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Looking at stocks through a football lens

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A summer of major sporting events is getting underway in Europe, with a continental football tournament among the highlights. In a new report, CIO looks at how to build a well-balanced squad—whether on the pitch or in an investment portfolio.

Investing in the stock market can be likened to assembling and managing a football (or soccer) team for a tournament. Just as a football team requires a strategic combination of players with different roles and skills to succeed, a well-balanced investment portfolio needs a diverse mix of stocks with varying levels of risk and return potential.

Looking at the European equity market through a "football lens," we took four of our Equity Preference Lists (EPLs)—for the Eurozone, Switzerland, the United Kingdom, and Germany—and categorized the selected stocks as either "attackers," "midfielders" or "defenders," analogous with the roles they might play in an investment portfolio.

To make this assessment, we used each stock's beta value—a measure of its historical volatility, or risk—relative to its respective market. For the purposes of this exercise, we omitted the goalkeeper, whose closest comparison in investment terms might not be a stock, but perhaps a hedging strategy.

- **The "defenders"** consist of stocks with low-beta values (i.e., in the first quartile of the respective regional EPL), indicating that these stocks are less volatile than the respective market. These stocks are like defenders on a football team, providing relative stability and protection from market volatility. In a portfolio, those stocks help preserve capital and minimize risk. Typical defensive sectors include utilities, consumer staples, and healthcare.
- **The "attackers"** consist of stocks with high-beta values (i.e., fourth quartile), indicating greater volatility and higher potential returns. These stocks are akin to forwards or attackers in football. In a portfolio, they aim to generate

stronger returns, but tend to come with higher risk. High-beta stocks can often be found in sectors like information technology, consumer discretionary, energy, or industrials.

- **The "midfielders"** consist of stocks, as the name suggests, in the middle of the above two groups (i.e., beta values in the second and third quartile). Like midfielders, these stocks tend to offer a balance between defense and attack, offering both stability and growth potential. Many of the stocks have betas around 1, which means that historically they tended to mirror market performance. We focus on stocks that we think offer superior risk-return potential going forward.

How do our four squads shape up?

The **Eurozone squad** is fairly balanced across beta values. Within Eurozone equities, we favor beneficiaries of disinflation, interest rate cuts, and bottoming manufacturing activity, where valuations are attractive. Eurozone small- and mid-caps should benefit from easing credit conditions and bottoming activity, with relative valuations at 20-year lows. We think the materials sector also offers attractive relative value with upside from bottoming manufacturing activity and the end of destocking.

The **Switzerland squad** shows defensive strength—the Swiss equity market has a high weighting in sectors like consumer staples and healthcare. Swiss companies are characterized by a mix of solid balance sheets and decent earnings growth, and the market's dividend yield remains attractive compared to peers and local bond yields.

The **UK squad** is fairly balanced across sectors. The UK is our most preferred market in our regional equity preferences. We believe the UK offers attractive value, with an improving domestic backdrop, and more commodity-heavy exposure (22% of MSCI UK market capitalization is in the energy, and metals and mining sectors)—making it well-positioned to benefit from improving industrial demand and elevated oil prices.

The **Germany squad** is geared toward equities with higher betas, with more cyclical and value stocks than the other regional EPLs. Within the German market, we favor quality companies that are well positioned to benefit from long-term trends, as well as cyclical recovery names.

History shows that sporting events themselves are not a reliable driver of stock price performance. But the principles of balance and diversification required to build a successful sports team are also important for investors looking to construct a robust portfolio.

For more information, including our specific stock selections, please see the full report, "Investing in stocks through a football lens," by CIO's Thomas Parmentier and Rudolf Leemann (published 30 May 2024).