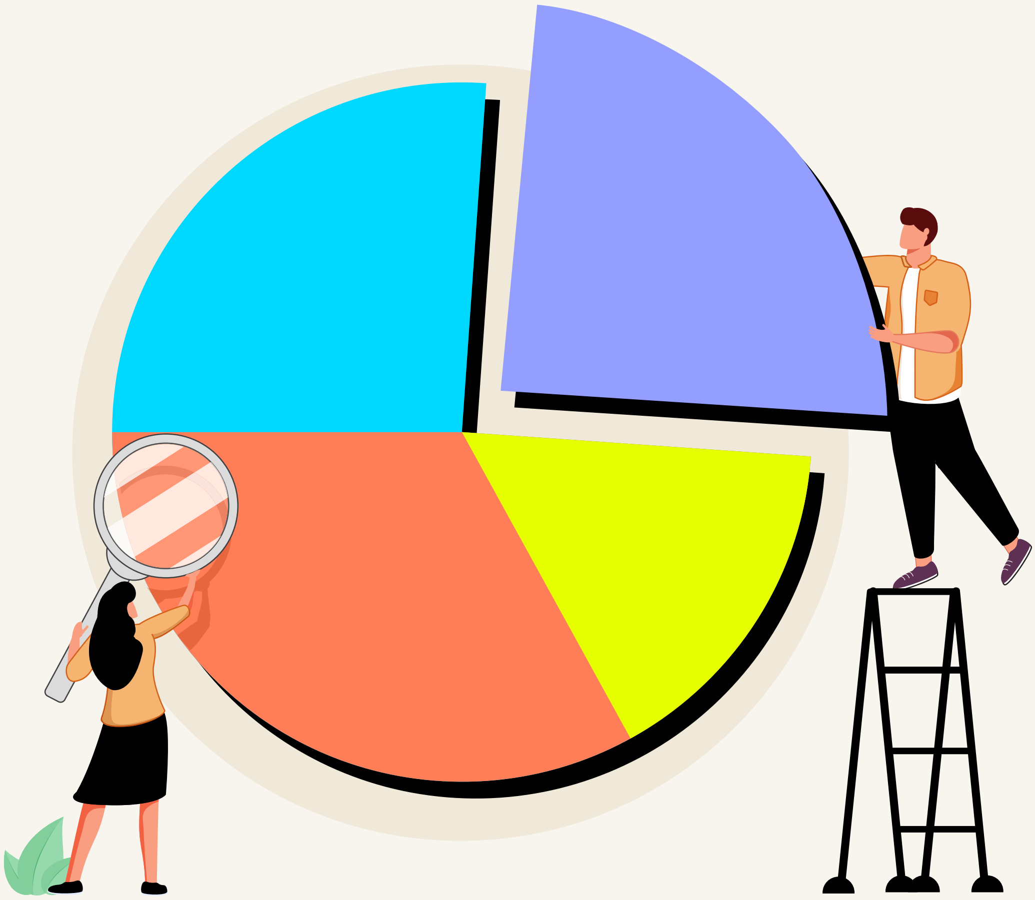
Sector & Equity Compass

Q4 2021

Uncertainty Demands Diversification



STATE STREET GLOBAL ADVISORS SPDR®

More to be uncertain about this quarter

Uncertainty Demands Diversification

Compared with previous quarters this year, which could have been termed "recovery" or "reflation" or "passing the baton from US to Europe," the coming quarter looks more difficult to predict.

We continue to believe that equities in general are supported by earnings forecasts, driven by continued reopening, and investors are still willing to buy any dip but are increasingly mindful of risks to growth and sentiment. Among the factors we are now taking into account are exposure to China (while still an engine of growth for many markets, it is increasingly a source of regulatory risk), rising input costs and the speed of tapering.

One answer to such uncertainties is to introduce diversification to portfolios. Investing in a sector or a regional index is the first step to help reduce idiosyncratic stock risk. Other factors to consider could be diversifying sources of return drivers or risk exposure (readily achievable through sectors, but also with different parts of the world, such as Japan), opting for lower correlation of performance between funds, or diversifying by size (as with mid-cap equities).

Inflation Staying Higher for Longer

Transitory pressures or not, the current inflationary phase is lasting longer than most commentators expected. Investors who want to benefit in this environment could turn to sectors with a higher positive sensitivity to inflation, such as energy and financials, or cyclical sectors, such as industrials and materials. Defensive (or non-discretionary) sectors find price rises much harder to pass on to consumers and tend to fare relatively poorly during inflationary periods; consumer staples is a prime example.

Rates will Rise Eventually

Despite actual interest rate rises still being some way off for most major central banks, they will happen eventually, and sectors are an effective means of positioning portfolios for such an economic outlook. The sector that is most often quoted as a beneficiary of higher rates is financials, with high growth, highly valued sectors such as technology often suffering as the discount rate is applied to their future rate rises. One of our preferred equity regions is Europe, which is overweight in financials and cyclical exposures and underweight FAANG-type companies.

Reopening Still Beneficial, But Be Careful

There are still business areas that have not fully reopened and investors' enthusiasm for mean reversion often means such opportunities will be hunted and exploited. However, as with society's battle against COVID, it is too easy to assume we have won and let our guard down. So even though we are comfortable that economic growth will continue, and we prefer the reward-risk expectations of cyclical sectors, there are likely to be setbacks. For that reason, we also look for safer options.

Quality exposures have proved popular in recent months, with investors seeking stability of earnings growth, balance sheet strength and cashflow, as demonstrated by health care sector.

Sector Picks This Quarter

SPDR Sector Picks take into account the above themes and our macroeconomic outlook, as well as fundamentals, momentum (taken from our **Sector ETF Momentum Map**) and investor behaviour (flows and holdings data, as presented in this document).

	World	US	Europe
Energy	✓	✓	✓
Financials	✓	✓	✓
Health Care	✓	✓	✓

Sector and Equity Performance

World Sectors

Q3 2021 (%)		YTD 2021 (%)	
Financials	2.1	34.1	Energy
Tech	1.4	23.2	Financials
Energy	1.3	16.3	Comm Services
Health Care	1.0	16.2	Real Estate
MSCI World NR	0.0	14.7	Tech
Comm Services	-0.3	13.0	MSCI World NR
Real Estate	-0.5	11.0	Health Care
Utilities	-1.1	10.1	Industrials
Cons Disc	-1.3	8.8	Cons Disc
Industrials	-1.8	5.7	Materials
Cons Staples	-1.9	3.2	Cons Staples
Materials	-5.0	-1.3	Utilities

US Sectors

Q3 2021 (%)		YTD 2021 (%)	
Financials	2.6	40.8	Energy
Utilities	1.5	28.6	Financials
Health Care	1.3	23.7	Real Estate
Tech	1.3	19.2	Comm Services
Real Estate	0.7	15.5	S&P500 NR
Cons Disc	0.7	15.3	Tech
S&P500 NR	0.5	13.0	Health Care
Comm Services	-0.9	12.1	Cons Disc
Cons Staples	-1.2	11.1	Industrials
Energy	-2.4	10.1	Materials
Materials	-3.6	3.5	Utilities
Industrials	-4.3	3.3	Cons Staples

Europe Sectors

Q3 2021 (%)		YTD 2021 (%)	
Energy	11.9	32.4	Energy
Tech	5.4	27.8	Tech
Financials	3.7	21.3	Financials
Industrials	2.0	19.3	Industrials
Health Care	1.6	16.2	MSCI Europe NR
MSCI Europe NR	0.7	15.3	Health Care
Real Estate	-1.5	14.3	Materials
Cons Staples	-2.1	14.1	Cons Disc
Materials	-2.5	12.0	Comm Services
Comm Services	-2.5	9.1	Cons Staples
Utilities	-3.0	5.9	Real Estate
Cons Disc	-5.0	-4.1	Utilities

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 30 September 2021. 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. Index performance is net total return. 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.

