

U.S. Corporate Sector Allocation Model & Chartbook

We are pleased to send an update of Alpine Macro's U.S. Corporate Sector Allocation Model & Chartbook.

The model's goal is to outperform the Bloomberg Barclays Investment-Grade Corporate Bond Index by over- and under-weighting the various sectors. The model captures valuation, cyclical and technical information that predict corporate sector relative performance. The three indicators are combined in a unique way to generate recommended weights versus the benchmark for the 10 major sectors in the index. Please see our *Special Report* for details on the model and indicators.¹

Further below, we discuss our model for 40 Corporate subsectors, which employs the same methodology. The sector breakdown provides important additional information that can be used when implementing trades and taking positions.

10 Major Sector Model

Table 1 on page 4 ranks the 10 major sectors of the Bloomberg Barclays Index based on what we call a Preference Score. This score is a weighted average of the readings from the cyclical, value and technical indicators (the weights are optimized by sector). The higher the Preference Score, the higher the recommended weight relative to the index. The recommended sector weights are constrained to lie approximately between 50% and 150% of the benchmark weight. **Table 1** includes the latest readings from the three input indicators so that readers can easily identify the main driver(s) of the Preference Score at the moment. The model rebalances among the 10 main sectors on a monthly basis.

The model has an impressive historical track record (see **Chart 1** next page). Nonetheless, no purely statistical approach can capture all of the sector-specific factors that influence relative performance. Clients should view the model's allocation recommendations as supplemental information to their own bottom-up analysis.

The charts shown on pages 5-9 present the three indicators for each of the 10 sectors.

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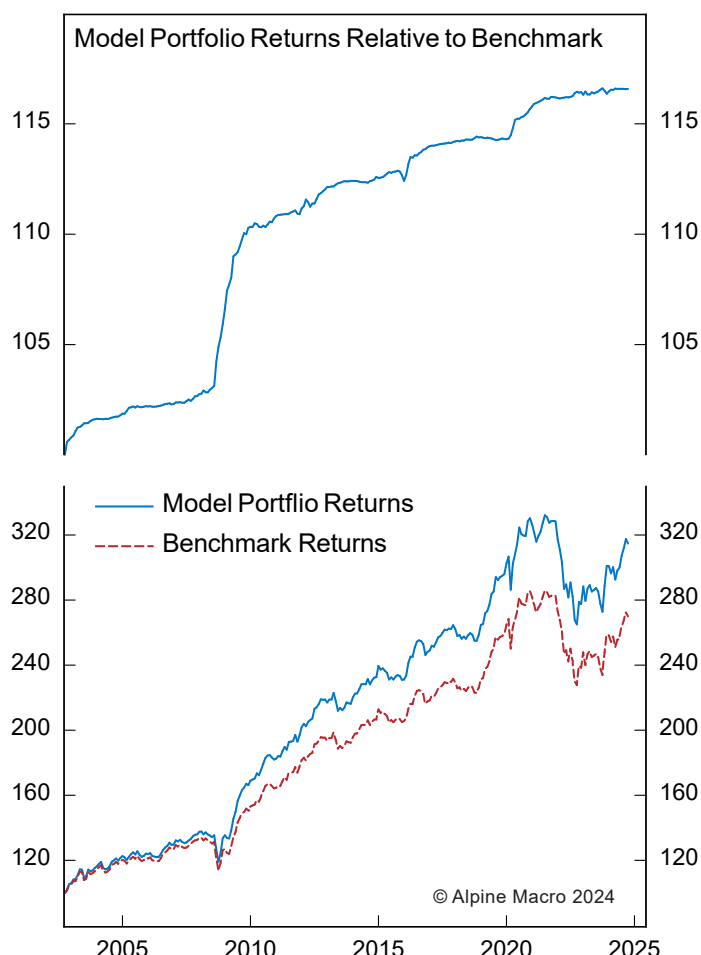
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¹ Alpine Macro U.S. Bond Strategy "Extending Our U.S. Corporate Bond Sector Allocation Model" (July 27, 2023).

Chart 1 Model Performance

Note: All series are Alpine Macro proprietary indicators, rebased to Oct 2002 = 100

The model's recommendations have roughly matched the benchmark so far this year.

The major shift in the model's allocation this month is a drop in Basic Industries from 1st place to 5th, on the back of a sharp deterioration in the cyclical prospects for the Paper subsector. In contrast, Utilities jumped into the top spot, from 3rd place.

Recent macro data highlight that the U.S. economy is holding up well, particularly consumer spending. This has resulted in an increased allocation to Capital Goods, Consumer Cyclical (largely Automotive) and

Utilities (Electric). The cyclical indicators are soaring for all three of these major sectors. Momentum is also generally favorable.

Capital Goods is one of only two sectors that have favorable relative valuation readings. Financial Institutions also benefits from positive valuation, although the sector's ranking slipped this month. Financial Institutions' third place status is due solely to its positive valuation. Its cyclical and technical indicator levels are lackluster.

The previously high-flying Communications sector continued its downward migration in the ranking table, falling this month to 6th place. A weak cyclical indicator is the main driver of this trend.

Interestingly, robust data have not boosted the recommended allocation to Technology, Energy or Transportation. All three continue to languish near the bottom of the 10-sector ranking due to poor cyclical and momentum readings (except for a positive reading for Transportation momentum).

40 Subsector Model

The 40 corporate subsectors of the Bloomberg Barclays index are ranked from best to worst in [Table 2](#) on pages 11-12, using the same methodology as is employed in the 10 Major Sector model discussed above. The charts that follow [Table 2](#) present the Preference Score and the three component indicators for all 40 subsectors.

The Subsector Model can be used for asset allocation and for generating trade ideas. As we highlighted in the above-referenced *Special Report*, **a strategy of going long the top 4 sectors in [Table 2](#) and short**



the bottom four sectors, rebalancing every three months, would have generated substantial returns historically.

The subsector cyclical indicators can also reveal important information regarding the major sector allocation. For example, while the overall Energy industry ranks second-to-last on the 10 major sector list, Oil Services is the 13th most overweight subsector and, thus, should not be overlooked. The remaining Energy subsectors fall in the bottom half of the subsector list.

Paper was the only subsector responsible for holding the overall Basic Industries sector in the most overweight position the last time we updated the model. However, Paper's quickly deteriorating cyclical indicator has dragged down the subsector to 12th spot in the subsector ranking, from 8th. In contrast, Chemicals is 4th from the bottom in the list.

The jump into the top spot for the Utilities industry is due solely to a soaring cyclical indicator for the Electrical subsector. This makes sense given the green transition and other demands on the grid, including AI. In contrast, Natural Gas is 27th out of 40 subsectors.

The increased allocation to Capital Goods this month is largely due to strong cyclical readings for the Manufacturing and Packaging subsectors. The latter jumped into second place this month, while Manufacturing is in 5th spot.

Within Consumer Cyclical, the 40 Subsector Model recommends favoring Automotive (which ranks at the top) and Consumer Services. The cyclical indicator for Automotive blasted higher in

September. In contrast, Lodging, Restaurants and Retailers are close to the middle of the pack.

The model also continues to heavily favor Finance Companies, although it has moved down the ranking list. Its high ranking is based solely on strong valuation, which is slipping. The cyclical and technical indicators are also eroding. But the model also likes REITs and Banking, largely due to favorable valuation readings that outweigh lackluster cyclical indicators.

Media & Entertainment (Communications), Healthcare (Consumer Non-Cyclicals), and Airlines (Transportation) round out the top 10 subsectors.

The least favored sectors of the 40 include Technology, Chemicals (Basic Industry), Transportation Services, Environmental and Machinery (Capital Goods) and Consumer Construction.



Table 1 10 Major Sector Model Allocations

Sector	Preference Score	Portfolio Weight (%)	Benchmark Weight (%)	Relative Weight (%)*	Valuation Indicator	Cyclical Indicator	Momentum	Page#
Utilities	0.8	13.3	9.5	39.9	0.0	0.9	1.2	9
Consumer Cyclical	0.1	7.9	7.2	11.0	0.0	0.2	-0.5	6
Financial Institutions	0.0	34.4	32.1	7.2	0.5	-0.4	-0.8	8
Capital Goods	0.0	5.7	5.4	5.5	0.8	-0.4	0.3	5
Basic Industry	0.0	2.7	2.6	5.0	0.0	-0.4	0.5	5
Communications	-0.1	8.4	8.5	-1.7	0.0	-0.1	0.5	6
Consumer Non-Cyclical	-0.3	14.5	15.8	-7.9	-1.0	0.1	0.7	7
Transportation	-0.5	1.8	2.2	-18.1	-0.5	-0.7	1.3	9
Energy	-0.7	5.2	7.1	-26.6	0.0	-0.4	-0.4	7
Technology	-1.1	6.1	9.7	-37.5	-0.4	-1.1	-0.3	8

Most Overweight

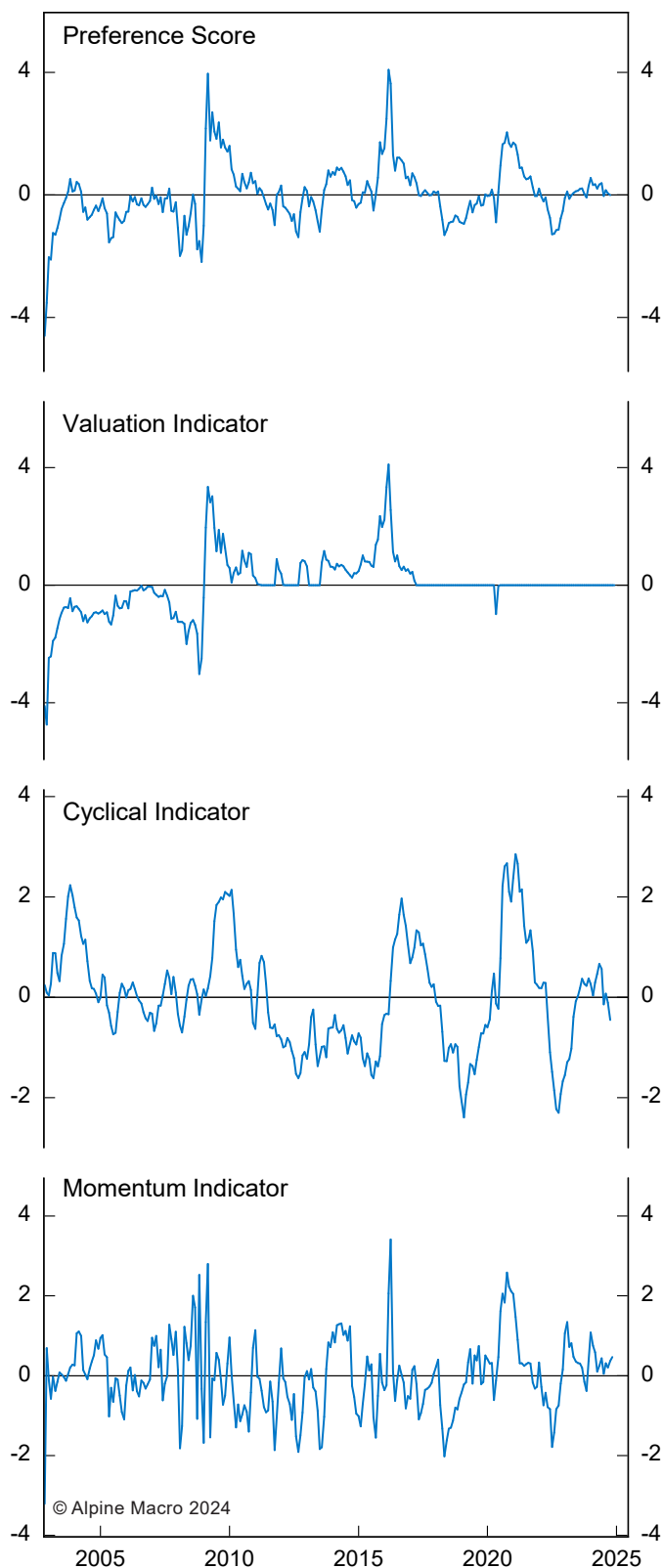
↑

↓

Most Underweight

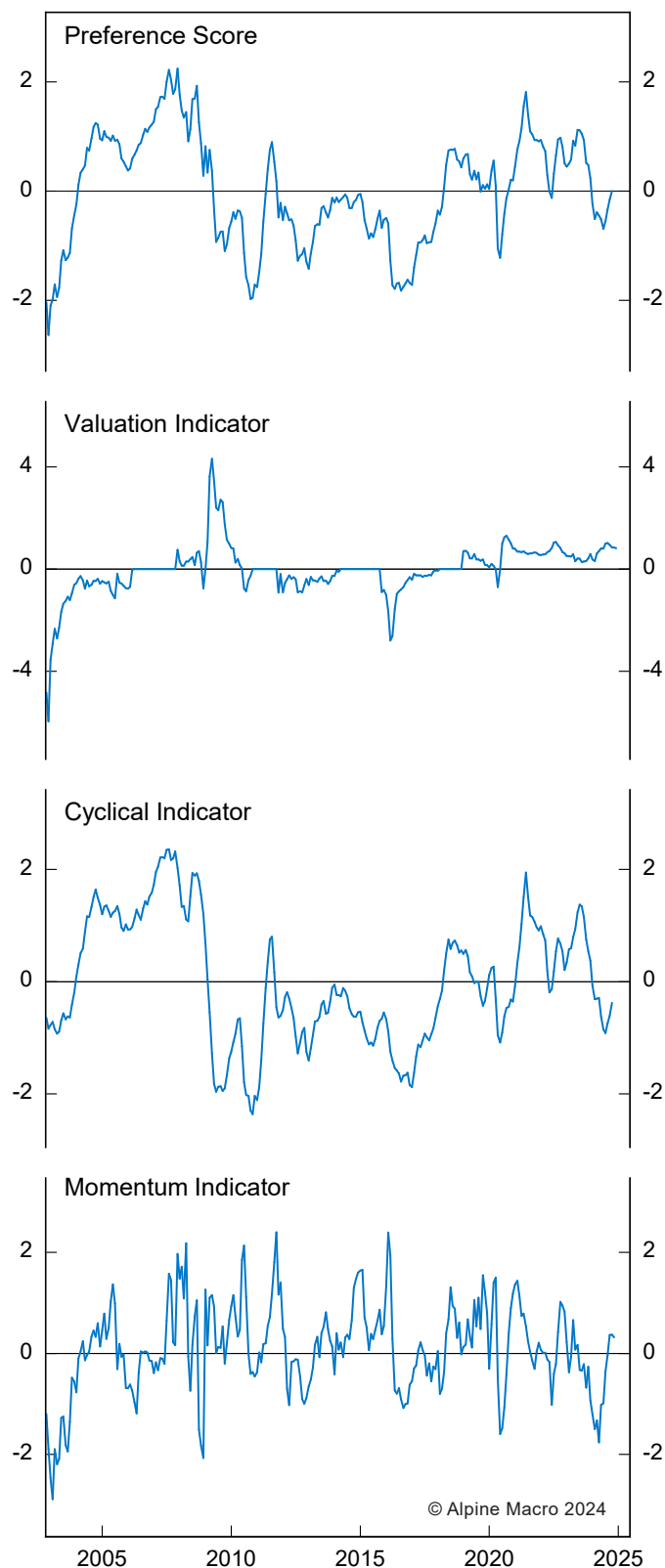
*(Portfolio Weight-Benchmark Weight)/Benchmark Weight*100

Basic Industry



Note: All series are Alpine Macro proprietary indicators

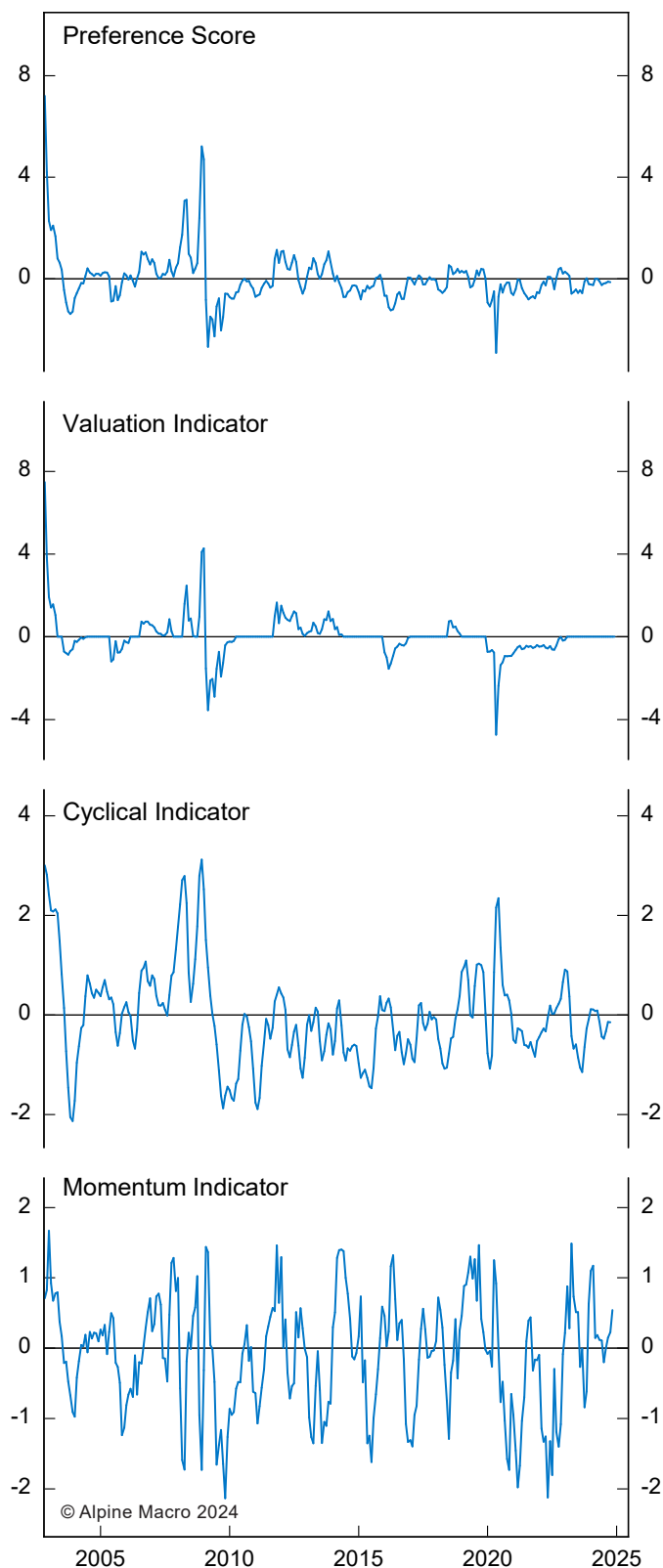
Capital Goods



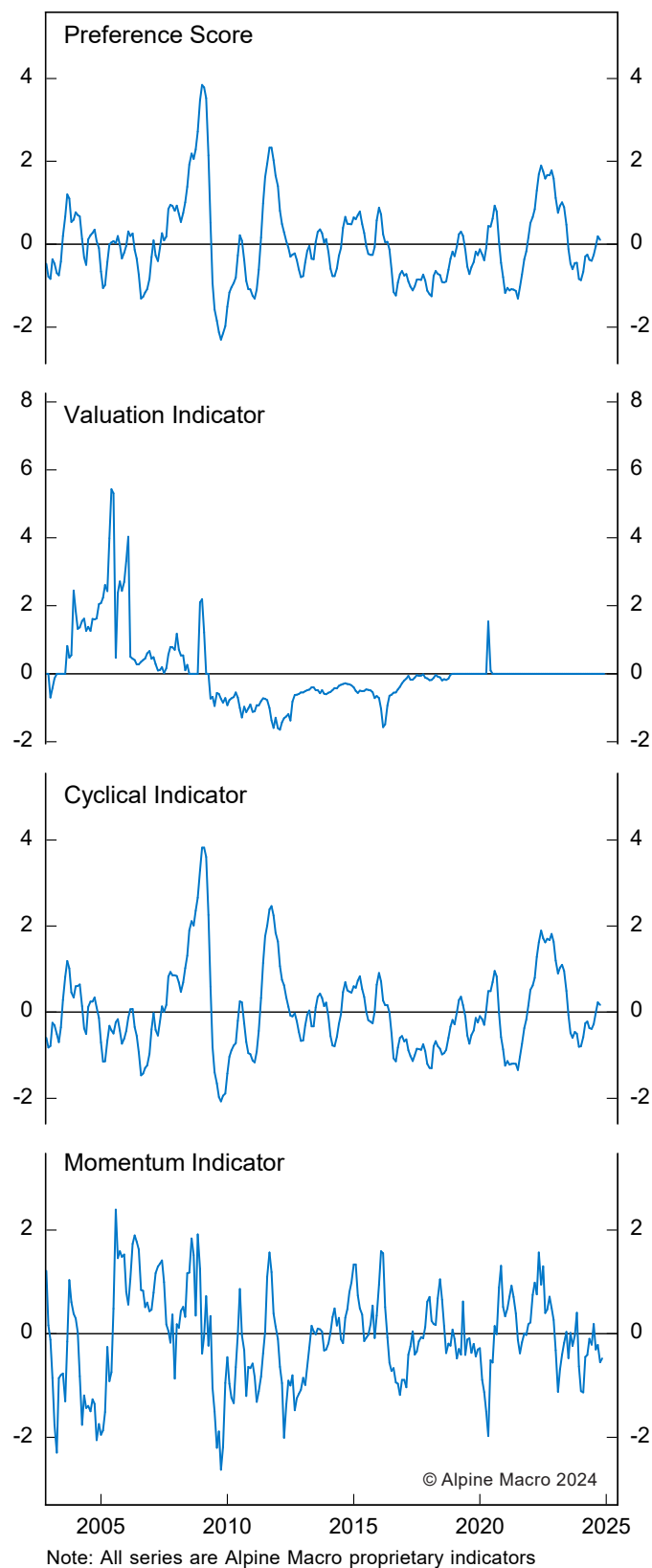
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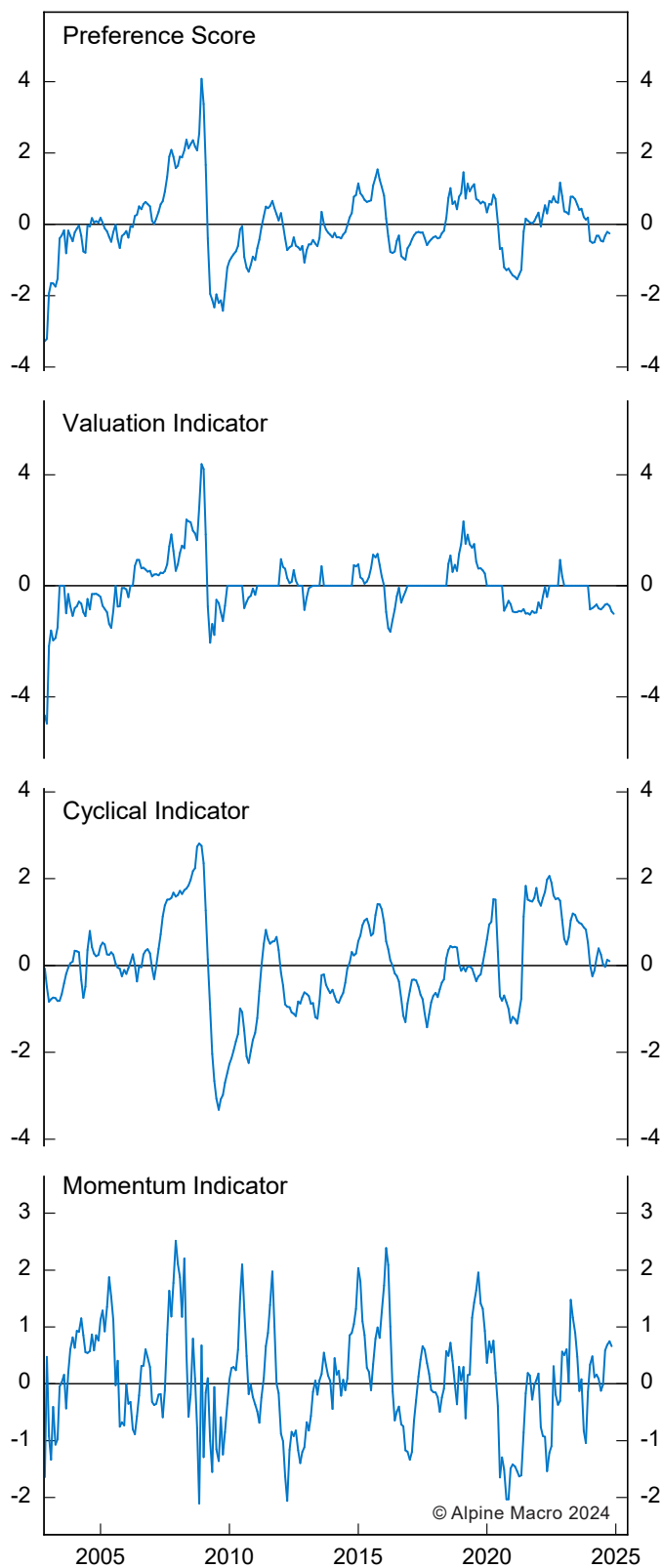
Communications



