

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: January 2026

Underperform Market Perform Outperform

Outperform: Communication Services, Industrials, Health Care
Underperform: Real Estate, Consumer Staples

Fundamentals Cycle Valuation Technicals

Sector / Rationale	S&P 500 Weight	Team View	Fundamentals	Cycle	Valuation	Technicals
Basic Materials Rating Upgraded to Market Perform: Cyclical tailwinds, commodity prices, and strong expected earnings growth support our outlook. Headwinds: Global demand uncertainty cloud near-term visibility. Tailwinds: Structural support from EV and renewable energy demand, infrastructure investment, and reshoring efforts. Valuation & Technicals: There was a notable drop in the forward PEG ratio to below average levels, indicating improved growth prospects. The remaining valuations metrics remain above historical averages; Our technical outlook has improved slightly as the price trend gains momentum.	1.86%					
Consumer Discretionary 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 (K-shaped economy). Valuation & Technicals: Valuations remain above historical averages and may be a headwind in the near-term; Our technical outlook remains weak but has improved slightly as the sector has begun to gain relative strength and momentum. We are watching the sector closely for a potential upgrade.	10.41%					
Financials Rating Maintained at Market Perform: Macro and sector-specific uncertainties. Headwinds: Lower rate, lower growth environment with sluggish lending. Tailwinds: Strong corporate balance sheets, solid capital positions among major banks, steepening yield curve. Valuation & Technicals: Valuation ratios have risen across the board, reflecting investor optimism; Our technical outlook has continued to improve. The price uptrend has resumed, and the sector has moved into the outperforming quadrant of the relative strength chart displayed on page 4.	13.40%					
Real Estate 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 are below average; The sector remains locked in a sideways trading range and relative strength remains weak.	1.80%					
Communication Services 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: Broad market participation in the AI Trend, Digital advertising, streaming monetization, 5G expansion. Valuation & Technicals: Valuations have moderated slightly but remain above historical average; Our technical outlook has continued to improve. The sector has been exhibiting bullish relative strength and momentum while the uptrend has remained intact.	9.59%					
Energy Rating Maintained at Market Perform: Macro risks and price volatility lead to a cautious sentiment. Headwinds: Global growth concerns, oil price and policy volatility may weigh on performance. Tailwinds: Improving technicals, power demand from AI data centers, and potential for tactical rebound if sentiment and macro conditions stabilize. Valuation & Technicals: Valuations have risen and the PEG ratio surged more than 18% indicating decreased forward growth prospects; Our technical outlook remains neutral, though we are monitoring the sector for weakening relative strength and momentum.	2.81%					
Industrials Rating Maintained at 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 infrastructure investment, supply chain re-shoring, AI-driven demand, and defense spending. Valuation & Technicals: Valuations have been stable but remain elevated; Technicals have continued to improve along with relative strength.	8.16%					
Technology Rating Maintained at 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 and increased volatility if high growth expectations fail to materialize. Tailwinds: Secular drivers include AI infrastructure, cloud expansion, semiconductor demand, and global digital transformation. Valuation & Technicals: Valuations have continued to compress but are still well above historical averages; Our technical outlook has continued to weaken as the price uptrend is fading, and the sector is losing relative strength and momentum.	34.43%					
Consumer Staples 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, operational efficiencies from automation, defensive sector resiliency. Valuation & Technicals: Valuations are slightly elevated; Technicals have weakened as the sector loses relative momentum.	4.71%					
Health Care Rating Upgraded to Outperform: Supported by improving fundamentals, reasonable valuations, and a rising price trend that supports further upside. Headwinds: Regulatory uncertainty and drug pricing reforms continue to weigh on sentiment. Tailwinds: Aging demographics, managed care growth, biotech innovation, AI productivity and GLP1 provide support. Valuation & Technicals: Valuation ratios have moderated but are slightly above long-term averages; Our technical outlook remains constructive, and the price uptrend remains intact after taking a healthy pause in December.	10.58%					
Utilities 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; Our technical outlook has deteriorated as price trades back to its 200-day moving average, threatening the long-term uptrend. Overall, we remain cautiously optimistic, contingent on catalysts and rate sensitivity.	2.25%					

