



# A SECTORAL GUIDE TO SURVIVING THE BUSINESS CYCLE

# Agenda

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- Quant Recap
- What is working
- Low vol
- Momentum
- Growth
- Quality
- Value
- Outlook

# Quant Recap

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- Mathematical models to help generate performance
- They don't always work, but they usually do
- This is an implicit assumption about non-reversion

## No. 1 Question

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Are you selling insurance to the rest of the  
market?

# Quant Recap

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- **Momentum:** no mean reversion
- **Low Vol:** no mean reversion
- **Growth:** no mean reversion
- **Quality:** no mean reversion
- **Value:** mean reversion

# Factors: This year has been volatile

## S&P 500 Cap weighted return spreads

Style	Factor	MTD ▼	Feb 23	Jan 23	Dec 22	Nov 22	Oct 22
EQ	Earnings Quality	6.39	0.23	0.98	(3.68)	(2.34)	(6.81)
CE	Capital Efficiency	5.11	2.94	1.41	(3.88)	(1.01)	(4.59)
PM	Price Momentum	1.23	(2.31)	(4.26)	(0.34)	(1.89)	(0.75)
AE	Analyst Expectations	0.22	0.56	(5.88)	(0.40)	(1.10)	(1.02)
Vol	Volatility	(0.52)	4.39	20.28	(9.10)	(1.04)	(8.07)
HG	Historical Growth	(3.08)	1.34	(2.32)	(2.63)	(1.98)	(1.46)
Sz	Size	(3.52)	(1.57)	3.74	2.11	2.13	(2.18)
Val	Valuation	(4.94)	(2.06)	(5.10)	2.94	4.62	8.91

Source: Capital IQ

# Factors: Longer term look at returns

## S&P 500 Cap weighted return spreads

Style	Factor	YTD ▼	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Vol	Volatility	24.92	(35.29)	18.10	7.43	12.98	(5.59)	(2.68)	10.37	(9.09)	(10.51)	1.15
CE	Capital Efficiency	9.72	(12.42)	12.64	7.10	(2.83)	4.74	9.01	(2.48)	0.28	0.82	(5.74)
EQ	Earnings Quality	7.69	(19.87)	9.39	11.62	4.71	13.12	0.81	(2.49)	1.08	1.45	(6.67)
Sz	Size	(1.49)	4.16	0.30	(5.73)	0.35	(3.80)	(5.45)	3.25	(4.69)	1.45	1.79
HG	Historical Growth	(4.06)	(11.47)	13.53	8.92	(0.61)	(1.84)	3.53	(8.02)	(0.79)	(4.89)	(5.33)
AE	Analyst Expectations	(5.15)	(12.12)	9.42	11.21	1.69	7.72	13.49	(8.09)	16.98	4.94	1.53
PM	Price Momentum	(5.32)	4.29	(0.07)	(0.88)	(0.47)	9.77	13.83	0.94	23.02	(1.10)	6.71
Val	Valuation	(11.64)	31.86	3.34	(26.50)	2.49	(8.01)	(2.98)	11.11	(17.42)	4.00	(0.19)

Source: Capital IQ

# Quant Recap

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- Return disaggregation
- Overfitting
- Self serving bias
- Beware reversals
- Danger sectors: Resources, Utilities, Financials
- Manufacturing vs Services



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# Min Volatility

## CUMULATIVE INDEX PERFORMANCE – GROSS RETURNS (USD) (FEB 2008 – FEB 2023)



## ANNUAL PERFORMANCE (%)

Year	MSCI World Minimum Vol (USD)	MSCI World
2022	-9.28	-17.73
2021	14.84	22.35
2020	3.26	16.50
2019	23.97	28.40
2018	-1.42	-8.20
2017	18.04	23.07
2016	8.18	8.15
2015	5.82	-0.32
2014	12.06	5.50
2013	19.41	27.37
2012	8.87	16.54
2011	8.04	-5.02
2010	12.76	12.34
2009	17.18	30.79

