

CONTACT

For more information, contact

Henry Cobbe, CFA
Head of Research
henry@elstonconsulting.co.uk

Emma Cole
Associate
emma@elstonconsulting.co.uk

Scope

Elston ETF Research focuses on ETFs listed on the London Stock Exchange. All tickers relate to London listed securities. Our target audience is UK asset managers and intermediaries.

About Elston

Elston aims to be the UK's leading independent ETF specialist. We provide ETF Research, ETF Portfolios and Indices to asset owners and asset managers.
www.elstonconsulting.co.uk

All data is at 31st December 2018 and is expressed in GBP terms.

PERFORMANCE UPDATE

Summary

1. Sector Equities performance was highly divergent in 2018 in World, US and European markets.
2. Technology remains strongest performer on 3 year view for World and US markets.
3. For diversification purposes, Utilities remains the lowest correlation sector in World, US and European markets.

1. Introduction

In this report, we publish performance data for our selected universe of Sector Indices represented by London-listed ETFs.

Fig.1.1. Equity Sector Index Families

Elston Exposure	Index Family	Representative ETFs
World Sector Equities	MSCI World [Sector Indices]	SPDR MSCI World [Sector Indices]
US Sector Equities	S&P 500 [Select Sector Indices]	SPDR S&P [Sector Indices]
Europe Sector Equities	MSCI Europe [Sector Indices]	SPDR MSCI Europe [Sector Indices]

Source: Elston research

One of the most broadly accepted sector classification system is the Global Industry Classification Standard (GICS) which was developed by MSCI and Standard & Poor's (S&P) to categorise public companies by their business activities. The GICS structure consists of 11 distinct sectors.

Fig.1.2. GICS Sector Classifications

Sector
Communications Services
Consumer Discretionary
Consumer Staples
Energy
Financials
Health Care
Industrials
Materials
Technology
Utilities
Real Estate

Source: GICS, S&P Global/MSCI

GICS further defines 69 industry types that fall within each of those 11 sectors.

Fig.1.3. GICS Sector & Industry Classifications

Sector	Industries
Communications Services	Diversified Telecommunication Services; Wireless Telecommunication Services; Media; Entertainment; Interactive Media & Services
Consumer Discretionary	Auto Components; Automobiles; Household Durables; Leisure Products; Textiles; Apparel & Luxury Goods; Hotels, Restaurants & Leisure; Diversified Consumer Services; Distributors; Internet & Direct Marketing Retail; Multiline Retail; Specialty Retail
Consumer Staples	Food & Staples Retailing; Beverages; Food Products; Tobacco; Household Products; Personal Products
Energy	Energy Equipment & Services; Oil, Gas & Consumable Fuels
Financials	Banks; Thrifts & Mortgage Finance; Diversified Financial Services; Consumer Finance; Capital Markets; Mortgage Real Estate Investment Trusts; Insurance
Health Care	Health Care Equipment & Supplies; Health Care Providers & Services; Health Care Technology; Biotechnology; Pharmaceuticals; Life Sciences Tools & Services
Industrials	Aerospace & Defense; Building Products; Construction & Engineering; Electrical Equipment; Industrial Conglomerates; Machinery; Trading Companies & Distributors; Commercial Services & Supplies; Professional Services; Air Freight & Logistics; Airlines; Marine; Road & Rail; Transportation Infrastructure
Materials	Chemicals; Construction Materials; Containers & Packaging; Metals & Mining; Paper & Forest Products
Technology	IT Services; Software; Communications Equipment; Technology Hardware, Storage & Peripherals; Electronic Equipment, Instrument & Components; Semiconductors & Semiconductor Equipment.
Utilities	Electric Utilities; Gas Utilities; Water Utilities; Multi-Utilities; Independent Power and Renewable Energy Producers
Real Estate	Equity Real Estate Investment Trusts (REITs); Real Estate Management & Development

Source: GICS, S&P Global/MSCI, Elston research

In this report, we analyse the performance of Sector Equities as represented by the indices below, detailed with their related ETF tickers, alongside their respective equity index.

Fig.1.4. Sector Equity Indices & Related ETFs

Index Name	ETF Ticker
MSCI World Communications Services	WTEL
MSCI World Consumer Discretionary	WCOD
MSCI World Consumer Staples	WCOS
MSCI World Energy	WNRG
MSCI World Financials	WFIN
MSCI World Health Care	WHEA
MSCI World Industrials	WNDU
MSCI World Materials	WMAT
MSCI World Technology	WTEC
MSCI World Utilities	WUTI
MSCI World	IWRD
S&P U.S. Communication Select Sector	SXLC
S&P U.S. Consumer Discretionary	SXLY
S&P U.S. Consumer Staples	SXLP
S&P U.S. Energy	SXLE
S&P U.S. Financials	SXLF
S&P U.S. Health Care	SXLV
S&P U.S. Industrials	SXLI
S&P U.S. Materials	SXLB
S&P U.S. Technology	SXLK
S&P U.S. Utilities	SXLU
S&P 500	CSPX
MSCI Europe Communications Services	TELE
MSCI Europe Consumer Discretionary	CDIS
MSCI Europe Consumer Staples	CSTP
MSCI Europe Energy	ENGY
MSCI Europe Financials	FNCL
MSCI Europe Health Care	HLTH
MSCI Europe Industrials	NDUS
MSCI Europe Materials	MTRL
MSCI Europe Technology	ITEC
MSCI Europe Utilities	UTIL
MSCI Europe	ERO

