

# Sector Compass

## US Election: Weighing the Impact on Sectors

# Q4 2020

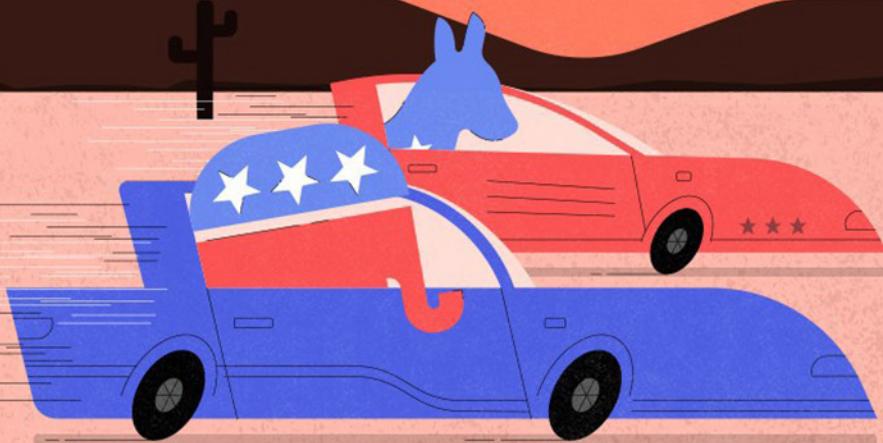
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# Themes and Outlook

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**A summary of the major investment themes influencing sectors, plus an outlook for the quarter ahead.**

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## Sector ETFs Well Suited for Current Environment

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High dispersion of returns between sectors has continued to offer significant opportunity for investors. We believe a selective approach remains the preferred path during Q4 2020 as uncertainty mounts around the US election, COVID-19 and regional challenges such as Brexit, each of which could hinder an already uneven and intermittent recovery.

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### Return Dispersion Remains a Major Trend

Dispersion of returns between sectors in Q3 2020 ranked in the top decile of observations over the last three years.<sup>1</sup> And the contribution of cross-sector effects to market dispersion remained above its long-run average, indicating a greater potential relative reward to sector allocation.<sup>2</sup>

During the third quarter, there was an improvement in earnings expectations globally, with the US leading the way. This supported positive returns in most sectors, with an obvious standout being Energy. Greater confidence in economic recovery saw more flows into the traditionally cyclical sectors.

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### The Impact of US Elections in the US and Worldwide

There are many other things to consider this quarter, but for sector investors the outcome of the US presidential election is probably the most important.

Sector investing has been an effective way to express market views in US elections in the past, with investors enabled to take advantage of sizeable return dispersion. Sector ETFs proved a popular tool during the 2016 election, as a quick way to orientate portfolios on new developments, and we expect high interest this time as well.

Relative sector performance around elections does not neatly fit cyclical/defensive or growth/value themes; other factors tend to provide the headwinds or tailwinds. Irrespective of where a company is listed, and if a sector is labelled “US,” “Europe” or “World,” most large-cap companies have a market in the US, if not a US employment base as well. Therefore, considerations of corporation tax, minimum wage plans, changes to legislation, takeover rules, trade relations and green policies are all relevant to sector performance globally.

For an in-depth review, please see: *Investing by Sector During US Presidential Elections* and *5 Sectors in Play During the US Presidential Election* under the Insights section of [ssga.com/etf](https://ssga.com/etf).

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## Beyond the Election Lies More Uncertainty

While the US election has dominated headlines, there are a variety of other “known unknowns” that investors will need to grapple with in the coming months.

- 1 The great vaccine hope** While Trump is on record as expecting a vaccine by the time you read this document (i.e. mid-October), the CDC in the US has stated that late Q2/early Q3 2021 is the earliest realistic timeframe. Disappointment on timing could hit the equity markets, which have traded upwards for months on hopes of a full economic reopening — which might only be possible with a successful vaccine and effective testing. In the meantime, Health Care remains front and centre.
- 2 Impact of a second wave** The effects of a second wave relate to the issue around vaccines, but local lockdowns are being applied at an accelerating rate and, having seen net upgrades last quarter, companies might be in line for downgrades soon.
- 3 Agreeing on fiscal stimulus** This is key to market sentiment in the US and it looks like nothing will be achieved until after the election (and a definitive result), but it is also the case in Europe that the EU needs to deliver on its ambitious recovery package.
- 4 A Brexit deal** Although overshadowed by COVID-19 measures, a productive resolution to Brexit will be vital to many businesses in the UK and the rest of Europe.
- 5 Return of dividends** Investors are still starved of bond income and, having looked to equities, have been disappointed by Energy and Financials. Bank stress tests will be among the hurdles going forward.

Rather than pick one scenario, e.g. Biden wins or a successful vaccine is found by year end, we prefer to opt for lower volatility sectors this quarter. We look for stability of forecasting and earnings to help investors looking to de-risk portfolios. With cyclical sectors no longer undervalued on P/Es, no longer under-owned and more vulnerable to disappointment in Q3 earnings season, we favour defensives. It is also important not to forget the need for income.

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## Sector Picks This Quarter

To inform our choice of sectors, we consider these market themes and relevant macroeconomic factors for the next quarter (such as commodities, manufacturing figures, credit markets), alongside earnings and valuation metrics, investor behaviour and the outlook of the largest constituents. The SPDR Sector Picks are those we believe stand to benefit the most from this outlook.

	World	US	Europe
<b>Health Care</b>	✓	✓	✓
<b>Utilities</b>	✓	✓	✓
<b>Technology</b>	✓	✓	
<b>Consumer Staples</b>			✓

# Sector Performance and ETF Flows

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**Regional sector performance highlighting dispersion between top and bottom performance. Flows into sector ETFs split between US and European domicile, worth more than \$590 billion in AUM.\***

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\*Source: Morningstar, as of 30 September 2020.

## Sector Performance

There continued to be sizeable dispersion between sector returns in Q3 2020. A noteworthy 32% separated Consumer Discretionary's 16% gain from Energy's 16% decline in the MSCI World, with an even larger difference in the S&P 500.

Energy was the only sector to suffer negative returns in all three regions, with continuing concerns over a lack of demand for oil products, particularly from reduced travel. In addition, the sector is possibly suffering already from likely fallout if Biden wins the US presidential election and imposes harsher penalties on fossil fuel production.

Despite falling in September, Amazon\* continued to account for a large proportion of Consumer Discretionary's gains in the US and World indices, whereas in the Europe index a bounce in luxury goods stocks boosted the sector. Even after weakness in the FAANGs\*, Momentum, Quality and Growth still led the way during the whole quarter, while Value strategies underperformed.

World Sectors				US Sectors				Europe Sectors			
Q3 (%)		YTD (%)		Q3 (%)		YTD (%)		Q3 (%)		YTD (%)	
Cons Discret	16.0	27.4	Tech	Cons Discret	15.2	28.3	Tech	Cons Discret	8.0	6.3	Tech
Tech	11.8	17.6	Cons Discret	Materials	13.3	18.0	Cons Discret	Industrials	7.2	0.3	Utilities
Materials	11.7	6.4	Comm Servs	Industrials	12.3	11.2	Comm Servs	Materials	7.0	0.2	Health Care
Industrials	11.7	6.3	Health Care	Tech	11.9	5.1	S&P500 NR	Tech	3.5	-3.2	Materials
Comm Servs	8.3	3.6	Materials	Comm Servs	10.0	4.7	Materials	Cons Staples	1.2	-4.9	Cons Staples
MSCI World NR	7.9	1.7	MSCI World NR	Cons Staples	9.8	4.6	Health Care	Utilities	0.4	-7.8	Industrials
Cons Staples	7.5	1.3	Cons Staples	S&P500 NR	8.8	3.2	Cons Staples	MSCI Europe NR	0.1	-10.7	Cons Discret
Health Care	4.8	-3.2	Industrials	Utilities	5.9	-4.4	Industrials	Real Estate	-0.7	-12.8	MSCI Europe NR
Utilities	4.7	-4.1	Utilities	Health Care	5.7	-6.4	Utilities	Health Care	-2.4	-22.0	Comm Servs
Real Estate	2.1	-12.5	Real Estate	Financials	4.3	-7.4	Real Estate	Comm Servs	-7.1	-22.7	Real Estate
Financials	1.8	-21.6	Financials	Real Estate	1.7	-20.7	Financials	Financials	-7.3	-31.4	Financials
Energy	-16.0	-45.9	Energy	Energy	-19.9	-48.3	Energy	Energy	-17.7	-48.0	Energy

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 30 September 2020. Past performance is not a guarantee of future results. The universes for the above charts are the MSCI World, S&P Select Sectors, and MSCI Europe. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index Performance is not meant to represent that of any particular fund. These indices are net total return. \* This information should not be considered a recommendation to invest in a particular sector, or securities therein, shown above.