Consumer Cyclical

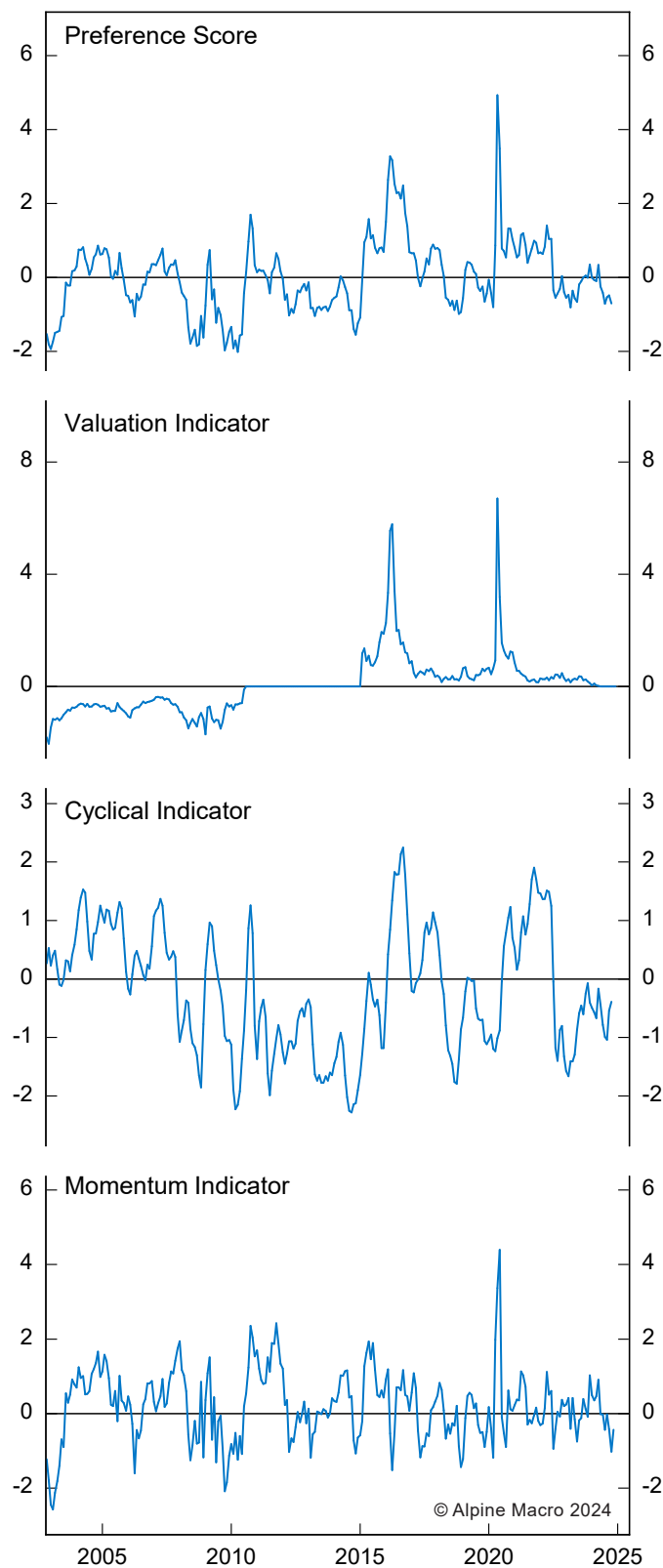


Consumer Non-Cyclical



Note: All series are Alpine Macro proprietary indicators

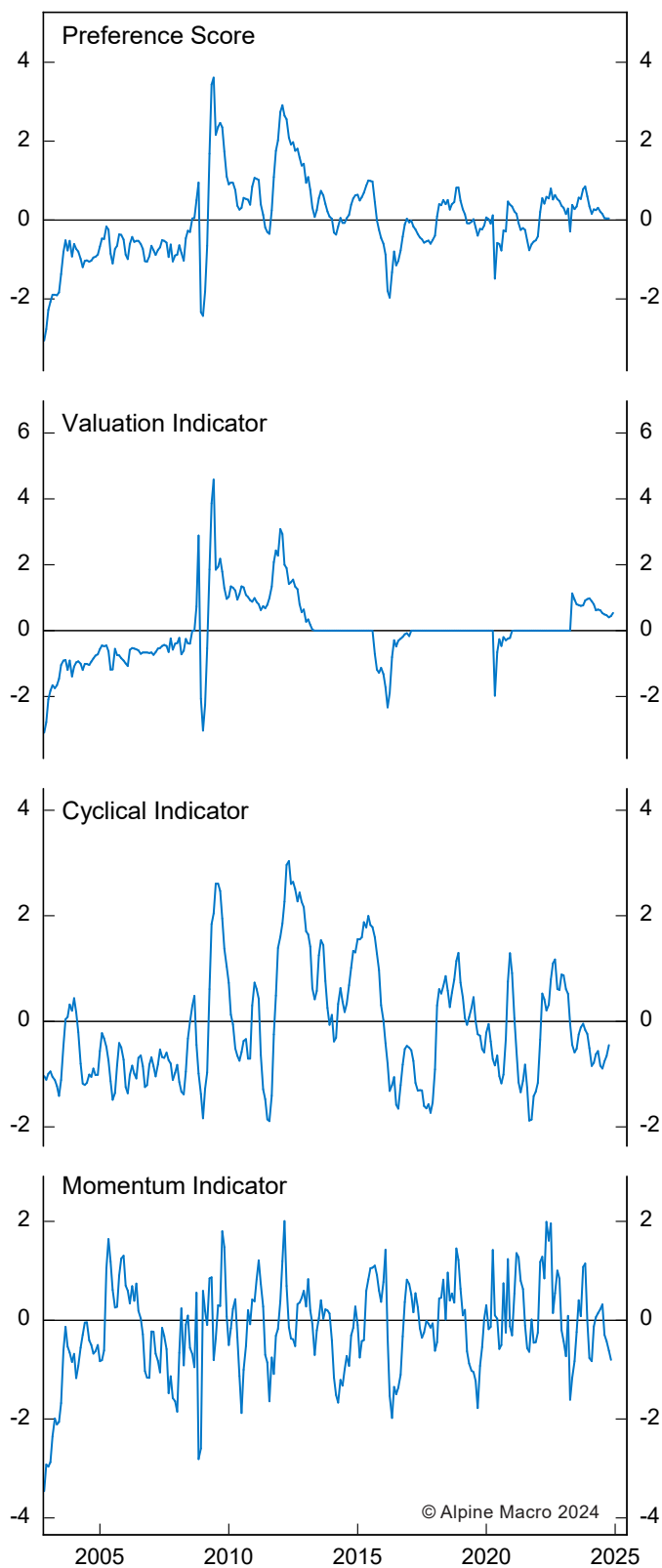
Energy



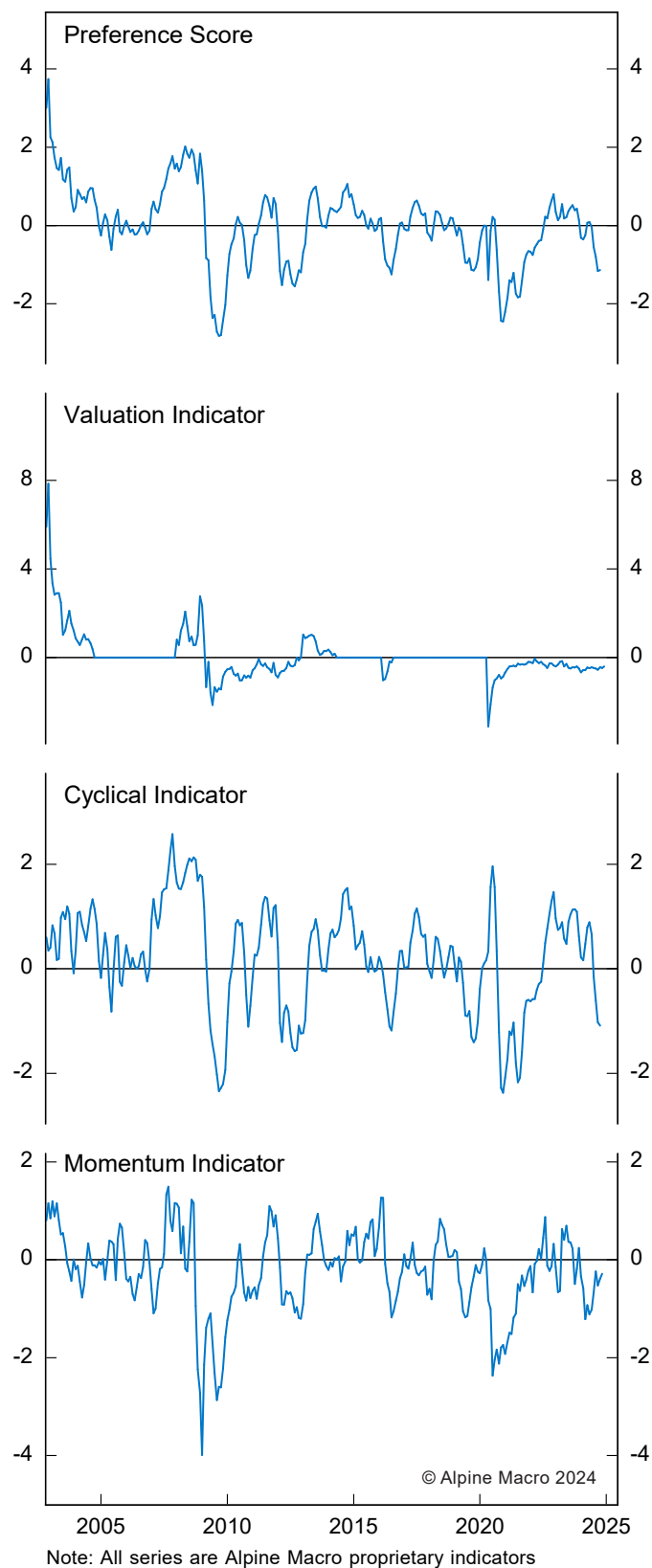
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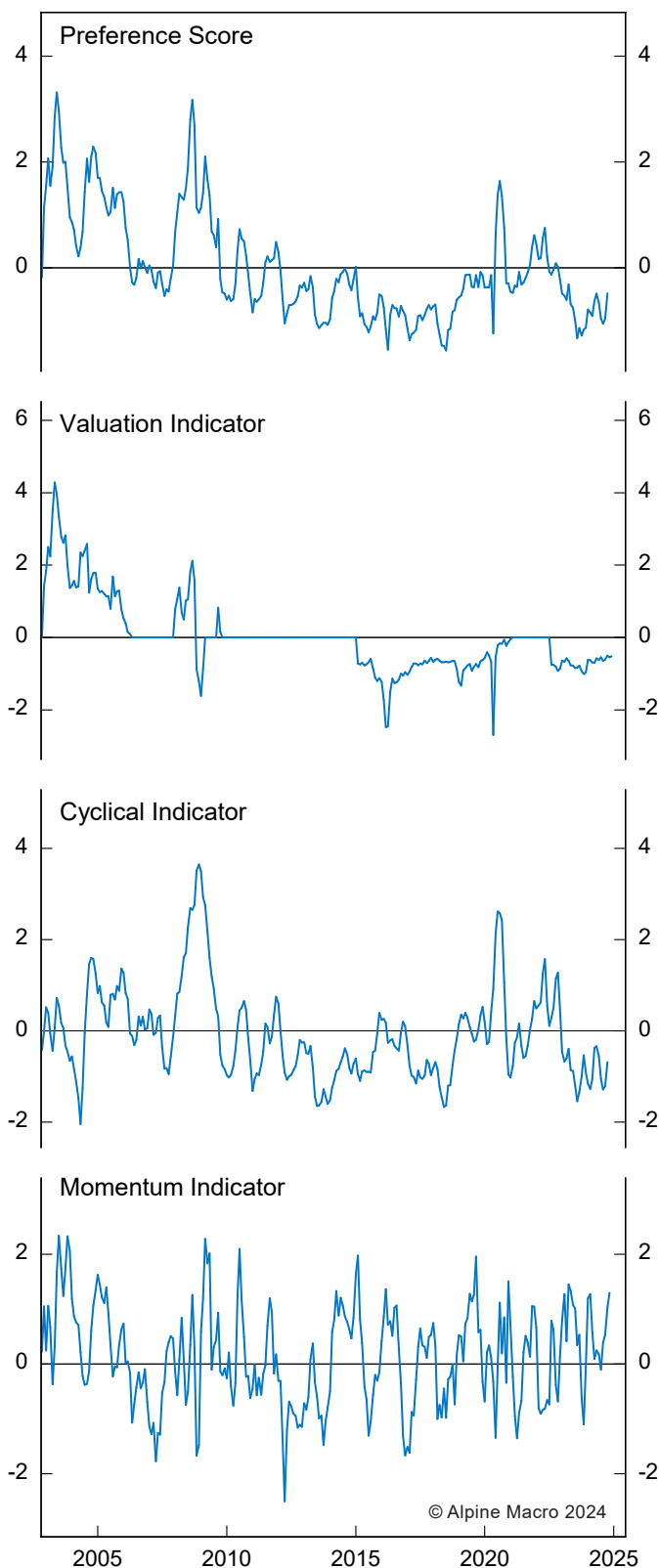
Financial Institutions



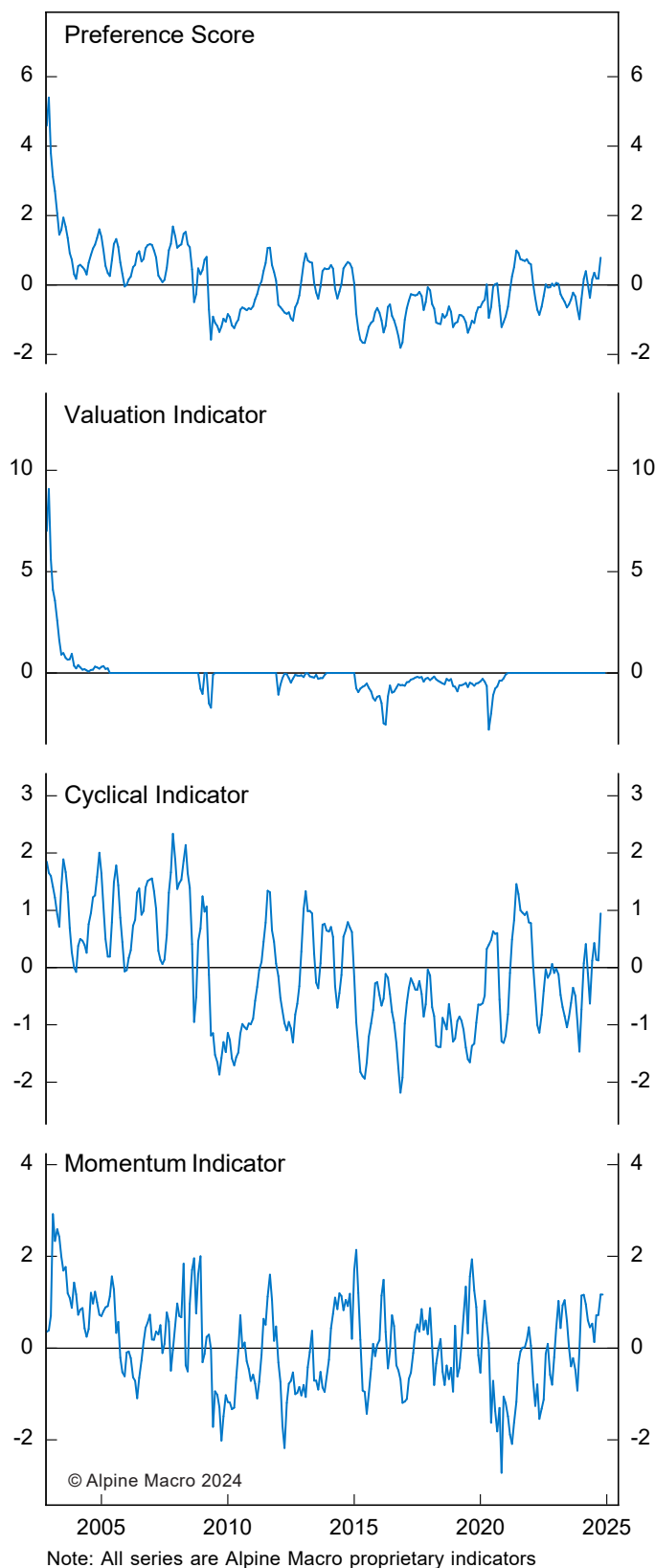
Technology



Transportation



Utilities



Indicators For 40 IG Corporate Subsectors



Table 2 40 Subsector Model Allocations

Sector	Preference Score	Portfolio Weight (%)	Benchmark Weight (%)	Relative Weight* (%)	Page #
Consumer Cyclical: Automotive	1.6	3.4	2.4	40.7	19
Capital Goods: Packaging	1.3	0.3	0.2	37.9	17
Utility: Electric	1.1	11.8	8.7	35.6	32
Financial Institutions: Finance Companies	0.8	1.7	1.3	28.1	28
Capital Goods: Manufacturing	0.7	2.0	1.6	26.8	16
Communications: Media Entertainment	0.7	2.4	1.9	24.1	18
Consumer Cyclical: Services	0.6	0.4	0.3	21.3	20
Financial Institutions: Banking	0.5	25.6	21.9	16.8	27
Consumer Non Cyclical: Healthcare	0.4	5.2	4.5	14.9	23
Transportation: Airlines	0.4	0.3	0.2	14.2	30
Financial Institutions: REITs	0.3	3.2	2.8	11.7	29
Basic Industry: Paper	0.3	0.4	0.4	9.7	14
Energy: Oil Services	0.2	0.3	0.3	7.0	26
Capital Goods: Defense	0.2	2.3	2.2	4.8	14
Consumer Non Cyclical: Pharmaceuticals	0.2	5.7	5.5	3.6	24
Transportation: Railroads	0.1	1.5	1.4	2.7	31
Consumer Cyclical: Retailers	0.1	3.4	3.4	1.1	22
Basic Industry: Mining	0.1	0.9	0.9	0.7	13
Consumer Cyclical: Lodging	0.0	0.2	0.2	-1.2	21
Consumer Cyclical: Restaurants	0.0	0.5	0.5	-1.6	21

More Desirable ↑

↓ Less Desirable

*(Portfolio Weight-Benchmark Weight)/Benchmark Weight*100



Table 2 40 Subsector Model Allocations

Sector	Preference Score	Portfolio Weight (%)	Benchmark Weight (%)	Relative Weight* (%)	Page #
Financial Institutions: Brokerage Exchanges	0.0	1.5	1.6	-4.6	28
Consumer Non Cyclical: Food & Beverage	0.0	3.4	3.6	-5.0	23
Energy: Independent Energy	0.0	1.2	1.3	-5.6	25
Communications: Wireless	-0.1	1.9	2.1	-7.5	18
Capital Goods: Materials	-0.2	0.3	0.4	-11.1	15
Energy: Refining	-0.2	0.3	0.4	-13.7	27
Utility: Natural Gas	-0.3	0.6	0.8	-15.9	32
Financial Institutions: Insurance	-0.4	3.9	4.9	-21.9	29
Energy: Midstream	-0.5	2.7	3.6	-24.7	26
Consumer Cyclical: Construction	-0.6	0.1	0.1	-29.3	20
Communications: Cable Satellite	-0.6	1.3	1.9	-30.6	17
Consumer Non Cyclical: Supermarkets	-0.7	0.2	0.3	-33.2	24
Communications: Wirelines	-0.8	1.9	2.8	-34.3	19
Consumer Non Cyclical: Consumer Products	-0.8	0.6	1.0	-34.4	22
Energy: Integrated Energy	-0.8	1.0	1.6	-34.7	24
Transportation: Services	-0.8	0.4	0.6	-35.7	31
Basic Industry: Chemicals	-0.9	0.8	1.3	-37.4	13
Capital Goods: Machinery	-0.9	0.5	0.8	-38.1	15
Technology	-1.1	5.7	9.9	-42.5	30
Capital Goods: Environmental	-1.3	0.2	0.4	-44.6	16

