

Cash Flow and Carey



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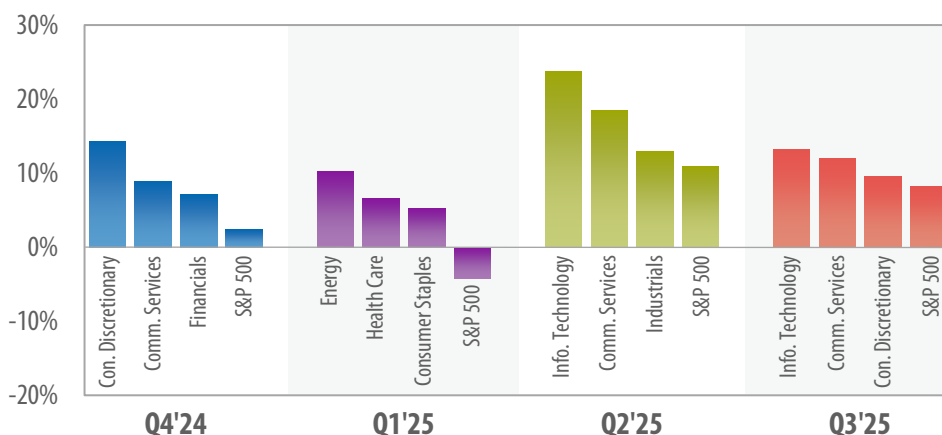
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This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index. 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...Usually

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

We are often asked what our favorite sectors are. Sometimes the answer is more evident than at other times and often it only makes sense via hindsight. Today's blog post is one that we update each quarter to lend context to our responses. 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 Q3'25 were as follows: Information Technology (13.19%), Communication Services (12.04%), and Consumer Discretionary (9.54%). The total return for the Index was 8.11% over the period. The other eight sectors generated total returns ranging from 7.57% (Utilities) to -2.36% (Consumer Staples).
- By comparison, the total returns of the top-performing sectors in the third quarter of last year were as follows (not in chart): Utilities (19.37%), Real Estate (17.17%), and Industrials (11.55%). The worst-performing sectors for the period were: Communication Services (1.68%), Information Technology (1.61%), and Energy (-2.32%).
- Sector rotation can occur rapidly. Case-in-point, the S&P 500 Energy and Health Care Indices were the worst-performing sectors in Q2'25, posting total returns of -8.56% and -7.18%, respectively, over the period. In Q3'25, however, they increased by 6.21% and 3.76% on a total return basis, respectively.
- [Click here](#) to access our post featuring the top-performing sectors in Q4'23, Q1'24, Q2'24 and Q3'24.

Takeaway

While the top-performing sectors often vary from quarter to quarter, the S&P 500 Technology and Communication Indices have outperformed their peers in each of the last two quarters. Consumer discretionary stocks rounded out the trio of top performers for Q3'25, shrugging off growing economic concerns and an increasingly stretched U.S. consumer. This is the first time since Q2'23 that we observed the same top performer in back-to-back quarters (it was also technology last time). As we see it, technology and communication services companies continue to benefit from seemingly insatiable AI expenditure and dovish monetary policy expectations. In a late September report, Citigroup estimated that AI-related infrastructure spending will surpass \$2.8 trillion through 2029, up from its previous estimate of \$2.3 trillion, according to Reuters. Investors appear to be shedding less risky equities, with the S&P 500 Consumer Staples Index declining by 2.36% in Q3'25, making the sector the worst performer during the quarter. Will a different sector rise to the top in the fourth quarter of 2025? We look forward to seeing what the data reveals.