## Sector ETF Flows

Flows were mixed last quarter. Net flows into European-domiciled sector ETFs remained positive month by month, whereas US-listed products were negative in September despite continued strong flows into equity ETFs in general. The casualties were US Technology, where a turn in flow momentum occurred alongside a turn in price momentum, and the rate-sensitive Financials sector, which has been out of favour all year due to concern over banks' interest margins.

In both US and European markets there was more attention to the cyclical sectors Industrials and Materials, as investors became more confident of economic recovery and help for infrastructure building from fiscal stimulus. The European-domiciled sector ranges still received net positive flows into Technology funds, reinforcing it as the largest category year to date.

	US-Domiciled (\$mn)		European-Domiciled (\$mn)	
	Q3	YTD	Q3	YTD
Communication Services	-82	2,406	-17	-350
Consumer Discretionary	2,183	2,589	196	150
Consumer Staples	-664	-159	-74	435
Energy	-395	4,366	247	531
Financials	-977	-2,926	160	-863
Health Care	-937	6,549	-73	2,775
Industrials	2,936	3,480	459	1,127
Materials	782	653	1,313	2,071
Real Estate	-2,571	-5,614	338	-557
Technology	-528	7,131	699	4,291
Utilities	-180	704	23	369

Source: Bloomberg Finance L.P., State Street Global Advisors, as of 30 September 2020. Flows shown above are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

**Methodology** We collect and aggregate flow figures for all sector and industry ETFs domiciled in the US and Europe. As of October 2020, this set includes approximately \$541 billion in AUM invested in US-domiciled funds and \$50 billion in AUM invested in European-domiciled funds. The flow figures include ETFs invested across regions (including US, Europe and World). They are calculated as the net figure of buys minus sells. **The green boxes signify the two highest flow figures for each period, while the red boxes signify the two lowest flow figures.**



# Institutional Flows and Positioning

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**The direction of flows and relative positioning of institutional sector flows, referencing \$18.2 trillion of equity assets under custody.\***

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\*Source: State Street, as of 30 June 2020.

# World

In Q3 2020, the standout flows from institutional investors went into Materials stocks. Unlike earlier in the recovery rally, investors preferred chemical manufacturers more than metals and mining operators. These flows reflected a desire for cyclical exposure and were supported by sharp earnings upgrades. The relative inflows further increased average overweight positions in the Materials sector.

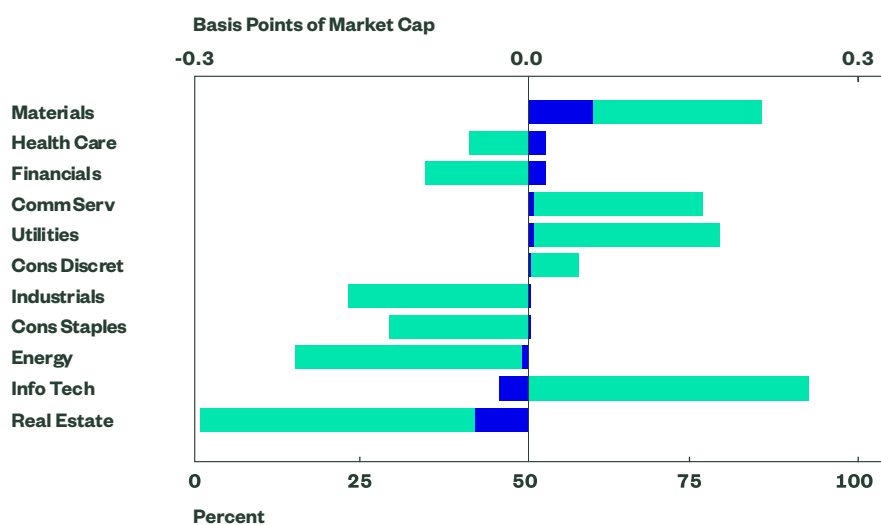
Utilities also saw inflows adding to relative overweight positioning. The reasoning was probably quite different from the Materials buying, with the timing (see the surge last month) suggesting this is new interest in renewable energy ahead of a potential Biden victory and green policies.

At the other end of the scale, Real Estate outflows continued, mainly via selling of REITs, further increasing the underweight positioning that is now as extreme as at any other time in the past five years. Investors have been worried by the prospects of falling property valuations as well as hits to income.

## Flows and Holdings

Active Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

- 3-month flow (upper axis)
- Holdings (lower axis)

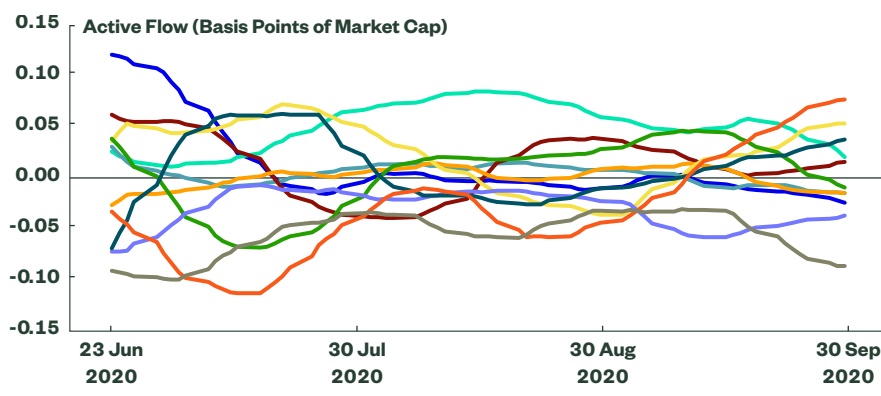


Source: State Street Global Markets. Data are as of 30 September 2020. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

## Progression of Active Flows

Trend of Flows Over Past Quarter

- Energy
- Materials
- Industrials
- Cons. Disc.
- Cons. Staples
- Health Care
- Financials
- Info. Tech.
- Communication
- Utilities
- Real Estate



Source: State Street Global Markets. Data are as of 30 September 2020. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. The universes for the above charts are the MSCI ACWI. 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.

# US

Flows into US Materials stocks were similar to the global trends. Perhaps more interesting was the turn for Financials. This sector has seen relative outflows for years, falling from overweight portfolio positioning to near index levels as investors worried about banks' income in a low interest rate environment. The most popular stocks we saw in the flows were in the diversified financials category. This group contains investment banks and asset managers, which have benefited from stock market conditions in recent months.

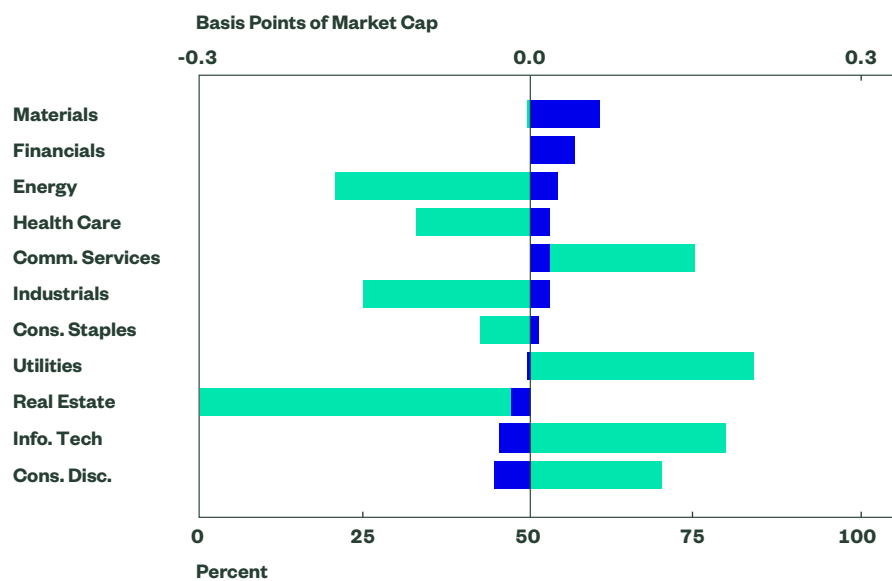
Utilities show the highest overweight versus investor benchmarks. As it is a Sector Pick, we share our thoughts on Utilities later on page 16.

Real Estate also shows its most extreme positioning in a five-year period, followed by Energy, which has endured a period of very poor performance.

## Flows and Holdings

Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

- 3-month flow (upper axis)
- Holdings (lower axis)

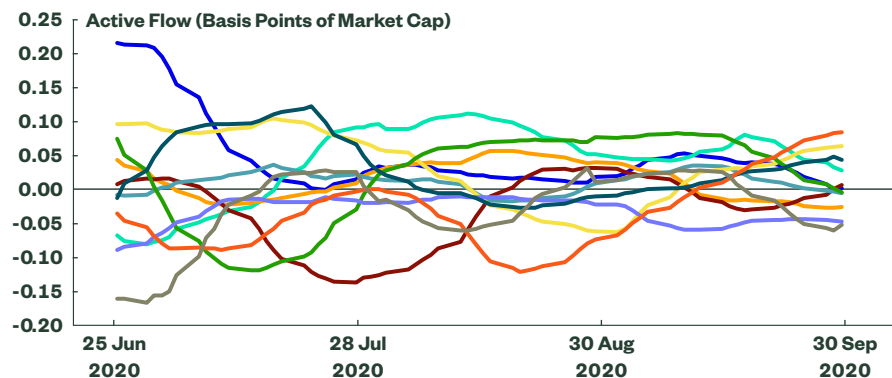


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# Europe

Flows in Europe in Q3 seemed quite mixed between cyclical and defensive exposures, possibly showing some level of uncertainty among investors on economic outlook.

