



The Corner



October
2025

Understanding Sector Data Can Help Position Investors for Corrections & Rallies

Executive Summary

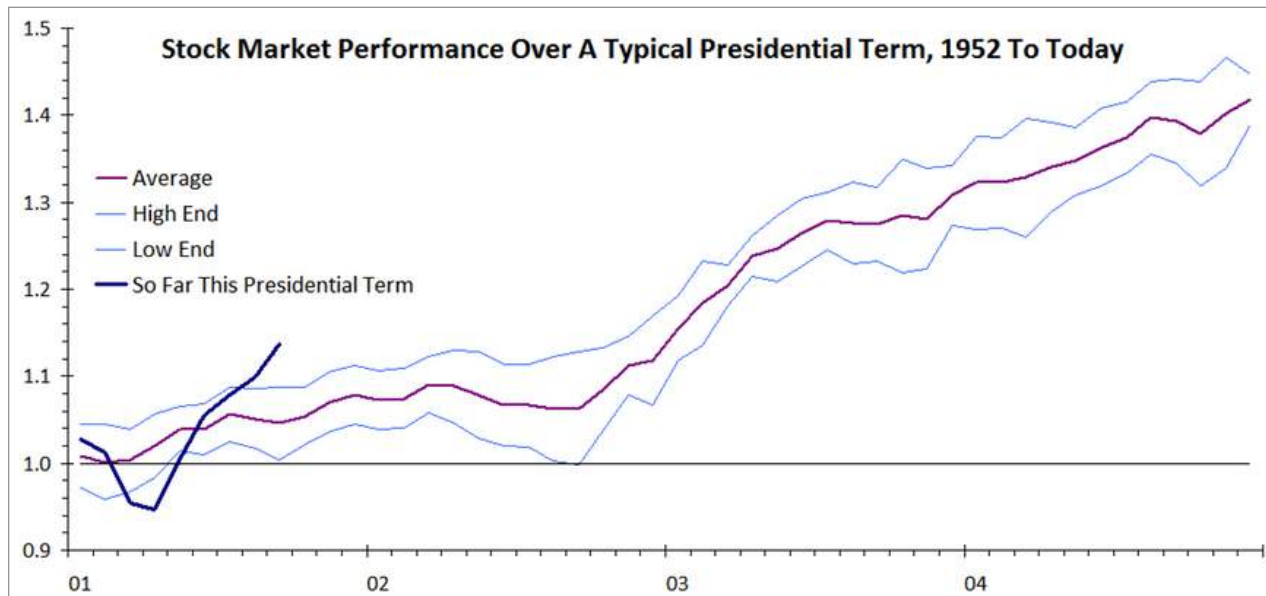
Our work continues to support a secular bull market driven by economic growth, consumer spending, and transformative technologies. Corporate earnings continue to rise, profit margins are still expanding, and the markets anticipate that the Federal Reserve (Fed) will cut short-term interest rates 25 basis points again this month. We believe this could boost the equity market and hasten economic activity. Our year-end target for the S&P 500 remains 7000, and we expect it will reach 7200 early next year. Our long-term target for this secular bull market is 10,000–13,000 for the S&P 500 by 2029–2030.

This month, we will look at average stock market performance over a presidential term and the effects of revisions in nonfarm payrolls. We'll then review the sectors in the U.S. equity market and briefly describe how to use the overbought/oversold list we publish every week.



How The Stock Market Usually Performs Over A 4-Year Presidential Term

We've examined how the stockmarket generally performs over a presidential term. The accompanying chart shows average returns, along with one standard deviation moves from the average, along with the current market of this presidential term so far. While no market performs "on average," they tend to follow a familiar directional pattern over a typical four-year presidential term. At the end of September, the S&P 500 was up 13.7%, exceeding the historical average. The second year of the presidential term often brings more subdued market returns, with the third year typically rebounding strongly. This would suggest that 2026 could have a period of consolidation of the strong gains we've enjoyed this year.



Source: Standard & Poor's, Sanctuary Wealth, October 6, 2025

Productivity And Restatements Of Nonfarm Payrolls

Part of our thesis is that artificial intelligence (AI) and robotics will dramatically increase productivity in the U.S., just as previous technological advances did. Nonfarm productivity, as measured by the Bureau of Labor Statistics (BLS), represents real output per hour worked. The recent downward revisions to several years of nonfarm payroll data have not yet been reflected in the BLS index of hours worked. That revised data will not be released until February of next year. However, we can estimate how that revision might affect productivity.

Productivity is measured quarterly, since the index of real output is derived from the gross domestic product (GDP) data provided by the Bureau of Economic Analysis (BEA). The initial reading for Q2 2025 was a 2.4% quarter-to-quarter annualized gain. After revisions to GDP, that figure rose to 3.3%, reflecting BEA's upward adjustment to output.

The index of hours worked is roughly proportional to nonfarm payrolls. When that revised data is released in February, the denominator of the productivity ratio will fall because the number of employees will fall. We estimate that the February revision may show Q2 2025 productivity was 3.5%, another increase and a bullish signal for the equity market.

Sectors Review

This month we look at the 11 S&P 500 sectors and focus on a few industries that are performing well. We will look at ETFs that are good representatives of the sectors, and the relative performance of those ETFs to the S&P 500. In addition, we will examine either the profit margins or analysts' published earnings expectations for those sectors relative to the broad market, along with economic data or anecdotal information regarding the sectors.

Consumer Discretionary Stocks Are Improving

We believe Consumer Discretionary stocks could see stronger performance in the coming quarters. As long as disposable (after-tax) income continues to grow, consumers are likely to keep spending. The sector also appears to have bottomed relative to the S&P 500.



SPDR Consumer Discretionary ETF (XLY) (Top) With Relative To S&P 500 (Bottom)

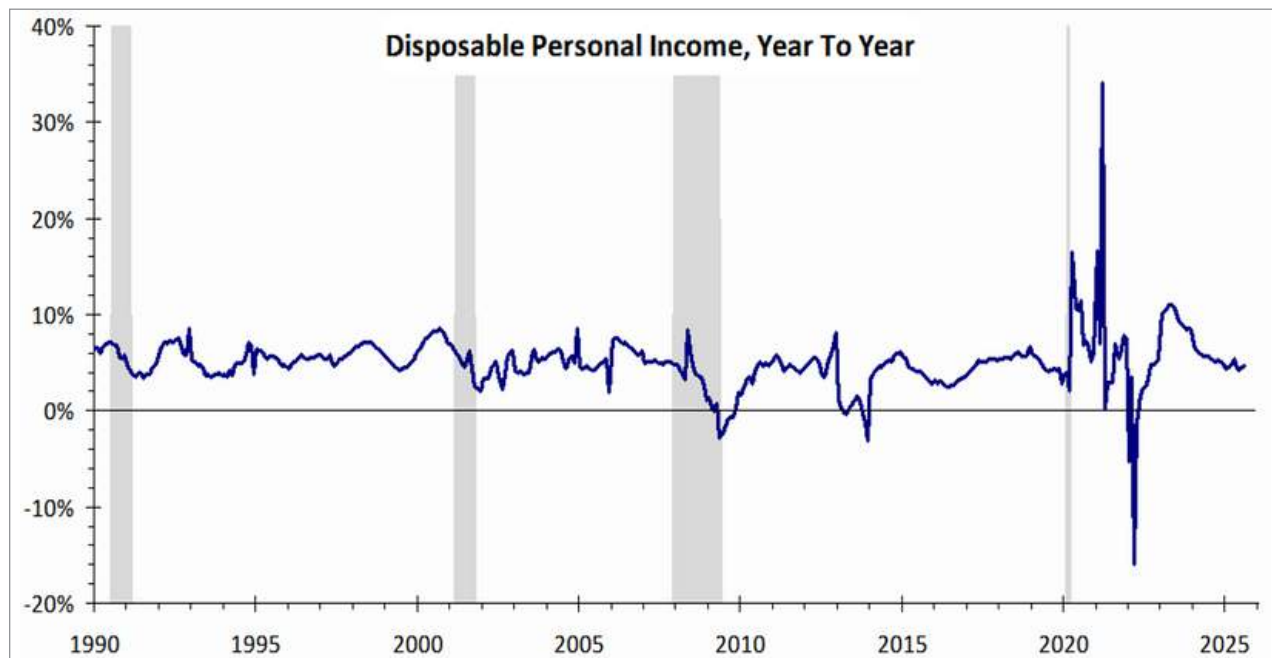


Source: Stockcharts.com, Annotations Sanctuary Wealth

Consumers Spend When Their After-Tax Income Expands

Disposable personal income is growing at nearly its 30-year average rate of 4.9%.

