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Sector Strategies for an AI-Driven Economy

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Sector Strategies for an AI-Driven Economy

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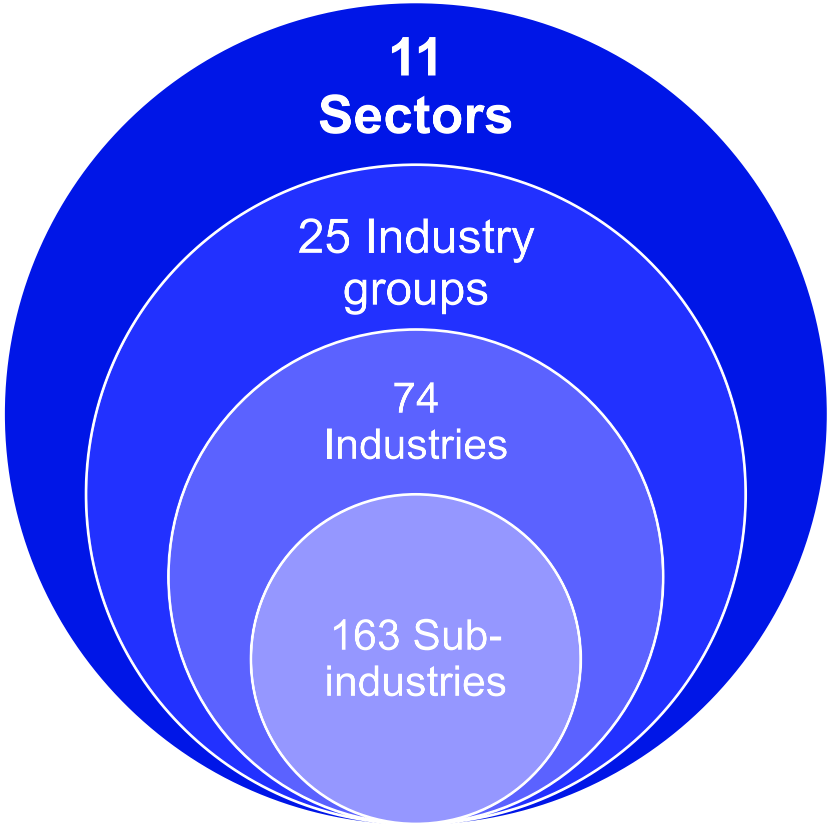
What Are Sectors?

Similarity within and differentiation between

Sectors provide targeted exposure to specific segments of the economy, consisting of companies with similar business activities and shared economic sensitivities.

Global Industry Classification Standard (GICS®)

- **Exclusive** Each company is assigned to one classification per tier
- **Revenue-focused** Companies with similar sources of revenue or operations are grouped together
- **Shared economic sensitivities** companies in the same sector and industry are sensitive to widely recognized market or economic forces



Source: S&P Dow Jones Indices LLC. As of December 31, 2025.

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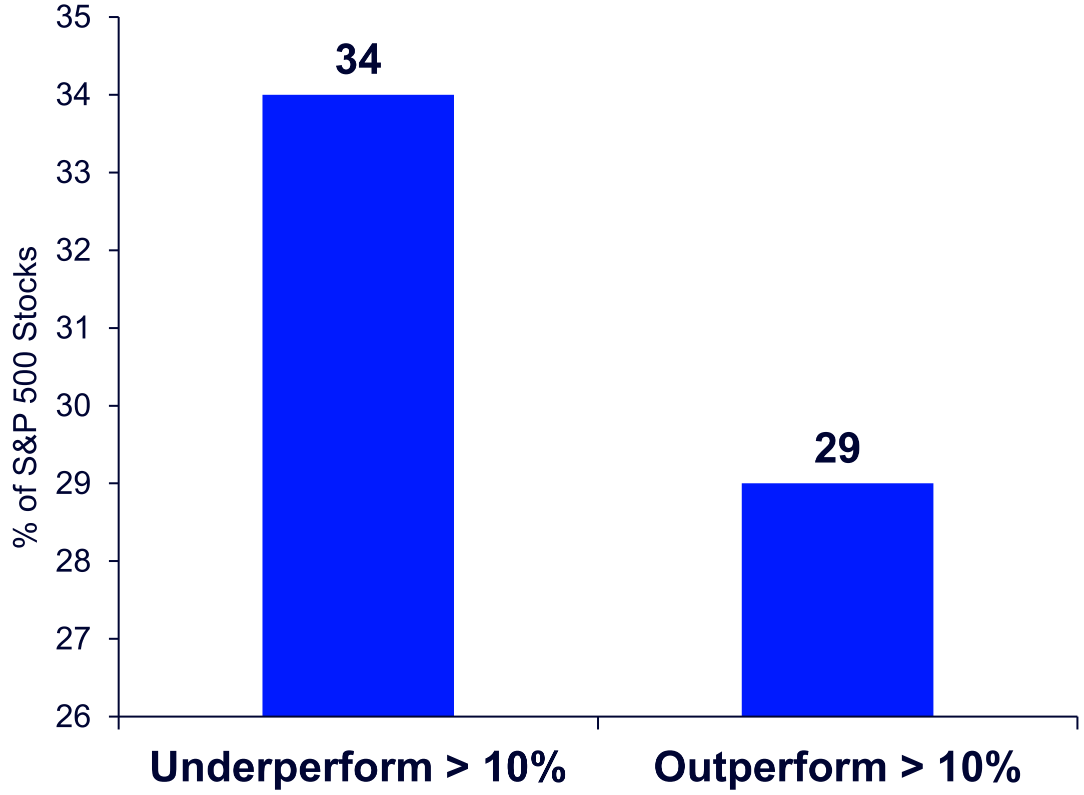
The Case for Sector Investing

Reduce concentration or stock-specific risk

An investor may get the sector call right, but the stock call wrong, as the odds are not historically in the stock picker's favor

Percentage of S&P 500 stocks that outperformed or underperformed the sector average by more than 10%
January 2006 – December 2025, yearly average



- **More stocks underperformed the sector average than the ones that outperformed**
- **The performance trend is persistent, occurring in 16 out of 20 years**

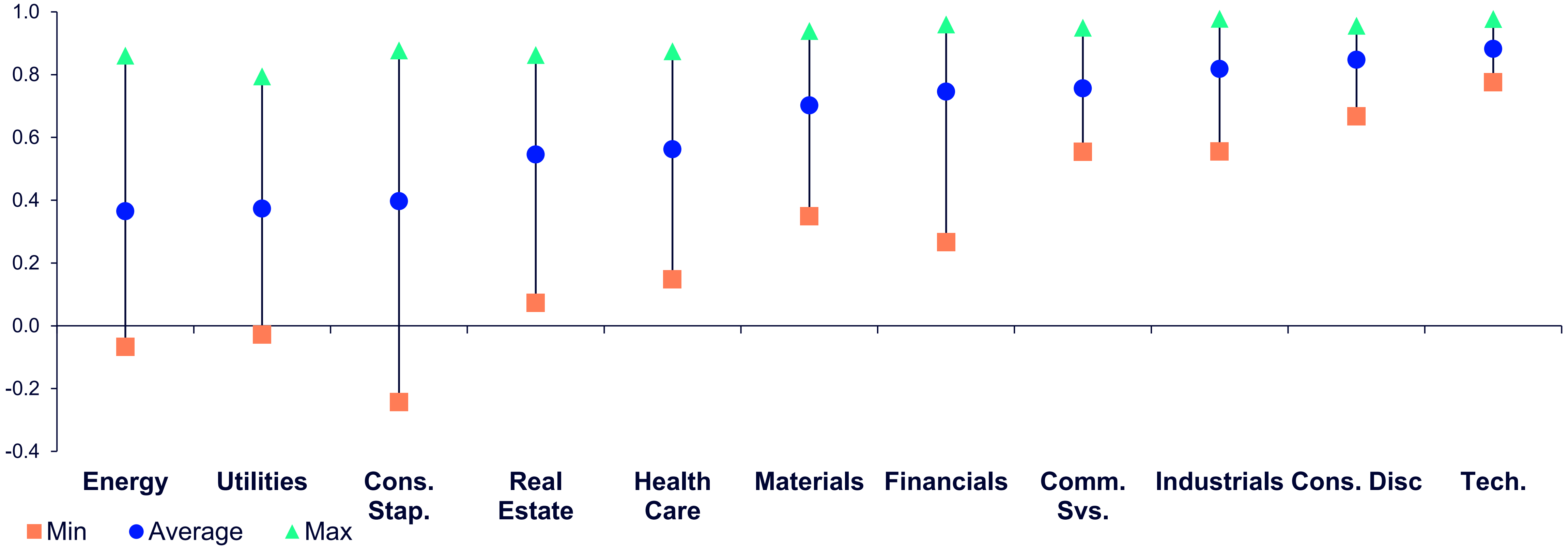
Source: State Street Americas ETF Research, FactSet, January 1, 2006 – December 31, 2025. **The performance data quoted does not guarantee future results.** Past performance does not guarantee future results.
The index returns are unmanaged and do not reflect the deduction of any fees or expenses. The index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. It is not possible to invest in an index.

Harness diversification benefits

Sector correlations to the broad market vary markedly and change over time

90-day correlation to the S&P 500 Index

Range within sectors since 2020



Source: Bloomberg Finance, L.P, as of December 31, 2025. Dates range from December 31, 2020 - December 31, 2025. Diversification does not ensure a profit or guarantee against loss. It is not possible to invest in an index. Sectors are represented by the corresponding S&P Select Sector Indices.

Pursue alpha: changing sector leadership

Sectors expanded investors' toolkit to generate alpha by overweighting winners and underweighting losers.

Sector total returns (By calendar year, %)

Cons. Disc. 10.1%	Energy 27.4%	Tech. 38.8%	Health Care 6.5%	Tech. 50.3%	Tech. 43.9%	Energy 54.4%	Energy 65.5%	Tech. 57.8%	Comm Svs. 40.2%	Comm Svs. 33.6%
Health Care 6.9%	Comm Svs. 23.5%	Materials 23.8%	Utilities 4.1%	Comm Svs. 32.7%	Cons. Disc. 33.3%	Real Estate 46.2%	Utilities 1.6%	Comm Svs. 55.8%	Tech. 36.6%	Tech. 24.0%
Cons. Staples 6.6%	Financials 22.7%	Cons. Disc. 23.0%	Cons. Disc. 0.8%	Financials 32.1%	Comm Svs. 23.6%	Financials 34.9%	Cons. Staples -0.6%	Cons. Disc. 42.3%	Financials 30.5%	Industrials 19.3%
Tech. 5.9%	Industrials 18.8%	Financials 22.1%	Tech. -0.3%	**S&P 500 31.5%**	Materials 20.7%	Tech. 34.5%	Health Care -2.0%	**S&P 500 26.3%**	Cons. Disc. 30.1%	**S&P 500 17.9%**
Comm Svs. 3.4%	Materials 16.7%	Health Care 22.1%	Real Estate -2.2%	Industrials 29.3%	**S&P 500 18.4%**	**S&P 500 28.7%**	Industrials -5.5%	Industrials 18.1%	**S&P 500 25.0%**	Utilities 16.0%
S&P 500 1.4%	Utilities 16.3%	**S&P 500 21.8%**	**S&P 500 -4.4%**	Real Estate 29.0%	Health Care 13.4%	Materials 27.3%	Financials -10.6%	Materials 12.5%	Utilities 23.4%	Financials 15.0%
Real Estate 1.2%	Tech. 13.8%	Industrials 21.0%	Cons. Staples -8.4%	Cons. Disc. 27.9%	Industrials 11.1%	Health Care 26.1%	Materials -12.3%	Real Estate 12.4%	Industrials 17.3%	Health Care 14.6%
Financials -1.6%	**S&P 500 12.0%**	Cons. Staples 13.5%	Comm Svs. -12.5%	Cons. Staples 27.6%	Cons. Staples 10.7%	Cons. Disc. 24.4%	**S&P 500 -18.1%**	Financials 12.1%	Cons. Staples 14.9%	Materials 10.5%
Industrials -2.6%	Cons. Disc. 6.0%	Utilities 12.1%	Financials -13.1%	Utilities 26.3%	Utilities 0.5%	Comm Svs. 21.6%	Real Estate -26.1%	Health Care 2.1%	Energy 5.7%	Energy 8.7%
Utilities -4.8%	Cons. Staples 5.4%	Real Estate 10.9%	Industrials -13.3%	Materials 24.6%	Financials -1.8%	Industrials 21.1%	Tech. -28.2%	Cons. Staples 0.5%	Real Estate 5.2%	Cons. Disc. 6.0%
Materials -8.4%	Real Estate 1.1%	Energy -1.0%	Materials -14.7%	Health Care 20.8%	Real Estate -2.2%	Cons. Staples 18.6%	Cons. Disc. -37.0%	Energy -1.4%	Health Care 2.6%	Cons. Staples 3.9%
Energy -21.1%	Health Care -2.7%	Comm Svs. -1.3%	Energy -18.1%	Energy 11.8%	Energy -33.7%	Utilities 17.7%	Comm Svs. -39.9%	Utilities -7.1%	Materials 0.0%	Real Estate 3.1%
2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**

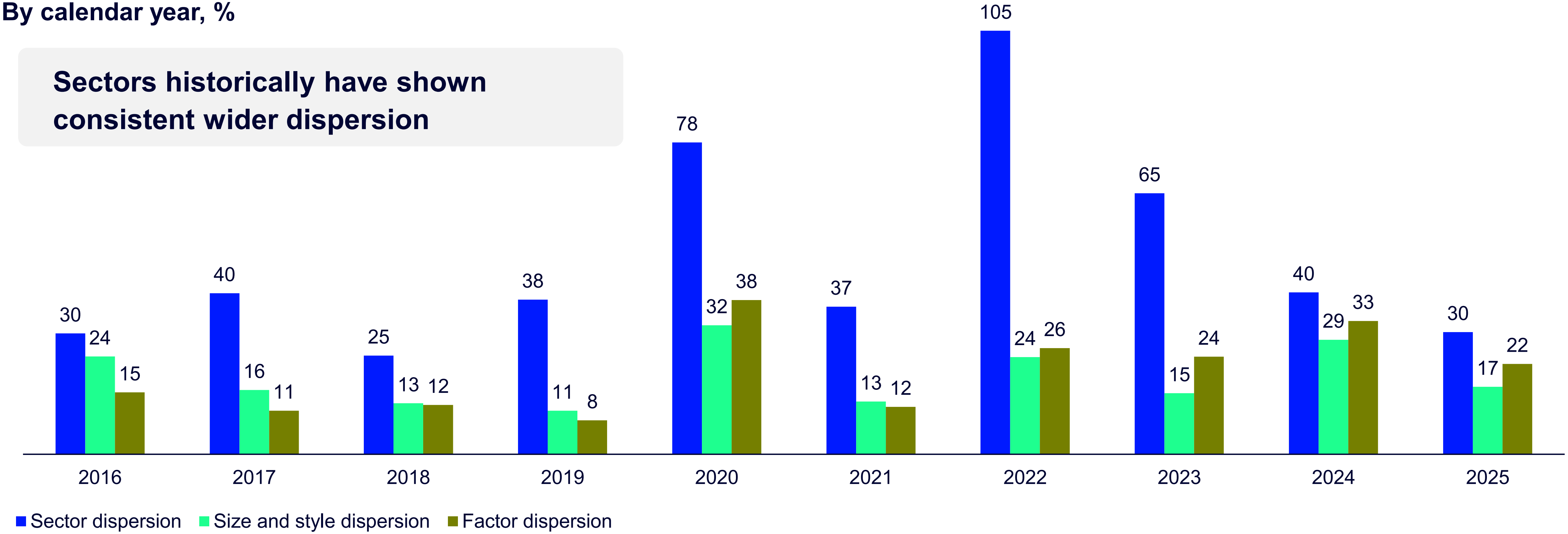
Source: Bloomberg Finance, L.P, as of December 31, 2025. **The performance data quoted does not guarantee future results.** Past performance does not guarantee future results. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Diversification does not ensure a profit or guarantee against loss. S&P 500 sector indices are used to represent each sector. Coloring does not denote a recommendation - it is for illustrative purposes only.

