GENERALI ASSET MANAGEMENT

Core Matters

Macro-Driven EU Sector Allocation Tool

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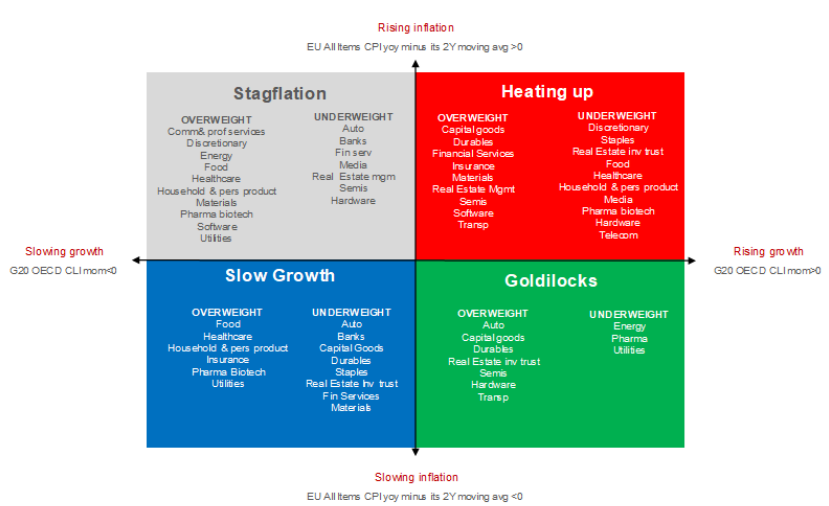
December 22, 2025

Our Core Matters series provides thematic research on macro, investment, and insurance topics

- The study analyses how dividing economic regimes by growth and inflation trends help inform sector allocation within European equity portfolios.
- We segment the economic cycle into four regimes, depending on whether economic growth is increasing/decreasing and at the same time inflation is rising/falling: Stagflation, Heating up, Goldilocks, and Slow growth.
- We construct two optimized portfolios based on historical sector performance in each regime and compare them to the MSCI Europe (EU) Index.
- Portfolio 1 allows for strong divergences in weights from the benchmark, Portfolio 2 caps the distance.



- The average total return (TR) of both our portfolios, even adjusted for risk, would have been higher than buying the MSCI EU index.
- Currently, in a Goldilocks regime, the model suggests buying Autos, Capital Goods, Durables, Real Estate Investment Trusts, Semiconductors, Hardware, and Transportation (Cyclicals), while selling Energy, Pharma, and Utilities (Defensives).
- In constructing our portfolio, we rely on two key economic indicators that serve as a reliable starting point for sector allocation. Over time, other macro variables — such as monetary policy — as well as sector-specific trends and valuations - may exert a strong influence. Our approach is indeed intended as a useful tool to be used within a comprehensive analysis.

CONTENT

In this paper, we examine the relationship between macroeconomic regimes and sectoral performance in European equity markets. Using historical data dating back to 1995, our analysis incorporates both growth and inflation indicators to uncover patterns that support a robust and profitable long-short portfolio strategy. By assessing how sectors respond to shifts in economic activity and price levels, we aim to provide investors with actionable insights for sector allocation and risk management. Our findings demonstrate that a dynamic approach, grounded in regime identification, can outperform broad market indices by delivering higher returns with reduced volatility. The paper is structured to guide the reader through our methodology, results, and practical application, concluding with a current allocation overview and key takeaways.

1. Data and Methodology

We begin by partitioning economic regimes into periods of rising and falling economic growth (measured by the **OECD composite leading index, CLI**) and inflation (measured by **EU All Items CPI**), considered separately:

- G20 OECD CLI mom>/< 0 = Rising /slowing growth
- EU All Items CPI yoy minus its 2Y moving avg >/< 0 = Rising/falling inflation

Short-term changes in growth (i.e. surprises in macroeconomic data) quickly affect the relative performance of sectors, especially cyclical ones. Structural (medium-term) changes in inflation, on the other hand, have a more lasting impact on the profitability and sensitivity of different sectors (e.g. commodity, utilities, and financials), while also influencing strategic allocation choices.

We consider Sectors (i.e. financials) and Industries (i.e. banks, insurance, diversified financials) within the MSCI Europe Index. MSCI uses the GICS system, which organizes companies into 11 sectors (level 1 sectors) and 25 industry groups (level 2 sectors). Each company in the index is assigned to one sector or industry based on its principal business activity, determined primarily by revenue. The univariate analysis below shows the relative monthly sector total return (TR) depending on growth (left columns) and inflation (right columns). The first row displays the overall market return,

while the subsequent rows show the relative performance of each sector compared to the market.

For a comprehensive discussion of the univariate results, refer to Appendix 1.

