STATE STREET GLOBAL ADVISORS SPDR®

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US-Listed Monthly Flash Flows

Searching for a Signal

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- International markets led global equities higher in June, as concerns over a surge in US COVID-19 cases curtailed returns in the US and spurred volatility
- Even as community reopening's were tempered, a reopening trade appears to have been put on, with US small-cap, value, and cyclical sectors all having inflows
- The reopen trade to watch is overseas, however. Coupled with strong returns, non-US focused ETFs broke their three-month streak of outflows, taking in $7 billion
- Bond and gold ETFs continued to set records. Bond funds took in a new monthly record of $35 billion, and gold ETFs' $4 billon of inflows in June pushed their record year-to-date total to over $23 billion

The Lead

First-world problems, while infinitesimal in the grand scheme of things, can be extremely frustrating in the moment — for two reasons. They disrupt your day. And, for me specifically, I feel guilty about getting frustrated about something so inconsequential when there are individuals who would pay to have this be their biggest problem of the day. Recognizing the latter helps put things in perspective and usually tamps down the frustration.

One of the more common first-world problems is the loss of a cell signal for any GPS while driving. The dreaded "recalculating, finding your GPS signal" emblazoned atop your Waze app while trying to find a location you have never been to, in a town you have never heard of, can get your blood boiling – especially if your car is full of backseat drivers.

Massachusetts is known for its ambiguous rotaries, a predilection for five-way traffic stops (don't ask why), and counterintuitive highways (at one point, I-93 South turns into I-95 North, and we all think this is normal). Traversing these roadways is akin to trying to understand this market: there are too many narratives (on ramps/off ramps) featuring partial or transient information (random detour signs or temporary roadways) for anyone to confidently say they know what is to come next.

The GPS is constantly recalculating, and the information — as well as the type of data — changes day to day. Economic, fundamental, return and COVID-19 case data all need to be parsed and understood – removing anomalies and hyperbole – to truly find a signal. Much like understanding a half-mile detour on a country road where there are no workers in sight. Sometimes, however, three wrong turns make a right.

Look, my job is to have an opinion. And lately, I find myself searching for the shoulder-shrug emoji than any of the other ones. Meanwhile, armchair epidemiologist is the most often added job skill on LinkedIn, and my software developer friends are posting messages on our Slack channel about being up double-digits after buying some calls on airline stocks.

The latest recalculation of my internal market GPS, however, is that the month of June might be our new normal living with COVID-19. Baseball and basketball have officially declared they are back, but issues have already cropped up, with training facilities in both sports being shut down due to new cases. But the show goes on, for now.

After reopening, some states have started to curb access as case rates surge. Other states are getting back to normal, but with extra precautions that allow for access with minimal interactions. Economic data has improved, and small businesses are able to open their doors to a new, but uncertain, form of commerce. In July, we are likely to get more information on corporate fundamentals when Q2 earnings season starts, and right now, the estimates look downright scary. But those estimates may be too harsh, as firms seek to under promise but overdeliver. We still won't have a full picture, however.

In a market like this, expect big up-and-down days. There is a limited information edge as the market – and the economy – search for signals. Under- and overreactions to data will be the norm, and so far in 2020, we have had more days with a plus-or-minus 1% daily move than we typically have in a year, on average.[1] That is not a market with a clear roadmap and understanding of the direction of travel.

Staying the course in terms of asset allocation diversification may limit any knee-jerk reactions while we are devoid of any clear information – or signal. Although, much like being able to make the quick turn when the opening presents itself, investors should not overlook the long-term opportunities emerging as a result of the change in consumer and corporate behaviors.

The new normal of a June-like existence is hard. But we have to climb that hill, stay on our feet and get our footing when it gets too steep. Hopefully soon, we will be on the proverbial highway with higher hopes and our nice shades on, with the worst days gone.[2]

Breaking Records like "Barry" Bonds

Since the onset of the COVID-19 pandemic, bond ETFs have only set records. In the month of March, bond ETFs set a record in terms of trading volume – trading over \$50 billion on a single day. But they also set a record in terms of outflows, witnessing \$20 billion leave on the month.

In April, following sizable stimulus measures to support underlying liquidity in the capital markets, investors' risk appetite returned and bond ETFs saw a near-record amount of inflows with \$22 billion, led by credit funds. The April credit rally extended into May, and bond ETF flows hit a new record with \$28 billion.

The June inflows, however, outdid them all. Flows last month totaled over \$35 billion, setting a new record that is 388% above the five-year average flow figure (\$9 billion) and over 291% higher than the more recent 12-month average figure (\$12 billion).

Figure 1

Asset Class

In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Equity	18,630	70,210	27,041	198,324	2.03%
Fixed Income	35,087	97,815	85,540	179,213	11.53%
Commodity	4,652	34,939	24,023	42,966	42.61%
Specialty	-20	-166	-232	185	-6.14%
Mixed Allocation	-273	57	-214	1,413	0.39%
Alternative	66	410	449	418	12.77%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Three straight months of more than $20 billion of inflows for fixed income ETFs has pushed their year-to-date total close to $100 billion. If the year ended today, the flows in 2020 would be the third-highest ever, as shown below, and that's even with the inclusion of March's record-setting $20 billion of outflows. The year-to-date totals are also 63% of last year's record $155 billion, meaning if this pace continues, the yearly record for flows could also be broken.

