



## **Advisory Service**

# **Sector & Segment Rankings**

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## Sector & Segment Rankings 10-19-16

### Summary

- Equity sectors are ranked on this page while the ranking of the segments within sectors occurs on pp. 5 to 8. The complete ranking of the 99 segments is on p. 9. The top one-third segments are overweights while the bottom one-third are underweights and the middle one-third are neutrals. The median pricing power graph is on p. 10.
- Industry segments are ranked from high to low on a **weighted selling-price change** (selling price of the product/service for that segment) for ten equity market sectors, pp. 5-8. *The number of segments with positive price power on p. 9 is over 70% -- one-year ago it was 64%.* Pricing power is improving compared to one year ago.
- The top two equity sectors in the below table are overweight while the other nine equity sectors are marketweight. Pricing power is *positive for all or the majority of segments in consumer discretionary, consumer staples, health care, financials, industrials, energy and materials which supports profit growth in those sectors.* The weightings incorporate bottom-up data as well as broad themes in the global economy.

### Ranking of Sectors

Sector	Theme
Consumer Staples	Companies are pushing through price increases in this sector
Information Technology	A modest capital spending upgrade is underway
Consumer Discretionary	Lower energy prices are helping this segment
Health Care	Political risk keeps investors at bay but the demographics are a plus
Financials	Short-term interest rate increases could help margins
Industrials	Pricing power needs to improve for this sector
Telecom	Their dividend yields are attractive compared to Treasuries
Energy	Oil prices may fluctuate from \$40 to \$60/B over the next year
Real Estate	Low interest rates create favorable valuations
Materials	This segment needs faster global growth
Utilities	Clean energy regulations could increase costs for this sector

- Both the euro and yen need to slide against the dollar if the Fed increases short-term interest rates this year. The Fed may be able to increase rates in December.

- The top five economies have a 48.2% market share of the estimated \$119 trillion 2016 global economy measured in purchasing-power-parity dollars, according to the IMF.
- The countries and their approximate percentage in order are: China, 17.9%; U.S., 15.6%; India, 7.3%; Japan, 4.1%; and Germany, 3.3%. Two of the top three are emerging market economies and have a 25.2% and growing share of the economic pie. Global growth may average 2.5% to 3.0%/yr over the next five years.

## Sector Comments

- Over 70% of the 99 segments have enough pricing power, on average, to push marginal price increases through to their final customers. *Slow economic growth is the result of fiscal and regulatory constraints – not a lack of liquidity* or too high inflation-adjusted interest rates.
- Rankings for 99 industry segments are summarized on p. 9. The selling-price change rankings for the top one-third, middle one-third and bottom one-third of the 99 industry segments are illustrated. The top one-third on p. 9 can be considered as overweights.
- **Consumer Discretionary** – p. 5. Pricing power for firms in this sector is similar to last month. *Nine of the 14 segments have positive pricing power.*
- **Consumer Staples** – p. 5. Pricing power is slightly weaker than last month. Companies are pushing price increases through for *all but one of the segments.*
- **Energy** – p. 6. Pricing power is *similar to last month.* Supplies of oil and natural gas are more than adequate. Weak oil prices could last a number of years.
- **Financials** – p. 6. Pricing power for firms in this sector improved from last month. All segments have positive pricing power. Pricing power can improve with higher interest rates.
- **Health Care** – p.6. Decent profit growth should continue as the segment is price-inelastic but this sector is subject to major political risk.
- **Industrials** – p. 7. Pricing power for this sector is stronger than last month but *remains weak* at this stage of the business cycle.
- **Information Technology** – p.7. Technology provides customers with productivity improvement and cost savings which add value.
- **Materials** – p. 8. Pricing power for materials is stronger than last month but over 35% of the segments still do not have positive pricing power. China's growth rate drifts lower.
- **Telecom** – p. 8. Pricing power is somewhat constrained but dividend yields remain attractive.
- **Utilities** – p. 8. The outlook has improved as cap-and-trade is off the table; however, clean energy regulations may mean higher costs. Dividend yields are attractive.

