

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: December 2025

Underperform Market Perform Outperform

Outperform: Underperform: Fundamentals Cycle Valuation Technicals

Communication Services Basic Materials
Industrials Real Estate
Consumer Staples

Cyclical

Sensitive

Defensive

Sector/Rationale

S&P 500 Weight

Team View

Basic Materials

1.70%

Rating Maintained at Underperform in the near term: A cautious stance is prudent amid weakening technicals.
Headwinds: Global demand uncertainty cloud near-term visibility.
Tailwinds: Structural support from EV and renewable energy demand, infrastructure investment, and reshoring efforts.
Valuation & Technicals: Valuations metrics have risen moderately and remain above historical averages; Our technical outlook has improved as the sector shows signs of increasing relative strength as price begins to stabilize.

Consumer Discretionary

10.26%

Rating Maintained at Market Perform. Sector is supported by a few stocks maintaining market share.
Headwinds: Economic moderation may impact lower-income consumer sentiment and fundamentals.
Tailwinds: Resiliency supported by high-income consumer demand.
Valuation & Technicals: Valuations moderated slightly except for the PEG ratio, signaling a potential deterioration in future growth prospects; Our technical outlook remains weak as the sector continues to lose relative price momentum.

Financials

13.06%

Rating Maintained at Market Perform: Macro and sector-specific uncertainties.
Headwinds: Lower rate, lower growth environment with sluggish lending.
Tailwinds: Strong corporate balance sheets and solid capital positions among major banks.
Valuation & Technicals: Valuations have stabilized but remain above historical averages; Our technical outlook has improved, and price appears to have found support as relative strength and momentum increase.

Real Estate

1.83%

Rating Maintained at Underperform: reflecting a cautious stance as our technical outlook weakens.
Headwinds: Office demand remains challenging. Despite recent Fed cuts, caution remains due to mixed fundamentals.
Tailwinds: Falling financing costs, e-commerce growth, cloud adoption, and data center expansion.
Valuation & Technicals: Valuations appear fair; The sector remains locked in a sideways trading range and relative strength remains weak.

Communication Services

9.77%

Rating Maintained at Outperform: Expected to remain resilient with strong structural support.
Headwinds: Regulatory scrutiny, industry concentration, and potential declines in ad and subscription spending amid economic slowdown.
Tailwinds: Digital advertising, streaming monetization, 5G expansion, and pricing power from mega-cap leaders.
Valuation & Technicals: Valuation metrics continue to rise, reflecting growth optimism but increasing risk; The sector is showing increasing relative strength and momentum in the short term, and the steady price uptrend remains intact.

Energy

2.84%

Rating Maintained at Market Perform: Macro risks and price volatility lead to a cautious sentiment.
Headwinds: Global growth concerns and oil price volatility continue to weigh on performance.
Tailwinds: Improving technicals and potential for tactical rebound if sentiment and macro conditions stabilize.
Valuation & Technicals: Valuations are stable, near long-term averages; Our technical outlook has improved, supported by increasing relative strength and momentum combined with strong breadth across sector constituents.

Industrials

8.03%

Rating Upgraded to Outperform: Headwinds are abating while structural tailwinds remain supportive.
Headwinds: A slowing economy and geopolitical uncertainty could still weigh on sentiment and performance but may be easing.
Tailwinds: Long-term support from energy infrastructure investment, supply chain re-shoring, AI-driven demand, and defense spending.
Valuation & Technicals: Valuations have moderated slightly but remain elevated; We are on watch for improving technical price action.

Technology

34.58%

Rating Downgraded to Market Perform: We remain constructive on the sector in the long run. However, recent valuation scrutiny and price trend weakness have caused us to reduce our short-term expectations for the sector.
Headwinds: Valuation scrutiny if high growth expectations fail to materialize.
Tailwinds: Secular drivers include AI infrastructure, cloud expansion, semiconductor demand, and global digital transformation.
Valuation & Technicals: High valuations are being challenged but are still well above historical averages; Our technical outlook has weakened as the price uptrend begins to fade along with relative strength and momentum.

