

# State Street ETF Model Portfolios

Commentary  
Q4 2025

- The global economy is faring better than previously expected, with 2025 global growth projected to be 3.0%—an update of 0.2 percentage points thanks to stronger-than-anticipated performances in the US, China, and the eurozone—and 2026 growth projected at 2.4%.<sup>1</sup>
- Despite the lag in trade shifts, inflation has remained subdued and most central banks globally have room to pivot.
- Despite concerns over trade tariffs, a cooling labor market, the US government shutdown, and elevated technology valuations, 2025 proved to be an exceptionally strong year for risk assets, supported by robust earnings growth, AI-driven optimism, and central bank rate cuts.

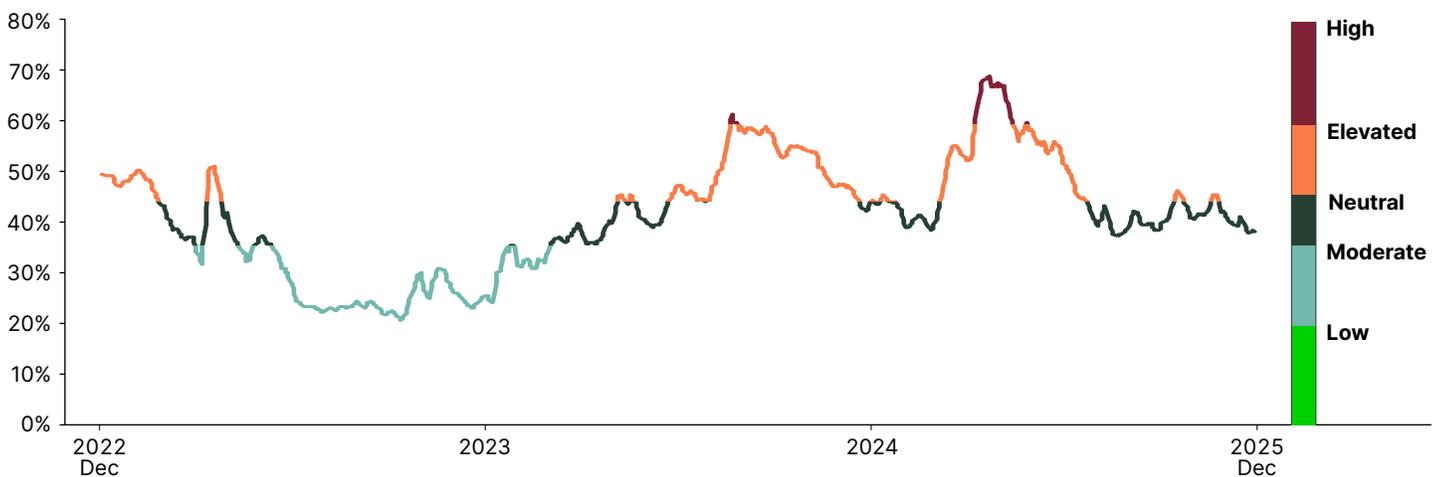
- In the US, resilient growth, and moderating inflation—with core personal consumption expenditures (PCE) expected to slow to 2.5% by December 2026—and continued disinflation in shelter costs give the Federal Reserve capacity to implement three rate cuts in 2026, moving toward a more neutral policy stance.<sup>2</sup>

## 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 fourth quarter, the MRI had increased compared to the previous quarter.
- Although market sentiment deteriorated in the middle of the quarter amidst interest rate concerns, overall market conditions improved towards the tail end of the quarter.

Figure 1: A 3-Year look at the MRI



Source: Investment Solutions Group, as of December 31, 2025.

### Key Market Events

February 24, 2022–Present	Russia - Ukraine War	October 7, 2023–Present	Israel - Hamas War
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## US equities

**US equities posted a solid finish to the year, with the S&P 500® advancing 2.66% in the quarter, bringing full-year gains to 17.88%. The fourth quarter was characterized by improving market breadth beyond the mega-cap technology names that dominated earlier in the year.**

- Investors rotated toward Financials and cyclicals, supported by the Federal Reserve's three rate cuts in September, October, and December, which lowered the federal funds target range to 3.50%–3.75%.
- This pivot toward monetary easing reinforced expectations of a soft landing and boosted sentiment across rate-sensitive sectors such as Financials, Real Estate, and Consumer Discretionary.
- Health Care (11.68%) and Communications Services (7.26%) were the top performers in the fourth quarter. Utilities and Real Estate were the two weakest sectors, with Utilities returning (-1.40%) and Real Estate (-2.87%).<sup>3</sup>

## International equities

**Global equity markets posted moderate gains in the fourth quarter.**

- The MSCI All Country World Index (ACWI) rose 3.37% (USD), supported by easing inflation, lower energy prices, and a gradual pivot in monetary policy. The advance came despite lingering geopolitical tensions and a historic US government shutdown, underscoring investor resilience.
- European equities ended the quarter on a positive note, with the STOXX Europe 600 (USD) rising nearly 6.4% during Q4, reflecting improved sentiment as recession fears eased and policy stability anchored risk appetite.
- The MSCI AC Asia Pacific Index gained 3.50% in Q4, bringing its year-to-date (YTD) return to an impressive 28.59% (USD). This strong performance was driven by resilient earnings across major

markets, a softer US dollar that boosted foreign inflows, and optimism around global AI-driven demand benefiting technology-heavy economies.

