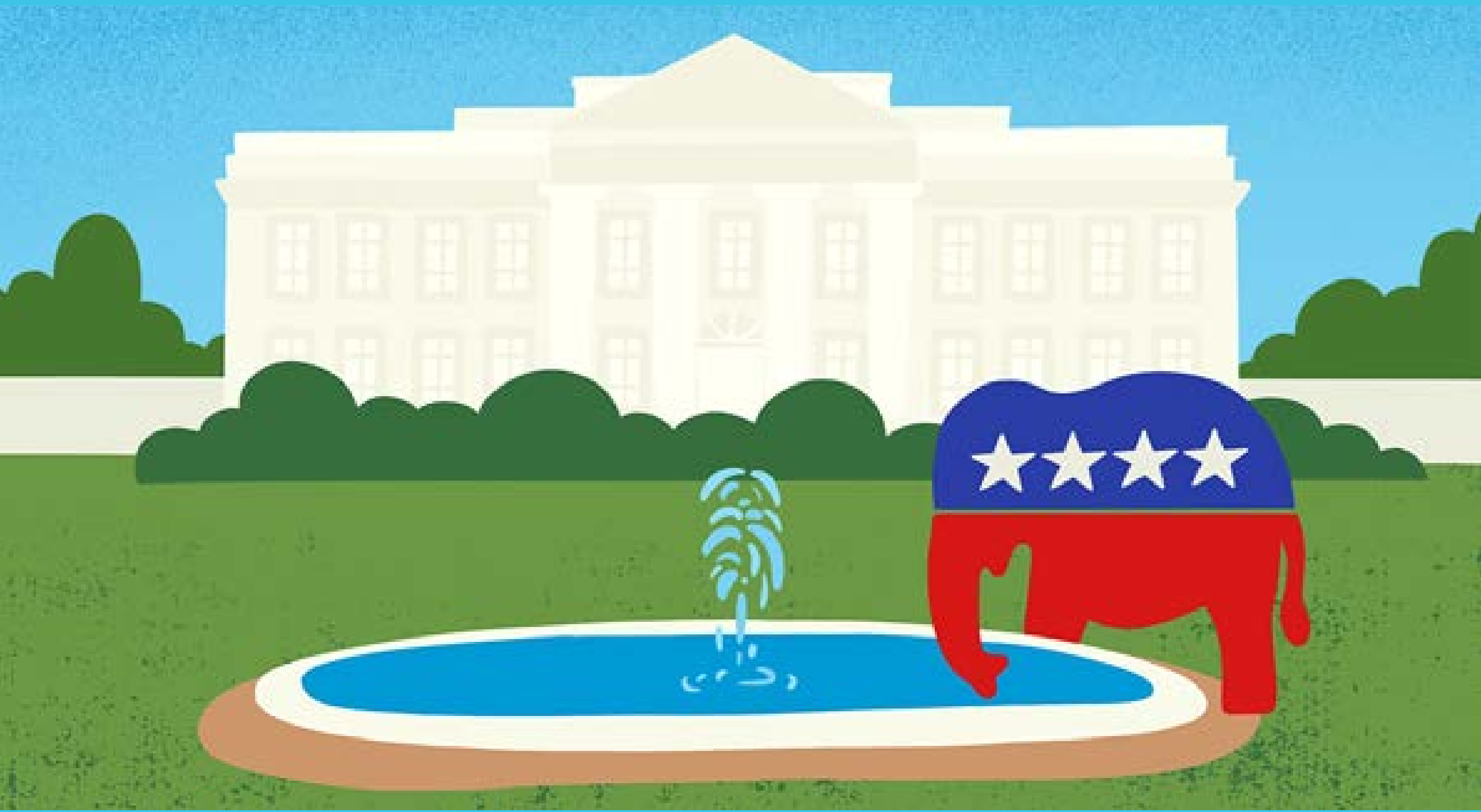
Sector & Equity Compass

Beyond the Inauguration

Q1
2025



STATE STREET GLOBAL ADVISORS SPDR®

Themes and Outlook

Themes & Outlook: Will questions for 2025 be answered in Q1?

We start 2025 with some big questions. We cannot promise all the answers, but we do have solutions and perspectives which may help.

After a year of significant gains for investors in most developed markets and some emerging markets (EM), it is possible that whilst some dream of more to come, others will be more sceptical. We saw at the end of 2024, institutional investors (as seen by State Street's custody business) showed a risk-off tilt to flows as the US market came back from all-time highs on less doveish views on Federal Reserve rate cuts.

We see the key investment questions at the start of 2025 as follows:

1. How much is US exceptionalism worth?
2. What will Trump do?
3. Will Europe recover in 2025?
4. How much easing?
5. What trends can be targeted regardless of these questions?

America First

A big part of State Street Global Advisers Global Market Outlook addresses US exceptionalism and likely soft landing. However, much of this is consensus is in the price. We don't want to fight the strength of the US consumer or tech-related productivity growth, but we want to avoid possible bubbles. We favour accessing US equities via small and mid cap equities, and note the need for robust balance sheets, or sectors which should benefit from the strong domestic economy, such as Financials.

We believe the US market will continue to broaden out in terms of improving earnings growth in most sectors, and not just be reliant on Technology and its peers. The stocks which form the Magnificent 7 offer sustainable, elevated growth, and are worth at least a neutral position in portfolios but are heavily owned. We are focusing elsewhere.

The Unknown Trump

Market participants are debating the downside from aggressive tariffs and the upside risk to inflation. There is a lot of uncertainty despite having a previous Trump playbook. However, one likelihood is that the policy mix of Trumponomics 2.0 will benefit US markets more than the rest of the world in the short term.

It seems likely that the negative impact of tariffs on earnings could be offset by tax cuts in US. This would favour domestic companies and informs our Q1 picks. We also consider where deregulation and areas of increased spending, importantly defence, could be most relevant, such as Industrials.

Timing Europe

Maybe the hardest timing point of 2025 will be the return to European equities. Many of its challenges — whether politics, market structure, or other — will take some time to be resolved. Economic issues could be helped by a swift end to Russia's war on Ukraine but help from China could be delayed by the prolonged property crisis, elevated debt levels, and trade tensions.

Nevertheless, if investors return to looking at value, Europe, including the UK, could well be top of the list. In the meantime, we focus on a sector-specific strategy for the region; namely Industrials, Utilities and Health Care, which all have P/E ratings much lower than their US counterparts (see page 16).

Easing Off

Monetary policy easing will likely continue in most developed markets and some emerging ones. However, as we saw at the end of last year, it is easy for investors to get carried away with the pace of rate cuts, especially in the case of the Fed. If we see reflation — perhaps as a result of tariffs — US easing could be pushed out further, but there is still a need for looser policy in the difficult European economies.

Rate cuts are traditionally better for debt-heavy smaller companies and sectors including Utilities.

Carry On Regardless

There was less frenzy surrounding the possibilities of AI in 2024 than in the previous year, but we believe the excitement will build further in 2025. We continue to focus on the facilitation of AI technology in terms of supplying datacentres with electricity and equipment, thus favouring Utilities and Industrials globally. The productivity potential of AI would again support the US on current investment trends.

As well as defence capabilities, other themes which could run in 2025 are reshoring, given the new president's fondness for tariffs, and green transition, despite his scepticism.

Sectors in Focus for Q1

As we expected, US sector dispersion has widened since the presidential election, offering sector investors greater choice. This adds to a market rotation which started midway in 2024, with formerly out-of-favour sectors and size classes taking the helm from tech and its related stocks. We expect this change in leadership to persist in Q1, reinforcing the importance of broader equity exposure.

The macro-economic outlook of major economies is always important in sector selection, as well as key economic factors, such as interest rates and inflation rates. Amongst the sectors most sensitive to these are Industrials and Financials, which we favour this quarter, particularly in the US.

We continue to find Utilities a good diversifier and retain the pick for all regions. Given difficulties in the European economy, we suggest careful sector selection, and highlight Health Care (a European sector that has relatively outperformed US peers), and give a nod to Energy, which may not benefit from higher crude oil prices in Q1 but could see higher natural gas prices.