Average % mom TR, based on EU CPI and G20 CLI,1995-2025

	SLOWING GROWTH	RISING GROWTH	FALLING INFLATION	RISING INFLATION
MSCI EU	**-0.2**	**1.6**	**1.3**	**0.0**
	Relative TR (Sector minus MSCI EU)			
Financials	**-0.3**	**0.3**	**0.1**	**-0.1**
Banks	-0.5	0.5	0.2	-0.1
Insurance	0.2	0.0	0.1	0.1
Div. Financials	-0.5	0.3	0.1	-0.3
Industrials	**-0.2**	**0.5**	**0.2**	**0.1**
Capital Goods	-0.3	0.7	0.3	0.1
Aero/Defense	0.0	0.8	0.2	0.7
Transportation	-0.2	0.3	0.2	-0.1
Comm. & Prof. Services	0.0	-0.2	-0.5	0.3
Health Care	**0.8**	**-0.6**	**-0.3**	**0.6**
Pharma	0.9	-0.7	-0.3	0.6
HC Equip. & Services	0.6	-0.4	0.0	0.1
Energy	**0.2**	**-0.1**	**-0.3**	**0.6**
Communication Services	**0.1**	**-0.2**	**0.4**	**-0.7**
Telecom. Services	0.1	-0.3	0.4	-0.7
Media & Entertainment	-0.3	-0.1	-0.1	-0.3
Utilities	**0.5**	**-0.3**	**-0.1**	**0.2**
Materials	**-0.2**	**0.4**	**0.1**	**0.0**
Consumer Staples	**0.6**	**-0.5**	**-0.2**	**0.4**
Food & Staples Retailing	-0.1	-0.4	-0.3	-0.2
Food, Beverages & Tobacco	0.8	-0.5	-0.3	0.6
Household & Pers. Products	0.7	0.0	0.2	0.5
Consumer Discretionary	**-0.3**	**0.2**	**0.0**	**-0.1**
Cons. Durables and Apparel	-0.3	0.6	0.1	0.2
Cons. Services	-0.1	0.1	0.0	0.0
Retailing	0.0	-0.1	0.2	-0.4
Automobiles & Components	-0.4	0.5	0.1	0.0
Information Technology	**-0.2**	**0.4**	**0.5**	**-0.4**
Software	0.5	0.0	0.3	0.1
Tech. Hardware & Equipment	-0.8	0.2	0.4	-1.1
Semiconductors	-0.2	0.9	0.8	-0.1

Note: 1) Rising growth: CLI mom>0; 2) Slowing growth: CLI mom<0; 3) Rising inflation: EU CPI minus its 2Y moving avg>0; 4) Falling inflation: EU CPI minus its 2Y moving avg<0.

Colours indicate the best (green) and worst (red) performers in each column.

Source: LSEG, GenAM calculations

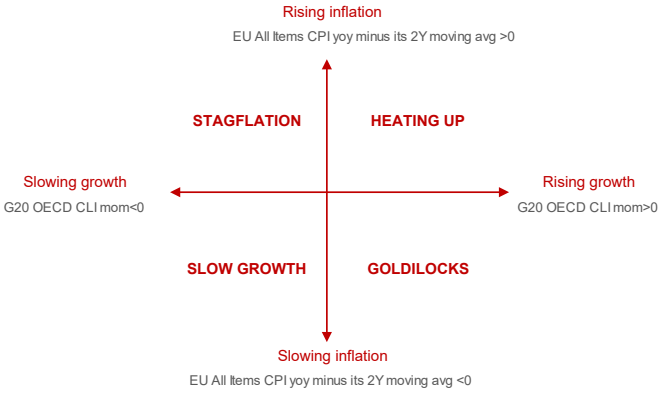
2. Four cycle phases

Thus far, our analysis has considered two relevant macroeconomic variables in isolation, demonstrating how sectors tend to perform when these variables rise or fall. Specifically, we sought to address the question: "How has an increase or decrease in economic activity/inflation historically impacted sector performance?" However, a more pertinent inquiry involves the interaction of these variables: "If there is a dip in economic growth and a rise in inflation, i.e. stagflation, how have sectors historically performed?"

Combining growth and inflation to define macro regimes

Our definitions of “Slowing/Rising” Growth and “Falling/Rising” Inflation are consistent with those applied in our univariate analyses.

We classify economic regimes into four categories based on whether economic growth is strong or weak and whether inflation is rising or falling, see left chart below:



Economic cycle phases, based on EU CPI and G20 CLI,1995-2025

	STAGFLATION	HEATING UP	GOLDILOCKS	SLOW GROWTH
total months	98	62	125	75
avg months in phase	14	8	11	8

Source: LSEG, GenAM calculations

Over the approximately thirty-year sample period (1995–2025), **the Goldilocks regime has been the most prevalent,** occurring 35% of the time, followed by Stagflation (27%), Slow Growth (21%) and Heating Up (17%). The most persistent phase is Stagflation, which lasts an average of 14 months once it begins, followed by Goldilocks (11 months), while Heating up and Slow growth each persist for an average of 8 months.