Source: Elston Research, Bloomberg data

For each index family, we look at key performance metrics:

1. Total Returns (Discrete Quarterly in GBP)
2. Total Returns (Discrete Annual in GBP)
3. Total Returns (-1Y, in GBP)
4. Total Returns (-3Y Annualised in GBP)
5. 1Y Realised Risk-Return
6. 3Y Realised Risk Return
7. 2Y Beta vs Correlation

2. World Sector Equities

In 4q18, World equities declined -11.4% in GBP terms. The Energy sector was hardest hit (-19.9%), whilst Utilities were most defensive (+2.8%).

In 4q18, **Utilities** were most defensive for world equities

Fig.2.1. World Sector Equities: Total Returns (Discrete Quarterly in GBP)

	4q17	1q18	2q18	3q18	4q18
MSCI World Communications Services	0.8%	-9.3%	3.3%	6.8%	-4.6%
MSCI World Consumer Discretionary	6.6%	-1.9%	10.7%	5.6%	-12.5%
MSCI World Consumer Staples	4.6%	-8.7%	5.6%	3.8%	-4.6%
MSCI World Energy	5.6%	-8.8%	19.9%	2.0%	-19.9%
MSCI World Financials	4.7%	-5.5%	1.8%	3.9%	-11.8%
MSCI World Health Care	-0.1%	-4.8%	9.3%	12.8%	-7.3%
MSCI World Industrials	4.2%	-5.2%	4.0%	7.4%	-14.3%
MSCI World Materials	6.8%	-8.0%	8.1%	0.6%	-11.9%
MSCI World Technology	7.3%	-0.3%	12.6%	9.4%	-15.8%
MSCI World Utilities	-1.4%	-5.3%	8.9%	2.1%	2.8%
MSCI World	4.5%	-4.9%	8.2%	6.2%	-11.4%

Source: Elston Research, Bloomberg data

In 2018, World equities declined -3.1% in GBP terms. The Financials and Materials sectors declined -11.9%, whilst Health Care and Utilities proved most defensive at +8.8% and +8.2% respectively.

In 2018, **Health Care** and **Utilities** were the most defensive sectors.

Sector Equities performance was highly divergent in 2018 in World markets.

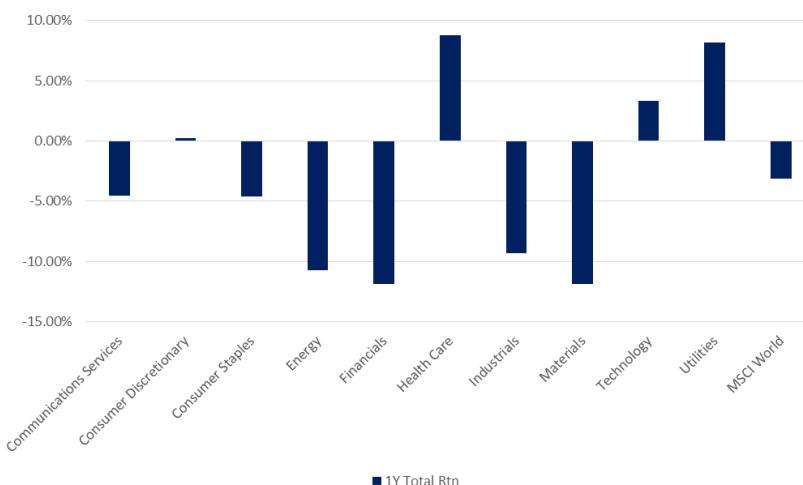
Fig.2.2. World Sector Equities: Total Returns (Discrete Annual in GBP)

	2014	2015	2016	2017	2018
MSCI World Communications Services	4.3%	8.4%	26.1%	-3.4%	-4.5%
MSCI World Consumer Discretionary	10.5%	11.5%	23.1%	12.9%	0.3%
MSCI World Consumer Staples	14.1%	12.5%	21.3%	6.8%	-4.6%
MSCI World Energy	-6.0%	-18.4%	51.1%	-4.2%	-10.7%
MSCI World Financials	9.7%	2.2%	34.2%	12.0%	-11.9%
MSCI World Health Care	25.6%	12.7%	11.2%	9.4%	8.8%
MSCI World Industrials	6.8%	3.6%	34.7%	14.3%	-9.3%
MSCI World Materials	0.9%	-10.4%	46.2%	17.7%	-11.9%
MSCI World Technology	23.4%	10.8%	33.0%	26.2%	3.3%
MSCI World Utilities	22.6%	-1.2%	26.5%	3.8%	8.2%
MSCI World	11.6%	4.8%	28.3%	11.7%	-3.1%

Source: Elston Research, Bloomberg data

Most sectors were in negative territory at the end of last year, with only Healthcare, Utilities and Technology delivering positive returns, in GBP terms.

