Dividend investing is about more than just yield — quality matters, too. This is particularly true in the current late economic cycle, when company fundamentals are more important. SPDR offers a suite of Dividend Aristocrats ETFs, which generate income via fundamentally strong companies.

From both a macro and fundamental standpoint, we see reasons that US equities could continue to do well, although there are downside risks to monitor. Given a range of uncertainties — such as the Fed’s rate hike plans, US-China trade disputes, and where we are in the economic cycle — there could be heightened volatility ahead.

In light of this backdrop, our strategists favour defensive US equities as a part of core investment allocations, in particular the quality Dividend Aristocrats, to help investors ‘smooth’ their potentially bumpy investment journey.

Exercise Caution in Late Economic Cycles

With more volatility expected on the horizon, we believe that investors should be selective and focus on defensive equities in the US.

In our view, the Dividend Aristocrats strategy is well positioned for the current market environment. Through a filtering process (see Figure 1), the strategy emphasises companies with a proven dividend track record. The long-term ability of a company to continuously pay an increasing level of regular, cash dividends often indicates a stable business model and consistent cash flows. For this reason, these companies could be best suited to weather any market turbulence.

Overview

- In the face of heightened late-cycle volatility and robust economic growth, investors may wish to focus on defensive equity strategies that generate income through ‘quality’ companies.
- While we expect global growth to slow in 2019, we feel that US equities may offer a pocket of opportunity given that economic and earnings growth remain strong there.
- The S&P Dividend Aristocrats strategies target companies with long-term dividend track records, ensuring that only the most financially sound, highest quality companies are included.
- With the largest dividend ETF AUM in Europe tracking the S&P Dividend Aristocrats Index strategies, the SPDR Dividend Aristocrats UCITS range is a leader in Europe.

Favour US Equities in 2019 — But Beware of Volatility

While global growth is expected to slow globally in 2019, State Street Global Advisors believes that US equities are still the place to be because both economic and earnings growth remain strong. However, investors should be cognisant of the volatility associated with late economic cycles.

Source: State Street Global Advisors, as of 31 January 2019. The above diagram is for illustrative purposes only.
Fundamentals Still Support US Equities
While US equities saw a severe pullback in late 2018, the market consensus is that US equities could still outperform other developed markets. Growth in earnings could still remain strong, although they will likely moderate from the lofty levels that we saw last year.

One of the drivers for earnings growth is that companies could repatriate overseas earnings to the US, a portion of which they could return to shareholders. Capital expenditure may also increase as a result of US tax reforms and low unemployment levels. Together, these factors would continue to support US equities.

A Relatively Attractive Risk-Return Profile
From January 2000 to January 2019, the S&P High Yield Dividend Aristocrats Index outperformed the S&P 500 Index by nearly 5% p.a., and with a reduced level of risk. Recent performance has been equally impressive (see Figure 3b). The combination of a higher return and lower risk profile led to a near doubling of the return per unit of risk of the Dividend Aristocrats strategy, compared to the S&P 500 Index (see Figure 2).

In addition to a lower level of total risk, the S&P High Yield Dividend Aristocrats Index incurred less market risk and often targeted countercyclical companies. Its beta was 0.74 over the entire period, which is 26% lower than the S&P 500 Index.

In regards to maximum drawdown during the same period, the S&P High Yield Dividend Aristocrats Index was also stronger. Its maximum drawdown was about 49%, whereas the S&P 500 Index was about 51%.

This combination of higher return and relatively lower risk that makes the Dividend Aristocrats an appealing strategy in an environment such as the current one.

Marketing communication. For professional client use only.

For Investors in Austria: The offering of SPDR ETFs by the Companies has been notified to the Financial Markets Authority (FMA) in accordance with section 139 of the Austrian Investment Funds Act. Prospective investors may obtain the current sales Prospectus, the articles of incorporation, the KIID as well as the latest annual and semi-annual report free of charge from State Street Global Advisors GmbH, Brienner Strasse 59, D-80333 Munich. T: +43 (0)89-55678-400. F: +43 (0)89-55678-440.

For Investors in Finland: The offering of funds by the Companies has been notified to the Financial Supervision Authority in accordance with Section 127 of the Act on Common Funds (29.11.1999/48) and by virtue of confirmation from the Financial Supervision Authority the Companies may publicly distribute their Shares in Finland. Certain information and documents that the Companies must publish in Ireland pursuant to applicable Irish law are translated into Finnish and are available for Finnish investors by contacting State Street Custodial Services (Ireland) Limited, 78 Sir John Rogerson’s Quay, Dublin 2, Ireland.

