Quarterly sector and investment research update

Commentary Fourth Quarter 2026

From the desk of

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Fidelity INVESTMENTS

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Performance summary: Energy, tech and health care led in Q3

The energy, information technology, and health care sectors led the S&P 500® index in the third quarter of 2026. Utilities and industrials 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 materials trailed the index the most.

Sector	Performance as of 9/30/26			Dividend Yield	Weight in S&P 500®
	Latest Quarter	1-Year	3-Year Annualized		
Financials	-0.1%	0.7%	19.1%	1.5%	11.4%
Real Estate	-5.6%	5.7%	11.6%	3.4%	1.7%
Consumer Discretionary	-5.1%	-5.2%	13.5%	0.7%	8.6%
Information Technology	7.2%	30.2%	36.6%	0.4%	39.8%
Industrials	-9.7%	9.5%	19.8%	1.2%	7.9%
Materials	-2.8%	10.0%	9.7%	1.6%	1.7%
Consumer Staples	-1.9%	6.0%	10.1%	2.4%	4.4%
Health Care	6.5%	23.0%	11.3%	1.6%	9.3%
Energy	17.2%	42.4%	14.5%	2.5%	3.4%
Communication Services	3.6%	12.1%	29.5%	0.6%	9.8%
Utilities	-12.4%	-7.0%	13.6%	3.1%	1.9%
S&P 500®	2.3%	15.7%	22.9%	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 9/30/26.

Scorecard: Tech and consumer sectors keep the edge

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

Sector	Strategist View ■ Overweight □ Neutral ■ Underweight	Comments
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	Select opportunities in mining.
Consumer Staples	Underweight	Poor fundamentals suggest sector may be a value trap.
Health Care	Neutral	Data suggests 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.

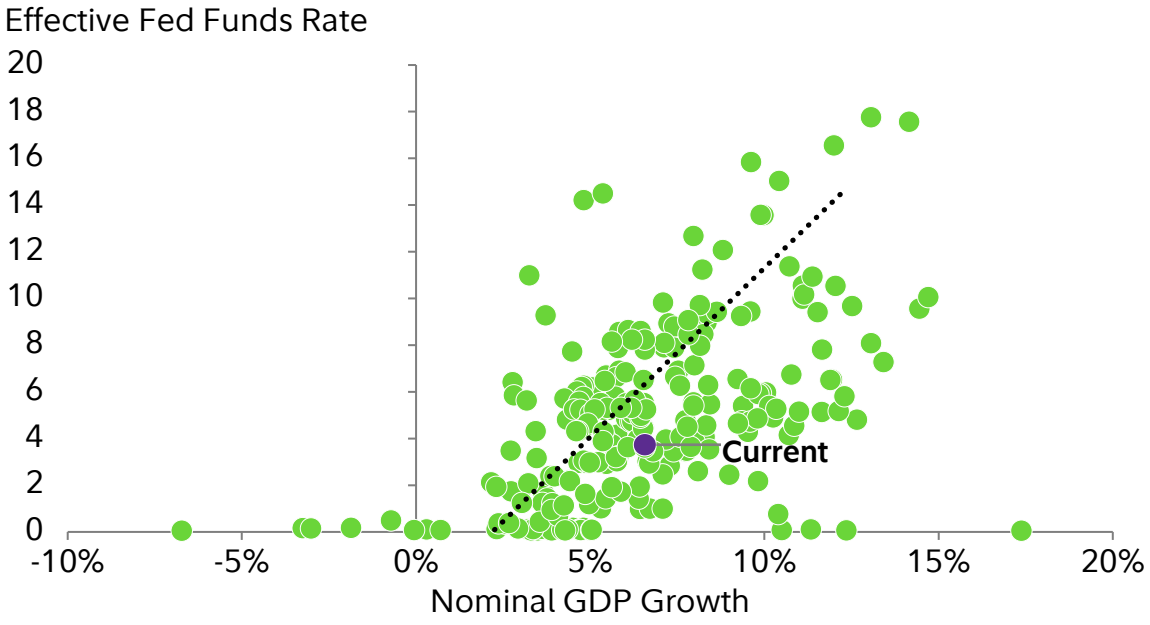
Past performance is no guarantee of future results. Sectors as defined by GICS. Green- and sand-shaded portions above represent over- or underperformance, respectively, relative to the broader market; unshaded (white) portions suggest no clear pattern of over- or underperformance. Source: Fidelity Investments (AART), as of 9/30/26.

The Fed's benchmark interest rate looks low relative to GDP growth

Higher nominal gross domestic product (GDP) growth tends to correspond with higher interest rates. Although some investors worry that the Federal Reserve may be hiking too aggressively, the current federal funds rate is slightly below where historical relationships suggest it should be (left). The size of that gap matters: Historically, when rates were in the second quartile relative to growth, as they are now, the market returned 11%, on average, over the following 12 months (right).

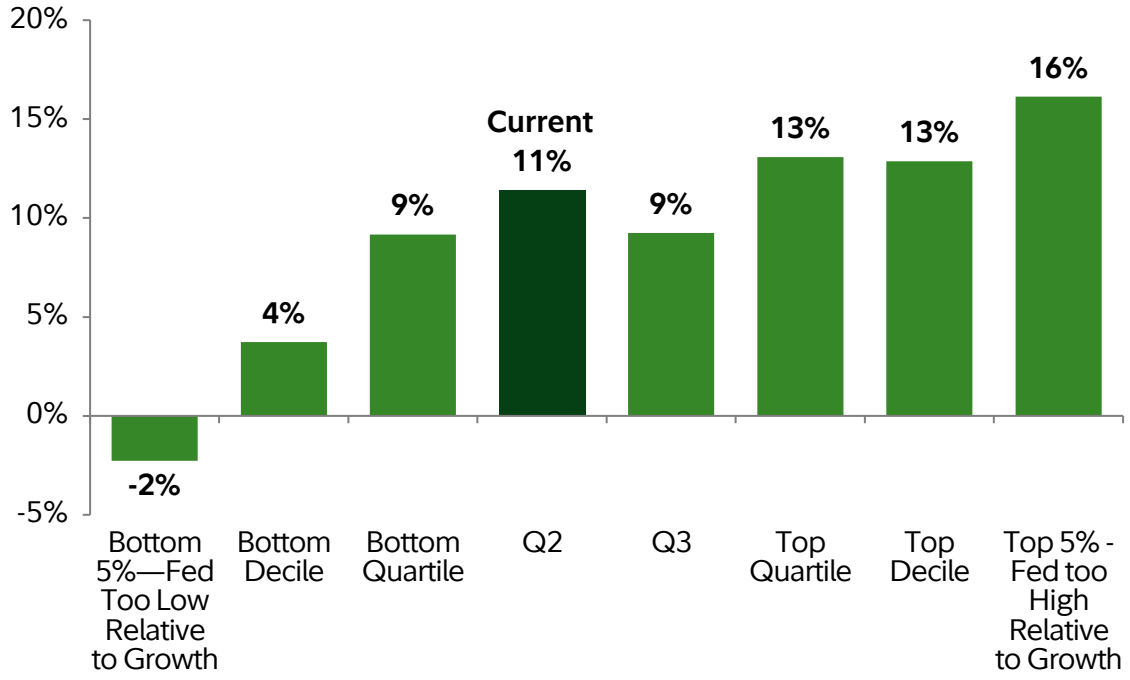
The Fed's benchmark rate looks a little low compared with GDP growth

Relationship between federal funds rate and nominal GDP growth, 1962–June 2026



Similar situations have been followed by strong market returns

Average NTM S&P 500 returns in percentiles of rate differential between fed funds rate and nominal GDP growth, 1962–June 2026



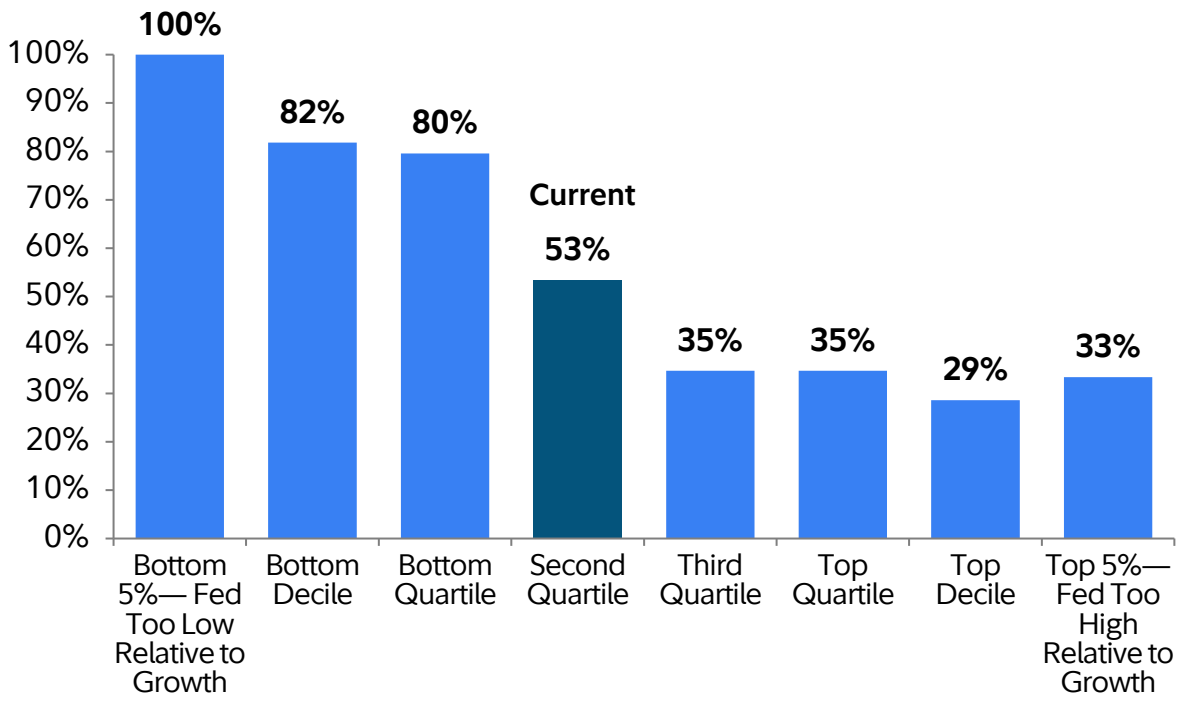
Past performance is no guarantee of future results. Nominal GDP is not adjusted for inflation. Sources: Haver Analytics and Fidelity Investments, as of 6/30/26. **LEFT**: Data gathered and analyzed quarterly from January 1962 through June 2026. **RIGHT**: NTM: Next 12 months. Analysis based on the S&P 500. Data gathered and analyzed quarterly from January 1962 through June 2026. Purple dot: It is a scatterplot. The dot is plotted on the X and Y axis. It corresponds to current levels of nominal GDP growth and the effective federal funds rate.