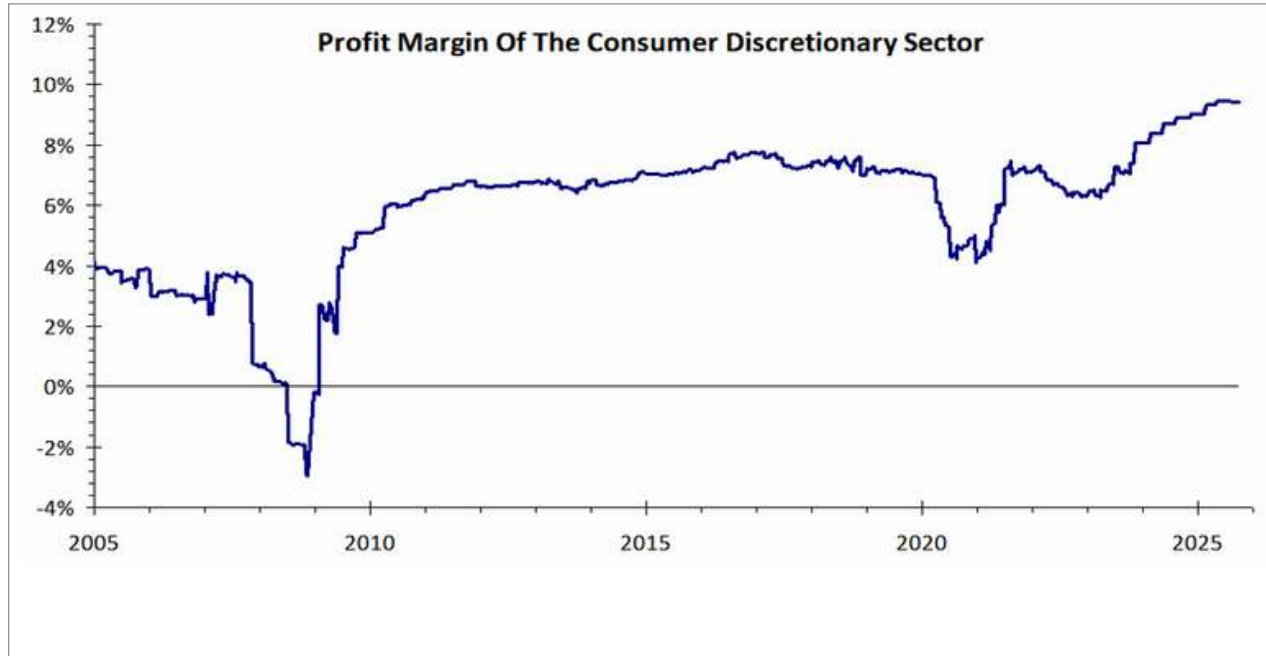
Disposable (After-Tax) Personal Income Is Still Growing



Source: Bureau of Economic Analysis, Sanctuary Wealth, September 26, 2025



Profit Margins Are Growing For Consumer Discretionary Stocks



Source: Bloomberg, Sanctuary Wealth, October 5, 2025

Consumer Staples

Consumer Staples are defensive stocks, but this is a Growth stock market. Earnings have been deteriorating as companies adjust to shifting consumer preferences and increased government pressure for healthier food products. The sector has underperformed and is expected to continue lagging the broader market.

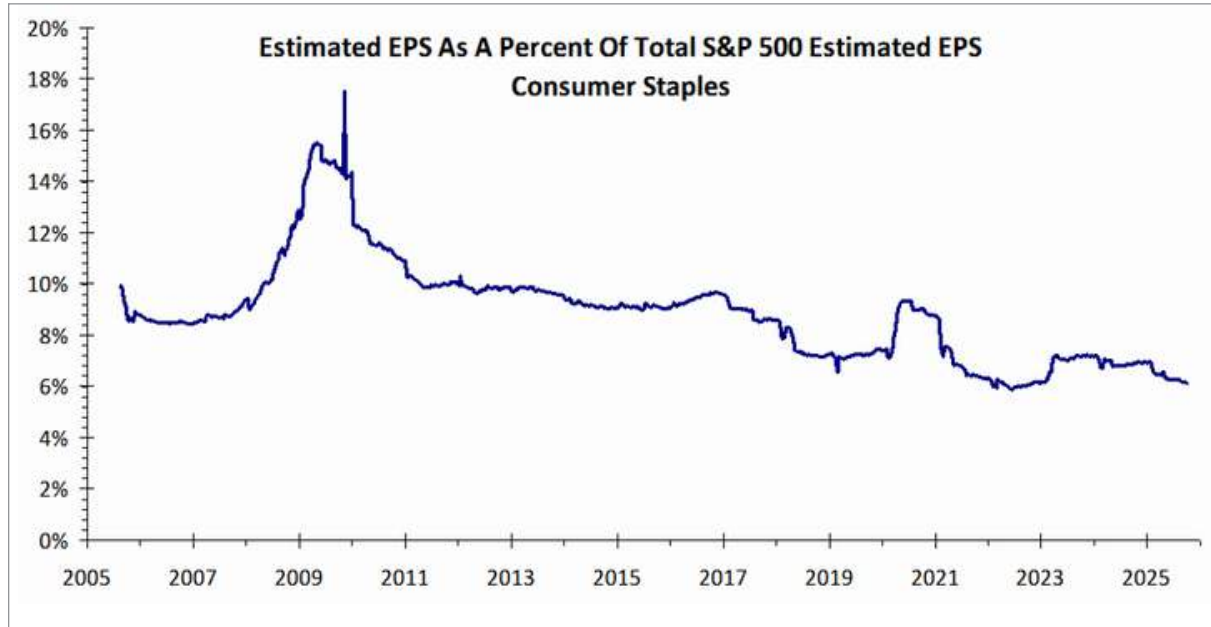
iShares Consumer Staples (IYK) (Top) With Relative To S&P 500 (Bottom)



Source: Stockcharts.com, Annotations Sanctuary Wealth



Consumer Staples Estimated Earnings Are Declining Relative To The Market



Source: Bloomberg, Sanctuary Wealth, October 5, 2025

Energy

While some parts of the Energy sector, such as liquefied natural gas, have performed well, the sector as a whole has not only lagged the broader market but even given up some ground. The U.S. economy is performing well, yet some other major economies are weak. With the war premium now removed following the peace settlement between Hamas and Israel – and an excess supply of crude oil amplified by Saudi Arabia's additional output, oil prices have come under downward pressure. This, in turn, has weighed on energy stocks.

SPDR Energy ETF (XLE) (Top) With Relative To S&P 500 (Bottom)



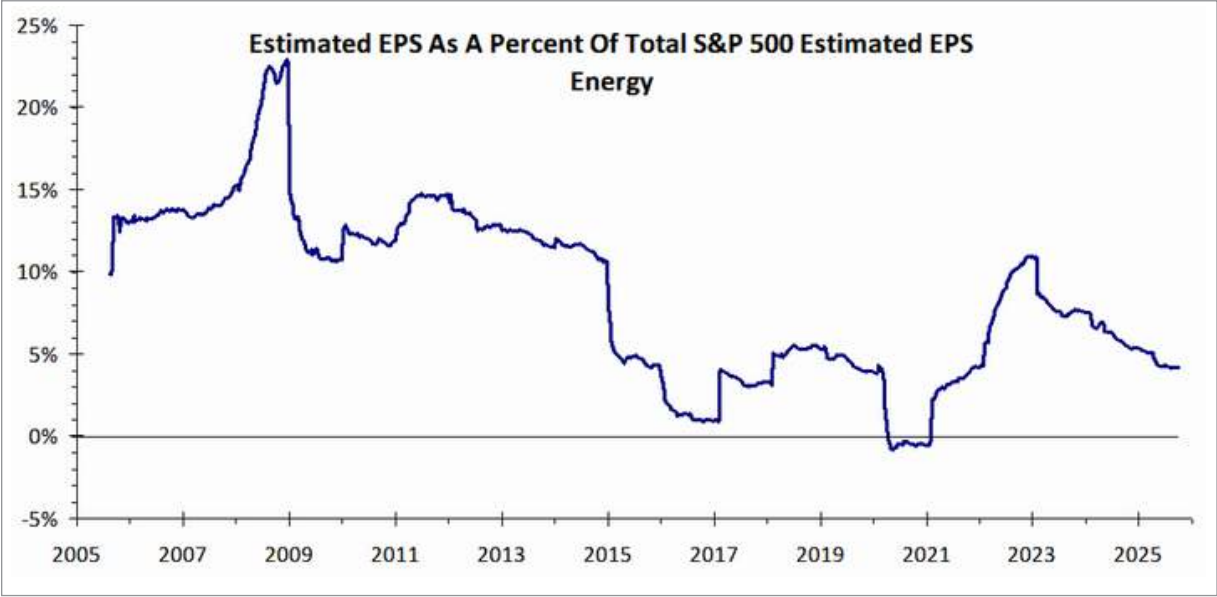
Source: Stockcharts.com, Annotations Sanctuary Wealth



Market Estimates For Energy Earnings Are Poor

WallStreetanalystsareprojectingtheearningsgrowthforEnergycompanies will lag the rest of the market.

