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: October 2025

Underperform | Market Perform | Outperform

Outperform:	Underperform:
Technology	Basic Materials
Communication Services	Consumer Staples

Sector/Rationale | S&P 500 Weight | Team View | Fundamentals | Cycle | Valuation | Technicals

Cyclical

Basic Materials 1.78%

Rating Downgraded to Underperform in the near term: A cautious stance is prudent amid weakening technicals.
Headwinds: Inflation pressures, tariff-related cost burdens, and global demand uncertainty cloud near-term visibility.
Tailwinds: Structural support from EV and renewable energy demand, infrastructure investment, and reshoring efforts.
Valuation & Technicals: Valuations have slightly moderated but remain elevated; technical momentum is weak, with price falling below the 50-day moving average and breadth fading.

Consumer Discretionary 10.14%

Rating Maintained at Market Perform. Sector is supported by a few stocks maintaining market share.
Headwinds: Tariff-related price uncertainty and economic cooling may impact lower-income consumer sentiment and fundamentals.
Tailwinds: Resiliency supported by high-income consumer demand.
Valuation & Technicals: Valuations continue to rise, reinforcing caution; technical outlook is neutral with weakening breadth and momentum.

Financials 13.54%

Rating Maintained at Market Perform: Macro and sector-specific uncertainties.
Headwinds: Tariffs risk impact to business confidence. Lower rate environment with sluggish lending.
Tailwinds: Strong corporate balance sheets and solid capital positions among major banks.
Valuation & Technicals: Valuations remain attractive versus growth sectors; however, technical momentum is fading and relative strength is weakening, signaling a potential trend shift.

Real Estate 1.92%

Rating Maintained at Market Perform: reflecting a cautiously optimistic stance as interest rates come down.
Headwinds: Soft office demand and high sensitivity to interest rate movements.
Tailwinds: Falling financing costs, e-commerce growth, cloud adoption, and data center expansion.
Valuation & Technicals: Valuations appear fair; technical downtrend appears to be stabilizing, with potential for improvement as rate easing begins.

Sensitive

Communication Services 8.86%

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: Digital advertising, streaming monetization, 5G expansion, and pricing power from mega-cap leaders.
Valuation & Technicals: Valuation metrics are rising (except PEG), reflecting growth optimism; price uptrend remains intact, supported by relative strength. We are monitoring the sector for signs of weakening price momentum amid increased volatility.

Energy 2.89%

Rating Maintained at Market Perform: Macro risks and price volatility lead to a cautious sentiment.
Headwinds: Global growth concerns and oil price volatility continue to weigh on performance.
Tailwinds: Improving technicals and potential for tactical rebound if sentiment and macro conditions stabilize.
Valuation & Technicals: Valuations are near long-term averages; technicals show early signs of recovery but remain in a long-term downtrend below key resistance levels.

Industrials 8.29%

Rating Maintained at Market Perform: Concerns over macroeconomic and geopolitical headwinds.
Headwinds: Economic slowdown and geopolitical uncertainty are weighing on sentiment and performance.
Tailwinds: Long-term support from energy infrastructure investment, supply chain re-shoring, AI-driven demand, and defense spending.
Valuation & Technicals: Valuations remain elevated; technical momentum is weakening, prompting a watch for stabilization signals.

Technology 34.78%

Rating Upgraded to Outperform: Driven by improved technicals and strong fundamental support.
Headwinds: Elevated valuations leave little room for disappointment if growth expectations are not met.
Tailwinds: Secular drivers include AI infrastructure, cloud expansion, semiconductor demand, and global digital transformation.
Valuation & Technicals: Valuations are well above historical averages; technicals show regained relative strength and a steady uptrend.

Defensive

Consumer Staples 4.91%

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, offering some support.
Valuation & Technicals: Valuations are moderating but remain elevated; technicals show weak momentum and lack conviction.