Fig.2.3. World Sector Equities: Total Returns (-1Y, in GBP)

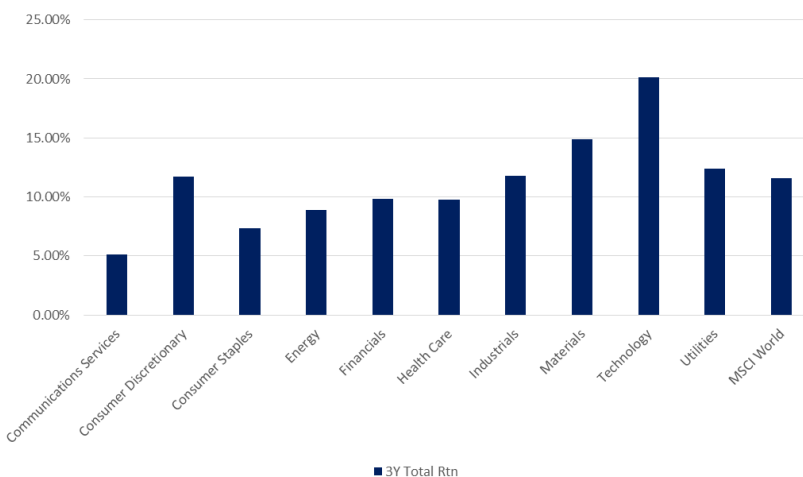


Source: Elston Research, Bloomberg data

On a three-year view, Technology has delivered the strongest performance with a 3Y annualised return of +20.2%.

Technology was the strongest performer within World Equities over the last three years

Fig. 2.4. World Sector Equities: Total Returns (-3Y annualised in GBP)

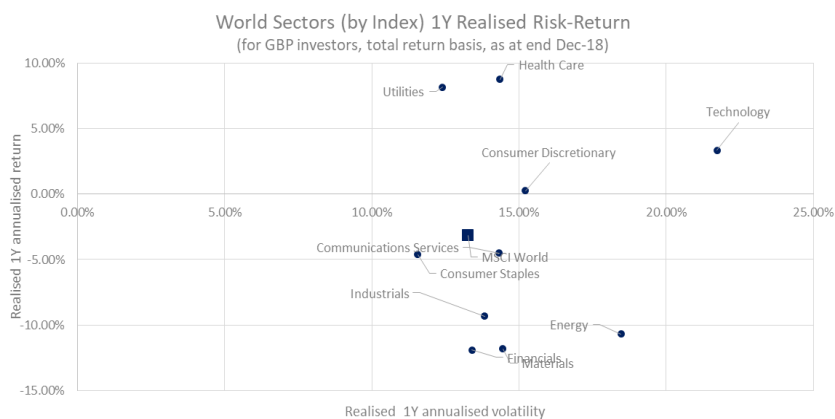


Source: Elston Research, Bloomberg data

For world equities over the last year,, Utilities have provided the best risk-adjusted returns, followed by Health Care.

Within world equities, **Utilities** have provided the best risk-adjusted returns, over the last year

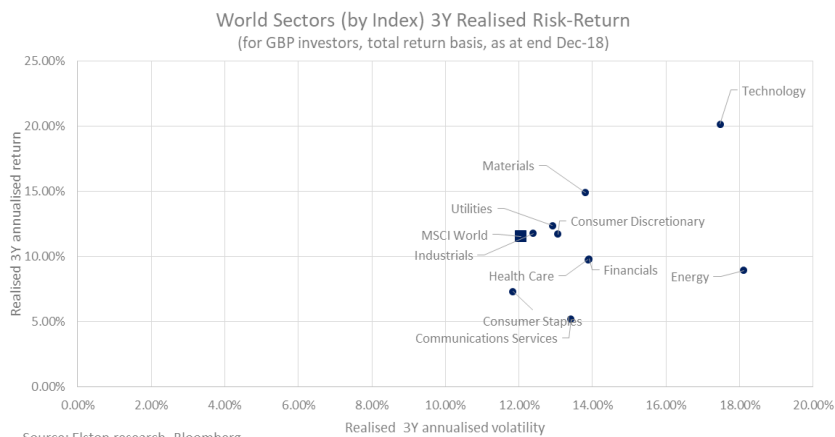
Fig.2.5. World Sector Equities: 1Y Realised Risk-Return



Source: Elston research, Bloomberg

For world equities over the last three years, Technology has provided best risk-adjusted returns, followed by Materials.

