

# State Street ETF Model Portfolios

- During the first quarter, global economic activity remained resilient but gradually moderated toward quarter end as demand and business confidence softened. Services supported growth early in the period, while manufacturing conditions stabilized across several regions, with activity slightly higher toward the end of the quarter than services.
- As the quarter progressed, the escalation of the Middle East conflict drove higher energy and commodity prices, increasing input cost pressures and weighing on sentiment. Inflationary pressures intensified and labor market conditions softened modestly toward quarter end.
- In the US, weaker consumption and rising uncertainty have led to a slight downgrade to growth while headline CPI is expected to spike temporarily; importantly, the labor market is expected to cool further, with unemployment drifting higher as hiring slows and AI-related displacement intensifies, reinforcing our view that wage pressures will remain contained.

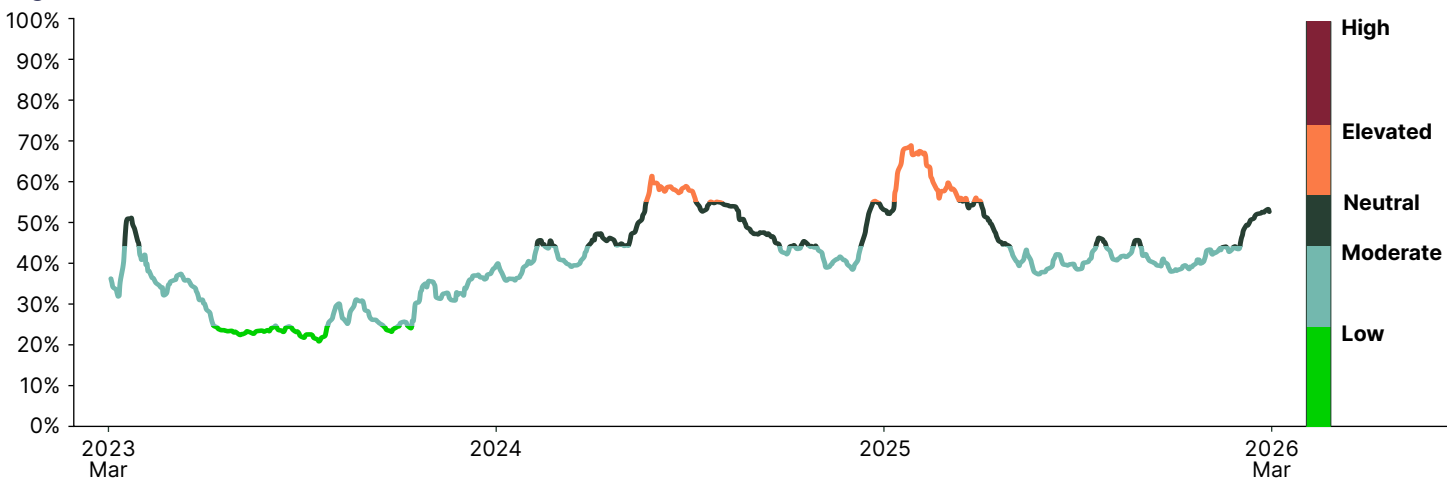
- Despite the inflation shock, the dominant policy response globally is caution rather than aggressive tightening, reflecting the risk that higher rates could amplify growth damage without addressing the root cause. The Federal Reserve continues to lean toward easing later in the year once energy-driven inflation peaks, with fewer cuts than previously expected but no case for hikes.

## The Market Regime Indicator

**The Market Regime Indicator (MRI) employs a quantitative framework and forward-looking indicators to track risk appetite shifts in the market cycle.**

- At the end of the first quarter, the MRI weakened relative to the previous quarter.
- Although the overall outlook for equities remained positive, market conditions moderated over the period as risk appetite softened, uncertainty increased, and forecasts weakened, prompting a more cautious portfolio stance.

**Figure 1: A 3-Year look at the MRI**



Source: Investment Solutions Group, as of March 31, 2026.