The size of rate hikes matters

When rates have been in the second quartile relative to nominal GDP growth, the Fed has raised the fed funds rate during the next 12 months about half the time (left), suggesting we may be closer to the end of the rate-hiking cycle than many investors seem to think. Historically, when the Fed has raised rates by 0% to 1.25% over a one-year period, the stock market has advanced about 83% of the time (right).

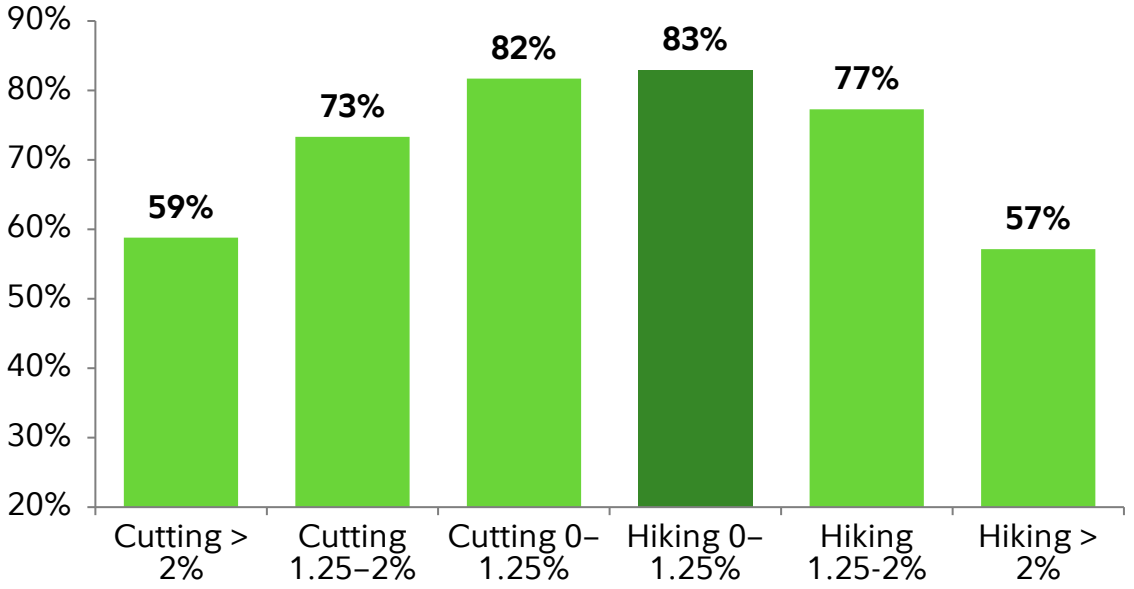
After similar scenarios, the Fed has hiked about half the time

Odds of NTM fed funds rate hike in cohorts of rate differential between fed funds rate and nominal GDP growth, 1962–June 2026



Markets have been most likely to advance amid small rate hikes

Odds of market advance when the Fed cut or hiked in any 12-month period,1962–June 2026



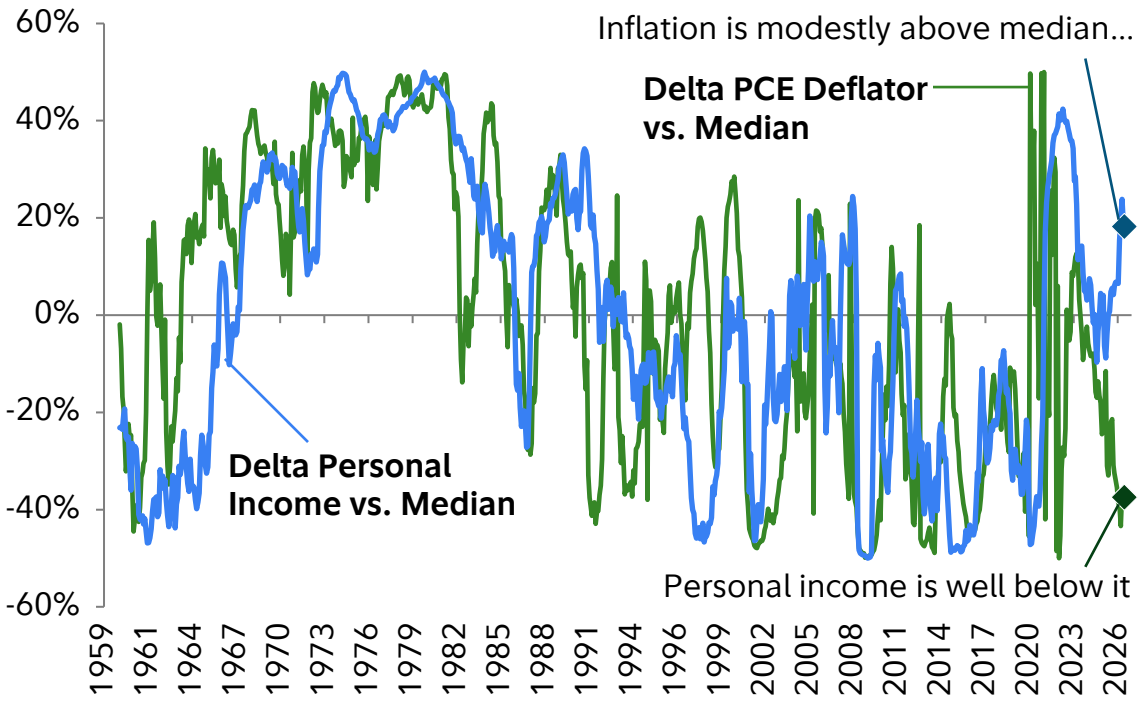
Past performance is no guarantee of future results. Data gathered and analyzed quarterly from January 1962 through June 2026. Sources: Haver Analytics and Fidelity Investments, as of 6/30/26. **LEFT**: NTM: Next 12 months. GDP: Gross domestic product. Nominal GDP does not account for inflation. **RIGHT**: Analysis based on the S&P 500.

Weak wage growth may limit inflation

While many investors are focused on rising inflation, the PCE deflator—the Fed's preferred inflation gauge—recently was only modestly above its median since 1959. At the same time, personal income growth has been weak, in just the 13th percentile of its historical range (left). Historically, periods of especially weak wage growth and rising rates have led to strong stock-market performance (right). The reason may be that softer consumer demand can help slow inflation, reducing pressure for the Fed to raise rates.

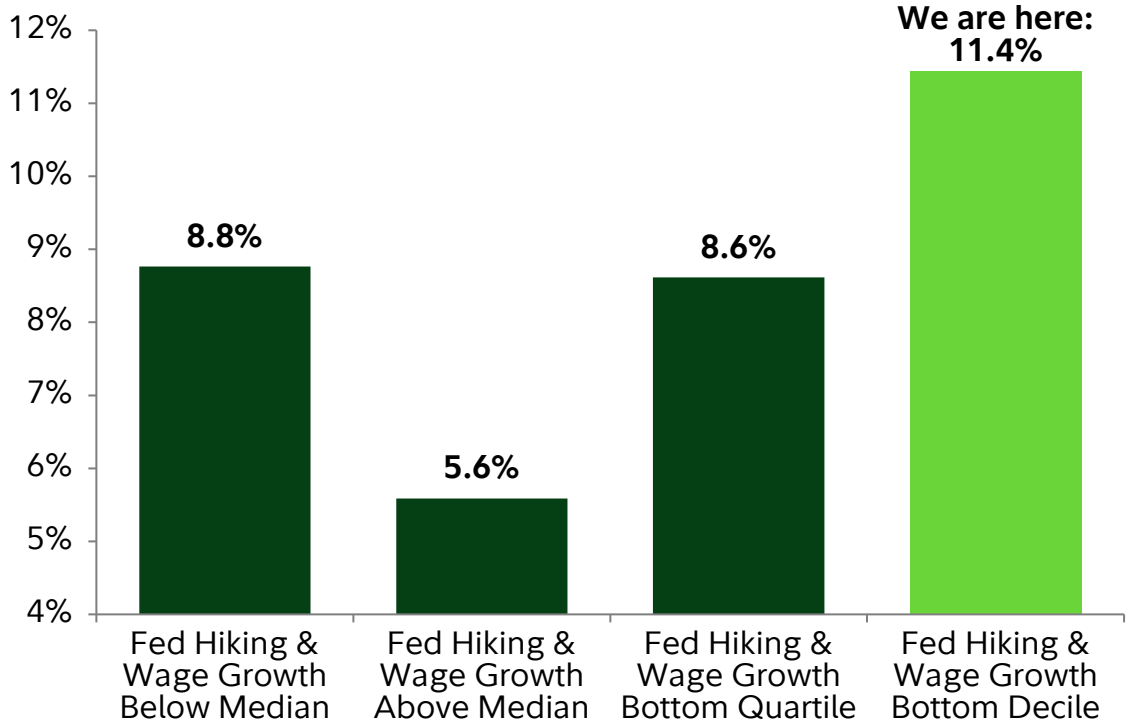
Today's weak income growth is a bigger outlier than high inflation

