

Quarterly sector and investment research update

Commentary Third Quarter 2026

From the desk of

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Director of Quantitative
Market Strategy



Performance summary: Technology, industrials led in Q2

The information technology and the industrials sectors led the S&P 500® index in the second quarter of 2026. Energy and utilities lagged the market over the same period. Over the past three years, the tech sector had the strongest returns relative to the S&P 500, while health care trailed the index the most.

Sector	Performance as of 6/30/26			Dividend Yield	Weight in S&P 500®
	Latest Quarter	1-Year	3-Year Annualized		
 Financials	9.0%	4.1%	18.7%	1.5%	11.8%
 Real Estate	9.5%	14.3%	10.3%	3.3%	1.8%
 Consumer Discretionary	9.3%	9.5%	13.6%	0.6%	9.3%
 Information Technology	31.8%	37.5%	30.9%	0.4%	38.0%
 Industrials	14.9%	27.3%	21.8%	1.0%	8.8%
 Materials	2.0%	16.7%	8.9%	1.6%	1.8%
 Consumer Staples	0.3%	5.5%	8.6%	2.4%	4.6%
 Health Care	8.8%	19.9%	8.0%	1.6%	8.9%
 Energy	-13.4%	29.0%	12.8%	2.9%	3.0%
 Communication Services	8.3%	21.1%	29.2%	0.6%	9.7%
 Utilities	-0.5%	14.2%	15.0%	2.7%	2.2%
S&P 500®	15.2%	22.3%	20.6%	1.0%	

Past performance is no guarantee of future results. Strategist view, fundamentals, valuations, and relative strength are based on the top 3,000 U.S. stocks by market capitalization. Sectors defined by the GICS; see Index Definitions for details. Historical communication services data has been restated back to 1962 to account for changes to the GICS framework made on 9/24/18. Strategist view is as of the date indicated based on the information available at that time and may change based on market or other conditions. This is not necessarily the opinion of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information. Overweight and underweight views represent opportunistic tilts in a hypothetical portfolio relative to broad market sector weights. Sector weights may vary depending on an individual's risk tolerance and goals. Time horizon view factors are based on historical analysis and are not a qualitative assessment by any individual investment professional. The top three sectors based on each time horizon view metric are shaded green; the bottom three are shaded sand. See Glossary and Methodology for details. It is not possible to invest directly in an index. All indexes are unmanaged. Source: Haver Analytics, FactSet, Fidelity Investments, as of 6/30/26.

Scorecard: Cyclical sectors still have the edge

Solid fundamentals and compelling valuations boost the outlook for technology stocks. Financials look attractive based on the sector’s relative valuation, and there are selective opportunities for mining in the materials sector. The potential for higher rates adds a headwind for real estate.

Sector	Strategist View	Comments
	■ Overweight □ Neutral ■ Underweight	
 Financials	Overweight	Relative valuation may limit downside.
 Real Estate	Underweight	Potential for higher rates adds a headwind.
 Consumer Discretionary	Overweight	Forward valuation measures show positive risk-reward.
 Information Technology	Overweight	Solid fundamentals and compelling valuations after a sell-off.
 Industrials	Overweight	Predictive valuation indicators still compelling.
 Materials	Overweight	There are select opportunities in mining.
 Consumer Staples	Underweight	Poor fundamentals suggest sector may be a value trap.
 Health Care	Neutral	Data suggests more neutral risk-reward.
 Energy	Underweight	Indicators suggest negative risk-reward.
 Communication Services	Underweight	Tech-like industries have positive risk-reward, defensive industries do not.
 Utilities	Underweight	Valuation levels are not attractive.

Rising new orders suggest a strong economic outlook

Key leading economic indicators have turned up even as some investors have grown more worried about the direction of the economy. A first-quarter jump in U.S. manufacturers' orders of core durable goods (left) may be especially positive. This metric's year-over-year percent change recently was in the top quintile of its historical range, a level that has correlated with the strongest likelihood of median earnings growth and job growth (right).

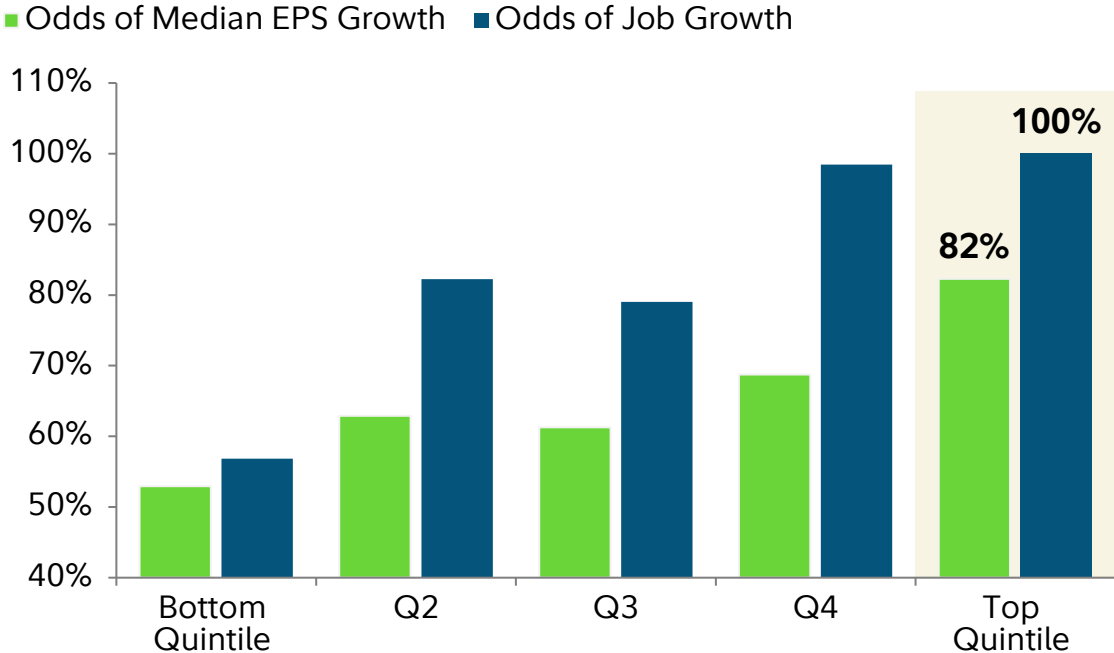
Manufacturers' new orders were up

Percent year-to-year change in manufacturers' core durable goods orders, 1992–March 2026



Strong core durable goods orders have correlated with a strengthening economy

Odds of positive NTM median EPS growth and job growth in quintiles of year-over-year change in core durable goods orders, 1992–March 2026



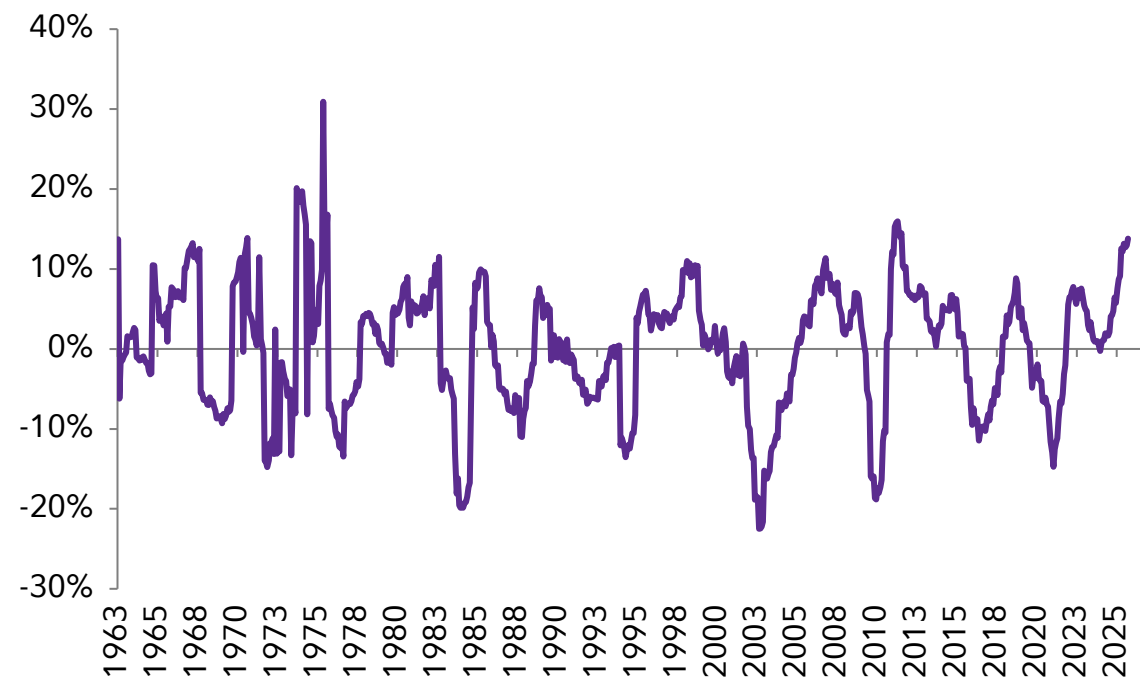
Past performance is no guarantee of future results. EPS: Earnings per share. Sources: Haver Analytics and Fidelity Investments, as of 3/31/26. LEFT: Manufacturers' core durable goods orders are based on data from the U.S. Census Bureau and do not include defense and aircraft orders. Data gathered and analyzed monthly from February 1993 to March 2026. RIGHT: NTM: Next 12 months. Analysis based on Fidelity top 3,000 U.S. stocks by market capitalization. Data gathered and analyzed monthly from January 1992 to March 2026.

Companies have been spending more—historically a good thing

Companies’ ratio of capital expenditures (capex) to sales has risen unusually fast. Year-over-year growth in capex to sales reached the top decile since 1963 (left) as companies prioritized spending on infrastructure such as data centers over buying back shares or increasing dividends. Historically, top-decile capex-to-sales growth has been associated with the highest odds of a market advance over the next 12 months (right).

