

Sector and Regional Strategy: Monthly Update



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- Sector implications of Brexit fallout.** Uncertainty likely to prevail globally, at least until U.S. presidential election. Major corporate and consumer spending decisions potentially on hold, a negative for Information Technology, Industrials, and Consumer Discretionary (downgraded to Neutral). Low rates continue to pressure Financials.
- Regional strategy.** Russia and Australia still rank at top of regional model. Both seem relatively insulated from the uncertainty that's likely to weigh on the U.K., Europe and the U.S (downgraded to Neutral). While a strong dollar will pressure commodities — Materials just 14% of Australian market — oil prices may prove resilient following production cutbacks, a potential positive for Russia. (Energy upgraded to Neutral.)
- Strategy in sync with Brexit thesis, but not driven by it.** Both our sector strategy (neutral or negative on Consumer Discretionary, Industrials, Information Technology, Financials) and regional strategy (overweight Australia, Russia two countries far from the U.K.) are in sync with our Brexit thesis but are not driven by it, with valuation and earnings being the key determinants.

Figure 1: Industry Rankings

Sector	Industry	Industry Ranking	Earnings Momentum	Earnings Revisions	Margins (Relative)	Share Buybacks	Valuation (Relative)	ESG (Relative)
Telecom	Wireless Telecom	Attractive	Positive	Positive	Neutral	Neutral	Neutral	Neutral
Energy	Oil & Gas E&P	Neutral	Positive	Positive	Negative	Negative	Negative	Negative
Materials	Chemicals	Unattractive	Neutral	Negative	Neutral	Positive	Neutral	Negative
Info Tech	Tech Hardware	Unattractive	Negative	Neutral	Neutral	Negative	Positive	Positive
Financials	Banks	Neutral	Neutral	Negative	Positive	Neutral	Positive	Positive
Utilities	Electric Utilities	Unattractive	Neutral	Neutral	Negative	Neutral	Neutral	Negative
Cons Disc	Autos	Neutral	Negative	Negative	Neutral	Positive	Positive	Positive
Cons Staple	Food Products	Neutral	Positive	Neutral	Negative	Positive	Negative	Negative
Health	Biotech	Neutral	Negative	Neutral	Positive	Positive	Neutral	Neutral
Industrials	Aerospace & Defense	Unattractive	Neutral	Neutral	Neutral	Negative	Negative	Neutral

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Source: Cornerstone Capital Group



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