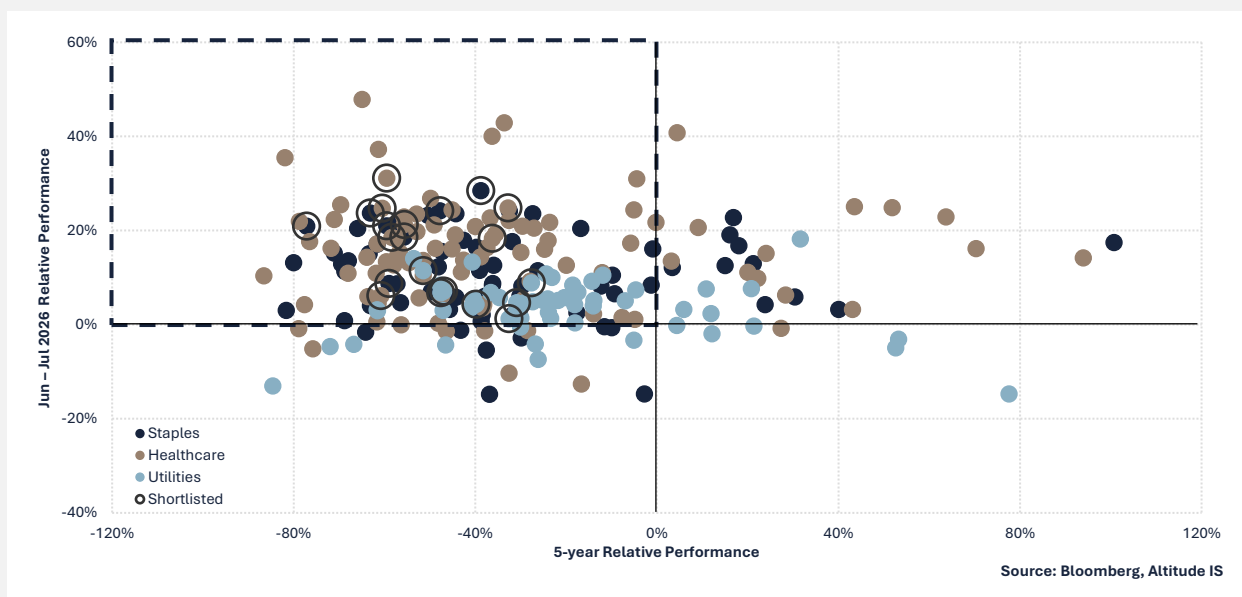


The flexiweekly that reaches new heights - published on 21 September 2026

"IN SEARCH OF THE MOST DEFENSIVE... DEFENSIVE STOCKS"

- Stock market indices are mainly driven by the technology sector
- Diversifying portfolios has become challenging and costly
- Indeed, defensive sectors cushion the blows but underperform
- How can we identify the companies best positioned for the next rotation?

CHART OF THE WEEK: "During sector rotations, the last shall be first"



FINANCIAL MARKETS ANALYSIS

The stock markets are essentially driven by growth companies, particularly those in the technology sector and, more specifically, those linked to artificial intelligence (see Fig. 2). This situation has significant implications for equity investors. If they wish to generate positive returns, they have no choice but to expose their portfolios to this segment, particularly through companies with high margins and low competition (see [WIF of 7 September 2026](#)). **Conversely, those wishing to avoid excessively negative returns, when the trend reverses and sector rotation takes place, should focus on defensive sectors.** This 'barbell' strategy enables them to achieve a diversified equity allocation, which is no easy feat given the high concentration of global stock market indices. Indeed, most investment funds, whether active



or passive, have an abnormally high weighting in the technology sector and an exceptionally low one in defensive sectors.

When investors manage to overcome this difficulty, they have to put up with the underperformance of companies in defensive sectors. Indeed, since 2023, the consumer staples, healthcare and utilities sectors have given the impression of treading water. Their relative performance resembles a long and painful descent into the depths (see Fig. 3). And yet, these sectors are useful, even essential. During periods of stock market corrections, they are the ones that fall the least. In the most favourable cases, they even rise. Their ability to cushion shocks means investors can recover much more quickly. In other words, the road to recovery is much shorter.

