White Paper
Sectors

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Harness the Power of Sector Investing with ETFs

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STATE STREET GLOBAL ADVISORS SPDR®

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Introduction to Sector Investing

In a dynamic stock market, investors can benefit from taking a selective approach. Sectors offer a way to make active selection decisions through passive exposures. ETFs have become an increasingly popular tool for investors seeking to implement sector strategies.

Key Points

- **Sectors provide a standardised system that allows investors to target groups of companies based on their business activities.**
- **Through sectors, investors face a less complex analysis than that required to assess constituent companies.**
- **The difference in annual returns between the best and worst performing sectors in S&P 500 index exceeds 30% most years.[1]**

Classifying Sectors

Sectors offer a clear categorisation of the investable universe. Index providers (including MSCI, S&P Dow Jones and FTSE Russell) use sector classification as a means of focusing the index into groups. Such a classified system provides a consistent definition that allows for comparative analysis, reporting of exposures and capturing of trends. As such, sectors have been embraced by all manner of investors, such as asset managers, brokers, custodians, consultants, research teams and stock exchanges.

The largest and best known classification of equity sectors is the Global Industry Classification Standard (GICS). Developed in 1999 by S&P Dow Jones Indices and MSCI, the GICS structure consists of 11 Sectors, 24 Industry Groups, 69 Industries and 158 Sub-Industries (see Figure 1). The classification system comprises more than 50,000 traded securities across 125 countries.

Each company is assigned a single GICS classification at the sub-industry level according to its principal business activity, which filters through the corresponding industry, industry group and sector. Revenue sources are a key factor in determining a firm's principal business activity. MSCI and S&P conduct annual reviews to ensure that the structure remains fully representative of the equity market. There was a significant reclassification of the GICS structure on 21 September 2018, which led to S&P rebalancing their indices to include the changes on 28 September, while MSCI followed on 30 November.

Figure 1
Global Industry Classification Standard (GICS®)

11	**Sectors** (e.g. Communication Services)
24	**Industry Groups** (e.g. Media & Entertainment)
66	**Industries** (e.g. Entertainment)
158	**Sub-Industries** (e.g. Interactive Home Entertainment)

The reclassification affected the composition of three sectors: Telecommunication Services (which was expanded and became Communication Services), Information Technology and Consumer Discretionary. The aim was to make the sectors more representative of how consumers behave and businesses generate revenues, thus increasing the sectors' relevance to investors.

The alternative classification system, employed by STOXX and FTSE (amongst other index providers), is the Industry Classification Benchmark (ICB), which screens in a similar way from the broad stock universe, but its groupings are different. ICB classifies into Industries (of which there are 10), Supersectors (19), Sectors (39) and Subsectors (110).

We refer to sectors as defined by the GICS classification throughout this paper.

Simplified Selection

As a result of their composition, each sector combines companies that have similar economic drivers and risks. Broadly speaking, the companies in a given sector will perform in a similar way during each period of the economic cycle. This is a key factor in driving relative sector performance.

With fewer sectors to choose from compared with the number of stocks, sectors not only provide simplicity but also offer a level of granularity whilst reducing the idiosyncratic risk implicit with individual stocks. For example, with just 11 sectors in the MSCI World Index, investors face a less complex analysis than that required to select from the 1,651 stocks in the index.[1]

The potential benefit of diversification across stocks, as offered by a sector, is explored in Chapter 1.

Targeted Investment

Sectors are a key driver of equity risk, which is apparent when looking at the contribution to performance from sector allocation versus styles, countries or stock selection.

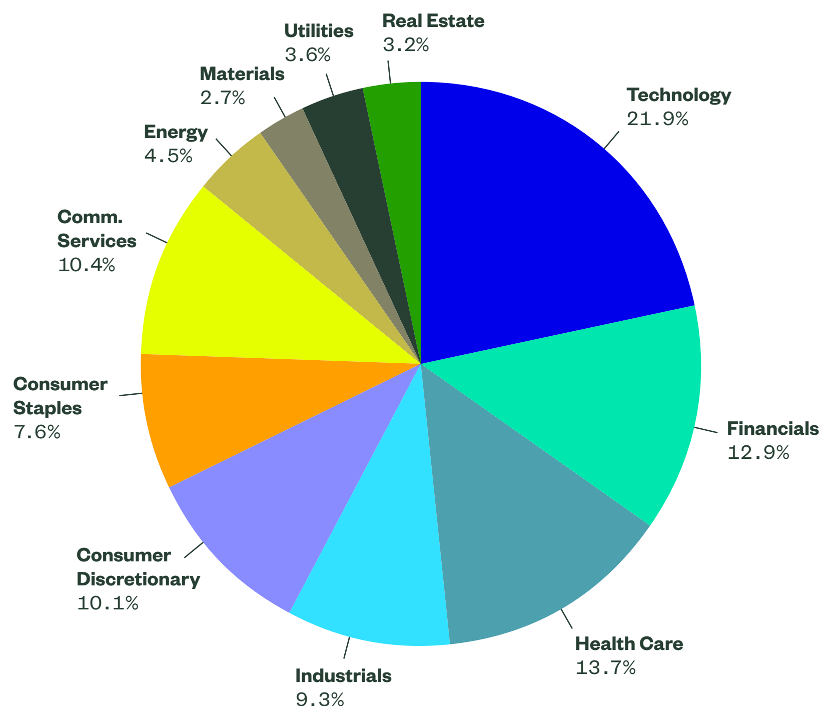
Return dispersion is one of the key attractions of sectors. When considering the difference in sector performance, the obvious question that arises is how to select a sector to capture returns. In this paper, we look at one of the main tools for sector selection: assessing the macroeconomic scenario and the sector best suited to it (Chapter 2). Sectors demonstrate business cycle dependency, and thus an investor's outlook can steer sector selection. Sectors can also be employed to gain specific factor exposure, for example sensitivity to interest rate changes or inflation.

