

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: March 2026

■ Underperform   
 ■ Market Perform   
 ■ Outperform

**Outperform:** ■  
 Industrials  
 Energy  
 Health Care

**Underperform:** ■  
 Consumer Disc.  
 Real Estate

Fundamentals  
 Cycle  
 Valuation  
 Technicals

	Sector / Rationale	S&P 500 Weight	Team View	Fundamentals	Cycle	Valuation	Technicals
Cyclical	<b>Basic Materials</b>	2.16%					
	Rating Maintained at Market Perform: Cyclical tailwinds, commodity prices, and strong expected earnings growth support our outlook. <b>Headwinds:</b> Global demand uncertainty cloud near-term visibility. <b>Tailwinds:</b> Structural support from EV and renewable energy demand, infrastructure investment, and reshoring efforts. <b>Valuation &amp; Technicals:</b> Valuations moved higher across all major multiples, leaving the sector meaningfully above its historical averages. Our technical outlook remains optimistic, supported by strong sector breadth, but we are monitoring the sector for weakening relative momentum.						
	<b>Consumer Discretionary</b>	9.95%					
	Rating Downgraded to Underperform: Sector is supported by a few stocks maintaining market share and our technical outlook has turned bearish. <b>Headwinds:</b> Economic uncertainty may impact lower-income consumer sentiment and fundamentals. Monitoring for near-term pressure. <b>Tailwinds:</b> Resiliency supported by high-income consumer demand. Tax cuts may offer incremental support to lower-income consumers. <b>Valuation &amp; Technicals:</b> Multiples compressed modestly across the board, but valuations remain well above long-term norms. Our technical outlook has weakened as the sector has dipped below its long-term 200-day moving average which has been acting as a barrier to upward price action.						
Cyclical	<b>Financials</b>	12.51%					
	Rating Maintained at Market Perform: Macro and industry-specific uncertainties along with inflation concerns and stable balance sheets. <b>Headwinds:</b> A lower-rate, lower-growth environment with sluggish lending. <b>Tailwinds:</b> Strong corporate balance sheets, solid capital positions among major banks, steepening yield curve. <b>Valuation &amp; Technicals:</b> Valuations edged lower but are still slightly above historical averages. Our technical outlook has weakened further as sector breadth and price trend continue to deteriorate. Trend appears to be shifting as price has now crossed its 200-day moving average to the downside.						
	<b>Real Estate</b>	1.97%					
	Rating Maintained at Underperform: Reflecting a cautious stance as sub-sectors, like data centers, continue to separate from office demand. <b>Headwinds:</b> Office demand remains challenged along with domestic real estate. Despite recent Fed cuts, caution remains due to mixed fundamentals. <b>Tailwinds:</b> Falling financing costs, e-commerce growth, cloud adoption, data center expansion and rate cuts. <b>Valuation &amp; Technicals:</b> Valuations appear fair. Price has now broken out of its sideways trading range to the upside, supported by risk-off sentiment.						
Sensitive	<b>Communication Services</b>	9.84%					
	Rating Downgraded to Market Perform: Expected to remain resilient with strong structural support. Short-term technicals warrant caution. <b>Headwinds:</b> Regulatory scrutiny, industry concentration, and potential declines in ad and subscription spending amid economic slowdown. <b>Tailwinds:</b> Broad market participation in the AI trend, Digital advertising, streaming monetization, 5G expansion. <b>Valuation &amp; Technicals:</b> Valuations have declined, but the sector remains expensive relative to history, indicating that recent pullbacks have not reset expectations. Our technical outlook has continued to deteriorate as the price trend begins to fade, along with relative strength and momentum.						
	<b>Energy</b>	3.48%					
