

European Consumer Staples: Resilience with Growth Upside

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- In a challenging year, the European Consumer Staples sector has afforded portfolios a degree of stability.
- With COVID-19 still likely to affect markets heading into 2021, investors may stand to benefit from the resilient business models, organic growth and low volatility tilt.
- Despite the environment in which safer exposures may typically be preferred, the P/E of European Consumer Staples relative to European equities recently fell to a 10-year low.

Resilience in a Still Difficult Environment

It goes without saying that 2020 has been a difficult year for European equities. MSCI Europe has lost 5.3% YTD (as of 18 November 2020) despite the rally. With the beginning of the autumn, the continent entered a new phase of lockdowns, which had harmed most sectors during the first wave of COVID-19.

Recent news on successful vaccines has provided long-awaited relief; however, before any vaccine deployment, countries still need to face restrictions. Brexit negotiation and transition, particularly in the near term, is another threat to European economies. Against this backdrop, investors may require a degree of protection and stability, which can be found within equities.

We believe that the European Consumer Staples sector, with its resilient business models, organic growth and strong low volatility tilt offers such protection. In addition, the sector allows investors to participate in a potential recovery, particularly through the beverages and beauty product segments, once a vaccine is successfully deployed and economies open up again.

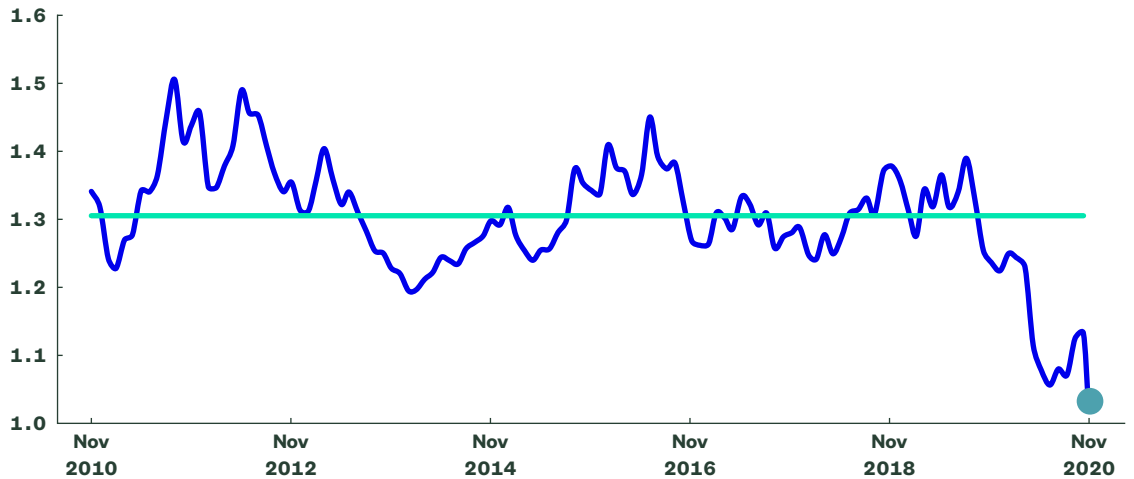
Importantly, despite the period of still elevated uncertainty ahead, Consumer Staples' valuation screens attractively when compared to the broader European market. In addition, the earnings yield of the sector is well supported by historically low government yields. Finally, the diversified geographic breakdown can help to alleviate the impact of local idiosyncratic events such as regional lockdowns.

Low Volatility Tilt at a Relatively Attractive P/E

Looking at 12-month forward P/E relative to broad European equities, European Consumer Staples remains deep below the 10-year average and, most recently, fell to a 10-year low. This screens particularly well given the resurgence of lockdowns and still elevated uncertainty. The strong low volatility tilt, as shown in Figure 2, may provide the necessary stability in this environment. In addition, the relatively large size of Consumer Staples companies facilitates access to financing, which enables them to stay afloat for longer when a prolonged crisis occurs.

