Commentary
Multi-Sector Bond

Q3 2020

SPDR® SSGA Ultra Short Term Bond ETF

ULST

During the third quarter of 2020, ULST outperformed the Bloomberg Barclays U.S. Treasury Bellwether 3-Month Index on both a NAV and market price basis.

Performance

During the third quarter, ULST outperformed its benchmark largely due to its overweight allocation to investment-grade credit and asset-backed securities (ABS) prime credit cards and autos. In addition, the fund's allocation to BBB credit contributed to outperformance, as the credit curve flattened during the quarter. Continued improvement in economic activity and employment, coupled with government economic and capital market support, caused credit spreads to tighten during the quarter. For example, Bloomberg Barclays U.S. Floating Rate Notes Index (FRN) spreads tightened by 19 basis points (bps) during the quarter, producing positive price and carry excess returns versus the Fund's benchmark. Bloomberg Barclays U.S. Asset-Backed Securities Floating Rate Note Index spreads tightened by 18 bps during the quarter, while the 1- to 3-year-weighted average life component of the index, where ULST tends to focus, tightened by 16 bps, producing positive price and carry excess returns versus the Fund's benchmark. As mentioned, the credit curve flattened significantly during the quarter, with BBB FRN spreads tightening 46 bps and 34 bps versus AAA and AA FRNs, respectively.

Standard Performance

	QTD (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	Since Inception (%)	Gross Expense Ratio (%)	Net Expense Ratio (%)
SPDR SSGA Ultra Short Term Bond ETF (NAV)	0.70	1.23	1.89	2.20	1.83	—	1.40	0.20	0.20
SPDR SSGA Ultra Short Term Bond ETF (MKT)	0.54	1.18	1.87	2.19	1.82	—	1.40	—	—
Bloomberg Barclays U.S. Treasury Bellwether 3-Month Index	0.04	0.64	1.11	1.70	1.21	0.65	0.88	—	—

Inception date: October 9, 2013.
Source: ssga.com, as of September 30, 2020.

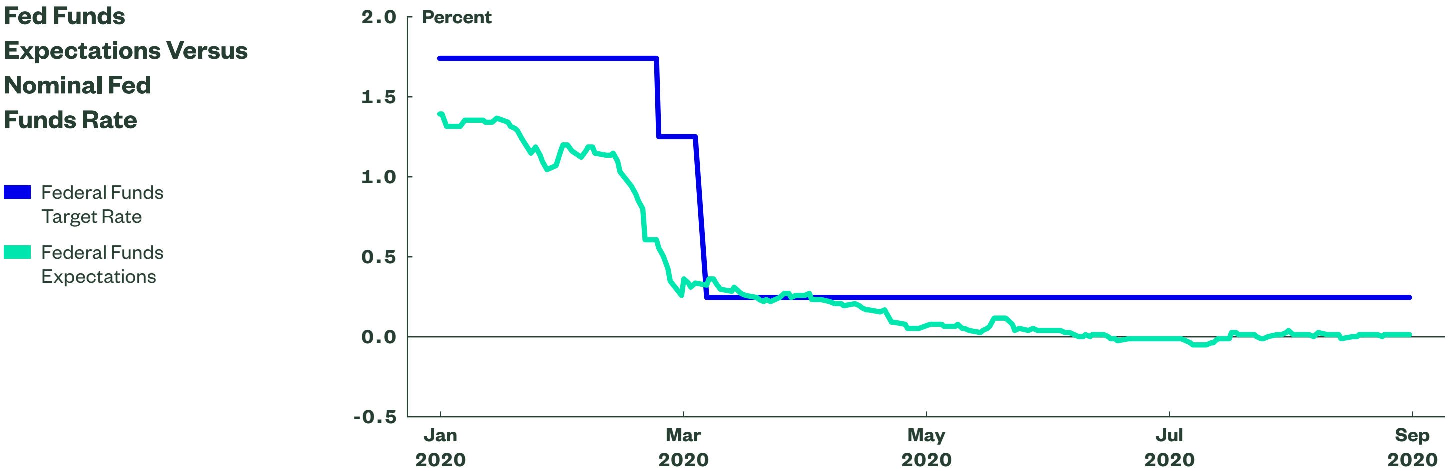
Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. All results are historical and assume the reinvestment of dividends and capital gains. Visit ssga.com for most recent month-end performance.

The gross expense ratio is the fund's total annual operating expense ratio. It is gross of any fee waivers or expense reimbursements. Performance returns for periods of less than one year are not annualized. The market price used to calculate the Market Value return is the midpoint between the highest bid and the lowest offer on the exchange on which the shares of the fund are listed for trading, as of the time that the fund's NAV is calculated. If you trade your shares at another time, your returns may differ. It is not possible to invest directly in an index. Index performance does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling a fund. Index performance is not meant to represent that of any particular fund.