As every quarter, we draw attention to important metrics on pages 23 and 24, and once fundamentals are satisfied suggest a look at price momentum (taken from SPDR's Sector Momentum Map)* and investor behaviour (as visualised by the flows and holdings data that follows in this document).

	World	US	Europe
Financials	✓	✓	
Utilities	✓	✓	✓
Industrials	✓	✓	✓
Health Care			✓

Equity Regions in Focus for Q1

We acknowledge that valuation multiples of the S&P 500 remain elevated limiting the upside but we retain our preference for US large caps over other regions as the exceptional economy, earnings growth and resilience to geopolitical distress justify premium valuations. Other options are less appealing, as Europe remains vulnerable to geopolitics, and Japan to appreciation (albeit difficult to forecast), while within EM large caps China remains a drag.

Investors who would like benefit from US exceptionalism and expected Trump reforms but are sceptical about hefty valuations may turn toward US mid and small caps, which are trading at more undemanding multiples and are likely beneficiaries of the deregulation and benign tax policy.

As China's equities market continues to be hampered foreign hostility, real estate debt challenges, and slowing growth. We prefer to play EM vis-à-vis EM small caps ,which are heavily underweight China and overweight India, the world's fastest growing major economy.

US Mid & Small Caps
Global Developed Small Caps
EM Large & Small Caps, EM Asia

* SPDR's Sector Momentum Map [please link] can be a good tool when considering sector rotations. Powered by RRG® Research, the Sector ETF Momentum Map lets you see in real time how sectors are trending relative to their US, European and world benchmarks and relative to other sectors.

Sector and Equity Performance

World Sectors

Q4 2024 (%)		FY 2024 (%)	
Comm Services	8.7	33.8	Comm Services
Cons Discret	6.7	32.8	Tech
Cons Staples	4.6	26.7	Financials
Energy	4.0	21.5	Cons Discret
Financials	-0.2	18.7	MSCI World NR
Healthcare	-2.8	13.1	Industrials
Industrials	-4.4	13.0	Utilities
Materials	-6.5	5.7	Cons Staples
Real Estate	-8.1	2.7	Energy
Tech	-9.2	2.1	Real Estate
Utilities	-11.4	1.1	Healthcare
MSCI World NR	-14.3	-5.5	Materials

US Sectors

Q4 2024 (%)		FY 2024 (%)	
Comm Services	12.1	34.3	Comm Services
Cons Discret	7.2	29.9	Financials
Cons Staples	7.0	26.3	Cons Discret
Energy	3.1	24.5	S&P500 NR
Finance	2.3	22.3	Utilities
Healthcare	-1.9	21.5	Tech
Industrials	-2.4	16.9	Industrials
Materials	-4.8	11.5	Cons Staples
Tech	5.7	4.6	Energy
Real Estate	-8.2	4.2	Real Estate
Utilities	-10.4	2.1	Healthcare
S&P500 NR	-12.4	-0.3	Materials

Europe Sectors

Q4 2024 (%)		FY 2024 (%)	
Comm Services	3.6	25.4	Financials
Cons Discret	0.8	14.9	Industrials
Cons Staples	0.0	14.8	Comm Services
Energy	-0.8	12.5	Tech
Financials	-1.1	8.6	MSCI Europe NR
Healthcare	-1.8	4.3	Healthcare
Industrials	-2.7	3.4	Cons Disc
Materials	-5.9	0.9	Utilities
Real Estate	-7.3	-2.3	Cons Staples
Tech	-9.0	-2.4	Materials
Utilities	-10.4	-4.9	Energy
MSCI Europe NR	-12.7	-5.8	Real Estate

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 31 December 2024. Past performance is not a reliable indicator of future performance. The reference indices are in 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. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

Equity Performance by Region	1M (%)	3M (%)	6M (%)	12M (%)
Japan Equities	4.3	5.9	-0.4	20.7
US Equities	-2.4	2.3	8.2	24.5
US Small Caps	-8.3	0.2	9.4	11.1
US Mid Caps	-7.2	0.2	7.1	13.4
UK Equities	-1.2	-0.4	1.9	9.5
Global Equities	-2.4	-1.0	5.6	17.5
Eurozone Developed	1.4	-1.9	1.1	9.5
Developed Small Caps	-6.0	-2.6	6.6	8.2
Europe Equities	-0.5	-2.7	-0.4	8.6
EM Small Caps	-1.0	-7.2	-2.1	4.8
EM Asia	0.2	-7.9	0.8	12.0
Global EM	-0.1	-8.0	0.0	7.5

Source: Bloomberg Finance L.P., as of 31 December 2024. Perofmrnace of Global and EM exposures in USD. Performance of European exposures in EUR. Performance of other exposures expressed in local currencies. Past performance is not a reliable indicator of future performance.

Sector and Equity ETF Flows

Sector ETF Flows	European-Domiciled ($mn)		US-Domiciled ($mn)	
	Q4 2024	FY 2024	Q4 2024	FY 2024
Communications Services	-24	-389	679	-910
Consumer Discretionary	468	479	1,692	1,485
Consumer Staples	-145	508	-855	-1,053
Energy	-352	-1,313	449	-2,541
Financials	1,730	2,097	8,840	11,250
Health Care	-1,287	-490	-3,562	-7,431
Industrials	578	1,793	3,655	5,310
Materials	-166	509	389	-964
Real Estate	445	1,286	-521	4,205
Technology	-354	4,019	7,909	33,055
Utilities	-396	618	-580	1,145

Source: Bloomberg Finance L.P., State Street Global Advisors, as of 31 December 2024. 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 include ETFs invested across all 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)		
	Q4 2024	FY 2024		Q4 2024	FY 2024
Global	26,572	78,023	**US**	290,878	671,666
US	57,987	111,627	**Global**	12,879	20,699
Europe	-536	9,152	**International-Developed**	24,020	71,930
UK	-1,339	904	**International-Emerging Markets**	4,494	10,798
Other Region	-241	41	**International-Region**	-5,942	-5,400
Single Country	-494	2,081	**International-Single Country**	2,894	6,540
EM	1,963	13,461	**Currency Hedged**	844	5,201
Total	**83,913**	**215,289**	**Total**	**330,067**	**781,434**

Source: Bloomberg Finance L.P., as of 31 December 2024. 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.

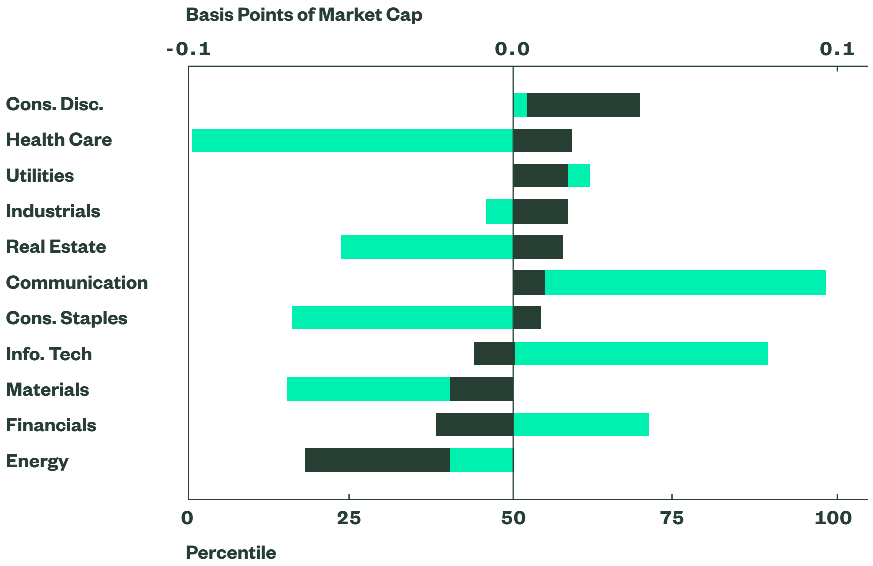
Investor Behaviour Overview

Equity ETFs received record inflows last year. Investors favoured broad indices, particularly for US exposure, primarily the S&P 500 index. There was also heavy buying of smaller cap equities in 2024. Technology sector ETFs dominated both US and European domiciled fund flows but, there was a broadening out of interest in the last quarter, to include Financials and Industrials.