Pursue alpha: wider dispersion than styles and factors

While wider dispersion means a greater range of outcomes, it can also provide a distinct opportunity to deliver alpha

Sectors vs. style dispersion
By calendar year, %

Sectors historically have shown consistent wider dispersion



Source: Bloomberg Finance, L.P, as of December 31, 2025. **The performance data quoted does not guarantee future results.** Past performance does not guarantee future results. Index returns reflect capital gains and losses, income, and the reinvestment of dividends. Diversification does not ensure a profit or guarantee against loss. Sector dispersions are calculated using the max returns minus min returns among S&P 500 sector indices. Size & style performance is represented by the S&P 500, S&P MidCap 400, and S&P SmallCap 600 Core, Value, and Growth indices. Factor performance is represented by S&P 500 Pure Value, S&P 500 Pure Growth, S&P 500 Equal Weight (size factor), S&P 500 Quality, S&P 500 Momentum, and S&P 500 Low Volatility indices.

Sector Portfolio Construction

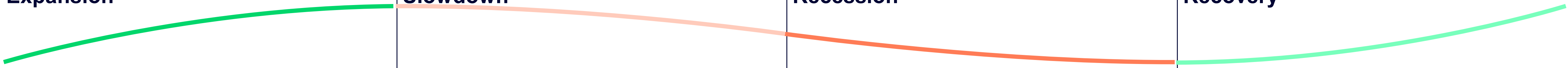
Sector strategy implementation approaches

Top-down	Thematic	Bottom-up	Technical
Survey macro economic environment and analyze business cycles.	Position according to changes in certain macro-economic variables. Harness a long-term growth trend within a particular segment of the economy.	Evaluate sector fundamentals, such as valuations and earnings trends. Position towards sectors that show attractive valuations and/or strong sentiment.	Overweight/ underweight sectors based on recent performance trends.

Source: State Street Americas ETF Research.

Capture shifts in business cycles

Specific sectors may tend to outperform or underperform during different economic phases. Tilt towards sectors that are beneficiaries of the economic environment to position for economic shifts



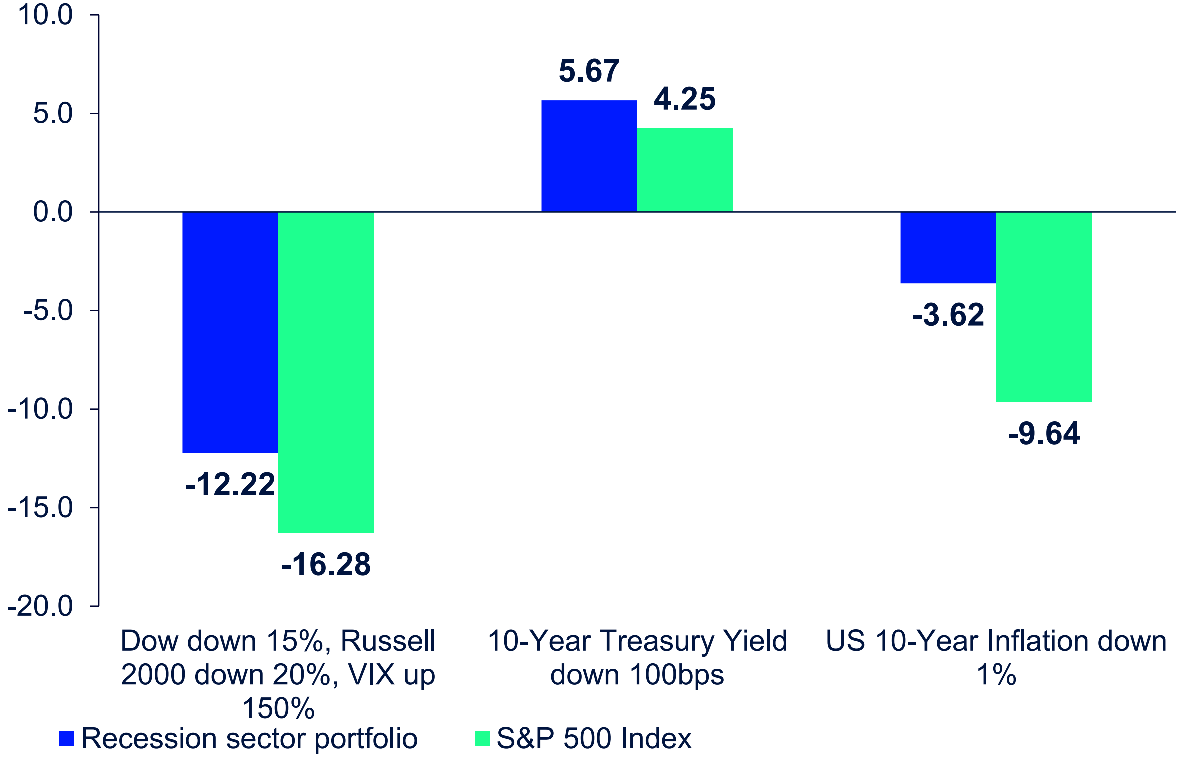
	Expansion	Slowdown	Recession	Recovery
++	Financials Technology	Consumer Staples Health Care	Consumer Staples Health Care	Consumer Discretionary Technology
+	Consumer Discretionary	Industrials Utilities	Utilities	Communication Services
-	Consumer Staples Health Care	Materials Consumer Discretionary	Communication Services	Health Care
--	Utilities	Real Estate	Real Estate Technology	Consumer Staples Utilities

Source: State Street Americas ETF Research, as of August 31, 2025. ++/-- indicates the most/least favorable sectors. +/- sign indicates favorable/unfavorable sectors.
The information contained above is for illustrative purposes only. It should not be construed as investment advice.

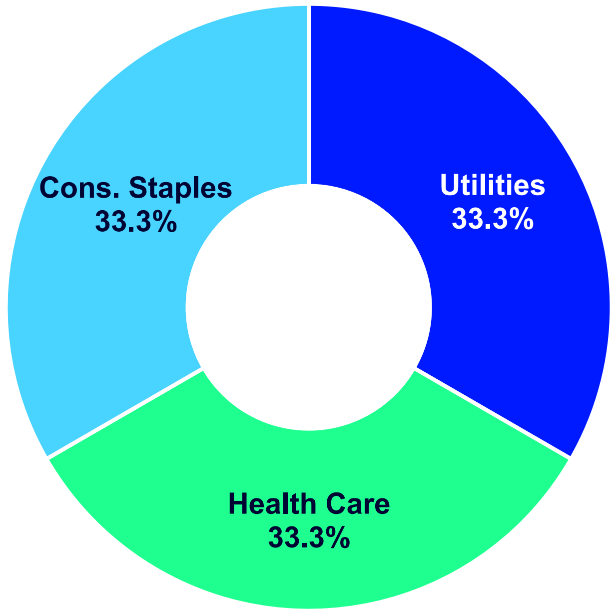
Top-down example: an economic recession sector portfolio

Equally allocate to Utilities, Staples and Health Care, which historically performed well during a recession to help navigate market downturns

Hypothetical profit & loss % for scenario analysis
based on holdings and market levels as of December 31, 2025



A recession sector portfolio weight



Source: Bloomberg Finance, L.P. , as of December 31, 2025. All Risk measures are derived from Bloomberg US Equity Risk Model and are expected risk measures forecast over the next calendar year. Forward looking risk factors are generated by means of a mathematical formula using the Bloomberg Multi-Asset Global Risk Model which includes historical volatilities, correlations and sensitivities to interest rates, credit spreads and risk factors and assumes a time horizon of 1 year. It does not reflect actual trading and does not reflect the impact that material economic and market factors may have on a Portfolio. Recession sector portfolio comprises the three (3) top performing sectors within the recession business cycle illustrated on slide 34.

State Street Sector Chart Pack

August 2026 edition

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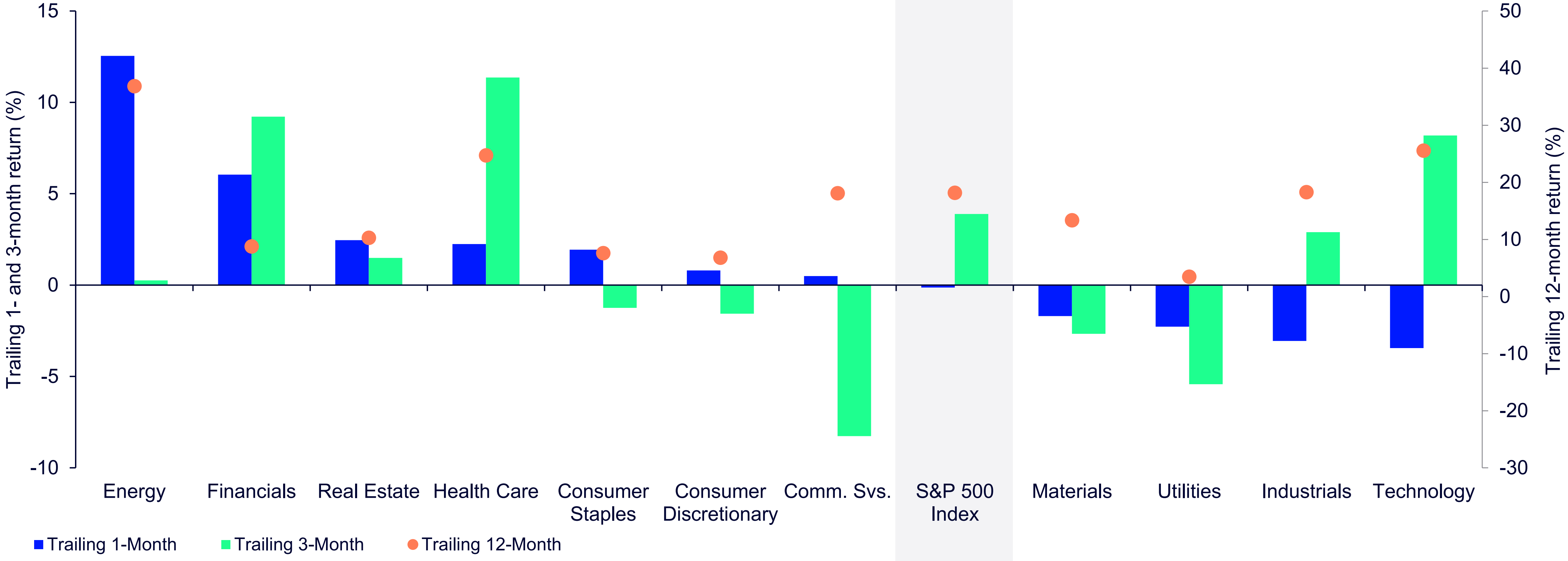
Sector Performance

Sector breadth remained healthy in July, with seven sectors outperforming the S&P 500, led by Energy. While Tech lagged, it continued to outperform the market on a 3- and 12-month basis

GICS sector performance (%)

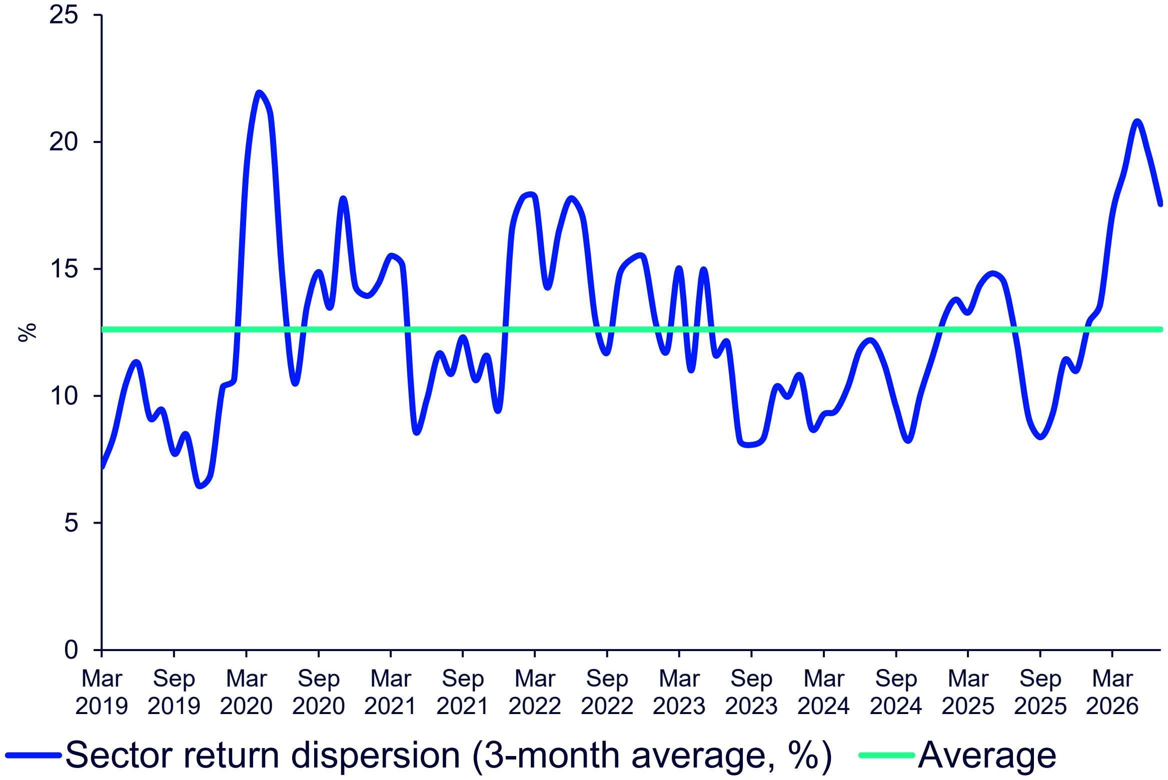


Source: Bloomberg Finance, L.P., as of July 31, 2026. Sectors are represented by the S&P 500 GICS Level 1 sector indices. **The performance data quoted represents past performance. Past performance does not guarantee future results.**

Sector Return Dispersion & Correlation

Sector dispersion remains elevated as leadership rotates amid the AI-related selloff and rising geopolitical tensions, while declining correlations continue to create opportunities for active sector selection

One-month return dispersion: 3-month rolling avg.