Estimated Earnings For Energy Are Declining

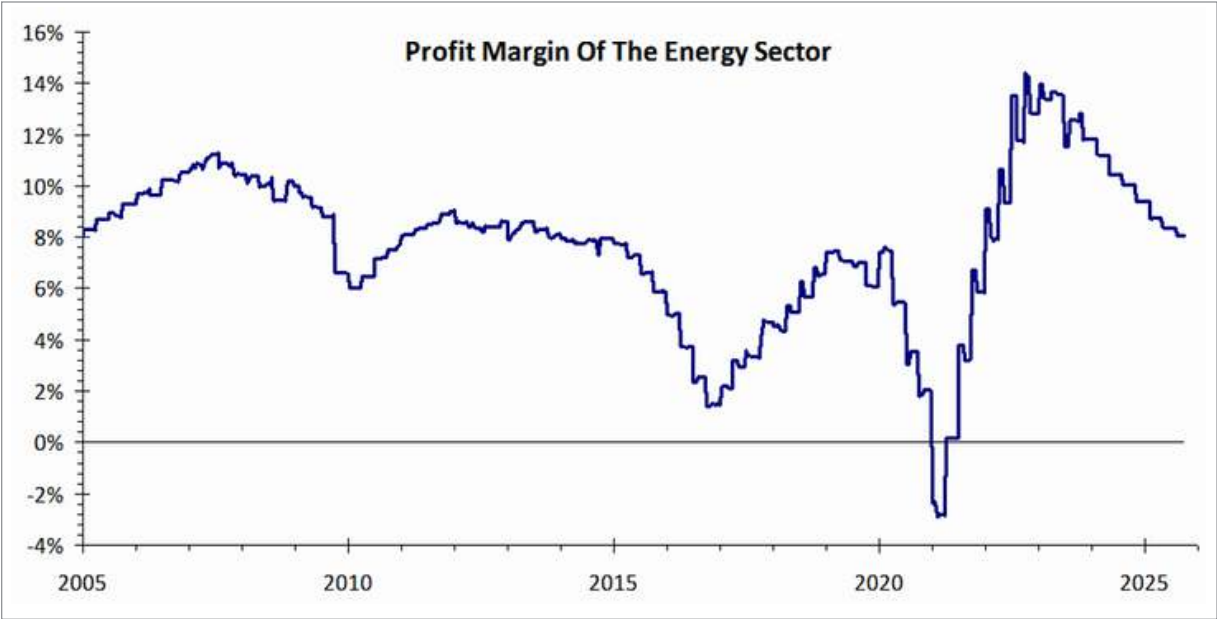


Source: Bloomberg, Sanctuary Wealth, October 5, 2025

Energy Profit Margins Look Weak, Too

Profitmarginsformostoftheenergysectorarebeingsqueezed as well, a double negative for the sector.

Energy Profit Margins Are Also Declining



Source: Bloomberg, Sanctuary Wealth, October 5, 2025



Financials

Financial stocks should continue to advance, in our view. While their relative price against the rest of the market is not as strong now as it was over the past year, we believe the prospect of strong earnings from investment banking is quite good. Third-quarter earnings were an example of how this segment of the business is expected to continue to expand. A steepening yield curve supports higher lending profits, while emerging technologies are creating opportunities for new, lower-cost business lines that can further enhance margins. A strong banking sector signals a strong economy.

iShares Financials ETF (IYF) (Top) With Relative To S&P 500 (Bottom)

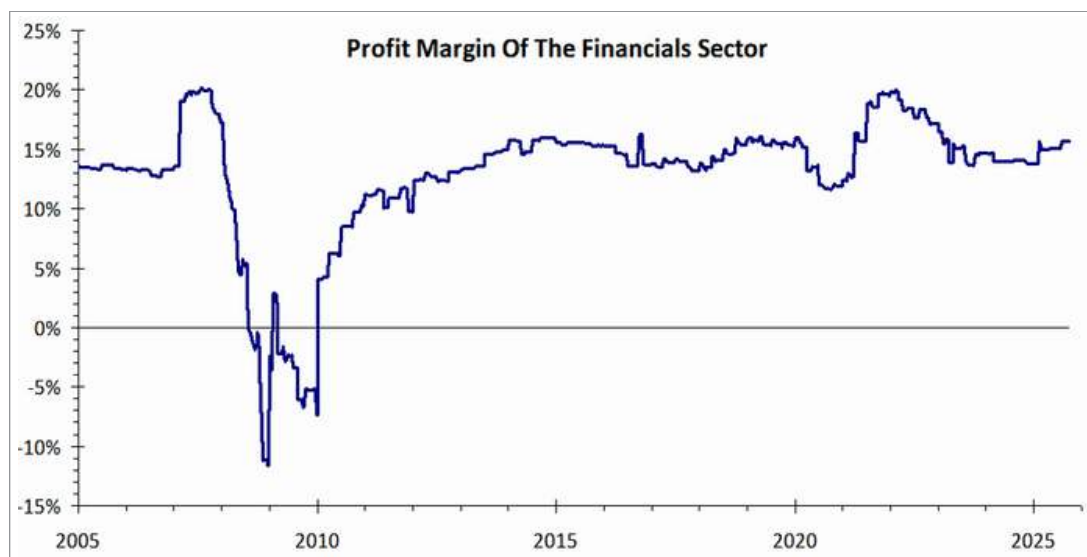


Source: Stockcharts.com, Annotations Sanctuary Wealth

Financials Profit Margins Are Modestly Improving

Earnings are outpacing expenses in Financials. Lower costs from new technologies, including artificial intelligence (AI) applications that reduce labor costs and improve trading and deal execution, as well as the steeper yield curve, all work to widen margins.

Profit Margins For Financials Are Trending Up



Source: Bloomberg, Sanctuary Wealth, October 5, 2025



Industry Focus: Banks

BigBanksandCapitalMarketsfirms stand to benefit from rising stock and bond markets, as well as a rebound in IPO activity from historically low levels relative to the market's size.

Some negative headlines have come up for two regional banks. Zions Bancorp disclosed it would be taking a \$50 million charge-off in Q3, tied to two commercial & industrial (C&I) loans in its California unit. Then Western Alliance disclosed it has sued Cantor Group V, LLC, accusing the firm of fraud in relation to a revolving credit facility. Meanwhile, JPMorgan Chase CEO Jamie Dimon opined during the firm's Q3 earnings call that there are cockroaches in the economy. All this sent stocks down sharply. (Remember: corrections don't happen on good news!) With the major banks posting strong earnings, the results reinforce that the broader banking system remains healthy — and that the problems facing those regional banks appear isolated and do not represent a systemic risk to the economy.

SPDR S&P Bank ETF (KBE) (Top) With Relative To S&P 500 (Bottom)



