Strategy Update Multi-Asset Solutions

Q12023

SSGA Market Regime Indicator Update

The Market Regime Indicator (MRI) is a proprietary macro indicator developed by State Street Global Advisors' Investment Solutions Group (ISG). Based on forward-looking market information, it is designed to identify the level of risk aversion/appetite in the market. The factors utilized to generate the signal include implied equity and currency volatility as well as spreads on fixed income.

ISG uses the MRI as one of the inputs into its global Tactical Asset Allocation decision-making process.

The MRI is the result of over 12 months of rigorous testing by the Investment Solutions Group. The test results show that the MRI tracked historical market stress events and trading strategies based on the level of outperformance generated by the indicator. By design, the MRI signal varies between 0% and 100%. On this scale, a high level is often characterised by market tensions, such as a significant increase in volatility and a drop in risky asset prices.

We Have Identified Five Different Market Regimes

Crisis (level close to 100%) — Extreme risk aversion ('Fear/Panic')

High Risk Aversion (level above the average) — Aversion toward risky assets

Normal (level oscillating around the mean) — Characterized by neutral market sentiment

Low Risk Aversion (level below the average) — Appetite toward risky assets

Euphoria (level close to 0%) — Extreme risk appetite ('Greed/Complacency')

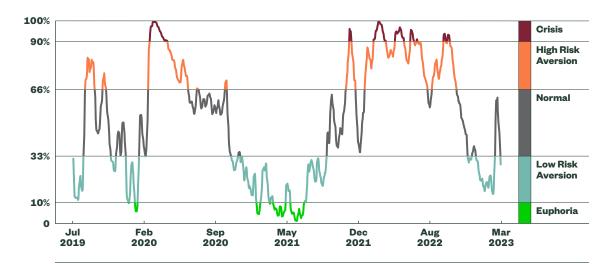
Figure 1 Market Regime Indicator

Market Regime Indicator	30/12/2022	31/03/2023
Average — Equity Implied Volatility	Low	Low
Average — Risky Debt Spreads	Normal	Normal
Average — Currency Implied Volatility	Normal	Low
MRI Level	Normal	Low

Source: State Street Global Advisors Investment Solutions Group, 31 March 2023.



Figure 2 Market
Regime Indicator
(MRI) Evolution



Source: As of 31 March 2023. The data displayed is not indicative of the past or future performance of any State Street Global Advisors product. All data shown above does not represent the results of actual trading, and in fact, actual results could differ substantially, and there is the potential for loss as well as profit. The Market Regime Indicator (MRI) is a quantitative framework that attempts to identify the current market risk environment based on forward-looking market indicators. We believe the factors used, equity implied volatility, currency pairs implied volatility and bond spreads, are good indicators of the current risk environment as they are responsive to real-time market impacts and in theory should include all current and forward views of those markets. These factors are combined to create a single measure and used to identify one of five risk regimes: Euphoria, Low Risk, Normal, High Risk, and Crisis. A slight calculation change was made as of June 28, 2019.

Market Commentary

2023 opened with the MRI in Normal risk regime, with the prior quarter having seen the signal broadly trend lower. This continued in January, as early in the month the MRI moved into Low Risk regime, where it remained throughout February. This was the MRI's first sustained period in Low Risk regime since September 2021, with December having only a fleeting move before the signal reverted to Normal regime. March initially saw the MRI remain stable until a banking crisis saw the signal move quickly higher into Normal regime, and to the cusp of High Risk regime. However, remarkably quickly, the signal again reversed, and by the end of the quarter the MRI was back in Low Risk regime.

The Implied Volatility on Equities factor began the period in Low Risk regime and moved lower in January as markets got the year off to a largely positive start. Inflation continued to be the main theme driving sentiment, and encouraging readings from Germany and France early in the month helped the 'peak inflation' narrative.

Additionally a weak services ISM, the lowest since the Global Financial Crisis, was an indication that the US economy was slowing, and could be a further catalyst for less aggressive central bank hikes. Equity markets moved higher against this backdrop, and the Implied Volatility on Equities factor moved

lower into Euphoria regime. February initially saw the factor remain in Euphoria regime, with markets latching on to comments by the US Federal Reserve (Fed) Chairman Jerome Powell, who said that 'the disinflationary process, the process of getting inflation down, has begun', and Christine Lagarde, President of the European Central Bank, who stated that risks to the inflation outlook were now 'more balanced'. The second half of the month, however, saw increasingly hawkish central bank rhetoric, alongside data which pointed to continued price pressures. This knocked markets and the factor moved higher into Low Risk regime.

March saw the Implied Volatility on Equities factor initially move lower back into Euphoria regime but this was short lived as a potential banking crisis took center stage. The trigger was the collapse of Silicon Valley Bank, the 16th largest bank in the US, in March, with the fallout leading to the demise and consequent sale of Credit Suisse. The factor moved quickly higher into Low Risk and then Normal regime. However, a prompt and decisive response from policymakers, in which central banks in the US, Canada, England, Japan, the European Union and Switzerland joined in a coordinated action to enhance market liquidity, provided some reassurance to the markets. In addition, inflation data in the latter part of the month was softer than anticipated, with equities recovering somewhat and the factor moving back lower into Low Risk regime.

The Implied Volatility on Currencies factor started the year in Normal regime, and, as in the previous quarter, was broadly the most elevated of the three MRI inputs due to considerable central bank uncertainty.

The Japanese yen was central to this in January as early in the month the currency strengthened amid speculation that the Bank of Japan (BoJ) would allow interest rates to rise even further. However, the Japanese currency later slumped against the US dollar after the BoJ surprised markets by keeping its yield curve tolerance band unchanged. February saw the factor move lower, into Low Risk regime, where it remained until the banking turmoil of March, which resulted in the factor moving back to Normal regime. In late March, with rate hikes in line with expectations from the ECB, the Fed and the Bank of England,

and some optimism broadly returning to markets, the factor moved lower into Low Risk regime, where it remained till the end of the period.

The Risky Debt Spread factor entered the quarter in Normal regime before moving into Low Risk regime in early January, largely due to a compression in high yield (HY) spreads. The factor continued to trend down, reaching a low in early March, at which point both emerging market debt (EMD) spreads and HY spreads were at their tightest levels since last spring. However, the rapid fall of SVB triggered a broad reassessment of credit risk and pricing across the range of corporate credit quality, with HY and EMD spreads moving to their widest levels of the year and the factor moving quickly into High Risk regime. The quarter closed with the Risky Debt Spread factor in Normal regime, having moved marginally lower.

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Marketing communication.
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