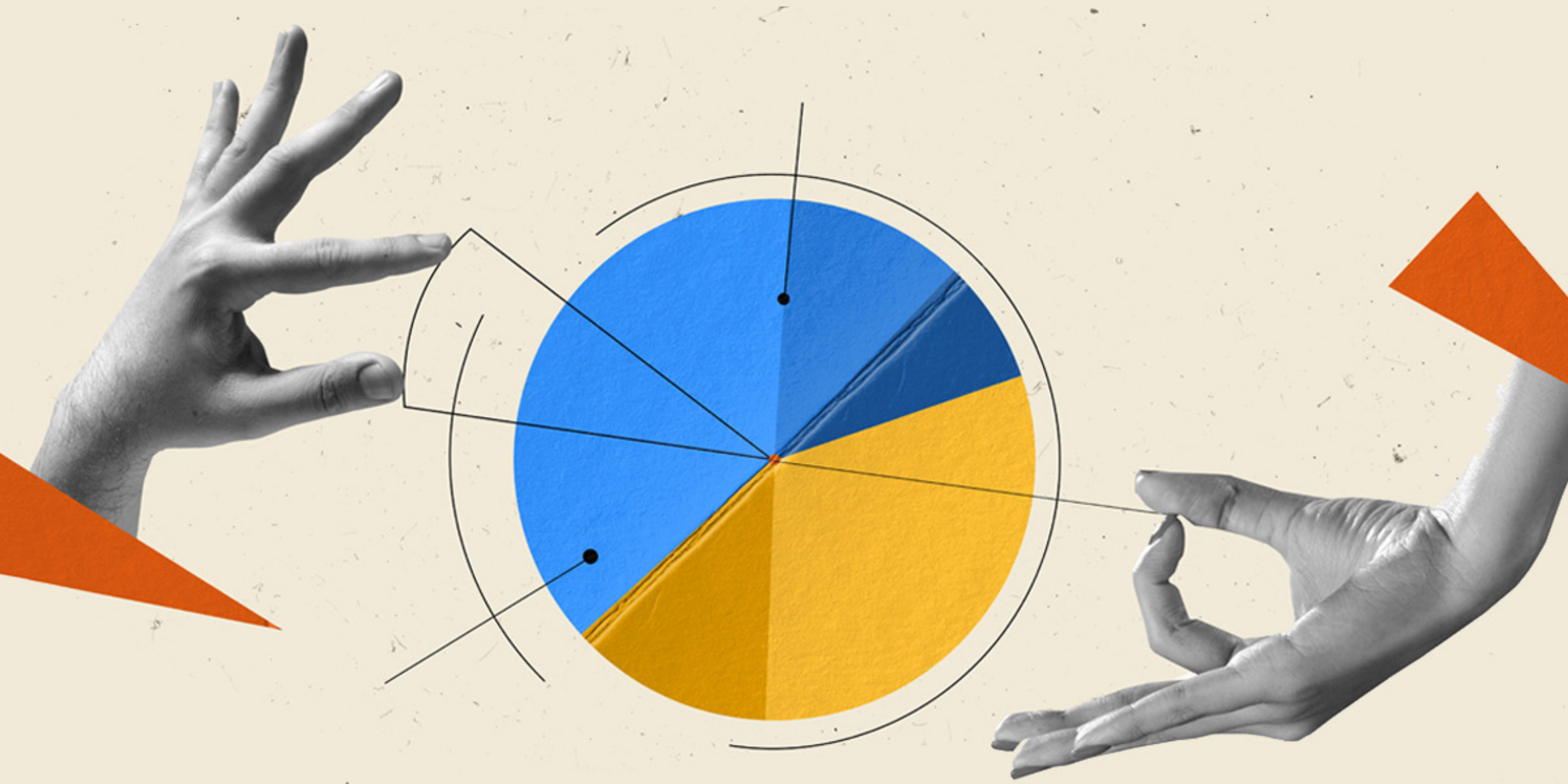
Sector & Equity Compass

Trading Scenarios

Q2 2025



STATE STREET GLOBAL ADVISORS SPDR®

Themes and Outlook

Unanswered Questions

In our last Compass, we forecast a change in equity leadership and a broadening of the market beyond the US and Technology. This was immediately reflected in flow direction in January, after DeepSeek announced its R1 model, which called into question the US's AI dominance. The pivot beyond US and Tech was strengthened by a leap in defence spending in Europe which could boost the European economy. Finally, the constant need for diversification was reinforced by the turmoil in equities caused by President Trump's Liberation Day tariffs.

History shows that when broader market leadership reasserts itself after periods of extreme market narrowness it often persists for many years. Regardless of how wildly markets — and policy — oscillate over tariffs, we believe investors should broaden their equity exposures.

What Follows Liberation?

Investors didn't get the clarity they had hoped for following President Trump's 2 April tariff announcement. In the current uncertain environment, risk management is key.

Even if they are subsequently reduced, the President's aggressive tariff measures on imports are expected to raise inflation and stunt growth. Tariffs act as a tax, increasing costs for businesses and consumers, potentially leading to reduced demand and investment. Other countries' retaliations suggest we are already in a trade war.

Consumer sentiment, manufacturing and GDP growth forecasts already suggest weakening economic momentum. Policymakers are now constrained — lowering interest rates to stimulate growth could fuel inflation. Restrictions on immigration and tighter labour markets are contributing to wage growth, which can exacerbate inflation and hinder productivity gains.

Geopolitical secular trends and doubts over US exceptionalism make a compelling case to rotate beyond US borders into these sectors and country strategies to better manage risk-adjusted returns:

Play Defence

We see three ways to manage risk:

1. **Diversify Across Markets** To avoid overconcentration in any single sector or country, it's important to combine sectors or asset classes that do not move in the same direction during market fluctuations. Sector barbells can help position to pursue better risk-adjusted returns and capital preservation.

2. **Reduce Volatility with Defensive Investments** Within sectors our favourite defensive exposure is Utilities, available for US, European, or World exposure. Dividend Aristocrats also features low volatility achieved through dividend screens.

3. **Choose ETFs** ETFs give investors exposure many companies within a sector or region, reducing the risk tied to individual stocks.

From New World to Old World

We still believe that the US economy has exceptional qualities, but the uncertainty introduced by the Trump administration's tariffs warrants lower exposure to the US large-cap market and the Technology sector.

S&P 500 Technology sector is the worst- performing World sector year to date. Until Liberation Day, the semiconductor market showed some resilience, owing to strong demand for AI and data centre technologies. Gaining exposure to these themes remains important to investors, but there are cheaper and less volatile ways to get it.

Sectors in Focus for Q2: Stick with the Picks

We have maintained our Sector Picks from Q1 which benefit from well-placed growth themes such as rising defence spending or demand from data centre growth; or are inherently defensive; or are less exposed to tariffs.

The macroeconomic outlook suggests Utilities should respond well to an expected fall in global interest rates. Gauging inflation sensitivity is more difficult because of its dramatic impact on energy costs, but we are not crude oil or natural gas bulls in the short term. Industrials and Financials have some reliance on cyclical demand, but they both have self-help factors or structural growth themes.

	World	**US**	**Europe**
Industrials	✓	✓	✓
Utilities	✓	✓	✓
Financials	✓	✓	
Health Care			✓

Equity Regions in Focus for Q2: European Large and Small Caps, EM Large Caps, US Mid Caps

Tariff-related uncertainty has dominated the second quarter so far. Regardless of trade disputes, we prefer European large caps over US because of their cheaper valuations, Germany's fiscal largesse, and potential progress to peace in Ukraine. European small caps are rate-sensitive but may be more insulated from tariffs. UK equities may provide a high degree of protection in against a severe stagflation scenario.

