

The Euro And Industry Group Performance

The Rich Would Get Richer, Like That Ever Happens

One of the conclusions I reached in December's [Assessing the Impact of Inflation Expectations on Industry Group Performance](#) was a rising tide would flatten all boats: Higher inflation expectations would hurt the outperformers and help the underperformers. Think of it as quantitative socialism in our era of quantitative easings.

The opposite can occur as well; we can have a primal market factor capable of helping the outperformers and hurting the underperformers. Before you locate an Occupy Wall Street chapter or leap on your high horse so fast you clear the saddle by two feet, ask yourself why those groups were out- and underperformers, respectively. At some point we are going to have to get what we deserve even though we cannot always get what we want.

Impact Of The Euro

Let's update May 2010's [The Euro's Industry Group Impact](#). While the distribution of positive and negative partial contributions is similar now that the euro is getting beaten like a rented mule, the combined net impact is different. As before, the financial, energy and basic material sectors all have positive relative performance betas to the euro and defensive sectors such as health care and utilities have negative relative performance betas. However, the net impact in May 2010 was a strongly positive 3.24%; for every 1% rise in the euro, we should have expected the S&P 1500 Supercomposite to have risen 0.0324%, all else held equal.

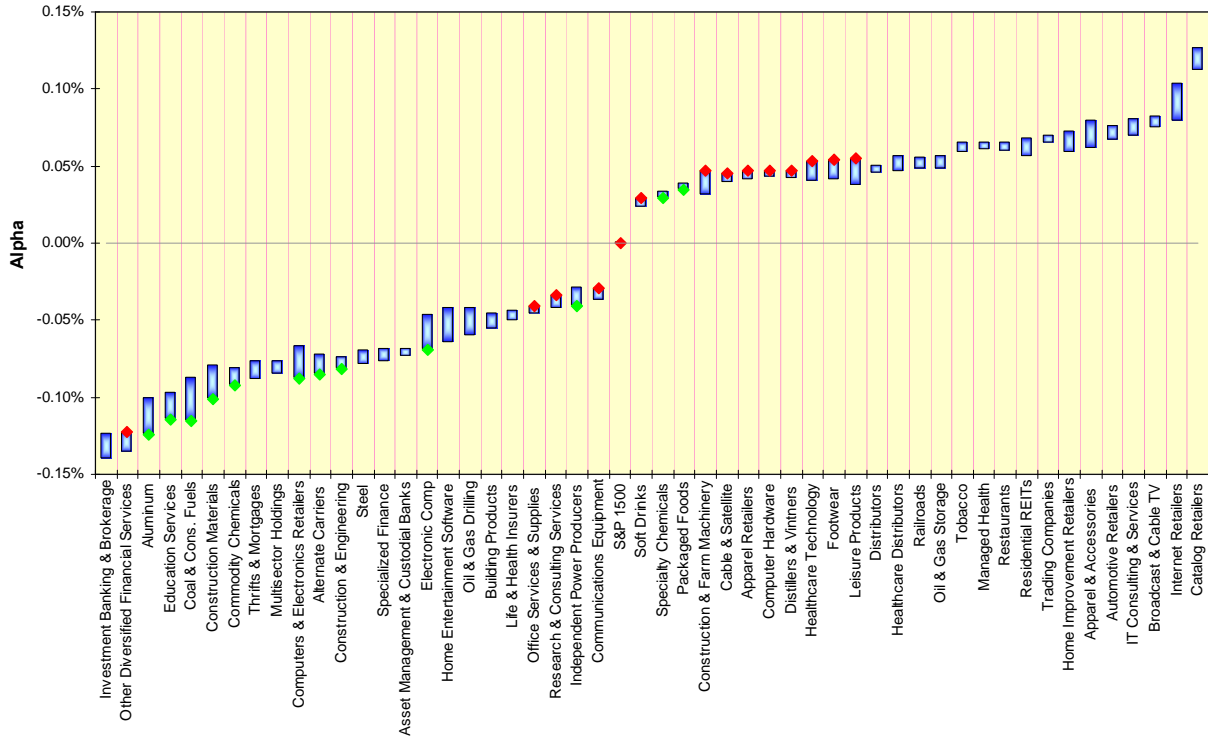
The current relative performance beta is -0.92%; for every 1% decline in the euro, we should expect the broad market to rise 0.0092%, all else held equal. Restated, if the euro gets shellacked, the net contribution to the U.S. market should be positive unless, of course, there is collateral damage such as the complete destruction of the global banking system. That would ruin everyone's day, would it not?