Personal income growth vs. inflation, 1959–August 2026



Hikes with weak wage growth have come before strong stock returns

Average NTM S&P 500 returns during Fed hiking cycles, 1959–August 2026



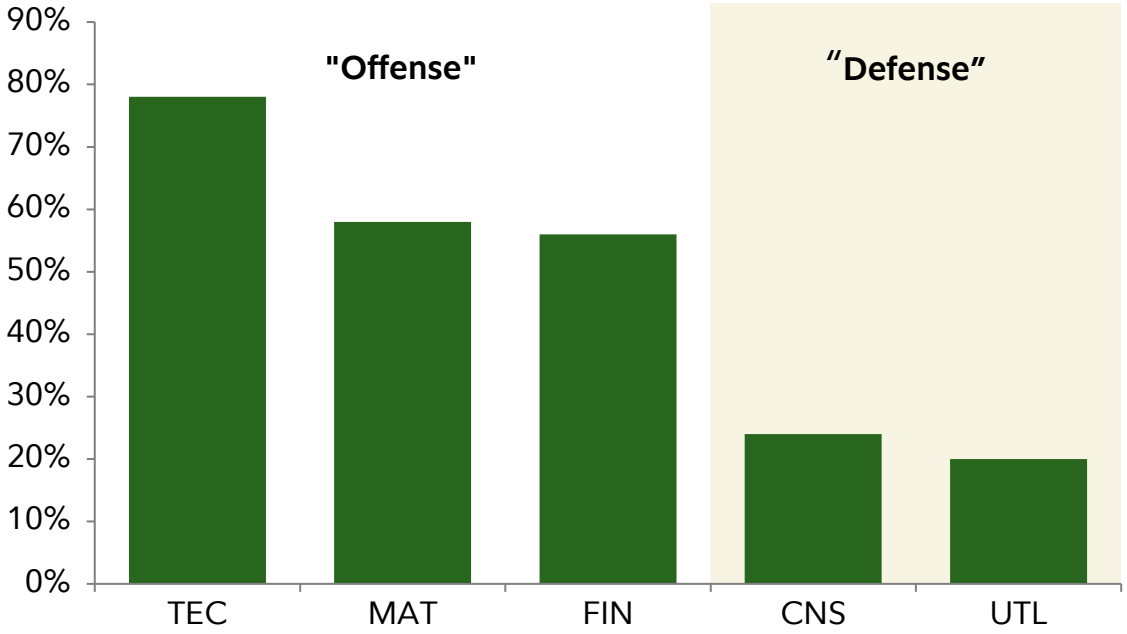
Past performance is no guarantee of future results. Data gathered and analyzed monthly from January 1959 through August 2026. Sources: Haver Analytics and Fidelity Investments, as of 9/30/26. **RIGHT**: NTM: Next 12 months. Analysis based on the S&P 500. Indexes are unmanaged. It is not possible to invest directly in an index.

Smaller Fed hikes favor offensive sectors

After previous times interest rates were slightly low relative to nominal GDP growth, the sectors with the highest odds of outperformance were all offensive, while the most defensive sectors had the lowest odds of beating the market (left). Offensive sectors outperformed the broad market by an average of 2% over the next 12 months, while defensive sectors underperformed (right).

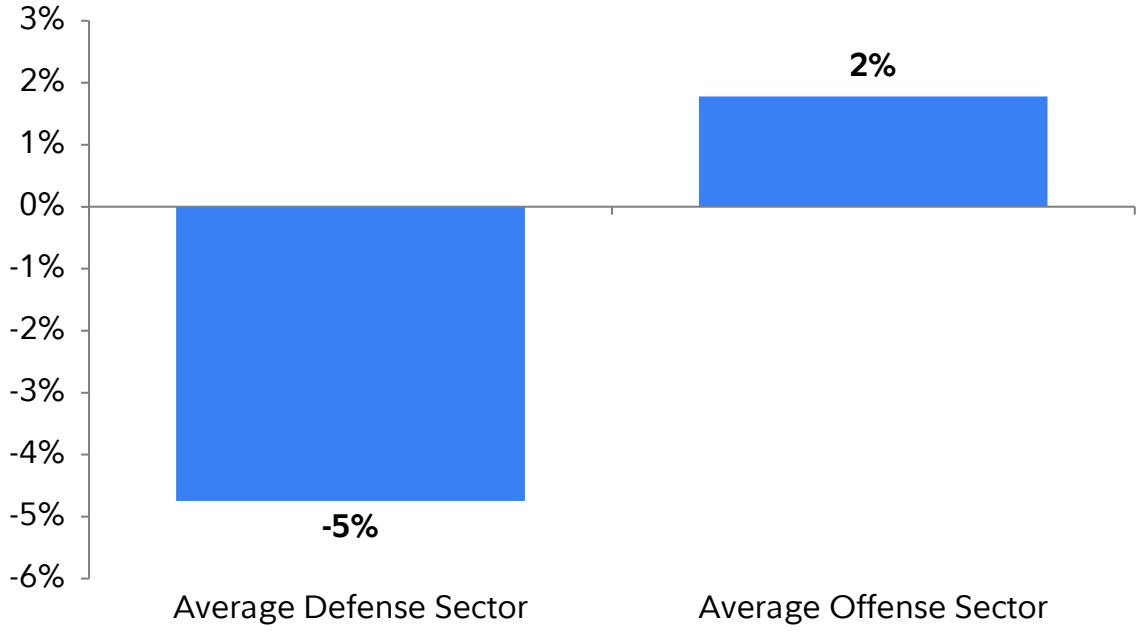
Offense has outperformed when rates were low relative to growth

Odds of NTM sector outperformance when rates relative to nominal GDP growth were in second quartile, 1962–June 2026



Offense beat defense by a wide margin in these scenarios, on average

Average NTM sector relative performance when rates relative to nominal GDP growth were in second quartile, 1962–June 2026



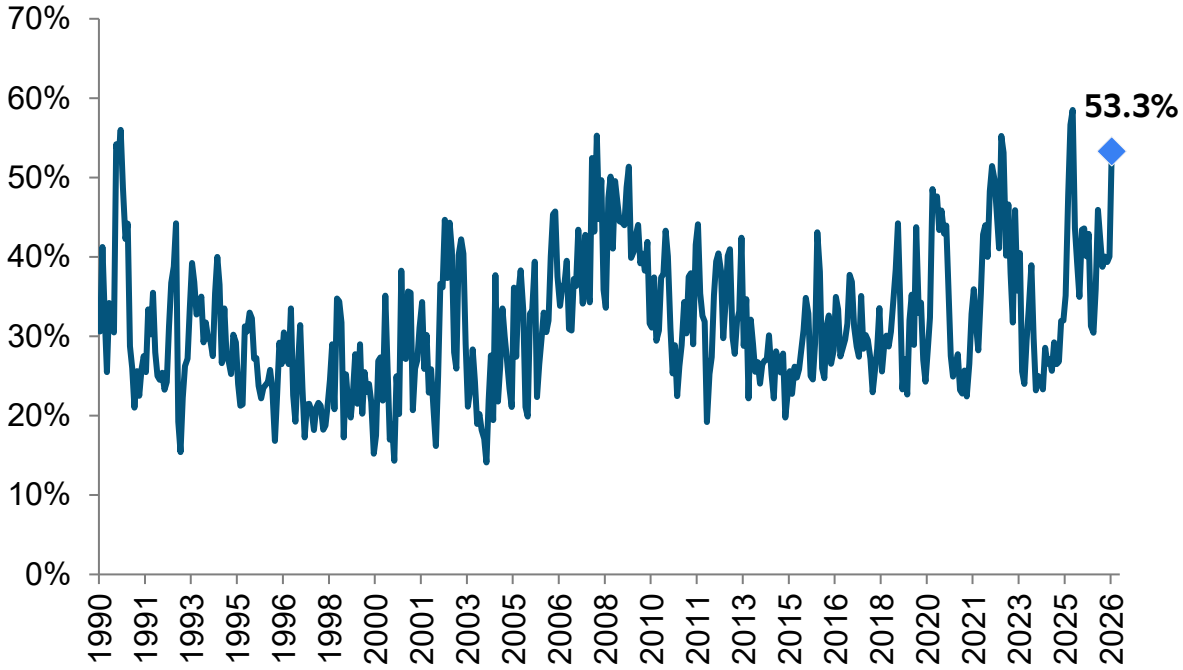
Past performance is no guarantee of future results. NTM: Next 12 months. GDP: Gross domestic product. Nominal GDP is not adjusted for inflation. All data gathered quarterly from January 1962 through June 2026. Analysis based on the S&P 500. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 6/30/2026. Sectors based on classifications prior to September 2016, when real estate was introduced as a standalone sector and communication services was created by adding certain stocks previously classified as information technology to telecommunications. Offense includes consumer discretionary, energy, financials, industrials, materials, and technology. Defense includes consumer staples, health care, utilities, and telecommunications. **RIGHT**: All data gathered quarterly from January 1962 through June 2026.

Extreme bearishness has been bad news for utilities

After the Fed's mid-September rate hike, retail investors' bearish sentiment rose to the top 3% of its historical range (left). Historically, such extreme pessimism hasn't been a signal to become more defensive. To the contrary, utilities—arguably the most defensive sector—outperformed only 17% of the time during 12-month periods after investor bearishness reached the top 3% (right).

