

SEPTEMBER 2026 SECTOR ALLOCATION UPDATE

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MARKET RECAP

In August 2026, we saw markets rise in the beginning of the month, only to struggle in the second half. Despite that, the S&P 500 managed to gain 2.6% in August. Yet as we will discuss later in this piece, the struggles we saw in the final two weeks of August could pave the way for equities markets to defy precedent in September, which has historically tended to be the weakest month of the year for stocks – particularly in midterm election years (two years after presidential election years).



MIDTERMS: Sep usually weakest month during midterm years

Stock Market Monthly Returns During Midterm Years Since 1854

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1854	-1.5%	0.4%	4.6%	-1.5%	-2.8%	0.5%	-8.1%	-6.7%	-5.9%	4.6%	-3.6%	-8.9%	1946	7.0%	-6.9%	4.4%	4.0%	2.2%	-3.9%	-2.6%	-7.3%	-10.2%	-0.8%	-1.1%	4.2%
1858	0.7%	6.3%	17.6%	-9.4%	5.7%	-3.0%	-4.8%	5.9%	-1.3%	-1.3%	4.0%	0.5%	1950	1.5%	1.0%	0.4%	3.9%	4.6%	-5.8%	0.8%	3.3%	5.6%	0.4%	-0.1%	4.7%
1862	2.3%	3.8%	5.5%	0.4%	3.5%	5.1%	4.9%	-2.8%	7.7%	15.4%	7.4%	-2.8%	1954	5.1%	0.3%	3.0%	4.9%	3.3%	0.1%	5.7%	-3.4%	8.3%	-1.9%	8.1%	5.1%
1866	-4.6%	-1.2%	1.4%	2.3%	2.4%	1.5%	2.4%	4.5%	-0.3%	4.5%	-2.8%	-1.0%	1958	4.3%	-2.1%	3.1%	3.2%	1.5%	2.6%	4.3%	1.2%	4.8%	2.5%	2.2%	5.2%
1870	2.9%	3.6%	-1.4%	3.0%	4.5%	0.2%	-3.2%	-0.8%	1.9%	0.6%	0.3%	-0.9%	1962	-3.8%	1.6%	-0.6%	-6.2%	-8.6%	-8.2%	6.4%	1.5%	-4.8%	0.4%	10.2%	1.3%
1874	2.6%	-1.3%	-2.8%	-2.3%	-0.5%	0.0%	0.3%	1.3%	0.0%	0.3%	0.0%	0.0%	1966	0.5%	-1.8%	-2.2%	2.1%	-5.4%	-1.6%	-1.3%	-7.8%	-0.7%	4.8%	0.3%	-0.1%
1878	-1.5%	1.5%	3.0%	0.4%	2.2%	1.8%	-1.0%	2.4%	-1.4%	-0.3%	-0.7%	4.2%	1970	-7.6%	5.3%	0.1%	-9.0%	-6.1%	-5.0%	7.3%	4.4%	3.3%	-1.1%	4.7%	5.7%
1882	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	1974	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1886	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	1978	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1890	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	1982	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1894	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	1986	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1898	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	1990	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1902	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	1994	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1906	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	1998	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1910	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2002	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1914	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2006	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1918	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2010	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1922	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2014	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1926	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2018	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1930	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2022	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1934	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	2026	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
1938	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%													
1942	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%													

**40% probability
of an "up" month**

Source: Fundstrat, Bloomberg

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In our view, three distinct, but related, themes drove equity markets in August.

Inflation Derangement Syndrome

The July 28-29 meeting of the Federal Open Market Committee (FOMC) drove an increase in worries about the possible resurgence of inflation. The minutes from that meeting showed that "many participants assessed that policy tightening would likely be necessary if inflation did not decline." In my view, these worries are symptomatic of "inflation derangement syndrome."

The late British leader Winston Churchill wrote in his memoirs that, "In my experience, the War Office is always preparing for the last war." To me, this is also true of financial markets. Investors are always worried about the last crisis and use

that framework to misjudge the future. Consider the last three "derangement syndromes" over the past 30 years:

- **2001-2025 'Internet derangement syndrome.'** After the "dot-com" bubble burst, investors argued for years that tech price-to-earnings ratios were permanently impaired, and we now know they were dead wrong.
- **2009-2019 'Stock market derangement syndrome.'** After the Global Financial Crisis, investors asserted that a "new normal" was in place, avoiding stocks because they believed that P/E ratios would not recover for decades. Again, they were dead wrong.
- **2022-now 'Inflation derangement syndrome.'** Since 2022, investors have repeatedly fretted that inflation will come roaring back. We see this as unlikely.

Our view of inflation

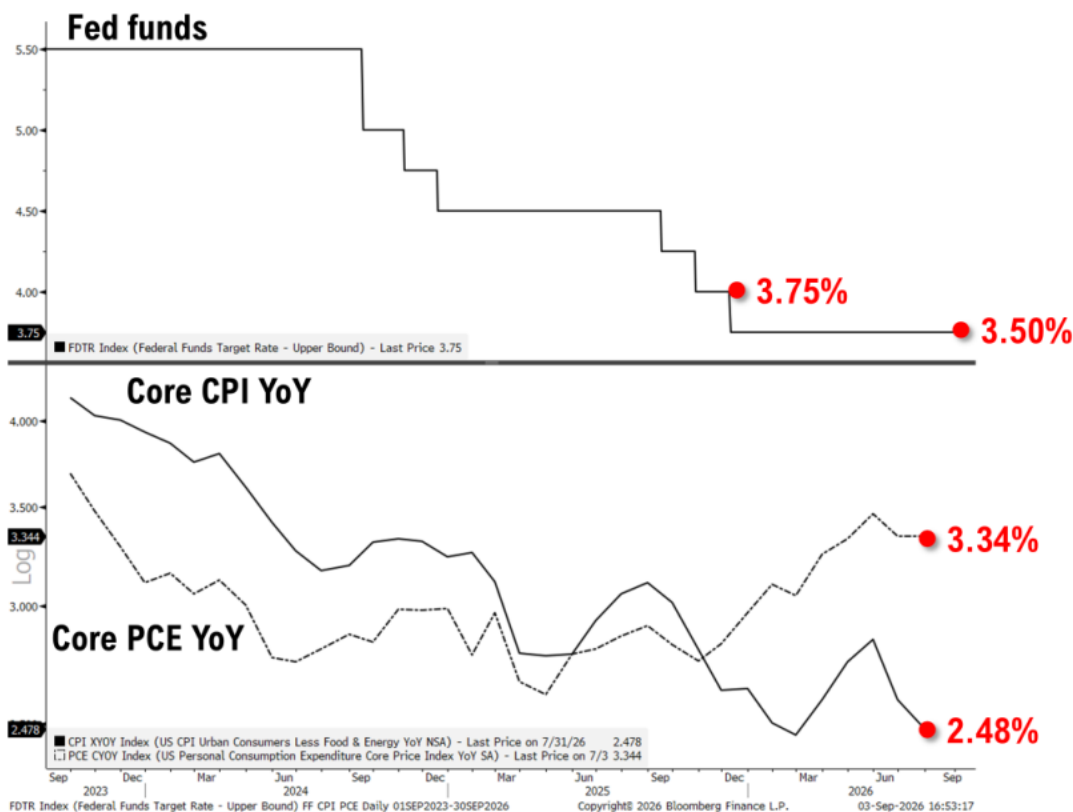
Here's where we are, based on July inflation data:

