

## The Euro's Industry Group Impact

As life is short, I might as well write about the euro while I still can. Those Spanish pesetas, Dutch guilders and Portuguese escudos sitting in a dish from 1990s-vintage business trips and held out of a combination of laziness and numismatic hope may become legal tender again one day.

Not really; but it does confirm what a long-ago professor of international economics and mentor told me back in 1976: "Bet against Euro-anything." He might be wrong one day, but I doubt it.

In the meantime, the euro has had a very distinct and very constant effect on the U.S. stock market on an industry group basis. Standard & Poor's divides the market into ten economic sectors and its S&P 1500 Supercomposite into 154 industry groups, 145 are active at the moment. If we take the relative performance of each group against a series of primal market factors, one of which is the euro, at 90% confidence levels, we can assess which groups are affected positively and negatively. If each of those groups' regression betas, the amount by which we should expect their performance relative to the S&P 1500 to change as a function of the euro, is multiplied by its weight in the index, we can sum the positive and negative changes together and derive a net weighted performance beta.

The table below summarizes everything. The cells on the left contain the groups with negative relative performance betas; these are stocks whose relative performance should rise in response to the falling euro. Included herein and highlighted in yellow are core holdings in the "life worth living" portfolio, such as Soft Drinks, Tobacco, Drug Retailers, Distillers & Vintners and Brewers. Is this a great country, or what?

The cells on the right contain the groups with positive relative performance betas; these are concentrated in the Energy, Financial and Basic Materials sectors. The net negative weighted relative performance betas sum to -12.03%; the net positive weighted relative performance betas sum to 15.27% for a net positive impact of 3.24%. We can verbalize this as, "For every 1% decline in the euro we should expect a .00324% decline in the S&P 1500, all else held equal."

Of course, all else is not held equal and never is; it recalls the old joke about an economist stranded on a desert island with some washed-ashore cans of food who simply assumes he has a can-opener and then proceeds to eat. If the collapse in the euro is caused by threats to its very existence and if the euro's travails create yet another elephant in my life I have to chase after with a broom-and-shovel, concepts such as relative outperformance and underperformance become relatively unimportant.

However, the table below should stand as a rebuke to all those who used to think a declining dollar meant a disaster for U.S. stocks; no, a declining dollar borne from excess liquidity usually is very bullish for U.S. stocks just as a strong dollar borne from rising U.S. interest rates seldom is bullish for stocks. As I have stated repeatedly, the stock market does not care whether the dollar or any other currency is "strong" or "weak." It only cares whether the dollar is being valued fairly in a market free of overt manipulation.

