
Systematic High Quality Corporate Fixed Income Strategies

Strategy Update
**Systematic Active
Fixed Income**

September 2024

-
- Both high grade systematic active fixed income strategies outperformed their benchmarks in August.
 - The Value factor drove performance in August and was the best-performing factor during the month.
 - Spreads have tightened in 2024 despite continued macroeconomic and central bank policy uncertainties.

Market Commentary

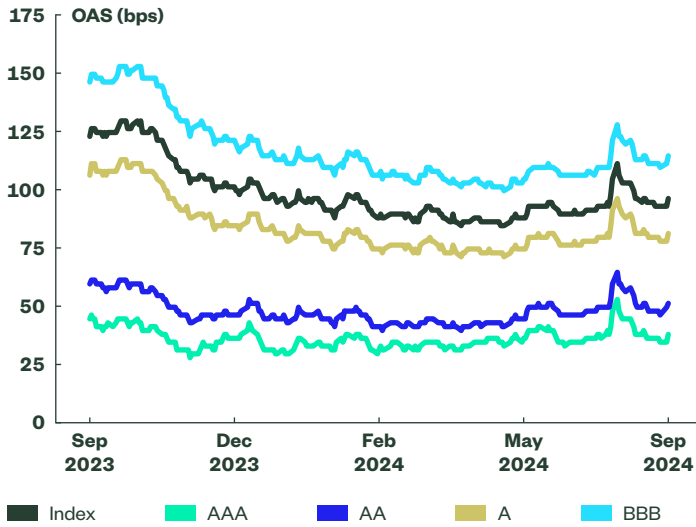
The higher-for-longer rates narrative that took hold in Q1 2024 gave way to softer data in Q2 that solidified signs of a broad macroeconomic slowdown:

- Continued disinflation: Headline year-over-year CPI inflation fell from 3.5% in March to 2.5% in August.
- Modest softening in labor market conditions: The unemployment rate rose from 3.8% to 4.2%.
- More certainty on policy shift: The Federal Reserve signaled its intent to begin cutting rates in September.

As a result of these conditions, the 10-year US Treasury yield fell by about 100 bps from a local max of 4.7% in late April to well under 4% by mid-September (Figure 1).

Meanwhile, credit spreads had been on a steady tightening trend since Q4 last year through to mid-year, with investment grade (IG) spreads falling from 130 bps to 85 bps, and high yield (HY) spreads falling significantly from 437 bps to almost 300 bps. IG spreads widened by approximately 25 bps during the market volatility in early August; however, much of that move has now been retraced.

Figure 1 US IG Spreads Tightened Steadily in Q2, Followed by Brief Elevated Volatility in August



Sources: Bloomberg Finance, L.P., as of September 3, 2024.
Index: Bloomberg US Corporate Total Return Value Unhedged USD.

Factor Report

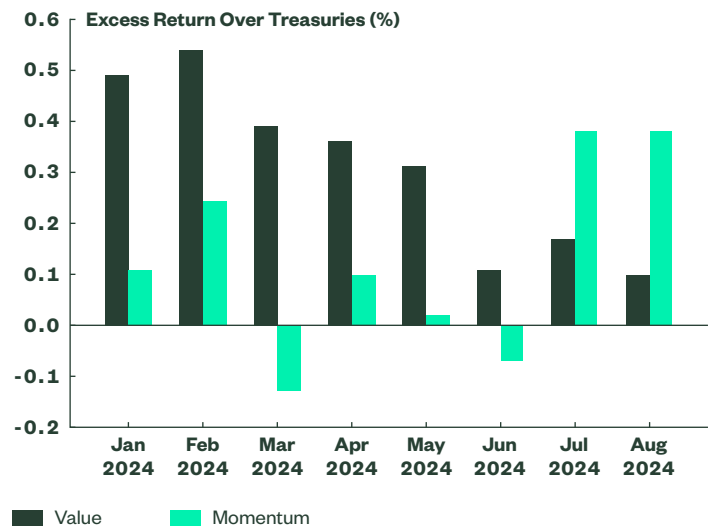
Alpha signals, closely related to style factors, are a key input in systematic fixed income. Indeed, the decisions about which securities to buy or sell are determined based on signal scores that measure a security or issuer’s exposure to [un]desirable style factors at a given point in time.