Figure 1
Europe Consumer Staples P/E Relative to European Equities Fell to a 10-Year Low

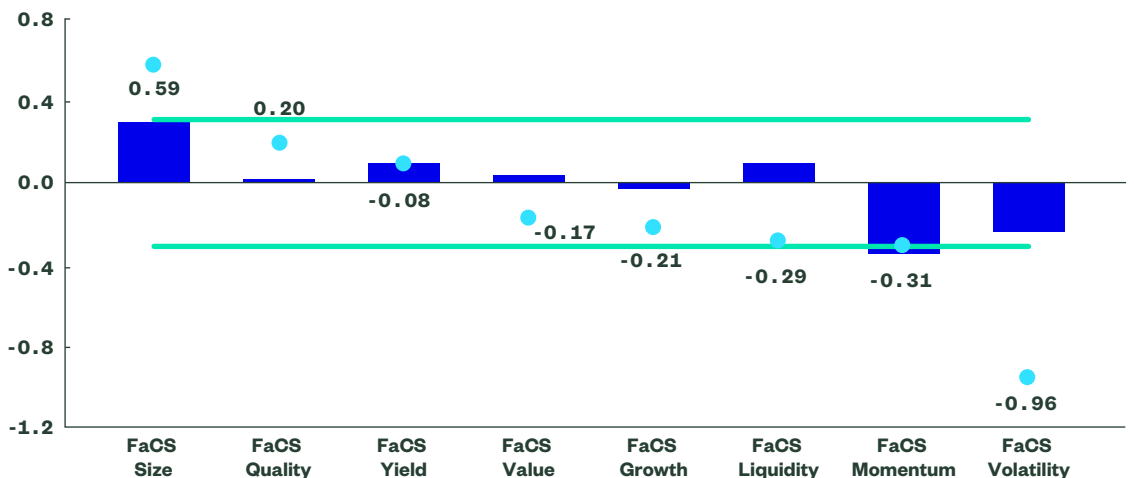
■ Relative P/E
■ Average Relative P/E
■ Current Relative P/E



Source: State Street Global Advisors, Bloomberg Finance L.P., as of 18 November 2020. Relative P/E is 12m forward Bloomberg BEST P/E of Europe Consumer Staples represented by MSCI Europe Net Total Return Eur Index divided by Bloomberg Best P/E of MSCI Europe Net Total Return Index.

Figure 2
Low Volatility Tilt Provides Defensiveness

■ MSCI Europe Index
■ Significance Level (± 0.31)
■ MSCI Europe Consumer Staples Index



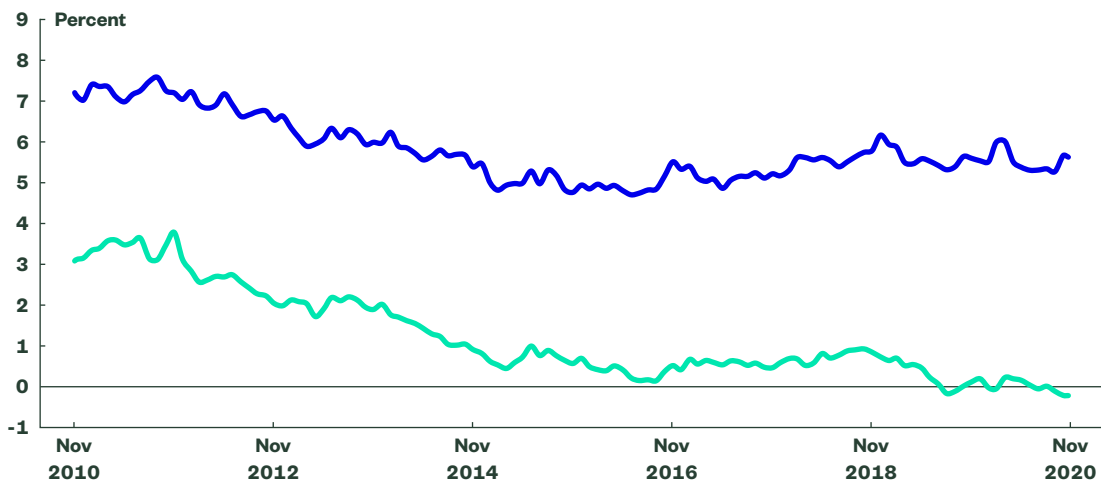
Source: MSCI, State Street Global Advisors, as of 30 October 2020. Factor exposures relative to MSCI ACWI IMI Index. FaCS=0 represents MSCI ACWI IMI.

