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: September 2025

Underperform | Market Perform | Outperform

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

Cyclical

Basic Materials — 1.93%

The Materials sector remains a Market Perform rating, reflecting a neutral stance amid mixed macro signals. Structural tailwinds from EV and renewable energy demand, infrastructure investment, and reshoring efforts help stabilize the sector, while near-term visibility is clouded by inflation pressures, tariff-related cost burdens, and global demand uncertainty. Valuation ratios have risen across most metrics and remain above historical averages. Sector technicals continued to improve as the sector begins to gain relative price momentum supported by increasing breadth.

Consumer Discretionary — 10.01%

The Consumer Discretionary sector remains a Market Perform rating. This sector shows resiliency driven by e-commerce growth, travel and leisure spending, and high-income consumers. However, tariff-related price uncertainty and a cooling economy should be monitored for impact on lower-income consumer sentiment as they are likely to weigh on fundamentals. Fed rate cuts may provide support, but valuations have continued to rise, reinforcing a cautious stance. Our technical outlook has improved, supported by increasing relative strength, momentum, and steady upward price trend.

Financials — 13.96%

The Financials sector is well positioned from strong corporate balance sheets, and solid capital positions among major banks. However, we maintain a Market Perform stance given the uncertain path to rate cuts, sluggish lending activity, and ongoing concerns around commercial real estate exposure. Valuations remain attractive relative to growth sectors. While investors may still favor Financials as a value play in a growth-driven market, technical momentum is fading and diverging from price action—often an early signal of a potential trend shift. We will continue to monitor these developments closely as the steady price uptrend still appears intact.

Real Estate — 1.95%

We upgrade the Real Estate sector to Market Perform, reflecting a cautiously optimistic view. While office demand remains soft, we expect falling financing costs, structural tailwinds from e-commerce, cloud adoption, and data center growth are likely to improve sentiment. Meanwhile, the sector's technical downtrend is showing signs of stabilizing and valuations appear fair. Given the sector's sensitivity to interest rates, we are watching closely for signs of fundamental improvement as easing begins.

Sensitive

Communication Services — 9.08%

The Communication Services sector remains an Outperform and is expected to remain resilient, supported by digital advertising, streaming monetization, strong pricing power from mega-cap leaders, and the ongoing expansion of 5G. Risks persist from regulatory scrutiny, industry concentration, and potential reductions in ad and subscription spending in a slowing economy. While most valuation metrics have moved higher, the PEG ratio declined below 2.0, signaling improved growth expectations. Despite valuation headwinds, structural growth drivers and relative strength continue to support a positive outlook.

Energy — 3.03%

The Energy sector shows signs of a possible rebound, but we maintain our Market Perform outlook as global growth and price volatility could weigh on performance. While valuations are near long-term averages, the sector remains in a long-term downtrend and is struggling to break above key technical levels. We're watching for signs of a near-term rebound if sentiment improves. Should macro conditions stabilize and oil prices hold firm, a tactical recovery appears increasingly plausible.

Industrials — 8.46%

We have downgraded the Industrials sector to Market Perform in view of an economic slowdown and geopolitical uncertainty. However, long-term tailwinds such as energy infrastructure investment, supply chain re-shoring, AI-driven demand, and defense spending, continue to support the sector. Valuations remain elevated and warrant caution as the sector is losing relative strength and momentum. We will continue to monitor the sector for signs of stabilization.

Technology — 33.48%

We have downgraded the Technology sector to Market Perform due to elevated valuations and emerging regulatory pressures. The long-term growth narrative remains intact from secular tailwinds including AI infrastructure buildout, cloud expansion, semiconductor demand, and global digital transformation. However, the sector is losing short-term relative strength and momentum while breadth has remained relatively weak. These headwinds increase the risk of near-term pullbacks, warranting a more cautious stance.

Defensive

Consumer Staples — 5.20%

We continue to rate the Consumer Staples sector as Underperform, reflecting its expected relative weakness compared to other sectors. While some leading brands retain pricing power, shifting consumer behavior—partly driven by GLP-1 drug adoption—and tariff exposure threaten pricing strength. This shift, combined with slower volume growth, limits the sector's upside potential. The sector also faces headwinds of elevated valuations and weak technicals. Although relative strength and momentum have improved, price has remained locked in a sideways trading range.

Health Care — 10.54%

We have upgraded the Health Care sector to Market Perform. While it has outperformed recently, it still faces a few headwinds from regulatory uncertainty and drug pricing reforms. Investor sentiment is likely to remain cautious from these policy risks. Valuations have remained relatively attractive, and technicals are improving as price is attempting to break its year-long downtrend. Long-term tailwinds—driven by aging demographics, managed care demand, and biotech innovation—continue to support the sector.

