

Scientific Portfolio Market Review

June 2025



Scientific Portfolio
An EDHEC Venture



Sectors under Scrutiny: Active Manager Performance Update

Introduction

The first half of 2025 is raising fresh questions—and perhaps useful lessons—for equity investors. In particular, tariff-related announcements from the U.S. president, which sent shockwaves through markets during April 2025, have sharpened focus on the macroeconomic theme of de-globalization.

With certain industries theoretically more vulnerable to trade barriers, [this month's Market Review takes a closer look at the subject of sector exposures](#). In particular, we examine active equity manager sector positioning, risk and performance in the U.S. and Europe. Here, we consider active managers' exposures to sectors largely viewed as 'tariff-sensitive' and assess the extent to which these positions may have affected outcomes during recent market developments. In particular, we show that:

- [U.S. active managers](#) with higher exposure to four 'tariff-sensitive sectors' (*Technology, Cyclical Consumer, Industrials and Basic Materials*) have exhibited significantly greater active risk over both three-year and three-month time horizons. In the U.S., the funds with the lowest exposure to tariff-sensitive sectors show an active risk of less than 5% p.a. on a three-year basis, versus over 7% p.a. for those with higher exposure. Additionally, despite the sector-induced differentiation between funds, a significant portion of the additional active risk observed across all U.S. funds during the quarter leading to the end of April was driven by fundamental factor exposures rather than sectors.
- [European active managers](#), meanwhile, show an inverse story. Here, higher 'tariff beta' appears to be associated with *lower* active risk over both long-term and short-term time horizons. Moreover, that effect appears to have been exacerbated by the April 2025 upheaval.
- Managers with higher exposure to tariff-sensitive sectors have broadly delivered [weaker performance](#) in both the U.S. and Europe over the past three years: in the U.S., managers with lower exposure have lagged the S&P 500 by around 1% per annum net of fees (on average), while those with higher exposure have fallen behind by around 2% per annum.

While stocks may have rebounded as presidential policy shifted course, [de-globalization is not a transient topic](#). Greater friction in inter-country relationships—supported by nationalist political dynamics—has become a key subject of the current decade, with evolving (and potentially volatile) trade barriers representing just one part of a broader structural trend.

Readers can keep an eye on the sector exposures (and various other characteristics) of their own equity managers and portfolios on the Scientific Portfolio Platform.

Active Manager Universe

For this analysis, we examined data from 153 active equity funds in the U.S. and 73 in Europe (source: Morningstar). Since defining 'active management' is something of a grey area, the strategy universe was not based on deviation from a benchmark but on their stated fees (50 basis points or higher). This ensures a focus on strategies where investors are, essentially, paying a premium for manager 'skill' and should fairly expect a degree of discretion, as opposed to a non-passive but purely systematic approach.

We then divide these funds into categories according to their exposure (at end-April) to four sectors that we recognize as having higher sensitivity to tariffs: *Technology*, *Cyclical Consumer*, *Industrials* and *Basic Materials*. In this, our assessment is closely in line with Morningstar analysis of tariff-sensitivity by sector (see Which Stock Sectors Are Most Sensitive to Tariffs) with the only difference being that we place Industrials in the top four (#5 for Morningstar) rather than Communication Services.

This straightforward classification exercise produced five groups of funds (30-31 in each) for U.S. equities, and three groups of funds (24-25 in each) in Europe.

Exhibit 1: Active equity funds categorized by exposure to tariff-sensitive sectors

U.S. manager group	Mean 'tariff beta'	Europe manager group	Mean 'tariff beta'
1	-0.27	1	-0.85
2	0.01	2	0.00
3	0.14	3	0.77
4	0.30		
5	0.78		

Source: Scientific Portfolio, Morningstar. 153 U.S. funds and 73 European funds. 'Tariff beta' is a straight sum of exposures to Technology, Cyclical Consumer, Industrials and Basic Materials.

It is worth bearing in mind, when considering these groupings, that managers' exposures to tariff-sensitive sectors have evolved considerably over time. For example, U.S. funds in 'group 5' (Exhibit 1) have considerably increased their exposure to the Technology sector and, to a lesser degree, to Consumer Cyclical stocks over the past three years. In short: 'tariff betas' evolve, and investors should keep a close eye on them.

