

Sector and Regional Strategy: Monthly Update



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- Sector Strategy: Neutral.** We are Neutral on every sector but one. By our methodology, the majority of sectors are closely grouped in ranking. In some instances, a sector — e.g., Financials — is attractive from a valuation perspective, but has poor earnings momentum. Other sectors — e.g., Materials — have a better earnings outlook, but their valuation is unattractive.
- Three More Sectors Moved to Neutral.** We have downgraded Telecom to Neutral from Overweight based on a deteriorating earnings outlook. We have upgraded two sectors to Neutral from Underweight — Industrials (improved relative valuation) and Consumer Staples (improved relative earnings momentum).
- Regional Strategy: Neutral to Negative.** Russia is our sole Overweight based on the favorable combination of strong earnings momentum and attractive valuation. We have downgraded Australia to Neutral from Overweight based on a deteriorating earnings outlook, although the country's valuation remains attractive.
- A Cautious Equity Outlook.** Both our sector and regional strategies are consistent with our broader concern about the equity outlook. In general, valuations seem elevated in an environment where expectations for earnings growth are being revised downward.

Figure 1: Sector Rankings

Sector	Recommendation	Sector Earnings Momentum	Sector Earnings Revisions	Sector Margins (Relative)	Sector Share Buybacks	Sector Valuation (Relative)	Sector ESG (Relative)
Financials	Neutral	Neutral	Negative	Neutral	Negative	Positive	Positive
Energy	Neutral	Positive	Neutral	Negative	Negative	Neutral	Negative
Materials	Neutral	Positive	Neutral	Neutral	Positive	Negative	Negative
Telecom	Neutral	Neutral	Negative	Positive	Positive	Positive	Neutral
Utilities	Neutral	Neutral	Neutral	Negative	Positive	Neutral	Negative
Industrials	Neutral	Neutral	Negative	Negative	Negative	Neutral	Positive
Con Staple	Neutral	Positive	Negative	Neutral	Neutral	Negative	Neutral
Info Tech	Neutral	Negative	Negative	Positive	Negative	Neutral	Neutral
Con Disc	Neutral	Negative	Negative	Neutral	Negative	Positive	Positive
Health	Underweight	Negative	Negative	Positive	Neutral	Negative	Neutral

Source: Cornerstone Capital Group



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