

Global Markets — Outlook for 2020 and beyond

State Street Global Advisors

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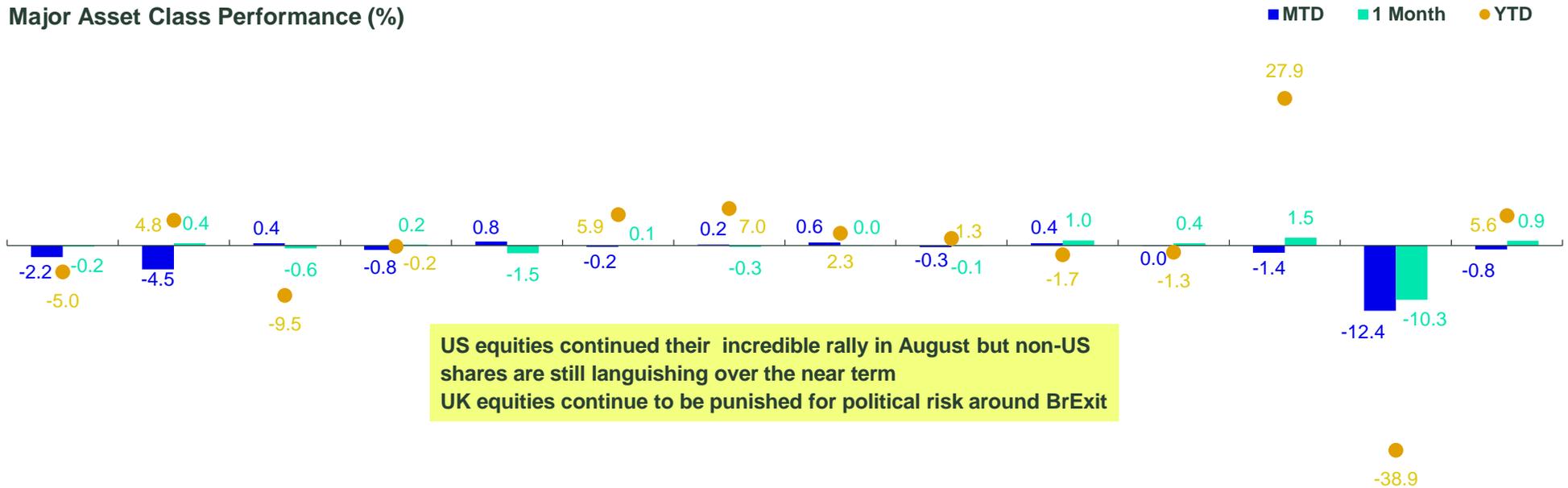
The information contained in this document is current as of the date presented unless otherwise noted.

Market Environment

Asset-Class Performance

Markets continued to rebound into August and through September as investors became more optimistic on a return to full activity supported by stimulus.

Major Asset Class Performance (%)



US equities continued their incredible rally in August but non-US shares are still languishing over the near term
UK equities continue to be punished for political risk around BrExit

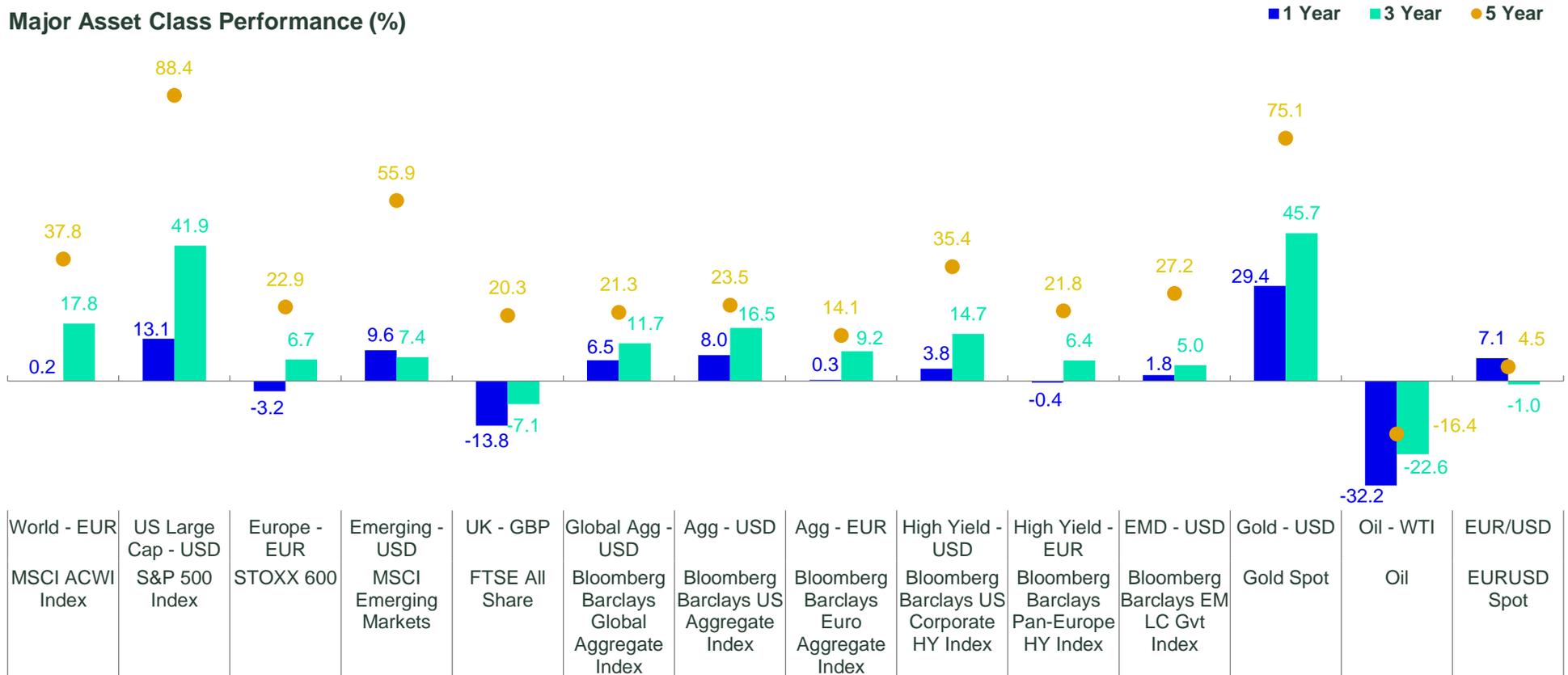
World - EUR	US Large Cap - USD	Europe - EUR	Emerging - USD	UK - GBP	Global Agg - USD	Agg - USD	Agg - EUR	High Yield - USD	High Yield - EUR	EMD - USD	Gold - USD	Oil - WTI	EUR/USD
MSCI ACWI Index	S&P 500 Index	STOXX 600	MSCI Emerging Markets	FTSE All Share	Bloomberg Barclays Global Aggregate Index	Bloomberg Barclays US Aggregate Index	Bloomberg Barclays Euro Aggregate Index	Bloomberg Barclays US Corporate HY Index	Bloomberg Barclays Pan-Europe HY Index	Bloomberg Barclays EM LC Gvt Index	Gold Spot	Oil	EURUSD Spot

Source: Bloomberg Finance, L.P. As of 11th September 2020. Past performance is not a guarantee of future results. 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. Performance returns for periods of less than one year are not annualised.

Longer Term Asset-Class Performance

Apart from WTI crude, all the asset classes we track are showing positive performance over 5 years, with US equities and Gold being the brightest spots

Major Asset Class Performance (%)



Source: Bloomberg Finance, L.P. As of 11th September 2020. Past performance is not a guarantee of future results. 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. Performance returns for periods of less than one year are not annualised.

Equity Performance

The rebound has been global, and rotated recently into higher risk sectors and regions. However, YTD Technology and the US still stand out.

Global market performance



MSCI World sector performance

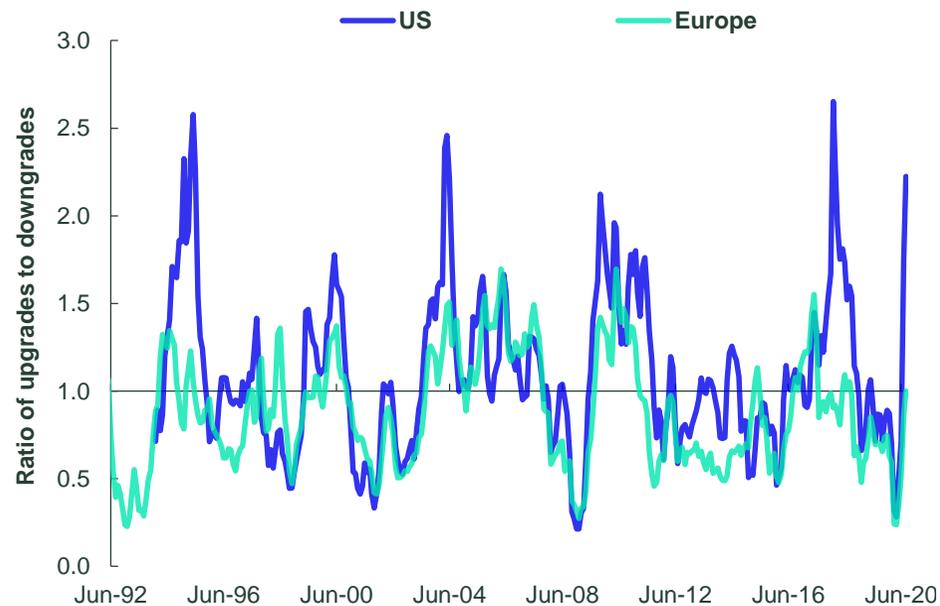


Source: Bloomberg Finance, L.P. As of 11th September 2020. Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Performance returns for periods of less than one year are not annualised.

