

Cetera® Investment Management LLC

# Cetera Sector Insights

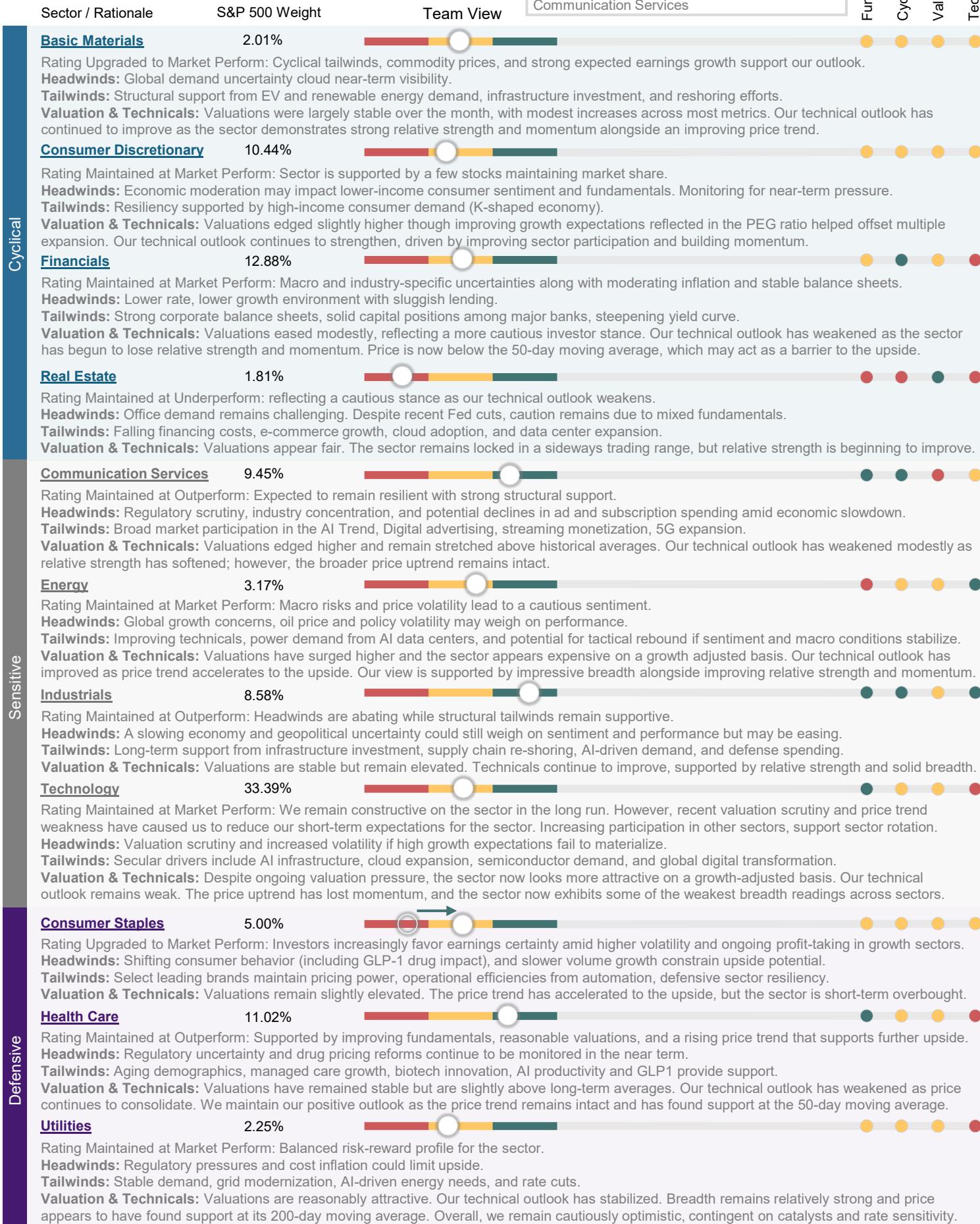
Gain clarity on what's driving equity performance with our new monthly Sector Insights report. We blend macro trends, fundamentals, valuations, and technicals to offer forward-looking views on each S&P 500 sector—delivered in a concise, client-friendly format.