**In brief: Ninety-nine industry segments within the ten market sectors are ranked on the rate of change in selling-prices of the respective products/services for each of the 99 segments. The rank includes three different weighted time frames at the producer and consumer levels using inputs from different vendors to provide an index for each segment. It is not a turning point model since it incorporates data from different time periods. This ranking provides a guide for which segments to emphasize for investment ideas.**

**Independently, the YTD change in equity prices is shown for each of the ten sectors through October 14 to indicate how the corresponding equity segment has performed. But the selling-price ranking over three time periods is the report's focus.**

### **Consumer Discretionary Industry Rankings (YTD change in equity prices -- +0.9 %)**

<b>Consumer Discretionary</b>		
<b>Industry</b>	<b>Sum</b>	<b>Rank</b>
Home Centers	3.94	1
TV & Radio Broadcasting	2.87	2
Hotels	1.73	3
Casino Hotels	1.66	4
Motor Home Mfg	1.63	5
Education	1.24	6
Furniture Stores	0.79	7
Household Durables Mfg	0.71	8
Motorcycles	0.06	9
Autos & Light Truck Mfg	-0.61	10
Cable Programming	-0.70	11
Dept Stores (ex. Discount)	-2.37	12
Electronic & Appliance Stores	-2.46	13
Discount Department Stores	-4.68	14

- Pricing power for consumer discretionary is similar to last month.
- The Home Depots are in 1<sup>st</sup> in terms of pricing power while hotels are in 3<sup>rd</sup>.
- Furniture stores are 7<sup>th</sup>.
- The Wynn's are in 4<sup>th</sup>.
- Autos are in 10<sup>th</sup>.
- The Macys are in 12<sup>th</sup> with a decent yield.
- The Targets are in last.

### **Consumer Staples Industry Rankings (YTD change in equity prices -- +3.6%)**

<b>Consumer Staples</b>		
<b>Industry</b>	<b>Sum</b>	<b>Rank</b>
Cigarette Mfg	3.08	1
Food Retailing	0.91	2
Soft Drink Mfg	0.73	3
Breweries	0.42	4
Personal Products Mfg	0.41	5
Household Products	0.08	6
Food Mfg	-0.89	7

- Pricing power is slightly weaker than last month.
- Cigarettes – Altria is 1<sup>st</sup> while Breweries, BUD, is 4<sup>th</sup>.
- Food retailing, Kroger, is 2<sup>nd</sup>.
- The P&G's have positive pricing in personal and in household products.

## Energy Industry Rankings (YTD change in equity prices -- +14.7%)

<i>Energy</i>		
<i>Industry</i>	<i>Sum</i>	<i>Rank</i>
Natural Gas Extraction	9.9	1
Crude Oil Extraction	8.6	2
Petroleum Refining	5.5	3
Coal Underground Mining	0.49	4
Crude Pipeline Trans	0.04	5
Refined Product Pipeline Trans	0.02	6
Oil & Gas Equip Mfg	-0.11	7
Mining Support	-0.59	8
Coal Surface Mining	-2.75	9
Oil Service Activities	-4.75	10

- Pricing power is similar to last month.
- Natural gas production, Chesapeake, is 1<sup>st</sup>.
- Oil production is in 2<sup>nd</sup>.
- Refining, Valero is in 3<sup>rd</sup>.
- Pipelines are in 5<sup>th</sup> and 6<sup>th</sup>.
- Oil service companies are last.

## Ranking of Financials (YTD change in equity prices -- +0.2%)

<i>Financials</i>		
<i>Industry</i>	<i>Sum</i>	<i>Rank</i>
Investment Banking	5.78	1
Portfolio Management	3.2	2
Nonres. Real Estate Mgt	1.78	3
Property & Casualty Insurers	1.07	4
Health Insurance Carriers	0.79	5
Commercial Banks	0.30	6
Life Insurance Carriers	0.03	7
Thrifts	0.01	8

- Pricing power for this sector improved from last month.
- Investment banking is 1<sup>st</sup>.
- Portfolio management is 2<sup>nd</sup>
- Property & casualty is 4<sup>th</sup>.
- Thrifts are in last place.