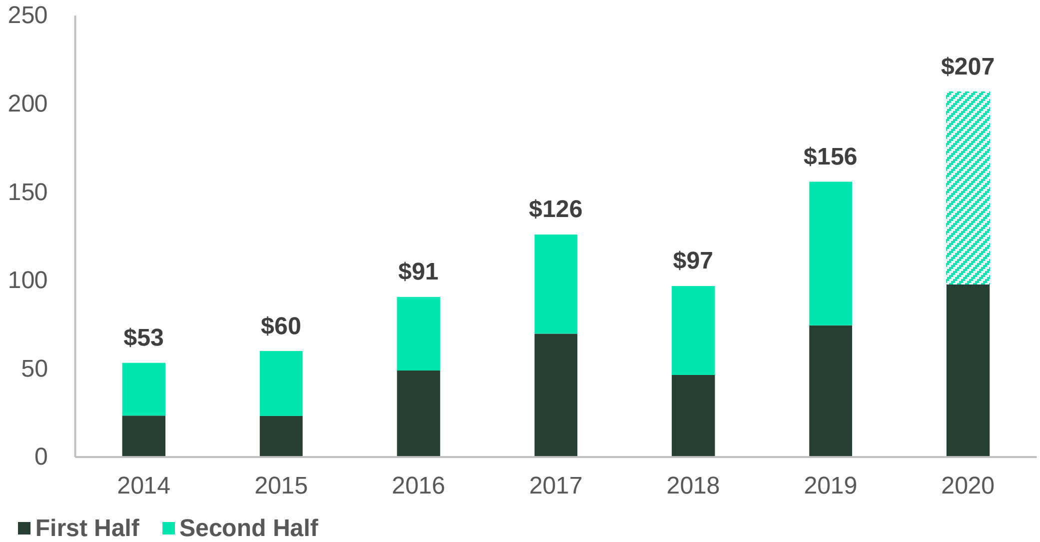
After all, 2020's three months of over $20 billion of inflows is already a record. Prior to 2020, there had never been two months in the same year with over $20 billion – let alone in a row. We've already seen three this year, and they have all come in the past three months.

In four out of the past six years, second-half flows have been higher than first-half flows for fixed income ETFs, averaging a 12% increase. Applying that 12% increase to the $97 billion results in a $109 billion estimate for second-half flows. That would equate to over $200 billion and would surely put US-listed fixed income ETF assets above $1 trillion – something we highlighted back in September that could happen by year's end.

Overall, the resurgence in flows these past few months is a strong sign of confidence in the fixed income ETF vehicle, speaking to its flexibility in providing market exposures that allow investors to tailor portfolios in a liquid, transparent, and cost-efficient manner.

Figure 2

Yearly Fixed Income Flows – 1st Half Versus 2nd Half
($Billions)

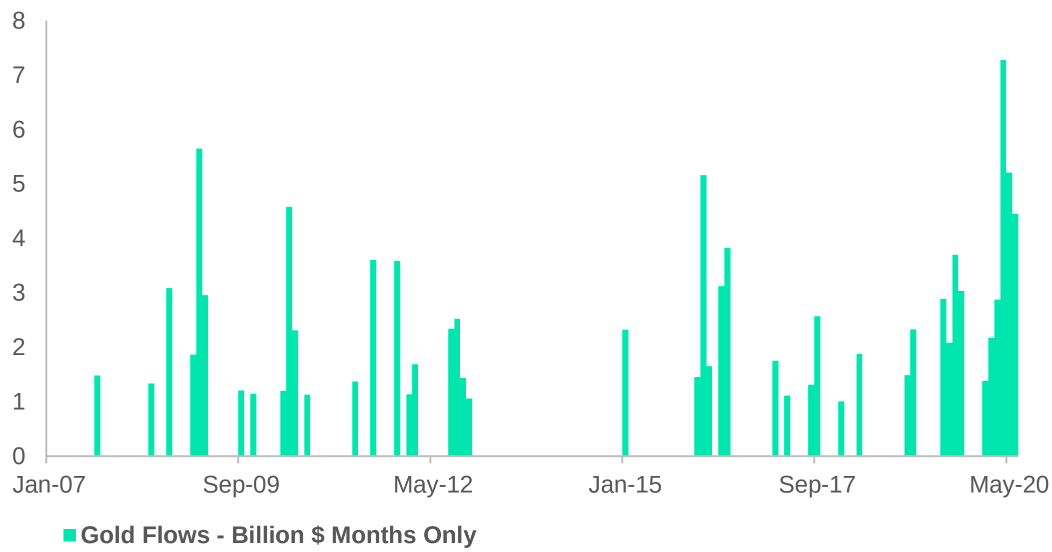


Past performance is not a guarantee of future results. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020. Shaded portion is an estimate.

Bond funds are not the only ones breaking records. Gold ETFs took in $4 billion in June, raising their 2020 total to $23 billion. If the year ended today, that would be a record annual flow figure. And a record by a wide margin, as it is 200% more than the prior annual record ($11.8 billion in 2009). But that's not the only record gold funds have set in 2020, as the $4 billion in June marks the sixth straight month of inflows greater than $1 billion – breaking the prior record of four months registered multiple time, as shown below, where only $1 billion months are plotted.

Figure 3

Gold Billion $ Flow Months
(Flows in $Billions)



Past performance is not a guarantee of future results. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Looking ahead, the biggest macro factors for the price of gold are likely to remain in the metal's favor: continued heightened risk regime, lower-for-longer real rates, and the potential for further fiscal spending weakening the outlook for key reserve currencies, particularly the US dollar. Strong gold demand from the investment sector driven by these dynamics may continue to offset softness in the cyclical demand (i.e., jewelry) for gold. As gold may provide key return and diversification benefits – more so than traditional commodities – these current flow trends may continue and a seventh month of more than $1 billion may be in the cards.