	Rating Upgraded to Outperform: Improving conditions support the sector, though our call is contingent on sustained disruption/elevated crude regime. <b>Headwinds:</b> Global growth concerns, energy supply constraints, oil price and policy volatility may weigh on performance. <b>Tailwinds:</b> Improving technicals, power demand from AI data centers, and potential for a tactical rebound if sentiment and macro conditions stabilize. <b>Valuation &amp; Technicals:</b> Valuations expanded sharply and now stand well above historical norms. Our technical outlook remains bullish, supported by strong breadth and impressive relative strength and momentum. We will continue to monitor closely as our conviction is tied to commodity prices.						
Sensitive	<b>Industrials</b>	9.23%					
	Rating Maintained at Outperform: Structural tailwinds remain supportive. <b>Headwinds:</b> A slowing economy and geopolitical uncertainty. Economically sensitive transports, airlines and logistics can be pressured by fuel prices. <b>Tailwinds:</b> Long-term support from infrastructure investment, supply chain re-shoring, AI-driven demand, and defense spending. <b>Valuation &amp; Technicals:</b> Multiple expansion pushed valuations further above long-term averages. Our technical outlook remains firmly positive.						
	<b>Technology</b>	32.41%					
	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. Increasing participation in other sectors, supports broader sector rotation. <b>Headwinds:</b> Valuation scrutiny and increased volatility if high growth expectations fail to materialize. <b>Tailwinds:</b> Secular drivers include AI infrastructure, cloud expansion, semiconductor demand, and global digital transformation. <b>Valuation &amp; Technicals:</b> While most valuation multiples contracted, the sector remains expensive versus history. Our technical outlook remains weak. Price has lost momentum and is trading between the 50- and 200-day moving averages. We continue to monitor for further near-term weakness.						
Defensive	<b>Consumer Staples</b>	5.43%					
	Rating Maintained at Market Perform: Investors increasingly favor earnings certainty amid higher volatility and ongoing profit-taking in growth sectors. <b>Headwinds:</b> Shifting consumer behavior (including GLP-1 drug impact), and slower volume growth constrain upside potential. <b>Tailwinds:</b> Select leading brands maintain pricing power, operational efficiencies from automation, defensive sector resiliency. <b>Valuation &amp; Technicals:</b> Valuations rose further and remain well above historical averages, underscoring how defensives continue to command a premium. Our technical outlook has strengthened but we are on watch for weakening momentum as the sector has become short-term overbought.						
	<b>Health Care</b>	10.53%					
	Rating Maintained at Outperform: Supported by improving fundamentals, reasonable valuations, and a rising price trend that supports further upside. <b>Headwinds:</b> Regulatory uncertainty and drug pricing reforms continue to be monitored in the near term. <b>Tailwinds:</b> Aging demographics, managed care growth, biotech innovation, AI productivity and GLP-1 provide support. <b>Valuation &amp; Technicals:</b> Modest multiple expansion leaves the sector above historical valuation norms. However, there was a notable decline in the PEG ratio, signaling improved growth prospects. Our technical outlook has improved as the sector is showing early signs of improving momentum.						
Defensive	<b>Utilities</b>	2.49%					
Rating Maintained at Market Perform: Balanced risk-reward profile for the sector in a risk-off environment supported by technical price action. <b>Headwinds:</b> Regulatory pressures and cost inflation could limit upside. <b>Tailwinds:</b> Stable demand, grid modernization, AI-driven energy needs, and rate cuts. <b>Valuation &amp; Technicals:</b> Valuations moved higher and remain above long-term averages on most metrics. Our technical outlook has improved as relative strength and momentum continue to accelerate to the upside. We believe that caution is warranted given the short-term overbought reading.							