## Health Care Rankings (YTD change in equity prices -- -3.5%)

<i>Health Care</i>		
<i>Industry</i>	<i>Sum</i>	<i>Rank</i>
Prescription Pharmaceuticals	2.85	1
Pharmaceutical Mfg	2.38	2
Pharmacies & Drugstores	1.35	3
Hospitals	0.65	4
Medical Devices Mfg	0.52	5
Medical & Diagnostics	-0.06	6

- The majority of this sector tends to be price-inelastic. The absolute level of pricing is stronger than last month.
- Performance of the pharmaceutical groups suggests drug companies should continue to have decent revenue growth. Demographics favor this segment.

## Ranking of Industrials (YTD change in equity prices -- +6.7%)

<i>Industrials</i>		
<i>Industry</i>	<i>Sum</i>	<i>Rank</i>
Air Freight	1.6	1
Engineering Services	0.94	2
Security Guards	0.94	3
Heavy Duty Truck Mfg	0.89	4
Steel Prod Mfg. frm Purch Steel	0.79	5
Rail Transportation	0.75	6
Employment Services	0.67	7
Railroad Rolling Stk Mfg	0.67	8
Industrial Mach Mfg	0.65	9
Aerospace Mfg	0.61	10
Farm Machinery Mfg	0.46	11
Advertising Agencies	0.35	12
Construction Mach Mfg	0.27	13
Truck Transportation	0.13	14
Electrical Equip Mfg	0.05	15
Air Carriers	0.04	16
Metalworking	-0.17	17
Battery Mfg	-0.27	18
Turbine & Power Eq Mfg	-0.74	19
Truck, Utility Renting	-1.41	20
Marine Transportation	-1.61	21

- Pricing power for this sector, on average, is stronger than last month. But overall pricing power is weak for this stage of the economic cycle.
- The FedExes are in 1<sup>st</sup>.
- Engineering services are 2<sup>nd</sup> in pricing power.
- Rail transportation is in 6<sup>th</sup>.
- Employment services are 7<sup>th</sup>.
- Boeing is in 10<sup>th</sup> this month and continues to be well positioned.
- Deere is in 11<sup>th</sup> and is well positioned.
- CAT is in 13<sup>th</sup> and is well positioned if the global economy expands faster.
- Marine transportation is at the bottom.

## Information Technology Rankings (YTD change in equity prices -- +10.3%)

<i>Information Technology</i>		
<i>Industry</i>	<i>Sum</i>	<i>Rank</i>
Data Processing	1.32	1
Electronics & Instruments	0.46	2
Software	0.40	3
Communications Eq Mfg	0.10	4
Semiconductors Mfg	-0.46	5
Magnetic & Optical	-1.61	6
Computer Mfg	-2.13	7

- Companies in these industries work on increasing productivity and lowering per unit costs for their customers by improving technology.
- Pricing power -- reflecting global competition and technology changes -- is constrained but is not as weak as last month for this sector.

## Ranking of Materials (YTD change in equity prices -- +6.2%)

<i>Materials</i>		
<i>Industry</i>	<i>Sum</i>	<i>Rank</i>
Precious Metals Mining	4.8	1
Steel Mfg	3.9	2
Petrochemical Mfg	3.7	3
Iron Ore Mining	3.17	4
Wood products Mfg	1.68	5
Copper, Nickel Mining	1.1	6
Nonresidential Construction	1.13	7
Nonmetallic Product Mfg	1.11	8
Residential Construction	0.96	9
Nonmetallic Mining	0.72	10
Paper Container Mfg	0.34	11
Mining Machinery	0.09	12
Logging	-0.18	13
Plastics Mfg	-0.29	14
Nonferrous Production	-0.3	15
Aluminum Production	-0.4	16
Pulp and Paper Mills	-1.01	17
Ag Chemical Mfg	-5.7	18
Potash Mining	-6.23	19