**Euro Beta-Weighted Impact On S&P 1500**

	SPR Weight	EUR Beta	Weighted Beta		SPR Weight	EUR Beta	Weighted Beta
Pharmaceuticals	5.33%	0.350	0.019	Integrated Oil & Gas	5.67%	0.421	0.024
Household Products	2.19%	0.382	0.008	Oil & Gas Exploration	2.10%	0.889	0.019
Soft Drinks	2.07%	0.349	0.007	Oil & Gas Equipment	1.68%	0.968	0.016
Packaged Foods	1.59%	0.403	0.006	Other Diversified Financial Services	3.55%	0.409	0.015
Hypercenters & Superstores	1.19%	0.516	0.006	Life & Health Insurers	1.03%	0.737	0.008
Biotech	1.14%	0.369	0.005	Construction & Farm Machinery	1.04%	0.569	0.006
Tobacco	1.32%	0.389	0.005	Asset Management & Custodial Banks	1.24%	0.425	0.005
IT Consulting & Services	1.62%	0.312	0.005	Diversified Metals & Mining	0.28%	1.644	0.005
Healthcare Equipment	1.95%	0.254	0.005	Steel	0.39%	1.149	0.005
Computer Hardware	3.24%	0.136	0.004	Coal & Cons. Fuels	0.25%	1.638	0.004
Systems Software	3.18%	0.129	0.004	Investment Banking & Brokerage	1.28%	0.268	0.003
Restaurants	1.23%	0.310	0.004	Diversified Chemicals	0.81%	0.413	0.003
Aerospace & Defense	2.78%	0.123	0.003	Oil & Gas Drilling	0.25%	1.086	0.003
Multiline Utilities	1.32%	0.233	0.003	Specialized REITs	0.67%	0.369	0.002
Healthcare Services	0.84%	0.324	0.003	Gold	0.22%	1.082	0.002
Drug Retailers	0.71%	0.375	0.003	Fertilizers & Agricultural Chemicals	0.35%	0.593	0.002
Electric Utilities	1.76%	0.134	0.002	Construction & Engineering	0.31%	0.651	0.002
Integrated Telecommunications	2.17%	0.109	0.002	Consumer Finance	0.79%	0.252	0.002
Internet Software & Services	1.61%	0.130	0.002	Retail REITs	0.49%	0.398	0.002
Data Processing & Outsourcing	1.34%	0.149	0.002	Oil & Gas Storage	0.34%	0.538	0.002
Home Improvement Retailers	0.89%	0.218	0.002	Movies & Entertainment	1.40%	0.126	0.002
Healthcare Distributors	0.43%	0.363	0.002	Electrical Components & Equipment	0.68%	0.237	0.002
Apparel Retailers	0.71%	0.202	0.001	Office REITs	0.30%	0.500	0.001
General Merchandise Retailers	0.47%	0.261	0.001	Industrial Machinery	1.12%	0.130	0.001
Life Sciences Tools & Services	0.59%	0.195	0.001	Multiline Insurers	0.41%	0.353	0.001
Insurance Brokers	0.25%	0.460	0.001	Aluminum	0.19%	1.183	0.001
Internet Retailers	0.56%	0.198	0.001	Industrial Gases	0.38%	0.285	0.001
Education Services	0.19%	0.551	0.001	Industrial REITs	0.10%	1.083	0.001
Air Freight & Logistics	0.97%	0.097	0.001	Specialized Finance	0.42%	0.250	0.001
Food Retailers	0.31%	0.296	0.001	Broadcast & Cable TV	0.18%	0.544	0.001
Thrifts & Mortgages	0.23%	0.335	0.001	Residential REITs	0.35%	0.268	0.001
Computer Storage & Peripherals	0.64%	0.120	0.001	Paper Products	0.15%	0.568	0.001
Department Stores	0.39%	0.190	0.001	Oil & Gas Refining	0.18%	0.465	0.001
Food Distributors	0.18%	0.321	0.001	Hotels	0.35%	0.231	0.001
Environmental Services	0.32%	0.160	0.001	Casinos & Gaming	0.17%	0.456	0.001
Automotive Retailers	0.22%	0.210	0.000	Agricultural Products	0.17%	0.460	0.001
Airlines	0.12%	0.332	0.000	Diversified REITs	0.17%	0.410	0.001
Healthcare Suppliers	0.12%	0.319	0.000	Gas Utilities	0.40%	0.143	0.001
Home Improvement Retailers	0.14%	0.269	0.000	Auto Parts & Equipment	0.25%	0.221	0.001
Leisure Products	0.17%	0.204	0.000	Independent Power Producers	0.18%	0.282	0.001
Personal Products	0.21%	0.123	0.000	Forest Products	0.10%	0.465	0.000
Trading Companies	0.18%	0.138	0.000	Motorcycle Manufacturers	0.06%	0.606	0.000
Healthcare Facilities	0.17%	0.142	0.000	Marine	0.28%	0.130	0.000
Distillers & Vintners	0.08%	0.295	0.000	Specialty Chemicals	0.43%	0.066	0.000
Distributors	0.08%	0.292	0.000	Electrical Manufacturing Services	0.12%	0.178	0.000
Specialized Consumer Services	0.15%	0.141	0.000	Multisector Holdings	0.04%	0.515	0.000
Reinsurance	0.09%	0.222	0.000	Tires & Rubber	0.03%	0.739	0.000
Brewers	0.06%	0.317	0.000	Building Products	0.10%	0.169	0.000
Trucking	0.12%	0.146	0.000	Commercial Printers	0.05%	0.254	0.000
Healthcare Technology	0.08%	0.184	0.000	Consumer Electronics	0.03%	0.252	0.000
Water Utilities	0.03%	0.404	0.000	Marine	0.03%	0.123	0.000
<b>Subtotal:</b>	<b>48.04%</b>		<b>-12.03%</b>	<b>Subtotal:</b>	<b>3151%</b>		<b>15.27%</b>
				<b>Total:</b>	<b>79.55%</b>		<b>3.24%</b>