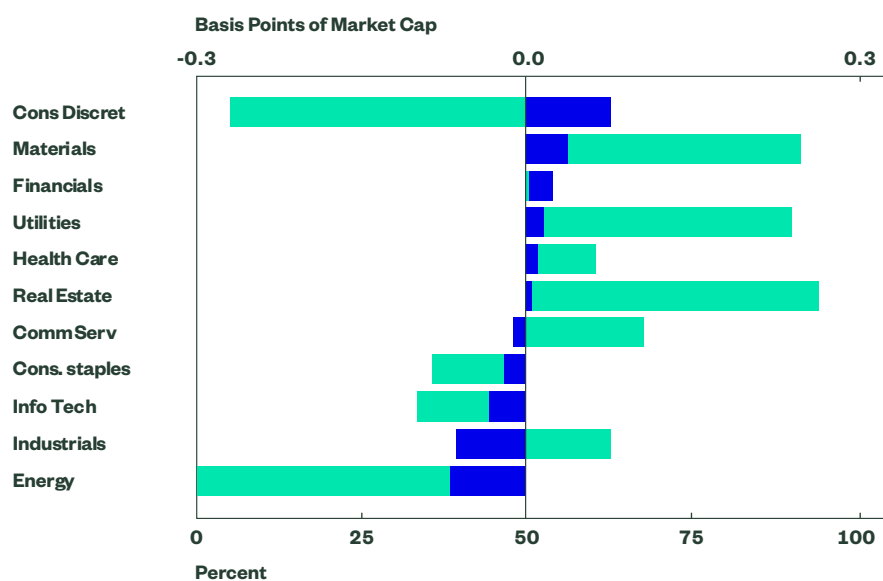
Consumer Discretionary, a sector dominated by well-known luxury brands, stands out for consistent relative inflows during the past three months. There was a particular hunt for retailers that have experienced a challenging year due to restrictions imposed during COVID-19 lockdown but could be compelling value investments. The sector's relative positioning among institutional investors is still highly underweight.

As in other regions, Energy has an extreme underweight positioning. In addition to huge earnings downgrades, the large oil and gas companies have lost their traditional relative attractions as large dividend payers. There were also relative outflows from Industrials, a sector that includes capital goods manufacturers, transport stocks (including airlines) and aerospace and defence. While many of these companies could benefit from a recovery in PMIs, some businesses will remain extremely challenged in the near term.

## Flows and Holdings

Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

- 3-month flow (upper axis)
- Holdings (lower axis)

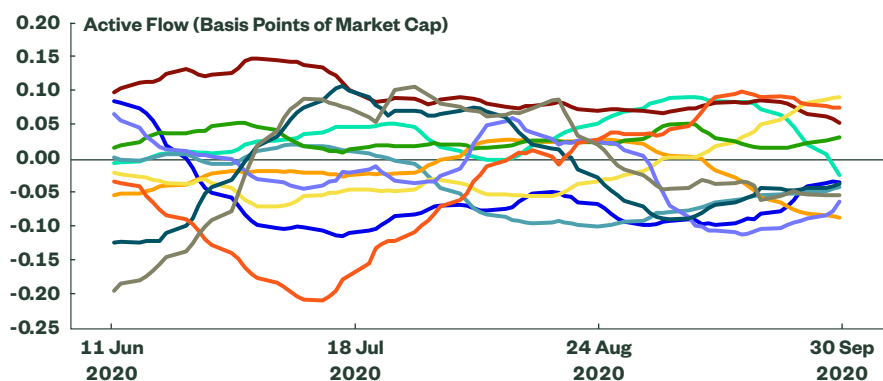


Source: State Street Global Markets. Data are as of 30 September 2020. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

## Progression of Active Flows

Trend of Flows Over Past Quarter

- Energy
- Materials
- Industrials
- Cons. Disc.
- Cons. Staples
- Health Care
- Financials
- Info. Tech.
- Communication
- Utilities
- Real Estate



Source: State Street Global Markets. Data are as of 30 September 2020. Sectors flows are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. The universes for the above charts are the MSCI Europe. 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.

# Sector Picks

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**Ideas for the quarter ahead based on macroeconomic indicators, aggregated earnings, valuation metrics, flows, holdings and potential drivers for each sector.**

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## Health Care

### A Positive Prognosis

World	US	Europe
✓	✓	✓

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### Investors Adding to Health Care After De-Rating

Health Care was de-rated last quarter in a market increasingly favouring cyclicity. This ignored above-average earnings upgrades. However, institutional investors are recognising the relatively attractive earnings growth, both in the short and long term. Investors are adding exposure to Health Care stocks, partially correcting their underweight positions outside of Europe (see pages 10–11). As ever, US politics typically influences sentiment towards this sector and understanding the possible impact under various election scenarios is key.

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### Election Coverage

Health care demonstrated its importance in US politics during the 2018 mid-term elections. Exit polls then showed that 41% of US voters identified health care as their top issue of concern and it was speculated that voters' growing attachment to the Affordable Care Act probably handed Democrats control of the US House of Representatives.

Arguments over the best way to legislate and regulate the industry have continued vociferously since. Many of the end goals, such as lower prescription drug prices, are bipartisan but lack consensus on how to get there. Traditionally, Democrat policies have invoked more investor fear than those of Republicans, but with the candidates we have in 2020 and the relatively low probability of a full Democrat (or Republican) sweep, the differences may be less this time.

With a split Congress, Biden's policies may not have a huge impact on the sector. We believe that he would seek to build on Obama's Affordable Care Act with his biggest move being a public option for insurance, giving uncovered Americans an opportunity to buy health insurance from the government, such as reducing the age limit on Medicare. Such an approach could use existing health care insurers.

In the case of Democrat control of Congress, the public option could be larger and more of a threat. There would also be hopes of reducing prescription drug pricing, although the odds of agreement are low. Antitrust enforcement could produce bigger hurdles for any M&A.

By contrast, if he retains the presidency, Trump may seek further repeals against the Affordable Care Act. However, success would again depend on a backing from the House. Overall, the status quo scenario may result in lower headline risk from any drastic policy changes. Nevertheless, the need for either candidate to manage the country through a pandemic, reliant on health care provision and supplies, suggests that the sector may not face too much interference for some time.

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### Many Companies in the Search for a Cure

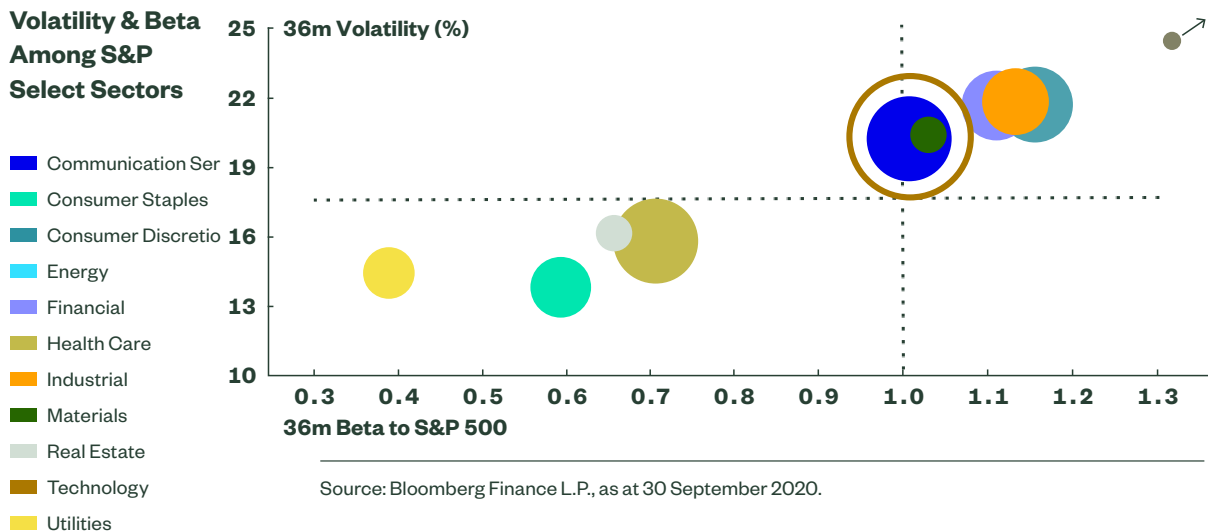
The search for a vaccine and/or a cure for COVID-19 is a critical goal currently. While we wait for the necessary treatment to allow economic activity to fully recover, there is unmet demand for testing kits and the necessary reagents for PCR diagnostic and serological testing.