Passports Needed

US funds had the most flows, but the story for the month is what investors did overseas. After three months of consecutive outflows, non-US focused ETFs had inflows for the first time, taking over $7 billion or 1% of their start-of-month assets, compared with 0.5% for the US. There are a few caveats to the international flow totals, however. And, to a degree, it dampens the notion of a full turn in sentiment from a broad set of investors.

Someone invested, but the breadth of investors allocating was not that deep and may be more of an allocation swap trade (i.e., changing vehicles from a mutual fund to an ETF) and less of a directional market trade. At the regional level, 76% of the $3.7 billion flows are from one fund. Similarly, at the single-country level, 95% of the $2 billion of inflows are from one fund.

This type of concentration is more informative of a single investor moving capital, not a broader trend. However, removing the flow totals from those funds still leaves those categories in a net inflow position — as well as the broader category of non-US focused ETFs — so the sentiment expressed is still positive.

The theory of a partial turn in sentiment, where investors are now focusing on international exposures more than they had in the past, is, however, reinforced by the fact that emerging market (EM) exposures broke their four-month streak of outflows.

The strong EM flows are not a surprise, as EM beat US stocks by 6.7% in June – the strongest relative performance since 2012.

In my mind, there are three things driving this:

Better reopening of economies. Case rates are lower than in the US. As a result, getting back to trend line growth may be easier for this market segment. Particularly, Asian nations – and Asia EM stocks are indeed outperforming broad EM in June.

A weaker US dollar. Currency effects have added roughly 1% to emerging markets' 7% overall performance this month. A weaker dollar may persist, given low rates and sizable stimulus in the US, with a potential tailwind if former Vice President Joe Biden wins in 2020, as polls currently indicate,[3] and walks back some of the trade tariffs put in place under the Trump administration.

More constructive valuations. Based on price-to-earnings, to start the month emerging markets were trading at almost their largest discount to the S&P 500 over the past 15 years, acting as a potential relative value opportunity.[4]

Counter to the positive flow trend for EM, however, is the beneath-the-surface flow details at the single-country level. India and China, two of the largest EM nations, had combined outflows of nearly $1 billion in June. Not only is this counter to the flow trend for EM, but also the performance story from those two nations. China and India both had strong returns last month, up 8.6% and 6.6%, respectively. Perhaps, this was a bit of profit taking, as China is actually up 2% year to date.

Figure 4

Equity Geographical

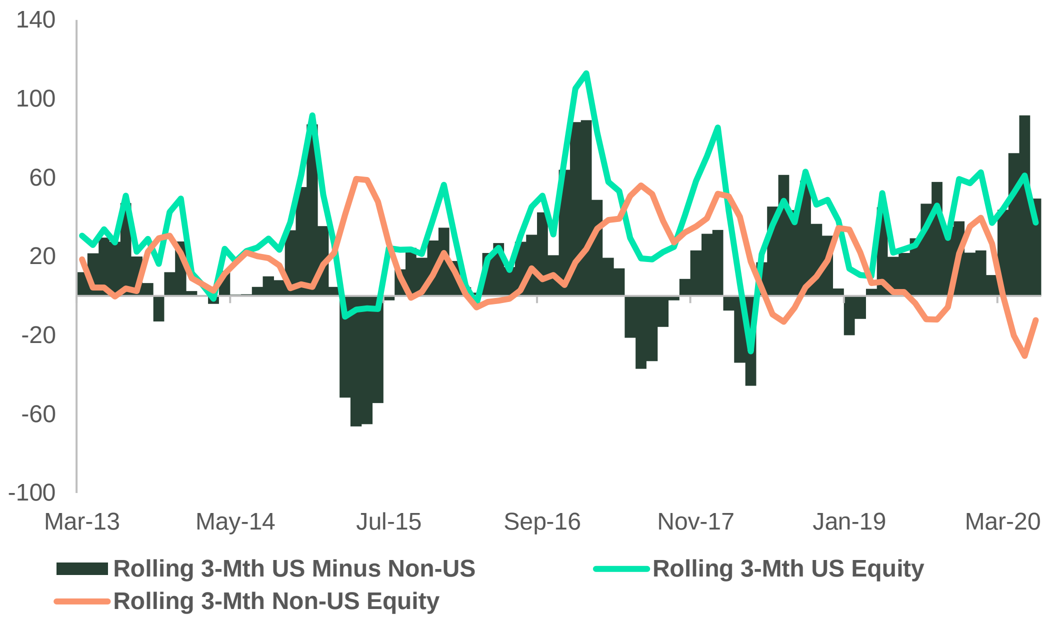
In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
U.S.	11,167	81,842	39,078	186,538	3.18%
Global	2,133	6,833	5,013	10,311	6.27%
International-Developed	-1,368	4,214	-8,833	25,248	1.03%
International-Emerging Markets	1,347	-9,531	-5,227	-9,787	-4.81%
International-Region	3,719	-1,405	1,507	-2,375	-2.65%
International-Single Country	2,013	-8,366	-2,752	-7,158	-8.79%
Currency Hedged	-382	-3,378	-1,744	-4,453	-17.2%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Looking ahead, the improving COVID-19 case rates outside the US — at a time when cases in the US are rising — may be the catalyst for the revival of the international trade. As shown below, this trade has been out of favor for some time. In fact, US flows have outpaced non-US in 80% of all 88 rolling periods over the past eight years. This reflects the performance trends as well, considering that based on a rolling 12-month return basis, US stocks have outpaced non-US in 26 consecutive months. June's flows and performance may be the start of a new trend, however.