### Key Market Events

February 24, 2022–Present	Russia - Ukraine War	October 7, 2023–Present	Israel - Hamas War	March 1, 2026–Present	US/Israel - Iran War
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## US equities

**US equity returns were mixed to lower in the first quarter, with major US indices posting declines amid significant sector and style dispersion. The S&P 500® Index fell for the quarter (-4.33%), marking its first negative period after three consecutive quarterly gains. The S&P 500® Equal Weight Index held up relatively well, while small-caps outperformed, with the Russell 2000® Index finishing the quarter higher (+0.89%).**

- Market leadership narrowed meaningfully as mega-cap technology stocks weakened, driven by heightened concerns around AI-driven disruption and displacement.
- The escalation in geopolitical risk drove a sharp repricing across asset classes, most notably through a surge in energy prices as disruptions in the Strait of Hormuz constrained global supply. WTI Crude posted its strongest quarterly gain since 2020, making Energy the top sector performer (+38.25%) within the S&P 500®, alongside strength in Materials, Utilities, and select defensive areas. In contrast, growth-oriented sectors including Technology, Consumer Discretionary, Communication Services, and Health Care lagged meaningfully.<sup>1</sup>
- Energy (38.25%), Materials (9.73%), and Utilities (8.26%) were the top performers in the first quarter. Technology (-9.13%), Consumer Discretionary (-9.19%), and Financials (-9.47%), were the three weakest sectors.<sup>2</sup>

## International equities

**Global equity markets declined in the first quarter.**

- The MSCI All Country World Index (ACWI) was down -3.11% (USD). Risk sentiment was weighed down by a sharp rise in energy prices, renewed geopolitical tensions in the Middle East, and a reassessment of global monetary policy expectations.
- European equities declined modestly during the quarter, with the STOXX Europe 600 Index falling around 0.88% (EUR) as rising geopolitical risks and higher energy prices weighed on sentiment.

- The MSCI AC Asia Pacific Index ended the quarter modestly positive (+0.07%) in USD terms, as early-quarter gains were partially offset by heightened volatility toward March.
- Emerging-market equities were relatively resilient in the first quarter, outperforming developed markets despite heightened volatility late in the quarter. The MSCI Emerging Markets Index returned -0.10% (USD) over the quarter, holding up better than its developed peers as higher commodity prices and selective earnings strength offset risk-off pressures stemming from geopolitical tensions and a stronger US dollar.<sup>3</sup>

## Fixed income

**The first quarter of 2026 marked a shift from the optimism of late 2025 to a more defensive macro backdrop, as initial expectations of monetary easing and soft landing growth gave way to heightened geopolitical tensions, rising energy prices, and episodic risk off sentiment. The Bloomberg Global Aggregate Index (USD-hedged) delivered -1.88% in March.**

- All fixed income sectors posted negative returns. The corporate and securitized spread sectors—posted -1.99% and -1.59%, respectively. Treasuries and government-related sectors posted -1.88% and -1.31%, respectively.<sup>4</sup>
- High yield bonds delivered -0.87% as yields increased significantly by 92 basis points (bps) to 7.41% (42<sup>nd</sup> percentile of historical range).<sup>5</sup>
- US Treasury Inflation-Protected Securities (TIPS) outperformed US Treasuries by 0.29% for the quarter.<sup>6</sup>
- US annual inflation closed February at 2.4%, unchanged from January and down from 2.7% in December 2025, while core inflation remained stable at 2.5% in February, unchanged from January.<sup>7</sup>

