

Sector Strategy

Downgrading Technology – finding better opportunities elsewhere

Today, we are downgrading the Technology sector to underweight from neutral.

- Despite being hit hard this year, the sector's ten-year outperformance remains substantial
- It recently broke below an important technical price level
- It still trades at a significant market premium, despite earnings momentum at multi-year lows
- We are finding better opportunities in energy, industrials, health care, and staples
- This move is consistent with our recent House Views shift to value

Although the tech sector has already been hit hard this year, **it has still outpaced the S&P 500 by almost 200 percentage points over the past 10 years.** This provides important context on how extreme the outperformance has been over the past decade. In our view, tech is unlikely to be market leadership in the immediate future.

Tech scores poorly in our quantitative work, and just this week, a negative technical price development occurred—the sector's price broke below a more than 2-year relative price line.

On a fundamental basis, even with this year's decline, the sector is still relatively expensive. It trades at a 25% premium to the S&P 500 versus a 10-year average premium of 6%.

- Our view is such a large premium is not currently warranted. A primary reason investors tend to pay a premium for tech shares is because of strong earnings momentum. Today, we are seeing the opposite.
- Tech's comparative earnings trends just made a fresh two-and-a-half year low compared to the broader market. In addition, higher interest rates are pressuring valuations.

The downgrade in Tech, the largest sector within the growth style, is consistent with our recent broader move to upgrade value stocks.

With the broader market being very top heavy, we are finding better opportunities below the market's surface.

For example, we maintain our **long-standing overweight to the energy sector**, which is benefitting from a greater corporate focus on profitability and supply side disruptions.

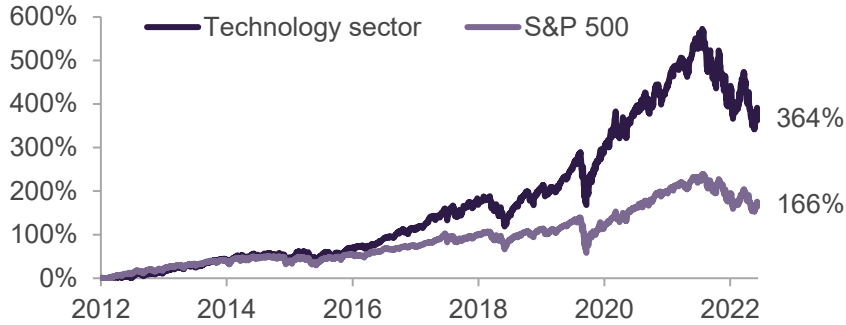
We also would **highlight industrials**, where the aerospace and defense industry is helped by an increase in global defense spending, as well as reshoring and the recent stimulus package.

At the same time, **we remain overweight more defensive sectors, such as healthcare and consumer staples**, which should do well given our expectation for a choppy market environment and weakening economy.

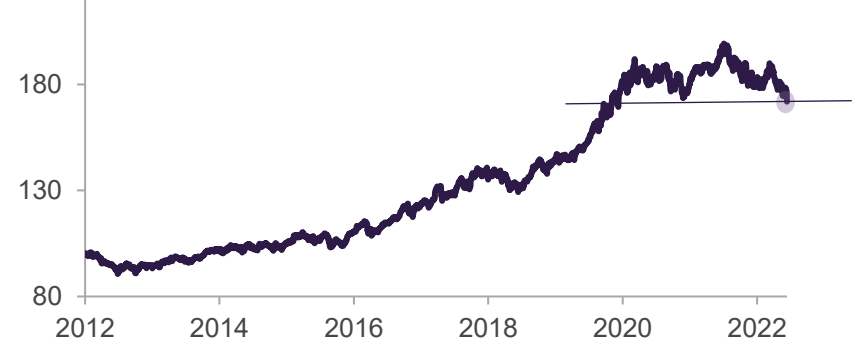
Each of our overweight sectors screen well in our quantitative work and have strong relative price trends. Of course, our sector strategy is tactical with generally a 3-to-12-month time horizon. Thus, as the data shifts, we will update accordingly, but this is where we stand today.

Downgrading technology from neutral to underweight

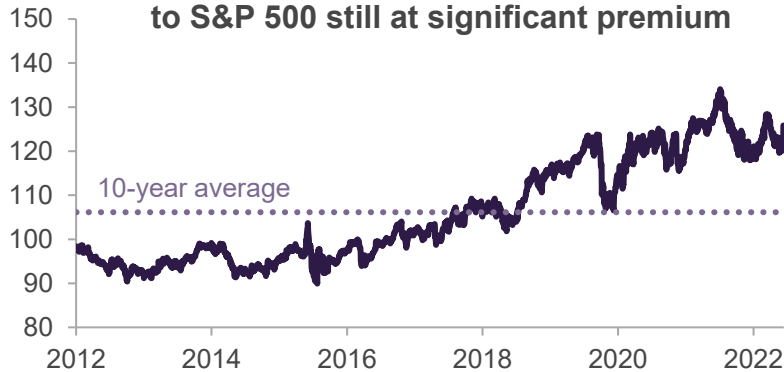
Technology outperformance still large over the past 10-years