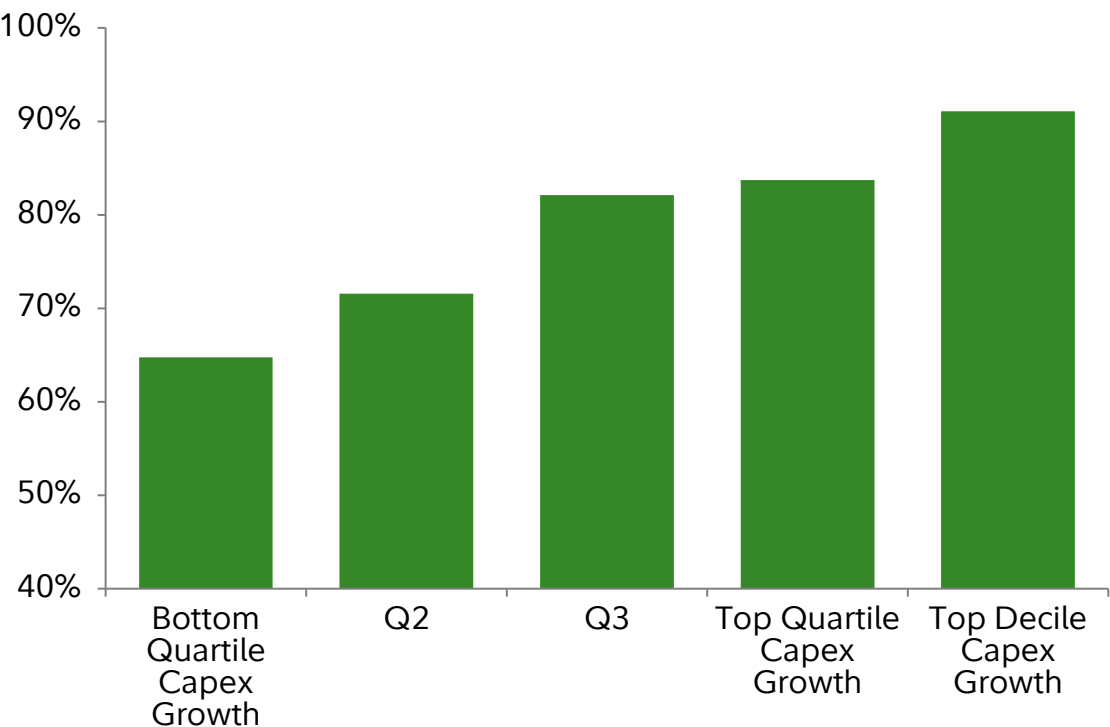
Capex growth has been historically strong

Percent year-to-year change in capex to sales, 1963–March 2026



Market advances have been more likely after stronger capex growth

NTM odds of S&P 500 in quartiles and deciles of capex/sales growth, 1962–March 2026

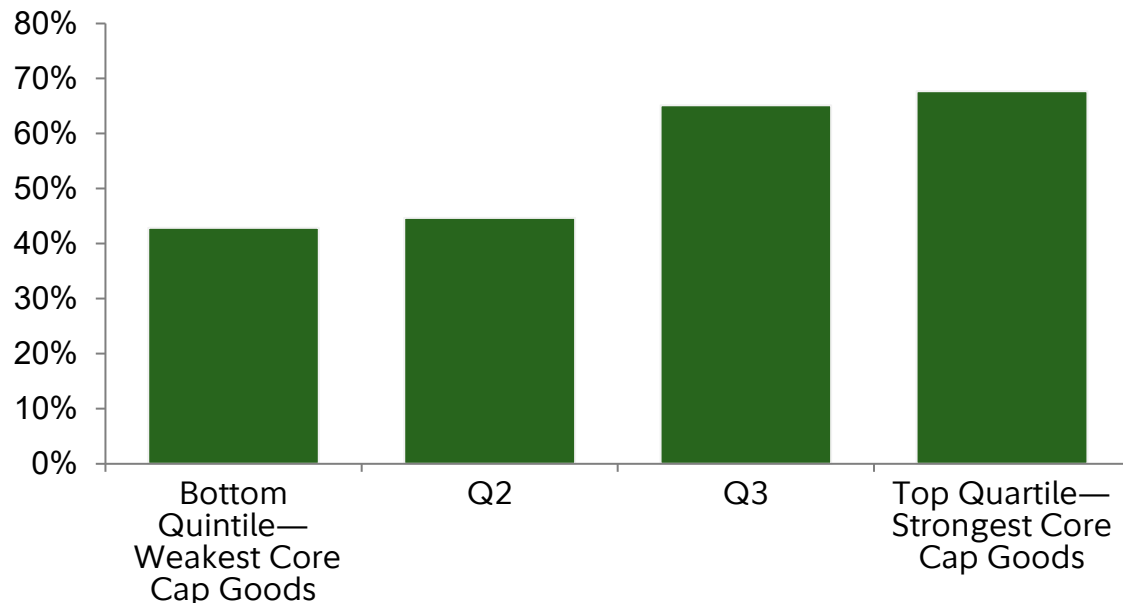


Potential Fed hikes may signal a strong economy and stock market

Many investors are worried about the possibility of a Federal Reserve rate hike. A strong rise in core durable goods has increased the likelihood of a hike, historically (left). That said, stocks advanced nearly 80% of the time after previous instances when the Fed raised rates and core durable goods orders were in their top quartile (right).

The Fed has been more likely to hike amid stronger core durable goods orders

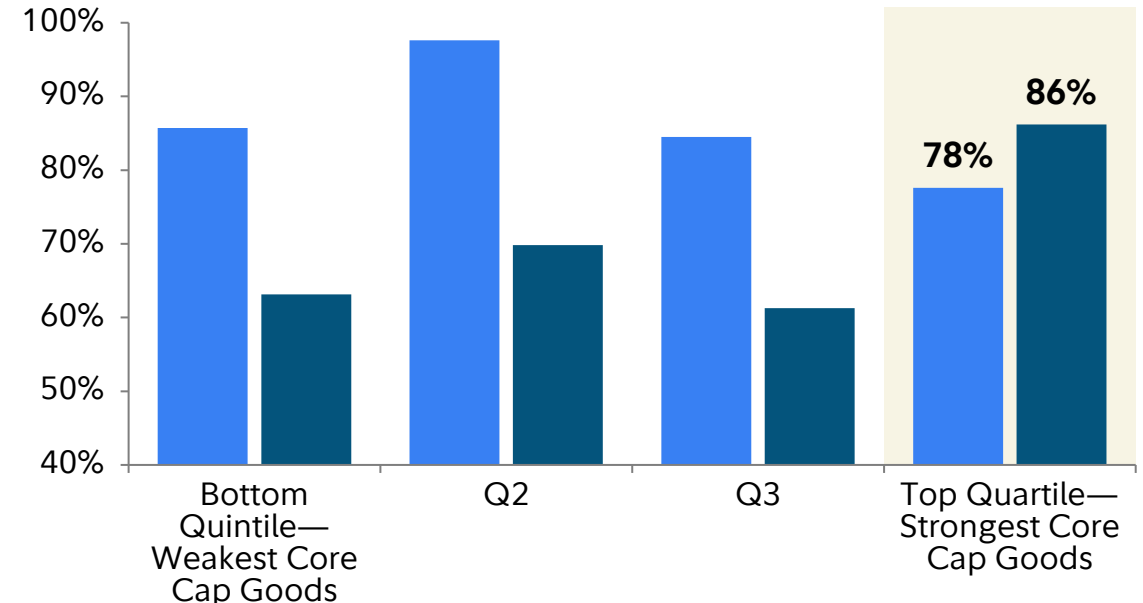
Odds of higher NTM federal funds effective rate in quartiles of year-over-year change in core durable goods orders, 1992–March 2026



The market has had strong odds of advancing after Fed hikes

Odds of NTM market advance in quartiles of year-over-year change in core durable goods orders, Fed hiking or easing/holding, 1992–March 2026

■ Fed Hikes, NTM ■ Fed Eases or Holds, NTM

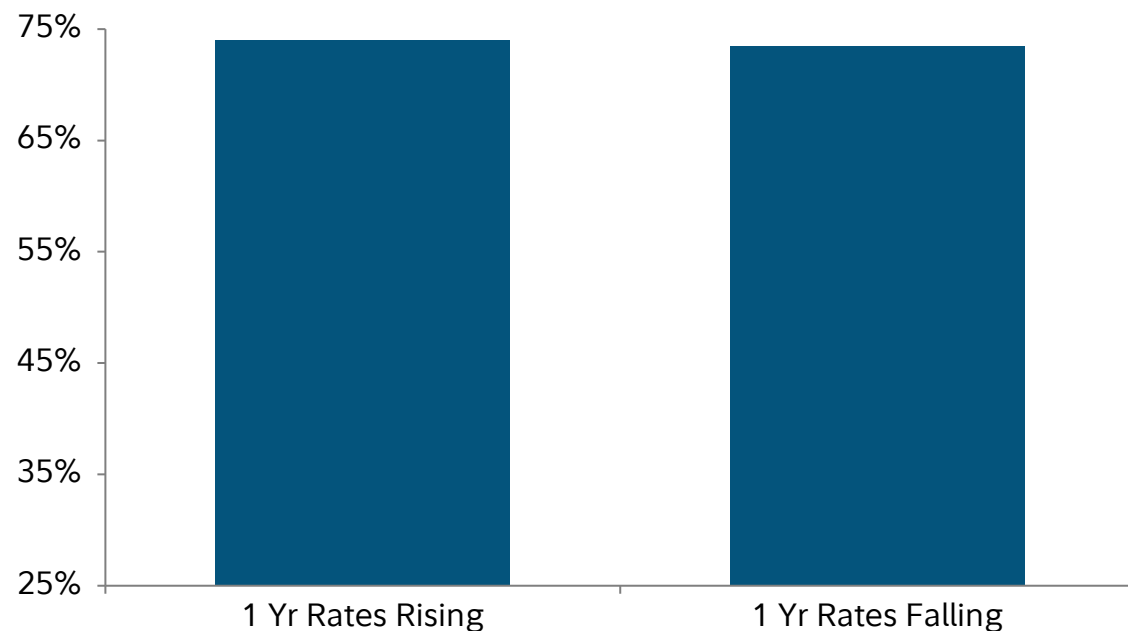


Fed hikes haven't been reason for investors to worry, historically

Investors often worry about rising interest rates. Historically, however, the market has been slightly more likely to advance when rates rose than when they fell (left). The likely reason is that higher rates frequently reflect strong economic growth, which tends to be good for the market. Small increases in interest rates have been the sweet spot (right).