Consumer Staples

4.85%

Rating Maintained at Underperform: Reflects expected relative weakness versus other sectors.
Headwinds: Shifting consumer behavior (including GLP-1 drug impact), tariff exposure, and slower volume growth constrain upside potential.
Tailwinds: Select leading brands maintain pricing power, operation efficiencies from automation, increasing adoption of e-commerce.
Valuation & Technicals: Valuations are slightly elevated; technicals have improved but price remains below its long-term 200-day moving average.

Health Care

10.71%

Rating Maintained at Market Perform: Valuations are relatively attractive, and our technical outlook continues to improve.
Headwinds: Regulatory uncertainty and drug pricing reforms continue to weigh on sentiment.
Tailwinds: Aging demographics, managed care growth, and biotech innovation support structural strength.
Valuation & Technicals: Valuation ratios have surged higher along with price and may warrant caution in the short term; Our overall technical outlook has continued to improve. However, the sector is overbought in the short-term and may experience increased volatility.

Utilities

2.37%

Rating Maintained at Market Perform: Balanced risk-reward profile for the sector.
Headwinds: Regulatory pressures and cost inflation could limit upside.
Tailwinds: Stable demand, grid modernization, AI-driven energy needs, and rate cuts.
Valuation & Technicals: Valuations are reasonably attractive, and our technical outlook remains constructive as the long-term uptrend remains intact; overall we remain cautiously optimistic, contingent on catalysts and rate sensitivity.

Economy & Cycle

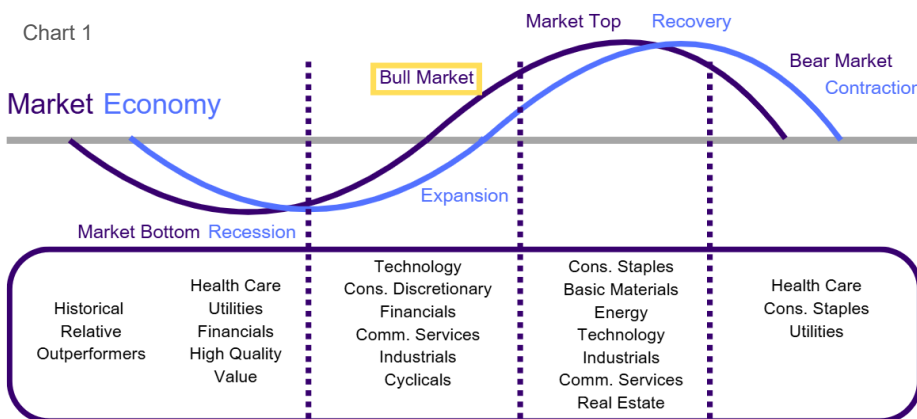
Economy

The U.S. economy enters 2026 with moderate growth expectations and easing monetary policy, as the Fed cuts rates and inflation trends lower but remains above target. Retroactive tax cuts and demographic spending tailwinds support consumer strength, benefiting the Consumer Discretionary sector. Automation and AI continue to reshape production and supply chains, driving long-term opportunity for Technology and Industrials, while Communication Services stands to gain from AI-driven advertising and streaming growth. A stable labor market and solid household balance sheets support Financials, while lower rates improve prospects for Real Estate and Utilities. The Health Care sector also remains well positioned amid aging demographic trends and solid growth prospects. Overall, our outlook remains constructive but a slowing labor market, lofty expectations and elevated valuations across most sectors reinforce the importance of diversification as investors navigate a constructive but nuanced economic backdrop.

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 appear to be in a nuanced mid-to-late-cycle phase with moderating growth. Volatility is expected to rise, and sectors with attractive relative valuations may benefit from a shift in leadership. We believe sector leadership in 2026 may rotate, reflecting valuation considerations and a broadening investment landscape.



