

Cetera® Investment Management LLC

Cetera Sector Insights

Gain clarity on what's driving equity performance with our new monthly Sector Insights report. We blend macro trends, fundamentals, valuations, and technicals to offer forward-looking views on each S&P 500 sector—delivered in a concise, client-friendly format.

S&P 500 Sector Update: August 2025

Underperform Market Perform Outperform

	Sector/Rationale	S&P Weight	Team View	Fundamentals	Cycle	Valuation	Technicals
Cyclical	Basic Materials The Materials sector faces tariff-related cost pressures, slowing global demand, and persistent input inflation—all of which are weighing on margins and visibility, especially for globally exposed, commodity-sensitive firms. Structural tailwinds from EV and renewable energy demand, infrastructure investment, and reshoring efforts help stabilize the sector, supporting a neutral outlook as investors await clearer macro signals. Valuations ticked slightly lower across most metrics, but they continue to sit above historical averages. Sector technicals have improved slightly but recent price action has pulled the sector back below its 50-day moving average.	1.86%					
	Consumer Discretionary The Consumer Discretionary sector benefits from e-commerce growth, travel and leisure spending, and a resilient labor market, however, tariff-related price uncertainty and a cooling economy should be monitored for impact to consumer sentiment as they are likely to weigh on fundamentals. Valuations continued to rise and remain elevated, reinforcing a cautious stance. Sector technicals have begun to deteriorate as the sector appears to be losing relative strength and momentum as breadth declines.	9.86%					
	Financials The Financials sector continues to show resilience, supported by higher interest rates, strong corporate balance sheets, and solid capital positions among major banks. Valuations remain attractive relative to growth sectors. However, risks persist from regulatory uncertainty, weaker dollar, sluggish lending, and commercial real estate exposure. While investors may still favor Financials as a value play in a growth-driven market, technical momentum is fading and diverging from price action—often an early signal of a potential trend shift. We will continue to monitor these developments closely.	13.77%					
	Real Estate The Real Estate sector remains under pressure from elevated interest rates, persistent weakness in office demand, and a sluggish recovery in consumer retail footprints—factors that continue to weigh on fundamentals. While data centers and logistics properties continue to benefit from long-term trends in e-commerce and cloud adoption, the sector remains in a technical downtrend and appears fair valued. Given the sector's sensitivity to interest rates and preference for more growth-oriented areas, we maintain a cautious outlook. However, we're closely monitoring for signs of improving fundamentals as rates begin to ease.	1.97%					
Sensitive	Communication Services The Communication Services sector should continue to perform well, supported by digital advertising, streaming monetization, strong pricing power from mega-cap leaders, and the expansion of 5G. Risks persist from regulatory scrutiny, industry concentration, and potential cuts to ad and subscription spending in a slowing economy. Valuations have moved higher, reflecting strong momentum, but the sector is nearing levels that may warrant caution as price momentum fades. Despite these concerns, relative strength and structural growth drivers support a positive outlook.	8.79%					
	Energy The Energy sector shows signs of stabilization, with a modest upside bias. Ongoing macro headwinds may weigh on performance, however, a persistent geopolitical risk premium continues to support oil prices. While valuations are below long-term averages, the sector remains in a downtrend and is struggling to break above key technical levels. We're watching for signs of a near-term rebound if sentiment improves. Should macro conditions stabilize and oil prices hold firm, a tactical recovery appears increasingly plausible.	3.00%					
	Industrials We maintain an outperform outlook on the Industrials sector, supported by long-term drivers such as energy infrastructure investment, supply chain re-shoring, and AI-related demand. While the sector remains sensitive to economic slowdowns and trade and geopolitical tensions, these are viewed as near-term headwinds. Valuations have moved higher and warrant caution, though short-term technicals appear to be stabilizing. Despite the pressures, the sector's structural positioning and technical up trend continue to support a favorable long-term view.	8.63%					
	Technology The Technology sector remains an outperform in our view, driven by powerful secular tailwinds such as AI infrastructure buildout, cloud expansion, semiconductor demand, and global digital transformation. Renewed investor enthusiasm and strong earnings momentum continue to support performance. While valuations remain elevated, the long-term growth narrative is intact. The sector has stayed in overbought territory, signaling strong sentiment but also the potential for short-term pullbacks. We have recently seen that sector breadth has weakened, with only 54% of constituents trading above their 50-day moving averages as momentum begins to wane. This is down from 85% in July.	34.03%					
Defensive	Consumer Staples The Consumer Staples sector, traditionally viewed as a defensive haven, is expected to lag in the near term. Although leading brands have maintained selective pricing power, shifting consumer sentiment may lead to increased trade-down from premium products—suggesting a potential deterioration in pricing strength. This shift, combined with slower volume growth, limits the sector's upside potential. The sector also faces headwinds of elevated valuations and weak technicals as investors favor growth-oriented sectors.	5.24%					
	Health Care The Health Care sector is expected to underperform due to near-term pressure from regulatory uncertainty, drug pricing reforms, and weak earnings momentum. Investor sentiment is likely to remain weighed down by policy risks. Technically, the sector lacks conviction, though valuations have compressed to more attractive levels. Early signs of a bottoming process warrant close monitoring for a potential upgrade. Despite current headwinds, long-term structural tailwinds remain intact, supported by aging demographics and continued innovation in biotechnology and medical technology.	10.40%					
	Utilities We have upgraded the Utilities sector to a market perform rating. Our outlook is supported by stable demand, grid investment, AI-driven energy needs, and potential rate-driven tailwinds. While regulatory pressures and cost inflation remain headwinds, the sector is gaining relative strength and momentum. Valuations are above historical averages, and near-term performance may be challenged. We remain cautious but optimistic, dependent on upside catalysts and interest rate sensitivity.	2.45%					

