Sectors & Industries

SPOTTING TRENDS

With each ebb and flow in the market, trends emerge that present opportunities for investors — provided they have the necessary tools for action.

Because firms are closely aligned to specific economic variables and business cycles, sector-based strategies can help investors align portfolios with market events and seek to harness macro trends or shifts in fundamentals.

Heading into next quarter, we see three prevailing market trends and believe investors should consider tactically positioning with these SPDR® ETFs:

Improving Profitability on Regulatory Catalysts

KBE SPDR S&P Bank ETF

The Next Wave of Technology Innovation

XSD SPDR S&P Semiconductor ETF

Secular Growth at a Reasonable Price

XBI SPDR S&P Biotech ETF

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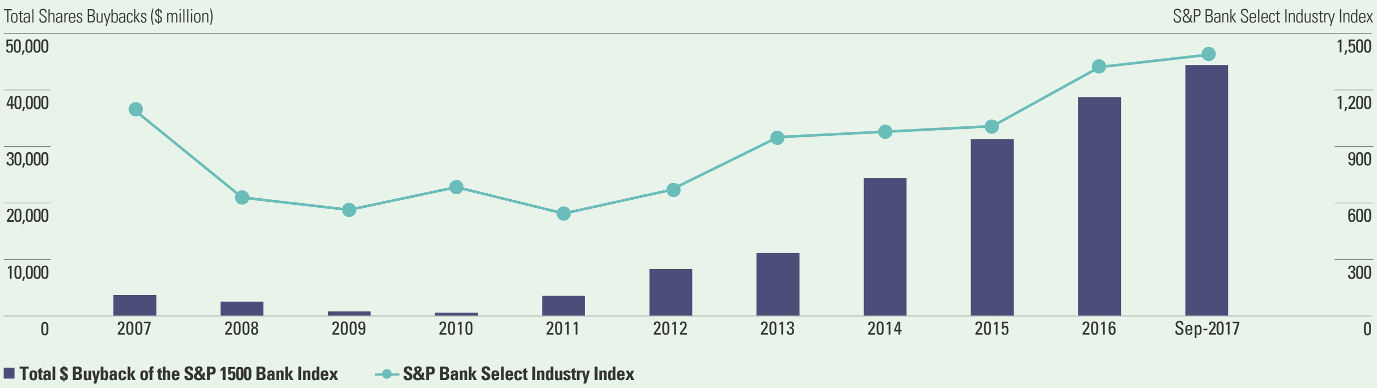
IMPROVING PROFITABILITY ON REGULATORY CATALYSTS

- Even with the yield curve flattening throughout 2017, as the Federal Reserve hiked rates three times, bank net interest margins have expanded each of the last five quarters, benefitting the industry's earnings growth.[1]
- Other tailwinds exist as well. Tax reform may positively impact bank profitability given bank's average 30 percent effective tax rate.[2] Also, a more relaxed regulatory environment at a time of improving balance sheet strength likely will lead to faster return of capital to shareholders, a recent positive trend impacting returns as shown in Figure 1.
- In addition to the potential for improving growth and shareholder returns, banks present a value opportunity; they are still trading below the 15-year median Price-to-Book valuation relative to the broad market — even with 2017's double-digit returns.[3]

To position for easing financial regulation and improving shareholder returns consider an allocation to Banks.

KBE SPDR S&P Bank ETF

Figure 1: Increasing Bank Shares Buybacks



Source: FactSet as of 09/30/2017.