Given the unprecedented speed of research and development, there is much hope that a successful vaccine for COVID-19 will be found soon. The frontrunners, with their novel mRNA or traditional vaccines, remain Moderna (working with the US National Institute of Allergy & Infectious Diseases), the UK's AstraZeneca (in partnership with Oxford University) and Pfizer/BioNTec.\* These companies are closely followed by GlaxoSmithKline, Merck, Sanofi and Johnson & Johnson.\* In preparation, some of these companies are already ramping up production and delivery capacity.

Investors should not lose sight of the many testing and approval hurdles still to go. The first declared vaccine may not be the most effective, and there can be more than one winner. Critically, there needs to be more than one successful vaccine to supply a global population with varying medical needs.

Meanwhile, Gilead Sciences' Remdesivir is still the closest to a cure for COVID-19.\* This anti-viral drug works by stopping the virus from replicating and has received new notoriety following treatment of Trump while in hospital, as did Regeneron's experimental antibody cocktail.\*

Many companies are involved in the fight against COVID-19, and investors can access the majority of them in the World Health Care sector.



## Our SPDR Picks

**SPDR MSCI World Health Care UCITS ETF**

**SPDR S&P U.S. Health Care Select Sector UCITS ETF**

**SPDR MSCI Europe Health Care UCITS ETF**

**SPDR MSCI World Health Care UCITS ETF — Top 5 constituents:** Johnson & Johnson (6.34%), UnitedHealth Group (4.76%), Roche Holding AG (3.88%), Merck & Co. (3.38%), Pfizer (3.27%).

**SPDR S&P U.S. Health Care Select Sector UCITS ETF — Top 5 constituents:** Johnson & Johnson (9.88%), UnitedHealth Group (7.47%), Merck & Co. (5.29%), Pfizer (5.14%), AbbVie (4.85%).

**SPDR MSCI Europe Health Care UCITS ETF — Top 5 constituents:** Roche Holding AG (17.31%), Novartis AG (13.87%), AstraZeneca PLC (10.31%), Novo Nordisk B (8.56%), Sanofi (8.13%).

\* This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

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## Utilities

### Never Been So Exciting

World	US	Europe
✓	✓	✓

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### Sustainable Earnings and ESG

We made Utilities a Sector Pick in Q3 for its sustainable earnings given the security of regulated revenue and the sector's emphasis on ESG. While the sector has not come out of the COVID-19 crisis unscathed, earnings this year are still forecast to be positive; meanwhile, the story of renewables has grown.

The European Utilities sector has outperformed MSCI Europe over the past two years, clearly benefiting from greater environmental awareness. The US sector has lagged the S&P 500 (albeit partly due to the index's heavy Technology weighting); this remained the case in Q3 2020, but perhaps that could change this quarter.

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### Low Carbon Transition Has Been Led by Europe...

Transition to renewable sources of energy can bring structural growth, better returns and more predictable cashflows. We have seen in Europe that this has helped drive a re-rating of the sector. This transition is accelerating and the sector has not only ramped up its own de-carbonisation commitments and efforts, but also taken on the mantle of leadership economy-wide for clean energy transition.

The two largest European Utilities companies, Iberdrola and Enel, have led by example with a high proportion of capacity from renewable sources (wind farms, hydroelectric plants, nuclear) plus other investments in electric vehicles and storage services.\* While the big oil companies in Europe are finally ramping up renewable capacity, they are still far behind the electricity generators.

We can expect continued progress driven by country and corporate commitments to lowering carbon emission rates. There has been a series of recent rights issues and convertible bond issues to fund transition projects. Further funding could come from the EU's proposed Fiscal Rescue package, which focuses on modernisation, climate change and environment and will direct resources toward sustainable energy.

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### ...But Now the US Gets It Too

The largest US-listed utility, NextEra Energy, is also an ESG champion, with generation of electricity through wind, solar and natural gas in Florida and other southern states.\* The company recently increased its outlook for 2021 but hit the news for other reasons: acquiring 700 miles of regulated transmission assets from GridLiance and failing to buy Duke Energy, the third largest stock in the sector.\* NextEra would still like to pursue a deal with Duke; such a mega merger has excited the market and set hopes of a literal land grab among Utilities companies.

Less high profile US electricity generators are also on the road to transition, retiring expensive coal capacity and replacing it with renewable generation sources. As well as the lure of higher returns, individual states' renewable portfolio standards and carbon mandates are helping to drive the change.

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\* This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.



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## Biden Would Help

A change of administration would likely accelerate progress through legislation and federal infrastructure spending. Among Biden's key themes is a proposed \$2 trillion energy plan, with hundreds of billions of dollars allocated annually for investment in renewables, transmission construction and development of battery capabilities. Such green policies may have an easier journey through the House with bipartisan support than more controversial projects.

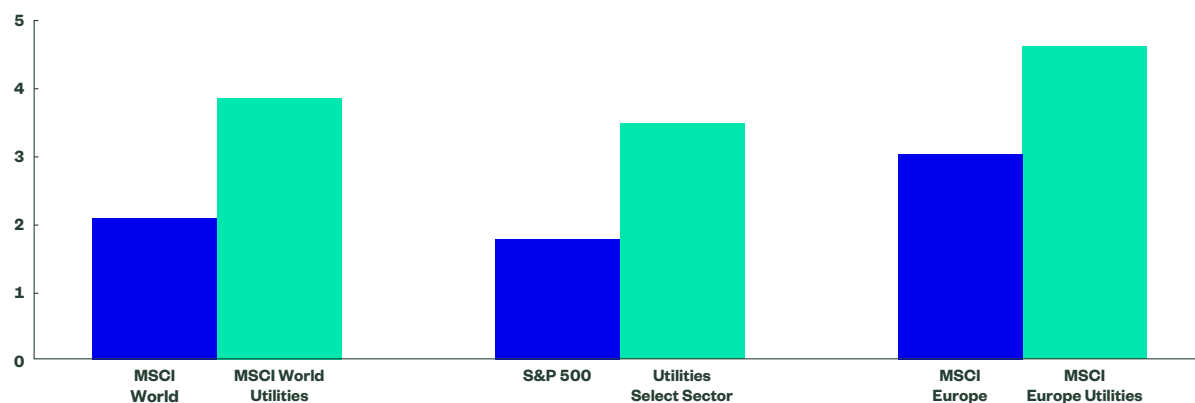
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## All That, Plus Income on Tap

The low volatility, low beta and low correlation of Utilities with the rest of the equity market could be a blessing if we see volatility in Q4 2020.

Given the scarcity of income in financial markets, the sector's cash and earnings stability provide a relatively secure source of dividends. Unlike other sectors, Utilities companies are not under pressure from governments handing out aid, central banks supporting balance sheets or a sharp drop in the long-term price of their main product (as with the oil and gas industry). Dividends are reasonably covered and offer a yield of 3.5% for the US sector, 4.6% for Europe and 3.8% for World. (See pages 23–24 for more data on yield comparisons, volatility, etc.)

### Estimated 2020 Dividend Yields (%)



Source: Bloomberg Finance L.P., as at 30 September 2020. The above estimates are based on certain assumptions and there is no guarantee they will be met.

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## Our SPDR Picks

**SPDR MSCI World Utilities UCITS ETF**

**SPDR S&P U.S. Utilities Select Sector UCITS ETF**

**SPDR MSCI Europe Utilities UCITS ETF**

**SPDR MSCI World Utilities UCITS ETF — Top 5 constituents:** NextEra Energy (9.27%), Iberdrola SA (4.98%), Enel SpA (4.81%), Dominion Energy (4.49%), Duke Energy Corporation (4.44%).

**SPDR S&P U.S. Utilities Select Sector UCITS ETF — Top 5 constituents:** NextEra Energy (16.34%), Duke Energy Corporation (7.99%), Dominion Energy (7.85%), Southern Company (6.90%), American Electric Power Company (4.89%).

**SPDR MSCI Europe Utilities UCITS ETF — Top 5 constituents:** Iberdrola (17.10%), Enel SpA (16.53%), National Grid plc (9.43%), Orsted (6.09%), E.ON SE (5.80%).

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## Technology

### Hard to Bet Against It

World	US	Europe
✓	✓	

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#### Meeting the Challenges

The Technology sector faced various challenges in Q3 2020: valuation, concentration risk, antitrust action. Moreover, Technology may not do as well under a change of administration in the US. But can investors really abstain from holding the growth-enhancing properties of this sector in their portfolios?

The US sector ended the past month 8% lower, offering a buying opportunity for some investors. Over recent weeks we have seen the sector show strength on days where it seems a second wave of COVID-19 infection is imminent, especially in stocks related to the cloud, e-commerce and work-from-home capabilities. The ability to expand the top line when the overall economy is more uncertain translates into a lower risk premium as well.

