

SPDR Spotlight

Root for the Underdog - SPSM

The Lead

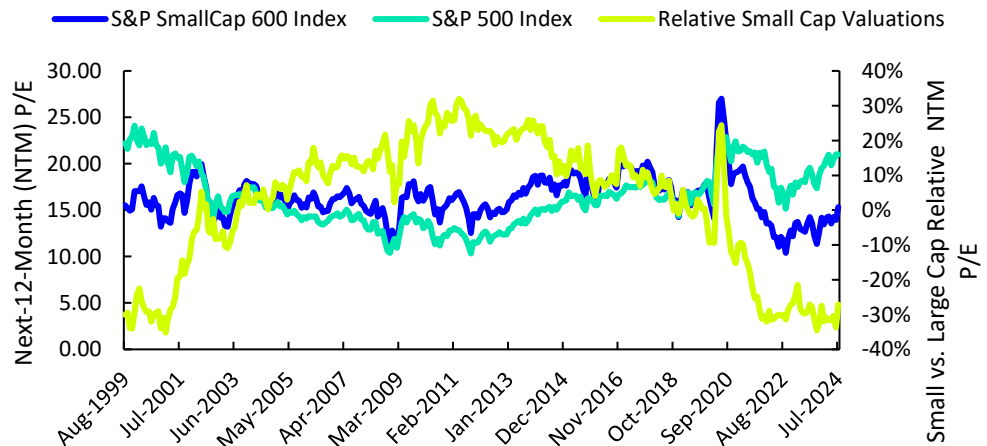
- As Chairman Powell signaled the Fed may start easing as early as September, market now fully priced in 100 basis points of rate cuts by the end of the year¹
- Impending rate cuts may benefit US small cap companies as their interest expenses should reset lower soon after the Fed cuts rates given they typically use more short-term floating rate financing²
- High interest rates have weighed on small-cap valuations over the past two years, with their forward P/E 6% below the long-term average and their relative P/E to US large caps close to a record low³

The Takeaway

Despite recent outperformance, small cap stocks still trade at a significant discount to S&P 500 (see chart below), offering an attractive entry point.⁴ While recent economic data have shown a gradual slowdown in growth, raising concerns about small-cap earnings growth, small-cap near-record low valuations relative to large-caps may have already priced in bad economic outcomes, leaving more room for positive surprises. The [SPDR® Portfolio S&P 600™ Small Cap ETF \(SPSM\)](#) provides investors exposure to small caps with a greater focus on quality than the widely tracked Russell 2000 Index thanks to the inclusion of financial viability requirement in its benchmark construction. As a result, SPSM has outperformed the Russell 2000 Index by 2.2% on an annualized basis over the past three years when the macroeconomic environment posed challenges to small caps.⁵ To position for potential tailwinds for small caps and diversify portfolios from the highly concentrated large-cap market, consider SPSM -- the lowest cost US small-cap ETF with a quality tilt.⁶

Chart of the Week

Small Caps Trade at a Near-Record Discount to Large Caps



Source: FactSet, as of July 31, 2024. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Standard Performance

Ticker	Name	YTD (%)	Annualized				Since Inception (%)	Inception Date	Gross Expense Ratio (%)
			1 Year (%)	3 Year (%)	5 Year (%)	10 Year (%)			
SPSM (NAV)	SPDR® Portfolio S&P 600™ Small Cap ETF	-0.73	8.64	-0.30	7.91	7.59	8.65	7/8/2013	0.03
SPSM (MKT)	SPDR® Portfolio S&P 600™ Small Cap ETF	-0.75	8.64	-0.30	7.93	7.58	8.65	-	-

Source: ssga.com, as of June 30, 2024.

Performance returns for periods of less than one year are not annualized. Past performance is not a reliable indicator of future performance. 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. Visit ssga.com for most recent month-end performance. The market price used to calculate the Market Value return is the midpoint between the highest bid and the lowest offer on the exchange on which the shares of the Fund are listed for trading, as of the time that the Fund's NAV is calculated. If you trade your shares at another time, your return may differ. The gross expense ratio is the fund's total annual operating expenses ratio. It is gross of any fee waivers or expense reimbursements. It can be found in the fund's most recent prospectus.

Footnotes

¹ Bloomberg Finance L.P., World Interest Rate Probability, as of August 2, 2024.

² Bloomberg Finance L.P., "A \$600 Billion Wall of Debt Looms Over Market's Riskiest Stocks". May 11, 2024.

³ FactSet, as of July 31, 2024. Long-term Average calculated for the 25 year period ended July 31, 2024, based on monthly observations. US small cap companies represented by the S&P SmallCap 600 Index. US large cap companies represented by the S&P 500 Index.

⁴ Bloomberg Finance L.P., FactSet, as of July 31, 2024. S&P SmallCap 600: 1 Month Total Return = 10.79%, 3 Month Total Return = 13.73%. S&P 500 Index: 1 Month Total Return = 1.22%, 3 Month Total Return = 10.05%. **Past performance is not a reliable indicator of future performance.**

⁵ Bloomberg Finance L.P., as of July 31, 2024. SPSM's Trailing 3-Year Total Return (Annualized) = 4.01%. Russel 2000 Trailing 3-Year Total Return (Annualized) = 1.81%. **Past performance is not a reliable indicator of future performance.**

⁶ Morningstar, as of August 2, 2024. SPSM's TER = 0.03%.

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