Fig.2.6. World Sector Equities: 3Y Realised Risk Return

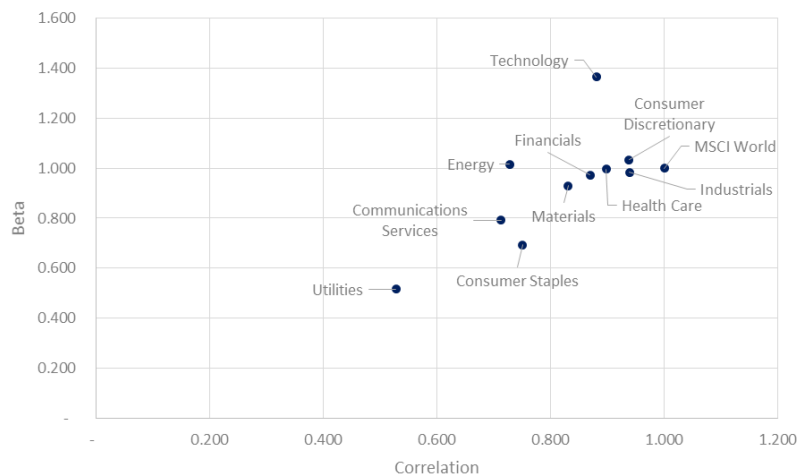


Source: Elston research, Bloomberg

Utilities have the lowest correlation with World Equities at 0.528

Utilities is the sector least correlated with World Equities

Fig.2.7. World Sector Equities: 2Y Beta vs Correlation



Source: Elston Research, Bloomberg data

In 4q18, **Utilities** were the most defensive for US equities

3. US Sector Equities

In 4q18, the S&P500 declined by -11.7% in GBP terms. The Energy had the steepest drop (-22.1%) whilst Utilities proved most resilient (+3.4%).

Fig.3.1 US Sector Equities: Total Returns (Discrete Quarterly in GBP)

	4q17	1q18	2q18	3q18	4q18
S&P U.S. Communication Select Sector	3.0%	-4.2%	18.3%	1.0%	-13.6%
S&P U.S. Consumer Discretionary	8.7%	-0.6%	14.8%	8.8%	-13.3%
S&P U.S. Consumer Staples	4.9%	-10.4%	4.5%	6.5%	-3.0%
S&P U.S. Energy	4.9%	-9.4%	20.3%	1.4%	-22.1%
S&P U.S. Financials	7.4%	-4.6%	2.7%	5.4%	-11.2%
S&P U.S. Health Care	0.4%	-4.9%	9.4%	15.7%	-6.7%
S&P U.S. Industrials	5.9%	-4.9%	2.7%	11.1%	-15.5%
S&P U.S. Materials	5.9%	-9.0%	8.7%	1.3%	-10.3%
S&P U.S. Technology	7.3%	-0.9%	13.1%	10.0%	-15.5%
S&P U.S. Utilities	-1.0%	-6.9%	9.9%	3.3%	3.4%
S&P 500	5.5%	-4.4%	9.7%	8.8%	-11.7%

Source: Elston Research, Bloomberg data

Over the course of 2018, the S&P500 was flat (+0.9% in GBP terms), Health Care (+12.4%) and Utilities (+9.3%) delivered strongest returns.

In 2018, **Health & Care** and **Utilities** were the most defensive for US equities

Fig.3.2 US Sector Equities: Total Returns (Discrete Annual in GBP)

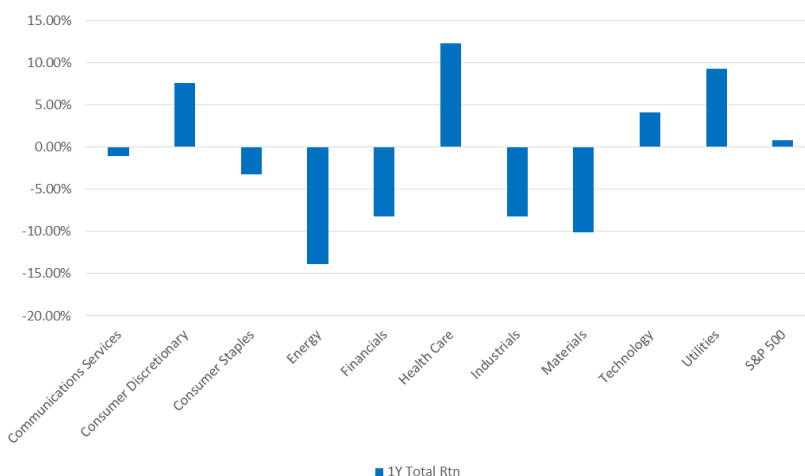
	2014	2015	2016	2017	2018
S&P U.S. Communication Select Sector	13.2%	16.5%	33.5%	13.3%	-1.1%
S&P U.S. Consumer Discretionary	16.1%	15.9%	25.9%	11.8%	7.6%
S&P U.S. Consumer Staples	22.5%	12.3%	24.5%	2.4%	-3.2%
S&P U.S. Energy	-3.3%	-17.8%	51.8%	-10.2%	-13.9%
S&P U.S. Financials	21.8%	3.5%	45.6%	10.9%	-8.2%
S&P U.S. Health Care	32.7%	12.6%	15.5%	10.7%	12.4%
S&P U.S. Industrials	16.9%	0.6%	42.4%	12.6%	-8.3%
S&P U.S. Materials	13.6%	-3.9%	38.5%	12.5%	-10.1%
S&P U.S. Technology	24.7%	11.2%	36.5%	22.2%	4.1%
S&P U.S. Utilities	35.6%	-0.4%	37.3%	1.3%	9.3%
S&P 500	20.1%	6.5%	32.8%	10.5%	0.9%

Source: Elston Research, Bloomberg data

Despite flat performance for the S&P500 in GBP terms, sectors performance diverged.