## Real assets

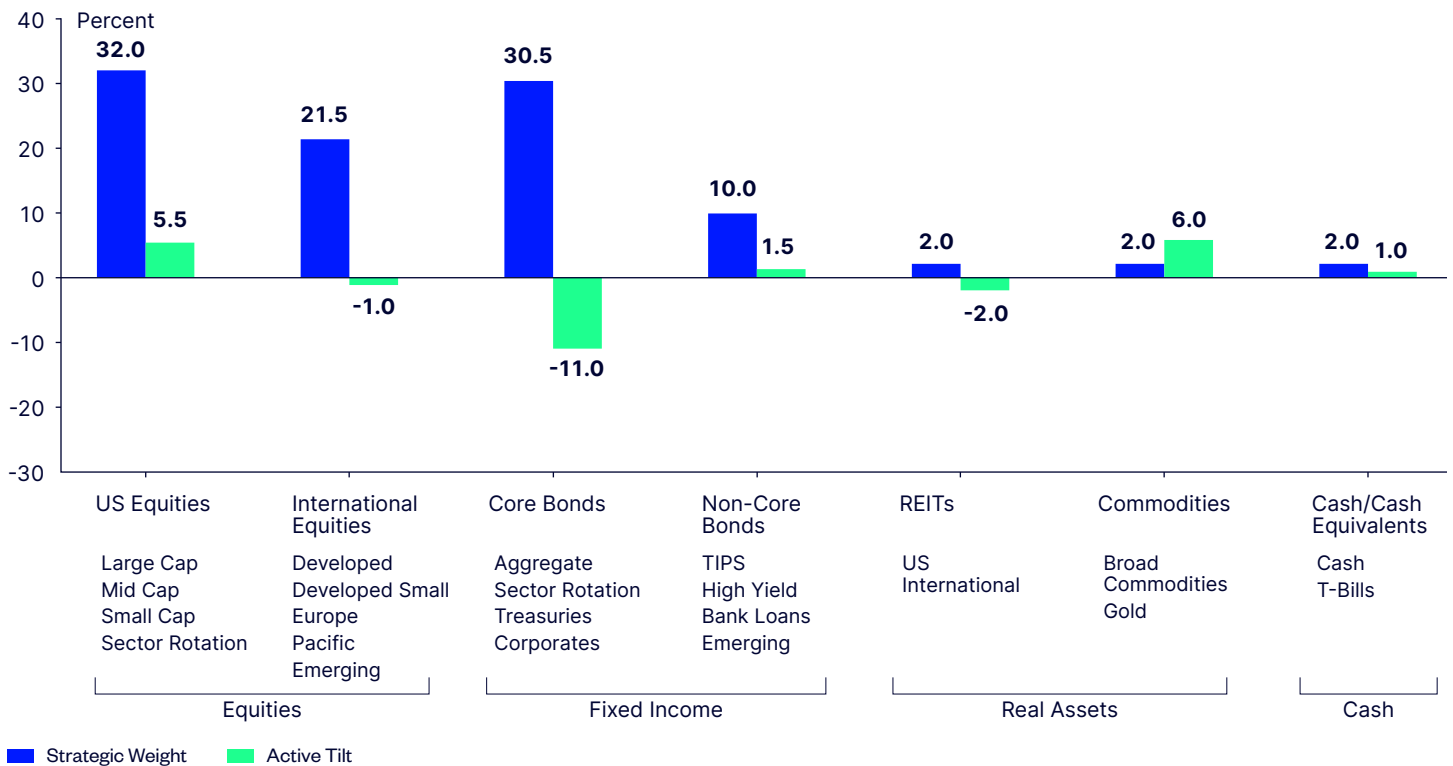
**Commodities, as tracked by the Bloomberg Commodities Total Return Index, delivered strong performance in the first quarter, with the Bloomberg Commodities Total Return Index rising 24.4%, driven by escalating geopolitical risk and pronounced energy price shocks. Energy shocks drove commodities higher, whereas metals delivered mixed results overall, balancing supply constraints against volatility.**

**Real estate investment trusts (REITs), as measured by the FTSE EPRA Nareit Developed Real Estate Index, advanced over the year as declining rates provided support, although they experienced modest declines in the fourth quarter. The FTSE EPRA Nareit Developed Real Estate Index rose 1.2% during the quarter, while the Dow Jones US Select REIT Index rose 4.6%.**

- Energy (as measured by the Bloomberg Energy Subindex Total Return) was the strongest performing commodity sector during the quarter, gaining 60.0%, overwhelmingly driven by crude oil. The West Texas Intermediate Crude Oil Index rose 79.8%, reflecting an unprecedented escalation in geopolitical risk after the Middle East conflict triggered the largest oil supply disruption on record. The International Energy Agency confirmed that flows through the Strait of Hormuz collapsed, and Gulf producers cut output by over 10 mb/d (million barrels per day), prompting a record release of emergency oil stocks.