2.1. Sector performance during the cycle phases

The table below presents the monthly relative EUR total return (TR) since 1995 for the MSCI Europe sectors and industries across each economic phase (for an ordered view phase by phase, see Appendix 2). The TR at t_1 (t_1/t_0-1, %) is associated with the economic phase at t_0. [1]

The four states exhibit distinct patterns.

- **Stagflation**

top performers: Food, Beverage & Tobacco, Pharma, Consumer Staples. These sectors are traditionally considered defensive, with demand that remains relatively inelastic to economic cycles. **Their ability to maintain stable revenues and margins, even during economic contraction and rising input costs**, makes them attractive to investors seeking refuge from macro volatility. Additionally, Household & Personal Products and Energy exhibit superior resilience. The former benefits from brand loyalty and essential product demand, while the latter is supported by commodity price inflation, which typically accompanies stagflation. Energy companies often experience margin expansion as oil and gas prices rise, offsetting broader economic weakness.

[1] This is done because economic data are released with delay, so that today we know last month economic phase

underperformers: Semiconductors, IT/Hardware. These sectors exhibit pronounced sensitivity to economic growth and are particularly susceptible to increases in interest rates, which represent a conventional monetary policy response to inflationary pressures.

Average % mom TR, based on EU CPI and G20 CLI,1995-2025

	STAGFLATION	HEATING UP	GOLDILOCKS	SLOW GROWTH
MSCI Europe TR	**-1.1**	**1.6**	**1.8**	**0.5**
	Relative TR (Sector minus MSCI EU)			
Financials	**-0.4**	**0.3**	**0.5**	**-0.5**
Banks	-0.4	0.4	0.8	-0.8
Insurance	-0.1	0.3	0.1	0.1
Div. Financials	-0.8	0.2	0.5	-0.5
Industrials	**-0.2**	**0.4**	**0.5**	**-0.3**
Capital Goods	-0.2	0.6	0.7	-0.4
Aero/Defense	0.6	0.2	1.1	-0.8
Transportation	-0.4	0.5	0.3	-0.2
Comm. & Prof. Services	0.4	-0.2	-0.3	-0.3
Health Care	**1.2**	**-0.7**	**-0.7**	**0.6**
Pharma	1.4	-0.8	-0.7	0.6
HC Equip. & Services	0.7	-0.9	-0.2	0.6
Energy	**1.0**	**-0.5**	**-0.1**	**-0.4**
Communication Services	**-0.2**	**-0.6**	**-0.1**	**0.6**
Telecom. Services	-0.2	-0.6	-0.1	0.6
Media & Entertainment	-0.4	-0.1	0.0	-0.5
Utilities	**0.6**	**-0.4**	**-0.3**	**0.4**
Materials	**-0.1**	**0.3**	**0.5**	**-0.5**
Consumer Staples	**1.2**	**-0.8**	**-0.5**	**0.2**
Food & Staples Retailing	0.5	-1.4	-0.2	-0.3
Food, Beverages & Tobacco	1.4	-0.7	-0.6	0.2
Household & Pers. Products	1.1	-0.2	0.1	0.1
Consumer Discretionary	**-0.3**	**0.3**	**0.2**	**-0.5**
Cons. Durables and Apparel	-0.1	1.0	0.5	-0.8
Cons. Services	-0.1	0.0	0.2	-0.2
Retailing	-0.3	-1.0	0.4	0.4
Automobiles & Components	-0.1	0.6	0.5	-0.9
Information Technology	**-1.2**	**0.7**	**0.3**	**0.9**
Software	-0.4	0.4	-0.1	1.3
Tech. Hardware & Equipment	-1.7	-0.5	0.5	0.5
Semiconductors	-1.0	1.3	1.0	0.7

Note: 1) Stagflation: slowing growth and rising inflation, 2) Heating up: rising growth and inflation *3) Goldilocks: rising growth and falling inflation, 4) Slowgrowth: falling growth and inflation. Colours indicate the best (green) and worst (red) performers in each column.*
Source: LSEG, GenAM calculations

• **Heating Up**

top performers: Semiconductors, Consumer Durables & Apparel, Information Technology. These sectors benefit **from rising consumer and business investment, as well as from increasing technological adoption, which typically accelerates during periods of economic optimism**. Semiconductors, in particular, constitute a critical input across multiple industries and frequently experience demand surges during phases of renewed capital expenditure cycles.

underperformers: Food & Staples Retailing, General Retail, Health Care Equipment & Services. These sectors are traditionally considered defensive, characterized by stable revenue growth. Moreover, in heating-up environments, investors tend to rotate away from defensive positions in favour of higher-beta exposures.