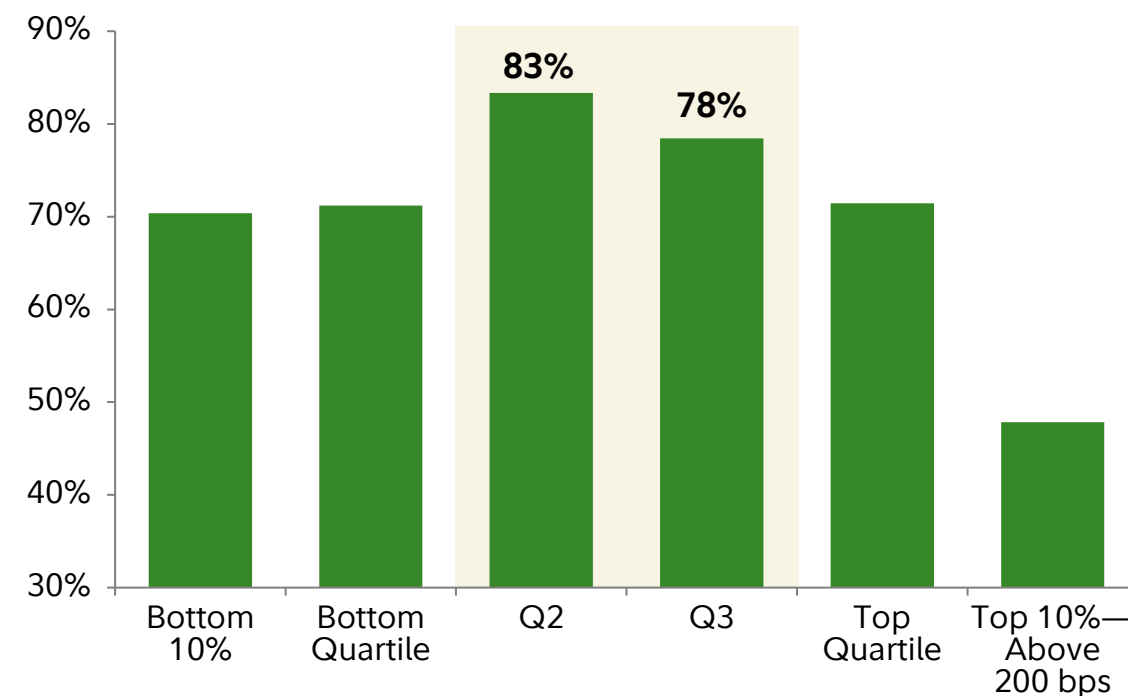
The market has been slightly more likely to advance amid rising rates

Odds of coincident S&P 500 advance by rising or falling 1-year Treasury yields, 1954–April 2026



Small Fed increases have been the market's sweet spot

Odds of coincident S&P 500 advance based on the size of changes in the federal funds rate, 1960–March 2026

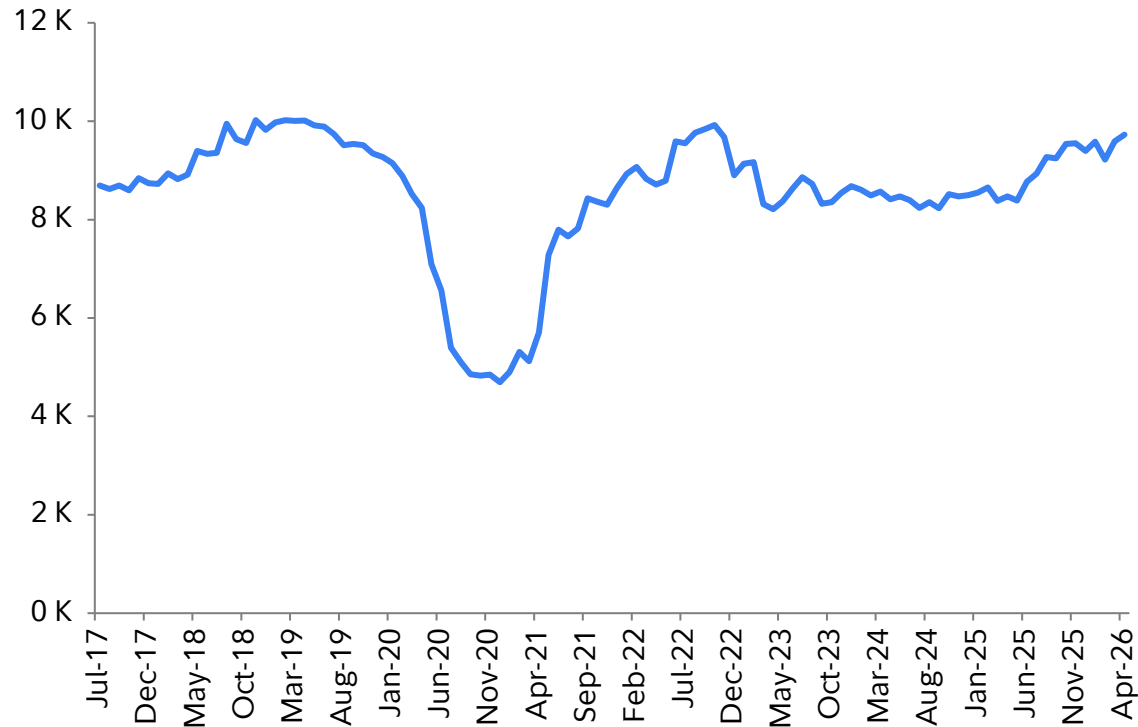


Earnings growth may finally be broadening out

Earnings weighted by company market capitalization have been strong for some time, but median earnings in April were finally approaching the peak set before the pandemic (left). The 7.4-year gap between median earnings peaks is the longest on record (right). In the past, the longer the gap, the longer the subsequent recovery has lasted, suggesting growth may continue to spread from the largest companies to the rest of the market.

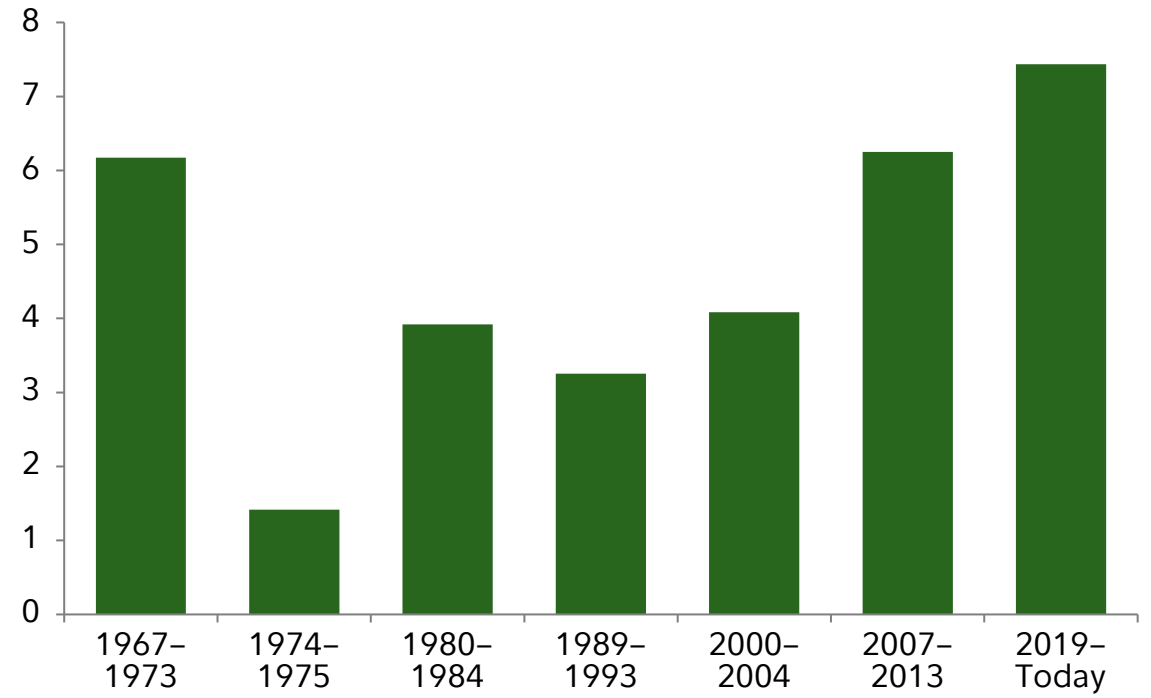
Median earnings finally approached pre-pandemic peaks

Median earnings, top 3,000 U.S. stocks, July 2017–April 2026



Periods between median earnings peaks

Duration of median earnings contractions, 1967–April 2026

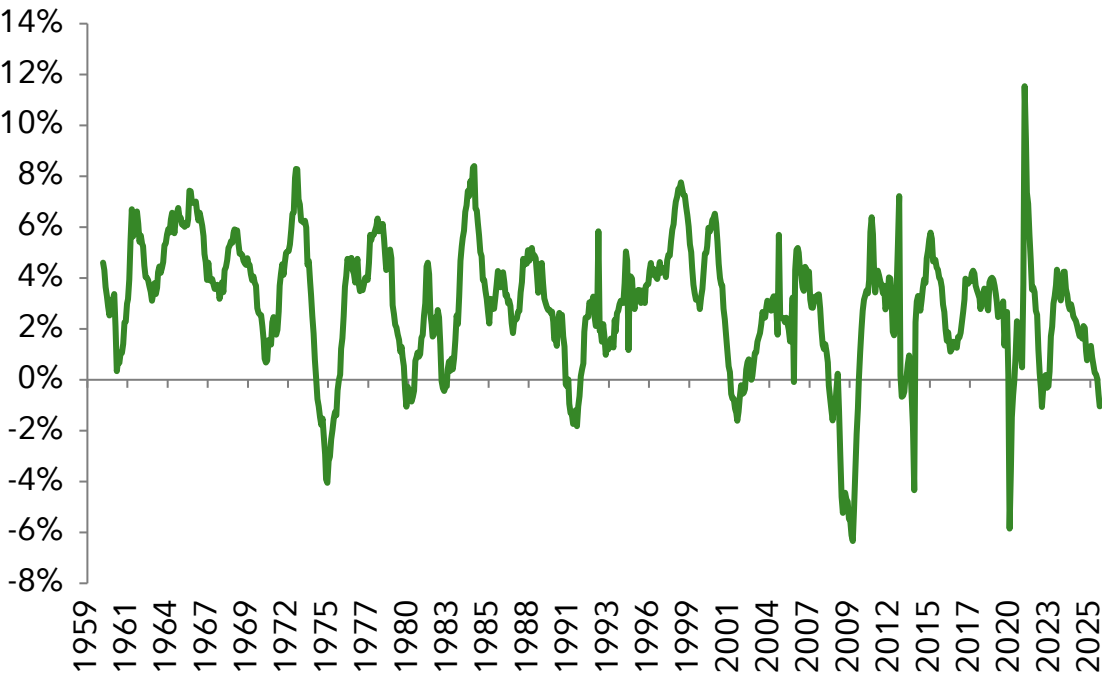


Weak real income growth makes inflation unlikely to accelerate

The recovery has been tough not only for the median company, but also for the typical consumer. Real income growth recently was in the bottom decile of its historical range (left). Weak real income growth has decreased the odds that inflation will accelerate, historically, because less consumer spending power makes it harder for companies to raise prices. Core inflation has accelerated in only 15% of 12-month periods following bottom-decile real income growth (right).

