

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.

At a Glance

Technology

Rating: ▲ Outperform
S&P 500 Weight: 35.00%

- ▲ Fundamentals
- ▲ Cycle
- ▶ Valuation
- ▲ Technicals

Communication Services

Rating: ▲ Outperform
S&P 500 Weight: 8.81%

- ▲ Fundamentals
- ▲ Cycle
- ▶ Valuation
- ▲ Technicals

Industrials

Rating: ▲ Outperform
S&P 500 Weight: 8.50%

- ▲ Fundamentals
- ▲ Cycle
- ▶ Valuation
- ▼ Technicals

Consumer Staples

Rating: ▼ Underperform
S&P 500 Weight: 4.94%

- ▶ Fundamentals
- ▼ Cycle
- ▶ Valuation
- ▼ Technicals

Real Estate

Rating: ▼ Underperform
S&P 500 Weight: 1.88%

- ▼ Fundamentals
- ▼ Cycle
- ▲ Valuation
- ▼ Technicals

S&P 500 Sector Update: May 2026

Underperform Market Perform Outperform

Outperform: Technology, Communication Services, Industrials
Underperform: Consumer Staples, Real Estate

Fundamentals
Cycle
Valuation
Technical

Sector / Rationale	S&P 500 Weight	Team View	Fundamentals	Cycle	Valuation	Technical
Basic Materials – Market Perform	1.97%					
Outlook: Mixed cyclical tailwinds, commodity prices, and strong expected earnings growth support our view. Fundamentals: Global supply chain disruptions and limited near-term visibility remain key risks, though structural demand from EV and renewable energy, infrastructure investment, and reshoring trends continue to support longer-term growth. Valuation & Technicals: Valuations have moderated slightly but remain above historical averages. Our technical outlook remains weak as price appears to be consolidating and the sector is losing relative strength versus the market.						
Consumer Discretionary – Market Perform	9.98%					
Outlook: The sector appears to be gaining relative strength in the near term as initial jobless claims data suggest a steady labor market. Fundamentals: Economic uncertainty and rising energy costs may pressure lower-income consumers and sentiment, though continued strength in higher-income spending and potential policy support could help sustain broader demand. Valuation & Technicals: Valuations continued to expand, leaving the sector priced meaningfully above historical norms. Our technical outlook has improved as price has regained both the 50- and 200-day moving averages to the upside and the sector is gaining relative strength and momentum.						
Financials – Market Perform	12.03%					
Outlook: Interest rate and industry-specific uncertainties along with inflation concerns and stable balance sheets. Fundamentals: Pressure on core lending profitability in a slower growth environment remains a key headwind, though strong corporate balance sheets, and solid capital positions provide fundamental support. Valuation & Technicals: Valuations edged higher and now sit modestly above long-term averages. Our technical outlook has improved slightly as sector participation has begun to broaden. However, price is trading below the 200-day moving average which has acted as resistance to the upside.						
Real Estate – Underperform	1.88%					
Outlook: Cautious stance warranted as robust sub-sectors, like data centers continue to separate from soft office dynamics. Fundamentals: Mixed fundamentals and ongoing pressure in sub-sectors create uncertainty, though structural tailwinds from e-commerce, cloud adoption, and data center expansion provide support. Valuation & Technicals: Valuations appear fair. Technicals are weak and momentum has diverged from price, a warning sign of potential downside.						
Communication Services – Outperform	11.03%					
Outlook: Expected to remain resilient with strong structural support. Fundamentals: Regulatory scrutiny, industry concentration, and potential softness in ad and subscription spending present near-term risks, though broad participation in AI, alongside growth in digital advertising, streaming monetization, and 5G expansion, supports the long-term outlook. Valuation & Technicals: Valuations expanded further, reflecting renewed investor willingness to pay for long-duration growth and earnings visibility. Our technical outlook has improved meaningfully as the price uptrend appears to have resumed, and the sector is gaining relative strength and momentum.						
Energy – Market Perform	3.51%					