Equity Performance by Region	Q3 2021 (%)	YTD 2021 (%)
Eurozone Developed	-0.2	15.6
US Equities	0.0	15.5
Japan Equities	5.3	14.4
Europe Equities	0.1	16.2
UK Equities	1.0	13.6
Global Equities	-1.3	11.1
Global Emerging Markets	-7.7	-1.2
Asia Emerging Markets	-9.1	-4.1

Source: Bloomberg Finance L.P., as of 30 September 2021. Past performance is not a guarantee of future returns. Returns are net total returns. Reference indices are: UK Equities — FTSE All Share Index; Global Equities — MSCI ACWI (All Country World Index) Index; Asia Emerging Markets — MSCI EM (Emerging Markets) Asia Index; Eurozone Developed — MSCI EMU Index; Global Emerging Markets — MSCI Emerging Markets Index; Europe Equities — MSCI Europe Index; Japan Equities — MSCI Japan Index; US Equities — S&P 500 Index. 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. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Sector and Equity ETF Flows

Sector ETF Flows	European-Domiciled ($mn)		US-Domiciled ($mn)	
	Q3 2021	YTD	Q3 2021	YTD
Communication Services	-38	72	1,836	1,882
Consumer Discretionary	215	509	-1,357	1,567
Consumer Staples	178	342	730	-2,022
Energy	-93	4,015	-64	13,120
Financials	-1,165	4,268	-1,392	19,540
Health Care	1,126	2,469	3,928	3,347
Industrials	-564	205	-2,239	2,245
Materials	152	1,244	-3,064	4,977
Real Estate	16	477	3,010	10,577
Technology	1,664	3,553	9,470	12,197
Utilities	357	1,250	616	305

Source: Bloomberg Finance L.P., State Street Global Advisors, as of 30 September 2021. Flows shown above 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. **Methodology** We collect and aggregate flow figures for all sector and industry ETFs domiciled in the US and Europe. As of 30 September 2021, this set includes approximately $845 billion in AUM invested in US-domiciled funds and $88 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.**

Equity ETF Flows by Region	European-Domiciled ($mn)				US-Domiciled ($mn)		
	September 2021	Q3 2021	YTD		September 2021	Q3 2021	YTD
Global	4,108	11,291	53,948	**US**	23,194	87,558	389,479
US	3,509	9,415	30,921	**Global**	-229	549	65,933
Europe	-472	-281	7,586	**International — Developed**	4,911	22,876	81,800
UK	33	-830	2,260	**International — Emerging Markets**	1,880	3,133	37,724
Other Region	-188	497	1,073	**International — Region**	-27	698	17,787
Single Country	787	842	6,501	**International — Single Country**	2,238	5,247	19,239
EM	975	1,364	9,654	**Currency Hedged**	162	429	257
Total	**8,753**	**22,299**	**111,944**	**Total**	**32,129**	**120,490**	**612,219**

Source: Bloomberg Finance L.P., as of 30 September 2021. Flows shown above are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. Single Country exposures are those that include securities from one country of domicile.

Flows Overview

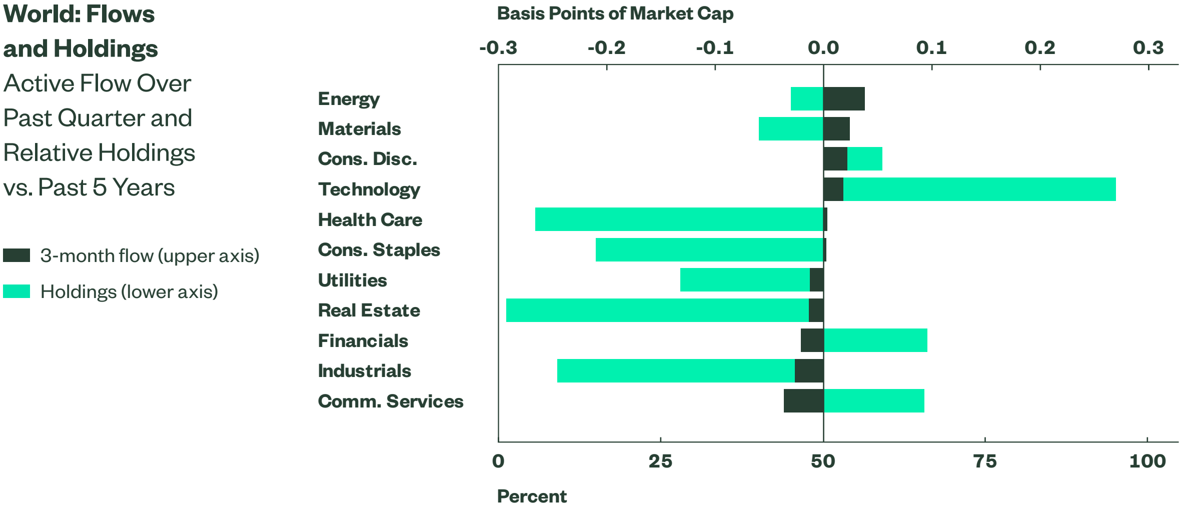
Demand for equities remained positive through last quarter, even as the market became more volatile.

ETF investments showed net inflows into the majority of categories. Institutional investor flows showed different trends to sector ETFs in their pursuit of energy in Q3. ETF investors were heavy buyers of energy funds early in the year as part of the reflation trade, but moved into growth options in Q3. Meanwhile, institutional investors actively added to oil and gas companies through most of last quarter; with a recent acceleration, at the expense of real estate holdings, that can be seen in the active flows charts. Even after these relative inflows, positioning in energy is still underweight in the regions we monitor.

The largest global underweight positions by sector remain real estate and health care, with almost as extreme overweight positions in technology.

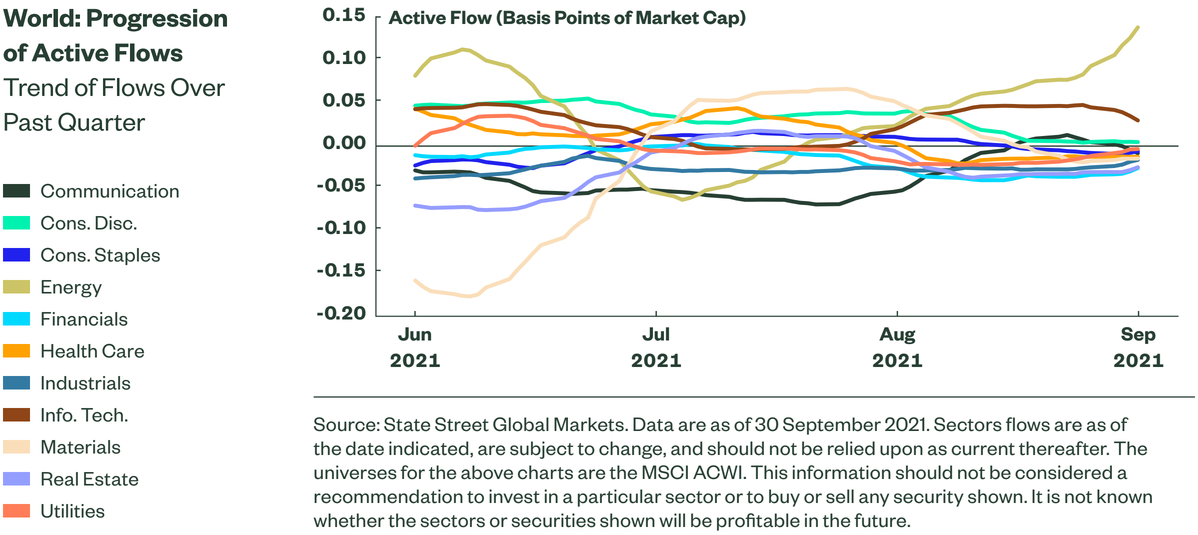
Relative trends in the institutional market, among regional groupings, showed net buying of emerging markets from heavily underweight positions as buying opportunities emerged. This was partly funded from large US holdings.