Investors may consider emerging market (EM) large caps as China's technology revival has ample room to continue, even allowing for big tariffs. The broader EM complex may rally on lowered geopolitical risk in Ukraine. Naturally trade-related risks appear to overshadow all other challenges and need to be monitored.

Q2 may offer an interesting entry point into US mid caps. The exposure has been hit by market volatility but the combination of home bias, resilient labour market and undemanding valuations create a fundamental long-term case for the S&P MidCap 400. Mid caps thrive in a risk-on market — we would identify any revoking or reducing tariffs as potential entry points.

	Regions
Europe	MSCI Europe, MSCI EMU, MSCI Europe Small Cap, MSCI Europe Small Cap Value Weighted, FTSE UK All Share
Emerging Markets	MSCI Emerging Markets, MSCI Emerging Markets Asia
US Mid Caps	S&P Mid Cap 400

Sector and Equity Performance

World Sectors

Q1 2025 (%)		Q4 2024 (%)	
Energy	10.1	-2.3	Energy
Utilities	7.2	-8.1	Utilities
Financials	6.1	4.0	Financials
Cons Staples	5.9	-6.8	Cons Staples
Healthcare	5.1	-11.3	Healthcare
Materials	3.9	-14.8	Materials
Real Estate	2.9	-9.1	Real Estate
Industrials	2.3	-5.0	Industrials
MSCI World NR	-1.8	-0.3	MSCI World NR
Comm Services	-4.4	7.1	Comm Services
Cons Disc	-10.3	7.6	Cons Disc
Tech	-11.9	4.9	Tech

US Sectors

Q1 2025 (%)		Q4 2024 (%)	
Energy	9.7	-1.1	Energy
Healthcare	6.4	-9.9	Healthcare
Utilities	4.7	-5.3	Utilities
Cons Staples	4.3	-4.8	Cons Staples
Financials	3.4	7.3	Financials
Real Estate	3.3	-7.4	Real Estate
Materials	2.6	-12.9	Materials
Comm Services	-0.1	7.7	Comm Services
Industrials	-0.3	-1.9	Industrials
S&P500 NR	-4.4	2.7	S&P500 NR
Tech	-11.1	3.4	Tech
Cons Disc	-11.8	11.8	Cons Disc

Europe Sectors

Q1 2025 (%)		Q4 2024 (%)	
Financials	16.3	2.5	Financials
Energy	12.4	-0.6	Energy
Comm Services	10.4	-1.7	Comm Services
Utilities	10.4	-7.7	Utilities
Industrials	7.2	-1.2	Industrials
MSCI Europe NR	5.9	-3.6	MSCI Europe NR
Cons Staples	5.1	-6.7	Cons Staples
Real Estate	3.5	-13.6	Real Estate
Healthcare	1.0	-9.6	Healthcare
Materials	0.6	-10.8	Materials
Cons Disc	-4.2	-3.8	Cons Disc
Tech	-4.4	-0.6	Tech

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 31 March 2025. Past performance is not a reliable indicator of future performance. The reference indices are in the MSCI World, S&P Select Sectors, and MSCI Europe. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index performance is not meant to represent that of any particular fund. Index performance is net total return. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Equity Performance by Region	1M (%)	3M (%)	YTD (%)	12M (%)
Eurozone Developed	-3.1	7.5	7.5	6.8
Europe Equities	-4.0	5.9	5.9	6.8
UK Equities	-2.3	4.5	4.5	10.5
Global EM	0.6	2.9	2.9	8.1
EM Asia	-0.1	1.3	1.3	9.8
Global Equities	-4.0	-1.3	-1.3	7.2
Developed Small Caps	-3.8	-3.7	-3.7	-0.3
US Equities	-5.7	-4.4	-4.4	7.8
Japan Equities	-0.6	-4.5	-4.5	-3.3
EM Small Caps	-0.1	-5.5	-5.5	-2.0
US Mid Caps	-5.5	-6.2	-6.2	-3.1
US Small Caps	-6.9	-9.6	-9.6	-4.4

Source: Bloomberg Finance L.P., as of 31 March 2025. Performance of Global and EM exposures in USD. Performance of European exposures in EUR. Performance of other exposures expressed in local currencies. Past performance is not a reliable indicator of future performance.

Sector and Equity ETF Flows

Sector ETF Flows	European-Domiciled ($mn)		US-Domiciled ($mn)	
	Q1 2025	Q4 2024	Q1 2025	Q4 2024
Communications	266	-24	374	679
Consumer Discretionary	272	468	-1,735	1,692
Consumer Staples	96	-145	182	-855
Energy	-1,241	-352	-2,752	449
Financial	4,297	1,730	2,999	8,840
Health Care	-79	-1,287	-2,081	-3,562
Industrials	2,448	578	-209	3,655
Materials	672	-166	-3,124	389
Real Estate	-272	445	-268	-521
Technology	671	-354	3,883	7,909
Utilities	-119	-396	1,604	-580

Source: Bloomberg Finance L.P., State Street Global Advisors, as of 31 March 2025. Flows shown above are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future. **Methodology** We collect and aggregate flow figures for all sector and industry ETFs domiciled in the US and include ETFs invested across all regions (including US, Europe and World). They are calculated as the net figure of buys minus sells. **The green boxes signify the two highest flow figures for each period, while the red boxes signify the two lowest flow figures.**

Equity ETF Flows by Region	European-Domiciled ($mn)		US-Domiciled ($mn)		
	Q1 2025	Q4 2024		Q1 2025	Q4 2024
Global	27,213	26,572	**US**	167,650	290,878
US	8,155	57,987	**Global**	3,227	12,879
Europe	19,292	-536	**International-Developed**	14,135	24,020
UK	-1,173	-1,339	**International-Emerging Markets**	3,179	4,494
Other Region	1,278	-241	**International-Region**	9,548	-5,942
Single Country	10,230	-494	**International-Single Country**	346	2,894
EM	7,247	1,963	**Currency Hedged**	4,815	844
Total	**72,242**	**83,913**	**Total**	**202,900**	**330,067**

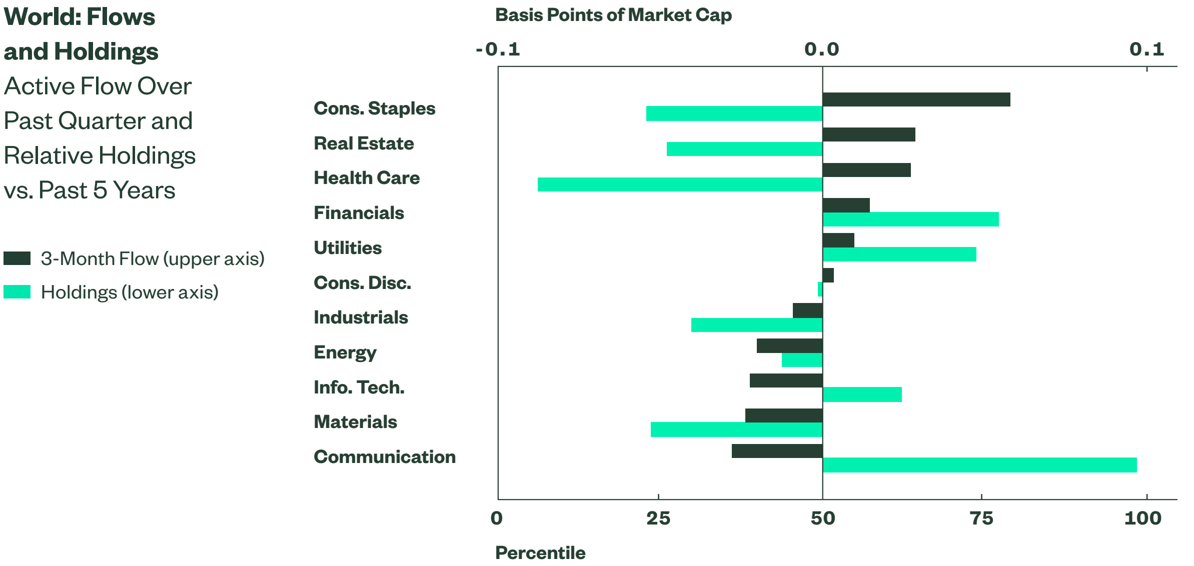
Source: Bloomberg Finance L.P., as of 31 March 2025. Flows shown above are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. Single Country exposures are those that include securities from one country of domicile.