Outlook: Valuation reset has reduced froth, but geopolitics and oil-driven inflation risks may increase volatility in the near-term. Fundamentals: Global growth concerns and elevated oil prices may weigh on demand and introduce near-term downside risk, though structural demand from AI-driven power needs provide underlying support amid ongoing geopolitical uncertainty. Valuation & Technicals: Valuations compressed meaningfully, resetting from elevated levels and moving closer to long-run norms. Our technical outlook has moderated but relative strength and momentum indicate that the sector may lag the broad market in the near-term.						
Industrials – Outperform	8.81%					
Outlook: Structural tailwinds remain supportive, and Industrials remain a higher conviction sector with resilient valuations. Fundamentals: A slowing economy and geopolitical uncertainty may pressure economically sensitive areas such as transports and logistics, though infrastructure investment, supply chain reshoring, AI-driven demand, and defense spending provide durable long-term support. Valuation & Technicals: Valuations moved modestly higher, remaining above historical averages as expectations for steady economic activity persist. Our technical outlook remains relatively weak. However, the long-term price uptrend remains intact, and price has regained the 50-day moving average.						
Technology – Outperform	35.00%					
Outlook: Valuations have re-expanded and are back to more elevated levels. Near-term returns are likely to hinge on continued earnings delivery, but the price trend has improved materially, supported by improving relative strength and momentum. Fundamentals: Elevated growth expectations may leave valuations vulnerable, while higher bond yields add pressure, though powerful secular tailwinds including AI infrastructure, cloud expansion, semiconductor demand, and global digital transformation continue to support long-term fundamentals. Valuation & Technicals: Valuations expanded sharply, extending further above historical averages as investors rewarded long-term growth potential. Our technical outlook has turned bullish as relative strength, momentum, and breadth all improved alongside new price highs.						
Consumer Staples – Underperform	4.94%					
Outlook: The sector has been a defensive haven amid market volatility, but valuation concerns have become a risk. Fundamentals: Elevated valuations, shifting consumer behavior (including GLP-1 impact), and slower volume growth may constrain upside, though pricing power among leading brands, operational efficiencies, and the sector's defensive characteristics continue to provide support. Valuation & Technicals: Valuations edged higher and remain priced at premiums to historical averages following prior expansion. Our technical outlook remains weak as price continues to consolidate. The sector is losing relative strength and momentum while breadth measurements lack conviction.						
Health Care – Market Perform	8.50%					
Outlook: Long-term tailwinds remain supportive however; short-term technical price action warrants caution. Fundamentals: Regulatory uncertainty and drug pricing reforms present near-term headwinds, though aging demographics, managed care expansion, biotech innovation, and productivity gains from AI and GLP-1 therapies offer sustained long-term support. Valuation & Technicals: Valuations eased modestly, moving closer to long-term norms after a period of relative strength. Our technical outlook has weakened further as trend strength continues to deteriorate. We are monitoring a potential bullish momentum divergence for signs of a trend reversal.						
Utilities – Market Perform	2.35%					
Outlook: Balanced risk-reward profile for the sector and near-term technical weakness lead us to our neutral view on the sector. Fundamentals: Regulatory pressures and rising costs may limit upside potential, though stable demand, grid modernization, and growing energy needs from AI and electrification trends support underlying fundamentals. Valuation & Technicals: Valuations were little changed and remain elevated versus history, consistent with ongoing demand for defensive exposure. Our technical outlook has moderated slightly as the sector consolidates as the shorter-term uptrend begins to fade along with strength and momentum.						