# S&P 500 Sector Update: February 2026

Underperform Market Perform Outperform

Outperform: Industrials  
Health Care  
Communication Services  
Underperform: Real Estate

Fundamentals Cycle Valuation Technicals



Cyclical

Sensitive

Defensive

# Economy & Cycle

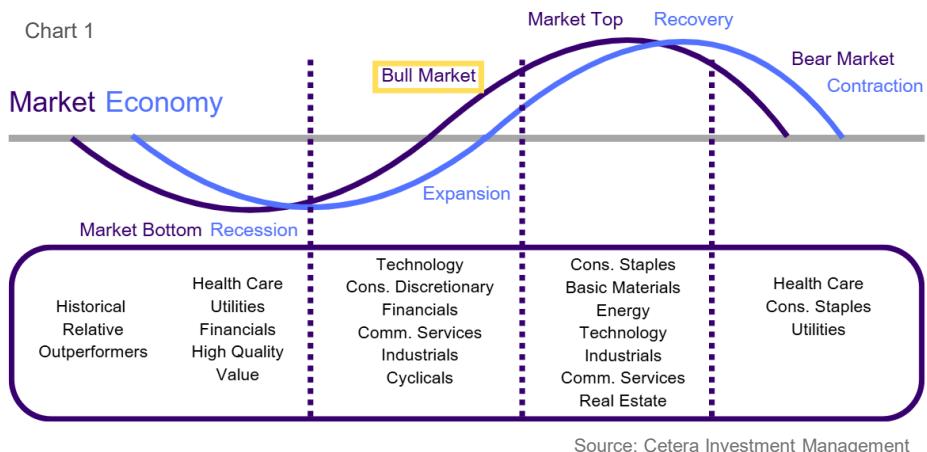
## Economy

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 Jan. 2026		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
<b>S&amp;P 500</b>		22.19	16.91	3.23	1.96	4.82	3.04	16.92	12.15	1.67	1.43	1.09%
Cyclical	Basic Materials	20.06	16.12	2.29	1.54	3.01	2.46	12.83	9.89	1.46	1.57	1.71%
	Cons. Discretionary	30.38	23.88	2.97	1.74	7.86	6.32	17.53	14.38	3.22	1.41	0.55%
	Financials	15.61	13.71	3.36	2.38	2.22	1.48	N/A	N/A	1.31	1.23	1.42%
	Real Estate	17.57	18.64	6.08	6.12	3.08	3.03	17.28	17.46	2.48	2.33	3.27%
Sensitive	Comm. Services	23.22	17.89	4.61	2.56	4.95	3.07	13.90	9.69	2.65	1.30	0.57%
	Energy	19.07	13.51	1.61	1.09	2.14	1.83	8.41	7.23	2.99	0.99	2.96%
	Industrials	25.18	17.66	2.83	1.67	6.31	3.98	18.82	12.31	1.82	1.47	1.14%
	Technology	25.21	18.23	7.69	3.90	9.60	5.82	21.65	14.27	1.21	1.37	0.51%
Defensive	Cons. Staples	23.41	18.45	1.54	1.21	6.36	4.66	17.60	13.85	3.78	2.38	2.16%
	Health Care	18.79	15.14	1.51	1.47	4.52	3.47	16.52	12.69	2.70	1.51	1.61%
	Utilities	17.98	16.06	2.69	1.91	2.13	1.71	8.83	7.42	1.82	2.36	2.77%

Source: FactSet, Cetera Investment Management

- The S&P 500:** Valuations remain above historical averages, though they have moderated modestly in recent months, reflecting a market still supported by optimism around earnings durability. With less scope for valuation expansion, this moderation suggest the market is becoming more selective.
- Cyclical Sectors:** Valuation multiples have expanded across cyclical sectors, excluding Financials. Basic Materials continue to draw investor interest while valuations remain supportive. Meanwhile, Consumer Discretionary's PEG ratio declined roughly 30% but remains elevated versus history.
- Sensitive Sectors:** Valuation ratios have continued to expand across most sectors, excluding Technology, which remains under pressure as investors rotate toward more attractively valued areas. Energy led the group, with its P/E multiple increasing more than 20%.
- Defensive Sectors:** Valuations have remained relatively stable across defensive sectors. Multiples for Consumer Staples expanded the most as investors appear to be favoring earnings certainty over growth certainty as volatility rises.