## INDEX PERFORMANCE – GROSS RETURNS (%) (FEB 28, 2023)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			
					3 Yr	5 Yr	10 Yr	Since May 31, 1988
MSCI World Minimum Vol (USD)	-3.54	-3.66	-3.99	-1.72	4.06	5.48	8.08	8.31
MSCI World	-2.37	0.17	-6.86	4.57	10.43	7.43	9.36	7.72

## FUNDAMENTALS (FEB 28, 2023)

Div Yld (%)	P/E	P/E Fwd	P/BV
2.64	18.23	16.42	2.90
2.15	18.23	15.91	2.77

# Min Volatility: Is the tail wagging the dog?

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- Interest Rates
- Share price vs underlying earnings
- Size
- Diversification
- Trading

# Momentum

## CUMULATIVE INDEX PERFORMANCE – GROSS RETURNS (USD) (FEB 2008 – FEB 2023)



## ANNUAL PERFORMANCE (%)

Year	MSCI World Momentum	MSCI World
2022	-17.34	-17.73
2021	14.95	22.35
2020	28.70	16.50
2019	28.26	28.40
2018	-2.38	-8.20
2017	32.59	23.07
2016	4.75	8.15
2015	4.54	-0.32
2014	7.03	5.50
2013	30.28	27.37
2012	14.79	16.54
2011	4.79	-5.02
2010	16.54	12.34
2009	14.76	30.79

## INDEX PERFORMANCE – GROSS RETURNS (%) (FEB 28, 2023)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			
					3 Yr	5 Yr	10 Yr	Since Jun 30, 1994
<b>MSCI World Momentum</b>	-3.18	-4.46	-10.41	-2.11	7.89	7.10	11.11	10.49
<b>MSCI World</b>	-2.37	0.17	-6.86	4.57	10.43	7.43	9.36	7.69

## FUNDAMENTALS (FEB 28, 2023)

Div Yld (%)	P/E	P/E Fwd	P/BV
2.53	13.34	12.30	2.51
2.15	18.23	15.91	2.77

# Momentum: Traders delight

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- High turnover strategy
- Lots of little wins, some big losses
- What is it telling you
- Tax situation

# Value

## CUMULATIVE INDEX PERFORMANCE – GROSS RETURNS (USD) (FEB 2008 – FEB 2023)



## ANNUAL PERFORMANCE (%)

Year	MSCI World Value Weighted	MSCI World
2022	-8.53	-17.73
2021	24.08	22.35
2020	5.14	16.50
2019	24.82	28.40
2018	-11.43	-8.20
2017	22.11	23.07
2016	12.15	8.15
2015	-3.54	-0.32
2014	2.93	5.50
2013	28.63	27.37
2012	17.09	16.54
2011	-8.20	-5.02
2010	11.86	12.34
2009	35.06	30.79

## INDEX PERFORMANCE – GROSS RETURNS (%) (FEB 28, 2023)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			
					3 Yr	5 Yr	10 Yr	Since Jun 30, 1994
MSCI World Value Weighted	-2.33	2.12	-1.66	5.07	12.47	6.68	8.70	8.21
MSCI World	-2.37	0.17	-6.86	4.57	10.43	7.43	9.36	7.69

## FUNDAMENTALS (FEB 28, 2023)

Div Yld (%)	P/E	P/E Fwd	P/BV
3.01	13.19	11.98	1.57
2.15	18.23	15.91	2.77

# Value: MSCI value may be different to what you think value is

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- Reliance on Book Value
- No cashflow measures
- Different accounting standards
- Forward Earnings