Fig. 2 – Performance of the technology sector

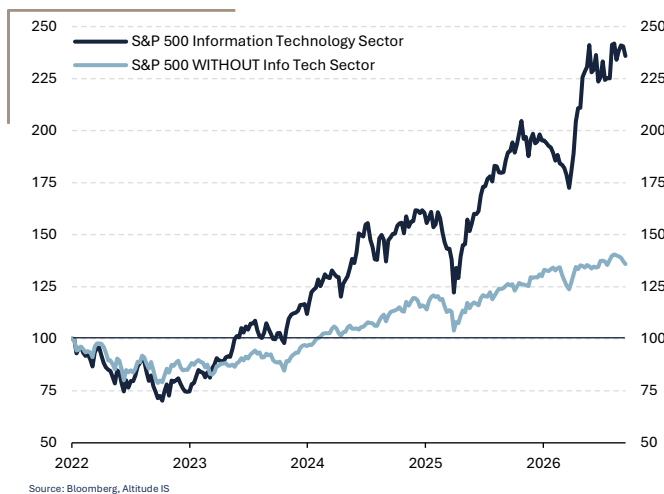
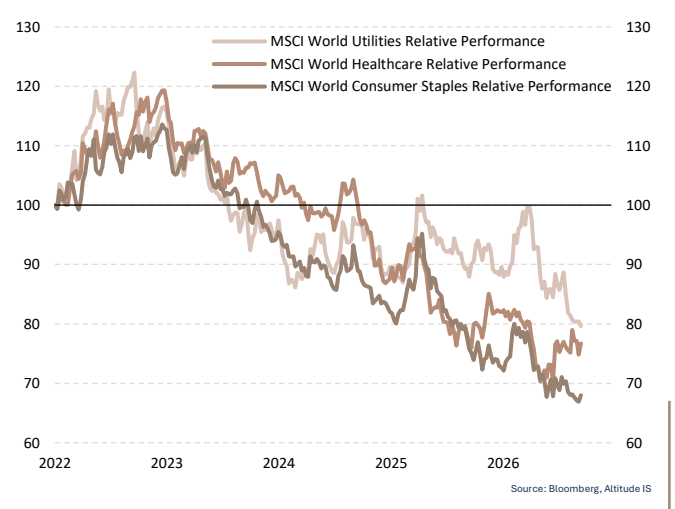


Fig. 3 – Relative performance of defensive sectors



To improve the construction of this defensive strategy and minimise its drawbacks, it may be worthwhile to identify the companies with the greatest potential to withstand market turmoil. To this end, a scoring system has been implemented. Among the three defensive sectors, the process seeks to filter out those stocks that have underperformed over the last five years but which have rebounded significantly during the last two phases of market correction, when a sector rotation took hold. This was the case during the IA's decline in the summer (June–July 2026, see Chart of the Week) and during the tariff shock (February–April 2025, see Fig. 4).