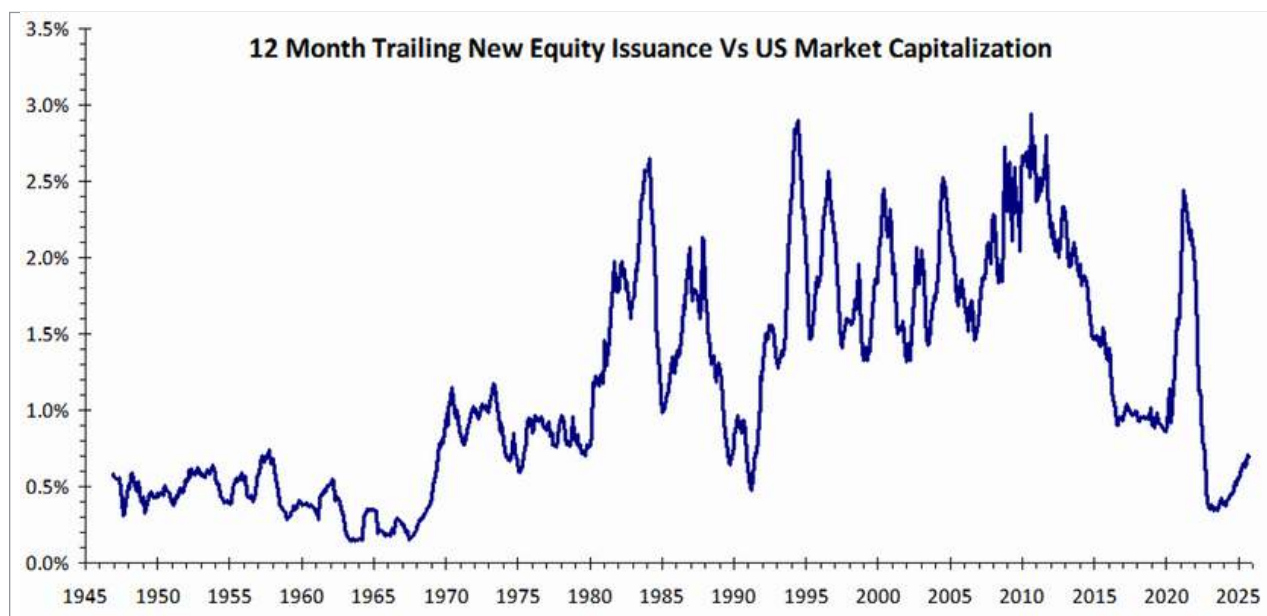
Source: Stockcharts.com, Annotations Sanctuary Wealth



Banks Stand To Profit If IPOs Come To Market

Many of the old investment banking houses joined the ranks of national banks during the Great Financial Crisis (GFC). One of their bread-and-butter lines of business is bringing new companies to the public market. But since the GFC, the number of new companies has declined sharply relative to the size of the market, and is now near historic lows. An improvement in this area should benefit the Banks.

IPOs Are At Historically Low Levels Relative To Market Capitalization



Source: Bloomberg, Sanctuary Wealth, October 5, 2025

Bank Mergers Prepare For Greater Reach And Efficiency

The competitive landscape is also propelling large regional banks toward mergers. We have been anticipating a consolidation in the regional bank space. This should improve the geographic reach and efficiency of the banks over time. We expect more consolidation in this banking segment.



WSJ

Fifth Third to Acquire Comerica in \$10.9 Billion Deal

All-stock deal is the latest effort by midsize lenders to bulk up in the wake of the 2023 regional banking crisis

By [Connor Hart](#)

Updated Oct. 6, 2025 8:02 am ET



Health Care Is In Intensive Care

Health Care stockshave significantly underperformed the market. After becoming deeply oversold, the sector saw a relief rally following Pfizer's drug-pricing agreement with President Trump. However, a stricter regulatory environment and continued government pressure on drug pricing have constrained the pharmaceutical segment, which makes up a large share of the sector's market capitalization. The biotechnology segment has been the strongest performer within Health Care.

SPDR HealthCare ETF (XLV) (Top) With Relative To S&P 500 (Bottom)

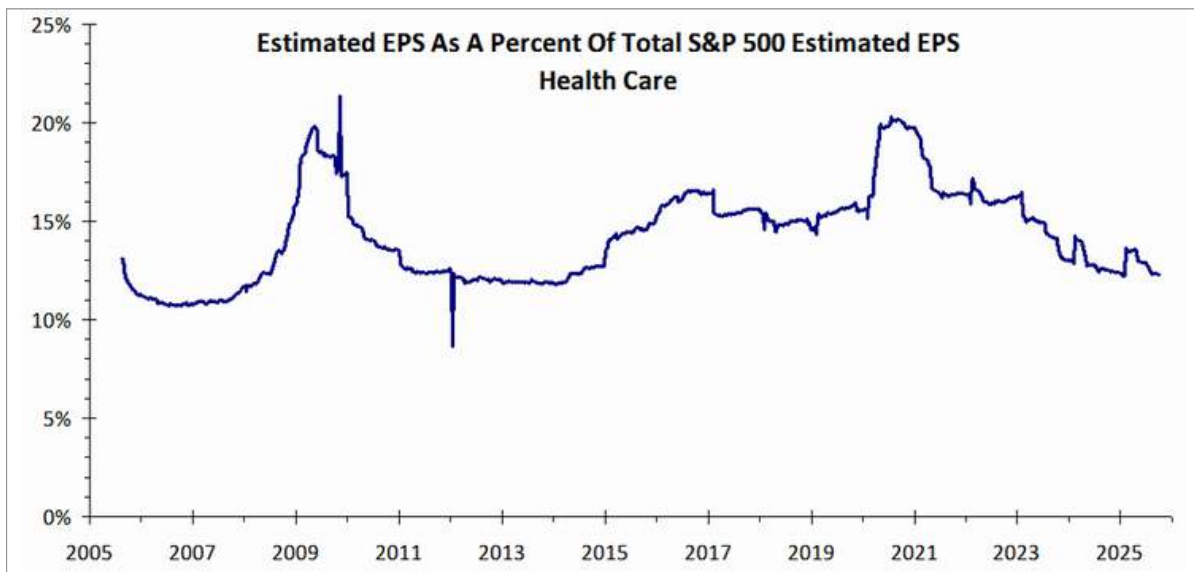


Source: Stockcharts.com, Annotations Sanctuary Wealth

Wall Street Expects Lackluster Health Care Earnings

Analysts' estimates for earnings growth in Health Care lag the rest of the market.

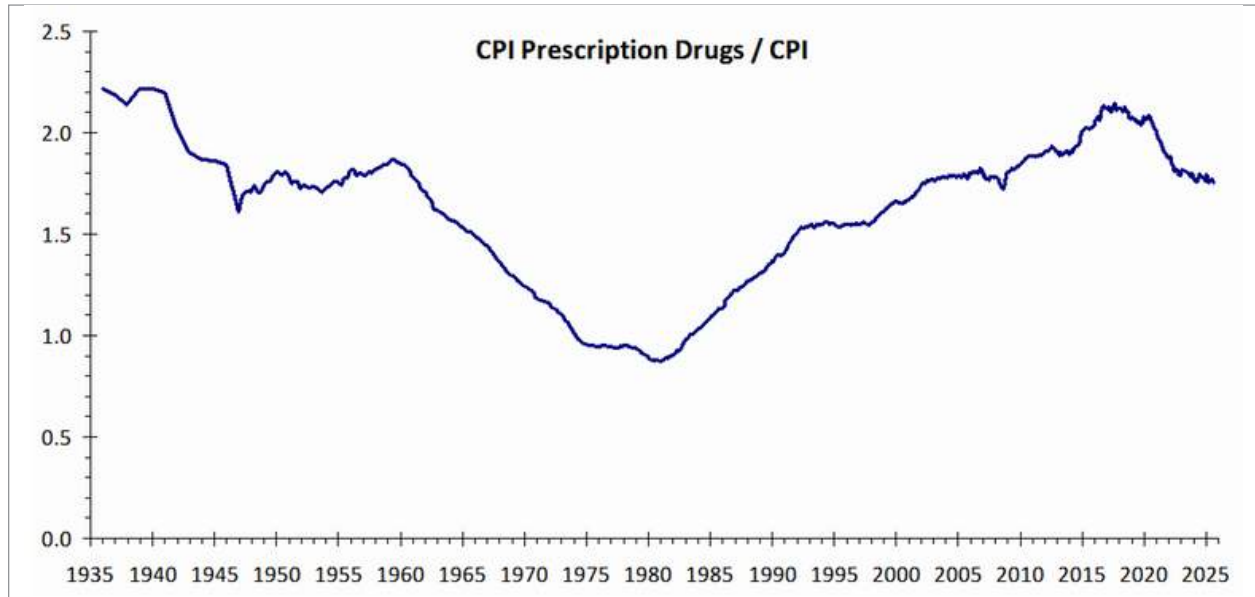
Estimated Earnings For Health Care Stocks Are Declining Relative To The Market



Source: Bloomberg, Sanctuary Wealth, October 5, 2025



Drug Prices Are Losing Momentum Compared To General Prices In CPI



Source: Bureau Of Labor Statistics, Sanctuary Wealth, October 2, 2025

Industrials

Industrials are one of the better performing sectors year-to-date. Aerospace & Defense, Construction & Engineering, and Electrical Equipment are all Capital Goods stocks, and they have led the sector. This performance is being driven by increased military spending and heavy construction, as companies reshore operations to the U.S. and invest in new facilities for electricity production. The U.S. has allocated nearly \$200 billion in support of the Ukraine war. In addition, Germany has committed to spending €800 billion over the coming decade on military defense. Defense companies remain in a bull market.

iShares Industrials ETF (IYJ) (Top) With Relative To S&P 500 (Bottom)



Source: Stockcharts.com, Annotations Sanctuary Wealth



Industrials Profit Margins Are Improving

Following a deep decline earlier in the decade, profit margins for Industrials have risen sharply to their best levels in twenty years.