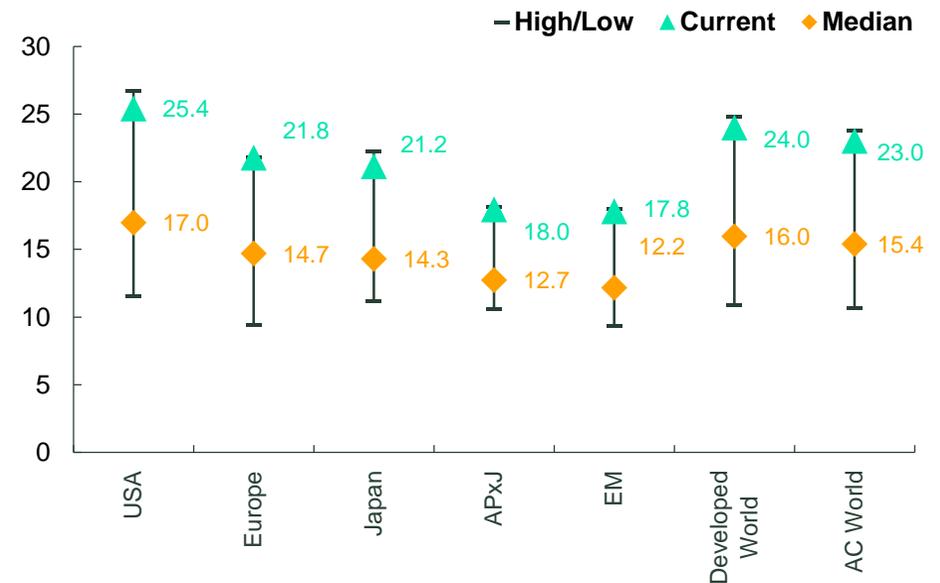
Global Valuations & Earnings

Earnings sentiment (ratio of upgrades versus downgrades) in the US and Europe has continued to bounce strongly. But, valuations are stretched worldwide now.

Earnings Sentiment — Ratio of EPS Upgrades versus Downgrades



Valuation ranges over 10-year timeline 12m Forward P/E

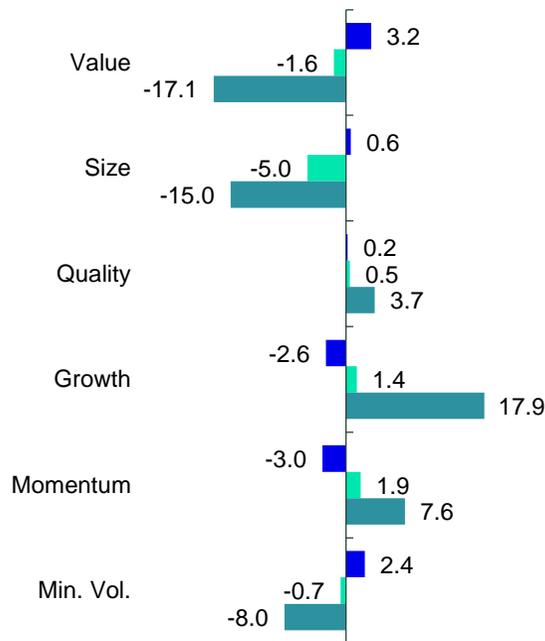


Source: State Street Global Advisors, Bloomberg Finance, L.P. As of 11th September 2020.

Style performance

Momentum leads in Europe, followed by Growth and Quality. Min. Vol. has stalled, and Value's slump has continued, with Small Size bouncing back outside the US

Period Excess Returns versus MSCI USA Index (%)



Period Excess Returns versus MSCI Europe Index (%)



Period Excess Returns versus MSCI Emerging Markets (%)

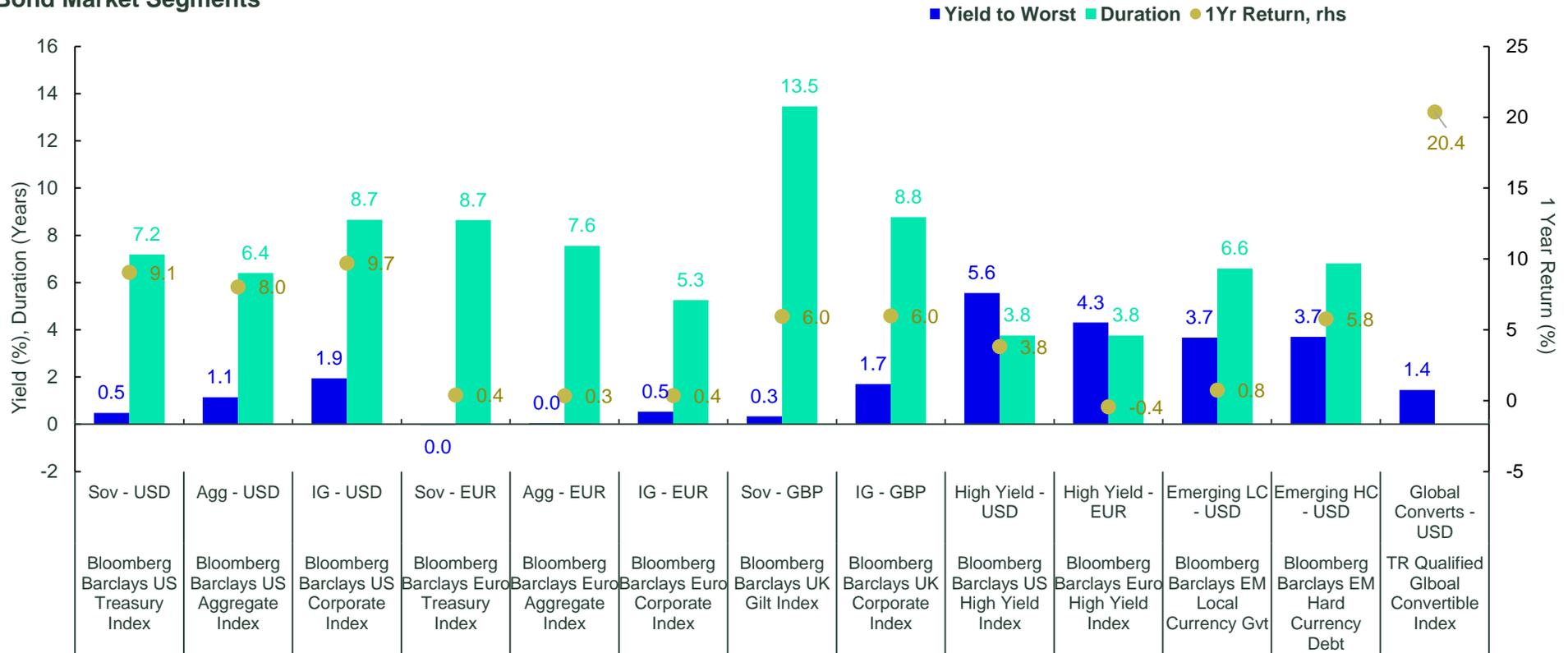


Source: State Street Global Advisors, Bloomberg Finance, L.P., as of 11th September 2020. Past performance is not a guarantee of future results.

Bond Market Overview

Core government bonds have continued to perform well, led by the US and UK, followed by IG. Convertibles have been the standout given their hybrid nature.

Bond Market Segments

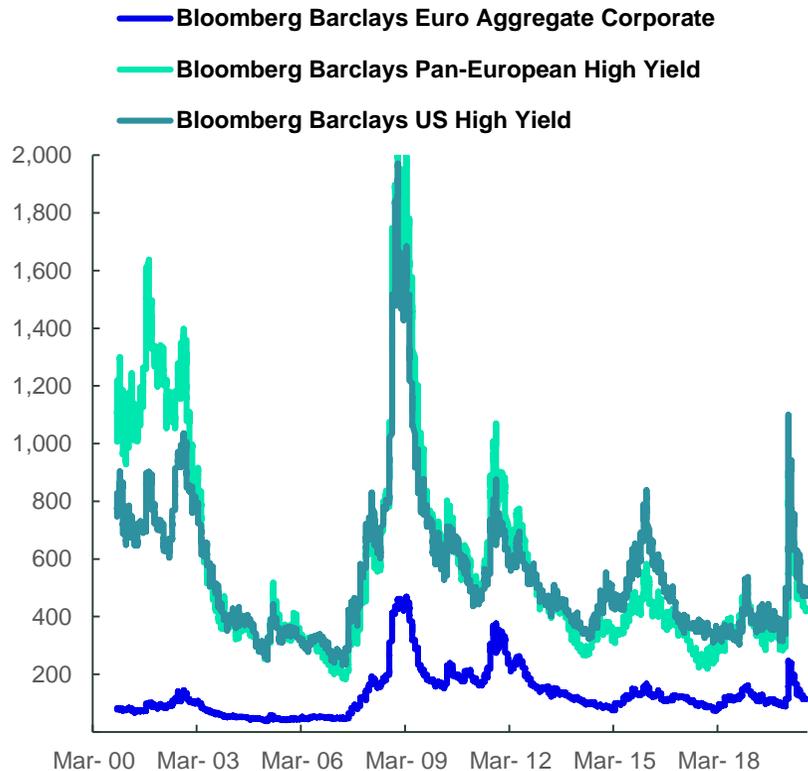


Source: Bloomberg Finance, L.P. as of 11th September 2020. Past performance is not a guarantee of future results. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

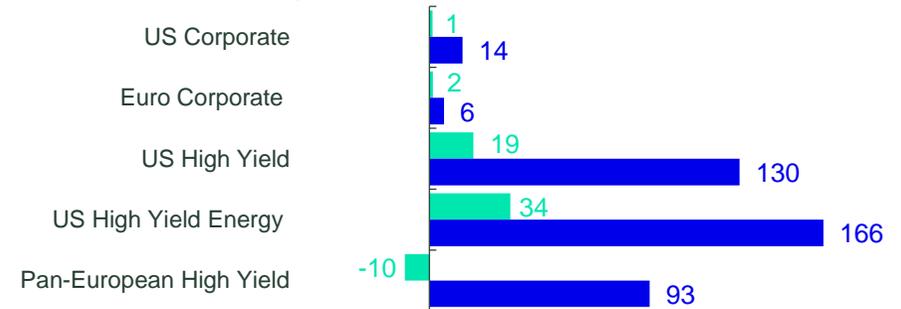
Credit Trends

Spreads of high yield bonds have continued to come in, so European HY is now below long-term averages, but stresses remain in US High Yield Energy.