Rolling average 52-week pair-wise sector return correlation

Source: Bloomberg Finance, L.P., based on Global ETF Research calculations, as of July 31, 2026. Based on the 11 S&P 500 Sector indices. **The performance data quoted represents past performance. Past performance does not guarantee future results. Left chart:** Sector return dispersion measured as the 3-month moving average of differences between maximum and minimum 1-month sector total returns. **Right chart:** Average of 55 unique sector-pair correlations, calculated on rolling 52-week windows using weekly total returns.

Sector ETF flows

Tech attracted strong inflows for a fourth straight month despite July weakness, while strong demand for Financials and Health Care points to a barbell positioning approach among ETF investors

Least flows in period — Most flows in period

	Prior month flows ($M)	Trailing 3-months flows ($M)	Trailing 12-months flows ($M)	Trailing 3-months flows as % of beginning AUM	Trailing 12-months flows as % of beginning AUM
Communications	-723	-1,286	-1,391	-3.96%	-4.40%
Consumer Discretionary	-469	-642	-1,795	-1.82%	-4.75%
Consumer Staples	711	-282	-2,131	-1.05%	-7.77%
Energy	181	-2,342	8,606	-2.51%	14.13%
Financial	3,442	2,874	-248	3.38%	-0.27%
Health Care	2,228	2,940	7,958	3.31%	10.36%
Industrials	714	2,201	17,717	2.75%	31.45%
Materials	-702	-1,379	11,410	-1.75%	27.57%
Real Estate	664	4,387	7,163	6.30%	10.79%
Technology	18,725	45,078	68,779	13.60%	23.56%
Utilities	605	-37	2,352	-0.09%	7.32%

Source: State Street Investment Management, Bloomberg Finance, L.P., as July 31, 2026.

Sector Scorecard Current top and Bottom Three

Earnings strength supports momentum behind Tech, while multiple expansion lifts Industrials. Consumer Discretionary momentum trails as earnings sentiment is driven by sizable but narrow beats

Valuation

Comm. Svcs.	↑	0.85
Real Estate	↓	0.57
Consumer Disc.	↑	0.53
Financials	↓	-0.44
Tech	↑	-0.93
Industrials	↓	-1.38

Momentum

Tech	↑	1.91
Industrials	↑	1.03
Energy	↓	0.08
Consumer Disc.	↓	-0.56
Consumer Staples	↓	-0.75
Financials	↑	-0.86

Earnings Sentiment

Tech	↓	0.77
Comm. Svcs.	↑	0.60
Consumer Disc.	↑	0.42
Materials	↑	-0.24
Consumer Staples	↓	-0.70
Utilities	↓	-0.71

Sector scorecard detailed summary

Source: State Street Investment Management, FactSet, Bloomberg Finance, L.P., as of July 31, 2026. Green shading is top 3, red shading is bottom 3. Arrows indicate z-score trend measured by comparing current score to its 3-month average. S&P 500 sector indices are used to calculate sector scores. Please refer to Appendix A for the metrics used to measure valuation, momentum, and earnings sentiment. Please refer to Appendix B linked above for full overview and scoring methodology.

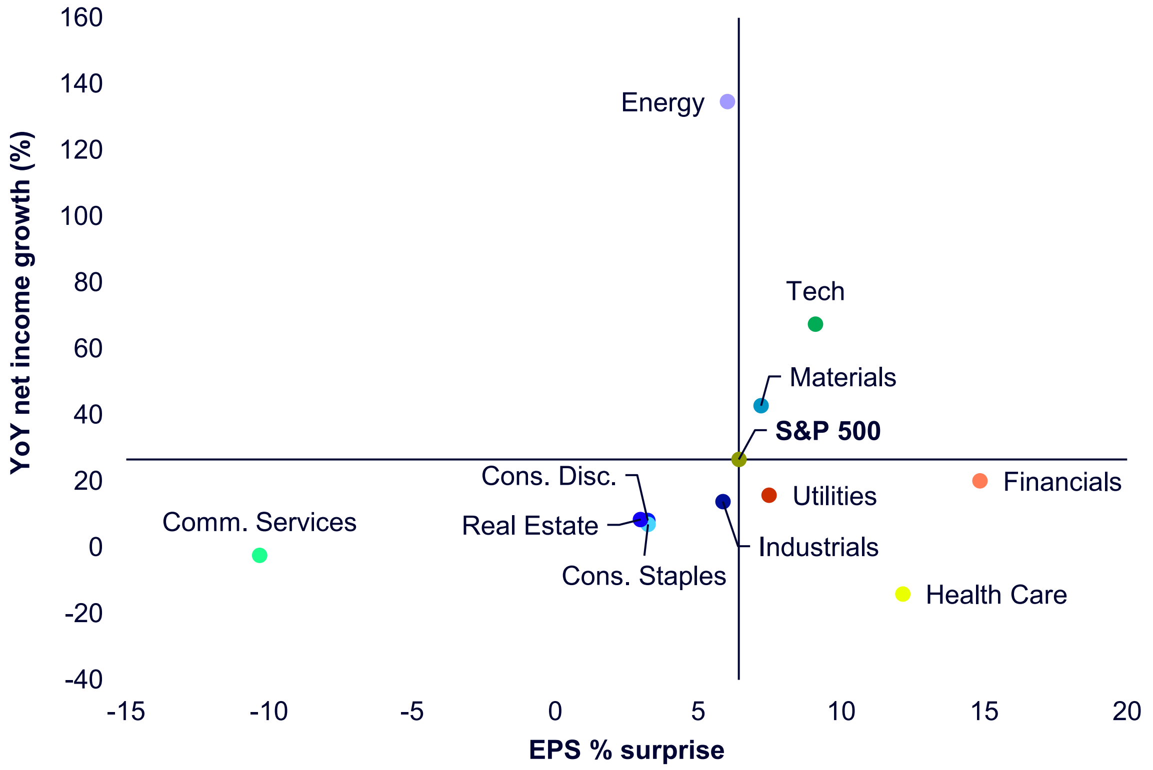
Sector Fundamentals

Q2 2026 Earnings

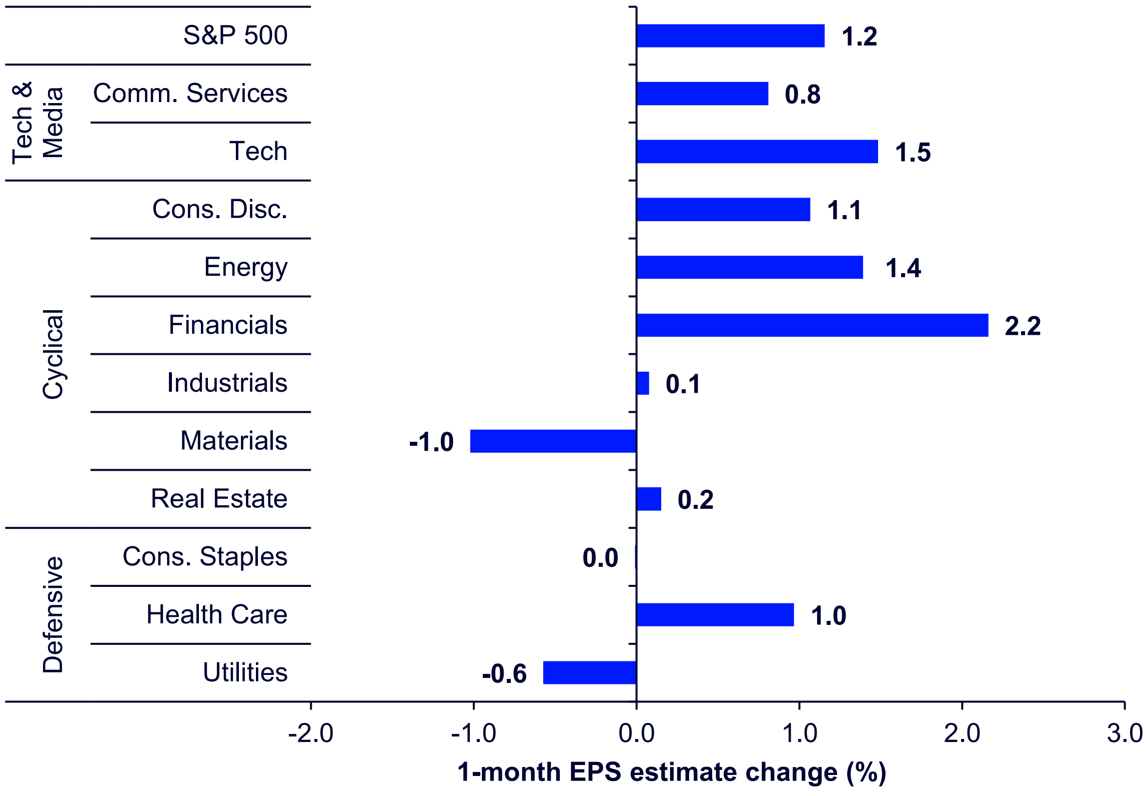
Beyond Big Tech's equity investment gains, Financials and Health Care generated some of the largest Q2 earnings beats, while Energy led earnings growth. Stronger Q2 results also lifted 2027 earnings outlook.

Q2 2026 earnings surprise & growth

Excluding Big Tech's equity investment appreciation



2027 earnings estimate one-month changes

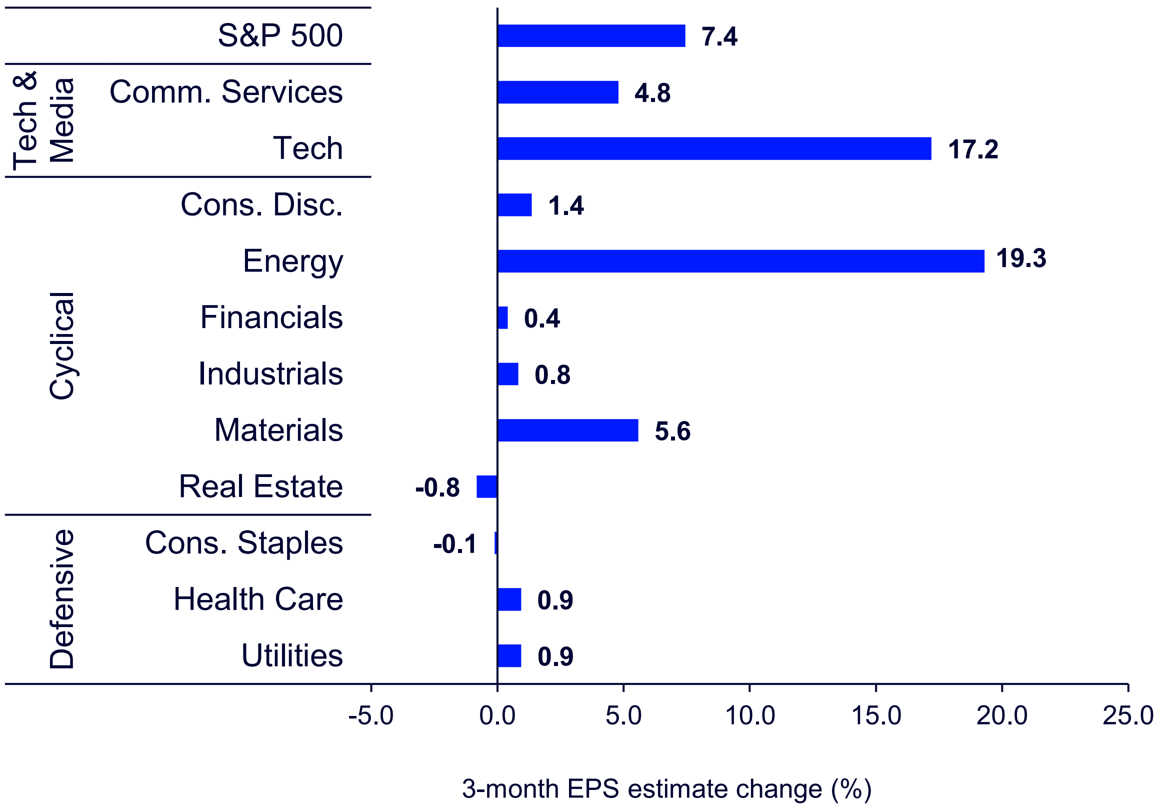


Source: FactSet, as of July 31, 2026. Based on the S&P 500 Sector indices. **Left chart:** Based on Global ETF research calculation. Net income adjusted to exclude 'Other income (expense), net' values reported by Amazon, Alphabet, and Microsoft (Big Tech) assuming 21% tax rate. Other income of these companies are primarily driven by appreciation of their equity investments.