Source: Cetera Investment Management

Chart 2		Valuation										
Month-End Nov. 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		22.61	16.88	3.22	1.94	4.86	3.03	17.24	12.12	1.82	1.43	1.09%
Cyclical	Basic Materials	19.17	16.77	2.10	1.59	2.73	2.69	11.96	10.30	1.65	1.67	1.95%
	Cons. Discretionary	29.43	23.78	2.83	1.72	7.59	6.15	17.12	14.35	4.69	1.38	0.58%
	Financials	15.88	13.68	3.39	2.37	2.24	1.47	N/A	N/A	1.24	1.23	1.40%
	Real Estate	17.64	18.66	6.12	6.12	3.06	3.03	17.60	17.46	2.34	2.33	3.26%
Sensitive	Comm. Services	22.71	17.90	4.54	2.55	4.90	3.05	13.60	9.61	2.23	1.29	0.59%
	Energy	15.61	13.27	1.36	1.09	1.85	1.83	7.09	7.22	1.78	1.06	3.35%
	Industrials	23.87	17.62	2.67	1.66	6.06	3.96	18.04	12.26	2.19	1.48	1.22%
	Technology	28.37	18.13	8.32	3.86	10.48	5.77	23.94	14.17	1.61	1.37	0.50%
Defensive	Cons. Staples	22.41	18.41	1.47	1.21	6.09	4.66	17.01	13.82	3.76	2.38	2.27%
	Health Care	18.93	15.10	1.54	1.47	4.68	3.46	16.76	12.65	1.80	1.50	1.57%
	Utilities	19.06	16.04	2.85	1.90	2.25	1.71	9.22	7.41	1.89	2.36	2.63%

Source: FactSet, Cetera Investment Management

Valuations

- **The S&P 500:** Remains well above historical averages, reflecting a market still buoyed by optimism. However, subtle shifts in valuation metrics suggest a market in the early stages of recalibration.
- **Cyclical Sectors:** Valuation ratios have remained relatively stable apart from the Consumer Discretionary sector which has been under pressure as investors re-evaluate the strength of the consumer and economy.
- **Sensitive Sectors:** Valuations have begun to moderate except for the Communication Services sector. The Technology sector experienced the largest pullback which seems warranted given the still stretched valuation metrics.
- **Defensive Sectors:** Have been serving as a haven amid market volatility. Valuation metrics have risen across the board with Health Care advancing the most as investors seek out defensive growth at reasonable prices.

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.

Technicals

Sector Relative Strength

- **Cyclical sectors** are displaying improved relative momentum as they move out of the underperforming quadrant.
- **Sensitive sectors** are mixed, however, no sectors are within the outperforming quadrant.
- **Defensive sectors** are displaying relative strength with Health Care moving deep into the outperforming quadrant.

The Relative Strength Chart 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 outperforming the market, while those in the bottom-left quadrant are underperforming. 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).