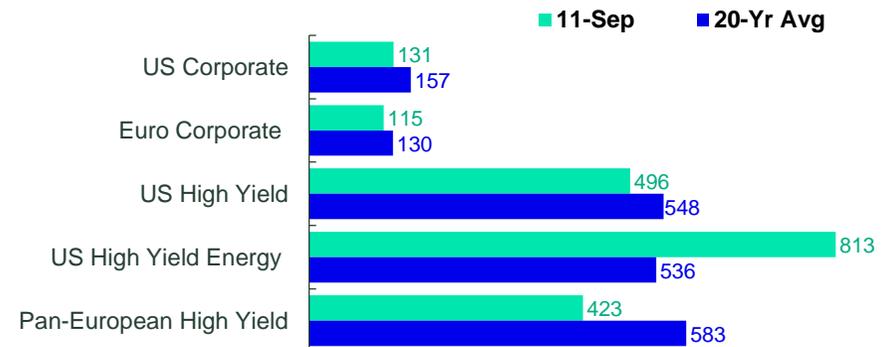
Credit Spreads (Basis Points)



Credit Spread Change in Basis Points



Credit Spread Current versus 20-Yr Average (Bps)

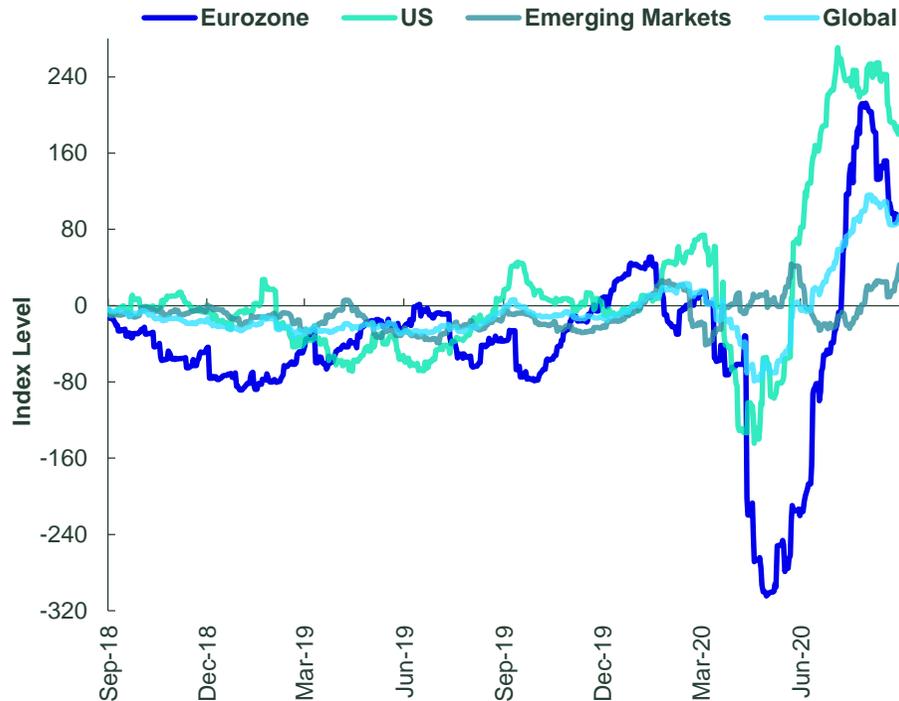


Source: Bloomberg Finance, L.P as of 11th September 2020. Past performance is not a guarantee of future results. Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index. Performance of an index is not illustrative of any particular investment. It is not possible to invest directly in an index.

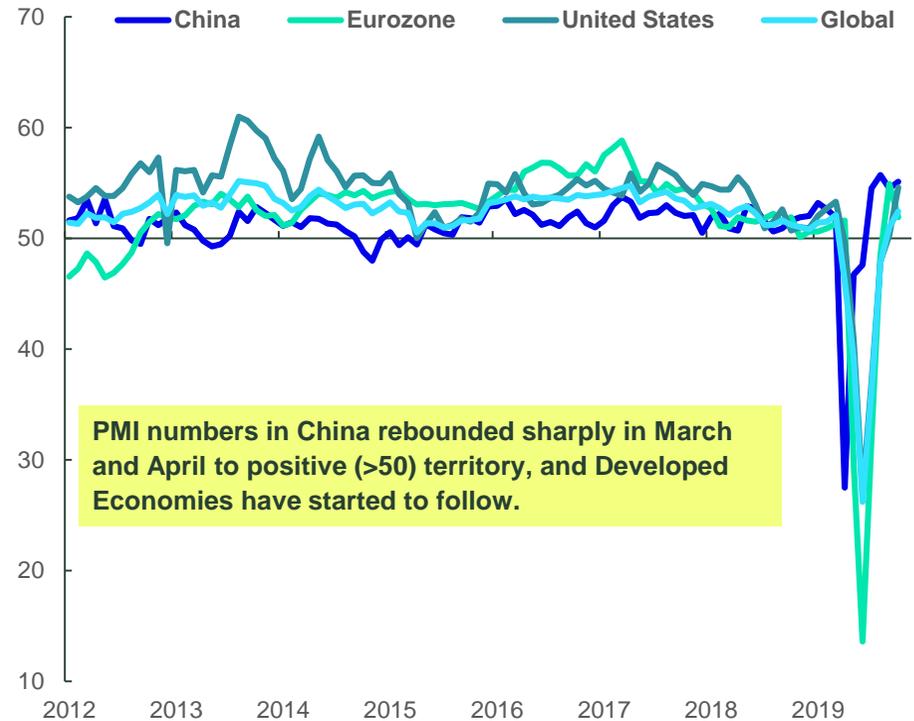
Global Economy

China managed a “V-shaped” recovery in PMI’s, followed by leading indicators globally. Economic Surprises outside of E.M. have started to fall however.

Citigroup Economic Surprise Index



Composite PMI Indices

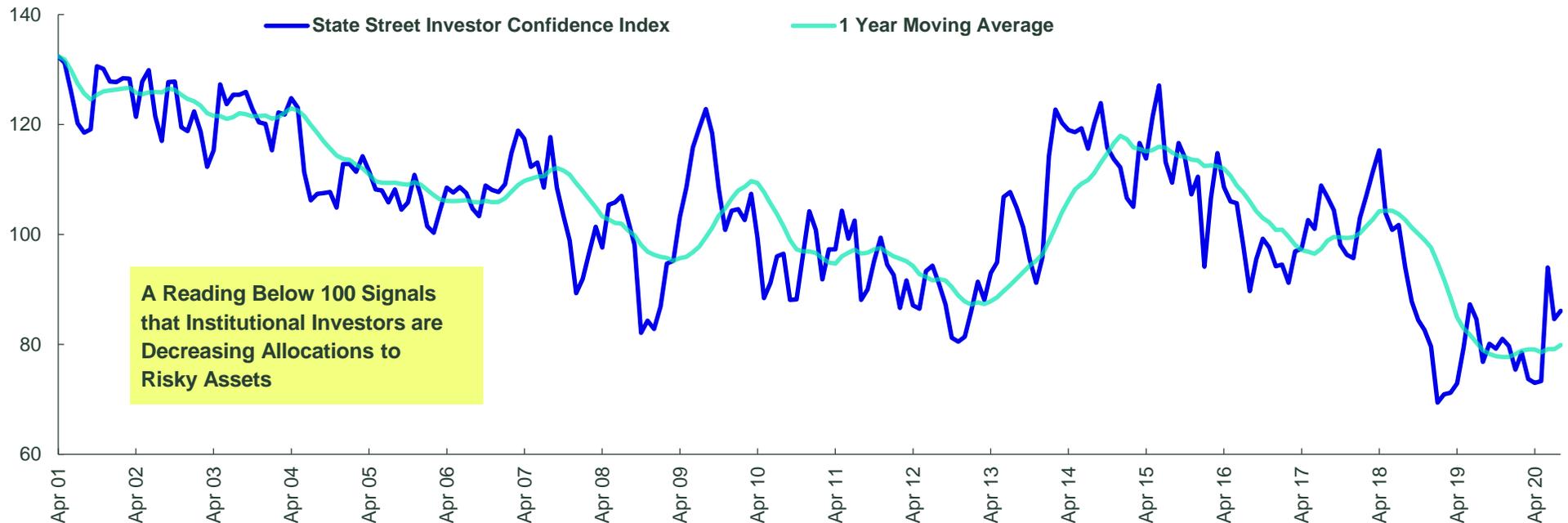


Source: Bloomberg Finance L.P, Markit and Caixin as of 11th September 2020. Past performance is not a guarantee of future results.

Investor Confidence

Investors had been reducing risky asset allocations since the Q3 '18. This rebounded markedly in June, but July and August saw investors pull back.

