

# State Street ETF Model Portfolios

- Global equity markets registered consecutive quarterly gains amid solid earnings, resilient economy, and favourable inflation data.
- Business activities, which had seen solid momentum in April and May, slowed down in June.
- Overall, global equities registered modest gains in the second quarter, up 0.5%.<sup>3</sup>

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## Economic Perspective

- Global growth remains moderate but steady, with broadening signs of a bottoming in manufacturing, improvement in Europe, and deceleration in the United States (US). China's economic growth stabilized but remained constrained, with weak consumer sentiment and ongoing challenges in the property sector. Business activities, which had seen solid momentum in April and May, slowed down in June. This was driven by weaker expansions of output in the eurozone and China, as well as a contraction in Japan.
- Inflation has been moderating unevenly, with services inflation staying elevated. Earlier in June, the Bank of Canada, the European Central Bank and Sveriges Riksbank cut their policy rates ahead of the US Federal Reserve (Fed). With that, 30 countries have lower policy rates in June.
- Political and geopolitical risks loomed large. Elections in Mexico, India, and the European Union, all brought surprising outcomes. As we gear up for US elections in November, investors are bound to grapple with rising volatility.
- Economic activity in Australia remained poor, with GDP growth in the March quarter falling short of expectations at 0.1% and the annual GDP growth reaching a 32-year low. While growth is slowing, inflation remained persistent. In May the monthly CPI inflation rate surged to 4.0% y/y, above expectations. As a result, Australian markets are now pricing a 40% chance of a rate increase in August. The Reserve Bank of Australia (RBA) kept the cash rate constant at 4.35% but dialled up their hawkishness in the statement. Finally, the labour market continued to cool. Job openings declined 2.7% q/q in the three months to May, an eight consecutive quarterly decline, and overall job postings are now 24% below the peak in 2022.

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## Asset Class Performance (in AUD)<sup>1</sup>

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### Equity

- **Equity markets** posted positive returns in Q2 2024, continuing the momentum of the first 3 months of the year. Equity markets got off to a rough start in the second quarter of 2024 as expectations for rate cuts either pushed back or revised completely. However, as quarter progressed, inflation data showed signs of improvement, which, in turn, boosted investor sentiment. Ongoing enthusiasm around artificial intelligence (AI) also drove related stocks. From a sector perspective, growth sectors like Information Technology and Communication Services were strong, but so were Utilities. Quality, Momentum, and Growth factors were strong in the second quarter, while small cap, high dividends, and value lagged.
- **International equities** advanced, up 0.3%,<sup>4</sup> with the **multi-factor** (minimum volatility, quality, and value) strategy returning -0.7%.<sup>5</sup> **Quality** outperformed, up 3.3%.<sup>7</sup> Both **Minimum volatility** and **Value** detracted, down 3.2%<sup>6</sup> and 2.8%,<sup>8</sup> respectively.
- **Australian equities** fell 1.1%<sup>9</sup> in Q2, underperforming its developed peers as increasing inflation led the market participants to shift their focus from anticipating rate cuts to evaluating the possibility of a rate hike in 2024. There was a broad dispersion of returns at the sector level. Utilities sector recorded the strongest gain, followed by financials. Energy, materials, and real estate were the worst performing sector, while industrials and telecommunication were also in the red for the quarter.
- **Emerging markets** outperformed developed markets, up 3.2%,<sup>10</sup> driven by the strength of Asian markets.

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### Fixed Income

- **Bond yields**, which move inversely from bond prices, increased during the second quarter.
- **Global bonds** were marginally lower during the second quarter, down 0.2%<sup>11</sup> driven largely by uncertainty around the Fed. Investors dialled back expectations of rate cuts as worries around the economy overheating drove investor concerns. **Global High Yield** bonds recorded modest gains, up 0.9%.<sup>13</sup>
- **Australian bonds** were down by 1.0%.<sup>12</sup> The Australian 10-year government bond yield rose from 3.97% at the end of Q1 to 4.31% at the end of June 2024.<sup>15</sup>
- **Cash** returns in the Australian money market were up 1.1%.<sup>14</sup>

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### Currency

- The **Australian dollar** appreciated against US Dollar, up 2.3%.<sup>2</sup>

Figure 1

**Major Asset Class Performance (%)**



Source: As of 28 June 2024, Bloomberg Finance L.P, MSCI. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance. Australian Equities = S&P/ASX 200 Total Return Index; International Equities = MSCI World Index (AUD) Net Total Return; Value, Quality & Low Volatility Equities = MSCI World Factor Mix A-Series (AUD) Net Return Index; Emerging Market Equities = FTSE Emerging Markets All Cap China A Inclusion Net Tax Index (AUD); Australian Bonds = Bloomberg AusBond Credit 0+ Yr Index; Global High Yield Bonds = S&P/ASX Australian Fixed Interest Total Return Index; Cash = S&P/ASX Bank Bill Total Return Index.