Cyclical

Sensitive

Defensive

Economy & Cycle

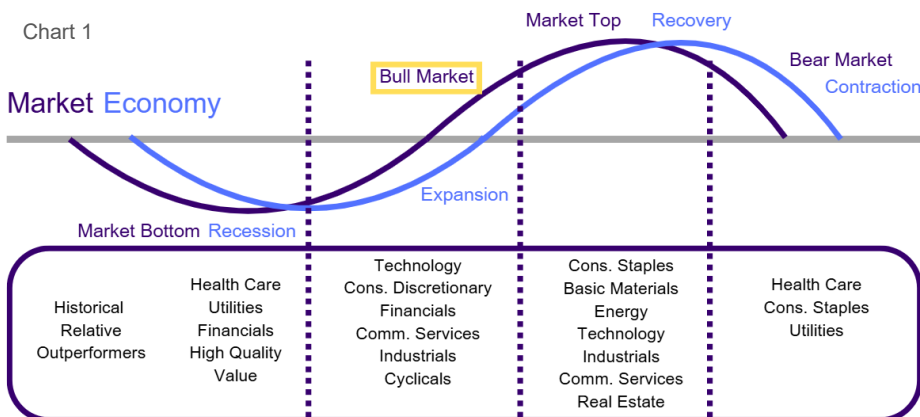
Economy

The U.S. economy enters the second quarter of 2026 with growth holding up better than anticipated, supported by deferred activity from last year's government shutdown, larger tax refunds, and resilient underlying demand. Inflation remains above target, partly due to higher energy prices tied to geopolitical tensions, which has tempered expectations for near-term Fed rate cuts and may keep policy on hold longer than markets anticipated. Consumer spending remains supportive for Consumer Discretionary, though labor market momentum is moderating, while continued investment in automation and AI supports longer-term opportunities in Technology, Industrials, and Communication Services. Lower rate expectations are constructive for Financials, Real Estate, and Utilities, and Health Care remains well positioned amid favorable demographic trends. Overall, the outlook remains constructive but increasingly nuanced, reinforcing the importance of diversification amid elevated valuations and geopolitical risks.

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 April 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
S&P 500		21.07	17.00	3.23	1.97	4.76	3.06	16.34	12.22	1.46	1.43	1.06%
Cyclical	Basic Materials	18.28	16.28	2.25	1.55	3.03	2.49	12.10	9.99	1.56	1.58	1.65%
	Cons. Discretionary	28.77	24.36	2.88	1.75	7.23	6.43	17.98	14.61	2.57	1.44	0.55%
	Financials	14.76	13.72	3.21	2.39	2.12	1.49	N/A	N/A	1.17	1.23	1.54%
	Real Estate	18.64	18.64	6.32	6.12	3.32	3.03	18.39	17.46	2.68	2.33	3.10%
Sensitive	Comm. Services	21.52	17.96	4.62	2.58	4.77	3.08	13.47	9.72	1.56	1.32	0.56%
	Energy	15.11	13.58	1.61	1.10	2.30	1.84	7.84	7.25	1.15	1.01	2.59%
	Industrials	25.63	17.73	2.92	1.68	6.51	4.01	19.55	12.38	1.72	1.46	1.08%
	Technology	23.78	18.29	7.59	3.93	9.24	5.83	20.27	14.34	1.20	1.37	0.48%
Defensive	Cons. Staples	24.04	18.53	1.57	1.21	6.41	4.67	17.80	13.89	3.42	2.40	2.10%
	Health Care	17.08	15.20	1.40	1.48	4.22	3.50	14.88	12.77	1.99	1.52	1.74%
	Utilities	19.02	16.10	2.87	1.92	2.22	1.72	9.17	7.45	1.75	2.35	2.56%