State Street Confidence Index

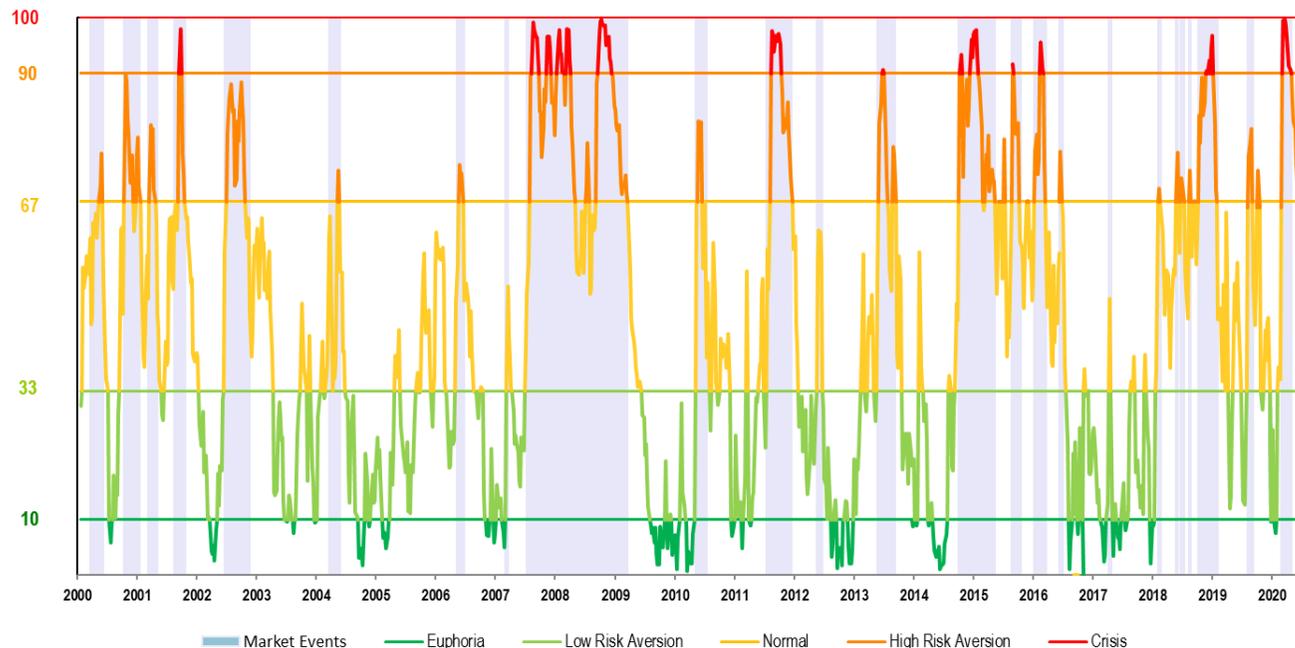
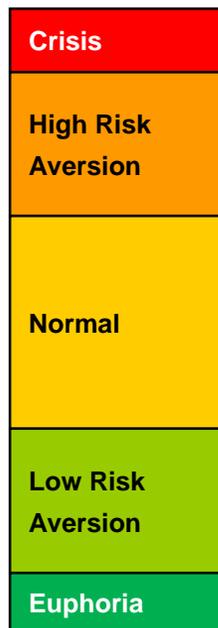


Source: Bloomberg Finance, L.P. As of 31st August 2020. State Street Confidence Indexes Measures investor confidence or risk appetite quantitatively by analyzing the actual buying and selling patterns of institutional investors. The index assigns a precise meaning to changes in investor risk appetite: the greater the percentage allocation to equities, the higher risk appetite or confidence. A reading of 100 is neutral; it is the level at which investors are neither increasing nor decreasing their long-term allocations to risky assets. The results shown represent current results generated by State Street Investor Confidence Index. The results shown were achieved by means of a mathematical formula in addition to transactional market data, and are not indicative of actual future results which could differ substantially.

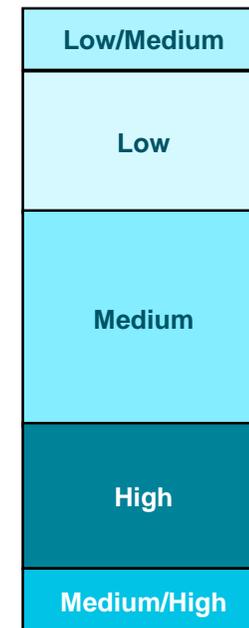
Market Regime Indicator (MRI)

Market Regime Indicator (MRI) is currently in the upper bounds of the normal regime

MARKET REGIME



REGIME AWARE ACTIVE RISK BUDGET

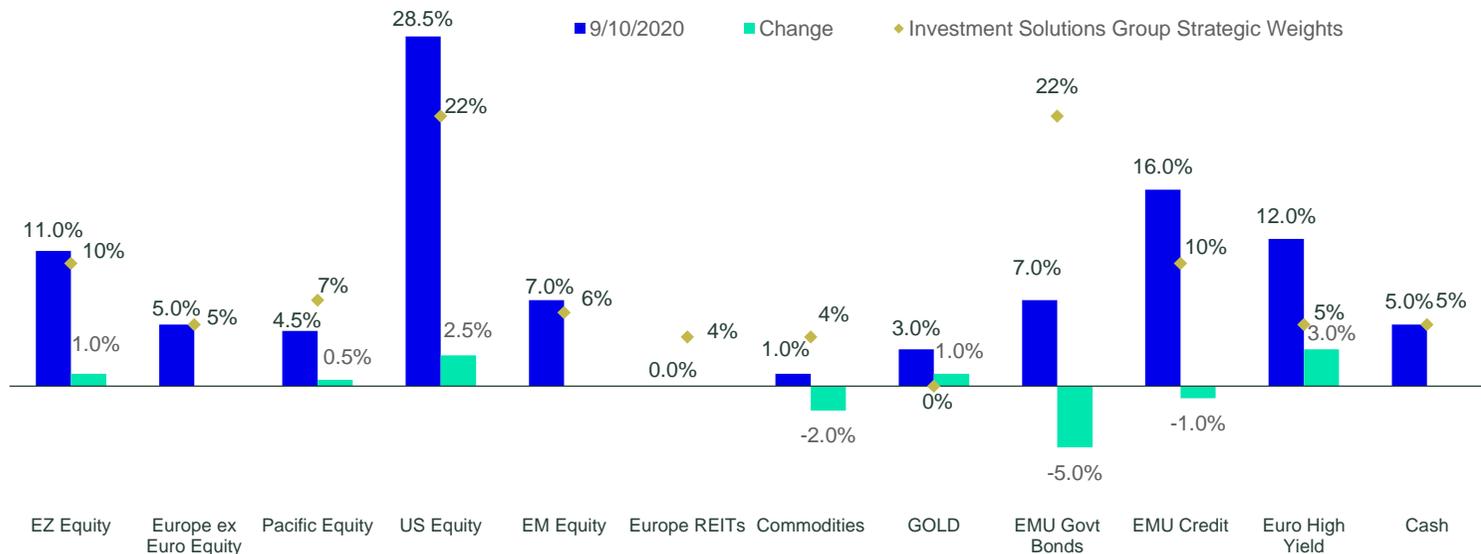


As of 31 August 2020. The data displayed is not indicative of the past or future performance of any SSGA product. The portion of results through 31 March 2011 represents a back-test of the MRI model, which means that those results were achieved by means of the retroactive application of the model which was developed with the benefit of hindsight. Data displayed beyond this date is not backtested, but is still generated by the model referenced. All data shown above does not represent the results of actual trading, and in fact, actual results could differ substantially, and there is the potential for loss as well as profit. The Market Regime Indicator (MRI) is a quantitative framework that attempts to identify the current market risk environment based on forward-looking market indicators. We believe the factors used, equity implied volatility, currency pairs implied volatility and bond spreads, are good indicators of the current risk environment as they are responsive to real-time market impacts and in theory should include all current and forward views of those markets. These factors are combined to create a single measure and used to identify one of five risk regimes: Euphoria, Low Risk, Normal, High Risk, and Crisis. A slight calculation change was made as of 28 June 2019.

State Street Current Positioning

- Global Equities continue to look attractive from a broad asset class perspective driven by strong price momentum, improving earnings and sales sentiment, and positive macro support. Gold is relatively attractive as well, supported by both strong technical and fundamental indicators
- Our view on high yield remains strong as we anticipate modest spread tightening for credit bonds
- We further reduced our position to core bonds as the expectations for modestly rising rates and yield curve steepening dim the outlook relative to other asset classes.
- Futures curves are contango which continues to sour our appetite for broad commodities

European Model Portfolio Tactical Positions



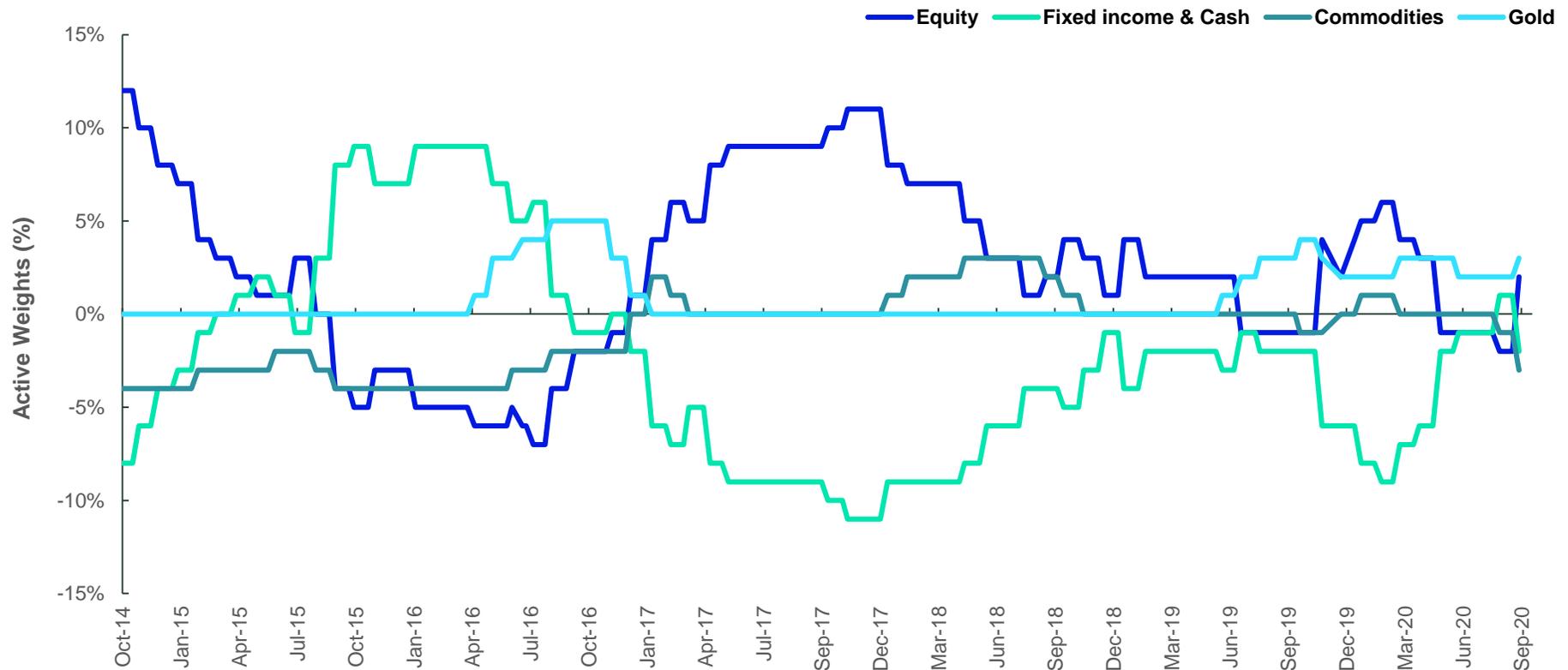
Tactical Rebalance Trades: September

Sold	<ul style="list-style-type: none"> • EMU Government • EMU Credit • Commodities
Bought	<ul style="list-style-type: none"> • Eurozone Equity • US Equity • Pacific Equity • Euro High Yield • Gold

Source: State Street Global Advisors ISG, as of 10 September 2020. Positions are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. The Model portfolio positions presented above are representative of ISGs market views and our positioning for our tactical portfolios as of the date given. The results shown were achieved by means of a mathematical formula, and are not indicative of actual future results which could differ substantially. 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.

