

Perpetual knowledge bank series: cyclical stocks

15 November 2020



Cyclical stocks are companies which typically rise and fall with the business cycle. The share prices of these companies are generally correlated with how the economy is going such that they are likely to rally (increase) when the economy is growing or vice versa, the share price may come under pressure when economic growth contracts.

The prices, revenues and profits of goods and services provided by cyclical stocks are typically in sectors more sensitive to the business cycle like energy, resources, travel, retail, restaurants and automobiles. As a result, the earnings and profits of the cyclical stocks may be boosted when the economy is growing. However, when the economy experiences a downturn, consumers usually forgo the goods and services in these companies first. This can impact their share price which may start to fall.

Non-cyclical stocks are typically less sensitive to market volatility or economic downturns. Goods and services provided by a non-cyclical company may be considered essential or in demand regardless of how well the economy is going. For example, companies in the healthcare, supermarkets or utilities sector. Non-cyclical stocks may therefore be referred to as “defensive stocks”.

Investing in cyclical stocks can be volatile as it can be difficult to predict the direction of the economy and when it may change. However, they can also provide the potential for high returns during periods of increased economic growth. Therefore, at Perpetual, we aim to construct a well-balanced portfolio that is diversified across industry sectors and countries. This may include cyclical and non-cyclical stocks.

This analysis has been prepared by [Perpetual Investment Management Limited \(PIML\)](#) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement(PDS) for the Perpetual Diversified Income Fund issued by PIML, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website <http://www.perpetual.com.au> .

No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor’s capital. Past performance is not indicative of future performance.