# Value: MSCI value may be different to what you think value is

## S&P 500 Cap weighted return spreads

Factor	YTD ▼	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
FCF / Price	(0.35)	23.36	10.09	(2.45)	4.92	(0.74)	17.31	(5.48)	4.46	11.37	1.05
Book to Price	(8.46)	23.99	4.74	(32.22)	(6.86)	(17.34)	(9.42)	17.72	(18.80)	(0.44)	3.41
EBITDA / EV	(10.23)	41.81	8.38	(37.88)	(0.81)	(16.15)	0.92	15.01	(15.68)	(0.11)	(0.16)
E / P	(10.68)	31.58	7.70	(34.14)	7.98	(7.47)	3.60	11.04	(14.58)	(3.02)	(4.48)
Sales / EV	(10.88)	40.67	4.79	(19.42)	(10.60)	(6.46)	1.00	3.91	(10.53)	(0.78)	7.43
Valuation	(11.64)	31.86	3.34	(26.50)	2.49	(8.01)	(2.98)	11.11	(17.42)	4.00	(0.19)
Div / Price	(14.25)	66.60	9.08	(33.65)	(3.64)	(12.27)	(17.63)	23.39	(14.11)	2.49	(13.51)

Source: Capital IQ



# Value: Superficial Value is not Value

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- It is a tool – not a religion
- Needs to change with accounting standards
- Value is always a trade-off
- Value is a bet on mean reversion

# Growth

## CUMULATIVE INDEX PERFORMANCE – GROSS RETURNS (USD) (FEB 2008 – FEB 2023)



## ANNUAL PERFORMANCE (%)

Year	MSCI World Growth	MSCI World
2022	-29.05	-17.73
2021	21.40	22.35
2020	34.18	16.50
2019	34.14	28.40
2018	-6.42	-8.20
2017	28.49	23.07
2016	3.21	8.15
2015	3.50	-0.32
2014	6.55	5.50
2013	27.20	27.37
2012	16.63	16.54
2011	-5.14	-5.02
2010	14.89	12.34
2009	33.85	30.79

## INDEX PERFORMANCE – GROSS RETURNS (%) (FEB 28, 2023)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			
					3 Yr	5 Yr	10 Yr	Since Dec 31, 1974
<b>MSCI World Growth</b>	-1.85	1.10	-12.73	7.67	9.71	8.71	10.71	9.84
<b>MSCI World</b>	-2.37	0.17	-6.86	4.57	10.43	7.43	9.36	10.64

## FUNDAMENTALS (FEB 28, 2023)

Div Yld (%)	P/E	P/E Fwd	P/BV
1.01	28.62	22.92	5.56
2.15	18.23	15.91	2.77

## Value: MSCI growth may be different to what you think it is

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- Reliance on Analyst Long Term Growth (70%)
- No cashflow measures

## CUMULATIVE INDEX PERFORMANCE – GROSS RETURNS (USD) (FEB 2008 – FEB 2023)



## ANNUAL PERFORMANCE (%)

Year	MSCI World Quality	MSCI World
2022	-21.90	-17.73
2021	26.10	22.35
2020	22.73	16.50
2019	36.70	28.40
2018	-5.06	-8.20
2017	26.64	23.07
2016	5.12	8.15
2015	4.25	-0.32
2014	9.01	5.50
2013	27.74	27.37
2012	13.66	16.54
2011	4.43	-5.02
2010	11.36	12.34
2009	33.49	30.79

## INDEX PERFORMANCE – GROSS RETURNS (%) (FEB 28, 2023)

	1 Mo	3 Mo	1 Yr	YTD	ANNUALIZED			
					3 Yr	5 Yr	10 Yr	Since Jun 30, 1994
MSCI World Quality	-2.52	-0.99	-8.67	3.51	10.46	9.79	11.53	10.95
MSCI World	-2.37	0.17	-6.86	4.57	10.43	7.43	9.36	7.69

## FUNDAMENTALS (FEB 28, 2023)

Div Yld (%)	P/E	P/E Fwd	P/BV
1.85	18.61	19.18	6.29
2.15	18.23	15.91	2.77

# Value: MSCI quality may be different to what you think it is

## IBM ROE 2006 - 2016



## IBM ROE 2016 - 2018



The Quality score for each security is calculated by combining Z-Scores of three winsorized fundamental variables, namely Return on Equity, Debt to Equity and Earnings Variability

