

## Sector Snapshot

This report is intended to highlight the dynamics underlying the 11 S&P 500 sectors, with a goal of providing a timely assessment to be used in developing your personal portfolio strategy. Our time horizon for the sector weightings is not meant to be short-term oriented. The views presented here are based on current market conditions and are not necessarily reflective of our thoughts for the entire year.

Most investors should seek diversity to balance risk versus reward. For this reason, even the least-favored sectors may be appropriate for portfolios seeking a more balanced equity allocation. Those investors seeking a more aggressive investment style may choose to overweight the preferred sectors and entirely avoid the least

favored sectors. Investors should consult their financial advisors to formulate a strategy customized to their preferences, needs and goals.

These recommendations will be displayed as such:

**Overweight:** favored areas to look for ideas, as we expect relative outperformance

**Market Weight:** expect in line relative performance

**Underweight:** unattractive expectations relative to the other sectors; exposure might be needed for diversification

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	SECTOR	S&P WEIGHT	COMMENTARY
OVERWEIGHT	INFORMATION TECHNOLOGY	30.4%	Despite recent volatility in the Tech sector, we maintain our Overweight stance as AI investment should continue to propel earnings going forward. AI-related capital expenditure is expected to remain strong through 2025, which supports first derivative beneficiaries (semiconductors), then monetization should broaden into second derivative beneficiaries (cloud, software applications and hardware devices) in the second half of 2024 into 2025. Any short-term consolidation should be viewed as an opportunity to build positions in this multi-year innovation cycle.
	HEALTH CARE	12.2%	Forward earnings estimates have stabilized and begun to inflect higher after suffering from negative revisions over the last two years driven by post-COVID normalization. The sector's PEG ratio (price/earnings ratio divided by earnings growth) of ~1x is the most attractive of all sectors and Health Care is historically the best performing sector following the first Fed rate cut. Additionally, the sector should benefit from long-term demographic trends (e.g., aging population). Medical devices are an area of strength as the post-COVID inventory normalization appears complete.
	INDUSTRIALS	7.8%	Supportive fiscal spending dynamics (IRA, CHIPS and Science Act, and IIJA), reshoring of global supply chains, and fixed investment in data centers driven by AI should outweigh cyclical headwinds enough to mark an earnings trough in 2024. Our Overweight stance is focused on direct beneficiaries including conglomerates, electrical components, and construction.
	ENERGY	3.2%	With WTI trading below our \$75 price target, we believe there's upside to oil prices and the Energy sector over the next twelve months. The sector trades at 13x 2025 earnings with an 8% FCF yield which is already discounting risks of the global economy slowing more than we expect, and the industry disruption from electrification. In addition, shareholder-friendly capital allocation strategies (3.5% dividend yield and 4% buyback yield) should support healthy total returns. Given the steep selloff in the sector and very negative sentiment, this sector call represents contrarian positioning.
MARKET WEIGHT	COMMUNICATION SERVICES	9.6%	The outperformance of Communication Services has been supported by relative earnings strength driven by robust digital ad spend and significant efficiency initiatives. However, the sector has become highly concentrated with mega-cap tech representing ~60% of the segment's market cap. We view mega caps in the Technology sector as better positioned to capture the initial earnings benefit from AI.