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



Source: State Street Global Markets. Data are as of 30 September 2021. 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.

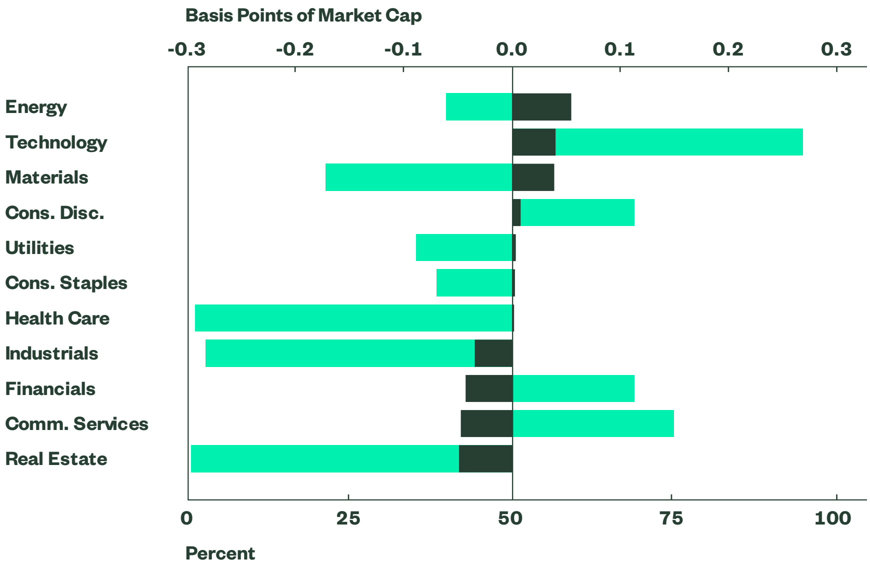
World: Progression of Active Flows
Trend of Flows Over Past Quarter



Source: State Street Global Markets. Data are as of 30 September 2021. 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 and Holdings
Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

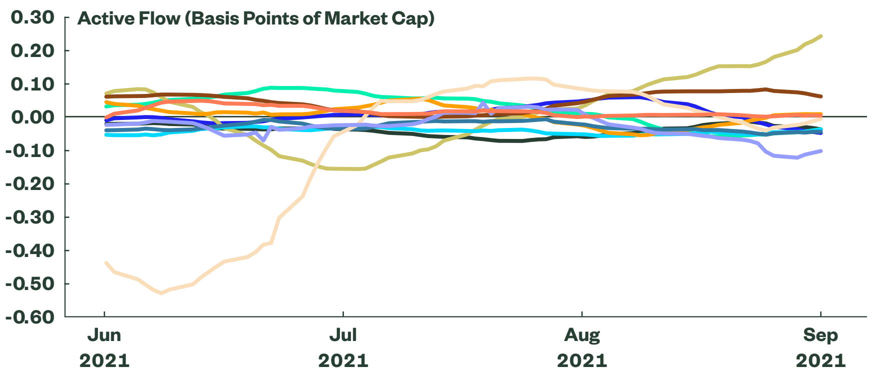
3-month flow (upper axis)
Holdings (lower axis)



Source: State Street Global Markets. Data are as of 30 September 2021. 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.

US: Progression of Active Flows
Trend of Flows Over Past Quarter

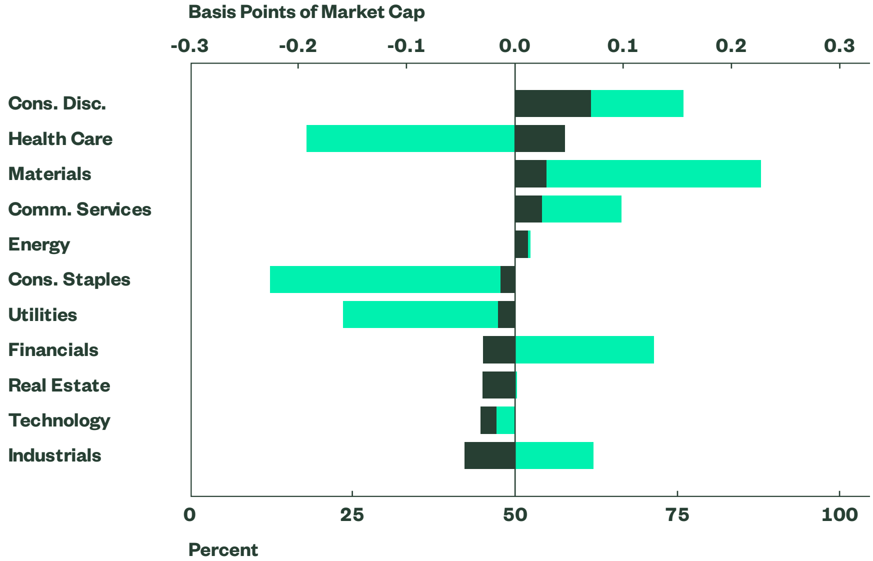
Communication
Cons. Disc.
Cons. Staples
Energy
Financials
Health Care
Industrials
Info. Tech.
Materials
Real Estate
Utilities



Source: State Street Global Markets. Data are as of 30 September 2021. 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 US. 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.

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

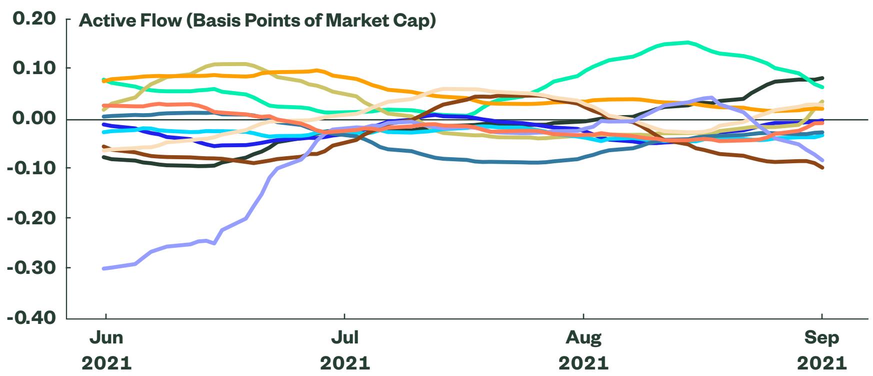
3-month flow (upper axis)
Holdings (lower axis)



Source: State Street Global Markets. Data are as of 30 September 2021. 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.

Europe: Progression of Active Flows
Trend of Flows Over Past Quarter

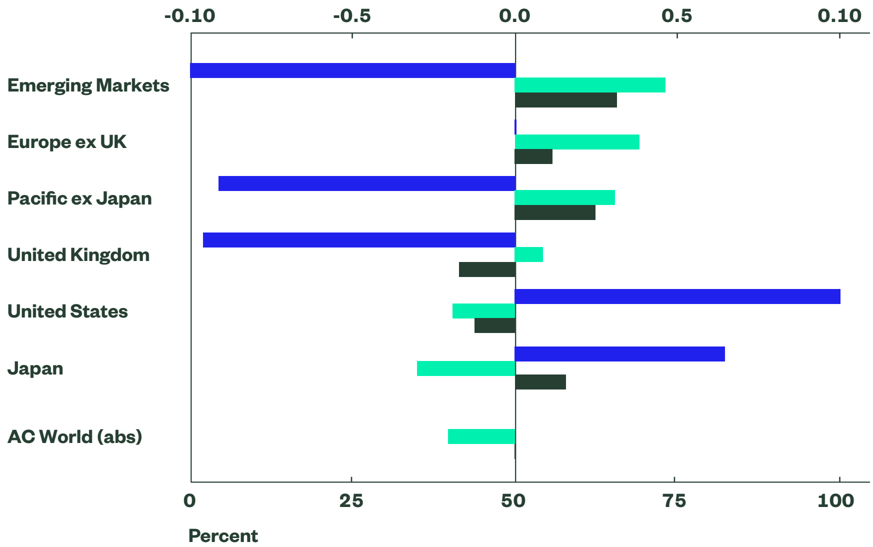
Communication
Cons. Disc.
Cons. Staples
Energy
Financials
Health Care
Industrials
Info. Tech.
Materials
Real Estate
Utilities



Source: State Street Global Markets. Data are as of 30 September 2021. 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.