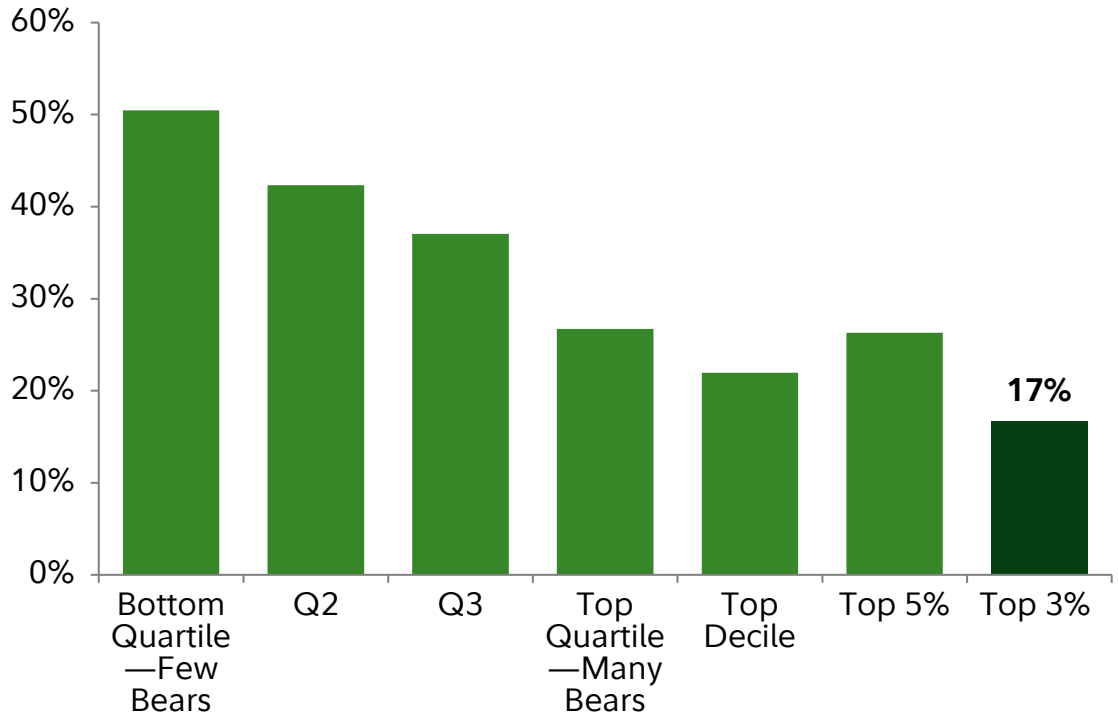
Bearish sentiment neared the top of its historical range

AAII Sentiment Survey, percent bearish, 1990–September 2026



Utilities have been unlikely to outperform after extreme bearishness

Utilities NTM outperformance odds across AAII bearish sentiment regimes, 1990–September 2026



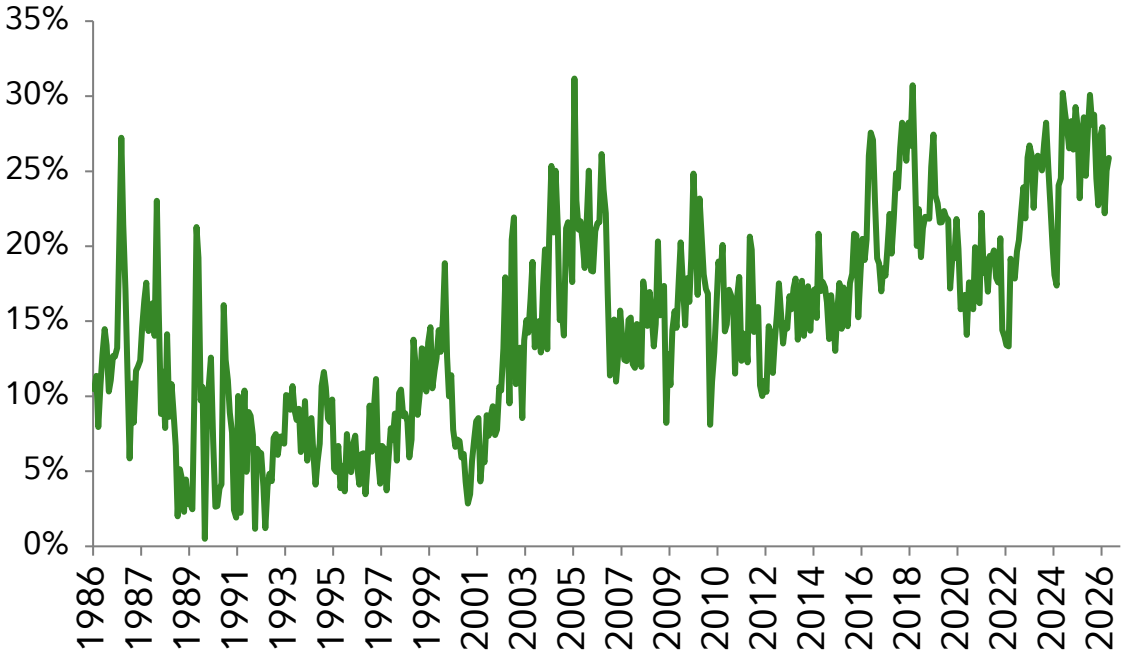
Past performance is no guarantee of future results. AAII: American Association of Individual Investors. All data gathered and analyzed monthly from January 1990 to September 2026. Sources: Haver Analytics and Fidelity Investments, as of 9/30/26. **RIGHT**: NTM: Next 12 months. Analysis based on Fidelity top U.S. 3,000 stocks by market capitalization.

A crowded short trade suggests 10-year Treasury yields could fall

The yield on the 10-year Treasury has risen significantly, and some investors worry it could keep climbing. Short positions in 10-year Treasuries recently approached historical highs (left). In the past, however, when short positioning became this concentrated, 10-year yields tended to decline meaningfully over the following year, on average (right).

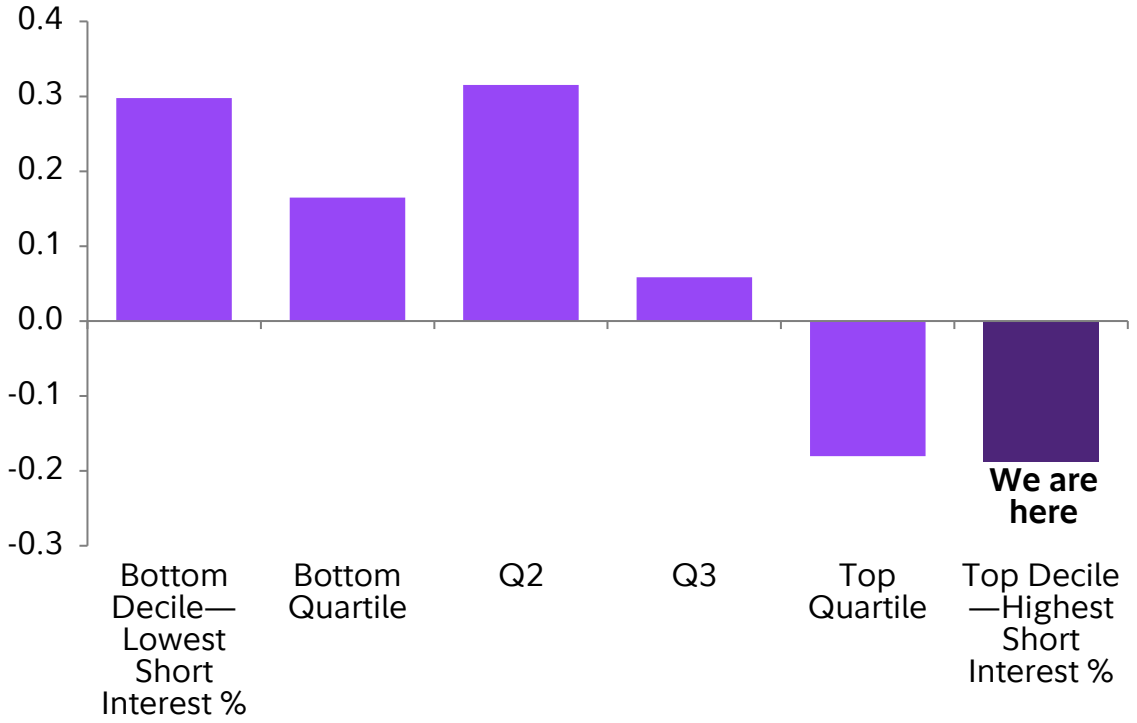
Short positions on 10-year Treasury yields rose

Commitments of Traders Report: Noncommercial short positions on 10–year Treasuries as a percent of open interest, 1986–July 2026



Yields have tended to fall after the short trade got crowded

NTM change in 10-Year Treasury yields in quartiles and deciles of short interest percentage,1986–July 2026



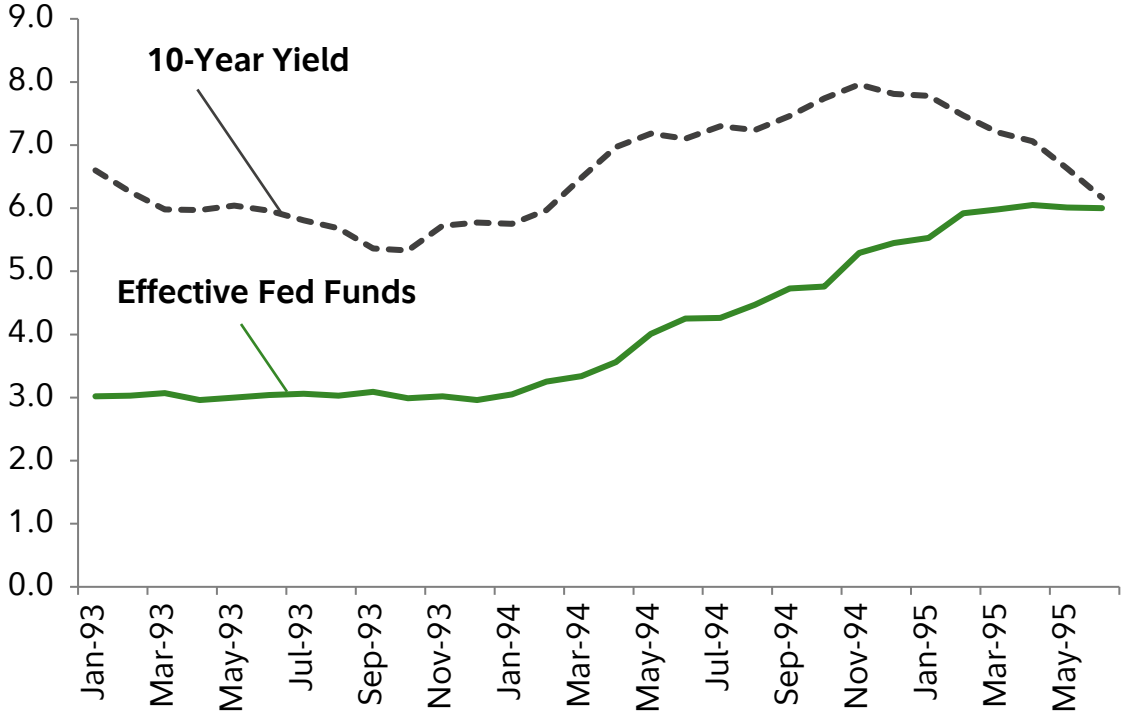
 Past performance is no guarantee of future results. All data gathered and analyzed monthly from January 1986 to July 2026. Sources: Haver Analytics and Fidelity Investments, as of 7/31/26. **RIGHT**: NTM: Next 12 months.