- July Core CPI came in at 2.48% YoY
- July Core PCE came in at 3.29% YoY
- The Federal Reserve's inflation target is 2.0%.

July Core CPI came in better than expected. Nine out of 10 monthly CPI prints have come in below expectations, and both Core CPI and Core PCE are on a downward trend.



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FED FUNDS: Fed was cutting last time CPI was here...

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However, PCE is significantly higher than CPI, and the same is true for Core PCE and Core CPI. This is largely because PCE overemphasizes certain components that, in our view, should not be used to determine inflation policy.

The historical average for Core PCE is 1.67%. It's currently running at 3.29%, or 1.62 percentage points above the historical average. Two categories make up 55% of this excess.



INFLATION: What is keeping Core PCE high?

Current Core PCE %YoY and Contribution to Excess Growth by Category

	(a)	(b)	(c)	(d)=(c)-(b)	(d)*(a)
Core Personal Consumption Expenditures					
Expenditure Category	Weight (%)	'99-'19 20Y YoY Avg (%)	Current YoY (%)	YoY% Change - 20Y Avg (%)	CTG to Delta (%)
PCE Core	100.0	1.7	3.3	1.62	1.62
1 Recreational goods and vehicles	3.7	-5.4	8.6	13.96	0.52
2 Financial services	6.2	3.4	9.2	5.77	0.36
3 Public transportation	1.6	1.8	10.8	9.00	0.15
4 Clothing and footwear	3.0	-0.4	3.5	3.88	0.12
5 Recreational items	1.8	-1.8	3.3	5.08	0.09
17 Social services and religious activities	1.9	2.9	3.9	1.00	0.02
18 Furniture and furnishings	1.6	-1.8	-0.4	1.37	0.02
19 Magazines, newspapers, and stationery	0.7	1.7	4.6	2.88	0.02
20 Recreation services	4.4	2.4	2.9	0.43	0.02
21 Household maintenance	0.7	2.9	5.4	2.46	0.02
22 Motor vehicle parts and accessories	0.7	1.8	4.1	2.27	0.02
23 Accommodations	1.1	2.3	3.4	1.08	0.01
24 New motor vehicles	2.2	0.2	0.6	0.47	0.01
25 Tools and equipment for house and garden	0.3	0.0	2.6	2.57	0.01
26 Postal and delivery services	0.1	3.8	12.3	8.59	0.01
27 Tobacco	0.6	5.5	6.7	1.21	0.01
28 Water supply and sanitation	0.8	4.4	4.7	0.28	0.00
29 Final consumption expenditures of nonprofit orgs	3.2	1.2	1.2	-0.05	-0.00
30 Nursery, elementary, and secondary schools	0.4	4.6	4.0	-0.66	-0.00
31 Household supplies	1.1	-0.2	-0.8	-0.67	-0.01
32 Commercial and vocational schools	0.5	4.3	1.5	-2.75	-0.01
33 Household appliances	0.5	-0.8	-3.6	-2.76	-0.01
34 Professional and other services	1.6	3.5	2.5	-1.03	-0.02
35 Net purchases of used motor vehicles	1.1	-0.3	-1.8	-1.49	-0.02
36 Telecommunication services	1.0	-1.9	-4.6	-2.74	-0.03
37 Higher education	1.1	5.1	2.1	-3.01	-0.03
38 Pharmaceutical and other medical products	3.9	2.9	-2.9	-5.73	-0.23

Source: Fundstrat, BLS

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2 categories: 55% of excess PCE
• Recreational Goods +0.52% (33%)
• Financial Services +0.36% (22%)

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The second-largest contributor is basically the stock market itself. Essentially, when the stock market goes up, the financial services component of Core PCE goes up. In CPI, the financial services component has a lower weighting. Thus, part of the gap between Core CPI and Core PCE has to do with the stock market.



