

# How Defensive Sectors Have Fared During Periods Of Elevated Inflation

## S&P 500 Defensive Sectors vs. S&P 500 Index: Total Returns (YTD & Years In Which Trailing 12-Month CPI $\geq$ 3.0%)

| Year        | CPI Rate | S&P 500 | S&P 500 Health Care | S&P 500 Consumer Staples | S&P 500 Utilities |
|-------------|----------|---------|---------------------|--------------------------|-------------------|
| 2022 (5/10) | 8.3%     | -15.65% | -9.66%              | -0.50%                   | -0.37%            |
| 2021        | 7.0%     | 28.71%  | 26.13%              | 18.63%                   | 17.67%            |
| 2011        | 3.0%     | 2.11%   | 12.73%              | 13.99%                   | 19.91%            |
| 2007        | 4.1%     | 5.49%   | 7.15%               | 14.18%                   | 19.38%            |
| 2005        | 3.4%     | 4.91%   | 6.46%               | 3.58%                    | 16.84%            |
| 2004        | 3.3%     | 10.88%  | 1.68%               | 8.16%                    | 24.28%            |
| 2000        | 3.4%     | -9.10%  | 37.05%              | 16.78%                   | 57.19%            |
| 1996        | 3.3%     | 22.96%  | 21.04%              | 25.90%                   | 5.68%             |
| 1991        | 3.1%     | 30.47%  | 53.69%              | 41.66%                   | 23.89%            |
| 1990        | 6.1%     | -3.10%  | 17.29%              | 15.32%                   | -0.63%            |

Source: Bloomberg. CPI rate for 2022 as of 4/30. **Past performance is no guarantee of future results.**

### View from the Observation Deck

1. Year-to-date through 5/10/22, the S&P 500 Index was down 15.65% on a total return basis. The question is: Could robust inflation pose even more of a threat to the broader stock market (S&P 500 Index) if sustained?
2. We looked back to 1990 and selected those calendar years where inflation, as measured by the Consumer Price Index (CPI), rose by 3.0% or more on a trailing 12-month basis.
3. Why 3.0%? From 1926-2021, the average CPI rate was 3.0%, according to data from the Bureau of Labor Statistics.
4. For comparative purposes, we selected three defensive sectors (Health Care, Consumer Staples and Utilities) to see how their returns matched up with those of the S&P 500 Index.
5. The premise being that defensive sectors tend to be less cyclical in nature than their counterparts and can potentially offer investors better performance results in volatile markets.
6. As indicated in the chart, the defensive sectors posted a good showing relative to the S&P 500 Index overall, and all three outperformed the broader market in 1990, 2000, 2007 and 2011.
7. While all three of the defensive sectors are outperforming the S&P 500 Index so far this year, Health Care has significantly lagged both Consumer Staples and Utilities (see table). One of the key reasons for this could be tied to the Biden administration's talk of targeting rising drug prices, in our opinion. The discussion of regulatory intervention, such as potential price controls, has been a popular wedge issue in previous election years.

*This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance. The respective S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.*

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