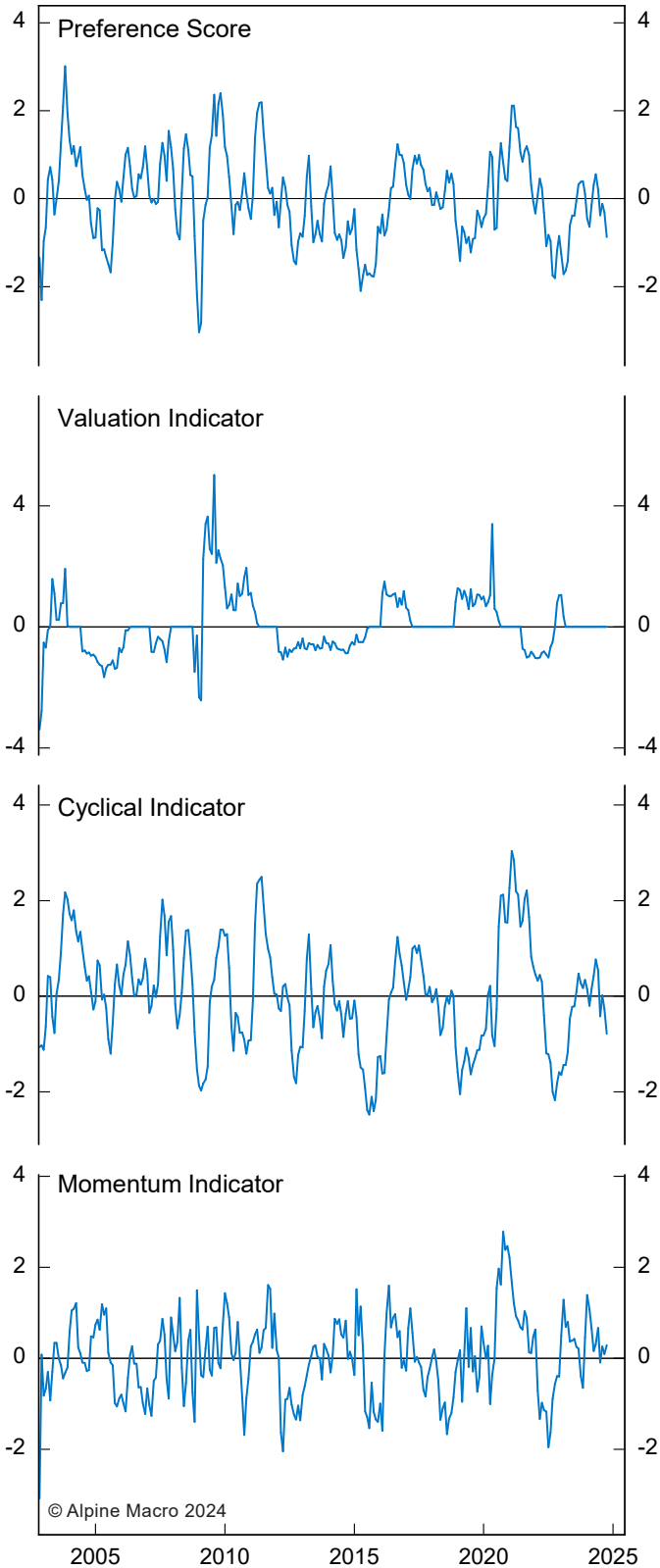
More Desirable ↑

↓ Less Desirable

*(Portfolio Weight-Benchmark Weight)/Benchmark Weight*100

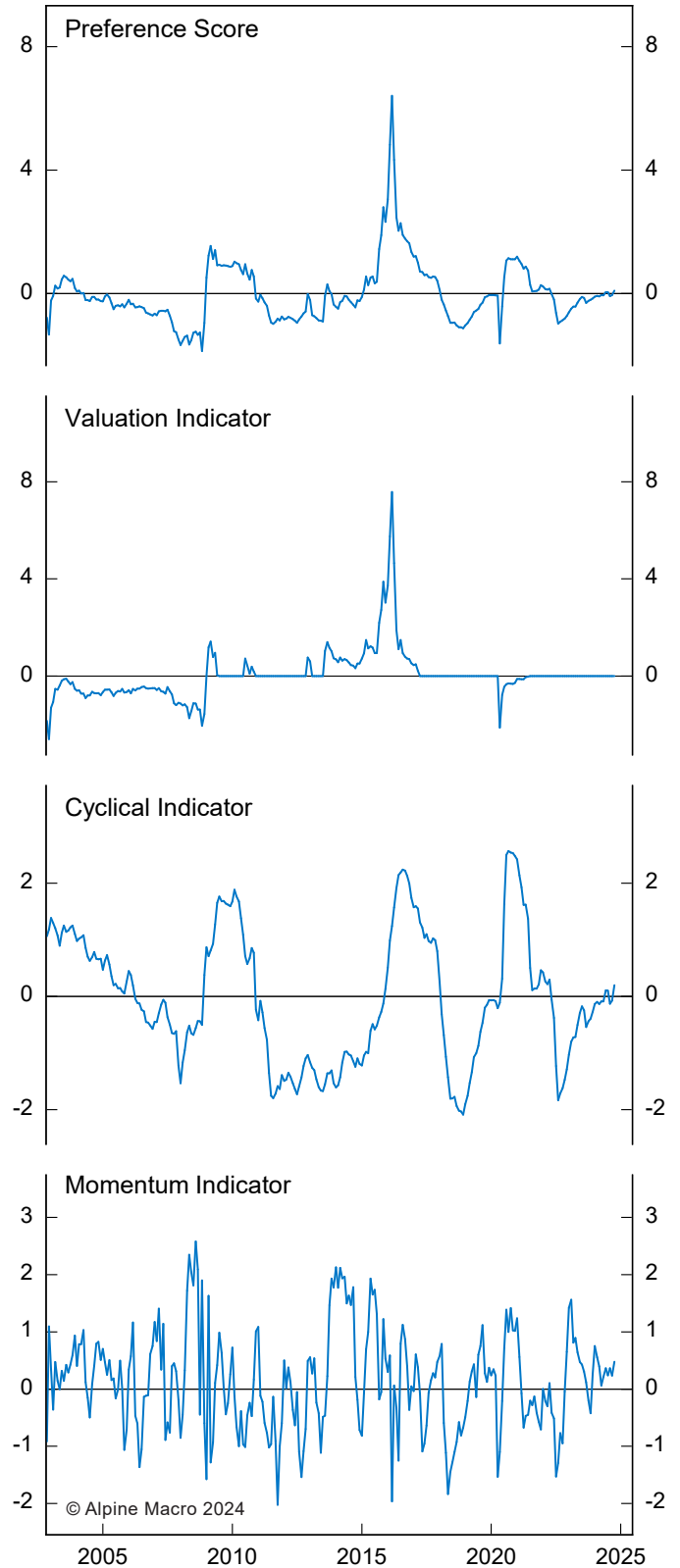


Basic Industry: Chemicals



Note: All series are Alpine Macro proprietary indicators

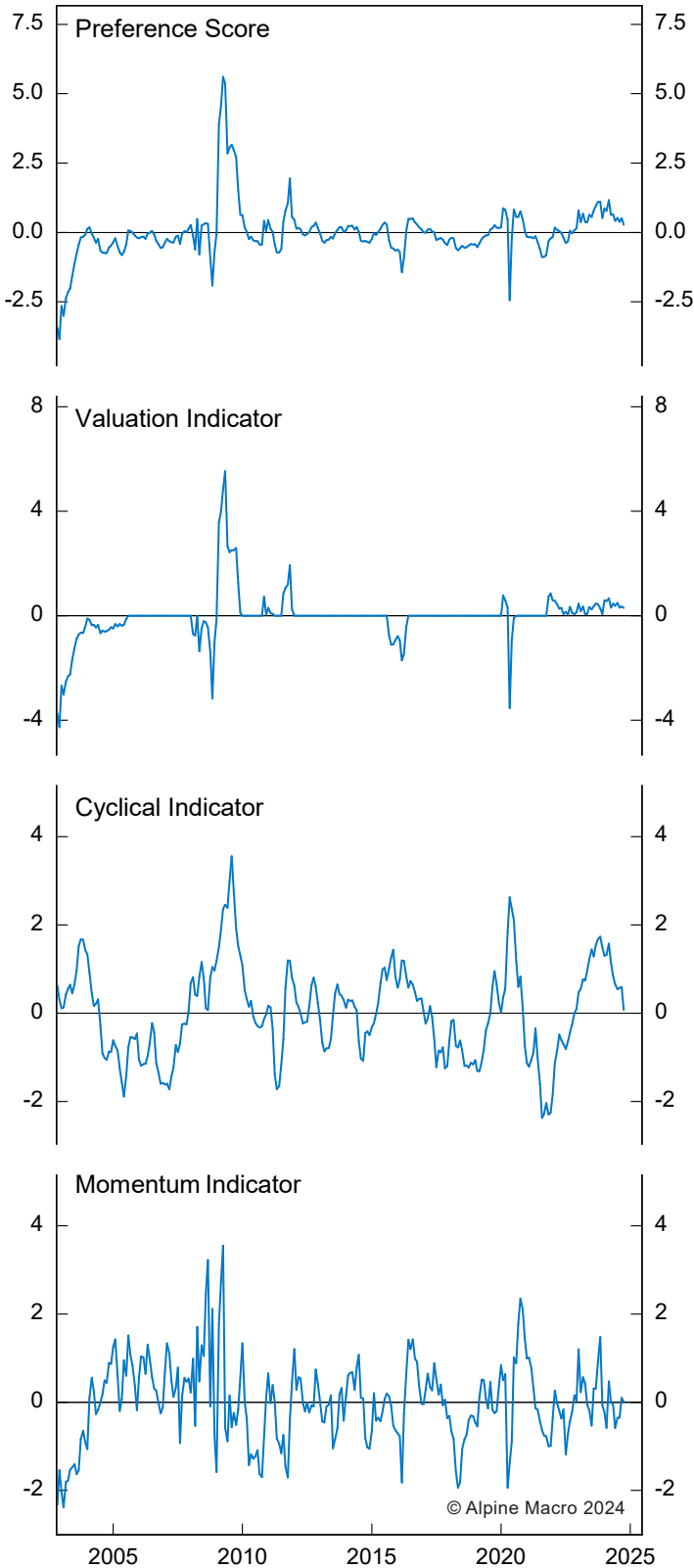
Basic Industry: Mining



Note: All series are Alpine Macro proprietary indicators

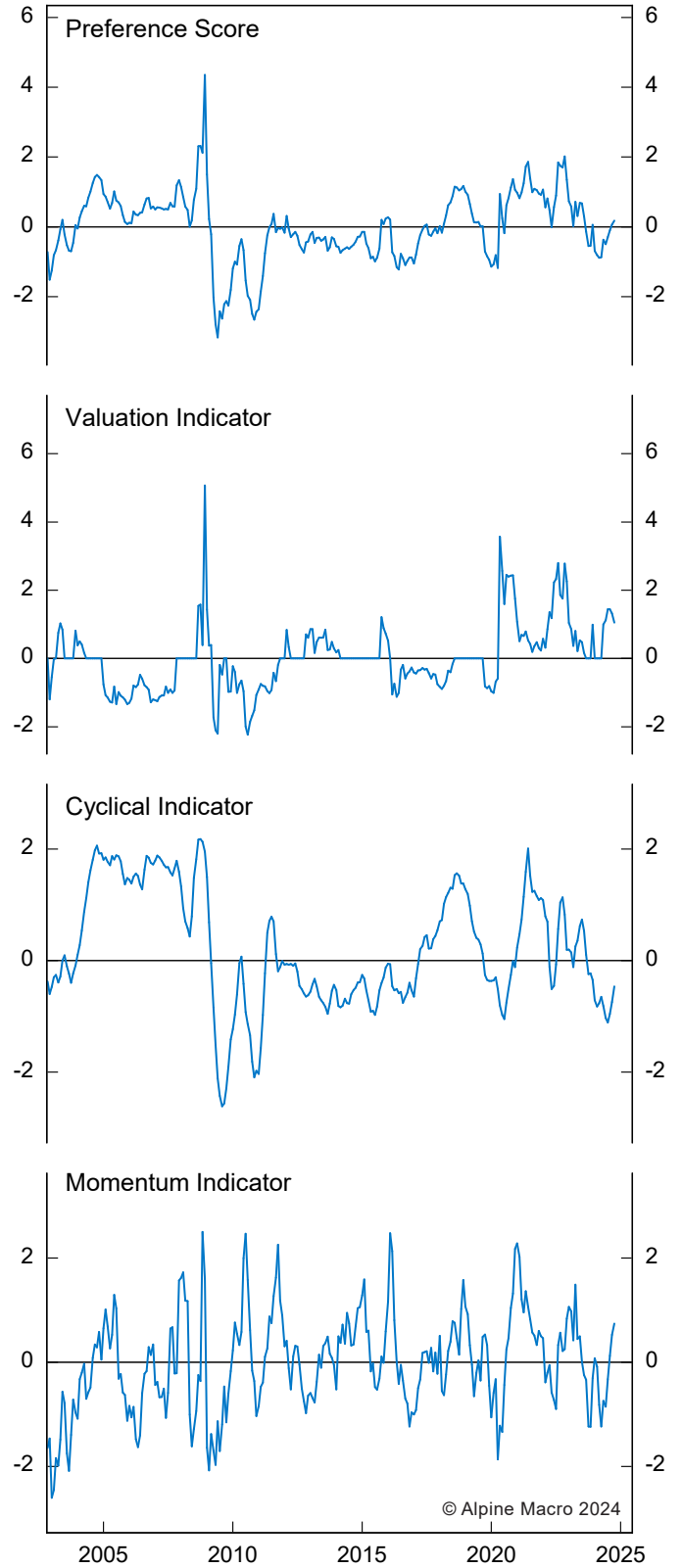


Basic Industry: Paper



Note: All series are Alpine Macro proprietary indicators

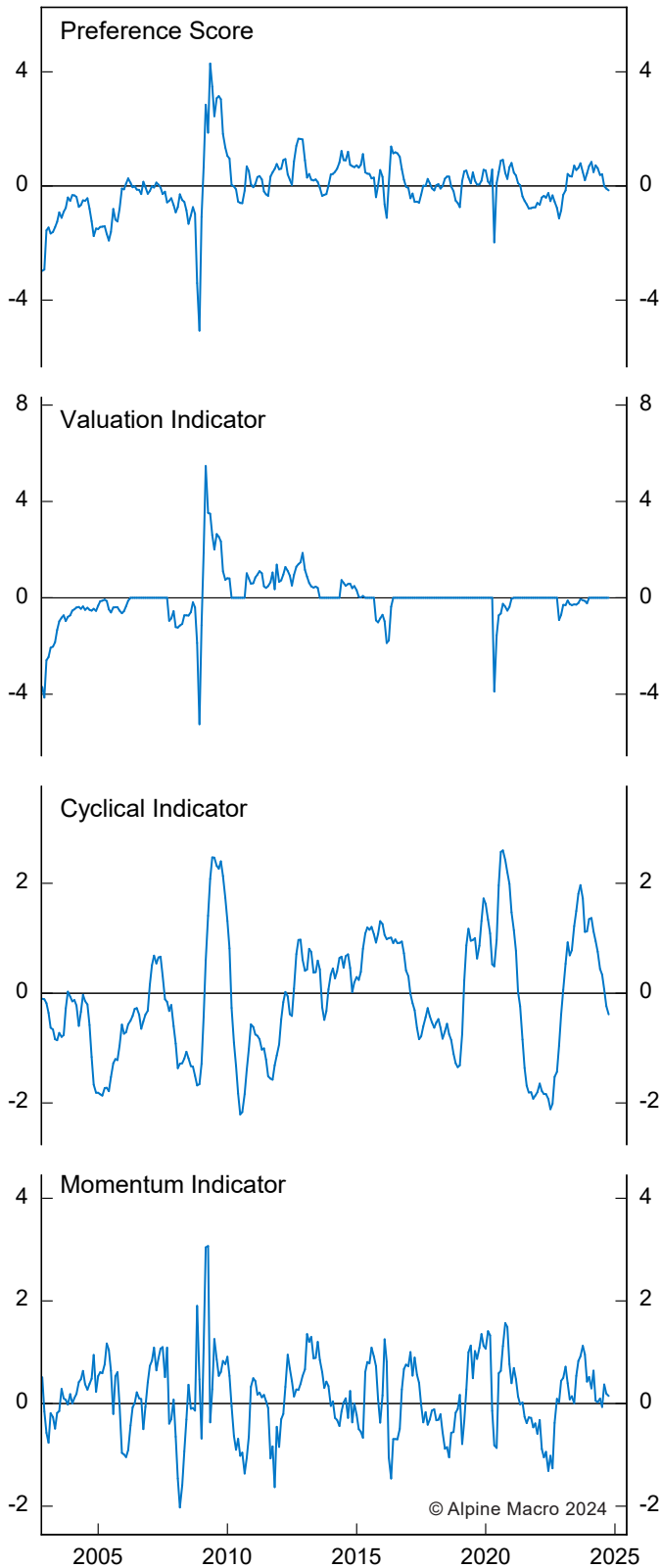
Capital Goods: Defense



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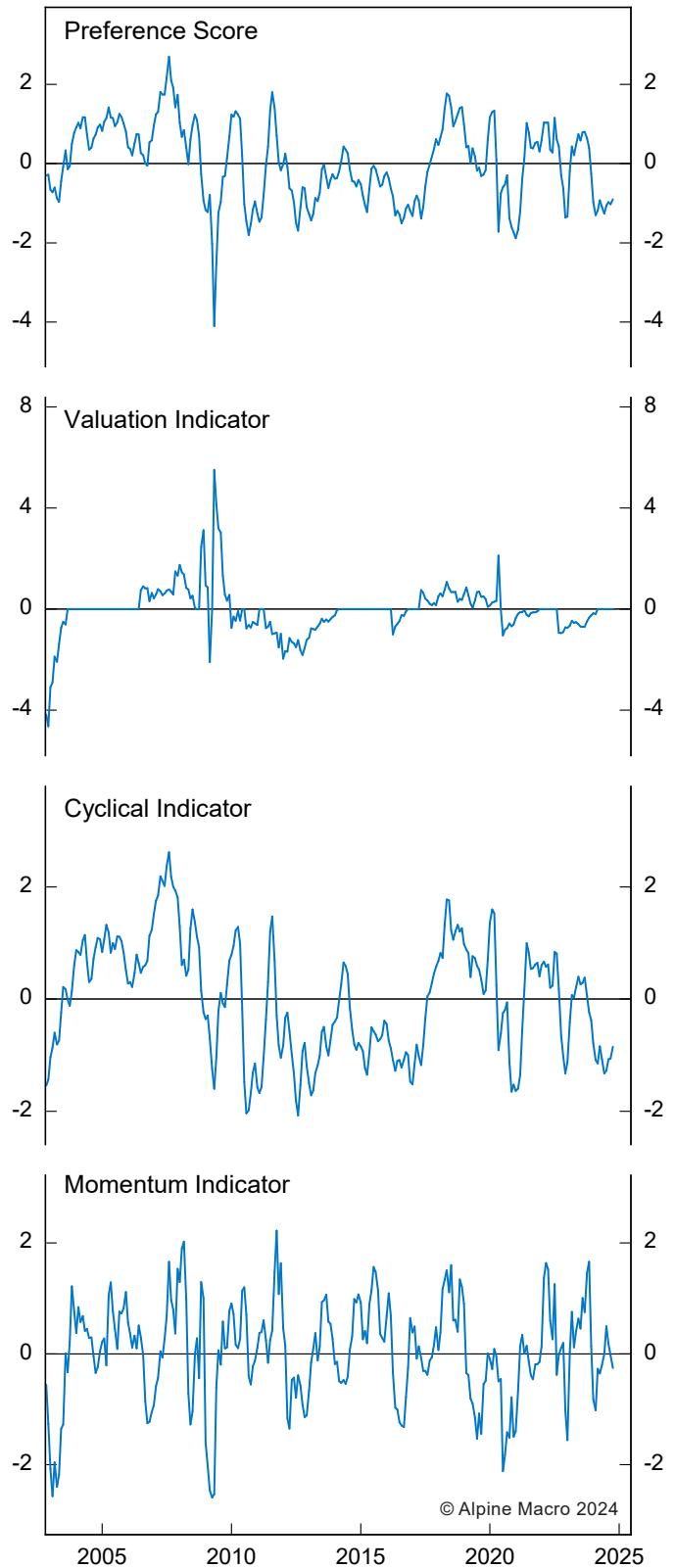


Capital Goods: Materials



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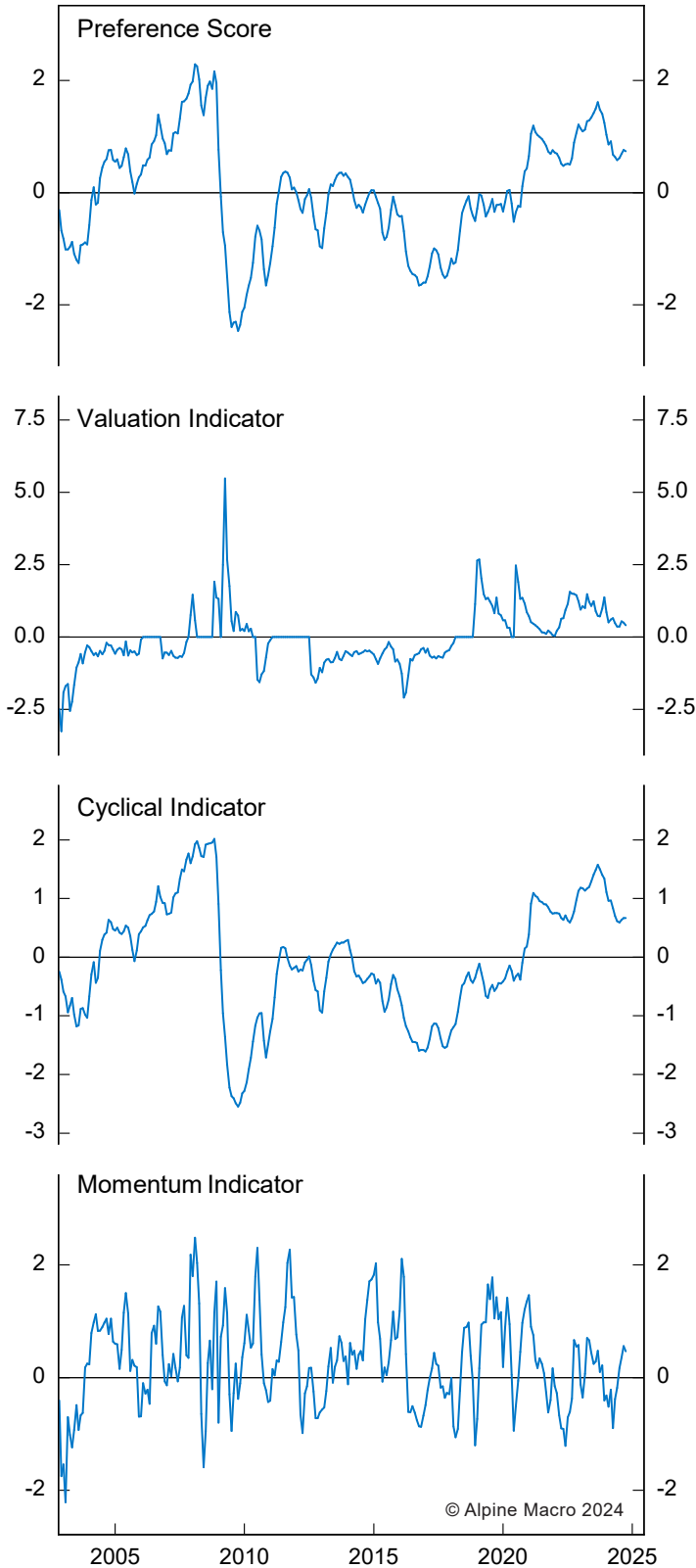
Capital Goods: Machinery