Equity Flows and Holdings by Region
Active Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

3-month flow (Upper Axis)
1-month flow (Upper Axis)
Holdings (Lower Axis)



Source: State Street Global Markets, Thomson Datastream, as of 30 September 2021. 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.

Energy

Inflation can No Longer be Ignored

World	US	Europe
✓	✓	✓

- **Positive sensitivity to inflation and reopening activity**
- **Crude oil prices supported by curtailed supply and rapidly returning demand**
- **Strong earnings sentiment and relatively attractive valuation versus obvious transition risk**

Benefits of Inflation and Supply Chain Pressures

While inflation and supply chain pressure are causing problems across equity markets, the energy sector is benefiting. The relationship between the crude oil price and CPI (of which it is a core but volatile component), and energy stocks' high correlation with crude oil futures, explain the inflation benefits of this sector. Energy has the highest beta sensitivity to inflation of any sector (see page 16).

The reopening story drove the energy sector at the start of this year and has provided a renewed tailwind as industries harder hit by COVID-induced shutdowns, such as air travel, ramp up their activity levels. The improving demand scenario boosts energy providers' pricing power, which is difficult to find elsewhere. The other near-term boost has been supply shortages of natural gas, which caused gas prices to spike to record levels in Asia and Europe. Strong demand plus high prices for carbon alternatives could keep markets structurally tight through 2025. While natural gas is a smaller part of the sector's output than crude oil, the significant price rises have resulted in further uplift to earnings estimates.

Investors have been chasing shares in recent weeks (see sector ETF flows on page 6 and institutional investor flows on page 7). The sector is notably under-owned by investors and the pressure of underperforming in this reflationary market has seen broad-based buying globally.

How Long will the Supply/Demand Dynamics Remain in Favour?

Demand for oil has returned rapidly but supply has been slower. Two sources of supply are often quoted: oil produced from OPEC countries and other leading supply nations (such as Russia, which are combined in OPEC+) and shale oil produced from onshore fields in the US.

Curtailed supply from OPEC+ nations was agreed during the COVID crisis and helped stabilise the oil price at the time. Compliance was high. A more recent agreement, confirmed at the start of October, is to increase monthly production by 400,000 barrels per day. At this rate, the previous production cuts will not be fully reversed until at least Q3 2022. At the same time, shale management teams have not indicated any rush to add capacity. The number of US shale rigs dropped by 75% last year, and only half have come back to the market.

Of course, long-term oil and gas demand faces the ultimate threat from renewables and political action. But the vast amount of installed capacity in global energy systems (such as transport infrastructure and power stations) will provide demand for years to come, thus giving companies time to adapt.

Environmental Risks Widely Known

Environmental concerns around fossil fuel use cannot be ignored and a discount rating may ensue. However, we have seen positive change on engagement. Firms are a long way from acknowledgment of climate change to transition, but the majors have the knowledge, logistical and geographic reach to deliver solutions. Meanwhile, the sector is supported by a relatively attractive earnings and valuation profile. Companies show capital discipline, and excess cash could lift dividends and share buybacks.

Financials

This Pick has Lasted All Year

World	US	Europe
✓	✓	✓

- **Any rise or steepening of rates helps the sector**
- **Benefits of strong financial markets**
- **Cash and capital returns**

Benefits of Tapering

As with energy, financial sector ETFs have been heavily traded this year as a means of interpreting investors' economic outlook, particularly on interest rates. While the Federal Reserve has grabbed headlines on rates, any policy move from the European Central Bank or Bank of England would also significantly affect financial companies. The first step toward normalisation will be a reduction in quantitative easing and, as soon as that timetable is confirmed, the market can focus on future base rate rises.

Ahead of this, government bond yields have already risen and yield curves have steepened. Both factors benefit banks, in particular by feeding through to their borrowing and lending rates, which dictate net interest margins. The spread between the yield on a 5-year Treasury note and a 2-year note is a good proxy of US banks' funding costs, and at 69 basis points this is approximately a third higher than summer lows. The banking industry constitutes 39% of US financials and 46% of the European sector by market capitalisation.*

Interest rates are also a key parameter for insurance companies. Product earnings in the life insurance sector are more interest rate-sensitive than non-life, given a dominance of long-duration and savings-type products. Higher interest rates tend to improve profitability, as do strong financial markets, which benefit insurers' investment portfolios.

Embarrassment of Riches

The boost to earnings from higher yields should improve balance sheets and support distributions. Share buybacks have returned sharply. In the S&P 500, financial buybacks increased by 18% in Q2, totalling $41.8 billion or 21% of all buybacks.** JPMorgan Chase, Berkshire Hathaway, and Bank of America featured among the top 10 largest payments. Distributions from banks were restricted by monetary authorities during the worst of the COVID crisis and the return of share buybacks and dividend increases have been welcomed by investors.

Buying the Whole Sector

We see several reasons for considering financials rather than just banks: 1) Tapping the gains of strong financial markets across insurance funds, asset managers, financial service providers and exchanges. 2) Exposure to consumer wealth via savings and investment products. 3) Relative stability of earnings: while bank earnings are forecast to grow faster than financials next year, they are prone to much bigger swings in sentiment.* 4) Lower volatility of returns. 5) Diversification.

* Source: Bloomberg Finance L.P., as of 30 September 2021.
** Source: S&P press release, 23 September 2021.

Health Care

Ready with First Aid

World	US	Europe
✓	✓	✓

- **Offers relative stability and quality**
- **Diversification through exposure to different economic drivers**
- **Long-term growth story enhanced**

Quality at a Time It's Needed

In a more difficult environment, where we have moved beyond rapid recovery and face uncertainty ahead, some relative safety could help portfolios. The health care sector has historically performed well in mid-cycle environments, which are vulnerable to equity market corrections. Investors will pay a premium for quality companies that can sustain earnings momentum through a slowing economic growth environment.

The health care sector could solve a quality need, offering lower volatility, low beta or defensive growth. The sector offers all these characteristics by virtue of its essential products and services (ranging from drugs, to equipment for operations, to operating nursing homes). The quality tag can be seen in the sector's high returns on capital, healthy cashflow and relative stability of earnings.

While 2020 earnings were hit by canceled medical operations and doctor visits, they still came in close to 2019 levels. The relative lack of disruption has resulted in comparatively low earnings growth for the next two years (see page 15) but, looking out to 2023, growth is above average again. Looking to the longer term, the need demonstrated during the COVID pandemic has not necessarily increased the sector's profitability, but gains made in technology (such as mRNA vaccine delivery) and ramp-up in facilities should be beneficial.

Diversity

Health care is less vulnerable to many of today's challenges (such as energy costs, chip shortages, new Chinese regulations) than many other sectors. Nevertheless, the sector has a high proportion of non-domestic earnings, which can lead to international trade risks. The impact of currency moves, such as euro weakness versus the US dollar, on relative pricing currently favours European suppliers. However, investors may also consider the industry composition to make a regional pick — for example, the weight in more stable pharmaceutical manufacturers (higher in Europe) versus the faster growing biotechnology companies and the innovative suppliers of lab and hospital equipment (larger in the US).