Source: FactSet, Cetera Investment Management

Valuations

- **The S&P 500:** Valuations moved higher during April, extending further above historical averages as investors continued to accept a higher cost of equity. The pattern suggests valuations are leading fundamentals for now, increasing reliance on future earnings delivery to justify current pricing.
- **Cyclical Sectors:** Valuation trends across cyclical sectors remain mixed. **Consumer Discretionary** continued to re-rate higher, reflecting renewed confidence in earnings durability, while **Financials** and **Real Estate** edged modestly above long-term norms. **Basic Materials** was little changed. Overall, dispersion within cyclicals has increased, reinforcing the importance of selectivity.
- **Sensitive Sectors:** Sensitive sector valuations broadly expanded as investors once again rewarded long-duration growth. **Technology** and **Communication Services** led the move higher, pushing valuations further above historical averages, while **Industrials** also participated. **Energy** diverged meaningfully, with valuations resetting from elevated levels, consistent with re-rating rather than a deterioration in underlying fundamentals.
- **Defensive Sectors:** Defensive sector valuations were mixed. **Consumer Staples** and **Utilities** remained priced at premiums to history following prior expansion, while **Health Care** valuations eased modestly and moved closer to long-term norms. Taken together, defensive positioning appears to be consolidating rather than meaningfully extending.

Technicals

Sector Relative Strength

Cyclical Sectors *mixed*

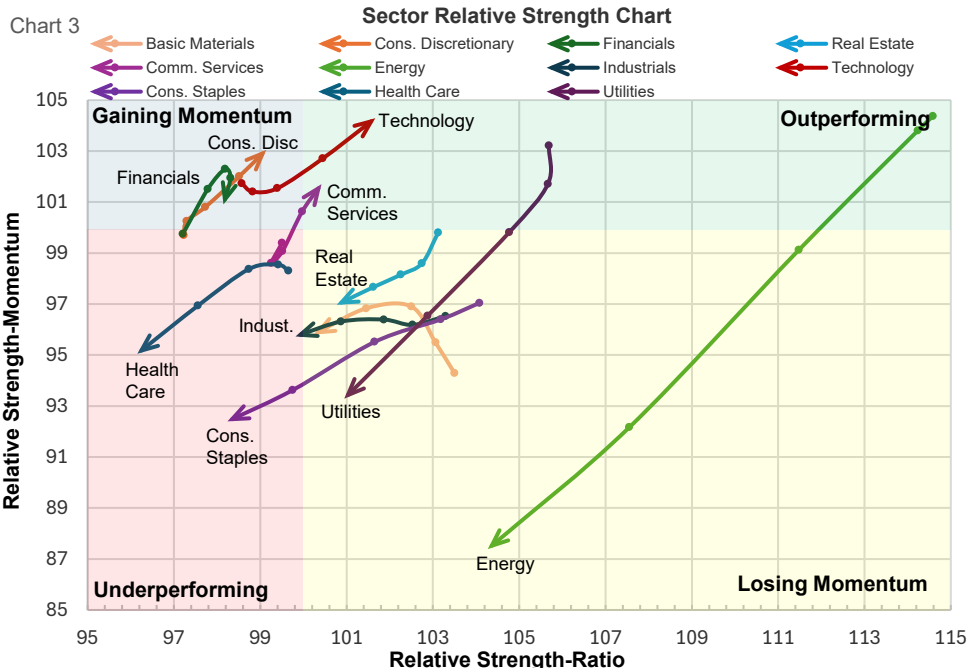
- Consumer Discretionary continues to gain relative strength and momentum
- Financials have begun to lose momentum and may begin to underperform
- Basic Materials and Real Estate are continuing to lose relative strength and momentum.

Sensitive Sectors *mixed*

- Technology and Communication Services are gaining relative strength and momentum and have entered the outperforming quadrant
- Energy momentum has plummeted while Industrials moves closer to underperforming

Defensive Sectors *losing strength and momentum*

- Health Care and Consumer Staples have begun to underperform while Utilities appear to be following their lead