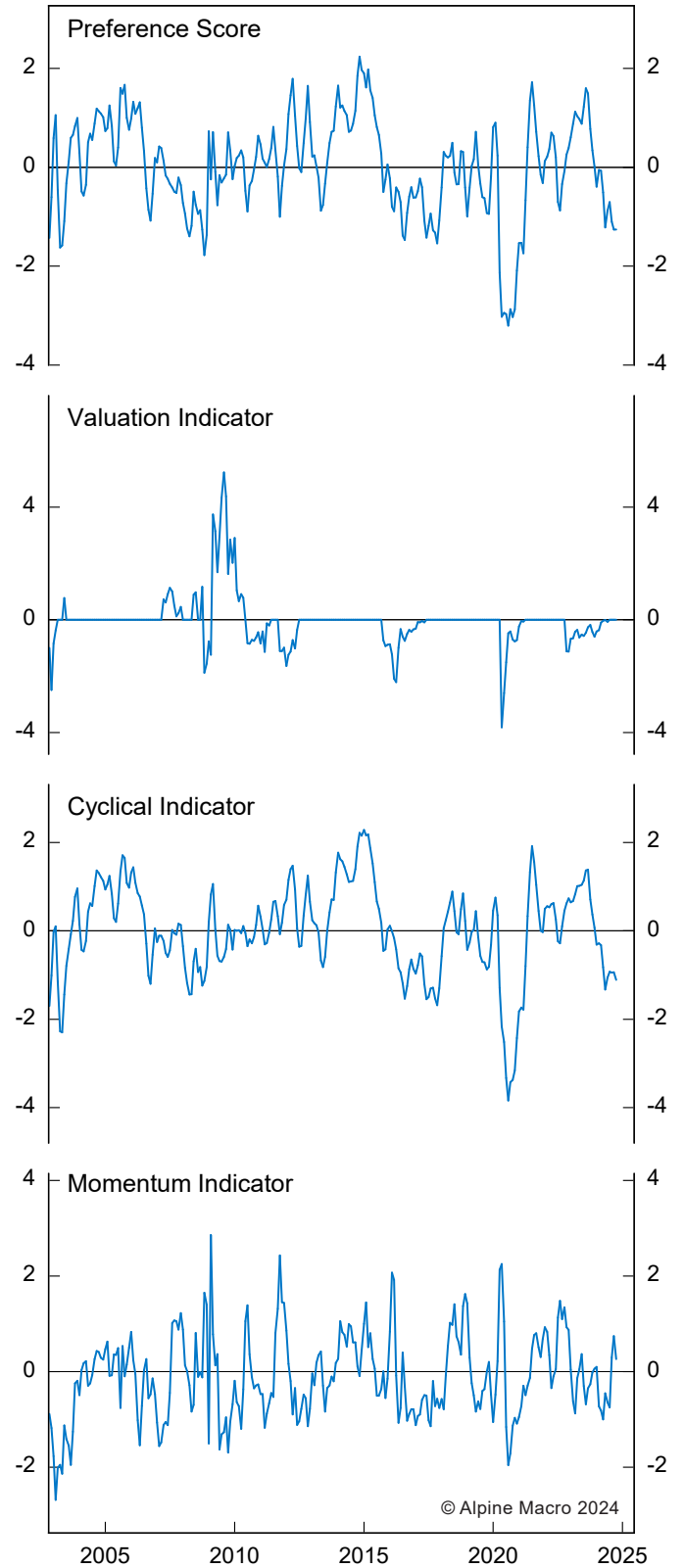
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Capital Goods: Manufacturing

Capital Goods: Environmental



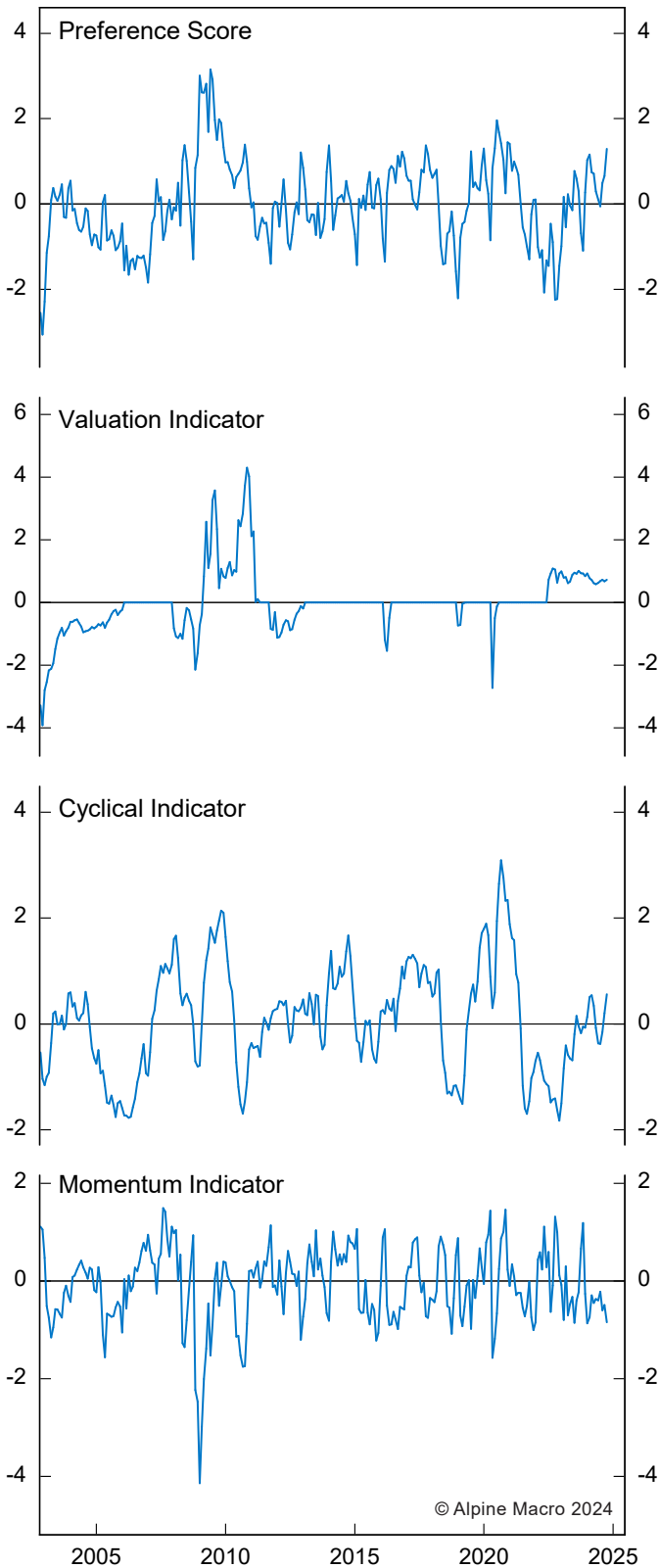
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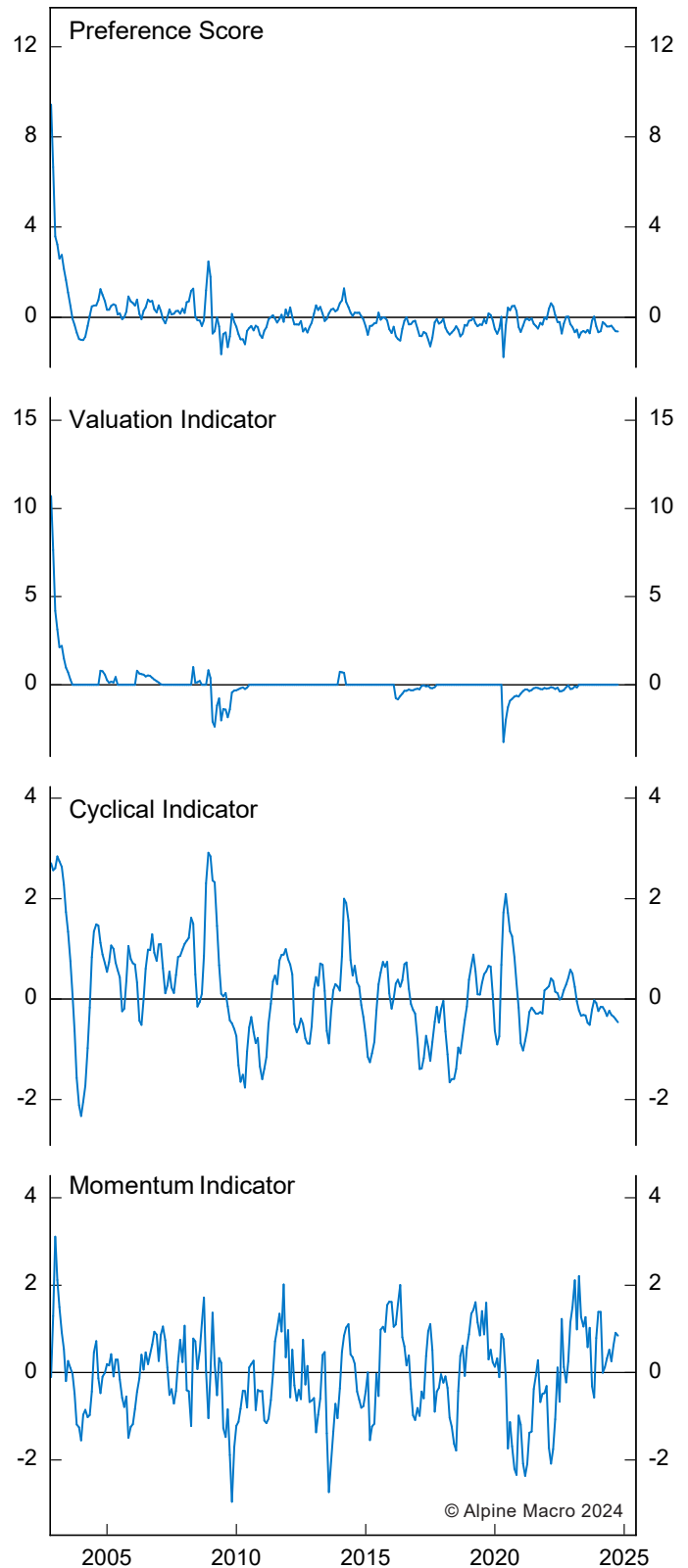


Capital Goods: Packaging



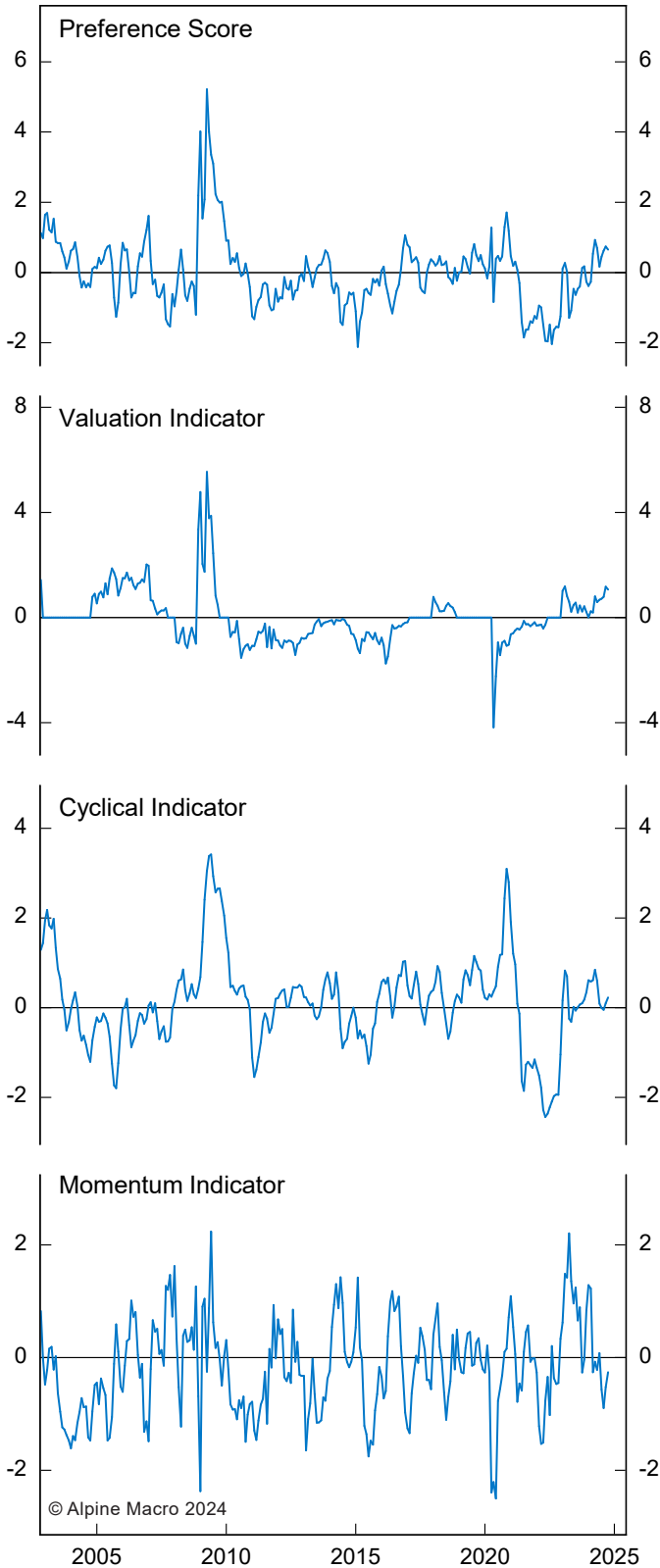
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Communications: Cable Satellite



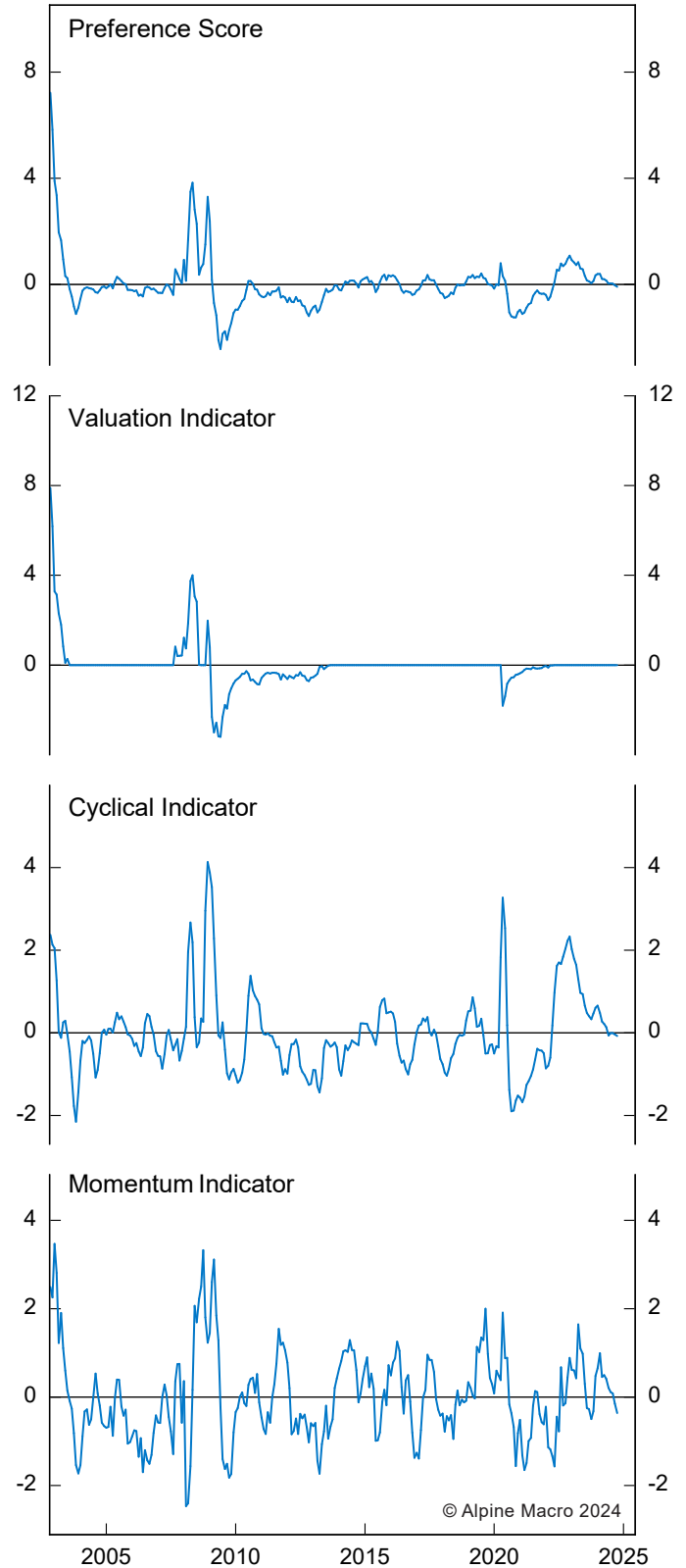
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Communications: Media Entertainment



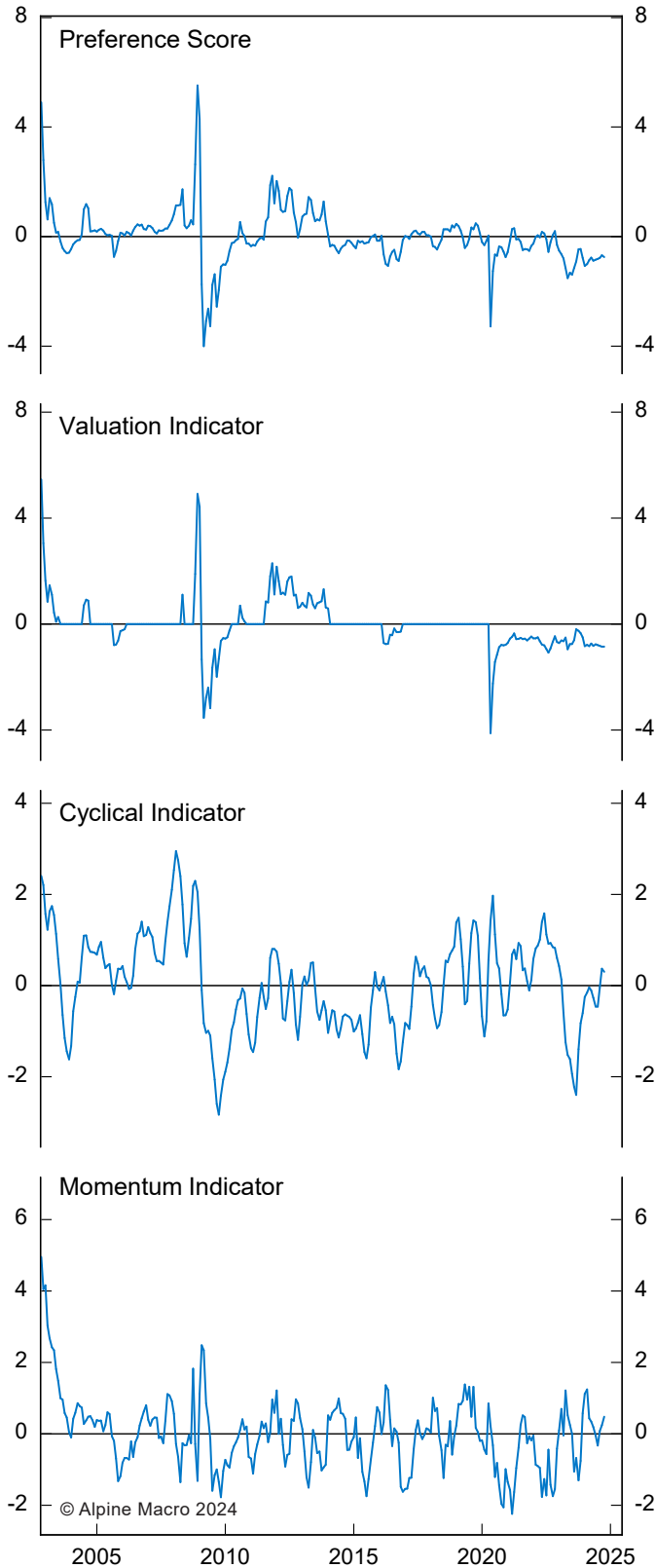
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Communications: Wireless