# Economy & Cycle

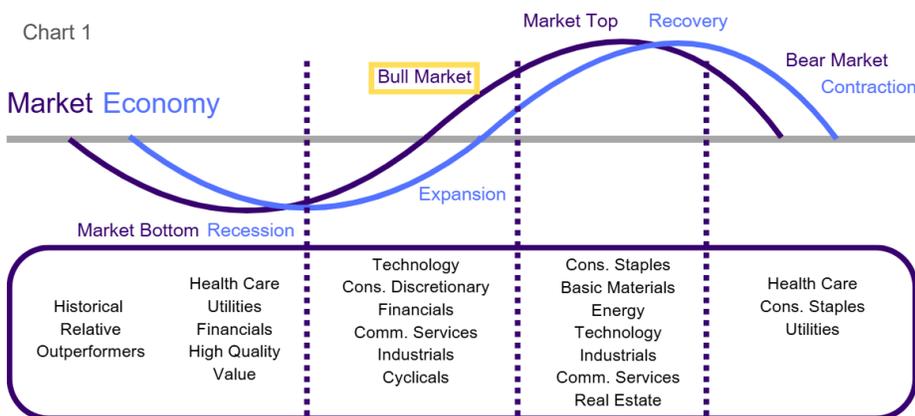
## Economy

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. Solid household balance sheets support Financials, though labor market momentum is moderating, 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 cooling labor market, lofty expectations and elevated valuations 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 Feb. 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>		21.66	16.94	3.16	1.96	4.70	3.05	16.60	12.17	1.61	1.43	1.10%
Cyclical	Basic Materials	21.28	16.14	2.45	1.55	3.26	2.46	13.56	9.90	1.68	1.57	1.59%
	Cons. Discretionary	28.67	23.90	2.77	1.74	7.11	6.32	17.21	14.40	2.09	1.41	0.59%
	Financials	14.83	13.72	3.18	2.38	2.11	1.48	N/A	N/A	1.26	1.23	1.47%
	Real Estate	18.70	18.64	6.33	6.12	3.27	3.03	18.35	17.46	2.75	2.33	3.15%
Sensitive	Comm. Services	21.76	17.91	4.31	2.57	4.60	3.08	12.81	9.70	2.10	1.31	0.61%
	Energy	20.60	13.54	1.72	1.09	2.30	1.83	9.06	7.23	3.26	1.00	2.73%
	Industrials	26.61	17.68	2.99	1.67	6.68	3.99	19.97	12.32	1.98	1.50	1.07%
	Technology	23.46	18.25	7.15	3.91	8.88	5.82	20.00	14.30	1.24	1.37	0.54%
Defensive	Cons. Staples	25.24	18.48	1.64	1.21	6.76	4.67	18.85	13.87	3.60	2.39	2.02%
	Health Care	19.17	15.17	1.54	1.47	4.67	3.48	16.80	12.73	2.15	1.51	1.56%
	Utilities	19.62	16.08	2.98	1.91	2.30	1.72	9.67	7.43	1.95	2.36	2.50%

Source: FactSet, Cetera Investment Management

## Valuations

- **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 suggests the market is becoming more selective.
- **Cyclical Sectors:** Valuations are mixed across cyclical sectors. Valuation ratios on the Basic Materials sector are starting to become stretched while Financials and Real Estate are closer to their long-term averages. Ratios on Consumer Discretionary remain elevated but continue to moderate.
- **Sensitive Sectors:** Valuation ratios remain elevated across economically sensitive sectors. Energy continues to lead the group higher with most ratios expanding by about 8%. Technology and Communication Services continue to experience valuation compression as geopolitical tensions rise.
- **Defensive Sectors:** Valuation ratios continued to rise across defensive sectors as investors begin to shift to risk-off positioning. Consumer Staples and Utilities are now trading at a premium, reflecting the ongoing shift in investor preference as market risks evolve.

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

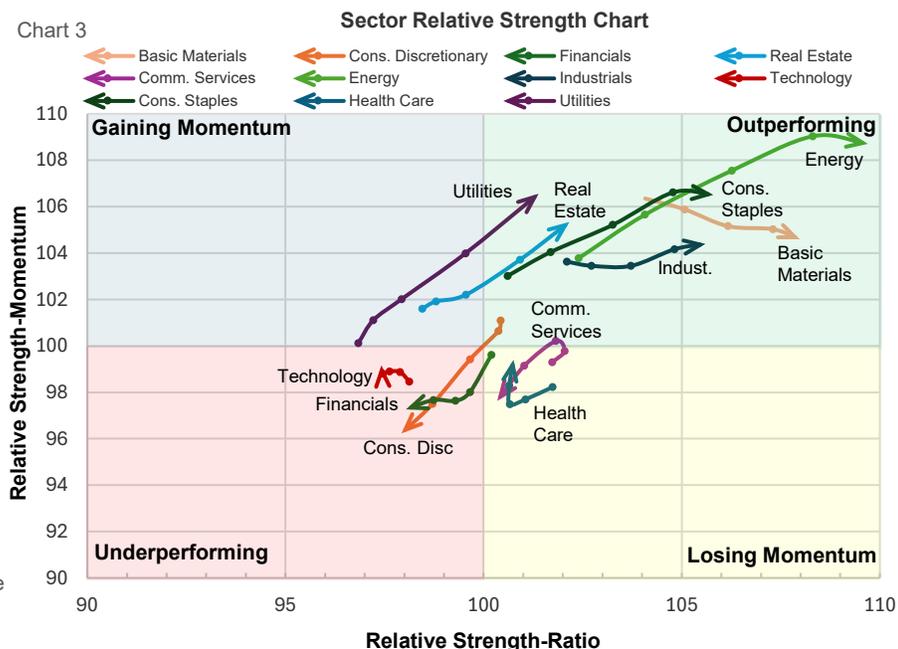
## Sector Relative Strength

- **Cyclical sectors** are mixed; Consumer Discretionary and Financials remain weak and Basic Materials is losing momentum. Real Estate is gaining strength and momentum.
- **Sensitive sectors** are mixed; Energy and Industrials continue to outperform while Communication Services and Technology are losing relative strength.
- **Defensive sectors** are gaining relative strength and momentum with Health Care moving toward outperforming.

