S&P Dow Jones Indices

A Division of S&P Global

TalkingPoints

An Overview of S&P 500® Sector Indices and 25 Years of GICS®

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1. What is GICS and why does it matter?

Celebrating 25 years in August 2024, the Global Industry Classification Standard (GICS) was developed by S&P DJI and MSCI in 1999 to establish a global standard for categorizing companies into sectors and industries. GICS was developed in response to the global financial community's need for a complete, consistent set of global sector and industry definitions that enable comparisons by company, industry, and sector.

GICS provides four levels of granularity and currently comprises 11 sectors, 25 industry groups, 74 industries and 163 sub-industries. The hierarchical design of the coding system allows for an easy transition between GICS tiers: a company's sub-industry classification determines — in decreasing order of granularity — its industry, industry group and sector membership. The complete GICS classification for each company is an eight-digit code with text description.

Exhibit 1: Example of GICS Granularity

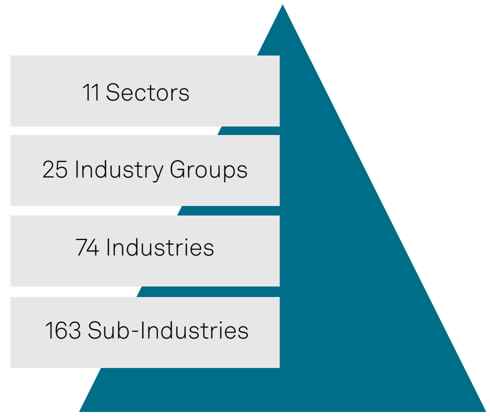
Tier	Classification	GICS Code
Sector	Consumer Discretionary	25
Industry Group	Consumer Services	2530
Industry	Hotels, Restaurants and Leisure	253010
Sub-Industry	Casinos and Gaming	25301010

Source: S&P Dow Jones Indices LLC. Table is provided for illustrative purposes.

The GICS structure has evolved over time to ensure that the company groupings provide an up-to-date reflection of market segments. These updates have historically impacted the number of segments at each level of the GICS hierarchy, and they can affect the definitions of various segments and the resulting company classifications.

Exhibit 2: GICS – An Overview

- GICS was **created in 1999** to establish a global standard for categorizing companies into sectors and industries.
- Companies are assigned according to their **principal business activity**.
- **Determination is based on revenues (primarily), but earnings and market perception are also considered.**
- Sectors group together stocks with similar sources of revenue or operations.
- Sector and industry groupings can diversify company-specific risks while retaining common sensitivities.



Source: S&P Dow Jones Indices LLC. For more information, see Global Industry Classification Standard (GICS) Methodology.
Chart is provided for illustrative purposes.

2. Who uses GICS?

GICS is widely accepted as an industry analysis framework for investment research, portfolio management and asset allocation, and it is used by a range of market participants. A key reason for the structure's adoption is that it provides a common ground to define market segments globally, which serves as the basis for analyzing the sector-based characteristics of indices, index-based strategies and active decisions.

For example, sector neutrality is an essential mechanism within the S&P 500® ESG Index. The S&P 500 ESG Index has historically maintained similar industry weights to the S&P 500 while enhancing sustainability characteristics.

Within index-based investing, GICS provides a detailed view of an investment universe by slicing a comprehensive market index and presenting a sector-based perspective.

Although GICS was created in 1999, S&P DJI has extended GICS classifications back to 1989, providing an analysis of 1990s sector trends, such as the 1990s Tech leadership before the Dot-Com Bubble burst with the S&P 500 Information Technology being the best-performing sector in 1993, 1994, 1996, 1998, and 1999 — the year GICS launched.

In S&P DJI's U.S. S&P Select Industry Index range, many GICS-based indices are derived from a broad market index such as the S&P Composite 1500® or the S&P 500. S&P DJI also has granular sub-industry indices taken from the S&P Total Market Index (TMI), which measures the entire market capitalization spectrum from large to micro. These indices capture a larger pool of eligible companies in their respective industries where the smallest companies may at times be the most innovative, such as in Biotechnology.