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 mixed; Basic Materials has surged into the outperforming quadrant and Financials losing momentum.
- Sensitive sectors** Energy and Industrials are both moving into the outperforming quadrant while Technology and Communication Services are both losing relative strength.
- Defensive sectors** Consumer Staples is beginning to show relative strength and may signal a risk off sentiment.

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. 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.

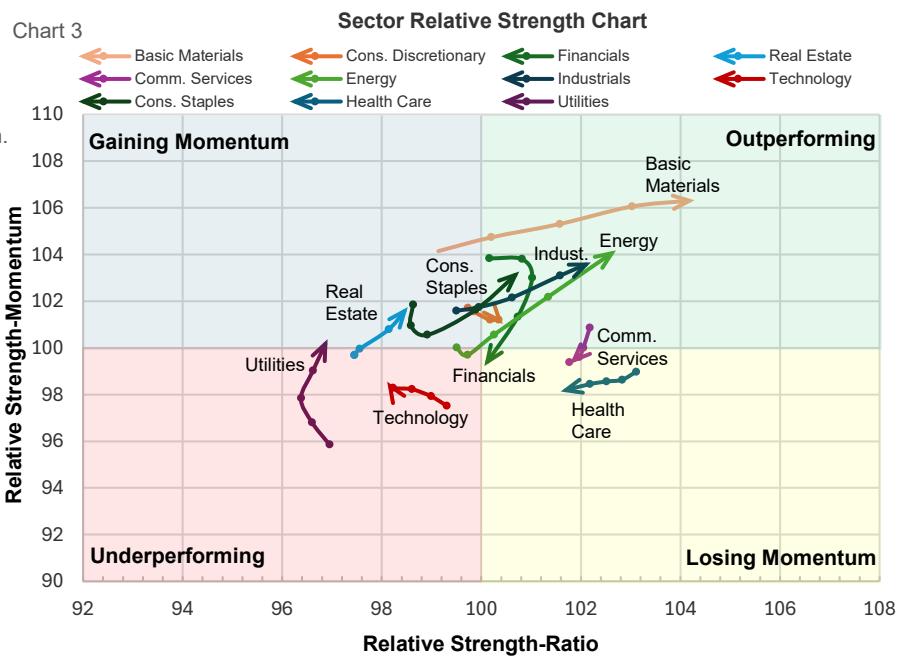


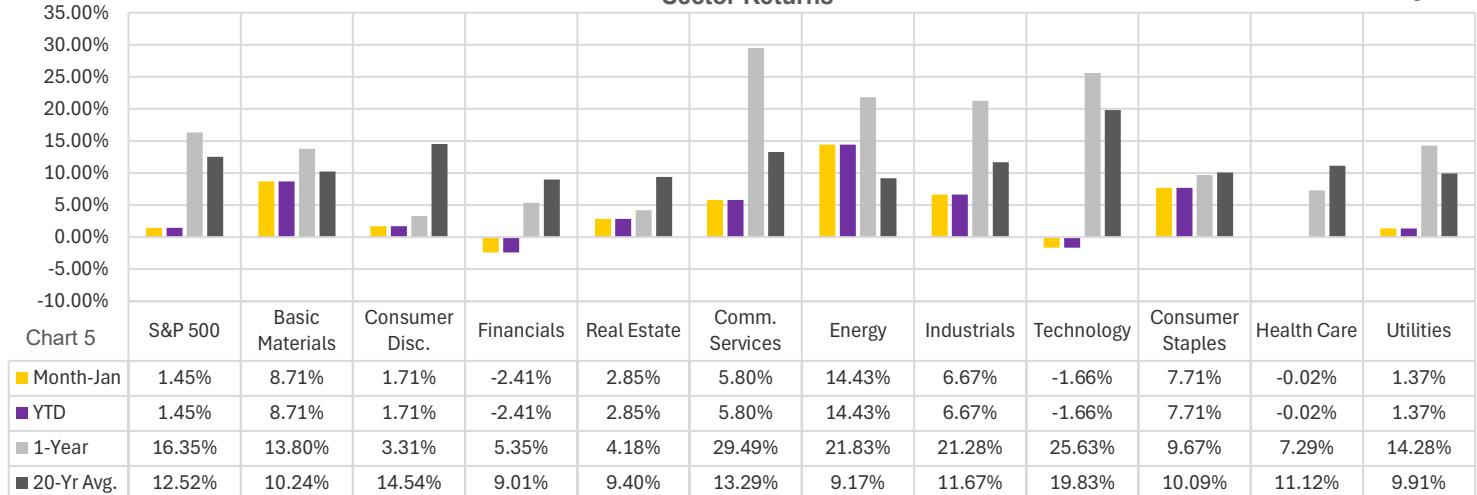
Chart 4

**Sector Trend Analysis**

Month-End Jan. 2026		Price	50-Day MA	% from MA	20-Yr Avg.	Deviation	YTD	M/M MA Change	Trend	Overbought/Oversold
<b>S&amp;P 500</b>		6,939.03	6,857.66	1.19%	0.87%	0.29	1.45%	0.81%	Neutral	Neutral
Cyclical	Basic Materials	624.06	583.54	-4.00%	0.63%	-0.77	8.71%	4.66%	Up	Neutral
	Cons. Discretionary	1,961.14	1,938.21	1.18%	1.05%	0.23	1.71%	0.85%	Neutral	Neutral
	Financials	887.83	897.74	-1.10%	0.46%	-0.18	-2.41%	1.28%	Neutral	Neutral
	Real Estate	262.03	257.79	1.64%	0.40%	0.28	2.85%	-0.23%	Neutral	Neutral
Sensitive	Comm. Services	478.15	452.80	5.60%	0.70%	1.23	5.80%	2.85%	Up	Overbought
	Energy	786.14	705.80	11.38%	0.39%	1.75	14.43%	3.34%	Up	Overbought
	Industrials	1,400.05	1,335.61	4.82%	0.81%	0.97	6.67%	2.54%	Up	Neutral
	Technology	5,587.88	5,669.70	-1.44%	1.44%	-0.28	-1.66%	-1.17%	Neutral	Neutral
Defensive	Cons. Staples	929.89	882.55	5.36%	0.65%	1.86	7.71%	1.81%	Neutral	Overbought
	Health Care	1,802.62	1,809.84	-0.40%	0.81%	-0.11	-0.02%	2.58%	Up	Neutral
	Utilities	439.54	438.16	0.31%	0.51%	0.08	1.37%	-1.73%	Neutral	Neutral

### Sector Returns

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

### About Cetera® Investment Management

Cetera Investment Management LLC (CIM) is a Securities and Exchange Commission registered investment adviser owned by Cetera Financial Group® (CFG). CIM provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers and registered investment advisers.

### About Cetera Financial Group

“Cetera Financial Group” (Cetera) refers to the network of independent retail firms encompassing, among others, those that are members [FINRA/SIPC](#); Cetera Advisors LLC, Cetera Wealth Services, LLC (f/k/a Cetera Advisor Networks), Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), and Cetera Financial Specialists LLC. Those that are Securities and Exchange Commission registered investment advisers; Cetera Investment Management LLC and Cetera Investment Advisers LLC, .CFG is located at 655 W. Broadway, 11th Floor, San Diego, CA 92101.

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Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards. A diversified portfolio does not assure a profit or protect against loss.

## 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.

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.