

U.S. Equity Sector Allocation

September 3, 2025

UPGRADING CONSUMER DISCRETIONARY AS ECONOMIC GROWTH REMAINS FIRM

The U.S. economy appears to be on firm footing heading into year-end. Strong follow-through in the second quarter (amid tariff uncertainty), coupled with organic lifts (e.g., capex, consumer spending) and fiscal lifts have buoyed investor optimism. If policymakers can avoid tariff-related price pressures and keep structural tightening of the labor market from becoming restrictive, the economy should be healthy enough to prolong the earnings cycle and the bull market into 2026. We do see market leadership continuing to evolve, however, against a shifting thematic landscape:

Deglobalization remains an important consideration for corporations and investors, but we are enjoying a relatively quiet period in the wake of the trade turmoil, weakening dollar, and geopolitical tension that came with the Trump administration's first 100 days. Though policy and political data are likely to cause some choppiness this month, the underpinnings of economic growth appear to be intact. We are encouraged by labor market resilience despite structural tightening. We maintain overweight allocations to Financials, Industrials and Utilities, but we are **downgrading Energy to underweight**.

Artificial Intelligence shows early signs of delivering beyond the training of large language models and the construction of seemingly infinite compute capacity. Over the past 18 months we have taken a split view on the Technology sector: more bullish on the mega-cap bellwethers and adjacent growth drivers and less bullish on the less-A.I. centric, catch-up operators. We think the two groups of stocks are less differentiated now than they had been, and we are now **neutral-weight on Technology**. We recommend a more tactical cyclical allocation of stocks, as opposed to doggedly pursuing ever-increasing growth in the Tech sector.

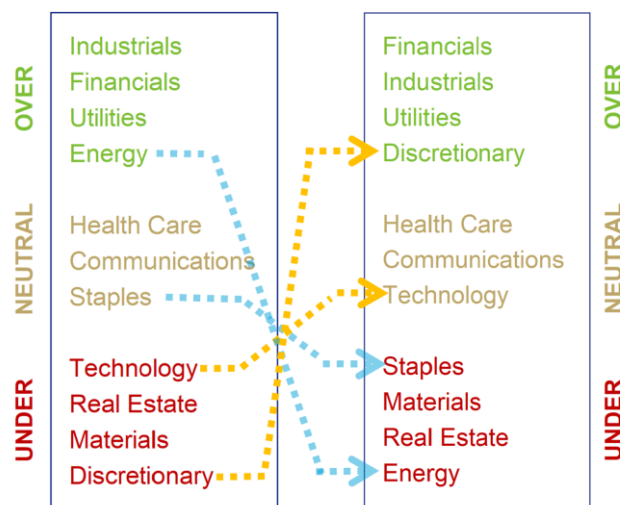
The Consumption Wave ahead, stemming from converging catalysts, makes it difficult not to be bullish. Tax relief and refunds in 2026 are expected to be about \$150 billion higher than they were in 2025. Healthy travel and leisure spending was robust over the summer, providing a hint of what may be coming as the U.S. gears up to welcome World Cup visitors next summer. We are **upgrading Consumer Discretionary to overweight** and **downgrading Consumer Staples to underweight**.

September 2025 Allocation Changes

- **Consumer Discretionary** is now overweight, as the consumer has been resilient and fiscal stimulus and seasonality are both supportive of the sector
- **Technology** has bumped up to neutral as we see secular tailwinds emerging for artificial intelligence.
- **Consumer Staples** is now underweight as this sector tends to underperform in "risk on" environments.
- **Energy** has moved to underweight, as the current administration has shown determination to keep prices low.
- The remaining 7 sectors are unchanged in their allocations. The following page includes more on our risks and rationale for all 11 S&P 500 sectors.
- The last time these allocations were changed was in February 2025.

Strategas Recommended Allocations

September 2025



2 sectors moved to a lower-weighted allocation, and 2 sectors moved higher. The remaining 7 sectors are unchanged. Sectors are listed as over-, neutral-, or underweight relative to the S&P 500.