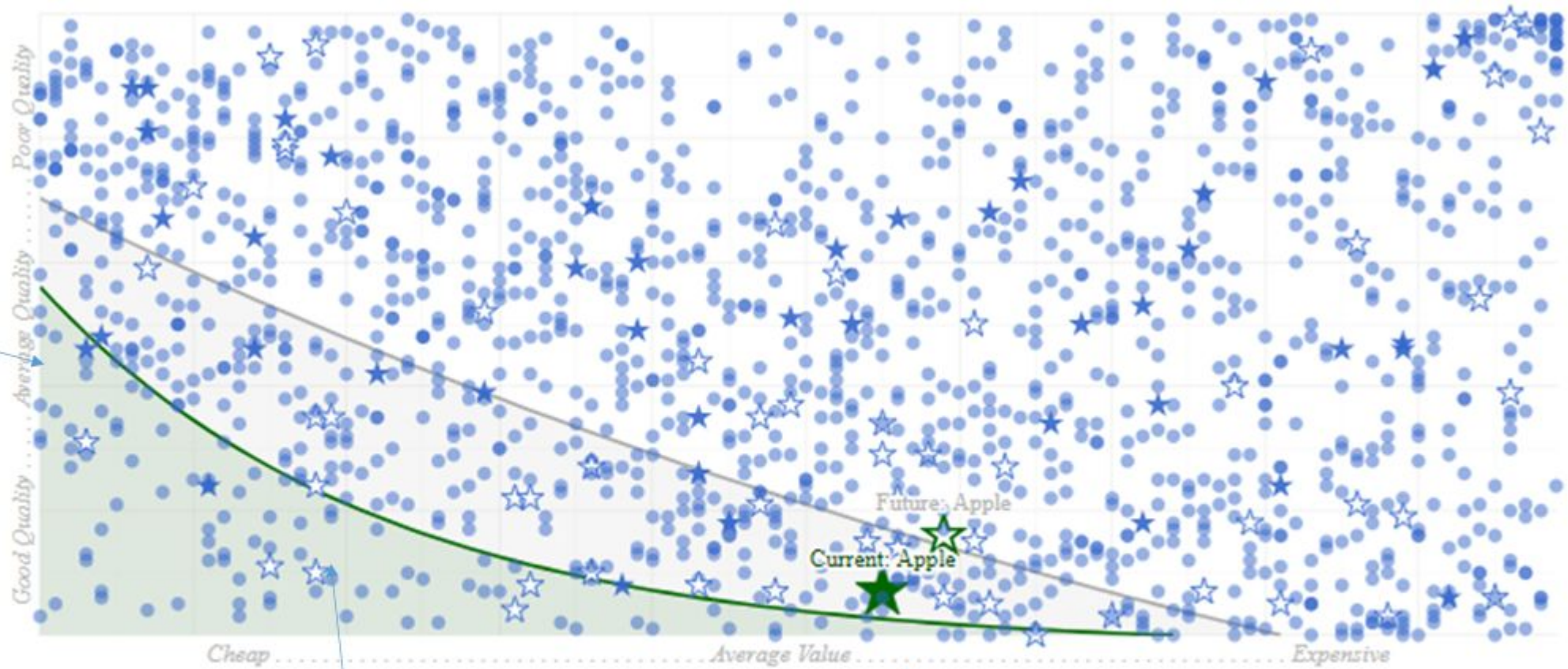
# Quality: Superficial Quality is not Quality

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- Definition of earnings really (really) important
- Definition of equity really important
- Needs more than 3 factors