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.

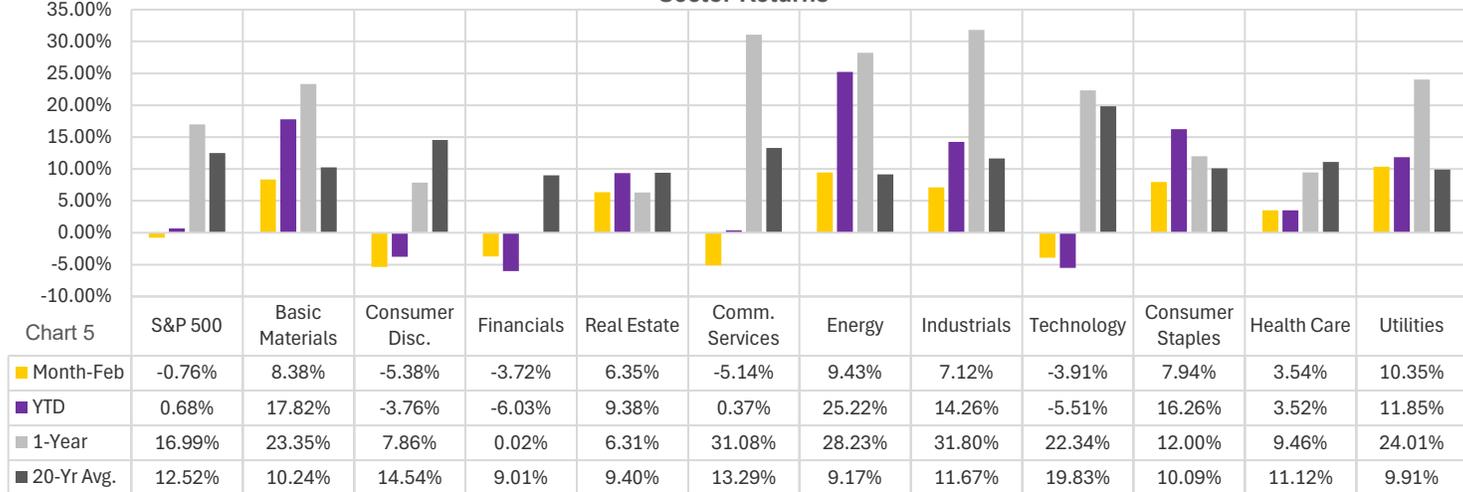
Chart 3



Source: FactSet, Cetera Investment Management

Chart 4		Sector Trend Analysis								*MA = Moving Avg.
Month-End Feb. 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>	6,878.88	6,899.87	-0.30%	0.86%	-0.08	0.68%	0.69%	Neutral	Neutral	
<b>Cyclical</b>	Basic Materials	675.69	624.02	-4.00%	0.65%	-0.76	17.82%	7.24%	Up	Neutral
	Cons. Discretionary	1,854.79	1,929.29	-3.86%	1.03%	-0.74	-3.76%	-0.36%	Neutral	Neutral
	Financials	853.79	894.70	-4.57%	0.45%	-0.74	-6.03%	-0.27%	Neutral	Neutral
	Real Estate	278.35	263.02	5.83%	0.40%	1.00	9.38%	2.07%	Neutral	Neutral
<b>Sensitive</b>	Comm. Services	453.56	454.89	-0.29%	0.68%	-0.06	0.37%	0.70%	Neutral	Neutral
	Energy	855.10	758.92	12.67%	0.44%	1.94	25.22%	7.82%	Up	Overbought
	Industrials	1,497.59	1,402.80	6.76%	0.84%	1.35	14.26%	5.23%	Up	Overbought
	Technology	5,365.45	5,592.18	-4.05%	1.43%	-0.80	-5.51%	-1.39%	Neutral	Neutral
<b>Defensive</b>	Cons. Staples	1,003.08	925.19	8.42%	0.69%	2.88	16.26%	5.01%	Up	Extreme Overbought
	Health Care	1,864.30	1,822.35	2.30%	0.80%	0.65	3.52%	0.73%	Neutral	Neutral
	Utilities	482.91	444.30	8.69%	0.53%	2.27	11.85%	1.34%	Neutral	Extreme Overbought

Chart 5



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<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.

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

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