Exhibit 3: Overview of Sector and Industry Indices

Size Range	FMC Weighted	Capped	Equal Weight
Large-Cap	S&P 100	–	–
Large-Cap	S&P 500 (FMC Weighted)	Select Sector Indices*	S&P 500 Equal Weight Sectors
	S&P 500 Ex-Sectors (excluding sectors)	S&P 500 Capped 35/20 Indices^	
	S&P 500 Plus Indices (combined sectors)	S&P Select Sector Daily Capped 25/20 Indices*^	
	S&P 500 Shariah Sectors (company exclusions)	S&P Select Sector Capped 20% Indices^	
		S&P Select Sector 15/60 Indices	
		S&P Select Sector 15/40 Plus Indices	
		S&P 500 Plus Sustainability Enhanced Sectors	
Mid-Cap	S&P 400	S&P MidCap 400 Capped*	S&P 400 Equal Weight Sectors
Small-Cap	S&P 600	S&P SmallCap 600 Capped*	S&P 600 Equal Weight Sectors
Broad Market	S&P Composite 1500	–	S&P Composite 1500 Equal Weight Sectors
Total Market	S&P Total Market Index (TMI)	–	S&P Select Industry Indices (modified equal weight)
Large-Mid	–	S&P 900 Banks Industry 7/4 Capped	–
Mid-Small	S&P 1000	–	–
Completion	S&P Completion Index (S&P TMI ex-S&P 500)	–	–

Source: S&P U.S. Indices Methodology, Index Mathematics Methodology. *RIC Capping Rules, please see the Equity Indices Policies & Practices Methodology for more details on regulatory capping requirements. Data as of June 2024. Table is provided for illustrative purposes.

Across S&P DJI's global equity indices, the combinations of sectors across countries and regions provide different universes to view, with thousands of combinations to compare and contrast from a GICS lens.

3. What are some of the applications of the S&P 500 Sector Indices?

The importance of the starting universe matters for sector indices, just as it does for other types of indices. Our S&P 500 Sector range starts with the S&P 500, which makes up the large-cap component of the S&P Composite 1500. Unlike other U.S. equity methodologies, the S&P 1500® considers financial viability, which has historically provided a higher tilt toward the quality factor. This provides a robust universe before slicing and dicing into smaller segments.

Exhibit 4: S&P 500 Sector Indices

- **S&P 500 (FMC Weighted)**
- **S&P 500 Equal Weight Sectors**
- **Select Sector**
- **S&P 500 Plus Sustainability Enhanced**
- **S&P 500 Capped 35/20 Indices**
- **S&P Select Sector Daily Capped 25/20 Indices**
- **S&P Select Sector Capped 20% Indices**
- **S&P Select Sector 15/60 Indices**
- **S&P Select Sector 15/40 Plus Indices**
- **S&P 500 Shariah Sectors**
- **S&P 500 Ex-Sectors**

Source: S&P Dow Jones Indices LLC. See Appendix for further information. Chart is provided for illustrative purposes.

The S&P 500 Sector Indices (float market capitalization [FMC] weighted) are direct slices of the S&P 500 that are also float-adjusted market cap weighted. The S&P 500 (FMC Weighted) Sectors are the starting universe for a range of sector combinations, alternatively weighted sectors, tilted indices, and rotator strategies.

S&P DJI calculates a variety of S&P 500 sector indices, with the construction of several index series that are mindful of different regulatory and diversification requirements around the world. While S&P DJI makes no attestation to any index series being compliant with rules pertaining to investment products, various thresholds are taken into account as part of the index design.

For example, the Select Sector suite considers the U.S. “40 Act” regulatory capping rules. The S&P 500 Capped 35/20 Sector Indices, S&P Select Sector 25/20 Indices, and S&P Select Sector 20% Indices take into account the diversification rules under the UCITS directive in Europe. Elsewhere, the S&P Select Sector 15/60 Indices are mindful of Chinese listing requirements.

Sector indices may also differ by the weighting scheme: unlike their (modified) float market capped counterparts, the S&P 500 Equal Weight Sector indices measure the performances of egalitarian constituent allocations within each sector. S&P DJI also offers sector indices that incorporate other criteria. Indeed, the S&P 500 Shariah Sector Indices may be relevant for market participants looking to adhere to Shariah guidelines, while the S&P 500 Plus Sustainability Enhanced Sector Indices incorporate sustainability considerations and may be relevant for market participants looking to tilt their sector exposures while remaining mindful of sustainability considerations.