PCE: Larger weights in Health Care & Financial Services

CTG %YoY Core PCE vs. Core CPI Items
Jun '26

Core PCE: +9.1% weight
Core CPI: +0.3% weight

Core PCE
+0.40%

	YoY (%)	Weight	CTG to YoY (%)		YoY (%)	Weight	CTG to YoY (%)	Delta (Core PCE items less Core CPI items)		
Core PCE	3.3	100	3.3	Core CPI	2.6	100	2.6	+0.7	-	+0.7
Services	3.8	72.3	2.8	Core Services	3.2	75.9	2.4	+0.7	-3.6	+0.4
Housing And Utilities + Accommodations	3.3	19.6	0.7	Shelter + Water, Sewer and Trash Collection S	3.3	45.7	1.5	+0.0	-26.1	-0.9
Health Care	3.1	19.0	0.6	Medical Care Services	2.9	8.5	0.2	+0.1	+10.6	+0.3
Transportation Services	7.4	3.7	0.3	Transportation Services	3.4	7.8	0.3	+3.9	-4.1	+0.0
Financial Services And Insurance	7.7	9.1	0.7	Financial Services	6.0	0.3	0.0	+1.7	+8.8	+0.7
Recreation Services	3.1	4.4	0.1	Recreation Services	2.7	4.3	0.1	+0.4	+0.1	+0.0
Other Services	2.1	9.5	0.2	Education And Communication Services + Hou	1.9	7.4	0.1	+0.2	+2.1	+0.1
Food Services	3.4	7.0	0.2	Other Personal Services ex Financial Services	4.9	1.8	0.1	-4.9	-1.8	-0.1
								+3.4	+7.0	+0.2
Core Goods	0.0	24.5	0.5	Core Goods	0.8	24.1	0.2	-0.8	+0.4	+0.3
Motor Vehicles And Parts	0.3	4.1	0.0	Transportation Commodities Less Motor Fuel	-0.3	9.1	0.0	+0.5	-5.0	+0.0
Clothing And Footwear + Jewelry And Watches	5.1	3.6	0.2	Apparel	3.9	3.1	0.1	+1.2	+0.5	+0.1
Educational Books + Telephone + Recreational	4.8	6.5	0.3	Recreation + Education And Communication Cx	0.1	3.2	0.0	+4.8	+3.2	+0.3
Pharmaceutical And Other Medical Products + Ther	-2.0	4.5	-0.1	Medical Care Commodities	-2.1	1.9	0.0	+0.0	+2.6	-0.1
Furnishings And Durable Household Equipmen	0.7	3.8	0.0	Household Furnishings And Supplies	1.3	4.2	0.1	-0.6	-0.5	-0.0
Tobacco + Personal Care Products + Luggage And	3.8	2.0	0.1	Other Goods	3.9	1.6	0.1	-0.1	+0.4	+0.0
				Alcoholic Beverages	2.0	1.0	0.0	-2.0	-1.0	-0.0
Expenditures Abroad By U.S. Residents	0.0	0.1	0.0					-	+0.1	-
Less Personal Remittance In Kind To Nonresidents	0.0	0.0	0.0							
Nonprofits	-0.1	3.2	0.0							

Financial Services
+0.70%

Source: Fundstrat, BLS, BEA

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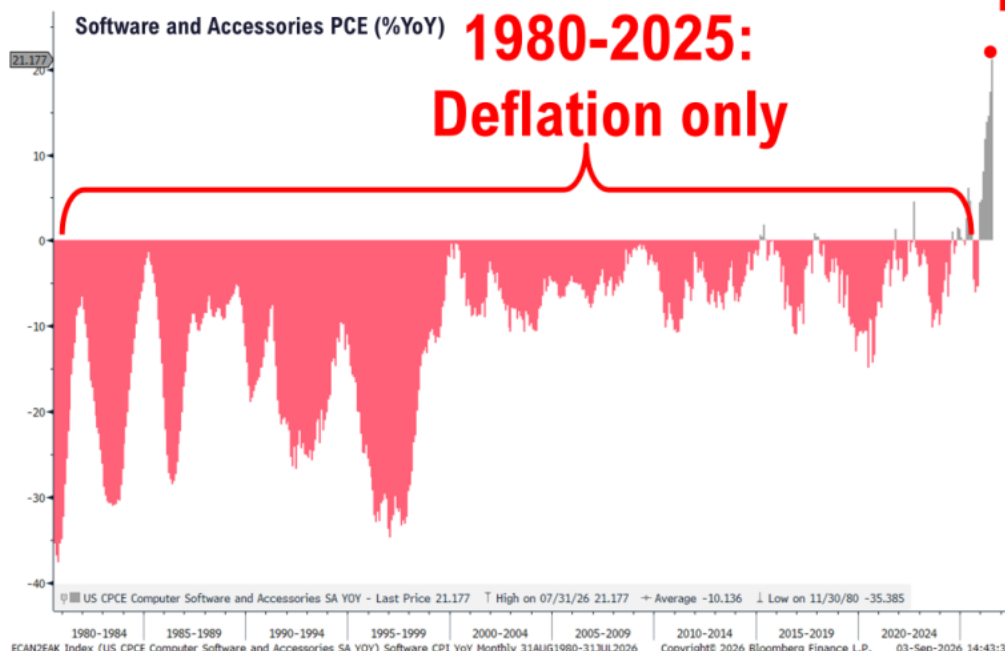
However, the largest current contributor to Core PCE in excess of its historical average is a component called "recreational goods and vehicles." This seems like an unusual component to have such a large impact, but a deeper dive into this component shows "computer software and accessories" as the largest sub-component.

This might come as a surprise to some. After all, from 1980 to 2025, this sub-component has been deflationary. The Federal Reserve published a report about this in May, also proposing that this might be a "measurement error."



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INFLATION: PCE computer software and accessories

Software and Accessories PCE YoY
Since 1980

Source: Fundstrat, Bloomberg

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It appears that this number has suddenly started trending higher because of increases in the price of flash memory. To us, it does not make any sense to assert that a third of the inflation affecting the U.S. consumer is due to flash memory prices. Nor does it make sense to conclude that the Fed will hike rates due to a healthy stock market and high flash-memory prices.

