

# US equities: GICS sector changes

## Blog

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After the close on 17 March, S&P Dow Jones and MSCI will make changes to the Global Industry Classification Standard (GICS) structure. This will impact how 14 S&P 500 companies are classified at a sector level (Fig. 1). As it relates to our current sector views, there is no change to our outlook. We continue to have most preferred views on consumer staples, energy, and real estate and least preferred views on communication services, financials, and information technology.

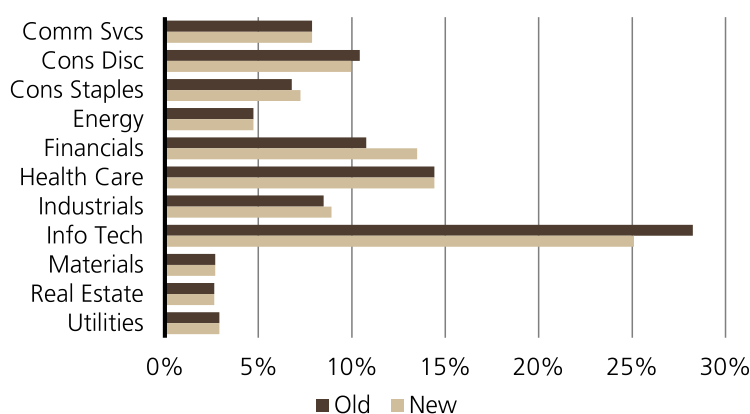
Fig. 1: S&P 500 companies impacted by GICS level 1 sector changes

Ticker	Company Name	Market Cap (USD bns)	Old Sector	New Sector
ADP	Automatic Data Processing	89	Info Tech	Industrials
PAYX	Paychex Inc.	39	Info Tech	Industrials
BR	Broadridge Financial Solutions	16	Info Tech	Industrials
V	Visa Inc.	450	Info Tech	Financials
MA	Mastercard Inc.	336	Info Tech	Financials
PYPL	PayPal Holdings	83	Info Tech	Financials
FISV	Fiserv Inc.	69	Info Tech	Financials
FIS	Fidelity National Info. Serv.	32	Info Tech	Financials
GPN	Global Payments	27	Info Tech	Financials
FLT	FLEETCOR Technologies	14	Info Tech	Financials
JKHY	Jack Henry & Associates	10	Info Tech	Financials
TGT	Target Corporation	73	Cons Disc	Cons Staples
DG	Dollar General Corporation	48	Cons Disc	Cons Staples
DLTR	Dollar Tree Inc.	31	Cons Disc	Cons Staples

Source: S&P Dow Jones, MSCI, FactSet, UBS, as of 14 March 2023

The current GICS structure includes 11 sectors, which will remain unchanged. However, five sectors will be impacted by the reclassification of certain companies: consumer discretionary, consumer staples, financials, industrials, and information technology. As the table above shows, the financials and information technology sectors will see the biggest impact. We estimate financials weight in the S&P 500 will rise by 2.7% and information technology will fall by 3.2%. We summarize the new S&P 500 sector weights in the chart below (Fig. 2).

Fig. 2: Changes to S&amp;P 500 sector weights



Source: FactSet, UBS, as of 14 March 2023

Payment processing companies Visa, Mastercard, and PayPal will move from the information technology sector to the financials sector and this will be the most significant change. In the new financials sector, these three companies will make up roughly 17% of the sector, larger than Berkshire Hathaway's weight (currently the largest constituent). Including the rest of the companies, around 20% of the new financials sector will be comprised of former tech companies.

Still, the implications for the financials sector should be fairly modest. From a style perspective, the sector will become growthier, but still be more value-oriented. With 80% of the sector still containing legacy financials companies, interest rates and pro-cyclical factors should remain some of the key drivers of overall sector performance. Not surprisingly, the addition of these growth stocks will lead to an increase in valuation for the sector. Visa, Mastercard, and PayPal, on average, trade at around a 90% premium to the financials sector on a consensus forward P/E basis.

The changes between the consumer discretionary and consumer staples sectors are more modest. We estimate the weight of the consumer discretionary sector in the S&P 500 to fall by 0.5% and consumer staples to rise by 0.5%. Target, Dollar General, and Dollar Tree will make up roughly 6.5% of the new staples sector. Their revenue exposure to items such as food, household, and personal care products led to their reclassification. On valuation, these three companies trade more in-line with consumer staples than consumer discretionary, so we expect the impact to be very limited.

To summarize, in our view, GICS changes taking place on 17 March will only have minor implications. The breakout of the real estate sector in 2016 and the creation of the communication services sector in 2018 were much more significant. The changes do not impact our sector views despite the financials sector being a bit less cyclical.

## Appendix

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