Lower the Cost of Your Core with SPDR® Fixed Income ETFs

When building a core fixed income allocation, many investors look to track the Bloomberg Barclays US Aggregate Bond Index (Agg). While indexing to the Agg provides an off-the-shelf solution for broad fixed income exposure, the tradeoff for this simplicity has been a historically low yield and elevated interest rate risk.

If you want to tailor your core based on risk constraints, return objectives or tax considerations, fixed income exchange traded funds (ETFs) can serve as low-cost building blocks.

If you invest in fixed income mutual funds or single-CUSIP bonds, you can reduce your total cost of ownership (TCO) with SPDR fixed income ETFs.

For instance, mutual funds’ median expense ratio is 0.66% compared to just 0.25% for US-listed fixed income ETFs. And actively managed fixed income ETFs have a median expense ratio of 0.41% versus 0.63% for actively managed fixed income mutual funds.

How Can ETFs Reduce Your Total Cost?

Figure 1
ETFs’ Expense Ratios Are Lower Than Mutual Funds’

Source: Morningstar, as of 08/31/2019.
However, the expense ratio is only one part of the TCO equation. Trading costs also need to be considered. And ETFs with high trading volumes tend to have tight bid-ask spreads that can reduce trading costs and lower your TCO. Investors who buy individual bonds should focus on the difference in trading costs for single-CUSIP bonds versus ETFs.

Source: For illustrative purposes only.
Choosing low-cost SPDR® Portfolio ETFs™ can help construct a customized and cost-effective core. With a median expense ratio of just 6 basis points, the SPDR Portfolio ETFs fixed income suite is 88% less expensive than similar mutual funds. And because the suite trades at an average bid-ask spread of just 2 cents, across multiple no-transaction fee platforms, you can control trading costs.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>SPDR Portfolio Fixed Income ETFs</th>
<th>Ticker</th>
<th>Expense Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Aggregate</td>
<td>SPDR Portfolio Aggregate Bond ETF</td>
<td>SPAB</td>
<td>0.04</td>
</tr>
<tr>
<td>Short Corporate</td>
<td>SPDR Portfolio Short Term Corporate Bond ETF</td>
<td>SPSB</td>
<td>0.07</td>
</tr>
<tr>
<td>Intermediate Corporate</td>
<td>SPDR Portfolio Intermediate Term Corporate Bond ETF</td>
<td>SPIB</td>
<td>0.07</td>
</tr>
<tr>
<td>Long Corporate</td>
<td>SPDR Portfolio Long Term Corporate Bond ETF</td>
<td>SPLB</td>
<td>0.07</td>
</tr>
<tr>
<td>Broad Corporate</td>
<td>SPDR Portfolio Corporate Bond ETF</td>
<td>SPBO</td>
<td>0.06</td>
</tr>
<tr>
<td>Short Government</td>
<td>SPDR Portfolio Short Term Treasury ETF</td>
<td>SPTS</td>
<td>0.06</td>
</tr>
<tr>
<td>Intermediate Government</td>
<td>SPDR Portfolio Intermediate Term Treasury ETF</td>
<td>SPTI</td>
<td>0.06</td>
</tr>
<tr>
<td>Long Government</td>
<td>SPDR Portfolio Long Term Treasury ETF</td>
<td>SPTL</td>
<td>0.06</td>
</tr>
<tr>
<td>Mortgages</td>
<td>SPDR Portfolio Mortgage Backed Bond ETF</td>
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</tr>
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<td>High Yield</td>
<td>SPDR Portfolio High Yield Bond ETF</td>
<td>SPHY</td>
<td>0.15</td>
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<tr>
<td>TIPS</td>
<td>SPDR Portfolio TIPS ETF</td>
<td>SPIP</td>
<td>0.12</td>
</tr>
</tbody>
</table>

Source: State Street Global Advisors, as of 09/23/2019.

Building a low-cost fixed income core with SPDR Portfolio ETFs™ also enables you to tailor portfolios. For example, to seek income and modulate credit risk, you might consider augmenting your core aggregate bond allocation with precise investment grade credit exposures across different maturity ranges or with a broad high yield exposure:

- SPSB: SPDR Portfolio Short Term Corporate Bond ETF
- SPIB: SPDR Portfolio Intermediate Term Corporate Bond ETF
- SPLB: SPDR Portfolio Long Term Corporate Bond ETF
- SPBO: SPDR Portfolio Corporate Bond ETF
- SPHY: SPDR Portfolio High Yield Bond ETF

Or you could adjust your fixed income core to mitigate the effects of inflation or either shorten or lengthen duration depending on your view of rate movements, without taking on additional credit risk:

- SPTS: SPDR Portfolio Short Term Treasury ETF
- SPTI: SPDR Portfolio Intermediate Term Treasury ETF
- SPTL: SPDR Portfolio Long Term Treasury ETF
- SPIP: SPDR Portfolio TIPS ETF
Endnotes

1 Morningstar, as of 08/31/2019.
2 Morningstar, as of 08/31/2019.
3 Morningstar, as of 08/31/2019.
4 Morningstar, as of 08/31/2019.

Important Disclosures

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Prior to 09/23/2019, the SPDR Portfolio Corporate Bond ETF (SPBO) was known as the SPDR Bloomberg Barclays Corporate Bond ETF (CSND), the SPDR Portfolio High Yield Bond ETF (SPHY) was known as the SPDR ICE BofAML Broad High Yield Bond ETF (CJNK), the SPDR Portfolio Intermediate Term Treasury ETF (SPTI) was known as the SPDR Bloomberg Barclays Intermediate Term Treasury ETF (ITE), the SPDR Portfolio Short Term High Yield ETF (SPTHY) was known as the SPDR Bloomberg Barclays Corporate Bond ETF (SPBO) was known as the SPDR Bloomberg Barclays Corporate Bond ETF (CSND), the SPDR Portfolio Corporate Bond ETF (SPHY) was known as the SPDR ICE BofAML Broad High Yield Bond ETF (CJNK), the SPDR Portfolio Intermediate Term Treasury ETF (SPTI) was known as the SPDR Bloomberg Barclays Intermediate Term Treasury ETF (ITE), the SPDR Portfolio Short Term High Yield ETF (SPTHY) was known as the SPDR Bloomberg Barclays Corporate Bond ETF (SPBO). The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA’s express written consent.

**Bonds** generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

**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.

**Index-based funds** hold 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.

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.

**ETFs** trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs’ net asset value. Brokerage commissions and ETF expenses will reduce returns.

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