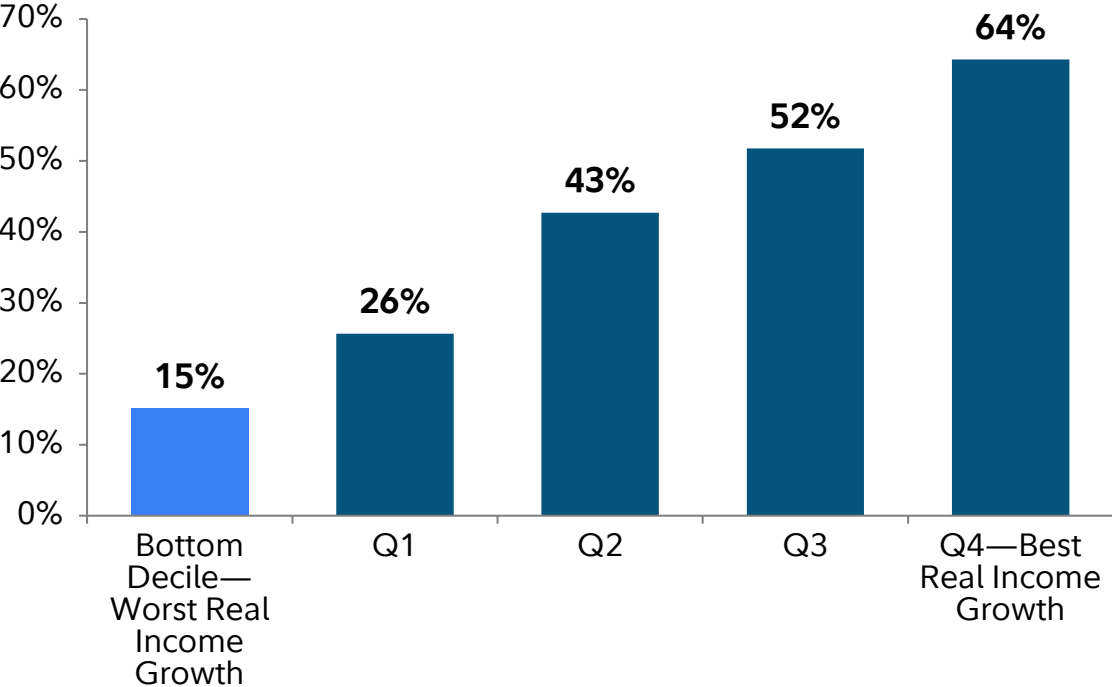
Real income growth has been historically weak

Year-to-year percent change in real personal income excluding current transfer receipts, 1959–April 2026



Weak real income growth has made core inflation unlikely to accelerate

NTM odds of core inflation acceleration in cohorts of real personal income growth, 1959–April 2026



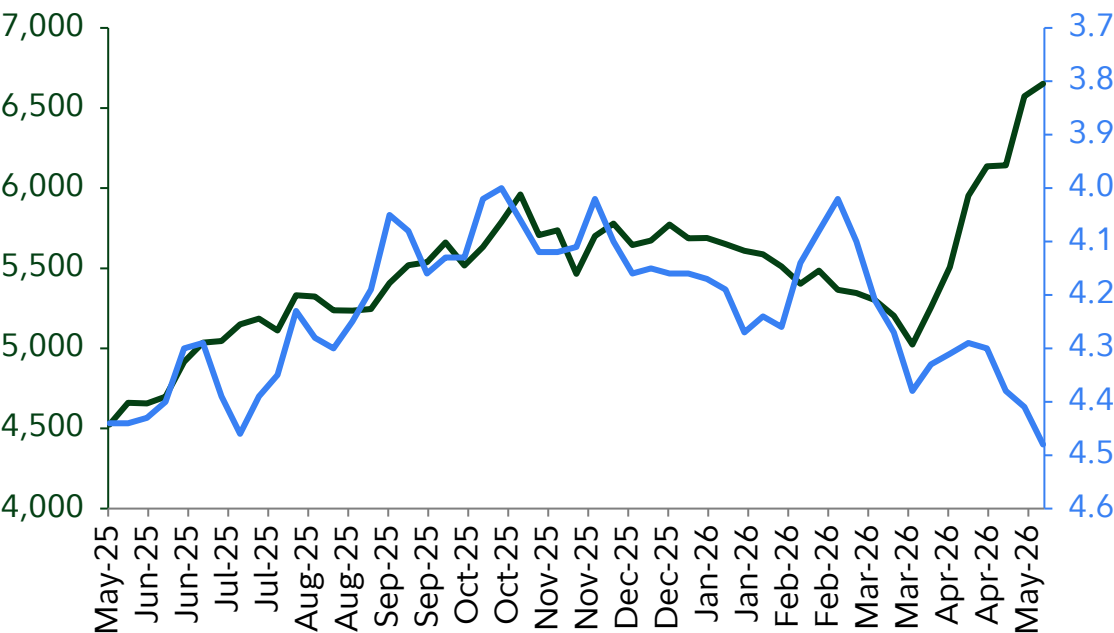
Higher interest rates might not hurt tech

Many investors believe higher interest rates are bad for technology stocks. That seemed accurate for much of the past year, as tech stocks generally fell when bond yields rose and gained when yields declined. Starting in April, however, tech stocks surged as interest rates rose (left). That trend may continue: Historically, the sector has outperformed the market over 12-month periods with strong earnings growth and rising interest rates, on average (right).

Tech stocks were up as interest rates rose

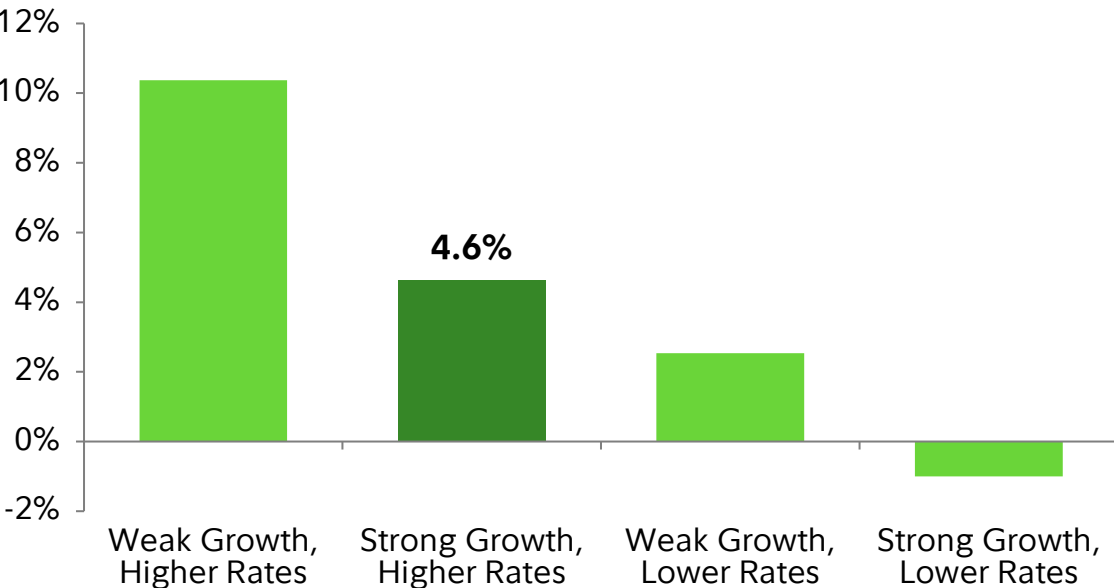
Tech stock prices vs. interest rates, May 30, 2025–May 15, 2026

— S&P 500: Information Technology 45(EOP, 12/30/94=100)
— 10-Year Treasury Note Yield at Constant Maturity (Avg, % p.a., Inverted)



Tech has outperformed amid strong earnings growth and rising rates

NTM average outperformance with above and below average EPS growth and rates higher or lower, 1990–April 2026



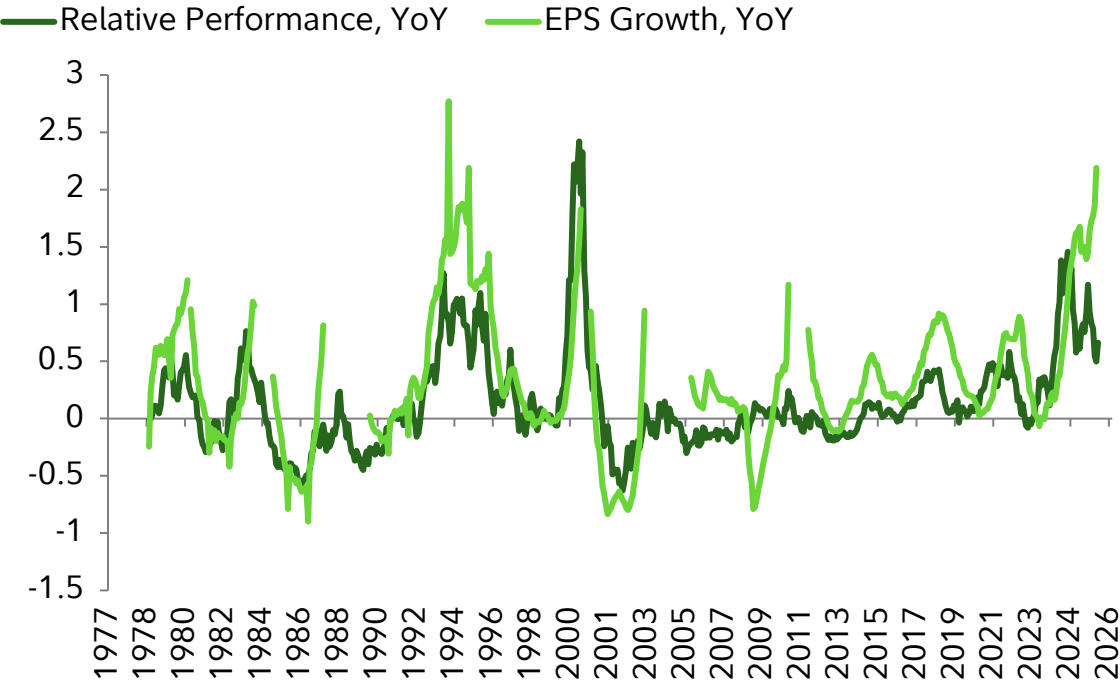
Past performance is no guarantee of future results. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 4/30/2026. **LEFT:** Analysis based on the S&P 500. All data analyzed weekly from May 30, 2025 through May 15, 2026. **RIGHT:** NTM: Next 12 months. EPS: Earnings per share. All data analyzed monthly from January 1990 through April 2026.