- The Bloomberg Natural Gas Sub-Index underperformed (4.2%), as weather-driven gains early in the quarter reversed amid easing demand and rising inventories. Elevated prices and transport disruptions began to weigh on oil demand toward quarter end.
- The Bloomberg Precious Metals Index rose 4.6%, supported by strong gains in aluminum. Aluminum outperformed within the complex, benefiting from rising energy-driven production costs due to constrained supply, while zinc and nickel posted modest gains.
- REITs, an interest-rate sensitive asset class, saw a shift in the first quarter. Within the Property sector, Data Centers, Specialty, and Health Care led, while Office and Diversified sectors lagged.

**Figure 2:**  
Positioning Update: Moderate (60/40) Risk Profile



Source: State Street Investment Management, as of March 31, 2026.

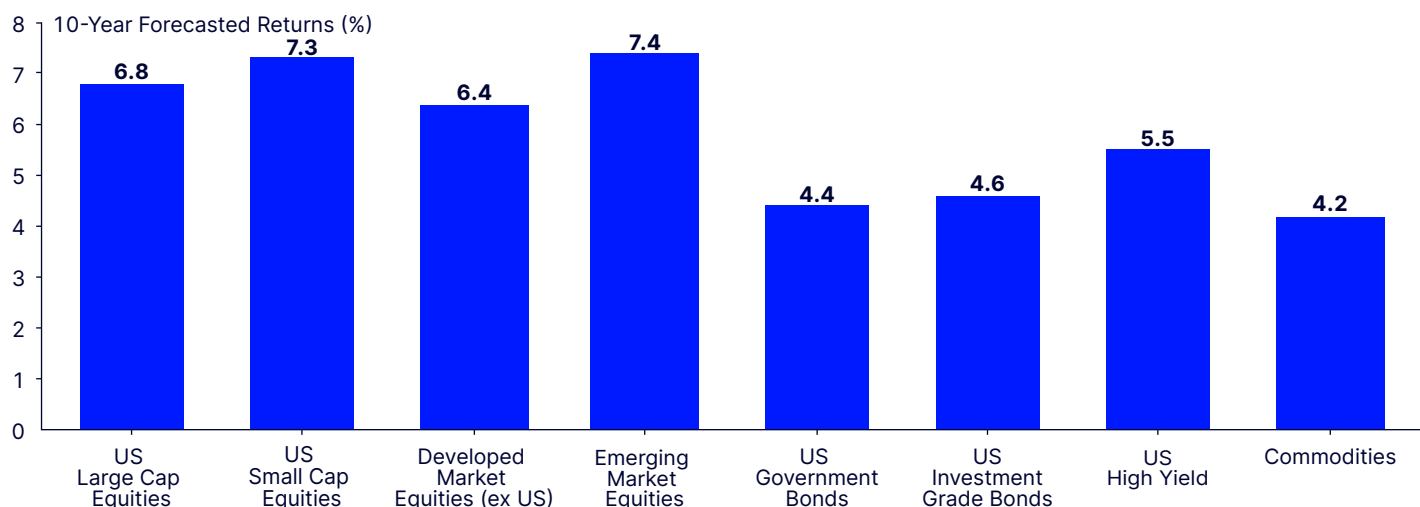
The Strategic Weight is a custom benchmark for the Active Asset Allocation Strategy. The Active Tilt is the difference between the weights of the Active Allocation Strategy and the strategic benchmark. Positions are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. The model portfolio positions presented above are representative of ISG's market views and our positioning for our active portfolios as of the date given. The results shown were achieved by means of a mathematical formula and are not indicative of actual future results which could differ substantially. 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.