Cyclical

Sensitive

Defensive

Economy & Cycle

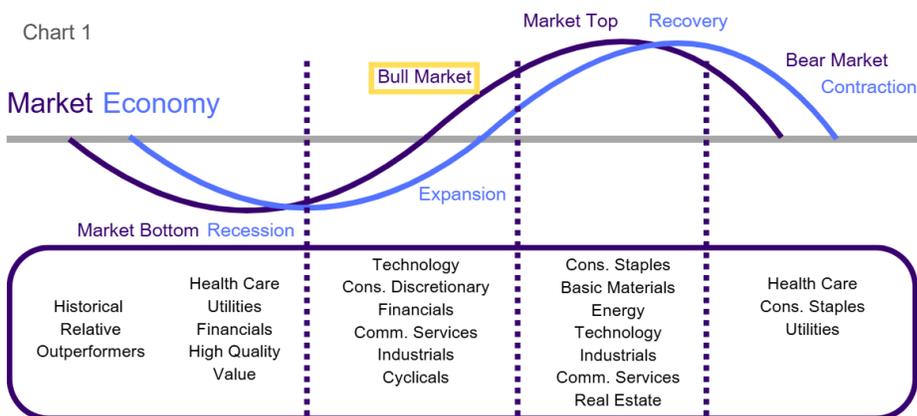
Economy

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 Dec. 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		22.14	16.88	3.20	1.95	4.81	3.03	16.84	12.12	1.80	1.43	1.10%
Cyclical	Basic Materials	19.01	16.08	2.12	1.54	2.78	2.46	11.99	9.87	1.48	1.57	1.87%
	Cons. Discretionary	29.61	23.85	2.87	1.73	7.68	6.31	17.03	14.37	4.60	1.40	0.57%
	Financials	16.28	13.70	3.48	2.37	2.29	1.47	N/A	N/A	1.28	1.23	1.37%
	Real Estate	17.08	18.65	5.90	6.12	2.99	3.03	16.92	17.46	2.32	2.33	3.36%
Sensitive	Comm. Services	22.21	17.83	4.44	2.55	4.77	3.05	13.30	9.64	2.22	1.29	0.59%
	Energy	15.85	13.49	1.37	1.09	1.85	1.83	7.19	7.22	2.11	0.99	3.35%
	Industrials	23.88	17.62	2.69	1.67	6.13	3.97	18.09	12.27	2.11	1.47	1.20%
Defensive	Technology	26.69	18.19	8.04	3.88	10.17	5.80	22.50	14.23	1.49	1.37	0.50%
	Cons. Staples	21.90	18.42	1.44	1.21	5.99	4.65	16.52	13.83	3.83	2.37	2.32%
	Health Care	18.50	15.12	1.51	1.47	4.56	3.47	16.66	12.67	2.29	1.50	1.60%
	Utilities	17.88	16.05	2.67	1.90	2.11	1.71	8.70	7.42	1.79	2.36	2.78%

Source: FactSet, Cetera Investment Management

Valuations

- **The S&P 500:** Valuation ratios remain above historical averages but have moderated slightly, 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 across cyclical sectors. It is notable that the forward P/E/G ratio for the Basic Materials sector has declined over 10% since December, reflecting improving growth prospects for the sector.
- **Sensitive Sectors:** Communication Services and Technology have been experiencing valuation compression while Energy and Industrials have remained relatively stable compared to all other sectors.
- **Defensive Sectors:** Valuation ratios have contracted along with market volatility as investors focus on higher growth opportunities. Utilities experienced the largest contraction in December with ratios declining by about 6% across all metrics.

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

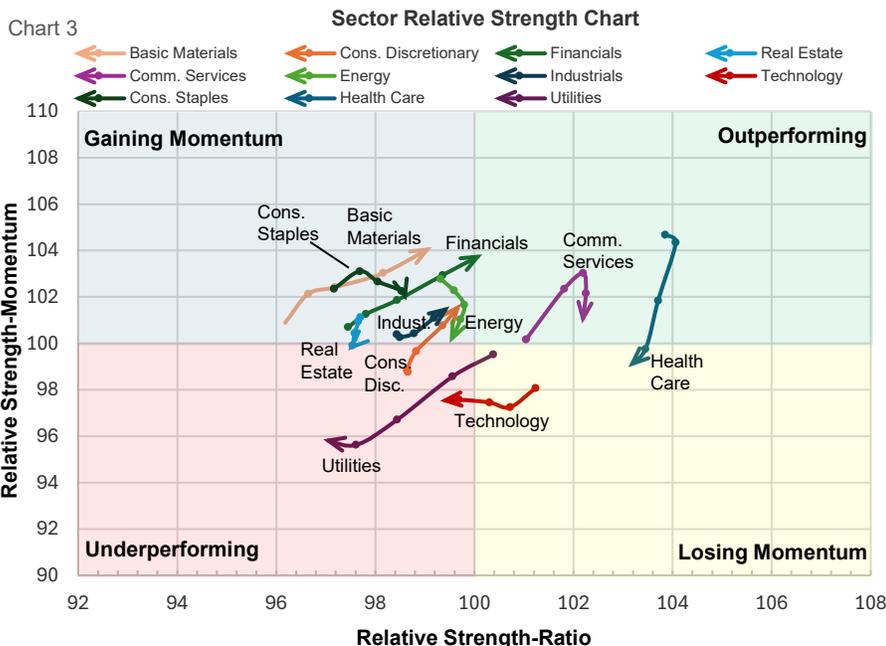
Sector Relative Strength

- **Cyclical sectors** are displaying improving relative strength and momentum, heading toward outperforming
- **Sensitive sectors** are mixed; Technology has moved into the underperforming quadrant while Industrials move toward the outperforming quadrant.
- **Defensive sectors** are starting to display relative weakness

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 (100,100).