Figure 5

US Versus Rest-of-World Rolling Three-Month ETF Fund Flows
($Billions)



Past performance is not a guarantee of future results. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Riding Cyclicals for a Reopen

Sector flows, in the aggregate, were positive once again this month. This marks their third straight month of inflows and reflects investors' selective nature when allocating capital in this uncertain, but rallying, market environment. Given that sector rolling three-month dispersion is in its 90th percentile historically,[5] the potential for alpha generation from being on the right side of a sector trade is likely fueling the constant flows into sectors. While there have been steady flows into sectors, the nature of the flows has changed in recent months, with the positioning becoming more cyclically oriented.

In May, four cyclical sectors – Consumer Discretionary, Industrials, Financials and Materials – had positive trend reversals. Prior to May, they were all in net outflows, but then went on to register inflows. That positive trend reversal continued into June, to a degree. Materials had outflows, but the other three sectors had inflows. Energy, a cyclical sector in its own right, also had inflows in June, and short interest did not meaningfully spike on the month – so those flows are not tinged with a bearish point of view.

Further to this reopening trade notion is that historically defensive, recessionary-based sectors – areas that held up well during the rise in volatility and are still outperforming the market year-to-date — like Consumer Staples and Health Care — witnessed large redemptions in June.

Based on this apparent rotation, investors may be hopeful that a recovery will be more imminent with states and countries beginning to reopen. Even with the rise in cases curtailing some of the reopening actions. All of this is occurring right before Q2 earnings season, and Consumer Discretionary, Energy, Industrials, Financials, and Materials firms are estimated to see the worst declines out of any sector – some by triple digits (Energy and Consumer Discretionary). Perhaps investors are anticipating that those estimates overcorrected (i.e., too negative), and firms in those sectors may surprise to the upside.

Figure 6

Sector Flows

In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Technology	2,562	10,651	7,559	14,790	9.93%
Financial	993	-2,042	2,236	-5,447	-4.03%
Health Care	-2,831	7,383	6,440	4,684	11.68%
Consumer Discretionary	674	660	1,963	-305	2.87%
Consumer Staples	-1,103	511	-446	1,166	2.30%
Energy	1,146	5,346	2,715	6,274	12.02%
Materials	-784	-137	1,235	635	-0.43%
Industrials	1,836	579	2,412	478	2.21%
Real Estate	130	-2,932	-2,020	544	-3.77%
Utilities	-282	929	70	1,215	4.78%
Communications	-85	2,677	1,608	3,241	25.7%

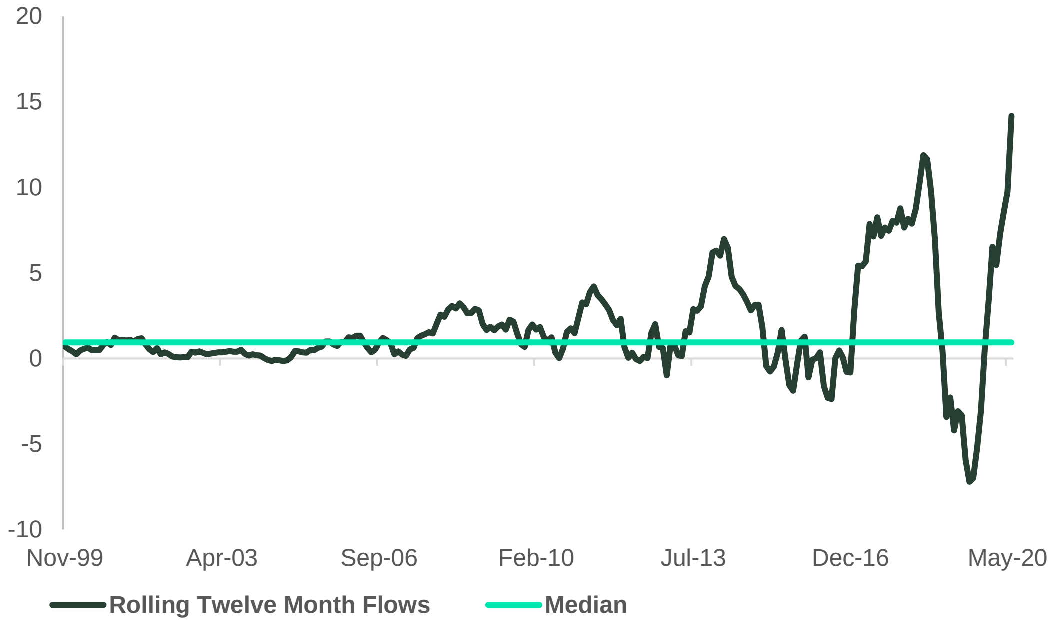
Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

The only constant has been Tech, as the sector has recorded 12 consecutive months of inflows – one month shy of its longest stretch ever (13 months). But this 12-month stretch coincided with $14 billion of inflows, compared with $12 billion during the 13-month record stretch back in 2018. These strong flows have pushed the 2020 total to $10 billion, the most ever for a given year if 2020 ended today.