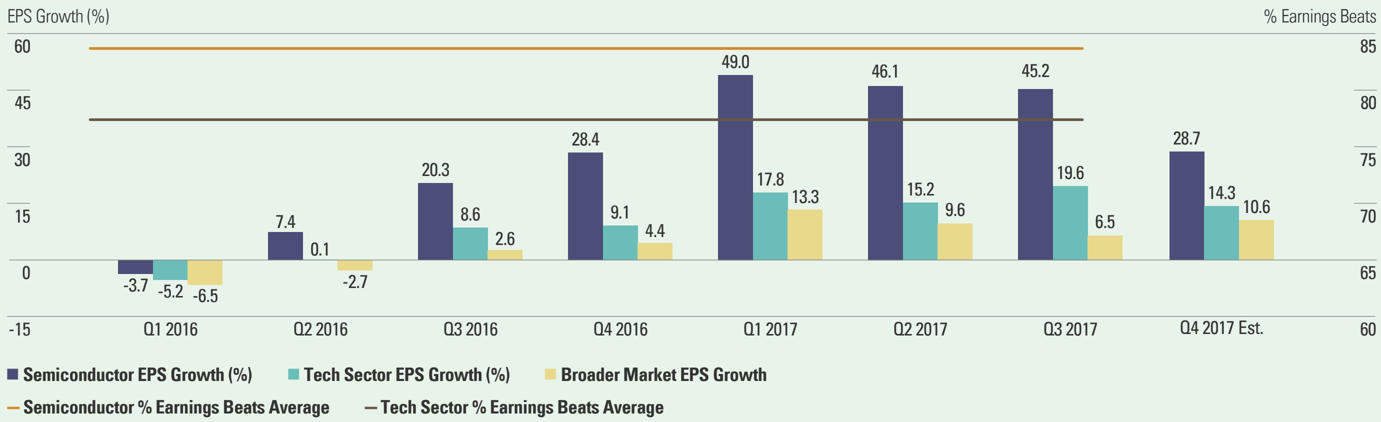
THE NEXT WAVE OF TECHNOLOGY INNOVATION

- Semiconductor firms have outpaced the broader tech sector and US equity market in terms of earnings growth and sentiment over the past two years. In addition to posting sizable growth, the number of semiconductor firms beating estimates is higher than the tech sector and the market average over the past seven quarters, as shown in Figure 2. If this continues, growth for Q4 is likely to be higher than currently estimated.
- From cloud computing to self-driving cars, innovations in technology will continue boosting the demand for semiconductor products, potentially fueling future growth. The industry may also stand to benefit from the global economic upswing, given its high foreign revenue exposure and the widespread global adoption of new technologies.
- Despite this year's strong gains, semiconductor valuations remain attractive relative to the broad market, trading at the bottom 10th percentile of forward price-to-earnings over the past ten years.[4]

To position for the next wave of technology innovation, consider an allocation to semiconductor firms.

XSD SPDR S&P Semiconductor ETF

Figure 2: Semiconductor Earnings Growth Outpaced the Tech Sector and Broader Markets



Source: FactSet, as of, 11/30/2017. S&P 1500 Semiconductor Sub-industry Index is used to represent the semiconductor industry.