Economy & Cycle

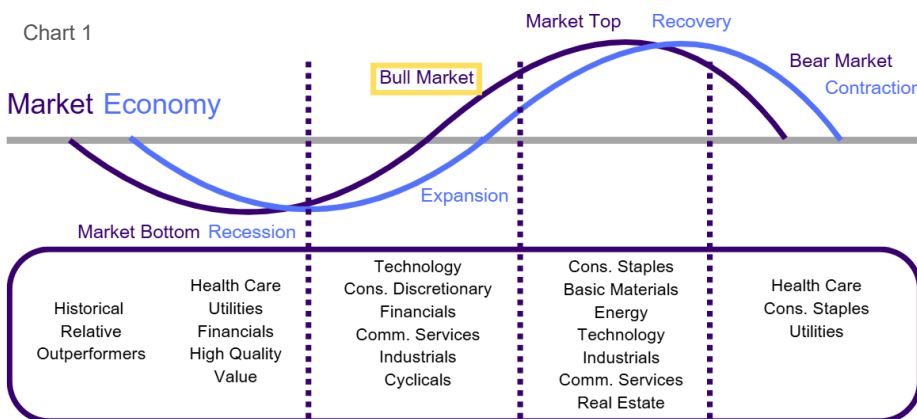
Economy

The first half of 2025 was defined by volatility and resilience. Following a sharp correction in early April driven by sweeping tariff announcements, the S&P 500 rebounded nearly 25% from its lows, setting multiple record highs. Economic growth was mixed, inflation moderated, and a stable labor market continued to support consumer spending. We anticipate that sector leadership may continue to be driven by Technology, Communication Services, and Industrials, given their strong momentum and resilience following the April correction. In contrast, we are more cautious in Healthcare, Consumer Discretionary, and Energy which underperformed, reflecting shifting investor sentiment and macroeconomic sensitivities. As the second half unfolds, sector rotation may accelerate as investors reassess valuations and seek more balanced exposure.

Cycle

Chart 1 illustrates the relationship between the market and economic cycles. The market cycle is a shift between bull and bear markets, driven by changes in broader market conditions and investor sentiment, while the economic cycle reflects periods of expansion, peak, recession, and recovery.

Currently, we are in a mid-to-late-cycle expansion with slower, range-bound growth. Volatility is expected to rise, and sectors with attractive valuations may benefit from a shift in leadership. Sectors like Information Technology and Communication Services often outperform in mid-cycle expansions.