Additionally, rather than tilting all the sectors up or down in respect to a benchmark, some strategies rotate between sectors or groups of sectors, sometimes based on a macroeconomic view of the U.S. economy or research philosophies.

4. How has the sector landscape evolved?

The four-tier GICS structure reflects today’s global investment environment yet is flexible enough to adapt to developments. As the global economy changes, sectors, industry groups, industries and sub-industries can be added, modified or divided to ensure that GICS continues to serve as a reliable framework for market practitioners and helps provide important insights on global markets.

One example of an evolution to the GICS structure came in 2016, when Real Estate was broken out of Financials to become a standalone sector. This change recognized some of the unique characteristics of Real Estate companies. More recently, Telecommunication Services was renamed Communication Services in 2018. This update to the GICS structure reflected changes to the way we communicate, and various companies moved from Information Technology and Consumer Discretionary as part of this structure change. More recently still, the 2023 GICS changes provided more granularity to the GICS framework. More information about the GICS chronology can be found in the methodology, and investors who would like to share their view on sectors can stay updated with index alerts and participate in future GICS consultations.

In the U.S., large-cap and broad-based equity indices like the S&P 500 were among the first prominent market indices.

Sector investing also began with the broadest markets and market segment, namely large-cap equities. Today, we see sector investing across size ranges, dipping down to the mid- and small-cap size ranges, and looking at more granular segments in the GICS framework. In addition, investors may look beyond sectors to narrower market segments, with the S&P Select Industry Indices measuring the performance of stocks comprising specific GICS sub-industries or groups of sub-industries.

5. Why are U.S. sectors important? Do U.S. sectors have a global reach?

The U.S. equity market is the largest in the world, with U.S.-domiciled companies representing 62% of the index market capitalization of S&P DJI’s global equity barometer — the S&P Global BMI — at the end of June 2024. The U.S. also has the largest country weights in all sectors and made up the majority (over 50%) of index market capitalization in 9 of the 11 S&P Global BMI GICS sectors.

The representation of U.S.-domiciled companies in many global sectors is particularly relevant when compared to regions outside the U.S., i.e., the rest of the Americas (Canada and Latin America), Pan Asia, Europe, the Middle East and Africa. Exhibit 5 shows that the sector composition (left) of the S&P Global-Ex U.S. BMI regions has significantly lower weights to Information Technology relative to the U.S. and higher weights to Financials, Real Estate, Energy, Materials, and Utilities. Hence, incorporating U.S. sectors could help market participants globally overcome their domestic and regional sector biases, and bring sector exposures more in line with their global sector representation.

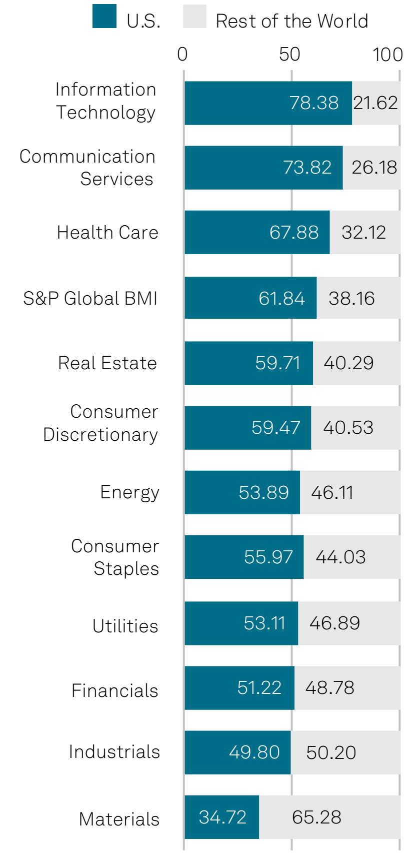
Exhibit 5: Regional Segments Have More Exposure to Financials and Less to Technology (%)

Absolute Sector Weight of Selected Regions Compared to the U.S.

Underweight Relative to the U.S. | Overweight Relative to the U.S.

