

Sector Scorecard: Autumn 2017

BI Equity Strategy, North America Dashboard



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1. Sector Scorecard Is Buying Into Stocks' Bull Trend This Autumn

(Bloomberg Intelligence) -- Bloomberg Intelligence Equity Strategy's sector scorecard ranks technology, health care and financials on top this fall, consistent with seasonality that usually favors upside in 4Q. Notably, the two largest cyclical sectors -- technology and financials -- are both in the top third of BI's scorecard for the first time this year. Defensive sectors and energy continue to rank at the bottom. Consumer stocks likewise score poorly.

Over a 15-year backtest, BI Equity Strategy's sector-selection model has posted compound annualized total returns of 11.6% for top-ranked sectors, 10% for neutral-ranked and 9.6% for bottom-ranked. All percentages are on an equal-weighted basis. (10/05/17)

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Topics

Sector Scorecard Update

S&P 500 Sector Scorecard Supports the Big Three Into Year-End

Technology, health care and financials -- the top three segments by market cap in the S&P 500 -- top the BI Equity Strategy sector-scorecard ranks. This supports a highly cyclical stance as the market enters its seasonally best time of the year. (10/04/17)

2. BI Sector Scorecard Tilts to Big Three Cyclical for Autumn

Bloomberg Intelligence Equity Strategy's sector scorecard model favors S&P 500 technology, health care and financials. They offer a combination of growth and value in the final quarter of 2017. Relieved of its overbought condition, tech has risen back to the top spot. Health care continues to offer a better valuation score than the other sectors, and for the first time this year, financials are in the top third of the scorecard.

The higher-yielding utility, real estate and telecom sectors are at the bottom. Discretionary and energy are the poorest-scoring cyclical sectors. (10/04/17)

BI Equity Strategy Sector Scorecard

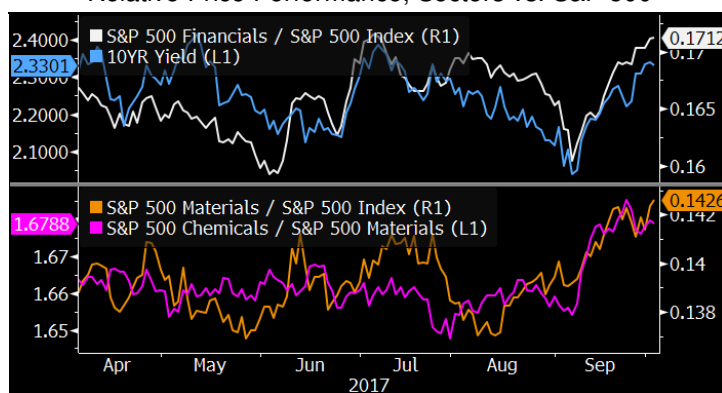


3. Technology Remains Top S&P 500 Sector Despite Sector Rotation

Gains in the commodity complex and a bond selloff over the past several weeks have prompted considerable sector rotation in the S&P 500, but not enough to dismantle the longer-term trend favoring the technology sector. Financials' price performance has improved significantly with the selloff in the 10-year Treasury, helping to elevate that sector on the BI Equity Strategy scorecard. Materials likewise shows major improvement in its relative price trend as chemicals rally.

Consumer sectors recorded relative price breakdowns in recent weeks. Staples appears oversold yet within the scope of a secular underperformance trend. Energy has roared back with oil prices since mid-August but is very overbought and remains in its longer-term downtrend. (10/04/17)

Relative Price Performance, Sectors vs. S&P 500



4. S&P 500 EPS Trends Favor Secular Gainers, Tech and Health Care

The backdrop for S&P 500 sectors remains strongest for technology and health care, with high scores for earnings trends and revision breadth. Over the past month, technology is the only sector to record positive EPS revisions for both the calendar quarter and year. Earnings strength is relatively scarce across the index -- a trend that's likely to continue to haunt performance as the index moves away from very easy earnings-recession comparisons to a tougher side-by-side this quarter.

Earnings trends are mixed to poor for the remaining S&P 500 sectors. Staples and utilities score high on recent revisions, but their EPS growth remains lackluster. (10/04/17)