1Y performance diverged between US sectors

Fig.3.3 US Sector Equities: Total Returns (-1Y, in GBP)

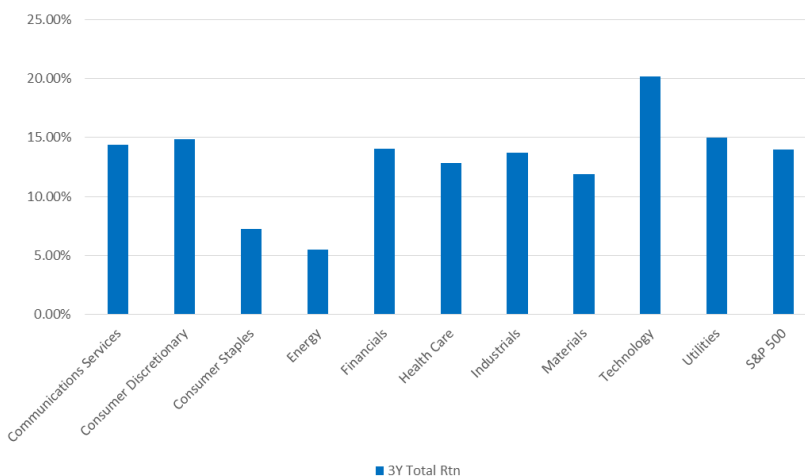


Source: Elston Research, Bloomberg data

On a three-year view, Technology has delivered the strongest performance with a 3Y annualised return of +20.2%.

Technology has been strongest performer within US equities over the last three years

Fig.3.4 US Sector Equities: Total Returns (-3Y annualised in GBP)

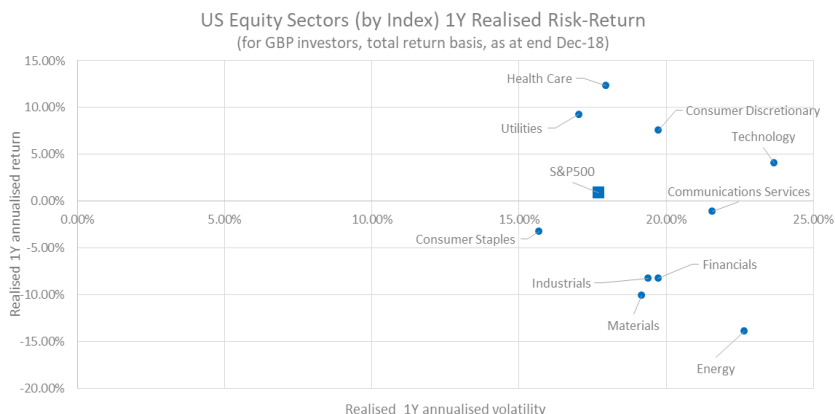


Source: Elston Research, Bloomberg data

For US equities over the last year, Utilities has provided the best risk-adjusted returns, followed by Consumer Discretionary.

Fig.3.5 US Sector Equities: 1Y Realised Risk-Return

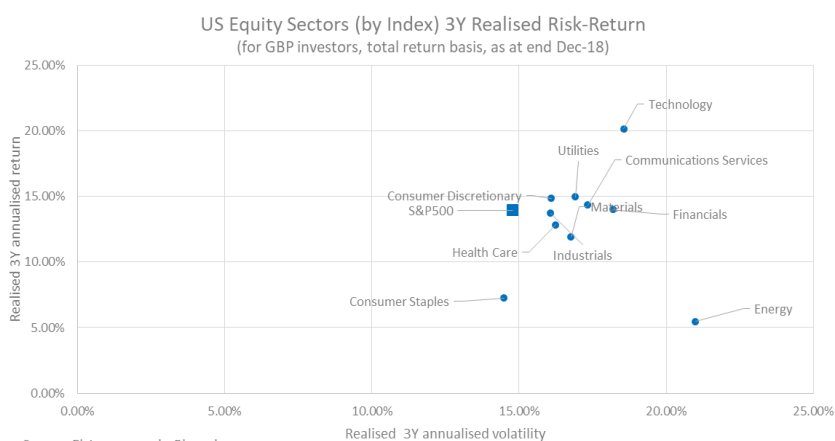
Within US equities, **Utilities** have provided the best risk-adjusted returns, over the last year



Source: Elston research, Bloomberg

For US equities over the last three years, Technology has provided the best risk-adjusted returns, followed by Consumer Discretionary.

