Commentary
Model Portfolios

Q1 2024

For Financial Advisers/Wholesale Clients Only. Not for Distribution to Retail

State Street ETF Model Portfolios

- Global equity markets advanced during the first quarter of 2024, supported by resilient macroeconomic data and strong earnings.
- Global disinflation continued and broadened, as expected.
- Overall, global equities registered strong gains in the first quarter, up 13.0%[3].

Economic Perspective

- Economic activity improved across the globe, with both services and manufacturing sectors advancing during the first quarter of 2024. Data showed that the United States (US) economy was still growing steadily, while the European economy was rebounding from a downturn. Business activity in Japan also remained solid and conditions in China improved.

- Despite a modest growth in the first quarter, global disinflation continued and broadened, as we had been expecting. As a result, with very few exceptions (e.g., Japan, Taiwan, Turkey), the global monetary policy tide has already shifted towards careful easing. The Bank of Japan (BOJ) exited negative interest rates, which have been in place since 2016, as the bank looked to normalise its monetary policy. This was prompted by an improved economy, return of inflation, and improving wages.

- The Australian economy expanded by 0.2% in the final quarter of 2023 and annual growth slowed to 1.5%, well below the 3.0% average experienced since 2021. The monthly CPI inflation rate stayed steady at 3.4% y/y in February, unchanged for a third straight month. Food prices rose the least, which helped offset higher prices for clothing and housing. Labour market conditions had eased further, as slower output growth had resulted in slowing growth in labour demand. For the first time in two years, the Reserve Bank of Australia (RBA) did not discuss a rate hike at their last meeting, according to the March meeting minutes. The key risk to outlook is the RBA delaying rate cuts beyond when the economy truly needs them. It is important for the RBA to not delay cuts in 2024.

Asset Class Performance (in AUD)[1]

Equity

- **Equity markets** registered strong gains in Q1 2024. Equities witnessed a very strong start to the year as the 'everything rally' that began in October 2023 continued. The economy avoided recession and the Fed rate cuts got pushed to June, boosting optimism and investor confidence. Ongoing enthusiasm around Artificial Intelligence also boosted shares. Growth sectors such as information technology and communication services led the gains, followed by energy, financials, and industrials.
- **International equities** advanced, up 13.9%[4], with the **multi-factor** (minimum volatility, quality, and value) index returning 13.0%.[5] **Quality** outperformed, up 16.9%[7]. Both **Value** and **Minimum volatility** registered strong gains, up +13.0%[6] and 10.7%[8], respectively.
- **Australian equities** rose 5.3%[9], as easing inflation metrics strengthened the case for rate cuts later in the year. The technology sector was well ahead of the rest with a 24.4% gain, with real estate investment trusts being the next best performer at 16.8%[16]. Materials was the only sector in the red (-6.2%)[16] on the quarter.
- **Emerging markets** also advanced, up 6.7%[10] but trailed developed markets.