Investor Behaviour Overview

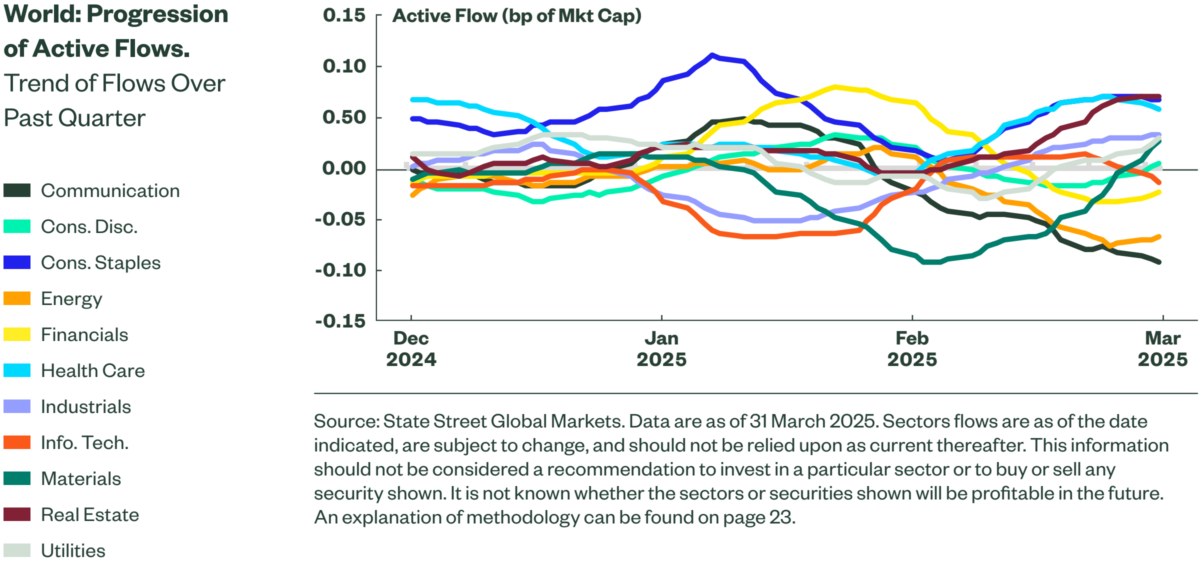
Equity ETFs inflows continued at record levels in Q1, but there was a pivot in trends. US equity Investors derisked and moved away from large caps. Buyers of UCITS ETFs made the biggest changes. Investors flocked to European equities, driven by a more bullish economic outlook sparked by expectation of new fiscal spending, and the large gap with US valuations. There was a marked slowdown of inflows into US equities. From a sector perspective, Technology ETFs initially continued to take a large share of inflows, driven by the sector's size and its important AI role. Momentum waned as the sector underperformed after the DeepSeek news. And investors moved to Financials and Industrials.

Institutional investor behaviour, as measured by observations from State Street's custody business, is also revealing. Regionally, investors added to their exposure in continental Europe and UK, partly funded by reducing a large US overweight. The relative weight of the continent within portfolios is now back above the average level of the past five years. Tariff fears have reduced investors' appetite for Materials, counterbalanced by increasing defensive exposure. At a global level, the largest relative sector overweight is Communication Services. The largest underweight remains Health Care.

World: Flows and Holdings
Active Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