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#### Growth Expectations

Forecasts for the third quarter show a 3% drop in earnings for US Technology.<sup>3</sup> This is a modest decline compared with all other sectors (other than Health Care and Utilities) and reflects the resilience of business models and structural demand. The Technology sector may prove less vulnerable to disappointments in the reporting season than other sectors.

Looking further ahead, the US and World Technology sectors have experienced the largest earnings upgrades in the past three months, according to Barclays.

Q4 for Apple (23.7% of the US Technology sector, by weighting) will probably be dominated by the launch of its 5G iPhone 12.\* Mass excitement over the speeds, better apps and media experience could drive services revenue as well as handset sales through 2021. Current estimates are for 221 million iPhones shipped at an average price of \$796.<sup>4</sup>

Microsoft (20.3%), meanwhile, is dominating in on-premise and public cloud infrastructure.\* Elsewhere in the business, video gaming recently grew with the acquisition of ZeniMax Media, which analysts says could pay back within just a few years by boosting the attractions of X-Box with titles including the Elder Scrolls.

These heavily weighted stocks have their own relative attractions, but buying the sector as a whole brings a wealth of technological capabilities and access to other growth trends. For example, companies benefiting from government-supported R&D projects have received a boost from COVID-19 and the need for technological advances to speed scientific and medical breakthroughs.

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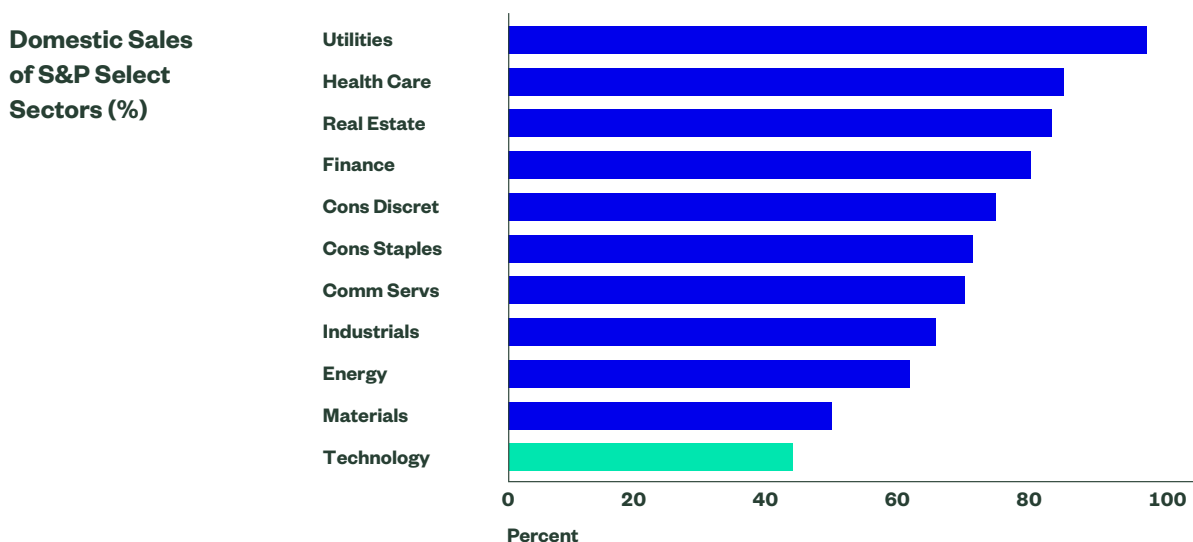
\* This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

## The Less Vulnerable FAANGs?

There is populist support to re-examine Technology for antitrust and monopoly behaviour, particularly on privacy issues and fears of excessive power. The draft report from the House antitrust subcommittee, released at the start of October, recommends a significant overhaul of US competition law, describing the FAANGs as gatekeepers of the digital economy, abusing their power to limit competitive threats.

This report could be a marker if Democrats sweep the House in the election. While any proposal like this could hit sentiment more than earnings, it is important to recognise it is much more targeted towards Amazon, Alphabet (Google) and Facebook (not held in Technology) than Apple, facing greater market share issues on social media, online advertising and use of supplier information against competitors.\*

On the positive side, a Democratic win could improve terms of international trade, particularly with China. Friction between the US and China has accelerated due to COVID-19, with the US concerned that the Chinese government was controlling everything including information flows, and the Chinese feeling the blame for the pandemic was unfair. During Q3 2020, we saw an escalation of threats on tariffs and operating restrictions, with technology goods and components caught in the middle.



Source: S&P Dow Jones Indices, as of 30 September 2020.

## Our SPDR Picks

**SPDR MSCI World Technology UCITS ETF**

**SPDR S&P U.S. Technology Select Sector UCITS ETF**

**SPDR MSCI World Technology UCITS ETF — Top 5 constituents:** Apple (20.18%), Microsoft Corporation (15.20%), Visa A (3.39%), NVIDIA Corporation (3.31%), Mastercard A (3.05%).

**SPDR S&P U.S. Technology Select Sector UCITS ETF — Top 5 constituents:** Apple (22.92%), Microsoft Corporation (18.88%), Visa A (4.45%), NVIDIA Corporation (4.41%), Mastercard A (3.94%).

\* This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

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## Consumer Staples

### Stockpiling Ahead of Higher Volatility

World	US	Europe
		✓

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#### Consider Going Defensive

For investors seeking to add a defensive tilt to their portfolios in uncertain equity markets, Consumer Staples is one potential answer. The sector experienced the lowest volatility of any sector over the last three years (see page 24), reflecting its defensiveness. Such low volatility has resulted in far superior risk-adjusted returns and lower markdowns than MSCI Europe as a whole.

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#### They're Called "Staples" for a Reason

The membership of the Consumer Staples sector is dictated by the relative non-discretionary nature of goods produced, whether they be pasta, toilet rolls, deodorant, cigarettes or beer. Among the product categories, tobacco is traditionally the least correlated with GDP, followed by hygiene and laundry products. The largest subsector, packaged food (37% of market capitalisation), sees a range of demand elasticity across its brands and private labels. Luxury categories, including spirits and cosmetics, are more vulnerable to trading down.

Early in the COVID-19 crisis, the sector outperformed on higher sales resulting from panic buying of food and household products; recall the empty shelves in some supermarkets. This performance did not survive the stock market recovery and preference for Consumer Discretionary over Staples, but the latter's time may be coming again.

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#### Meeting the Challenge During COVID-19

While sales have been relatively stable versus many other sectors, it is important to consider the impact on margin of such abnormal times. During the pandemic, distribution charges have risen as supply chains have been protected and investment made to localise some business models. However, lower input costs, including oil, have helped support gross margins, with further benefit to operating margins from lower advertising spend, promotional activity and SKU rationalisations.

As we write, we see tightening of social distancing measures and local lockdowns across Europe, suggesting some pressure points could return. Food service provision to restaurants is likely to weaken, on-licence beverage sales may fall, and luxury products could suffer lost sales at empty airports. However, this could be partly offset by higher sales of goods online for home consumption. Manufacturers are becoming more digitally adept at reaching customers directly; an example is Nestle (the largest stock in the sector).<sup>\*</sup> Among its best known brands is Nespresso, and its strong online presence has helped build ecommerce to 12% of sales.

Q3 results will help inform how consumer consumption habits have changed in response to the virus and the cost of catering for them.

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<sup>\*</sup> This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

## Safe from the Other Big Known Unknowns?

The impact of the US election varies by outcome. If successful, one of Biden's major policies is likely to raise corporation tax, which would have a small negative impact on sector earnings (US accounts for 40% of sales).<sup>5</sup> However, under a Biden presidency, many US consumers may be confident of more money to spend on food and beverages. The sector could benefit from a disputed outcome from the US vote, as befits its low volatility, defensive nature.

UK companies constitute more than a third of the sector, making Brexit a greater potential threat. In a no-deal situation there would be inevitable disruption to UK-Europe supply chains, the possibility of huge new tariffs and the impact of sterling's valuation on raw material costs (UK manufacturers import heavily from farmers on the continent). While not knowing the outcome, we believe the significant discount applied to historic valuations reflects such uncertainty.

As the below chart shows, Consumer Staples usually trades on a 15–30% P/E premium to MSCI Europe, but this year it has de-rated sharply against the market. Contrast this with Consumer Discretionary, which has seen significant re-rating on a much larger fall in earnings estimates.

### MSCI Europe Consumer Staples & Consumer Discretionary P/E Relatives



Source: State Street Global Advisors, Bloomberg Finance L.P., as of 30 September 2020. Relative P/E based on 12-month Forward BESt. Indices are MSCI Europe Consumer Discretionary NTR, MSCI Europe Consumer Staples NTR, MSCI ACWI NTR.

## Our Sector Picks

### SPDR MSCI Europe Consumer Staples UCITS ETF

**SPDR MSCI Europe Consumer Staples UCITS ETF — Top 5 constituents:** Nestle S.A. (27.62%), Unilever NV (6.88%), British American Tobacco (6.43%), L'Oreal SA (6.39%), Diageo plc (6.25%).

