

GICS Changes Incoming

What it Means for S&P and MSCI Sectors

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GICS changes on 17 March 2023 reflect shifts in business demands and consumer behaviour. The changes will have only a small impact on S&P and MSCI indices but will provide investors with more granular information about the underlying business operations of companies. The affected sectors include information technology, industrials, financials, consumer discretionary, consumer staples and real estate.

Key Changes

- **Reclassifying Data Processing & Outsourced Services companies (e.g. Visa*, PayPal*) from information technology to industrials and financials**
- **Moving companies that sell consumable merchandise from consumer discretionary to consumer staples**
- **Introduce more granular equity REIT sub-industries in real estate**
- **Large cap stocks move across five GICS sectors in S&P 500 Index**
- **Large and mid cap stocks moving across three sectors in MSCI World and MSCI Europe indices**

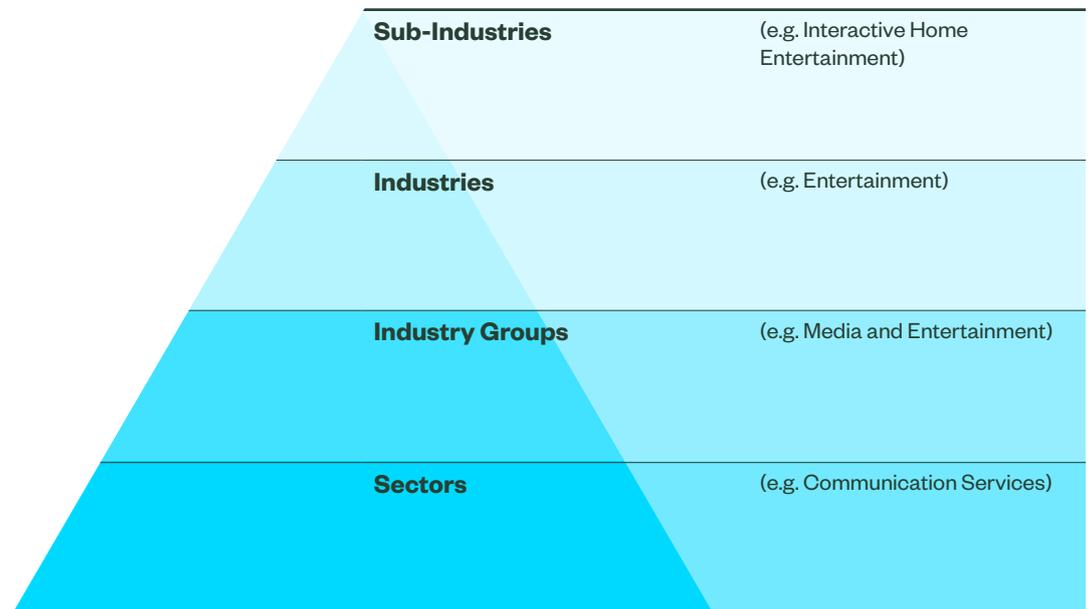
Background on GICS

The Global Industry Classification Standard (GICS) is a taxonomy used to classify and organise companies into different industry groups and sub-industries based on their primary business activities. GICS was jointly developed by S&P Dow Jones Indices and MSCI Inc. in 1999 and is widely used as a way to compare companies within the same industry and to track the performance of sectors.

Every company is assigned a GICS code based on its primary business activities, which enables investors to evaluate the company's performance against other companies within the same industry or sub-industry. These sub-industries are rolled up into 11 sectors (see Figure 1). GICS is reviewed annually to ensure it continues to reflect global equity markets and changes in the economy.

The changes in March 2023 are notable but are less impactful than the moves in September 2018, when the communication services sector was launched. This time around, the likely impact on valuations, growth and quality characteristics, and beta sensitivity to key macroeconomic indicators, is relatively small.

Figure 1
**Global Information
 Classification System**



Source: State Street Global Advisors, Bloomberg Finance L.P., as of 31 December 2022. The information contained above is for illustrative purposes only.

Impact on S&P and MSCI Sectors

The changes affect the composition of five S&P 500 GICS sectors, with around 4% of the S&P 500 Index market cap to be re-classified at the sector level across 14 large cap stocks. The same US-quoted stocks will also be included in the changes in MSCI indices together with 10 internal large and mid cap stocks. In both cases, most changes are at the industry level beneath the surface.

Moves from Information Technology into Industrials, Financials and Consumer Discretionary

This is an important change that will better reflect the nature of the affected companies' business models. For the S&P 500, the majority of large cap Data Processing & Outsourced Services companies (including two of the technology sector's current top 10 positions, Visa* and Mastercard*) will be re-classified into a newly created GICS sub-industry: Transaction & Payment Processing Services, within the financials sector.