Quarter in Review

US economic activity continued to improve during the quarter, although COVID-19 continues to be a challenge both within the US and across the globe. In conjunction with this improvement in economic activity, continued government support for the economy and the financial markets led to further easing of financial conditions across the board. For example, during the quarter, the above-mentioned FRN Index spread tightened 19 bps, the Bloomberg Barclays U.S. Credit Index spread tightened by 14 bps, and the Bloomberg Barclays U.S. Corporate High Yield Index spread tightened by 109 bps. Similarly, the US stock market has recovered to levels that exceed pre-COVID-19 crisis levels, and the VIX, a measure of implied volatility for the stock market, is at post-COVID-19 crisis lows. In terms of Fed monetary policy, the fed funds rate remains near the zero-lower-bound, and the Fed's balance sheet grew by nearly $300 billion during the quarter, with purchases made directly in the US Treasury, US agency mortgage-backed securities (MBS), US agency commercial MBS, and investment-grade US corporate credit markets. We continue to view the Fed's purchase of investment-grade US corporate bonds — through their Secondary Market Corporate Credit Facility (SMCCF) — as a watershed event for the bond market, as it is the first time the Fed has included corporate bonds in their QE program. The novelty of this program and the Fed's determination to maintain liquidity in the bond markets are key reasons why spreads have tightened as much as they have despite the uncertainty created by the COVID-19 pandemic. Finally, after a review of their monetary policy framework, the Fed announced a more flexible framework regarding their dual mandate of maximum employment and stable inflation, which, in summary, increases the hurdle for future Fed rate hikes. The market is currently pricing in no fed funds rate hikes out to December 2022, a sign that the market expects that the economy will take an extended amount of time to recover from the effects of COVID-19.

Fed Funds Expectations Versus Nominal Fed Funds Rate



Source: Bloomberg Finance LP, April 1, 2019–September 30, 2020.

Portfolio Positioning and Outlook

Our fundamental active fixed income investment process has three components: structural, cyclical, and tactical. Our analysis of structural economic growth trends, which includes demographic trends, the trend growth rate of the labor force, and the trend growth rate of productivity — and the potentially negative effects of COVID-19 on each of these factors — suggest to us a US trend growth rate of less than 2.0%. Coming into 2020, public infrastructure investment and private investment were suppressed; the latter due in large part to the US-China trade war, which escalated in 2019. Persistent underinvestment puts pressure on an already historically low trend growth rate of productivity, which is only being exacerbated by the effects of COVID-19. We continue to be on the lookout for a major public infrastructure bill, one that would likely improve future productivity prospects, but a bill of that nature and with enough magnitude may prove difficult to pass as we head into the US presidential election. Given the above, our structural analysis suggests that interest rates will remain historically very low and range bound.

Our analysis of cyclical trends focuses on economic activity momentum as well as policies that can serve to either extend or contract the economic cycle. As mentioned above, we continue to see improvements in economic activity and the labor market. Expectations are low for private sector corporate investment in 2020 as the firms manage their balance sheets through a recession, while, on the contrary, we've seen a "V-shaped" recovery in the US housing market. There is pent-up private investment demand, but the catalyst to unlocking that demand remains very challenging: the discovery of a vaccine and effective treatment of COVID-19. Our expectations are that the US government will continue to provide support in the form of fiscal and monetary policy, and it stands ready to increase its support should the economic outlook or financial conditions materially worsen. US government stimulus has improved financial conditions, which serves to support the recovery of the US economy.

Given the zero-lower-bound achieved in fed funds, we are positioned at the lower end of our duration range of three months to nine months. There was no material change in the fund's duration target versus its benchmark quarter over quarter. Regarding our asset allocation strategy, we're maintaining a diversified exposure to corporate industrials and financials, and prime ABS credit cards and autos. Our credit allocation to BBB-rated credit is at 27%, which is just above our long-term structural exposure for this strategy. The strategy has a 2.8% allocation to BB-rated credit (of which 2.2% is allocated to Ford — all of which is expected to mature in less than one year — and the remaining 0.6% is allocated to CIT Group Inc. and Occidental Petroleum). Asset allocation shifts during the quarter included a 6% reduction in ABS, which funded a 6% increase in corporate industrials; and a 3% reduction in treasuries, which funded a 3% increase in a government money market fund. Within the overall context of continued uncertainty produced by COVID-19, our view is that the combination of continued economic improvement and unprecedented government stimulus, which includes the Fed's SMCCF program, will continue to support credit spreads in the near-to-intermediate term. At current valuations, the significant incremental yield offered by the portfolio versus its benchmark, which had a yield of just 10 bps at the end of the quarter, should produce positive excess returns over the remainder of 2020.

Asset Allocation

Security Type	Fund (%)	Index (%)
Industrials	37.81	0.0
Financial Institutions	29.67	0.0
Agency-Backed Securities	21.54	0.0
Short-Term Investments	7.09	0.0
Utilities	2.98	0.0
Commercial Mortgage-Backed Securities	1.89	0.0
Treasuries	0.00	100.0
Other	-0.98	0.0

Source: State Street Global Advisors, as of September 30, 2020.
Asset allocation is a method of diversification that 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.

Quality Breakdown

Credit Rating	Fund (%)	Index (%)
AAA Rated or above	23.4	100.0
AA Rated	6.3	0.0
A Rated	34.7	0.0
BBB Rated	26.7	0.0
BB Rated	2.8	0.0
Other	6.1	0.0

Source: State Street Global Advisors, as of September 30, 2020. Ratings are based on the Bloomberg Barclays Composite Rating.

About State Street Global Advisors

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Glossary

Bloomberg Barclays US Corporate High Yield Index An unmanaged index that is comprised of issues that meet the following criteria: at least $150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues) and at least one year to maturity.

Bloomberg Barclays US Credit Index An index that measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets.

Bloomberg Barclays US Dollar Floating Rate Note Index An index that measures the performance of floating rate bonds issued by the US Treasury.

Bloomberg Barclays US Treasury Bellwether 3-Month Index An unmanaged index representing the on-the-run (most recently auctioned) U.S. Treasury bill with 3 months' maturity.

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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.
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