- Pricing power, on average, for this sector is stronger than last month. Nearly 65% of the segments are positive.
- Precious metal mining firms are 1<sup>st</sup>.
- Steel manufacturing is 2<sup>nd</sup>.
- Copper manufacturing is 6<sup>th</sup> in pricing power.
- Nonresidential construction is in 7<sup>th</sup> while residential is 9<sup>th</sup>.
- Paper container firms are in 11<sup>th</sup>.
- Ag chemical mfg is next to last.
- Potash mining is last.

## Telecom Rankings (YTD change in equity prices -- +10.1%)

<i>Telecom</i>		
<i>Industry</i>	<i>Sum</i>	<i>Rank</i>
Wired Carriers	0.94	1
Web Search Portals	0.23	2
Cable & Satellite Distribution	0.03	3
Wireless Carriers	-4.26	4

- This is a very competitive space. Wireless is weak.
- Wired carriers show pricing power.

## Ranking of Utilities (YTD change in equity prices -- +10.2%)

<i>Utilities</i>		
<i>Industry</i>	<i>Sum</i>	<i>Rank</i>
Electric Trans & Distribution	1.87	1
Electric Power Generation	1.50	2
Natural Gas Distribution	0.11	3

- These industry segments are cyclical, reflecting seasonal and economic conditions.