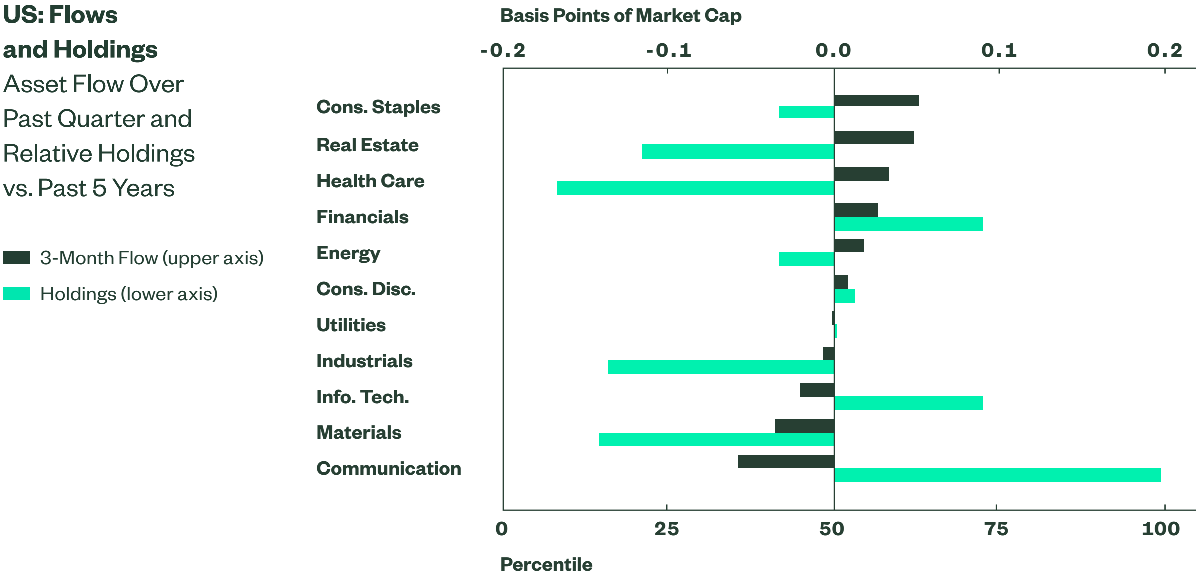


World: Progression of Active Flows.
Trend of Flows Over Past Quarter

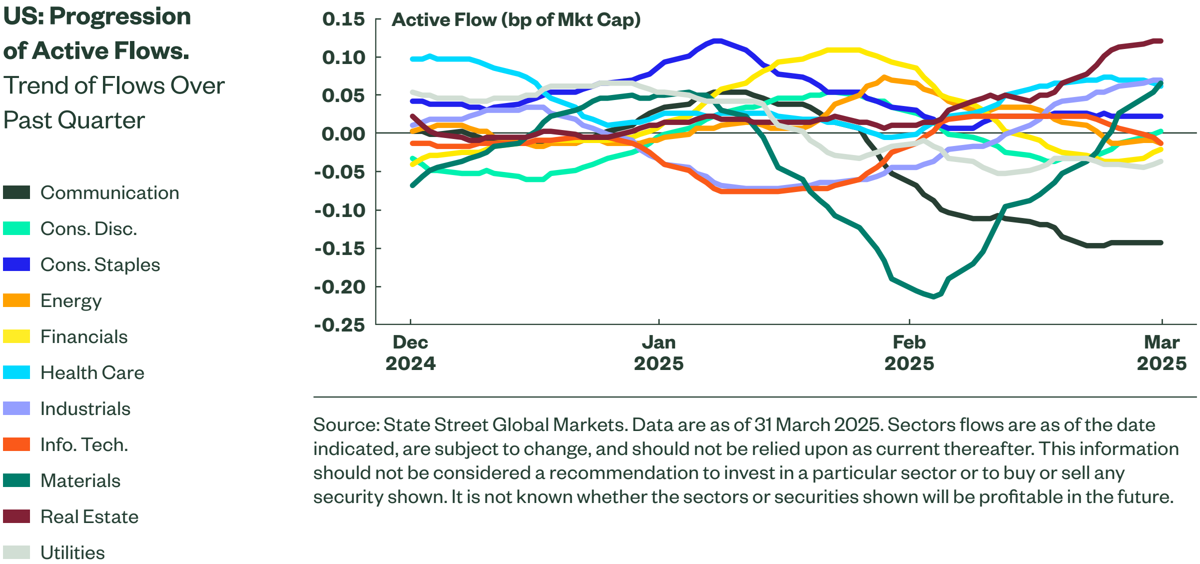


Source: State Street Global Markets. Data are as of 31 March 2025. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future. An explanation of methodology can be found on page 23.

US: Flows and Holdings
Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years



US: Progression of Active Flows.
Trend of Flows Over Past Quarter



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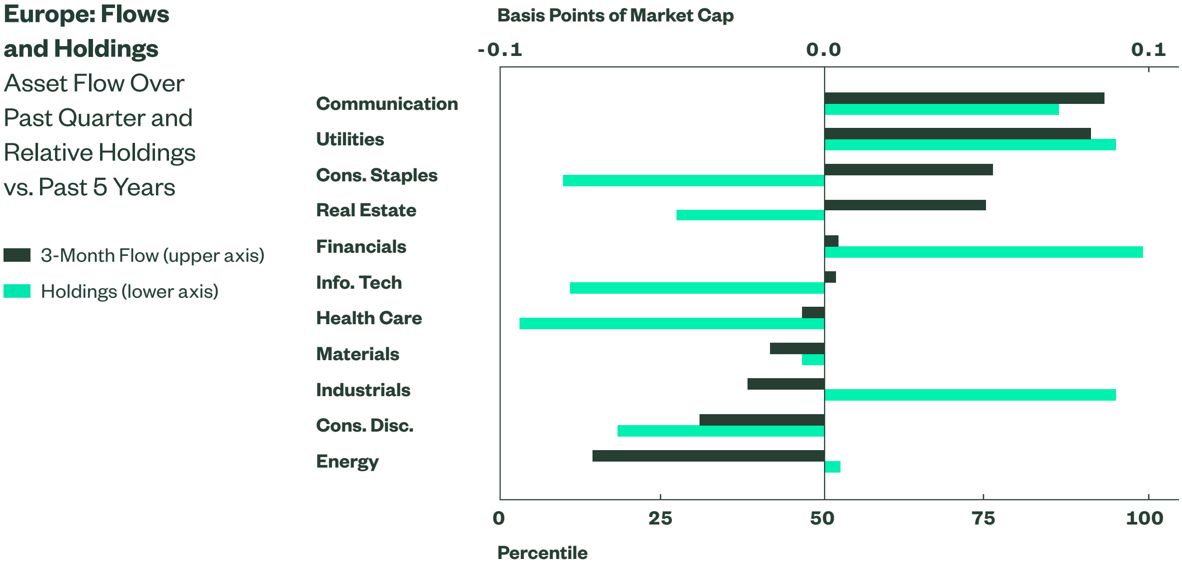
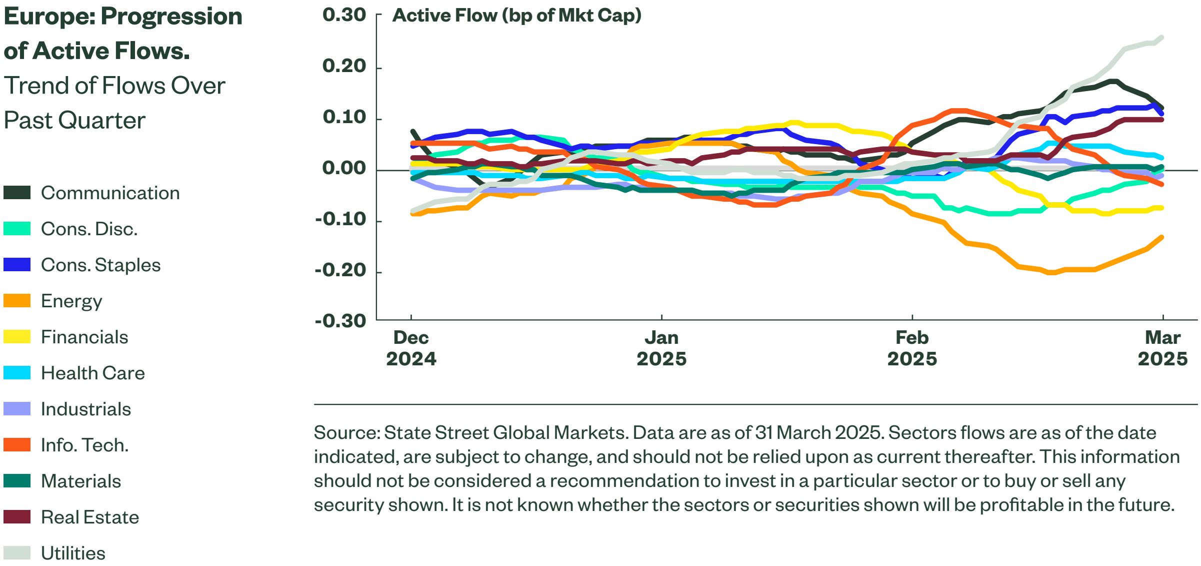
Europe: Flows and Holdings
Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

