



Markets are likely to be better.
Tech penetration reduces costs and
fights off inflation



Eventually tech and fintech
developments will provide even
more support to the market action



Midlincoln

Global Equity Markets by Sectors in 2000

Sector	YTD to Aug Performance%
Real Estate	-1.47
Energy	-1.68
Utilities	-1.88
Financials	-3.96
Industrials	-5.08
Health Care	-5.73
Consumer Staples	-8.08
Communication	-8.57
Materials	-10.01
Consumer Discretionary	-10.74
Information Technology	-11.37

Source MSCI, Bloomberg, Midlincoln

ML Sector Strategy – On line to offline (O2O), Net Effects and Overall IT Penetration into Industry and Sectors as a Way of Positioning

We differentiate 3 ways in which internet and software penetrate industries.

- A net effect is when applications creates additional effects for users to interlace e.g. like in social media and communications in general, in marketplaces or in user generated content applications, in travel, in fintech and especially in crypto. Finding a new net effect in the course of application design is difficult but may be very productive.
- O2O is a bit easier – ride services, online vendors, tele-medicine, education and catering are examples where O2O flourish
- Various software developments to automate enterprise and logistics is an oldest legacy way in which technology penetrates industry.

Taking a look at various ways how internet and software penetrates various economic sectors may be a way to find outperformers.

In Energy sector IT companies provide payments on gas stations therefore getting some share of retail gasoline sales. ERP systems and transportation of energy products also involve high levels of IT penetration. Energy trading is also quite automated, but elsewhere in energy sector IT penetration is poor.

In Utilities sector various applications allow for payments of utilities bills, ERP applications and energy trading are quite robust but as in energy sector overall net effects are poor.

In Consumer Staples sector IT companies provide online sales and delivery mostly grabbing market share from retailers and restaurants or retailers launch these services themselves. But at basic food production level IT penetration is poor except for organically produced food marketplaces.

In Consumer discretionary sector, various aggregators provide online sales or subscriptions to consumer discretionary products: automobiles, durable goods, construction supplies and entertainment. But there is little penetration in fashion industry or jewelry except via marketing.

In Financials sector various IT companies provide fintech services, insure tech and real-estate tech and overall penetration in Financials sector by IT companies is high, net effects are also very high in peer to peer payments, credits and crypto.

In Engineering (Industrials) sector IT penetration is high at ERP level and also in various transportation sectors, but net effects are marginal so overall penetration is medium.

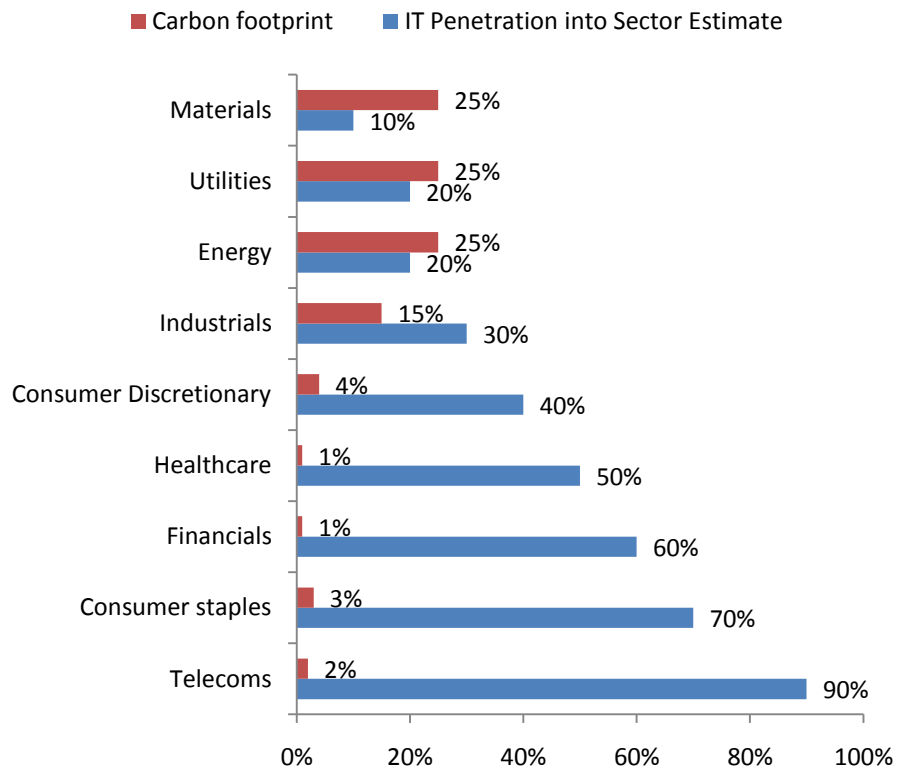
In Telecom sector IT penetration is high via developing new means of communication and media; there are all sorts of net effects present.