Factor investing, which has long served as a strategy for equity investors to understand and exploit alpha drivers discerned over time, is now becoming a more viable option for credit investors (see: [The Case For Systematic in Credit](#)). It allows investors to gain a different perspective on the key drivers of credit returns in various market environments. The factors we evaluate are in some cases informed by the equity performance of the issuers (see [Overview: Systematic Active Fixed Income Signals](#)).

The Value Factor In this environment of general spread tightening, the Value factor performed very well in the first six months of 2024. The Value signal isolates the spread that is unaccounted for by issuer fundamentals or structural elements such as maturity. When elevated, this signal has empirically been shown to mean-revert over time. As the Value factor tilts towards higher yielding, higher spread bonds, it will tend to outperform as spreads tighten, hence the strong performance thus far in 2024.

The Momentum Factor The Momentum factor tends to perform better in market downturns, thereby complementing the Value factor which performs less well. The Momentum signal performed well early in the year and during the more volatile months of July and August, while struggling from March to June. Should a period of more sustained spread widening emerge, that is when we would expect to see the Momentum factor shine once again. At the security level, the Momentum factor did quite well in identifying issuers that were experiencing negative equity performance first, and then negative spread performance as earnings disappointed. For example, this pattern occurred with the bonds of BBB-rated chip maker Intel Corp. during the period.

Figure 2 Monthly Factor Performance, Overall Market



Source: Barclays QPS. The chart reports monthly excess return over duration-matched Treasuries of factor-tilted portfolios subject to concentration limits as well as risk characteristics (e.g. Duration, DTS, Industry Sector and Rating Allocation) close to the index. The portfolios implement positive or negative tilts on individual factors: Relative Value and Momentum. Turnover is not controlled, and transaction costs are ignored. The information contained above is for illustrative purposes only. Data as of August 2024. Past performance is not a reliable indicator of future performance.

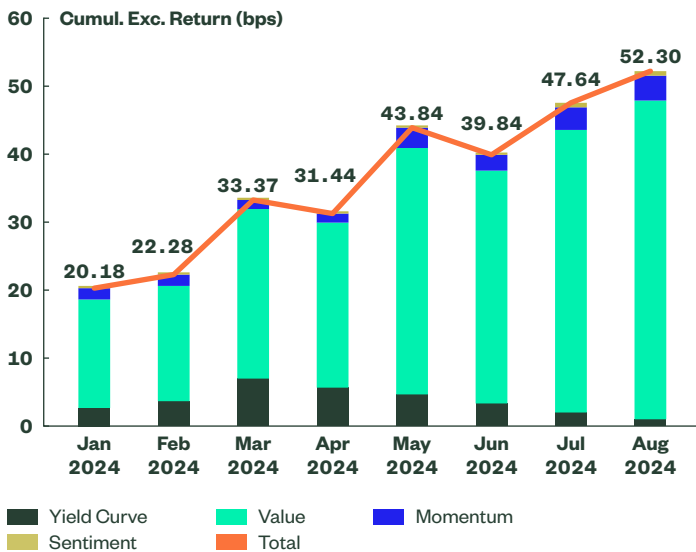
Performance

With live assets now in these strategies since December 31, 2023, we continue to build a performance track record that is demonstrating the efficacy of the factor signals, along with the effectiveness of our portfolio construction and implementation skills.

- ### Systematic High Quality Intermediate Corporate

The portfolio outperformed its benchmark by +52 bps YTD through the end of August. As should be expected in such an environment, Value was the key contributor to excess returns in the YTD period. Other elements such as the yield curve and the Momentum factor only contributed modestly. As spreads have continued to grind tighter YTD in 2024, Momentum scores have tilted the portfolio progressively more defensively over time, towards Utilities and Non-Cyclicals, and away from Cyclicals, Energy, and Industrials.