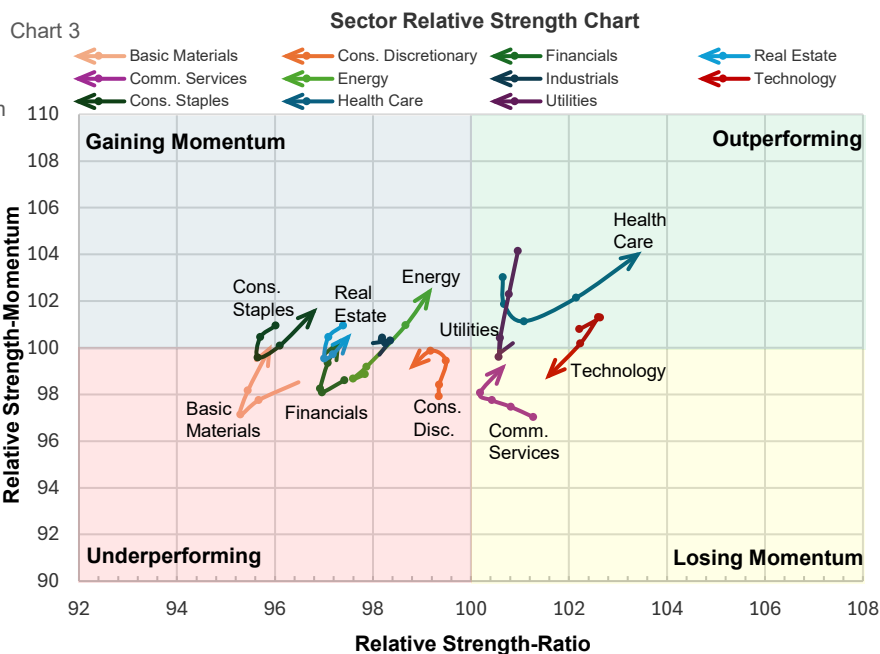
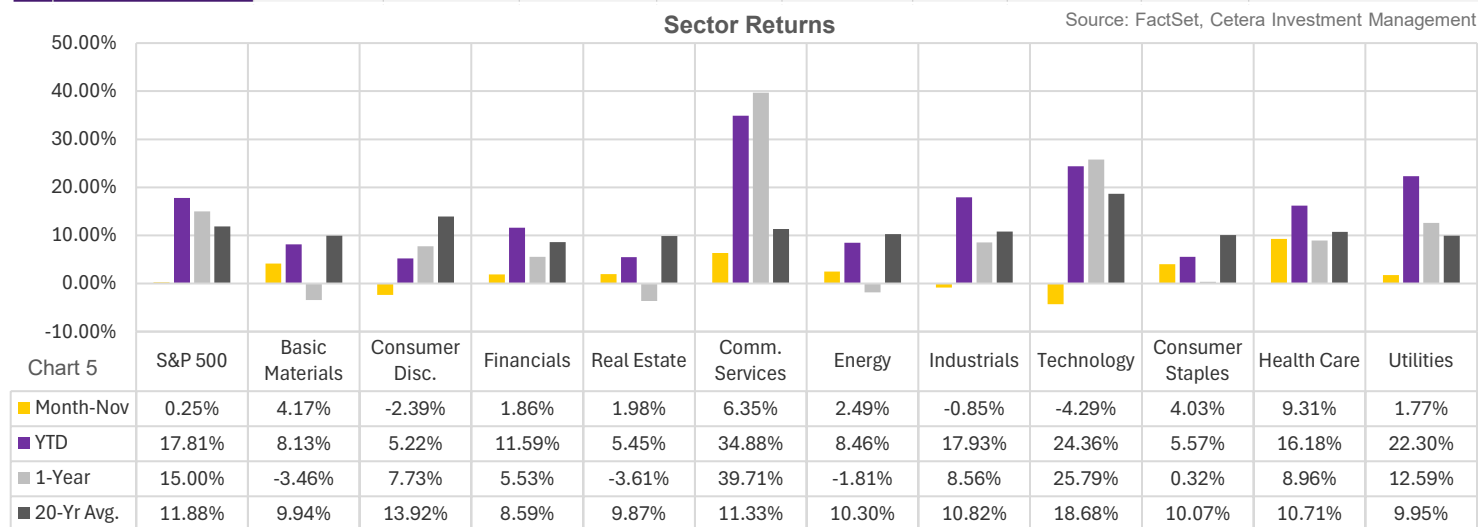


Chart 4		Sector Trend Analysis								*MA = Moving Avg.
Month-End Nov. 2025		Price	50-Day MA	% from MA	20-Yr Avg.	Deviation	YTD	M/M MA Change	Trend	Overbought/Oversold
S&P 500		6,849.09	6,724.98	1.85%	0.87%	0.46	17.81%	1.84%	Neutral	Neutral
Cyclical	Basic Materials	563.10	557.56	-4.00%	0.64%	-0.77	8.13%	-2.52%	Down	Neutral
	Cons. Discretionary	1,915.26	1,904.97	0.54%	1.05%	0.10	5.22%	0.57%	Neutral	Neutral
	Financials	885.58	878.92	0.76%	0.46%	0.12	11.59%	-0.89%	Neutral	Neutral
	Real Estate	262.34	260.91	0.55%	0.44%	0.09	5.45%	-0.77%	Neutral	Neutral
Sensitive	Comm. Services	457.25	427.81	6.88%	0.68%	1.52	34.88%	2.27%	Neutral	Overbought
	Energy	686.63	678.10	1.26%	0.40%	0.19	8.46%	0.71%	Neutral	Neutral
	Industrials	1,298.52	1,294.31	0.32%	0.81%	0.07	17.93%	0.35%	Neutral	Neutral
	Technology	5,700.38	5,693.63	0.12%	1.46%	0.02	24.36%	3.85%	Up	Neutral
Defensive	Cons. Staples	882.17	866.43	1.82%	0.64%	0.63	5.57%	-1.70%	Neutral	Neutral
	Health Care	1,833.52	1,696.95	8.05%	0.80%	2.28	16.18%	4.26%	Up	Extreme Overbought
	Utilities	458.15	452.72	1.20%	0.55%	0.32	22.30%	2.51%	Up	Neutral



Disclosures

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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 estimated 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.

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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.

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