Institutional investor behaviour, as measured by observations from State Street's custody business, is shown in the following charts. On a regional basis, investors started to address their underweight exposure in continental Europe, partly funded by reducing the large US overweight. By sector, investors favoured cyclical exposure, adding to positions in Consumer Discretionary and Industrials, whilst relatively reducing Energy. Looking at sectors globally, the largest relative overweight is now Communication Services and the largest underweight remains Health Care.

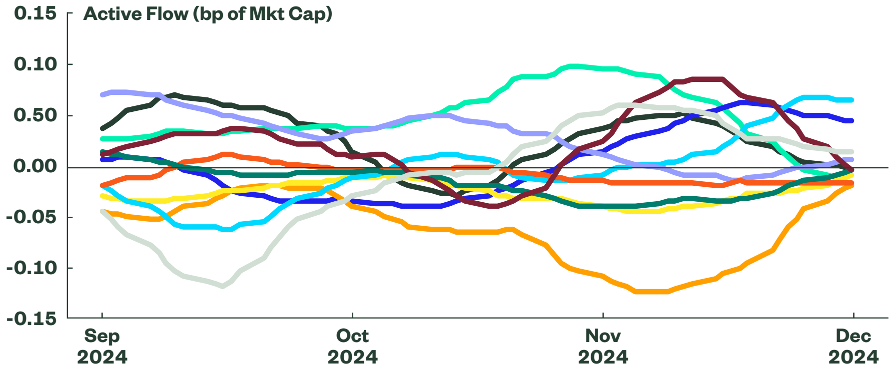
World: Flows and Holdings
Active Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

- 3-Month Flow (upper axis)
- Holdings (lower axis)



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

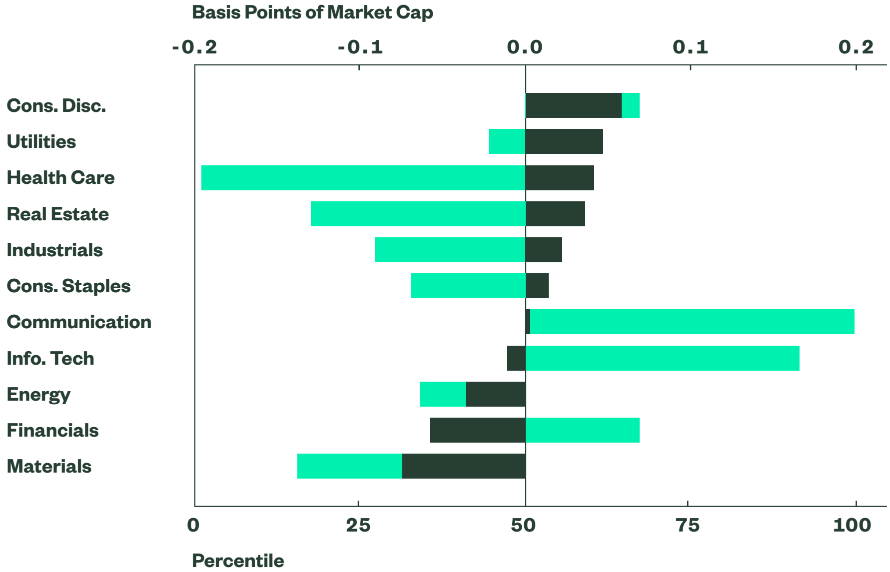
- Communication
- Cons. Disc.
- Cons. Staples
- Energy
- Financials
- Health Care
- Industrials
- Info. Tech
- Materials
- Real Estate
- Utilities



Source: State Street Global Markets. Data are as of 31 December 2024. 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. An explanation of methodology can be found on page 18.

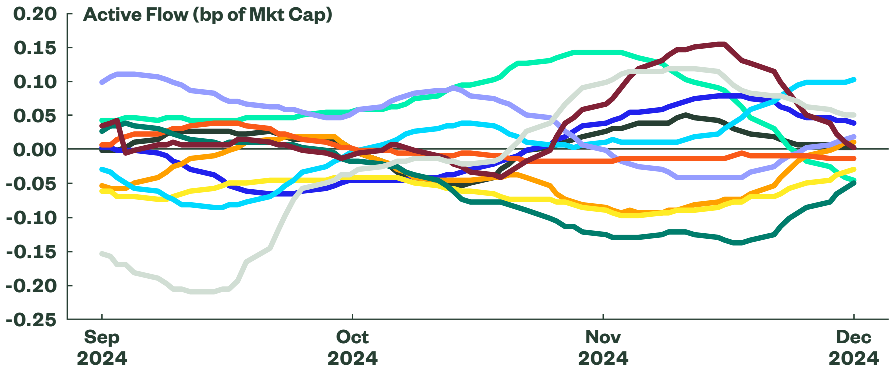
US: Flows and Holdings
Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

3-Month Flow (upper axis)
Holdings (lower axis)



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

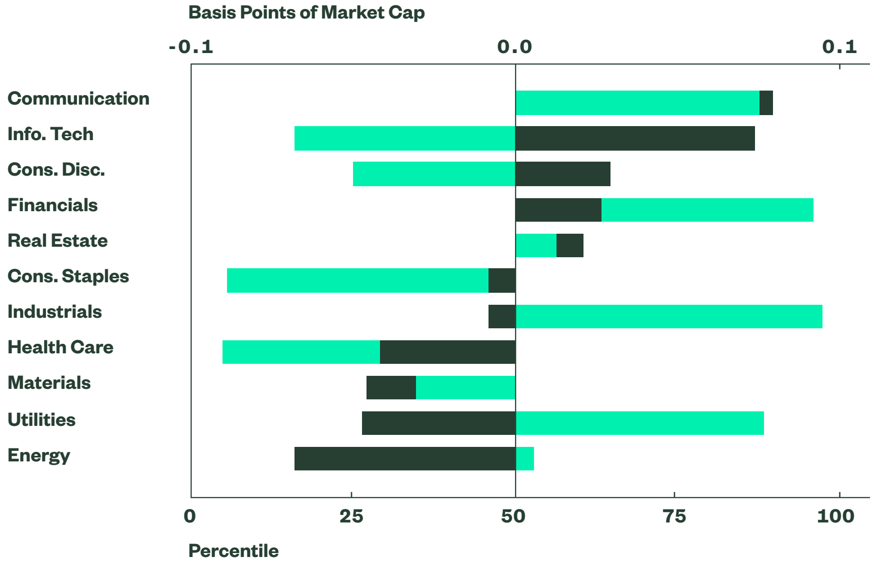
Communication
Cons. Disc.
Cons. Staples
Energy
Financials
Health Care
Industrials
Info. Tech
Materials
Real Estate
Utilities



Source: State Street Global Markets. Data are as of 31 December 2024. 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.