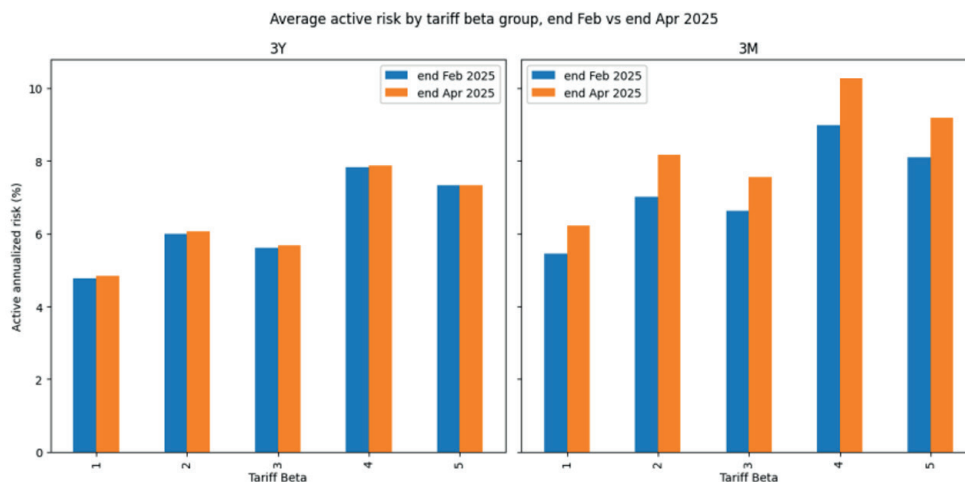
Using these manager groups, we then considered risk and performance metrics over a variety of timeframes: first, a three-year analysis (with a comparison of end-February versus end-April); second, a three-month analysis (again, with the two different end dates). As such, we sought to consider not only whether managers with lower exposure to tariff-sensitive sectors had been favored over the medium-term but whether there had been a noticeable shift resulting from recent upheaval.

Active Risk and Sector Exposures

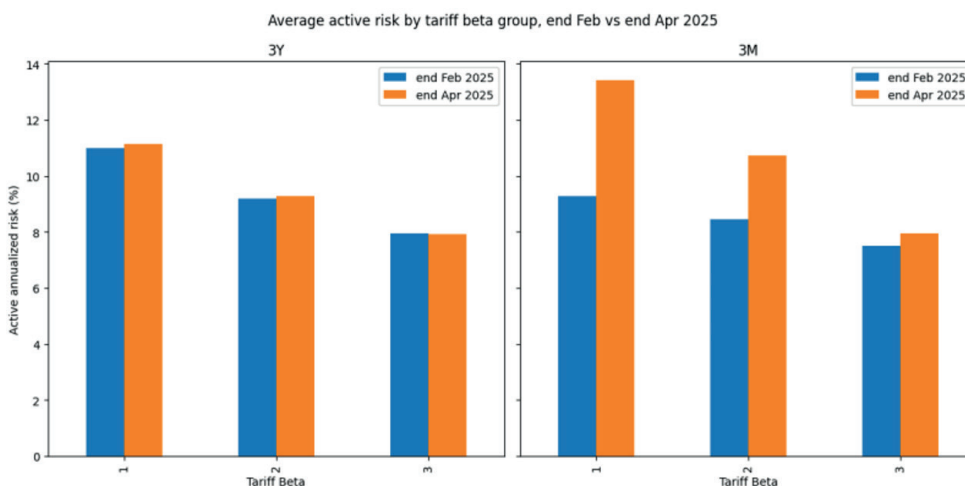
As illustrated by Exhibit 2, it does appear that U.S. active managers with higher exposure to the four aforementioned tariff-sensitive sectors have exhibited greater active risk over both three-year and three-month time horizons. In the U.S. 'group 1' (with the lowest exposure to tariff-sensitive sectors) has an average active annualized risk of less than 5% on a three-year basis), whereas for groups 4 and 5 the figure is above 7%. The European data, meanwhile, shows an inverse story. Here, higher 'tariff beta' appears to be associated with lower active risk over both long-term and short-term time horizons. Moreover, that effect appears to have been exacerbated by recent upheaval, based on the short-term data. There are explanations for this pattern that are unrelated to the subject of tariffs, but investors may wish to consider the degree of confidence in Europe regarding the stability of global trading relationships.