As a result, financials will expand, cementing its position as the third-largest GICS sector in the S&P 500 Index. The Transaction & Payment Processing Services sub-industry will account for around 19% of financials, the second-largest sub-industry in the sector, trailing the banks sub-industry.

Data Processing & Outsourced Services companies that provide human resource services, commercial data processing, or business outsourcing services (i.e. support activities that are more aligned with the industrials sector's diverse customer base), such as Automated Data Processing* and Paychex*, will move to industrials, accounting for 5% of that sector.

The same reclassification is happening for MSCI indices but involving a few US companies quoted outside S&P 500, as well as a number of European and Australian stocks. A key difference is the move of a Data Processing & Outsourced Services company, Amadeus*, from technology to consumer discretionary where it becomes part of Hotels, Resorts & Cruise Lines.

Changes to the technology sector's valuation metrics, including P/E, price to sales, price to book and yield, are muted. The historical revenue growth of the underlying companies in the technology sector, and their consensus analyst growth estimates for the next three to five years, are little changed. Despite losing 11% of its market cap in S&P 500, growth stocks continue to dominate the sector.

Meanwhile, the financials sector sees a greater allocation to growth stocks, resulting in higher historical revenue growth. There is also a possible increase in forecast earnings growth, which could make it more attractive to investors looking for growth opportunities. At the sub-industry level, there is consolidation of names in Regional Banking and Diversified Financial Services.

Changes for Consumer Discretionary and Consumer Staples

Select companies, which mainly sell consumable merchandise, move from consumer discretionary to consumer staples, including Target* and Dollar General*. These changes will provide a more accurate reflection of the underlying business operations.

At a sub-industry level in consumer discretionary, the Internet & Direct Marketing Retail sub-industry has been discontinued, with reclassification of companies into their respective sub-industries according to the nature of goods sold. General Merchandise Stores and Department Stores are being merged into a new sub-industry, Broadline Retail.

Changes for Other Sectors

Introducing more granular equity REIT sub-industries in the real estate sector will allow investors to better evaluate different types of REITs and make more targeted investments in the sector.

Elsewhere, there are new sub-industries of Cargo Ground Transportation, Passenger Ground Transportation in the industrials sector under the Transport industry. And health care will now include companies that manufacture mainly cannabis-based drugs in the Pharmaceutical industry.

Figure 2
Select List of S&P 500 Companies to be Reclassified

Affected Sectors	From IT into Financials	From IT into Industrials	From Consumer Discretionary into Consumer Staples
Sub-industry (Old)	Data Processing & Outsourced Services	Data Processing & Outsourced Services	General Merchandise Stores
Sub-industry (New)	Transaction & Payment Processing Services	Human Resource & Employment Services	Consumable Merchandise Retail
S&P 500 Stocks Impacted	8 including Visa*, Mastercard*, PayPal*	3 including Automatic Data Processing*	3 including Target*
Weight in S&P 500 (%)	2.7	0.5	0.5
Weight in Current Sector (%)	10.6	1.9	4.9

Source: S&P Dow Jones, State Street Global Advisors, as of 31 December 2022. Weights are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. *This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Figure 3
**Select List of MSCI World
 & Europe Companies
 to be Reclassified**

Affected Sectors	From IT into Financials	From IT into Industrials	From IT Consumer Discretionary
Sub-industry (Old)	Data Processing & Outsourced Services	Data Processing & Outsourced Services	Internet & Direct Marketing Retail
Sub-industry (New)	Transaction & Payment Processing Services	Human Resource & Employment Services	Hotels, Resorts & Cruise Lines
Stocks impacted include**	Edenred*, WorldLine* (France) Adyen* (Netherlands) Nexi* (Italy)	ComputerShare* (Australia)	Amadeus* (Spain)
Weight in MSCI World (%)	Combined <0.5	0.02	0.1
Weight in MSCI Europe (%)	Combined 1.5	N/A	0.4

Source: MSCI Indices, State Street Global Advisors, as of 31 January 2023. Weights are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. Stocks classified as Large & Mid Cap may change at the rebalancing effective at end February 2023. *This information should not be considered a recommendation to invest in a particular sector or to buy or sell any security shown. It is not known whether the sectors or securities shown will be profitable in the future.

Impact on SPDR Sector UCITS ETFs

SPDR sector ETFs that track S&P indices will undergo rebalancing to reflect the index changes taking place at close of business on 17 March 2023. SPDR sector ETFs will see the constituent changes listed in the tables above but with slightly different weightings, given the ETFs' benchmarks — the Select Sector 25/20 Capped indices — follow a capped market-cap-weighted mechanism. Sector ETFs that follow MSCI World and MSCI Europe indices will reflect the changes made at the next quarterly index review on 31 May 2023.

For a full list of stocks affected in S&P and MSCI indices, please reach out to your local SPDR salesperson.

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