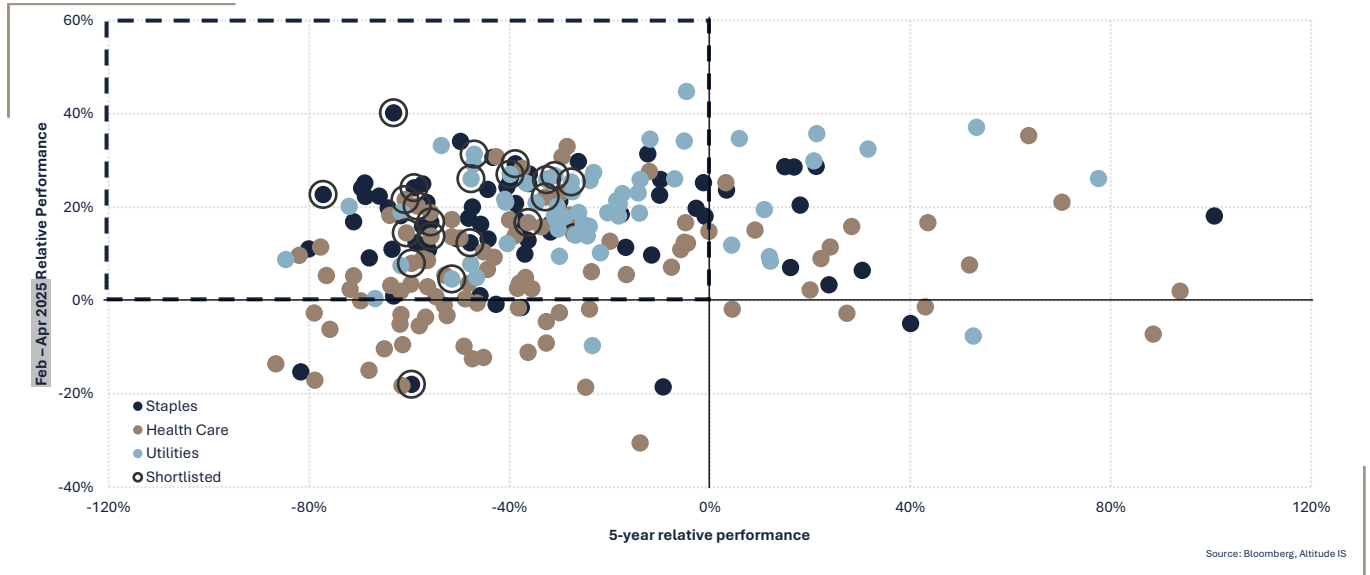
Rises resulting from company-specific events, such as a takeover bid, a court ruling or clinical results, were factored out in order to focus solely on their performance during sector rotation. **To qualify for this scoring system, companies must also have an attractive valuation, low volatility and a generous dividend policy.** Finally, 'value traps' – companies whose discount is fully justified by the deterioration in their fundamentals – have been excluded. To this end, other criteria were examined: earnings and sales growth, debt levels, and interest and dividend coverage. **The results of this scoring process highlight the defensive companies... the most defensive ones.** They have all managed to weather five years of stock market turmoil without losing any of their ability to absorb shocks.

The first finding from this analysis is negative and concerns the extent of the accumulated underperformance. Of the 246 US and European companies from the three defensive sectors that make up the analysis universe, 83% have underperformed the MSCI World Index over the last five years, with



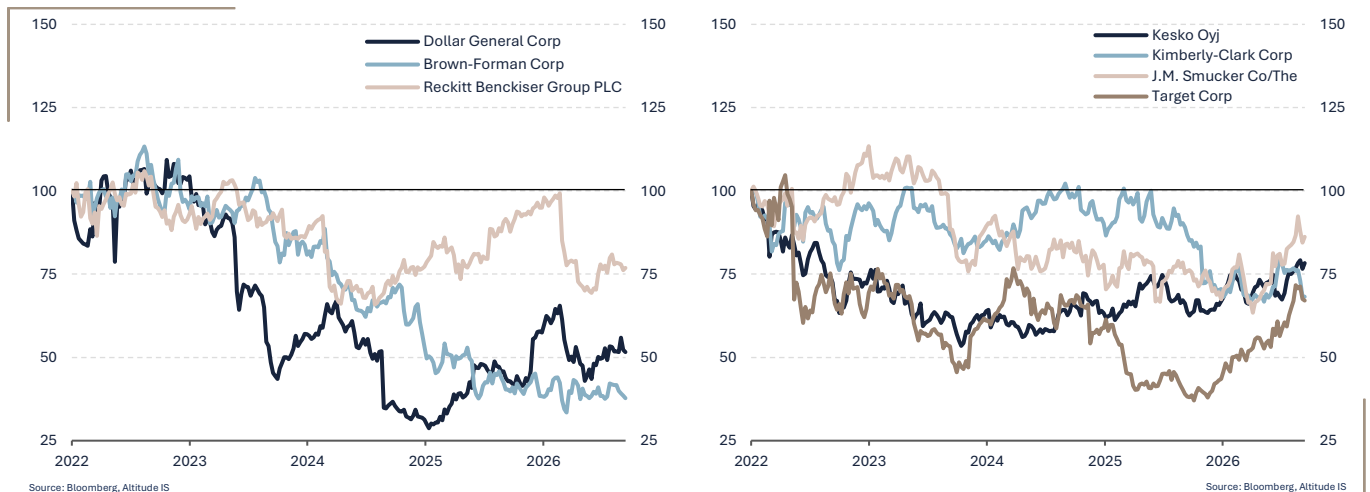
a median shortfall of -36%. **The second finding is positive, as it highlights the consistency of the buffer.** From 2 June to 29 July 2026, whilst the S&P 500 fell by -3.9%, 81% of defensive stocks rose, by a median of 8.1%. Similarly, during the tariff shock from 19 February to 8 April 2025, they fell by ‘only’ -5.1%, whilst the MSCI World index plummeted by -17.3%.