Semiconductors may have room to run

Semiconductor stocks have had exceptionally strong momentum over the last two years—but their earnings growth has been even stronger (left). In the past, when the semiconductor industry’s two-year momentum was in the top 5% of its historical range, it outperformed the market over the next 12 months 91% of the time (right). When semiconductors’ earnings growth also beat their relative stock performance, the industry outperformed the market over the following year each time.

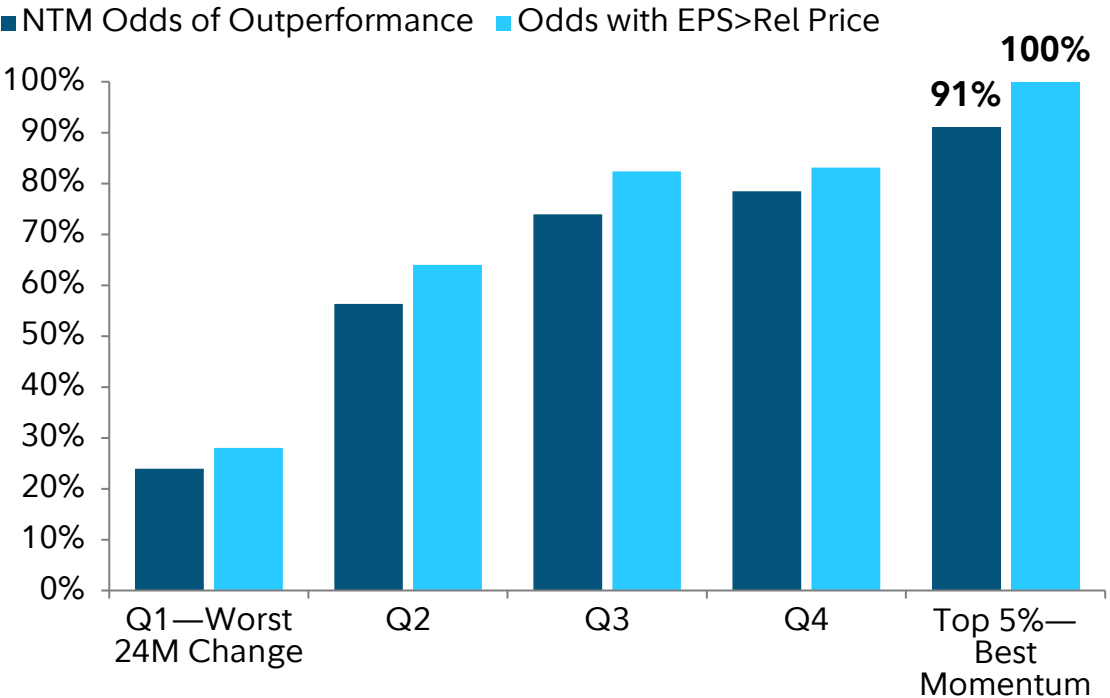
In semiconductors, earnings growth has outpaced momentum

Semiconductors’ two-year relative performance and EPS growth, 1979–April 2026



Continued outperformance appears likely

Semiconductors’ odds of outperformance in cohorts of last-two-years momentum, 1979–April 2026

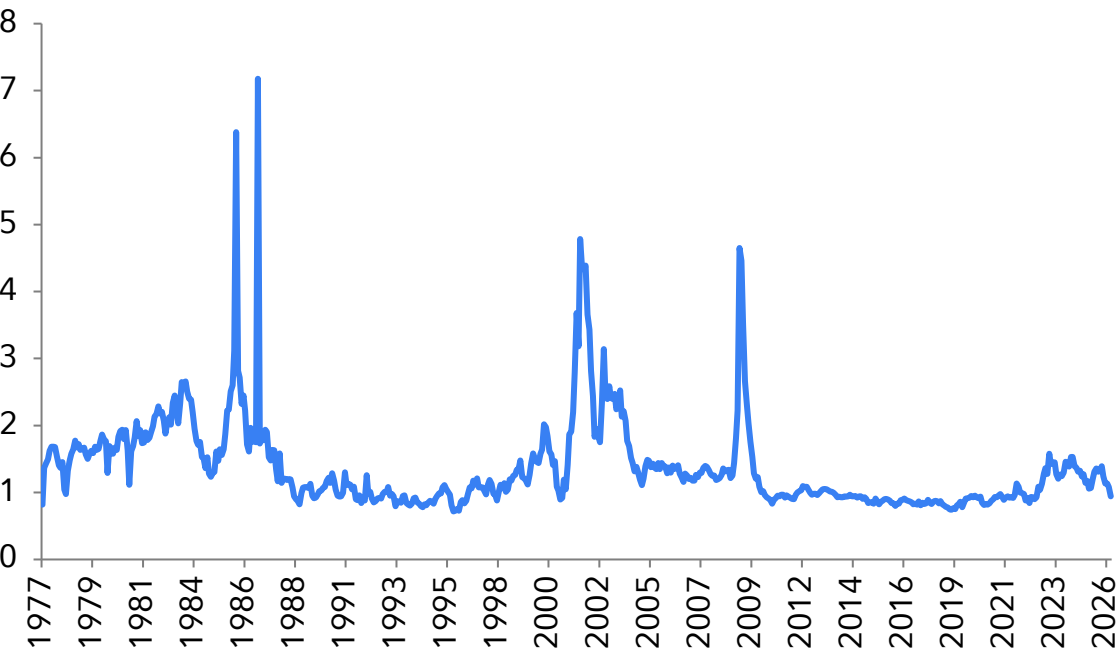


Strong earnings lowered semiconductor valuations, a favorable sign

Strong earnings growth has reduced semiconductor stocks' price-to-earnings (P/E) ratios even as the stocks have risen. At the end of the first quarter, the industry's valuation relative to the market was in the bottom quartile of its history (left). From similar starting points, semiconductors have beaten the market over the next 12 months more than three-quarters of the time (right).