Strategas U.S. Recommended Sector Allocation Summary

	Rationale	Risks
Overweight	Financials We are Overweight given strong fundamentals and secular tailwinds associated with the current administration. The prospect of deregulation has resurfaced, increasing the probability of higher than estimated earnings and improving the sector's capital return profile. Financials have seen the largest upward EPS revision of any sector in the most recent quarterly reporting season.	It is possible that returns were pulled forward in anticipation of deregulation and expectations for increased capital market activity. A rate cut continuum is now being priced in, but if the magnitude or speed of Fed cuts disappoint, it would weigh on loan demand and broader capital market activity.
	Industrials We are Overweight due to secular tailwinds from reshoring, defense spending, and electricity infrastructure demand. The sector sits at the center of deglobalization, which will have broad implications as long-held operating conventions (from trade and resource procurement to tech and IP partnerships and defense alliances) are reoriented.	Certain globally-oriented subindustries, like Machinery, are more exposed to trade tensions (though a weaker dollar can offset that headwind). A downdraft in growth would weigh on the sector more broadly.
	Utilities We are Overweight on the combination of the sector's defensive characteristics and secular growth tailwinds associated with electricity infrastructure demand. The sector's defensive hedge characteristics can be a hedge during market volatility, but it has become increasingly correlated with the AI story as expectations for future electricity demand have leapt higher.	Persistently high or rising bond yields would compete with the sector's dividend yield and weigh on its price action. A downdraft in power demand or a slowdown in A.I. spending (capex) would weigh on the sector.
	Discretionary We are Overweight given fiscal stimulus tailwinds and a broadly improved outlook for the consumer. The Q2 earnings season has underscored a resilient consumer with many companies highlighting solid spending trends and a strong outlook. Looking ahead, our policy team expects a 2026 OBBB tax refund roughly \$150 billion above 2025, providing a further boost next April. Anticipated Fed cuts should support consumption, while rate-sensitive industries have already seen upside following the Fed chair's Jackson Hole pivot toward a September rate cut.	The sector remains sensitive to rates, tariffs, and concentration in AMZN and TSLA. A softer labor market or delayed policy relief could challenge current momentum.
Neutral	Health Care We are Neutral weight given improving trends and bullish earnings expectations after a period of extreme oversold conditions. However, we remain cautious due to headline risks tied to the Trump administration's policy direction. While the GLP-1 secular growth story has slowed, the sector's defensive qualities remain attractive in an elevated policy volatility environment.	Policy concerns from the administration may prove to be more bark than bite, presenting a comeback opportunity.
	Comms We are Neutral weight given the split nature of the sector and the concentration risk it carries with its Mag 7 constituents. While these companies (META and GOOGL) still stand to benefit from A.I. tailwinds, this has not yet translated into profits due to rising capital expenditures. Earnings growth is much less impressive when Mag 7 companies are omitted, and the remainder of the sector is riddled with industries in secular decline (legacy telecom and cable).	Cost-cutting initiatives coupled with a reacceleration in the top line (revenues) would be a durable catalyst for free cashflow generation and ultimately relative outperformance for this sector.
	Technology We are Neutral given the sector's outsized share of the S&P 500. The capex cycle driving A.I. infrastructure investment remains intact, fueling demand across semis, software, and services. Earnings growth is robust and benefits from large international revenue exposure in the face of dollar weakness. The sector continues to stand out as one of the few delivering double-digit earnings and revenue growth.	Concentration at nearly one-third of the entire S&P 500 leaves Tech vulnerable if growth leadership shifts. Potential semiconductor tariffs and elevated valuations add to risks.
Underweight	Staples We are Underweight given the sector's lack of growth prospects, weak margins, and decidedly risk-on market tone that has weighed on the sector. The bull market remains intact, but for Staples to outperform we would likely need to see a "risk-off" environment and widening credit spreads. The fundamental backdrop remains lackluster: margins have been in secular decline and we see few catalysts on the horizon that could change that.	While not the case today, sudden price shocks due to elevated geopolitical tensions and policy uncertainty weigh on the consumer and could make the sector a defensive hedge. The sector has an attractive valuation profile, a condition from which forward returns have tended to be attractive in the past.
	Materials We are Underweight given a disappointing Q2 earnings season and outlook, and also given the failure of a cyclical upturn in China to materialize (yet). The sector derives a high portion of its revenue internationally, making it vulnerable to trade disputes. Despite dollar weakness, fewer than half of the sector's stocks beat earnings estimate in Q2.	If the dollar continues to weaken, an underweight allocation to Materials would be an opportunity-cost given the implications of dollar weakness on global growth and commodities more broadly. A China pivot toward pro-growth stimulus would reaccelerate global growth and boost the sector's performance.
	Real Estate We are Underweight due to a lack of compelling risk / reward present in the sector today. In our view, there are better risk-adjusted opportunities elsewhere. The rally from the "office apocalypse" has come to pass and the sector lacks a durable catalyst to move higher from here. Demand for Class A office space is strong but broader questions on commercial real estate remain given the interest rate environment.	The return-to-office trend seems to be picking up steam. The Fed is likely to resume rate cuts later this month, posing the risk of opportunity cost should this spark a revival of long-stalled housing demand.
	Energy We are Underweight given a persistent bear market in crude oil and the Trump administration's stated intent to keep energy prices low. Crude remains in a bear market despite elevated geopolitical tensions, underscoring abundant supply.	A resurgence of inflation could lift energy prices. We would be more concerned if the Energy sector's recent momentum came at the expense of the Consumer Discretionary sector, but that is not the case today.

Allocations are labeled as over-, under-, and neutral weight compared to sector weightings in the S&P 500, an index of the largest U.S. publicly traded companies. The S&P 500 is market-cap weighted, giving larger companies greater influence on sector weights. The weightings in the index can float from day to day as normal trading causes shares within the index to rise or fall in price. It is not possible to invest directly in an index.

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