Fig. 4 – Relative performance of defensive sector shares, by period



In the consumer staples sector, the top three are Dollar General, Brown-Forman and Reckitt Benckiser. The discount retailer Dollar General perfectly illustrates the desired behaviour. It gained 21% during the AI-driven market downturn this summer and 16% during the 2025 tariff shock. On 2 June, the very day the correction began, it raised its full-year forecasts and reported that households earning over \$100,000 were visiting its stores, having been forced to tighten their belts due to soaring gasoline prices. It did so again on 27 August. Brown-Forman, the parent company of Jack Daniel’s, has been suffering from a decline in demand for spirits for the past three years. However, the group has paid a quarterly dividend without interruption for 82 years and has increased it for 42 consecutive years, making it one of the most consistent sources of stability in the sector.

Figs. 5 & 6 – Performance of companies in the consumer staples sector

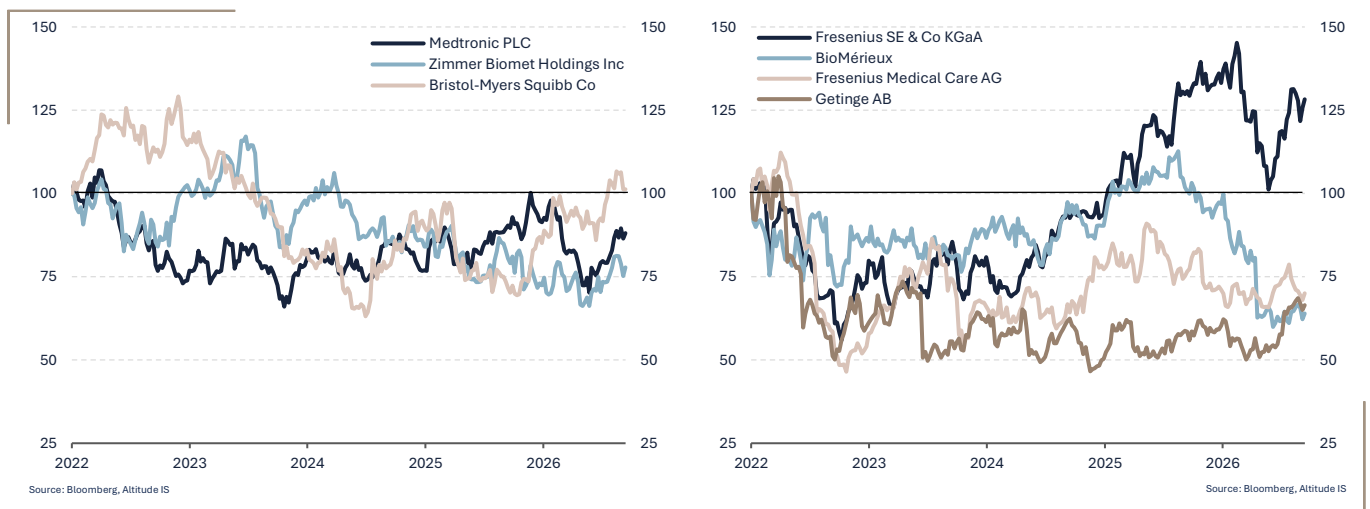




UK-based Reckitt is trading at 11.4x earnings, having warned in April that rising oil prices would increase the cost of its packaging and solvents. This valuation does not reflect the transformation currently underway. The sale of its cleaning brands to Advent was finalised on 31 December last year, resulting in a one-off dividend of \$2.2 billion. A £500 million share buyback followed in July, whilst organic growth in the second quarter accelerated to 4.2%. Kesko, Kimberly-Clark, JM Smucker and Target complete the list (see Figs. 5 & 6).

In the healthcare sector, the scoring yields a result that appears mixed but is in fact very positive. This is the sector that suffered most from the 2025 pricing shock, with a median decline of -12.8%. The threat of tariffs on imported medicines accounted for this vulnerability. Conversely, it was the sector **that rebounded most strongly during the AI sell-off this summer, with 88% of shares rising and a median increase of 13.6%.