: **State Street Investor Confidence Index**



Source: Bloomberg Finance, L.P. As of 31 March 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.

The State Street Investor Confidence Index ended April at 73, having been at almost 80 at the start of the year. A reading below 100 indicates that institutional investors as a whole are underweight equities. Now, many of them may have been underweight at the start of the year because of concerns around equity valuations or because they were building up cash to redeploy to alternatives – an increasing trend across investors. However the index continued to fall. The fall might be just a reflection of the market action we have seen, with equity markets down close to 30%, it is estimated that this alone caused investors to be between 5-10% underweight equities. More interesting though is that the index hasn't rebounded. Given the quarter end – a lot of institutional investors would be rebalancing which would mean buying back equities and quite significantly but the index isn't showing that. What might be holding them back is a lack of conviction.

So what does it mean? Well, most likely, despite markets rebounding, investors are still pretty wary. Yes there are some positive signs, flattening of the curve, effective containment, etc., but there's still a lot of unknowns and headwinds to overcome. The market is keenly aware of these as reflected the spreads of risky debt, with high yield debt spreads in the region of 900 basis points. As often happens, fixed income and equity markets are looking at things from different perspectives. Equity markets grasping to any positive and trying to overlook the negatives. That has helped equity markets rebound while debt spreads remain wide. However the equity market view might be challenged as we get further into earnings season. Although poor earnings are expected, there is little guidance available so they could still provide an unexpected surprise relative to expectations. And while equity markets have rebounded, on a relative basis they are still risky, investor sentiment despite the rebound is still weak, not as weak as a few weeks ago but certainly still at levels where caution is warranted.

Portfolio positioning and performance[1]

Global equity markets recovered in April as the heightened fears surrounding COVID-19 abated with the virus' global growth rate declining with some countries managing the spread with a 'flattening' of curve 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, global equity markets were positive with the US (MSCI US Net total return local) up 13.1%, Europe (MSCI Europe Net total return local) up 5.4%, whilst Japan (MSCI Japan Net total return local) was up 4.4%. Emerging markets (MSCI EM Index Net total return local) was no exception rebounding strongly up 8.8% outperforming Europe and Japan. Australia, as a globally linked economy also posted positive returns with local equity markets (S&P/ASX 200 Net total return) up 8.8%. Although global commodities recovered from a USD perspective, because of a strong AUD performance, our small exposure detracted from returns. 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 0.9% for the month. Our investments in emerging markets bonds was positive for the month in USD terms with yields falling but with a strong AUD our exposure detracted from performance. Looking into our average positioning across the portfolio for the month of April, the Growth assets allocations have been approximately 14% for the State Street Multi-Asset Builder Fund. Our exposure preferences in April was an underweight in global equities relative to fixed income / cash as we maintained our de-risking from earlier in the year the portfolio mitigating the negative returns seen in markets year to date. Performance wise, we maintained diversified exposures across equities, fixed income and alternatives but with a strong AUD during the month, the fund delivered a small negative return in April.

[1]Bloomberg Finance, L.P. SSGA as at 30 April 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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