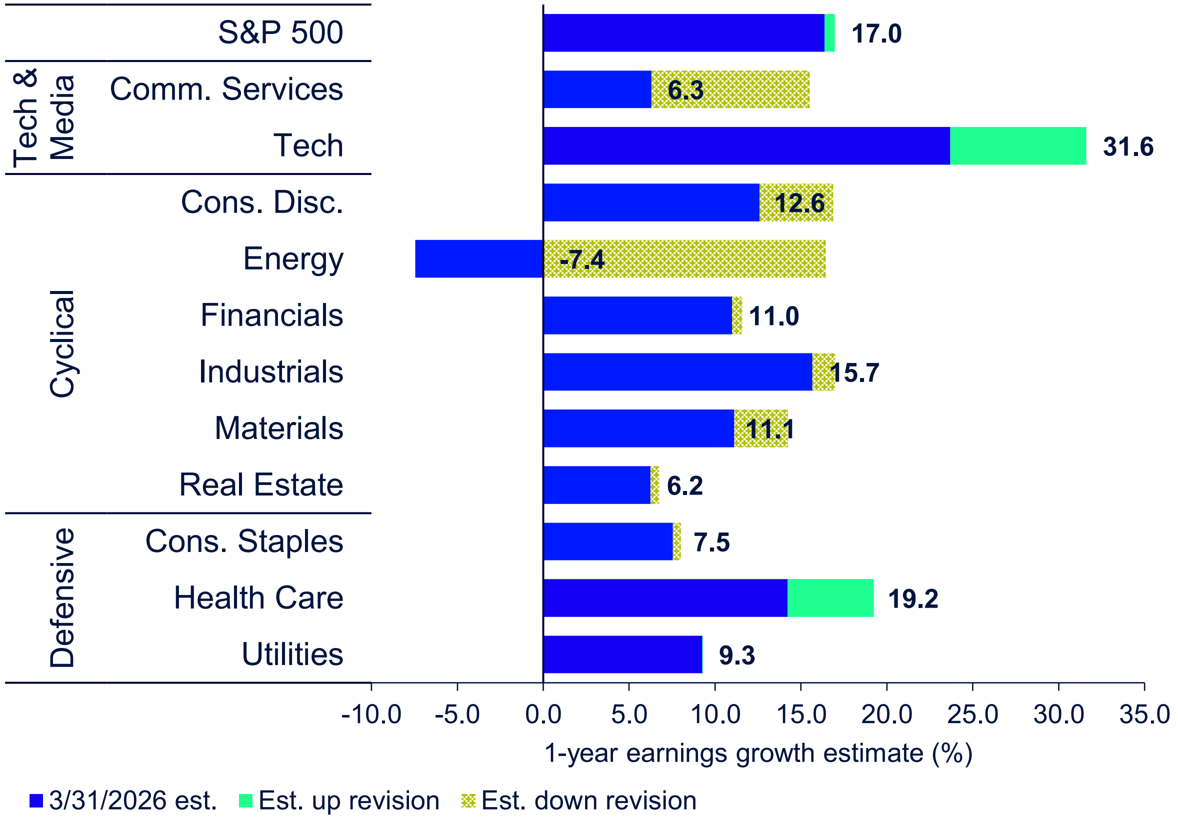
Sector Fundamentals: 2027 Earnings

Energy normalization is reflected in 2027 estimates, with EPS revised higher, but declining from 2026's level. Sustained AI momentum is set to drive four consecutive years of double-digit Tech earnings growth

2027 earnings estimate changes



2027 earnings growth estimates



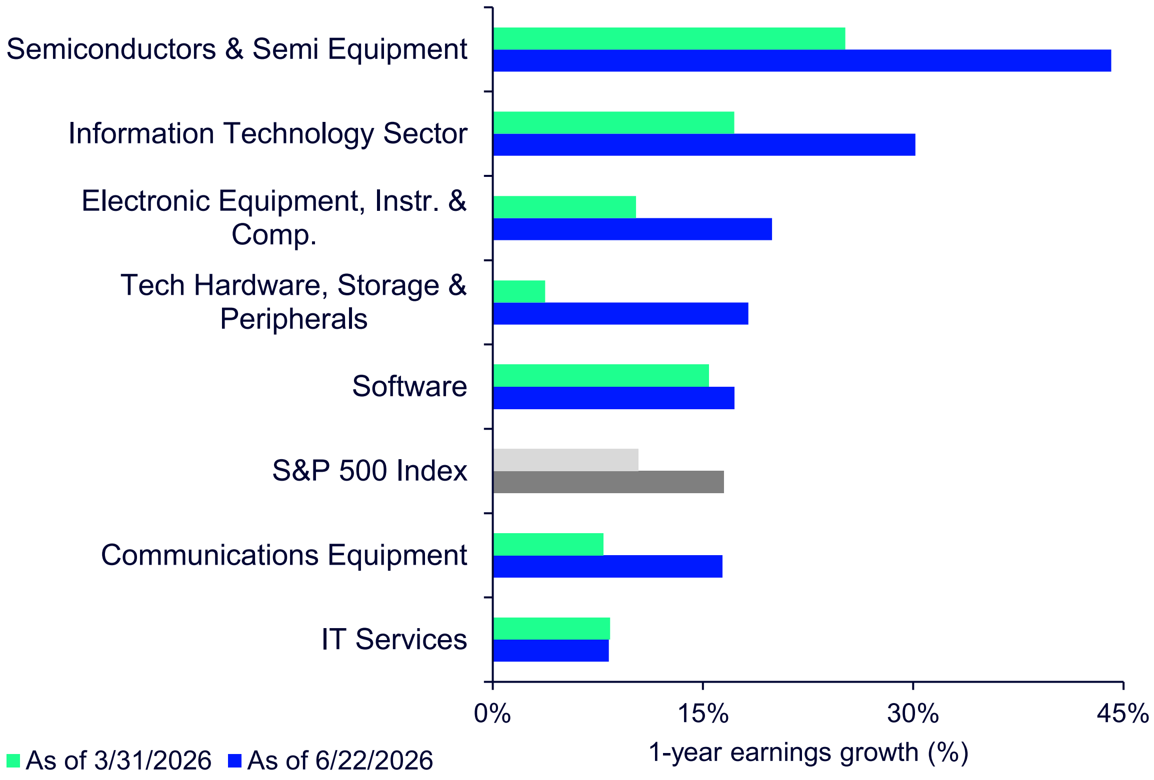
Source: FactSet, as of June 30, 2026. Based on the S&P 500 Sector indices. Right chart: The labels indicate full-year earnings growth estimate.

AI Enablers

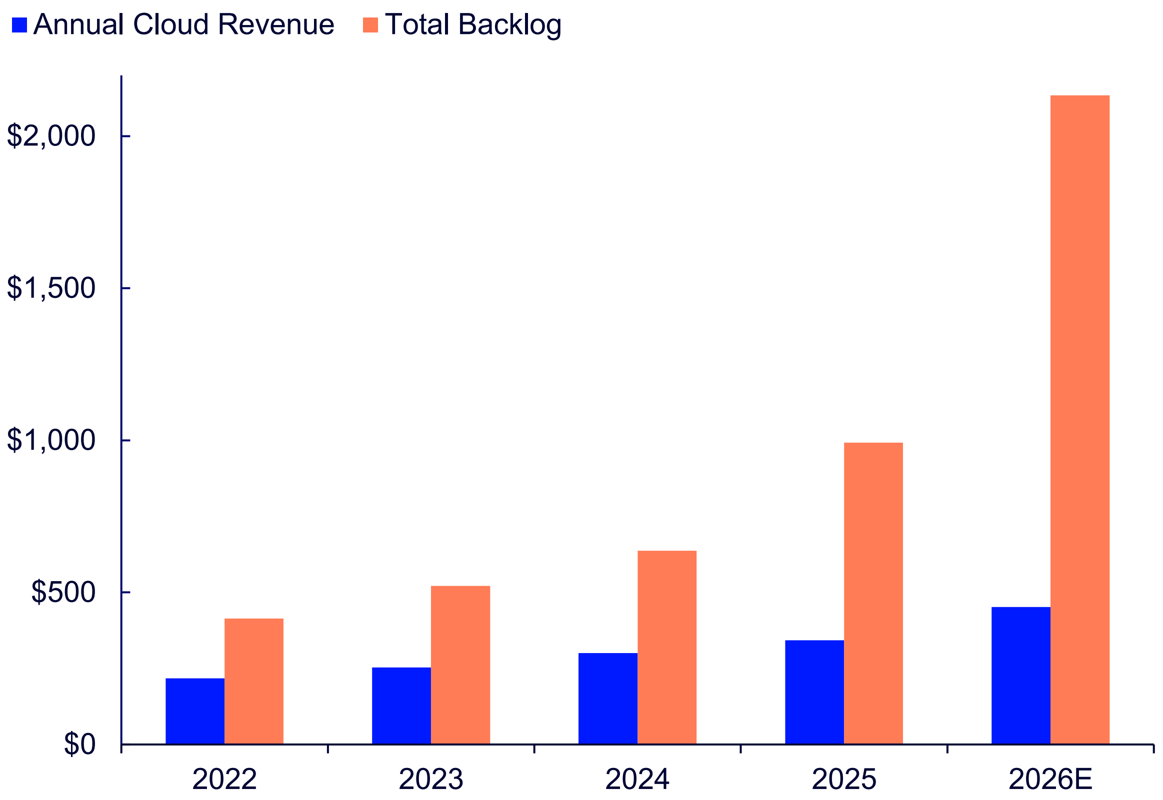
Technology

Tech has shown strong earnings visibility into 2027 and upward earnings revisions across industries, while accelerating cloud revenues and a growing backlog underscore strong ROI for AI hyperscalers

2027 EPS consensus growth estimates for Tech industries



Major hyperscaler annual cloud revenue and backlogs ($B)

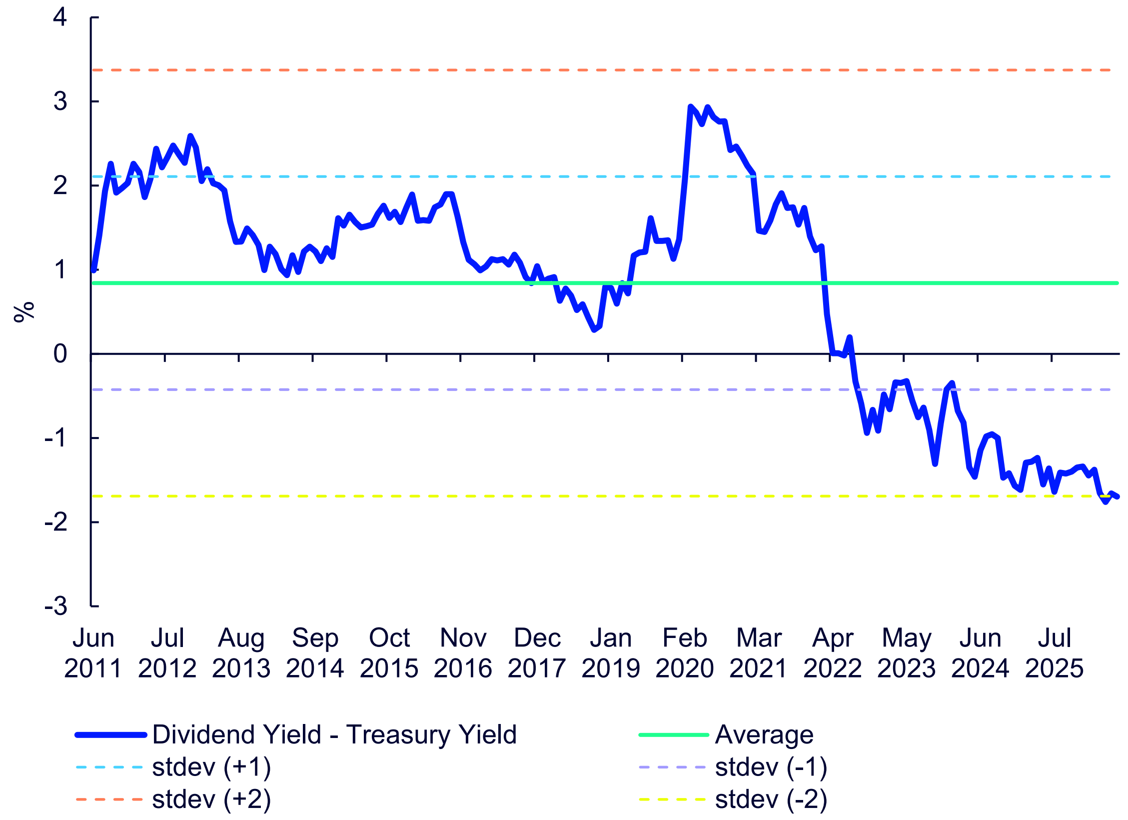


Left source: FactSet, as of June 22, 2026. Based on S&P 500 Industry Indexes classified within the S&P 500 GICS Technology Sector. **Right source:** Bloomberg Finance L.P., as of May 29, 2026.
Based on a blend of consensus estimates and reported company results. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. Annual cloud business revenue includes annual reported or consensus estimates for Amazon.com (Amazon Web Services), Alphabet Inc (Google Cloud), Microsoft Corp (Intelligent Cloud), and Oracle Corp (Cloud and License). Total backlog includes annual reported or consensus estimates of remaining performance obligations for Amazon.com, Alphabet Inc., and Oracle Corp, and commercial remaining performance obligations for Microsoft Corp.