** Medtronic, Zimmer Biomet and Bristol-Myers Squibb lead the way. These companies combine undervaluation with renewed momentum. The medical device manufacturer raised its forecasts in September, following organic growth of 13.7% in the first quarter, and is finalising the spin-off of its MiniMed diabetes business. For its part, the orthopaedic prostheses specialist gained 16% during the IA's decline and is trading at 16.7 times earnings. As for the pharmaceutical company, it is trading at 10 times earnings, having raised its sales targets on 30 July, thanks to Eliquis, ahead of the expected expiry of its patent protection in the United States in 2028.

Figs. 7 & 8 – Performance of companies in the healthcare sector



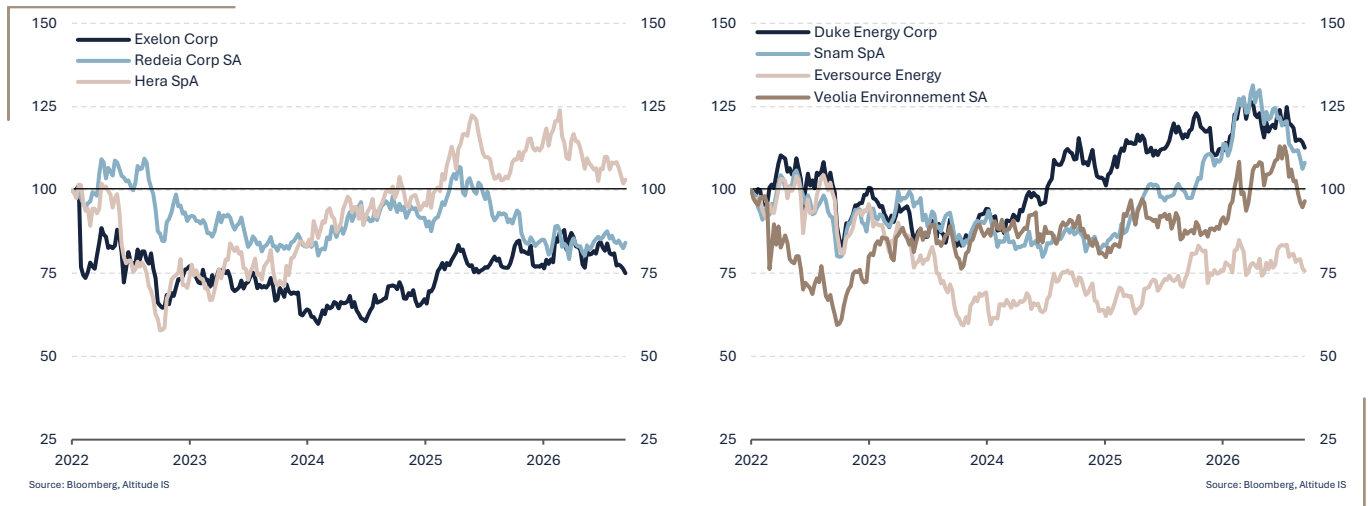
Fresenius, bioMérieux, Fresenius Medical Care and Getinge complete the list (see Figs. 7 & 8). For the record, the two Fresenius companies are separate entities, each listed individually on the Frankfurt Stock Exchange. The first comprises injectable generic medicines and the Helios clinics. The second is the world leader in dialysis, in which the parent company has held only a 32% stake since the end of 2023. It is also worth noting that the Swedish firm Getinge, a manufacturer of equipment for operating theatres and intensive care units, was the sector's best-performing share during the AI downturn, rising by 28%. Finally, the Lyon-based diagnostics firm bioMérieux offers one of the most significant discounts in the sector under review. The share price has fallen by -35% since January, following the downward revision of its 2026 targets in April, as the winter saw low levels of flu and respiratory viruses. Since then, the group has reaffirmed its annual targets, with organic growth of 5% in the second quarter, free cash flow up 76% and Spotfire reagent sales up 35%.