Profit Margins Are Rising For Industrial Stocks



Source: Bloomberg, Sanctuary Wealth, October 5, 2025

Aerospace & Defense

International tensions have fueled a wave of global re-armament. Defense stocks in both the U.S. and Europe are rallying. The Global X Defense Fund ETF offers exposure to defense industries across North America, Europe, and the Pacific Rim.

Global X Defense Fund (SHLD) (Top) With Relative To S&P 500 (Bottom)



Source: Stockcharts.com, Annotations Sanctuary Wealth



United Nations

UN News

Global perspective Human stories

Military spending worldwide hits record \$2.7 trillion

By Ileana Exaras

9 September 2025 | **Peace and Security**

Information Technology

This year the leading market sector has been Technology. Standard & Poor's has split Technology issues among Information Technology, Communication Services, and even Consumer Discretionary. However, Information Technology remains a solid play, with Semiconductors still in the lead, along with Artificial Intelligence (AI), Robotics, Web 3.0, and Blockchain technology.

iShares US Technology ETF (IYW) (Top) With Relative To S&P 500 (Bottom)



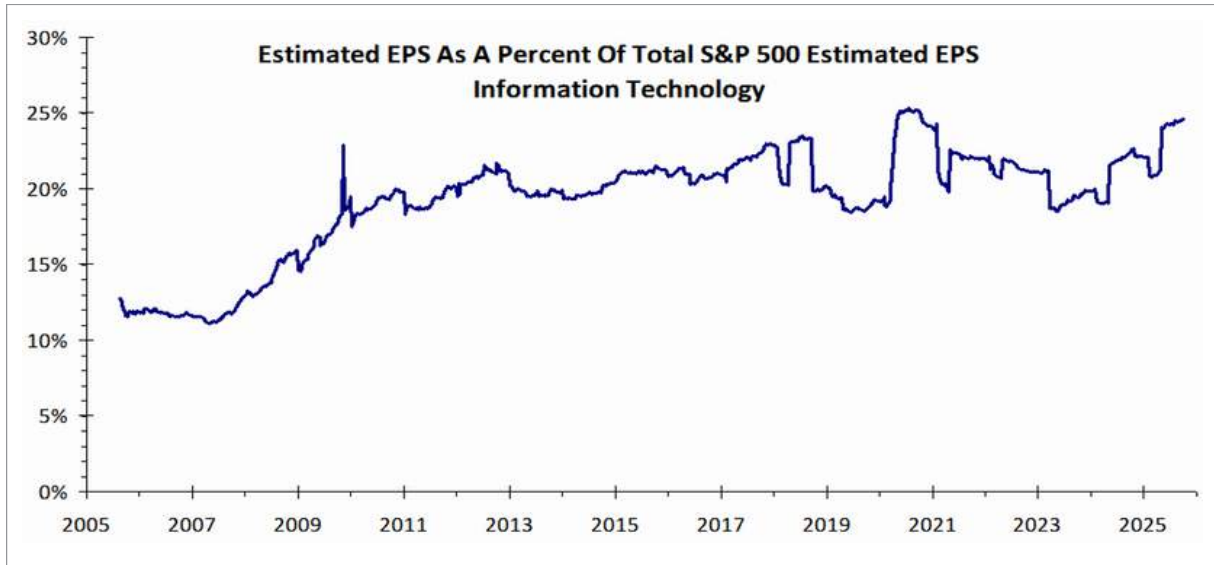
Source: Stockcharts.com, Annotations Sanctuary Wealth



Tech Earnings Are Accelerating

This is a growth-driven market, and earnings growth is concentrated in technology-related firms. A few years ago, there was a drop in expected earnings growth relative to the rest of the market, but analysts' expectations for better-than-average earnings have returned.

Information Technology Estimated EPS Is Rising Faster Than The Broad Market

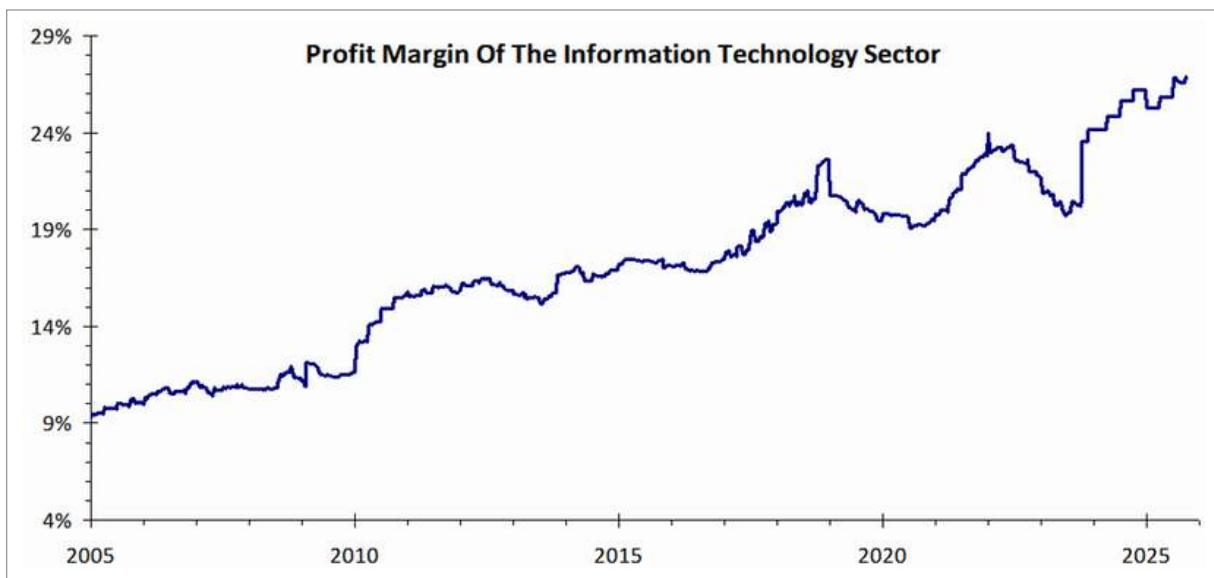


Source: Bloomberg, Sanctuary Wealth, October 5, 2025

Information Technology Enjoys Strong Profit Margins

Information Technology stocks have some of the strongest profit margins in the stock market today. We expect this to continue for some time, since these companies, which develop new technologies like AI and Robotics that drive productivity, are usually the first adopters as well.

Profit Margins For Information Technology Are Rising At A Strong Pace



Source: Bloomberg, Sanctuary Wealth, October 5, 2025



AI & Robotics

The sharppoint of the technology spear is in artificial intelligence (AI) and robotics. Sophisticated pattern-following large language models (LLMs) combined with new, general-purpose humanoid robotics can revolutionize all manner of manufacturing and heavy labor.

Global X Robotics & Artificial Intelligence ETF (BOTZ) (Top) With Relative To S&P 500 (Bottom)



Source: Stockcharts.com, Annotations Sanctuary Wealth

nature



Source: Nature, September 15, 2025



Source: marketsandmarkets.com, September 9, 2025



Source: [World Economic Forum](https://www.weforum.org), September 9, 2025

Materials

Materials stocks have lagged the broader market, with their relative performance vs. the S&P 500 declining for some time. Still, there are bright spots: gold miners have benefited from the powerful rally in Gold, particularly the smaller, more leveraged mining stocks. The U.S. government is also investing in companies involved in rare earths and copper production. If inflation gains traction, the sector typically outperforms. Metals and mining stocks remain the clear leaders within Materials. Although the sector currently represents a small percentage of the market at 1.7%, we expect its share to expand in the coming years.

iShares U.S. Basic Materials ETF (IYM) (Top) With Relative To S&P 500 (Bottom)