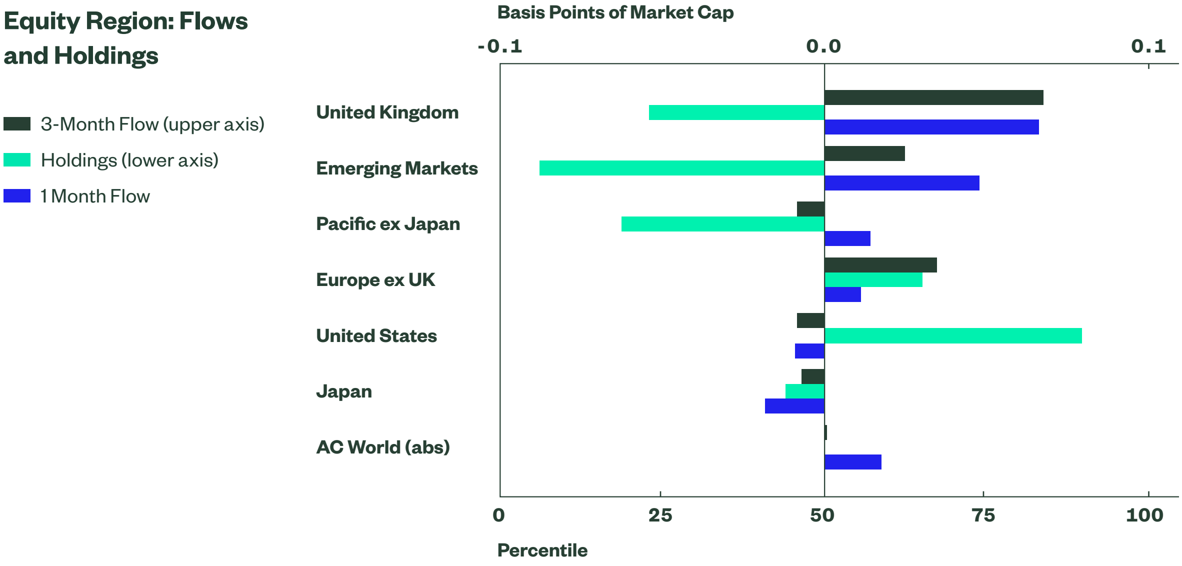


Europe: Progression of Active Flows.
Trend of Flows Over Past Quarter

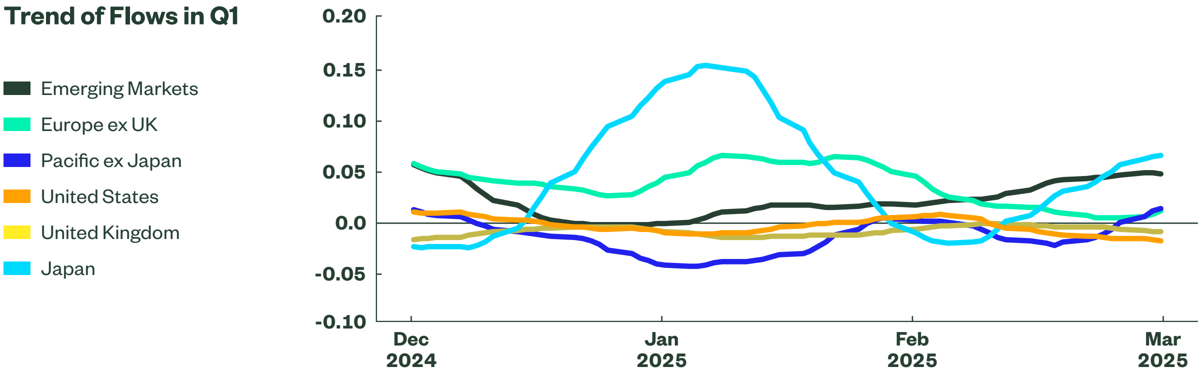


Source: State Street Global Markets. Data are as of 31 March 2025. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Equity Region: Flows and Holdings



Trend of Flows in Q1



Source: State Street Global Markets. Data are as of 31 March 2025. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Utilities

Invest in Power and Resources

World	US	Europe
✓	✓	✓

We expect the significant transformation of the once-humble Utilities sector to continue through 2025. The sector should also benefit from lower interest rates and its appeal as an equity income source. The sector proved a haven on Liberation Day.

- **Defensive characteristics are appreciated** in a world upended by protectionist threats. During Q1, three-quarters of World Utilities stocks produced positive returns, led by gains in electricity companies (including Consolidated Edison) and transmission giants like E.ON. Stocks most associated with power generation for data centres, including Vistra, weakened after DeepSeek's announcement.

- **Global electricity demand is growing** The electrification of transportation is fuelling an annual growth rate of 3.4% with additional propulsion from industrial transformation, increasing digitalization, and automation of work and personal lives. This is on top of data-centre demand, which is expected to consume up to 15% of total electricity generation by 2030.

- **Fears of falling data-centre electricity demand are overdone** AI production costs will be dwarfed by AI demand. We foresee a broadening out of the AI theme beyond technology.

- **Data centres may look to partner or take over energy providers** Some US states are demanding that new data centres must generate their own power. New partnerships may emerge.

- **Governments need to support investment** in power grid and transmission infrastructure. Industry regulators must be supportive to allow sufficient returns on investments.

- **Interest renewed in physical environment themes** During Q1, there was a return to thematic investing. Renewable energy transition remains vital to meet climate goals. Adoption of renewable energy sources like wind and solar continues to expand. Companies like Orsted, Iberdrola, and Engie are at the forefront of this transition, investing heavily in renewable energy projects.

- **Some tax credits might escape the Trump chopping block** Credits for solar, onshore wind, and nuclear power from the Biden administration's Inflation Reduction Act might continue. They have driven investments in renewables and battery storage, to the benefit of companies, including NextEra, the sector's largest stock.

- **Dividends stabilize of Utilities** and their utility as an income source could become more appealing. If interest rates fall this quarter, we can expect the sector to benefit as a bond proxy.

Health Care
Healthy Outlook

World	US	Europe
		✓

Given the political and economic concerns overhanging stock markets, we stick with this relatively defensive sector. Aging populations create long-term sector growth and technological advancements, and new drugs are likely short-term catalysts. We favour European Heath Care over US because of company strengths and geographical exposure. Buying opportunities will emerge alongside tariff concerns.

- **Demand independent of the economy** Healthcare is a necessity so demand for medical products and services is relatively stable even during downturns. Revenue growth is accelerating faster than most sectors, helping to alleviate some margin pressure, which has historically been a pain point.

- **Tariffs and trade are an issue** and have contributed to the low valuations of an international sector. We do not know Trump's full intentions on pharmaceuticals yet. For this reason, we prefer MSCI Europe Health Care, with its lower exposure to the US (44% of sales). There may be some tariff protection for companies with manufacturing facilities already based in the US.

- **US politics** are important for any changes to regulation or cost cutting. We need to watch for fallout from DOGE's advocacy for moving from the current, expensive service model to a more preventive approach, where providers are incentivised to keep patients healthy rather than treating illnesses. Secretary of the U.S. Department of Health and Human Services Robert Kennedy's skepticism toward vaccines, Medicare drug price negotiations, and proposed staffing cuts which may slow drug approvals are all risks which support a lower US exposure.

- **Digital transformation and AI integration** are already improving productivity and effectiveness in diagnostics and patient communication. We are on the cusp of personalised treatment. Machine-learning algorithms analyse patient data and enable healthcare providers to decide best treatment options for patients. Predictive analytics can model disease progression and forecast hospital admissions, enabling more efficient resource allocation. We still await the very big news of AI breakthrough successes in drug discovery and development. We know that European pharmaceutical giants such as AstraZeneca and Sanofi are leveraging AI and partnering with AI-focused startups to enhance their research capabilities.

- **Declining Multiples** Health Care valuations have compressed more than most European sectors, while earnings expectations have simultaneously been improving. The sector is trading at a discount compared with historical averages and US peers. These low valuations and the attractions of Health Tech could see renewed M&A, including by Big Tech companies.

- **Some leaders of the pack** The European sector contains some leading pharmaceutical companies including Novo Nordisk, which is working on new treatments to continue its obesity franchise post Wegovy/Oxempic, and has a promising drug for Alzheimer's disease. AstraZeneca could issue good news this year from its extensive oncology pipeline.

Industrials

More Than Defence

World	US	Europe
✓	✓	✓

Trump's Liberation Day announcement targeted exporters in the Industrials sector. We continue to believe there are many other drivers for the sector and see an entry opportunity while it is cheap. The most obvious upside is Europe's defence spending. We recommend whole-sector consideration to diversify.

- **Uncertainty over tariff breadth** is impacting large capital-goods conglomerates and electrical equipment and machinery manufacturers with international revenue exposure. Marine and airfreight stocks are vulnerable to any reduced trade volumes.