In the utilities sector, the picture is somewhat different. It is the only one of the three sectors to have risen over the past five years and the only one where European shares are on a par with their US



counterparts. However, it is the sector that has benefited least from the AI sell-off, with a median gain of just 1.8%. The sector has, in fact, become hybrid. Electricity producers that supply data centres, such as Constellation Energy and Vistra, now behave like technology stocks and have fallen in line with them. Regulated distributors, on the other hand, have continued to act as a buffer.

Figs. 9 & 10 – Performance of companies in the utilities sector



Exelon, Redeia and Hera come out on top. The revenues of these three network operators are set by the regulator. Exelon, the leading US electricity distributor by number of customers, achieves the highest score across the entire universe, with a negative beta and a dividend yield of 4%. On 30 July, the group confirmed a four-year investment plan worth \$41.7 billion and identified 11 gigawatts of high-probability demand from data centres. Redeia, the Spanish network operator, offers a 5.4% yield and is expected to benefit from a regulated return raised to 6.58% for 2026–2031, despite the investigation into the April 2025 blackout. Hera, the Bologna-based multi-utility, is trading at 11.2x earnings for a 4.5% yield, with volatility of just 18%. Eversource, Duke Energy, Veolia and Snam complete the list (see Figs. 9 & 10).

Several companies were removed from the scoring as their profile was too similar to that of a value trap. The discount on these shares may therefore not be due to their defensive nature in a bull market but simply reflect a serious deterioration in their fundamentals. These may take the form of falling profits, declining sales, high debt levels or a dividend that is no longer covered by cash flow, for example. The list of excluded companies contains well-known names such as Nestlé, Diageo, Pernod Ricard, Pfizer, Bayer, General Mills, E.ON and RWE. This verdict is undoubtedly an overreaction. A mechanical filter cannot distinguish between a company in decline and one undergoing a transition. Yet most of them are currently restructuring their portfolios, renewing their management or divesting assets. The day their profits stop falling, their discount will be seen as a lag that needs to be made up. These companies will, eventually, provide strong defensive support.

Conclusion:

Defensive sectors have been on a veritable downward spiral, but most of the companies within them know exactly how to find their way back. This summer, the sell-off in technology shares served as a reminder that a sector rotation was possible and even likely. For consumer staples, healthcare and utilities, the next shake-up will not be a threat but the start of a catch-up. At such times, the last shall be first.