Health Care 10.54%

Rating Maintained at Market Perform: Valuations are relatively attractive, and our technical outlook continues to improve.
Headwinds: Regulatory uncertainty and drug pricing reforms continue to weigh on sentiment.
Tailwinds: Aging demographics, managed care growth, and biotech innovation support structural strength.
Valuation & Technicals: Relatively attractive valuations and a completed “double bottom” pattern suggest potential for a price trend reversal.

Utilities 2.35%

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 potential rate cuts.
Valuation & Technicals: Sector is advancing to new highs with rising valuation ratios; outlook remains cautiously optimistic, contingent on catalysts and rate sensitivity.

Economy & Cycle

Economy

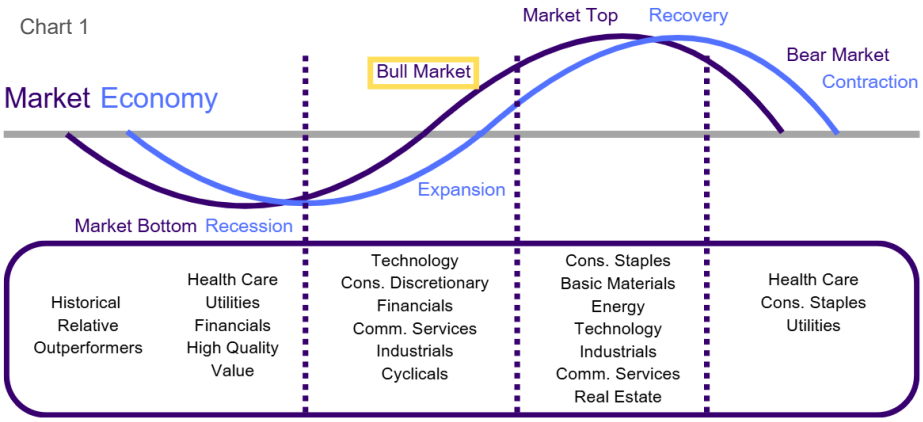
The economy appears to be at a potential inflection point, and investor uncertainty around growth, inflation and Fed policy is contributing to elevated market volatility. As investors look ahead, sector leadership may begin to shift in response to changing macro conditions and earnings expectations. Despite sluggish job growth, equity markets have reached new highs, driven by forward-looking optimism. Sectors tied to discretionary spending and technology have benefited from this momentum, though elevated valuations raise the bar for continued outperformance. If earnings disappoint or macro conditions deteriorate, these sectors may be more vulnerable to downside risk. Meanwhile, defensive sectors such as Health Care, Utilities, and Energy continue to attract interest, supported by more stable fundamentals and income potential. These areas may offer relative resilience if volatility persists or economic growth slows.

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 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 and Communication Services often outperform in mid-cycle expansions.

Chart 1



Source: Cetera Investment Management

Chart 2		Valuation										
Month-End Sep. 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		22.90	16.81	3.22	1.93	4.86	3.01	17.48	12.07	2.01	1.42	1.11%
Cyclical	Basic Materials	20.13	16.10	2.13	1.57	2.75	2.56	12.71	9.96	2.00	1.61	1.93%
	Cons. Discretionary	30.12	23.86	2.87	1.69	7.84	6.12	17.81	14.45	3.24	1.36	0.57%
	Financials	16.68	13.66	3.53	2.36	2.32	1.46	N/A	N/A	1.35	1.23	1.37%
	Real Estate	17.88	18.67	6.28	6.14	3.13	3.03	17.93	17.46	1.97	2.30	3.22%
Sensitive	Comm. Services	21.27	17.79	4.29	2.52	4.57	3.03	13.02	9.59	1.95	1.28	0.64%
	Energy	15.24	13.25	1.37	1.08	1.93	1.83	7.22	7.23	1.58	1.06	3.23%
	Industrials	24.53	17.56	2.73	1.65	6.21	3.94	18.48	12.20	2.23	1.47	1.19%
	Technology	30.54	18.01	8.74	3.81	10.85	5.72	25.58	14.07	2.22	1.36	0.50%
Defensive	Cons. Staples	22.15	18.37	1.48	1.21	6.02	4.65	16.85	13.79	3.68	2.36	2.29%
	Health Care	16.98	15.07	1.38	1.47	4.16	3.45	15.03	12.62	1.75	1.50	1.76%
	Utilities	18.73	16.01	2.80	1.89	2.20	1.70	9.17	7.39	2.32	2.36	2.68%