Euro Breakeven Betas

	Weighted Beta		Weighted Beta
Pharmaceuticals	0.0182	Other Diversified Financial Services	0.0125
Household Products	0.0108	Oil & Gas Equipment	0.0108
Soft Drinks	0.0097	Oil & Gas Exploration	0.0101
Integrated Telecommunications	0.0089	Integrated Oil & Gas	0.0071
Computer Hardware	0.0083	Construction & Farm Machinery	0.0058
Electric Utilities	0.0082	Diversified Banks	0.0055
Packaged Foods	0.0081	Life & Health Insurers	0.0055
Tobacco	0.0064	Asset Management & Custodial Banks	0.0046
Hypercenters & Superstores	0.0057	Regional Banks	0.0040
Restaurants	0.0054	Industrial Conglomerates	0.0035
Multiline Utilities	0.0052	Diversified Chemicals	0.0034
IT Consulting & Services	0.0039	Industrial Machinery	0.0033
Biotech	0.0036	Investment Banking & Brokerage	0.0030
Healthcare Equipment	0.0028	Steel	0.0027
Systems Software	0.0028	Coal & Cons. Fuels	0.0022
Internet Software & Services	0.0025	Consumer Finance	0.0019
Healthcare Services	0.0018	Movies & Entertainment	0.0018
Managed Health	0.0017	Oil & Gas Drilling	0.0018
General Merchandise Retailers	0.0016	Electrical Components & Equipment	0.0016
Drug Retailers	0.0015	Specialized REITs	0.0015
Home Improvement Retailers	0.0012	Multiline Insurers	0.0015
Healthcare Distributors	0.0011	Automobile Manufacturers	0.0013
Food Retailers	0.0008	Retail REITs	0.0013
Food Distributors	0.0006	Hotels	0.0012
Automotive Retailers	0.0005	Auto Parts & Equipment	0.0011
Insurance Brokers	0.0004	Railroads	0.0011
Gas Utilities	0.0004	Semiconductor Equipment	0.0010
Environmental Services	0.0004	Construction & Engineering	0.0009
Education Services	0.0003	Office REITs	0.0009
Distillers & Vintners	0.0003	Electrical Manufacturing Services	0.0009
Divers Supp Svc	0.0002	Electronic Comp	0.0009
Thrifty & Mortgages	0.0002	Paper Products	0.0009
Brewers	0.0002	Oil & Gas Refining	0.0008
Healthcare Technology	0.0001	Broadcast & Cable TV	0.0008
Research & Consulting Services	0.0001	Specialized Finance	0.0007
Water Utilities	0.0001	Industrial REITs	0.0006
Reinsurance	0.0001	Aluminum	0.0006
		Casinos & Gaming	0.0005
		Real Estate Services	0.0005
		Diversified REITs	0.0005
		Building Products	0.0004
		Technology Distributors	0.0004
		Electrical Equipment Manufacturing	0.0003
		Homebuilding	0.0003
		Specialty Chemicals	0.0003
		Motorcycle Manufacturers	0.0003
		Multisector Holdings	0.0003
		Office Electronics	0.0003
		Advertising	0.0002
		Office Services & Supplies	0.0002
		Construction Materials	0.0002
		HR & Employment Services	0.0002
		Home Furnishings	0.0002
		Tires & Rubber	0.0001
		Metal & Glass Containers	0.0001
		Commercial Printers	0.0001
		Forest Products	0.0001
		Consumer Electronics	0.0001
		Leisure Facilities	0.0001
		Commodity Chemicals	0.0001
		Catalog Retailers	0.0000
		Real Estate Development	0.0000
		Heavy Electrical	0.0000
		Diversified Metals & Mining	0.0000
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Subtotal:	-12.41%	Subtotal:	11.50%
		Total:	-0.92%

Now let's return to a look at alpha, or the expected degree of relative performance for each group. When I isolated the groups with statistically significant alpha over the past thirty trading days (the height of the blue column is the alpha's range) and overlay their betas to the euro, the rich-get-richer pattern emerges. The negative betas, marked in red, are clustered in the positive alpha groups, and the positive betas, marked in green, are clustered in the negative alpha groups. A weaker euro would pull the groups marked with red higher and push the groups marked with green lower.

Industry Groups With Statistically Significant α : β To Euro



While this may seem neat and tidy, I doubt any further hard downturn in the euro could occur in the absence of a financial crisis, and that financial crisis could be as bad as or worse than what we saw in 2008. If given my choice, I would take the downward pressure from a rising euro and call it a day.