Defensive Stocks Redefined in COVID-19 Sell-Off

April 22, 2020

by Team

of AllianceBernstein

Performance in Some Industries Has Diverged from Past Crises

	Relative Performance During Coronavirus* (%)	Median Relative Performance During Prior Crises† (%)	Coronavirus vs. Median (%)
Pharmaceuticals, Biotechnology & Life Sciences	12.5	4.2	8.3
Food & Staples Retailing	12.4	7.7	4.7
Technology Hardware & Equipment	3.0	–0.8	3.7
Household & Personal Products	12.0	8.5	3.6
Telecom Services	6.6	3.3	3.3
Materials	–0.2	–2.9	2.7
Healthcare Equipment & Services	5.0	3.5	1.5
Diversified Financials	–4.9	–6.4	1.5
Semiconductors & Semiconductor Equipment	0.7	–0.3	1.1
Software & Services	2.0	1.1	0.9
Media & Entertainment	0.3	–0.6	0.9
Food, Beverage & Tobacco	6.6	6.3	0.3
Retailing	4.1	4.7	–0.6
Transportation	1.3	2.0	–0.7
Consumer Durables & Apparel	–2.0	–0.5	–1.5
Automobiles & Components	–5.2	–2.7	–2.6
Insurance	–6.3	–3.3	–3.0
Capital Goods	4.9	–0.6	–4.3
Commercial & Professional Services	–2.3	2.0	–4.3
Real Estate	–2.9	2.5	–5.3
Utilities	2.9	9.6	–6.7
Banks	–12.5	–4.6	–7.9
Energy	–16.4	–2.9	–13.5
Consumer Services	–11.1	3.8	–14.9

Past performance does not guarantee future results. Data represent the relative performance for MSCI World industry groups.
*Coronavirus (from February peak): Feb 19, 2020–Mar 31, 2020. †Prior crises include: rising rates + slowing growth in China and Europe: Sep 2018–Dec 2018; inflation + Fed tightening: Jan 2018–Mar 2018; China's economy + plummeting oil price: Nov 2015–Feb 2016; Greece + China stock market crash: Jul 2015–Sep 2015; concerns about Europe: May 2012–Jun 2012; eurozone debt fears III: Oct 2011–Nov 2011; eurozone debt fears II: May 2011–Oct 2011; eurozone debt fears I: Apr 2010–May 2010; global financial crisis: May 2008–Mar 2009; SARS: Nov 2002–Mar 2003; 2000 tech crash: Mar 2000–Oct 2002; 1998 Asian crisis: Jul 1998–Aug 1998.
As of March 31, 2020. Source: MSCI and AllianceBernstein (AB)

The market meltdown unleashed by the new coronavirus pandemic has been exceptional in many ways. Investors seeking to bolster defensive positions in portfolios should take a closer look at the performance of specific subindustries, which in some cases has diverged from historical patterns.

Most steep market corrections have been caused by bursting bubbles, such as excess credit or capacity, or by inflation. But the current bear market has been triggered by an exogenous shock. The speed of the crash is virtually without precedent, with volatility spikes surpassing even the extreme levels seen during the global financial crisis.

 © 2020 Advisor Perspectives, Inc. All rights reserved.

While the sell-off was broad based, the performance of many sectors was surprising. For example, global real estate and utilities stocks have traditionally been defensive in 10 previous crises that we analyzed. But in the coronavirus sell-off, they haven't offered the level of downside mitigation they normally do. In contrast, some technology industries have held up much better than in previous severe drawdowns.

Past Crises Don´t Offer Much Guidance

Why has real estate disappointed? It's possible that rising unemployment is putting additional pressure on many already struggling retail tenants. And companies with heavier debt burdens have been especially punished during this period, which has affected real estate as well as another typically defensive sector, utilities. But the biggest detractor, both in absolute and relative terms, has been consumer services; the unprecedented lockdown measures triggered a collapse in consumer spending, and particularly hit many business models that rely on human interaction, like travel, restaurants, casinos and conventions.

Meanwhile, technology hardware and equipment have held up better than expected, as companies improve their IT infrastructure to cope with remote workers. Pharmaceuticals and biotech, a classic defensive sector, have done exceptionally well this time, as investors anticipate much more spending on medical preparedness in the future. Stronger balance sheets were also helpful in these sectors.

Changes to consumer and corporate behavior are happening at an unprecedented pace. As a result, stocks are behaving differently, too. Equity investors looking to position for the challenging times ahead must adopt a dynamic approach to protecting portfolios, in our view, by rethinking the defensive attributes of stocks and searching for resilient companies in unexpected places.

The views expressed herein do not constitute research, investment advice or trade recommendations and do not necessarily represent the views of all AB portfolio-management teams and are subject to revision over time. AllianceBernstein Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

MSCI makes no express or implied warranties or representations, and shall have no liability whatsoever with respect to any MSCI data contained herein.

© AllianceBernstein L.P.