# Implementing Sector Investing

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**Sector index metrics and information on the SPDR UCITS ETFs that track these indices.**

# Sector Index Metrics

	Fundamental Growth Forecasts & Valuations								
	Est. 2yr EPS Growth (% p.a.)*	3mth Change to 1yr EPS Growth Forecast (%)	Forward P/E**	Forward Relative P/B**	Relative CAPE	Relative CAPE (10yr Avg)	ROE (%)	Debt/Equity (%)	12mth Div. Yield (%)***
<b>MSCI World Sector Indices</b>									
<b>MSCI World Index</b>	<b>-1.0</b>	<b>2.9</b>	<b>18.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8.7</b>	<b>149</b>	<b>2.07</b>
Comm. Services	3.4	4.7	18.8	1.13	1.49	1.41	9.7	103	1.59
Consumer Disc.	-3.1	5.4	24.7	1.51	1.28	1.15	4.4	140	0.96
Consumer Staples	3.2	2.5	19.3	1.56	1.07	1.13	20.7	110	2.73
Energy	-26.3	-11.4	16.7	0.38	0.28	0.57	-0.7	72	7.01
Financials	-7.4	4.2	11.2	0.36	0.51	0.59	3.3	246	3.43
Health Care	8.1	3.1	16.7	1.56	1.33	1.10	25.8	87	1.83
Industrials	-4.4	-7.6	19.8	1.15	1.02	1.09	6.8	115	1.91
Materials	2.9	10.4	17.2	0.78	0.86	0.96	7.5	64	2.65
Real Estate	-6.4	-0.3	23.9	0.53	1.06	1.24	4.5	85	3.47
Technology	7.2	4.7	26.0	2.99	1.71	1.29	46.6	77	1.01
Utilities	1.8	0.0	16.4	0.70	0.93	0.93	10.6	150	3.82
<b>US S&amp;P Select Sector Indices</b>									
<b>S&amp;P 500 Index</b>	<b>0.8</b>	<b>5.6</b>	<b>20.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18.9</b>	<b>126</b>	<b>1.75</b>
Comm. Services	5.9	7.0	19.7	0.91	1.34	1.51	14.2	94	0.95
Consumer Disc.	1.9	30.4	25.5	2.34	1.54	1.17	9.6	306	1.05
Consumer Staples	4.5	3.9	19.7	1.47	0.84	0.93	31.9	141	2.76
Energy	-34.9	16.8	25.0	0.30	0.22	0.65	-1.0	64	7.26
Financials	-7.2	6.1	12.7	0.32	0.61	0.55	5.7	152	2.58
Health Care	7.9	4.8	15.5	1.11	1.04	1.00	28.0	96	1.69
Industrials	-5.7	-4.7	20.5	1.21	0.85	0.97	5.6	162	1.86
Materials	3.9	7.2	19.8	0.76	0.86	1.02	8.0	74	2.03
Real Estate	-12.6	3.5	44.0	0.44	1.49	1.74	6.2	126	3.12
Technology	8.8	6.1	24.9	2.46	1.25	1.04	49.6	87	1.08
Utilities	3.6	-1.0	17.8	0.55	1.49	1.74	10.5	144	3.45
<b>MSCI Europe Sector Indices</b>									
<b>MSCI Europe Index</b>	<b>-6.9</b>	<b>-4.1</b>	<b>15.6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.2</b>	<b>192</b>	<b>2.99</b>
Comm. Services	-5.1	-7.2	13.2	0.77	0.71	0.86	4.6	153	4.53
Consumer Disc.	-12.0	-20.2	18.1	1.12	1.09	1.50	4.5	119	1.24
Consumer Staples	-1.5	-1.9	18.3	1.88	1.29	1.40	16.3	98	2.88
Energy	-23.7	-34.6	11.3	0.47	0.37	0.65	-0.9	79	7.02
Financials	-12.0	-1.2	9.5	0.38	0.58	0.62	1.6	338	4.39
Health Care	4.0	-5.2	16.7	2.21	1.43	1.23	27.0	74	2.67
Industrials	-6.7	-13.2	19.6	1.79	1.51	1.46	10.3	131	2.16
Materials	-2.9	14.3	16.3	1.07	1.13	1.14	4.8	65	3.34
Real Estate	-7.0	1.4	15.6	0.54	0.94	1.12	4.3	87	4.10
Technology	2.5	1.7	25.5	2.76	4.22	3.30	11.5	71	0.99
Utilities	2.1	-2.9	15.5	1.05	1.04	0.72	11.4	140	4.56

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 30 September 2020. Past performance is not a guarantee of future results. The above estimates based on certain assumptions and analysis made. There is no guarantee that the estimates will be achieved.

\* Calculated as a 2-year average of consensus forecasts for adjusted EPS using BEst (Bloomberg Estimates).

\*\* Forward estimates refer to 12 months.

\*\*\* This measures the weighted average of gross dividend yield of the relevant index and the underlying stocks from the relevant ETF.

## Sector Index Metrics (cont'd)

	Macro Sensitivities****			Risk Metrics*****		
	US 10yr Yield Sensitivity (36 Months)	Brent Crude Oil Price Sensitivity (36 Months)	Inflation (5yr-5yr Forward) Sensitivity (36 Months)	Beta (36 Months)	Volatility (36 Months) (%)	Correlation (36 Months)
<b>MSCI World Sector Indices</b>						
<b>MSCI World Index</b>	<b>0.12</b>	<b>0.25</b>	<b>0.77</b>	<b>1.00</b>	<b>16.92</b>	–
Comm. Services	0.10	0.21	0.78	0.88	16.93	0.91
Consumer Disc.	0.14	0.30	0.99	1.17	20.93	0.97
Consumer Staples	0.04	0.12	0.43	0.56	11.79	0.83
Energy	0.23	0.44	1.13	1.41	28.35	0.87
Financials	0.19	0.30	0.93	1.12	20.84	0.94
Health Care	0.06	0.11	0.49	0.69	14.46	0.83
Industrials	0.15	0.29	0.84	1.10	19.80	0.97
Materials	0.14	0.29	0.77	1.07	19.82	0.94
Real Estate	0.05	0.21	0.53	0.75	16.15	0.81
Technology	0.12	0.27	0.81	1.06	20.23	0.91
Utilities	0.03	0.14	0.24	0.47	13.09	0.63
<b>US S&amp;P Select Sector Indices</b>						
<b>S&amp;P 500 Index</b>	<b>0.12</b>	<b>0.24</b>	<b>0.79</b>	<b>1.00</b>	<b>17.74</b>	–
Commun. Services	0.12	0.28	0.86	1.00	20.08	0.91
Consumer Disc.	0.13	0.30	0.95	1.15	21.77	0.97
Consumer Staples	0.05	0.12	0.49	0.60	13.90	0.78
Energy	0.25	0.52	1.35	1.66	35.92	0.84
Financials	0.19	0.29	0.91	1.10	21.72	0.93
Health Care	0.08	0.11	0.54	0.72	15.76	0.83
Industrials	0.16	0.30	0.92	1.13	21.92	0.94
Materials	0.13	0.27	0.73	1.03	20.26	0.93
Real Estate	0.02	0.18	0.41	0.63	16.03	0.72
Technology	0.12	0.26	0.83	1.03	20.32	0.92
Utilities	0.02	0.12	0.15	0.39	14.44	0.50
<b>MSCI Europe Sector Indices</b>						
<b>MSCI Europe Index</b>	<b>0.13</b>	<b>0.25</b>	<b>0.70</b>	<b>1.00</b>	<b>16.32</b>	–
Comm. Services	0.12	0.19	0.62	0.84	17.67	0.79
Consumer Disc.	0.18	0.33	0.91	1.21	21.25	0.95
Consumer Staples	0.03	0.13	0.39	0.57	12.15	0.79
Energy	0.20	0.28	0.76	0.97	21.21	0.76
Financials	0.22	0.34	1.03	1.32	23.68	0.94
Health Care	0.03	0.09	0.34	0.54	12.43	0.73
Industrials	0.16	0.34	0.87	1.23	21.31	0.97
Materials	0.16	0.31	0.77	1.11	20.10	0.93
Real Estate	0.11	0.31	0.78	1.01	20.81	0.81
Technology	0.13	0.29	0.71	1.00	18.66	0.90
Utilities	0.03	0.22	0.38	0.74	17.10	0.73

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 30 September 2020. Past performance is not a guarantee of future results.

\*\*\*\* Sensitivity is beta to the macro variable, e.g. 10-year Treasury yield, Brent oil, and US 5yr-5yr forward as shown here.

\*\*\*\*\* Beta and volatility are based on index returns. Correlation is the 36-month correlation to the parent index.