# Quality vs Value

Some exposure to average quality stocks that are very cheap



Most exposure to stocks with both quality and value

Some exposure to more expensive stocks that are very high quality

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# Stocks

## Value

	Float Adj Mkt Cap ( USD Billions)	Index Wt. (%)	Sector
EXXON MOBIL CORP	458.06	1.74	Energy
UNITEDHEALTH GROUP	445.19	1.69	Health Care
JPMORGAN CHASE & CO	420.38	1.60	Financials
JOHNSON & JOHNSON	402.95	1.53	Health Care
BERKSHIRE HATHAWAY B	397.08	1.51	Financials
PROCTER & GAMBLE CO	328.15	1.25	Cons Staples
CHEVRON CORP	298.96	1.14	Energy
ABBVIE	272.11	1.03	Health Care
MERCK & CO	269.14	1.02	Health Care
BANK OF AMERICA CORP	248.05	0.94	Financials

## Growth

	Country	Float Adj Mkt Cap ( USD Billions)	Index Wt. (%)	Sector
APPLE	US	2,368.99	9.21	Info Tech
MICROSOFT CORP	US	1,767.14	6.87	Info Tech
AMAZON.COM	US	863.98	3.36	Cons Discr
NVIDIA	US	578.08	2.25	Info Tech
TESLA	US	547.90	2.13	Cons Discr
ALPHABET A	US	540.00	2.10	Comm Svcs
ALPHABET C	US	500.87	1.95	Comm Svcs
META PLATFORMS A	US	398.98	1.55	Comm Svcs
VISA A	US	359.61	1.40	Info Tech
NESTLE	CH	311.25	1.21	Cons Staples

# Stocks

## Quality

	Index Wt. (%)	Parent Index Wt. (%)	Sector
MICROSOFT CORP	5.10	3.40	Info Tech
APPLE	4.81	4.55	Info Tech
NVIDIA	3.63	1.11	Info Tech
HOME DEPOT	2.95	0.58	Cons Discr
VISA A	2.77	0.69	Info Tech
META PLATFORMS A	2.62	0.77	Comm Svcs
JOHNSON & JOHNSON	2.51	0.77	Health Care
UNITEDHEALTH GROUP	2.47	0.86	Health Care
ALPHABET A	2.36	1.04	Comm Svcs
ALPHABET C	2.19	0.96	Comm Svcs

## Momentum

	Country	Index Wt. (%)	Parent Index Wt. (%)	Sector
EXXON MOBIL CORP	US	5.06	0.88	Energy
UNITEDHEALTH GROUP	US	3.37	0.86	Health Care
CHEVRON CORP	US	3.10	0.57	Energy
LILLY (ELI) & COMPANY	US	2.78	0.48	Health Care
MERCK & CO	US	2.27	0.52	Health Care
SHELL	GB	2.03	0.43	Energy
ABBVIE	US	1.99	0.52	Health Care
NOVO NORDISK B	DK	1.70	0.45	Health Care
PEPSICO	US	1.64	0.46	Cons Staples
CONOCOPHILLIPS	US	1.50	0.25	Energy

# Stocks

Min Vol

	Country	Index Wt. (%)	Parent Index Wt. (%)	Sector
MERCK & CO	US	1.52	0.52	Health Care
PEPSICO	US	1.46	0.46	Cons Staples
WASTE MANAGEMENT	US	1.42	0.12	Industrials
NESTLE	CH	1.38	0.60	Cons Staples
GILEAD SCIENCES	US	1.33	0.19	Health Care
JOHNSON & JOHNSON	US	1.33	0.77	Health Care
ROCHE HOLDING GENUSS	CH	1.24	0.39	Health Care
DEUTSCHE TELEKOM	DE	1.22	0.14	Comm Svcs
VERIZON COMMUNICATIONS	US	1.21	0.31	Comm Svcs
MOTOROLA SOLUTIONS	US	1.20	0.08	Info Tech

