

June 2020

An Update on High Yield Bonds

Jason Simpson

Senior Fixed Income ETF Strategist

High yield bonds have benefitted as risk appetite has returned to markets. We believe there could still be upside as investors search for yield.

Macro Backdrop

High yield (HY) has been an increasing focus for investors as risk appetite returns to the market. There are three main interconnected macro drivers of inflows into HY investments:

- As European lockdowns are starting to ease and the economic numbers start to improve, market participants have become more comfortable moving into higher-risk products such as emerging markets and high yield. While many uncertainties remain, the pandemic is looking more manageable, meaning market sentiment is erring towards the view that some of the worst performing assets have priced in too much bad news. While equities have recouped a large portion of their losses, yields on the Bloomberg Barclays Liquidity Screened Euro HY Index are around 4.40%, against an average of 2.90% in the 12 months before the crisis. So they have lagged the wider recovery in risk assets.
- In a world where cash and many European government bonds have negative yields, there is pressure on investors to re-allocate into assets that earn a return. HY is obviously at the top of the pile. The yield at least protects investors against some declines in capital value before total returns turn negative, which is not the case for a lot of government bonds.
- Central banks provide some protection. The ECB may not be a buyer of HY like the Fed, but its purchases of government bonds and investment grade (IG) paper, which depress the yield, do encourage investors to move to higher yielding assets. At present, the ECB almost certainly holds HY paper, originally IG paper that has been bought and subsequently downgraded. There is speculation over whether the ECB will ultimately end up purchasing HY paper. The ECB's Rehn's comments on 9 June 2020, to the effect that they should be buying HY debt, is likely to keep that optimism alive.

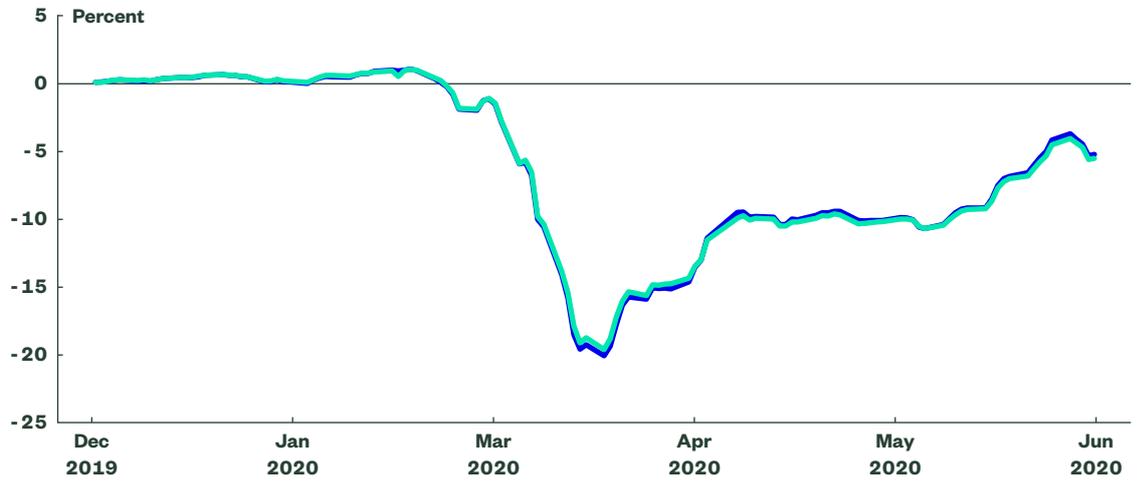
What Has Been Driving Performance?

In terms of performance, the Bloomberg Barclays Liquidity Screened Euro HY Index has done well versus the competition. YTD total returns are -5.31% (to 12 June 2020), which is ahead of the Markit iBoxx EUR Liquid High Yield Index, favoured by iShares, which is -5.62%. Given the longer duration on the Bloomberg Barclays Liquidity Screened Euro High Yield Bond index versus the Markit iBoxx EUR Liquid High Yield Index (3.67 versus 3.29), a continued recovery in HY should mean price returns remain higher on the Bloomberg Barclays index. For details on the differences between the indices, please see our index comparison.