- **Trade volatility could have upside** for some stocks involved in reshoring, such as the building of new manufacturing capacity in the form of semis, logistics, and distribution networks.

- **Europe's major defence commitment** Funding should come from the EU's ReArm Europe €800B plan — and another €500B from Germany. The UK will also boost spending. Ordersd from this defence spending should favour European and result in demand for more manufacturing operations.

- **The US remains a large defence player** Rising tensions with global adversaries (China and Taiwan) could necessitate emergency appropriations beyond the base budget. We expect to see the US commit to advanced technologies, such as hypersonic missiles, AI-enabled systems, and next-generation aircraft. Aerospace and defence forms 20% of the Industrial sector's market cap.

- **Infrastructure spending drives demand** Among the drivers are regeneration of the US's transport and utilities networks (as addressed by the Inflation Reduction Act) and greening of energy infrastructure in Europe. The desire to improve physical infrastructure and accelerate homebuilding is a topic of increasing consensus across both the public and private spheres.

- **Peace in Ukraine** would benefit the European sector because of cheaper gas prices for manufacturers — and it could create demand for building services on reconstruction efforts.

- **Digital transformation and automation** Together with robotics, AI implementation is accelerating production cycles across aerospace, manufacturing, and electronics industries. Large Industrials companies like General Electric and Siemens have been early adopters of AI to help with real-time monitoring and predictive maintenance of machinery. The employment of digital twins in factories (using AI to simulate real-world operating conditions) is allowing for virtual testing to save costs and improve safety.

- **Data centre demand** Estimates for data centre investment remain high. Electrical equipment is used throughout data centres, in the server room, infrastructure management, power supply, and critical infrastructure. High levels of demand give the suppliers pricing power. Schneider Electric is a market leader, supplying a large range of cooling products, generators, and transformers. Other Industrials companies benefiting from data centre growth include ABB, Siemens, and Eaton, all providers of uninterruptible power.

Financials

Banking on Trump

World	US	Europe
✓	✓	

US Financials were set alight in November last year on the expectation of beneficial policies under a second Trump presidency. Performance was accompanied by significant ETF inflows. This continued in Q1. While a more difficult economic outlook tempers our short-term conviction, we still believe US policies will suit the sector.

- **Can US exceptionalism endure** A slowdown in domestic growth would likely hit loan volume, deal activity, and credit risk. But a rate cut from the Fed should help support activity. The recent steepening of the US Treasury curve should be beneficial. The shape of the yield curve is always important to banks, impacting their net interest income margins.

- **Predominantly domestic revenue streams** inoculate the US Financials sector from tariffs, although they indirectly feed through via business channels.

- **More business-friendly policies** and lighter-touch antitrust actions from the Republican administration. Lower regulatory burdens, including stress-test requirements, would allow US banks to release surplus CET1 and AT1 reserves, enhancing earnings. Any change from the agencies on merger legislation could enhance deal-making activity.

- **The entire US Financials sector as an alternative to banks** Insurance and financial services industry groups have outperformed banks over the past ten years. Financials is also less volatile than banks alone. The defensive characteristics of Insurance are helpful. The investment and insurance company Berkshire Hathaway provides even more diversification. The stock contributed the highest attribution in Q1. Looser regulation and reduced oversight in the US would boost most financial companies in addition to banks — and drive earnings upgrades from lower operational costs.

- **US Financials suffered a derating in Q1** unlike the positive rerating in the European sector. European Financials are cheaper but they are unlikely to see so many positive reforms. They are also more reliant on M&A activity between banks to sustain momentum.

- **MSCI World Financials provide broader exposure** to Canadian, Australian and UK banks (the largest of which are HSBC, Commonwealth Bank, Royal Bank of Canada) and Japanese financial services conglomerate Mitsubishi UFJ. There is a 56% market cap exposure to S&P 500 Financials companies.

Sector Index Metrics

	Fundamental Growth Forecasts & Valuations									
	Est. 2yr EPS Growth (p.a.)*	3mth Change to 1yr EPS Growth Forecast (%)	Forward Relative P/B**	Forward Relative P/E**	Relative CAPE	Relative CAPE (10yr Avg)	ROE (%)	Debt/ Equity (%)	Est 3-5 Years EPS Growth (%)	12mth Div. Yield (%)***
MSCI World Sector Indices										
MSCI World Index	**11.2**	**-0.8**	–	**18.3**	–	–	**15.6**	**130**	**10.51**	**1.95**
Comm. Services	10.9	-4.0	1.07	17.9	1.36	1.41	17.3	87	10.14	1.27
Consumer Disc.	9.0	-1.2	1.22	20.6	1.08	1.14	17.4	109	21.24	1.27
Consumer Staples	4.2	1.4	1.39	19.6	0.84	1.04	20.9	107	5.31	2.77
Energy	3.5	6.3	0.57	13.1	0.54	0.48	12.9	52	N/A	3.79
Financials	8.2	-2.4	0.57	13.7	0.72	0.64	12.3	231	8.28	2.95
Health Care	14.1	-0.3	1.28	17.0	1.04	1.21	19.1	79	13.20	1.98
Industrials	12.1	0.2	1.13	19.7	1.04	1.07	16.8	86	7.12	1.90
Materials	8.4	-6.3	0.63	16.7	0.61	0.83	10.9	49	57.58	2.58
Real Estate	8.0	1.5	0.40	27.0	0.87	1.14	7.1	88	-74.12	3.55
Technology	13.7	-2.4	2.39	24.6	1.70	1.46	24.8	53	15.17	0.70
Utilities	5.3	-1.1	0.59	16.0	0.89	0.92	11.1	142	7.02	3.62
US S&P Select Sector Indices										
S&P 500 Index	**13.1**	**-1.9**	–	**20.3**	–	–	**19.1**	**112**	**9.56**	**1.46**
Comm. Services	33.9	-6.1	0.66	17.1	1.02	1.28	15.0	115	7.86	1.26
Consumer Disc.	5.1	-6.4	1.70	22.2	1.34	1.32	31.0	214	5.77	0.97
Consumer Staples	1.0	0.2	1.10	19.6	0.69	0.84	22.3	121	4.31	2.71
Energy	8.8	7.5	0.49	14.8	0.52	0.50	13.6	47	N/A	3.13
Financials	9.4	-3.7	0.52	16.5	0.77	0.67	12.8	159	10.26	1.80
Health Care	14.7	-0.5	1.06	17.5	0.76	1.01	20.8	91	15.35	1.80
Industrials	13.5	-2.7	1.31	21.6	0.88	0.93	24.3	117	5.88	1.60
Materials	13.1	-4.0	0.58	19.4	0.70	0.91	11.5	63	14.21	2.17
Real Estate	8.8	4.3	0.33	37.3	1.24	1.63	7.9	108	4.94	3.42
Technology	24.7	-3.0	1.58	23.4	1.33	1.09	24.1	59	14.58	0.90
Utilities	9.1	1.1	0.49	17.6	0.79	0.95	11.6	159	7.49	3.05
MSCI Europe Sector Indices										
MSCI Europe Index	**6.6**	**2.3**	–	**14.1**	–	–	**13.2**	**161**	**12.12**	**3.38**
Comm. Services	8.1	-3.0	1.00	17.4	0.74	0.79	9.9	123	14.38	3.16
Consumer Disc.	8.9	-3.2	0.92	14.2	0.82	1.20	11.6	90	21.07	2.81
Consumer Staples	4.9	2.2	1.49	15.6	0.80	1.17	17.7	96	4.32	3.62
Energy	-8.0	-6.3	0.59	9.4	0.62	0.59	12.3	54	10.70	5.22
Financials	5.3	4.0	0.64	10.4	0.94	0.72	12.0	309	7.53	4.86
Health Care	10.4	6.1	1.66	15.2	1.10	1.24	17.8	63	8.38	2.63
Industrials	12.6	5.5	1.71	19.5	1.58	1.47	16.4	89	10.76	2.28
Materials	9.4	3.0	0.79	14.9	0.75	1.03	9.8	49	204.30	3.31
Real Estate	6.3	-0.1	0.26	11.6	1.42	2.08	7.9	77	-0.18	5.62
Technology	19.4	9.1	2.25	25.0	2.68	3.35	16.0	28	13.74	1.33
Utilities	2.4	0.7	0.79	12.9	0.86	0.83	11.7	128	N/A	4.89