Interest rate hikes don't always lead to higher yields on long bonds

Long-term bond yields usually rise when the Fed hikes rates, but not always. In fact, the yield on the 10-year Treasury has remained flat or fallen about 20% of the time during one-year periods in which the Fed raised interest rates. Those episodes can occur for a variety of reasons. In 1993, rate hikes strengthened the Fed's credibility on inflation, making investors willing to accept lower long-term rates (left). In 2016, tighter policy led to an economic slowdown, allowing rates to fall (right).

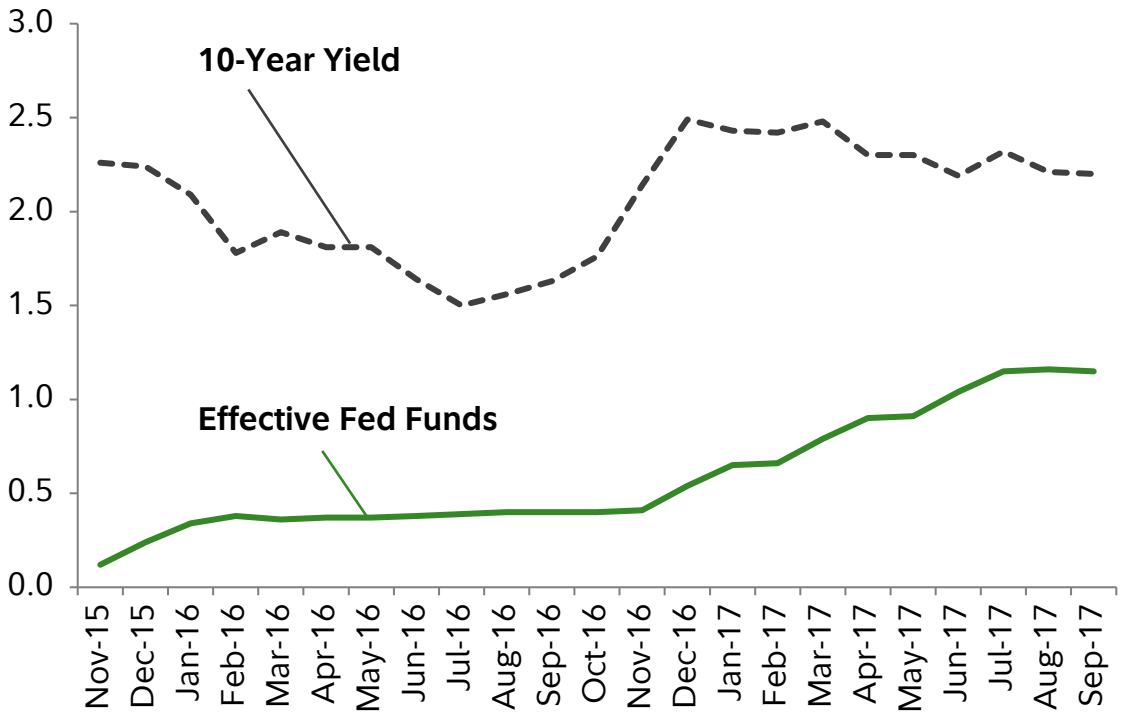
Long bond yields fell after Fed hikes in 1993

Effective federal funds rate vs. 10-year Treasury yield,1993–June 1995



Tightening also led to lower yields in 2016

Effective federal funds rate vs. 10-year Treasury yield, November 2015–September 2017



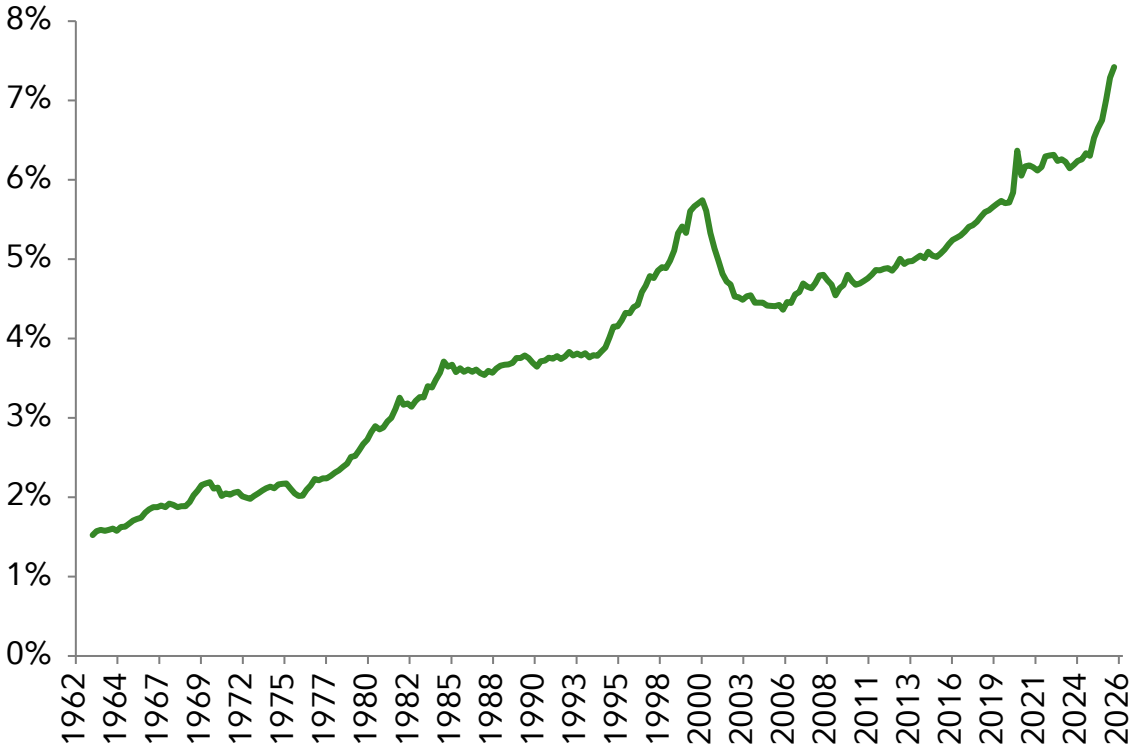
Past performance is no guarantee of future results. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 9/30/2026. **LEFT**: All data analyzed monthly from January 1993 through June 1995. **RIGHT**: All data analyzed monthly from November 2015 through September 2017.

The tech spending slowdown may be upon us

Growth in technology investment has been a decades-long trend (left). Year-over-year spending surged to a record 16.4% increase through March 2026, slightly above its dot-com-era peak. It has since moderated to about 15% through June, suggesting the pace of technology investment growth may be easing (right).

