

February 8, 2021  
Weekly Bulletin

## Banking on a Cyclical Recovery— KBE

- The 10-Year Treasury yield has risen 63 basis points since August<sup>1</sup> and the 2-and-10-year yield spread sits at its widest level since 2017<sup>2</sup> in a sign that investors are betting on further acceleration in the US’s economic recovery this year amidst increased vaccination distribution and talks of further fiscal spending
- While US equity valuations remain largely stretched, valuations for banks remain constructive given that forward price-to-earnings ratios are 42%<sup>3</sup> below their long term average and have not seen expansion over the past year despite positive earnings sentiment for the industry
- When positioning for a cyclical recovery, investors may want to consider banks given that the industry is expected to see 8% greater earnings growth than that of the broader market in 2021<sup>4</sup> and improved net interest margins as the yield curve continues to steepen

### The Takeaway

As rates rose, the bank industry has outperformed the broader market by 31.8% since August.<sup>5</sup> Investors looking to position for cyclical changes in a high conviction manner may want to consider investing in the banking industry. As a result of their operations that focus primarily on the ability to borrow short term and lend to clients long term, banks have historically benefited from a steepening yield curve. The SPDR S&P Bank ETF [KBE] offers exposure to a targeted set of large and regional banks, alongside other diversified financial services firms, potentially benefiting from a cyclical recovery.

### Chart of the Week

KBE has seen increased performance as longer-term rates have risen



Source: Bloomberg Finance, L.P., 07/01/2020 – 02/04/2021. Past performance is not a guarantee of future results.

**Standard Performance**

<u>Ticker</u>	<u>Name</u>	<u>YTD</u>	<u>1 Year</u>	<u>Annualized</u>				<u>Inception Date</u>	<u>Gross Expense Ratio (%)</u>
				<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>Since Inception</u>		
KBE (NAV)	SPDR S&P Bank ETF	-8.74	-8.74	-1.62	6.57	6.95	6.95	11/08/2005	0.35%
KBE (MKT)	SPDR S&P Bank ETF	-8.75	-8.75	-1.64	6.57	6.94	6.94	-	-

Source: ssga.com/etfs, as of December 31, 2020

**Performance returns for periods of less than one year are not annualized. 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. For SPDR ETFs, visit ssga.com/etfs for most recent month-end performance.** 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 return may differ.

1 Source: Bloomberg Finance, L.P. 08/04/2020 - 02/04/2021.

2 Source: Bloomberg Finance, L.P. 01/01/2017 – 02/04/2021.

3 Source: Factset 01/31/2006 – 01/31/2021

4 Source: Factset as of 02/04/2021. The S&P Bank Select Industry Index has 31.8% 2021 projected EPS growth for CY 2021. The S&P 500 Index has 23.8% earnings growth projected for CY 2021.

5 Source: Factset 08/01/2020 – 02/04/2021. The broader market is represented by the S&P 500 Index.

[ssga.com/etfs](http://ssga.com/etfs)

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