• **Goldilocks**

top performers: Aerospace/Defence, Semiconductors, Banks. These sectors benefit from **stronger demand, increased capital investment, and credit expansion**. Semiconductors and capital goods, for instance, are closely linked to business investment

cycles, which typically accelerate in environments characterized by predictable growth and low input cost volatility. Banks and Financials perform well due to improving credit conditions, rising loan demand, and stable interest rate margins. The absence of inflationary stress enables central banks to maintain accommodative policy stances, thereby enhancing liquidity and supporting risk appetite.

underperformers: Pharma, Health Care, Food/Beverages/Tobacco. In Goldilocks, investors typically rotate away from low-volatility, income-generating sectors toward growth and cyclical exposures that offer higher beta and earnings growth leverage.

• **Slow Growth**

top performers: Software, IT, Semiconductors. These sectors benefit from **secular demand trends** — including digital transformation, automation, and cloud adoption — that are less dependent on macroeconomic cycles. Their ability to generate **high-margin recurring revenues,** while sustaining innovation-driven growth, makes them attractive in low-growth regimes.

underperformers: Aerospace, Autos, Consumer Durables, Banks. These sectors tend to show volume stability even as discretionary spending slows, although margin pressures may emerge due to weak pricing power.

3. Portfolio Construction

Translating regime insights into a rule-based long/short strategy

Having established our macro-regime framework in the previous sections – comprising the four economic states: Stagflation, Heating Up, Goldilocks and Slow Growth – we now translate these historical relationships into two investable long/short sector portfolios: Portfolio 1 and Portfolio 2, which differ by the degree of risk versus benchmark. For both portfolios, we do not consider transaction costs. The portfolios' construction relies on the following selection rule for each economic phase referred to level 2 sectors (25 EU Industries):

• **Buy** if the historical average relative return of the sector > 0 and its historical success rate (percentage of months assigned to the regime with relative return > 0) exceeds 55%.

• **Sell** if the historical average relative return of the sector < 0 and its historical downside success rate (percentage of months assigned to the regime with relative return < 0) exceeds 55%.

The 55% threshold results from the necessity to balance two aspects: higher thresholds would often eliminate one or both sides of the portfolio, and lower thresholds would dilute the signal by admitting names whose behaviour proved to be ambivalent during the phase.

In **Portfolio 1 (unconstrained weights portfolio),** we overweight the best performers according to the selection rule above and underweight all the others, proportionally

to their market cap, to obtain that the total portfolio sector weights sum to 100%[2]. The created portfolio is significantly more concentrated than the EU Index, resulting in a very high probability of performance divergence from the benchmark. Indeed, on average 5 sectors are overweighted, and all the other sectors underweighted relative to the MSCI Europe.

In **Portfolio 2** (**constrained weights portfolio**) we aim to track the MSCI Europe benchmark more closely. The sectors identified as top performers in each cycle are overweighted by 5% relative to their benchmark weight. Conversely, sectors identified as underperformers are underweighted by an amount optimised, starting from the benchmark weights, to ensure that the total portfolio sector weights sum to 100%. On average, around 8 sectors are put in OW and other 8 in UW. A modest overweight of 5% helps capture potential outperformance without introducing excessive sector concentration risk and performance deviation from benchmark.

4. Out-of-Sample Backtesting

5.1 Portfolio 1 (unconstrained/high risk ptf)

Validating the strategy across macroeconomic cycles through backtesting

The table below presents the out-of-sample backtest of Portfolio1's performance, benchmarked against the MSCI Europe index. The backtest spans May 2015 to September 2025 and is split into two sub-periods: May 2015 – December 2019 and January 2020 – September 2025. Each sub-period includes all four macroeconomic phases: Stagflation, Heating Up, Goldilocks, and Slow Growth.

The strategy is calibrated using historical data from 1995–2014 and 1995–2019, respectively.

The backtest results underscore the robustness of a sector allocation strategy based on economic cycle phases. Across two distinct out-of-sample periods (2015–2019, 2020–2025), and in the combined 2015–2025 horizon, the portfolio consistently outperformed the MSCI Europe benchmark, delivering an average monthly excess return between 0.30% and 0.35%.

