Sector Business Cycle Analysis

<https://www.ssga.com/library-content/products/fund-docs/etfs/us/insights-investment-ideas/sector-business-cycle-analysis.pdf>

This piece was written by someone with a CFA as the head of SPDR Americas Research, Matthew Bartolini, alongside Senior Research Strategist Anqi Dong who holds a CFA and CAIA.

The following approaches can be used to find winners and losers of different sectors

* Price momentum strategies
* Top down approaches (based on macroeconomic indicators)
* Bottom up approaches to improve fundamentals
* Business cycle analysis

Used the Conference Board Leading Economic Indicator Index to segregate business cycles from 1960 to 2018.

A graph showing the growth of the stock market

Description automatically generated

Using LEI change from year ot year to get an understanding of macroeconomic time periods

Using the Global Industry Classification Standard (GICS) since 1989 to get a comprehensive account of sector performance.

Uses the following parameters

1. Average monthly sector return
2. Average monthly sector excess return over the broad market
3. Average return of the sector over each business cycle
4. Average excess return of the sector over each business cycle
5. Percentage of months when the sector outperformed the broader market
6. Percentage of cycles when the sector outperformed the broader market

Then create z-scores to standardize. The find the top 3 and bottom 3 sectors for a business cycles.

**Recession**

Consumer staples, utilities and healthcare

Real Estate and Technology

**Recovery**

Consumer Discretionary, real estate

Consumer staples utilities and healthcare

**Expansion**

Technology, Financials

Healthcare, consumer staples, utilities

**Slowdown**

Healthcare Consumer Staples

Consumer Discretionary, Real Estate, Industrials

**Less Volatile**

Energy,materials

A chart with different colored lines

Description automatically generated with medium confidence