S&P 500 Sector Current Quarter 1-Month Revisions

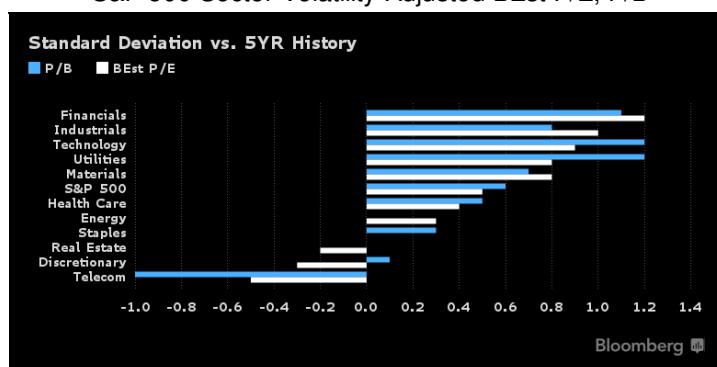
Name	NPM Aggr Rk	CQ EPS 3MChg	CQ EPS 1MChg	CQ Rev 3MChg	CQ Rev 1MChg	Est Rep Date
30) Factor Strength (1 Yr)						
Better Values	Higher	Higher	Higher	Higher	Higher	
Investable Universe (505)	0.3	-4.9%	-1.7%	-0.1%	-0.1%	10/03/2017
31) Information Technology (69)	0.4	-1.3%	0.1%	1.2%	0.2%	10/03/2017
32) Telecommunication Service...	0.1	-3.8%	-0.1%	0.3%	0.1%	10/19/2017
33) Health Care (62)	0.4	-0.9%	-0.2%	0.4%	0.0%	10/17/2017
34) Utilities (28)	0.7	-1.4%	-0.2%	-2.4%	-0.2%	10/24/2017
35) Materials (25)	0.7	-8.6%	-0.5%	-0.5%	-0.3%	10/04/2017
36) Energy (32)	-0.2	-18.8%	-1.5%	-2.2%	-0.5%	10/18/2017
37) Real Estate (33)	0.2	-6.7%	-1.5%	-1.4%	-0.6%	10/17/2017
38) Industrials (68)	0.4	-2.1%	-1.6%	0.8%	-0.2%	10/04/2017
39) Consumer Discretionary (83)	0.0	-6.6%	-2.1%	-0.7%	-0.2%	10/03/2017
40) Consumer Staples (34)	0.6	-5.5%	-2.1%	0.8%	0.1%	10/04/2017
41) Financials (67)	0.3	-7.0%	-6.2%	0.3%	0.2%	10/11/2017

5. Cyclical Valuations Stretched, Defensive Sectors Offer Discounts

Reflecting the early-autumn surge in prices despite leaner earnings estimates, valuations are extended for most S&P 500 sectors. Financials and industrials trade at the largest premium to five-year historical forward price-to-earnings among the sectors, while utilities and financials trade at the greatest premium based on price-to-book value. Technology, industrials and materials also score poorly. Health care remains the lone sector at the top of the scorecard with a reasonable valuation.

Only staples, real estate and telecom show attractive valuation scores among S&P 500 sectors. (10/04/17)

S&P 500 Sector Volatility-Adjusted BEst P/E, P/B



Scorecard Backtest Results

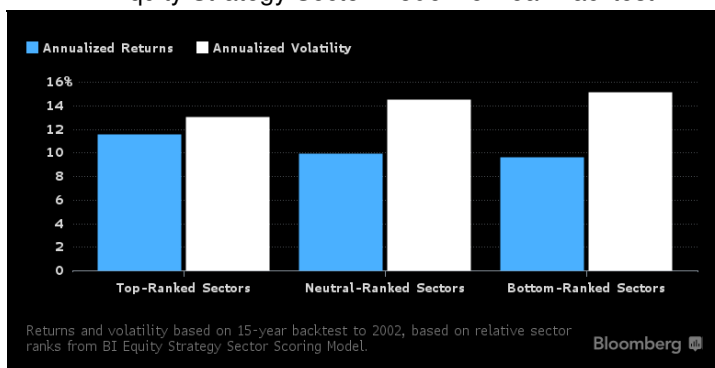
BI S&P 500 Sector Model: Price, Earnings and Valuation Scores

Bloomberg Intelligence Equity Strategy's sector scoring model utilizes price momentum, price breadth, earnings trends, estimate revision breadth and relative valuation to rank S&P 500 sectors. Over the 15-year backtest, top-ranked sectors have outperformed bottom-ranked sectors with less volatility and less drawdown. (09/06/17)

6. Top Sector Ranks Post Relative Upside in BI S&P 500 Scorecard

Over a 15-year backtest, BI Equity Strategy's sector selection model has posted compound annualized total returns of 11.6% for top-ranked sectors, 10% for those that neutral-ranked and 9.6% for bottom-ranked sectors, on an equal-weighted basis. Comparable universe returns were 10.3% over the same time. Favorably ranked sectors also posted less volatility on an annualized basis relative to neutral- and bottom-ranked sectors. (09/06/17)

BI Equity Strategy Sector Model 15-Year Backtest



7. BI S&P 500 Sector Model: Maximize Relative Return and Avoid Risk

Bloomberg Intelligence's S&P 500 Sector Scorecard is optimized to maximize relative returns over time. Over the model's 15-year history, top-ranked sectors posted a maximum relative drawdown (a decline in excess of comparable universe returns) of 3.8% in 2014, led by energy. Meanwhile, bottom-ranked sectors posted a maximum relative drawdown of 13.3% in 2006-07, driven by financials, discretionary and real estate. (09/06/17)

Maximum Relative Drawdown, Rolling 12-Month



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