Exhibit 2: Average active risk of equity managers, categorized by the 'tariff beta groups' shown in Exhibit 1

U.S. active equity funds



European active equity funds

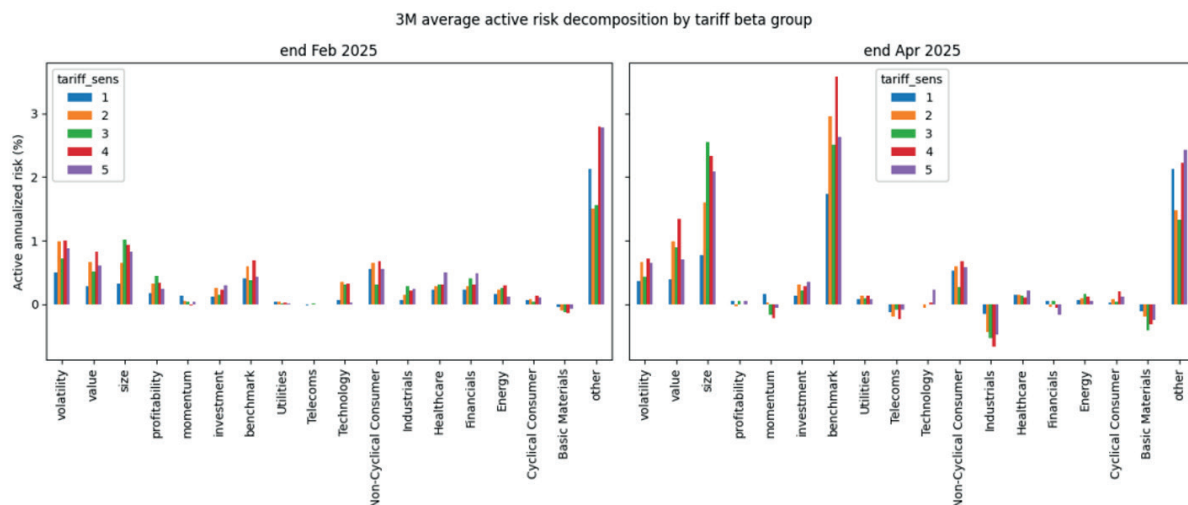


Source: Scientific Portfolio, Morningstar. 153 U.S. funds and 73 European funds. Tariff beta refers to grouping in Exhibit 1.

The shorter-term U.S. picture tells an interesting story. Although asset managers in all manager groups saw active risk higher in the three months ending April 30th than it had been for the three months ending February 28th, readers may well be interested to note that the increase was *not meaningfully larger for those with higher exposure to tariff-sensitive sectors* than it was for those with low exposure. However, we must bear in mind that April specifically saw a massive drawdown in the U.S. Energy sector that is in part attributable to tariff-related concerns. Energy is not included in among the four tariff-sensitive sectors used for this analysis since these four were selected based on longer-term data (see 'Active Manager Universe' discussion above).

Turning to look at the U.S. three-month risk decomposition more closely, this time with factor exposures in mind as well as sectors, we see a notable shift between the period ending February 2025 and the period ending in April.

Exhibit 3: Three-month average active risk decomposition (U.S. active equity funds)



Source: Scientific Portfolio, Morningstar. Data on 153 funds. European data shown in the Appendix. Tariff_sens (tariff sensitivity) refers to grouping in Exhibit 1.

When it comes to the risk decomposition, this was a period where contributions from fundamental factors appear to have been more influential than sector exposures, overall. Indeed, we can infer that U.S. managers with higher tariff beta have seen a large proportion of their active risk coming from exposure to the size factor. When we look at sector contribution, we find Technology and Cyclical Consumer exposures adding active risk, but—interestingly—industrials and basic materials have contributed negatively to risk.

Tariff-Sensitive Sector Exposure and ‘Extreme Risk’

In both the U.S. and Europe, active funds with largest relative CvaR also tend to have significantly higher-than-average exposure to tariff-sensitive sectors (Exhibit 4). In the case of the U.S., this is primarily explained by high weightings to Cyclical Consumer stocks and, to a substantially lesser degree, Technology and Industrials. For Europe, the high-CVaR contingent has overweight positions in all four tariff-sensitive sectors, with particularly strong average exposure to Cyclical Consumer and Industrial stocks.