Stability and Relatively Attractive Cash Flow

The spread between European Consumer Staples earnings yield and the euro government bond yield increased to nearly a 10-year high. Given pandemic-related uncertainty, the spread could be justified for more cyclical exposures. However, for Consumer Staples with its resilient business models, organic growth and strong low volatility tilt, that high spread screens as a relatively attractive cash flow proposition in addition to the stability offered. Moreover, while the lower-for-longer environment remains intact for the time being, Consumer Staples, unlike bonds, should benefit from inflation and therefore offer some protection against potential subsequent rate hikes.

Figure 3
12-Month Forward Earnings Yield Supported by Historically Low Bond Yields

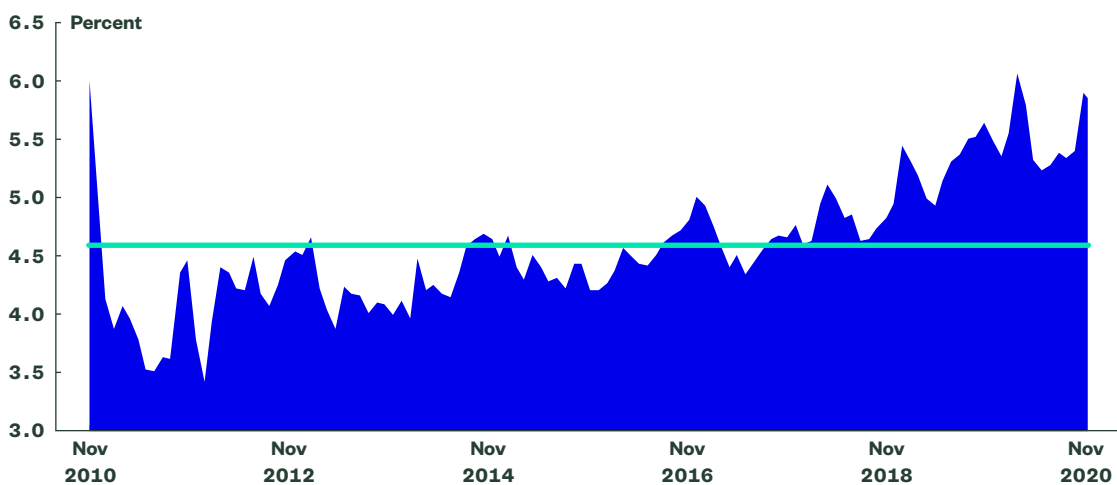
■ Europe Consumer Staples Earnings Yield 12-Month Forward
■ Euro Government Bonds Yield to Worst



Source: Bloomberg Finance L.P., State Street Global Advisors, as of 18 November 2020. Europe Consumer Staples is represented by MSCI Europe Consumer Staples Net Return EUR Index while Euro Government Bonds are represented by Bloomberg Barclays EuroAgg Treasury Total Return Index Value Unhedged EUR. Earnings Yield 12m fwd is a reciprocal of 12m fwd BEST P/E. Yield to Worst is Index Yield to Worst.

