



Outlook 2023: Sector Strategy

Too early to switch into Cyclical

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Overweight Defensives, Underweight Cyclical

The stage of the cycle favours Defensives. Cyclical (ex-Tech) have only underperformed by 3% Y/Y, have high operating leverage into the earnings downturn and are not yet obviously attractive on valuations.

Upgrade: Food Producers, Utilities, Chemicals & Real Estate

Food Producers rank highly on our Global Sector Scorecard and our Quality Factor. Utilities tend to outperform as breakevens fall. Chemicals is becoming less cyclical with attractive valuations. Real Estate's relative performance is now at 20yr lows.

Downgrade: Consumer Products, Tech Hardware and General Retail

Consumer Products' RoE premium to Global Equities was c.50% but has now disappeared. Tech Hardware tends not to turn until later in the slowdown. General Retail's earnings momentum & profitability is fading.

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Key Chart: ASR Global Equity Allocations - Sectors

	Major Underweight	Underweight	Modest Underweight	Neutral	Modest Overweight	Overweight	Major Overweight
Sectors	Energy	Tech Hardware ←	Consumer Prod & Serv ←		Tech Software →	Utilities	Healthcare
	Construct & Mat'ls	Industrials	Insurance		General Retail ←	Beverages	→ Food Producers
	Financial Services	Travel & Leisure	Media		Telecoms	Tobacco	Food Retail
	Banks	Autos & Parts →	Real Estate		→ Chemicals		
	Basic Materials						

Source: ASR Ltd.