Figure 3 **The Value Factor Has Boosted Returns and Outperformed Other Factors**

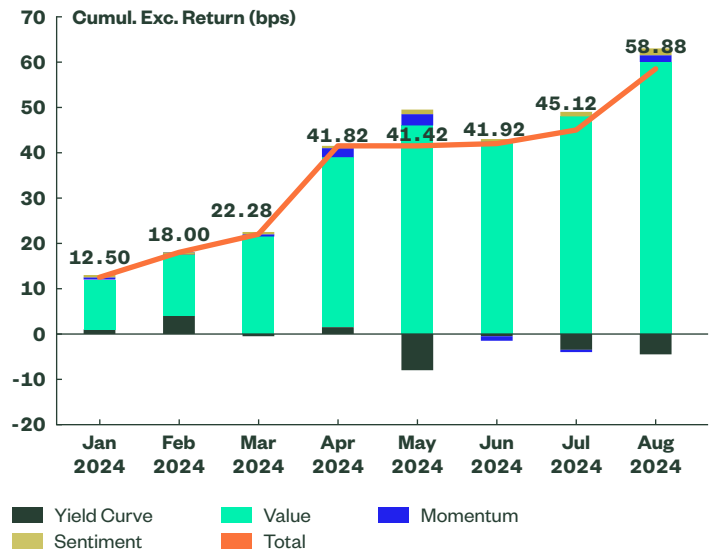


Source: State Street Global Advisors, as of August 31, 2024. Past performance is not a reliable indicator of future performance. Performance returns for periods of less than one year are not annualized. Performance is on a gross basis and is for the individual factor. Please see net-of-fee information for the funds in Appendices 1 and 2.

- ### Systematic High Quality Long Corporate

The portfolio outperformed its benchmark by +59 bps YTD through August. Consistent with the intermediate strategy, Value was the main driver of the outperformance, and Momentum has tilted the long portfolio more defensively over time.

Figure 4 **The Value Factor Aided Performance in High Quality Long**



Source: State Street Global Advisors, as of August 31, 2024. Past performance is not a reliable indicator of future performance. Performance returns for periods of less than one year are not annualized. Performance is on a gross basis and is for the individual factor. Please see net-of-fee information for the funds in Appendices 1 and 2.

Appendix 1:

US High Quality Intermediate Corporate Bond Performance

Annualized returns for the period ending June 30, 2024 (USD)														
	QTR (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	Since Inception (%)							
US HQ Corporate Bond (Gross)*	0.80	0.16	5.37	-2.82	0.84	2.68	3.40							
Bloomberg Intermediate Corporate ex Baa Index	0.70	-0.33	4.59	-3.24	0.39	2.34	3.16							
Difference (Gross)*	0.10	0.49	0.78	0.42	0.45	0.34	0.24							
US HQ Corporate Bond (Net)**	0.80	0.16	5.36	-2.83	0.82	2.66	3.38							
Bloomberg Intermediate Corporate ex Baa Index	0.70	-0.33	4.59	-3.24	0.39	2.34	3.16							
Difference (Net)**	0.10	0.49	0.77	0.41	0.43	0.32	0.23							
Tracking Error Volatility	—	—	40	40	35	—	32							
Information Ratio	—	—	1.95	1.05	1.29	—	0.75							
Yearly returns for the period ending June 30, 2024														
	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 YTD (%)
US HQ Corporate Bond (Gross)*	3.64	11.72	-2.45	7.50	2.52	4.70	5.90	-2.49	14.68	11.55	-2.03	-15.86	8.99	0.16
Bloomberg Intermediate Corporate ex Baa Index	3.82	11.62	-2.35	7.62	2.09	4.37	5.81	-2.55	14.34	10.68	-2.10	-15.83	8.10	-0.33
US HQ Corporate Bond (Net)**	3.64	11.72	-2.46	7.49	2.51	4.69	5.88	-2.50	14.66	11.53	-2.04	-15.88	8.97	0.16

Inception date: 05/01/2010. Source: State Street Global Advisors as of June 30, 2024.