ESG

	Index Wt. (%)	Parent Index Wt. (%)	Sector
MICROSOFT CORP	6.78	3.40	Info Tech
NVIDIA	2.22	1.11	Info Tech
TESLA	2.10	1.05	Cons Discr
ALPHABET A	2.07	1.04	Comm Svcs
ALPHABET C	1.92	0.96	Comm Svcs
JOHNSON & JOHNSON	1.55	0.77	Health Care
VISA A	1.38	0.69	Info Tech
PROCTER & GAMBLE CO	1.26	0.63	Cons Staples
MASTERCARD A	1.18	0.59	Info Tech
HOMF DEPOT	1.16	0.58	Cons Discr

# Sectors (via Fidelity)

## Historical Performance of Sectors across the business cycle

Sector	Early Rebounds	Mid Peaks	Late Moderates	Recession Contracts
Financials	+			--
Real Estate	++	-	+	--
Consumer Discretionary	++		--	+
Technology	+	+	-	--
Industrials	++			--
Materials	+	--		
Consumer Staples		-	+	++
Health Care	--			++
Energy	--		++	
Communication Services		+		-
Utilities	--	-	+	++

Economically sensitive sectors may tend to outperform, while more defensive sectors have tended to underperform.

Making marginal portfolio allocation changes to manage drawdown risk with sectors may enhance risk-adjusted returns during this cycle.

Defensive and inflation-resistant sectors tend to perform better, while more cyclical sectors underperform.

Since performance is generally negative in recessions, investors should focus on the most defensive, historically stable sectors.

# Outlook

Factor	MTD ▼	Feb 23	Jan 23	Dec 22	Nov 22	Oct 22
Earnings Quality	6.39	0.23	0.98	(3.68)	(2.34)	(6.81)
Capital Efficiency	5.11	2.94	1.41	(3.88)	(1.01)	(4.59)
Price Momentum	1.23	(2.31)	(4.26)	(0.34)	(1.89)	(0.75)
Analyst Expectations	0.22	0.56	(5.88)	(0.40)	(1.10)	(1.02)
Volatility	(0.52)	4.39	20.28	(9.10)	(1.04)	(8.07)
Historical Growth	(3.08)	1.34	(2.32)	(2.63)	(1.98)	(1.46)
Size	(3.52)	(1.57)	3.74	2.11	2.13	(2.18)
Valuation	(4.94)	(2.06)	(5.10)	2.94	4.62	8.91
Earnings Quality	2.63	(1.01)	(2.04)	(1.42)	(0.64)	(3.73)
Capital Efficiency	2.32	(1.99)	(1.49)	(2.36)	1.92	(1.11)
Price Momentum	1.11	(1.12)	(1.84)	(0.08)	(0.26)	(1.58)
Historical Growth	0.09	(0.33)	0.32	(0.08)	0.40	(3.60)
Analyst Expectations	(0.24)	1.87	2.98	(1.38)	2.96	(0.88)
Valuation	(1.64)	3.30	(3.28)	2.80	(1.42)	5.85
Volatility	(1.71)	(2.62)	10.44	(2.61)	0.83	3.15
Size	(1.72)	(1.00)	(1.89)	2.17	(2.36)	(1.19)
Historical Growth	2.22	(0.35)	(0.58)	(4.08)	(2.03)	2.15
Capital Efficiency	1.58	(0.93)	(1.56)	0.73	(0.75)	0.30
Price Momentum	0.95	(2.18)	2.10	(1.90)	5.57	5.10
Analyst Expectations	0.81	(0.65)	(0.70)	(0.57)	(6.46)	2.68
Volatility	0.02	(0.85)	7.97	(4.88)	6.72	4.22
Earnings Quality	(0.23)	(3.03)	(1.66)	2.44	1.20	(0.41)
Valuation	(1.59)	3.69	(0.85)	1.50	(0.10)	0.67
Size	(3.07)	0.61	1.44	(1.13)	(1.16)	0.17

US

Europe  
(developed)

Asia  
(developed)

**Viewer question of the week:**

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**Which investment strategy is your preferred for 2023?**

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