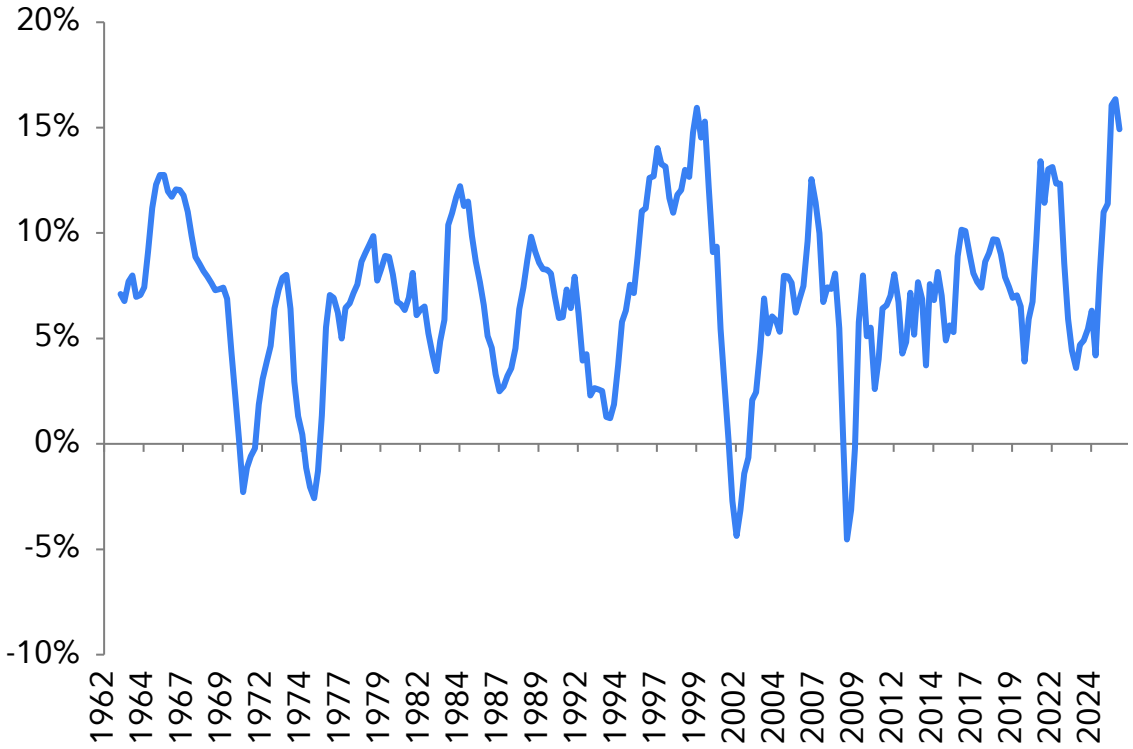
Tech investment has grown for decades

Tech investment as percent of GDP, 1962–June 2026



Tech investment growth may have peaked for this cycle

Year-over-year tech investment growth, 1962–June 2026



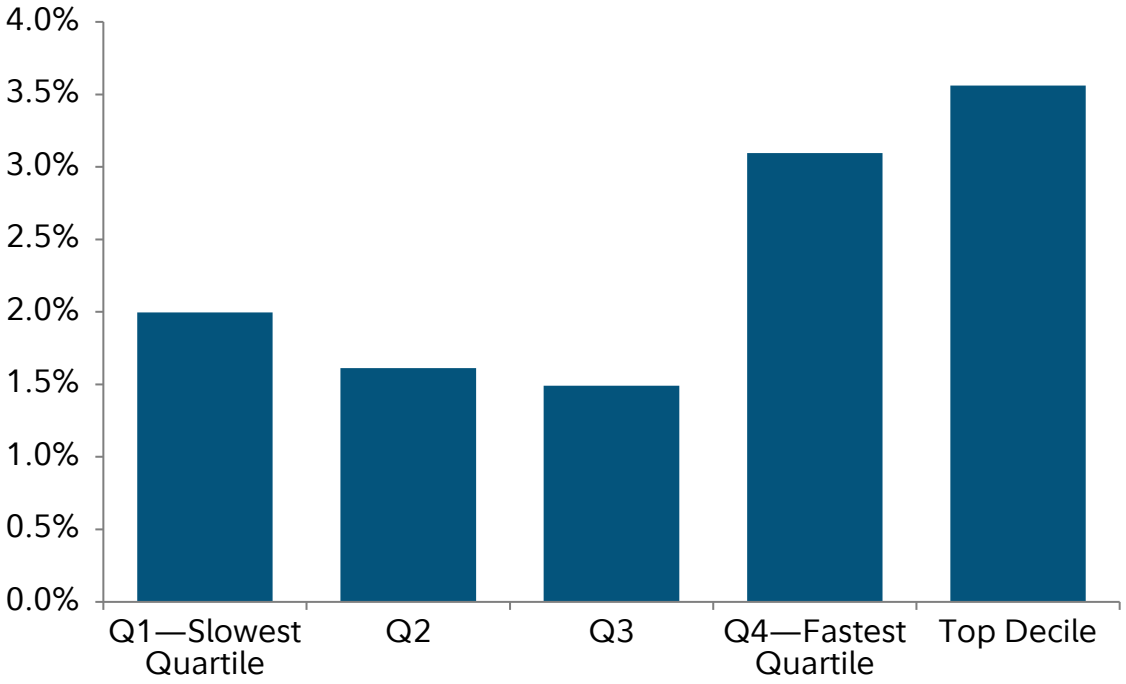
 Past performance is no guarantee of future results. Data analyzed quarterly from January 1962 through June 2026. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 6/30/2026. **LEFT**: GDP: Gross domestic product.

Decreasing tech spending has not signaled economic downturns

One common worry is that a slowdown in tech spending will hurt the economy. Historically, however, passing the peak of the technology investment cycle has not been an economic warning sign. When last-12-month tech investment growth was in the top decile and decelerating, real GDP experienced strong growth over the next 12 months, on average (left), while technology stocks outperformed the market by an average of 4.1% (right).

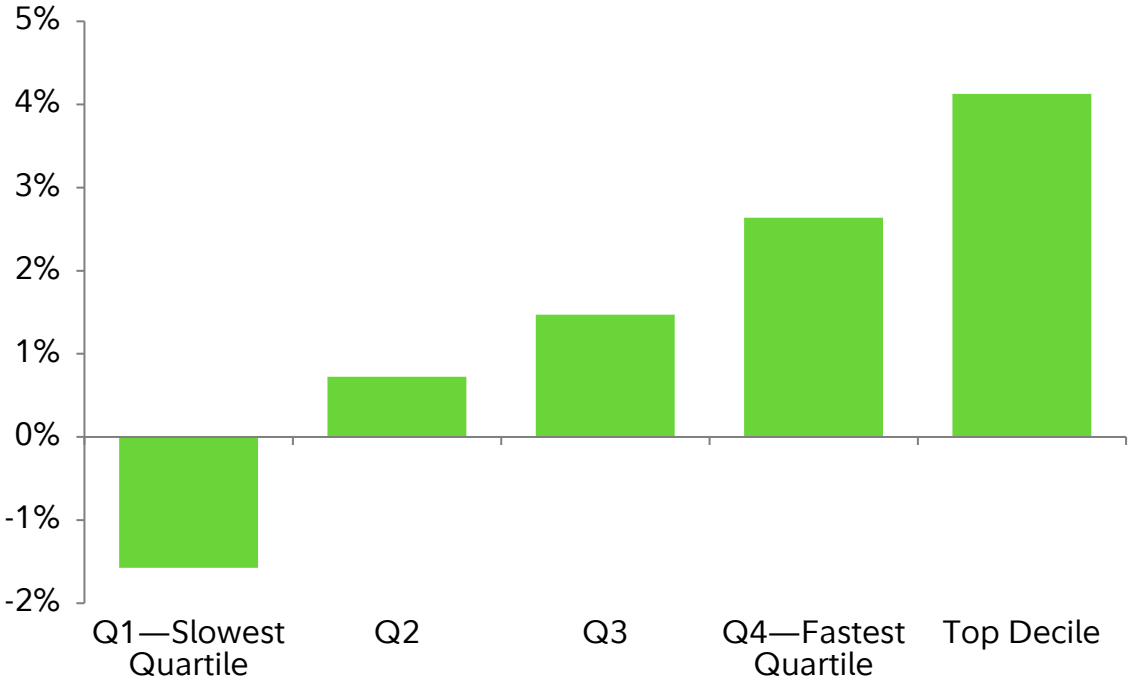
Real GDP grew most after tech investment passed its peak

NTM real GDP growth in quartiles and deciles of LTM tech investment growth, when decelerating, 1962–June 2026



Technology stocks outperformed during those periods

NTM relative performance of tech in quartiles and deciles of LTM tech investment growth, when decelerating, 1962–June 2026



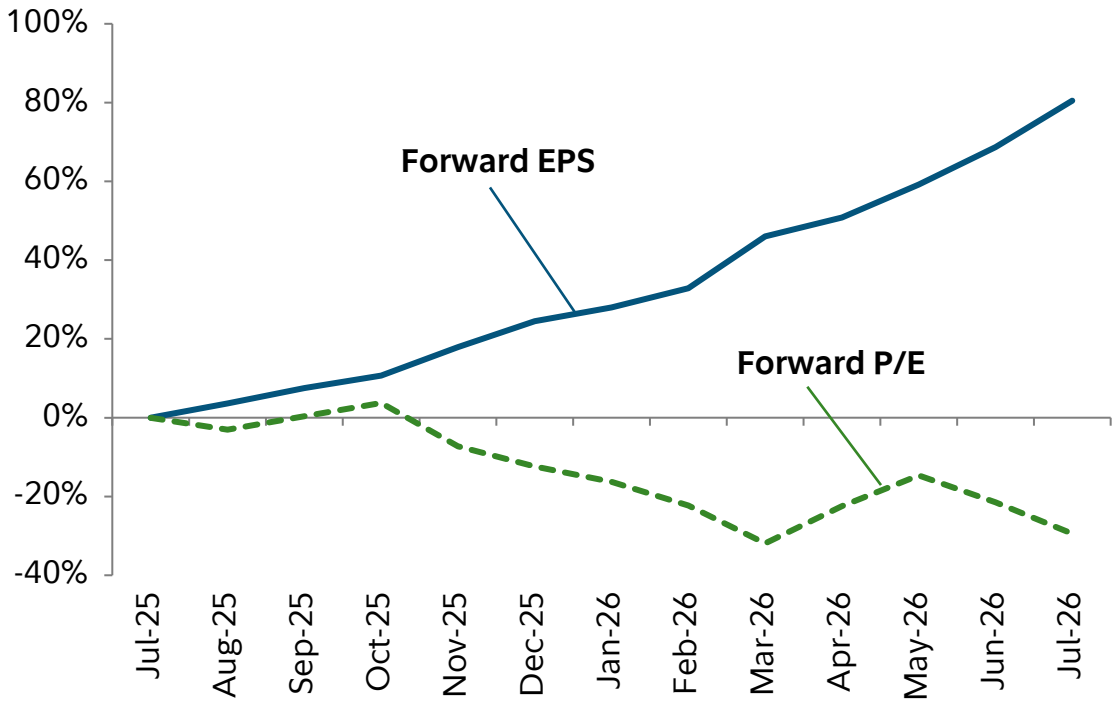
Past performance is no guarantee of future results. NTM: Next 12 months. LTM: Last 12 months. GDP: Gross domestic product. Real GDP: The total value of all goods and services produced by an economy, adjusted for inflation. Data analyzed quarterly from January 1962 through June 2026. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 6/30/2026.

Tech valuations have declined precipitously

Technology stock prices fell even as earnings estimates kept rising, causing the sector's average forward price-to-earnings (P/E) ratio to drop 30% over the 12 months through July (left). The change was in the bottom 5% of the range since 1990, and was comparable to valuation compression during past recessions (right).