Figure 1
Performance
Comparison

■ Bloomberg Barclays
Liquidity Screened Euro
HY Index

■ Markit iBoxx EUR Liquid
High Yield Index



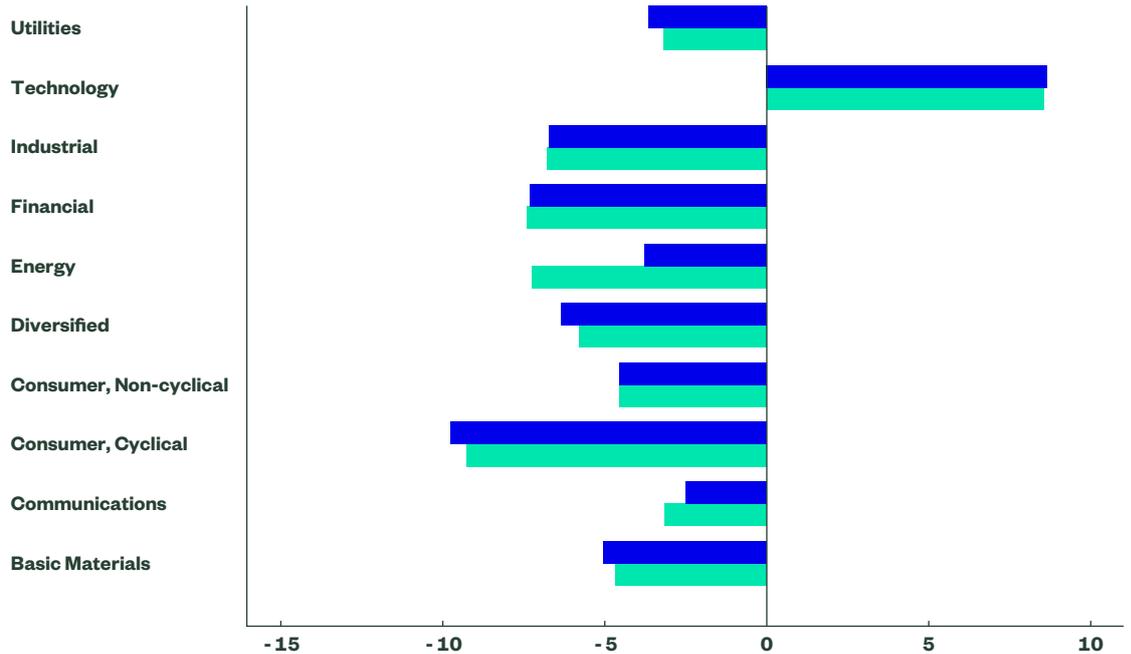
Source: Bloomberg Finance L.P., as of 12 June 2020. Past performance is not a reliable indicator of future performance. Sector returns shown are as of the date indicated and are subject to change. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Figure 2 below shows the key performance drivers for SPDR Bloomberg Barclays Euro High Yield Bond ETF (JNKE) versus the index. Strong gains from Technology have been more than offset by all other categories. The only place where there is a meaningful divergence of the SPDR ETF versus the Bloomberg Barclays Liquidity Screened Euro High Yield Bond index is in Energy.

Figure 2
Sector Returns
YTD (%)