Economic sensitivity is just one tool for selecting sectors. For readers interested in learning more about our thoughts behind picking sector investments, we suggest looking at the quarterly *SPDR Sector Compass* for themes and sector opportunities in the current market.

Later in this paper, we cover why, given their cost-efficiency and flexibility, sector ETFs represent an effective means of gaining sector exposure. Perhaps not surprisingly, assets in sector ETFs have grown dramatically in the last two decades, illustrating the advantages of the product set to investors seeking a selective approach to equity markets. Investors employ sector ETFs for various strategies, which we cover in Chapter 4.

A range of sector ETFs can be viewed as a box of tools to help enhance returns by selecting the right sector to implement the desired exposure. A sector can offer more precision and agility than investing across the whole market or even by country or region. For example, Figure 2 shows the relative size of each sector in the S&P 500 index.

Figure 2
Breakdown of the S&P 500 Index by GICS Level 1 Sector



Source: Bloomberg Finance L.P., as of 30 September 2019. Breakdown are as of the date indicated and are subject to change. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

Chapter 1 The Power of Sectors to Target Return and Risk

Sector investing can be beneficial to returns, by actively selecting those sectors thought most likely to perform, and to risk, by capitalising on varied correlations intra and inter-sector.

Key Points

- **Sectors are clearly defined economic groupings that offer targeted investing within a larger index.**
- **Thoughtful sector selection can harness the benefits of return dispersion between sectors.**
- **Given their inherent diversity, sectors can also be a helpful risk management tool.**

Investing by Sector Rather Than Stocks

Return dispersion is a defining characteristic of sector investing. Sectors have different drivers, which means returns will diverge over a given period. According to S&P, the dispersion between sector returns accounts for roughly half of the dispersion between stock returns. This implies that half of the value added from picking stocks could be achieved by selecting the right sectors.

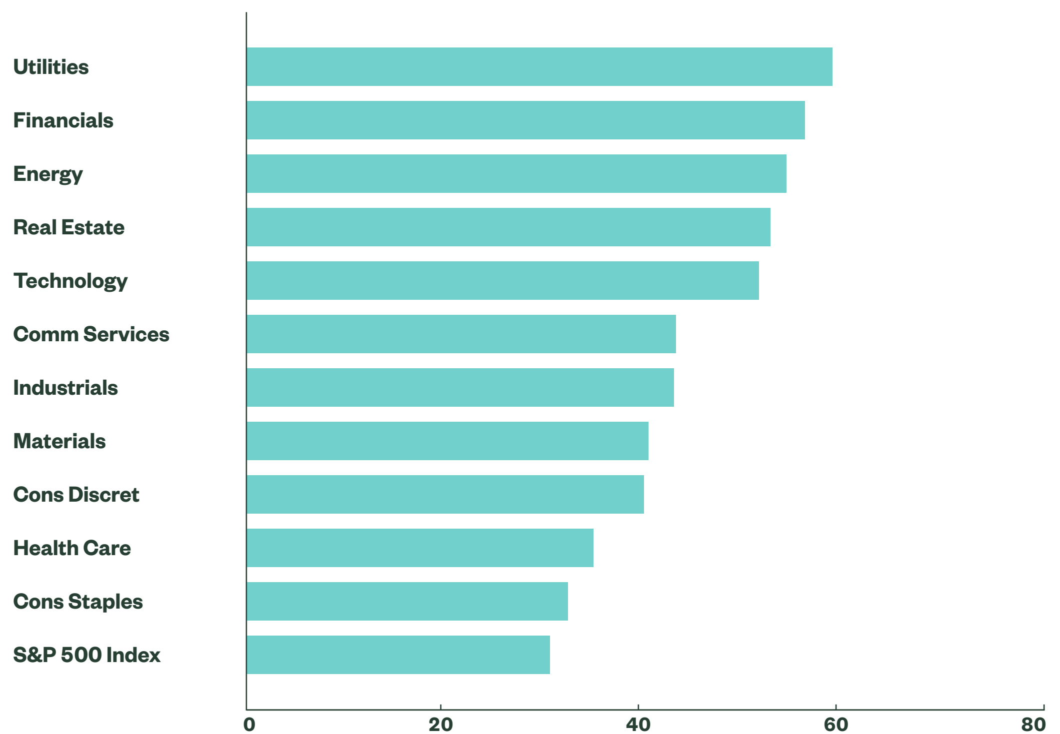
Sector investing allows access to underlying themes and trends in equity markets. It is a popular means of capturing additional beta alongside other choices, such as regional/country or smart beta factor allocation. Given the construction of sector classifications, sectors are particularly useful for investors looking to target the economic drivers of risk and return.

Figure 3 demonstrates how correlated the returns of stocks are with each other within each sector. This differs from sectors showing low intra-sector correlation, such as Consumer Staples and Health Care, and those where stocks tend to move in a similar manner, such as Utilities.

In the case of the Utilities sector, macro drivers can be more important to a stock's performance than any individual company's behaviour. This main seem obvious for utilities companies, which are often referred to as bond proxies and used to position against moves in bond yields, rather than in response to corporate activity. High correlation between stock performance tends to make stock-picking more difficult.

Choosing on a stock-by-stock basis rather than at a sector level may be easier at the other end of the scale. For example, Consumer Staples show more differentiated performance between food retailers, tobacco manufacturers and household good producers.

Figure 3
Correlation of Stocks Within Each Sector
Stocks More Correlated to Sector than the Benchmark



Source: S&P Dow Jones Indices, as of 30 September 2019. This is taken from returns from the trailing 12 months.

Targeting Returns

The difference in returns of the top and bottom performing sector each year can be striking. Figure 4 shows the scale of divergence in the returns of US sectors for each of the past 12 years. The chart provides an illustration of the potential benefit of picking the most attractive sectors.