## Overall Pricing Power Ranking of Industry Segments

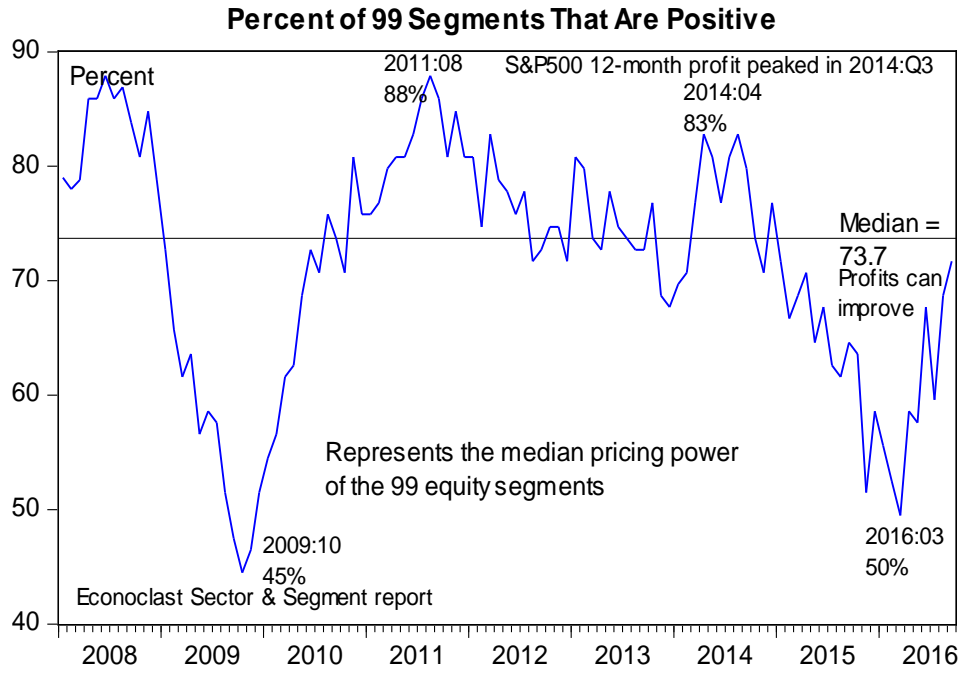
Top One-Third			Middle One-Third			Bottom One-Third		
Natural Gas Extracti	9.9	1	Food Retailing	0.91	34	Air Carriers	0.04	67
Crude Oil Extraction	8.6	2	Heavy Duty Truck Mf	0.89	35	Life Insurance Carri	0.03	68
Investment Banking	5.78	3	Health Insurance Car	0.79	36	Cable & Satellite Di	0.03	69
Petroleum Refining	5.5	4	Furniture Stores	0.79	37	Refined Product Pip	0.02	70
Precious Metals Mini	4.8	5	Fabricated Metal Pro	0.79	38	Thrifts	0.01	71
Home Centers	3.94	6	Rail Transportation	0.75	39	Natural Gas Distribu	0.0	72
Steel Mfg	3.9	7	Soft Drink Mfg	0.73	40	Medical & Diagnos	-0.06	73
Petrochemical Mfg	3.7	8	Nonmetallic Mining	0.72	41	Oil & Gas Equip Mfg	-0.11	74
Portfolio Managemen	3.2	9	Household Durables	0.71	42	Metalworking	-0.17	75
Iron Ore Mining	3.17	10	Employment Servic	0.67	43	Logging	-0.18	76
Cigarette Mfg	3.08	11	Railroad Rolling Stk	0.67	44	Battery Mfg	-0.27	77
TV Broadcasting	2.87	12	Industrial Mach Mfg	0.65	45	Plastics Mfg	-0.29	78
Prescription Pharma	2.85	13	Hospitals	0.65	46	Nonferrous Product	-0.3	79
Pharmaceutical Mfg	2.38	14	Aerospace Mfg	0.61	47	Aluminum Producti	-0.4	80
Electric Trans & Distr	1.87	15	Medical Devices Mfg	0.52	48	Semiconductors Mf	-0.46	81
Nonres. Real Estate	1.78	16	Coal Underground Mi	0.49	49	Mining Support	-0.59	82
Hotels	1.73	17	Farm Machinery Mfg	0.46	50	Autos & Light Truck	-0.61	83
Wood Products Mfg	1.68	18	Electronics	0.46	51	Cable Networks	-0.70	84
Casino Hotels	1.66	19	Breweries	0.42	52	Turbine & Power Eq	-0.74	85
Motor Home Mfg	1.63	20	Personal Products M	0.41	53	Food Mfg	-0.89	86
Air Freight	1.6	21	Software	0.40	54	Pulp & Paper Mills	-1.01	87
Electric Power Gener	1.50	22	Advertising Agencies	0.35	55	Truck, Utility Renti	-1.41	88
Pharmacies	1.35	23	Paper Container Mfg	0.34	56	Marine Transportat	-1.61	89
Data Processing	1.32	24	Commercial Banks	0.30	57	Magnetic & Optical	-1.61	90
Education	1.24	25	Construction Mach M	0.27	58	Computer Mfg	-2.13	91
Copper, Nickel Mini	1.1	26	Web Search Portals	0.23	59	Dept Stores-ex. Dis	-2.37	92
Nonresidential Const	1.13	27	Truck Transportation	0.13	60	Electronic Stores	-2.46	93
Nonmetallic Product	1.11	28	Communications Eq	0.10	61	Coal Surface Mining	-2.75	94
Property & Casualty I	1.07	29	Mining Machinery	0.09	62	Wireless Carriers	-4.26	95
Residential Construc	0.96	30	Household Products	0.08	63	Discount Dept Stor	-4.7	96
Wired Carriers	0.94	31	Motorcycles	0.06	64	Oil Service Activities	-4.7	97
Engineering Services	0.94	32	Electrical Equip Mfg	0.05	65	Ag Chemical Mfg	-5.7	98
Security Guards	0.94	33	Crude Pipeline Trans	0.04	66	Potash Mining	-6.23	99

(YTD change in S&P 500 -- +4.4%)

This report includes pricing power information available through October 14, 2016.

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# Median Pricing Power of 99 Segments



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