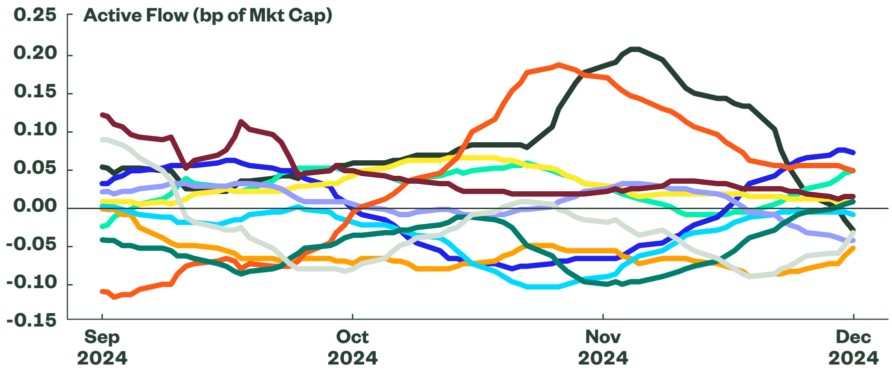
Europe: Flows and Holdings
Asset Flow Over Past Quarter and Relative Holdings vs. Past 5 Years

3-Month Flow (upper axis)
Holdings (lower axis)



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

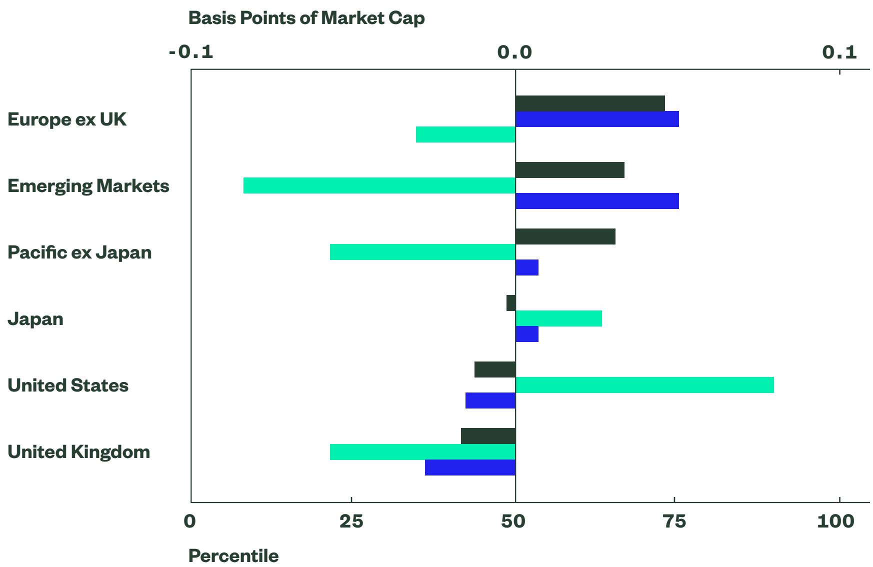
Communication
Cons. Disc.
Cons. Staples
Energy
Financials
Health Care
Industrials
Info. Tech
Materials
Real Estate
Utilities



Source: State Street Global Markets. Data are as of 31 December 2024. 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.

Equity Region: Flows and Holdings

3-Month Flow (upper axis)
Holdings (lower axis)
1 Month Flow



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Financials

Trump & Beyond

World	US	Europe
✓	✓	

Sector-friendly policy expectations after Trump's election set alight US Financials. We think this tailwind will continue.

Banking on Trump

Sector hopes hinge on corporate tax cuts. The Tax Cuts & Job Act expires at year end and investors hope for longer, lower tax rates. The EPS impact on a highly domestic sector would be significant.

More business-friendly policies and lighter touch antitrust actions are expected. Any weakening of Basel III's "endgame" requirements on regulatory capital boosts US banks. The outcome of this and other ongoing litigation rests on leadership of the Federal Reserve and other agencies, including the Consumer Financial Protection Bureau.

New leadership of big authorities could allow more innovation and use of emerging technologies. A boost in corporate activity boosts investment banks. Increased interest from private equity in the life and annuity sector could spark more M&A.

This Trump scenario offers short-term savings but could increase systemic risk and drive long-term instability. Helpfully, the Fed's 2024 stress test of 31 US banks showed they all could withstand a severe recession and maintain capital levels above the required minimum.

Exceptional US Economy

Corporate tax cuts, resulting higher earnings growth across the US economy, and a soft economic landing, could increase demand for banking and insurance products, and solidify business and consumer confidence.

Interest rate direction and the yield curve shape impact banks' net interest income margins. We believe that the Fed will be cautious about cutting whilst there is residual inflation. But the recent steepening of the US curve should help.

Buy Buy Buy

Bank-curious investors should consider buying the whole US Financials sector —including insurance and financial services groups — which outperformed banks over the last ten years. Looser regulation and reduced oversight would be also be positive for non-bank financial services and insurance companies.
We expect earnings upgrades from lower operational costs. However, all Financials must be responsive to growing cybersecurity risks, technological disruption, and in many cases environmental risks.

MSCI World Financials has 60% market cap exposure to S&P 500 Financials companies. Performance of the two indices is highly correlated. Aside from S&P 500 Financials, the World sector has high performance attribution from the acquisitive Japanese bank holding company, Mitsubishi UFJ Financial Group, and crypto platform Coinbase.

AI

AI benefits Financials with legacy tech, big customer bases and tight regulation. Accelerating AI helps customer engagement, and productivity. Enhanced risk management and fraud prevention are important for financial companies too. Insurers appear particularly proactive in using AI to analyse big data and predict potential risks, allowing more accurate and personalized pricing.

Utilities

Recharging the sector

World	US	Europe
✓	✓	✓

We expect the significant transformation of the once-humble Utilities sector in 2024 to continue. It should also benefit from lower interest rates and could be attractive as an equity income source.

Electrifying Us

The most prominent driver for the sector is the relentless growth in electricity demand, particularly from datacentres and AI-related services. Recent forecasts suggest a dramatic increase in electricity consumption, with datacentres potentially accounting for 44% of US electricity load growth from 2023 to 2028. This trend is not limited to the US; globally, electricity demand is expected to grow by 6,750 terawatt-hours by 2030, equivalent to more than the combined demand from the US and EU today.

Estimates for the use of electricity by AI are complicated by the likelihood that next generation AI models will have greater needs, but this will be partly offset by efficiency gains. Some US states are saying new data centres must generate their own power, such as nuclear or renewable. Will datacentres look to partner or take over energy providers? Governments will need to support investment in the grid as a means of boosting their growth of AI.

Renewable Energy Transition

The push towards renewable energy remains another catalyst for investment in the sector. The implementation of RED III (Renewable Energy Directive's third edition) has increased the EU's renewable energy target to 42.5% of total energy consumption by 2030, spurring new investment. Companies like Orsted, Iberdrola, and Engie are at the forefront of this transition, investing heavily in renewable energy projects. Meanwhile, the UK is also seeing a renewed pace for transition, with potential regulatory measures around wind and solar energy expanded and new offshore wind projects. This could impact National Grid and SSE.

Lighting the White House

The introduction of new policies under the incoming Republican-led administration creates some uncertainty. We are unsure what will happen to some of incentives for investment in renewable energy under the US Inflation Reduction Act, but there is already significant momentum.

The ending of the Russian war on Ukraine could have an impact of natural gas prices. Otherwise, inflationary pressures and rising capital costs for infrastructure upgrades and green investment remain significant challenges for Utilities. Companies are filing for regulatory rate hikes to manage these pressures, which if successful could allow higher returns.

Utilities' defensive characteristics could shine in a period of uncertainty. The sector offers strong cashflow generation, inflation protection, low volatility, and an attractive yield. In a paper last year we offered this sector as an effective barbell with IT to reduce volatility.

Industrials

Facilitating Global Trends

World	US	Europe
✓	✓	✓

The Industrials sector delivered good returns last year, rewarding ETF investor interest. It continues to be driven by technological advancements and sustainability initiatives. Investors can select the US sector to benefit from an upturn in domestic manufacturing, or European and Japanese companies (in the World sector) at the forefront of important trends.

Smart Revolution

AI integration will be a big theme for 2025. Together with robotics, the use of AI is enhancing precision and accelerating production cycles across aerospace, manufacturing, and electronics industries. Large Industrials companies like General Electric and Siemens have been early adopters of AI to help with real-time monitoring allowing predictive maintenance of their machinery. The employment of digital twins in manufacturing (using AI to simulate real-world operating conditions) is allowing for virtual testing which saves costs and improve safety.

The industry leaders are not only improving their own manufacturing processes but also developing AI solutions for other industries, such as autos and food manufacturing, who wish to adopt digital transformation of manufacturing.