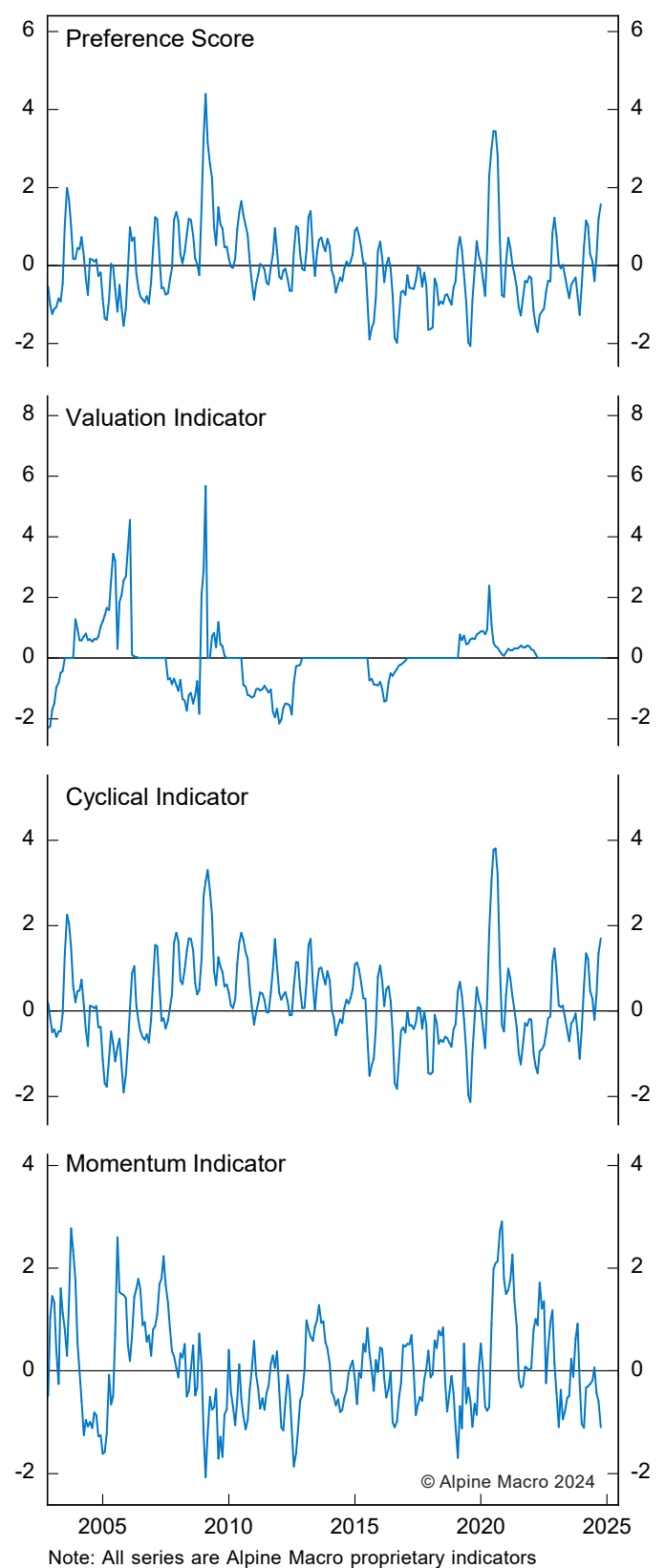


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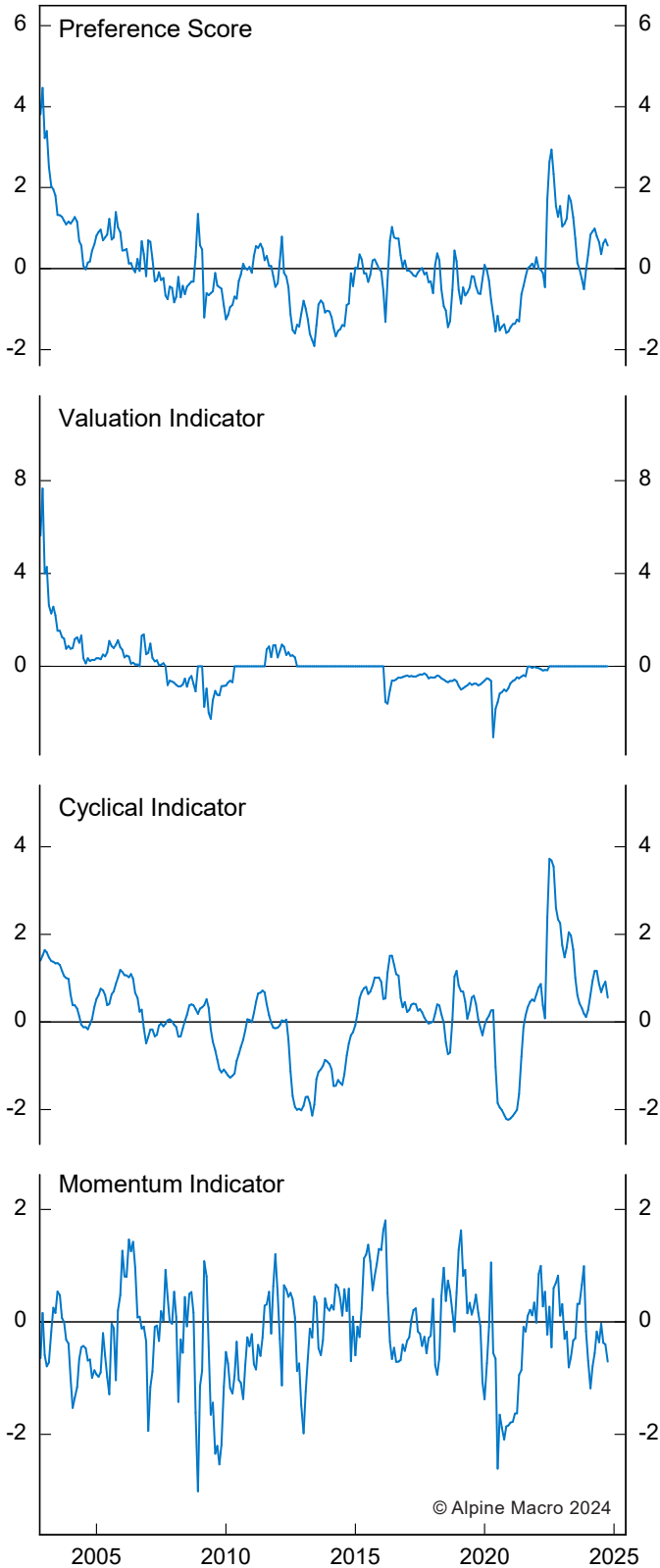
Communications: Wirelines



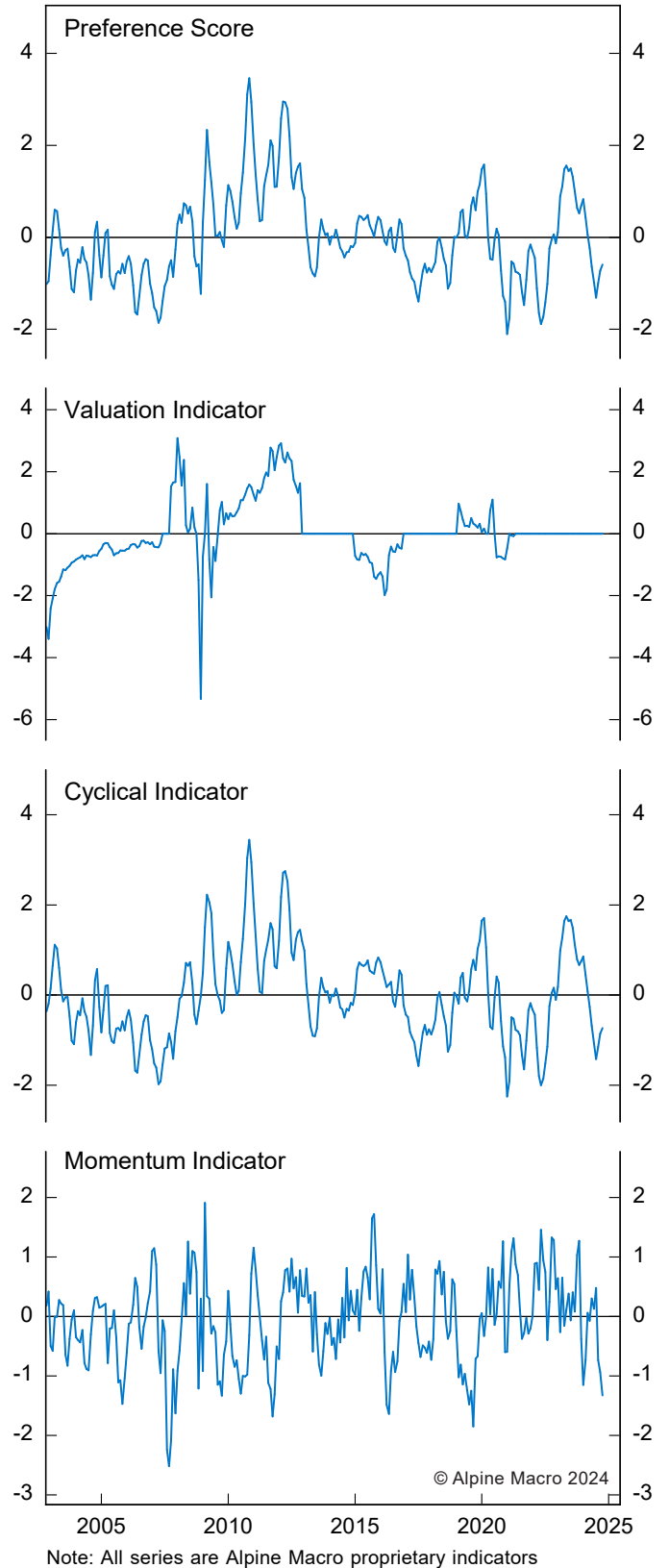
Consumer Cyclical: Automotive



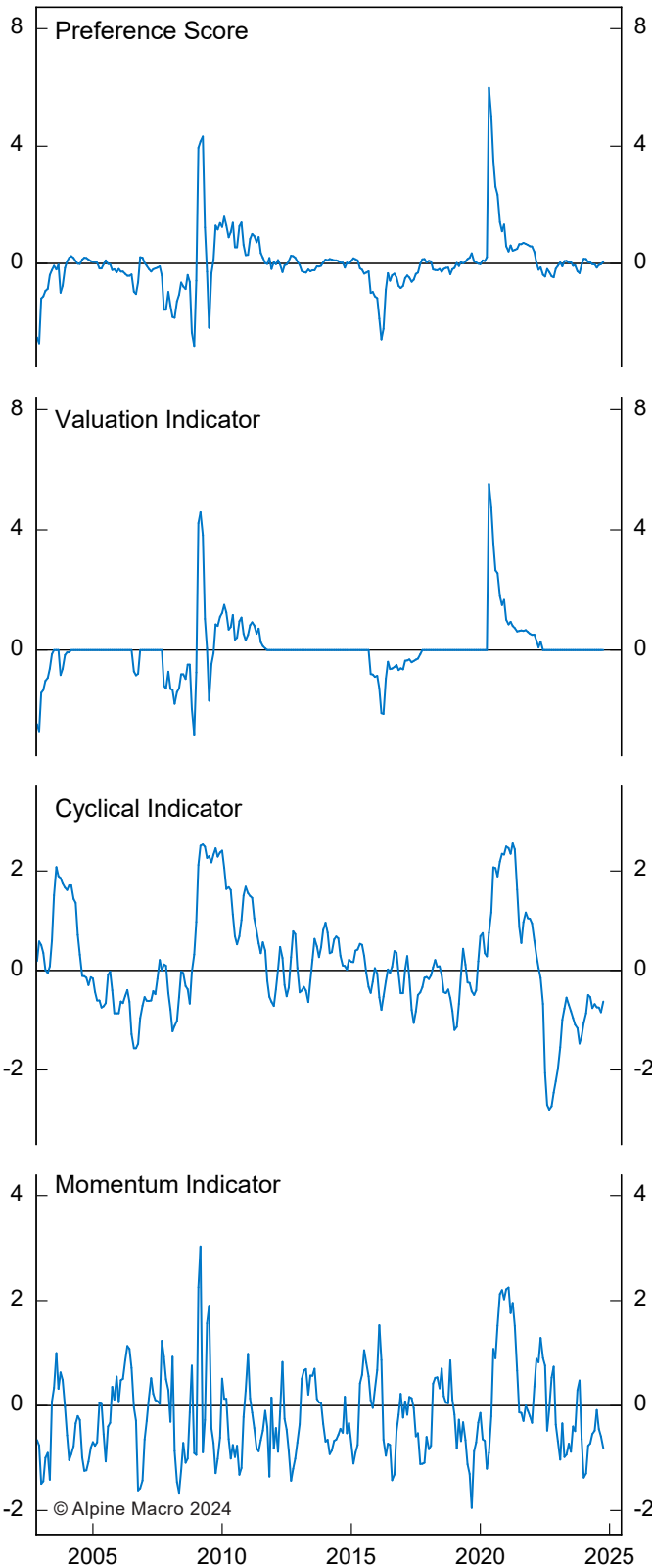
Consumer Cyclical: Services



Consumer Cyclical: Construction

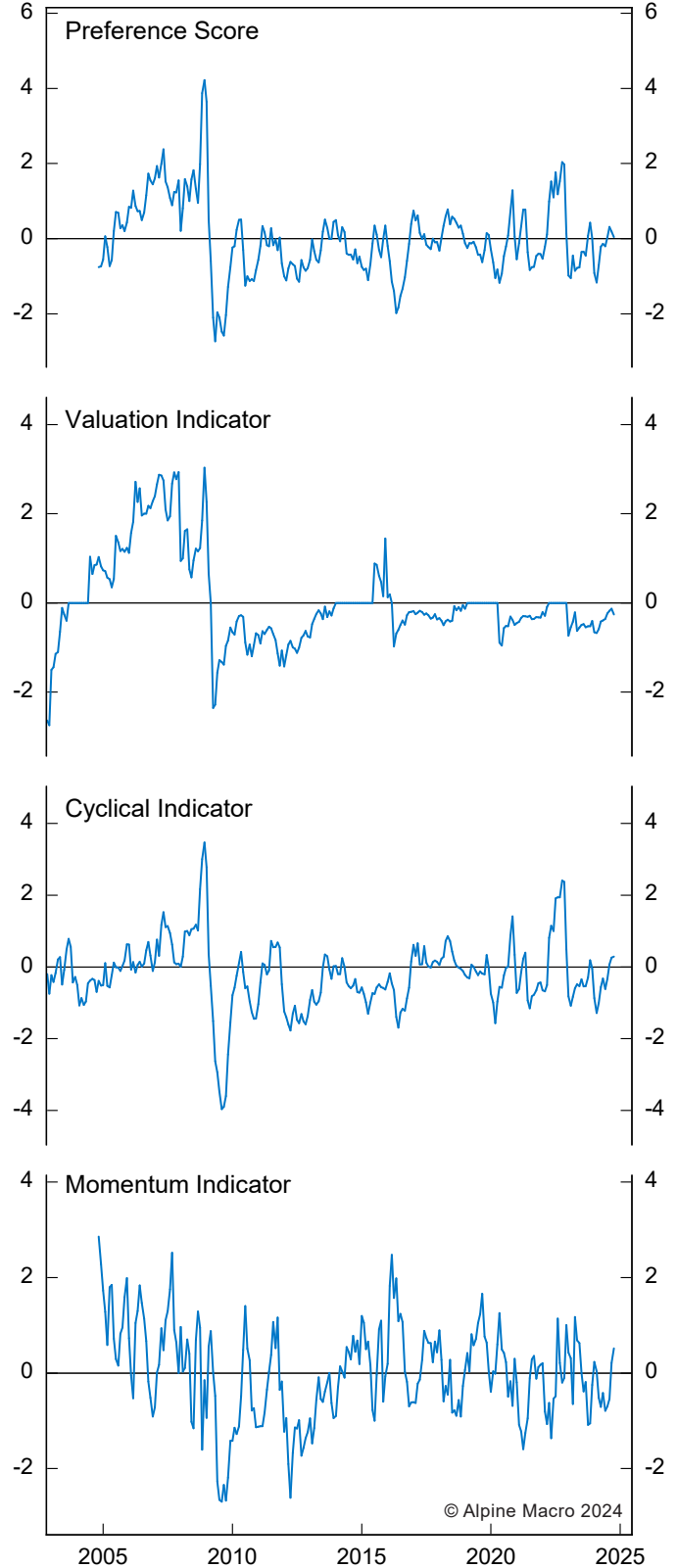


Consumer Cyclical: Lodging



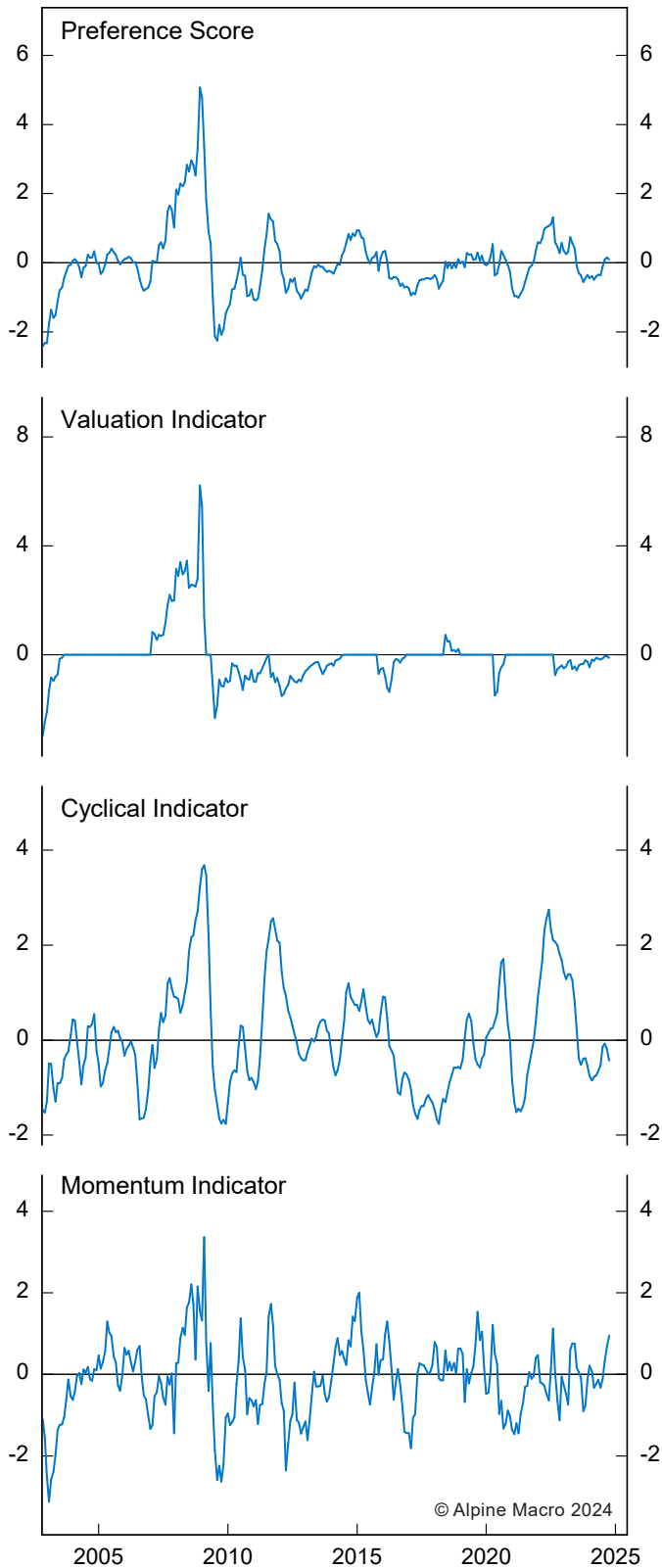
Note: All series are Alpine Macro proprietary indicators

Consumer Cyclical: Restaurants



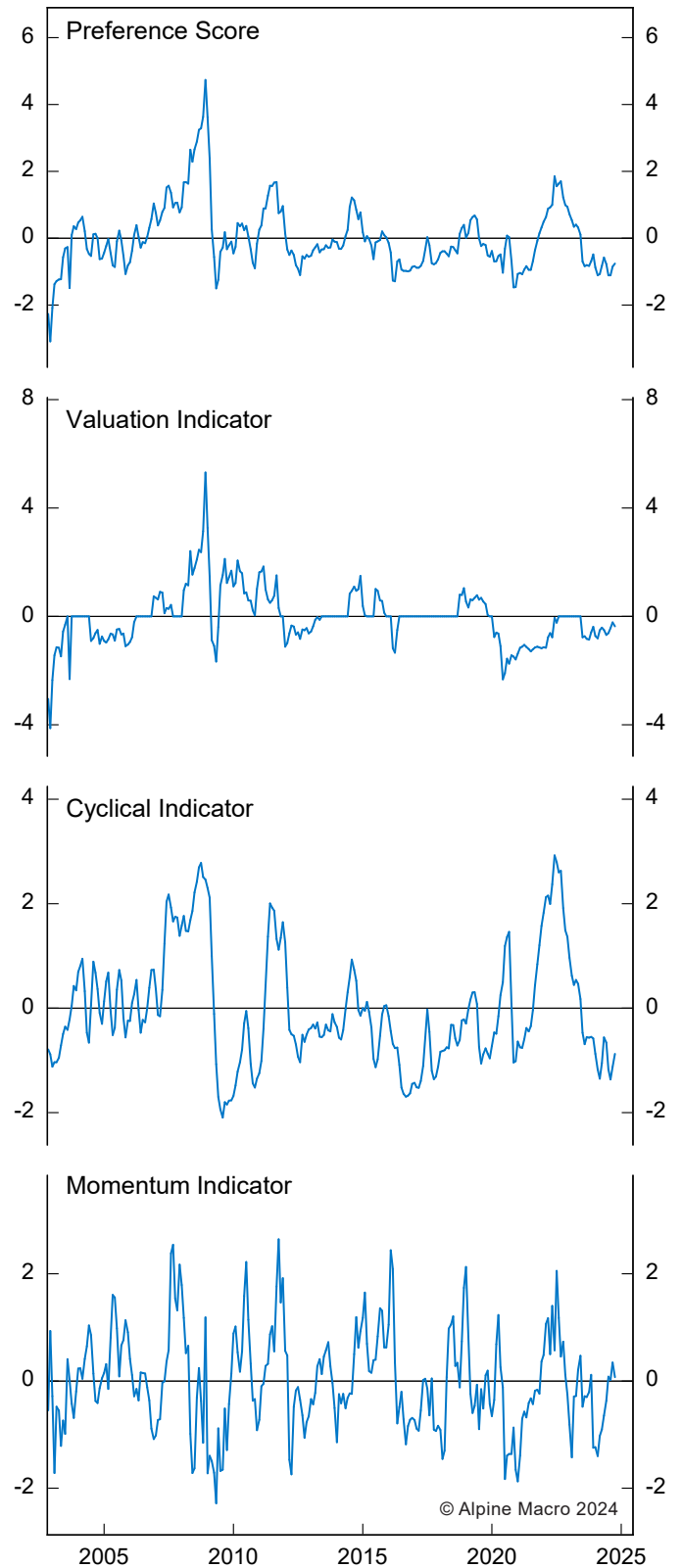
Note: All series are Alpine Macro proprietary indicators