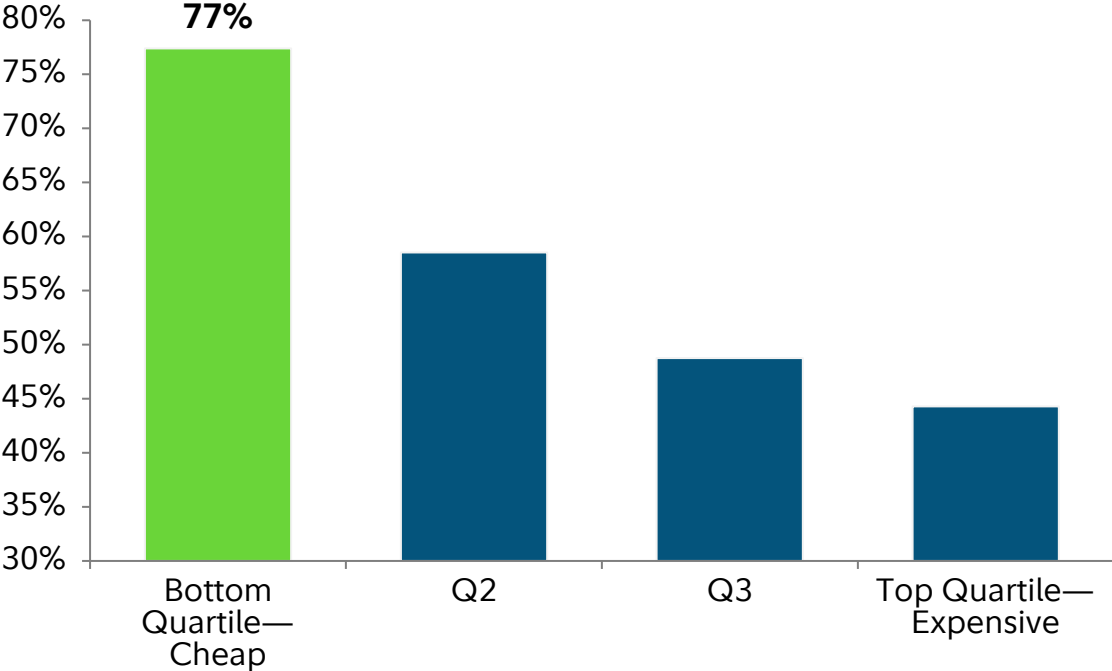
Semiconductors look cheap

Semiconductors' relative forward P/E, 1977–March 2026



Semiconductors have outperformed after valuations were low

NTM odds of outperformance in quartiles of relative fwd P/E, 1977–March 2026

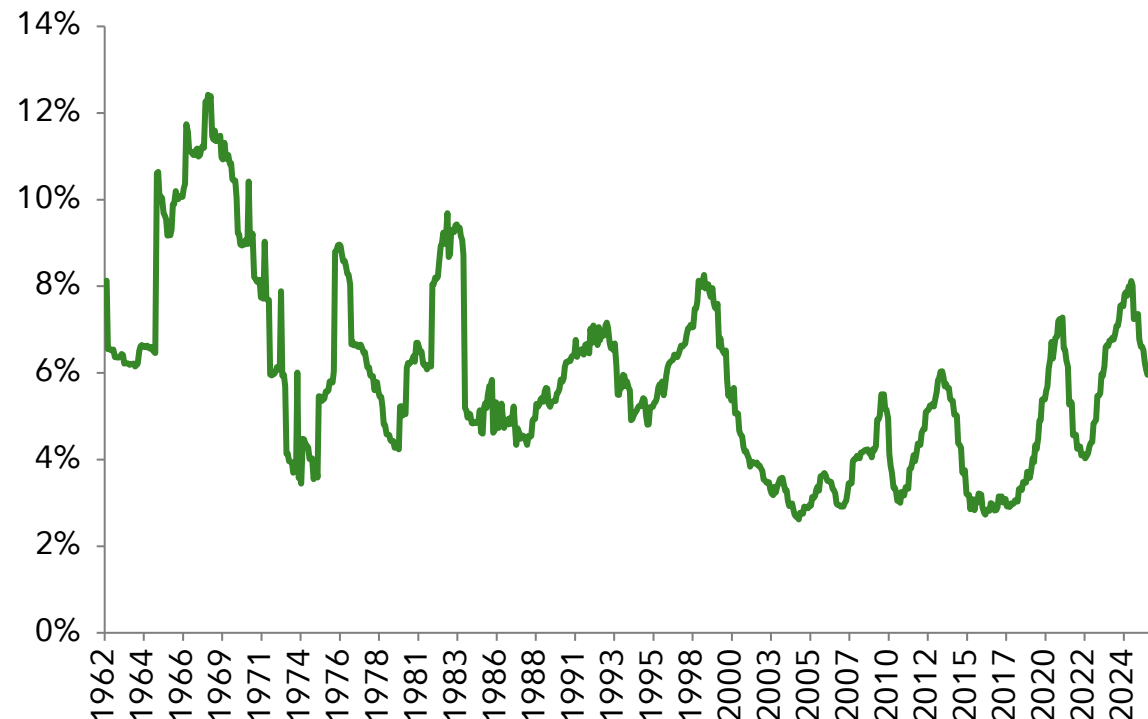


Low capex to sales may present opportunities in steel

Steel companies have been cutting production, causing the industry's capex-to-sales ratio to fall (left). Falling capex to sales has been a bullish signal for steel stocks, historically (right).

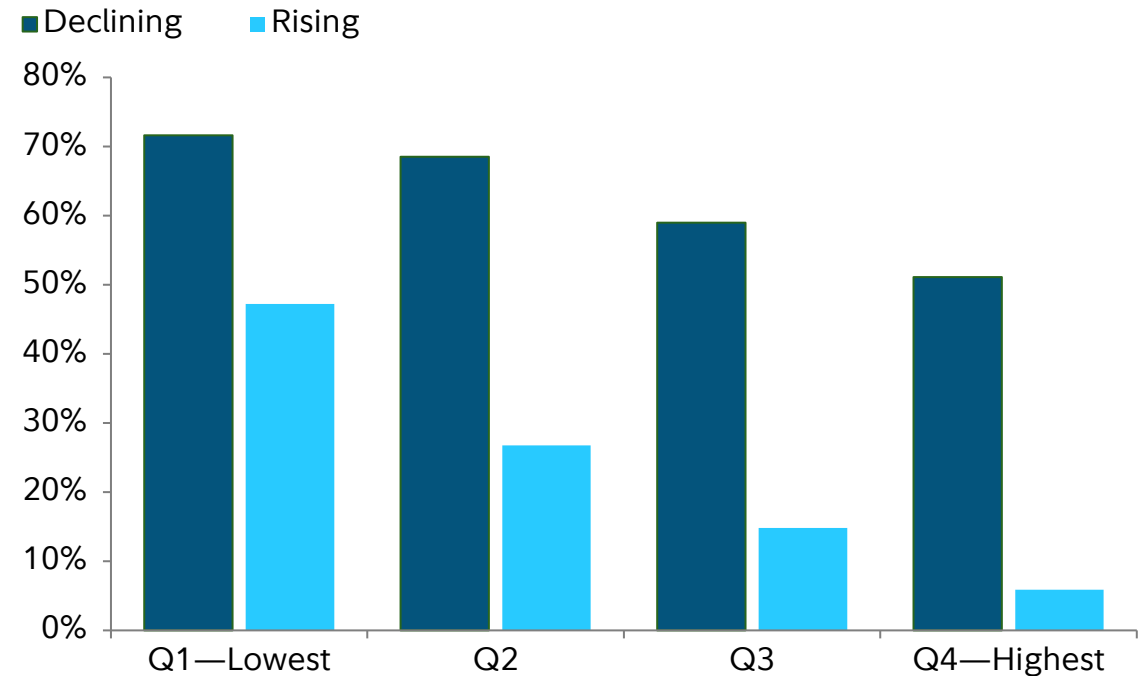
Capex to sales has fallen

Steel capex to sales, 1962–April 2026



Falling capex to sales has led to strong odds of outperformance

NTM odds of outperformance in quartiles of capex/sales, increasing or decreasing, 1962–April 2026

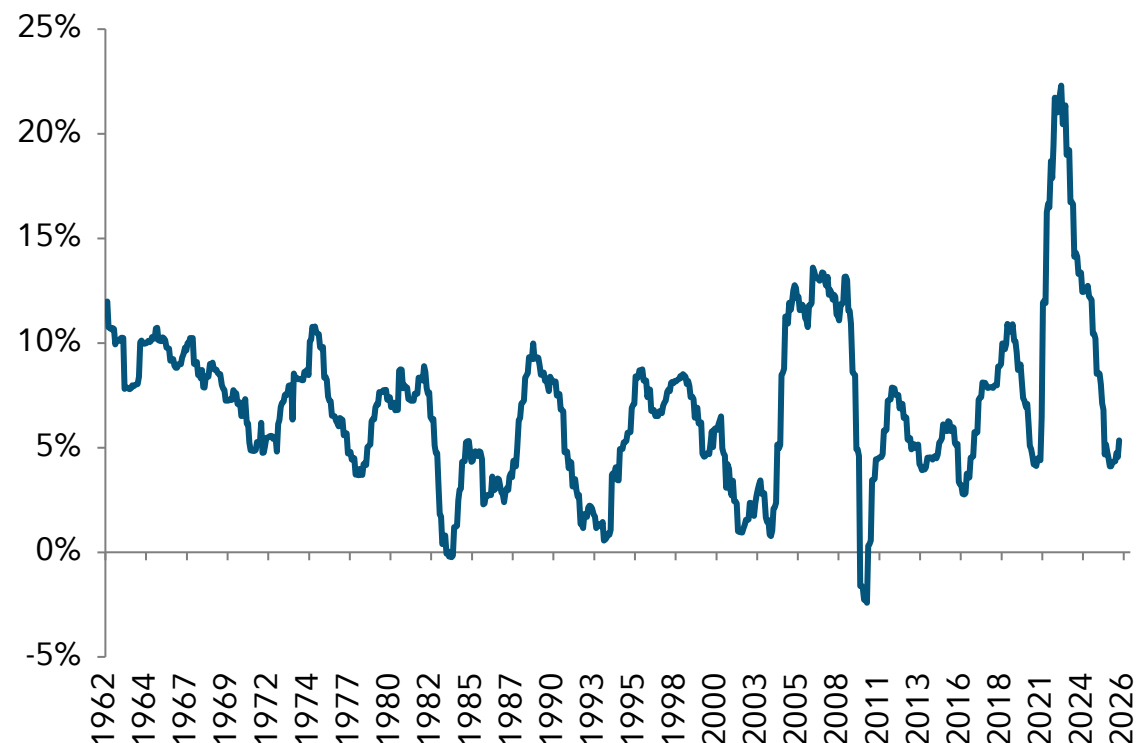


Weak margins have been positive for steel stocks, historically

Steel companies probably are cutting production because profitability is weak. Industry margins recently fell to the lowest quartile of their historical range (left). In the past, poor margins have signaled that the cycle was about to turn. Steel stocks have produced their strongest relative performance, on average, during the 12 months after hitting bottom-quartile margins (right).

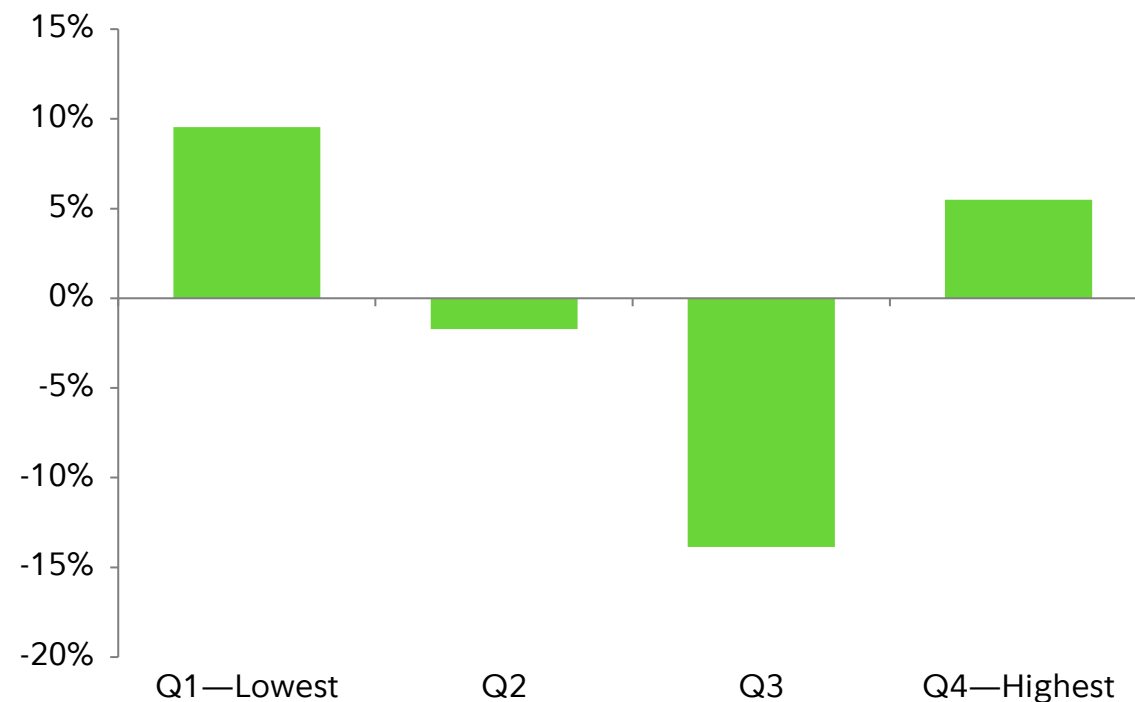
Steel companies' margins have fallen to their lowest quartile

Steel EBIT to sales, 1962–April 2026



Lowest-quartile margins have prefaced strong relative performance

NTM average relative performance in quartiles of margins, 1962–April 2026



High valuations have hurt energy stocks, historically

The average energy stock's forward P/E ratio recently eclipsed the broad market's forward P/E (left). Investors presumably expect oil prices to stay high, helping energy companies maintain already-strong profit margins. The combination of high valuations and strong margins generally hasn't worked out well for investors in the past, however (right).