■ Bloomberg Barclays
Liquidity Screened Euro
HY Index

■ SPDR Bloomberg
Barclays Euro High Yield
Bond UCITS ETF



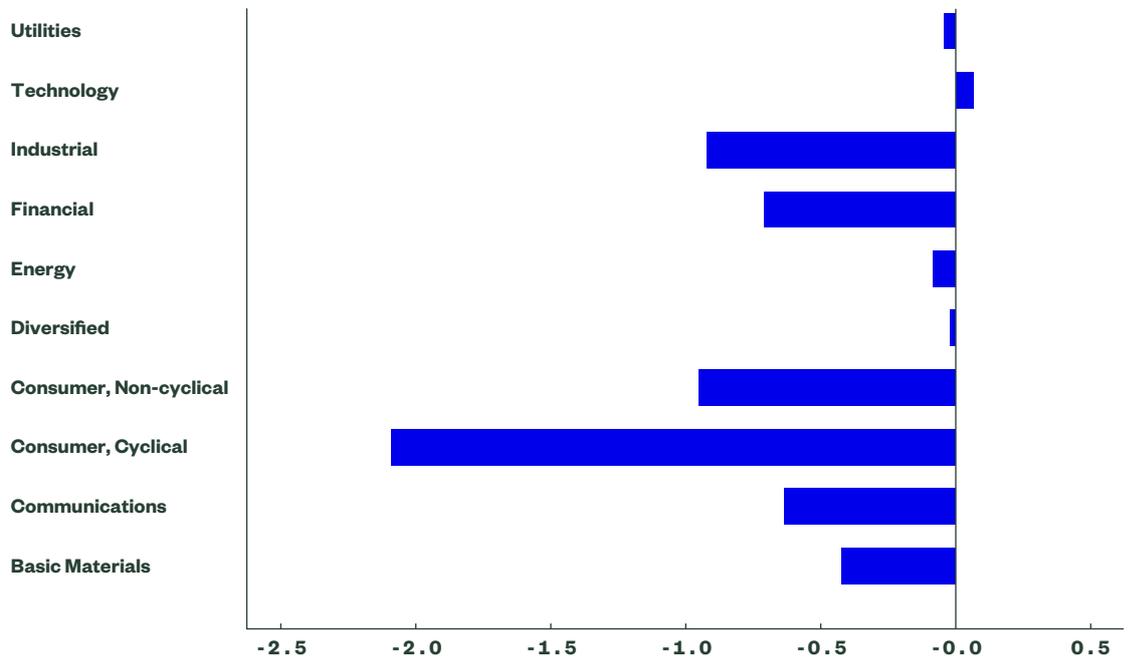
Source: State Street Global Advisors, Bloomberg Finance L.P., as of 12 June 2020. Past performance is not a reliable indicator of future performance. Sector returns shown are as of the date indicated and are subject to change. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Looking at contributions to performance (returns*weight of bonds in the fund), it becomes clear that exposure to consumer cyclicals was the key drag on outright performance accounting for over 2% of the fund's 5.44% decline. Despite this showing, other funds fared even worse, with returns for consumer cyclicals in the Markit iBoxx index down more than 10%.

Note that energy becomes almost irrelevant because it accounts for less than 1.2% of the portfolio.

The positive contribution from technology ultimately becomes small as it is less than 1% of the index, but again this was a key sector in which the Bloomberg Barclays index outperformed iBoxx.

Figure 3
Weighted Sector Returns YTD (%)



Source: State Street Global Advisors, Bloomberg Finance L.P., as of 12 June 2020. Past performance is not a reliable indicator of future performance. Sector returns shown 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. It is not known whether the sectors or securities shown will be profitable in the future.

The Outlook — Still Searching for Yield

The low level of yields on government bonds and the fact that IG corporates have already seen a sharp spread narrowing should encourage many investors to continue to seek out higher-yielding assets or areas of the market where perceived returns are greater. The message from State Street Global Markets is that investors still have cash to deploy, which suggests that flows into HY could continue.

Aside from the yield and any general market price gains, current conditions are favourable for fund managers to enhance returns via two methods.

First, with significant amounts of HY issuance there is scope for enhancing returns by picking up 'cheap' paper in the primary market that is trading at a discount at the time of issue.