RETURN ON FINANCIAL ASSETS

Markets Performances (local currencies)	Last Price	Momentum Indicator (RSI)	1-Week (%)	1-Month (%)	2026 Year-to-Date (%)	2025 (%)	2024 (%)
Equities							
World (MSCI)	1 137.4	46.82	-0.1%	-1.5%	13.6%	22.9%	18.0%
USA (S&P 500)	7 622	49.62	0.6%	-1.3%	12.5%	17.9%	25.0%
USA (Dow Jones)	51 542	39.25	-0.5%	-2.9%	9.0%	14.9%	15.0%
USA (Nasdaq)	26 401	53.92	1.3%	-0.8%	14.2%	21.2%	29.6%
Euro Area (DJ EuroStoxx)	659.2	46.63	0.8%	-2.9%	11.9%	21.2%	10.2%
UK (FTSE 100)	10 671	55.40	2.0%	1.0%	11.7%	25.7%	9.6%
Switzerland (SMI)	13 838	40.39	1.6%	-2.4%	8.3%	18.0%	7.5%
Japan (Nikkei)	65 019	48.99	-1.7%	-7.3%	28.6%	28.7%	21.3%
Emerging (MSCI)	1 688	45.38	-3.2%	-1.1%	22.2%	34.3%	8.0%
Brazil (IBOVESPA)	184 515	65.49	-1.2%	11.5%	15.4%	34.0%	-10.4%
Mexico (IPC)	63 622	39.99	-0.3%	-0.5%	1.2%	35.1%	-11.0%
India (SENSEX)	74 295	29.60	-0.8%	-4.4%	-11.7%	10.5%	9.6%
China (CSI)	4 507	43.28	-1.9%	-5.7%	-1.9%	21.0%	18.2%
Com. Services (MSCI World)	165.5	59.11	2.5%	3.4%	1.6%	33.0%	31.9%
Cons. Discretionary (MSCI World)	423.6	37.31	-0.6%	-4.7%	-6.6%	9.8%	20.7%
Cons. Staples (MSCI World)	298.6	39.78	0.3%	-1.4%	5.1%	9.3%	4.7%
Energy (MSCI World)	358.5	56.03	-0.9%	3.1%	38.9%	14.8%	2.9%
Financials (MSCI World)	244.8	42.00	-1.0%	-1.4%	10.6%	29.5%	25.1%
Health Care (MSCI World)	413.4	48.05	1.7%	0.2%	6.3%	15.3%	1.5%
Industrials (MSCI World)	510.0	37.55	-0.7%	-6.9%	10.4%	26.2%	12.8%
Info. Tech. (MSCI World)	1 253.6	54.11	0.0%	-1.0%	30.3%	26.6%	31.9%
Materials (MSCI World)	439.1	40.74	-2.0%	-0.5%	13.4%	32.5%	-7.6%
Real Estate (MSCI World)	1 004	31.29	-0.9%	-4.5%	1.8%	3.6%	-0.4%
Utilities (MSCI World)	195.8	38.90	-1.1%	-2.9%	3.6%	24.7%	13.0%
Bonds (Bloomberg)							
World (Aggregate)	4.25%	37.29	-0.4%	-0.8%	-1.1%	8.2%	-1.7%
USA (Sovereign)	4.87%	40.64	0.1%	-0.7%	-1.3%	6.3%	0.6%
Euro Area (Sovereign)	3.78%	34.93	0.2%	-1.6%	-2.1%	0.6%	1.9%
Germany (Sovereign)	3.38%	36.49	0.3%	-1.3%	-1.9%	-1.6%	0.6%
UK (Sovereign)	5.16%	50.49	1.2%	-0.4%	-1.1%	6.1%	-3.0%
Switzerland (Sovereign)	0.78%	38.95	0.0%	-1.1%	-1.2%	0.3%	5.4%
Japan (Sovereign)	2.66%	41.68	-0.5%	-0.3%	-3.6%	-4.6%	-2.1%
Emerging (Sovereign)	6.63%	40.26	0.0%	-0.6%	0.4%	13.1%	7.0%
USA (IG Corp.)	5.70%	45.46	0.5%	-0.4%	-1.0%	7.8%	2.1%
Euro Area (IG Corp.)	4.17%	33.15	0.1%	-1.2%	-0.8%	3.0%	4.7%
Emerging (IG Corp.)	6.52%	36.36	-0.1%	-0.6%	1.0%	8.1%	7.0%