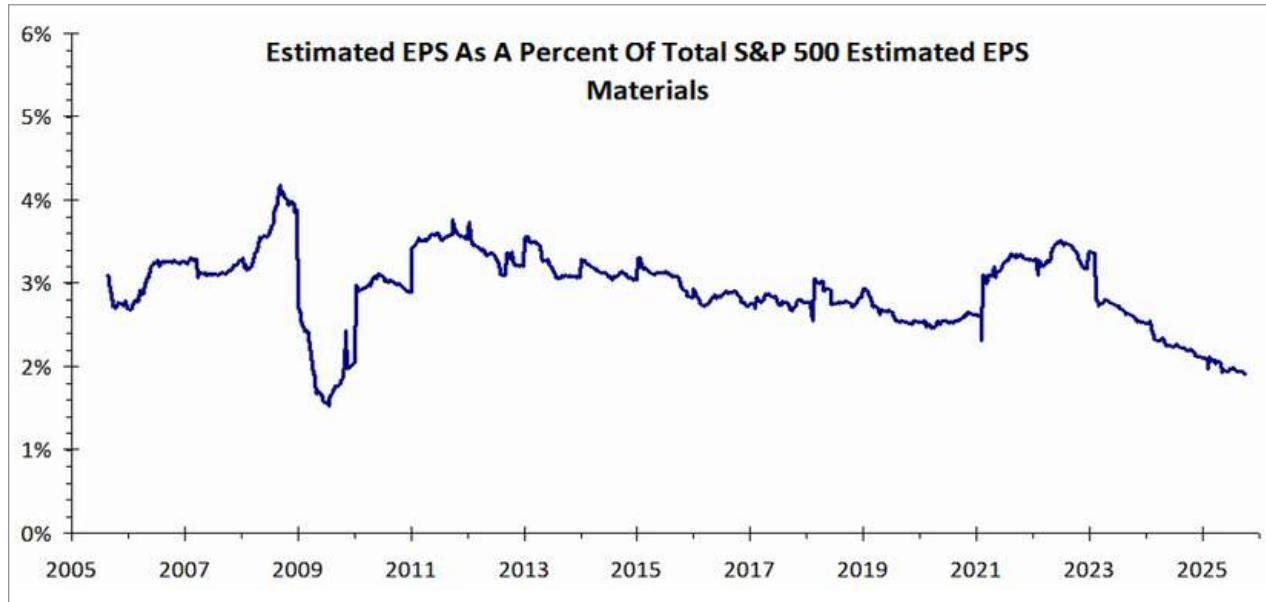
Source: [Stockcharts.com](https://stockcharts.com), Annotations Sanctuary Wealth



Materials Earnings Outlooks Are Not Positive

At this point, analysts do not have good opinions for earnings expectations for the Materials sector and expect earnings to lag the growth of the broader market.

Estimated Earnings For Materials Are Declining Relative To The Rest Of The Market

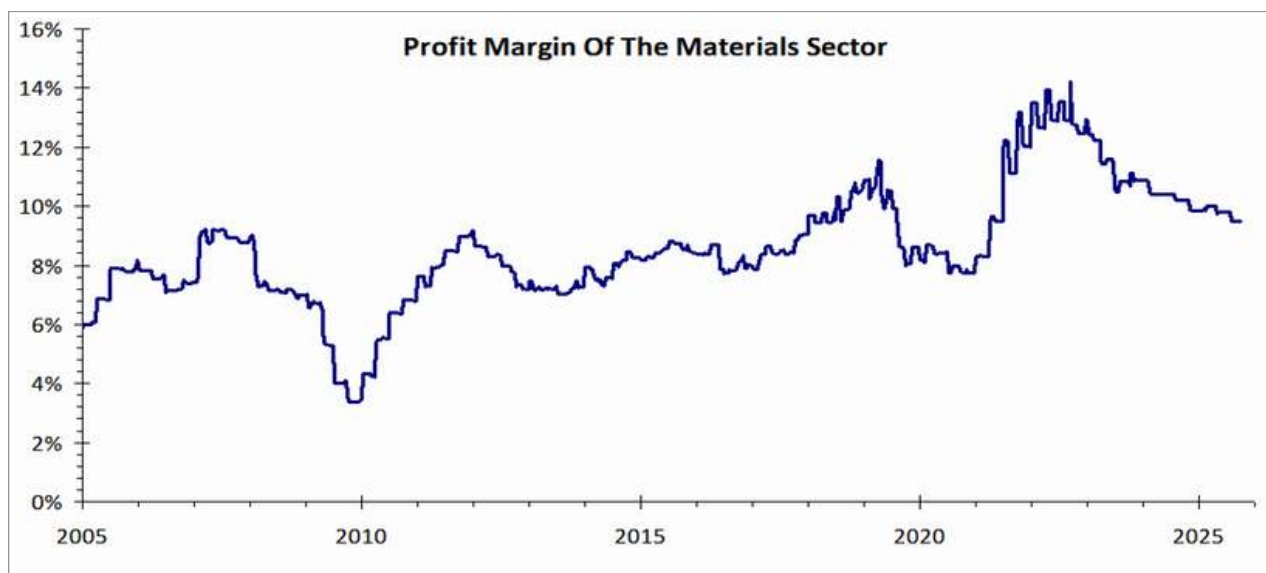


Source: Bloomberg, Sanctuary Wealth, October 5, 2025

Materials Revenues Are Not Growing Faster Than Costs

For now, profit margins are declining as the growth in revenues for Materials lags expenses.

Profit Margins For Materials Are Getting Squeezed



Source: Bloomberg, Sanctuary Wealth, October 5, 2025



However The Metals Sector Within Materials Is In A Bull Trend

Commodity prices across the metals market have been rising sharply, positively impacting the metal stocks. Gold, Silver and Copper have all moved higher. Central banks have been major buyers of Gold as they diversify away from U.S. dollar holdings – and this is expected to continue. Silver has tracked Gold's rise, recently testing its record high from the 1980s and is expected to continue its bull rally.

Historically, Gold is used more as a diversifying asset in portfolios, whereas Silver tends to be more volatile and speculative.

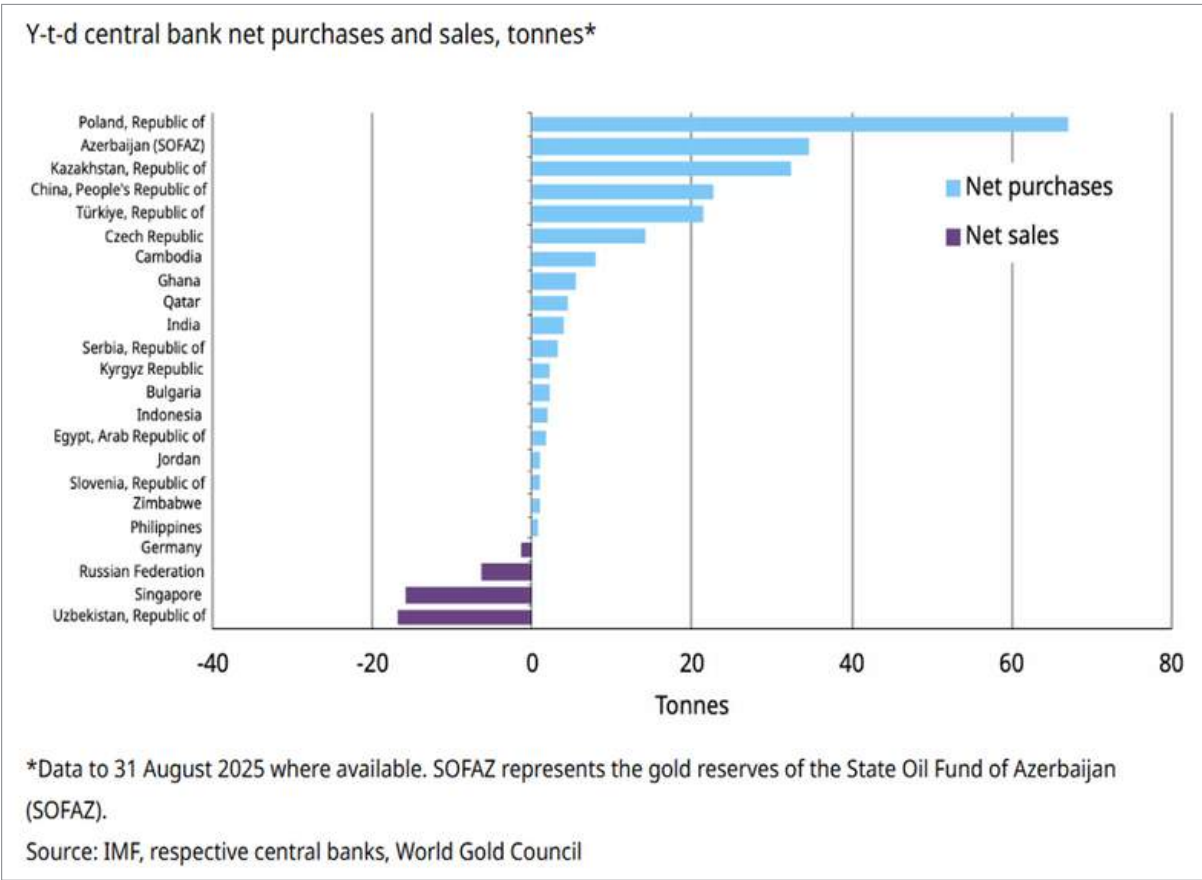
Precious Metals Prices Have Rallied Sharply



Source: Goldman Sachs, Bloomberg, Sanctuary Wealth, October 19, 2025



Central Banks Have Been Major Buyers Of Gold



Industrial Metals Are Also Rallying



Source: Goldman Sachs, Bloomberg, Sanctuary Wealth, October 19, 2025



Communication Services

In September 2018, S&P Dow Jones re-classified a significant number of stocks, including Alphabet (GOOG) and Facebook (now META), moving them from the Information Technology sector (and from portions of Consumer Discretionary sector) into the newly formed Communication Services sector. This shift helped power the Communication Services sector, as many of the same structural drivers that had lifted Information Technology began to support it. Together, these two sectors led the market rally this past summer.