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 31 March 2025. Past performance is not a reliable indicator of future performance. The above estimates based on certain assumptions and analysis made. There is no guarantee that the estimates will be achieved.
* Calculated as a 2-year average of consensus forecasts for adjusted EPS using BEst (Bloomberg Estimates).
** Forward estimates refer to 12 months.
*** This measures the weighted average of gross dividend yield of the relevant index and the underlying stocks from the relevant ETF.

Sector Index Metrics (cont'd)

	Macro Sensitivities****			Risk Metrics*****		
	US 10yr Yield Sensitivity (36 Months)	Brent Crude Oil Price Sensitivity (36 Months)	Inflation (5yr-5yr Forward) Sensitivity (36 Months)	Beta (36 Months)	Volatility (36 Months) (%)	Correlation (36 Months)
MSCI World Sector Indices						
MSCI World Index	**-0.10**	**0.05**	**0.27**	**1.00**	**16.74**	–
Comm. Services	-0.10	0.09	0.18	1.00	20.50	0.84
Consumer Disc.	-0.12	-0.03	0.23	1.21	23.44	0.89
Consumer Staples	-0.08	-0.04	0.20	0.55	13.01	0.73
Energy	-0.05	0.51	0.62	0.71	22.09	0.55
Financials	-0.10	0.13	0.25	0.99	19.43	0.88
Health Care	-0.08	0.09	0.18	0.62	13.69	0.78
Industrials	-0.11	0.02	0.35	1.06	19.10	0.95
Materials	-0.12	0.00	0.24	1.05	21.38	0.84
Real Estate	-0.14	-0.11	0.10	1.00	20.02	0.86
Technology	-0.13	-0.04	0.35	1.22	23.71	0.89
Utilities	-0.10	-0.09	0.18	0.68	16.64	0.71
US S&P Select Sector Indices						
S&P 500 Index	**-0.10**	**0.05**	**0.30**	**1.00**	**17.30**	–
Commun. Services	-0.12	0.04	0.14	1.02	20.60	0.88
Consumer Disc.	-0.12	-0.08	0.23	1.25	25.84	0.86
Consumer Staples	-0.06	0.00	0.27	0.49	13.39	0.65
Energy	-0.05	0.60	0.74	0.78	25.88	0.53
Financials	-0.09	0.16	0.32	0.98	20.92	0.84
Health Care	-0.07	0.10	0.18	0.56	13.73	0.73
Industrials	-0.10	0.05	0.43	1.02	20.11	0.90
Materials	-0.11	0.06	0.35	1.00	21.41	0.83
Real Estate	-0.14	-0.15	0.12	0.97	21.04	0.82
Technology	-0.12	-0.04	0.37	1.19	23.04	0.92
Utilities	-0.09	-0.10	0.17	0.58	16.99	0.61
MSCI Europe Sector Indices						
MSCI Europe Index	**-0.11**	**0.05**	**0.26**	**1.00**	**17.86**	–
Comm. Services	-0.10	0.13	0.23	0.86	18.28	0.87
Consumer Disc.	-0.14	-0.03	0.25	1.23	25.01	0.90
Consumer Staples	-0.09	-0.07	0.13	0.71	15.23	0.85
Energy	-0.02	0.43	0.45	0.65	20.49	0.58
Financials	-0.10	0.10	0.19	1.04	20.90	0.91
Health Care	-0.09	0.10	0.18	0.73	16.25	0.83
Industrials	-0.13	0.02	0.39	1.16	22.30	0.96
Materials	-0.12	0.03	0.27	1.11	22.07	0.93
Real Estate	-0.17	0.09	0.51	1.46	30.37	0.88
Technology	-0.16	-0.02	0.38	1.18	27.83	0.78
Utilities	-0.13	-0.08	0.28	0.98	20.97	0.86

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 31 March 2025. Past performance is not a reliable indicator of future performance.
**** Sensitivity is beta to the macro variable, e.g. 10-year Treasury yield, Brent oil, and US 5yr–5yr forward as shown here.
***** Beta and volatility are based on index returns. Correlation is the 36-month correlation to the parent index.

Equity Regions in Focus

European Equities — Relatively Attractive

MSCI EMU and broader MSCI Europe outperformed US large caps in Q1, driven by the combination of an increased probability of a peace process in Ukraine and Germany's landmark rearmament fiscal package announcement.[1] Tariffs led to universal sell-off but the potential for relative outperformance of Europe remains in place. Valuations remain undemanding, fiscal momentum is a multi-year tailwind, odds of a peace process in Ukraine increased, and interest rates in Europe remain lower than in the US. European large caps generate the majority of their revenue outside of Europe, so while we welcome the 90-day pause, we acknowledge tariff impact as a key risk in the short to medium term. A hostile geopolitical environment is a longer-term headwind.

The multi-year €500B off-balance sheet vehicle for debt-funded infrastructure investment is a structural shift toward fiscal easing, equivalent to nearly 12% GDP of Europe's largest economy.[2] Most defence spending above 1% of GDP should be exempt from debt-brake restrictions. The structure of the package makes it a long-term tailwind for European equities at the expense of higher debt burden.

Manufacturing PMI, a drag for years, improved from 45.1 in December to 48.7 in March, a two-year peak. Inflation is moderating across Europe. German inflation is at 2.3%, Spain's at 2.2%, and France's at 0.9%,[3] supporting the case for European Central Bank (ECB) rate cuts.

Increased chances of peace in Ukraine is another potentially powerful tailwind. In the short term, it may lead to cheaper oil and commodities, gradual normalization of Western Europe's and Russia's economic relationship, and improved overall sentiment.

European equities remain attractively priced, despite relative outperformance. Before tariffs, MSCI Europe traded at 14.3x 12m forward price-to-earnings (forward P/E) — well below the S&P 500's 20.3x.[4] The gap in expected earnings growth between the MSCI Europe and the S&P 500 does not justify the difference in valuation levels, in our view.[5] Post-tariffs, earnings-per-share (EPS) estimates are likely to go lower on both sides of the Atlantic, but affordable P/E may be more valuable than in the past, on a relative basis, especially if we consider long-term fiscal tailwinds such as the German package.

Tariff impact remain a risk for European large caps which generate 55% of revenues outside Europe and just 24% in the US. MSCI Europe Small Cap and MSCI Europe Small Cap Value Weighted Indices provide a level of protection generating more than two thirds of revenue in Europe and only 10-12.%[6] in the US. The indices trade at P/E FY1 multiples of 12.5x and 10.4x respectively — even lower levels than MSCI Europe.[7]

If the tariffs drive the global economy into stagflation, UK equities may provide some protection. The FTSE UK All Share Index is more oriented toward defensive sectors and commodities rather than cyclicals or Technology. UK stocks trade at low P/E multiples, which can make them less sensitive to inflation shocks. Currently, the country has sustained relatively mild tariff levels from the US. In short, we see UK equities as a hedge against stagflation.