Fig.3.6 US Sector Equities: 3Y Realised Risk Return

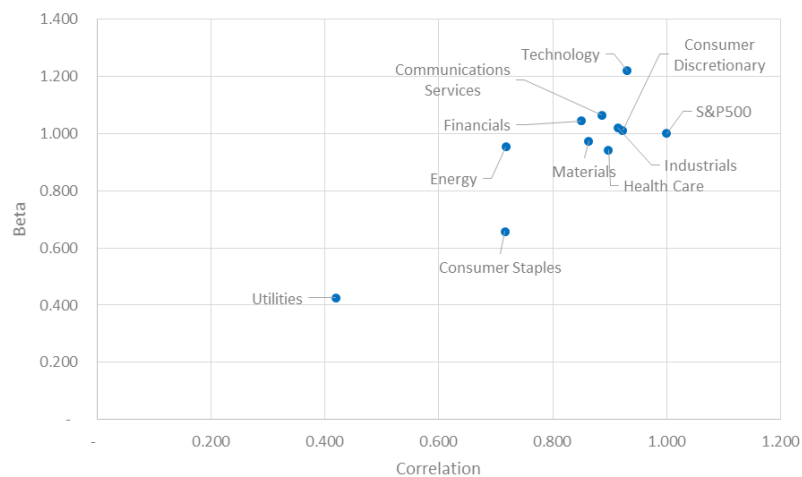


Source: Elston research, Bloomberg

Utilities have the lowest correlation with US Equities at 0.419.

Utilities is the sector least correlated with US Equities

Fig.3.7 US Sector Equities: 2Y Beta vs Correlation



Source: Elston Research, Bloomberg data

In 4q18, Communication Services provided positive performance within European equities

4. European Sector Equities

4q18 saw the European equities decline by -10.5% in GBP terms. The Energy sector had the steepest drop (-14.6%) whilst Communication Services proved most resilient (+4.6%).

Fig.4.1 European Sector Equities: Total Returns (Discrete Quarterly in GBP)

	4q17	1q18	2q18	3q18	4q18
MSCI Europe Communications Services	0.5%	-9.1%	-1.1%	-2.8%	4.6%
MSCI Europe Consumer Discretionary	1.7%	-2.8%	2.9%	0.4%	-13.8%
MSCI Europe Consumer Staples	2.9%	-8.0%	5.2%	1.6%	-6.4%
MSCI Europe Energy	7.1%	-4.0%	17.8%	4.3%	-14.6%
MSCI Europe Financials	-0.2%	-4.9%	-2.6%	1.2%	-12.9%
MSCI Europe Health Care	-2.9%	-6.3%	7.0%	6.3%	-5.7%
MSCI Europe Industrials	1.0%	-5.1%	4.6%	3.1%	-14.2%
MSCI Europe Materials	6.7%	-6.2%	7.6%	0.4%	-14.1%
MSCI Europe Technology	2.0%	-3.3%	12.9%	1.4%	-14.9%
MSCI Europe Utilities	-2.2%	-2.9%	5.4%	-0.9%	2.6%
MSCI Europe	1.5%	-5.4%	4.8%	2.0%	-10.5%

Source: Elston Research, Bloomberg data

In 2018, **Utilities** were the most defensive for European equities

European equities declined -9.6% in 2018 in GBP terms, Utilities (+4.0%) offered the best protection from declining markets,

Fig.4.2 European Sector Equities: Total Returns (Discrete Annual in GBP)

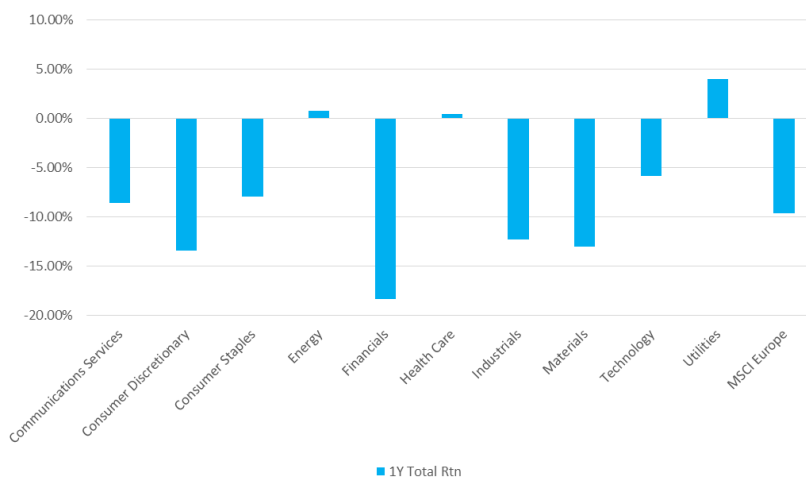
	2014	2015	2016	2017	2018
MSCI Europe Communications Services	3.5%	6.3%	0.4%	5.8%	-8.6%
MSCI Europe Consumer Discretionary	0.9%	6.6%	15.3%	14.1%	-13.4%
MSCI Europe Consumer Staples	3.8%	13.7%	15.5%	13.2%	-8.0%
MSCI Europe Energy	-14.1%	-12.5%	54.2%	8.9%	0.8%
MSCI Europe Financials	-1.9%	0.8%	15.8%	16.5%	-18.4%
MSCI Europe Health Care	11.3%	9.2%	5.0%	7.0%	0.5%
MSCI Europe Industrials	-6.5%	3.3%	28.4%	20.0%	-12.3%
MSCI Europe Materials	-6.3%	-13.5%	49.0%	23.5%	-13.0%
MSCI Europe Technology	1.2%	9.6%	20.7%	24.5%	-5.8%
MSCI Europe Utilities	10.6%	-4.9%	9.7%	12.9%	4.0%
MSCI Europe	-0.3%	2.8%	18.8%	14.7%	-9.6%