Eurozone TAA Active Historical Weights

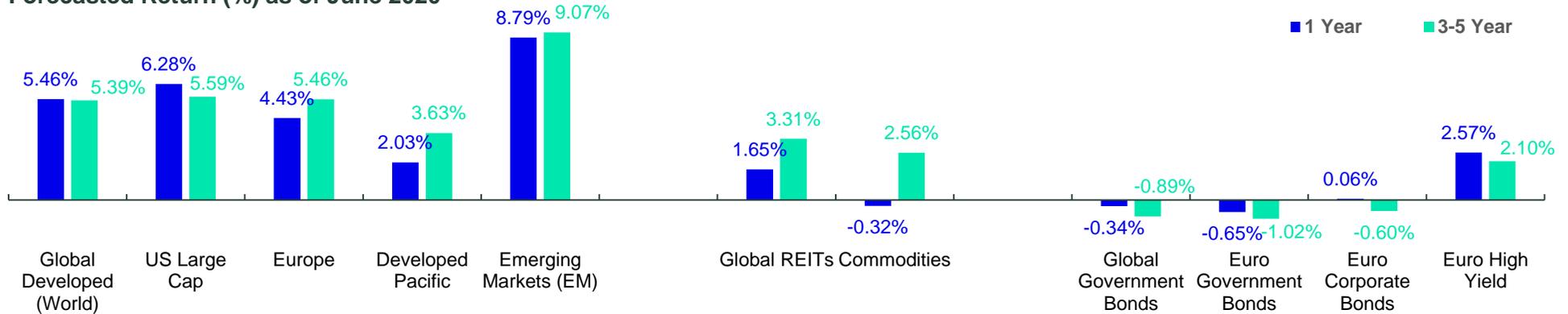
The Directional trades executed this month reversed our slight equity underweight relative to bonds that has been in place since May. We continue to be underweight core bonds in favor of both investment grade credit and high yield bonds



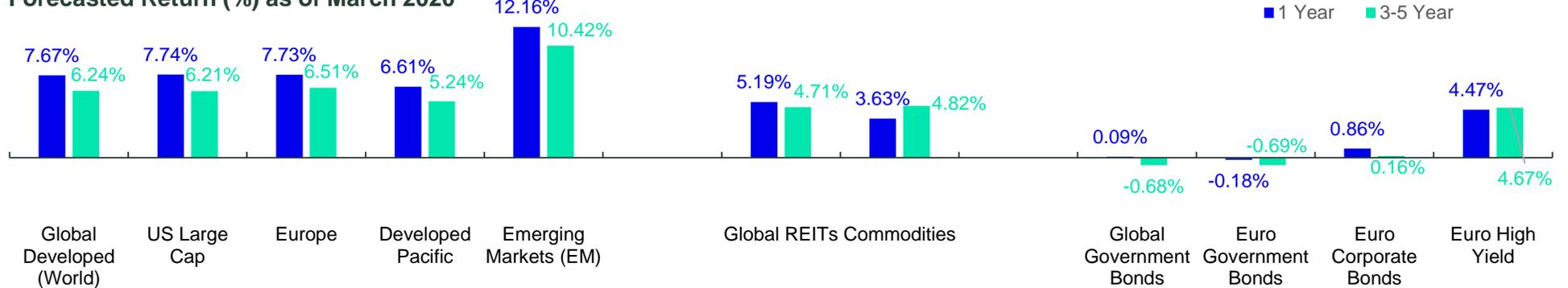
Source: State Street Global Advisors Investment Solutions Group (ISG). Data as of 10 September 2020. Past performance is not a guarantee of future results.

Asset Class Forecasts

Forecasted Return (%) as of June 2020



Forecasted Return (%) as of March 2020



Source: State Street Global Advisors Investment Solutions Group. The forecasted returns are based on SSGA's Investment Solutions Group's June 2020 forecasted returns and long-term standard deviations. The forecasted performance data is reported on a gross of fees basis. Additional fees, such as the advisory fee, would reduce the return. For example, if an annualized gross return of 10% was achieved over a 5-year period and a management fee of 1% per year was charged and deducted annually, then the resulting return would be reduced from 61% to 54%. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in the local (or regional) currency presented. It does not take into consideration currency effects. The forecasted performance is not necessarily indicative of future performance, which could differ substantially. Please reference Appendix A for the assumptions used by SSGA Investment Solutions Group to create asset class forecasts.

1. Downside Protection

Downside Protection

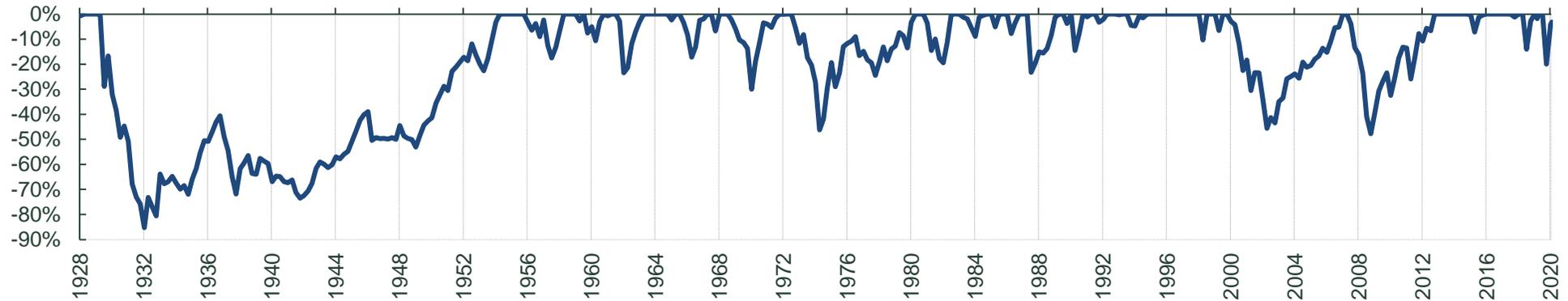
COVID-19 is a **black swan event** that has caused untold human suffering and hit global economies and markets

Volatility continues to play a key part in everyone's outlook and it looks likely to **remain so for some time**

Investors should consider **cost-effective hedging** options to “smooth the ride”

Downside Protection — Why Not Just Sell Equities?

The equity market (below is the S&P 500 Index) has historically produced positive quarterly returns after a previous drawdown



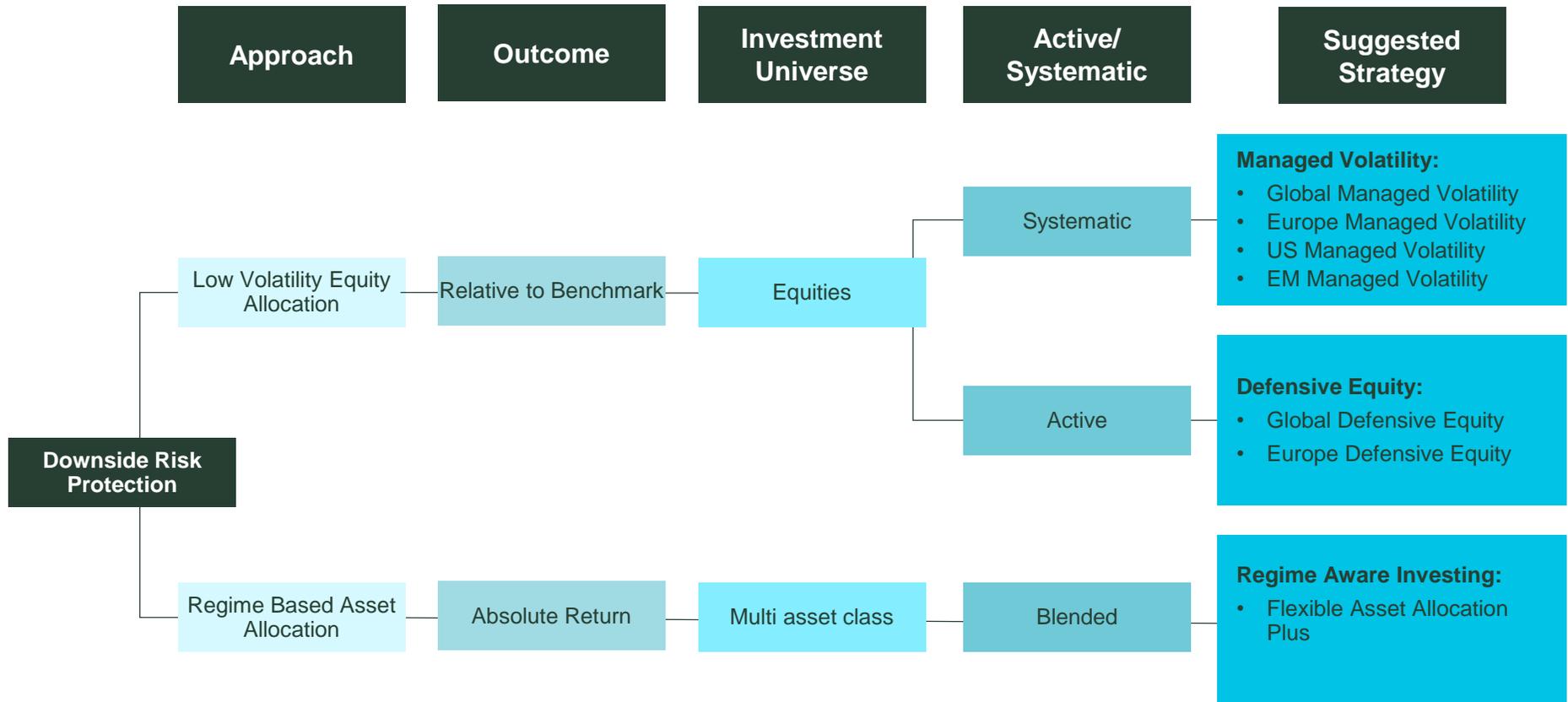
Range	Quarterly Return (%)	Subsequent Quarterly Return (%)	# Observations
Less than -20	-26.6	9.7	9
-20 to -10	-14.2	5.2	30
-10 to -5	-7.2	-0.7	30
-5 to 0	-2.1	-0.2	69
0 to 5	2.7	2.3	96
5 to 10	7.2	1.2	86
10 to 20	12.9	3.7	44
Greater than 20	41.3	2.4	7