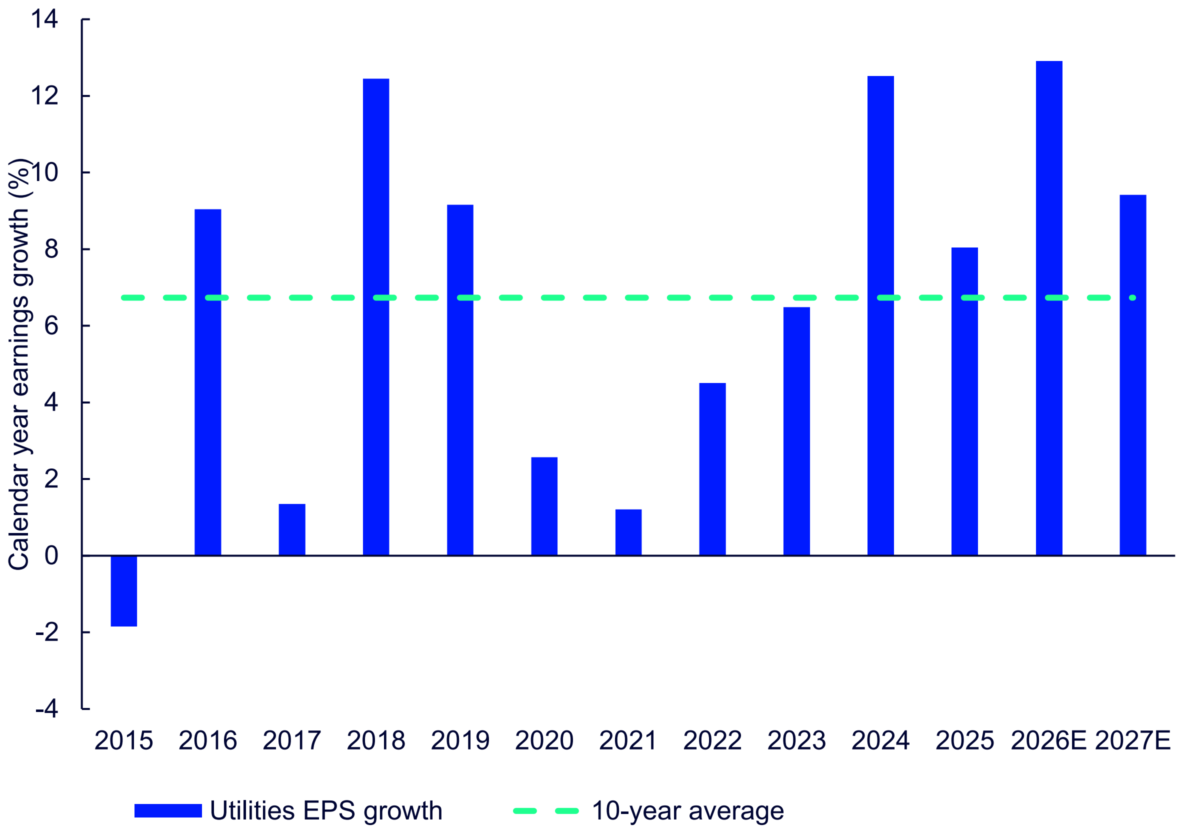
Utilities

While Utilities earnings growth remains above historical averages, driven by AI demand and electrification, emerging affordability pressures and interest rate volatility may create near-term headwinds

Utilities' less attractive dividend yield relative to 10-year yield



S&P 500 Utilities above-trend earnings growth (%)



Left source: Bloomberg Finance L.P., as of June 26, 2026. **Right source**: FactSet, as of June 23, 2026. Sectors are represented by S&P 500 Sectors.

Manufacturing-led Upturn Set Conditions for Pro-cyclical Sector Broadening

- **AI buildout and pro-capex fiscal policy continue to support growth**
- **Cyclical momentum continues rebuilding in manufacturing**
- **Resilience is uneven across consumers**
- **A sustained normalization of energy supply may ease inflation pressure**
- **A potential peak in Fed hawkishness sets conditions for sector broadening**

ISM Manufacturing PMI

53.3

Sixth consecutive month in expansion[1]

2027 Fed rate action forecast

-0.50%

Cuts delayed to 2027 vs market pricing a December hike[2]

2026 earnings growth est.

23.9%

Highest annual growth since 2021[3]

Avg. real income growth

-0.35%

Largest decline since December 2022[4]

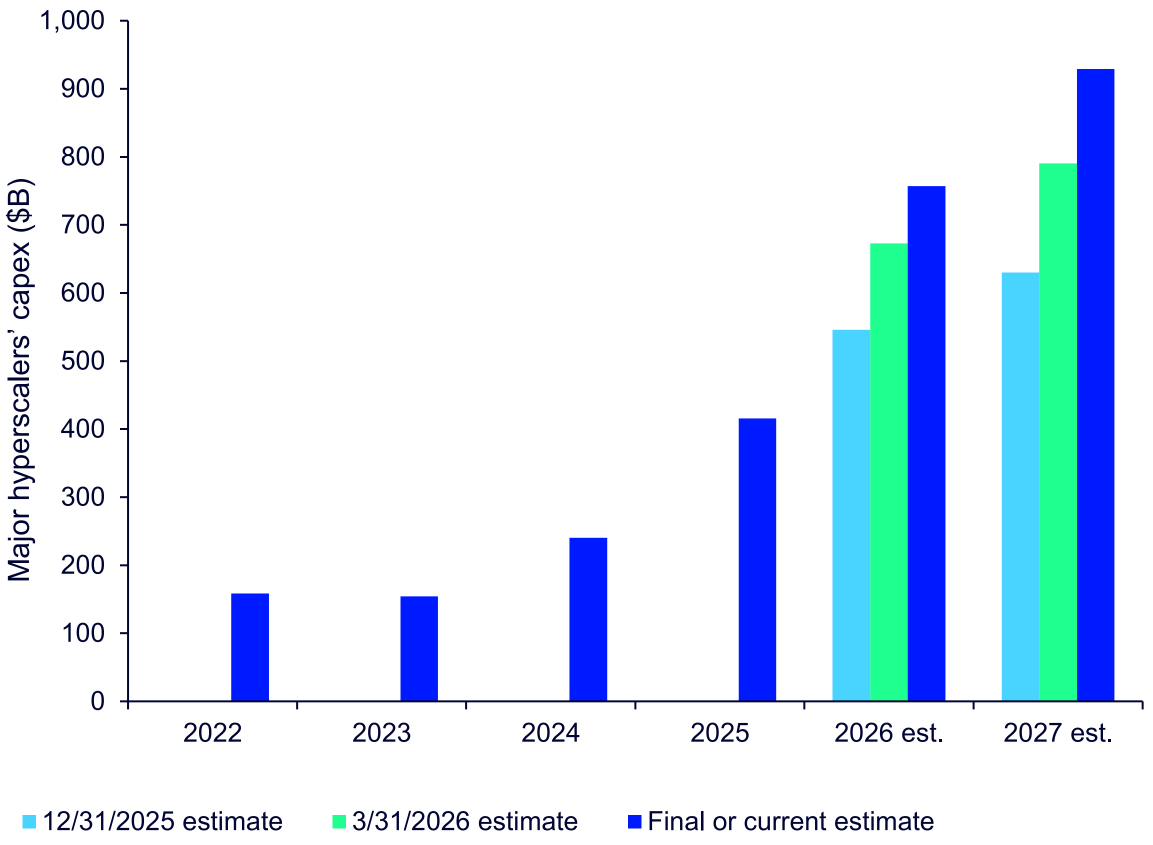
1 – Source: Bloomberg Finance, L.P., Institute of Supply Management, data as of June 30, 2026. 2 – Source: State Street Investment Management Economics, Bloomberg Finance, L.P., as of June 26, 2026.
3 – Source: FactSet, data as of June 30, 2026. 4 – Source: Bureau of Economic Analysis via FRED, data as of May 31, 2026. Based on 3-month average of yoy growth.

Industrials

Hyperscalers' capex expansion reinforces a sustained AI build-out cycle supporting Industrials, as restocking needs and sustained new orders signal strong underlying demand

Strong demand backdrop for manufacturing goods

Rising capex driven by AI infrastructure demand

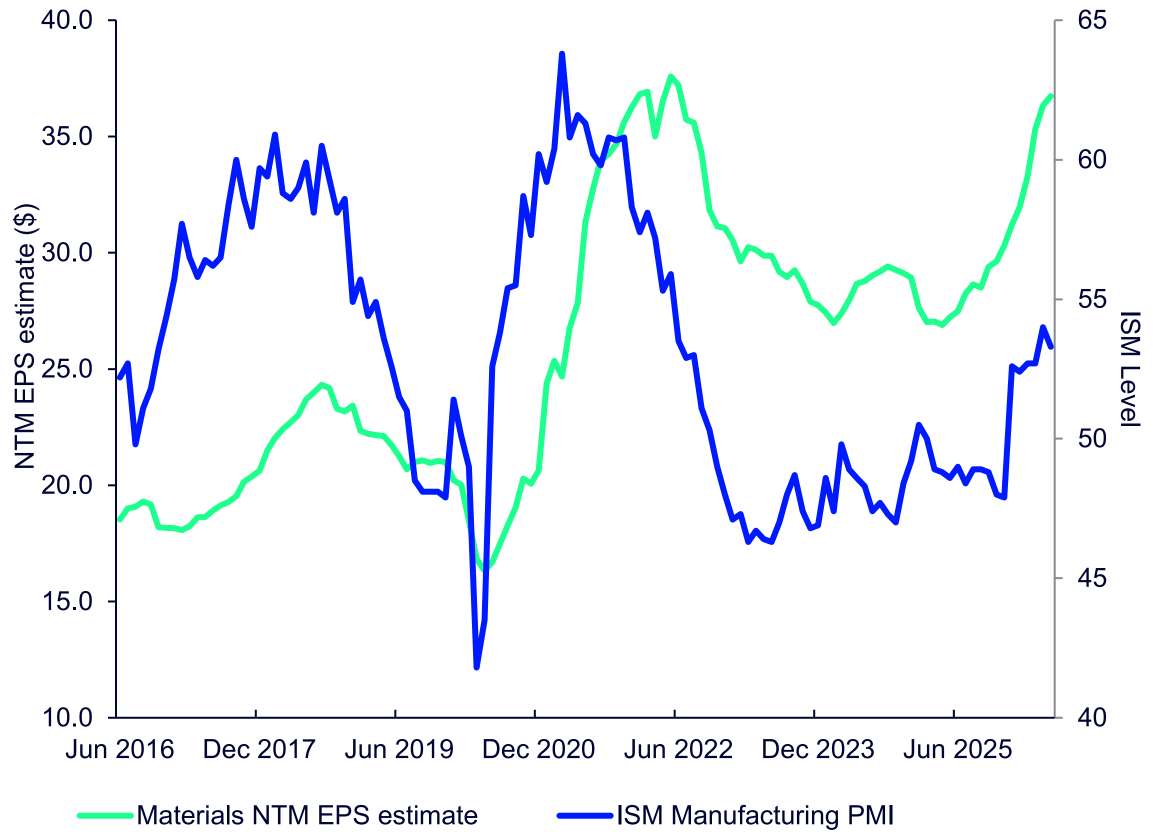


Left source: US Census Bureau via Bloomberg Finance, L.P., data as of April 30, 2026. **Right source:** FactSet, data as of June 30, 2026. Hyperscalers include Alphabet, Amazon, Meta, Microsoft, and Oracle.

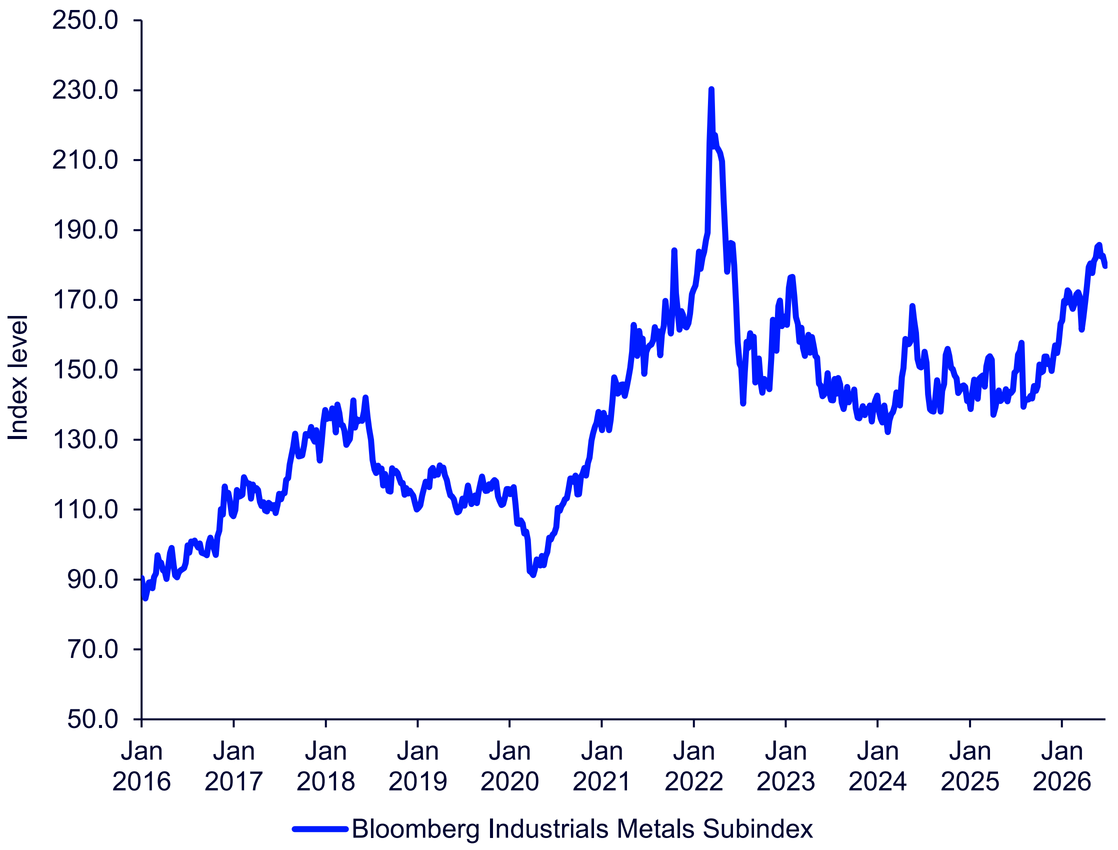
Materials

With resilient US manufacturing activity and structurally higher demand for industrial metals amid the AI infrastructure buildout, Materials' earnings outlook is improving amid supportive valuations

