

# MSCI Cyclical / Defensive Indexes

The MSCI Cyclical and Defensive Sectors Indexes are designed to track the performance of the opportunity set of global cyclical and defensive companies across various Global Industry Classification Standard (GICS®) sectors<sup>1</sup>.

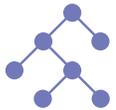
## How are sectors classified as Cyclical or Defensives?

To classify sectors as cyclical or defensive, we analyzed how each sector performed in expansion and contraction periods within the business cycle. This means looking at the correlation between a sector’s relative performance and the year-on-year change in the indicator that measures the business cycle. The leading indicator that MSCI uses is the Composite Leading Indicator (CLI) from OECD. A sector will be considered a cyclical sector if its relative performance is positively correlated with the rate of change of the leading indicator, and it will be considered a defensive sector if it is negatively correlated.



### Cyclical Sectors

Communication Services, Consumer Discretionary, Financials, Industrials, Information Technology, Materials, Real Estate



### Defensive Sectors

Consumer Staples, Energy, Healthcare, Utilities

## How are the indexes constructed?

The Cyclical and Defensive Indexes are constructed from applicable MSCI country and regional indexes, like for example, MSCI World or MSCI Emerging Markets. The securities are classified by sectors and the sectors are classified as either Cyclical or Defensive.

To create the respective Cyclical or Defensive index, we will include the sectors classified as either Cyclical or Defensive. Constituent weights of stocks within the respective sectors are based on free float-adjusted market capitalization.

Any security can only be classified in one sector and as such can only be classified as either Cyclical or Defensive.

## How are the indexes maintained?

The Indexes are rebalanced on a quarterly basis in February, May, September, and November.

Regular monthly and annual GICS® reviews may result in the migration of a security into or out of the Cyclical or Defensive sectors.

<sup>1</sup>Global Industry Classification System, GICS®, is a four-tiered global industry classification standard jointly developed by MSCI and S&P Global Market Intelligence.

## How can these indexes be used?

In our paper “Index Performance in Changing Economic Environments”, we attempted to provide a framework for institutional investors to account for macroeconomic conditions into their asset allocation decisions, where we used MSCI Macroeconomic and MSCI Asset Pricing Models. This research<sup>2</sup> showed that investors deviation from away from a broad market cap portfolio could depend on an investor’s macroeconomic views and tolerance for macroeconomic uncertainty. If an investor is less tolerant of uncertainty and expects growth to return to trend, the models indicated allocating towards indexes that are the most sensitive to economic growth. In contrast, if slow growth and low inflation are believed to persist, the models indicated allocating towards the least growth sensitive or more defensive indexes.

## Has the classification changed through time?

Yes.

In 2016, Real Estate became a standalone sector and was added to the list of Cyclical Sectors. Previously, it was included in the Financials sectors, which was already a Cyclical Sector.

In 2018, there were changes in the composition of the several sectors to reflect the increased integration among telecommunications, media, and internet companies. The Telecommunication Services sector was removed from the list of Defensive Sectors and the newly created Communication Services sector was added to the list of Cyclical Sectors.

<sup>2</sup> MSCI “Index Performance in Changing Economic Environments”, April/2014

## About MSCI

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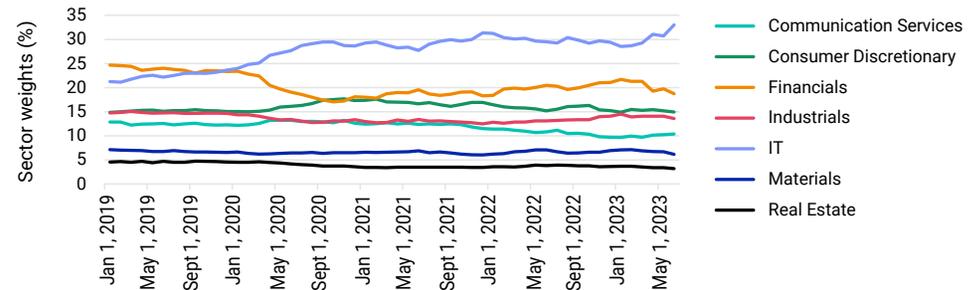
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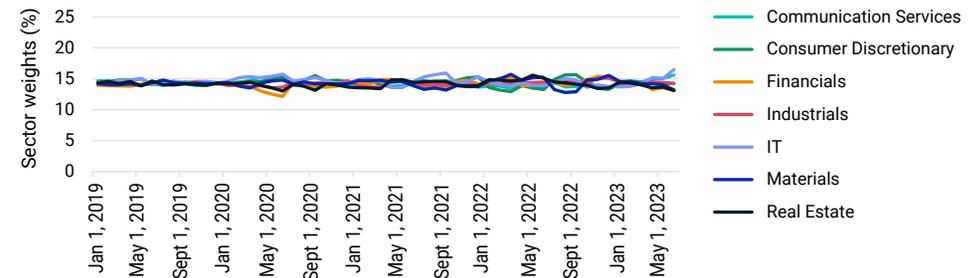
## About Cyclical / Defensive capped indexes

In addition to the market cap weighted versions, we have also created capped version of the Cyclical/ Defensive indexes. In these capped indexes, the weights of the sectors within the Cyclical or Defensive will set at equal weights at each rebalance date. The charts below show the sector weights through time for the capped and uncapped versions of the MSCI ACWI Cyclical sectors.

### MSCI ACWI Cyclical Sectors Index



### MSCI ACWI Cyclical Sectors Capped Index



Source: MSCI, as at May 2023