Exhibit 4: Top quintile by CVaR (U.S. and Europe), active equity funds

	Number of funds in CVaR top quintile	‘Tariff beta’ group (per Exhibit 1)	
		Median	Mode
U.S.	31	4 (out of 5)	4 (out of 5)
Europe	14	2.5 (out of 3)	3 (out of 3)

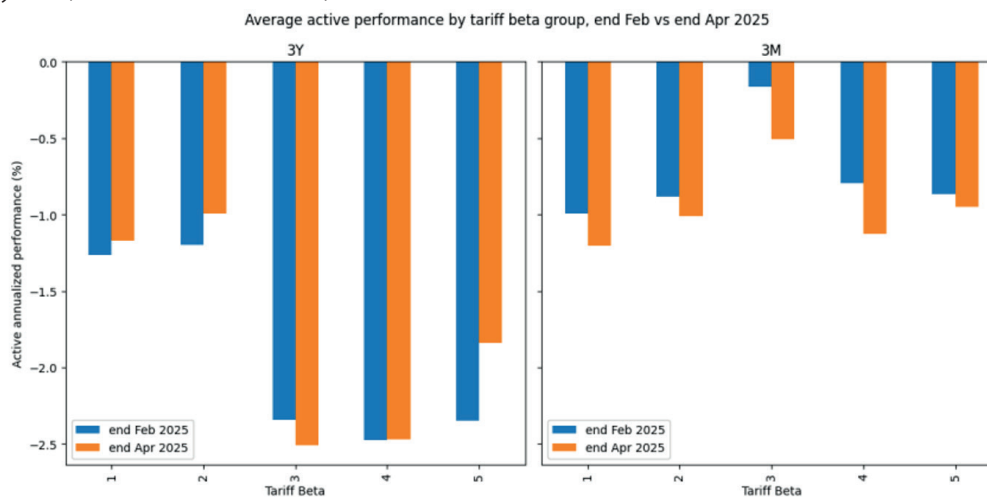
Source: Scientific Portfolio, Morningstar.

While funds with high CVaR experienced extremely varied performance over the period of tariff-related market upheaval, high exposure to Cyclical Consumer stocks (and, in the case of Europe, Technology) detracted meaningfully from returns. The subject of extreme risk will be addressed in greater detail in a subsequent Market Review.

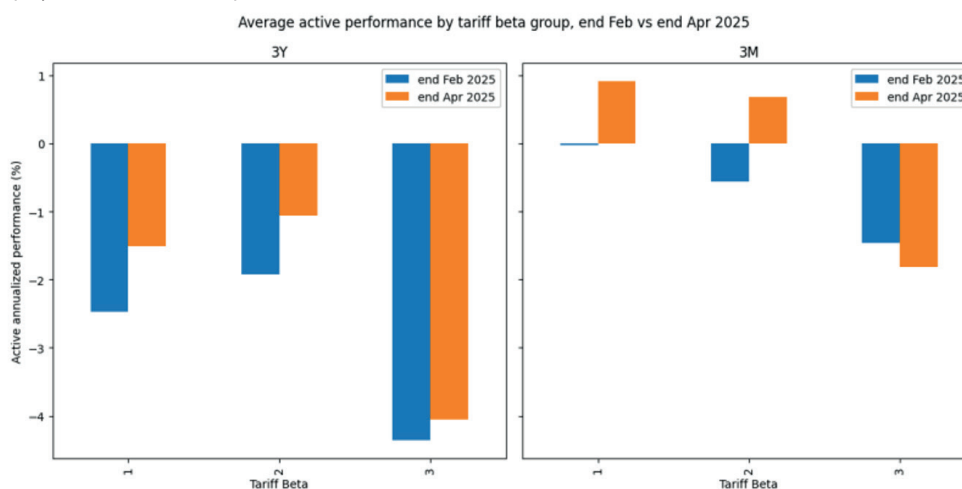
Performance Overview and Decomposition

When we turn to performance, the picture becomes less straightforward. It does appear that active managers with higher exposure to tariff-sensitive sectors have broadly delivered weaker performance in both the U.S. and Europe over the past three years than those with lower exposure, but the correlation is far from clear-cut. Moreover, we do not observe an association between ‘tariff beta’ and performance in the U.S. over the three-month period covering the recent tariff-related upheaval.