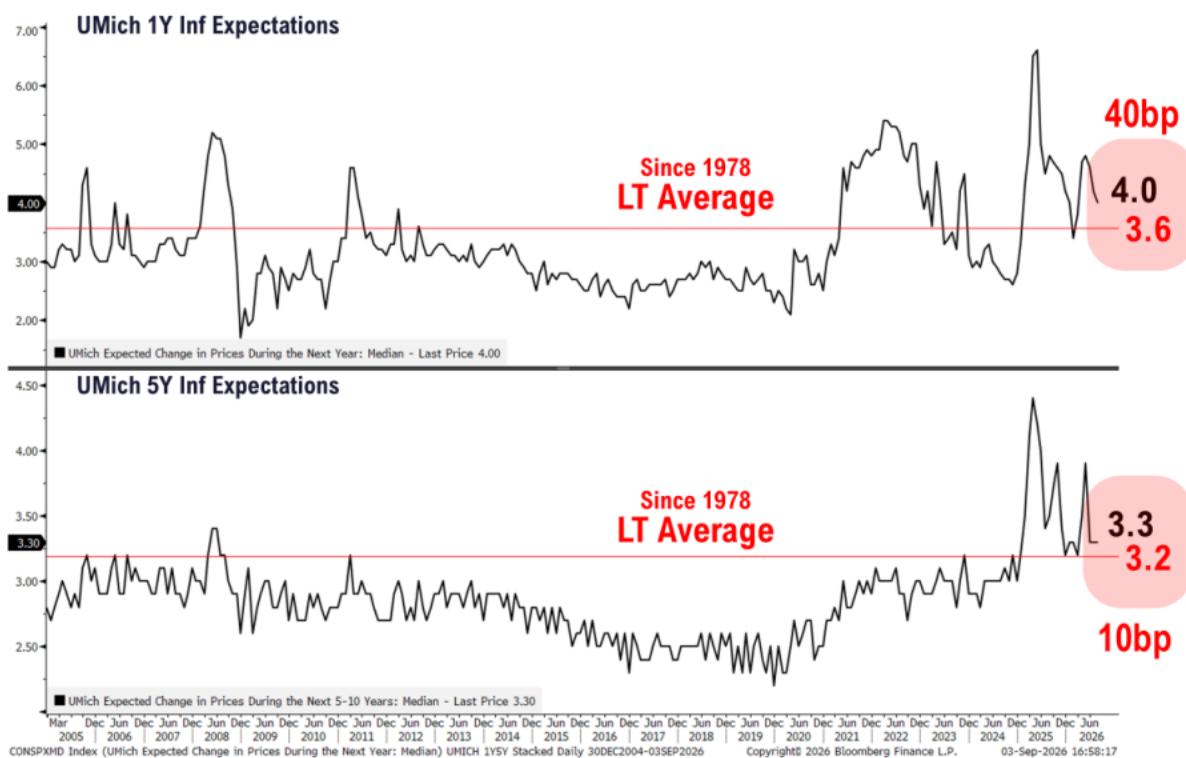
Consumer surveys strengthen our argument, as they suggest that consumers do not seem to be feeling such an elevated inflation level. For example, let's look at the University of Michigan (UMich) survey of consumer expectations regarding inflation. Survey respondents expect that one year from now, inflation will be 4.0%. This might seem rather high, but it's important to recognize that over the past 50 years, the historical average response has been 3.6%. That means inflation expectations right now are only barely above the long-term average – just 40 basis points higher.



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INFLATION: UMich 1Y Expectations Falling Rapidly

UMich 1Y & 5Y Inflation Expectations **consumer**
Past 20 years



Source: Fundstrat, Bloomberg, University of Michigan

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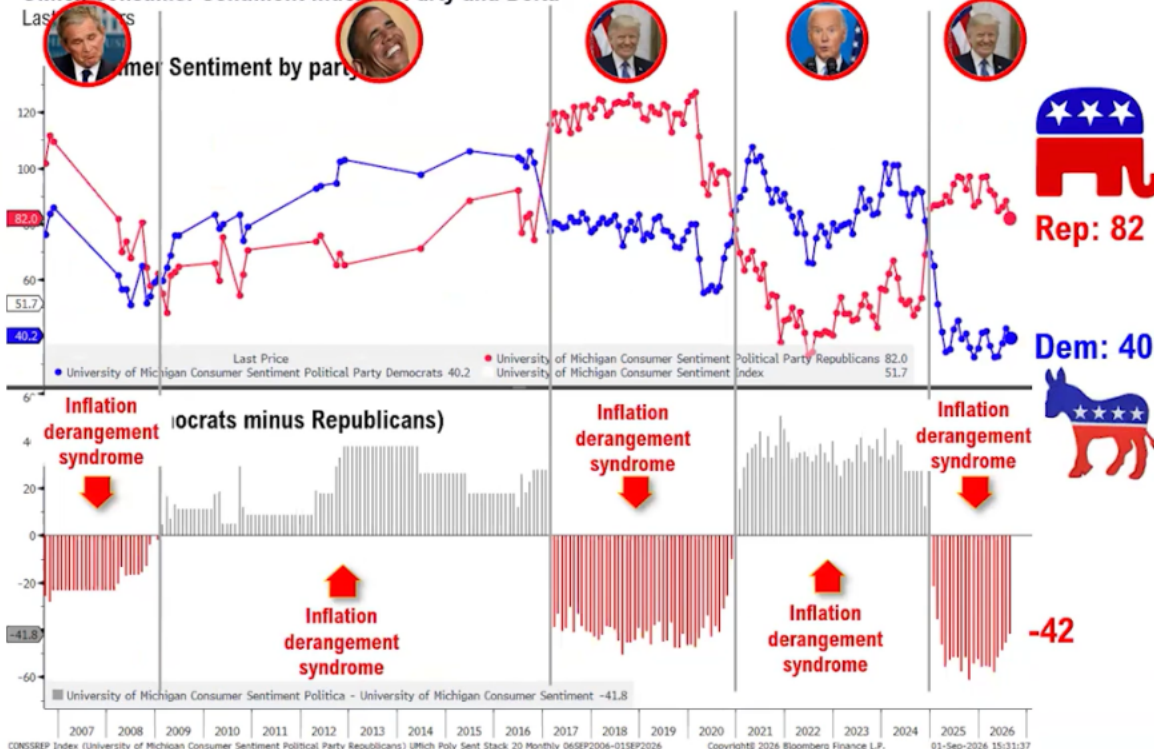
Also keep in mind that, as we have discussed in the past, there is reason to believe that this survey is politically skewed. Inflation expectations by Democratic respondents are significantly higher than those of Republican respondents. We could hypothesize that what we are seeing is Democratic inflation derangement syndrome, but it might more accurately be described as an ongoing phenomenon amongst opposing voters. During the Biden presidency, Republican respondents showed a similar tendency, and in fact we can see this trend dating back to the administration of George W. Bush. The impact of political bias on this survey is likely more pronounced right now because among survey respondents, those identifying as Democrats outnumber those identifying as Republicans by about 3 to 2.