Source: Cetera Investment Management

Chart 2		Valuation										
Month-End July 2025		Forward P/E		Forward P/S		Forward P/B		Forward P/CF		Forward P/E/G		Div. Yield
Averages as of 1/1/2009		Current	Average	Current	Average	Current	Average	Current	Average	Current	Average	Current
S&P 500		22.33	16.74	3.07	1.90	4.69	2.99	17.14	12.01	1.93	1.42	1.17%
Cyclical	Basic Materials	19.80	16.06	2.08	1.56	2.70	2.56	12.24	9.93	1.80	1.61	1.93%
	Cons. Discretionary	29.27	23.85	2.71	1.68	7.49	6.09	17.28	14.41	3.16	1.35	0.61%
	Financials	16.43	13.63	3.48	2.35	2.27	1.45	N/A	N/A	1.38	1.23	1.39%
	Real Estate	17.79	18.68	6.21	6.13	3.06	3.03	17.92	17.46	1.99	2.30	3.35%
Sensitive	Comm. Services	19.89	17.69	3.98	2.49	4.36	3.01	12.29	9.57	2.53	1.27	0.69%
	Energy	15.05	13.23	1.36	1.08	1.88	1.83	7.21	7.23	1.33	1.05	3.30%
	Industrials	24.74	17.50	2.74	1.65	6.19	3.92	18.64	12.14	2.28	1.47	1.21%
	Technology	30.13	17.89	8.43	3.76	10.77	5.67	25.46	13.96	1.95	1.36	0.54%
Defensive	Cons. Staples	22.15	18.12	1.39	1.16	6.02	4.49	16.88	13.60	3.49	2.31	2.29%
	Health Care	16.26	15.06	1.32	1.47	3.95	3.44	14.39	12.60	1.73	1.50	1.86%
	Utilities	18.65	15.99	2.76	1.88	2.19	1.70	9.05	7.38	2.31	2.37	2.72%

Source: FactSet, Cetera Investment Management

Valuations

Valuation metrics are used to assess the relative value of a company's stock based on future expectations and compared against their historical averages. Forward P/E (Price-to-Earnings) looks at the expected earnings per share relative to the stock price, while Forward P/S (Price-to-Sales) compares the stock price to projected sales. Forward P/B (Price-to-Book) measures the stock price against its book value, Forward P/CF (Price-to-Cash Flow) relates price to expected cash flow, and Forward PEG adjusts the P/E ratio for growth, offering a more comprehensive view of valuation in the context of future performance.

The S&P 500 continues to trade at a premium across most valuation metrics relative to historical norms. Following a sharp correction earlier in the year, the market has staged a strong recovery. While headline valuations appear elevated, they are less concerning when adjusted for the outsized influence of mega-cap stocks. However, the Forward PEG ratio indicates that earnings growth expectations remain modest, which could pose challenges for sustaining current price levels. Valuations across most sectors continued to expand in July, with Technology and Utilities leading the charge. While elevated multiples reflect strong investor sentiment, they also raise concerns about sustainability, particularly in sectors with modest earnings growth expectations. Defensive sectors remain attractively valued and may benefit from rotation as investors seek more balanced exposure.

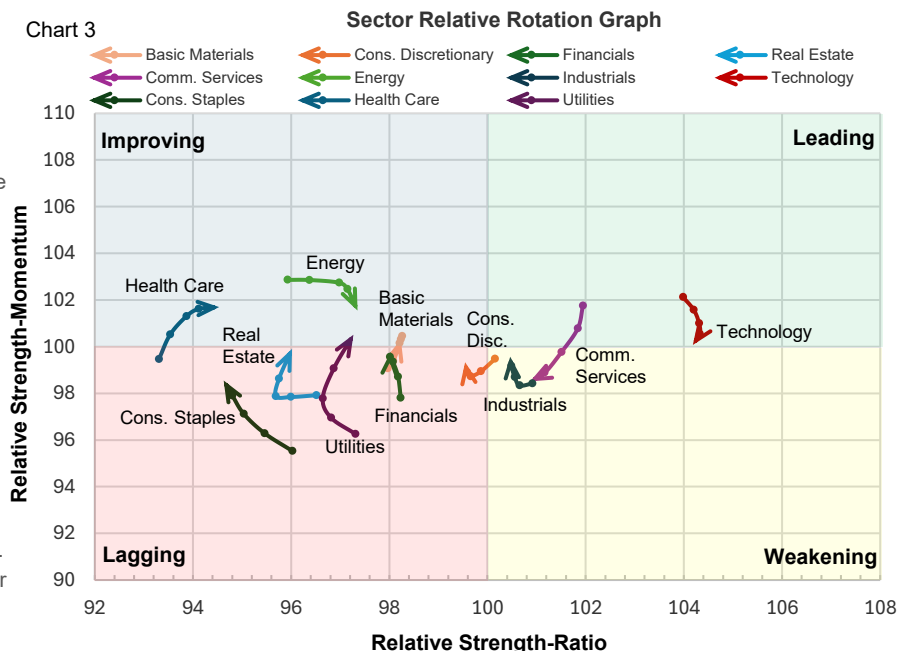
Technicals

Sector Relative Rotation

The Relative Rotation Graph shows how each sector is performing relative to the S&P 500. The horizontal axis shows relative strength, or how a sector is performing compared to the overall market. The vertical axis shows momentum, which reflects whether that relative performance is improving or weakening.