[2] The overweight can be as much as three times the weight of the sector in the benchmark, in order to guarantee that all the other sectors remain included in the portfolio

OUT-OF-SAMPLE BACKTEST OF PORTFOLIO 1: OW THE BEST PERFORMERS up to 3X, UW ALL THE OTHERS TO GET PTF WEIGHT OF 100%

European sectors' PTF constructed using macro-regime framework

	Out-of-sample period		
	May 2015-Dec 2019 (56 months)	Jan 2020-Sept 2025 (68 months)	May 2015-Sept 2025 (124 months)
	Model trained on the period		
	1995-2014	1995-2019	1995-2014 then rebalanced in 2019
	Monthly outperformance (TR bps): Ptf 1 minus MSCI Europe		
median	33	22	28
average	**35**	**30**	**32**
of which during:			
Stagflation	71	45	59
Heating up	36	26	32
Goldilocks	5	35	30
Slow growth	4	5	4
	Key Portfolio risk-adjusted metrics		
risk adj. TR*	**9.3**	**7.9**	**9.5**
tracking error	**0.8**	**1.3**	**1.1**
information ratio **	**1.5**	**0.8**	**1.0**

Source: LSEG, GenAM calculations

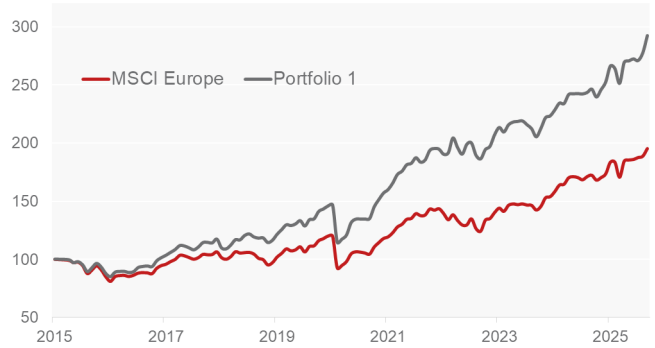
Note: 1) Stagflation: slowing growth and rising inflation, 2) Heating up: rising growth and inflation, 3) Goldilocks: rising growth and falling inflation, 4) Slow growth: falling growth and inflation.

* avg /st dev of Ptf1 - MSCI EU, monthly TR

** annualised, no transaction costs included

Performance dispersion across macro regimes is noteworthy. The strategy achieved its strongest relative returns during stagflation, with excess returns of 0.71% in the first out-of-sample period and 0.59% over the full horizon. This suggests that overweighting resilient sectors during periods of slowing growth and rising inflation adds significant value. Conversely, overperformance during slow growth phases were marginal, which can possibly be attributed to the sideway market behaviour in this phase (0.5% monthly TR, see table above, chapter 2.1).

Ptf 1 performance



Source: LSEG, GenAM calculations

Ptf 1: Total strategy outperformance (in pp)

Source: LSEG, GenAM calculations

Median excess returns are also closely aligned with averages, reinforcing the consistency of the approach. Risk-adjusted metrics remain stable in the two backtest periods, with the risk-adjusted TR of the portfolio (average TR/standard deviation) higher than the benchmark's one by 9bps per month. The tracking error (TE) is rather high,

increasing during the second backtest, which includes the Covid pandemia, as this is an unconstrained portfolio.

Overall, these findings validate the premise that dynamic sector allocation, guided by macroeconomic signals, can enhance performance relative to broad equity benchmarks, particularly in inflationary regimes (stagflation and heating up).

5.2 Portfolio 2 (constrained/lower risk portfolio)

Portfolio 1, however, suffers from limited applicability in benchmark-restrained investing. Similarly to the approach described above in Section 5.1, we have run backtests for our Portfolio 2 (constrained/lower risk portfolio) using the same sub-periods May 2015 –December 2019 and February 2020 – September 2025.

The portfolio 2 has consistently outperformed the MSCI Europe benchmark across all the phases of the cycle. However, the degree of outperformance was smaller than that of Portfolio 1, which is understandable given that Portfolio 2 involves only slight deviations from benchmark weights. Another key difference is that the average monthly outperformance achieved by Portfolio 2 in the first out-of-sample period (May 2015–December 2019) was almost half that of the most recent second period (January 2020 – September 2025): 3.7 bps versus 7.6 bps.

OUT-OF-SAMPLE BACKTEST OF PORTFOLIO 2: OW THE BEST PERFORMERS by 5% UW THE WORST PERFORMERS TO GET PTF WEIGHT OF 100%

European sectors' PTF constructed using macro-regime framework

	Out-of-sample period		
	May 2015-Dec 2019 (56 months)	Jan 2020-Sept 2025 (68 months)	May 2015-Sept 2025 (124 months)
	Model trained on the period		
	1995-2014	1995-2019	1995-2014, then rebalanced in 2019
	Monthly outperformance (TR, bps): Ptf 2 minus MSCI Europe		
median	3.5	6.0	4.2
average	**3.7**	**7.6**	**5.9**
of which during:			
Stagflation	3.2	10.2	6.6
Heating up	5.0	6.7	5.7
Goldilocks	2.6	6.5	5.7
Slow growth	3.3	7.7	5.6
	Key Portfolio risk-adjusted metrics		
risk. adj. TR*	**0.01**	**0.02**	**0.02**
tracking error	**0.05**	**0.09**	**0.08**
information ratio **	**2.5**	**2.8**	**2.5**