Utilities — 2.36%

We maintain our Market Perform rating on the Utilities sector. The outlook is supported by stable demand, grid modernization, AI-driven energy needs, and potential tailwinds from falling interest rates. Regulatory pressures and cost inflation remain key headwinds. Valuations have moderated slightly, and the sector is showing signs of short-term technical weakness. However, we remain cautiously optimistic, with the outlook dependent on upside catalysts and rate sensitivity.

Economy & Cycle

Economy

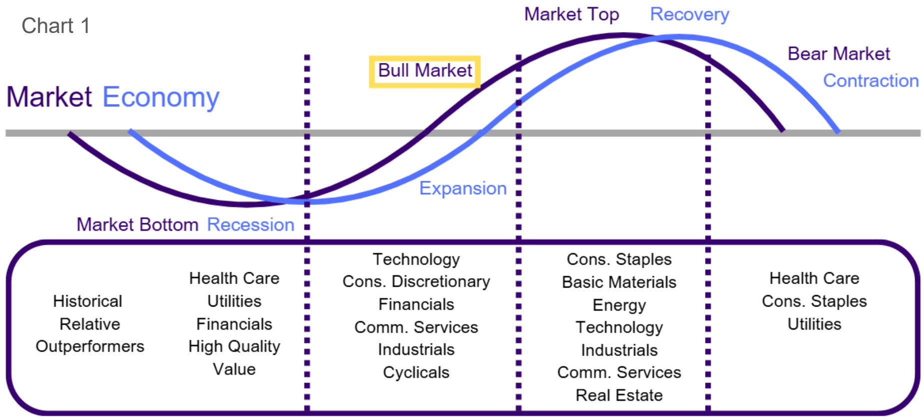
The first half of 2025 was defined by volatility and resilience. Following a sharp correction in early April driven by sweeping tariff announcements, the S&P 500 rebounded nearly 25% from its lows, setting multiple record highs. Economic growth was mixed, inflation moderated, and a stable labor market 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 and Communication Services often outperform in mid-cycle expansions.

Chart 1



Source: Cetera Investment Management

Chart 2		Valuation										
Month-End Aug. 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		22.31	16.79	3.11	1.92	4.72	3.00	16.99	12.04	1.88	1.42	1.15%
Cyclical	Basic Materials	20.57	16.08	2.18	1.57	2.83	2.56	12.71	9.95	1.85	1.61	1.88%
Cyclical	Cons. Discretionary	29.24	23.88	2.76	1.68	7.63	6.09	17.34	14.42	3.03	1.36	0.59%
Cyclical	Financials	16.70	13.65	3.51	2.35	2.31	1.46	N/A	N/A	1.40	1.23	1.36%
Cyclical	Real Estate	18.01	18.67	6.31	6.14	3.20	3.03	18.04	17.46	1.96	2.30	3.21%
Sensitive	Comm. Services	20.28	17.77	4.09	2.51	4.38	3.02	12.47	9.58	1.94	1.28	0.67%
Sensitive	Energy	15.37	13.24	1.38	1.08	1.94	1.83	7.31	7.23	1.69	1.05	3.20%
Sensitive	Industrials	24.37	17.53	2.71	1.65	6.14	3.93	18.32	12.17	2.23	1.47	1.22%
Sensitive	Technology	29.13	17.96	8.23	3.79	10.41	5.70	24.35	14.02	1.91	1.36	0.54%
Defensive	Cons. Staples	22.44	18.35	1.50	1.21	6.13	4.64	17.07	13.78	3.46	2.36	2.27%
Defensive	Health Care	16.83	15.06	1.37	1.47	4.14	3.45	14.95	12.61	1.59	1.50	1.78%
Defensive	Utilities	18.18	16.00	2.70	1.88	2.13	1.70	8.83	7.39	2.25	2.37	2.78%

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 above historical averages, underscoring a market still driven by optimism—but with signs of recalibration. Investors appear to be rotating selectively, favoring sectors with more grounded fundamentals and income potential. Defensive areas like Health Care, Energy, and Basic Materials saw valuation support, suggesting a shift toward stability amid macro uncertainty. Meanwhile, high-growth sectors such as Technology and Industrials, while still commanding premium multiples, showed signs of normalization. Technology remains the most richly valued sector, however its PEG ratio below 2.0 implies that growth expectations may still justify the premium. That said, elevated valuations can be a double-edged sword—reflecting confidence but also setting a high bar. In this environment, sectors priced for perfection may face downside risk if earnings or macro conditions disappoint, prompting a rotation toward more reasonably valued opportunities.

