

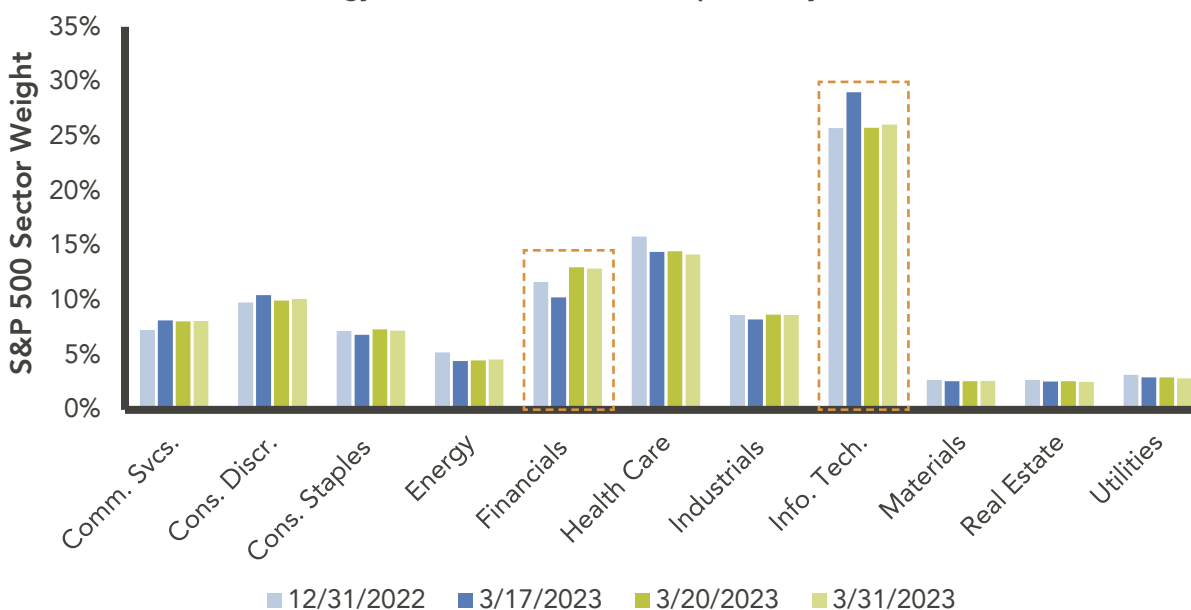
Chart of the Week

April 20, 2023

GICS Reclassifies Away From Tech, Again

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▾ The Financials and Technology sectors were the most impacted by the latest GICS reclassification



Source: Bloomberg as of March 31, 2023

The Global Industry Classification Standards (GICS) were established in 1999 by MSCI and S&P Dow Jones Indices to categorize publicly-traded equities. Broadly accepted across the industry, the GICS classification system undergoes an annual review, which has resulted in only 12 updates to the classification system since inception. These updates can have significant impacts on the underlying performance drivers of sectors as well as the concentration of sector-specific indices. The Technology sector has been meaningfully impacted by the two most recent updates. In 2018, GICS broke the Technology sector up to create the Communication Services sector, which includes FAANG stocks Meta, Netflix, and Alphabet. While the update was less consequential this year, it again relocated some of the Tech sector's largest constituents, increasing its concentration to new highs.

Effective after the close on March 17, 2023, 14 firms were reclassified, impacting five GICS sectors. Notably, Visa and Mastercard, previously two of the five largest Technology companies, along with PayPal, Fiserv, and others, were reclassified as Financials. As a result, the Financials sector is now more exposed to growth factors, including, on the margin, valuation risk from rising rates. The Technology sector, conversely, has become even more concentrated in two mega-cap stocks — Apple and Microsoft. The resultant weighting and concentration changes will impact active manager attribution metrics as well as the exposures achieved via sector-specific ETFs and are important for investors to be aware of. Lastly, while not implemented this year, another key proposal discussed concerned renewable energy companies. These stocks are generally categorized within the Energy and Utilities sectors, and future changes could represent another meaningful shift in GICS classifications. ▀

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