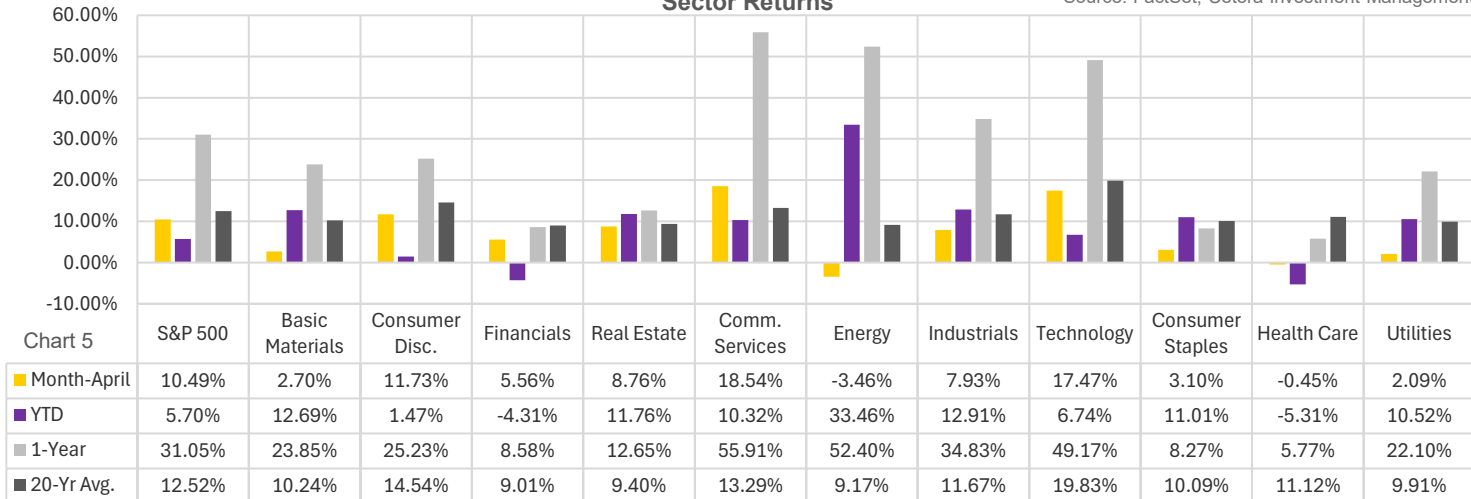


Source: FactSet, Cetera Investment Management

Chart 4		Sector Trend Analysis								*MA = Moving Avg.
Month-End April 2026		Price	50-Day MA	% from MA	20-Yr Avg.	Deviation	YTD	M/M MA Change	Trend	Overbought/Oversold
S&P 500		7,209.01	6,814.55	5.79%	0.85%	1.43	5.70%	0.37%	Neutral	Overbought
Cyclical	Basic Materials	644.42	640.43	-4.00%	0.63%	-0.76	12.69%	0.25%	Neutral	Neutral
	Cons. Discretionary	1,953.03	1,834.54	6.46%	1.01%	1.24	1.47%	-0.69%	Neutral	Overbought
	Financials	866.90	842.09	2.95%	0.41%	0.48	-4.31%	-1.24%	Neutral	Neutral
	Real Estate	282.37	271.34	4.06%	0.39%	0.70	11.76%	1.54%	Neutral	Neutral
Sensitive	Comm. Services	497.72	449.01	10.85%	0.65%	2.39	10.32%	0.44%	Neutral	Extreme Overbought
	Energy	910.23	882.13	3.19%	0.48%	0.48	33.46%	3.83%	Up	Neutral
	Industrials	1,477.85	1,435.67	2.94%	0.81%	0.59	12.91%	0.38%	Neutral	Neutral
	Technology	6,057.71	5,517.05	9.80%	1.43%	1.91	6.74%	1.75%	Neutral	Overbought
Defensive	Cons. Staples	952.85	942.97	1.05%	0.68%	0.36	11.01%	-1.01%	Neutral	Neutral
	Health Care	1,700.55	1,742.61	-2.41%	0.78%	-0.68	-5.31%	-2.49%	Neutral	Neutral
	Utilities	475.96	469.93	1.28%	0.56%	0.33	10.52%	2.15%	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

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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.

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 Relative Strength Chart shows how each sector performs versus the S&P 500. The horizontal axis measures relative strength, or performance versus the broader market. The vertical axis shows momentum, indicating whether 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. Helping identify which sectors are gaining or losing strength and where we might see future opportunities.

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.

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