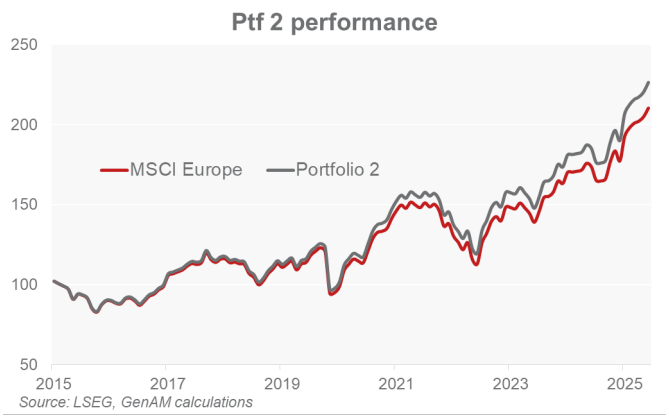
Source: LSEG, GenAM calculations

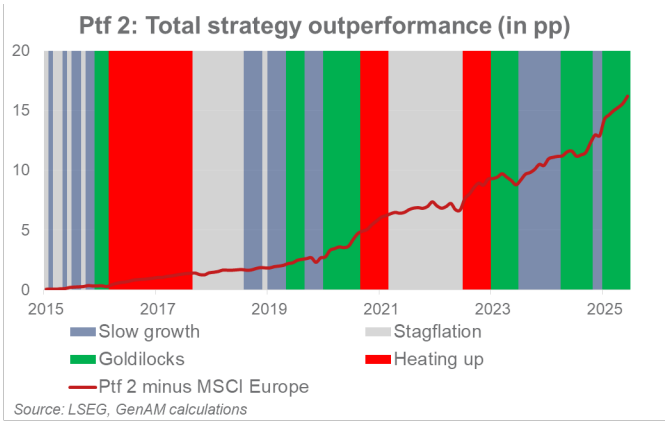
Note: 1) Stagflation: slowing growth and rising inflation, 2) Heating up: rising growth and inflation, 3) Goldilocks: rising growth and falling inflation, 4) Slow growth: falling growth and inflation.

* avg / st dev of (Ptf2 - MSCI EU), monthly TR

** annualised, no transaction costs included

While the strategy based on Portfolio 2 delivered notably stronger results during the "Heating Up" phase in the first out-of-sample period, its outperformance was more balanced compared to portfolio 1 — around 6 bps across all phases — when both out-of-sample periods are considered.





Like Portfolio 1, the volatility of Portfolio 2's monthly returns was slightly below that of MSCI Europe. This, combined with its outperformance, results in a higher risk-adjusted performance (average TR / standard deviation) of the Portfolio 2 relative to the benchmark. The tracking error for Portfolio 2 is lower, by construction, than that of Portfolio 1 and, as for Portfolio 1, in the second out-of-sample period (Jan 2020 – Sept 2025), it was almost twice as high as that in the first out-of-sample period (May 2015 – Dec 2019). The information ratio, without transaction costs, of Portfolio 2 is higher than that of Portfolio 1 due to its lower tracking error.

5. Current Model sector allocation

The table below summarizes the current buy and sell sectors, according to our strategy, in each phase of the cycle, using data of the last five years.

At present, we are in the Goldilocks phase.

> The current phase is Goldilocks

Sectors in the BUY list – such as Autos, Capital Goods, Durables, Real Estate Investment Trusts, Semiconductors, Hardware, and Transportation – are predominantly cyclical and growth-oriented.

Conversely, the SELL list – Energy, Pharma, and Utilities – comprises sectors that are defensive or inflation-sensitive.

In essence, the allocation reflects a preference for sectors with high beta to economic growth and strong earnings elasticity, while reducing exposure to those that benefit from inflationary environment or defensive positioning. Of course, we are excluding sector-specific trends, which may deviate from pure macro, top-down considerations based solely on GDP and inflation variables.

6. Conclusion

In summary, our empirical investigation demonstrates that jointly incorporating information on growth and inflation — rather than analysing these dimensions in isolation — produces a coherent and practically implementable sector rotation framework for European equities.

The proposed four-regime classification (Stagflation, Heating Up, Goldilocks, Slow Growth) reveals distinct top and bottom performers for each regime. Encoding these regime-specific sensitivities into a systematic long/short allocation strategy yields superior risk-adjusted outcomes relative to the MSCI Europe benchmark. Specifically, both the strategy exhibits higher mean and median total returns coupled with lower realized volatility, thereby improving the risk-adjusted return. By exploiting historical sector sensitivities to growth and inflation regimes, the framework effectively captures:

• Cyclical upside during expansionary phases (Heating Up, Goldilocks). Defensive resilience during contractionary phases (Slow Growth, Stagflation).