Figure 4
Spread Elevated Near 10-Year High

■ Spread
■ Average Spread



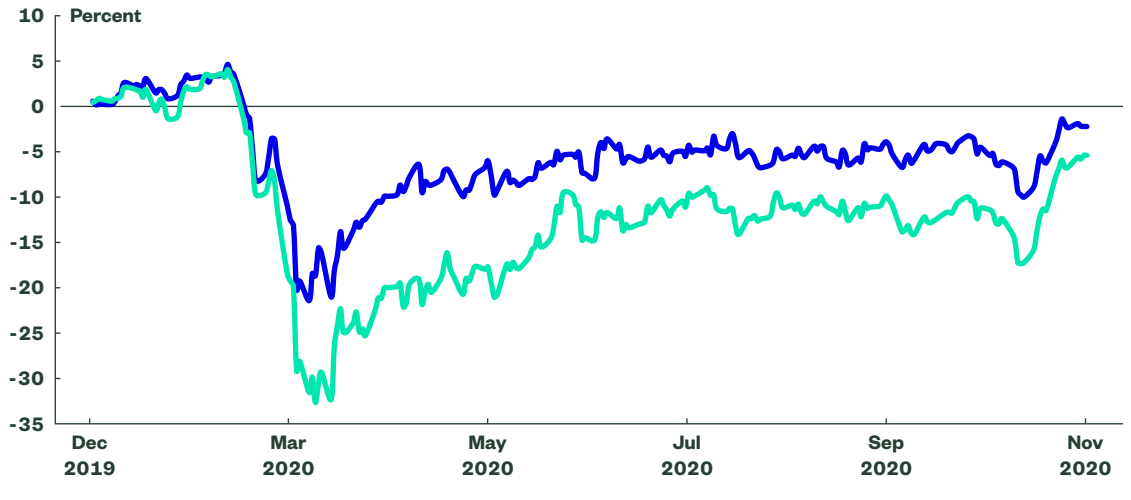
Source: Bloomberg Finance L.P., State Street Global Advisors, as of 18 November 2020. Europe Consumer Staples is represented by MSCI Europe Consumer Staples Net Return EUR Index while Euro Government Bonds are represented by Bloomberg Barclays EuroAgg Treasury Total Return Index Value Unhedged EUR. Earnings Yield 12m fwd is a reciprocal of 12m fwd BEST P/E. Yield to Worst is Index Yield to Worst. Spread is Consumer Staples Earnings Yield Spread over Euro Government Bonds Yield to Worst.

Strong Relative Performance During Crisis and Longer Term

Early in 2020, European Consumer Staples performed mostly in line with the MSCI Europe Index but fell significantly less as the broader market collapsed. Interestingly, despite the sector's built-in defensiveness, it also outperformed its broader benchmark in the long term. While past performance is not a guarantee of future results, investors may favour the sector due to its historical risk-adjusted return profile.

Figure 5
YTD Performance of Europe Consumer Staples vs. Europe Equities

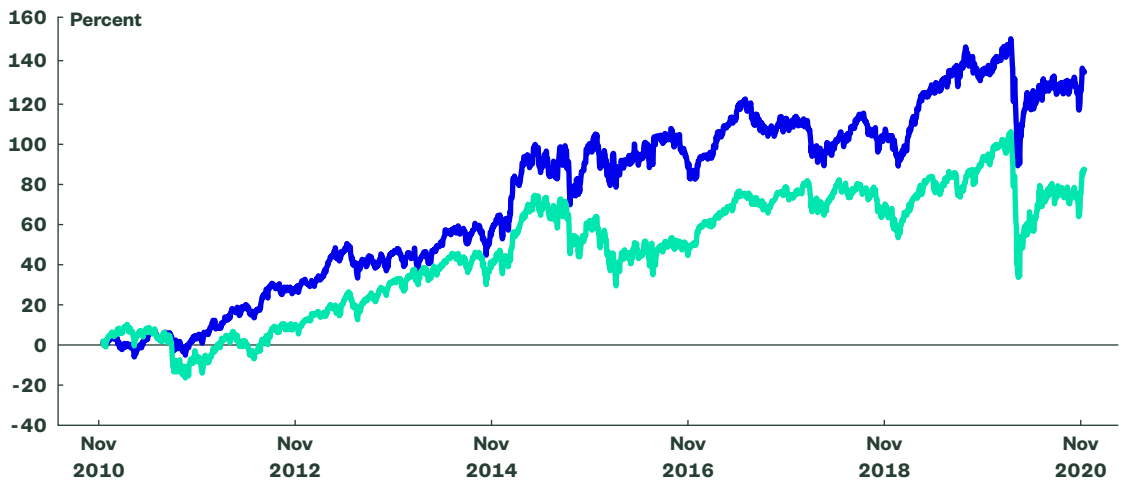
■ Europe Consumer Staples
■ Europe Equities



