## The Top Performing S&P 500 sectors over the business cycle

The business cycle experiences shifts over time, from the peaks seen after expansions to troughs seen in recessionary periods, and each stage of the cycle tends to affect the equity market in different ways. On this week's chart, we explore the sector performances of the S&P 500 during each phase of the business cycle – the returns seen on the next page in our chart are the averages seen in each period dating back to 1960.

It is important to note that these figures are indeed just averages and are not perfect predictors of performance. In any given timeframe, specific sectors can significantly outperform or underperform these averages due to external or even once-off factors. A perfect example of this would be the recent sharp rally in technology and consumer discretionary names as a result of the current Al-boom.

The dataset is based on an index which comprises ten economic indicators in the United States which tend to reveal typical turning points in the business cycle and cover a broad range of areas. It can at times be difficult to ascertain exactly which stage of the cycle the economy may be in. At present, we believe that we are likely somewhere in the 'Slowdown' phase, due to weakening global growth figures seen over recent quarters.

While a recession is not guaranteed, any potential one certainly has not started yet. Central bankers may succeed in navigating the economy into a 'soft-landing' – i.e. a situation whereby the economy transitions from a period of rapid growth and inflation to more sustainable and stable levels, without entering a recession. Clearly, we are in somewhat of an unorthodox business cycle at present. If a soft-landing is achieved, we may see the current 'Slowdown' phase transition into some sort of a 'Recovery' phase, and essentially skip a recession or only see a very shallow one. A hard-landing or soft-landing scenario would have very different knock-on effects for sectors within the equity market.

## Here's how S&P 500 sectors have performed over THE TOP PERFORMING each stage of the business cycle, based on nearly seven decades of historical data. S&P 500 Sectors Gross Domestic Product (GDP) Peak OVER THE BUSINESS CYCLE Time **Average Period Returns Since 1960** -30% 0% 10% 20% 30% 40% -22% Real Estate -20% Industrials -15% -13% -12% Con ${f 1}$ Recession # of Periods: 7 -12% The economy is characterized -4% Energy by two successive quarters of falling GDP. Consumer staples, utilities, and health care -3% Health Care outperformed the overall market by 10% on average in six of the seven recessions. -2% Utilities Consumer Staples 1% The real estate sector performed best 🖒 Real Estate 39% after periods of economic contraction. 28% 23% 33% 2 Recovery # of Periods: 7 29% Business activity starts to 27% increase and the economy 21% begins to grow again. Utilities 18% 18% Technology and financials Industrials 16% saw the strongest performance, beating the market in **10/12** expansionary periods 17% 3 Expansion # of Periods: 12 13% The economy is growing beyond 16% recovery, characterized by increased output, employment, and income. Health Care Utilities 8% Real Estate 2% Technology 10% Industrials Consumer Dis. 6% 4 Slowdown Materials 7% # of Periods: 11 The health care sector is considered Growth starts to decline, but the to be **defensive**, meaning it is less sensitive to fluctuations in the economy is not necessarily shrinking. 💥 Utilities 12% business cycle. 15% -20% 20% 30% 40%

MARKETS

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Source: SPDR Americas Research as of November 30, 2019. Covers 10 of the 11 S&P 500 sectors, not including Communication Services