Consumer Cyclical: Retailers



Note: All series are Alpine Macro proprietary indicators

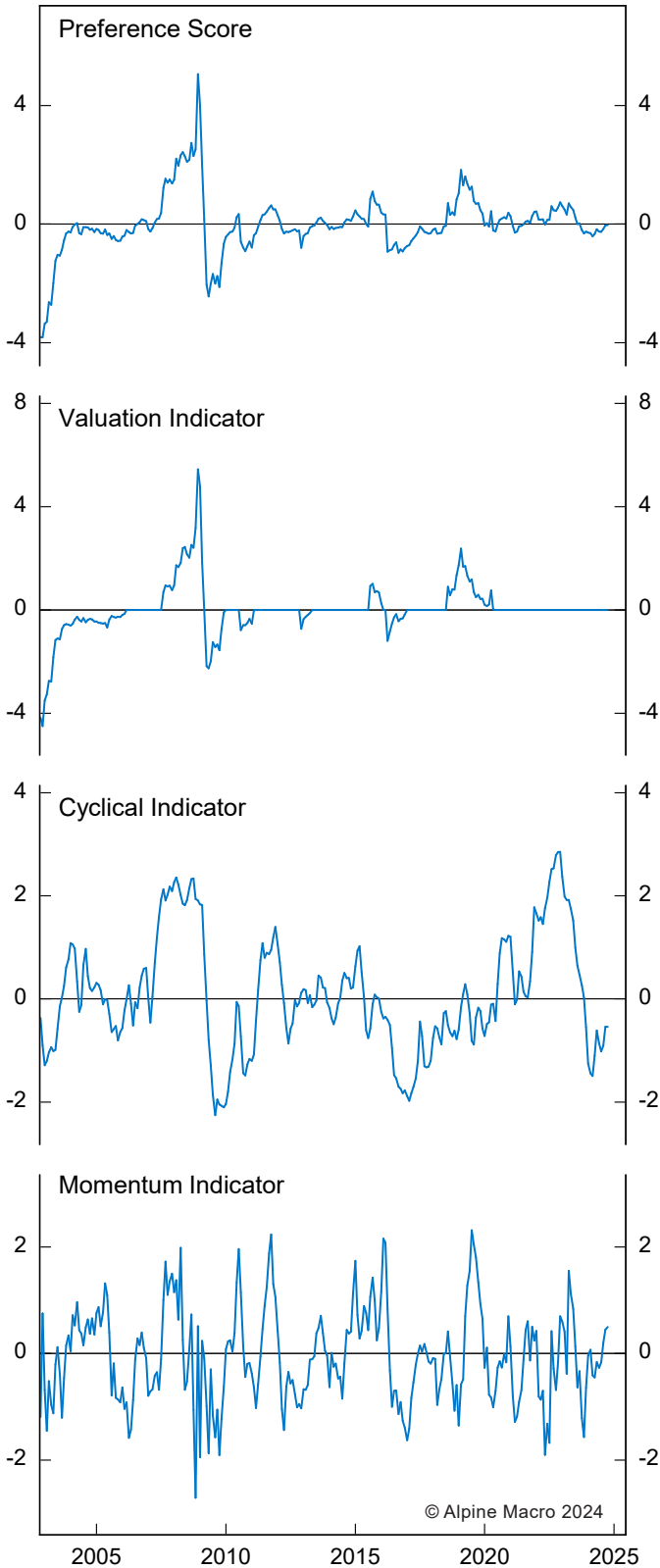
Consumer Non-Cyclical: Consumer Products



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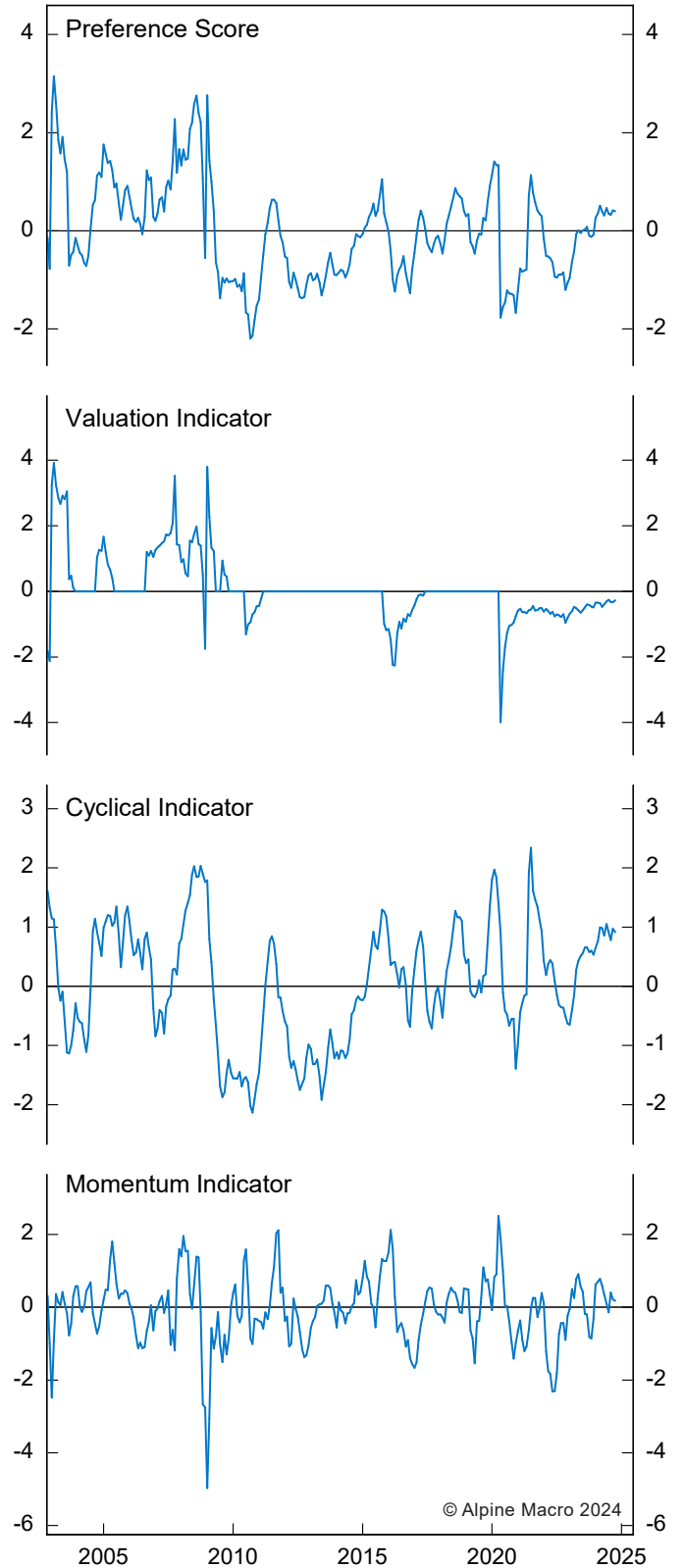


Consumer Non-Cyclical: Food & Beverage



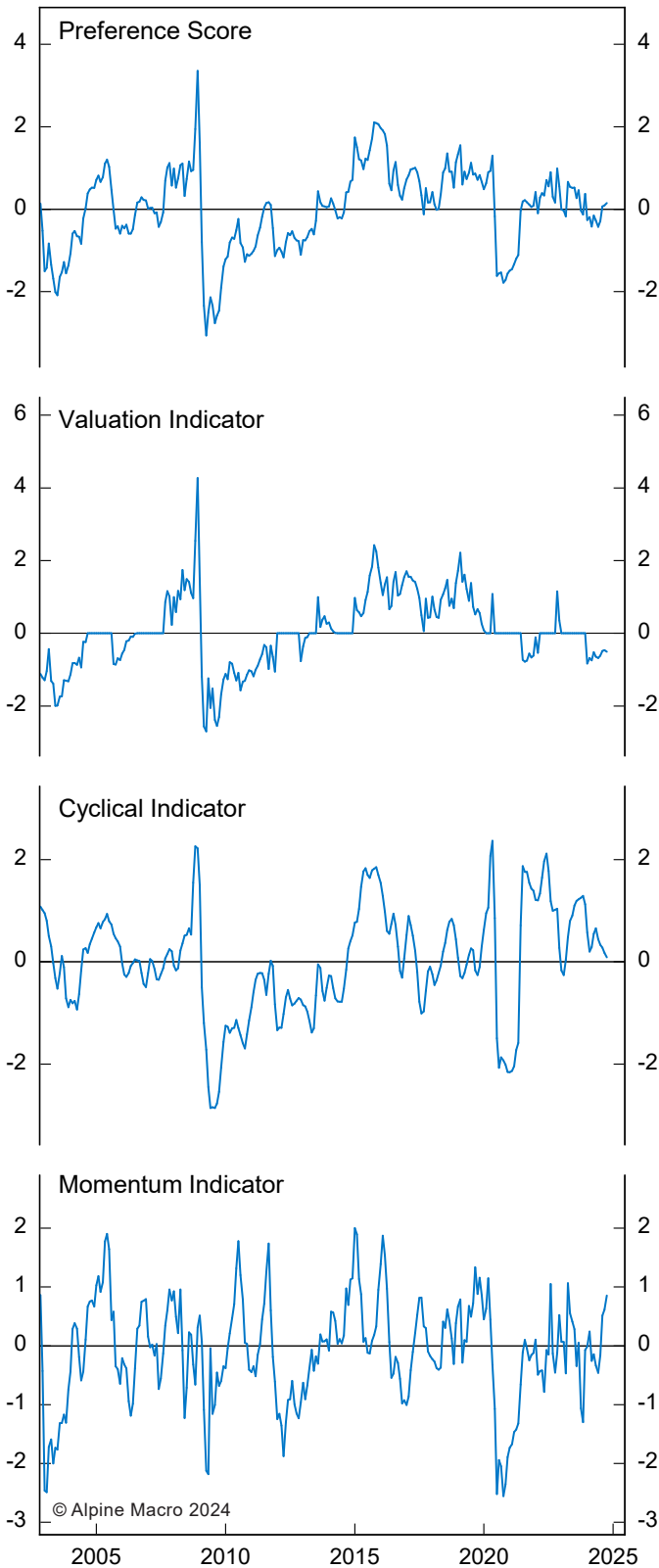
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Consumer Non-Cyclical: Healthcare



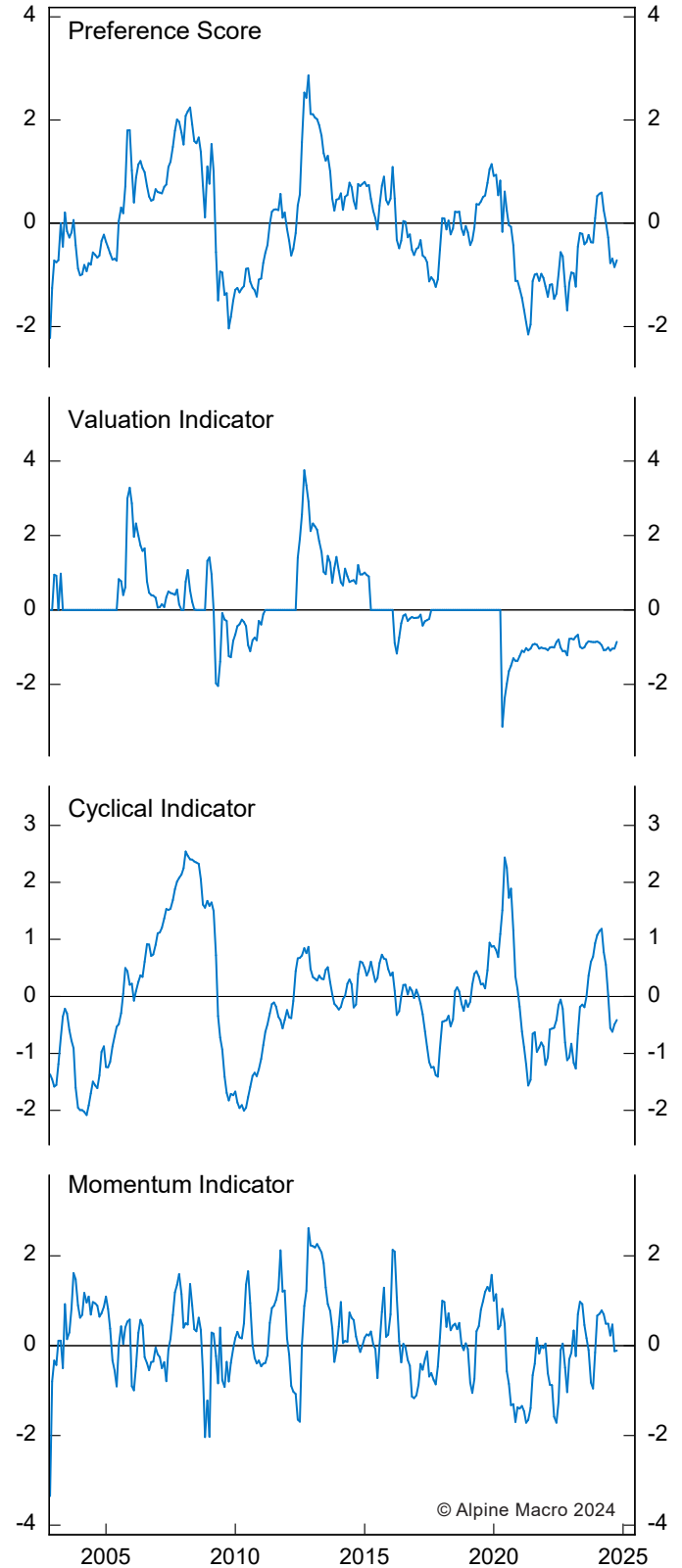
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Consumer Non-Cyclical: Pharmaceuticals



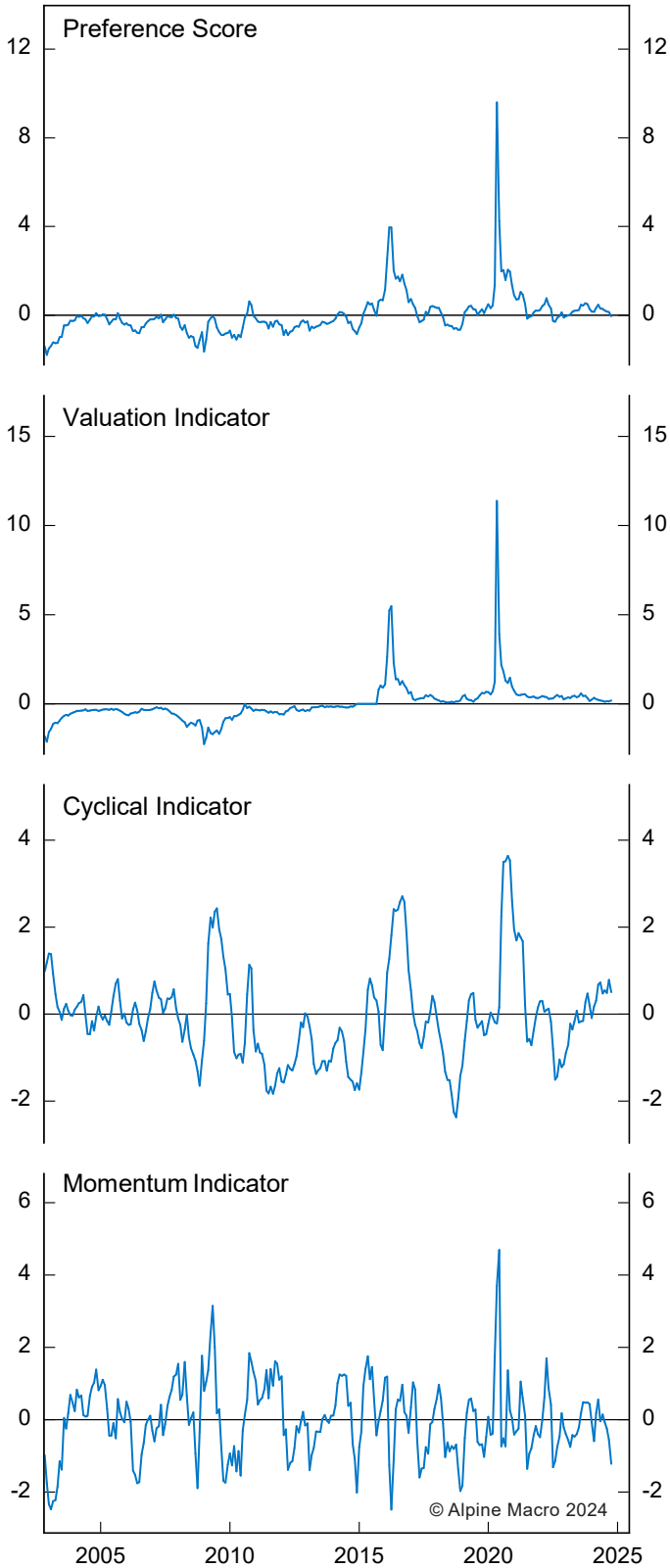
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Consumer Non-Cyclical: Supermarkets



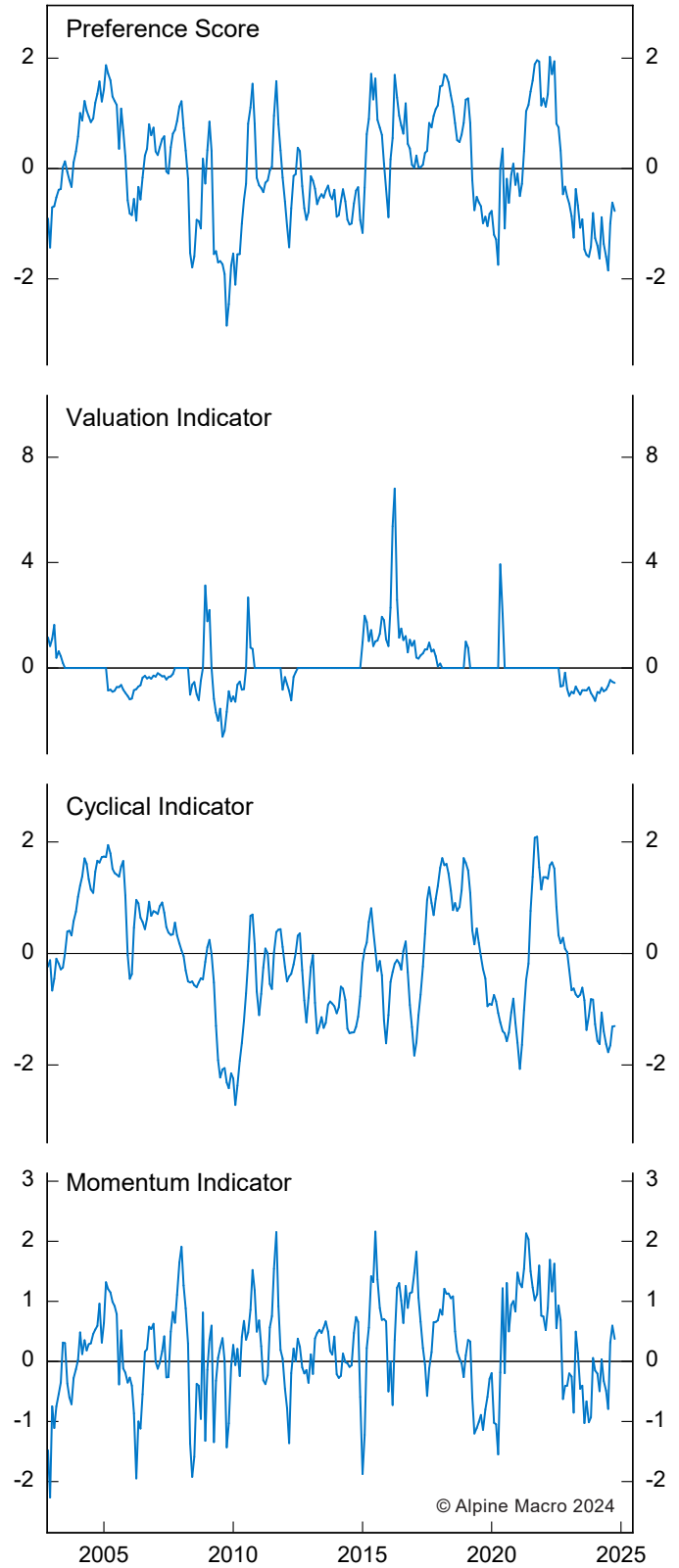
Note: All series are Alpine Macro proprietary indicators