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 remains well above historical averages, reflecting a market still buoyed by optimism. However, subtle shifts in valuation metrics suggest a market in the early stages of recalibration. Investors appear to be rotating selectively, favoring sectors with more grounded fundamentals and income potential. Defensive areas such as Health Care and Energy continue to show valuation support, reinforcing a preference for stability amid ongoing macro uncertainty. Meanwhile, high-growth sectors like Technology, Industrials, and Consumer Discretionary remain richly valued, with premium multiples expanding further. Technology continues to lead in valuation, and while its growth outlook remains strong, rising PEG ratios suggest that high growth expectations are being priced in. Elevated valuations across these sectors reflect confidence but also raise the stakes—leaving little room for disappointment. In this environment, sectors priced for perfection may face downside risk if earnings or macro conditions fall short, potentially prompting a continued rotation toward more reasonably valued opportunities.

Technicals

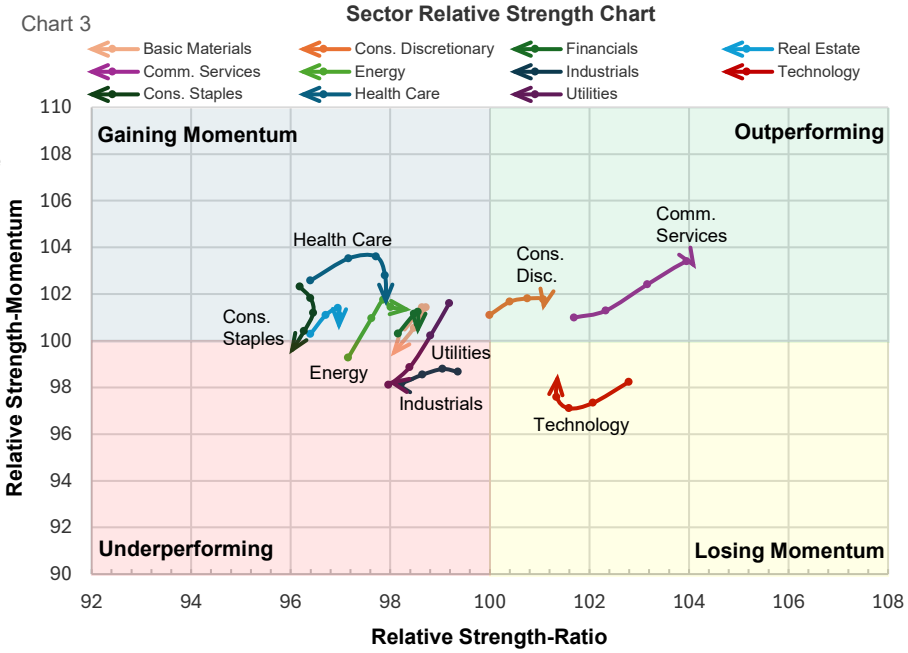
Sector Relative Strength

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, 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).

Communication Services and Consumer Discretionary have displayed increased strength and momentum but are showing signs of cooling. Technology is gaining momentum and appears to be making a sub-rotation back toward the outperforming quadrant. Defensive sectors remain challenged as they struggle to gain relative strength versus growth sectors.