Green Manufacturing

Increasing demand for energy-efficient solutions and environmental sustainability is also driving process changes. In the US, we await news on any changes to government policies, but there is already significant momentum in the adoption of clean technologies built into the system by the Inflation Reduction Act. Similarly, the EU's Green Deal is driving investment in sustainable technologies, benefiting companies like Siemens and Schneider Electric.

Foreign Relations

Reshoring and nearshoring have been increasing to help mitigate risks and reduce reliance on foreign suppliers, and could continue under the threat of higher trade tariffs. Companies in Industrials are providing advanced logistics and distribution networks to support this.

Meanwhile, global conflicts and increasing threat levels are maintaining focus on defence spending. President Trump will continue political discussions highlighting the need for higher defence budgets outside the US, particularly within NATO. Aerospace and defence companies in this sector are poised to pick up orders.

Supplying Datacentres

Estimates by the hyperscalers for datacentre investment have risen over the past year. Electrical equipment is used throughout data centres, in the server room, data centre infrastructure management, power supply and critical infrastructure. High levels of demand are giving the suppliers strong pricing power. Schneider Electric is the market leader, supplying a large range of cooling products, generators, and transformers. Other Industrials companies benefiting from datacentre growth include suppliers of uninterruptible power: ABB, Siemens, and Eaton.

Health Care

A Defensive Choice for Europe

World	US	Europe
		✓

Given the political and economic concerns overhanging European stock markets, we favour this relatively defensive sector. This year, we expect Health Care to benefit from the reporting of significant advancements. We favour European Heath Care over US because of company strengths and geographical exposure.

This Time It's Personal

Health Care is embracing exciting technological advancements. Last year in Europe, we saw the launch of Government-backed digital health hubs, the UK NHS began trials of a personalized mRNA cancer vaccine, custom-built for each patient to train their immune system, genetic testing for blood disorders, and funding for rare disease research.

Digital transformation and AI integration can already be seen improving productivity and effectiveness in diagnostics and patient communication. We are on the cusp of personalised treatment. Machine learning algorithms are analysing patient data to enable healthcare providers to decide best treatment options for individual patients. Meanwhile, predictive analytics are being used to model disease progression and forecast hospital admissions, enabling more efficient resource allocation.

Any news of AI successes in drug discovery and development is hotly anticipated. European pharmaceutical giants such as AstraZeneca and Sanofi are amongst companies leveraging the technology and partnering with AI-focused startups to enhance their research capabilities.

Impact of New Healthcare Systems

European Health Care will face opportunities and challenges with the EU's new Health Technology Assessment System being implemented from January 2025. It will focus on improving access to new oncology medicines and advanced therapy medicinal products. The aims to harmonise evaluation procedures across member states and enhance transparency in the assessment process will necessitate change from companies, but with potential cost and time benefits from the streamlined processes.

One Eye on America

The incoming US administration could impact public healthcare spending - hitting the revenues of some Health Care companies. The biggest concerns surround Robert F. Kennedy Jr. the presumptive nominee for Secretary of Health. His policies could include changes in vaccine policies and public health initiatives as well as an overhaul of federal health agencies like the FDA and CDC. However, all of this would be subject to Congressional approval.

Given the uncertainty we currently prefer non-US exposure. MSCI Europe Health Care has 44% of sales in US, counterbalanced with growth in emerging markets, as well as Europe. European providers also have the benefit of selling with a cheap Euro.

News Flow

The relatively low valuation of European health companies and the attractions of Health Tech could see renewed M&A, including by Big Tech companies.

Undoubtedly Novo Nordisk (18% of market cap) will continue to be one of the fast-growing European companies with its obesity drug. We hope from good news from AstraZeneca with its extensive oncology pipeline.

Top 5 Holdings by ETF

Name	Index Weight (%)
SPDR MSCI World Utilities UCITS ETF	
NextEra Energy Inc.	8.5
Southern Company	5.2
Iberdrola SA	4.8
Duke Energy Corporation	4.8
Constellation Energy Corporation	4.1
SPDR MSCI World Financials UCITS ETF	
JP Morgan Chase	6.1
Berkshire Hathaway	5.3
Visa	4.7
Mastercard	3.9
Bank of America	2.8
SPDR MSCI World Industrials UCITS ETF	
General Electric	2.4
Caterpillar Inc.	2.4
RTX Corporation	2.1
Siemens Aktiengesellschaft	2.0
Union Pacific Corporation	1.9
SPDR MSCI Europe Utilities UCITS ETF	
Iberdrola	20.1
Enel	14.0
National Grid	13.8
Engie	7.0
E.ON	6.3
SPDR MSCI Europe Health Care UCITS ETF	
Novo Nordisk	17.9
AstraZeneca	13.0
Roche	12.7
Novartis	12.4
Sanofi	7.0
SPDR MSCI Europe Industrials UCITS ETF	
Siemens Aktiengesellschaft	8.2
Schneider Electric	7.5
Airbus	5.2
ABB	4.7
RELX	4.7

Source: MSCI, S&P and State Street Global Advisors, as of 31 December 2024. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. Weights are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Top 5 Holdings by ETF (cont'd)

SPDR S&P US Utilities Select Sector UCITS ETF	
NextEra Energy Inc.	12.7
Southern Company	7.8
Duke Energy Corporation	7.2
Constellation Energy Corporation	6.0
Sempra	4.8
SPDR S&P Financials Select Sector UCITS ETF	
Berkshire Hathaway	12.3
JP Morgan Chase	10.0
Visa	8.1
Mastercard	6.4
Bank of America	4.3
SPDR S&P Industrials Select Sector UCITS ETF	
General Electric	4.4
Caterpillar Inc.	4.3
RTX Corporation	3.8
Honeywell	3.6
Union Pacific Corporation	3.4

Source: MSCI, S&P and State Street Global Advisors, as of 31 December 2024. This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. Weights are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.

