Spotting Trends: Secular Sector Signals Beyond the Short-Term Election Noise

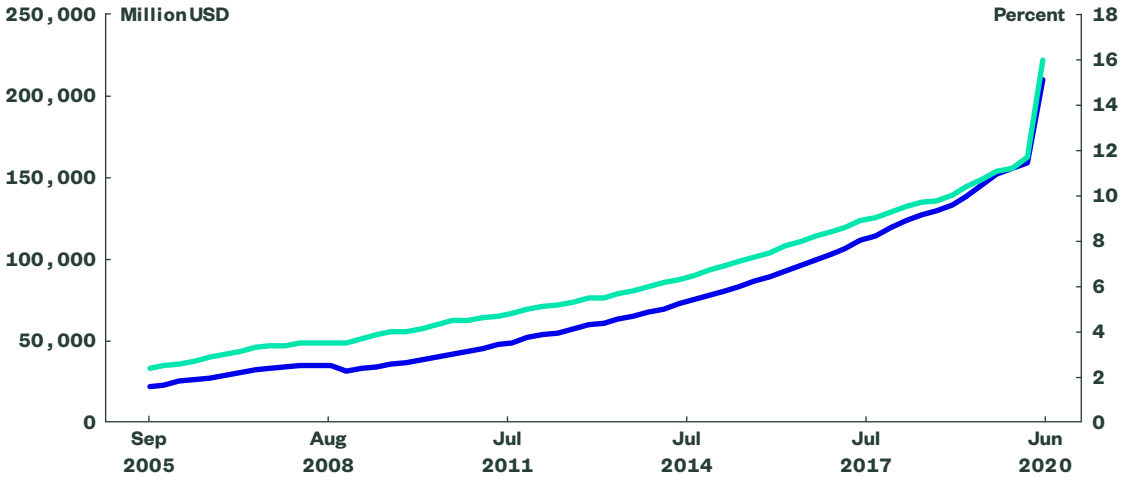
Although the world has slowly started to reopen, it's clear that the pandemic will have a long-lasting impact on how we live — resulting in systemic secular trends. However, over the course of the next few months, some of these trends may be subsumed by the macro risks emanating from the looming US Presidential election. In the near term, some sectors may benefit more than others from being perceived policy beneficiaries of the election outcome, regardless of how they correspond to the societal sea change we are witnessing.

Despite the current focus on more idiosyncratic election risks, the long-term butterfly effects of the Global COVID-19 Crisis are still prevalent and should be appreciated. Looking past the short-term noise, we see three sector opportunities for investors to consider in light of long-term systemic change.

The Re-boom of the Internet

In a physically-distanced world, we are relying more on the internet both to stay connected and to shop for necessities and discretionary items. In Q2, e-commerce sales increased by 44% year-over-year, nearly four times faster than the average growth over the past three years. The pandemic has accelerated the shift to online shopping by roughly five years, as e-commerce now represents 16% of total retail sales, compared to 11% last year, as shown in the chart below. The categories of what people purchase online have also expanded, from clothing and electronics to groceries, pet supplies and furniture.[1] These new consumer behaviors likely will remain post-pandemic, as e-commerce businesses have provided consumers with convenient and appealing shopping experiences.

Figure 1
The Surge of E-commerce



Source: US Census Bureau, as of 06/30/2020.

Meanwhile, people are spending more time on social media, boosting engagement on these platforms. According to a survey of US social media users in March, 29.7% of respondents spent 1–2 hours additional hours per day on social media. Another 20.5% spent 30 minutes to 1 hour more.[2] Advertising budgets and cost-per-click for paid ads are returning toward pre-pandemic levels,[3] with a shift from traditional to digital media.

With such a change in behaviors, internet retail and interactive media firms may stand to benefit. Although internet-related companies have outperformed the broad market by more than 40% year to date given these positive industry trends,[4] their valuations are still reasonable. The industry price-to-sales and forward price-to-earnings premium is below or around its 10-year median, presenting an attractive growth opportunity — as 3–5 year estimated EPS growth is 29.88%[5] — at a reasonable price.

Investors seeking to capitalize on the increasing use of the internet as our society becomes more digitally connected, may want to consider an allocation to SPDR® S&P® Internet ETF (XWEB), an exposure seeking to capture companies related to e-commerce, interactive media and internet infrastructure and services.

