

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.

Economy & Cycle

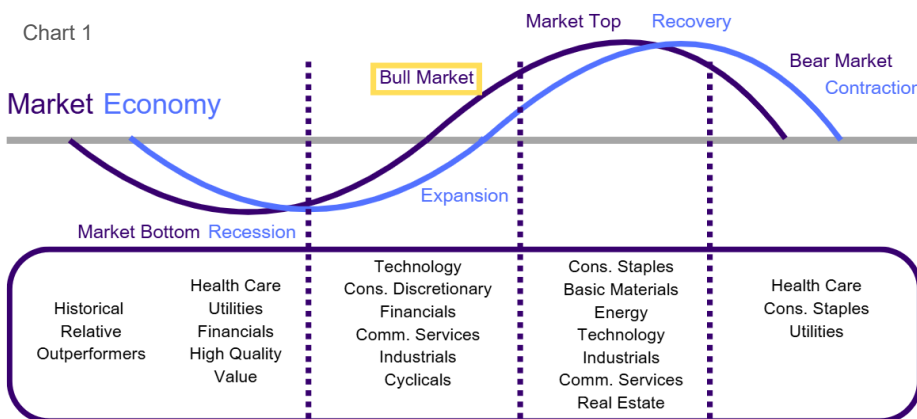
Economy

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, Consumer Discretionary, Financials, and Communication Services often outperform in mid-cycle expansions.



Source: Cetera Investment Management

Chart 2		Valuation										
Month-End June 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		22.20	16.71	3.03	1.89	4.64	2.97	17.01	11.96	1.99	1.42	1.19%
Cyclical	Basic Materials	20.38	16.03	2.11	1.56	2.74	2.56	12.57	9.91	2.20	1.60	1.89%
	Cons. Discretionary	28.84	23.91	2.65	1.67	7.45	6.09	17.02	14.44	3.87	1.34	0.62%
	Financials	16.93	13.56	3.51	2.34	2.30	1.44	N/A	N/A	1.44	1.24	1.40%
	Real Estate	17.81	18.68	6.39	6.13	3.07	3.03	18.00	17.45	2.20	2.30	3.29%
Sensitive	Comm. Services	20.04	17.64	4.03	2.47	4.33	3.00	12.46	9.53	2.37	1.27	0.71%
	Energy	15.02	13.28	1.31	1.09	1.87	1.82	7.09	7.21	1.20	1.11	3.43%
	Industrials	24.32	17.44	2.69	1.64	6.04	3.90	18.45	12.09	2.43	1.47	1.23%
	Technology	29.23	17.83	8.11	3.73	10.39	5.61	24.77	13.90	1.90	1.36	0.57%
Defensive	Cons. Staples	22.87	18.09	1.43	1.15	6.24	4.48	17.40	13.58	4.01	2.30	2.24%
	Health Care	16.47	15.04	1.37	1.47	4.09	3.44	14.66	12.59	1.89	1.49	1.79%
	Utilities	17.96	15.97	2.66	1.88	2.09	1.70	8.68	7.37	2.27	2.41	2.83%

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. Additionally, persistently low dividend yields bringing to focus the market's continued reliance on growth over income. Given these dynamics, sectors like Information Technology and Consumer Discretionary may face valuation pressures, increasing the likelihood of sector rotation as investors seek more reasonably priced opportunities.

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).

Technology and Communication Services have remained in the leading quadrant while Consumer Discretionary and Industrials are beginning to weaken. Defensive sectors are still lagging the market, but they are beginning to make some moves toward the improving quadrant.