Source: State Street Global Advisors and Bloomberg as of 30th June 2020.

Past performance is not a guarantee of future results. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

How to Implement

Client preferences along the decision tree should dictate recommendations



The information contained above is for illustrative purposes only.

2. Emerging Markets

Constructive Environment for Investing in Emerging Markets

<p>Emerging market economies account for 61% of global GDP¹, but only 12.5% of global equity benchmarks²</p>	<p>EM is one of the few asset classes with a higher long term forecasted return³ greater than most institutional required rates of return</p>	<p>Value abounds across EM Equity, Debt and FX. EM FX now cheapest in history after correction</p>
<p>EM economies have capacity for fiscal and monetary intervention and have been exercising it so far this year, which should support fundamentals in the near term</p>	<p>Improved liquidity and a return to growth in DM are essential to recovery in EM; in the meantime, there is fiscal capacity to provide support</p>	<p>The diversification benefits and higher return potential of emerging markets has improved risk adjusted returns historically, despite higher levels of volatility</p>

¹ IMF as of 30/04/2020

² Based on MSCI All Country World as of 11/9/2020

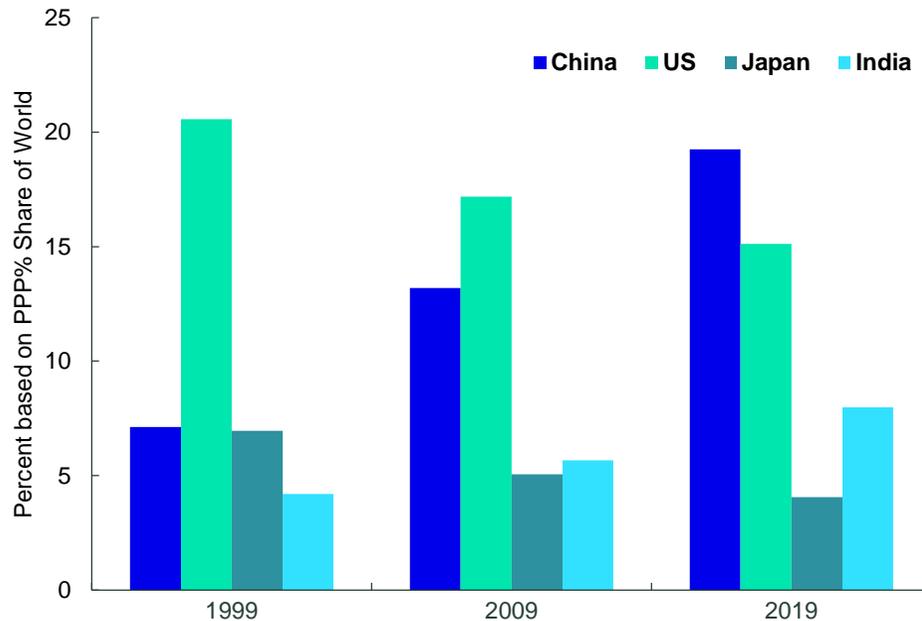
³ State Street's Emerging Markets long term forecast is 9.9% as of 30/06/2020

Diversification does not ensure a profit or guarantee against loss.

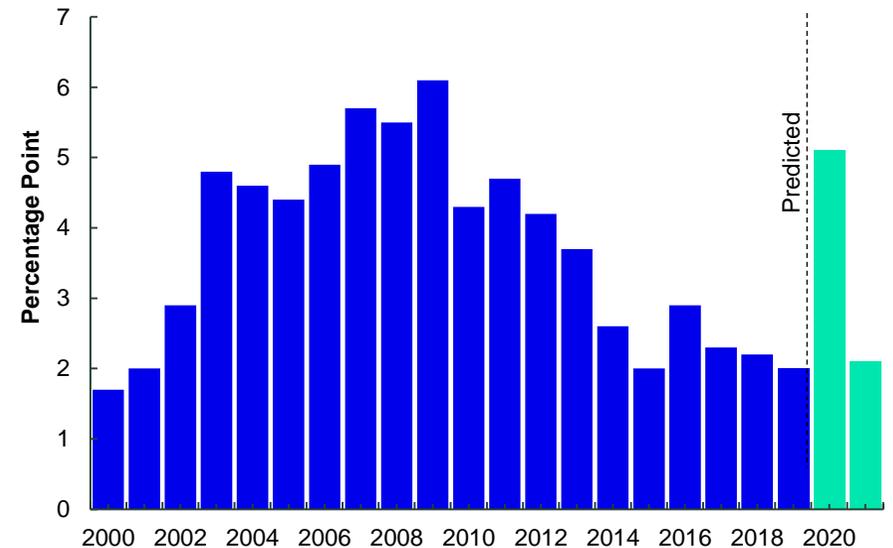
Emerging Market Growth

Expanding Presence in Benchmarks Reflects Structural Macro Realities

Share in World GDP



Growth Advantage – emerging market and developing economies GDP minus advanced economies GDP



Source: IMF, Bloomberg Finance, L.P as of 30 April 2020.

Rethinking EM Equity Allocations

What is the optimal allocation to emerging market equities?

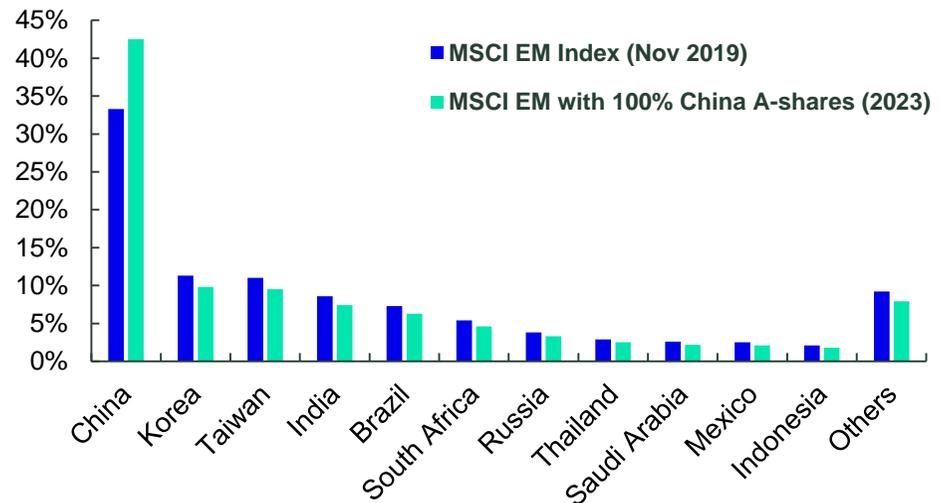
What is the optimal balance between active and index exposures?

Should China be considered as a dedicated allocation?

Weighting Methodology	Emerging Markets (%)	Developed Markets (%)
MSCI ACWI (free-float)	12.5	87.5
MSCI ACWI (full float)	27	73
IMF GDP (PPP weight)	61	39
SSGA Optimised (max Sharpe)	45	55

Source: MSCI, IMF, SSGA calculations, as of 30 June 2020.
 Projected characteristics are based upon estimates and reflect subjective judgments and assumptions. There can be no assurance that developments will transpire as forecasted and that the estimates are accurate.