*Exhibit 5: Average active performance of equity managers, categorized by the ‘tariff beta groups’ shown in Exhibit 1
U.S. active equity funds (versus SP USA CW benchmark)*



European active equity funds (versus SP Europe CW benchmark)

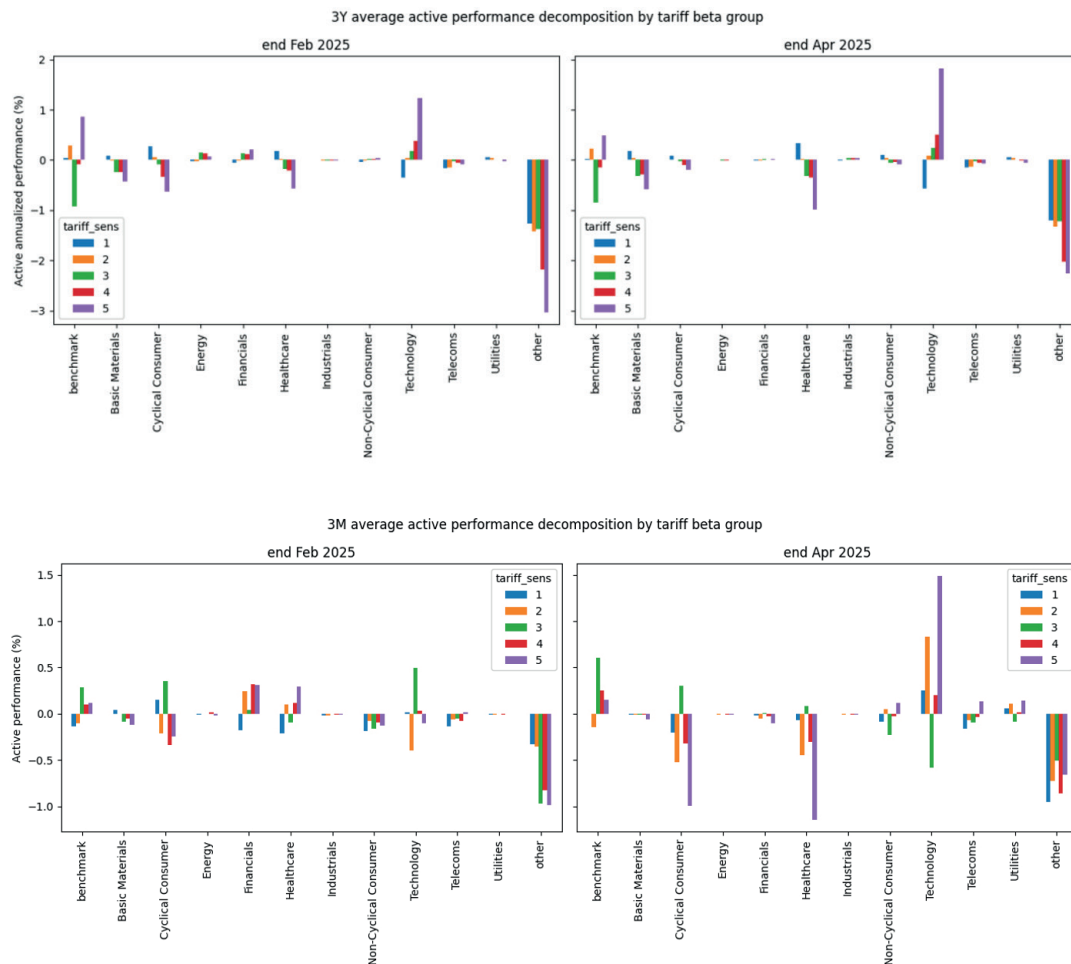


Source: Scientific Portfolio, Morningstar. Data from 153 U.S. and 73 European funds. Tariff beta refers to grouping in Exhibit 1.