Sectors in the top-right quadrant are leading the market, while those in the bottom-left quadrant are lagging. The tails show how each sector has moved over the last 20 days, helping us see shifts in leadership. This helps identify which sectors are gaining or losing strength and where we might see future opportunities. The sectors will generally travel in a clockwise rotation around the center (100,100).

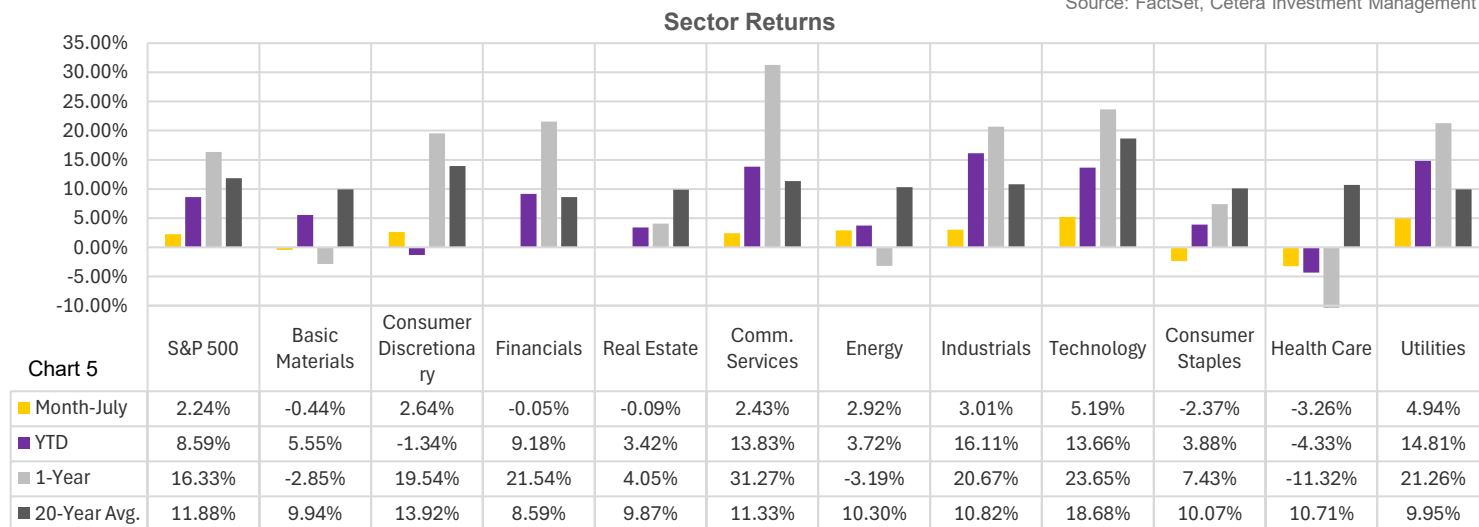
Economically sensitive sectors are losing momentum, while defensive sectors are beginning to show signs of improvement. Cyclical sectors remain broadly subdued. The Industrials sector appears to be making a sub-rotation back into the leading quadrant, displaying increased momentum while Energy looks to be making a sub-rotation back toward the lagging quadrant.



Source: FactSet, Cetera Investment Management

Chart 4		Sector Trend Analysis								*MA = Moving Avg.
Month-End July 2025		Price	50-Day MA	% from MA	20-Yr Avg.	Deviation	YTD	M/M MA Change	Trend	Overbought/Oversold
S&P 500		6,339.39	6,123.72	3.52%	0.84%	0.87	8.59%	5.07%	Up	Neutral
Cyclical	Basic Materials	553.28	559.04	-4.00%	0.65%	-0.77	5.55%	3.36%	Up	Neutral
	Cons. Discretionary	1,799.72	1,751.08	2.78%	0.99%	0.54	-1.34%	4.90%	Up	Neutral
	Financials	870.57	858.61	1.39%	0.47%	0.23	9.18%	3.01%	Up	Neutral
	Real Estate	259.89	261.84	-0.75%	0.43%	-0.13	3.42%	0.86%	Neutral	Neutral
Sensitive	Comm. Services	386.65	366.55	5.48%	0.59%	1.21	13.83%	6.26%	Up	Overbought
	Energy	666.91	653.24	2.09%	0.41%	0.32	3.72%	2.48%	Neutral	Neutral
	Industrials	1,285.95	1,242.12	3.53%	0.80%	0.71	16.11%	5.50%	Up	Neutral
	Technology	5,220.69	4,859.11	7.44%	1.40%	1.46	13.66%	9.13%	Up	Overbought
Defensive	Cons. Staples	874.57	896.60	-2.46%	0.66%	-0.86	3.88%	-0.24%	Neutral	Neutral
	Health Care	1,518.42	1,559.39	-2.63%	0.74%	-0.75	-4.33%	-0.26%	Neutral	Neutral
	Utilities	435.08	415.84	4.63%	0.50%	1.21	14.81%	2.03%	Neutral	Overbought

