

Cash Flow and Carey



Robert Carey, CFA
Chief Market Strategist



Peter Leonteos
Market Strategist

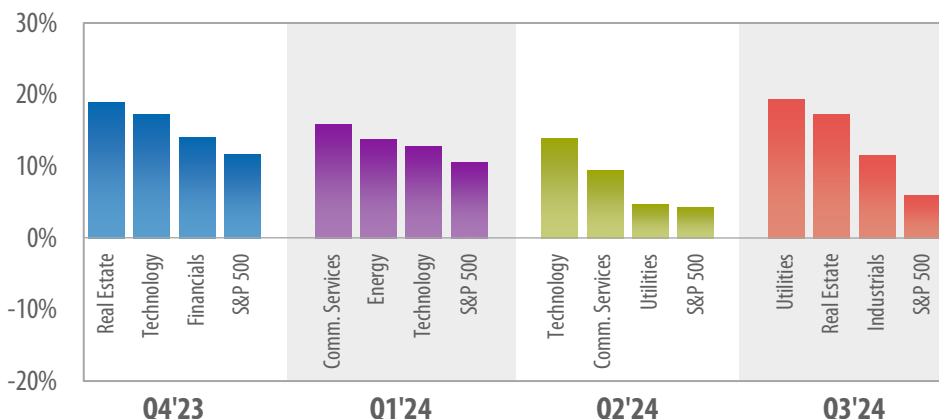
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This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Index is an unmanaged index of 500 stocks used to measure large-cap U.S. stock market performance. The respective S&P 500 Sector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific sector.

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The Only Constant is Change

Top Three S&P 500 Index Sectors In Each Of The Past Four Quarters



Source: Bloomberg. Returns are total returns. **Past Performance is no guarantee of future results.**

View from the Observation Deck

One of the most common questions we field on an ongoing basis is the following: What are your favorite sectors? Today's blog post is one that we update each quarter to lend context to our responses. Sometimes the answer is more evident than at other times, and sometimes it only makes sense via hindsight. While the above chart does not contain yearly data, only two sectors in the S&P 500 Index ("Index") have been the top-performer in back-to-back calendar years since 2005. Information Technology was the first, posting the highest total return in 2019 (+50.29%) and 2020 (43.89%). Energy was the second, posting the highest total return in 2021 (54.39%) and 2022 (65.43%), according to data from Bloomberg.

- The top-performing sectors and their total returns in Q3'24 were as follows: Utilities (19.37%), Real Estate (17.17%), and Industrials (11.55%). The total return for the Index was 5.89% over the period. The other eight sectors generated total returns ranging from 10.66% (Financials) to -2.32% (Energy).
- By comparison, the total returns of the top performing sectors in Q3 of last year were as follows: Energy (12.22%), Communication Services (3.07%), and Financials (-1.13%). The worst-performing sectors for the period were: Consumer Staples (-5.97%), Real Estate (-8.90%), and Utilities (-9.25%).
- Notably, Information Technology and Communication Services, the two top sectors last quarter, were not among the leaders in the most recent quarter. In fact, with total returns of 1.68% and 1.61%, respectively, the Communication Services and Information Technology sectors were among the worst performing sectors over the time frame. Only Energy fared worse, with a total return of -2.32% over the period.
- [Click here](#) to access the post featuring the top-performing sectors in Q4'22, Q1'23, Q2'23 and Q3'23.

Takeaway

As we observe in today's chart, the top-performing sector often varies from quarter to quarter. Of the eleven sectors that make up the Index, the Information Technology and Communication Services Indices boast the highest total returns on a trailing 12-month basis (52.68% and 42.91%, respectively). That said, the Utilities sector increased by 19.37% (total return) in the most recent quarter and is now the top performing sector in the Index year-to-date, with a total return of 30.63% (thru 9/30). The cash flows provided by utility companies are generally very stable, making them compelling investments in times of volatility, in our opinion. The looming U.S. election, growing economic headwinds, and the sharp rise in geopolitical risk may be among the factors driving increased interest in the sector. Surging earnings expectations may be another. Bloomberg reported that by 2034, global energy consumption by data centers is expected to exceed 1,580 terrawatt-hours, or nearly as much power as all of India. In the U.S., data centers are projected to use 8% of total power by 2030, up from 3% in 2022, according to Goldman Sachs. Earnings estimates increased alongside these demand forecasts. On 12/29/23, the 2024 and 2025 earnings growth rate estimates for the S&P 500 Utilities Index were 8.5% and 7.4%, respectively. On 9/27/24, those estimates stood at 14.5% (2024) and 9.1% (2025). Will a different sector rise to the top in the fourth quarter of 2024? We look forward to seeing what the data reveals.