

Cash Flow and Carey



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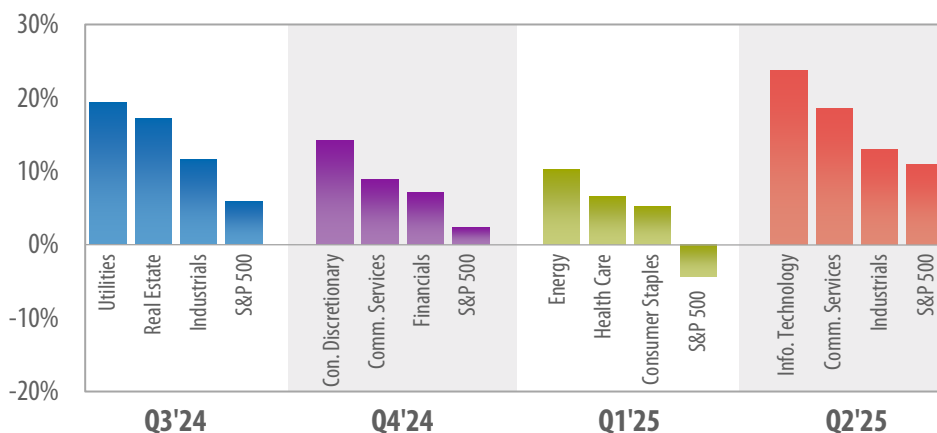
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This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions or other expenses incurred when investing. Investors cannot invest directly in an index.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

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 Q2'25 were as follows: Information Technology (23.71%), Communication Services (18.49%), and Industrials (12.94%). The total return for the Index was 10.94% over the period. The other eight sectors generated total returns ranging from 11.52% (Consumer Discretionary) to -8.56% (Energy).
- By comparison, the total returns of the top performing sectors in the second quarter of last year were as follows (not in chart): Information Technology (13.81%), Communication Services (9.38%), and Utilities (4.66%). The worst-performing sectors for the period were: Energy (-2.42%), Industrials (-2.90%), and Materials (-4.50%).
- For the third consecutive quarter, not a single sector remained in the top three from quarter to quarter.
- Sector rotation can occur rapidly. Case-in-point, the S&P 500 Information Technology and Communication Services Indices were the second and third worst-performing sectors in Q1'25, posting total returns of -12.65% and -6.21%, respectively, over the period. As revealed above, they are now the top performing sectors in Q2'25.
- [Click here](#) to access our post featuring the top-performing sectors in Q3'23, Q4'23, Q1'24 and Q2'24.

Takeaway

Information Technology and Communication Services surged by 23.71% and 18.49% (total return) in the second quarter, propelling them to the top of the chart in Q2'25. Industrials rounded out the trio with a total return of 12.94%, up from -0.19% in Q1'25. As we see it, the dramatic reversal in these sectors' total returns reflect surging volatility within the broader Index, which fell into correction on 3/13/25 before closing at a record high on 6/30/25. While a myriad of factors contributed to escalating unpredictability this year, perhaps chief among them is the looming threat of an economic recession befalling the U.S. economy. Understandably, risk aversion peaked as economic data weakened and global trade negotiations became increasingly hostile. These pressures appear to have eased amidst ongoing trade talks and the increasing likelihood of a July rate cut. Tellingly, defensive sectors like Consumer Staples and Health Care, which were top performers in Q1'25, were among the worst performers in the second quarter. Will a different sector rise to the top in the third quarter of 2025? We look forward to seeing what the data reveals.