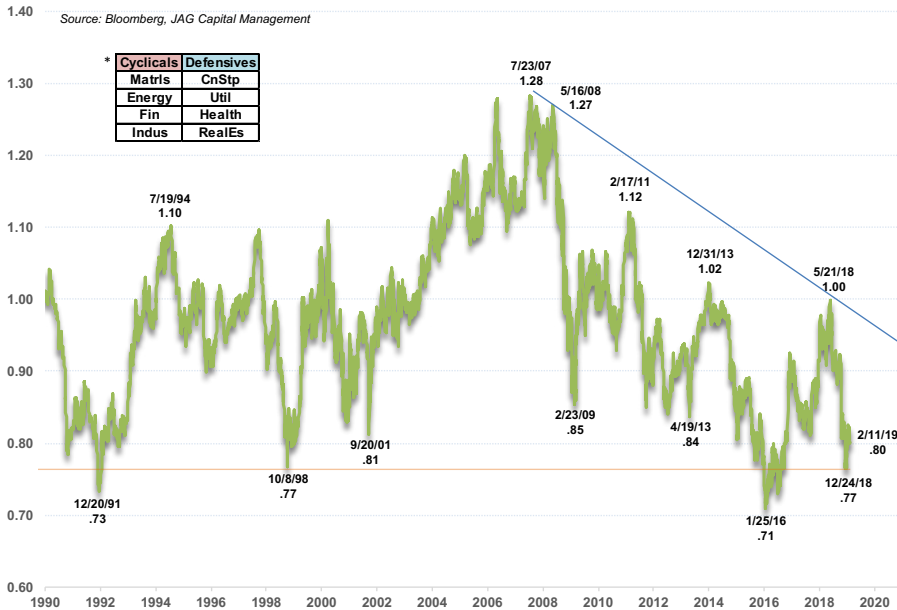


Timely Insights from JAG's Research Team

Total reading time = 2 minutes

Could Cyclical Stocks Make a Comeback in 2019?



Historically, investors tend to flock to lower-volatility and so-called “defensive” stocks during periods of high market volatility. Last year’s action was no exception, as the Consumer Staples, Utilities, Health Care, and Real Estate sectors collectively generated positive absolute and relative performance compared to the broader market. On the other hand, cyclical sectors like Materials, Energy, Financials, and Industrials suffered. Why? These sectors are chock full of companies that are particularly sensitive to domestic and global economic growth. The last few months of 2018 was characterized by widespread fears of slowing global economic growth, which was exacerbated by the U.S. Federal Reserve’s commitment to rate increases. Translation: 2018 provided an excellent example of the type of market backdrop that favors defensive stocks. **In fact, by 12/24/18, the sell-off in cyclical stocks had become historically extreme, as cyclicals vs. defensives relative performance plumbed depths rarely seen since 1990.** As this graph shows, periods of extreme out performance by defensive stocks tend to be followed by periods of cyclical outperformance, and vice-versa. **JAG believes that capital may once again flow into cyclicals as we move into 2019 and potentially into 2020. Valuations are reasonable, investor sentiment is poor, the technical setup appears favorable, and the Fed now appears to be on hold. This could create an environment in which selected Industrials, Financials and Materials stocks offer more attractive reward-to-risk opportunities than have existed since early 2016.** We are less sanguine on the prospects for much of the Energy sector, given robust supplies for crude oil and declining global demand growth.

Disclosures

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