



Payment processing companies Visa, Mastercard, and PayPal will move from the information technology sector to the financials sector and this will be the most significant change. (UBS)

US equities: GICS sector changes

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S&P Dow Jones and MSCI will make changes to the Global Industry Classification Standard (GICS) structure after the close on 17 March. Financials and information technology will see the biggest impact.

After the close on 17 March, S&P Dow Jones and MSCI will make changes to the Global Industry Classification Standard (GICS) structure. This will impact how 14 S&P 500 companies are classified at a sector level. As it relates to our current sector views, there is no change to our outlook. We continue to have most preferred views on consumer staples, energy, and real estate and least preferred views on communication services, financials, and information technology.

The current GICS structure includes 11 sectors, which will remain unchanged. However, five sectors will be impacted by the reclassification of certain companies: consumer discretionary, consumer staples, financials, industrials, and information technology. The financials and information technology sectors will see the biggest impact. We estimate financials weight in the S&P 500 will rise by 2.7% and information technology will fall by 3.2%.

Payment processing companies Visa, Mastercard, and PayPal will move from the information technology sector to the financials sector and this will be the most significant change. In the new financials sector, these three companies will make up roughly 17% of the sector, larger than Berkshire Hathaway's weight (currently the largest constituent). Including the rest of the companies, around 20% of the new financials sector will be comprised of former tech companies.

Still, the implications for the financials sector should be fairly modest. From a style perspective, the sector will become growthier, but still be more value-oriented. With 80% of the sector still containing legacy financials companies, interest rates and pro-cyclical factors should remain some of the key drivers of overall sector performance. Not surprisingly, the addition of these growth stocks will lead to an increase in valuation for the sector. Visa, Mastercard, and PayPal, on average, trade at around a 90% premium to the financials sector on a consensus forward P/E basis.

The changes between the consumer discretionary and consumer staples sectors are more modest. We estimate the weight of the consumer discretionary sector in the S&P 500 to fall by 0.5% and consumer staples to rise by 0.5%. Target, Dollar General, and Dollar Tree will make up roughly 6.5% of the new staples sector. Their revenue exposure to items such as

food, household, and personal care products led to their reclassification. On valuation, these three companies trade more in-line with consumer staples than consumer discretionary, so we expect the impact to be very limited.

To summarize, in our view, GICS changes taking place on 17 March will only have minor implications. The breakout of the real estate sector in 2016 and the creation of the communication services sector in 2018 were much more significant. The changes do not impact our sector views despite the financials sector being a bit less cyclical.

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