The Great Freight Transportation Evolution

While the COVID-19 pandemic has constrained people's movements, the demand for fast and contactless delivery of goods and products has surged on the back of soaring online purchases and the need for essential goods and medical supplies. The truck industry, however, has struggled to keep up with the demand. Issues ranging from a shortage of drivers and the difficulty of finding places where drivers can rest and get meals. It's estimated the industry's shortage of drivers could increase to 174,000 by 2026.[6]

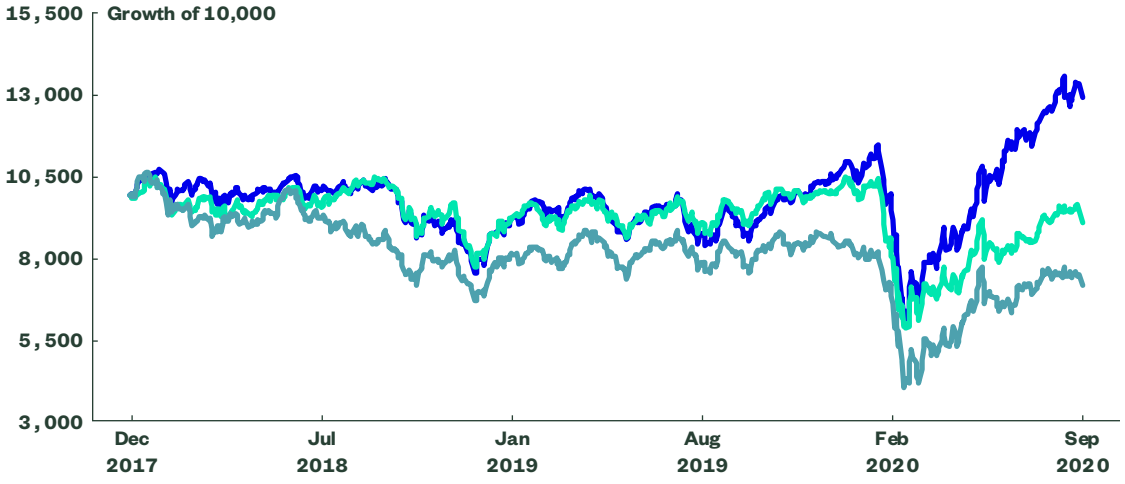
On the demand side, e-commerce customers expect more environmentally friendly, faster and cheaper delivery. Autonomous and electric trucks and last-mile delivery may provide efficient and cost-saving solutions to overcome the bottlenecks in the logistic and transportation industry and meet customers' evolving demands.

While autonomous passenger vehicles still have many technical and regulatory hurdles to overcome, electric and autonomous trucks and last-mile delivery are potentially low-hanging fruit for commercialization. The former are predominantly run on freeways that are less complicated to navigate; the latter operate in shorter distance. Recently, Amazon, following UPS and Google's Wing, received federal approval to operate its Prime Air delivery drones,[7] an important step toward autonomous drone delivery services.

The trucking industry moved more than 71% of all freight tonnage in the US and collected $797 billion of revenue in 2018,[8] presenting significant growth opportunities for companies developing autonomous driving and delivery technology. Year to date, the SPDR S&P Kensho Smart Mobility ETF (HAIL) has outperformed the traditional transportation and auto industry by more than 30% and by more than 10% on an annualized basis since its inception.[9]

Investors seeking a cost-effective tool to target long-term secular growth trends in the transportation and logistic industry may want to consider the SPDR S&P Kensho Smart Mobility ETF (HAIL), an exposure seeking to capture the entire ecosystem driving innovation in smart transportation.

Figure 2
Traditional vs. Smart Transportation Performance



Source: FactSet, as of 09/21/2020. Past performance is not a guarantee of future results.

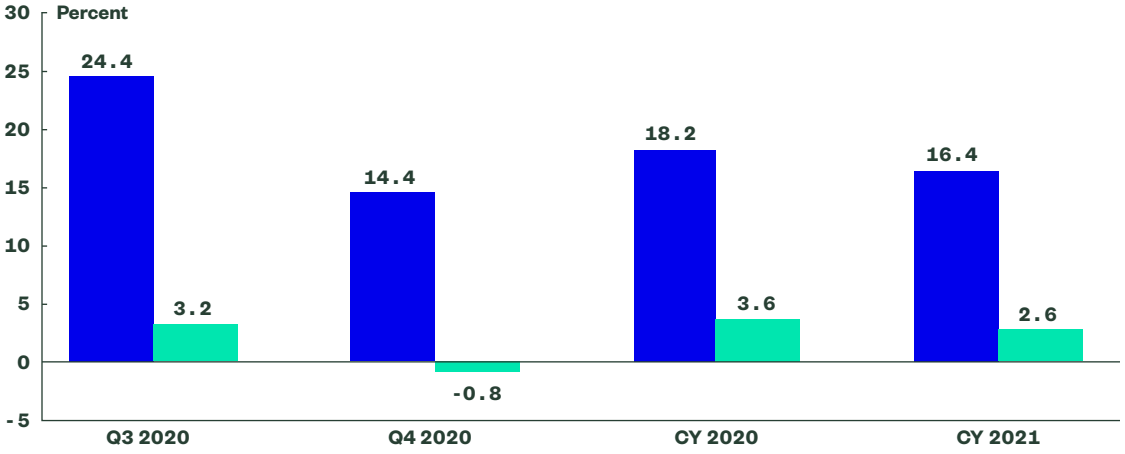
The V-shape Recovery in Housing Markets

With more time spent at home, the pandemic has increased the preference for home ownership. During the lockdown, the home became the primary location for work, dining, exercise and entertainment. As a result, the desire has increased for more or remodeled space to accommodate this new lifestyle.