A big point of difference between health care and our other two Sector Picks is the reliance on inflation. While financials and energy have both historically performed better in periods of higher inflation (>2.5%), health care returns are similar across both low and high inflation regimes.*

The correlation of MSCI World Health Care with energy is just 43%, reflecting the varied response to economic variables such as PMIs and interest rates and the strong difference in growth versus value characteristics. The correlation of health care with financials is closer to the average with other sectors at 69%.

* Source: FactSet, as of 30 August 2021.
Diversification does not ensure a profit or guarantee against loss.

Top 5 Holdings by Index

Name	Index Weight (%)
MSCI World Energy 35/20 Capped Index	
Exxon Mobil Corporation	13.44
Chevron Corp	10.58
Total Energies	6.46
BP	5.01
Royal Dutch Shell A	4.94
MSCI World Financials 35/20 Capped Index	
JPMorgan Chase & Co	6.25
Berkshire Hathaway Inc	4.57
Bank of America Corp	4.13
Wells Fargo & Co	2.42
Citigroup Inc	1.83
MSCI World Health Care 35/20 Capped Index	
Johnson & Johnson	5.82
UnitedHealth Group Inc	5.05
Roche Holding AG	3.52
Pfizer Inc	3.30
Thermo Fisher Scientific Inc	3.07

S&P Energy Select Sector Daily Capped 25/20 Index	
Exxon Mobil Corporation	22.67
Chevron Corporation	18.15
EOG Resources, Inc.	4.99
ConocoPhillips	4.95
Marathon Petroleum Corporation	4.64
S&P Financials Select Sector Daily Capped 25/20 Index	
Berkshire Hathaway Inc	12.16
JPMorgan Chase & Co	11.75
Bank of America Corp	7.55
Wells Fargo & Co	4.58
Citigroup Inc	3.42
S&P Health Care Select Sector Daily Capped 25/20 Index	
Johnson & Johnson	8.78
UnitedHealth Group Inc	7.61
Pfizer Inc	4.98
Thermo Fisher Scientific Inc	4.64
Abbott Laboratories	4.33

Source: MSCI, S&P and State Street Global Advisors, as of 30 September 2021. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

Top 5 Holdings by Index (cont'd)

Name	Index Weight (%)
MSCI Europe Energy 35/20 Capped Index	
BP	18.15
Total Energies	17.56
Royal Dutch Shell A	16.91
Royal Dutch Shell B	15.24
ENI	8.25
MSCI Europe Financials 35/20 Capped Index	
HSBC Holdings PLC	6.23
Allianz SE	5.40
BNP Paribas SA	4.19
Banco Santander SA	3.66
Zurich Insurance Group AG	3.59
MSCI Europe Health Care 35/20 Capped Index	
Roche Holding AG	16.58
AstraZeneca PLC	12.04
Novartis AG	11.77
Novo Nordisk A/S	10.50
Sanofi	7.03

Source: MSCI, S&P and State Street Global Advisors, as of 30 September 2021. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown.

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 (%)***
MSCI World Sector Indices									
MSCI World Index	**25.6**	**5.6**	**18.1**	–	–	–	**13.4**	**138**	**1.87**
Comm. Services	22.0	6.2	18.5	1.11	1.51	1.44	12.0	99	1.17
Consumer Disc.	51.0	2.4	21.3	1.41	1.21	1.16	12.9	118	1.08
Consumer Staples	8.1	1.6	19.0	1.43	0.91	1.12	22.4	100	2.64
Energy	346.0	13.6	11.2	0.50	0.41	0.51	12.5	70	4.41
Financials	23.4	7.0	12.6	0.43	0.61	0.61	9.2	231	2.88
Health Care	11.2	2.0	17.4	1.43	1.20	1.15	28.2	79	1.68
Industrials	43.1	5.9	18.7	1.15	1.02	1.08	14.5	98	1.74
Materials	35.9	10.4	12.8	0.71	0.84	0.91	22.8	51	3.80
Real Estate	11.8	4.7	27.2	0.57	1.02	1.23	5.3	84	2.83
Technology	19.2	7.9	26.0	2.80	1.70	1.33	42.9	68	0.80
Utilities	4.2	-0.5	16.5	0.61	0.80	0.92	12.1	135	3.99
US S&P Select Sector Indices									
S&P 500 Index	**26.3**	**6.3**	**19.6**	–	–	–	**22.3**	**117**	**1.41**
Comm. Services	28.3	6.3	18.7	0.88	1.32	1.50	17.3	101	0.90
Consumer Disc.	46.0	3.6	24.7	2.16	1.49	1.23	29.2	223	0.78
Consumer Staples	8.5	4.5	18.8	1.31	0.70	0.91	32.4	120	2.68
Energy	N/A	15.2	12.8	0.42	0.45	0.56	10.6	64	4.26
Financials	26.3	8.0	14.4	0.38	0.69	0.59	12.4	145	1.75
Health Care	11.4	3.1	16.3	1.09	0.94	1.02	32.1	86	1.56
Industrials	57.7	3.2	18.8	1.26	0.85	0.96	20.3	149	1.52
Materials	37.1	10.1	15.8	0.68	0.85	0.99	19.2	62	1.90
Real Estate	17.6	16.5	44.0	0.45	1.56	1.73	9.0	125	2.52
Technology	19.5	8.5	24.1	2.24	1.17	1.03	46.6	78	0.87
Utilities	4.6	-0.7	18.3	0.49	0.79	1.03	11.1	145	3.26
MSCI Europe Sector Indices									
MSCI Europe Index	**32.9**	**8.7**	**14.8**	–	–	–	**10.5**	**177**	**3.13**
Comm. Services	11.5	6.5	14.9	0.73	0.70	0.84	6.9	124	3.97
Consumer Disc.	101.8	10.7	15.0	1.13	1.17	1.46	14.3	100	2.08
Consumer Staples	8.7	1.4	18.5	1.74	1.04	1.36	18.5	92	2.85
Energy	204.2	19.8	8.8	0.60	0.57	0.60	13.4	69	4.55
Financials	28.0	11.1	10.2	0.44	0.69	0.64	8.6	320	4.64
Health Care	9.8	3.4	17.4	1.94	1.20	1.24	25.1	73	2.48
Industrials	54.3	8.0	19.3	1.92	1.55	1.46	19.6	103	2.09
Materials	43.1	13.8	11.6	1.02	1.05	1.11	24.1	50	5.23
Real Estate	3.3	-1.1	18.7	0.48	0.94	1.11	4.5	87	2.97
Technology	22.8	5.8	28.6	2.94	4.01	3.40	15.7	60	0.80
Utilities	10.8	3.2	14.6	0.91	0.87	0.74	13.7	129	5.69