SPDR Communication Services ETF (XLC) (Top) With Relative To S&P 500 (Bottom)

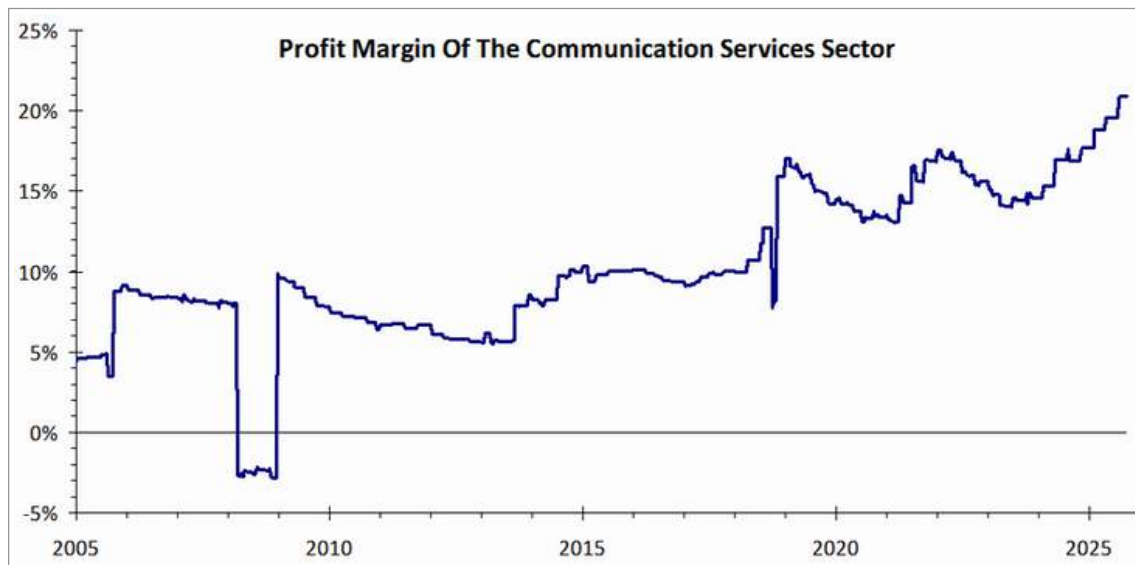


Source: Stockcharts.com, Annotations Sanctuary Wealth

Strong Revenue Growth Has Lifted Profit Margins For Communications

Revenue growth has come not only from GOOGL and META, but also from companies in the streaming services industry. Like Consumer Discretionary stocks, streaming services tend to benefit when consumers have more disposable income.

Profit Margins Are Accelerating For Communication Services Stocks



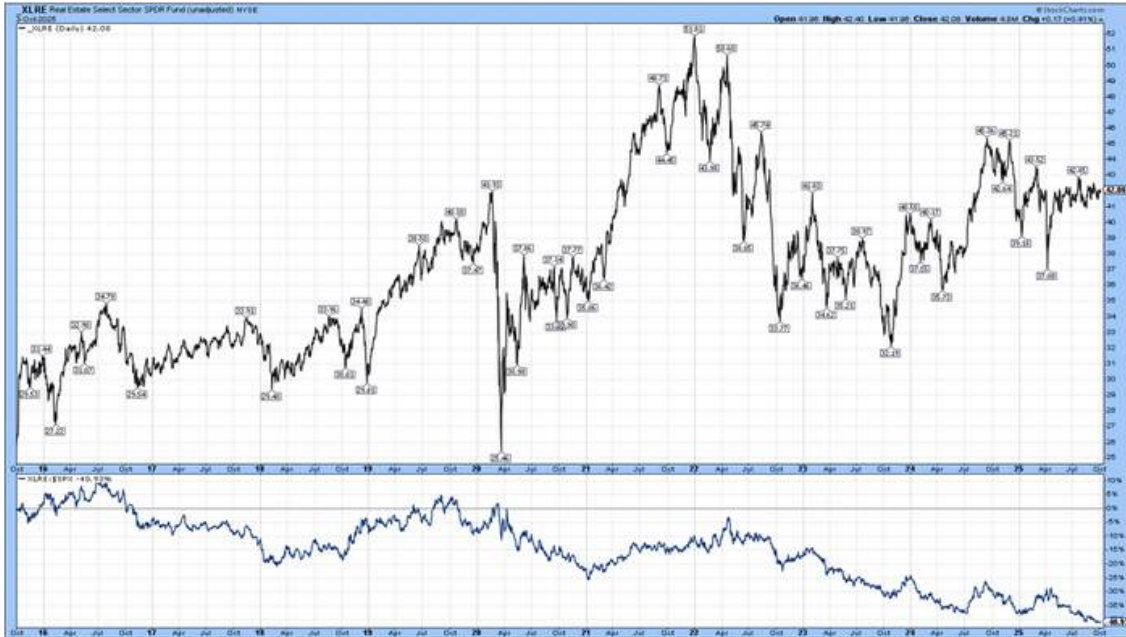
Source: Bloomberg, Sanctuary Wealth, October 5, 2025



Real Estate

Real Estate has lagged amid rising interest rates in recent years, underperforming the S&P 500. Real Estate Investment Trusts (REITs) are particularly sensitive to interest rate movements. If long-term rates decline, their prospects could improve, but for now, we believe the sector is likely to remain among the weaker performers.

SPDR Real Estate ETF (XLRE) (Top) With Relative To S&P 500 (Bottom)



Source: Stockcharts.com, Annotations Sanctuary Wealth

Analysts Not Excited About Growth Prospects For Real Estate Earnings

Expectations for earnings in the Real Estate sector are not rosy. Commercial real estate accounts for about 75% of the sector's capitalization. Real Estate is likely to continue to underperform.

Real Estate Estimated Earnings Are Declining Compared To The Broader Market



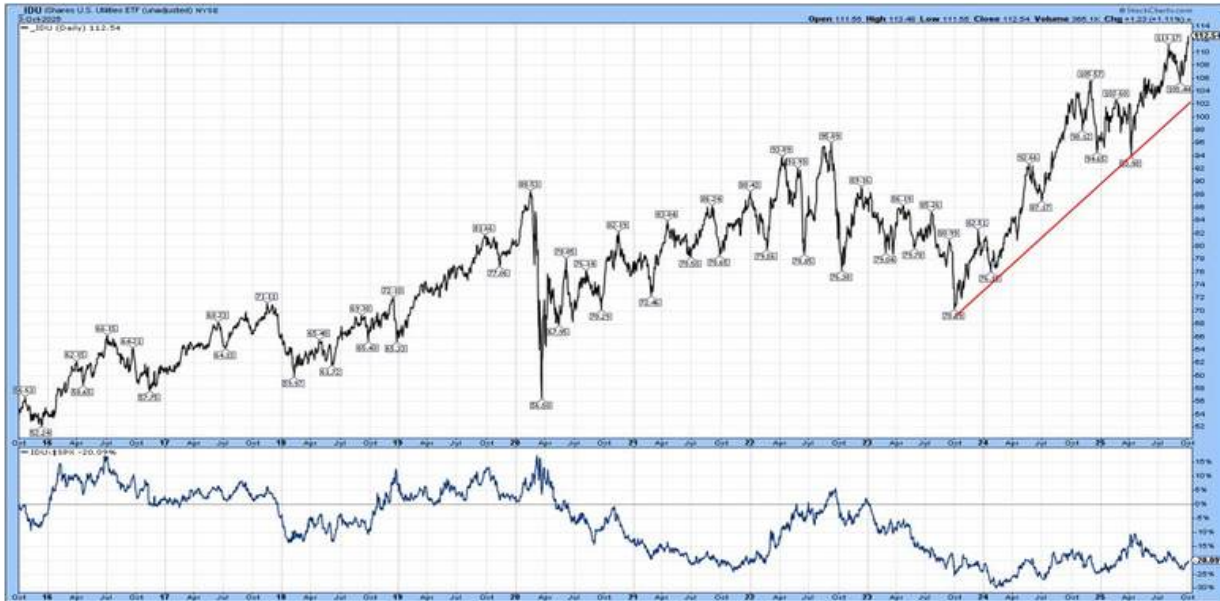
Source: Bloomberg, Sanctuary Wealth, October 5, 2025