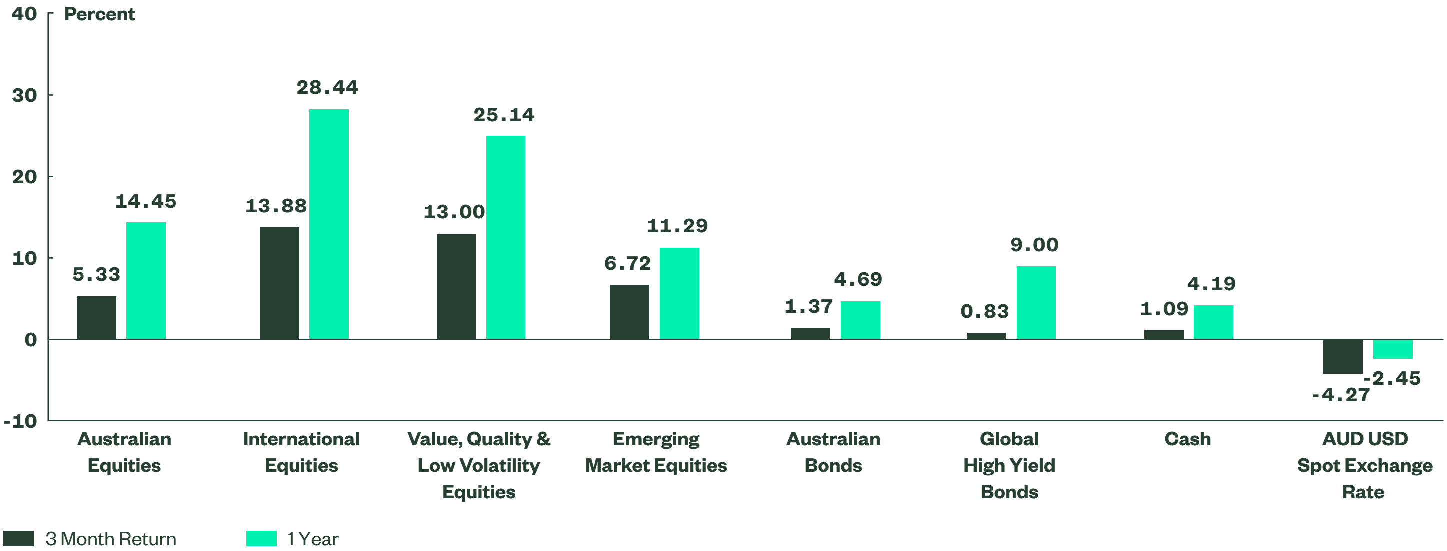
Fixed Income

- **Bond yields,** which move inversely from bond prices, increased during the first quarter.
- **Global bonds** were marginally lower during the first quarter, down 0.3%[11] as stickier inflation prints, strong economic data, and reduced rate cut expectations lifted yields slightly higher. **Global High Yield bonds** recorded modest gains, up 2.3%.[13]
- **Australian credit bonds** advanced, up 1.4%[12]. The Australian 10-year government bond yield was little changed from 3.96% at the end of Q4 to 3.97% at the end March 2024.[15]
- **Cash** returns in the Australian money market were up 1.1%.[14]

Currency

- The **Australian dollar** depreciated against US Dollar, down 4.3%.[2]

Figure 1
Major Asset Class Performance (%)



Source: As of 29 March 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.

Strategy Performance

State Street Risk-Based ETF Model Portfolios

For the first quarter of 2024, the multi-factor international equity allocation and the Australian equity allocation were the major contributors to the risk-based portfolios' total return. The portfolios' multi-factor international exposure, SPDR MSCI World Quality Mix Fund (QMIX) registered robust gains for the quarter, driven mainly by the quality factor (16.9%).[7] Positive macroeconomic data, strong earnings, and ongoing enthusiasm around Artificial Intelligence supported the rally. The Australian equities also contributed, but the performance was modestly hampered by metals and mining stocks. The emerging market equity exposure registered gains, however, underperformed developed markets significantly as investors remained concerned about China's growth prospects in the absence of any meaningful fiscal stimulus.

On the fixed income side of the ledger, both Australian government and corporate bond exposures contributed positively to the risk-based portfolios' total return. Domestic government bonds registered small gains as treasury yields remained flat, while corporate bonds outperformed as spreads tightened.

State Street Moderate ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 5.08%.

State Street Balanced ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 5.99%.

State Street Growth ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 6.91%.

State Street Target Income ETF Model Portfolio

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 Australian and International high dividend stock contributed positively to the portfolio's total return as majority income-oriented sectors posted strong gains. Consumer discretionary, financials, and energy were the major contributors, while domestic materials, notably iron ore, shares detracted. On the fixed income side of the ledger, government bonds, credit (both investment grade and high yield) returned positive, and all three bond components exposure contributed positively to the overall performance. Both investment grade and higher yielding bonds outperformed government bonds as spreads in credit markets remain tight and risk appetite increased.

The income portion of the portfolio's total return for the quarter was positive 1.06%, supporting the portfolio's primary objective to generate income.

Overall performance of the hypothetical model portfolio for the quarter was up 2.43%.

Model Portfolio Performance presented is hypothetical and has been provided for illustrative purposes only, it does not reflect the results of the actual trading of any account or group of accounts and actual results could differ substantially.

The hypothetical State Street ETF Model Portfolio Total Returns are the sum of Growth Return and Distribution Return and 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 hypothetical model portfolio performance was achieved by mathematically combining the actual performance data of the underlying ETFs multiplied by the hypothetical model portfolio weights allocated to each ETF on a monthly basis. The performance assumes that all dividend distributions paid by the underlying ETFs were reinvested and is calculated gross of trading fees but does not reflect 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 of 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.

Limitation of hypothetical results: Hypothetical results have inherent limitations because they do not reflect actual trading by State Street during the period described and may not reflect the impact that material economic and market factors might have had on State Street's decision-making if it was actually managing clients' money pursuant to the strategies. There is no guarantee that any of the investment strategies will be successful and investors should be aware that they can lose money investing assets in accordance with the strategies.

Endnotes

1 All returns as at 29th March 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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Information Classification: General Access

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Investing involves risk including the risk of loss of principal. Diversification does not ensure a profit or guarantee against loss. Asset Allocation is a method of diversification which positions assets among major investment categories. Asset Allocation may be used in an effort to manage risk and enhance returns. It does not, however, guarantee a profit or protect against loss.

An investment in the model portfolio carries a number of standard investment risks; these risks are outlined in each Provider's PDS which should be read in full and understood by the potential investors.

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- the Provider's decision to exercise its discretion to implement a given strategy in a way that differs from the information provided by State Street;
- the timing of the Provider's implementation of strategy updates; and
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