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 30 September 2021. 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)
MSCI World Sector Indices						
MSCI World Index	**0.10**	**0.26**	**0.62**	**1.00**	**18.46**	–
Comm. Services	0.09	0.22	0.57	0.88	17.74	0.94
Consumer Disc.	0.11	0.29	0.81	1.12	21.96	0.97
Consumer Staples	0.03	0.11	0.39	0.58	13.00	0.85
Energy	0.24	0.51	0.90	1.48	34.57	0.81
Financials	0.19	0.35	0.78	1.17	24.31	0.91
Health Care	0.02	0.12	0.36	0.68	15.38	0.84
Industrials	0.13	0.30	0.73	1.11	21.83	0.96
Materials	0.11	0.29	0.64	1.06	21.58	0.94
Real Estate	0.05	0.21	0.46	0.79	17.61	0.85
Technology	0.08	0.28	0.65	1.05	21.41	0.93
Utilities	0.02	0.11	0.32	0.50	14.54	0.65
US S&P Select Sector Indices						
S&P 500 Index	**0.10**	**0.24**	**0.65**	**1.00**	**18.81**	–
Commun. Services	0.10	0.28	0.65	0.99	20.34	0.95
Consumer Disc.	0.09	0.28	0.77	1.09	22.05	0.95
Consumer Staples	0.05	0.11	0.44	0.61	14.20	0.83
Energy	0.29	0.60	1.04	1.69	41.74	0.78
Financials	0.20	0.33	0.78	1.14	24.72	0.89
Health Care	0.03	0.12	0.42	0.70	16.11	0.84
Industrials	0.15	0.31	0.80	1.16	24.03	0.93
Materials	0.12	0.26	0.67	1.05	22.22	0.91
Real Estate	0.03	0.18	0.39	0.71	17.13	0.80
Technology	0.08	0.26	0.66	1.03	21.38	0.93
Utilities	0.03	0.06	0.30	0.41	16.08	0.50
MSCI Europe Sector Indices						
MSCI Europe Index	**0.10**	**0.28**	**0.56**	**1.00**	**19.31**	–
Comm. Services	0.10	0.21	0.49	0.78	18.12	0.85
Consumer Disc.	0.15	0.36	0.78	1.18	24.47	0.96
Consumer Staples	0.02	0.13	0.36	0.58	14.41	0.81
Energy	0.18	0.39	0.60	1.19	31.29	0.76
Financials	0.19	0.41	0.80	1.36	29.03	0.93
Health Care	0.00	0.11	0.21	0.54	14.21	0.76
Industrials	0.13	0.35	0.75	1.17	23.73	0.98
Materials	0.11	0.32	0.59	1.08	22.84	0.94
Real Estate	0.07	0.31	0.68	1.05	23.89	0.88
Technology	0.09	0.32	0.56	1.10	23.36	0.93
Utilities	0.01	0.20	0.37	0.77	19.68	0.77

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 30 September 2021. 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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Europe UCITS Sector ETFs: **0.18%**

SPDR ETF Information	ISIN	TER (%)	Euro-next	LSE	Xetra	Borsa Italiana	SIX	Mexico BMV	Q3 21 Net Flows ($M)	YTD Net Flows ($M)	SPDR AUM ($M)
World Sector Funds											
SPDR MSCI World Communication Services UCITS ETF	IE00BYTRRG40	0.30	WTEL	WTEL	–	–	WTEL	WTELN	0	-7	30
SPDR MSCI World Consumer Discretionary UCITS ETF	IE00BYTRR640	0.30	WCOD	WCOD	–	–	WCOD	CDISN	0	6	38
SPDR MSCI World Consumer Staples UCITS ETF	IE00BYTRR756	0.30	WCOS	WCOS	–	–	WCOS	–	-9	-6	79
SPDR MSCI World Energy UCITS ETF	IE00BYTRR863	0.30	WNRG	WNRG	–	WNRG	WNRG	WNRGN	-38	31	374
SPDR MSCI World Financials UCITS ETF	IE00BYTRR970	0.30	WFIN	WFIN	–	WFIN	WFIN	WFINN	13	155	273
SPDR MSCI World Health Care UCITS ETF	IE00BYTRRB94	0.30	WHEA	WHEA	–	WHEA	WHEA	–	45	77	436
SPDR MSCI World Industrials UCITS ETF	IE00BYTRRC02	0.30	WIND	WNDU	–	–	WIND	–	0	4	74
SPDR MSCI World Materials UCITS ETF	IE00BYTRRF33	0.30	WMAT	WMAT	–	–	WMAT	WMATN	-46	57	140
SPDR Dow Jones Global Real Estate UCITS ETF	IE00B8GF1M35	0.40	–	GLRE	SPYJ	GLRE	GBRE	–	13	35	268
SPDR MSCI World Technology UCITS ETF	IE00BYTRRD19	0.30	WTCH	WTEC	–	WTEC	WTEC	WTECN	19	2	444
SPDR MSCI World Utilities UCITS ETF	IE00BYTRRH56	0.30	WUTI	WUTI	–	–	WUTI	–	0	0	15
US Sector Funds											
SPDR S&P U.S. Communication Services Select Sector UCITS ETF	IE00BFWFPX50	0.15	SXLC	SXLC	ZPDK	SXLC	SXLC	SXLCN	7	8	260
SPDR S&P U.S. Consumer Discretionary Select Sector UCITS ETF	IE00BWBXM278	0.15	SXLY	SXLY	ZPDD	SXLY	SXLY	SXLYN	-15	-17	121
SPDR S&P U.S. Consumer Staples Select Sector UCITS ETF	IE00BWBXM385	0.15	SXLP	SXLP	ZPDS	SXLP	SXLP	SXLPN	-45	-73	155
SPDR S&P U.S. Energy Select Sector UCITS ETF	IE00BWBXM492	0.15	SXLE	SXLE	ZPDE	SXLE	SXLE	SXLEN	-21	101	232
SPDR S&P U.S. Financials Select Sector UCITS ETF	IE00BWBXM500	0.15	SXLF	SXLF	ZPDF	SXLF	SXLF	SXLFN	29	90	529
SPDR S&P U.S. Health Care Select Sector UCITS ETF	IE00BWBXM617	0.15	SXLV	SXLV	ZPDH	SXLV	SXLV	SXLVN	56	71	273
SPDR S&P U.S. Industrials Select Sector UCITS ETF	IE00BWBXM724	0.15	SXLI	SXLI	ZPDI	SXLI	SXLI	SXLIN	-58	-15	345
SPDR S&P U.S. Materials Select Sector UCITS ETF	IE00BWBXM831	0.15	SXLB	SXLB	ZPDM	SXLB	SXLB	SXLBN	-8	18	51
SPDR S&P U.S. Technology Select Sector UCITS ETF	IE00BWBXM948	0.15	SXLK	SXLK	ZPDT	SXLK	SXLK	SXLKN	199	192	531
SPDR S&P U.S. Utilities Select Sector UCITS ETF	IE00BWBXMB69	0.15	SXLU	SXLU	ZPDU	SXLU	SXLU	SXLUN	-2	4	34
Europe Sector Funds											
SPDR MSCI Europe Communication Services UCITS ETF	IE00BKWQ0N82	0.18	STT	TELE	SPYT	STTX	STTX	TELEN	16	37	58
SPDR MSCI Europe Consumer Discretionary UCITS ETF	IE00BKWQ0C77	0.18	STR	CDIS	SPYR	STRX	STRX	–	26	178	241
SPDR MSCI Europe Consumer Staples UCITS ETF	IE00BKWQ0D84	0.18	STS	CSTP	SPYC	STSX	STSX	CSTPN	-20	-93	125
SPDR MSCI Europe Energy UCITS ETF	IE00BKWQ0F09	0.18	STN	ENGY	SPYN	STNX	STNX	ENGYN	92	136	238
SPDR MSCI Europe Financials UCITS ETF	IE00BKWQ0G16	0.18	STZ	FNCL	SPYZ	STZX	STZX	FNCLN	-228	-656	444
SPDR MSCI Europe Health Care UCITS ETF	IE00BKWQ0H23	0.18	STW	HLTH	SPYH	STWX	STWX	HLTHN	128	209	659
SPDR MSCI Europe Industrials UCITS ETF	IE00BKWQ0J47	0.18	STQ	NDUS	SPYQ	STQX	STQX	NDUSN	-2	22	521
SPDR MSCI Europe Materials UCITS ETF	IE00BKWQ0L68	0.18	STP	MTRL	SPYP	STPX	STPX	MTRLN	-7	11	57
SPDR FTSE EPRA Europe ex UK Real Estate UCITS ETF	IE00BSJCQV56	0.30	–	EURE	ZPRP	EURE	EURE	–	-4	-8	61
SPDR MSCI Europe Technology UCITS ETF	IE00BKWQ0K51	0.18	STK	ITEC	SPYK	STKX	STKX	ITECN	11	3	79
SPDR MSCI Europe Utilities UCITS ETF	IE00BKWQ0P07	0.18	STU	UTIL	SPYU	STUX	STUX	UTILN	-21	376	336

1 Sources: Bloomberg Finance L.P., State Street Global Advisors, as of 30 September 2021. To view additional fund details, including full performance history, please click on the fund name.
* Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

European Equities: Valuations Remain Supportive

Despite the recent selling pressure that European equities have seen, we still believe valuations remain extremely supportive. This is particularly true as, thus far, Europe and the UK have seen slightly more subdued inflation than other regions, which means that at current CPI levels, these are the only parts of the market offering positive real dividend yields.