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SENTIMENT: Primarily “problem” for opposing voters

UMich Consumer Sentiment Index by Party and Delta



Source: Fundstrat, Bloomberg, University of Michigan

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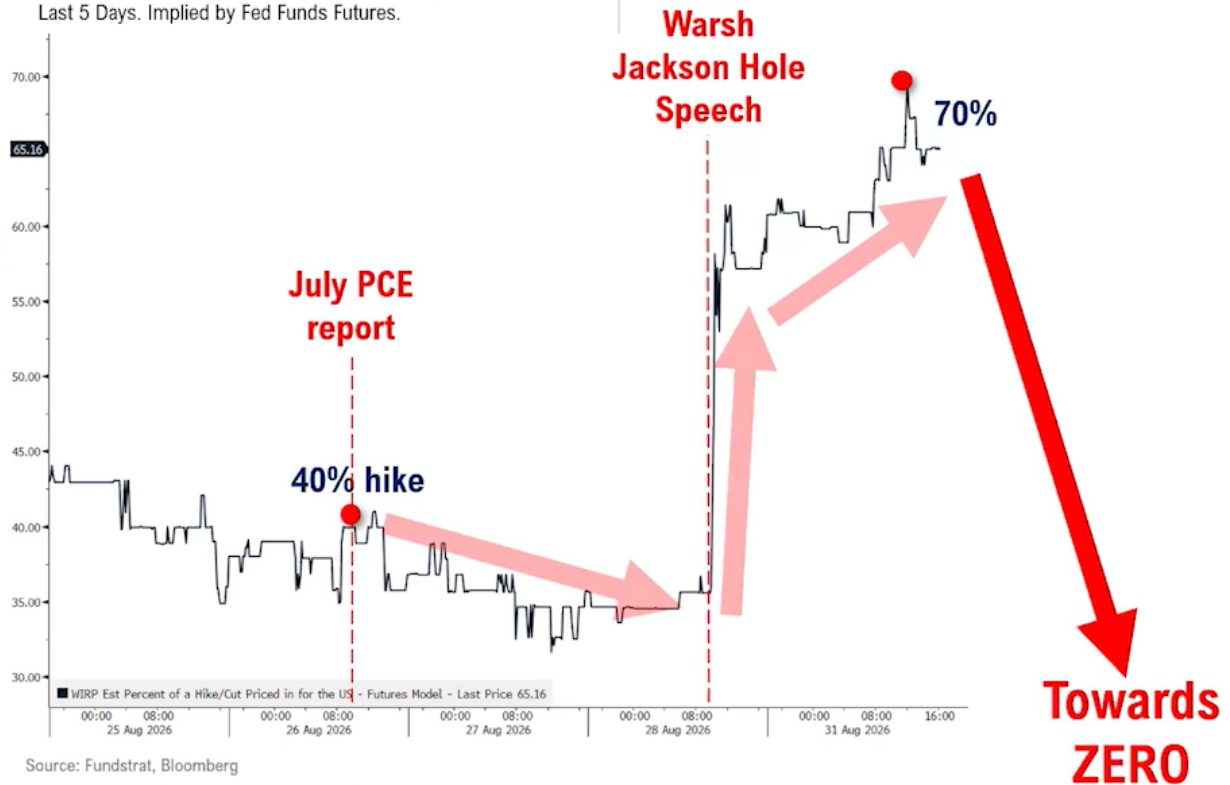
To us, inflation derangement syndrome is why many investors want the Fed to hike in September. In the aftermath of Fed Chair Kevin Warsh's remarks at the annual Jackson Hole Economic Symposium, Fed funds futures trading implies that the market places odds of a hike at the Sept. 15-16 FOMC meeting at 70%.



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FED: Warsh 'hawkish' tone at Jackson Hole

Estimated Probability of a Fed Hike September 2026
Last 5 Days. Implied by Fed Funds Futures.



Source: Fundstrat, Bloomberg

*1 cut represents 25-basis-point decrease in Fed Funds Rate

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Our contrarian take is that the Fed will opt not to hike, and when this happens, markets will rally.

Yields

Since the beginning of July, rising yields have arguably impacted the AI bottleneck trade – chip and memory stocks, for instance. Yet amidst the corrections in semis and AI bottleneck stocks, we have seen AI downstream stocks gaining traction. This includes the Magnificent Seven and software, along with cryptocurrencies such as Ethereum.

