

AI-Powered Sector Selector Portfolio Monthly Update

Strategy Description

Qraft AI-Powered US Sector Selector 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 active exposure to a diversified basket of sector ETFs (with minimum 5 different sectors) based on Qraft's proprietary sector allocation model. 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 Sector Selector model portfolio

	AI Tilting vs Benchmark	Macro & Market Environment
Materials	– Underweight	April saw a rally in the equity and fixed income markets stretching back to mid-March. While the Federal Open Markets Committee raised the Federal Fund rate by 25 bps in early May with another hike speculated at the June meeting, the Fed's softening rhetoric has led many to believe that we are nearing the end of the rate hiking cycle. The release of Q1 2023 economic data has been met with mixed reactions from market participants; while some warn of slow US growth (1.1%) and tightening credit conditions as alarm bells for an imminent recession, others point towards strong domestic demand (up 3.7% for the quarter) as well as improved employment metrics as favourable indicators for the economy.
Consumer Discretionary	+ Overweight	
Financials	– Underweight	
Real Estate	– Underweight	
Communication Services	+ Overweight	
Energy	+ Overweight	Buoyed by positive market sentiment as well as cooling inflationary concerns, investors found cause for optimism as US stocks finished higher for the second consecutive month. Mega and large cap stocks markedly outperformed small and micro caps in April; the Dow climbed 2.6% and the S&P 500 rose 1.46%, while the Russel 2000 and the Microcap fell 1.8% and 2.6% respectively. Driven by rising consumer spending on both goods (+6.5%) and services (2.3%), Consumer Staples, Communications, and Utilities were among the top performing sectors for the month. Meanwhile, boosted by the OPEC's announcement of supply cuts in early April, oil prices rebounded and ensured that the Energy sector finished higher despite faltering demand.
Industrials	– Underweight	
Technology	– Underweight	Qraft AI-Powered Sector Selector model portfolio performed strongly, recording 1.79% monthly return and 9.61% YTD return. Entering April Qraft's proprietary AI engine identified high performing sectors Consumer Staples (+3.65%), Communication Services (+3.32%) and Energy (+2.79%), and maintained an overweight position on all three for the month of May. Qraft's AI engine also remained underweight on underperforming sectors; Industrials (-1.18%), and Materials (-0.14%) (April 28, S&P).
Consumer Staples	+ Overweight	
Health Care	– Underweight	
Utilities	+ Overweight	Looking forward, Qraft's AI model predicts continued upside potential from Communication Services and Consumer Staples, while taking a conservative stance on Financial and Industrial sectors.

Source: Qraft Technologies, S&P 500 holdings (Morningstar, as of 2023-04-28)