In Materials and metals and mining sector IT penetration is poor. Companies rely on various ERPs, payments apps and trading apps but without significant net effects or net effects limited to industry participants.

In Health Care IT penetration is increasing via telemedicine developments, overall penetration is medium.

- Sector exposure based on the online to offline and net effects is therefore as follows: long consumer staples, fintech, media and telecoms, consumer discretionary, healthcare and tech sector in general and industrials and short materials, utilities and energy.
- IT penetration also correlates with smaller carbon footprint and this is another argument to support the above positioning.

Estimates of IT Penetration and Carbon Footprint



Source: Midlincoln Research

Global Bond Yields By Sector YTD in 2022 to August

sector	Average YTM	YieldChange pp
Industrial Other	16.68	9.16
Utility	13.62	7.01
Sovereign	11.74	5.71
Financial Institutions	10.21	5.50
Capital Goods	9.38	4.59
Industrial	9.89	4.43
Finance Companies	9.26	4.30
Consumer Non-Cyclical	8.74	3.88
Communications	8.00	3.67
Reits	7.06	3.29
Supranational	6.27	3.21
Agency	7.61	3.20
Consumer Cyclical	7.39	2.82
Financial Other	7.10	2.75
Owned No Guarantee	7.58	2.74
Transportation	7.10	2.50
Technology	6.94	2.49
Banking	6.51	2.13
Energy	8.16	1.97
Electric	5.96	1.96
Basic Industry	6.53	1.77
Insurance	8.75	1.72
Brokerage/Asset Managers/Exchanges	5.56	1.52
Local Authority	5.86	1.12
Cash and/or Derivatives	1.61	0.09

Source: Midlincoln, Bloomberg, Various Sources

Fund Flows by Sector Focused Funds YTD in 2022 to August

Focus	Objective	Asset Class	Flow USD mn
industry	ENERGY SECTOR	Mixed Allocation	-2.71
industry	MULTIPLE SECTOR	Equity	-13.26
industry	INDUSTRIAL SECTOR	Equity	-46.50
industry	NATURAL RESOURCES SECTOR	Equity	-576.22
industry	ENERGY SECTOR	Equity	-938.60
industry	FINANCIAL SECTOR	Equity	-2137.87
Commodities	PRECIOUS METAL SECTOR	Equity	-2406.26
industry	COMMUNICATIONS SECTOR	Equity	-2456.77
industry	UTILITIES SECTOR	Equity	-2704.12
industry	REAL ESTATE SECTOR	Equity	-4206.50
industry	BASIC MATERIALS SECTOR	Equity	-4373.65
industry	HEALTH CARE SECTOR	Equity	-4724.45
industry	TECHNOLOGY SECTOR	Equity	-11803.97

Sector Valuation and Growth

Sector	PEFy1	PEFy2	2022 Growth
Consumer Discretionary	10.63	10.55	11.19
Consumer Staples	15.46	13.70	12.51
Energy	8.12	8.17	21.51
Financials	9.92	8.31	21.56
Health Care	13.91	12.49	10.63
Industrials	13.11	11.45	17.79
Information Technology	15.06	13.49	11.85
Materials	11.27	9.42	27.72
Real Estate	10.95	9.37	21.53
Telecommunication Services	9.48	8.89	9.27
Utilities	11.06	9.85	12.43

Source: Midlincoln, Bloomberg, Various Sources

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