For Investors in France: This document does not constitute an offer or request to purchase shares in the Companies. Any subscription for shares shall be made in accordance with the terms and conditions specified in the complete Prospectuses, the KIID, the addenda as well as the Companies’ Supplements. These documents are available from the Companies’ centralising correspondent: State Street Banque S.A., 23–25 rue Delaunay-Lefoulon, 92804 Paris La Defense Cedex or on the French part of the site spdrs.com. The Companies are undertakings for collective investment in transferable securities (UCITS) governed by Irish law and accredited by the Central Bank of Ireland as a UCITS in accordance with European Regulations. European Directive no. 2014/91/EU dated 23 July 2014 on UCITS, as amended, established common rules pursuant to the cross-border marketing of UCITS with which they duly comply. This common base does not exclude differentiated implementation. It is why a European UCITS can be sold in France even though its activity does not comply with rules identical to those governing the approval of this type of product in France. The offering of these compartments has been notified to the Autorité des Marchés Financiers (AMF) in accordance with article L214-2-2 of the French Monetary and Financial Code.

For Investors in Germany: The offering of SPDR ETFs by the Companies has been notified to the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) in accordance with section 312 of the German Capital Investment Act. Prospective investors may obtain the current sales Prospectuses, the articles of incorporation, the KIID as well as the latest annual and semi-annual report free of charge from State Street Global Advisors GmbH, Brienner Strasse 59, D-80333 Munich. T: +49 (0)89-55678-400. F: +49 (0)89-55678-440.


The Funds mentioned are not registered in Hong Kong and may not be sold, issued or offered in Hong Kong in circumstances which amount to an offer to the public. This document is issued for informational purposes only. It has not been registered or approved by the Hong Kong Securities and Futures Commission. SSGA accepts no liability whatsoever for any direct, indirect or consequential loss arising from or in connection with any use of, or reliance on, this document which does not have any regard to the particular needs of any person. SSGA takes no responsibility whatsoever for any use, reliance or reference by persons other than the intended recipient of this document.

Ireland Entity: State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson’s Quay, Dublin 2. Registered number 145221. T: +353 (01) 776 3000. Fax: +353 (01) 776 3300.

Italy Entity: State Street Global Advisors Limited, Milan Branch (Sede Secondaria di Milano) is a branch of State Street Global Advisors Limited, a company registered in the UK, and is regulated and supervised by the Financial Conduct Authority (FCA) 1, with a capital of GBP 62’250’000, and whose registered office is at 20 Churchill Place, London E14 5HU. State Street Global Advisors Limited, Milan Branch (Sede Secondaria di Milano), is registered in Italy with company number 06353340988 - R.E.A. 1697059 and VAT number 06353340988 and whose office is at Via dei Bosii, 4 - 20121 Milano, Italy. T: 39 02 32086 100. F: 39 02 32086 155.

For Investors in Luxembourg: The Companies have been notified to the Commission de Surveillance du Secteur Financier in Luxembourg in order to market its shares for sale to the public in Luxembourg and the Companies are notified Undertakings in Collective Investment for Transferable Securities (UCITS).

For Investors in the Netherlands: This communication is directed at qualified investors within the meaning of Section 2:72 of the Dutch Financial Markets Supervision Act (Wet op het financieel toezicht) as amended. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. Distribution of this document does not trigger a licence requirement for the Companies or SSGA in the Netherlands and consequently no prudential and conduct of business supervision will be exercised over the Companies or SSGA by the Dutch Central Bank (De Nederlandsche Bank N.V.) and the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markt). The Companies have completed their notification to the Authority Financial Markets in the Netherlands in order to market their shares for sale to the public in the Netherlands and the Companies are, accordingly, investment institutions (beleggingsinstellingen) according to Section 2:72 Dutch Financial Markets Supervision Act of Investment Institutions.

For Investors in Norway: The offering of SPDR ETFs by the Companies has been notified to the Financial Supervisory Authority of Norway (Finanstilsynet) in accordance with applicable Norwegian Securities Funds legislation. By virtue of a confirmation letter from the Financial Supervisory Authority dated 28 March 2013 (16 October 2013 for umbrella II) the Companies may market and sell their shares in Norway.