Materials' improving earnings outlook



Industrial metal prices higher amid the AI infrastructure buildout



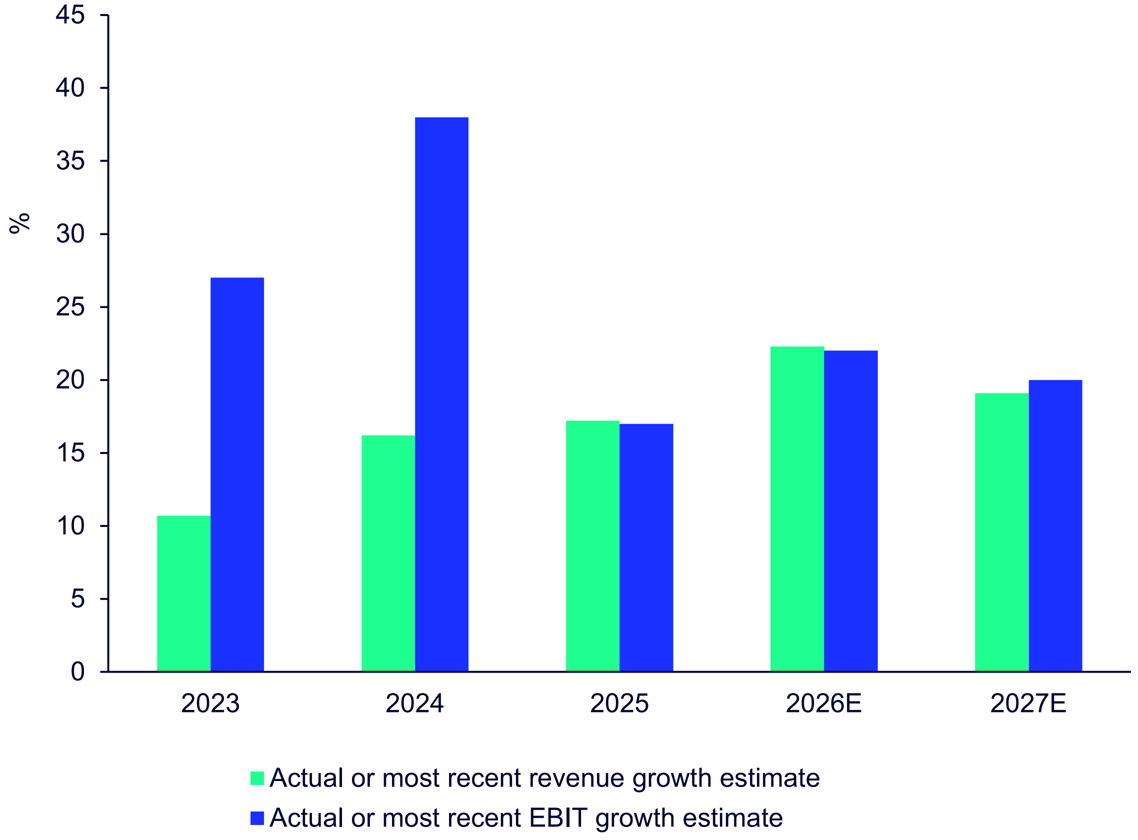
Left source: FactSet, as of June 30, 2026. "Materials" represents the S&P 500 Materials Sector Index. **Right source**: Bloomberg Finance, L.P., weekly data as of June 22, 2026.
Bloomberg Industrial Metals Subindex index is composed of futures contracts on aluminum, copper, nickel, lead and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

AI Adopters

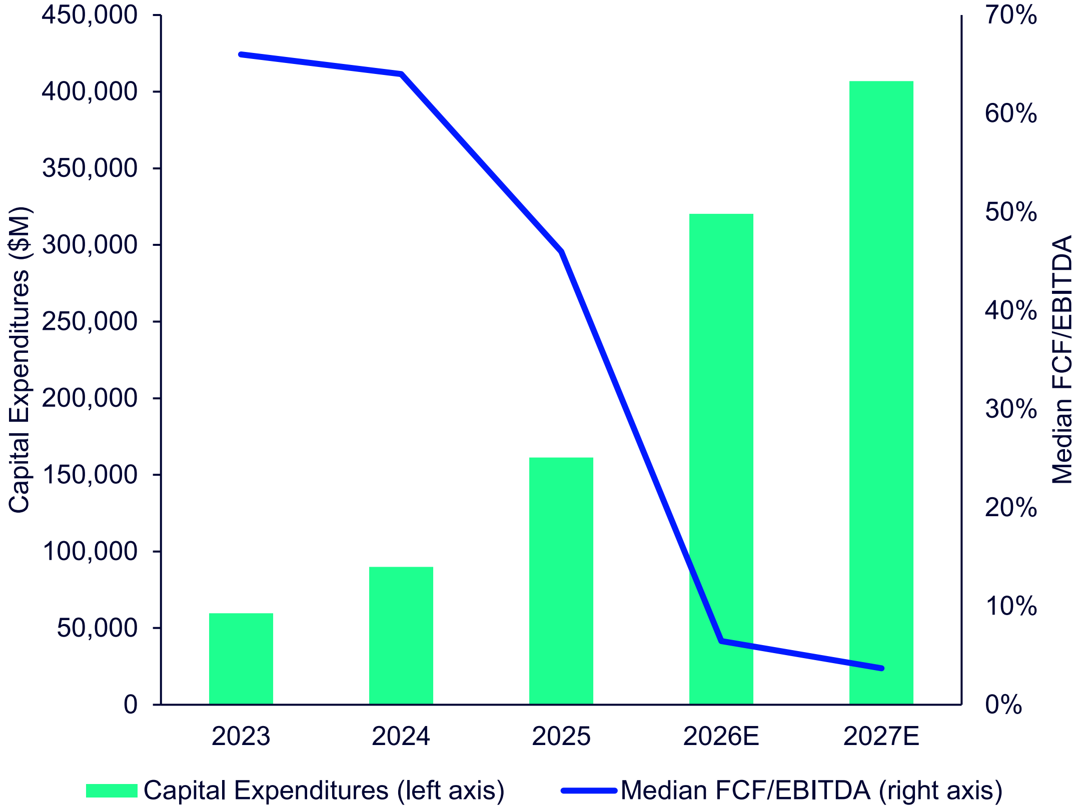
Communication Services

Strong revenue growth is increasingly offset by rising costs and investment intensity, leading to declining operating leverage, while increasing capex weighs on free cash flow and pressures earnings over time

Interactive Media industry declining operating leverage*



CapEx and FCF/EBITDA, Interactive Media industry

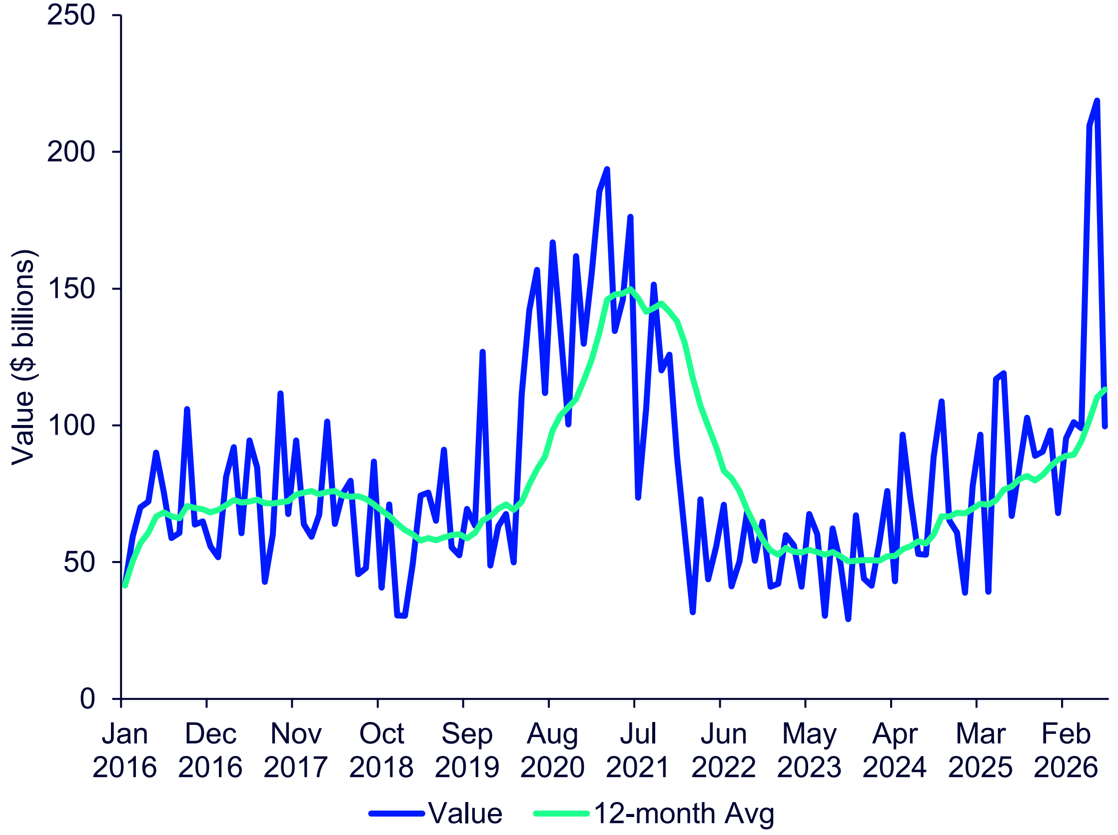


Left source: FactSet, as of June 26, 2026. Based on S&P 500 Interactive Media Industry Index. * Negative operating leverage.
Right source: Bloomberg Finance LP, as of June 30, 2026. Based on S&P 500 Interactive Media Industry Index constituents.

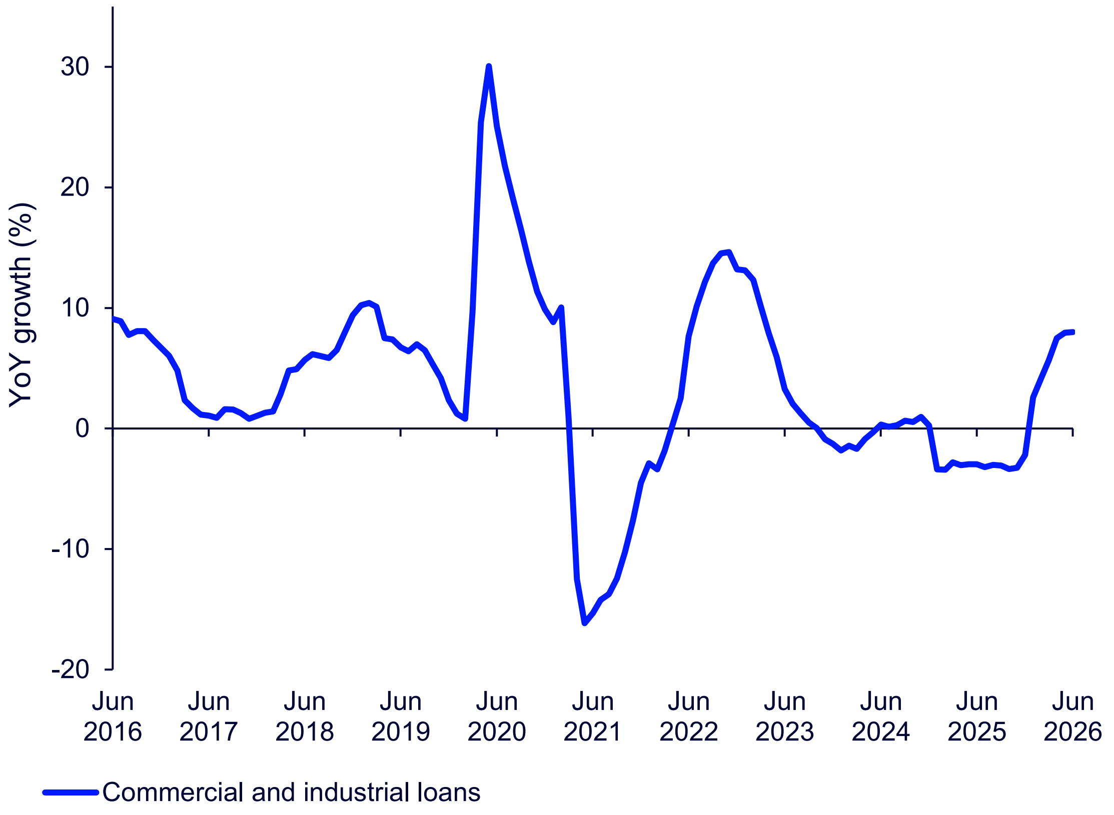
Financials

Accelerating loan growth and capital markets activity support Financials' earnings, while continued deregulation offers potential upside catalysts

Announced IPO and equity offerings are trending upward



Commercial and industrial loan growth trending upward

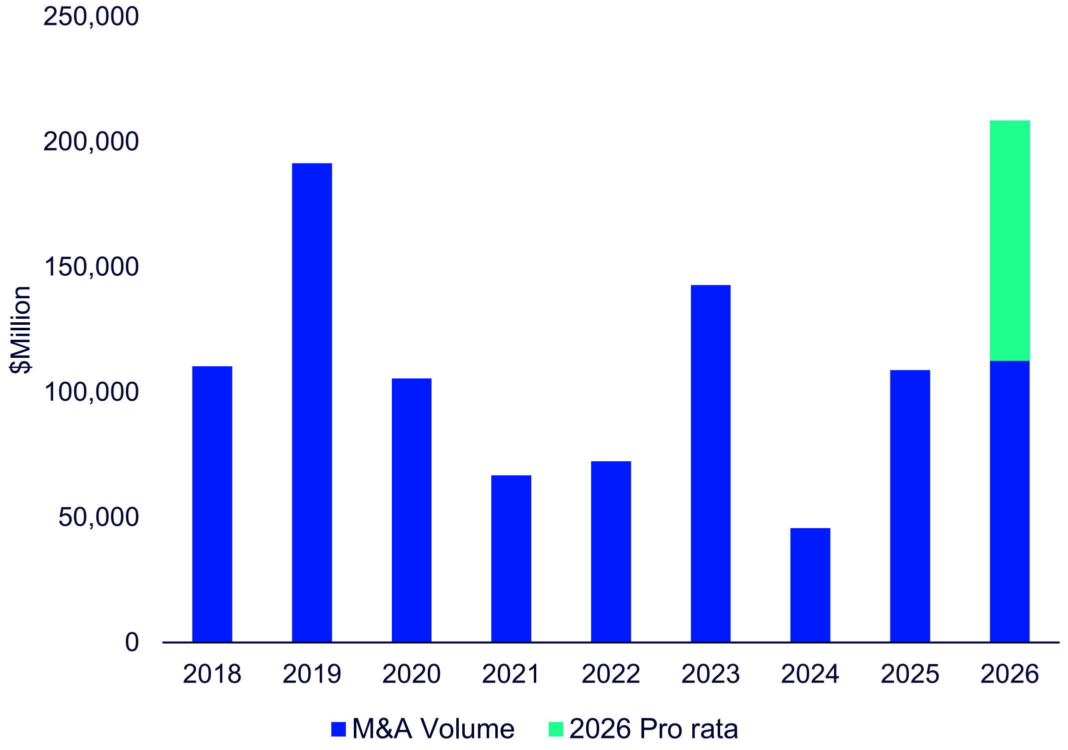


Left source: Monthly data via IPO function on Bloomberg Finance, L.P., as of July 31, 2026. Includes IPO, additional offering, and rights offering data.
Right source: Source: Board of Governors of the Federal Reserve System (US), Commercial and Industrial Loans, All Commercial Banks, retrieved from FRED, Federal Reserve Bank of St. Louis, data as of July 31, 2026.