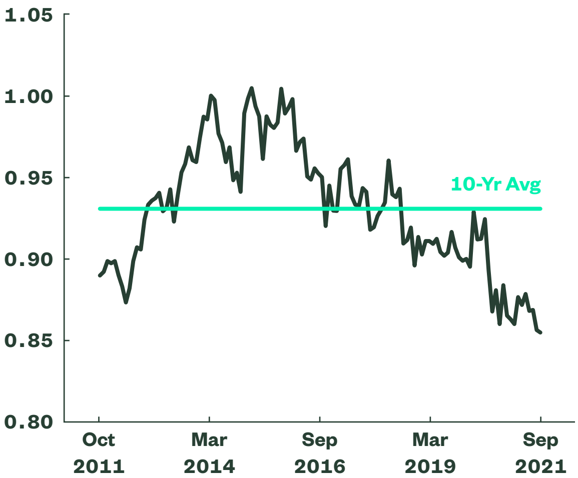
Equities in Europe also still look cheap relative to government bonds and corporate exposures, with both investment grade and high yield exposures in Europe also yielding well below the inflation rate. This implies that there should be a continuation of the "there is no alternative" effect for European equities, which should continue to support investors allocating to this exposure.

We also expect to see a continuation of the transition from monetary stimulus offering support to European equities to more fundamentally driven support. Although European equities have seen relatively strong performance this year, particularly during Q3, they have continued to cheapen. This is because earnings have continued to see upward revisions as analysts begin to price in the full impact of economic re-openings; Europe has lagged behind the US in taking full advantage of re-openings.

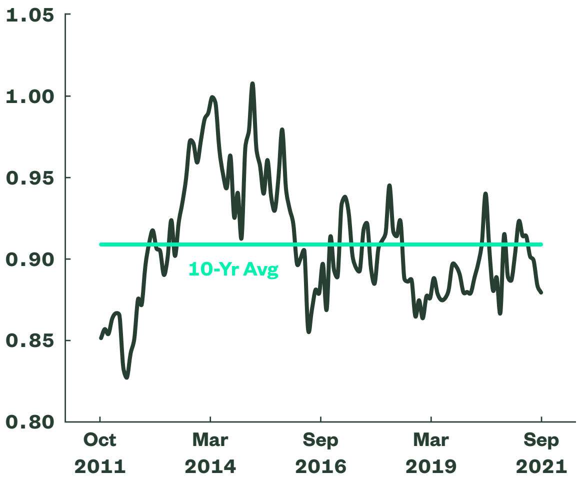
The final factor that could continue to benefit Europe is the fact that there is a significant overweight to more cyclically focused companies in the European indices, particularly financials and energy. Investors looking for significant value exposure may want to consider the MSCI Europe Index, as it includes the UK, which is currently trading at a meaningful discount. Investors who are nervous about the impact of Brexit and its knock-on effects can insulate themselves through the MSCI EMU Index, only investing in eurozone securities.

MSCI Europe and MSCI EMU Price to Earnings Relative to Global Equities

Europe Equities



Eurozone Developed Equities



Source: State Street Global Advisors, Bloomberg Finance L.P., as of 30 September 2021. Price to earnings is defined as 12-month forward BEST_PE_RATIO.

Japanese Equities: Still Cheap and May Be Helped by Political Tailwinds

For most of this year, Japanese equities lagged significantly versus other regional equity indices, as shown by the chart below. However, following a surprise decision by Prime Minister Suga to not seek re-election, Japanese equities rallied strongly in September, even while other indices weakened, as investors hoped the new Prime Minister could pave the way for further fiscal stimulus.

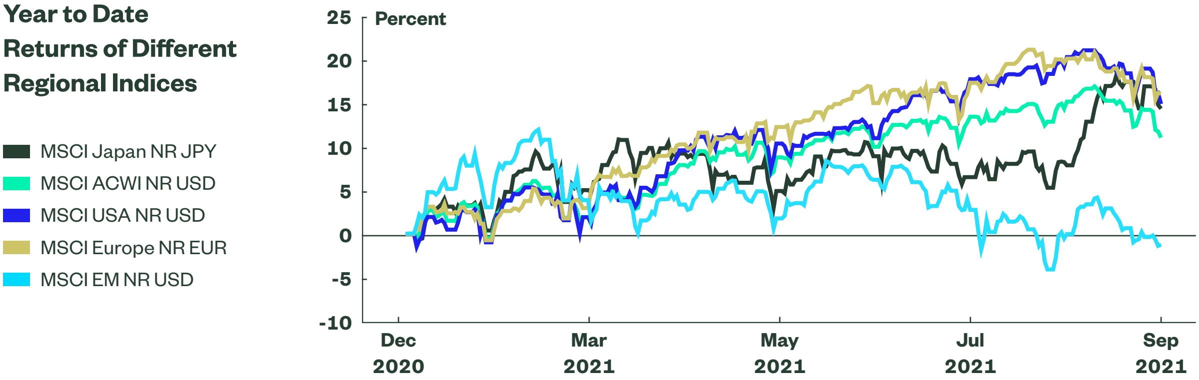
Although the newly elected Prime Minister Kishida has subsequently dampened sentiment with rhetoric of increased taxation, there is still optimism that there could be more fiscal stimulus further down the road, especially as Kishida pronounced previously that a 30 trillion Japanese yen (JPY) economic rescue package was required to boost the economy. With the new leader in place, it is also unlikely that we will see much equity market disruption, which investors had been nervous about when Suga faced re-election.

While the JPY has strengthened over the course of 2021, which tends to have a negative impact on Japanese stocks, it is unlikely to strengthen much further. The Fed has already made pronouncements that it will begin to tighten monetary policy, while the Bank of Japan is not in a position where it will be able to tighten policy before the end of the year, which should take some of the upward pressure off the JPY.

Finally, Japanese corporate balance sheets remain in an incredibly strong position, with 50% of corporates in the TOPIX index currently sitting on more cash than debt. Most of these companies have made strong profitability gains over the past few years due to remaining disciplined with capital and creating significant efficiency gains in their operations.

Despite the strong returns that Japanese equities have seen, they still trade at a significant discount relative to global equities, currently trading 15% lower on a relative P/E basis. This means investors who believe the reflation and cyclical trade still has legs in Q4 can effectively capture the theme with an allocation to the MSCI Japan Index.