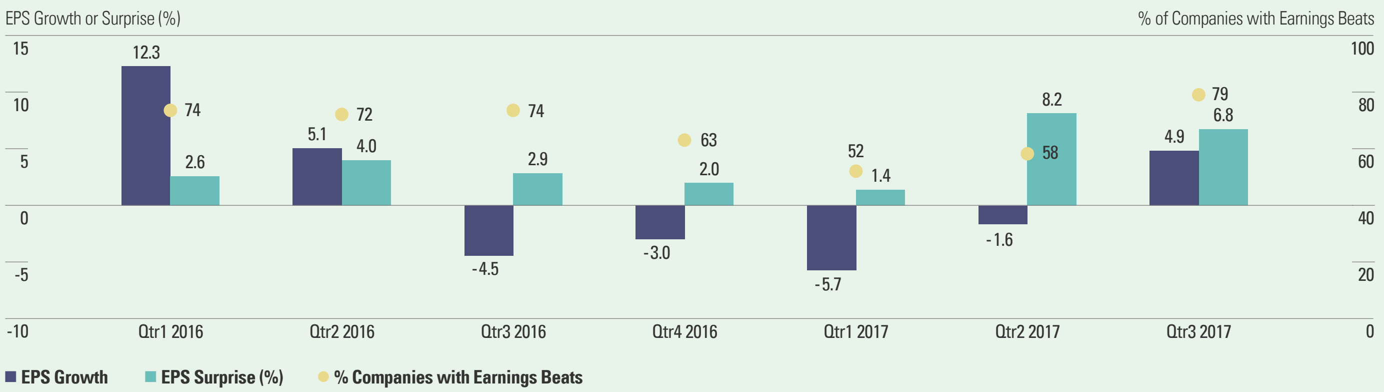
SECULAR GROWTH AT A REASONABLE PRICE

- Greenshoots are emerging for Biotech, as earnings growth rebounded in Q3 with more firms surprizing to the upside. In 2017, the FDA's approvals on novel drugs, which frequently provide important new therapies for patients, reached the second highest number in ten years. This strong product pipeline provides the industry with a potential source of future earnings growth.[5]
- Even with its strong performance in 2017, industry valuations still look attractive, trading more than 20% below the 15-year median based on historical and forward price-to-earnings ratios.[6] The potential tax repatriation holiday, together with attractive industry valuation and significant cash balances held overseas, might revive biotech M&A activities in 2018, potentially fueling future returns.
- The aging population continues to need more medical treatment and innovation. Biotech companies may benefit from this demographic shift and offer a strong secular growth opportunity for investors with higher risk tolerance.

To position for potential increasing M&A activities and secular growth at a reasonable price, consider an allocation to Biotech.

XBI SPDR S&P Biotech ETF

Figure 3: Biotech Earnings Recovery and Sentiment



Source: FactSet, as of 11/30/2017.

SPDR Suite Of Sectors & Industries

Sectors (Market Cap Weighted based off the S&P 500)

Fund Name		Sector	EXPENSE RATIO (%) Gross*	Net
XLY	Consumer Discretionary Select Sector SPDR Fund	Consumer Discretionary	0.14	0.14
XLP	Consumer Staples Select Sector SPDR Fund	Consumer Staples	0.14	0.14
XLE	Energy Select Sector SPDR Fund	Energy	0.14	0.14
XLF	Financial Select Sector SPDR Fund	Financial	0.14	0.14
XLV	Health Care Select Sector SPDR Fund	Health Care	0.14	0.14
XLI	Industrial Select Sector SPDR Fund	Industrials	0.14	0.14
XLB	Materials Select Sector SPDR Fund	Materials	0.14	0.14
XLRE	Real Estate Select Sector SPDR Fund	Real Estate	0.16	0.14**
XLK	Technology Select Sector SPDR Fund	Technology	0.14	0.14
XLU	Utilities Select Sector SPDR Fund	Utilities	0.14	0.14

Industries (Modified Equal Weighted based off the S&P Total Market Index)

Fund Name		Sector	EXPENSE RATIO (%) Gross*	Net
XHB	SPDR S&P Homebuilders ETF	Consumer Discretionary	0.35	0.35
XRT	SPDR S&P Retail ETF	Consumer Discretionary	0.35	0.35
XES	SPDR S&P Oil & Gas Equipment & Services ETF	Energy	0.35	0.35
XOP	SPDR S&P Oil & Gas Exploration & Production ETF	Energy	0.35	0.35
KBE	SPDR S&P Bank ETF	Financial	0.35	0.35
KCE	SPDR S&P Capital Markets ETF	Financial	0.35	0.35
KIE	SPDR S&P Insurance ETF	Financial	0.35	0.35
KRE	SPDR S&P Regional Banking ETF	Financial	0.35	0.35
XBI	SPDR S&P Biotech ETF	Health Care	0.35	0.35
XHE	SPDR S&P Health Care Equipment ETF	Health Care	0.35	0.35
XHS	SPDR S&P Health Care Services ETF	Health Care	0.35	0.35
XPH	SPDR S&P Pharmaceuticals ETF	Health Care	0.35	0.35
XAR	SPDR S&P Aerospace & Defense ETF	Industrials	0.35	0.35
XTN	SPDR S&P Transportation ETF	Industrials	0.35	0.35
XME	SPDR S&P Metals & Mining ETF	Materials	0.35	0.35
XWEB	SPDR S&P Internet ETF	Technology	0.35	0.35
XSD	SPDR S&P Semiconductor ETF	Technology	0.35	0.35
XSW	SPDR S&P Software & Services ETF	Technology	0.35	0.35
XTH	SPDR S&P Technology Hardware ETF	Technology	0.35	0.35
XTL	SPDR S&P Telecom ETF	Telecommunications	0.35	0.35

Industries (Modified Equal Weighted, Non-GICS Defined)