	SECTOR	S&P WEIGHT	COMMENTARY
UNDERWEIGHT	CONSUMER STAPLES	6.7%	Sales growth within the sector has evaporated to low single digits year-over-year driven by both disinflationary pricing trends and weaker volumes. EPS growth is improving on the heels of easing supply chain and input costs but forward estimates continue to be outpaced by the broader market. We don't see much room for outperformance without material weakness in the broader market which would make the sector's earnings stability more favorable. Our neutral stance on the sector offers more defensive exposure in portfolios if volatility arises while also providing a source of funds to take advantage of any dislocations in markets if they were to arise.
	FINANCIALS	13.1%	The risk/reward dynamic in Financials appears to be balanced leading to our neutral view of the sector. Stable markets and improving CEO confidence should support a gradual recovery in investment banking activity post-election within capital markets and banks along with strength in fee-based revenues within financial services broadly. In banks, keep an eye on rising delinquencies. However, at ~2x book value, valuations within the sector are already discounting a material recovery in fundamentals which creates downside risk if the economy and/or markets weaken further than expected.
	REAL ESTATE	2.3%	The significant decline in rates following weaker inflation, slowing labor market data, and the Fed pricing in more cuts have led to year-to-date outperformance for this rate-sensitive sector. However, we would not chase this sector to the upside with the 10-year Treasury yield already below our year-end target. Weak earnings trends and ongoing challenges in commercial real estate urge patience with the sector.
	UTILITIES	2.3%	Despite strong outperformance year-to-date driven by a significant decline in interest rates, we remain Underweight with the 10-year Treasury yield now below our year-end target and overbought conditions in the sector. Balance sheets within the sector are very highly leveraged with very low interest coverage which could create risks in the future that the market is not currently discounting. We prefer Health Care for our defensive exposure which should provide better risk-adjusted returns throughout the cycle.
	CONSUMER DISCRETIONARY	10.2%	Consumers have begun to push back on elevated pricing throughout most of the sector consistent with our expectations. Firms have responded by lowering prices and focusing on value, which should pressure sales growth and margins in the quarters ahead as consumers become more discerning in their spending. Technology/AI exposure within the broadline retail industry is an area of strength in the sector that we would prioritize.
	MATERIALS	2.1%	A slowing global economy, particularly in China, should put pressure on the Materials sector. However, valuations relative to the market are trading near historical averages. We'd like to see more attractive valuations properly discounting risks ahead before closing our sector Underweight. There are selective opportunities within construction materials where forward estimates are benefiting from industrial tailwinds.

## Disclosure

All expressions of opinion reflect the judgment of the authors and are subject to change. Past performance may not be indicative of future results. There is no assurance any of the trends mentioned will continue or forecasts will occur. The performance mentioned does not include fees and charges which would reduce an investor's return. Dividends are not guaranteed and will fluctuate. Investing involves risk including the possible loss of capital. Asset allocation and diversification do not guarantee a profit nor protect against loss. Investing in certain sectors may involve additional risks and may not be appropriate for all investors.

International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic volatility. Investing in emerging and frontier markets can be riskier than investing in well-established foreign markets.

Investing in small- and mid-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices rise.

US government bonds and Treasury bills are guaranteed by the US government and, if held to maturity, offer a fixed rate of return and guaranteed principal value. US government bonds are issued and guaranteed as to the timely payment of principal and interest by the federal government. Treasury bills are certificates reflecting short-term obligations of the US government.

While interest on municipal bonds is generally exempt from federal income tax, they may be subject to the federal alternative minimum tax, or state or local taxes. In addition, certain municipal bonds (such as Build America Bonds) are issued without a federal tax exemption, which subjects the related interest income to federal income tax. Municipal bonds may be subject to capital gains taxes if sold or redeemed at a profit.

If bonds are sold prior to maturity, the proceeds may be more or less than original cost. A credit rating of a security is not a recommendation to buy, sell or hold securities and may be subject to review, revisions, suspension, reduction or withdrawal at any time by the assigning rating agency.

Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

High-yield bonds are not suitable for all investors. The risk of default may increase due to changes in the issuer's credit quality. Price changes may occur due to changes in interest rates and the liquidity of the bond. When appropriate, these bonds should only

comprise a modest portion of your portfolio.

Beta compares volatility of a security with an index. Alpha is a measure of performance on a risk-adjusted basis.

The process of rebalancing may result in tax consequences.

Alternative investments involve specific risks that may be greater than those associated with traditional investments and may be offered only to clients who meet specific suitability requirements, including minimum net worth tests. Investors should consider the special risks with alternative investments including limited liquidity, tax considerations, incentive fee structures, potentially speculative investment strategies, and different regulatory and reporting requirements. Investors should only invest in hedge funds, managed futures, distressed credit or other similar strategies if they do not require a liquid investment and can bear the risk of substantial losses. There can be no assurance that any investment will meet its performance objectives or that substantial losses will be avoided.

The companies engaged in business related to a specific sector are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

The indexes are unmanaged and an investment cannot be made directly into them. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The S&P 500 is an unmanaged index of 500 widely held securities.

The Russell 2000 Index is a small-cap US stock market index that makes up the smallest 2,000 stocks in the Russell 3000 Index.

This is not a recommendation to purchase or sell the stocks of the companies pictured/mentioned.

Investments in municipal securities may not be appropriate for all investors, particularly those who do not stand to benefit from the tax status of the investment. Municipal bond interest is not subject to federal income tax but may be subject to AMT, state or local taxes.

There are special risks associated with investing with bonds such as interest rate risk, market risk, call risk, prepayment risk, credit risk, reinvestment risk, and unique tax consequences. To learn more about these risks and the suitability of these bonds for you, please contact our office.

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