

## Sector and Regional Strategy: Monthly Update



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- Sector Strategy: Reflationary Revisions...** Given the outlook for reflation and reduced regulatory oversight that has taken hold in the US following the recent elections, we are fine-tuning our sector strategy. We are upgrading Financials to Overweight from Neutral as it is a near-term beneficiary of a steepened yield curve. Longer term, the sector could also benefit from a reduction in regulatory headwinds. That said, our previous research has shown *the sector is very sensitive to governance issues*. (See [Evolving Lifecycles in an ESG Materiality Matrix](#), September 29, 2016). In addition, we are looking increasingly favorably at Information Technology and Energy given their relatively strong earnings fundamentals, although valuations in those sectors still look lofty.
- ...But Avoiding Most Defensive Sectors.** We remain Underweight Health Care. While some industries — e.g., biotechnology — have performed strongly (Appendix 1) in anticipation of reduced regulatory oversight, the sector as whole has a mediocre *near-term* earnings outlook. We also remain Neutral Utilities, Consumer Staples, Telecom.
- Regional Strategy: Remain Overweight Russia.** Even after its strong performance in November (Appendix 2), we remain Overweight Russia as it continues to offer the favorable combination of relatively strong earnings momentum and reasonable valuations. We remain Underweight the Emerging Markets of China, South Africa and India.

Figure 1: Sector Rankings

Sector	Industry	Industry Ranking	Industry Earnings Momentum	Industry Earnings Revisions	Industry Margins (Relative)	Industry Share Buybacks	Industry Valuation (Relative)	Industry ESG (Relative)
Financials	Banks	Attractive	Positive	Positive	Neutral	Neutral	Positive	Positive
Info Tech	Software & Services	Neutral	Neutral	Positive	Positive	Neutral	Negative	Neutral
Energy	Equipment & Services	Neutral	Positive	Positive	Negative	Negative	Neutral	Neutral
Telecom	Diversified Telecom	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Con Staple	Tobacco	Neutral	Neutral	Neutral	Positive	Neutral	Neutral	Positive
Materials	Metals & Mining	Neutral	Positive	Neutral	Negative	Negative	Negative	Negative
Industrials	Machinery	Neutral	Neutral	Negative	Neutral	Neutral	Positive	Positive
Utilities	Gas Utilities	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral
Con Disc	Media	Unattractive	Neutral	Negative	Neutral	Positive	Neutral	Neutral
Health	Pharmaceuticals	Unattractive	Neutral	Negative	Positive	Neutral	Negative	Neutral

Source: Cornerstone Capital Group



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