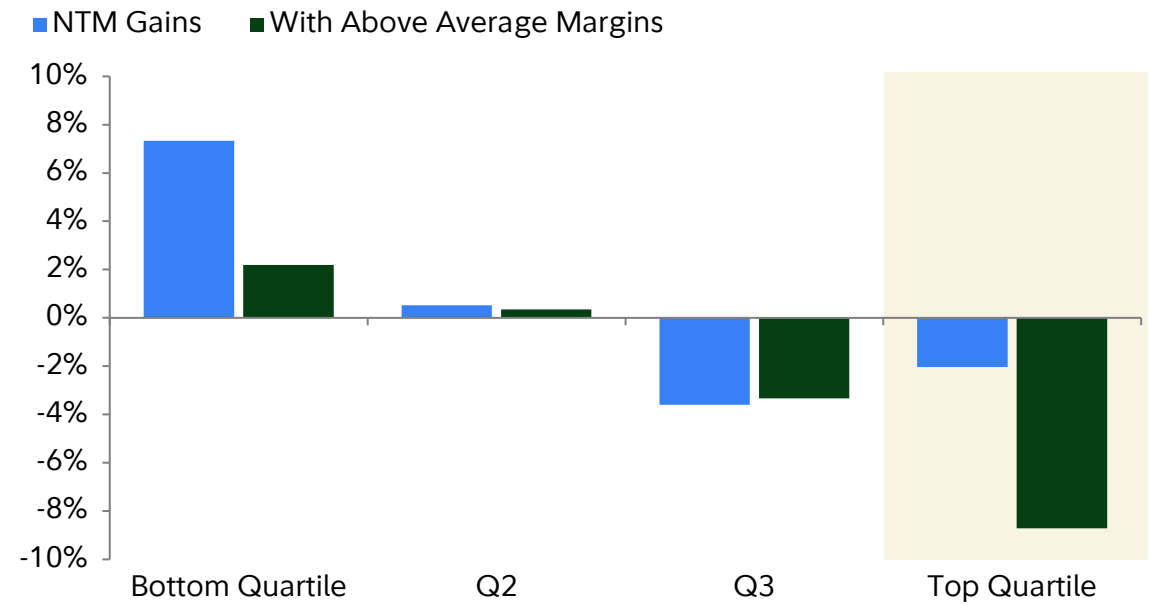
Energy stock valuations topped the market average

Energy cap weighted forward P/E ratio, 1977–March 2026



High valuations and above-average margins have been bad for energy stocks, historically

Average NTM relative performance in quartiles of relative forward P/E, 1977–March 2026



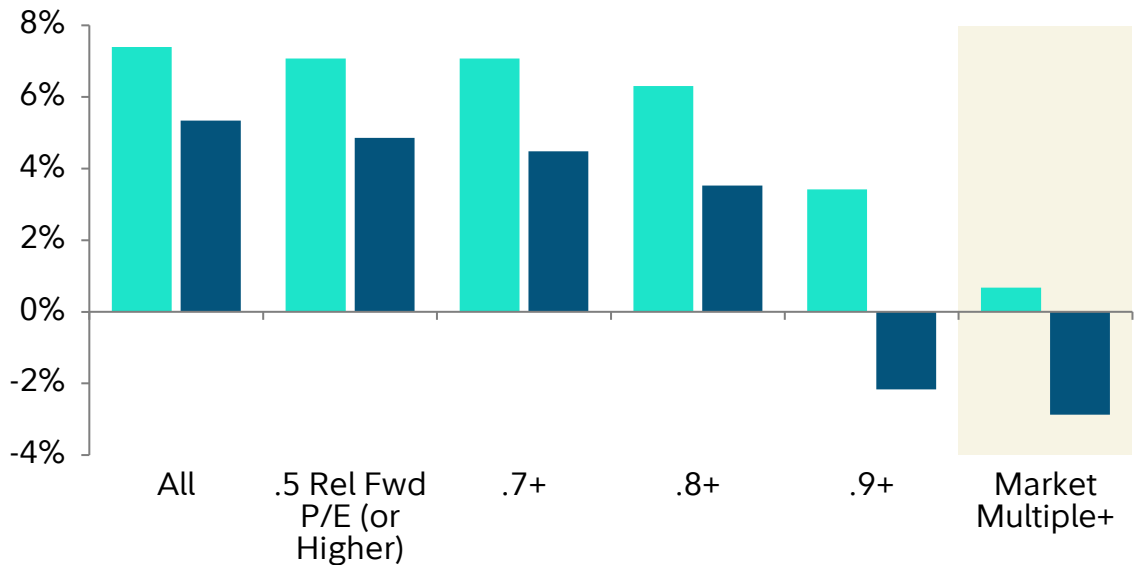
High oil prices may not mean outperformance

Some investors argue that oil prices are likely to stay high and help the energy sector justify its lofty valuation. History may not support that logic. Since 1977, energy stocks did slightly outperform the market when their P/E was at or above the market's and oil prices rose. But since 1990—a period that roughly corresponds with the modern energy era—stocks have underperformed in that scenario (left). Take the mid-1990s (right): Oil prices nearly doubled, but energy stocks' prices struggled.

When energy has been pricier than the market, relative performance has suffered

Average NTM relative performance with higher oil prices, given relative valuation starting point, 1977–March 2026 and 1990–March 2026

Oil Up Oil Up, Since 1990

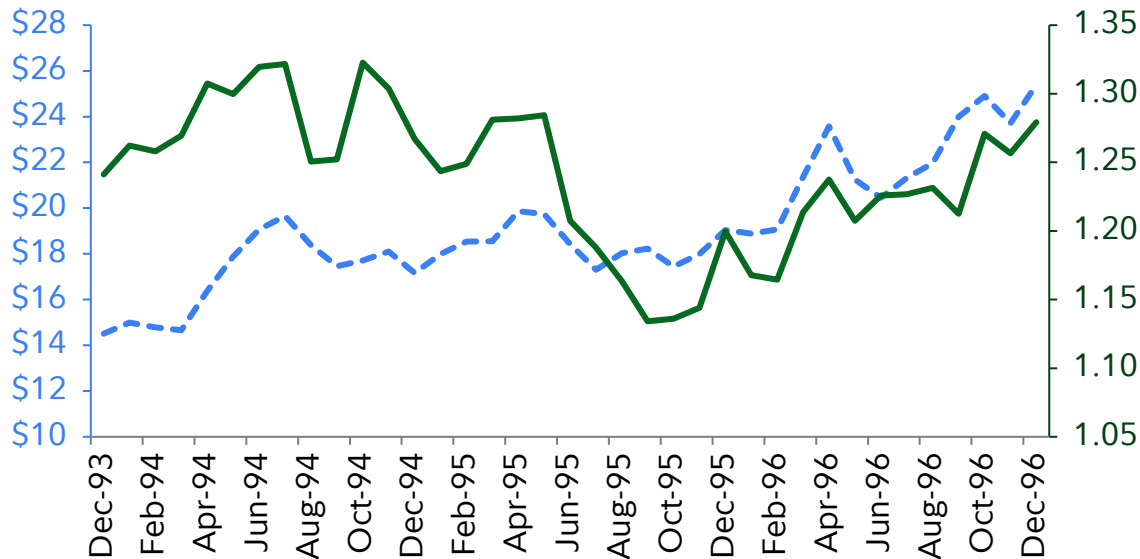


In the 1990s, oil prices doubled but energy's relative performance fell

Oil prices and energy sector relative performance, December 1993–December 1996

Spot Oil Price: West Texas Intermediate [Prior'82=Posted Price] (\$/Barrel)

Relative Cap Wtd Total Return Index: Energy (EOP, Index)



Past performance is no guarantee of future results. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 3/31/2026. LEFT: Fwd P/E: Forward price-to-earnings ratio. A forward P/E ratio typically uses an average of analysts' published earnings estimates for the next 12 months. Analysis based on Fidelity top 3,000 U.S. stocks by market capitalization. All data analyzed monthly from January 1977 through March 2026. RIGHT: All data analyzed monthly from December 1993 through December 1996.

Europe may be a value trap

Investors who are bullish on European stocks often note that valuations there are much lower than in the U.S. (left). That's true—but on average, it has not paid to favor Europe over the U.S. when European stocks looked cheap. When Europe's forward P/E's were in their lowest quartile relative to the U.S., European stocks had only 29% odds of outperforming the U.S. over the next 12 months (right).