There are two drivers behind these Technology flows, and they are connected: Strong earnings sentiment and growth[6] in an environment devoid of growth as well as investors seeking to participate in a sea change in societal behavior, where technology is going to play a larger role in keeping us digitally connected in a physically separate world.

Figure 7

Tech Sector Rolling 12-Month Flow Totals
($ Billions)



Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

It Ain't the Fed

Aggregate and Investment Grade (IG) Corporate Bond ETFs made up 80% of the overall fixed income flows in June. The motivation behind these flows is different, however. Aggregate funds are more defensive, given their heavy allocation to US Treasuries. The sizable inflows into Aggregate funds, therefore, represent investors' desire to add ballast to portfolios in a time period when macro risk remains highly elevated. Given the current risk regime, I'd expect these flows to continue, even though the yield offered on these bonds is extremely low. The Bloomberg Barclays US Aggregate Bond Index is yielding just 1.26%.[7]

The flows into IG funds, therefore, represent investors' other needs: income and total return. While equites have had a hard time reaching back to pre-crisis levels (once just 4% away, now they are 9% away), IG corporate bonds are just 80 basis points below their March 6 high and up almost 5% year-to-date.[8] A lot of this rally has to do with the support from the Federal Reserve, with IG corporate debt rallying 17% since the central bank announced its lending facilities on March 23 that directly target the IG corporate market.

This created a turn in sentiment for the underlying asset class, and investors positioned accordingly, as some of the risk of owning debt has been lessened since the Fed is going to support the underlying credit markets and improve overall liquidity. As a result of a potential tailwind, since March 23, there have been $38 billion and $18 billion of inflows into IG and high yield corporate bond ETFs – with almost half (43%) of the IG haul coming in the month of June.

The only other segment with noticeable flows has been Inflation Protected strategies (TIPS). TIPS have now seen two consecutive months of inflows, taking nearly $3 billion in June after nearly $2 billion in May. TIPS may be a surprising allocation, given the depressed economic situation. But that is only if you did not notice that TIPS have outperformed nominals each of the past three months. This is a trend we have witnessed following past crises. Now, while this crisis is unprecedented, the policy responses are similar to prior risk events, and insight can be gleaned from the past.

Following the Global Financial Crisis (GFC), inflation began increasing as a result of the stimulus measures – averaging 2.4% from 2009 until 2012 – after a demand-driven deflation shock starting in 2008. As a result, after the GFC crisis, TIPS began to outpace nominal US Treasuries. From mid-2009 through 2012, TIPS outperformed nominals in 60% of the months, and by an average of 30 basis points.[9]

As we discussed in our Outlook, one could reasonably expect the same trend today – and we have witnessed it so far – given the price tag of the monetary and fiscal stimulus designed to fuel an economic rebound. And with Fed Chair Jay Powell saying there is “no limit”[10] to what the central bank can do with its lending programs, policymakers may allow inflation to run above target before dialing it back.

Figure 8

Fixed Income Flows

In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Aggregate	10,692	21,719	25,063	55,816	8.13%
Government	-1,498	23,995	2,464	29,318	16.25%
Inflation Protected	3,196	625	3,679	4,145	1.39%
Mortgage-Backed	979	3,215	838	10,234	8.50%
IG Corporate	16,746	34,525	32,497	43,527	20.66%
High Yield Corp.	1,630	12,913	15,390	21,442	23.01%
Bank Loans	-162	-2,784	-167	-926	-26.83%
EM Bond	601	-2,076	795	-1,655	-7.18%
Preferred	57	600	454	4,574	1.75%
Convertible	379	99	526	667	1.90%
Municipals	2,465	4,985	4,003	12,071	10.2%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of May 31, 2020

Part of the Fed’s Secondary Market Corporate Credit Facility allows for the purchase of ETFs. Which begs the question, how much of the sizable flows into IG corporate and high yield bonds ETFs are from the Fed?

A common miscalculation/misconception is to assume the $2.9 billion purchased by the Fed resulted in an inflow each time a share was purchased. This logic would lead one to surmise that the Fed accounted for 20% of all inflows into IG and high yield ETFs.[11] It did not. This would obfuscate the fact that ETFs can be purchased on the secondary market, and not all trades lead to inflows/outflows.

Out of the 16 ETFs the Fed owns, the ratio of secondary-to-primary market activity has been on average of 3:1 – meaning that for every $3 bought on the secondary market, only $1 of primary market activity resulted. In fact, we observed that on days when the Fed was buying in the secondary market, certain funds had outflows from other investor activity. Some funds traded by the Fed even had outflows on the month, furthering the point that the Fed is not the only player – or really even a big player – using ETFs to deploy capital.