**Figure 3: Asset Class Performance**

Asset Class	Trailing 3-months (%)	Trailing 12-months (%)
Large Cap Equities	-4.33	17.80
Small Cap Equities	0.89	25.70
Developed Market Equities (ex US)	-1.24	21.30
Emerging Market Equities	-0.17	29.60
US Government Bonds	-0.04	3.30
Investment Grade Bonds	-0.50	4.80
High Yield	-0.50	7.00
Commodities	24.41	32.30

Source: Bloomberg Finance, L.P., as of March 31, 2026. **The performance data quoted represents past performance. Past performance does not guarantee future results.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Performance returns for periods of less than one year are not annualized. US Large Cap = S&P 500 Total Return Index, US Small Cap = Russell 2000 Total Return Index, Developed ex-US = MSCI EAFE Index, Emerging Markets = MSCI Emerging Markets Index, US Government Bonds = Bloomberg US Treasury Total Return Index, IG Corp = Bloomberg US Corporate Total Return Index, US High Yield = Bloomberg US Corporate High Yield Total Return Index, Broad Commodities = Bloomberg Commodity Total Return Index.

**Figure 4:  
Long-Term Asset Class Forecasts**



Source: The forecasted returns are annual arithmetic averages based on State Street Investment Management's Investment Solutions Group March 31, 2026 forecasted returns and long-term standard deviations. The forecasted performance data is reported on a gross of fees basis. Additional fees, such as the advisory fee, would reduce the return. For example, if an annualized gross return of 10% was achieved over a five-year period and a management fee of 1% per year was charged and deducted annually, then the resulting return would be reduced from 61% to 53%. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in the local (or regional) currency presented. It does not take into consideration currency effects. The forecasted performance is not necessarily indicative of future performance, which could differ substantially.

## Endnotes

- 1 FactSet Research Systems as of March 31, 2026.
- 2 Bloomberg Finance, L.P., State Street Investment Management, as of March 31, 2026.
- 3 Bloomberg Finance, L.P., State Street Investment Management, as of March 31, 2026
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## Glossary

**Bloomberg Commodity Total Return Index** The index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

**Bloomberg Energy Subindex Total Return** The index is a commodity group subindex of the Bloomberg Commodity Total Return Index. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

**Bloomberg Global Aggregate Bond Index** A benchmark that provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and USD investment-grade 144A securities.

**Bloomberg Natural Gas Subindex** The index is a commodity group subindex of the Bloomberg CI composed of futures contracts on Natural Gas. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

**Bloomberg Precious Metals Subindex Total Return** The index is composed of futures contracts on gold and silver. It reflects the return on fully collateralized futures positions and is quoted in USD.

**Bloomberg U.S. Corporate High Yield Total Return Index** The Index measures the USD-denominated, high yield, fixed-rate corporate bond market.

**Bloomberg U.S. Corporate Bond Index** Measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

**Bloomberg U.S. Corporate Total Return Index** The Bloomberg US Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility, and financial issuers.

**Commodities** A basic good used in commerce that is interchangeable, or “fungible,” with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. For example, crude oil is a commodity that is used to make motor fuels, and heating oil and lubricants.

**Consumer Price Inflation (CPI)** A key economic indicator that measures the average change over time in prices paid by consumers for a “market basket” of goods and services, such as food, housing, and transportation.

**Core Inflation** A measure of inflation that excludes certain items (food and energy) that move with more volatility than other price movements in the economy. Core inflation is considered to reflect the long-term trend in prices more accurately than so-called headline inflation that includes food and energy.

**Developed Markets** Refers to countries or market areas with relatively high levels of economic growth, market liquidity and transparency as well as political stability, rule of law and safety.