Source: FactSet, Cetera Investment Management



Note: All returns are total returns. The 20-year average return represents the mean calendar year total return over the last 20 years.

Source: FactSet, Cetera Investment Management

Disclosures

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Avantax Investment Services, Inc. is located at 3200 Olympus Blvd, Suite 100, Dallas, TX, 75019. Avantax and Cetera Financial Group are under common ownership. For additional information, please visit www.avantax.com.

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Definitions

A Forward Price/Earnings (P/E) ratio is a measure for equity analysis. It is calculated by dividing the current market price of a stock by its estimated earnings per share for the next 12 months.

A Forward Price/Sales (P/S) ratio is a measure for equity analysis. It is calculated by dividing the current market price of a stock by its estimated sales per share for the next 12 months.

A Forward Price/Book (P/B) ratio is a measure for equity analysis. It is calculated by dividing the current market price of a stock by its estimate book value per share for the next 12 months.

A Forward Price/Cash Flow (P/CF) ratio is a measure for equity analysis. It is calculated by dividing the current market price of a stock by its estimated cash flow per share for the next 12 months.

A Forward Price/Earnings/Growth (P/E/G) ratio is a measure for equity analysis. It is calculated by dividing the Forward Price/Earnings ratio by the growth rate for the next 12 months.

Dividend Yield - The ratio expressing how much a company pays out in dividends each year relative to its current stock price.

The Global Industry Classification Standard (GICS) is a classification system for equities, it is used by various equity indexes to classify domestic and international stocks and breaks equities down to 11 sectors, which Morningstar breaks down into three groups as described below. Stocks in Energy, Industrials, Information Technology and Telecommunication Services are classified as Sensitive. Consumer Discretionary, Financials and Materials are defined as Cyclical, and Consumer Staples, Health Care and Utilities are classified as Defensive.

Sensitive - The sensitive super sector includes industries which ebb and flow with the overall economy, but not severely so. Sensitive industries fall between the defensive and cyclical industries as they are not immune to a poor economy but they also may not be as severely impacted by a poor economy as industries in the cyclical super sector. In general, the stocks in these industries move closely to the direction of the economy.

Cyclical - The cyclical super sector includes industries significantly impacted by economic shifts. When the economy is prosperous these industries tend to expand and when the economy is in a downturn these industries tend to shrink. In general, the stocks in these industries expand faster when the economy is growing and also contract faster in a recession.

Defensive - The defensive super sector includes industries that are relatively immune to economic cycles. These industries provide services that consumers require in both good and bad times, such as healthcare and utilities. In general, the stocks in these industries are not very sensitive to the direction of the economy.

A simple moving average of an investment or an index calculates its average price for a set period to the most recent price. The moving average is updated each successive period by deleting the price from the earliest date and adding the newly available most recent price. The result is a trend line for price movements, which may be an indicator of market sentiment. Generally, if the moving average is trending higher and the investment or index price rises above the moving average, sentiment is considered to be bullish, as prices are likely to continue higher, and it may be a good time to buy. If the moving average trend slopes downward, and the investment price is below the moving average, this may be a bearish, or sell signal, as prices may continue to move down.

Standard deviation is a statistical method used to gauge asset risk based on measuring the dispersion in returns relative to the average over a specified period of time.

Index Definitions

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The S&P 500® Consumer Discretionary Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Consumer Discretionary sector.

The S&P 500® Consumer Staples Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Consumer Staples sector.

The S&P 500® Energy Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Energy sector.

The S&P 500® Financials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Financials sector.

The S&P 500® Health Care Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Health Care sector.

The S&P 500® Industrials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Industrials sector.

The S&P 500® Information Technology Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Information Technology sector.

The S&P 500® Materials Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Materials sector.

The S&P 500® Real Estate Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Real Estate sector.

The S&P 500® Telecommunication Services Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Telecommunication Services sector.

The S&P 500® Utilities Index comprises those companies included in the S&P 500 that are classified as members of the GICS® Utilities sector.