Commentary
Model Portfolios

Q4 2024

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State Street ETF Model Portfolios

- Despite a challenging fourth quarter, global equity markets registered gains in 2024, supported by resilient global economic conditions, earnings growth, AI-driven trades, and gradual easing of inflation pressures.
- For the quarter, global equities were marginally lower, down 0.89%,[18] in USD terms. However, the index in AUD was up 10.9%,[3] due to the depreciation of the Australian dollar, which boosted returns for unhedged investors.

Economic Perspective

- Global economic activity expanded further in the fourth quarter, closing 2024 on a high note with strong growth in the service sector offsetting manufacturing weakness. The United States (US) outperformed other regions, while much of the rest of the world, including Europe and China, continued to struggle. Inflation ticked higher in major developed economies, sitting above central bank targets, while unemployment rates remained at or near historical lows.

- It is our view that the global easing trend may remain steady, with interest rates expected to decline and settle by December 2025. We anticipate rates to end the year around, 3.75% in the United States, 2.25% in Canada, 3.5% in the United Kingdom, 3.6% in Australia, and 1% in the Eurozone. Japan remains an exception to this trend as its policy rate continues to normalize. Overall, 2025 is likely to offer considerable uncertainty, given a number of geopolitical concerns and stubborn inflation, global rates are expected to fall further albeit at a slower rate due.

- Domestic economic growth was softer than expected, with GDP expanding by just 0.3% in Q3. Annual growth also slipped a little from +1.0% year-on-year, to +0.8%. Business activity stagnated, with services sector expanding, while manufacturing sector conditions deteriorated. The headline inflation rate rose 2.3% in November, up from 2.1% in October, but stayed at the lower end of the Reserve Bank of Australia's (RBA) target range. Labour market conditions remained tight, with the unemployment rate declining further to 3.9% in November. As a result, the RBA left the cash rate unchanged in its December meeting but tempered its hawkish stance. We expect inflation to ease into the target amid persistent labour market strength, meaning the RBA could begin easing in February.

Asset Class Performance (in AUD)[1]

Equity

- **Equity markets** returned 10.9%[3] in Q4, primarily due to a weaker Australian dollar. From a sector perspective, the biggest gains came from consumer discretionary, communication services, and technology. The weakest sectors were materials and health care.
- **International equities** advanced, up 11.9%,[4] with the **multi-factor** (minimum volatility, quality, and value) strategy returning 8.1%.[5] All three factors **value, quality and minimum volatility** outperformed, up 9.4%[6], 8.6%,[7] and 7.9%,[8] respectively.
- **Australian equities** posted small negative returns, down 0.8%,[9] driven by commodity sectors and by currency losses. At the sector level, materials was the worst performer followed by REITs, offsetting the gains from financials. For the year 2024, domestic stocks delivered a solid performance, up 11.4%,[9] with information technology leading the gains with an impressive 50% return, followed by financials. Energy and materials were the major detractors as global economic slowdown led to a reduced demand for energy and raw materials.
- **Emerging markets** underperformed developed markets, up 4.9%,[10] amid concerns about the impact of Trump's proposed tariffs. Brazilian equities performed the worst, with the local currency weakening amid growing concerns over the country's fiscal outlook. Kuwait, Taiwan, the Czech Republic, and the UAE were the only four regions to show positive returns in USD terms.
- **Global small cap equities** posted a gain of 9.8%,[16] primarily due to a weaker Australian dollar.
- **Infrastructure** fell during the quarter, down 2.4%.[17]