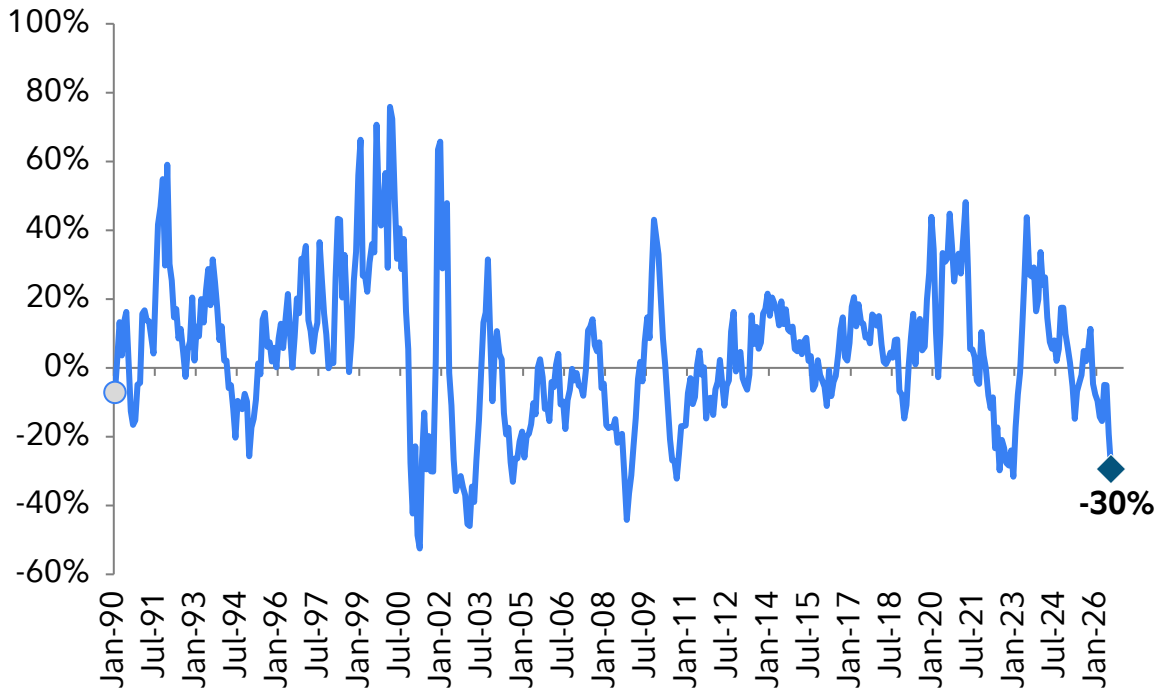
Tech's forward price-to-earnings declined

LTM changes in the technology sector's earnings estimates and forward P/E ratio, July 2025–July 2026



The drop in tech sector valuations was historic

Year-over-year change in technology stocks' average forward price-to-earnings ratio, 1990–July 2026



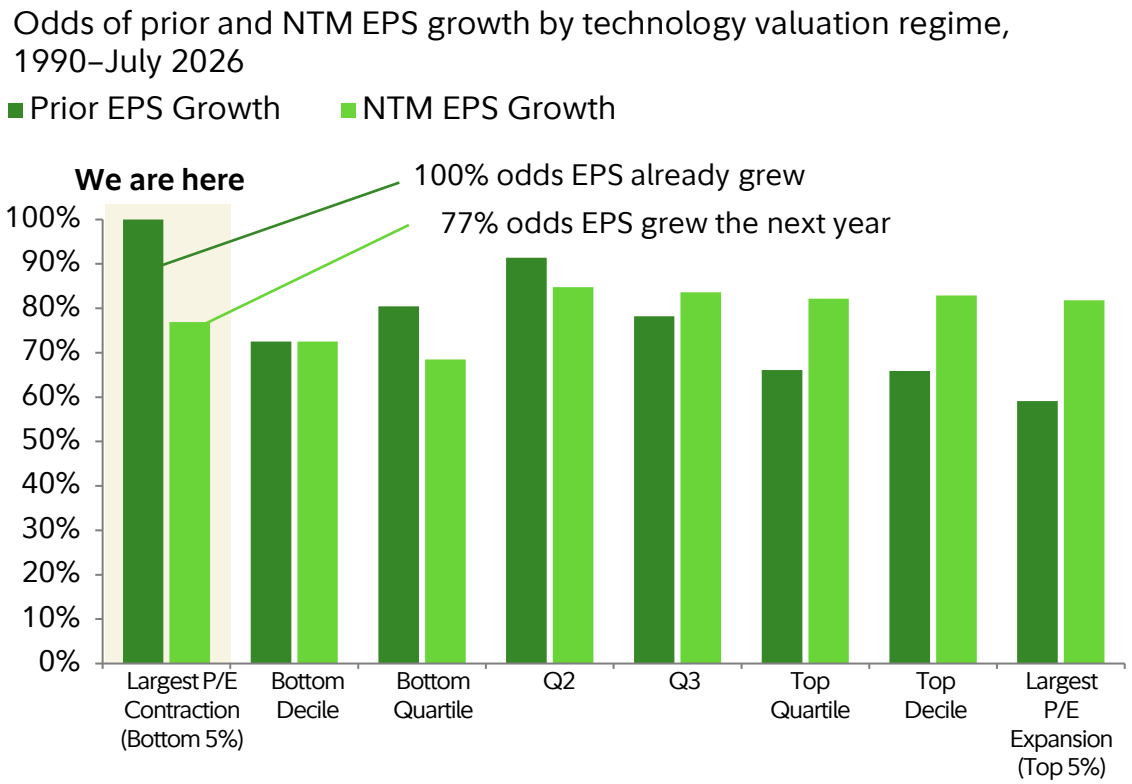
Past performance is no guarantee of future results. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 7/31/2026. **LEFT**: LTM: Last 12 months. EPS: Earnings per share. Fwd P/E: Forward price-to-earnings ratio. A forward P/E ratio typically uses an average of analysts' published earnings estimates for the next 12 months. All data analyzed monthly from July 2025 through July 2026. **RIGHT**: All data analyzed monthly from January 1990 through July 2026.

Technology's earnings outlook remains strong

Historically, the tech sector's biggest P/E declines have come amid rising earnings. In more than three-quarters of those cases, earnings continued to grow over the next 12 months (left). Not being priced for perfection has made tech stocks' returns more durable: After large P/E contractions, the sector has advanced over the next 12 months, on average, whether earnings kept growing or not (right).

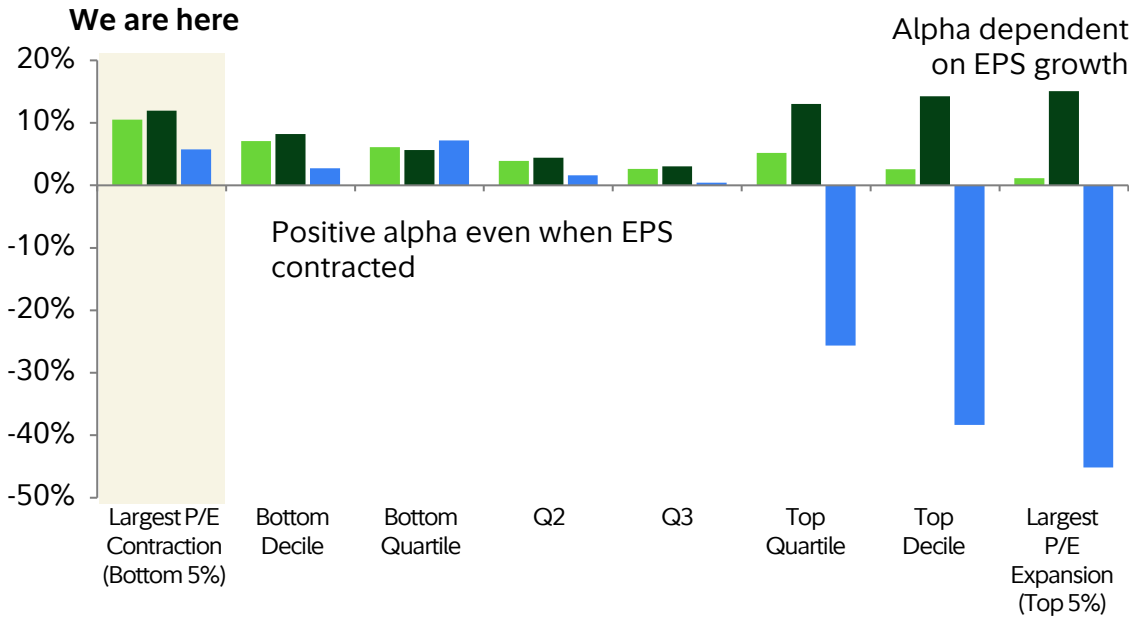
Extreme P/E contractions have coincided with earnings growth

Odds of prior and NTM EPS growth by technology valuation regime, 1990–July 2026



After big valuation contractions, tech has been less dependent on earnings

NTM technology performance by valuation regime and EPS outcome, 1990–July 2026



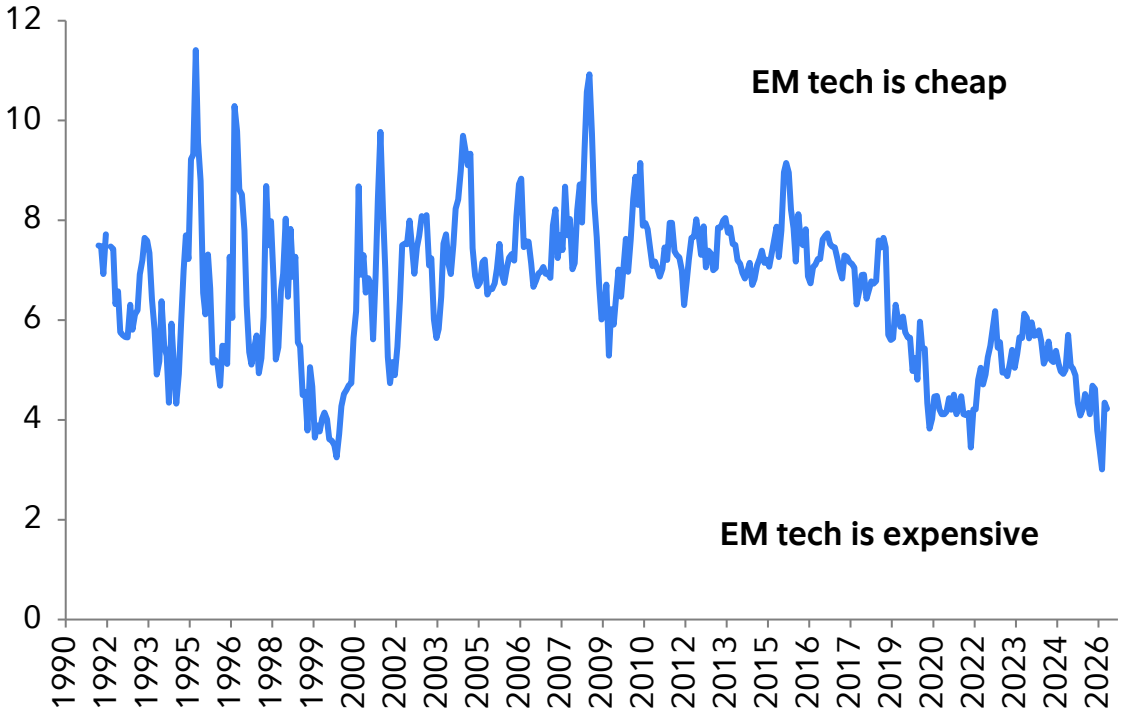
Past performance is no guarantee of future results. NTM: Next 12 months. EPS: Earnings per share. Data analyzed monthly from January 1990 through July 2026. Analysis based on Fidelity top U.S. 3,000 stocks by market capitalization.
Sources: Haver Analytics, FactSet, Fidelity Investments, as of 7/31/2026. **RIGHT**: NTM: Next 12 months.