Energy: Independent Energy



Note: All series are Alpine Macro proprietary indicators

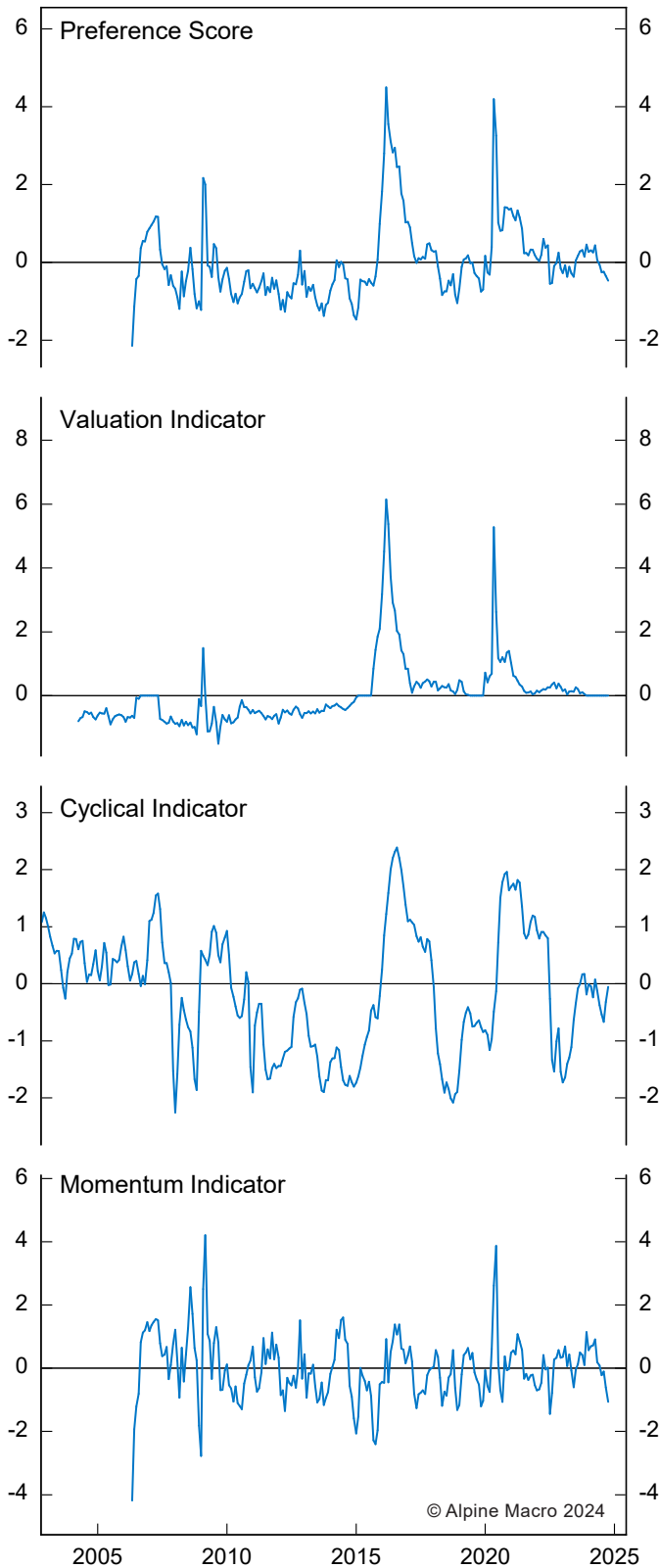
Energy: Integrated Energy



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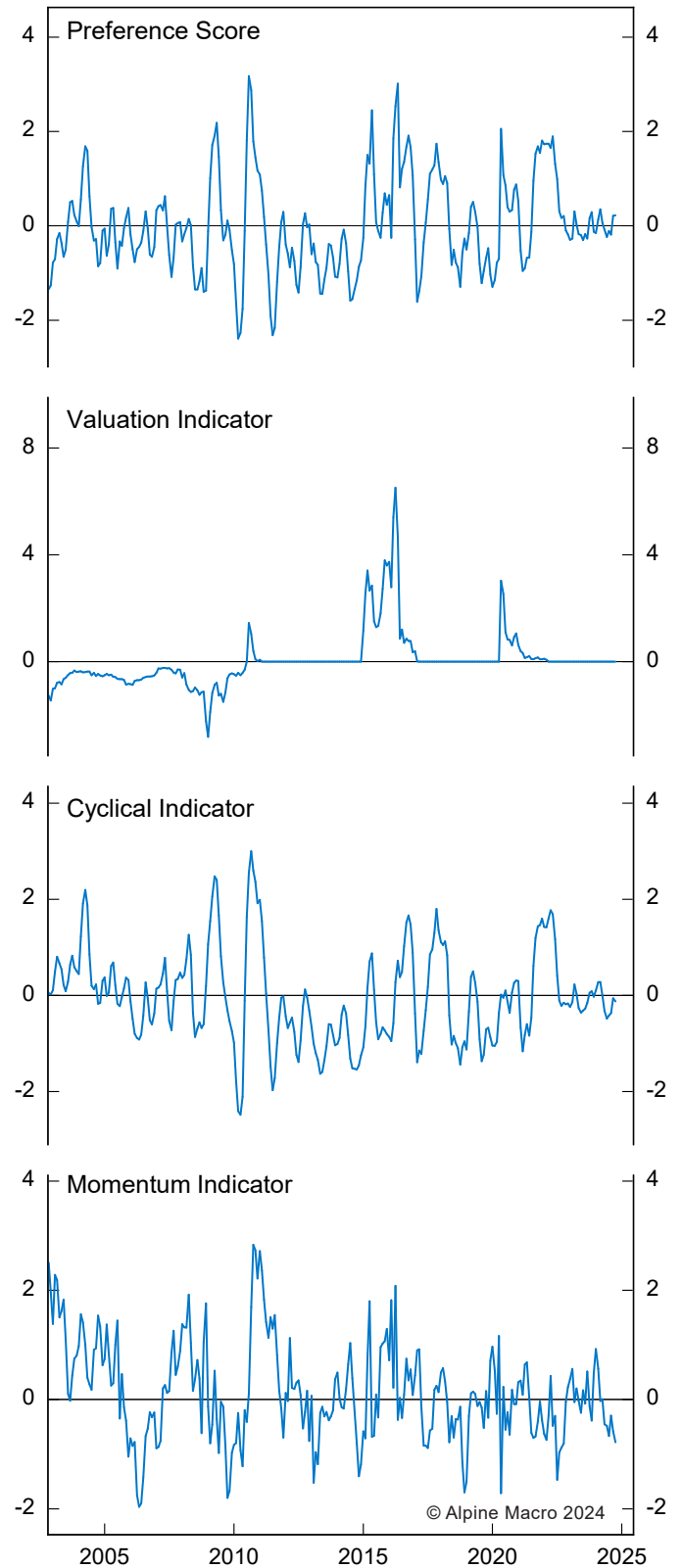


Energy: Midstream



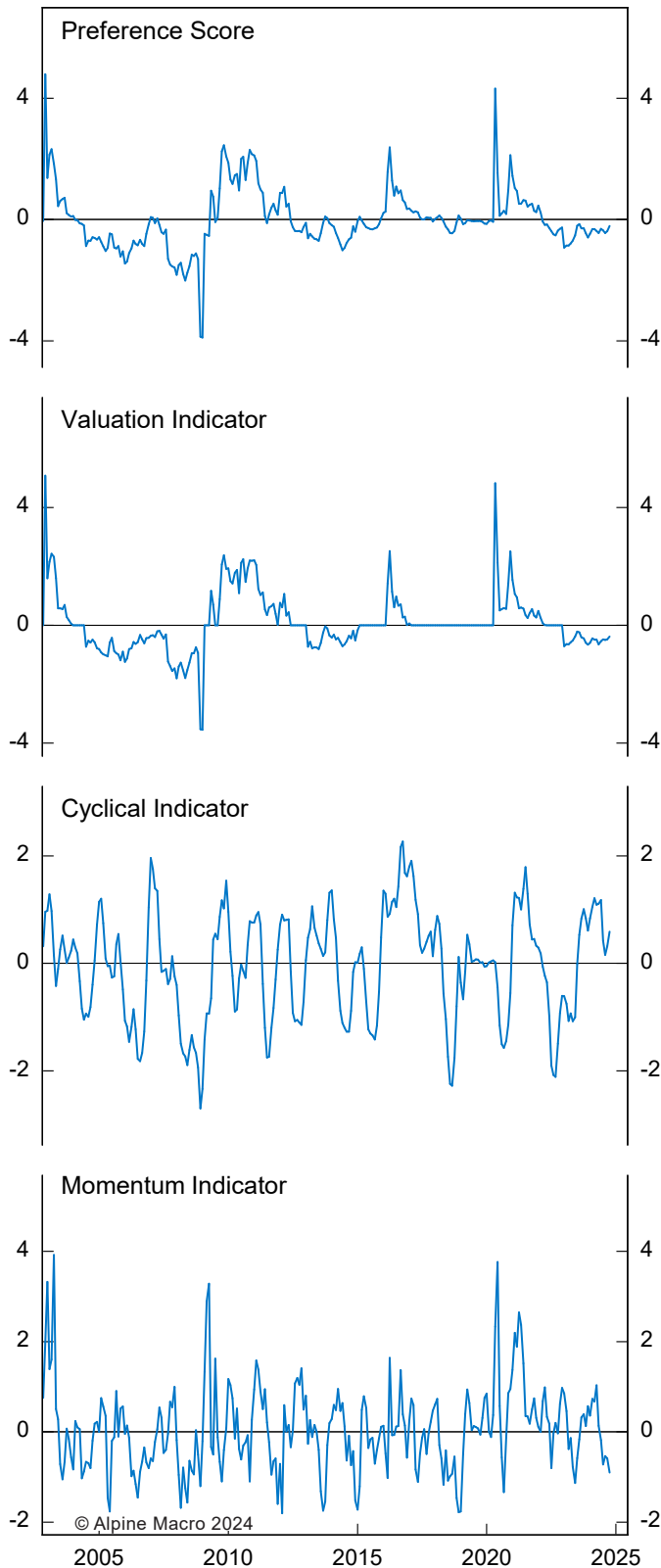
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Energy: Oil Services



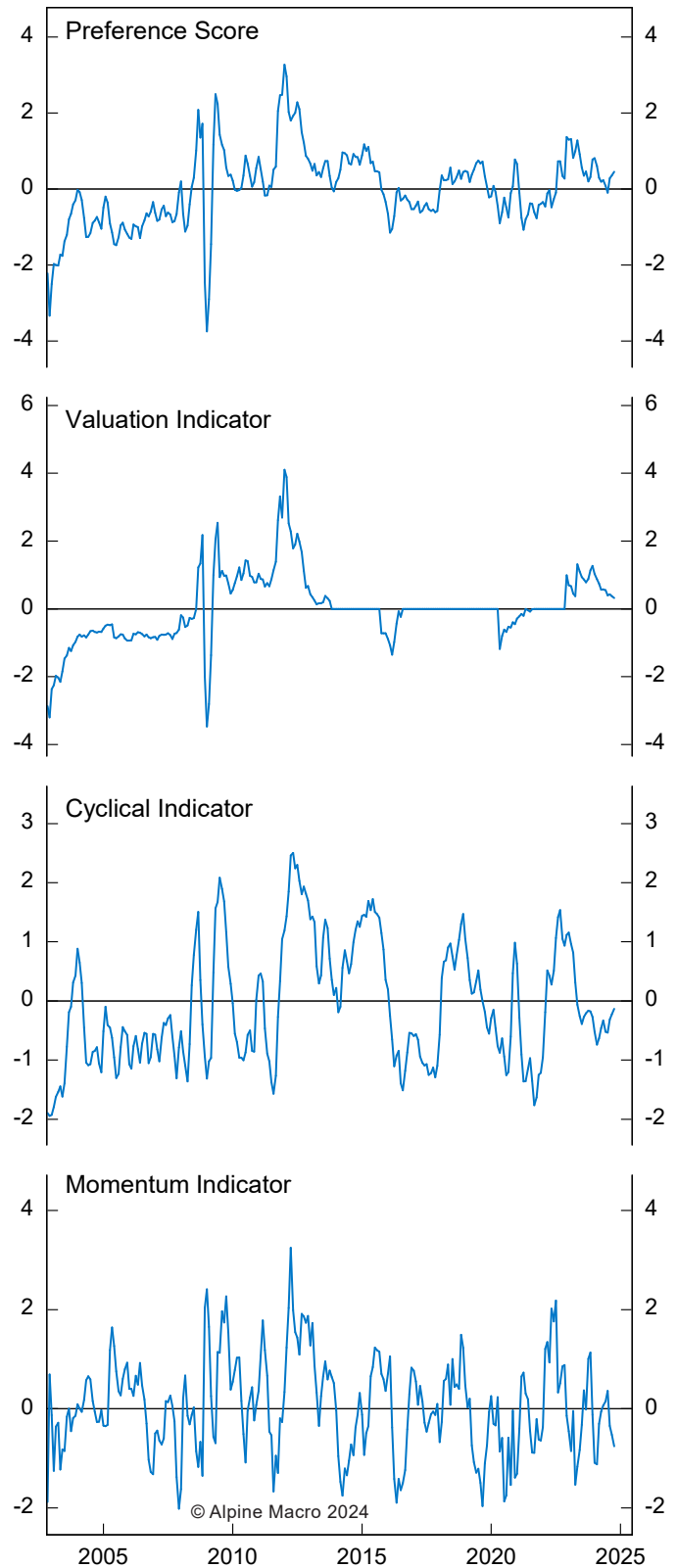
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Energy: Refining



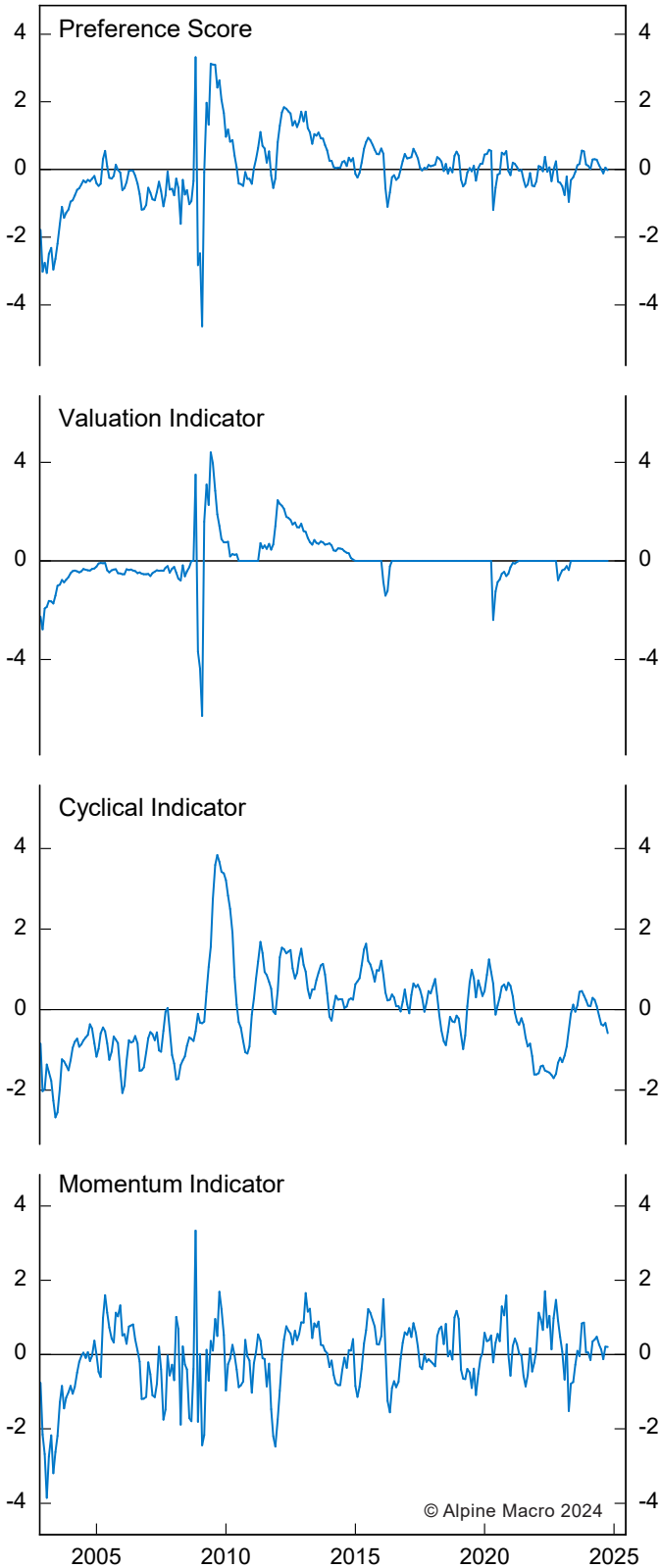
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Financial Institutions: Banking



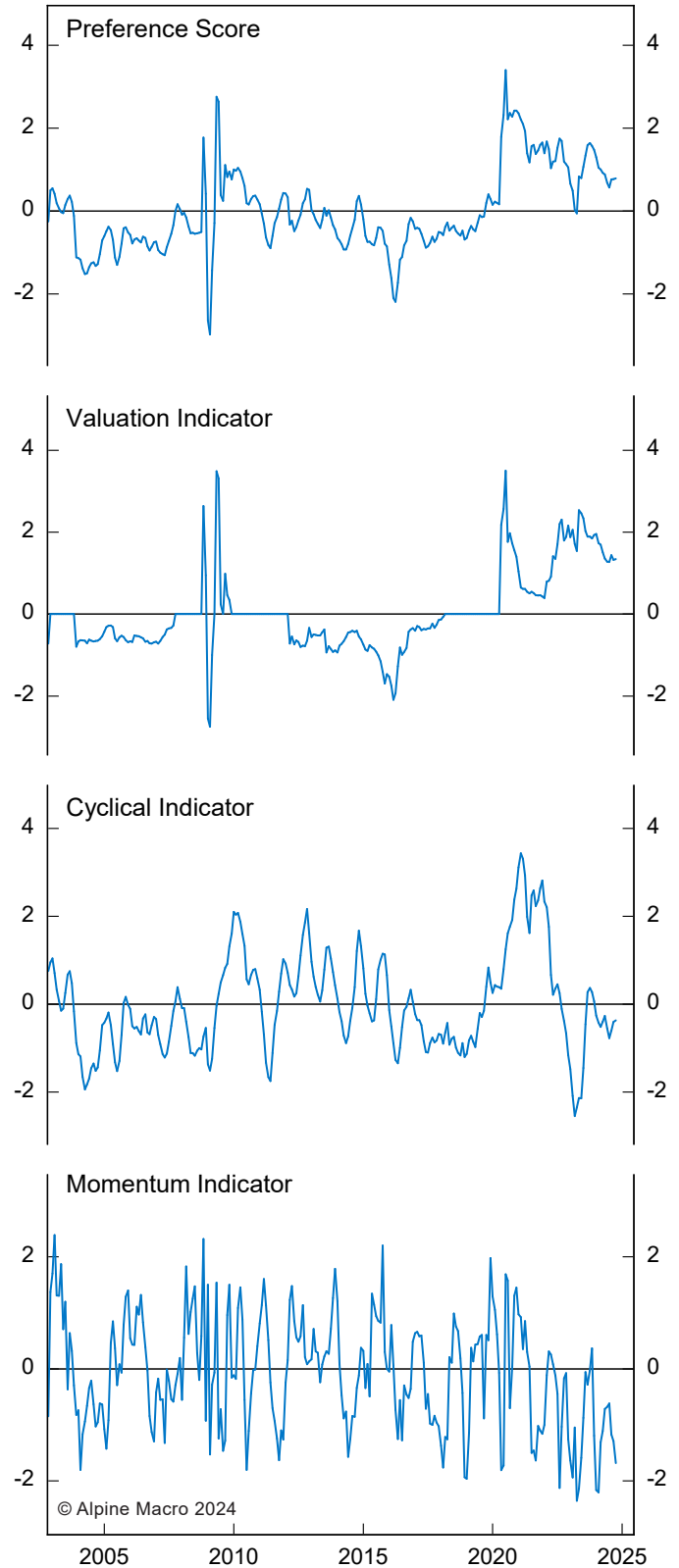
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Financial Institutions: Brokerage Exchanges



Note: All series are Alpine Macro proprietary indicators

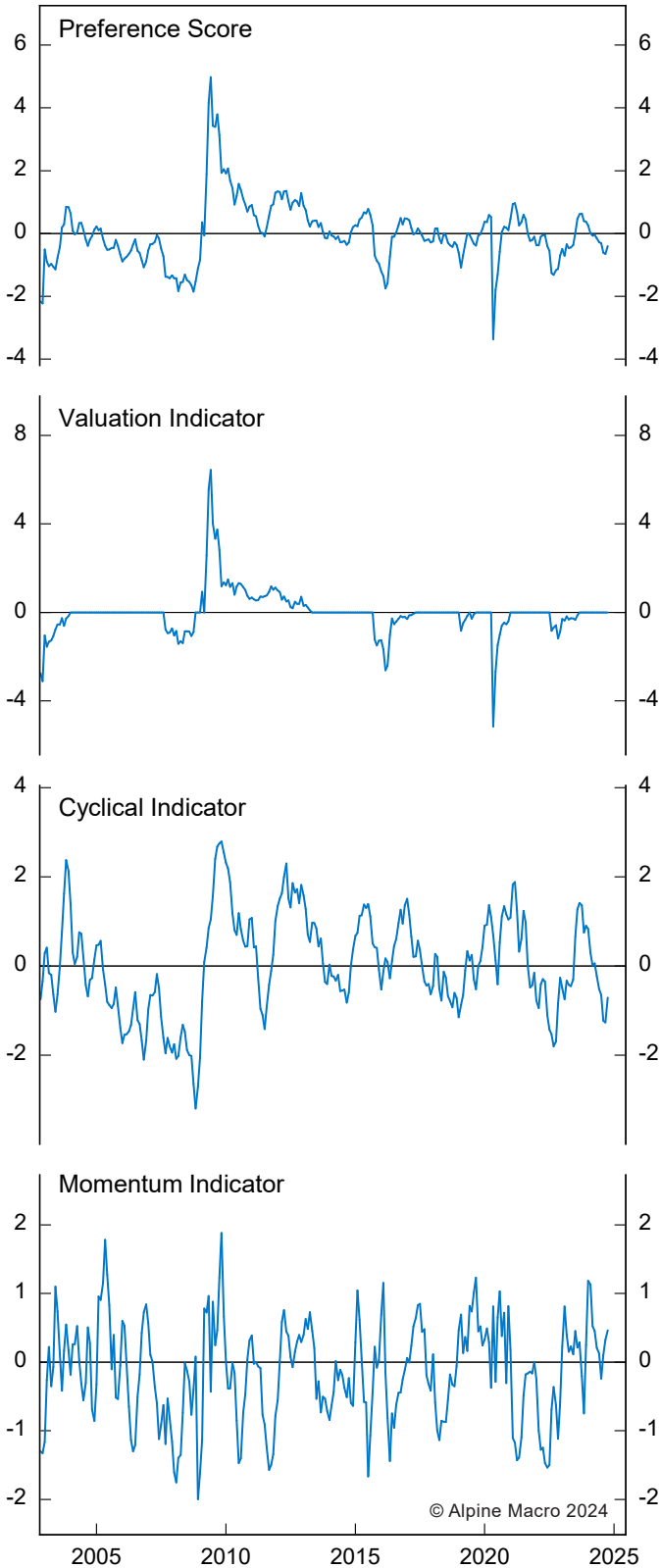
Financial Institutions: Finance Companies