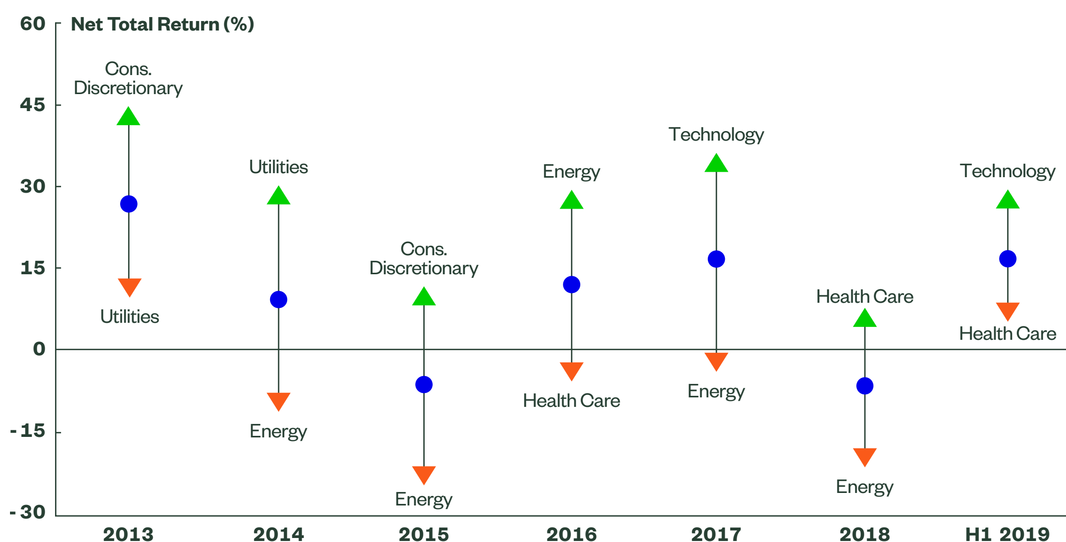
The combination of top and bottom performing sector changes every year, reflecting changes in performance drivers. In 2017, the Information Technology sector produced high returns as companies improved the profitability of their operating models and benefited from structural growth trends. Meanwhile, Energy suffered as low crude oil prices that year offset the operational changes E&P companies made.

In 2018, market returns suffered in the fourth quarter and we saw a sharp sector rotation. There was a cyclical bias in relative performance, with Health Care taking the lead amid defensive earnings growth. Materials fell 19% on worries that slowing growth in China would impact demand for mining and chemicals products. In a year when average returns were down (the S&P 500 dropped 4%), the best and worst performing S&P Select Sectors diverged by nearly 25%; this dispersion created a meaningful opportunity for sector investors.

As of 31 October 2019, the Technology Select sector had returned 31% year to date, as the market appreciated the sector's long-term sustainable growth. That is more than 25% ahead of the worst-performing US sector, Health Care, which has suffered from worries around political interference in prescription drug pricing.

Figure 4
Return Dispersion
Annual returns of best and worst performing S&P Select Sector Indices

- ▲ Best Performing Sector
- ▼ Worst Performing Sector
- ● S&P 500 Value



Source: Bloomberg Finance, L.P., as of 30 September 2019. Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Returns shown are from Energy Select Sector Index NTR, Materials Select Sector Index NTR, Technology Select Sector Index NTR, Financial Select Sector Index NTR, Consumer Staples Select Sector Index NTR, Consumer Discretionary Select Sector Index NTR, Utilities Select Sector Index NTR, Healthcare Select Sector Index NTR, Communication Services Select Sector Index NTR. 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 shown will be profitable in the future.

Risk Management

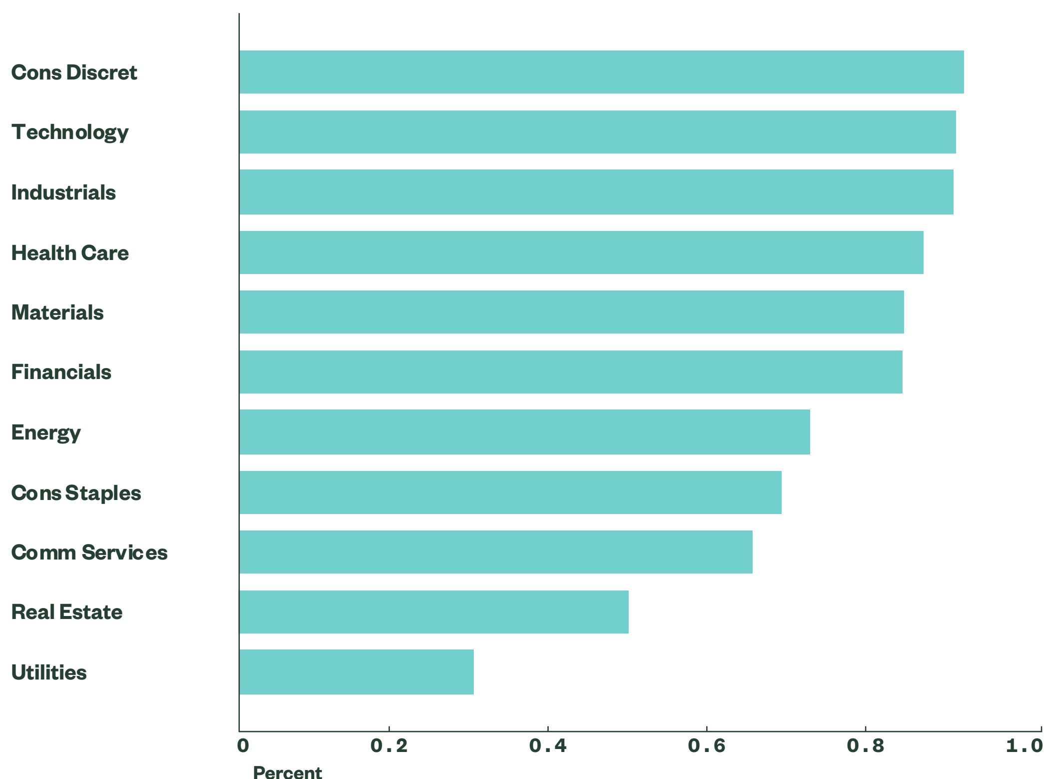
Through sectors, investors can diversify their risk in several ways. Principally, sector investments offer lower concentration risk than individual stocks and can help to avoid the idiosyncratic risk associated with single-stock investing. Moreover, correlations between sectors and the overall market vary. Investors can take advantage of these correlation differences to change the dynamics and risks in a portfolio.