Technicals

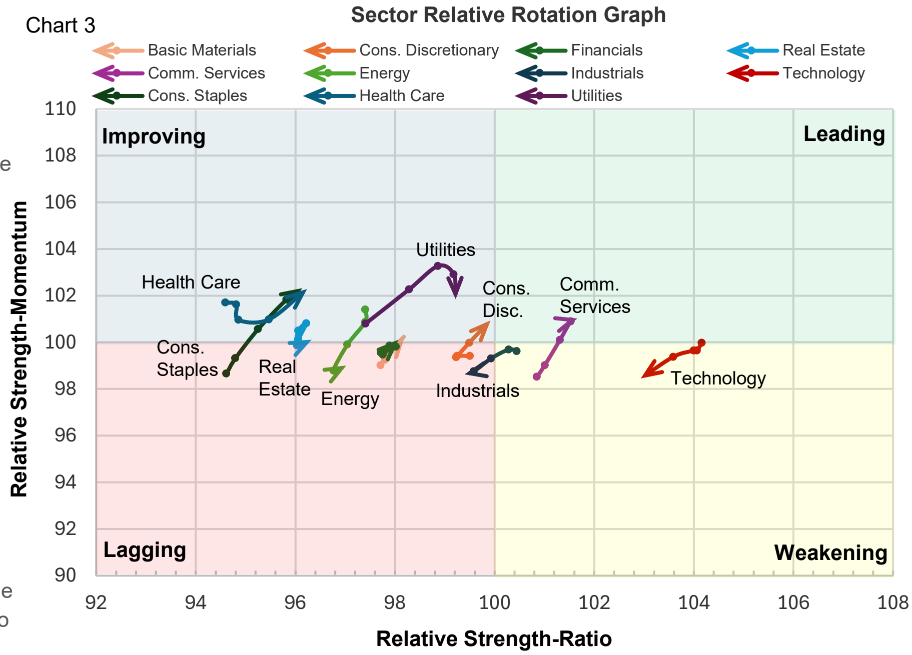
Sector Relative Rotation

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).

Communication Services has regained strength, rotating back into the leading quadrant, while Technology continues to lose relative strength and momentum. Consumer Discretionary is showing signs of improvement and may be on track to enter the leading quadrant. Notably, defensive sectors have continued to strengthen, contrasting with the ongoing weakness in economically sensitive areas.

Chart 3



Source: FactSet, Cetera Investment Management

Chart 4		Sector Trend Analysis								*MA = Moving Avg.
	Month-End Aug. 2025	Price	50-Day MA	% from MA	20-Yr Avg.	Deviation	YTD	M/M MA Change	Trend	Overbought/Oversold
	S&P 500	6,460.26	6,316.15	2.28%	0.84%	0.57	10.79%	3.14%	Up	Neutral
Cyclical	Basic Materials	584.18	568.04	-4.00%	0.65%	-0.77	11.64%	1.61%	Neutral	Neutral
Cyclical	Cons. Discretionary	1,860.03	1,797.70	3.47%	1.00%	0.67	2.02%	2.66%	Up	Neutral
Cyclical	Financials	896.53	872.32	2.78%	0.48%	0.45	12.59%	1.60%	Neutral	Neutral
Cyclical	Real Estate	265.17	262.00	1.21%	0.42%	0.21	5.67%	0.06%	Neutral	Neutral
Sensitive	Comm. Services	400.45	382.39	4.72%	0.61%	1.04	17.91%	4.32%	Up	Overbought
Sensitive	Energy	686.39	661.58	3.75%	0.39%	0.57	7.50%	1.28%	Neutral	Neutral
Sensitive	Industrials	1,284.04	1,272.29	0.92%	0.81%	0.19	16.12%	2.43%	Neutral	Neutral
Sensitive	Technology	5,234.57	5,136.03	1.92%	1.42%	0.38	14.04%	5.70%	Up	Neutral
Defensive	Cons. Staples	887.23	893.94	-0.75%	0.66%	-0.26	5.54%	-0.30%	Neutral	Neutral
Defensive	Health Care	1,598.13	1,564.07	2.18%	0.74%	0.62	0.81%	0.30%	Neutral	Neutral
Defensive	Utilities	426.24	425.99	0.06%	0.51%	0.02	13.00%	2.44%	Neutral	Neutral

Source: FactSet, Cetera Investment Management

Chart 5	S&P 500	Basic Materials	Consumer Discretionary	Financials	Real Estate	Comm. Services	Energy	Industrials	Technology	Consumer Staples	Health Care	Utilities
Month-Aug	2.03%	5.76%	3.40%	3.12%	2.18%	3.58%	3.64%	0.01%	0.34%	1.59%	5.38%	-1.58%
YTD	10.79%	11.64%	2.02%	12.59%	5.67%	17.91%	7.50%	16.12%	14.04%	5.54%	0.81%	13.00%
1-Year	15.88%	0.34%	24.82%	19.92%	0.50%	34.31%	2.06%	17.33%	22.54%	3.03%	-11.09%	13.81%
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.

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