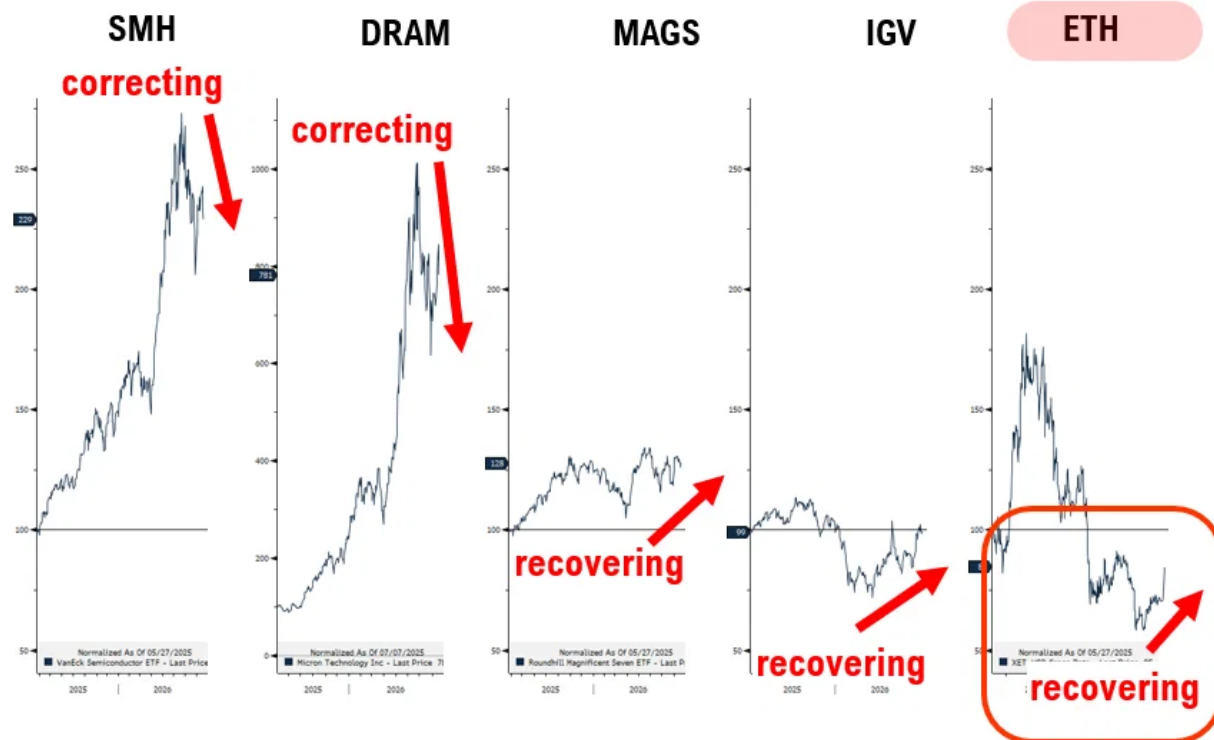


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Technology: AI downstream plays gaining traction

Major Technology ETFs Price History

Past Year, DRAM since 4/2/26 (Normalized 100 = Start)



Source: Fundstrat, Bloomberg

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There are multiple reasons why yields have been floating higher. The continued conflict in Iran has caused a sustained oil shock. The U.S. cumulative debt rose above the \$40 trillion mark on Aug. 18. And the sheer size of ongoing data-center Capex also continues to drive yields up.

Obviously, higher yields are a problem for the economy in general, and for stocks in general.

On Aug. 19, the Treasury Department announced plans for a small version of Operation Twist. Secretary Scott Bessent suggested that the U.S. government could buy more than \$4 billion worth of long-term Treasuries, indicating a willingness and commitment to get those yields down.

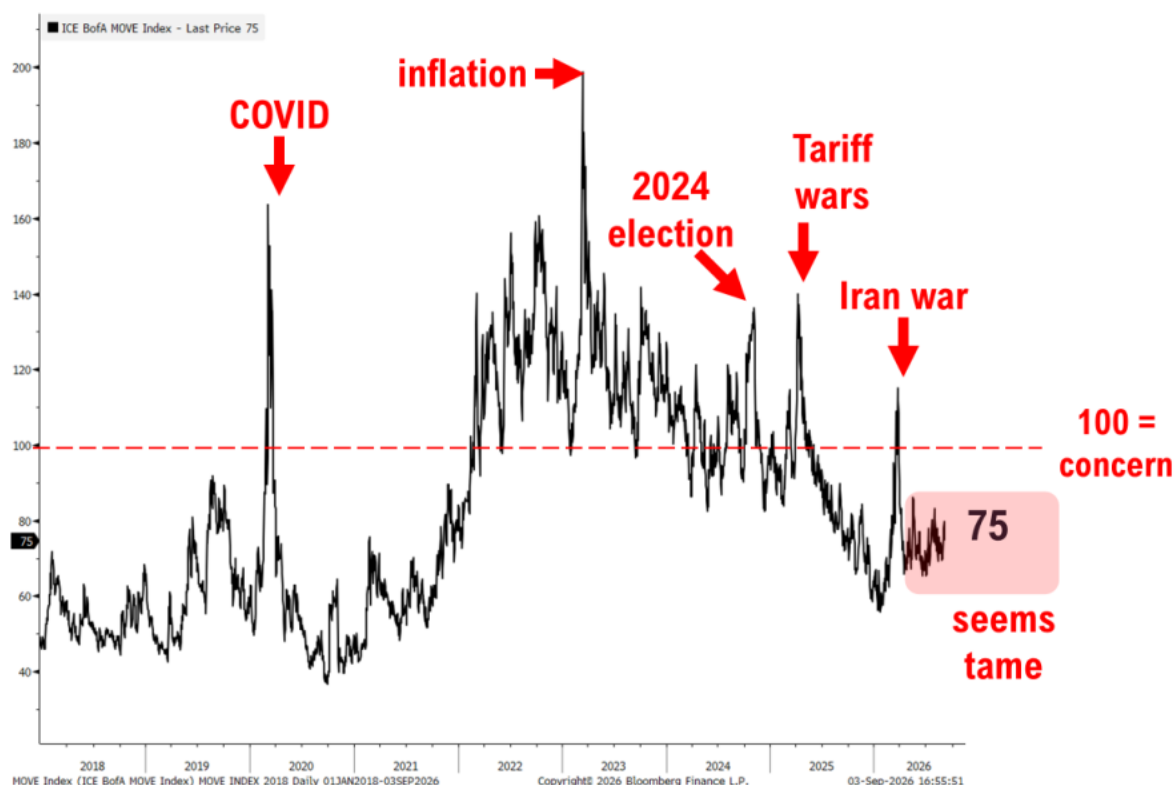
While the Treasury's buyback announcement did not reduce yields in any lasting fashion, it nevertheless contributed to strong relative performance of certain risk assets. Monetary policy aside, when you lower – or signal an intention to lower – long-term rates, you boost risk assets.

Many investors worry that this steady rise in long-term yields suggests that a crisis is around the corner. However, we would suggest checking the MOVE index – the Bank of America Bond Volatility index. The MOVE index shows a muted bond volatility of around 75. A reading of 100 or more marks a level of concern – we saw readings like that during the COVID era, the inflation era, and the 2024 elections. We also have seen such elevated MOVE levels during the 2025 tariff wars and during the onset of the Iran war.



