

SPDR Spotlight

Improving Outlook for Banks - KBE

The Lead

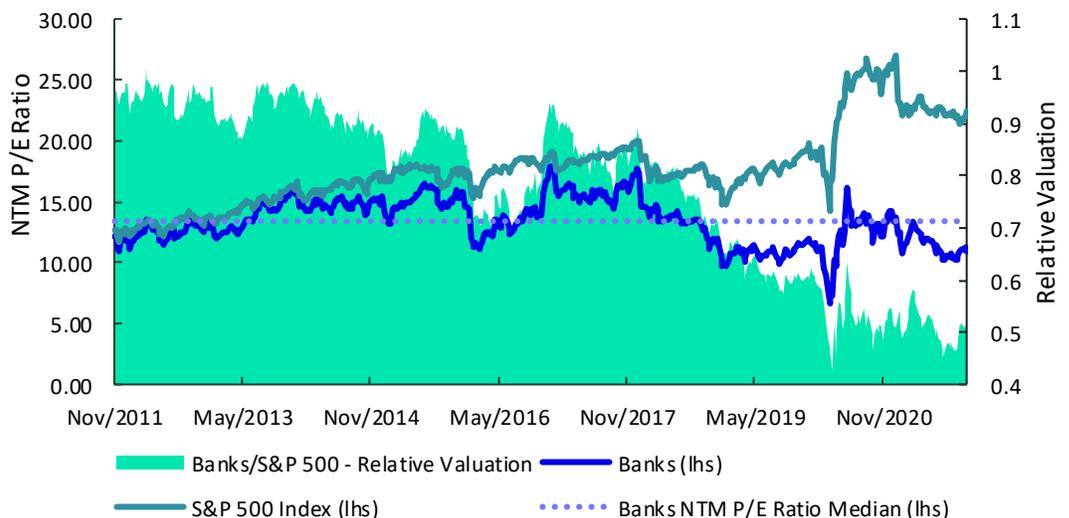
- Although the FOMC committee did not focus on rate hikes in last week's meeting, Chairman Powell did acknowledge that economic conditions for rate hikes could be met in the second half of next year
- Elevated inflation and the prospect of higher rates next year is constructive for bank stocks given their higher sensitivity to rates and inflation expectations compared to the broad equity market¹
- As the economic recovery regains momentum after the peak of Delta variant cases this summer, the long-awaited loan growth may be around the corner, further support bank earnings growth in the coming quarters

The Takeaway

Banks have had another quarter of strong earnings in Q3, beating the expectation by 17.5%, thanks to substantial reserve releases². As the economy shifts from a pandemic to an endemic and consumers and businesses are more confident to borrow, elevated inflation, prospects of higher rates, and stronger loan growth could provide multiple tailwinds for bank stocks. As shown in the chart, forward P/E valuations for banks remain constructive compared to historical levels. Meanwhile, its relative valuations to the broad market is close to their lowest level in a decade³. To position for further economic expansion at attractive valuations, investors may consider the SPDR S&P Bank ETF [KBE].

Chart of the Week

The valuation gap between broad market and the banks has widened



Source: Bloomberg Finance L.P., period: 11/4/2011 - 11/4/2021. Banks = S&P Bank Select Industry TR Index.

Standard Performance

Ticker	Name	YTD (%)	Annualized					Inception Date	Gross Expense Ratio (%)
			1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)	Since Inception (%)		
KBE (NAV)	SPDR [®] S&P [®] Bank ETF	28.53	83.59	7.00	12.05	13.90	2.65	11/08/2005	0.35%
KBE (MKT)	SPDR [®] S&P [®] Bank ETF	28.59	83.69	7.01	12.06	13.91	2.66	-	-

Source: ssga.com, as of 09/30/2021.

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. All results are historical and assume the reinvestment of dividends and capital gains. For SPDR ETFs, visit ssga.com 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. The gross expense ratio is the fund's total annual operating expenses ratio. It is gross of any fee waivers or expense reimbursements. It can be found in the fund's most recent prospectus

Footnotes

1 – Bloomberg Finance L.P., period: 11/1/2018 - 10/31/2021. Banks = S&P Bank Select Industry TR Index, inflation = US Breakeven 10 Year, rates = US Generic Govt 10 Year. Correlations: Banks vs. inflation = 0.75, banks vs. rates = 0.69.

2 – FactSet, as of 11/04/2021.

3 – Bloomberg Finance L.P., period: 11/4/2011 - 11/4/2021. Banks = S&P Bank Select Industry TR Index

Marketing Communication

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Expiration Date: 01/31/2022
1973422.182.1.GBL.INST

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