Sector Index Metrics

	Fundamental Growth Forecasts & Valuations									
	Est. 2yr EPS Growth (p.a.)*	3mth Change to 1yr EPS Growth Forecast (%)	Forward Relative P/B**	Forward Relative P/E**	Relative CAPE	Relative CAPE (10yr Avg)	ROE (%)	Debt/ Equity (%)	Est 3-5 Years EPS Growth (%)	12mth Div. Yield (%)***
MSCI World Sector Indices										
MSCI World Index	**8.2**	**-0.8**	**–**	**19.2**	**–**	**–**	**14.6**	**136**	**9.71**	**1.79**
Comm. Services	19.6	-4.0	1.13	19.1	1.37	1.41	17.2	90	56.40	1.09
Consumer Disc.	5.0	-1.2	1.29	23.2	1.15	1.15	16.8	109	5.26	1.08
Consumer Staples	3.0	1.4	1.26	18.6	0.79	1.05	19.7	107	6.60	2.85
Energy	-11.6	6.3	0.50	12.1	0.49	0.48	12.7	51	7.58	4.10
Financials	6.8	-2.4	0.53	13.7	0.67	0.63	12.3	247	8.21	2.84
Health Care	12.0	-0.3	1.19	16.6	0.98	1.21	14.5	79	9.71	1.89
Industrials	7.6	0.2	1.09	19.8	1.00	1.07	16.3	88	6.53	1.89
Materials	1.2	-6.3	0.57	15.6	0.57	0.84	10.3	49	15.92	2.69
Real Estate	2.6	1.5	0.46	26.0	0.84	1.15	5.9	88	3.43	3.55
Technology	24.1	-2.4	2.71	29.0	1.89	1.45	24.2	52	24.37	0.63
Utilities	4.2	-1.1	0.53	15.0	0.83	0.92	11.3	142	10.32	3.69
US S&P Select Sector Indices										
S&P 500 Index	**12.1**	**-1.9**	**–**	**21.7**	**–**	**–**	**17.8**	**117**	**10.07**	**1.32**
Comm. Services	26.3	-6.1	0.63	17.2	1.01	1.29	4.9	113	629.44	1.18
Consumer Disc.	13.7	-6.4	1.75	24.5	1.42	1.32	33.3	205	6.19	0.86
Consumer Staples	8.2	0.2	1.00	18.7	0.65	0.85	20.6	116	7.00	2.85
Energy	-9.4	7.5	0.43	13.7	0.50	0.51	13.5	47	8.74	3.37
Financials	7.9	-3.7	0.48	17.0	0.73	0.66	12.7	171	7.52	1.69
Health Care	13.5	-0.5	0.95	16.7	0.71	1.02	15.7	90	8.64	1.76
Industrials	8.3	-2.7	1.26	21.7	0.86	0.93	23.3	120	4.98	1.64
Materials	3.2	-4.0	0.57	18.6	0.67	0.91	12.0	61	25.90	1.99
Real Estate	5.0	4.3	0.31	35.6	1.19	1.64	7.5	107	3.49	3.44
Technology	21.6	-3.0	1.72	26.9	1.41	1.09	21.7	57	90.98	0.74
Utilities	8.8	1.1	0.46	17.3	0.77	0.96	11.2	159	7.65	3.00
MSCI Europe Sector Indices										
MSCI Europe Index	**3.4**	**-0.9**	**–**	**13.5**	**–**	**–**	**12.7**	**174**	**8.82**	**3.44**
Comm. Services	2.7	-8.1	0.97	16.1	0.71	0.79	9.7	118	17.47	3.28
Consumer Disc.	-5.0	-9.7	0.92	14.3	0.90	1.22	10.8	89	9.43	2.64
Consumer Staples	4.9	0.4	1.44	15.0	0.81	1.19	16.8	100	4.98	3.55
Energy	-5.6	3.5	0.55	8.0	0.59	0.58	12.6	54	2.99	6.01
Financials	7.5	4.1	0.61	9.3	0.86	0.71	12.6	337	27.90	5.34
Health Care	10.3	1.4	1.75	15.4	1.16	1.25	15.0	66	12.67	2.50
Industrials	10.7	-1.1	1.76	18.6	1.56	1.46	16.3	94	8.47	2.28
Materials	6.2	-3.1	0.78	14.3	0.79	1.03	8.6	50	30.83	3.34
Real Estate	0.1	-2.3	0.29	11.1	1.57	2.08	5.5	84	2.83	5.52
Technology	3.1	-2.4	2.59	27.3	2.96	3.35	13.1	31	4.97	1.17
Utilities	3.5	2.1	0.76	12.0	0.82	0.82	12.7	129	-180.78	5.37

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 31 December 2024. Past performance is not a reliable indicator of future performance. 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**	**-0.03**	**0.28**	**1.00**	**16.88**	–
Comm. Services	-0.11	-0.05	0.14	0.97	19.82	0.85
Consumer Disc.	-0.12	-0.14	0.21	1.20	23.17	0.90
Consumer Staples	-0.07	-0.06	0.22	0.57	12.83	0.77
Energy	-0.03	0.57	0.63	0.62	23.92	0.45
Financials	-0.09	0.07	0.24	0.95	19.17	0.86
Health Care	-0.07	0.00	0.19	0.64	14.10	0.79
Industrials	-0.11	-0.07	0.35	1.07	19.48	0.96
Materials	-0.11	-0.02	0.26	1.04	21.56	0.84
Real Estate	-0.13	-0.14	0.13	1.04	20.58	0.88
Technology	-0.13	-0.13	0.36	1.24	23.80	0.91
Utilities	-0.09	-0.09	0.20	0.72	16.90	0.74
US S&P Select Sector Indices						
S&P 500 Index	**-0.10**	**-0.03**	**0.31**	**1.00**	**17.39**	–
Commun. Services	-0.12	-0.08	0.12	1.02	20.96	0.87
Consumer Disc.	-0.12	-0.17	0.21	1.24	25.78	0.86
Consumer Staples	-0.06	-0.01	0.30	0.51	13.17	0.69
Energy	-0.03	0.68	0.76	0.67	28.31	0.42
Financials	-0.09	0.09	0.31	0.94	20.50	0.82
Health Care	-0.07	0.02	0.20	0.60	14.11	0.76
Industrials	-0.10	-0.02	0.43	1.02	20.10	0.90
Materials	-0.10	-0.01	0.36	1.02	21.79	0.84
Real Estate	-0.13	-0.18	0.16	1.05	22.04	0.85
Technology	-0.13	-0.12	0.38	1.19	23.04	0.92
Utilities	-0.08	-0.09	0.20	0.64	18.06	0.63
MSCI Europe Sector Indices						
MSCI Europe Index	**-0.11**	**-0.03**	**0.26**	**1.00**	**17.74**	–
Comm. Services	-0.10	0.07	0.23	0.81	17.38	0.85
Consumer Disc.	-0.14	-0.15	0.21	1.24	24.94	0.91
Consumer Staples	-0.09	-0.11	0.14	0.72	15.24	0.86
Energy	-0.01	0.41	0.43	0.57	20.86	0.50
Financials	-0.09	0.03	0.19	1.01	20.82	0.89
Health Care	-0.08	0.03	0.20	0.71	16.35	0.80
Industrials	-0.13	-0.12	0.39	1.20	22.98	0.95
Materials	-0.11	-0.01	0.28	1.11	21.96	0.92
Real Estate	-0.16	0.05	0.51	1.44	30.17	0.87
Technology	-0.16	-0.19	0.36	1.24	28.44	0.80
Utilities	-0.13	-0.12	0.28	0.99	20.50	0.88

Source: State Street Global Advisors, FactSet, Bloomberg Finance L.P., Morningstar, as of 31 December 2024. Past performance is not a reliable indicator of future performance.
**** 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.

US Large Caps

Resilience Trumps Valuation

Equity markets enter the year with a lot of uncertainty. Indices are at or close to all-time highs but policy risks and geopolitical headwinds remain acute. In this environment we prefer expensive but growth-oriented S&P 500 instead of cheaper but much more vulnerable European exposures, yen-driven Japan or China-dependent EM large caps.

US large caps trading at a forward P/E of 21.7x is expensive and it limits the upside. However, those hefty valuations are, on a relative basis, compensated by several factors. From a macro perspective US exceptionalism remains intact as economic growth is outpacing rest of the developed world by a wide margin and economists' pencil in a GDP growth of 2.1% for 2025. This stands in contrast with the Eurozone, the UK, and Japan where economics are barely expanding.

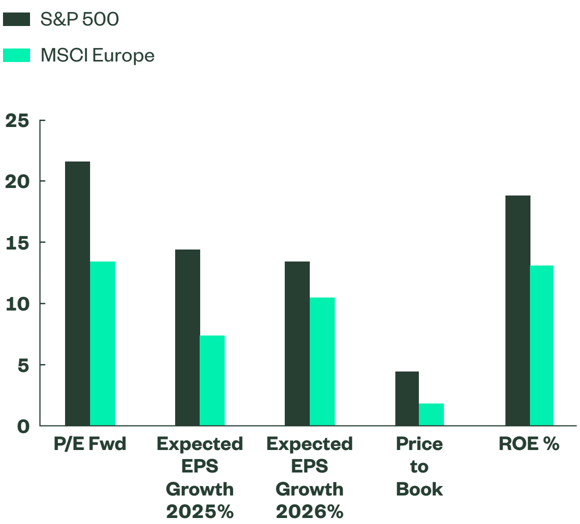
AI revolution is another structural force that is likely to support the US equity market in the years to come. While the weight of tech giants introduces a concentration risk, it also provides an opportunity to disproportionately benefit from AI adoption. These elements fuel earnings growth in 2025 and we expect the earnings growth advantage to be maintained over longer term.

Trump policies, including expected deregulation of the Financials sector and a more benign tax policy are also net positive for US equities, while presenting a risk for large cap companies domiciled in Europe and other areas due to the impact of possible tariffs.