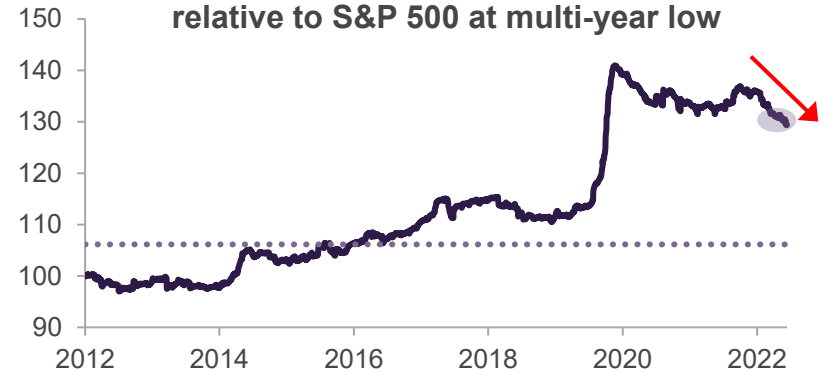
Technology sector price relative to S&P 500 just broke below two-year plus support level



Technology sector forward P/E relative to S&P 500 still at significant premium



Technology sector forward earnings trends relative to S&P 500 at multi-year low



Data source: Truist IAG, FactSet
 Technology = S&P 500 Technology sector
 Past performance does not guarantee future results

Sector Strategy

Truist Advisory Services, Inc.

We are downgrading the information technology sector to Underweight from Neutral. Despite being hit hard this year, the sector's ten-year outperformance remains substantial. The sector recently broke below an important technical price level and still trades at a significant market premium, despite earnings momentum at multi-year lows. Importantly, we are finding better opportunities in other areas of the market, such as energy, industrials, health care, and staples.

Sector	S&P 500 sector weight	Tactical outlook (3-12M)			T	F	V	Comments
		Under-weight	Neutral	Over-weight				
Energy	5.4%			●	+	+	↔	Relative price trends for the sector have been stronger, and technical trends are positive overall. A supportive demand/supply backdrop and positive fundamentals should continue to support the sector.
Industrials	8.2%			●	↔	+	-	The sector has screened well in our quantitative work as relative price trends have been strong and fundamentals are attractive.
Health Care	15.3%			●	+	-	-	Technical trends are strong, and we expect the sector to hold up well in a choppy market environment given its defensive characteristics.
Consumer Staples	6.9%			●	+	↔	-	Relative price trends and technicals have improved, and the sector is supported by its defensive characteristics amid heightened geopolitical and global growth risks.
Utilities	3.0%		●		↔	↔	↔	Technical trends have weakened recently, and fundamentals and valuations are mixed, warranting a neutral view.
Financials	11.4%		●		↔	↔	↔	Relative price and earnings trends have improved, but a flattening yield curve and risks to the economy keep us neutral.
Consumer Discretionary	11.2%		●		↔	+	↔	Despite strong fundamentals, relative price trends have weakened, and mixed valuations keep us neutral.
Materials	2.6%		●		↔	-	+	Technical trends have been more mixed recently. While valuations are attractive, fundamentals are more challenged.
Information Technology	25.9%	●			-	↔	↔	Valuations remain at a premium relative to the historical average, which we view as unwarranted given relative earnings trends are at multi-year lows alongside elevated interest rates. Technical trends have also weakened.
Real Estate*	2.6%	●			-	↔	+	Weak technical trends, mixed fundamentals, and a challenging macro backdrop warrant an underweight position.
Communication Services	7.5%	●			-	-	+	Although valuations for the sector are attractive, relative performance has been weak due to underperformance from some of the larger names in the sector.

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T = Technical. This factor has the greatest focus in our overall methodology with an emphasis on relative price trends
 F = Fundamentals. Includes earnings and sales trends, with an emphasis on recent changes to estimates
 V = Valuation. Inputs include current/historical and absolute/relative to the overall market
 + Top Tier, -Bottom Tier, ↔ Middle Tier; Data Source: Truist IAG, FactSet.

Wealth

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S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

S&P 500 Information Technology Index – a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification.

S&P 500 Financials Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the financials sector based on GICS® classification.

S&P 500 Energy Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the energy sector based on GICS® classification.

S&P 500 Materials Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the materials sector based on GICS® classification.

S&P 500 Industrials Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the industrials sector based on GICS® classification.

S&P 500 Consumer Discretionary Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the consumer discretionary sector based on GICS® classification.

S&P 500 Communication Services Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the communication services sector based on GICS® classification.

S&P 500 Utilities Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the utilities sector based on GICS® classification.

S&P 500 Consumer Staples Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the consumer staples sector based on GICS® classification.

S&P 500 Health Care Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the health care sector based on GICS® classification.

S&P 500 Real Estate Index – a capitalization weighted index that is composed of those companies included in the S&P 500 that are classified as members of the real estate sector based on GICS® classification.

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