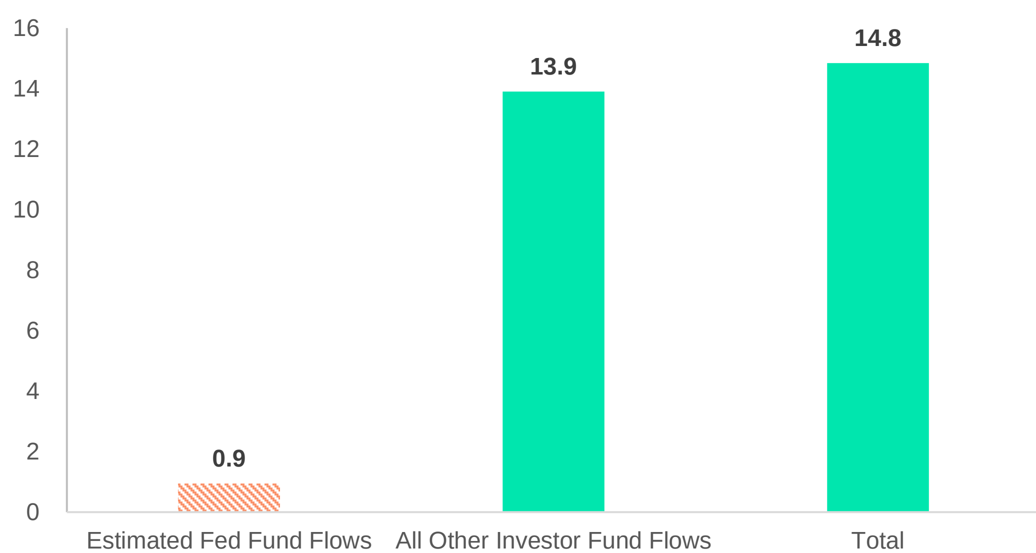
To get to a Fed fund flow figure (F-quartic for those playing at home), we can take aggregated average secondary-to-primary ratio and apply it to the $2.9 billion bought by the Fed in June. This results in an approximated value of $943 million of Fed-induced inflows – or 6.4% of the overall flow totals.[12] Taking the flows by fund and applying the fund specific secondary-to-primary produces similar results ($1 billion).

There is some misconception that the Fed is some sort of whale in the market, and that couldn't be further from the truth, given these numbers and the fact that they typically account for 7% of all IG Corp and high yield bond daily volumes on average[13] – an eerily similar number to the share of flows mentioned above. Now, there are some funds – smaller funds that are part the Fed program – where the Fed will represent a larger percentage of flows. But overall, participation is quite low.

With these numbers, which are to a degree back-of-envelope but written in pen and not pencil, we can have some assurance that other investors are putting serious capital to work in the IG and high yield corporate bond space and are choosing to express those views with ETFs in order to target a broad market segment in a liquid and precise fashion, given that they can also subsegment the bond market by maturity rating to adjust for their duration views.

Figure 9

High Yield and Investment-Grade Corporate Bond ETFs Part of Fed Purchase Program Fund Flow Attribution
($ Billions)



Past performance is not a guarantee of future results. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

You're *Not* Killing Me, Smalls

Similar to the apparent reopening trade witnessed in sectors, style flows also revealed a preference to position more cyclically. Value funds had inflows and actually outpaced growth for the first time since December 2019. Small-cap funds took in 1% of their assets. Mid caps, however, had outflows in June – even though it has been the best-performing style since the market's bottom (up 45%, versus 37% and 38% for large and small caps, respectively). And it's not like this is profit taking, as there were outflows in May and April as well. More likely, investors continue to express a middle bias.

Figure 10

US Style Flows

In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Broad Market	1,248	20,217	5,870	42,974	6.86%
Large-Cap	7,393	40,050	10,584	108,494	5.08%
Mid-Cap	-1,485	-3,626	-1,309	-862	-1.72%
Small-Cap	2,327	1,796	1,355	10,367	0.81%
Growth	-1,938	20,017	11,190	22,749	6.20%
Value	680	4,174	878	19,365	1.64%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Investors Dig the Long Bond

While government funds were in net outflows in June, not all tenors were, as the outflows were overwhelmingly driven by ultra-short government strategies. This is the second month in a row when ultra-short funds drove outflows. This trend has coincided with the S&P 500 continuing to trade above its 200-day moving average. While the S&P 500 has flirted with the 200-day line, it has yet to break through it. If it is able to hold that line, expect these outflows to continue. If not, we may see the same trend following tactical strategies that began to rotate out last may to rotate back in.

Figure 11

Maturity Flows

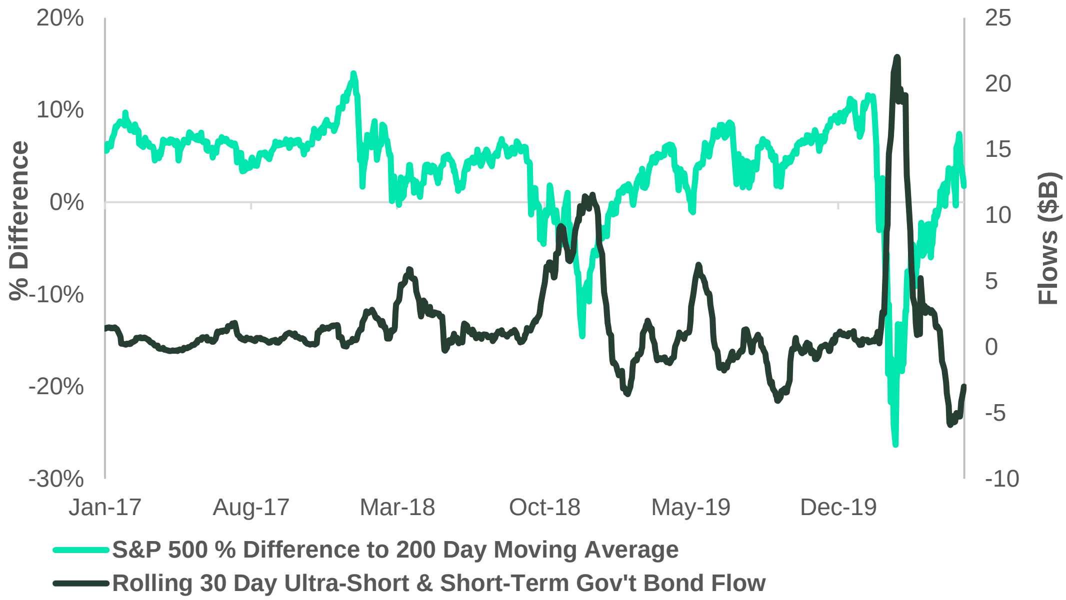
In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Ultra Short	-3,070	9,797	-2,410	5,907	29.06%
Short Term	-406	7,923	-793	12,101	15.95%
Intermediate	459	6,282	2,970	9,298	15.85%
Long Term (>10 yr)	1,080	-828	1,981	1,441	-3.6%