• Monetary policy effects, particularly in rate-sensitive sectors during inflationary or disinflationary transitions.

This evidence validates regime-based sector rotation as a valuable enhancement to static allocation strategies. For institutional investors, the findings support integrating macroeconomic diagnostics into tactical asset allocation.

It is essential, however, to allow sufficient time for the economy to cycle through all phases, as no regime signal is effective each month, nor every phase necessarily yields positive results. The relative effectiveness of phases may shift over time, yet the strategy's ability to deliver superior risk-adjusted returns was shown to be robust across different time frames.

In constructing our portfolio, we rely on two key economic indicators that serve as a reliable starting point for sector allocation. Over time, other macro variables — such as monetary policy — as well as sector-specific trends and valuations - may exert a strong influence. Our approach is indeed intended as a useful tool to be used within a comprehensive analysis.

Future extensions could refine timing around regime transitions or improving calibration periods, keeping in mind also the sensitivity of the model to its parameters.

Appendix 1

We reorganize the Univariate data to understand which sectors are more sensitive to growth and which to inflation, separately.

Growth regimes: The table below reveals a clear split with half of the sectors considered "defensive" and the other half "cyclical". Defensive sectors, such as Pharma and Food, Beverage & Tobacco, tend to benefit particularly when moving from rising to slowing growth. Their higher-than-average resilience during slowdown is largely due to the steady demand for essential goods and healthcare services, which remains robust even when the broader economy slows.

Ordering sector responses to isolated macro shifts

Sector relative performance differences across macroeconomic regimes
% mom TR, 1995–2025

Difference in Relative TR during Slowing Growth vs. Rising Growth	
Pharma	1.6
Health Care	1.5
Food, Beverages & Tobacco	1.3
Consumer Staples	1.1
HC Equip. & Services	0.9
Utilities	0.8
Household & Pers. Products	0.6
Software	0.5
Food & Staples Retailing	0.4
Telecom. Services	0.4
Communication Services	0.3
Energy	0.3
Comm. & Prof. Services	0.3
Insurance	0.2
Retailing	0.1
Cons. Services	-0.2
Media & Entertainment	-0.2
Consumer Discretionary	-0.5
Transportation	-0.6
Materials	-0.6
Information Technology	-0.6
Financials	-0.6
Industrials	-0.8
Div. Financials	-0.8
Cons. Durables and Apparel	-0.9
Aero/Defense	-0.9
Tech. Hardware & Equipment	-0.9
Automobiles & Components	-1.0
Banks	-1.0
Capital Goods	-1.0
Semiconductors	-1.1

Difference in Relative TR during Rising Inflation vs. Falling Inflation	
Pharma	1.0
Energy	0.9
Health Care	0.8
Food, Beverages & Tobacco	0.8
Comm. & Prof. Services	0.8
Consumer Staples	0.6
Aero/Defense	0.5
Household & Pers. Products	0.3
Utilities	0.3
Food & Staples Retailing	0.1
HC Equip. & Services	0.1
Insurance	0.1
Cons. Services	0.0
Cons. Durables and Apparel	0.0
Materials	-0.1
Industrials	-0.1
Consumer Discretionary	-0.1
Media & Entertainment	-0.1
Automobiles & Components	-0.2
Financials	-0.2
Capital Goods	-0.2
Software	-0.2
Transportation	-0.2
Banks	-0.3
Div. Financials	-0.4
Retailing	-0.7
Semiconductors	-0.9
Information Technology	-1.0
Communication Services	-1.1
Telecom. Services	-1.1
Tech. Hardware & Equipment	-1.4

Colours indicate the best (green) and worst (red) performers in each column.
Source: LSEG, GenAM calculations

By contrast, cyclical and growth-sensitive sectors such as Semiconductors, Banks, and Capital Goods gain significantly when moving from slowing to rising growth. These industries are closely tied to the economic cycle, showing higher beta, as increased economic activity typically leads to higher demand for capital investments, new technologies, and financial services. For instance, when growth accelerates, businesses and consumers are more likely to invest in new equipment, upgrade technology, and seek financing, all of which support stronger performance in these sectors.

Inflation regimes: Pharma, Energy and Food gain most in a switch from a low to a high inflation scenario, indicating their pricing power and resilience to cost pressures.

On the contrary, sectors such as Technology and Communication Services benefit the most in a switch from a high to a low inflation environment. When inflation falls, they gain from lower financing costs and increased consumer spending, as borrowing becomes cheaper and discretionary incomes stretch further. Vice versa when inflation rises Tech and Communication lag, due to margin compression, high interest rate sensitivity, or heavy fixed-cost structures that are less adaptable to inflationary environments.