The offer or invitation of the Units, which is the subject of the Prospectus, does not relate to a collective investment scheme which is authorised under Section 266 of the Securities and Futures Act, Chapter 269 of Singapore (SFA) or recognised under Section 267 of the SFA. The Fund is not authorised or recognised by the Monetary Authority of Singapore (MAS) and (Units) are not allowed to be offered to the retail public. Each of the Prospectuses and any other document or material issued in connection with the offer or sale is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. A potential investor should consider carefully whether the investment is suitable for it. The MAS assumes no responsibility for the contents of this Prospectus. The Prospectus has not been registered as a prospectus with the MAS. Accordingly, the Prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase of Units may not be circulated or distributed, nor may Units be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than to an institutional investor under Section 304 of the SFA or otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. Any subsequent sale of Units acquired pursuant to an offer made in reliance on an exemption under section 305 of the SFA may only be made pursuant to the requirements of sections 304A.

For Investors in Spain: SSGA SPDR ETFs Europe I and II plc have been authorised for public distribution in Spain and are registered with the Spanish Securities Market Commission (Comisión Nacional del Mercado de Valores) under no.1244 and no.1242. Before investing, investors may obtain a copy of the Prospectus and Key Investor Information Documents, the Marketing Memoranda, the fund rules or instruments of incorporation as well as the annual and semi-annual reports of State Street Global Advisors SPDR ETFs Europe I and II plc from Cebasbank, S.A. Alcalá 27, 28014 Madrid (Spain) who is the Spanish Representative, Paying Agent and distributor in Spain or at spdrs.com. The authorised Spanish distributor of State Street Global Advisors SPDR ETFs is available on the website of the Securities Market Commission (Comisión Nacional del Mercado de Valores).

For Investors in Switzerland: The collective investment schemes referred to herein are collective investment schemes under Irish law. Prospective investors may obtain the current sales prospectus, the articles of incorporation, the KIID as well as the latest annual and semi-annual reports free of charge from the Swiss Representative and Paying Agent; State Street Bank International GmbH, Munich, Zurich Branch, Beethovenstrasse 19, 8027 Zurich as well as from the main distributor in Switzerland, State Street Global Advisors AG, Beethovenstrasse 19, 8027 Zurich. Before investing please read the prospectus and the KIID, copies of which can be obtained from the Swiss representative, or at spdrs.com.
For Investors in the UK: The Companies are recognised schemes under Section 264 of the Financial Services and Markets Act 2000 ("the Act") and are directed at 'professional clients' in the UK (within the meaning of the rules of the Act) who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description should not rely on this communication. Many of the protections provided by the UK regulatory system do not apply to the operation of the Companies, and compensation will not be available under the UK Financial Services Compensation Scheme.

Important Information: This document has been issued by State Street Global Advisors Limited ("SSGA"). Authorised and regulated by the Financial Conduct Authority. Registered No. 2509928. VAT No. 5776591. 81. Registered office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: 020 3395 6000.

SPDR EFTs is the exchange traded funds ("ETF") platform of State Street Global Advisors and is comprised of funds that have been authorised by European regulatory authorities as open-ended UCITS investment companies ("Companies"). State Street Global Advisors SPDR ETFs Europe I plc issue SPDR ETFs, and is an open-ended investment company with variable capital having segregated liability between its sub-funds. The Company is organised as an Undertaking for Collective Investments in Transferable Securities (UCITS) under the laws of Ireland and authorised as a UCITS by the Central Bank of Ireland.

This document is not, and under no circumstances is to be construed as, an offer or any other step in furtherance of a public offering in the United States, Canada or any province or territory thereof, where the Companies are not authorised or registered for distribution and where the Companies’ Prospectuses have not been filed with any securities commission or regulatory authority. Neither this document nor any copy hereof should be taken, transmitted or distributed (directly or indirectly) into the United States. The Companies have not and will not be registered under the United States Investment Company Act of 1940 or qualified under any applicable state securities statutes.

The information provided does not constitute investment advice as such term is defined under the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell any investment. It does not take into account any investor’s or potential investor’s particular investment objectives, strategies, tax status, risk appetite or investment horizon. If you require investment advice you should consult your tax and financial or other professional advisor. All material has been obtained from sources believed to be reliable. There is no representation or warranty as to the accuracy of the information and State Street shall have no liability for decisions based on such information.