It is noteworthy that some sectors have much higher correlation with overall market moves, the best example being Technology. Other sectors, such as Utilities, often move in a separate direction and at a different speed compared with the market. This lower correlation could be used to provide an alternative, more diversified exposure in investor portfolios. Figure 3 shows the correlation of each stock in each of the S&P 500 sectors to the S&P 500 index during the last three years.

There is a wider range of correlations between sector returns and the broad equity market than available with style investing. Some sectors have a weaker correlation with certain parts of the market versus others. Utilities is a good example, as it has the lowest correlation of returns to S&P 500 index (see Figure 5).

This sector has demonstrated a negative correlation with Financials, Energy and Materials during the last three years. Understanding the correlation characteristics of each sector could help diversification in investor portfolios and thus manage risk.

Figure 5
Risk Control
Low Correlations Between Some Sectors and Index Can Enhance Diversification



Source: Bloomberg Finance L.P., as of 30 September 2019. Average correlation to S&P 500 Index for last 3 years. Diversification does not ensure a profit or guarantee against loss. It is not possible to invest in an index. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

Chapter 2 Using Sectors to Express Macro Views

Since sectors are groupings of similar companies, they tend to respond in a consistent fashion to economic conditions and risks. Therefore, sectors can be an effective tool to capture shifts in the economic outlook.

Key Points

- **Sectors can help position a portfolio to better take advantage of where an economy is in the business cycle.**
- **Key macroeconomic views can be expressed through sector investing, as sectors show different sensitivities to different indicators.**

Sectors and the Economic Cycle

Many business studies have analysed the performance of each sector over the traditional economic cycle. Certain sectors, given their cyclical or defensive nature, tend to exhibit a predictable pattern of behaviour known as 'business cycle dependency'. Investors can exploit these patterns by selecting specific sectors based on where an economy is in the business cycle, particularly at the point of change. Figure 6 provides an illustration of the concept.

Traditional theory suggests there are four stages of the business cycle: recovery, expansion, slowdown and contraction. Undeniably, each business cycle has its own particularities and no two business cycles are identical, even though they may bear striking resemblance to one another as the rhythm of cyclical fluctuations in the economy has tended to follow similar patterns.

The early recovery stage of an economic cycle is usually marked by increasing employment, earnings and credit growth. Equity investors tend to be bullish during such an upturn and there can be strong relative performance from economically sensitive sectors (referred to as "cyclical"). One such cyclical sector is Materials, which mostly consists of chemical manufacturers and miners, both of which experience more demand as economic activity picks up.

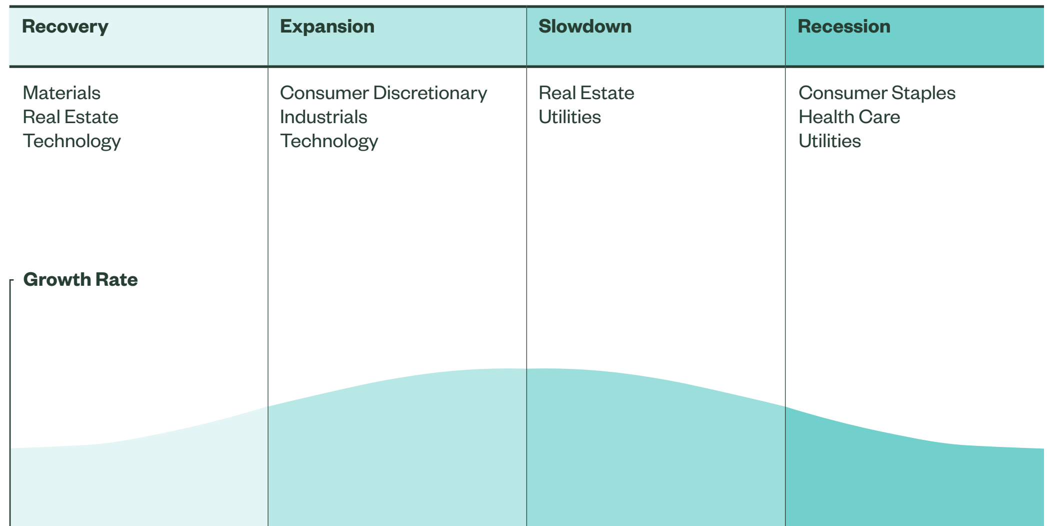
The mid-cycle expansion stage is characterised by improved economic and business growth, as the economy shifts from its initial revival to more sustainable growth. Also known as an "economic boom," this can be a lengthier cycle than the rest with cyclical sectors benefiting from a stabilising period in recovery. Business expansion during this time creates high demand for heavy machinery, such as that supplied by Industrials.

Technology, which has demonstrated a high market beta, features as a beneficiary here as well as earlier in the cycle. Amongst Technology products, semiconductors are particularly sensitive to levels of economic activity.

Later in the economic cycle, when growth is slowing, there is often inflationary pressure, which can support sectors tied to natural resources. Based on our analysis, the sectors that perform best during a slowdown include Real Estate, which is supported by its attractive income characteristics, and Utilities, given its defensive qualities.