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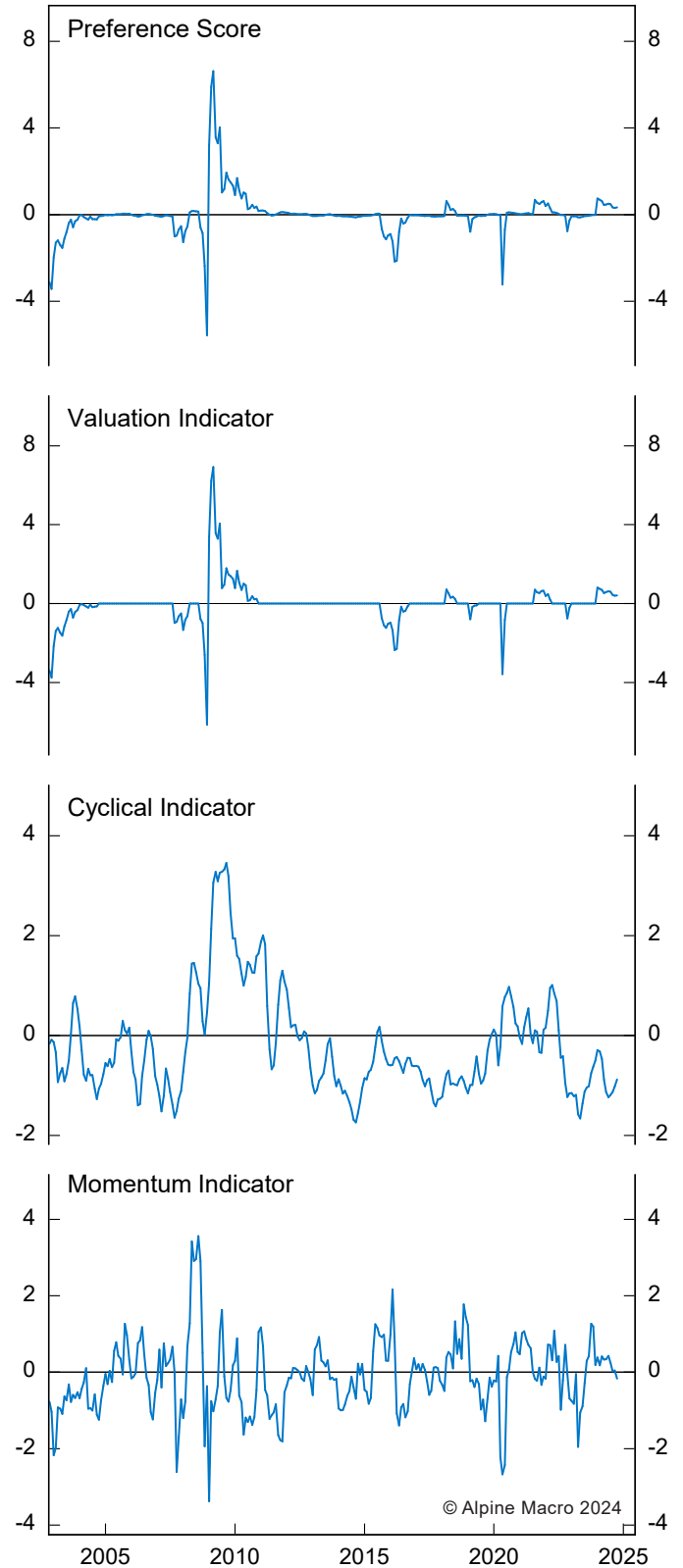


Financial Institutions: Insurance



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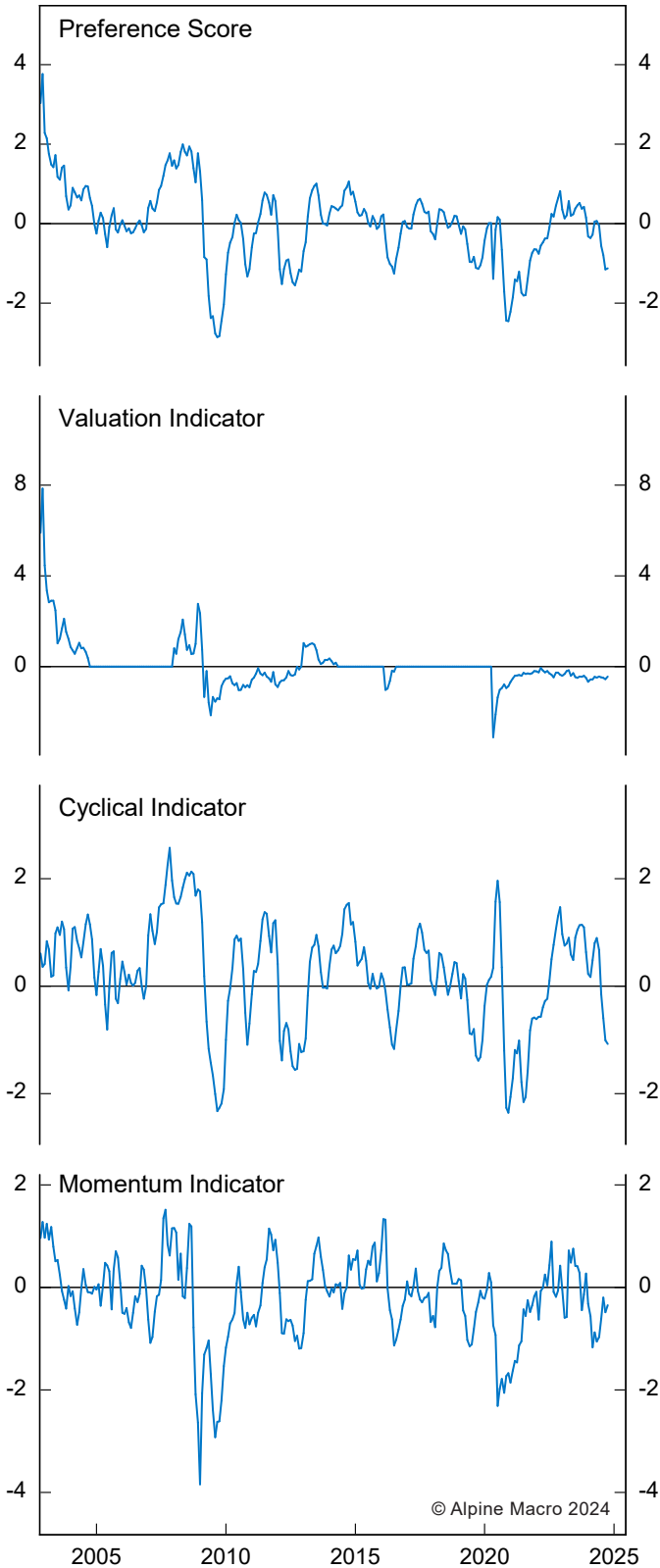
Financial Institutions: REITs



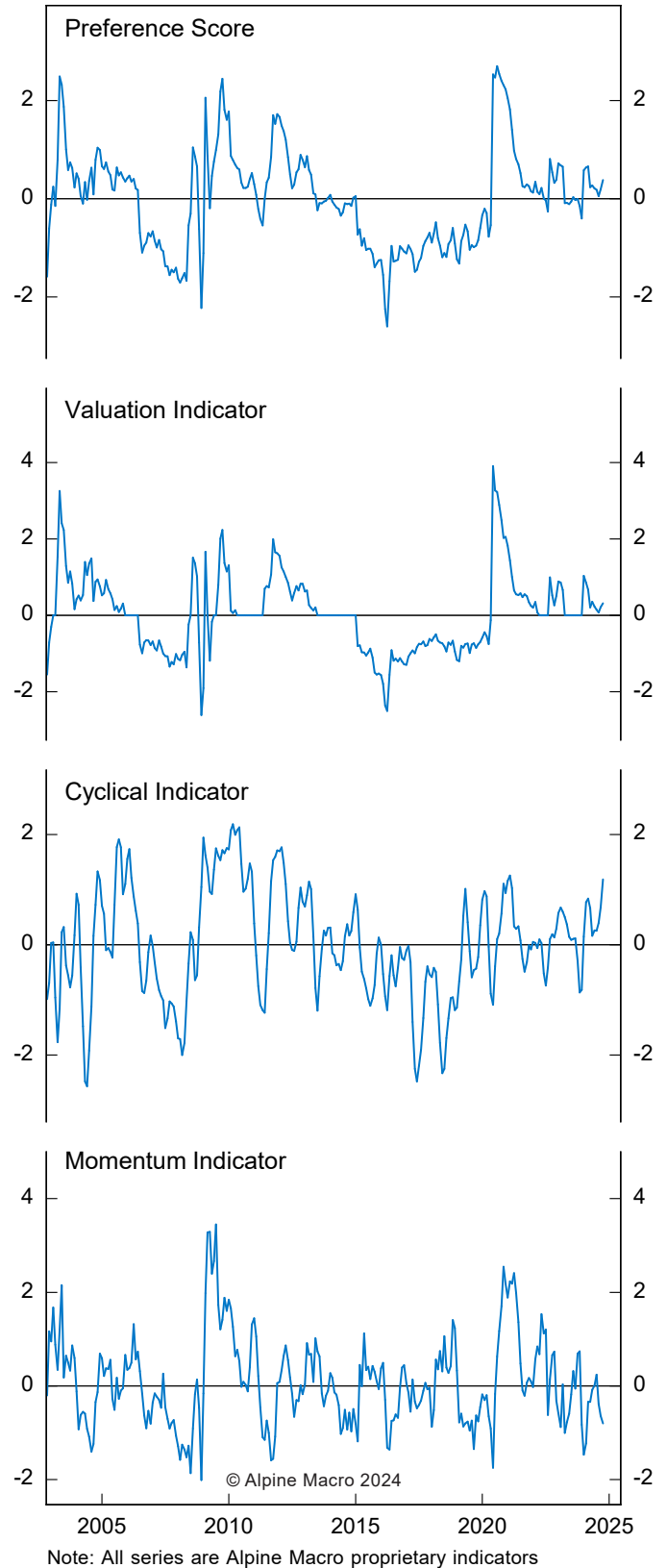
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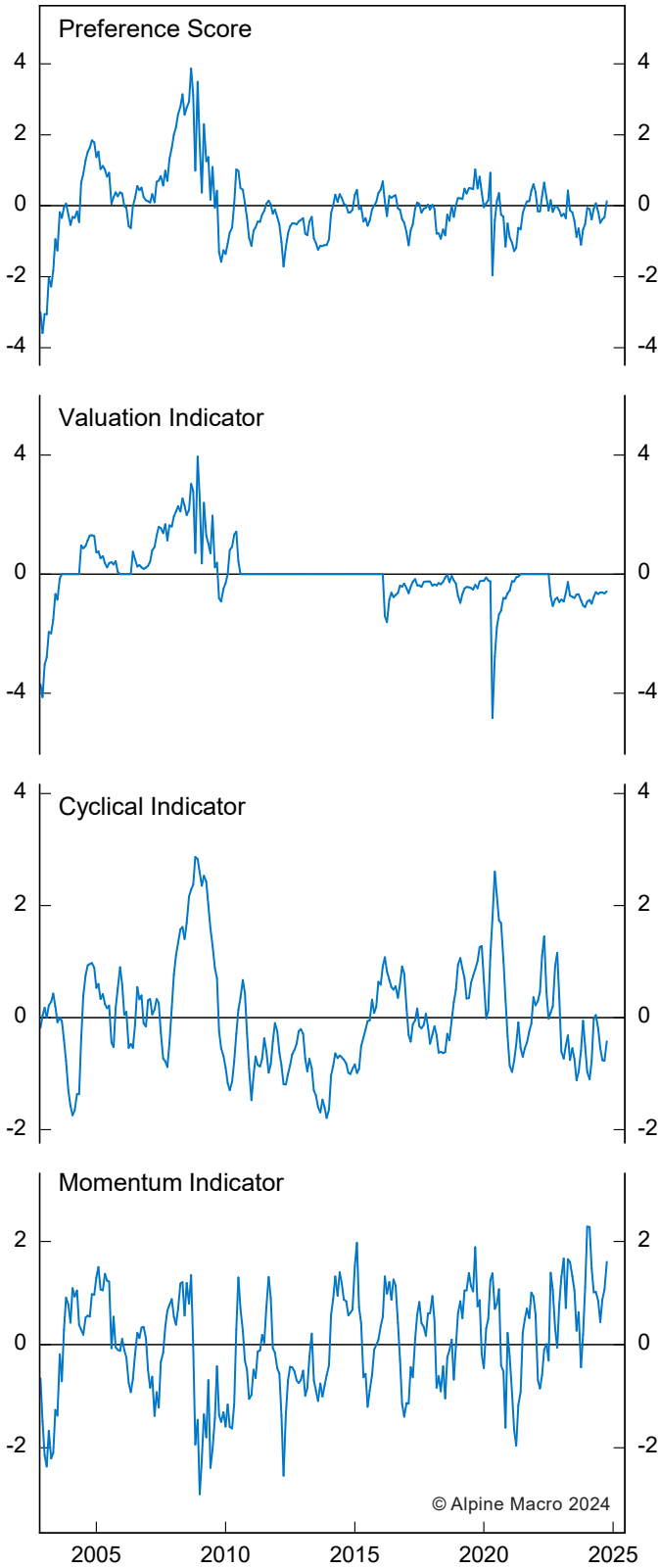
Technology



Transportation: Airlines

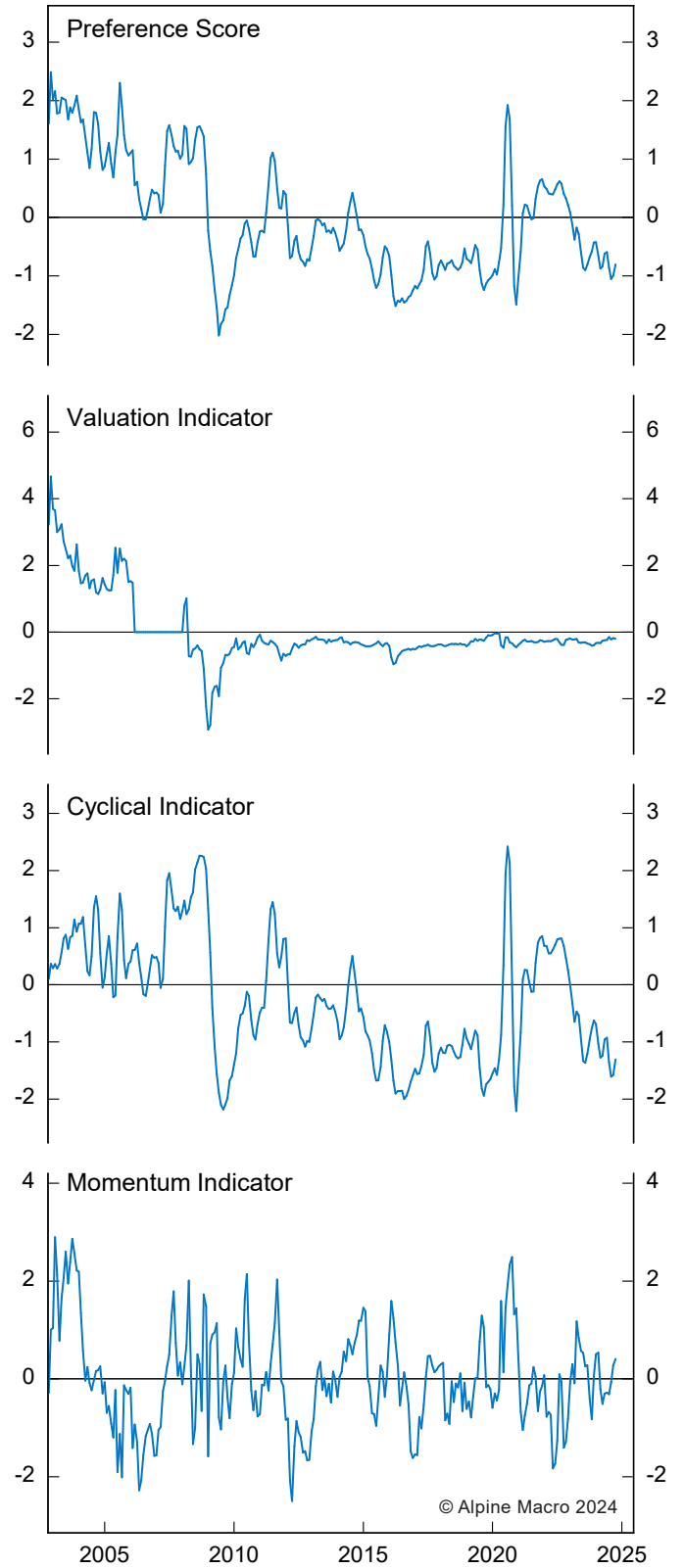


Transportation: Railroads



Note: All series are Alpine Macro proprietary indicators

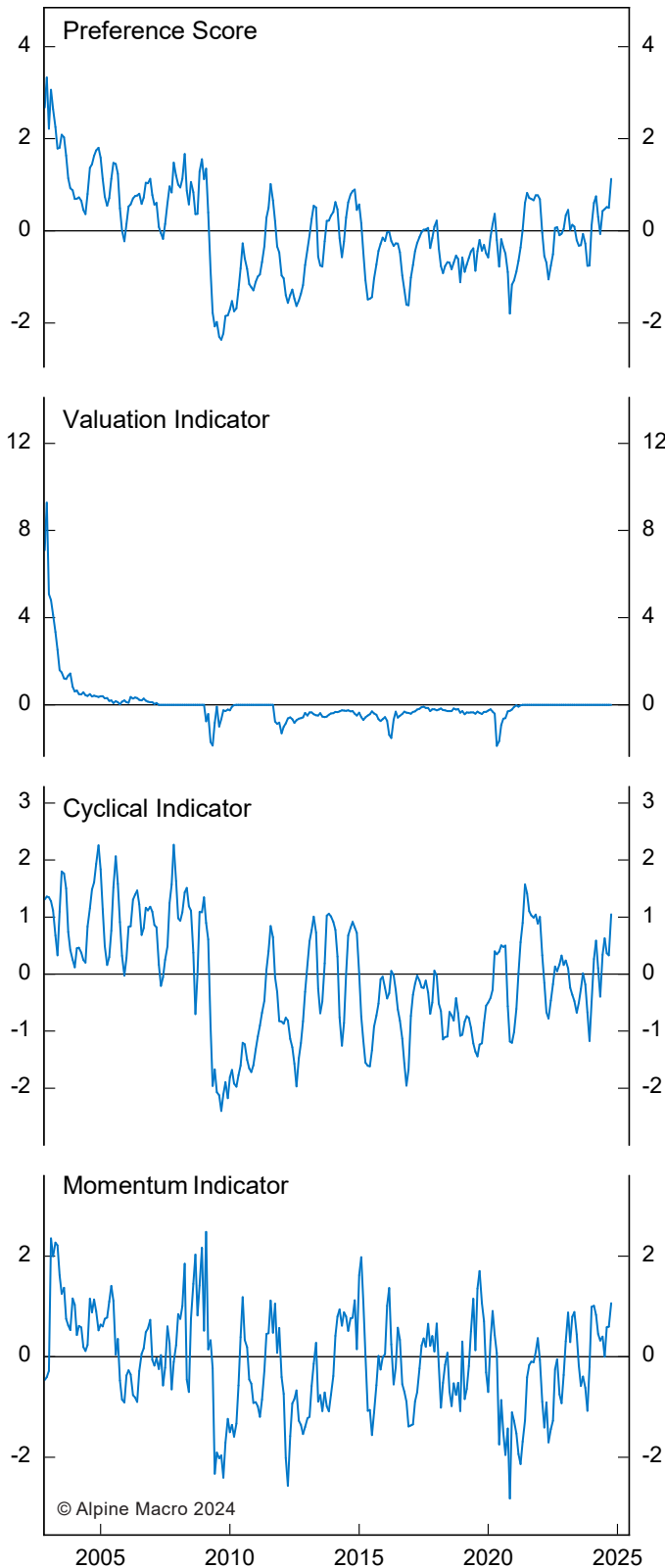
Transportation: Services



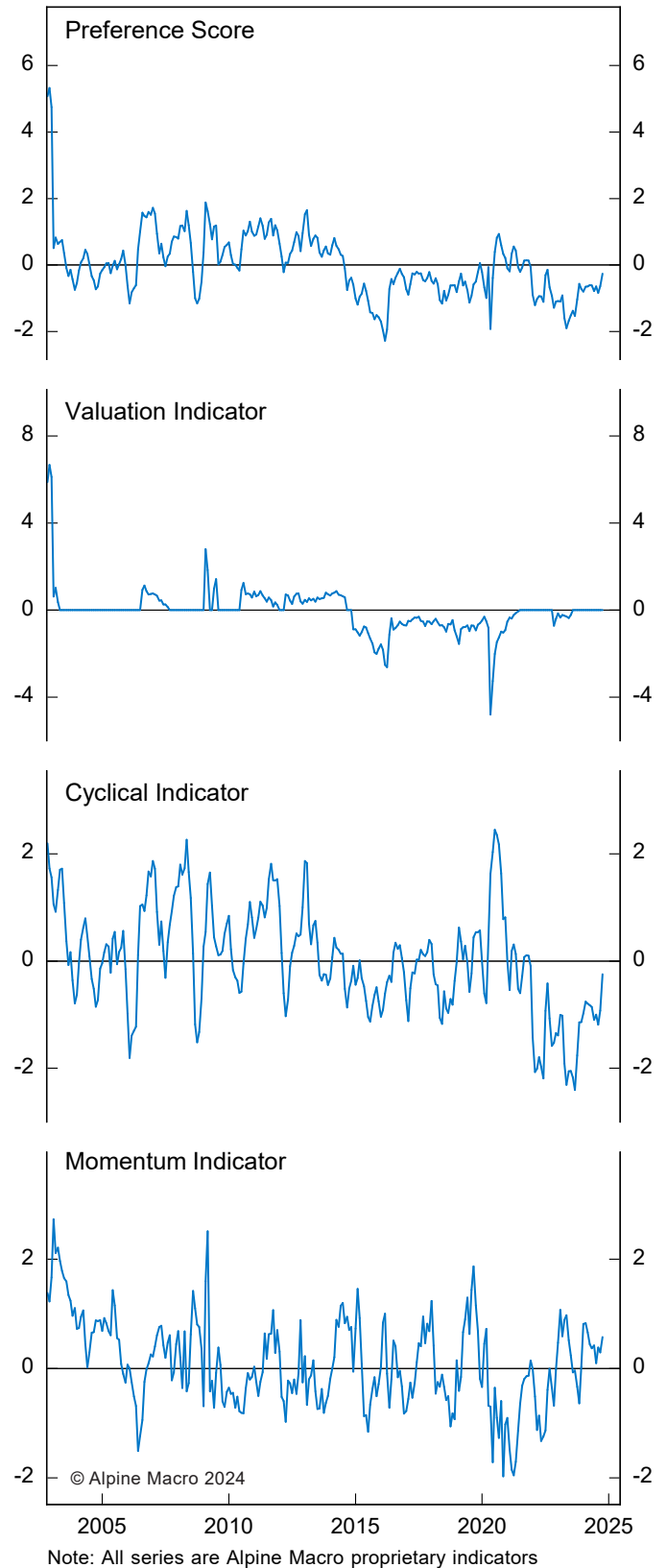
Note: All series are Alpine Macro proprietary indicators



Utility: Electric



Utility: Natural Gas





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