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MOVE: Bond volatility index is muted = not a crisis brewing



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While we are monitoring the rise in yields, our instinct right now is that the yields are more benign than they appear. I do not view rising yields as a concern for stocks until the MOVE index starts to move up.

The AI trade

U.S. monetary policy was not the only reason for the challenges facing AI bottleneck stocks, of course. Throughout the summer, we have seen increasing opposition across the U.S. toward data centers, becoming an increasingly visible political issue that has arguably weighed on AI stocks.

Nevertheless, our long-term investment thesis concerning AI remains intact.

On Aug. 10, Nvidia announced what I view to be a pretty significant deal with Wall Street. It was announced that Nvidia would form a consortium with Wall Street firms like Goldman Sachs, Apollo, Blackstone, BlackRock, Brookfield Asset Management, and KKR to offer \$500 billion or more in vendor financing. It is constructive that Nvidia will be providing a form of depreciation insurance while Wall Street attempts to financialize compute, but to me, this also provides potential upside because it creates the potential for additional liquidity and transparency for AI financing. And of course, when you remove friction and add transparency, you lower the cost of financing. That means potential upside for stocks.

Then on Aug. 26, Nvidia announced quarterly results that to me are just astounding: revenue growth of 106% on revenues of nearly \$100 billion (\$96.2 billion, to be precise). The reaction from the market was one of the best we've seen in response to Nvidia results in some time, and it helped to lead the AI complex higher.

Conclusion

We are not disregarding the challenging seasonality of a midterm-year September that we discussed earlier. However, the last two weeks of August have seen investors positioning themselves cautiously. Thus, as we look ahead, several potentially positive catalysts could propel the stock market. Weak jobs data, soft inflation prints, or positive AI news are among the possibilities.

Thus, we see the possibility of a strong September, and we continue to view dips as buyable.

Sector Allocation Update

Strategic Sector Ratings

For September, Tom's ratings are unchanged as usual. Mark made two upgrades, and both move a sector straight to the top of his list.

- Information Technology goes from Neutral to Overweight.
- Energy jumps two notches from Underweight to Overweight.

Information Technology (Neutral to Overweight):

This was the change we (sort of) noted last month. Mark said in the August report that he expected to move back to a bullish Tech stance by the end of August once the sector finished consolidating. That is what happened. The trigger was not the index level but the relative chart. Equal-weight Technology against the equal-weight S&P 500 (RSPT/RSP) broke back above its downtrend from the June relative peak in late August. His Technology cycle composite bottomed at roughly the same time. NVDA's late-August breakout from a three-month triangle, on the heaviest volume since May, supplied the catalyst. At the sector level, software did most of the heavy lifting, with IGV closing at its highest level since last fall. Mark now expects Technology to lead for the balance of the year.

Mark also made a broader point about market structure. The equal-weight S&P 500 relative to the cap-weighted index (RSP/SPY) is turning lower from three-year resistance. In his view, the window for favoring the broader market over the S&P 500 has passed. That argues for the cap-weighted, Tech-heavy index to outperform in the months ahead. Within the sector, the pecking order has not changed much. Software remains his favorite group, followed by the Mag 7. Memory finally turned up on a relative basis in the first week of September. Semis are the laggard he expects to catch up rather than a group to avoid. Weekly MACD for the sector is still negatively sloped, and he described the action since mid-August as churning rather than trending. He does not expect a straight line. The sector rose 1.2% since the last

update (8/5), with 69.9% of members above their 200-day moving average. The upgrade makes Technology a double Overweight (by both Tom and Mark).

Energy (Underweight to Overweight):

Last month we wrote that a sustained move through \$80 crude would be the signal to revisit the Energy underweight. WTI went through \$80 in the second week of August and has been pressing the high \$80s since. The sector is up 10.7% since the last update, the best in our coverage by a wide margin. Mark's view evolved in stages. On August 10 he called the breakout in equal-weight Energy (RSPG) a tradable bounce inside a second-half underweight. He expected a month of outperformance and then a retreat into year-end. By mid-August he was targeting \$100 crude into the fall. What ultimately changed the rating was his cycle work. His weekly cycle composite for crude now shows prices staying elevated into spring 2027. That means the seasonal weakness he had expected in October and November should prove short-lived, if it appears at all.

On the relative chart, RSPG/RSP held its 2022-2026 breakout level at the July lows and then cleared the downtrend from the March relative peak. That is the formal basis for the Overweight. Crude and the S&P 500 have been negatively correlated lately. If \$100 oil rattles equities or Treasuries this fall, Energy should hold up better than most groups.

With these changes, Tom and Mark now share the same rating on 6 of 11 sectors, up from 4 last month. Both are Overweight i) Technology, ii) Energy, and iii) Financials, Neutral on iv) Consumer Discretionary and v) Utilities, and Underweight vi) Consumer Staples.

The rest of Mark's ratings are unchanged, but a few are worth a comment.

Industrials stays Neutral. The sector was the worst performer in our coverage since the last update, down 6.1%. Mark explained that the relative ratio of Industrials to the equal-weight S&P 500 broke a trendline dating to 2022 back in May. That is why he moved to Neutral and intends to stay there. The Dow Transports then broke their July lows on September 1 and sit at the lowest level since May. He thinks a TD buy setup could complete within a week or so. If it does, this would mark a short-term pullback

rather than something larger, and he would buy the airlines and rails on that basis. But the sector does not earn an Overweight until the relative chart repairs.

Materials stays Neutral even though Mark likes the sector tactically into October. The multi-year relative downtrend against the equal-weight index has not been broken. He has been explicit that this is a trade, not an intermediate-term overweight.

Real Estate and Utilities stay Neutral, but his views have moved well past neutral. Both broke down against the equal-weight S&P 500 in August. He noted washouts across many parts of Utilities and said both sectors should be avoided while long-end yields work higher. The 10-year at 4.80% is the highest weekly close in nearly three years. He expects yields to keep trending higher into October and the midterms. A JGB 30-year move above 4.20% is the likely trigger for a test of 5%. These two are the sectors most exposed to that.

Health Care and Financials both stay Overweight. The rationale is covered in the tactical section.