During an economic contraction or recession, equities can lose favour across the board. In these times, better relative returns have been seen from the countercyclical sectors. Utilities, Health Care and Consumer Staples act in a more defensive manner; demand tends to stay constant for the essential goods and services they provide.

Figure 6
Macroeconomic Sensitivity
Certain Sectors Have Historically Performed Well in Different Phases of the Business Cycle



Source: State Street Global Advisors, as of 30 September 2019. The information contained above is for illustrative purposes only. It should not be construed as investment advice.

Implementing Economic Views

Over the last decade, macro factors have become more important to the performance of the stock market. For investors who do not have a specific view on where we are in the economic cycle, there is still a way to implement an economic outlook.

Instead of focusing on the business cycle, investors can target specific factor exposures by utilising a sector that shows high sensitivity to the macro indicators that they forecast (e.g. interest rate changes or inflation).

Figure 7 shows the sectors with the highest positive or negative sensitivity to certain economic factors. We measured "sensitivity" as the returns of a sector against the returns of the factor; this analysis captures the last three years and updated figures are available in the SPDR Sector Compass. Sensitivities are useful as they can show cause and effect, whereas correlations often show coincidence. Although, correlations can be used to further substantiate relationships.

This sensitivity analysis focuses on three sets of commonly used economic data but could be expanded to include other popular measures, such as PMI or ISM reports.

Figure 7
Macroeconomic Sensitivity
Implementation Tools: Examples of Macro Factors and Related Sectors

Least Sensitive / Negative: Sector	Indicator	Most Sensitive / Positive: Sector
Utilities	Inflation	Energy / Financials
Real Estate / Utilities	Interest Rates	Financials
Health Care	Crude Oil Prices	Energy

Source: State Street Global Advisors, 30 September 2019. Using S&P Select sectors over last three years. Results taken from SPDR Sector Compass. 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. The information contained above is for illustrative purpose only.

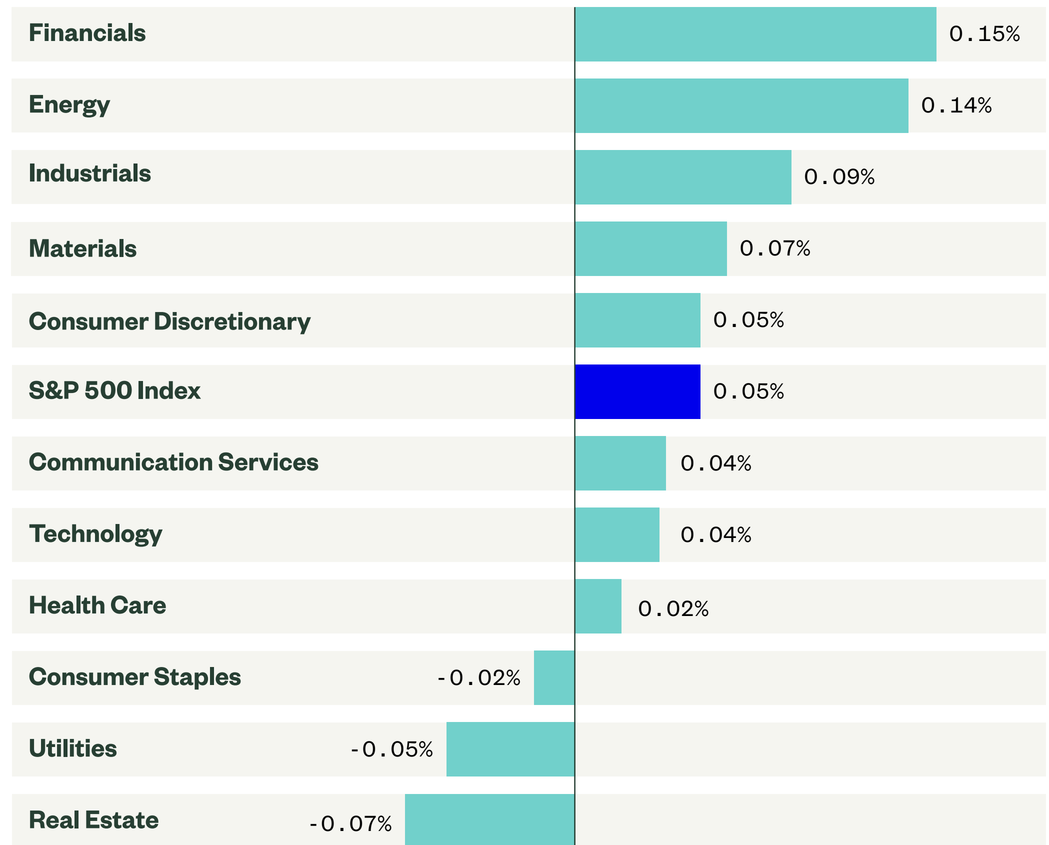
Example: Interest Rates

We have used the US Treasury 10-year government bond yield as our proxy for interest rates and measured the performance of S&P Select Sectors against it to test for sensitivities. Financials is the top-ranking sector, which is understandable given the importance of interest rates to the net interest margins of banks. Cyclical sectors and Energy also rank highly on sensitivity, largely because of the response of stocks in these sectors to the factors associated with interest rates, such as economic growth.

Several sectors have a negative sensitivity to moves in bond yields, the largest of which are Real Estate and Utilities. Investments in the Utilities sector are often used as a bond proxy because of its ability to supply high investment income and its tendency to move with Treasury bond pricing.

The greater sensitivity of the sectors mentioned above to moves in US Treasuries tends to make each sector volatile at the time of Federal Reserve announcements.