Fund Name		Sector	EXPENSE RATIO (%) Gross*	Net
XNTK	SPDR NYSE Technology ETF	Technology	0.35	0.35
XITK	SPDR FactSet Innovative Technology ETF	Technology	0.45	0.45

SPDR S&P Industry Funds Modified Equal Weighted Index Methodology

- The starting universe is the S&P Total Market Index — a broad measure of US equities with over 3,500 securities
- Each stock is initially equally weighted within an Industry index
- The stocks in the index are then re-weighted based on their three month average trading volume, however, no stock can have a weight greater than 4.5%
- This methodology provides the potential for unconcentrated industry exposure across large-, mid- and small-cap stocks
- Each index is rebalanced quarterly

Source: State Street Global Advisors 12/20/2017.

* The gross expense ratio is the fund's total annual operating expenses ratio. It is gross of any fee waivers or expense reimbursements. It can be found in the fund's most recent prospectus.

** The Net Expense Ratio is 0.14%. SSGA Funds Management, Inc. (the "Adviser") has contractually agreed to waive its advisory fee and reimburse certain expenses, until January 31, 2018, so that the annual Fund operating expenses of the Fund are limited to no more than 0.14% of the Fund's average daily net assets (exclusive of non-recurring account fees and extraordinary expenses). The Adviser may continue such waiver and/or reimbursement from year to year, but there is no guarantee that the Adviser will do so after January 31, 2018. The waiver and/or reimbursement may not be terminated prior to January 31, 2018 except with the approval of the Select Sector SPDR Trust's Board of Trustees.

Glossary

Price-to-Book, or P/B Ratio A valuation metric that compares a company's current share price against its book value, or the value of all its assets minus intangible assets and liabilities.

Price-to-Earnings Multiples, or P/E Ratio A valuation metric that uses the ratio of the company's current stock price versus its earnings per share.

S&P 500 Index A popular benchmark for U.S. large-cap equities that includes 500 companies from leading industries and captures approximately 80% coverage of available market capitalization.

S&P Banks Select Industry Index The S&P Banks Select Industry Index is a modified equal-weighted index that seeks to reflect the performance of publicly traded companies that do business as banks or thrifts.

[1] Source: Federal Reserve Bank of St. Louis, as of 9/30/2017.

[2] Bloomberg Finance L.P. as of 12/15/2017.

[3] Banks are represented by the S&P 1500 Banks Industry. The Broad market is represented by the S&P 1500. FactSet as of 11/30/2017.

[4] Source: FactSet, as of 11/30/2017.

[5] Source: FDA.gov, as of 12/18/2017.

[6] Source: FactSet, as of 11/30/2017.

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State Street Global Advisors One Lincoln Street, Boston, MA 02111-2900.

T: +1 866 787 2257.

Important Risk Information

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Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

Diversification does not ensure a profit or guarantee against loss.

Concentrated investments in a particular sector or industry tend to be more volatile than the overall market and increases risk that events negatively affecting such sectors or industries could reduce returns, potentially causing the value of the Fund's shares to decrease.

Passively managed funds invest by sampling the Index, holding a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the Index.

Select Sector SPDR Funds bear a higher level of risk than more broadly diversified funds. All ETFs are subject to risk, including the possible loss of principal. **Sector ETFs** products are also subject to sector risk and non-diversification risk, which generally results in greater price fluctuations than the overall market.

Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions.

Funds investing in a **single sector** may be subject to more volatility than funds investing in a diverse group of sectors.

Investing involves risk including the risk of loss of principal.

Non-diversified funds that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole.

While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of **market stress.**

Foreign (non-U.S.) Securities may be subject to greater political, economic, environmental, credit and information risks. Foreign securities may be subject to higher volatility than U.S. securities, due to varying degrees of regulation and limited liquidity

Growth stocks may underperform stocks in other broad style categories (and the stock market as a whole) over any period of time and may shift in and out of favor with investors generally, sometimes rapidly.

Companies with large market capitalizations go in and out of favor based on market and economic conditions. Larger companies tend to be less volatile than companies with smaller market capitalizations. In exchange for this potentially lower risk, the value of the security may not rise as much as companies with smaller market capitalizations.

Investments in small/mid-sized companies may involve greater risks than in those of larger, better known companies.

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