**Strategy Performance**

**State Street Risk-Based ETF Model Portfolios**

For the second quarter of 2024, the Australian equity allocation and the multi-factor international equity allocation were the major detractors to the risk-based portfolios' total return. The portfolio's allocation to domestic equities was the major detractor that negatively impacted performance. Stocks in the materials sector, which were affected by declining demand and unfavourable economic data from China, were the biggest detractors. Easing crude oil prices weighed on energy stocks, while sectors sensitive to interest rate changes, such as real estate, consumer discretionary, continued to struggle. The portfolios' multi-factor international exposure, SPDR MSCI World Quality Mix Fund (QMIX) also registered negative returns for the quarter, as both minimum volatility (-3.2%)<sup>8</sup> and value (-2.8%)<sup>6</sup> factors detracted. The emerging market equity exposure registered gains, supported by the strength of Asian markets. China's economy bounced back, increasing investor confidence in its resilience. Taiwan benefitted from developments in artificial intelligence.

On the fixed income side of the ledger, Australian government bond exposure had a negative contribution to the risk-based portfolios' total return. Domestic government bonds registered negative returns as treasury yields rose and underperformed corporate bonds.

**State Street Moderate ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 1.07%.**

**State Street Balanced ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 1.21%.**

**State Street Growth ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 1.39%.**

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The State Street Target Income ETF Model Portfolio is designed with an income objective that is determined on an annual basis. For the 2023/2024 financial year the portfolio aims to target, before expenses, an income objective of 4.5% per annum.

The portfolio's allocation to both Australia and International high dividend stock contributed negatively to the portfolio's total return. Within domestic equities cyclical stocks fell across the board, with the biggest losses coming among materials, following weakening demand, and disappointing economic data from China. Easing crude oil prices weighed on energy stocks, while sectors sensitive to interest rate changes, such as consumer discretionary, continued to struggle.

On the fixed income side of the ledger, government bonds was the major detractor, while credit (both investment grade and high yield) had a positive contribution to the overall performance. Both investment grade and higher yielding bonds outperformed government bonds as spreads in credit markets remain tight and government bond yields rose.

The income portion of the portfolio's total return for the quarter was positive 1.08%, supporting the portfolio's primary objective to generate income.

**Overall performance of the hypothetical model portfolio for the quarter was up 0.43%.**

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**Past performance is not an indicator of future performance.**

**Model Portfolio Performance presented above is hypothetical and has been provided for illustrative purposes only.**

State Street's model portfolios are accessed through a Platform or Managed Accounts provider ("Provider"). The actual results of accounts managed by the Provider that receives access to the models may differ substantially from the hypothetical results of a model for a variety of reasons including, but not limited to, the Provider's decision to exercise its discretion to implement a model in a way that differs from the information provided by State Street.

**The hypothetical State Street ETF Model Portfolio Total Returns** reflect the investment strategy decisions made by State Street's investment professionals for each performance period presented. Returns greater than one year are annualized. The performance was achieved by mathematically combining the actual performance data of the underlying ETFs multiplied by the model portfolio weights allocated to each ETF on a monthly basis. The performance assumes that all distributions paid by the underlying ETFs were reinvested but does not reflect trading fees, spreads or broker commissions for the hypothetical sale and purchase of the underlying ETFs or any other fees which would be charged by the product provider.

State Street has chosen to use the actual historic performance of the underlying ETFs rather than the underlying ETFs index performance to ensure that the model portfolios reflect, as closely as possible, any actual investments that follow the model portfolio strategy, by reflecting differences such as tracking error of the underlying ETFs relative to the underlying ETFs indices.

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## Endnotes

- 1 All returns as at 28th June 2024. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Past performance is not a reliable indicator of future performance.
- 2 Source: Bloomberg, AUD USD FX rate.
- 3 Source: MSCI All Country World Net Total Return AUD Index.
- 4 Source: MSCI World Net Total Return AUD Index.
- 5 Source: MSCI World Factor Mix A- Series (AUD) Pacific Net Total Return Index in AUD.
- 6 According to MSCI World Value Weighted Net Total Return Index in AUD.
- 7 Source: MSCI World Quality Net Total Return Index in AUD.
- 8 Source: MSCI World Minimum Volatility (AUD) Net Total Return Index.
- 9 Source: S&P/ASX 200 Total Return Index.
- 10 Source: FTSE Emerging Markets All Cap China A Inclusion Net Tax Index (AUD).
- 11 Source: Bloomberg Global Aggregate Total Return Hedged AUD Index.
- 12 Source: S&P/ASX Australian Fixed Interest - Total Return Index.
- 13 Source: Bloomberg Global High Yield Total Return Index Hedged AUD.
- 14 Source: Bloomberg AusBond Bank Bill Index.
- 15 Source: Bloomberg, Australia Govt Bond 10 Year Yield.
- 16 Source: Bloomberg, S&P/ASX 200 Total Return Index/ GICS Sector Performance.

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