Year to Date Returns of Different Regional Indices



Source: Morningstar Direct, as of 30 September 2021. Past performance is not a guarantee of future returns. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Mid Caps: Reduce US Equity Concentration with a Size Approach

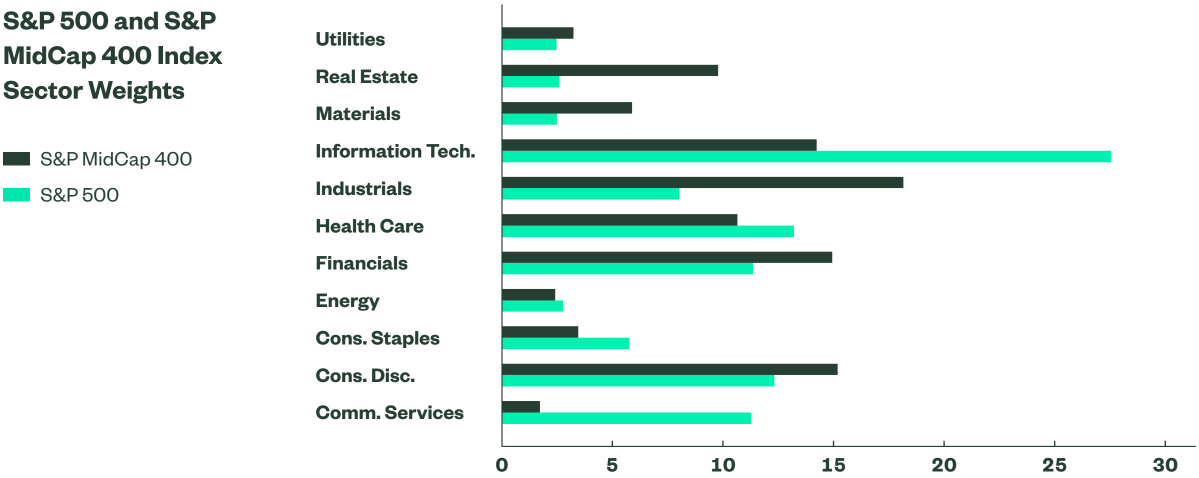
Most investors are keen to maintain an allocation to US equities due to the fact the economic recovery continues to be robust in the country. However, many investors are now nervous by how concentrated the S&P 500 Index has become, with more than 20% of the index sitting in the top 5 holdings and 28% in the top 10 holdings. This concentration means that investors in the S&P 500 are exposed to a large amount of single-stock risk, and these largest holdings all tend to have a growth tilt to their exposure.

The S&P MidCap 400 Index, on the other hand, is far less concentrated. With just 3% of the index in the top 5 holdings and 6% in the top 10, investors take on much less stock-specific risk with this index. On a valuation basis, mid caps look significantly cheaper than large caps, with a current price/book of 2.69 versus 4.48 in large caps.

The mid cap index also reduces exposure to some of the highest growth and technology-focused sectors, with a significant underweight to information technology and communication services. Instead, the index is heavily overweight in more cyclical sectors, such as industrials, real estate and materials.

For investors concerned about the possibility of Treasury yields continuing to rise further, and the negative consequences that may have on the heavily technology-focused names in the S&P 500 Index, the S&P MidCap 400 Index provides an effective way to maintain exposure to US equities while reducing some of the risk associated with rising rates. The more cyclically focused parts of the index should benefit if the reflation trade continues to gather steam in Q4.

S&P 500 and S&P MidCap 400 Index Sector Weights



Source: FactSet, as of 30 September 2021. Weights are as of date indicated and shouldn't be relied thereafter. This information should not be considered a recommendation to invest in a particular sector shown. It is not known whether the sectors shown will be profitable in the future.

SPDR Broad Equity ETFs

Fund Name	Ticker	ISIN	Inception Date	Index	TER (%)	AUM ($Mn)
Global						
SPDR® MSCI ACWI UCITS ETF	**ACWD**	IE00B44Z5B48	5/13/2011	MSCI ACWI (All Country World Index) Index	0.40	2,850
SPDR® MSCI ACWI EUR Hdg UCITS ETF (Acc)	**SPP1**	IE00BF1B7389	9/30/2019	MSCI ACWI with Developed Markets 100% hedged to EUR Index	0.45	281
SPDR® MSCI ACWI USD Hdg UCITS ETF	**SPP2**	IE00BF1B7272	10/21/2020	MSCI ACWI with Developed Markets 100% Hedged to USD Index	0.45	53
SPDR® MSCI ACWI IMI UCITS ETF	**IMID**	IE00B3YLTY66	5/13/2011	Investable	0.40	444
SPDR® MSCI World UCITS ETF	**SWRD**	IE00BFY0GT14	2/28/2019	MSCI World Index	0.12	1,196
SPDR® MSCI World Small Cap UCITS ETF	**WDSC**	IE00BCBJG560	11/25/2013	MSCI World Small Cap Index	0.45	959
US						
SPDR® S&P 500 UCITS ETF	**SPY5**	IE00B6YX5C33	3/19/2012	S&P 500 Index	0.09	5,398
SPDR S&P 500 EUR Hdg UCITS ETF	**SPPE**	IE00BYYW2V44	10/31/2018	S&P 500 EUR Dynamic Hedged Index	0.12	415
SPDR® S&P 400 US Mid Cap UCITS ETF	**SPY4**	IE00B4YBJ215	1/30/2012	S&P MidCap 400 Index	0.30	1,152
SPDR® Russell 2000 US Small Cap UCITS ETF	**R2US**	IE00BJ38QD84	6/30/2014	Russell 2000 Index	0.30	1,825
SPDR S&P 500 ESG Screened UCITS ETF	**500X**	IE00BH4GPZ28	12/2/2019	S&P 500 ESG Exclusions II Index	0.10	450
Europe						
SPDR® MSCI Europe UCITS ETF	**ERO**	IE00BKWQ0Q14	12/5/2014	MSCI Europe Index	0.25	456
SPDR® MSCI EMU UCITS ETF	**ZPRE**	IE00B910VR50	1/25/2013	MSCI EMU Index	0.18	283
SPDR® MSCI Europe Small Cap UCITS ETF	**SMC**	IE00BKWQ0M75	12/5/2014	MSCI Europe Small Cap Index	0.30	321
SPDR STOXX Europe 600 ESG Screened UCITS ETF	**ZPDX**	IE00BK5H8015	9/30/2019	STOXX Europe 600 ESG-X Index	0.12	96
Emerging Markets						
SPDR® MSCI Emerging Markets UCITS ETF	**EMRD**	IE00B469F816	5/13/2011	MSCI Emerging Markets Index	0.42	533
SPDR® MSCI EM Asia UCITS ETF	**EMAD**	IE00B466KX20	5/13/2011	MSCI EM (Emerging Markets) Asia Index	0.55	1,287
SPDR® MSCI Emerging Markets Small Cap UCITS ETF	**EMSD**	IE00B48X4842	5/13/2011	MSCI Emerging Markets Small Cap Index	0.55	188
Single Country						
SPDR® FTSE UK All Share UCITS ETF	**FTAL**	IE00B7452L46	02/28/2012	FTSE All-Share Index	0.20	933
SPDR® FTSE UK All Share UCITS ETF (Dist)	**ZPRD**	IE00BD5FCF91	4/26/2018	FTSE AllSh TR GBP	0.20	119
SPDR® MSCI Japan UCITS ETF	**JPJP**	IE00BZ0G8B96	11/30/2015	MSCI Japan Index	0.12	217
SPDR® MSCI Japan EUR Hdg UCITS ETF	**ZPDW**	IE00BZ0G8C04	11/30/2015	MSCI Japan 100% Hedged to EUR Index	0.17	17

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 30 September 2021. To view additional fund details, including full performance history, please click on the fund name.

Contributors

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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.[1]

Access to 15% of World's Tradeable Securities[2] As part of State Street, we have access to information gleaned from our large global custody business. By aggregating $40 trillion of financial assets, we can observe behavioural trends of this important investor constituent. This includes not only the direction of flows, but also the relative positioning of portfolios. These metrics are generated from regression analysis based on aggregated and anonymous flow data in order to better capture investor preference and to ensure the safeguarding of client confidentiality.

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).

Endnotes

1 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.

2 Source: State Street, as of 31 March 2021.

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