- Emerging market equities outperformed developed markets in Q4 with the MSCI Emerging Markets Index returning 4.78% for the quarter and 34.36% year-to-date. Investor flows favored emerging markets as relative valuations remained attractive compared to their developed market peers and optimism around trade normalization supported sentiment.

## Fixed income

**The fourth quarter was characterized by sustained optimism around monetary easing and improving global growth signals, despite lingering trade uncertainties and geopolitical risks. The Bloomberg Global Aggregate Index (USD-hedged) delivered -0.21% in December.**

- The securitized sector outperformed (0.16%) while the other sectors posted negative returns. Global Treasuries, government-related and corporate sectors posted returns of -0.36%, -0.19% and -0.10%, respectively.
- High yield bonds delivered a strong performance (2.35%) as yields declined 28 bps to 6.48%.
- US Treasury Inflation-Protected Securities (TIPS) outperformed US Treasuries by -0.87% for the quarter.
- The US annual inflation rate came in at 2.7% in November, well below market expectations of 3.1% and September's 3.0% reading. Core inflation, which excludes food and energy, came in at 2.6%, below market expectations of 3.0%.<sup>4</sup>

## Real assets

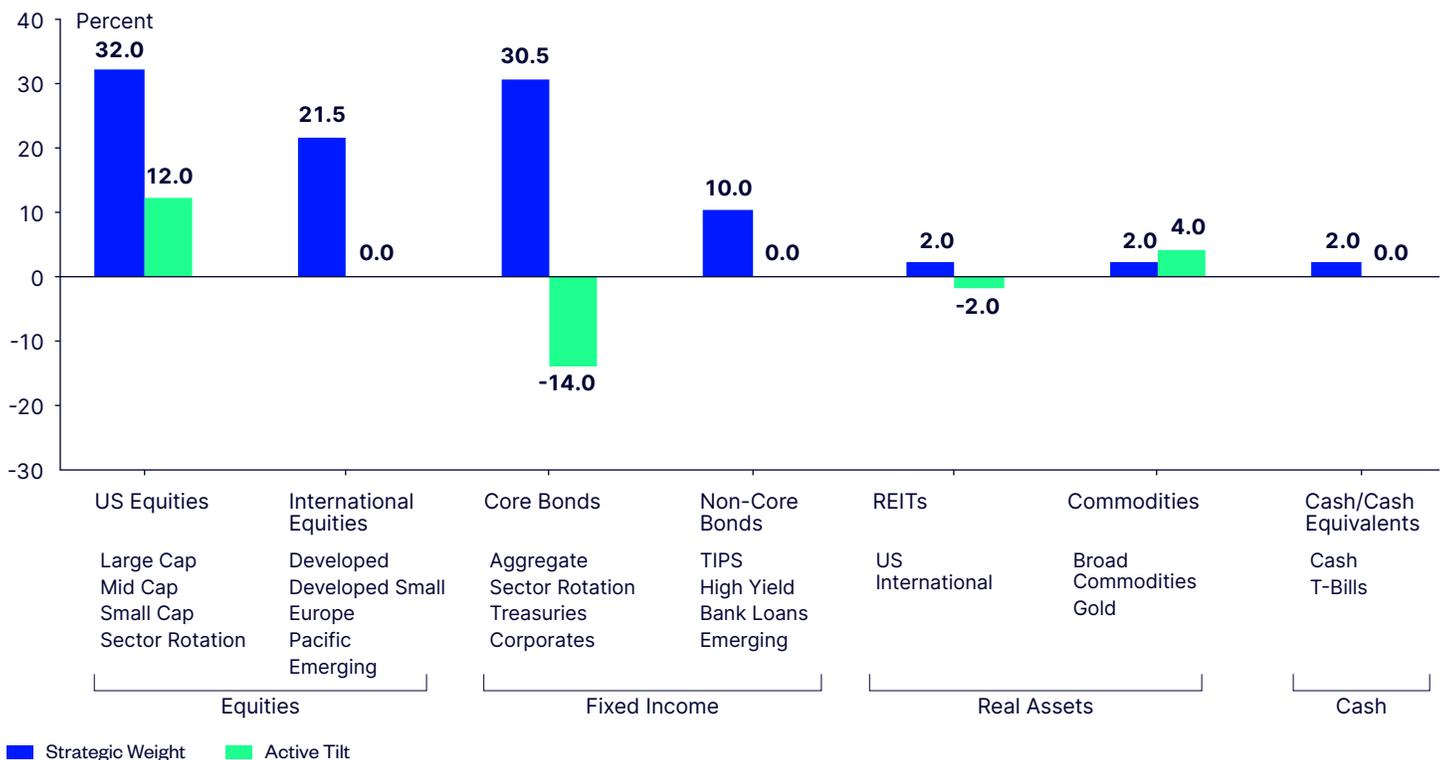
**Commodities, as tracked by the Bloomberg Commodities Total Return Index, delivered gains in the fourth quarter, driven largely by strong performance in precious and industrial metals. However, energy was a drag on returns, offsetting some of the overall upside.**