**Dow Jones U.S. Select REIT Index** The index tracks the performance of publicly traded REITs and REIT-like securities and is designed to serve as a proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

**Emerging Markets** Developing countries where the characteristics of mature economies, such as political stability, market liquidity and accounting transparency, are beginning to manifest. Emerging market investments are generally expected to achieve higher returns than developed markets but are also accompanied by greater risk, decreasing their correlation to investments in developed markets.

**FTSE EPRA Nareit Developed Index** An index that is designed to track the performance of listed real estate companies and REITs worldwide. By making the index constituents free-float adjusted, liquidity, size and revenue screened, the series is suitable for use as the basis for investment products, such as derivatives and Exchange Traded Funds (ETFs).

**High Yield** A company or bond that is rated ‘BB’ or lower is known as junk grade or high yield, in which case the probability that the company will repay its issued debt is deemed to be speculative.

**Market Regime Indicator (MRI)** A proprietary macro indicator developed by the SSGA Investment Solutions Group. The MRI is designed to identify a level of forward-looking, implied volatility. Factors utilized to generate the signal include implied equity and currency volatility as well as spreads on fixed income.

**MSCI ACWI Index, or MSCI All Country World Index** A free-float weighted global equity index that includes companies in 23 emerging market countries and 23 developed market countries and is designed to be a proxy for most of the investable equities universe around the world.

**MSCI Emerging Markets Index** The MSCI Emerging Markets Index captures large and mid-cap representation across 23 emerging markets countries. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Europe Index** A benchmark capturing large- and mid-cap representation across 15 developed market countries in Europe.

**PMI, or Purchasing Managers Index** An indicator of the economic health of the manufacturing sector. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

**Real Assets** Physical or tangible assets that have value and often are investable. Real assets include precious metals, commodities, real estate, agricultural land and oil, and their inclusion in most diversified portfolios is considered appropriate.

**REITs or Real Estate Investment Trust** Companies that own and operate commercial properties, such as office buildings and apartment complexes.

**S&P 500® Index** A popular benchmark for U.S. large-cap equities that includes 500 companies from leading industries and captures approximately 80% coverage of available market capitalization.

**TIPS or Treasury Inflation-Protected Securities** Treasury securities that are indexed to inflation in order to protect investors from the negative effects of inflation. TIPS are backed by the US government and are thus considered an extremely low-risk investment. The par value of TIPS rises with inflation, as measured by the Consumer Price Index, while the interest rate remains fixed.

**Treasuries** The debt obligations of a national government. Also known as “government securities,” Treasuries are backed by the credit and taxing power of a country, and are thus regarded as having relatively little or no risk of default.

**MSCI AC Asia ex Japan Index** The index captures large and mid cap representation across Developed Markets (DM) countries (excluding Japan) and Emerging Markets (EM) countries in Asia.

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This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

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**The performance data quoted represents past performance. Past performance does not guarantee future results.**

Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

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Investing in commodities entail significant risk and is not appropriate for all investors. Commodities investing entail significant risk as commodity prices can be extremely volatile due to wide range of factors. A few such factors include overall market movements, real or perceived inflationary trends, commodity index volatility, international, economic and political changes, change in interest and currency exchange rates.

Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

Investing in REITs involves certain distinct risks in addition to those risks associated with investing in the real estate industry in general. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of credit extended. REITs are subject to heavy cash flow dependency, default by borrowers and self-liquidation. REITs, especially mortgage REITs, are also subject to interest rate risk (i.e., as interest rates rise, the value of the REIT may decline).

The index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Investing involves risk including the risk of loss of principal.

Investing in foreign domiciled securities may involve risk of capital loss from unfavorable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations. Investments in emerging or developing markets may be more volatile and less liquid than investing in developed markets and may involve exposure to economic structures that are generally less diverse and mature and to political systems which have less stability than those of more developed countries.

Asset allocation is a method of diversification which 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.

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.

Commodities and commodity-index linked securities may be affected by changes in overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes, or political and regulatory developments, as well as trading activity of speculators and arbitrageurs in the underlying commodities.

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