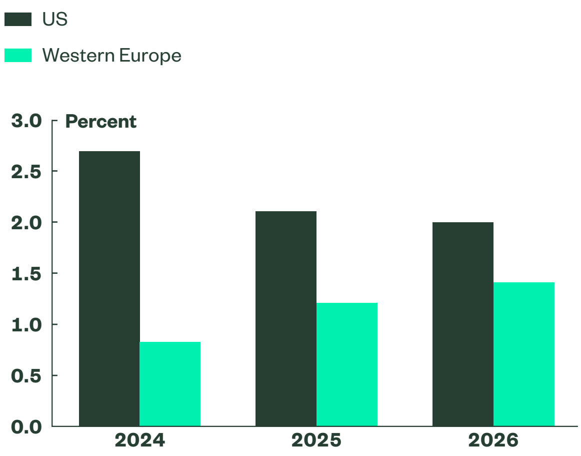
Finally, US has been and remains much more immune to geopolitical fragmentation compared to other advanced economies. Without a tangible peace process in Ukraine this will be an important risk factor.

Much will depend on Trump entering the office. Should trade tariffs come in softer than expected, international equities may benefit. If Russia and Ukraine begin the peace negotiations, exposures which suffered the most from geopolitical fragmentation i.e. European equities and perhaps EM large caps may rebound. For the time being, however, we prefer the quality of the US large caps over other regions.

Growth and Valuation Metrics



Expected GDP Growth



Source: Bloomberg Finance L.P., FactSet as of 31 December 2024. Past performance is not a reliable indicator of future performance.

US Small & Mid Caps

More Direct Ways To Play US Exceptionalism

US small and mid caps allow to play US exceptionalism in a more direct way and at more affordable valuation levels when compared to S&P 500. Domestic Russell 2000 and S&P Mid Cap 400 indices are also likely beneficiaries of Trump policies. Hawkish Fed is the key risk in the current environment but if disinflation continues, the December pullback may turn into an entry point. The upside potential remains significant.

As Trump enters office, the introduction of deregulation reforms and tax cuts are likely to benefit domestically-focused businesses to a larger extent. Indeed companies within the Russell 2000 and the S&P MidCap 400 indices generate more than three quarters of their revenue within the US. The home bias of small and mid caps remains a supportive factor over the medium term too if the consumption and fiscally-riven US exceptionalism does not relent, and reshoring continues as a structural trend.

Small and mid cap exposures overweight cyclical sectors. Financials are the most obvious beneficiary of Trump's victory as deregulation and steeper yield curve are powerful tailwinds for the sector, regional banks in particular. Industrials continue to benefit from multi-year fiscal programs and broader reshoring efforts. Small and mid cap consumer discretionary companies include predominantly retailers, hotel, or restaurants operators hence a different flavour to large caps where Tesla and Amazon dominate the sector. We believe the US is the region where it is sensible to add to risk through both smaller size and more cyclical exposures, as growth rates in the US economy have not only been robust but also underappreciated for the past two years.

Both Russell 2000 and S&P Mid Cap 400 outperformed the S&P 500 for majority of the second half of 2024 but pulled back in December. Interest rate prospects remain the key risk but the combination of the economic growth, relatively affordable valuations and expected earnings growth should bode well for the months to come. However, EPS growth needs to materialize and small caps may be vulnerable to any potential downgrades while meeting the growth expectations is likely to lift the indices.

Small and mid caps share many commonalities but each index offers unique features. The Russell 2000 is perhaps the most unconstrained tool to access small caps and hence remains high on the risk reward ladder. It is also more heavily invested in biotech and software companies than the other two indices.

The S&P MidCap 400 Index offer relatively higher quality. This is not only due to size of its constituents but also thanks to the S&P earnings screening upon inclusion into the composite index. The mid cap segment offers more traditional sector composition with industrials being the largest sector.

Finally, MSCI USA Small Cap Value Weighted Index offer perhaps strongest cyclical and value tilts. With financials representing nearly a quarter of the index and significant technology underweight this exposure may benefit the most if the performance broadening expand.

EM Small Caps

Accessing Growth, Avoiding Threats

Emerging economies are expected to deliver robust growth numbers which are difficult to find in the developed world (including US). As such equity investors should look for opportunities in that area. However, the mantra that "the market is not the economy" is particularly true for the EM complex and as such some finesse is required.

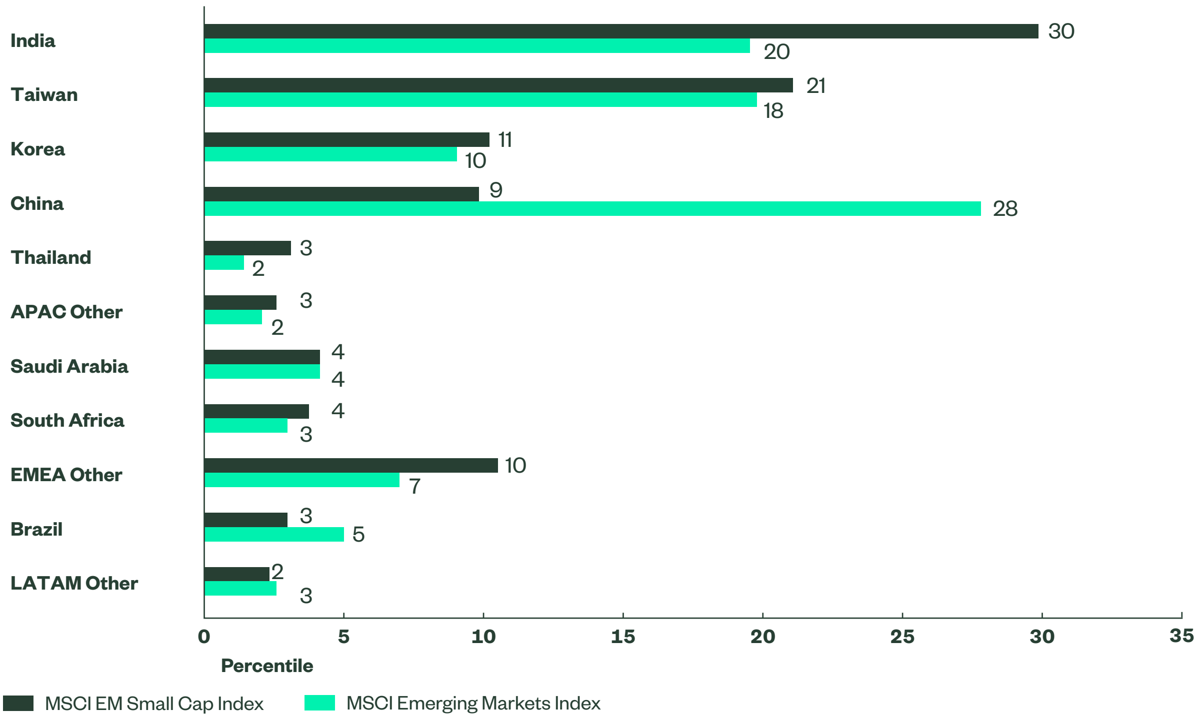
The key challenge is China, the largest component of the MSCI EM accounting 28% of the Index. Stimulus measures at least for the time being have not reignited the consumption and if it does it is likely to be a gradual process. Investors remain sceptical and their trust, lost following the regulatory crackdown on the technology sector, will be difficult to rebuild in an increasingly hostile geopolitical backdrop. While in 2024 Chinese large cap equities rebounded and led to outperformance of EM large caps, the periods of rally where short lived and incredibly difficult to time.

EM small caps offer an opportunity to embrace the growth of EM economies within south east Asia but with much more limited exposure to China, which accounts for only 10% of the index. India represents 30% of the index, and its economy is expected to advance by 7% in both FY 2025 and 2026. These are levels beyond reach for any other major economy and are possible to achieve in part thanks to its neutral stance in a polarized world. EM small caps also overweight Taiwan and South Korea, the two most technologically advanced countries within EM and both indispensable parts of the global semiconductor supply chain.