Top two and bottom two categories per period are highlighted. **Past performance is not a guarantee of future results**. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

As shown below, as the S&P 500 got closer to the 200-day moving average, the inflows slowed and turned negative. This is our favorite relationship to watch in terms of how investors use ETFs to tactically position based on quantitative signals.

Figure 12

Ultra-short & Short-term Gov't Bond ETF Flows vs. Technical Levels



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Beaten Up Smart Beta

There has been a deluge of outflows in smart beta strategies over the past four months, totaling over $16 billion after another $2.5 billion left in June. This four-month stretch of outflows is the most ever in terms of consecutive months of outflows. Over 60% of the outflows in this four-month time period have been from Low Volatility and Dividend strategies – two darlings that helped propel the category over the past five years. Multifactor ETFs, another area of prior growth, have also had outflows.

Some capital was allocated in June, with Quality continuing to see inflows as investors maintain a preference for firms with clean balance sheets and high profitability. Value factor funds had outflows, running counter to the broader and more traditional (i.e., includes market cap weighted) view above. However, the flows are concentrated in one family of funds and are likely more reflective of one investor's decision and not a broad-based view – similar to the single-country analysis. Size factor funds had inflows, a similar trend to the style analysis, so there is some continuity here.

Figure 13

Smart Beta Flows

In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Dividend	-59	-42	-3,196	17,815	-0.02%
Growth	-71	-614	-57	-785	-10.47%
Low Volatility	-1,296	-4,892	-3,772	5,429	-5.59%
Momentum	-51	-716	-238	-1,530	-4.44%
Multi-Factor	-633	-2,658	-2,001	-684	-5.05%
Quality	302	4,669	1,942	11,192	15.91%
Size	1,046	-3,140	-758	-2,400	-14.76%
Value	-1,819	-1,536	-1,451	763	-3.56%

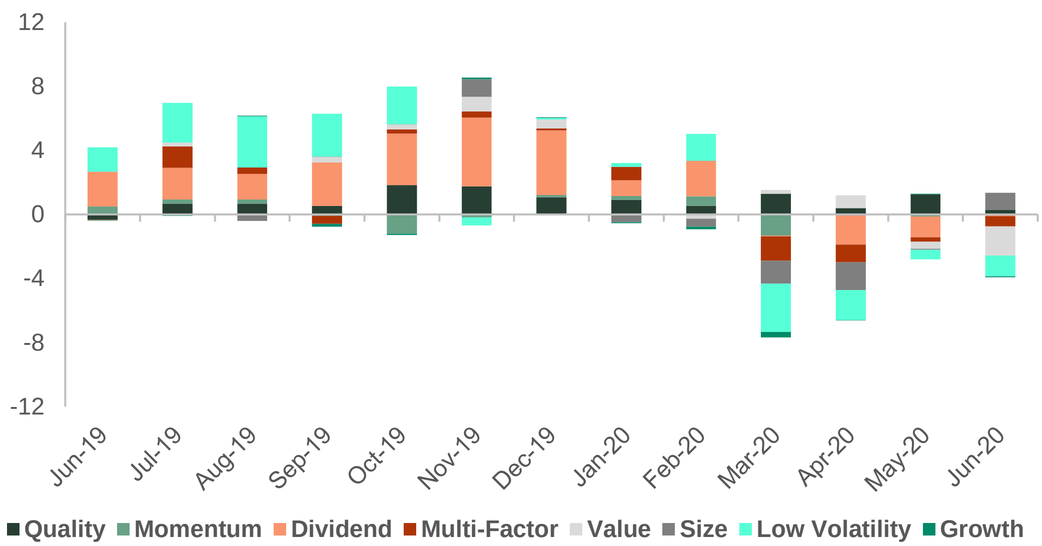
Top two and bottom two categories per period are highlighted**. Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Outflows in low volatility and dividend strategies have largely been performance based. Dividend funds have a value bias to them (and value has really underperformed this year and during the pandemic), and a sizable number of firms in those strategies have cut their dividends, which is a negative fundamental action that typically is not well-received by the market and leads to further losses for the stock.

Low-volatility strategies didn't significantly mitigate the downside in March, but they have significantly missed the upside. Multifactor funds have struggled a bit, as a group, given that most do have a size and value bias to them, and that has not worked well given that high-growth mega cap firms have pushed the broader S&P 500 return higher in 2020.

Figure 14

Smart Beta Flows by Type By Month
($ Billions)



Past performance is not a guarantee of future results. Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Staying Active While at Home

Active continues to be a force, taking in over $5 billion for the second consecutive month – pushing its year-to-date total to $20 billion.