Appendix 2

In the table below we show the monthly relative EUR TR, since 1995, for the MSCI Europe Sectors and Industries in each economic phase, ordered phase by phase. The TR at t_1 (t_1/t_0-1, %) is associated to the economic phase at t_0.

Relative % TR (Sector minus MSCI EU), 1995-2025

STAGFLATION	
Food, Beverages & Tobacco	1.4
Pharma	1.4
Health Care	1.2
Consumer Staples	1.2
Household & Pers. Products	1.1
Energy	1.0
HC Equip. & Services	0.7
Aero/Defense	0.6
Utilities	0.6
Food & Staples Retailing	0.5
Comm. & Prof. Services	0.4
Insurance	-0.1
Automobiles & Components	-0.1
Cons. Durables and Apparel	-0.1
Materials	-0.1
Cons. Services	-0.1
Industrials	-0.2
Telecom. Services	-0.2
Capital Goods	-0.2
Communication Services	-0.2
Consumer Discretionary	-0.3
Retailing	-0.3
Media & Entertainment	-0.4
Financials	-0.4
Banks	-0.4
Software	-0.4
Transportation	-0.4
Div. Financials	-0.8
Semiconductors	-1.0
Information Technology	-1.2
Tech. Hardware & Equipment	-1.7

Colours indicate the best (green) and worst (red) performers.
Source: LSEG, GenAM calculations

Relative % TR (Sector minus MSCI EU), 1995-2025

HEATING UP	
Semiconductors	1.3
Cons. Durables and Apparel	1.0
Information Technology	0.7
Automobiles & Components	0.6
Capital Goods	0.6
Transportation	0.5
Software	0.4
Industrials	0.4
Banks	0.4
Consumer Discretionary	0.3
Insurance	0.3
Financials	0.3
Materials	0.3
Aero/Defense	0.2
Div. Financials	0.2
Cons. Services	0.0
Media & Entertainment	-0.1
Comm. & Prof. Services	-0.2
Household & Pers. Products	-0.2
Utilities	-0.4
Tech. Hardware & Equipment	-0.5
Energy	-0.5
Telecom. Services	-0.6
Communication Services	-0.6
Food, Beverages & Tobacco	-0.7
Health Care	-0.7
Consumer Staples	-0.8
Pharma	-0.8
HC Equip. & Services	-0.9
Retailing	-1.0
Food & Staples Retailing	-1.4

Colours indicate the best (green) and worst (red) performers.
Source: LSEG, GenAM calculations

Relative % TR (Sector minus MSCI EU), 1995-2025

GOLDILOCKS	
Aero/Defense	1.1
Semiconductors	1.0
Banks	0.8
Capital Goods	0.7
Industrials	0.5
Cons. Durables and Apparel	0.5
Financials	0.5
Materials	0.5
Div. Financials	0.5
Tech. Hardware & Equipment	0.5
Automobiles & Components	0.5
Retailing	0.4
Transportation	0.3
Information Technology	0.3
Cons. Services	0.2
Consumer Discretionary	0.2
Household & Pers. Products	0.1
Insurance	0.1
Media & Entertainment	0.0
Energy	-0.1
Software	-0.1
Communication Services	-0.1
Telecom. Services	-0.1
HC Equip. & Services	-0.2
Food & Staples Retailing	-0.2
Utilities	-0.3
Comm. & Prof. Services	-0.3
Consumer Staples	-0.5
Food, Beverages & Tobacco	-0.6
Health Care	-0.7
Pharma	-0.7

Colours indicate the best (green) and worst (red) performers.
Source: LSEG, GenAM calculations

Relative % TR (Sector minus MSCI EU), 1995-2025

SLOW GROWTH	
Software	1.3
Information Technology	0.9
Semiconductors	0.7
Pharma	0.6
Communication Services	0.6
Telecom. Services	0.6
Health Care	0.6
HC Equip. & Services	0.6
Tech. Hardware & Equipment	0.5
Utilities	0.4
Retailing	0.4
Food, Beverages & Tobacco	0.2
Consumer Staples	0.2
Household & Pers. Products	0.1
Insurance	0.1
Transportation	-0.2
Cons. Services	-0.2
Food & Staples Retailing	-0.3
Industrials	-0.3
Comm. & Prof. Services	-0.3
Capital Goods	-0.4
Energy	-0.4
Financials	-0.5
Div. Financials	-0.5
Consumer Discretionary	-0.5
Materials	-0.5
Media & Entertainment	-0.5
Aero/Defense	-0.8
Banks	-0.8
Cons. Durables and Apparel	-0.8
Automobiles & Components	-0.9

Colours indicate the best (green) and worst (red) performers.
Source: LSEG, GenAM calculations

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