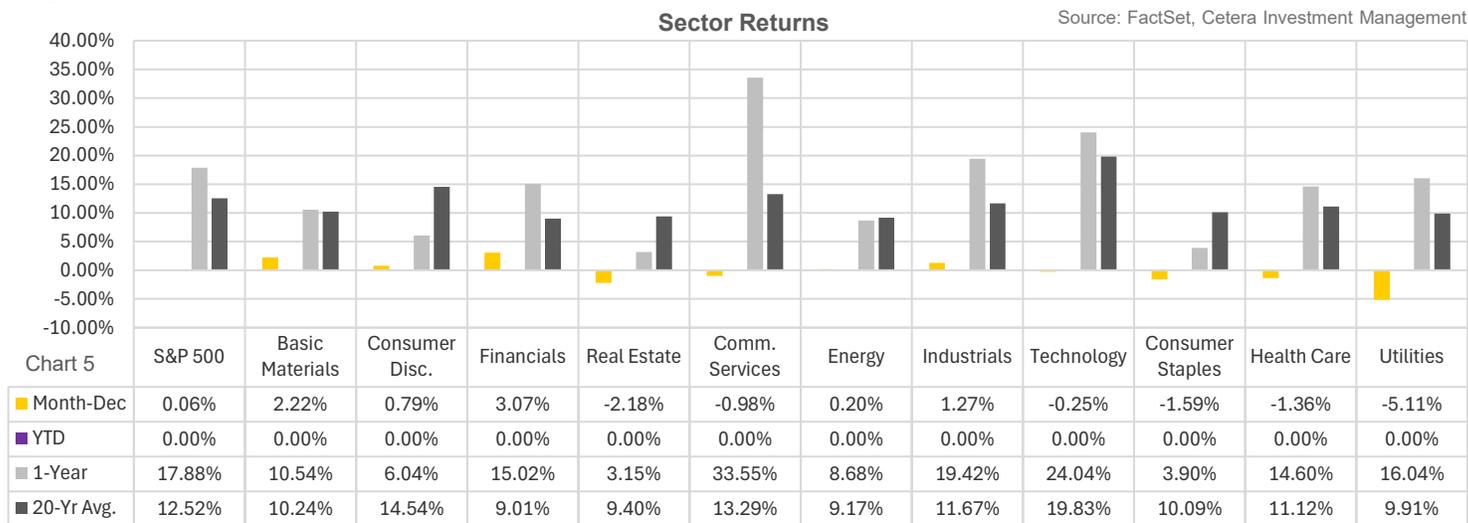
Chart 3



Source: FactSet, Cetera Investment Management

Chart 4		Sector Trend Analysis								*MA = Moving Avg.
Month-End Dec. 2025	Price	50-Day MA	% from MA	20-Yr Avg.	Deviation	YTD	M/M MA Change	Trend	Overbought/Oversold	
S&P 500	6,845.50	6,802.55	0.63%	0.87%	0.16	0.00%	1.22%	Neutral	Neutral	
Cyclical	Basic Materials	574.41	557.53	-4.00%	0.61%	-0.77	0.00%	-0.05%	Neutral	Neutral
	Cons. Discretionary	1,928.43	1,921.89	0.34%	1.04%	0.07	0.00%	0.87%	Neutral	Neutral
	Financials	911.60	886.44	2.84%	0.46%	0.46	0.00%	0.83%	Neutral	Neutral
	Real Estate	255.04	258.38	-1.29%	0.41%	-0.22	0.00%	-0.97%	Neutral	Neutral
Sensitive	Comm. Services	452.39	440.24	2.76%	0.69%	0.61	0.00%	3.01%	Up	Neutral
	Energy	687.34	682.95	0.64%	0.40%	0.10	0.00%	0.73%	Neutral	Neutral
	Industrials	1,313.14	1,302.52	0.82%	0.80%	0.16	0.00%	0.65%	Neutral	Neutral
	Technology	5,684.00	5,736.96	-0.92%	1.45%	-0.18	0.00%	0.85%	Neutral	Neutral
Defensive	Cons. Staples	864.89	866.85	-0.23%	0.64%	-0.08	0.00%	0.06%	Neutral	Neutral
	Health Care	1,805.89	1,764.34	2.36%	0.81%	0.67	0.00%	4.26%	Up	Neutral
	Utilities	433.81	445.85	-2.70%	0.53%	-0.71	0.00%	-1.38%	Neutral	Neutral

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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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.

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