Source: Bloomberg Finance L.P., State Street Global Advisors, as of 18 November 2020. European Equities are represented by MSCI Europe Net Total Return EUR Index while Europe Consumer Staples are represented by MSCI Europe Consumer Staples Net Return EUR Index.

Figure 6
10-Year Performance of Europe Consumer Staples vs. Europe Equities

■ Europe Consumer Staples
■ Europe Equities



Source: Bloomberg Finance L.P., State Street Global Advisors, as of 18 November 2020. European Equities are represented by MSCI Europe Net Total Return EUR Index while Europe Consumer Staples are represented by MSCI Europe Consumer Staples Net Return EUR Index.

Subsector Split Offers Stability and Allows Participation in the Recovery

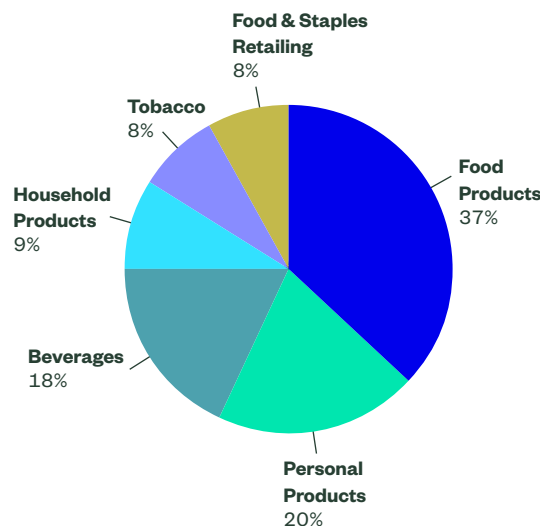
Food Products (37% of the index) are arguably the most defensive part of the index. Resilient business models and organic growth allow food companies to thrive through the crisis and stay afloat during pandemic-induced uncertainty. Food businesses are also well placed for the recovery due to their export-oriented nature. The largest food producer, Nestle*, is also by far the biggest stock in the index (28% of the index as of 31 October 2020).

Personal and Household Products (29%) are another defensive pillar providing additional stability and arguably a better representation of basic consumer needs when compared to food and beverage indices. Approximately 75% of the subsector supplies customers' basic needs (with mixed product offerings like Unilever* or non-food offerings), while the remaining quarter, represented by affordable beauty products (namely l'Oreal*), is well positioned to participate in the recovery.

Beverages (18%) were naturally hit harder during the pandemic due to lockdown and broader social distancing. However, the pandemic-driven downside was mitigated as spirits and beer consumption did not fall as one might have expected. Moreover, beverages are a helpful tool to play a recovery; we saw these stocks rise sharply on news of a successful vaccine.

Tobacco (8%) and **Food Retailing** (8%) make up the rest of the index. Tobacco companies did not have a good year but, similar to spirits, consumption levels have remained robust, thus providing support. Food retailing companies are facing structural headwinds from growing e-commerce, which have hit margins. However, companies with adequate business models have held up relatively well during periods of elevated uncertainty.