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SPDR ETF Information	ISIN	TER (%)	Euro-next	LSE	Xetra	Borsa Italiana	SIX	Mexico BMV	Q3 Net SPDR Flows (\$MN)	YTD Net SPDR Flows (\$MN)	SPDR AUM (\$MN)
<b>World Sector Funds</b>											
SPDR MSCI World Communication Services UCITS ETF	IE00BYTRRG40	0.30	WTEL	WTEL	–	–	WTEL	WTELN	0	-35	27
SPDR MSCI World Consumer Discretionary UCITS ETF	IE00BYTRR640	0.30	WCOD	WCOD	–	–	WCOD	CDISN	0	-1	30
SPDR MSCI World Consumer Staples UCITS ETF	IE00BYTRR756	0.30	WCOS	WCOS	–	–	WCOS	–	-26	43	93
SPDR MSCI World Energy UCITS ETF	IE00BYTRR863	0.30	WNRG	WNRG	–	WNRG	WNRG	WNRGN	-22	16	157
SPDR MSCI World Financials UCITS ETF	IE00BYTRR970	0.30	WFIN	WFIN	–	WFIN	WFIN	WFINN	4	-25	73
SPDR MSCI World Health Care UCITS ETF	IE00BYTRRB94	0.30	WHEA	WHEA	–	WHEA	WHEA	–	-11	-45	298
SPDR MSCI World Industrials UCITS ETF	IE00BYTRRC02	0.30	WIND	WIND	–	–	WIND	–	10	0	41
SPDR MSCI World Materials UCITS ETF	IE00BYTRRF33	0.30	WMAT	WMAT	–	–	WMAT	WMATN	7	10	28
SPDR Dow Jones Global Real Estate UCITS ETF	IE00B8GF1M35	0.40	–	GLRE	SPYJ	GLRE	GBRE	–	-13	-458	177
SPDR MSCI World Technology UCITS ETF	IE00BYTRRD19	0.30	WTCH	WTEC	–	WTEC	WTEC	WTECN	0	90	358
SPDR MSCI World Utilities UCITS ETF	IE00BYTRRH56	0.30	WUTI	WUTI	–	–	WUTI	–	-2	-8	11
<b>US Sector Funds</b>											
SPDR S&P U.S. Communication Services Select Sector UCITS ETF	IE00BFWFPX50	0.15	SXLC	SXLC	ZPKD	SXLC	SXLC	SXLCN	35	-61	170
SPDR S&P U.S. Consumer Discretionary Select Sector UCITS ETF	IE00BWBXM278	0.15	SXLY	SXLY	ZPDD	SXLY	SXLY	SXLYN	15	-24	99
SPDR S&P U.S. Consumer Staples Select Sector UCITS ETF	IE00BWBXM385	0.15	SXLP	SXLP	ZPDS	SXLP	SXLP	SXLPN	-34	98	285
SPDR S&P U.S. Energy Select Sector UCITS ETF	IE00BWBXM492	0.15	SXLE	SXLE	ZPDE	SXLE	SXLE	SXLEN	-10	13	53
SPDR S&P U.S. Financials Select Sector UCITS ETF	IE00BWBXM500	0.15	SXLF	SXLF	ZPDF	SXLF	SXLF	SXLFN	4	-317	140
SPDR S&P U.S. Health Care Select Sector UCITS ETF	IE00BWBXM617	0.15	SXLV	SXLV	ZPDH	SXLV	SXLV	SXLVN	-11	43	233
SPDR S&P U.S. Industrials Select Sector UCITS ETF	IE00BWBXM724	0.15	SXLI	SXLI	ZPDI	SXLI	SXLI	SXLIN	100	113	186
SPDR S&P U.S. Materials Select Sector UCITS ETF	IE00BWBXM831	0.15	SXLB	SXLB	ZPDM	SXLB	SXLB	SXLBN	2	-1	12
SPDR S&P U.S. Technology Select Sector UCITS ETF	IE00BWBXM948	0.15	SXLK	SXLK	ZPDT	SXLK	SXLK	SXLKN	n/a	n/a	n/a
SPDR S&P U.S. Utilities Select Sector UCITS ETF	IE00BWBXMB69	0.15	SXLU	SXLU	ZPDU	SXLU	SXLU	SXLUN	-3	12	37
<b>Europe Sector Funds</b>											
SPDR MSCI Europe Communication Services UCITS ETF	IE00BKW00N82	0.30	STT	TELE	SPYT	STTX	STTX	TELEN	6	13	17
SPDR MSCI Europe Consumer Discretionary UCITS ETF	IE00BKW00C77	0.30	STR	CDIS	SPYR	STRX	STRX	–	5	-80	63
SPDR MSCI Europe Consumer Staples UCITS ETF	IE00BKW00D84	0.30	STS	GSTP	SPYC	STSX	STSX	GSTPN	33	65	557
SPDR MSCI Europe Energy UCITS ETF	IE00BKW00F09	0.30	STN	ENGY	SPYN	STNX	STNX	ENGYN	0	-238	66
SPDR MSCI Europe Financials UCITS ETF	IE00BKW00G16	0.30	STZ	FNCL	SPYZ	STZX	STZX	FNCLN	2	111	582
SPDR MSCI Europe Health Care UCITS ETF	IE00BKW00H23	0.30	STW	HLTH	SPYH	STWX	STWX	HLTHN	-149	26	421
SPDR MSCI Europe Industrials UCITS ETF	IE00BKW00J47	0.30	STO	NDUS	SPYQ	STOX	STOX	NDUSN	-13	32	323
SPDR MSCI Europe Materials UCITS ETF	IE00BKW00L68	0.30	STP	MTRL	SPYP	STPX	STPX	MTRLN	0	16	31
SPDR FTSE EPRA Europe ex UK Real Estate UCITS ETF	IE00BSJC0V56	0.30	–	EURE	ZPRP	EURE	EURE	–	-14	-10	62
SPDR MSCI Europe Technology UCITS ETF	IE00BKW00K51	0.30	STK	ITEC	SPYK	STKX	STKX	ITECN	10	29	59
SPDR MSCI Europe Utilities UCITS ETF	IE00BKW00P07	0.30	STU	UTIL	SPYU	STUX	STUX	UTILN	-51	4	39

<sup>1</sup> Sources: Bloomberg Finance L.P., State Street Global Advisors, as of 30 September 2020.