Chart 3



Source: FactSet, Cetera Investment Management

Chart 4		Sector Trend Analysis								*MA = Moving Avg.
Month-End Sep. 2025		Price	50-Day MA	% from MA	20-Yr Avg.	Deviation	YTD	M/M MA Change	Trend	Overbought/Oversold
S&P 500		6,688.46	6,474.72	3.30%	0.86%	0.82	14.83%	2.51%	Up	Neutral
Cyclical	Basic Materials	570.71	572.62	-4.00%	0.66%	-0.77	9.32%	0.81%	Neutral	Neutral
	Cons. Discretionary	1,917.97	1,859.30	3.16%	1.03%	0.61	5.30%	3.43%	Up	Neutral
	Financials	896.86	882.92	1.58%	0.49%	0.26	12.75%	1.22%	Neutral	Neutral
	Real Estate	264.79	262.63	0.82%	0.43%	0.14	6.19%	0.24%	Neutral	Neutral
Sensitive	Comm. Services	422.60	405.41	4.24%	0.66%	0.93	24.51%	6.02%	Up	Neutral
	Energy	682.82	668.28	2.18%	0.37%	0.33	7.04%	1.01%	Neutral	Neutral
	Industrials	1,306.11	1,284.03	1.72%	0.81%	0.35	18.38%	0.92%	Neutral	Neutral
	Technology	5,612.00	5,317.33	5.54%	1.43%	1.09	22.31%	3.53%	Up	Overbought
Defensive	Cons. Staples	871.10	888.25	-1.93%	0.66%	-0.67	3.89%	-0.64%	Neutral	Neutral
	Health Care	1,623.95	1,578.03	2.91%	0.74%	0.83	2.61%	0.89%	Neutral	Neutral
	Utilities	443.18	431.79	2.64%	0.50%	0.69	17.69%	1.36%	Neutral	Neutral

Source: FactSet, Cetera Investment Management

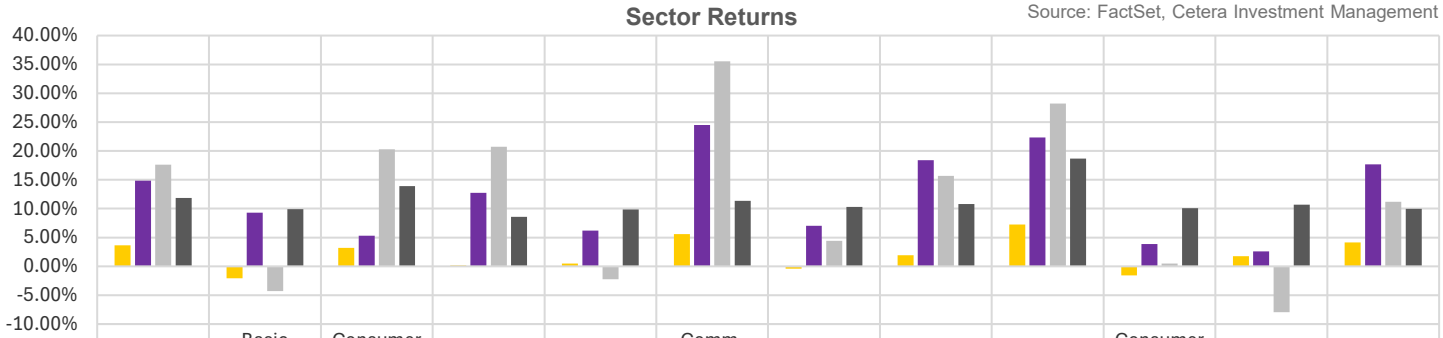


Chart 5	S&P 500	Basic Materials	Consumer Disc.	Financials	Real Estate	Comm. Services	Energy	Industrials	Technology	Consumer Staples	Health Care	Utilities
Month-Sep	3.65%	-2.08%	3.22%	0.14%	0.49%	5.60%	-0.43%	1.95%	7.25%	-1.56%	1.78%	4.16%
YTD	14.83%	9.32%	5.30%	12.75%	6.19%	24.51%	7.04%	18.38%	22.31%	3.89%	2.61%	17.69%
1-Year	17.60%	-4.27%	20.31%	20.75%	-2.24%	35.55%	4.43%	15.69%	28.22%	0.51%	-7.95%	11.20%
20-Yr Avg.	11.88%	9.94%	13.92%	8.59%	9.87%	11.33%	10.30%	10.82%	18.68%	10.07%	10.71%	9.95%

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.

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® 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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