Regions	U.S.	Canada	Latin America	Pan Asia	Europe	Middle East and Africa	Total Weight
Percentage of S&P Global BMI	61.84	2.69	0.83	18.35	15.00	1.29	100
Sector Name	**U.S.**	**Canada**	**Latin America**	**Pan Asia**	**Europe**	**Middle East and Africa**	**Global Ex-U.S.**
Information Technology	30.62	8.43	0.49	19.83	8.33	8.19	13.69
Financials	13.00	30.94	29.30	18.25	18.31	37.58	20.06
Health Care	11.72	0.67	1.83	5.80	15.17	4.29	8.99
Consumer Discretionary	10.13	3.65	3.41	13.73	10.22	6.80	11.18
Industrials	9.35	14.44	9.93	14.65	17.24	6.15	15.26
Communication Services	8.68	1.60	3.91	6.50	3.68	6.35	4.99
Consumer Staples	5.42	4.31	13.97	4.88	9.67	4.43	6.91
Energy	3.81	18.50	11.60	2.89	5.40	6.29	5.28
Real Estate	2.56	1.44	2.51	3.62	1.77	6.20	2.80
Materials	2.54	12.67	16.27	7.43	6.49	10.59	7.73
Utilities	2.17	3.34	6.77	2.41	3.71	3.12	3.10
Total Weight	100	100	100	100	100	100	100

Weight of the U.S. in S&P Global BMI Sectors



Source: S&P Dow Jones Indices LLC. Data as of June 28, 2024. Based on S&P Global BMI component indices. Middle East and Africa combines the S&P Israel BMI and the S&P Emerging Middle East & Africa BMI. Past performance is no guarantee of future results. Chart and table are provided for illustrative purposes.

6. How important is sector selection in U.S. election years?

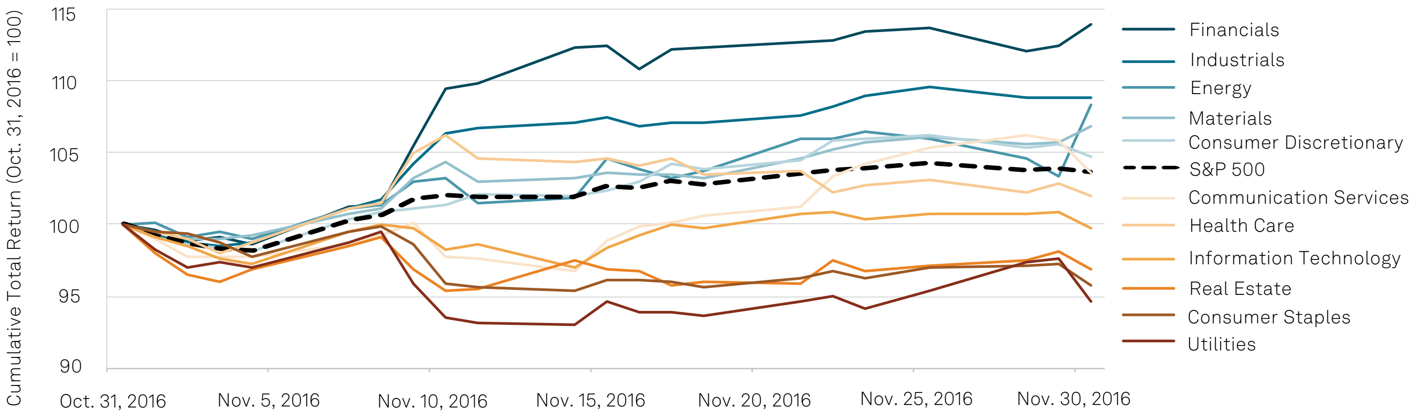
GICS sectors group companies according to common characteristics, so companies within the same sector typically have shared sensitivities to common drivers of returns. Hence, many market participants use sector-based perspectives to express views while mitigating idiosyncratic risks from picking individual stocks.

Dispersion provides a way to assess the potential value of correct selection: higher dispersion indicates a greater difference between the outperformers and laggards, and therefore greater reward for skillful (or lucky) choices. Market dispersion can also be viewed as a combination of dispersion across (inter) and within (intra) sectors. In fact, the square of market dispersion is approximated by the sum of squares of inter- and intra-sector dispersion.