Source: Elston Research, Bloomberg data

Most European equity sectors were flat or down in 2018, with the exception of Utilities.

For European equities, **Utilities** offered the greatest protection over the last year

Fig.4.3 European Sector Equities: Total Returns (-1Y, in GBP)

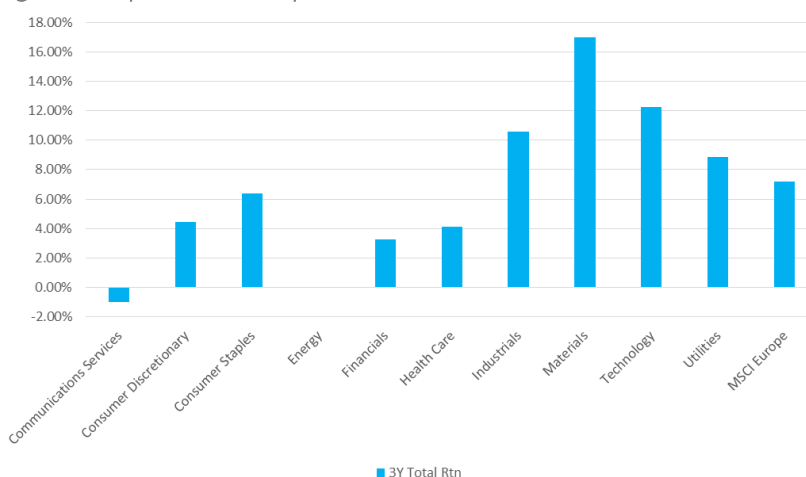


Source: Elston Research, Bloomberg data

Materials sector has been the best performing sector within European equities over the last three years

On a three-year view, Materials has delivered the strongest performance with a 3Y annualised return of +16.9%.

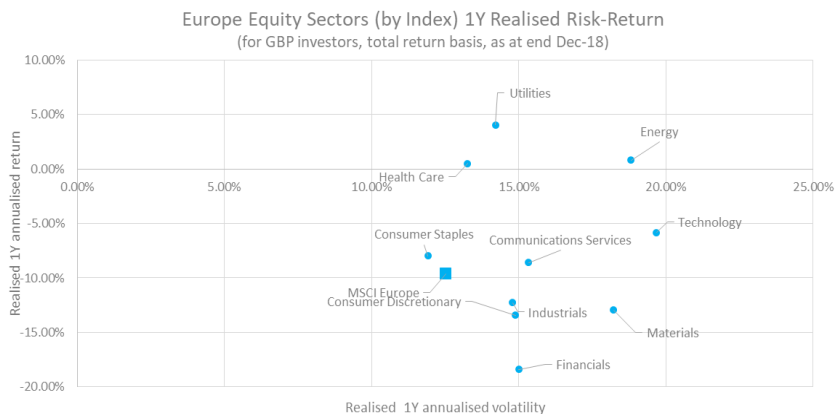
Fig.4.4 European Sector Equities: Total Returns (-3Y annualised, in GBP)



Source: Elston Research, Bloomberg data

Over the last year, European, Utilities offered the best risk-adjusted return, followed by Health Care.

Fig.4.5 European Sector Equities: Total Returns (-1Y, in GBP)

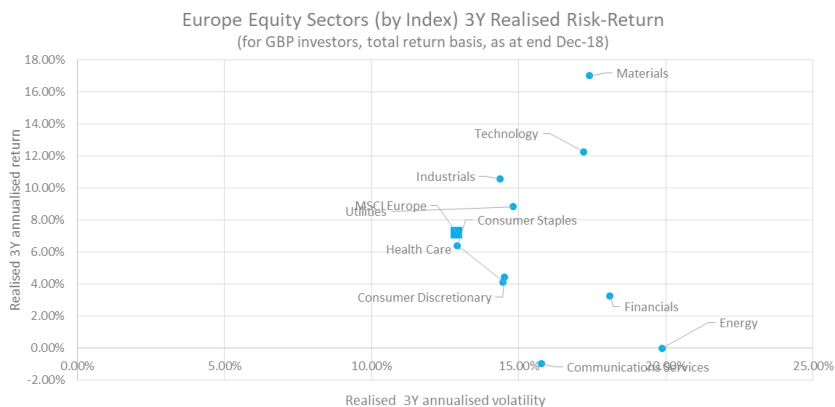


Source: Elston research, Bloomberg

Within European equities, **Utilities** have provided the best risk-adjusted returns, over the last year

Over the last three years, European Materials sector has offered best risk-adjusted return, followed by Technology.