The pace of ESG fund flows slowed a bit last month, only taking in less than 1% of its start-of-month assets. But overall, the trend is still moving north, and ESG funds have taken in more than 60% of their start-of-year assets

Figure 15

Strategy Flows

In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
Active	6,192	20,418	16,881	37,128	20.42%
Smart Beta	-2,856	-11,421	-10,413	26,693	-2.31%
Sector Smart Beta	38	-1,261	357	-798	-9.30%
ESG	345	14,456	6,470	19,017	66.4%

Top two and bottom two categories per period are highlighted**. Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Talking 'Bout My Generation

The inflection point in our global society from COVID-19 is likely to lead to an increasing need for innovative technologies that allow for more contactless interactions, advanced medicine, digital connectivity and intelligent infrastructure.

Some of those trends were in place before, and their trajectory will likely be amplified – with the potential for new industries/themes to emerge as behaviors evolve in a post-pandemic world. We discussed the potential for portfolios in our recent mid-year Outlook.

The depth of options available to investors to participate in some of these next-generation trends (NextGen Trends) has grown over time. And that's one of the reasons we developed a framework for classification as the first step in due diligence. As a result, we will now be reporting on the flow trends based on the subthemes of these NextGen trends and that category in aggregate.

The flows below show a strong preference for Broad Innovation, Cloud Computing, and Future Communication. None of this is surprising, given the societal sea change we are witnessing, and likely will to continue to witness for generations to come.

Overall, these NextGen trend-focused funds took in $3 billion in June, the most flows ever into this category of funds. Based upon how society is changing, that trend is likely not to be an aberration, but further reinforced by the fact that 75% of NextGen Trend funds outperformed the S&P 500 in June and 79% have outperformed by 79% over the past three months. The latter period also saw the average NextGen Trend fund outperform the S&P 500 by 12%.[15]

Figure 16

NextGen Trend Flows

In Millions ($)	June	Year to Date	Trailing 3 Mth	Trailing 12 Mth	Year to Date (% of AUM)
NextGen Trends	***3,015***	***8,531***	***6,906***	***9,499***	***32%***
Broad Innovation	1,284	2,671	2,146	2,697	52%
Clean Energy	21	721	94	1,278	11%
Cloud Computing	468	1,927	1,858	1,951	69%
Democratized Banking	70	180	140	239	28%
Final Frontiers	8	16	8	24	81%
Future Communication	545	1,475	1,110	1,616	108%
Future Security	123	427	321	525	16%
Human Evolution	189	691	574	988	37%
Intelligent Infrastructure	41	74	61	101	40%
New Consumer	108	257	279	237	38%
Robotics & AI	154	88	316	-162	3%
Smart Mobility	2	4	-1	6	5%

Top two and bottom two categories per period are highlighted**. Past performance is not a guarantee of future results.** Source: Bloomberg Finance L.P., State Street Global Advisors, as of June 30, 2020.

Definitions

Basis point: 1/100th of 1 percent

Dispersion: Difference between best and worst returning asset for a given period

S&P 500 Index: A stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States

MSCI ACWI-Ex US Index: MSCI ACWI-EX US is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world excluding the United States.

Bloomberg Barcalys US Corporate Bond Index: The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market.

Bloomberg Barcalys US Aggregate Bond Index: The Bloomberg Barclays US Aggregate Bond Index measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

Growth: Characterized by higher price levels relative to fundamentals, such as earnings.

Value: Characterized by lower price levels relative to fundamentals, such as earnings.

Smart Beta: A term for rules-based investment strategies that don't use conventional market-cap weightings.

ESG: An investing style focsued on enivornmental, social, and governance

TIPS: Treasury Inflation-Protected Securities (TIPS) are a form of U.S. Treasury bond designed to help investors protect against inflation. These bonds are indexed to inflation, have U.S. government backing, and pay investors a fixed interest rate as the bond's par value adjusts with the inflation rate.

Endnotes

1 Bloomberg Finance L.P. as of June 30, 2020, calculations by SPDR Americas Research. In 2020 we have already had 68 days, compared to a full year average of 60 days historically since 1980.

2 Yes, for those following at home these are the lyrics from the Phish song "Blaze On"

3 "Biden Takes Dominant Lead as Voters Reject Trump on Virus and Race", New York Times June 30, 2020

4 FactSet, as of June 30,2020

5 Rolling three month dispersion per Bloomberg Finance L.P. as of June 30, 2020 based on daily return data from 1998 to 2020

6 FactSet, as of June 30,2020

7 Bloomberg Finance L.P. as of June 30, 2020

8 Bloomberg Finance L.P. as of June 30, 2020 based on the Bloomberg Barclays US Corporate Bond Index

9 Bloomberg Finance L.P. as of June 30, 2020, calculations per SPDR Americas Research.

10 CBS 60 Minutes May 17, 2020

11 Bloomberg Finance L.P., as of 6/29/2020 https://www.federalreserve.gov/monetarypolicy/files/smccf-transition-specific-disclosures-6-28-20.xlsx The flow totals are based upon data through June 16, 2020 per the most recent report from the Federal Reserve, as a result they may not sum to the total values reported for the industry as of June 30, 2020.

12 Bloomberg Finance L.P., Federal Reserve as of June 30, 2020, calculations per SPDR Americas Research.

13 Bloomberg Finance L.P., Federal Reserve as of June 30, 2020, calculations per SPDR Americas Research.

14 Bloomberg Finance L.P., Federal Reserve as of June 30, 2020, calculations per SPDR Americas Research.

15 Bloomberg Finance L.P., Federal Reserve as of June 30, 2020, calculations per SPDR Americas Research.