

AI-Powered US Contrarian Sector Rotation Portfolio Monthly Update

Strategy Description

Qraft AI-Powered US Contrarian Sector Rotation model portfolio seeks to exceed the return of the S&P 500 over time by rotating among a range of Select Sector SPDR ETFs. The strategy aims to provide exposure to a diversified basket of sector ETFs based on Qraft's proprietary network analysis model, classifying the relationship between sectors into two communities and investing in the Contrarian Community. Qraft's proprietary AI engine utilizes a deep neural network to actively generate signals by analyzing macro variables such as interest rates and economic growth, among others, and their impact on sector exposures. Qraft's AI engine is constantly evolving based on new market trends and optimization of risk-adjusted returns, which may result in monthly rebalancing for the Qraft AI-Powered US Contrarian Sector Rotation model portfolio.

Sectors	AI Signal Change (MoM)	Macro & Market Environment
Materials	— Underweight	Qraft AI-Powered US Contrarian Sector Rotation model applies a proprietary AI model (Network Analysis-based Clustering Model) to dynamically classify each industry sector (MSCI GICS classification). Sectors are then classified into two communities: Crowded and Contrarian (uncrowded), with Contrarian sectors identified as those exhibiting low correlation to broad market trends. Through the state-of-the-art dynamic classification process, the strategy adeptly adapts to shifting market conditions.
Consumer Discretionary	— Underweight	
Financials	— Underweight	
Communication Services	— Underweight	
Energy	— Underweight	
Industrials	— Underweight	
Technology	— Underweight	
Consumer Staples	+ Overweight	
Health Care	+ Overweight	
Utilities	+ Overweight	

While the Contrarian model had tended to tilt heavily towards the Energy sector in the past, the portfolio made a marked change in June by reallocating to Consumer Staples, Utilities, Health Care, and Real Estate sectors. All four recorded positive returns for the month of June (XLP +2.79%, XLU +1.61, XLV +4.26, XLRE +5.59%, June 1- June 30 Morningstar), but in total accounted for barely a quarter (25.17%) of the S&P500 Index in terms of market capitalization (SPX, June 30 Morningstar). These sectors' relative underrepresentation in terms of market cap was one of a myriad of factors behind their inclusion in the contrarian community by Qraft's proprietary network analysis model.

In the July rebalance, Qraft AI-Powered US Contrarian Sector Rotation continued to allocate towards Consumer Staples, Utilities, and Health Care sectors, with Real Estate the one omission.

Source: Qraft Technologies, Morningstar