Cetera<sup>®</sup> 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 forwardlooking views on each S&P 500 sector—delivered in a concise, client-friendly format.

&P 500 Secto	or Update: July	<sup>r</sup> 2025	Itals			
Underperform Marke	et Perform Outperfor	n	-undamentals		ation	Technicals
Sector/Rationale	S&P Weight	Team View	Fund	Cycle	Valuation	Tach
Basic Materials	1.92%		•	•	•	
margins and visibility, es Structural tailwinds from supporting a neutral out	specially for globally expose EV and renewable energy	sures, slowing global demand, and persistent input inflation—al d, commodity-sensitive firms. While valuations have moderated, demand, infrastructure investment, and reshoring efforts have h rer macro signals. Recent price action has seen the sector regains s to improve.	, they remain somew elped stabilize the s	/hat ele ector,		d.
Consumer Discretiona	<b>ry</b> 9.79%		•	•		
have supported its upwa consumer sentiment as	ard trend. However, tariff-rel they are likely to weigh on f	om e-commerce growth, resilient travel and leisure spending, ar ated price uncertainty and higher for longer interest rates should undamentals. With elevated valuations, the sector is expected to ad has continued to move higher, finding support at the 200-day	d be monitored for im o remain neutral in th	npact to	С	۱.
Price broke its secondar <b>Financials</b> The Financials sector ba	14.03%		•	•	•	
major banks. Valuations M&A activity. The sector continue to pose risks. (	remain attractive relative to r shows improving technical Consumer credit quality may nancials as a value-oriented	ed by stable interest rates, robust corporate balance sheets, ar growth sectors, and financials could benefit from any steepenir s, however, regulatory uncertainty, sluggish lending, and expose show signs of strain as jobless claims trend higher, but valuation I play in a market where growth stocks are increasingly expension	ng in the yield curve ure to commercial re ons are attractive and	or incr al esta d inves	easeo ite stors	d
Real Estate	2.02%		•		•	
which are pressuring fur adoption, the sector rem	ndamentals. While data cen nains in a technical downtrer	om elevated interest rates, office space oversupply, and slowing ters and logistics properties continue to benefit from long-term tr ad and appears fair valued. Given the potential for investor rotat ous outlook while monitoring for improving fundamentals as rate	rends in e-commerce tion into more attract	e and o	cloud	
Communication Servio	es 9.32%		•	•	•	
power from mega-cap le scrutiny, industry conce	aders. Momentum continue	erform well, driven by a rebound in digital advertising, streaming s to build as 5G adoption expands and prices trend upward, tho r ad and subscription spending cuts in a slowing economy. Des rt a positive outlook.	ough risks remain fro	m regi	ulator	y
Energy	2.97%		•	•	•	
volatility, which have we currently below their lon	ighed on recent performanc g-term averages, however, a near-term rebound if sent	In upside bias. It continues to face headwinds from Middle East e. However, a persistent geopolitical risk premium is helping to price has remained in a downtrend and appears to be stuck belo iment stabilizes. If macroeconomic conditions improve and oil p	support oil prices. Va ow its 200-day movir	aluatio ng ave	ns are rage.	
Industrials	8.60%		•		•	-
We maintain an outperfor chain re-shoring, and Al trade and geopolitical te	-related demand. While the nsions, we view these as ne	s sector, supported by long-term opportunities such as energy i sector remains sensitive to economic slowdowns and recent pe ear-term headwinds. Elevated valuations and softening moment continue to support a favorable long-term view.	rformance has been	impac	ted b	
Technology	33.09%		•	•	•	
buildout, cloud computir the constituents trading earnings momentum. W	ng expansion, semiconducto above their 50-day moving hile valuations have returne	r view as a market leader, buoyed by powerful secular tailwinds r demand, and global digital transformation. The sector is show average. Strength in the Technology sector is driven by renewed d to elevated levels relative to historical norms, the long-term gr strong investor sentiment, but also suggesting potential for shor	ing strong breadth w d investor enthusias rowth narrative rema	/ith 859 m and	% of robus	st
Consumer Staples	5.50%		•	•	•	
maintained selective prideterioration in pricing s	cing power, shifting consum trength. This shift, combine ril market correction, the se	as a defensive haven, is expected to lag in the near term. Althou er sentiment may lead to increased trade-down from premium p d with slower volume growth, limits the sector's upside potential. ctor now faces valuation headwinds, with prices trading near the	oroducts—suggesting . While it provided do	g a pot ownsid	е	
weak earnings moment Technically, the sector la close monitoring for a po	um. Investor sentiment rema acks conviction, though valu	derperform due to near-term pressure from regulatory uncertain ins weighed down by policy risks and a broader rotation away fi ations have compressed to more attractive levels. Early signs o rrent headwinds, long-term structural tailwinds remain intact, su ical technology.	rom defensive secto of a bottoming proces	rs. ss wari	ant	
Utilities	2.39%		•	•	•	(
We maintain an underpe sector faces headwinds potential rate-driven tail	erform outlook on the Utilitie from weak technical momen winds, near-term performan	s sector. While supported by stable demand, grid investment, an ntum, regulatory pressures, and cost inflation. Despite relatively ce is likely to remain challenged. We remain cautious given limit of stabilization and a possible upgrade.	attractive valuations	and		3

# 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

Ch	art 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%
	Basic Materials	20.38	16.03	2.11	1.56	2.74	2.56	12.57	9.91	2.20	1.60	1.89%
Cyclical	Cons. Discretionary	28.84	23.91	2.65	1.67	7.45	6.09	17.02	14.44	3.87	1.34	0.62%
Cycl	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%
	Comm. Services	20.04	17.64	4.03	2.47	4.33	3.00	12.46	9.53	2.37	1.27	0.71%
Sensitive	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%

#### Valuations

Source: FactSet, Cetera Investment Management

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 Strength-Momentum 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.



Source: FactSet, Cetera Investment Management

Chart 4			*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	
	Basic Materials	556.09	540.87	-4.00%	0.63%	-0.77	6.03%	2.24%	Neutral	Neutral	
Cyclical	Cons. Discretionary	1,753.81	1,669.28	5.06%	0.98%	0.98	-3.87%	4.32%	Up	Neutral	
Cycl	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	
	Comm. Services	377.94	344.95	9.56%	0.58%	2.12	11.13%	5.71%	Up	Extreme Overbought	
Sensitive	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	

Relative



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

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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 it's 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<sup>®</sup> Consumer Discretionary Index comprises those companies included in the S&P 500 that are classified as members of the GICS<sup>®</sup> Consumer Discretionary sector.

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

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

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

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

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

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

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