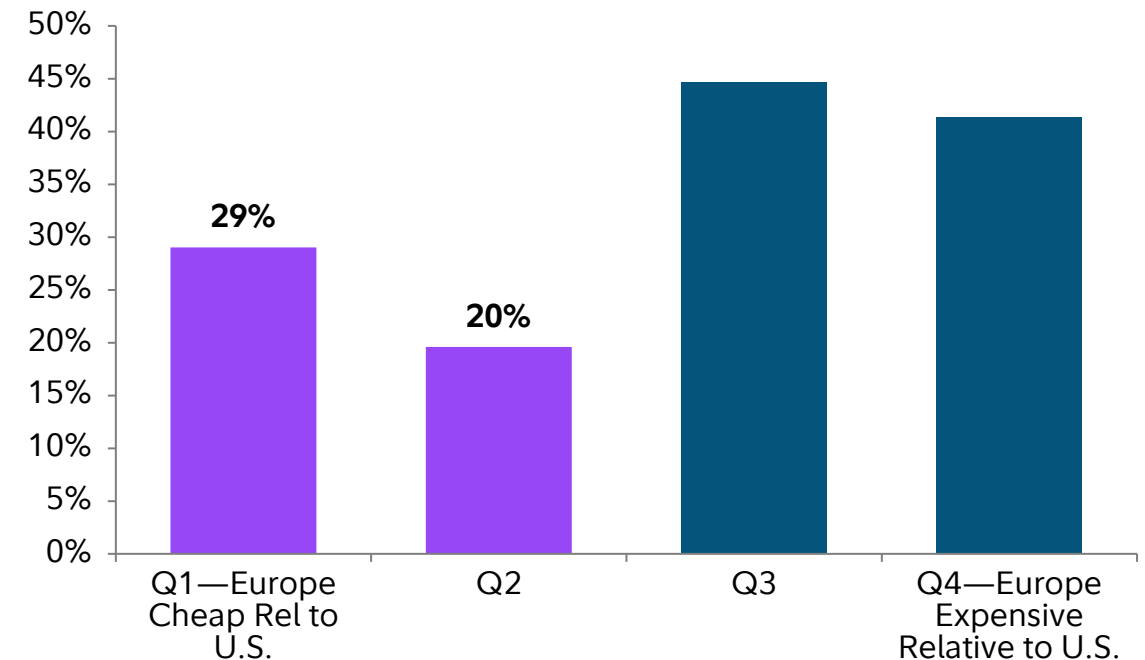
Forward P/E ratios are much lower in Europe than the U.S.

Relative forward P/E of Europe vs. U.S., December 1991–May 2026



Lower valuations have not helped European stocks outperform the U.S., historically

NTM odds of European stocks outperforming U.S. stocks in quartiles of relative forward P/E, December 1991–May 2026

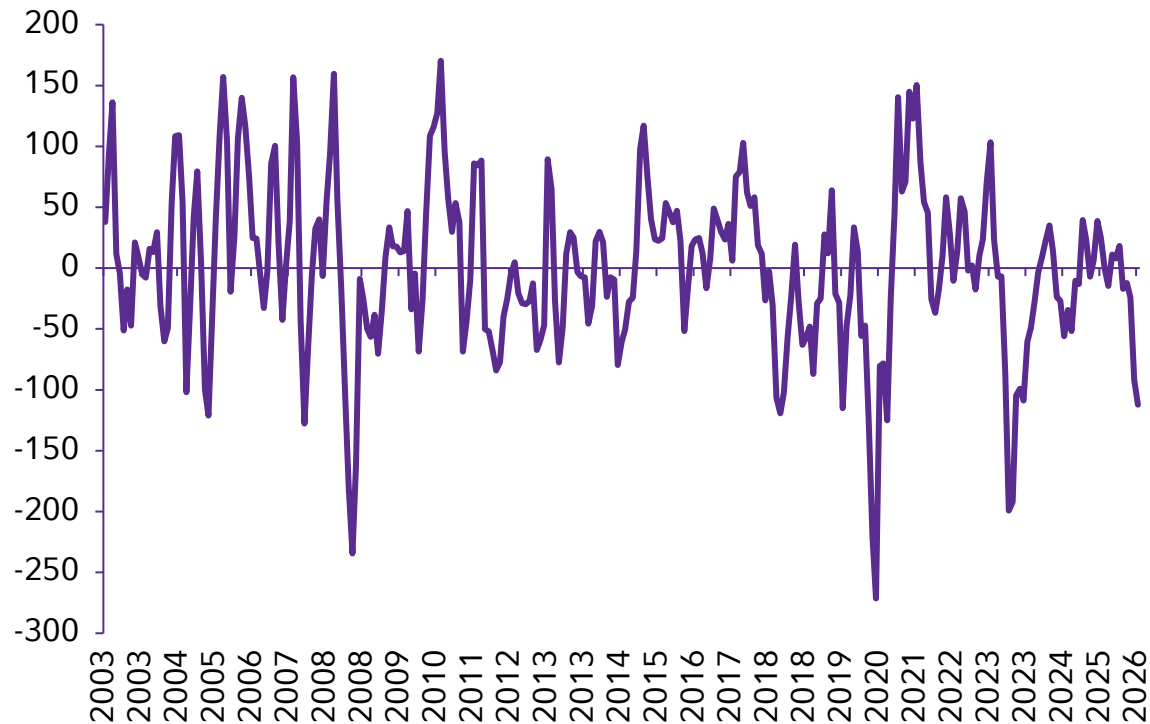


European stocks may be cheap for a reason

If Europe is cheap, there may be a good explanation: Fundamentals don't look very good. Economic news in Europe has been much worse than in the U.S. (left), and earnings have been weaker as well (right). The odds that European stocks would outperform U.S. stocks in the next 12 months have been only about 20% after similar relative economic news and earnings results.

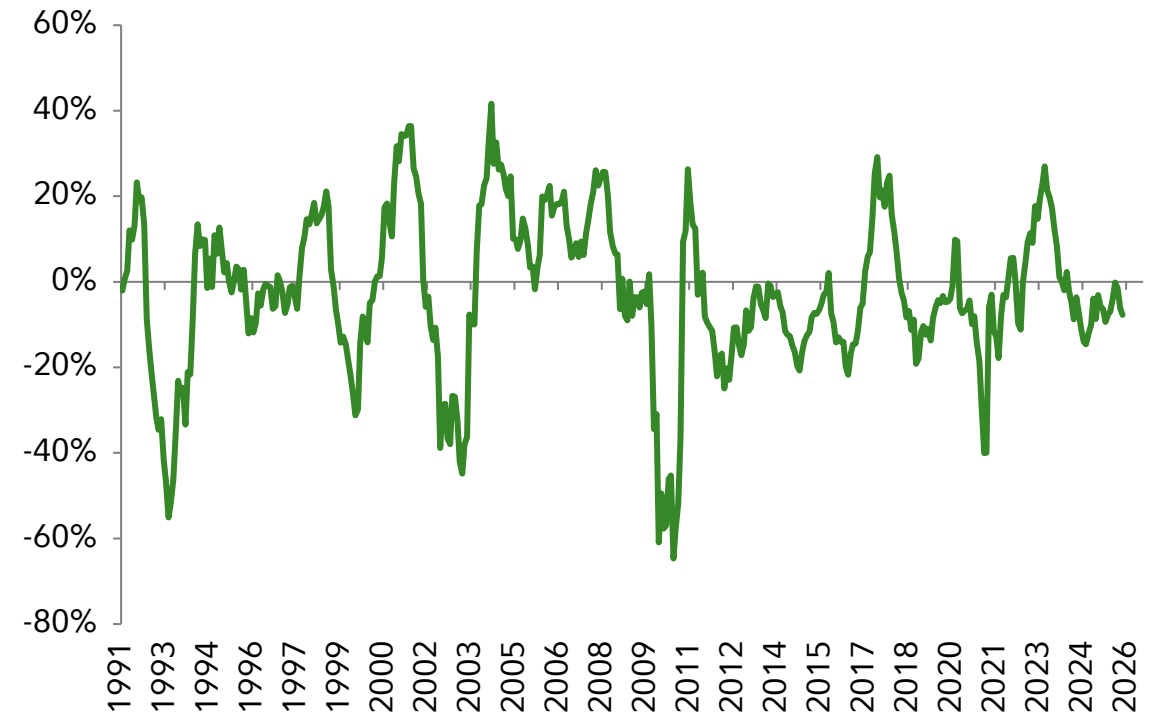
Economic news has been more negative in Europe than the U.S.

Europe Citi Economic Surprise vs. U.S. Economic Surprise, 2003–May 2026



European stocks also have had weaker earnings than U.S. stocks

Implied nominal EPS, Europe vs. U.S., December 1991–May 2026



Glossary and methodology

Glossary

Dividend Yield: Annual dividends per share divided by share price.

Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA): A non-GAAP measure often used to compare profitability between companies and industries, because it eliminates the effects of financing and accounting decisions.

Earnings-per-Share Growth: Measures the growth in reported earnings per share over the specified past time period.

Free Cash Flow (FCF): The amount of cash a company has remaining after expenses, debt service, capital expenditures, and dividends. High free cash flow typically suggests stronger company value.

Free-Cash-Flow Margin: The amount of free cash flow as a percentage of revenue. High FCF margin often denotes strong profitability.

Free-Cash-Flow Yield: Free cash flow per share divided by share price. A high FCF yield often represents a good investment opportunity, because investors would be paying a reasonable price for healthy cash earnings.

Price-to-Book (P/B) Ratio: The ratio of a company's share price to reported accumulated profits and capital.

Price-to-Earnings (P/E) Ratio: The ratio of a company's current share price to its reported earnings. A forward P/E ratio typically uses an average of analysts' published earnings estimates for the next 12 months.

Price-to-Sales (P/S) Ratio: The ratio of a company's current share price to reported sales.

Relative Strength: The comparison of a security's performance relative to a benchmark, typically a market index.

Return on Equity (ROE): The amount, expressed as a percentage, earned on a company's common stock investment for a given period.

Methodology

Strategist View: Our sector strategist, Denise Chisholm, tracks key indicators that have influenced the historical likelihood of outperformance of each sector. This historical probability analysis informs the Strategist Views.

Fundamentals: Sector rankings are based on equally weighting the following four fundamental factors: EBITDA growth, earnings growth, ROE, and FCF margin. However, we evaluate the financials and real estate sectors only on earnings growth and ROE because of differences in their business models and accounting standards.

Relative Strength: Compares the strength of a sector versus the S&P 500 index over a six-month period, with a one-month reversal on the latest month; identifying relative strength patterns can be a useful indicator of short-term sector performance.

Relative Valuations: Valuation metrics for each sector are relative to the S&P 500. Ratios compute the current relative valuation divided by the 10-year historical average relative valuation, eliminating the top 5% and bottom 5% values to reduce the effect of potential outliers. Sectors are then ranked by their weighted average ratios, weighted as follows: P/E: 37%; P/B: 21%; P/S: 21%; and FCF yield: 21%. However, the financials and real estate sectors are weighted as follows: P/E: 65% and P/B: 35%.

Appendix

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or a solicitation to buy or sell any securities. Views expressed are as of 6/30/26, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

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References to specific investment themes are for illustrative purposes only and should not be construed as recommendations or investment advice. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

This piece may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Past performance is no guarantee of future results.

Investing involves risk, including risk of loss.

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 are 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, falling prices and profits, competition from new market entrants, and general economic condition.

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.

Appendix: Important information

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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