Utilities

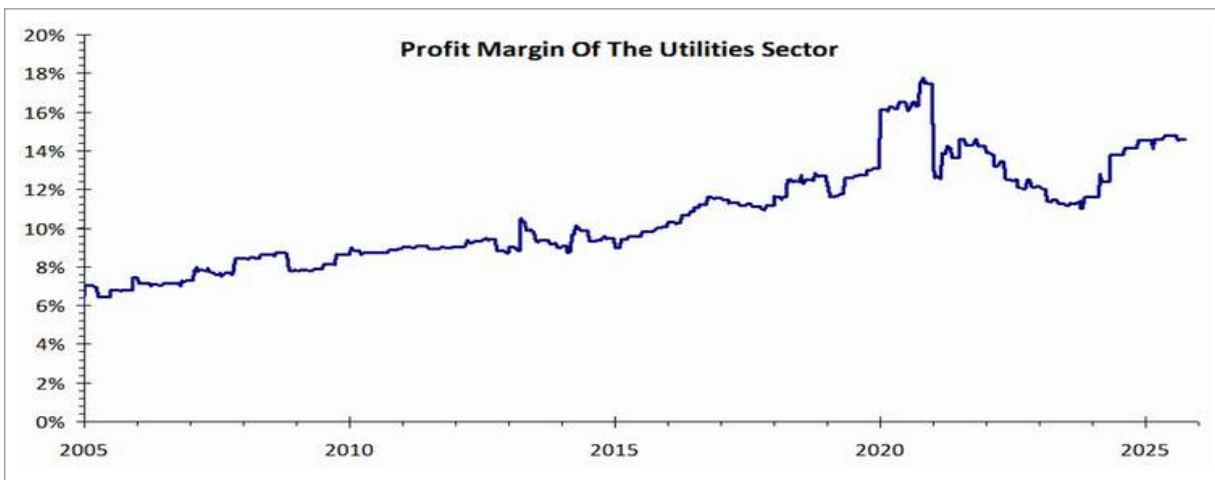
Utilities have been viewed as a defensive sector that provides income. Now, however, the Department of Energy and private analysts project that within five years, the U.S. could face an electricity shortfall of roughly 30%. At the same time, the power grid requires major upgrades to meet rising demand. These trends are also fueling strength in Capital Goods stocks, as noted earlier in the Industrials section. For the first time in nearly a century, Utilities are acting more like growth stocks than defensive holdings.

iShares Utilities (IDU) (Top) With Relative To S&P 500 (Bottom)



Source: Stockcharts.com, Annotations Sanctuary Wealth

Profit Margins Have Been Improving For Utilities



Source: Bloomberg, Sanctuary Wealth, October 5, 2025



Lack of new US power capacity could increase blackouts 100 times by 2030, says Energy Department

By Reuters

July 8, 2025 4:31 PM UTC · Updated July 8, 2025

Investment in data centres dwarfs spending on AI

Global spending

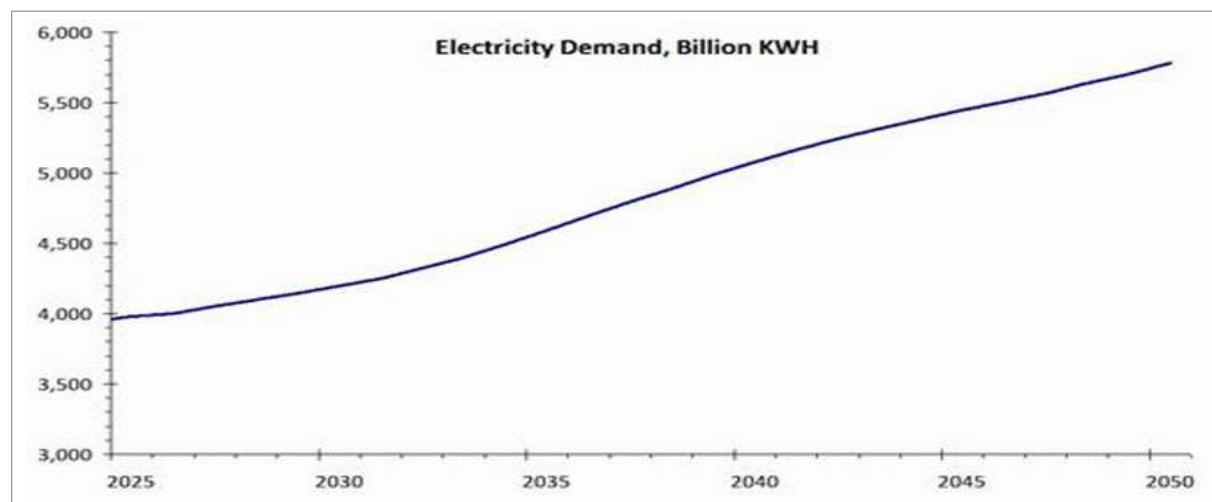
■ 2024 ■ 2025



Source: Gartner/S&P

Source: London Telegraph, September 25, 2025

The Department Of Energy Projects Electricity To Rise In The Coming Decades



Source: Energy Information Administration, Sanctuary Wealth, October 17, 2025

Interest Rates Are Trending Down

The markets expect a 25 basispoint cut when the Federal Reserve Open Market Committee (FOMC) concludes its next meeting on October 29, lowering the Federal funds rate to 3.75%. The Federal Reserve (Fed) has stated several times that it is concerned about the condition of the labor market, where unemployment was last reported at 4.3% for August; no September report has yet been released because of the government shutdown. Longer-term rates are also declining, and the yield curve, the difference between long-term and short-term rates, is steepening.



Speaking at a conference last week, Fed Chair Jerome Powell said it may be time to end Quantitative Tightening (QT), the process whereby the Fed shrinks its balance sheet by selling fixed-income holdings. Stopping this process is a way of easing monetary conditions. With the Fed expected to cut interest rates in October — and possibly again in December — monetary easing should help firm risk assets like equities and spark a seasonal year-end rally.

The 2-year Treasury yield is tracking toward 3% and the 10-year Treasury yield is tracking toward a range of 3.85%-3.80%.

2-Year Treasury Yields Are Approaching 3.0%

We believe 2-year Treasury yields could reach 3.0%.

2-Year Treasury Yields Have Peaked In January And Have Declined Since



Source: Bloomberg, Annotations Sanctuary Wealth, October 6, 2025

10-Year Treasury Yields Breaking 4.0%

The 10-Year Treasury broke the 4.0% level and is tracking toward the 200-day moving average near 3.85% – 3.80%.

10-Year Treasury Yield With 14-Day Stochastic And 200-Day MA



Source: Bloomberg, Annotations Sanctuary Wealth, October 6, 2025

Last Words

The S&P 500 remains in a secular bull market powered by strong economic growth, consumer resilience, and transformative technologies such as AI, Blockchain, Web 3.0, VR, and Robotics. Corporate earnings are rising, profit margins are strong, earnings expectations are strong, and there is now over \$7.3 trillion in money market funds on the sidelines. We believe that the S&P 500 can reach 7000 by year-end and 10,000–13,000 by the end of the decade. We favor Growth over Value stocks, with Information Technology and Communication Services in the lead.

Treasury yields are likely to decline, with 10-year Treasuries breaking support levels at 4.0% and possibly falling to 3.85%-3.80%. Yields on the 2-year Treasury are approaching 3.0%. These moves should be stimulative for the economy and supportive of the job market. We expect the impact to be bullish for stocks into year-end.

We believe any backup in equities would be a short-run event to unwind overbought and oversold extremes that will not derail the secular bull market.

Risks To Our Outlook

These are potential risks to our outlook that we are watching:

- Inflationary pressures emerging not allowing the Fed to cut interest rates.
- Destabilization in international trade from unexpected tariff escalation that interrupts market momentum.
- A significant deterioration in the labor market.
- A slowdown in consumer spending.

Corrections are opportunities, not reversals, in our view.

Mary Ann Bartels

Chief Investment Strategist

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