Exchange traded funds (ETFs) trade like stocks, are subject to investment risk and will fluctuate in market value. The value of the investment can go down as well as up and the return upon the investment will therefore be variable. Changes in exchange rates may have an adverse effect on the value, price or income of an investment. Further, there is no guarantee an ETF will achieve its investment objective.

The views expressed in this material are the views of SPDR EMEA Strategy and Research through the period ended 8 February 2019 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.

Past performance is not a guarantee of future results. 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.

All forms of investments carry risks, including the risk of losing all of the invested amount. Such activities may not be suitable for everyone. 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.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions. Investing in foreign domiciled securities may involve risk of capital loss from unfavourable fluctuation in currency values, withholding taxes, from differences in generally accepted accounting principles or from economic or political instability in other nations.

State Street Global Advisors

Standard & Poor’s, S&P and SPDR are registered trademarks of Standard & Poor’s Financial Services LLC (S&P); Dow Jones is a registered trademark of Dow JonesTrademark Holdings LLC (Dow Jones); and these trademarks have been licensed for use by S&P Dow Jones Indices LLC (SPDJI) and sublicensed for certain purposes by State Street Corporation. State Street Corporation’s financial products are not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, their respective affiliates and third party licensors and none of such parties make any representation regarding the advisability of investing in such products or do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index. BLOOMBERG®, a trademark and service mark of Bloomberg Finance L.P., and its affiliates, are licensed for use in connection with the listing and trading of the SPDR Bloomberg Barclays ETFs.

All the index performance results referred to are provided exclusively for comparison purposes only. It should not be assumed that they represent the performance of any particular investment.

This communication is directed at professional clients (this includes eligible counterparties as defined by the appropriate EU Regulator or applicable Swiss regulator) who are deemed both knowledgeable and experienced in matters relating to investments. The products and services to which this communication relates are only available to such persons and persons of any other description (including retail clients) should not rely on this communication.

The ETFs listed above have historically paid dividends to investors and/or invest in the securities of dividend paying issuers; however, there is no guarantee that these ETFs will consistently pay dividends to investors in the future or will appreciate in value. Investors could lose money by investing in ETFs.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA’s express written consent. A Smart Beta strategy does not seek to replicate the performance of a specified cap-weighted index and as such may underperform such an index. The factors to which a Smart Beta strategy seeks to deliver exposure may themselves undergo cyclical performance. As such, a Smart Beta strategy may underperform the market or other Smart Beta strategies exposed to similar or other targeted factors. In fact, we believe that factor premia accrue over the long-term (5–10 years), and investors must keep that long time horizon in mind when investing. The momentum style of investing that emphasises investing in securities that have had higher recent price performance compared to other securities, which is subject to the risk that these securities may be more volatile and can turn quickly and cause significant variation from other types of investments.

A “quality” style of investing emphasises companies with high returns, stable earnings, and low financial leverage. This style of investing is subject to the risk that the past performance of these companies does not continue or that the returns on “quality” equity securities are less than returns on other styles of investing or the overall stock market. The value style of investing that emphasises undervalued companies with characteristics for improved valuations, which may never improve and may actually have lower returns than other styles of investing or the overall stock market. Low volatility funds/stocks can exhibit relative low volatility and excess returns compared to the Index over the long-term, both portfolio investments and returns may differ from those of the Index. The fund may not experience lower volatility or provide returns in excess of the Index and may provide lower returns in periods of a rapidly rising market. Active stock selection may lead to added risk in exchange for the potential outperformance relative to the Index.

The information contained in this communication is not a research recommendation or ‘investment research’ and is classified as a ‘Marketing Communication’ in accordance with the Markets in Financial Instruments Directive (2014/65/EU) or applicable Swiss regulation. This means that this marketing communication (a) has not been prepared in accordance with legal requirements designed to promote the independence of investment research (b) is not subject to any prohibition on dealing ahead of the dissemination of investment research.

You should obtain and read the SPDR prospectus and relevant Key Investor Information Document (KIID) prior to investing, which may be obtained from spdrs.com. These include further details relating to the SPDR funds, including information relating to costs, risks and where the funds are authorised for sale.

© 2019 State Street Corporation. All Rights Reserved.

ID15780-24224971.1.GBLINST 0219 Exp. Date: 29/02/2020