MSCI Emerging Markets
 Growing Country Concentration



What is Emerging Markets Debt

Growing Market with improving liquidity

Evolution of the Size of EM Fixed Income Markets

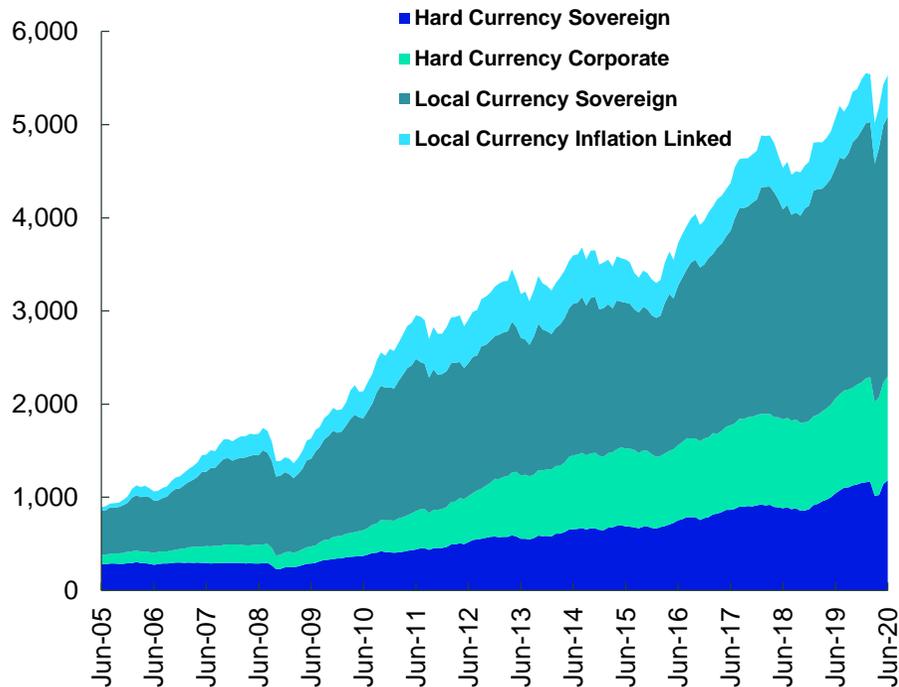
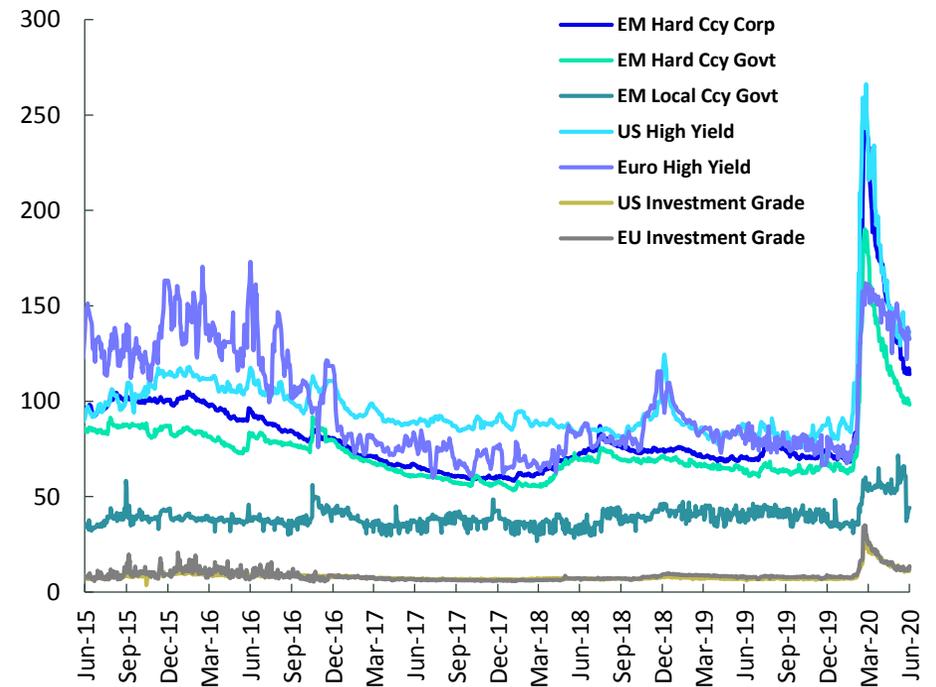


Chart on the left: Source Barclays, JP Morgan, SSGA, as of 30 June 2020. Values are expressed in billion US dollars.

Weights are as of the date indicated, are subject to change, and should not be relied upon as current thereafter

Chart on the right: Source SSGA as of 30 June 2020. EM Local Currency Govt = JPM GBI-EM GD Index, EM Hard Currency Government = JPM EMBIG Diversified, EM Hard Currency Corporates = JPM CEMBI BD Index, High Yield = BofA US HY and BofA EU HY, Investment Grade = BofA US IG and BofA EU IG

Evolution of Bid-Offer Spreads



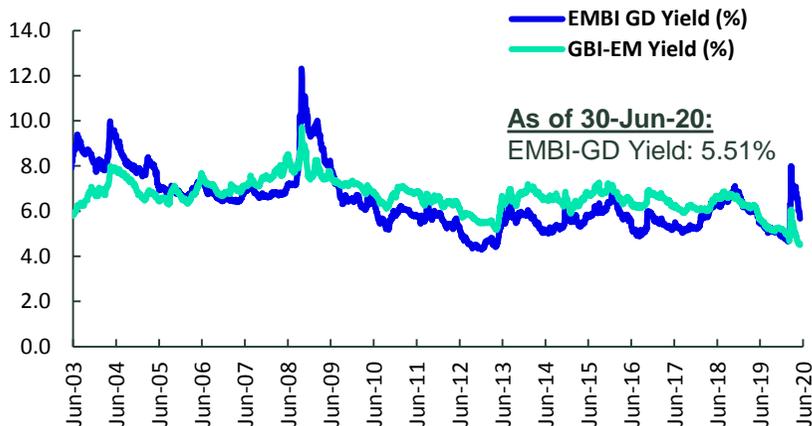
Emerging Market Debt — Outlook

2020 has been challenging for emerging markets but **repricing** has been significant presenting opportunities

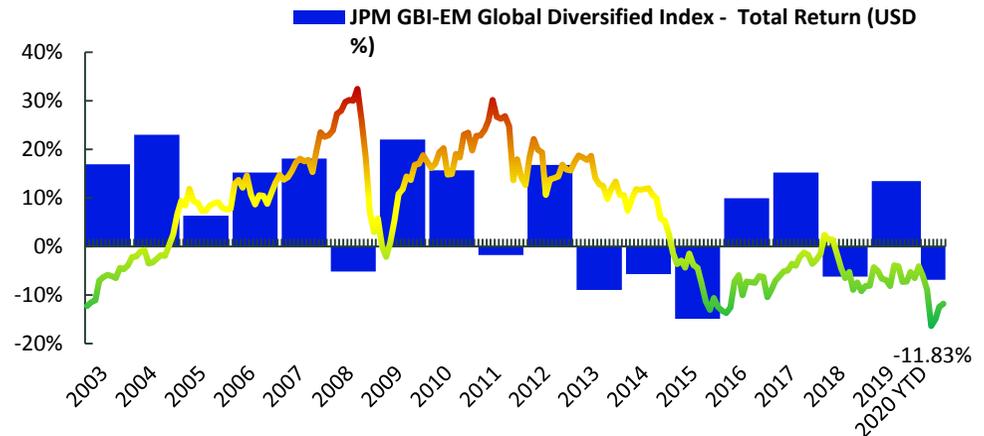
EMFX entered the crisis undervalued versus the USD in Q1 following sell-off and has reduced in Q2 as emerging market continue to re-open

Some room to manoeuvre; current a/c, inflation, policy, younger population, IMF ?

Yields of EMBI-GD and GBI-EM indices



Emerging Market FX



Source: State Street Global Advisors, JP Morgan, Bloomberg Finance, L.P., as of 30 June 2020. Past performance is not a reliable indicator of future performance. Index returns reflect capital gains and losses, income, and the reinvestment of dividends.

3. ESG

ESG

Regulation will **institutionalise sustainable investing** in Europe. ESG regulation is not on the back burner.

Climate change will drive asset allocation. COVID-19 has led to increased challenges for Fossil Fuels.

We encourage portfolio companies to focus on material ESG issues and understand their impact on performance via our **asset stewardship** program.

Climate Metrics in Portfolio Construction

A flexible framework

Mitigation					+ Adaptation	Fixed Income Only
Objectives	Minimise Carbon Emission Intensity	Minimise Fossil Fuel Reserves	Minimise Brown Revenues	Maximise Green Revenues	Build Resilient Portfolio	Maximise Green Bonds & Green Proceeds
Metrics and Unit	Carbon Intensity Direct+First Tier Indirect* (tonnes CO2e/USD mn)	Fossil Fuel Total Reserves CO2 Emissions (m tonnes)	Percentage of Brown Revenue (%)	Percentage of Green Revenue (%)	Adaptation Score on climate change preparedness (scaled to range 0-1)	Certified green bonds % revenues from low-carbon tech
Definition	Greenhouse gas emissions over which the company has direct control, or derives from direct suppliers, divided by revenue in US dollars.	Total embedded GHG emissions for the company in that financial year.	Percentage of revenues from “brown” sectors**, extractive sectors with high embedded carbon emissions, as classified by Trucost	Percentage of revenues from green or low-carbon technology products/business, as classified by FTSE LCE system	1.Position on Climate Change 2.Greenhouse Gas Reduction Action Plans 3.Disclosure of climate change risks and mitigation strategy (To be confirmed)	fixed-income instrument that is specifically earmarked to raise money for climate and environmental projects.
Data Source	S&P Trucost	S&P Trucost	S&P Trucost	FTSE LCE	ISS Oekom	Climate Bonds Initiative

* Note that this is different from Scope 1+ Scope 2 Carbon Intensity.