US Mid Caps — Volatility Pain but Entry Points Possible In Q2

US equities faced multiple challenges in Q1 as Chinese AI competition followed by souring sentiment pressurised high valuation multiples. Tariff-related uncertainty before Liberation Day added to inflation and growth risks. Tariffs announced in early April raised stagflationary concerns, making a soft landing less likely. Mid caps fell sharply.

Mid and small caps may fall further if stagflation materializes. But US mid caps may be a relatively-balanced exposure to participate in a rebound if the maelstrom ends. They trade at relatively low 15.0x forward P/E compared to US large caps' 20.3x[8] — but they are also expected to deliver a similar level of earnings per share (EPS) growth over 2025 and 2026,[9] despite likely downgrades in both cap segments. Since Chinese Tech giants began to challenge US AI dominance, valuation levels have become a central concern for US equity-focused investors.

US mid caps offer most of the features typically associated with small caps. Companies within the S&P Mid-Cap 400 generate 77%[10] of revenue domestically. If tariffs endure, more reshoring is plausible, which would benefit domestic exposures in the long run. Sector composition is largely cyclical with an overweight in Industrials, Financials, and Consumer Discretionary. Defensive sectors outperformed in Q1 but the reshoring and steeper and robust consumption underpinned by resilient labour may help those three sectors in the longer run, especially if more benign tax policy and deregulation come into play later in the year. Again, at the time of this writing, we see tax largesse and looser regulation as possibilities throughout Q2.

Mid-cap companies tend to be more robust than small caps. With a median market cap of $6.7bn,[11] these companies have easier access to capital — necessary in a high interest-rate environment. And S&P's index inclusion methodology includes only companies which have reached profitability in the past, improving the quality of the exposure.

We acknowledge severe risks related to the US economy and policy outlook, but there may be entry points in S&P Mid-Cap 400 if the US economy fares better than anticipated after the beginning of April.

There is a possibility of a hard landing or stagflation. Investors who expect stagflation may turn toward US Dividend Aristocrats which outperformed in Q1 thanks to their defensive-value profile. The US Free Cash Flow Quality Aristocrats may serve investors who expect a hard-landing scenario of the Fed cutting rates because of rapidly-falling growth.

EM Equities: AI Tailwinds Versus Trade Headwinds

EM Equities gained 3% over the first quarter — outperforming developed markets by 4.7 percentage points[12] before a tariff-driven free fall in early April. The performance within EM's broad church was uneven. China Tech led the way; Taiwan and India lagged. Upside potential on a relative basis remains possible, given attractive valuations and a 50% underperformance relative to MSCI World since the end of 2020. Performance over the next months is likely to be driven by: 1) Development of cost-efficient AI models in China, 2) Fiscal stimulus in China, 3) Tariff-related developments, and 4) other geopolitical developments.

Cost-efficient China AI

The emergence of DeepSeek's AI model, which led to a US technology stocks sell-off, helped fuel China Tech's revival. Local giants have begun to unveil their own cost-efficient solutions. A public meeting between China's President Xi Jinping and local technology industry leaders, including Alibaba founder Jack Ma, signaled a potential end to the regulatory crackdown which has been the single-most important headwind buffeting EM equity performance over the past four years. To compete in the AI race the Chinese government needs its technology champions. This dependency provides a solid base case for a sustained improvement to China Tech stock returns.

China Fiscal Stimulus

China has set an annual GDP goal of around 5% and has announced fiscal measures to boost domestic consumption. Its deficit target has been raised from 3% to 4%, allowing fiscal spending to mitigate the negative impact of the US's oscillating tariff rate on the economy. The GDP goal will be difficult to achieve in light of China's current 125% tariff on US imports. Fiscal easing is likely to be accelerated. This would mitigate tariff-related headwinds for China's broader equity market. But a revival of consumption is not a given. In fact, that's been the Achilles' heel of the Chinese economy.

Tariff Impacts

Since EM economies have benefitted from globalization, reciprocal tariffs may have a severe negative impact. As we write, the US tariffs on China which represent 31%[13] of the MSCI EM Index have reached 125%. Quotas against other countries were postponed. Before that Taiwan faced 32% tariffs, India 26%, and South Korea 25%. Tariff-related risks are likely to linger for longer and remain a key headwind for EM equities.

Geopolitical Backdrop

One of the key headwinds for EM since 2022 may yet turn into a tailwind. The requirement is the progression of the peace process in Ukraine, which is plausible. It peace is achieved, or at least if the probability increases, risk sentiment is likely to improve and commodity prices and the US dollar should weaken. All three elements should support EM equity performance.

As we enter the second quarter, uncertainty is elevated. With that in mind, EM equities may serve as a diversification tool. Before the sell-off, the MSCI EM Index traded at undemanding multiples with Forward P/E at 12x (vs MSCI World at 18.3x), Forward Dividend Yield of 3% (vs MSCI's World's 2%), and Price to Book at 1.6x (MSCI World stands at 3.1x).[14]

Undemanding valuation levels may mitigate tariff-driven drawdowns and should create ample room for an upside move once the sentiment improves.

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Methodologies

Sectors in Focus Explained Looking out three months, we consider which sectors stand to potentially benefit from a combination of top-down and bottom-up factors. Macroeconomic indicators greatly inform our research, along with aggregated earnings and valuation metrics. We also consider investor flows and positioning. Most importantly, we reflect on the likely drivers of each sector over the forecast period.[1]

Unique Custody Data As part of State Street, we have access to information gleaned from our large global custody business. By aggregating 46.6T of financial assets, we can observe behavioural trends of this important investor constituent.[15] This includes not only the direction of flows, but also the relative positioning of portfolios. 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.

Investor Behaviour Indicators Explained Holdings measure investors' actual positions over and above the neutral positions embedded in their benchmarks. The figures are shown as percentiles and represent the investor holdings at month-end versus the last five years. This approach provides perspective on the size of holdings compared with their historical trends, whereas a single, dollar figure provides less context; 100% represents the largest holding in the last five years whilst 0% is the lowest holding.

Active Flows Indicates the value of net buying by large institutional investors (buys minus sells) expressed in terms of basis points of market capitalisation. These are flows in addition to the purchases or sales driven by shareholders allocating to the benchmark.

Footnotes

1 Source: Bloomberg Finance L.P., as of 31 March 2025.

2 Source: State Street Global Advisors, as of 25 March 2025. GDP calculated using data from World Bank and Bloomberg Finance L.P.

3 Source: Bloomberg Finance L.P., as of 28 February 2025.

4 Source: Bloomberg Finance L.P., as of 31 March 2025.

5 Source: FactSet, as of 31 March 2025.

6 Source: FactSet, as of 31 March 2025.

7 Source: FactSet, as of 31 March 2025.

8 Source: Bloomberg Finance L.P., as of 31 March 2025

9 Source: FactSet, as of 31 March 2025.

10 Source: FactSet, as of 31 March 2025.

11 Source: FactSet, as of 31 March 2025.

12 Source: Bloomberg Finance L.P., as of 31 March 2025. Developed Markets represented by the MSCI World Index.

13 Source: FactSet, as of 31 March 2025.

14 Source: Bloomberg Finance L.P., as of 31 March 2025.

15 Source: State Street, as of 31 December 2024.

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ID2825950-4848313.14.1.GBL.INST
0425 Exp. Date: 31/07/2025

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＜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。

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4715304.13.1.APAC.INST
Exp. Date: 31/07/2025