Exhibit 6 shows the performance decomposition for U.S. active funds, by sector, over both three-year and three-month time horizons. Over the three-year period, visible patterns include the higher negative residual component for funds with higher ‘tariff beta,’ as well as the negative contribution of the Materials and Cyclical Consumer sectors. An opposite pattern emerges for Technology—another of the tariff-sensitive sectors—which has delivered a positive contribution to performance over the past three years (discussed in greater detail here). It’s also worth noting that the funds with higher exposure to the four aforementioned tariff-sensitive sectors are also typically more exposed to Healthcare, which has provided a drag on returns.

Over the three-month periods, we see a surge in the negative contribution from the Cyclical Consumer and Healthcare sectors to the performance of funds with higher 'tariff beta' between the period ending in February and the period ending in April (although the association is not straightforward). However, there was also a large rise in the positive contribution from Technology, which offset the negative effects.

Exhibit 6: Performance decomposition of U.S. active equity funds (sectors) categorized by the 'tariff beta groups' shown in Exhibit 1

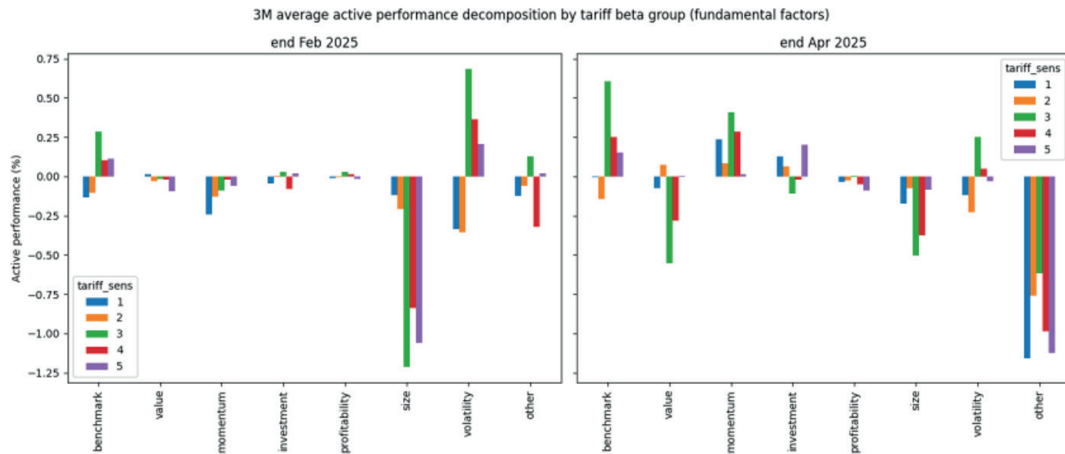


Source: Scientific Portfolio, Morningstar. Data from 153 U.S. active equity funds. *Tariff_sens* (tariff sensitivity) refers to grouping in Exhibit 1.

Turning to fundamental factors, we find an interesting extension to this analysis. Exhibit 7 shows a performance decomposition for U.S. funds over a three-month time horizon. Interestingly, the attribution of performance to factors was significantly weaker in the period of tariff-related upheaval, as evidenced by the increased residual contribution ('other') shown below.

In particular, the size and volatility factors—strong (negative or positive) contributors to performance in the three months to end-February—were much less relevant in explaining results over the three months to end-April. That being said, there was an increase in contribution from the value (negative) and momentum (positive) factors, with no evident connection between this effect and the degree of exposure to tariff-sensitive sectors.

Exhibit 7: Performance decomposition of U.S. active equity funds (factors) categorized by the 'tariff beta groups' shown in Exhibit 1



Looking Ahead: Eye on Exposures

Investors are increasingly seeking to understand portfolio resilience to a potential de-globalization trend, including (but not limited to) greater friction in global trade. This can prove challenging, due in part to the lack of relevant historic data for the markets in question for scenarios of this nature.

As such, investors should employ a diverse toolkit for ensuring oversight and obtaining clear visibility of sector and sub-sector exposures. Active manager performance should also be closely scrutinized to examine resilience during specific periods of disruption.

Exhibit 8: Comparing two funds' risk factor exposures – fundamental factors and sectors (screenshot from Scientific Portfolio Platform, fund names removed for anonymity)



Source: Scientific Portfolio Platform. Investors can use this tool to examine equity portfolios and funds directly.