USA (HY Corp.)	7.67%	40.43	-0.1%	-0.4%	1.9%	8.6%	8.2%
Euro Area (HY Corp.)	6.45%	31.48	0.0%	-0.9%	1.0%	5.2%	8.2%
Emerging (HY Corp.)	7.72%	38.71	-0.2%	-0.5%	3.5%	13.9%	14.9%
World (Convertibles)	611.1	42.59	-1.0%	-4.2%	13.4%	22.4%	9.4%
USA (Convertibles)	807.4	44.72	-0.6%	-4.7%	15.4%	16.9%	10.1%
Euro Area (Convertibles)	303.0	36.95	-0.3%	-2.0%	4.3%	24.8%	14.7%
Switzerland (Convertibles)	290.2	41.31	0.0%	-0.7%	2.6%	17.5%	-10.5%
Japan (Convertibles)	313.5	40.76	-2.2%	-4.9%	21.5%	13.8%	6.4%
Hedge Funds (Bloomberg)							
Hedge Funds Industry	1 931	77.93	n.a.	2.4%	11.7%	6.8%	11.1%
Macro	1 574	72.44	n.a.	2.8%	14.2%	7.2%	7.4%
Equity Long Only	2 635	68.31	n.a.	2.7%	10.1%	6.5%	12.0%
Equity Long/Short	2 118	74.29	n.a.	2.4%	14.0%	7.4%	14.0%
Event Driven	2 121	86.23	n.a.	2.9%	15.6%	10.5%	8.7%
Fundamental Equity Mkt Neutral	2 011	88.90	n.a.	0.3%	12.6%	7.4%	12.4%
Quantitative Equity Mkt Neutral	1 941	84.40	n.a.	2.0%	10.7%	7.3%	9.8%
Credit	1 781	91.78	n.a.	0.6%	6.1%	3.6%	8.5%
Credit Long/Short	1 806	94.25	n.a.	0.0%	6.8%	4.2%	10.0%
Commodity	2 203	82.32	n.a.	4.6%	14.7%	10.1%	14.7%
Commodity Trading Advisors	1 557	65.66	n.a.	3.7%	19.1%	9.6%	7.9%
Volatility							
VIX	15.44	47.57	-13.5%	1.6%	3.3%	-13.8%	39.4%
VSTOXX	18.33	49.70	-9.5%	12.8%	18.1%	-13.5%	25.3%
Commodities							
Commodities (CRB)	565.3	n.a.	1.0%	2.4%	4.7%	0.6%	5.1%
Gold (Troy Ounce)	4 355	n.a.	0.1%	0.5%	0.8%	64.6%	27.2%
Silver (Troy Ounce)	66.32	n.a.	2.8%	4.7%	-7.5%	148.0%	21.5%
Oil (WTI, Barrel)	101.91	n.a.	1.9%	20.6%	77.5%	-19.9%	0.1%
Oil (Brent, Barrel)	125.40	n.a.	5.8%	39.3%	100.8%	-15.7%	-4.6%
Currencies (vs USD)							
USD (Dollar Index)	100.49	64.70	1.4%	0.8%	2.2%	-9.4%	7.1%
EUR	1.1462	33.00	-1.2%	-1.0%	-2.4%	13.4%	-6.2%
JPY	157.68	46.94	-2.6%	1.2%	-0.6%	0.3%	-10.3%
GBP	1.3358	31.08	-1.2%	-1.3%	-0.9%	7.7%	-1.7%
AUD	0.7111	45.73	-0.8%	0.3%	6.6%	7.8%	-9.2%
CAD	1.4010	37.46	-1.0%	-0.8%	-2.0%	4.8%	-7.9%
CHF	0.8244	32.11	-1.0%	-1.5%	-3.9%	14.5%	-7.3%
CNY	6.6999	70.29	0.1%	0.7%	4.3%	4.5%	-2.7%
MXN	17.224	38.45	-1.5%	-0.9%	4.6%	15.7%	-18.5%
EM (Emerging Index)	1 919.1	47.86	-1.1%	0.6%	3.6%	7.2%	-0.7%
XBT	80 894	n.a.	4.6%	25.3%	-7.7%	-6.5%	120.5%

Source: Bloomberg, Altitude Investment Solutions

Total Return by asset class (Negative \ Positive Performance)



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