Should we return to defensive sectors?

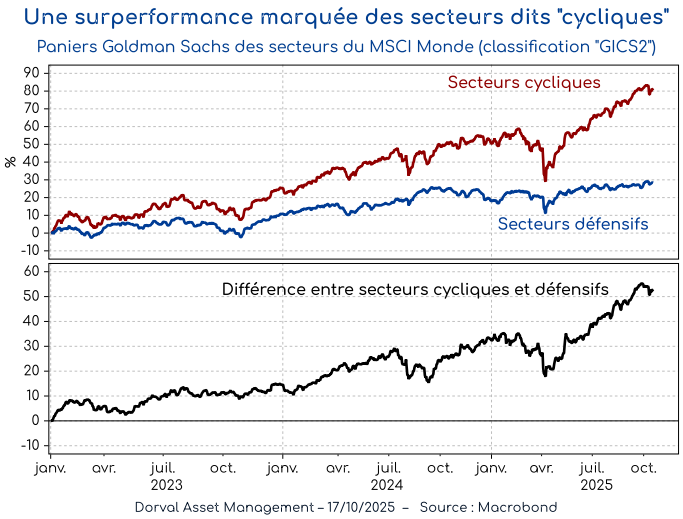
October 20, 2025

Dear clients, dear partners,

The maturity of the stock market cycle is leading fund managers to re-examine promising themes. After cyclical stocks have significantly outperformed since 2023, should certain traditionally defensive sectors, such as healthcare, take on a more important role in allocations?

Since the beginning of 2023, the sharp rise in global stock markets has been driven by sectors generally classified as 'cyclical', while the performance of traditionally defensive sectors has been more modest (Chart 1). The classification of each of the 24 sectors in the international GICS classification (level 2) into one of these two themes is based on several criteria relating to sensitivity to the global economic cycle, earnings and share prices in each sector. We have used the baskets calculated by Goldman Sachs.

Marked outperformance of so-called 'cyclical' sectors
Goldman Sachs baskets of MSCI World sectors (GICS2 classification)



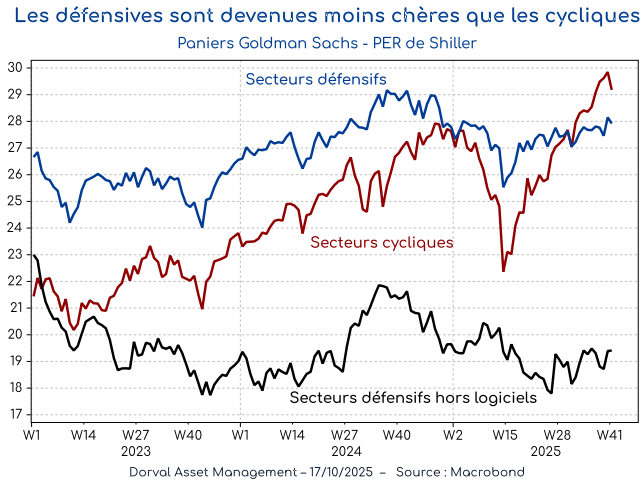
Cyclical sectors / defensive sectors / difference between cyclical and defensive sectors

The cyclical stocks group is dominated by semiconductors, banks, media, capital goods and technology equipment. The defensive stocks group is dominated by software, pharmaceuticals, healthcare services, agri-food, utilities and telecoms. Logically, the combined boom in financials and AI-sensitive stocks has mainly benefited sectors classified as cyclical, although defensive sectors have also benefited via software manufacturers and services (Microsoft, Oracle, SAP, etc.).

To compare the valuations of the two categories, we used Shiller's P/E ratio – which smooths profits over ten years – rather than a traditional P/E ratio, which would be

too sensitive to the economic cycle for cyclical stocks. The outcome of this stock market cycle is quite clear: cyclical sectors have become significantly more expensive on average – largely because recession fears have not materialised – while defensive sectors have maintained stable valuations on average (Chart 2). These valuations are now slightly lower than those of cyclical stocks. Excluding the highly valued software sector, the Shiller P/E ratio for defensive stocks falls below 20x, which seems very attractive in relative terms.

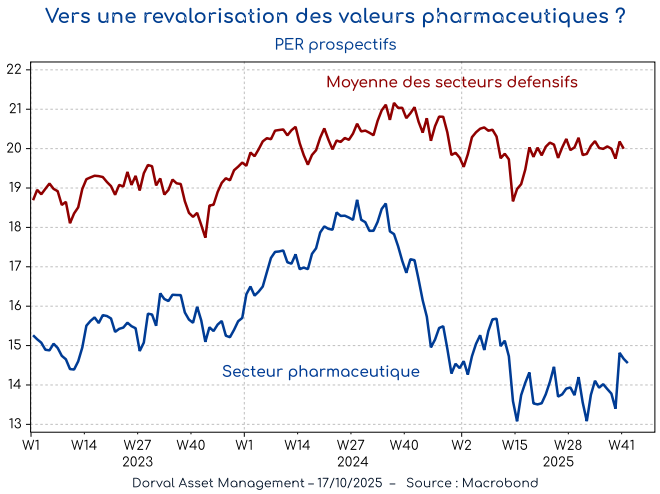
Defensive stocks have become cheaper than cyclical stocks
Goldman Sachs baskets – Shiller P/E ratio



Defensive sectors / cyclical sectors / defensive sectors excluding software

At this stage of the stock market cycle, a reallocation towards certain defensive sectors could therefore prove appropriate. As our central scenario does not involve a recession, this move can only be modest. Among the defensive sectors, pharmaceutical companies have caught our attention. In the run-up to the US elections and then during the trade war, their valuation ([1]) fell sharply as investors wondered what rules the Trump administration would impose on them (Chart 3).

Towards a revaluation of pharmaceutical stocks?
Forward P/E ratios



Average for defensive sectors / pharmaceutical sector

[1] To compare defensive sectors, we return to a traditional P/E ratio, as there is no need to adjust for the cycle using a Shiller P/E ratio.

These uncertainties are beginning to be resolved. The 30 September agreement between Pfizer and the US administration – which will be followed by others – clarifies the scope of price reductions and customs duties applied to medicines. With a P/E ratio of less than 15x, the lowest in ten years, the sector's risk/return profile appears attractive to us in this context of clarification. In our global funds, we have initiated a position in an equally weighted basket of 16 large pharmaceutical stocks spread across the United States, Europe and Japan.

Our exposure rates are as follows:

Fund	Net equity exposure	Breakdown by theme (as a percentage of total equities)	Other
Dorval Convictions	65%	- Core basket excluding themes: 55% - Financials: 26% - Reflation: 16% - Small caps.: 3%	Euro Stoxx 50 futures and options hedges

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Paris Trade and Companies Register No. B 391392768
APE 6630 Z - AMF accreditation no. GP 93-08

111, boulevard Pereire, 75017 Paris – Tel.: +33 1 44 69 90 44 – F: +33 1 42 94 18 37

www.dorval-am.com

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