This article contains data from the Scientific Portfolio platform. Users can access analytics to conduct analyses of available funds and upload their own equity portfolios to examine performance and exposures. Entry-level access is free of charge, via self-registration.

Access the Scientific Portfolio Platform

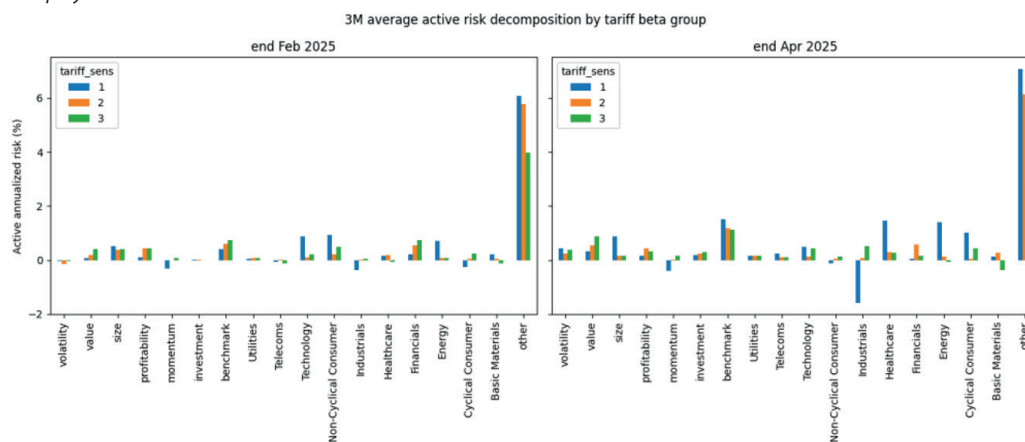
Appendix

European funds with the lowest three-month 'tariff beta' (per Exhibit 1)

Instrument Name
Ninety One Global Strategy Fund - European Equity Fund
DWS Aktien Strategie Deutschland
Capital Group European Growth and Income Fund (LUX)
DWS Deutschland
DWS German Equities Typ O
Barings German Growth Trust
JPMorgan Funds - Europe Equity Plus Fund
DWS Top Europe
BlackRock Global Funds - European Equity Income Fund
DWS ESG European Equities

Source: Scientific Portfolio

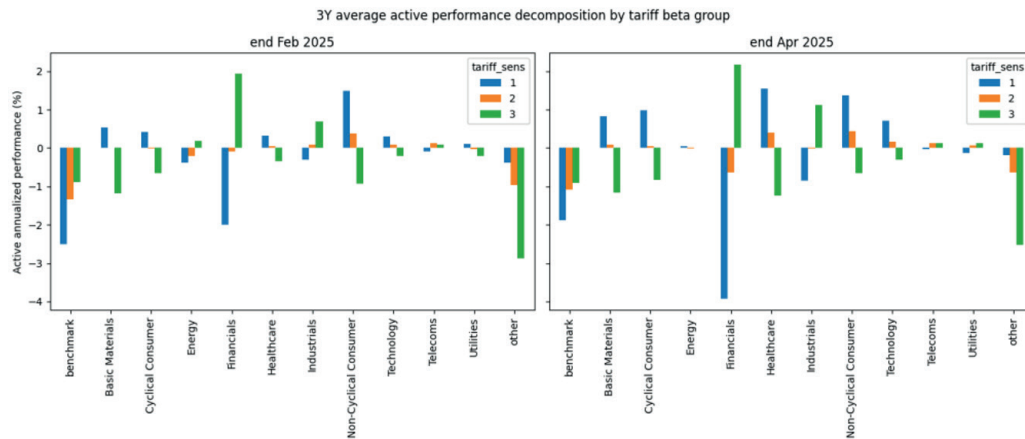
Three-month average active risk decomposition
European active equity funds



