Market Commentary Blog

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Defensive Sectors and Elevated Inflation

S&P 500 Defensive Sectors vs. S&P 500 Index: Total Returns

(Years In Which Trailing 12-Month CPI ≥ 3.0%)

Year	CPI Rate	S&P 500	S&P 500 Health Care	S&P 500 Consumer Staples	S&P 500 Utilities
2026 (9/30)	3.7%	11.75%	21.02%	18.30%	3.94%
2023	3.1%	26.26%	2.06%	0.52%	-7.08%
2022	6.5%	-18.13%	-1.95%	-0.62%	1.56%
2021	7.0%	28.71%	26.13%	18.63%	17.67%
2011	3.0%	2.11%	12.73%	13.99%	19.91%
2007	4.1%	5.49%	7.15%	14.18%	19.38%
2005	3.4%	4.91%	6.46%	3.58%	16.84%
2004	3.3%	10.88%	1.68%	8.16%	24.28%
2000	3.4%	-9.10%	37.05%	16.78%	57.19%
1996	3.3%	22.96%	21.04%	25.90%	5.68%
1991	3.1%	30.47%	53.69%	41.66%	23.89%
1990	6.1%	-3.10%	17.29%	15.32%	-0.63%

Source: Bloomberg. **Past Performance is no guarantee of future results.**

View from the Observation Deck

Given their non-cyclical nature, defensive sectors may offer better performance than cyclical sectors during periods of heightened volatility. For today's post (and the previous posts in this series), we set out to determine whether that outperformance also exists during periods of elevated inflation. The table above begins in 1990 and includes calendar years where inflation, as measured by the Consumer Price Index (CPI), increased by 3.0% or more on a trailing 12-month basis. We chose 3.0% as our baseline because the rate of change in the CPI averaged 3.0% from 1926 to 2025, according to data from the Bureau of Labor Statistics. We then selected three defensive sectors (Health Care, Consumer Staples, and Utilities) and compared their total returns to those of the S&P 500 Index over those periods.

First, a word about last year.

In 2025, the pace of price increases (as measured by the 12-month change in the CPI) varied between 2.3% and 3.0%, ultimately settling at 2.7% in December, which excludes it from today's table.

The final observations for 2025 were as follows (December trailing 12-month CPI and calendar year total returns):

- **CPI Rate:** 2.7%
- **S&P 500:** 17.86%
- **S&P 500 Health Care:** 14.60%
- **S&P 500 Consumer Staples:** 3.90%
- **S&P 500 Utilities:** 16.04%

Of the 12 periods in the table where inflation increased by 3.0% or more on a trailing 12-month basis, there were only two (2021 and 2023) where the S&P 500 Index outperformed each of the Health Care, Consumer Staples, and Utilities sectors.

Inflation has reaccelerated this year, driven by rising oil prices amid supply constraints and dwindling refinery capacity.

The U.S. Energy Information Administration (EIA) reported that U.S. refinery utilization averaged more than 95% of capacity between May and September this year, the highest for those months since 1998 amid tightening global supply of distillate fuels (including diesel and heating oil). Even with utilization at a multi-decade high, refinery output over those months fell short of 2019 levels, the result of a 4% decline in U.S. refining capacity since then. The impact on inflation has been notable so far this year, with the CPI oscillating between 2.4% in February and 4.2% in May before ending September at 3.7%.

Takeaway

As today's table reveals, the S&P 500 Health Care and Consumer Staples Indices each outperformed the broader S&P 500 Index year-to-date (YTD) through October 30, while Utilities lagged. Inflation, as measured by the 12-month change in the CPI, increased from its calendar-year low of 2.4% in January and February 2026 to 3.7% in September. Investors have been increasingly defensive in their allocations, as rising interest rates weigh on valuations and the profitability of AI investments comes under increased scrutiny. Of the 11 sectors that make up the broader S&P 500 Index, Health Care and Consumer Staples are the second- and fourth-best performers, with total returns of 21.02% and 18.30%, respectively, YTD. Energy, a cyclical sector benefiting from the same oil supply shock that is driving inflation, is the top performer with a total return of 59.92%. Communication Services (-11.31%) and Consumer Discretionary (-2.11%) were the only two sectors to post negative total returns over the period.

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 companies 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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