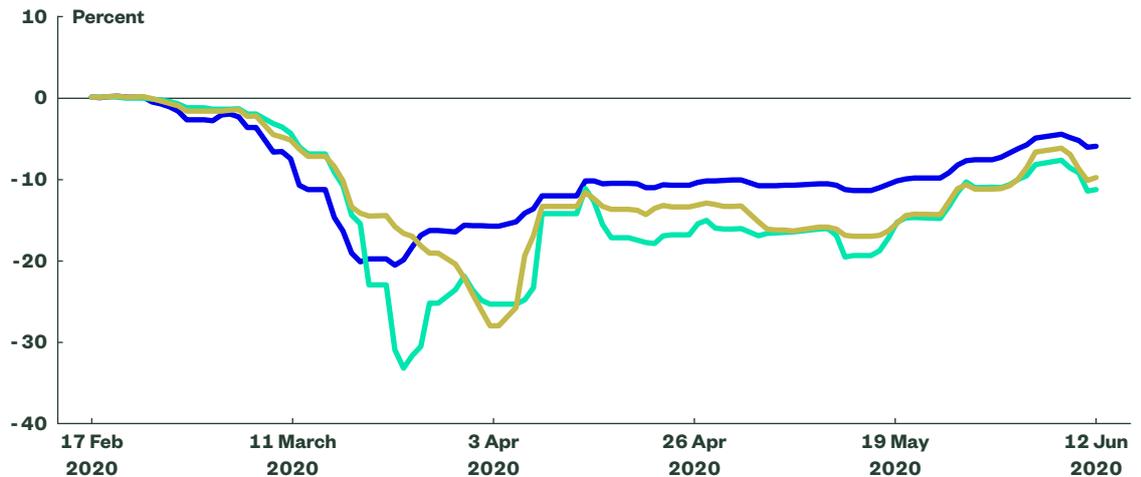
Second, through adept management of Fallen Angels could prove helpful. In 2020 so far, there have been 14 Fallen Angels in the Western Europe region, or companies that have lost their Moody's IG status. These are generally perceived as a risk to HY indices given the smaller size of the market means paper is often aggressively sold as it leaves the IG indices and there is far less demand as it enters HY space. However, this transition also creates opportunities. For instance, at March month-end 15 bonds from 5 issuers came into the Bloomberg Barclays Euro High Yield Bond index. By far the majority (80% by market value) of this was accounted for by 2 issuers: Ford and ZF.

The chart below shows the total return of the middle maturity bond from each issuer against returns from Bloomberg Barclays Liquidity Screened Euro HY Index. Prices dropped quite sharply in March and April as IG funds sold these bonds. However, from 5 April 2020 onwards there was a sharp improvement in performance.

Figure 4

Total Returns

- Bloomberg Barclays Liquidity Screened Euro HY Index
- Ford Motor Credit
- ZF Europe Finance



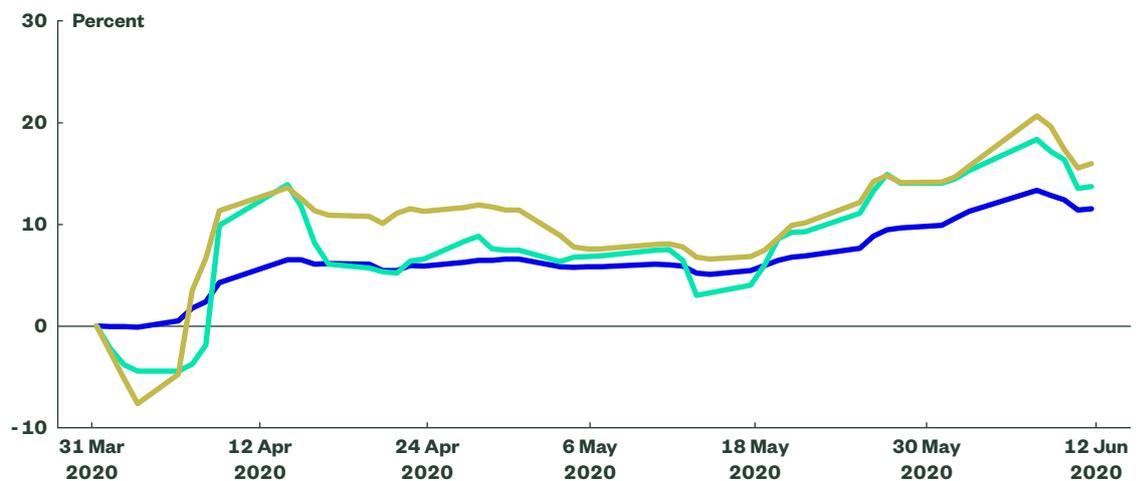
Source: Bloomberg Finance L.P., as of 12 June 2020. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

Resetting the chart so that it dates from 31 March 2020, when these bonds would have entered the index, shows both have delivered a significant outperformance versus the index. In short, returns can be enhanced by acquiring Fallen Angels shortly after they fall out of IG indices.