**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 fell 1.0% in the quarter, while the Dow Jones U.S. Select REIT Index declined 0.8%. For the full year, the indices posted returns of 7.9% and 3.7%, respectively.**

- Energy (as measured by the Bloomberg Energy Subindex Total Return) saw a 6.2% decrease in Q4, with the West Texas Intermediate Crude Oil Index declining over 5.7%, ending the year with three consecutive quarters of decline.
- The Bloomberg Natural Gas Sub-Index declined by 9.0% for the quarter, due to abundant supply and warmer-than-normal weather forecasts that reduced heating demand.

- The Bloomberg Precious Metals Index rose 21.8% during the quarter. The index rose 80.3% for the year, with gold increasing over 62.5% and silver witnessing a record-breaking gain of 138.6%. Factors such as monetary policy easing, geopolitical tensions, and central bank and industrial demand supported this rise.
- REITs, an interest-rate sensitive asset class, advanced over the year as declining rates provided support, although they experienced modest declines in the fourth quarter. Within Property sectors, Industrial and Mixed Industrial/Office led performance during the quarter, while Specialty and Office lagged. For the full year, Healthcare REITs posted the strongest gains, followed by Mixed Industrial/Office and Diversified. Conversely, Data Centers and Self-Storage REITs lagged the most in 2025.

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



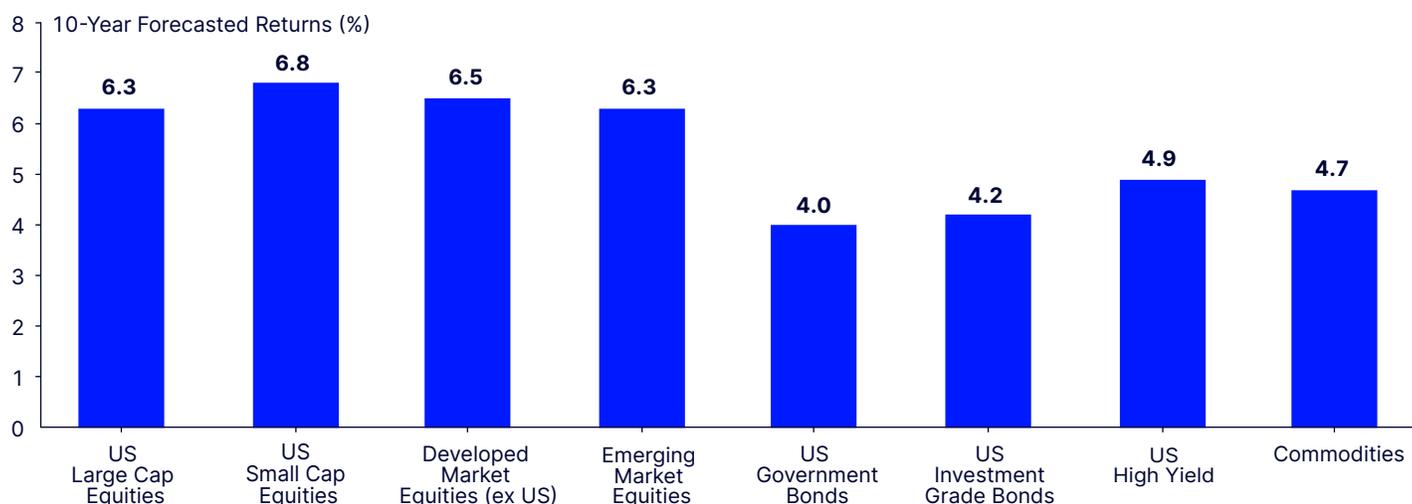
Source: State Street Investment Management, as of December 31, 2025.

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	2.7	17.9
Small Cap Equities	2.2	12.8
Developed Market Equities (ex US)	4.9	31.2
Emerging Market Equities	4.7	33.6
US Government Bonds	0.9	6.3
Investment Grade Bonds	0.8	7.8
High Yield	1.3	8.6
Commodities	5.8	15.8

Source: Bloomberg Finance, L.P., as of December 31, 2025. **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 September 30, 2025 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 annualised 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**

Unless otherwise noted, the source for index returns is FactSet, as of December 31, 2025.

- 1 SSGA Global Macro and Policy Research Forecast as of December 31, 2025.
- 2 SSGA Global Macro and Policy Research Forecast as of December 31, 2025.

3 Bloomberg Finance, L.P., State Street Investment Management as of December 31, 2025.

4 Bloomberg Finance, L.P., State Street Investment Management as of December 31, 2025.

## 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.

**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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### Important Risk Information

The views expressed in this material are the views of State Street Investment Management Investment Solutions Group (ISG) through the period ended December 31, 2025 and are subject to change based on market and other conditions.

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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ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs' net asset value. Brokerage commissions and ETF expenses will reduce returns.

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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