Returns greater than one year are annualized. Returns represent past performance and are not a reliable indicator of future results. Current performance may differ from the performance shown. The performance shown is of a composite consisting of all discretionary accounts using this investment strategy. The above information is considered supplemental to the GIPS presentation for this Composite, which can be found in the Appendix or was previously presented. A GIPS presentation is also available upon request. *Gross performance figures are provided gross of fees and expenses other than actual trading fees and expenses, and reflect all items of income, gain, and loss. **Net performance figures (i) are provided net of actual trading, audit, custody, administrative and legal fees and expenses; (ii) beginning on September 30, 2014, adjusted quarterly to reflect the highest investment management fee on the actual fee schedule, inclusive of incentive fee, if any, of any account within the Composite ("Management Fee") at the relevant time; prior to September 30, 2014, adjusted for an assumed investment management fee, which is equal to or higher than the Management Fee (except in each case certain small accounts-subject to a minimum investment management fee-may have incurred an actual investment management fee higher than that fee assumed in calculating the performance shown above); and (iii) reflect all items of income, gain and loss. ***Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. It is not possible to invest directly in an index. Performance returns are calculated in US dollars. Calculation for value added returns may show rounding differences. gUSCR520.

Appendix 2:

Systematic High Quality Long Corporate Bond Performance

Annualized returns for the period ending June 30, 2024 (USD)							
	QTR (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	Since Inception (%)
Systematic HQ Long Corporate (Gross)*	-1.77	-3.94	0.61	-8.21	-1.68	2.23	4.38
Bloomberg US Long Corporate A+ Index***	-2.02	-4.60	-0.24	-8.69	-2.15	1.85	4.06
Difference (Gross)*	0.25	0.66	0.85	0.48	0.47	0.38	0.32
Systematic HQ Long Corporate (Net)**	-1.78	-3.94	0.59	-8.22	-1.69	2.22	4.24
Bloomberg US Long Corporate A+ Index***	-2.02	-4.60	-0.24	-8.69	-2.15	1.85	4.06
Difference (Net)**	0.25	0.65	0.83	0.47	0.46	0.37	0.17
Tracking Error Volatility (bps)	—	—	45	60	55	44	46
Information Ratio	—	—	1.89	0.80	0.85	0.86	0.65

Yearly returns for the period ending June 30, 2024														
	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 YTD (%)
Systematic HQ Long Corporate (Gross)*	13.27	11.24	-7.32	16.95	-2.06	9.05	12.45	-7.33	22.96	16.35	-3.04	-27.84	10.18	-3.94
Bloomberg US Long Corporate A+ Index***	13.91	10.59	-7.47	17.04	-2.63	8.55	12.27	-7.22	22.44	15.63	-2.91	-28.09	9.41	-4.60
Systematic HQ Long Corporate (Net)**	13.27	11.24	-7.33	16.94	-2.07	9.04	12.43	-7.34	22.95	16.33	-3.06	-27.85	10.17	-3.94

Inception date: 05/20/2011. Source: State Street Global Advisors as of June 30, 2024.

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* Pensions & Investments Research Center, as of December 31, 2023.

† This figure is presented as of June 30, 2024 and includes ETF AUM of \$1,393.92 billion USD of which approximately \$69.35 billion USD is in gold 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. Please note all AUM is unaudited.

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Sample portfolio returns shown above are hypothetical and are based on the returns of the underlying market indices in the proportions shown above. The methodology used was taking the Bloomberg US Corporate Index, dividing it into quintiles from lowest to highest Value score, and measuring the returns. The Value score is a proprietary relative value score from Barclays OPS. Market indices are unmanaged and not subject to fees and expenses, which would lower returns. Neither index performance nor sample portfolio performance is intended to represent the performance of any particular mutual fund, exchange-traded fund, or product offered by SSGA. SSGA has not managed any accounts or assets in the strategies represented by the

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This document provides summary information regarding the Strategy. This document should be read in conjunction with the Strategy's Disclosure Document, which is available from SSGA. The Strategy Disclosure Document contains important information about the Strategy, including a description of a number of risks.

More About Systematic Active Fixed Income (SAFI)

The data-driven insights in our Systematic Fixed Income strategies are informed by systematic signals delivered in the form of

indices developed by the Barclays Quantitative Portfolio Strategy team, or QPS, which is well-recognized as an innovator in quantitative fixed income research. Their innovative signals and portfolio optimization methodologies form an important input to the process we, at State Street Global Advisors, use in the implementation and management of Systematic Active Fixed Income strategies.

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