Figure 5

Total Returns

- Bloomberg Barclays Liquidity Screened Euro HY Index
- Ford Motor Credit
- ZF Europe Finance



Source: Bloomberg Finance L.P., as of 12 June 2020. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

The Risks

The big risk relates to issuer defaults. Moody's has made 428 downgrades to sub-investment grade issuers in 2020 so far, which is higher than the annual total since 2012. Assuming downgrades are genuinely forward looking, rather than reactive, the worst could be behind us. However, a second wave of the pandemic and subsequent shut-downs could cause a spike in defaults, thus damaging fund returns.

How to Play This Theme

To learn more about investing in high yield bonds with SPDR ETFs, please visit the fund page linked below, where full fund performance history is also available.

SPDR Bloomberg Barclays Euro High Yield Bond UCITS ETF.

Figure 6

Performance

	1 Month (%)	3 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	Since Inception (%)
SPDR Bloomberg Barclays Euro High Yield Bond UCITS ETF	2.72	-5.16	-7.11	-2.47	-0.15	8.78	46.61
Bloomberg Barclays Liquidity Screened Euro High Yield Bond Index	2.85	-5.08	-6.97	-2.06	1.27	11.22	51.32
Difference	-0.13	-0.09	-0.14	-0.41	-1.42	-2.44	-4.71

Source: State Street Global Advisors, as at 31 May 2020. The fund inception date is 3 February 2012. **Performance quoted represents past performance, which is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. The contained performance data do not take account of the commissions and costs incurred on the issue and redemption, or purchases and sale, of units. Visit spdrs.com for most recent month-end performance. The performance figures contained herein are provided on a net of fees basis.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Performance returns for periods of less than one year are not annualised.

About State Street Global Advisors

Our clients are the world's governments, institutions and financial advisors. To help them achieve their financial goals we live our guiding principles each and every day:

- Start with rigour
- Build from breadth
- Invest as stewards
- Invent the future

For four decades, these principles have helped us be the quiet power in a tumultuous investing world. Helping millions of people secure their financial futures. This takes each of our employees in 27 offices around the world, and a firm-wide conviction that we can always do it better. As a result, we are the world's third-largest asset manager with US \$2.69 trillion* under our care.

* This figure is presented as of March 31, 2020 and includes approximately \$51.62 billion of assets with respect to SPDR products for which State Street Global Advisors Funds Distributors, LLC (SSGA FD) acts solely as the marketing agent. SSGA FD and State Street Global Advisors are affiliated.

ssga.com/etfs

Marketing Communication. For professional client use only.

For Investors in Austria: The offering of SPDR ETFs by the Company 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: +49 (0)89-55878-400. F+49 (0)89-55878-440. **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 (29.1.1999/48) 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. **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 Company centralising correspondent: State Street Banque S.A., 23-25 rue Delarivière-Lefoullon, 92064 Paris La Defense Cedex or on the French part of the site spdrs.com. The Companies re undertakings for collective investment in transferable securities (UCITS) governed by Irish law and accredited by the Central Bank of Ireland 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.