There may be a tech bubble…in emerging markets

If there is a bubble in technology stocks, it probably is in emerging markets. Earnings yield is the inverse of P/E: Higher is cheaper and lower is pricier. Emerging market tech stocks' earnings yield has dropped dramatically, recently falling to a level comparable to the dot-com bubble (left). In the past, when emerging market tech's earnings yield reached the bottom decile of its range, the stocks advanced over the next 12 months less than half the time (right).

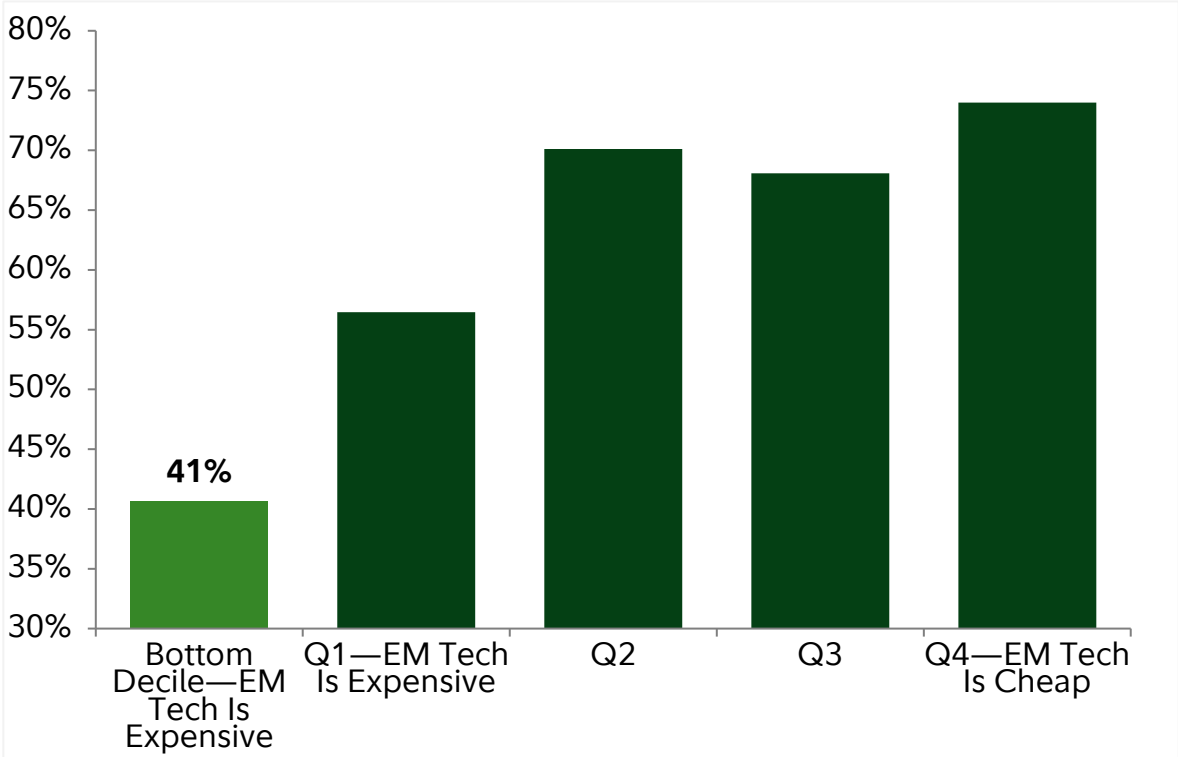
Emerging-markets tech may be overvalued

Emerging-market technology forward EPS yield (lower is more expensive), December 1990–August 2026



After similar valuations, EM tech has had poor odds of an advance

NTM odds of advance in cohorts of EPS yield, December 1990–August 2026



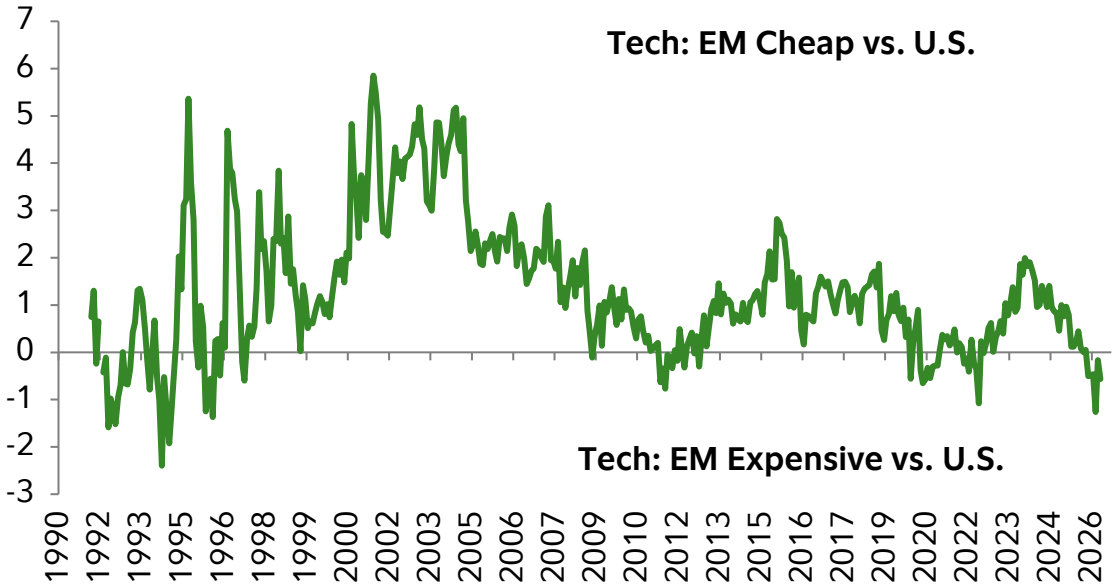
Past performance is no guarantee of future results. NTM: Next 12 months. EPS: Earnings per share. Analysis based on the S&P 500 and the MSCI World Market Index. Data analyzed monthly from December 1990 through August 2026.
Sources: Haver Analytics, FactSet, Fidelity Investments, as of 8/31/2026. **RIGHT**: Data analyzed monthly from December 1990–August 2026.

U.S. tech looks poised to outshine emerging-market tech

U.S. technology stocks usually have had higher valuations than emerging markets tech stocks. That's not the case lately. The median earnings yield in emerging markets tech relative to U.S. tech recently reached the bottom decile of its historical range (left). From similar levels in the past, emerging markets technology stocks have underperformed U.S. technology stocks by an average of 17% over the next 12 months (right).

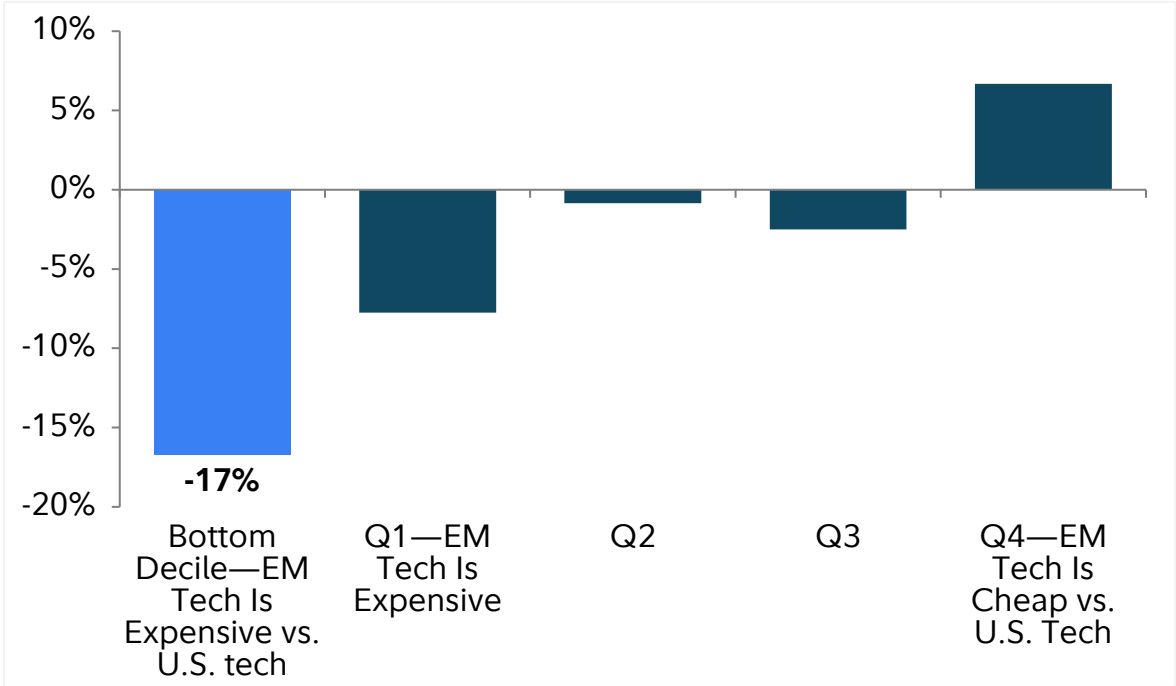
Emerging-markets tech stocks look expensive compared to U.S.

Emerging markets-tech vs. U.S. tech: Relative NTM earnings yield, median vs. median, December 1990–September 2026



EM tech has underperformed after being expensive relative to U.S. tech

NTM average relative performance of emerging-markets tech vs. U.S. tech in cohorts of relative valuation, 1992–September 2026



Past performance is no guarantee of future results. NTM: Next 12 months. EM: Emerging markets. Analysis based on the S&P 500 and the MSCI World Market Index. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 9/30/2026.
LEFT: All data analyzed monthly from December 1990 through September 2026. **RIGHT**: All data analyzed monthly from January 1992 through September 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

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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.

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.

Financials are companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, and insurance and investments.

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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