Fixed Income

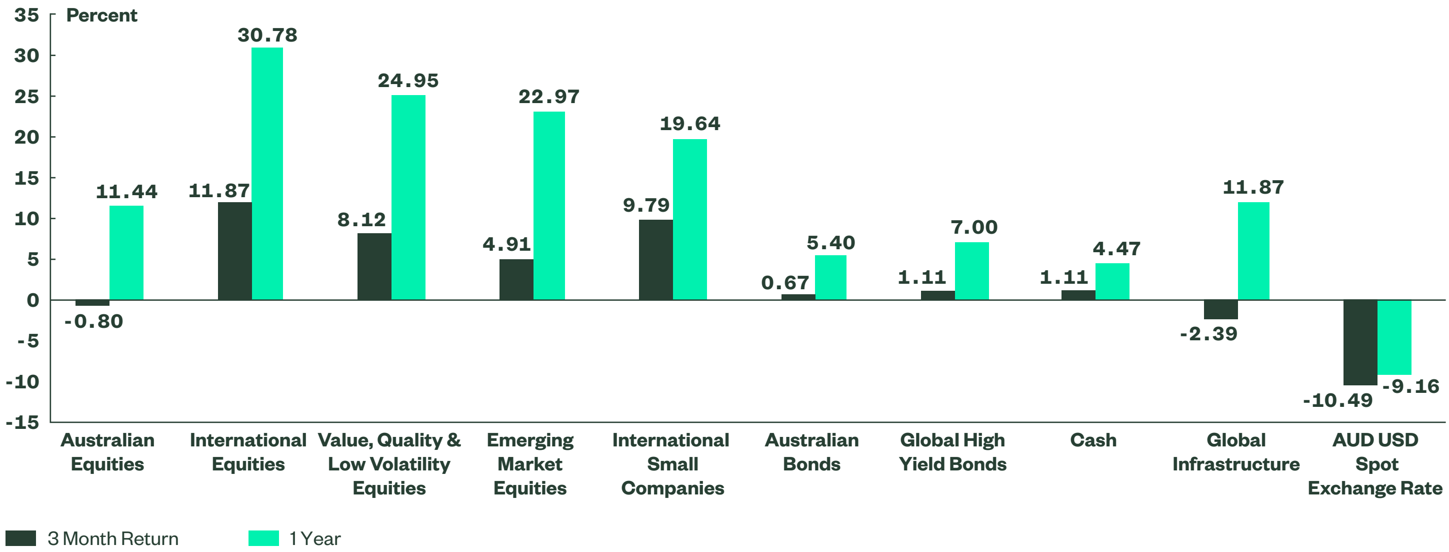
- **Bond yields,** which move inversely from bond prices, rose during the quarter. The Australian 10-year government bond yield rose from 3.97% at the end of Q3 to 4.36% at the end of Q4 2024.[15]
- **Global bonds** delivered negative performance in Q4, down 1.2%[11], aggregate bond yields rose 35bps to end the year at 3.68%. Geopolitical tensions, fluctuating inflation rates coupled with a more cautious rate-cutting stance from the Fed led to rising yields. **Global high yield bonds,** on the other hand, returned positive, up 0.9%.[13]
- **Australian credit bonds** returned positive, up 0.7%[12] as credit market spreads remained tight.
- **Cash** returns in the Australian money market were up 1.1%.[14]

Currency

- The **Australian dollar** depreciated against the US dollar, down 10.5%.[2]

Figure 1

Major Asset Class Performance (%)



Source: As of 31 December 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); International Small Companies = MSCI World ex-Australia Small Cap Index; Australian Bonds = Bloomberg AusBond Credit 0+ Yr Index; Global High Yield Bonds = Markit iBoxx Global Developed Markets Liquid High Yield Capped (AUD) TRI; Global Infrastructure = FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD; Cash = S&P/ASX Bank Bill Total Return Index.

Strategy Performance

State Street Risk-Based ETF Model Portfolios

For the fourth quarter of 2024, all international equity components contributed positively to the risk-based portfolios' total return.

The portfolio's allocation multi-factor international exposure, SPDR MSCI World Quality Mix Fund (QMIX), was the primary driver of total performance, with all three value, quality and minimum volatility factors rising. The FX impact (Aussie dollar depreciating over 10%) benefitted the portfolio. The emerging market equity exposure also contributed positively to the total returns. On the other hand, the portfolio's allocation to domestic equities detracted amid underperformance in commodity sectors. Real estate, a rate sensitive sector, also detracted as bond yields increased.

On the fixed income side of the ledger, Australian government bond exposure had a negative contribution to the risk-based portfolios' total return as yields rose significantly during the quarter. Corporate bonds, on the other hand, returned positive and outperformed government bonds as spreads narrowed.

Infrastructure exposure had a negative contribution to the risk-based portfolio's total return, primarily due to FX hedging.

State Street Moderate ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 2.02%.

State Street Balanced ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 2.38%.

State Street Growth ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 2.90%.

State Street High Growth ETF Model Portfolio overall performance of the hypothetical model portfolio for the quarter was up 3.32%.

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 2024/2025 financial year the portfolio aims to target, before expenses, an income objective of 4.25% per annum.

The portfolio's allocation to International high dividend stocks had a positive contribution to the portfolio's total return. Within international exposure, financials and utilities drove the performance. On the other hand, allocation to Australian high dividend stocks detracted due to large underperformance from commodity sectors amid reduced demand for energy and raw materials.

On the fixed income side of the ledger, government bonds exposure 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 domestic 10-year bond yield rose by nearly 40 bps in Q4.

The income portion of the portfolio's total return for the quarter was positive 1.99%, supporting the portfolio's primary objective to generate income.

Overall performance of the hypothetical model portfolio for the quarter was up 1.78%.

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.

Endnotes

1 All returns as at 31 December 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, MSCI World ex-Australia Small Cap Net TR AUD.

17 Source: Bloomberg, FTSE Developed Core Infrastructure 50/50 100% Hedged to AUD Net Tax Index.

18 Source: MSCI All Country World Net Total Return USD Index.

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