The key risk to EM small caps is US inflation because it determines the pace of interest rate cuts, which in turn determines the dollar strength. As of beginning of the year this may present an opportunity as we expect three cuts over 2025 rather than two implied by the FED.

Our preference for EM small caps vs EM large caps could be altered by improved geopolitical backdrop or a significant revival in China. For the time being we prefer an overweight to India through MSCI EM Small Cap Index.

EM Large and Small Cap Country Composition



Source: FactSet as of 31 December 2024.

SPDR Broad Equity ETFs

	Fund Name	Ticker	ISIN	Inception Date	Index	TER (%)	AUM ($Mn)
Global							
▲	SPDR® MSCI ACWI UCITS ETF	**ACWD**	IE00B44Z5B48	05/13/2011	MSCI ACWI Net Total Return USD Index	0.12	3,847
●	SPDR® MSCI ACWI EUR Hdg UCITS ETF (Acc)	**SPP1**	IE00BF1B7389	10/01/2019	MSCI ACWI with DM Hedged EUR Index	0.17	371
●	SPDR® MSCI ACWI UCITS ETF USD Hdg Acc	**SPP2**	IE00BF1B7272	10/22/2020	MSCI ACWI with DM Hedged USD Index	0.17	60
■	SPDR® MSCI ACWI Climate Paris Aligned UCITS	**SPF8**	IE00BYTH5370	04/20/2022	MSCI World Climate Paris Aligned Net USD	0.20	5
▲	SPDR® MSCI ACWI IMI UCITS ETF	**IMID**	IE00B3YLTY66	05/13/2011	MSCI ACWI IMI Net Total Return USD Index	0.17	2,339
▲	SPDR® MSCI World UCITS ETF	**SWRD**	IE00BFY0GT14	03/01/2019	MSCI World Net Total Return USD Index	0.12	10,034
●	SPDR® MSCI World EUR Hdg UCITS ETF (Acc)	**SPFH**	IE000BZ1HVL2	07/19/2023	MSCI World 100% Hedged to EUR Index	0.17	325
●	SPDR® MSCI World GBP Hdg UCITS ETF (Dist)	**SWLH**	IE0005P0VJH8	07/19/2023	MSCI World 100% Hedged to GBP Index	0.17	75
■	SPDR® MSCI World Climate Paris Aligned UCITS ETF (Acc)	**SPFW**	IE00BYTH5594	03/07/2022	MSCI World Climate Paris Aligned Net USD	0.15	5
○	SPDR® MSCI World Small Cap UCITS ETF	**WDSC**	IE00BCBJG560	11/25/2013	MSCI World Small Cap Net Total Return USD Index	0.45	941
US							
▲	SPDR® S&P 500 UCITS ETF (Dist)	**SPY5**	IE00B6YX5C33	03/19/2012	S&P 500 Net Total Return Index	0.03	13,469
▲	SPDR® S&P 500 UCITS ETF (Acc)	**SPYL**	IE000XZSV718	10/31/2023	S&P 500 Net Total Return Index	0.03	6,933
●	SPDR S&P 500 UCITS ETF EUR Acc H	**SPPE**	IE00BYYW2V44	10/31/2018	S&P 500 EUR Dynamic Hedged Index NTR	0.05	1,302
○	SPDR® S&P 400 US Mid Cap UCITS ETF	**SPY4**	IE00B4YBJ215	01/30/2012	S&P 400 Net Total Return Index	0.30	4,626
○	SPDR® Russell 2000 US Small Cap UCITS ETF	**R2US**	IE00BJ38QD84	06/30/2014	Russell 2000 Net 30% Return	0.30	4,957
■	SPDR® MSCI USA Climate Paris Aligned UCITS ETF (Acc)	**SPF9**	IE00BYTH5719	03/07/2022	MSCI USA Climate Paris Aligned Net USD	0.12	1
■	SPDR S&P 500 Sustainable Leaders UCITS ETF	**500X**	IE00BH4GPZ28	12/03/2019	S&P 500 Sustainable Leaders Index (USD) NTR	0.03	4,825
Europe							
▲	SPDR® MSCI Europe UCITS ETF	**ERO**	IE00BKWQ0Q14	12/05/2014	MSCI Europe Net Total Return EUR Index	0.25	247
■	SPDR® MSCI Europe Climate Paris Aligned UCITS ETF (Acc)	**SPF5**	IE00BYTH5487	03/07/2022	MSCI EUROPE CLIMATE PARIS ALIGNED Net EUR Index	0.15	1
▲	SPDR® MSCI EMU UCITS ETF	**ZPRE**	IE00B910VR50	01/25/2013	MSCI EMU Net Total Return EUR Index	0.18	260
○	SPDR® MSCI Europe Small Cap UCITS ETF	**SMC**	IE00BKWQ0M75	12/05/2014	MSCI Europe Small Cap Net Return EUR Index	0.30	245
■	SPDR® STOXX Europe 600 SRI UCITS ETF (Acc)	**ZPDX**	IE00BK5H8015	10/01/2019	STOXX Europe 600 SRI Net Return EUR	0.12	322
Emerging Markets							
▲	SPDR® MSCI Emerging Markets UCITS ETF	**EMRD**	IE00B469F816	05/13/2011	MSCI Emerging Net Total Return USD Index	0.18	671
▲	SPDR® MSCI EM Asia UCITS ETF	**EMAD**	IE00B466KX20	05/13/2011	MSCI Emerging Asia Net Total Return USD Index	0.55	873
■	SPDR® MSCI Emerging Markets Climate Paris Aligned UCITS ETF (Acc)	**SPF7**	IE00BYTH5263	07/19/2022	MSCI EM Climate Paris Aligned Net USD	0.23	4
○	SPDR® MSCI Emerging Markets Small Cap UCITS ETF	**EMSD**	IE00B48X4842	05/13/2011	MSCI EM EMerging Markets Small Cap USD Net	0.55	365
Single Country							
▲	SPDR® FTSE UK All Share UCITS ETF Acc	**FTAL**	IE00B7452L46	02/28/2012	FTSE UK Series FTSE All Share TR	0.20	496
▲	SPDR® FTSE UK All Share UCITS ETF GBP (Dist)	**ZPRD**	IE00BD5FCF91	04/26/2018	FTSE UK Series FTSE All Share TR	0.20	112
▲	SPDR® MSCI Japan UCITS ETF	**JPJP**	IE00BZ0G8B96	11/30/2015	MSCI Japan Net Return JPY Index	0.12	638
●	SPDR® MSCI Japan EUR Hdg UCITS ETF	**ZPDW**	IE00BZ0G8C04	11/30/2015	MSCI Japan Hedged to EUR Net Index	0.17	27
■	SPDR® MSCI Japan Climate Paris Aligned UCITS ETF (Acc)	**SPF6**	IE00BQQPV184	03/07/2022	MSCI JAPAN CLIMATE PARIS ALIGNED in JPY Net Index	0.12	4

Source: State Street Global Advisors, Bloomberg Finance L.P., as of 31 December 2024.

▲ Broad ● Currency Hedged ■ Sustainable/Climate ○ Small & Mid Cap

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Methodologies

SPDR Sectors in Focus 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]

Unique Custody Data As part of State Street, we have access to information gleaned from our large global custody business. By aggregating $43 trillion of financial assets, we can observe behavioural trends of this important investor constituent.[2] 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.

Endnotes

1 Assumptions and analysis made by State Street Global Advisors. There is no guarantee that estimates will be achieved.

2 Source: State Street, as of 31 March 2024.

General Access
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Information Classification:
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For Investors in Austria: The offering of SPDR ETFs by the Company has been notified to the Financial Markets Authority (FMA) in accordance with section 139 of the Austrian Investment Funds Act. Prospective investors may obtain the current sales Prospectus, the articles of incorporation, the KID as well as the latest annual and semi-annual report free of charge from State Street Global Advisors Europe Limited, Branch in Germany, Brienner Strasse 59, D-80333 Munich. T: +49 (0)89-55878-400.F: +49 (0)89-55878-440.

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