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

## Standard Performance (%)

	3 Mth	6 Mth	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception	Inception Date
<b>World Sector (Returns in USD, %)</b>									
SPDR MSCI World Communication Services UCITS ETF*	8.25	28.87	6.26	14.62	7.39	7.58	6.75	7.42	12/31/2008
MSCI World Communication Services Index	8.31	28.91	6.39	14.80	7.45	7.71	7.18	7.80	
SPDR MSCI World Consumer Discretionary UCITS ETF*	15.90	50.43	17.38	25.36	14.71	13.43	13.32	17.54	02/28/2009
MSCI World Consumer Discretionary Index	15.99	50.65	17.58	25.60	14.80	13.56	13.66	17.74	
SPDR MSCI World Consumer Staples UCITS ETF*	7.55	16.90	1.31	3.95	5.73	7.14	8.84	11.54	02/28/2009
MSCI World Consumer Staples Index	7.53	16.85	1.30	3.91	5.71	7.14	9.05	11.74	
SPDR MSCI World Energy UCITS ETF*	-15.78	-1.56	-45.67	-43.08	-18.39	-7.65	-4.37	-1.90	01/31/2009
MSCI World Energy Index	-15.96	-2.05	-45.92	-43.22	-18.51	-7.72	-4.25	-1.76	
SPDR MSCI World Financials UCITS ETF*	1.80	15.10	-21.59	-14.74	-4.77	3.20	4.52	10.09	02/28/2009
MSCI World Financials Index	1.80	14.93	-21.64	-14.77	-4.79	3.28	4.78	10.03	
SPDR MSCI World Health Care UCITS ETF*	4.63	19.89	6.04	20.53	10.57	9.78	12.80	14.18	02/28/2009
MSCI Health Care Index	4.78	20.03	6.26	20.81	10.63	9.90	13.08	14.39	
SPDR MSCI World Industrials UCITS ETF*	11.69	31.23	-3.14	4.00	3.59	9.72	8.38	12.89	02/28/2009
MSCI World Industrials Index	11.69	31.10	-3.16	3.96	3.60	9.79	8.69	13.23	
SPDR MSCI World Materials UCITS ETF*	11.73	40.77	3.66	12.54	4.54	11.73	3.59	9.08	02/28/2009
MSCI World Materials Index	11.73	40.65	3.59	12.55	4.59	11.81	3.90	9.41	
SPDR Dow Jones Global Real Estate UCITS ETF	1.82	10.96	-21.72	-20.84	-3.08	0.34	0.00	2.66	10/24/2012
Dow Jones Global Select Real Estate Securities Index	1.85	10.90	-21.84	-20.87	-2.83	0.65	4.69	2.98	
SPDR MSCI World Technology UCITS ETF*	11.73	46.38	27.03	44.75	25.39	24.86	18.01	20.64	02/28/2009
MSCI World Information Technology Index	11.82	46.66	27.36	45.16	25.62	25.13	18.36	20.93	
SPDR MSCI World Utilities UCITS ETF*	4.76	11.44	-4.01	-2.04	6.19	7.88	5.32	6.61	02/28/2009
MSCI World Utilities Index	4.74	11.26	-4.13	-2.16	6.05	7.88	5.78	6.99	
<b>US Sector (Returns in USD, %)</b>									
SPDR S&P U.S. Communication Services Select Sector UCITS ETF	10.05	34.55	11.12	20.69	-	-	-	10.68	08/15/2018
S&P Communication Services Select Sector Daily Capped 25/20 Index	10.05	34.57	11.10	20.69	-	-	-	10.65	
SPDR S&P U.S. Consumer Discretionary Select Sector UCITS ETF	15.39	50.41	16.93	21.86	18.67	-	-	14.11	07/07/2015
S&P Consumer Discretionary Select Sector Daily Capped 25/20 Index	15.40	50.44	16.85	21.76	18.54	-	-	14.01	
SPDR S&P U.S. Consumer Staples Select Sector UCITS ETF	9.82	19.08	3.49	6.91	8.44	-	-	7.68	07/07/2015
S&P Consumer Staples Select Sector Daily Capped 25/20 Index	9.76	18.93	3.25	6.59	8.10	-	-	7.37	
SPDR S&P U.S. Energy Select Sector UCITS ETF	-19.69	6.20	-47.73	-44.48	-20.46	-	-	-12.69	07/07/2015
S&P Energy Select Sector Daily Capped 25/20 Index	-19.97	5.81	-48.17	-45.29	-20.90	-	-	-13.08	
SPDR S&P U.S. Financials Select Sector UCITS ETF	4.31	16.86	-20.47	-12.27	-0.58	-	-	5.36	07/07/2015
S&P Financials Select Sector Daily Capped 25/20 Index	4.26	16.73	-20.68	-12.52	-0.79	-	-	5.23	
SPDR S&P U.S. Health Care Select Sector UCITS ETF	5.76	19.95	4.69	19.58	10.60	-	-	8.29	07/07/2015
S&P Health Care Select Sector Daily Capped 25/20 Index	5.73	19.93	4.59	19.47	10.48	-	-	8.16	
SPDR S&P U.S. Industrials Select Sector UCITS ETF	12.35	31.27	-4.18	0.99	4.53	-	-	8.73	07/07/2015
S&P Industrials Select Sector Daily Capped 25/20 Index	12.33	31.23	-4.41	0.73	4.36	-	-	8.55	
SPDR S&P U.S. Materials Select Sector UCITS ETF	13.31	42.40	5.04	11.59	5.73	-	-	7.45	07/07/2015
S&P Materials Select Sector Daily Capped 25/20 Index	13.28	42.30	4.70	11.18	5.46	-	-	7.17	
SPDR S&P U.S. Technology Select Sector UCITS ETF	11.97	45.66	28.24	46.53	26.85	-	-	23.34	07/07/2015
S&P Technology Select Sector Daily Capped 25/20 Index	11.98	45.74	28.27	46.58	26.83	-	-	23.28	
SPDR S&P U.S. Utilities Select Sector UCITS ETF	5.95	8.64	-6.03	-5.48	6.82	-	-	9.22	07/07/2015
S&P Utilities Select Sector Daily Capped 25/20 Index	5.85	8.46	-6.39	-5.91	6.44	-	-	8.84	

## Standard Performance (%) (cont'd)

	3 Mth	6 Mth	YTD	1 Yr	3 Yr	5 Yr	10 Yr	Since Inception	Inception Date
<b>Europe Sector (Returns in USD, %)</b>									
SPDR MSCI Europe Communication Services UCITS ETF**	-7.13	3.33	-21.94	-23.17	-9.52	-7.03	0.66	1.14	09/30/2001
MSCI Europe Communication Services Index	-7.13	3.20	-22.04	-23.34	-9.74	-7.17	0.57	1.28	
SPDR MSCI Europe Consumer Discretionary UCITS ETF**	7.91	25.64	-11.37	-3.97	0.66	3.34	8.44	6.23	09/30/2001
MSCI Europe Consumer Discretionary Index	7.99	26.10	-10.74	-3.23	0.82	3.40	8.49	6.44	
SPDR MSCI Europe Consumer Staples UCITS ETF**	1.19	9.05	-4.96	-5.97	3.33	4.58	8.73	7.37	09/30/2001
MSCI Europe Consumer Staples Index	1.20	9.09	-4.85	-5.84	3.46	4.72	8.92	7.76	
SPDR MSCI Europe Energy UCITS ETF**	-16.68	-19.50	-46.22	-46.02	-14.57	-3.44	-1.25	-0.15	08/31/2001
MSCI Europe Energy 35/20 Capped Index	-16.81	-19.97	-46.34	-46.11	-14.71	-3.63	-1.44	0.00	
SPDR MSCI Europe Financials UCITS ETF**	-7.27	2.92	-31.27	-25.60	-12.27	-4.55	0.42	-1.91	08/31/2001
MSCI Europe Financials Index	-7.27	2.62	-31.36	-25.67	-12.47	-4.73	0.31	-1.86	
SPDR MSCI Europe Health Care UCITS ETF**	-2.45	7.80	0.07	7.22	7.97	4.95	11.17	5.54	09/30/2001
MSCI Europe Health Care Index	-2.40	7.69	0.15	7.38	8.11	5.09	11.34	5.82	
SPDR MSCI Europe Industrials UCITS ETF**	7.09	28.00	-7.83	0.57	2.72	8.10	8.06	7.72	09/30/2001
MSCI Europe Industrials Index	7.16	28.02	-7.80	0.67	2.68	8.08	8.03	7.88	
SPDR MSCI Europe Materials UCITS ETF**	6.88	28.70	-3.06	5.38	3.65	10.46	5.13	6.99	09/30/2001
MSCI Europe Materials Index	6.96	28.68	-3.16	5.42	3.69	10.50	5.17	7.18	
SPDR FTSE EPRA Europe ex UK Real Estate UCITS ETF	3.11	11.19	-15.54	-10.61	1.83	-	-	4.05	08/07/2015
FTSE EPRA Nareit Developed Europe Ex UK	3.20	11.51	-15.22	-10.16	2.37	-	-	4.61	
SPDR MSCI Europe Technology UCITS ETF**	3.92	27.52	5.84	15.15	10.90	13.81	12.65	3.14	08/31/2001
MSCI Europe Information Technology Index	3.55	27.74	6.28	15.88	11.25	13.98	12.73	2.99	
SPDR MSCI Europe Utilities UCITS ETF**	0.38	13.92	0.39	3.87	9.26	7.85	6.09	5.60	09/30/2001
MSCI Europe Utilities Index	0.40	13.80	0.31	3.84	9.14	7.71	5.82	5.64	

Source: State Street Global Advisors, as of 30 September 2020. Performance is net of fees. **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. All results are historical and assume the reinvestment of dividends and capital gains. The performance data do not take account of the commissions and costs incurred on the issue and redemption, or purchases and sale, of units. Visit [ssga.com/etfs](http://ssga.com/etfs) for most recent month-end performance.** Performance returns for periods of less than one year are not annualised. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

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## Methodologies

**SPDR Sector Picks Explained** Looking out three months, we consider which sectors stand to potentially benefit from a combination of top-down and bottom-up factors. Macroeconomic indicators greatly inform our research, along with aggregated earnings and valuation metrics. We also consider investor flows and positioning. Most importantly, we reflect on the likely drivers of each sector over the forecast period.<sup>6</sup>

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**Investor Behaviour Indicators Explained** Holdings measure investors' actual positions over and above the neutral positions embedded in their benchmarks. The figures are shown as percentiles and represent the investor holdings at month-end versus the last five years. This approach provides perspective on the size of holdings compared with their historical trends, whereas a single, dollar figure provides less context; 100% represents the largest holding in the last five years whilst 0% is the lowest holding.

**Active Flows** Indicates the value of net buying by large institutional investors (buys minus sells) expressed in terms of basis points of market capitalisation. These are flows in addition to the purchases or sales driven by shareholders allocating to the benchmark.

**Top Chart** Records the asset flow over the previous three months (60 trading days) versus the last five years.

**Bottom Chart** Shows trend of flows over previous three months (60 trading days).

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## Endnotes

- 1 Source: Bloomberg Finance L.P., State Street Global Advisors, as of 30 September 2020.
- 2 Source: S&P Dow Jones, as of 30 September 2020.
- 3 Source: FactSet, as of 5 October 2020.
- 4 Source: Bloomberg Finance L.P., as of 28 September 2020.
- 5 Source: Bloomberg Finance L.P., as of 30 September 2020.
- 6 Source: State Street, as of 30 September 2020.
- 7 Targets such as the type noted above are estimates based on certain assumptions and analysis made by State Street Global Advisors. There is no guarantee that the estimates will be achieved.

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\* This figure is presented as of June 30, 2020 and includes approximately \$69.52 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.

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