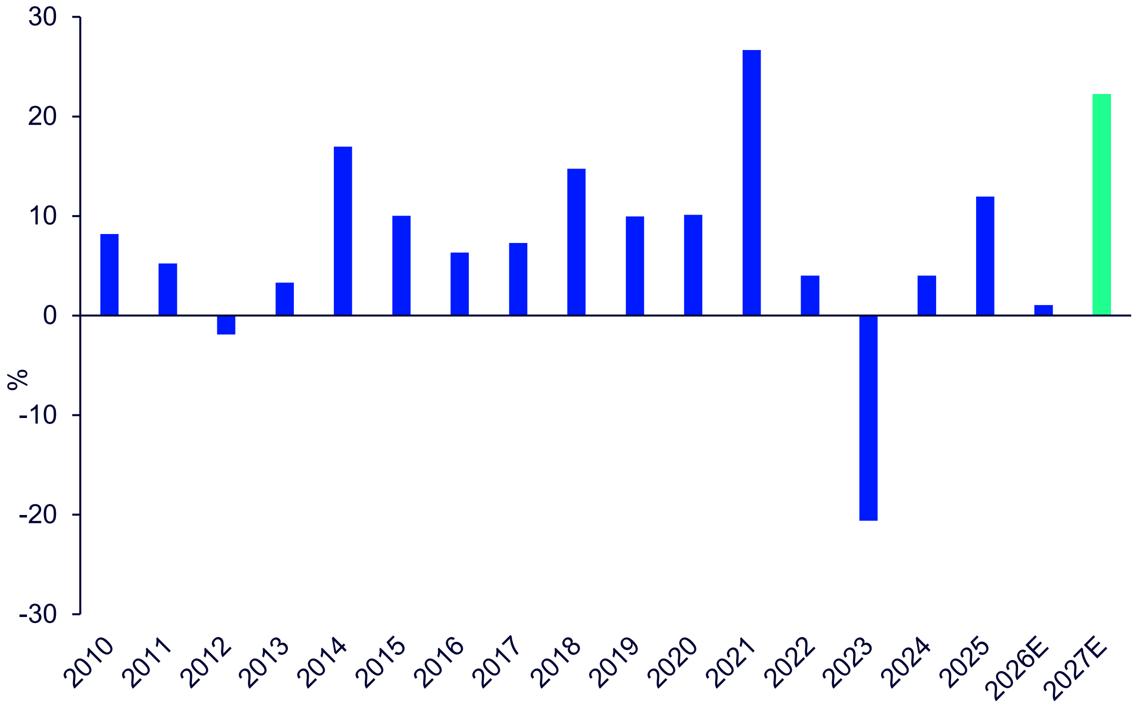
Health Care

Rising M&A activity signals growing executive confidence in Health Care, while improving managed-care fundamentals and continued biopharma innovation support an earnings rebound in 2027

M&A activity is picking up
Biopharma M&A volume



Health Care' earnings growth set to rebound in 2027
Health Care EPS growth (YoY %)



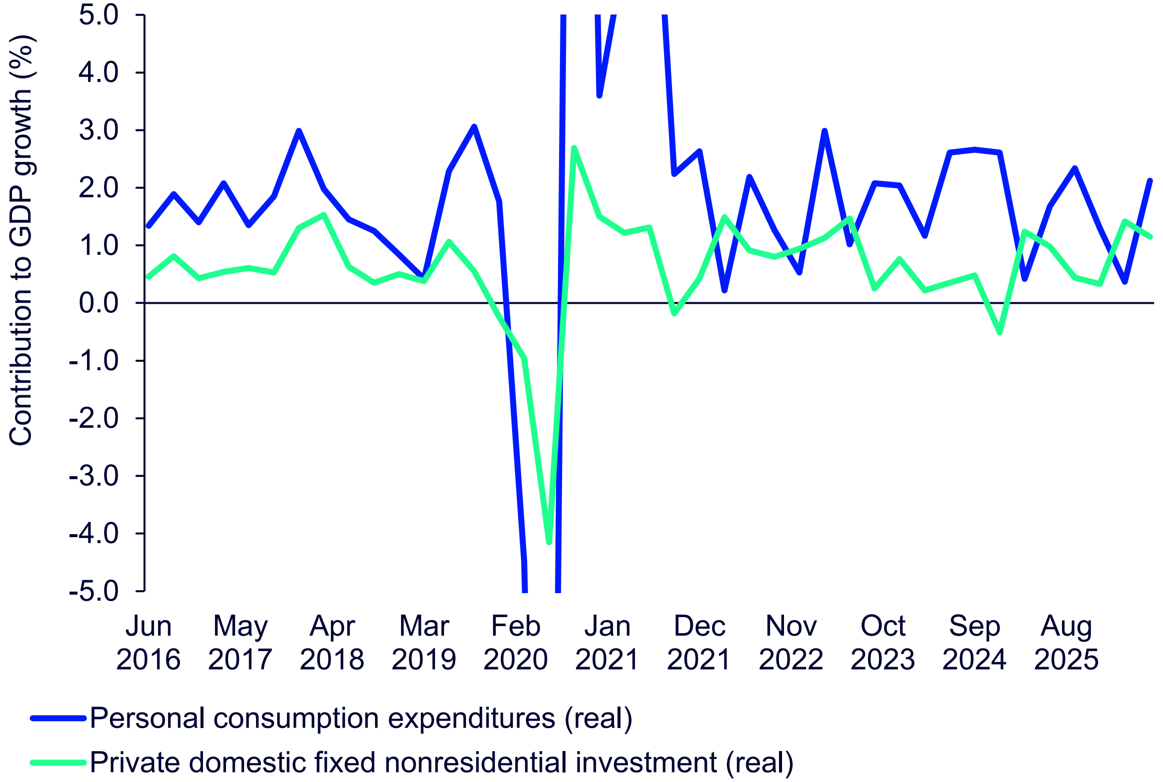
Left source: FactSet, as of July 27, 2026. 2026 pro rata = YTD M&A value × (remaining calendar days ÷ elapsed calendar days 2026 pro rata reflects YTD results annualized for the full year.
Right source: FactSet, as of July 31, 2026. S&P 500 Health Care sector index is used to represent Health Care.

Consumer sectors

While consumption rebounded in the second quarter, likely aided by the World Cup, the widening gap between spending and income growth bears watching for signs of fading consumer resilience

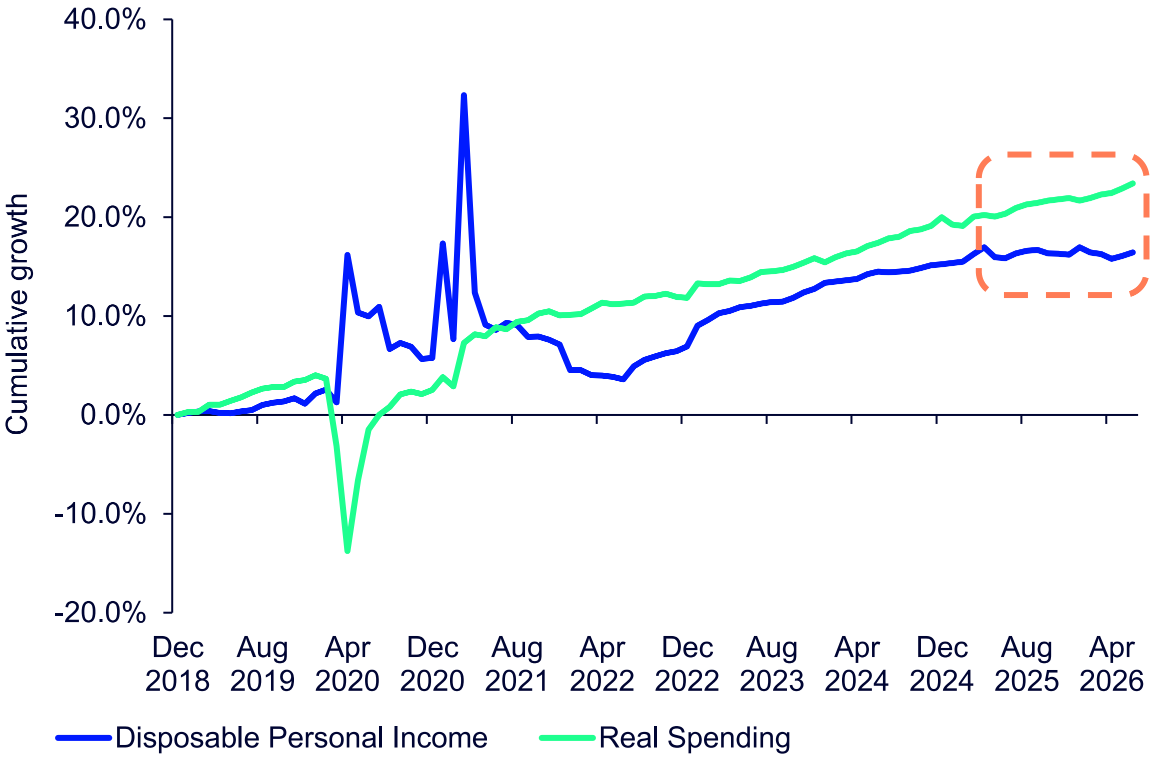
Consumption rebounded more than expected in Q2

Contribution to real GDP growth (QoQ, annualized, %)



Spending vs income growth gap has widened

Real spending and income: Cumulative growth



Left source: Bureau of Economic Analysis, Bloomberg Finance, L.P., as of June 30, 2026.
Right source: Bureau of Economic Analysis, Bloomberg Finance, L.P., based on Global ETF Research calculations, as of June 30, 2026, Based on seasonally adjusted annualized real dollar values, expressed in chained 2017 prices.

Sector Market Perspectives

6–12 month investment horizon

Tech & Media sectors

Communication Services	Neutral
Technology	Positive

Cyclical sectors

Consumer Discretionary	Negative
Energy	Neutral
Financials	Positive
Industrials	Positive
Materials	Positive
Real Estate	Neutral

Defensive sectors

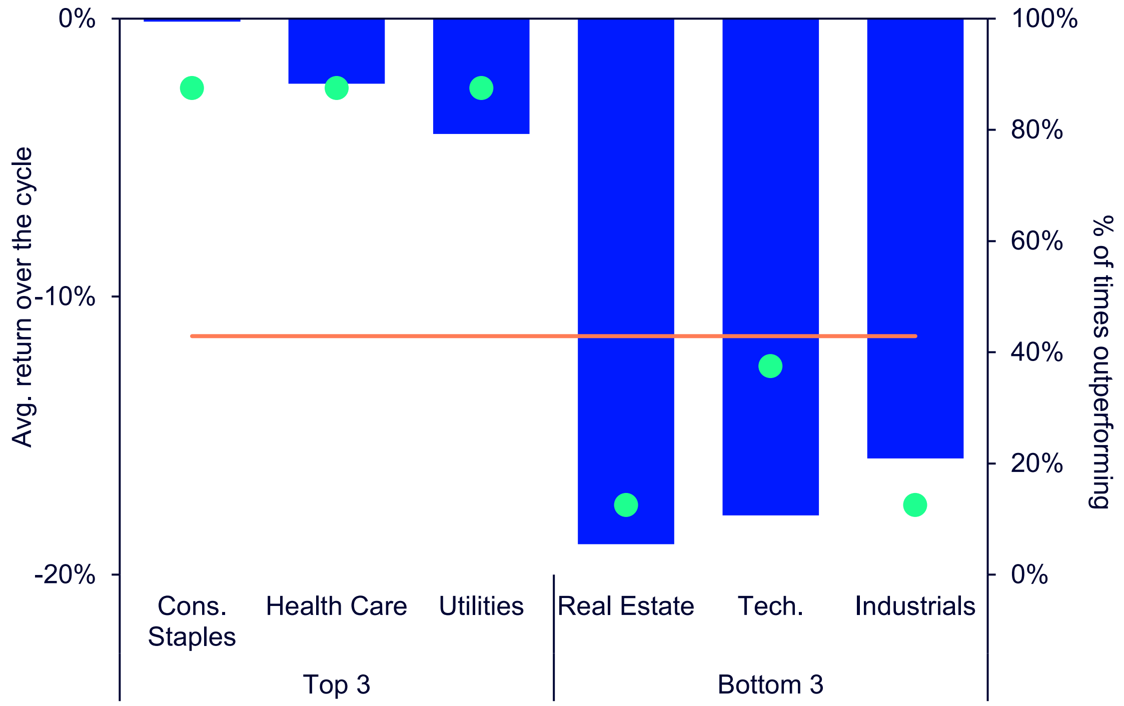
Consumer Staples	Negative
Health Care	Positive
Utilities	Neutral

Source: State Street Investment Management, as of July 31, 2026. Green shading indicates positive views. Orange shading indicates negative views.