This 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. **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 Investment Act. Prospective investors may obtain the current sales Prospectuses, the articles of incorporation, the KIIDs as well as the latest annual and semiannual report free of charge from State Street Global Advisors GmbH, Brienner Strasse 59, D-80333 Munich. T: +49 (0)89-55878-400. **Ireland:** 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 (0)1 776 3000. F: +353 (0)1 776 3300. **ssga.com. Israel:** No action has been taken or will be taken in Israel that would permit a public offering of the Securities or distribution of this sales brochure to the public in Israel. This sales brochure has not been approved by the Israel Securities Authority (the 'ISA'). Accordingly, the Securities shall only be sold in Israel to an investor of the type listed in the First Schedule to the Israeli Securities Law, 1978, which has confirmed in writing that it falls within one of the categories listed therein (accompanied by external confirmation where this is required under ISA guidelines), that it is aware of the implications of being considered such an investor and consents thereto, and further that the Securities are being purchased for its own account and not for the purpose of re-sale or distribution. This sales brochure may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been sent. Nothing in this sales brochure should be considered investment advice or investment marketing as defined in the Regulation of Investment Advice, Investment Marketing and Portfolio Management Law, 1995 ("the

Investment Advice Law"). Investors are encouraged to seek competent investment advice from a locally licensed investment advisor prior to making any investment. State Street is not licensed under the Investment Advice Law, nor does it carry the insurance as required of a licensee thereunder. This sales brochure does not constitute an offer to sell or solicitation of an offer to buy any securities other than the Securities offered hereby, nor does it constitute an offer to sell to or solicitation of an offer to buy from any person or persons in any state or other jurisdiction in which such offer or solicitation would be unlawful, or in which the person making such offer or solicitation is not qualified to do so, or to a person or persons to whom it is unlawful to make such offer or solicitation. **Italy:** State Street Global Advisors Ireland Limited Milan Branch (Sede Secondaria di Milano) ("State Street Global Advisors Milan Branch") is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 145221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson's Quay, Dublin 2. State Street Global Advisors Milan Branch is registered in Italy with company number 10495250960 - R.E.A. 2535585 and VAT number 10495250960, and its office is located at Via Ferrante Aporti, 10 - 20125 Milano, Italy. T: (+39) 02 32066 100. F: (+39) 02 32066 155. **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 Markten). 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. **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. **Spain:** State Street Global Advisors 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 Cecabank, 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). **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 ssga.com. **United Kingdom:** 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 Ireland ("SSGA")**, regulated by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson's Quay, Dublin 2. Registered number 145221. T: +353 (0)1 776 3000. Fax: +353 (0)1 776 3300. sga.com.

SPDR ETFs is the exchange traded funds ("ETF") platform of State Street Global Advisors and is comprised of funds that have been authorised by Central Bank of Ireland as open-ended UCITS investment companies.

State Street Global Advisors SPDR ETFs Europe I & II 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.

The information provided does not constitute investment advice. 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 information is from SSGA unless otherwise noted and has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such.

ETFs trade like stocks, are subject to investment risk and will fluctuate in market value. The investment return and principal value of an investment will fluctuate in value, so that when shares are sold or redeemed, they may be worth more or less than when they were purchased. Although shares may be bought or sold on an exchange through any brokerage account, shares are not individually redeemable from the fund. Investors may acquire shares and tender them for redemption through the fund in large aggregations known as "creation units." Please see the fund's prospectus for more details.

The trademarks and service marks referenced herein are the property of their respective owners. Third party data providers make no warranties or representations of any kind relating to the accuracy, completeness or timeliness of the data and have no liability for damages of any kind relating to the use of such data.

The views expressed in this material are the views of SPDR EMEA Strategy & Research through the period ending 12 June 2020 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.

Investing in high yield fixed income securities, otherwise known as "junk bonds", is considered speculative and involves greater risk of loss

of principal and interest than investing in investment grade fixed income securities. These Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

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

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. 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 Jones Trademark 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 product(s) nor do they have any liability in relation thereto, including for any errors, omissions, or interruptions of any index.

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.

Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates raise, 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.

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. 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. The funds presented herein have different investment objectives, costs and expenses. Each fund is managed by a different investment firm, and] the performance of each fund will necessarily depend on the ability of their respective managers to select portfolio investments. These differences, among others, may result in significant disparity in the funds' portfolio assets and performance. For further information on the funds, please review their respective prospectuses.

© 2020 State Street Corporation.
All Rights Reserved.
ID238650-3127307.1.1.EMEA.INST 0620
Exp. Date: 31/07/2020