Fig.4.6 European Sector Equities: Total Returns (-3Y, in GBP)

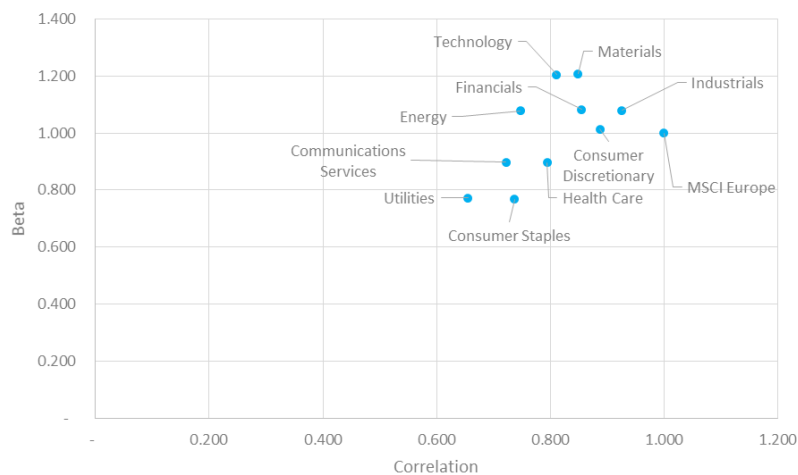


Source: Elston research, Bloomberg

Utilities have the lowest correlation with European Equities at 0.655.

Utilities is the sector least correlated with European Equities

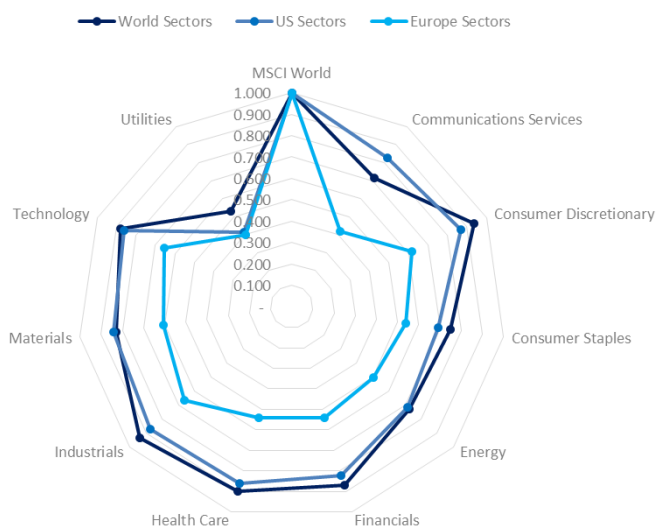
Fig.4.7 European Sector Equities: Total Returns (-3Y, in GBP)



Source: Elston Research, Bloomberg data

For World, US and Europe equities, Utilities offer lowest correlation relative to World Equity.

Fig.4.8 2Y Correlation to World Equity



Source: Elston Research, Bloomberg data

NOTICES

With reference to the European Union Directive 2014/65/EU on markets in financial instruments ("MiFID II"): this Report does not provide a recommendation for an action, provides information freely available for public consumption and does not therefore constitute "Research" as defined by MiFID II. This is because this report contains purely factual information on one or several financial instruments or issuers and does not explicitly or implicitly recommend or suggest an investment strategy. It does not therefore constitute an investment recommendation as defined within the meaning of Article 3(1)(35) of EU Markets Abuse Regulation ("MAR"), in conjunction with Article 3(1)(34) of MAR. For further information, please refer to ESMA guidance ESMA70-145-111 Version 12.

With reference to the European Union's Market Abuse Regulation (Regulation (EU) 596/2014): we warrant that the information in this report is presented objectively, and the following commercial interests are hereby disclosed: this report has been sponsored by **State Street Global Advisors Limited** to raise awareness and provide purely factual information as regards one or several of their financial instruments, products and/or services.

All company, product and service names and trademarks used in this article are for identification purposes only and are the property of their respective owners, and their usage does not imply endorsement.

This document is not an advertisement or financial promotion. It is provided for informational purposes only and is not intended to be an offer or solicitation, or the basis for any contract to purchase or sell any security or other instrument, or for Elston Consulting Limited to enter into or arrange any type of transaction as a consequence of any information contained herein.

This document is issued by Elston Consulting Limited registered in England & Wales, registration number 07125478, registered office: 42 Brook Street, London W1K 5DB.

© Elston Consulting Limited 2018. All rights reserved. No unauthorised reproduction.