Figure 8
US Select Sectors: 10-Year Treasury Yield Sensitivity
Sectors Can be Used to Express Views on Interest Rates



Source: State Street Global Advisors, as of 30 September 2019. The figures cover three years from 28 June 2016–28 June 2019. Past performance is not a guarantee of future results. 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.

Example: Inflation

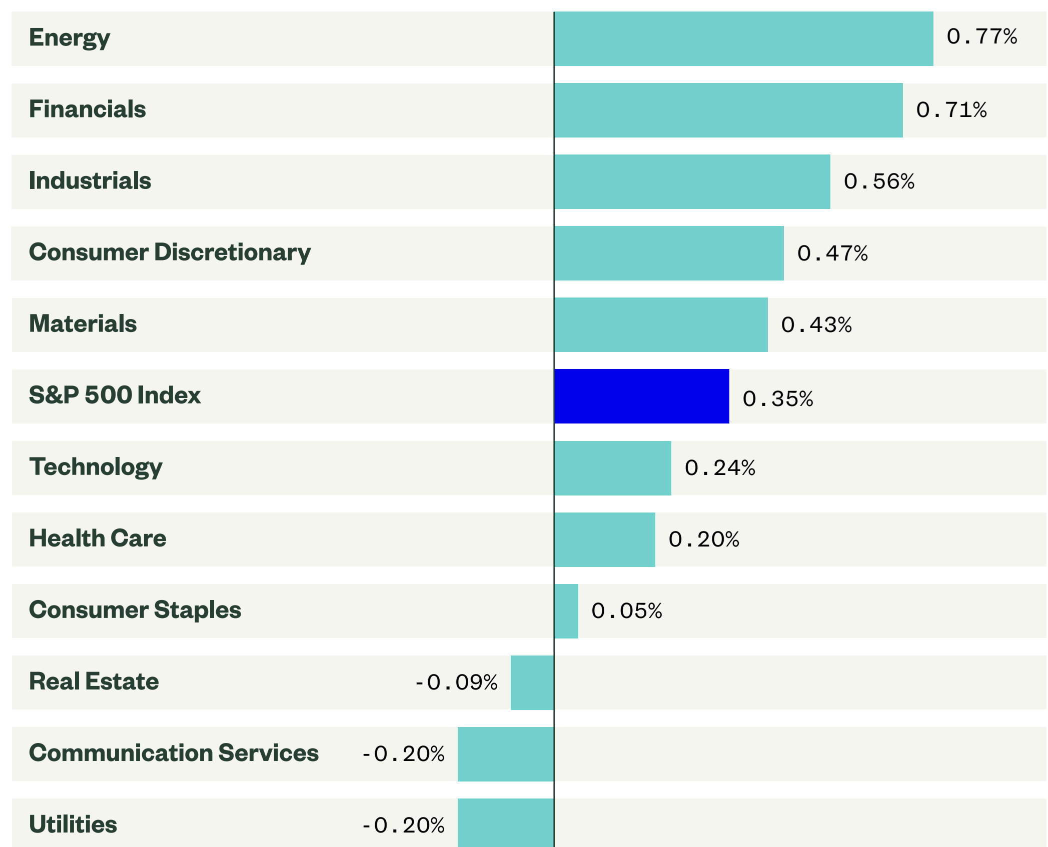
We used US 5-year, 5-year forward breakeven rates as our inflation measure. Looking at Figure 9, the Financials and Energy sectors are (again) ranked highest in terms of sensitivity to rising prices. If we break Financials down by industry, banks have a strong positive sensitivity, whilst the picture is mixed for insurers and diversified financials.

The Energy sector's close relationship with inflation results from the importance of crude oil prices to general price inflation, with sensitivity of oil and gas companies' fortunes dependent on their pricing power.

At the other end of the spectrum, the Utilities sector suffers during periods of rising price inflation because of the impact on profitability of pricing constraints and fixed contracts.

The market has not worried about inflation for some time. However, in an era of full employment and other cost-push pressures, there are upside risks. Investors may find it useful to consider the sectors mentioned above if they believe inflation will run ahead of current market expectations.

Figure 9
US Select Sectors: Inflation Sensitivity
Sectors Can be Used to Express Views on Inflation



Source: State Street Global Advisors, as of 30 September 2019. The figures cover three years from 28 June 2016–28 June 2019. Past performance is not a guarantee of future results. 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.

Chapter 3

Implementing Sector Investing with ETFs

Investing in sectors can align portfolios with broader market trends, giving exposure to specific factors and styles. Sectors are particularly well suited to target certain economic variables and, when accessed through ETFs, investors can implement macroeconomic views simply and cost-effectively.[3]

Key Points

- **Sector ETFs can offer a flexible means of expressing an investment idea.**
- **ETFs can be bought and sold throughout the trading day, allowing fast and cost-effective[3] access.**
- **The popularity of sector ETF investing has proven resilient, as illustrated by steady growth in assets during the past 20 years.**

Powerful Portfolio Construction Tools

Given their bottom-up groupings, sectors facilitate targeting of different factors (e.g. style, theme or macroeconomic). Due to the risk dispersion inherent in sector investing, versus the idiosyncratic nature of stock risk, sectors can be more effective than an individual equity as a means of capturing business cycles and harnessing thematic trends.

To implement a sector investing strategy, some investors gain their exposure by buying a small number of sector-specific stocks, believing the companies they choose can outperform the sector's average. However, many active managers struggle to even match their benchmark, reflecting the difficulty of stock-picking; this is regularly reported in the S&P Dow Jones SPIVA Report. Given the smaller number of choices and the importance of top-down drivers, it may prove easier to make the correct call on a sector than a stock direction. Sector ETFs can be traded as easily as individual stocks. They offer a simple vehicle with which to enhance core exposure and help portfolio construction.

The Rise of Sector ETFs

Sector ETFs have seen large inflows in the past decade, although uptake has been faster in the US versus other regions. This difference is partly explained by the availability of ETFs. SPDR, for example, launched a range of US-listed sector ETFs[6] in 1998 but only consolidated the range under European domicile in 2015.