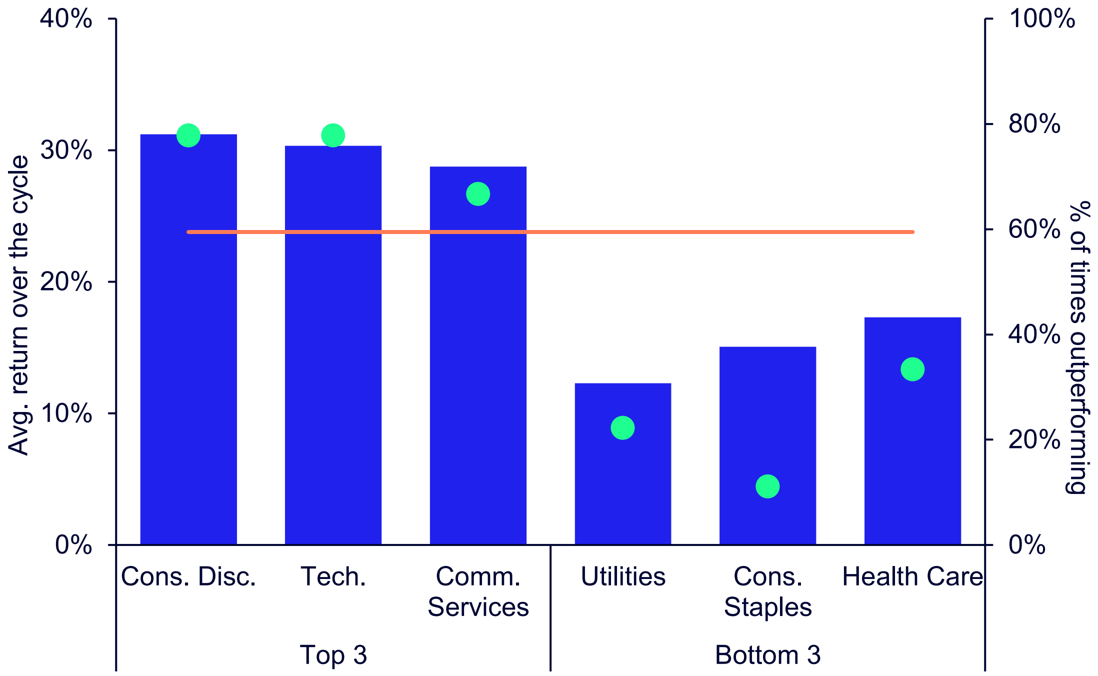
Appendix

Sector Performance in Business Cycles

Recession



Recovery

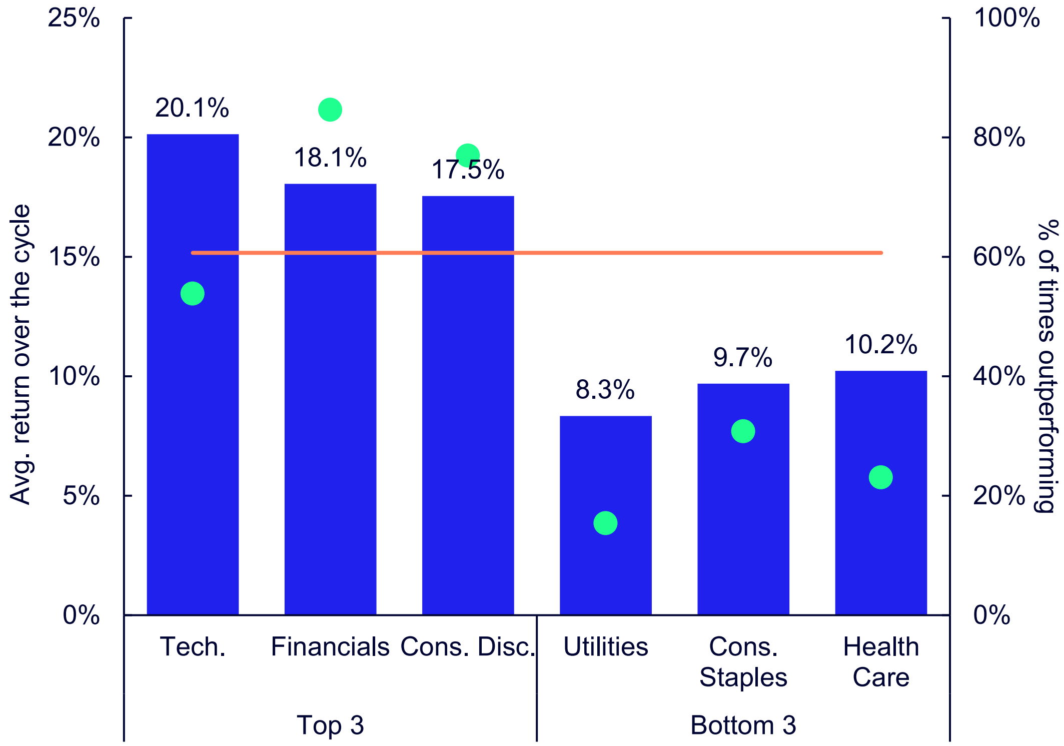


Average Period Return **Market Return** **% of Times Outperforming the Market**

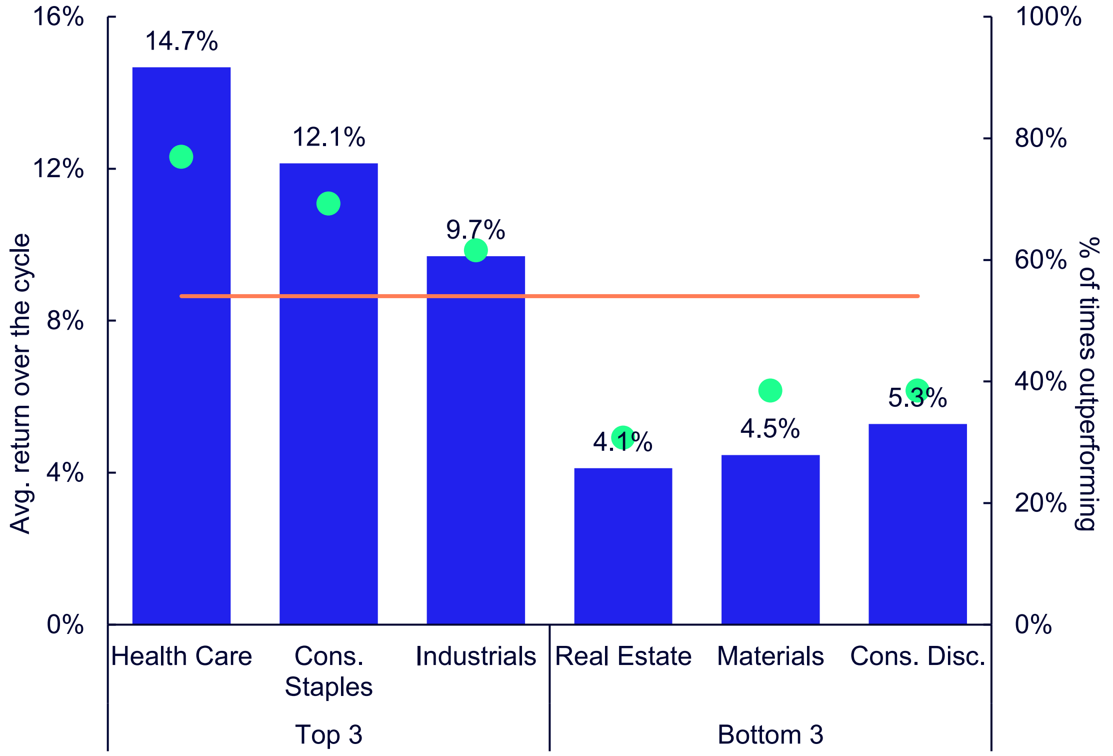
Source: Kenneth French Data Library, Bloomberg Finance, L.P., State Street Americas ETF Research, as of August 31, 2025. **The performance data quoted represents past performance. Past performance does not guarantee future results..** This information should not be considered a recommendation to invest in a particular sector shown. It is not known whether the sectors shown will be profitable in the future. Top and bottom 3 sectors are based on the sector's composite score.

Sector Performance in Business Cycles

Expansion



Slowdown



Average Period Return **Market Return** **% of Times Outperforming the Market**

Source: Kenneth French Data Library, Bloomberg Finance, L.P., State Street Americas ETF Research, as of August 31, 2025. **The performance data quoted represents past performance. Past performance does not guarantee future results.** This information should not be considered a recommendation to invest in a particular sector shown. It is not known whether the sectors shown will be profitable in the future. Top and bottom 3 sectors are based on the sector's composite score.

Appendix A:
State Street Sector Scorecard Methodology

Composite score	Metrics
Valuation	**Relative valuation** (P/B, P/E, NTM P/E, P/S)
	Absolute valuation (P/B, P/E, NTM P/E, P/S)
Earnings sentiment	**Earnings revision** (changes to EPS estimates, upgrade to downgrade ratio)
	Earnings surprise (the magnitude and breadth of earnings surprise)
Momentum	**Price returns** 3-months, 6-months, 12-months

The metrics shown are z-scores, which are calculated using the mean and standard deviation of the relevant metrics within S&P 500 sectors. Using Z-scores to standardize results across all sectors allows for easier relative assessment. Sectors with cheaper valuation, higher price momentum, higher sentiment, and higher volatility will have higher z-scores.

We calculate a composite score by equally weighting each metric z-score in the same category.

The scorecard does not represent the investment views of State Street. Metrics used in the scorecard have not been backtested for any sector strategies by State Street.

These are for illustrative and educational purposes as we seek to bring greater transparency to the sector investing landscape and the due diligence required to build sophisticated portfolios to meet specific client objectives.

Source: Global ETF Research.

Appendix B: Sector Scorecard

	Sector composite z-scores*					
	Valuation		Momentum		Earnings sentiment	
	Trend	Current score	Trend	Current score	Trend	Current score
Communication Services	↑	0.85	↓	-0.09	↑	0.60
Consumer Discretionary	↑	0.53	↓	-0.56	↑	0.42
Consumer Staples	↓	-0.23	↓	-0.75	↓	-0.70
Energy	↓	-0.23	↓	0.08	↓	-0.16
Financials	↓	-0.44	↑	-0.86	↑	0.20
Health Care	↓	0.25	↑	-0.15	↑	0.01
Industrials	↓	-1.38	↑	1.03	↓	-0.01
Information Technology	↑	-0.93	↑	1.91	↓	0.77
Materials	↑	0.43	↓	-0.08	↑	-0.24
Real Estate	↓	0.57	↑	0.02	↑	-0.18
Utilities	↑	0.41	↑	-0.54	↓	-0.71

Source: State Street Investment Management, FactSet, Bloomberg Finance, L.P., as of July 31, 2026. Green shading is top 3, red shading is bottom 3. * The scorecard uses z-score for each metric to standardize numbers across sectors and show relativeness among sectors. Composite score is calculated by equally weighting each metric in the same category. Z-score indicates how many standard deviations an element is from the mean. A z-score can be calculated from the following formula. $z = (X - \mu) / \sigma$ where X is the value of the sector. μ is the mean of the eleven sectors. σ is the standard deviation of eleven sectors. S&P 500 sector indices are used to calculate sector scores. Please refer to Appendix A for the metrics used to measure valuation, momentum and earnings sentiment. Trend is measured comparing current score to its 3-month average.

Definitions

Active Risk: A measure of the difference in returns between an actively managed portfolio and its benchmark. It represents the potential for performance resulting from active management decisions, such as stock selection or sector weighting.

Alpha: A measure of performance relative to a suitable benchmark index (e.g., S&P 500 Index). A positive alpha indicates outperformance.

Correlation: A statistical measurement of how two assets move in relation to one another, ranging from -1 (opposite direction) to 1 (same direction). A correlation of 0 indicates no relationship between two assets.

Current Short Interest (%): The percentage of tradable outstanding shares which have been shorted. Used as a measure of investor sentiment.

Dispersion: A measure of the range of returns. High dispersion indicates a large difference in performance between securities, while low dispersion indicates a small difference in performance.

Global Industry Classification Standard (GICS): An industry taxonomy developed in 1999 by MSCI and Standard & Poor's (S&P) for use by the global financial community. The GICS structure consists of 11 sectors, 25 industry groups, 74 industries and 163 sub-industries [1] into which S&P has categorized all major public companies.

Implied volatility: The estimated volatility of a security's price. In general, implied volatility increases when the market is bearish and decreases when the market is bullish. This is due to the common belief that bearish markets are more risky than bullish markets.

LEI Index (Leading Economic Index): A leading indicator intended to forecast future economic activity, with the value of the index derived from ten inputs. It is calculated by The Conference Board, a non-governmental research organization.

Momentum factor: The tendency for a security to maintain a certain direction of price trajectory. This tendency is well documented in academic research, which has made "momentum" one of the six smart beta factors that are systematically being isolated in new-generation strategic indexes.

S&P 500 Communication Services Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® Communication Services sector.

S&P 500 Consumer Discretionary Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® consumer discretionary sector.

S&P 500 Consumer Staples Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

S&P 500 Energy Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® energy sector.

S&P 500 Financial Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® financial sector.

S&P 500 Health Care Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® health care sector.

S&P 500 Industrial Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® industrial sector.

S&P 500 Information Technology Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® information technology sector.

S&P 500 Materials Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

S&P 500 Real Estate Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® real estate sector.

S&P 500 Utilities Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

S&P 500 Index: A popular benchmark for US large-cap equities that includes 500 companies from leading industries and captures approximately 80% coverage of available market capitalization.

Standard deviation: Measures the historical dispersion of a security, fund or index around an average. Investors use standard deviation to measure expected risk or volatility, and a higher standard deviation means the security has tended to show higher volatility or price swings in the past.

Price-earnings ratio (P/E ratio): The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio can be calculated as: Market Value per Share/Earnings per Share.

Put/Call volume ratio: Measures the relative trading activity of put options compared to call options in terms of trading volume.

Z-score: It indicates how many standard deviations an element is from the mean. A z-score can be calculated from the following formula. $z = (X - \mu) / \sigma$ where z is the z-score, X is the sector relative performance. μ is the mean of the eleven sector relative performance, and σ is the standard deviation of sectors' relative performance. .

Definitions

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S&P 500 Real Estate Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® real estate sector.

S&P 500 Utilities Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® utilities sector.

S&P 500 Materials Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® materials sector.

S&P 500 Communication Services Sector Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® Communication Services sector.

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S&P 500 Consumer Staples Index: The Index comprises of those companies included in the S&P 500 that are classified as members of the GICS® consumer staples sector.

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Put/Call volume ratio: Measures the relative trading activity of put options compared to call options in terms of trading volume.

Implied Volatility is a metric used in options pricing that represents the market's expectation of the future volatility of the underlying asset over the life of the option.

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