On average, sector effects — as measured by the ratio of the squares of inter-sector and total effects — accounted for 22% of the S&P 500's monthly dispersion since 1989. However, in U.S. presidential election years, sector effects were elevated in the November months, contributing a greater-than-average proportion in 75% of instances. For example, while the S&P 500 was little changed after the November 2016 election result, sector effects accounted for over 40% of The 500's monthly dispersion, as the market priced in the anticipated impact of the then-incoming administration's policies on different market segments.

Of course, we will have to wait and see which narratives emerge in the 2024 U.S. presidential election, but history points to sector effects playing an elevated role, amplifying the importance of sector choices.

Exhibit 6: S&P 500 and Sector Returns – November 2016



Source: S&P Dow Jones Indices LLC. Data based on daily total returns between Oct. 31, 2016, and Nov. 30, 2016. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

7. How has GICS affected the way market participants use sectors?

Around the time GICS was created, we started to see the launch of early sector products before the turn of the century. We estimate that the amount of index-linked assets from sectors has risen from just shy of USD 4 billion in December 2002 to over USD 400 billion at the end of March 2024, with an annual growth rate of 25%.[2]

GICS and sector investing are deeply intertwined. While there are several classifications of sectors and industries, one alternative at S&P DJI is the Dow Jones Industry Classification System (DJICS). Out of all sector classification systems, GICS may be considered the most recognizable, and its presence in different regions helps find a common language to discuss sectors beyond national (i.e., BSE Sector Classification) and regional classifications (the North American Industry Classification System), unifying the way we think about the investment landscape.

[2] Sources: S&P Dow Jones Indices LLC, Factset. As detailed in Exhibit 2 of Natural Selection: Tactics and Strategy with Equity Sectors.

Appendix

Exhibit 7: S&P 500 Sectors Across the Spectrum

Series Name	Float-Adjusted Market Cap (FMC)	Equal Weight (EW)	Select Sector (5/25/50)	Sustainability Enhanced	35/20	Daily 25/20	20%	15/60	15/40 Plus	Shariah	Ex-Sectors
Weighting	FMC Weighted	Equal Weighted	Modified float-adjusted market cap weighting subject to capping rules							FMC Weighted	FMC Weighted
Primary Capping	No constituent capping constraints	1/N, where N is the number of companies in each sector	No company can be greater than 25% of the index	1st/ Largest Company, 35% cap	1st/ Largest Company, 35% cap	1st/ Largest Company, 25% cap 2nd Company, 20% cap	No company can be greater than 20% of the index	1st/ Largest Company, 15% cap	1st/ Largest Company, 15% cap	No constituent capping constraints	No constituent capping constraints
Secondary Capping			The sum of the companies with weights greater than 5% cannot exceed 50% of the total index weight.	No company can be greater than 20% of the index	No company can be greater than 20% of the index	The sum of the companies with weights greater than 5% cannot exceed 50% of the total index weight.		Top 5, index weight capped at 60% of the index	Top 5, index weight capped at 40% of the index		
Rebalance Frequency	Quarterly	Quarterly	Quarterly	Quarterly plus Daily Capping if needed	Quarterly plus Monthly (If capping rules are breached)	Quarterly plus additional daily capping (If 25/20 capping rules are breached)	Quarterly	Quarterly	Quarterly	Quarterly	Quarterly
Additional Rules			Secondary rebalance, quarterly if weights are breached	Sustainability Exclusions Glass-box Optimization					Secondary rebalance, semi-annual if weights are breached. Minimum stock count of 25	Shariah-compliant companies	

Source: S&P Dow Jones Indices LLC. Compiled as of June 28, 2024. Table is provided for illustrative purposes. Please note that buffers are incorporated into the index methodologies below the limits to mitigate against any company exceeding their thresholds as of the diversification requirement dates. However, market movements in between rebalance may mean that constituents weights may rise above their target. This table is meant to be read in conjunction with supporting documents providing greater detail with respect to methodology detail, policies, procedures, and calculations. For full details on the methodology and details on the buffers for capping, please visit see the Equity Indices Policies & Practices, Methodology, S&P U.S. Indices Methodology, S&P Sustainability Enhanced Indices Methodology and S&P Shariah Indices Methodology.

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