Figure 7
MSCI Europe Consumer Staples Index Split by Segment



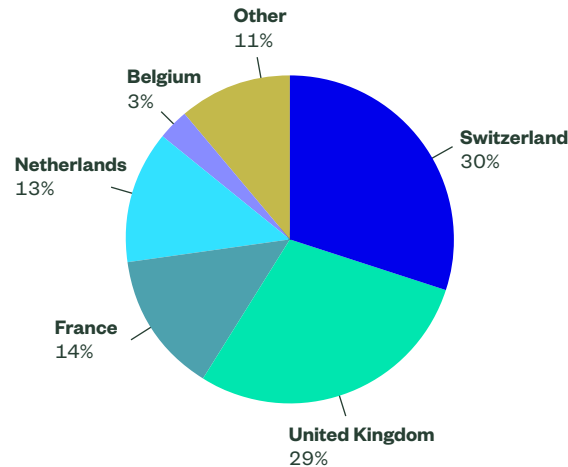
Source: FactSet, as of 30 October 2020. Index characteristics are as of the date indicated and should not be relied upon as current thereafter.

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

Diversified Across Europe

The MSCI Europe Consumer Staples Index is well diversified across major European developed countries and currencies. This diversification helps to alleviate the impact of local idiosyncratic factors, such as country lockdowns, or single currency appreciation.

Figure 8
**MSCI Europe
Consumer Staples
Index Split by Country**



Source: MSCI, as of 30 October 2020. Index characteristics are as of the date indicated and should not be relied upon as current thereafter.

How to Play this Theme?

Investors can use the SPDR MSCI Europe Consumer Staples UCITS ETF to gain exposure to the European Consumer Staples sector. After close of 30 November 2020, the underlying index of the ETF changed from MSCI Europe Consumer Staples Index to MSCI Europe Consumer Staples Capped 35/20 Index. Over the past five years, there was no instance of transgressing the 35/20 limits. However, the change will limit potential tracking risk in the future as the new index is better aligned with the UCTIS regime.

Figure 9
Fund Details

Fund Name	SPDR® MSCI Europe Consumer Staples UCITS ETF
ISIN	IE00BKWQ0D84
Share Class Currency	EUR
Primary Ticker (Euronext)	STS FP
Other Tickers	STXS SE, SPYC GY, CSTP LN, CSTP LN, STSX IM, CSTPN MM
TER (%)	0.30
Index Name	MSCI Europe Consumer Staples 35/20 Capped Index
Index Ticker	NE731541
No. of Index Constituents	c. 40
Portfolio Construction	Replicated
Income Treatment	Accumulation
Index Description	The MSCI Europe Consumer Staples 35/20 Capped Index is a free float-adjusted market capitalisation weighted index that is designed to measure the equity market performance of constituents classified as Consumer Staples (according to the Global Industry Classification Standard) in the MSCI Europe index.

Source: State Street Global Advisors as of 30 November 2020.

Figure 10

Annualised Performance (Expressed in Fund's Base Currency) (%)

	1 Month*	3 Months*	YTD*	1 Year	3 Years	5 Years	Since Inception 30 Sep 2001
SPDR® MSCI Europe Consumer Staples UCITS ETF	-5.41	-4.68	-10.10	-7.62	0.58	1.72	7.02
MSCI Europe Consumer Staples Index	-5.41	-4.63	-10.00	-7.50	0.70	1.84	7.41
Difference	0.00	-0.05	-0.11	-0.13	-0.12	-0.12	-0.38

* 1 Month, 3 Month and YTD performance numbers are not annualised.

Source: State Street Global Advisors, as of 31 October 2020. Past performance is not an indicator of future performance. The Gross of fees do not reflect and net of fees do reflect commissions and costs incurred on the issue and redemption, or purchases and sale, of units. If the performance is calculated on the basis of Gross/net asset values that are not denominated in the accounting currency of the collective investment scheme, its value may rise or fall as a result of currency fluctuations. Calendar year inception performance returns will be partial for the year where the inception date for either the Fund in question or the historic performance-linked Fund (whichever is the earliest) falls within that period. The SPDR® MSCI Europe Consumer Staples UCITS ETF was previously known as the streetTRACKS® MSCI Europe Consumer Staples ETF.

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