We believe a large portion of the inflows into sector ETFs can be explained by the index investment revolution. Additionally, there is also a growing appreciation for the potential benefits of sector investing, such as the ability to target exposures and link to macroeconomic trends. More specifically, we have seen investors embrace sector ETFs as a way to express investment views around key events and trends, such as the US presidential election, rising Fed rates or evolving technology.

Sectors to Implement Investment Views

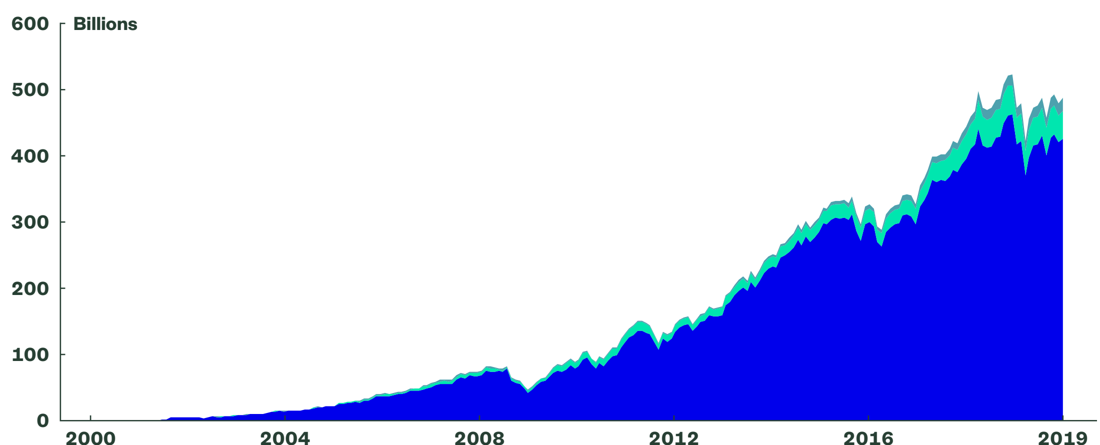
Figure 10 shows that sector investing grew rapidly in 2016. The inflows in the months before the US presidential election, for example, illustrate how investors can use sector ETFs to implement their views. Specifically, investors weighed the potential impact that a Trump or Clinton victory could have on sectors such as Energy, Financials and Health Care, and positioned themselves accordingly. We can assume that this same approach may precede the US election in 2020.

Interest in sector ETFs continued into 2017. Financials attracted the highest inflows as investors looked toward rising Fed rates. Technology followed closely in light of investor desire to access the growth in that sector. In 2017, we saw higher return dispersion (near long-term average levels) after several years of lower dispersion. Return dispersion is one of the major facets of sector investing, as it allows investors to potentially pick the better performing sectors.

This popularity remained through the first three quarters of 2018, with investors again playing Technology against the more defensive sectors as the theme of synchronized global growth continued. However, as Figure 10 shows, there was a setback in Q4 2018 as investors worried about growth in China and its impact on global demand. There was a sharp sector rotation, which offered investors potential rewards but most investors focused on their core allocations. This effect continued to dampen enthusiasm for sector investing in the first part of 2019, but the binary reactions to the US-China trade dispute have made sector selection a powerful investment strategy again.

Figure 10
Rising Investor Interest Over Last 20 Years
AUM in Sector ETFs, Split by Listing in US, Europe and Rest of World

North America
EMEA
APAC



Source: Morningstar, as of 30 September 2019. The above AUM shown is as of the date indicated and is subject to change.

Chapter 4 Strategies for Sector Investing

A fast-paced equity market demands flexibility in an investor's strategy and vehicle. Sector-based approaches can help investors target their exposure and position their portfolios to take advantage of market events, macro trends and shifts in fundamentals.

Key Points

- **Sectors can provide a powerful portfolio tool that fulfills several functions.**
- **Sector have a broad range of applications, ranging from tactical to strategic, liquidity management, sector rotation and expression of macro views.**

Sector Applications

The opportunity to increase returns stems from the wide dispersion of performance between the different sectors and their relatively low correlation to each other. The best sector for the investor's outlook still needs to be decided, of course, but the dispersion of returns illustrates the potential rewards for making the correct sector call.

The ability to select between sectors and associated parts of the market can help investors to target risk in the market (e.g. lower beta, lower valuations or lower volatility). The low correlation between some sectors and the market index as a whole can also be appealing during times of high volatility or correction in equity markets.

Using Sectors to Implement Style Exposures

Equity styles can be broken down in different ways. The most common types are growth (exposure to long-term earnings growth) and value (low valuations based on a range of price measures). Understanding whether the stock market is led by growth or value drivers can help investors decide where to position their portfolios.

There are three sectors that tend to provide effective exposure to the growth factor: Consumer Discretionary, Information Technology and Health Care. Whilst the first two sectors may seem obvious, given they are packed with fast-growing technology, internet and media companies, Health Care also has innovative companies with growing applications. These sectors all have companies generating high returns on capital.

On the value side, three sectors stand out: Energy, Financials and Materials. The large oil and gas providers in the Energy sector are particularly well known for their premium dividend yields. They can help income-orientated portfolios, as well as investors looking for value exposure.

Example Strategies for Using Sectors in Portfolio Construction

Investors use sectors to implement a range of strategies. Here we highlight the main strategies we have observed that our clients use and the solutions they provide for investor portfolios.

Tactical

The ease and relative cost-effectiveness[5] of sector ETFs allow investors to take advantage of short-term market opportunities that are driven by fundamentals or momentum.

Strategic Focus

Investors use sector ETFs to target specific themes (e.g. the growth of disruptive technology) or access favourable long-term trends (e.g. the growth of Chinese industry).