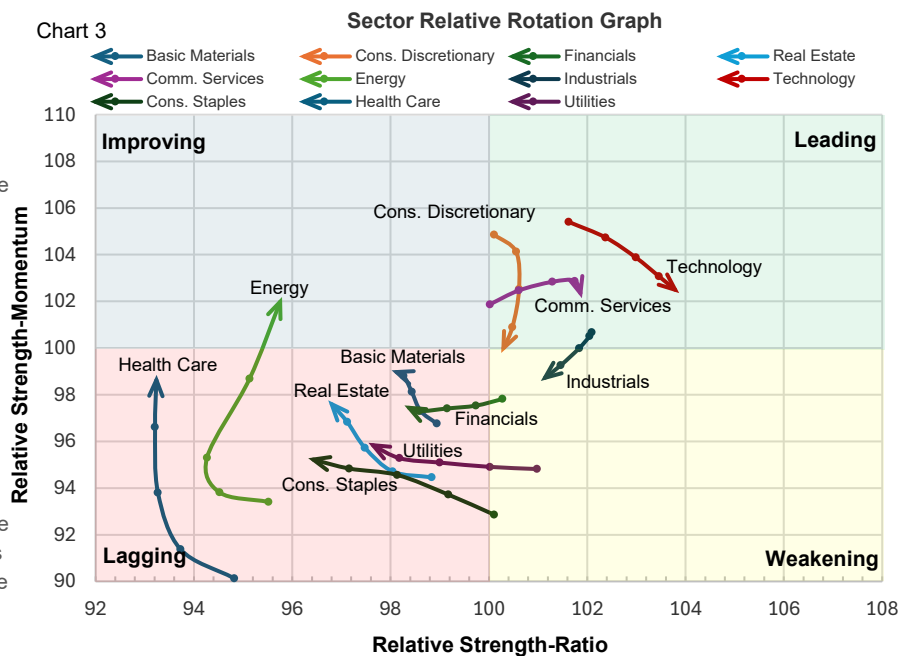
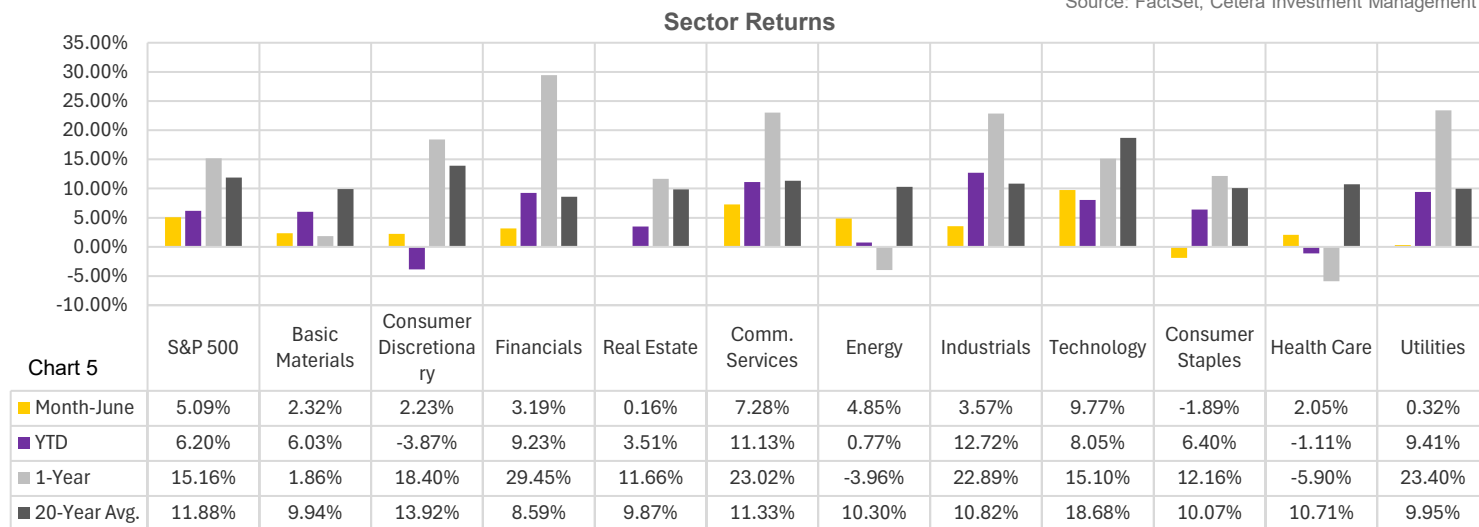


Chart 4		Sector Trend Analysis								*MA = Moving Avg.
Month-End June 2025		Price	50-Day MA	% from MA	20-Yr Avg.	Deviation	YTD	M/M MA Change	Trend	Overbought/Oversold
S&P 500		6,204.95	5,828.03	6.47%	0.82%	1.61	6.20%	3.97%	Up	Overbought
Cyclical	Basic Materials	556.09	540.87	-4.00%	0.63%	-0.77	6.03%	2.24%	Neutral	Neutral
	Cons. Discretionary	1,753.81	1,669.28	5.06%	0.98%	0.98	-3.87%	4.32%	Up	Neutral
	Financials	871.95	833.53	4.61%	0.47%	0.75	9.23%	2.40%	Neutral	Neutral
	Real Estate	260.30	259.61	0.26%	0.45%	0.05	3.51%	1.25%	Neutral	Neutral
Sensitive	Comm. Services	377.94	344.95	9.56%	0.58%	2.12	11.13%	5.71%	Up	Extreme Overbought
	Energy	648.68	637.43	1.77%	0.42%	0.27	0.77%	-0.78%	Neutral	Neutral
	Industrials	1,249.13	1,177.31	6.10%	0.78%	1.23	12.72%	4.80%	Up	Overbought
	Technology	4,964.64	4,452.49	11.50%	1.38%	2.27	8.05%	7.52%	Up	Extreme Overbought
Defensive	Cons. Staples	897.10	898.78	-0.19%	0.66%	-0.07	6.40%	1.00%	Neutral	Neutral
	Health Care	1,572.52	1,563.47	0.58%	0.74%	0.16	-1.11%	-2.13%	Neutral	Neutral
	Utilities	414.79	407.56	1.77%	0.51%	0.46	9.41%	1.86%	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 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.

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 the its estimate book value per share 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.