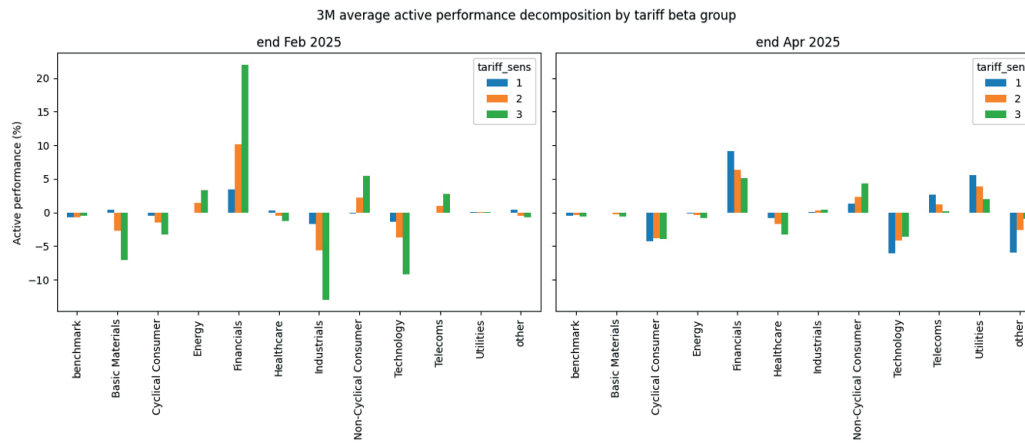
Source: Scientific Portfolio, Morningstar. Data on 73 European active equity funds.

Performance decomposition, European active equity funds (sectors)

Three-year

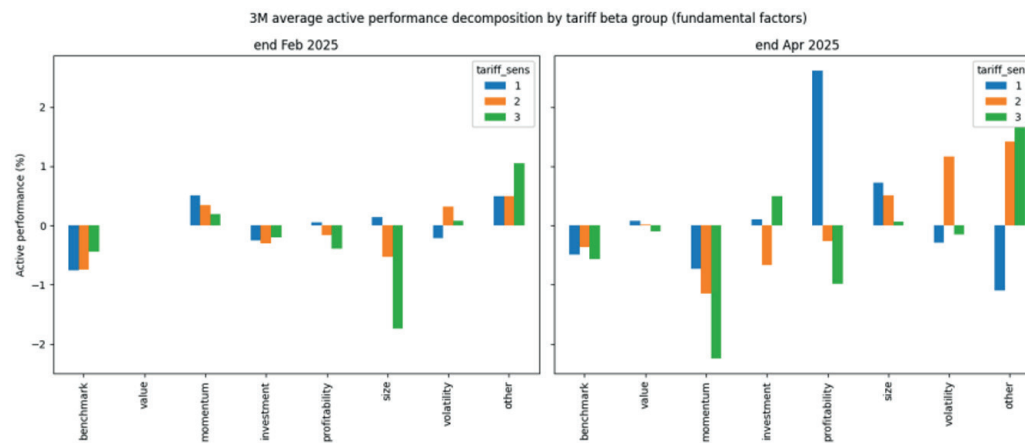


Three-month



Source: Scientific Portfolio, Morningstar. Data on 73 European active equity funds.

Performance decomposition, European active equity funds (factors)



Source: Scientific Portfolio, Morningstar. Data on 73 European active equity funds.

About Scientific Portfolio

Scientific Portfolio is the latest commercial venture incubated within the research ecosystem of EDHEC Business School (EDHEC), one of the world's leading business schools.

Scientific Portfolio has assembled a team with a broad range of expertise and backgrounds, including financial engineering, computer science, sustainable and climate finance, and institutional portfolio and risk management. It proudly carries EDHEC's impactful academic heritage and aspires to provide investors with the technology they need to independently analyse and construct equity portfolios from both a financial and extra-financial perspective.

To achieve this, it offers investors three sources of value through its portfolio analysis & construction platform:

- Helping investors to analyse their equity portfolios, identify actionable insights and enhance portfolios with allocation functionalities. Indeed, Scientific Portfolio likes to promote portfolio analysis as a means to the concrete goal of building portfolios that are both more efficient and better aligned with their investment objectives.
- Providing investors with an integrated framework where financial and extra-financial (ESG) considerations are jointly captured in analysis and portfolio construction. The ability to incorporate ESG-related insights in the portfolio allocation process is now a common requirement among many investors.
- Giving investors access to a Knowledge Centre catering to all types of learners and providing guidance through the portfolio analysis and construction process. This aligns with Scientific Portfolio's commitment to remaining connected with its academic roots and bridging the gap between investors and academia.

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