Diversification

Holding a range of stocks reduces the idiosyncratic risk of any one particular stock. Consider a private wealth manager whose client has inherited a large number of specific company shares. One of the fastest ways to diversify the client's portfolio would be to buy a different sector. Additionally, buying exposure through more than one holding can also prove beneficial to liquidity.

Liquidity Management

Sector ETFs are widely recognised as easily traded instruments and may offer the ability to take larger positions than illiquid stocks.

Portfolio Completion

Sector ETFs can help fill gaps in a portfolio with attendant risk benefits. For example, an active portfolio manager with a heavy underweight in Financials could introduce a sector ETF to reduce the overall risk budget.

Sector ETFs can also serve as efficient tools to access market segments otherwise under-represented in local markets. For example, a UK or European investor with a strong domestic bias might be underweight in Information Technology, which could be remedied with an allocation to a Technology sector ETF.

Macroeconomic House Views

Sector groupings are useful tools for implementing an economic outlook, such as one based on the business cycle, or to invest based on the high sensitivity of certain sectors to macro factors, such as inflation.

Replicated Factor Exposure

Sector ETFs can be used instead of smart beta or style funds to access a desired factor such as growth, income or low volatility. Such an allocation can be based either on views of the equity market or the needs of the end investor. Recently, investors have looked at using sectors in an ESG strategy, which allows investors to limit or eliminate exposure to contentious areas such as tobacco or controversial weapons.

Sector Rotation

Sector rotation is a sophisticated and well developed strategy, but it requires a high level of due diligence. The most common rotation strategies are either top-down or bottom-up. The top-down approach aims to capture shifts in the business cycle. Bottom-up can rely on fundamental analysis (valuation, earnings, etc.) or views on technical or momentum factors based on recent company performance.

Figure 11
Strategies for Using Sector ETFs as Alternatives to Other Investment Types

Strategy	Reason	Alternative To
Tactical Focus	Take advantage of market opportunities or sentiment	Core equity fund Broad-based equity index Derivatives
Strategic or Thematic Asset Allocation	Access secular or long-term trends Position according to changes in certain macroeconomic variables	Country selection Broad-based equity index
Diversification	Risk management Taking advantage of dispersion of returns	Single stocks
Liquidity Management	Easier to trade	Single stocks
Portfolio Construction	Compensate for underweights	Active equity funds
Macroeconomic House Views	Exploit sectors' sensitivities	Core equity fund Broad-based equity Index
Factor Exposure	Access factor beta (e.g. value)	Smart beta funds
Sector Rotation	Capture shifts in business cycle, quant models, etc. Bottom-up based on fundamental scoring on valuation, earnings, etc.	Buy and hold strategy

The information contained above is for illustrative purposes only. Diversification does not ensure a profit or guarantee against loss.

Chapter 5 SPDR — Sector Powerhouse

Sector ETFs are a key focus for SPDR globally, with US, Europe and broad developed market exposures to S&P and MSCI Sector indices. SPDR was the first ETF provider to offer the newly formed Communication Services sector in an ETF following the GICS changes in 2018.

Experience in Sectors

Offered by State Street Global Advisors, SPDR ETFs provide investors with the flexibility to select investments that are closely aligned to their investment strategies.

SPDR is a global leader in sector ETFs, having introduced the first such funds in the US in 1998 before rolling out the US, European and World sector ranges with European listings in 2015. SPDR now has over $140 billion in AUM in sector ETFs (as of 31 October 2019). Our US sector range tracks the S&P Select Sector indices, which are composed of the same stocks as the S&P 500 sectors but have a cap on any large constituents. This cap helps to limit the risks of high stock concentration.

SPDR is the only provider with a full suite of physically replicated US, Europe and World sector UCITS ETFs in Europe. The launch of the US Communication Services sector, in 2018, took our UCITS sector range up to 32 funds.

SPDR Sector ETF Range

The SPDR sector ETF range covers three regions, as listed below. All the funds use indices with GICS classification (for further explanation please see Chapter 1).

World

SPDR MSCI World Consumer Discretionary UCITS ETF
SPDR MSCI World Consumer Staples UCITS ETF
SPDR MSCI World Energy UCITS ETF
SPDR MSCI World Financials UCITS ETF
SPDR MSCI World Health Care UCITS ETF
SPDR MSCI World Industrials UCITS ETF
SPDR MSCI World Materials UCITS ETF
SPDR MSCI World Technology UCITS ETF
SPDR MSCI World Communication Services UCITS ETF
SPDR MSCI World Utilities UCITS ETF
SPDR Dow Jones Global Real Estate UCITS ETF

US

SPDR S&P U.S. Consumer Discretionary Select Sector UCITS ETF
SPDR S&P U.S. Consumer Staples Select Sector UCITS ETF
SPDR S&P U.S. Energy Select Sector UCITS ETF
SPDR S&P U.S. Financials Select Sector UCITS ETF
SPDR S&P U.S. Health Care Select Sector UCITS ETF
SPDR S&P U.S. Industrials Select Sector UCITS ETF
SPDR S&P U.S. Materials Select Sector UCITS ETF
SPDR S&P U.S. Technology Select Sector UCITS ETF

Europe

SPDR MSCI Europe Consumer Discretionary UCITS ETF
SPDR MSCI Europe Consumer Staples UCITS ETF
SPDR MSCI Europe Energy UCITS ETF
SPDR MSCI Europe Financials UCITS ETF
SPDR MSCI Europe Health Care UCITS ETF
SPDR MSCI Europe Industrials UCITS ETF
SPDR MSCI Europe Materials UCITS ETF
SPDR MSCI Europe Technology UCITS ETF
SPDR FTSE EPRA Europe ex UK Real Estate UCITS ETF

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Endnotes

1 Source: Bloomberg Finance L.P., as of 30 September 2019.

2 As at 30 June 2019.

3 Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

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