Stocks may have room to gain despite market turmoil

Quarterly Sector and Investment Research Update: Second Quarter 2025

The quick pivot to bearish sentiment could signal future gains

How can investors interpret current markets? History can provide context because market patterns have repeated across different situations. Less than 20% of American Association of Individual Investors (AAII)[1] members were bullish in February, near the bottom of the survey's historical range. After sub-20% readings in the past, the S&P 500 rose an average 20% over the next six months.

The rotation to defensive sectors: Panic or new trend?

There was a significant rotation to defensive sectors in February and early March. Historically, the bigger the two-month rotation into defensives, the more defensive sectors have underperformed the market over the next 12 months on average.

Stocks may advance despite trade policy uncertainty

Uncertainty around trade policy jumped to its highest level on record in March. Investors may worry the lack of clarity around trade policy will hurt stocks, but historical data suggests the opposite. Since 1990, higher trade policy uncertainty has correlated with higher risk-adjusted stock returns over the next 12 months.

Accelerating loan growth may lift stocks, especially financials

Loan growth was historically weak this cycle. If it accelerates, the repercussions could lift the markets, especially financial stocks. Since 1978, when loan growth accelerated from bottom-quartile levels, financial stocks outperformed the market by 3.3%, on average. The net number of small businesses saying it was harder to get credit dropped, according to the National Federation of Independent Business' (NFIB) Small Business Credit Survey.[2] Historically, declines in the survey were followed by loan growth.

PERFORMANCE AS OF 3/31/25

Energy, health care, and consumer staples led the S&P 500®, while consumer discretionary and information technology lagged.

Sector	Latest Quarter	1-Year	3-Year Annualized	Dividend Yield	Weight in S&P 500®
Communication Services	-6.2%	13.6%	11.8%	0.8%	9.2%
Consumer Discretionary	-13.8%	6.9%	3.4%	0.7%	10.3%
Consumer Staples	5.2%	12.4%	6.9%	2.4%	6.1%
Energy	10.2%	2.5%	11.1%	3.1%	3.7%
Financials	3.5%	20.2%	11.2%	1.4%	14.7%
Health Care	6.5%	0.4%	3.9%	1.7%	11.2%
Industrials	-0.2%	5.7%	10.3%	1.4%	8.5%
Information Technology	-12.7%	5.9%	13.9%	0.7%	29.6%
Materials	2.8%	-5.7%	1.3%	1.9%	2.0%
Real Estate	3.5%	10.0%	-1.3%	3.5%	2.3%
Utilities	4.9%	23.9%	5.3%	2.9%	2.5%
S&P 500®	-4.3%	8.3%	9.1%	1.3%	

Past performance is no guarantee of future results. Sectors defined by the Global Industry Classification Standard (GICS®); see Index Definitions for details. Performance metrics reflect S&P 500 sector indexes. Changes were made to the GICS framework on 9/24/18; historical S&P 500 communication services sector data prior to 9/24/18 reflect the legacy telecommunication services sector. The top three performing sectors in the latest quarter (shaded green) were consumer staples, energy, and health care. The bottom three performing sectors in the latest quarter (shaded blue) were communication services, consumer discretionary, and information technology. It is not possible to invest directly in an index. All indexes are unmanaged. Percentages may not total 100% due to rounding. Source: Morningstar, FactSet as of 03/31/25.

1. The AAII Sentiment Survey offers insight into the opinions of individual investors by asking them their thoughts on where the market is heading in the next six months.

2. The NFIB Small Business Credit Survey tracks how many respondents report that credit was harder to get versus easier to get the most recent time they applied.

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All indexes are unmanaged. You cannot invest directly in an index. Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Because of its narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies. Sector investing is also subject to the additional risks associated with its particular industry. The energy sector is defined as companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, or other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. Financials: companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, and insurance and investments.

The energy industries can be significantly affected by fluctuations in energy prices and supply and demand of energy fuels, energy conservation, the success of exploration projects, and tax and other government regulations.

The technology industries can be significantly affected by obsolescence of existing technology, short product cycles, and falling prices and profits.

The health care industries are subject to government regulation and reimbursement rates, as well as government approval of products and services, which could have a significant effect on price and availability, and can be significantly affected by rapid obsolescence and patent expirations.

Industrial industries can be significantly affected by general economic trends, changes in consumer sentiment and spending, commodity prices, legislation, government regulation and spending, import controls, worldwide competition, and liability for environmental damage, depletion of resources, and mandated expenditures for safety and pollution control.

The materials industries can be significantly affected by the level and volatility of commodity prices, the exchange value of the dollar, import and export controls, worldwide competition, liability for environmental damage, depletion of resources, and mandated expenditures for safety and pollution control.

Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry. The value of securities of issuers in the real estate industry can be affected by changes in real estate values and rental income, property taxes, interest rates, tax and regulatory requirements, and the management skill and creditworthiness of the issuer.

The utilities industries can be significantly affected by government regulation, financing difficulties, supply and demand of services or fuel, and natural resource conservation.

Index Definitions

The S&P 500® index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of Standard & Poor's Financial Services LLC. Sectors and industries are defined by the Global Industry Classification Standard (GICS).

The S&P 500 sector indexes include the standard GICS sectors that make up the S&P 500 index. The market capitalization of all S&P 500 sector indexes together comprises the market capitalization of the parent S&P 500 index; each member of the S&P 500 index is assigned to one (and only one) sector.

Sectors are defined as follows:

Communication Services: companies that facilitate communication or provide access to entertainment content and other information through various types of media. **Consumer Discretionary:** companies that provide goods and services that people want but don't necessarily need, such as televisions, cars, and sporting goods; these businesses tend to be the most sensitive to economic cycles. **Consumer Staples:** companies that provide goods and services that people use on a daily basis, like food, household products, and personal-care products; these businesses tend to be less sensitive to economic cycles. **Energy:** companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, or other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. **Financials:** companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, and insurance and investments. **Health Care:** companies in two main industry groups: health care equipment suppliers and manufacturers, and providers of health care services; and companies involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products. **Industrials:** companies whose businesses manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. **Materials:** companies that are engaged in a wide range of commodity-related manufacturing. **Real Estate:** companies in two main industry groups—real estate investment trusts (REITs), and real estate management and development companies. **Technology:** companies in technology software and services and technology hardware and equipment. **Utilities:** companies considered to be electric, gas, or water utilities, or companies that operate as independent producers and/or distributors of power.

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