** Bituminous Coal and Lignite Surface Mining, Bituminous Coal Underground Mining, Crude Petroleum and Natural Gas Extraction, Drilling oil and gas wells, Natural Gas Liquid Extraction, Support activities for oil and gas operations, Tar Sands Extraction, Coal Power Generation, Natural Gas Power Generation, Petroleum Power Generation

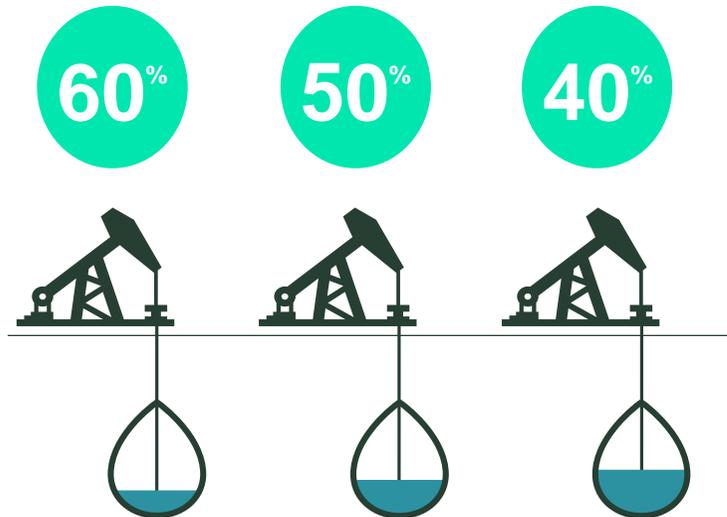
Source SSGA, April 2020

Low-Carbon Equity Index Solution

For a Focus on Carbon Intensity Choose Reduction Goal or Tracking Error Level

1

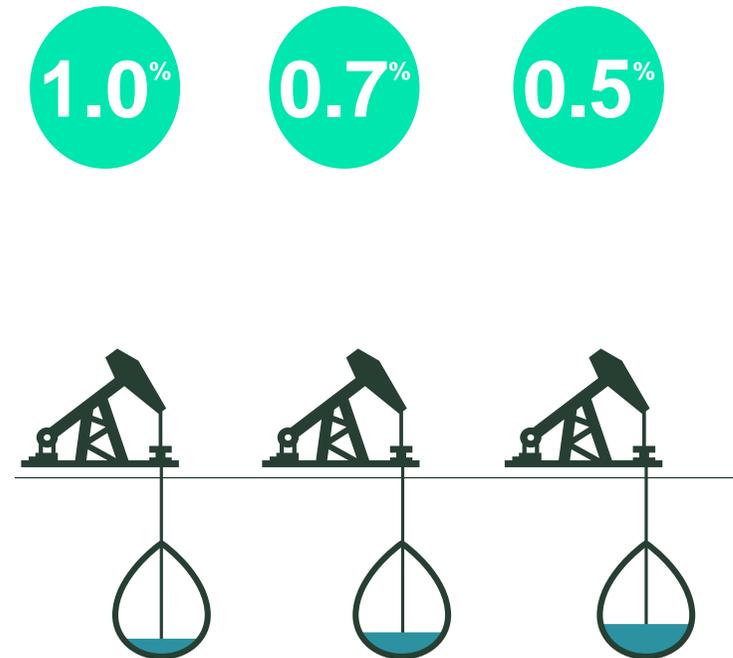
Target Carbon Reduction Level
while Minimising Tracking Error



or

2

Target Tracking Error Level
while Maximising Carbon Reduction



1% reduction in carbon reflects Backtested results and is for illustrative purposes only. Source: State Street Global Advisors.

What is R-Factor?

Improving Data Quality in the Investment Process

R-Factor™ is our ESG scoring system that draws on multiple data sources and leverages widely accepted, transparent materiality frameworks to generate a unique ESG score for listed companies

**Focuses on
Financial
Materiality**

**Uses Commonly
Accepted,
Transparent
Frameworks
(SASB)**

**Powered by
Multiple Data
Sources**

**Leverages Our
Strong
Stewardship**

Source: SSGA, April 2020

Adding Value Through Effective ESG Implementation

Index/Smart Beta Equity	Active Quant Equity	Active Fundamental Equity	Fixed Income & Cash
ESG and Climate data integration while pursuing the best and most accurate outcome	Systematic integration of ESG factor to improve Alpha signal	Systematic integration of R-Factor and other ESG data metrics into investment processes	ESG and Climate data integration (including Green Bonds) plus ESG Cash solutions

Investment Solutions Group

Multi-asset and custom solutions balancing the client's ESG goals with other risks to achieve a portfolio solution that addresses the client's total investment objectives

ESG Performance

58.8% of sustainable funds delivered **higher returns** than equivalent conventional funds over the past decade

US ESG Large-Cap Blend Equity Funds: More than **80% beat their traditional peers** over 10 years

Average excess returns of **up to 1.83%** during **coronavirus sell off**

Greater survivorship rates: **72% of ESG funds that were available 10 years ago** still exist, compared with 46% for traditional funds

Source: [Morningstar - How Does European Sustainable Funds' Performance Measure Up? June 2020](#)
Past performance is not a reliable indicator of future performance.

COVID 19 Performance

COVID 19 Performance

In all but one category, sustainable funds **relatively outperformed**, with average excess returns in the first quarter of 2020 ranging between 0.09% and 1.83% across categories due to:

1.
Underweight
in less ESG-
friendly
sectors Oil
and Gas

2.
Overweight in
Technology &
Healthcare

3.
Exposure to
traditional
Factors such
as Quality
and Low
Volatility

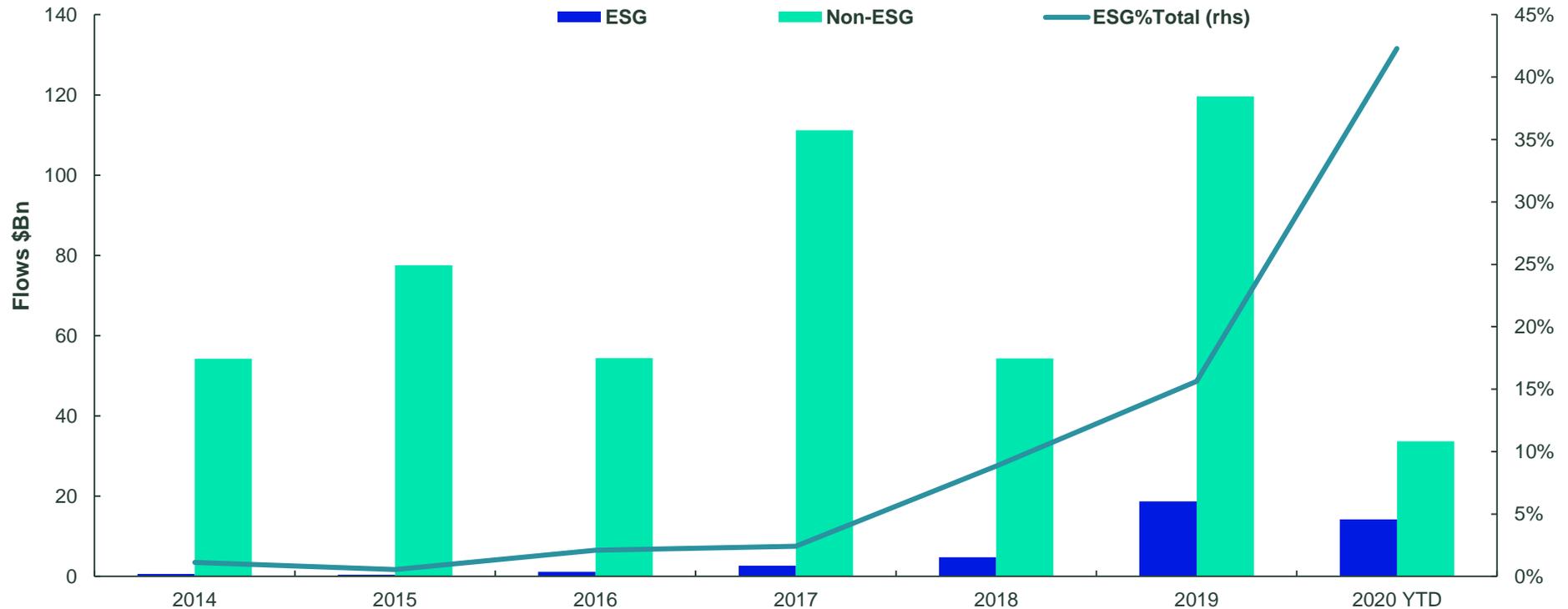
4.
Conservative
Balance
Sheets

5.
Competitive
Advantages

6.
High ESG
Score:
well-run
businesses
better
equipped to
weather
periods of
uncertainty

Source: [Morningstar - How Does European Sustainable Funds' Performance Measure Up? June 2020](#)
Past performance is not a reliable indicator of future performance.

ESG Flows — Resilience in Times of Crisis



- Between 2015 and 2019 ESG ETF inflows grew at 132% annualised
- ESG ETF flows stayed net positive in Q1 2020 despite net outflows for the overall ETF landscape

Source: SSGA; as of 31 March 2020
Flows are as of date indicated and shouldn't be relied on thereafter

Appendix A: Asset Class Forecasts

Asset Class Forecast: Assumptions

Fixed Income	Our return forecasts for fixed income derive from current yield conditions together with expectations as to how real and nominal yield curves could evolve relative to historical averages. For corporate bonds, we also analyse credit spreads and their term structures, with separate assessments of investment-grade and high-yield bonds
Equities	Our long-term equity forecasts begin with expectations for developed market large capitalization stocks. The foundation for these forecasts are estimates of real return potential, derived from current dividend yields, forecast real earnings growth rates, and potential for expansion or contraction of valuation multiples. Our forecasting method incorporates long run estimates of potential economic growth based on forecast labor and capital inputs to estimate real earning growth.
Factor Returns	Over a one to three-year forecast horizon, we look to see how cheap each factor is relative to its own history. Specifically, we focus on book/price spreads for each factor and relate that to their subsequent returns. We find that valuation ratios are useful for forecasting market returns.
Commodities	Our long-term commodity forecast is based on the level of world GDP, as a proxy for consumption demand, as well as on our inflation outlook. Additional factors affecting the returns to a commodities investor include how commodities are held (e.g., physically, synthetically, or via futures) and the various construction methodologies of different commodity benchmarks.

Source: State Street Global Advisors (SSGA) Investment Solutions Group.

Appendix B: Important Disclosures

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Biography

Biography



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Altaf is a Managing Director and the EMEA Head of Investment Strategy & Research at State Street Global Advisors. He and his team are responsible for developing thought leadership and executing custom projects for clients across EMEA in the fields of asset allocation and portfolio construction, as well as working with global portfolio managers and strategists to develop multi-asset investment solutions.

Altaf joined from MSCI, where he led a team focused on educating institutional investors on analysing, designing and using factor based portfolios. While at MSCI he published research on ESG, factor crowding, and index analysis, inter alia.

Before joining MSCI, Altaf worked in sell-side research, leading equity derivative and global quantitative strategy teams across the Asia Pacific and EMEA for Deutsche Bank and Goldman Sachs. Altaf began his career at SBC Warburg as a founding member of the equity derivatives research team.

Altaf has an MSc. in Finance from London Business School, and a first class joint honours degree in Engineering and Computing Science from St. John's College, Oxford. He earned the Chartered Financial Analyst designation and is a member of the CFA Institute.

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