Although experiencing a significant decline in early spring, housing market activities rebounded sharply in May and strengthened throughout the summer. Existing home sales rose for the third straight month in August to reach their highest level since 2006. Meanwhile, housing inventory is 18% below last year's level, driving monthly supply of houses to the lowest level since 2004.[10] This low level inventory combined with strong demand has kept homebuilders busy; new home sales were at the highest level since 2006. Sales expectations and foot traffic of prospective buyers have also hit record highs.[11] And, driven by low interest rates, in September mortgage applications to purchase homes jumped to the highest level since 2009 — and demand is likely to continue throughout the fall and into 2021.

Given the dynamics above, homebuilder earnings sentiment has staged a comeback. As shown in the chart below, growth estimates for this and next year were revised upward significantly, far outpacing revisions of the broader market.

Figure 3
Changes to Earnings Growth Estimates Since 06/30/2020



Source: FactSet, as of 09/23/2020

To position portfolios for a resurgence in housing, investors may want to consider the SPDR® S&P® Homebuilders ETF (XHB), as it provides broad coverage to the housing industry — ranging from homebuilders and building products to home improvement related areas.

To learn more about emerging sector investing opportunities, visit our dedicated **sectors webpage**.

Endnotes

1 The great consumer shift: Ten charts that show how US shopping behavior is changing, McKinsey & Company, August 4, 2020.

2 statista.com.

3 Social Media Trends Report, Q2 2020, Socialbakers.

4 Bloomberg Finance L.P., as of 9/28/2020. internet-related companies are represented by the S&P Internet Select Industry Index. The broad market is represented by the S&P 1500 Composite Index.

5 FactSet as of 09/24/2020.

6 American Trucking Association.

7 Amazon wins FAA approval for Prime Air drone delivery fleet, CNBC, August 31, 2020.

8 American Trucking Association, as of 09/25/2020.

9 FactSet, as of 9/21/2020. Past performance is not a reliable indicator of future performance.

10 U.S. Census Bureau and U.S. Department of Housing and Urban Development, as of September 25, 2020.

11 NAHB.org, as of September 16, 2020.

Figure 4
Standard Performance

Ticker	Name	YTD (%)	Annualized (%)					Inception Date	Gross Expense Ratio (%)
			1 Year	3 Years	5 Years	10 Years	Since Inception		
HAIL (NAV)	SPDR S&P Kensho Smart Mobility ETF	25.40	44.03	–	–	–	10.20	12/26/2017	0.45
HAIL (MKT)	SPDR S&P Kensho Smart Mobility ETF	25.47	44.07	–	–	–	10.12	–	–
XHB (NAV)	SPDR® S&P® Homebuilders ETF	19.17	23.48	11.72	10.47	14.08	1.98	01/31/2006	0.35
XHB (MKT)	SPDR® S&P® Homebuilders ETF	19.23	23.50	11.73	10.48	14.08	1.98	–	–

Source: ssga.com/etfs, as of 09/30/2020. **Performance quoted represents past performance, which is no guarantee of future results.** Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Current performance may be higher or lower than that quoted. Visit ssga.com/etfs for most recent month-end performance.

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Glossary

S&P Internet Select Industry Index
Represents the internet segment of the S&P Total Market Index ("S&P TMI"). The internet segment of the S&P TMI comprises the Internet and Direct Marketing Retail, Internet Services & Infrastructure and Interactive Media & Services sub-industry.

S&P Homebuilders Select Industry Index
Represents the homebuilders segment of the S&P Total Market Index ("S&P TMI"). The S&P TMI is designed to track the broad U.S. equity market. The homebuilders segment of the S&P TMI comprises the Homebuilding sub-industry.

S&P Transportation Select Industry Index (the "Index") Represents the transportation segment of the S&P Total Market Index ("S&P TMI"). The transportation segment of the S&P TMI comprises the following sub-industries: Air Freight & Logistics, Airlines, Airport Services, Highways & Rail Tracks, Marine, Marine Ports & Services, Railroads, and Trucking.

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