Sector ETF Allocations – Strategic Sector Ratings

	Macro <i>Thomas Lee</i> 	Technical <i>Mark Newton</i> 
Consumer Discretionary	Neutral	Neutral
Industrials	Overweight	Neutral
Information Technology	Overweight	Overweight ↑ Upgrade Neutral
Communication Services	Overweight	Underweight
Basic Materials	Overweight	Neutral
Energy	Overweight	Overweight ↑ Upgrade Underweight
Financials	Overweight	Overweight
Real Estate	Overweight	Neutral
Consumer Staples	Underweight	Underweight
Health Care	Neutral	Overweight
Utilities	Neutral	Neutral

Source: Fundstrat

Tactical OW/UW: Mark's Top 3 and Bottom 3 Sector Picks

This is a month where Mark and the quant composite mostly agree. Energy, Information Technology, and Health Care are the three highest composite scores, and Mark's top 3 matches them exactly. The disagreement is on the short side. The composite's three lowest scores belong to Consumer Staples, Real Estate, and a tie between Consumer Discretionary and Utilities. Mark keeps Communication Services

in the bottom 3 for a third month. It scores slightly better than either Discretionary or Utilities, both of which his notes describe as groups to avoid. We discuss this below.

Top 3 Tactical Overweight

- **Energy:** New to the top 3 after five consecutive months in the bottom 3. The tactical and strategic layers now point the same direction for the first time this year. The case is the one driving the upgrade. As noted above, RSPG broke its downtrend from the March relative peak and crude has held above \$80. Mark's cycle composite argues the seasonal air pocket in the fourth quarter will be shallow. Energy is also the year-to-date leader at +43.3%, with the strongest 30-day return in the table at +9.5%. The composite agrees. It ranks the sector first, with a Trend Score that jumped from 9th to 2nd. The near-term risk is a stall. October crude futures face resistance at the May peak of \$91.27. Mark has said Energy weakness on crude pullbacks should be short-lived rather than avoided. The refiners are where he would concentrate.
- **Information Technology:** Back in the top 3 for the first time since May, pairing with the strategic upgrade. The composite ranks the sector first on DQM and EPS Score, and 69.9% of members are above their 200-day moving average. The relative breakout in RSPT/RSP and the turn in RSP/SPY both argue for owning the cap-weighted leaders again. Mark is comfortable owning Tech on any weakness into October. He would treat a pullback as a dip to add to rather than a reason to wait. Software is the preferred group. The September 4 turn in Memory relative to both Software and Semis means the laggards inside Tech are starting to participate. He reads that as healthy mean reversion rather than a leadership change. On semis, he does not see a September-October decline. SMH's low at 503 should hold, and the pullback since mid-August looks like a three-wave correction before a sharp turn higher.
- **Health Care:** A fourth consecutive month in the top 3, and the intermediate-term case got stronger in August. Equal-weight Health Care against the equal-weight S&P 500 (RSPH/RSP) broke the relative downtrend that had capped the sector since 2023. Mark had initially expected the Health Care trade to fade after the summer. The relative breakout changed that. He now views the sector as an Overweight into the midterm elections. He does think Health Care could dip early

this week, but expects it to be strong over the next month. The sector gained 4.3% since the last update and ranks second on DQM. Its +5.8% 30-day return trails only Energy in the sector table. Biotech remains his preferred sub-group. IBB relative to the sector broke a decade-long downtrend that dates to 2015, and biotech has monthly breakouts against Pharma, HMOs, and Med-tech alike. He describes biotech as a good deal stronger than most of Technology right now.

Bottom 3 Tactical Underweight

- **Communication Services:** This is the third consecutive month for this sector in the bottom 3. Communication Services has been a tactical underweight since the July report, when Mark also cut his strategic rating to Underweight. That rating has not changed. The reasons have not changed much either. The sector was the weakest group in the tape when the call was made, with Telecom at its lowest level since 2024. It remains one of only two sectors negative year-to-date at -4.8%, and it fell another 2.4% since the last update. Some things have improved at the margin. Trend Score moved from 10th to 6th as META and GOOGL rebounded from their summer drawdowns, and the composite now ranks the sector 7th rather than last. GOOGL in particular held trendline support from the 2025 lows. Mark added it to his Upticks list in mid-August, with \$408 and then \$450 as targets and \$315 as his stop. But a few mega-cap rebounds do not repair a sector-level relative chart. Telecom's yield sensitivity is a headwind again with the 10-year near 4.80%. Until the sector shows sustained relative strength against the equal-weight S&P 500, the underweight stays.
- **Real Estate:** New to the bottom 3 and the sector most directly exposed to Mark's rate call. REITs relative to the equal-weight S&P 500 fell to their lowest level in a dozen years in early August and kept sliding. The sector is down 2.7% since the last update. Only 13.3% of members are above their 20-day moving average, the second-worst reading in our coverage. The composite ranks the sector 9th, with a Trend Score that dropped from 7th to 10th. Mark's forecast on rates is the driver. He expects the 10-year yield to break above 4.75% and test 5%, with JGB yields exceeding their May peaks as the likely trigger for the next leg. He has said both Real Estate and Utilities should be avoided while yields are working higher, and

this pick is the tactical expression of that. Per Mark, it was a close call between the two.

- **Consumer Staples:** Still in the bottom 3, and still the weakest defensive. The sector fell 1.5% since the last update. The composite gives it the lowest total score in the table, and its EPS Score slipped another notch to 10th of 11. Mark's framing is that the defensive trade is not working. Staples weakened first, and Utilities and REITs followed in August. WMT's post-earnings break to the lowest level of the year did not help. The double strategic Underweight from Tom and Mark makes this the most consistent negative view in the report. At -3.6% versus the index, it remains our largest underweight.

Besides the top 3 and bottom 3, two sectors are worth mentioning:

1\ Consumer Discretionary drops out of the top 3 but does not enter the bottom 3. This is despite the composite ranking it 10th, with the worst DQM Rank and worst Trend Score in the table. Last month's tactical overweight was based on a rare weekly DeMark buy signal on the Discretionary relative chart. It did not follow through. The sector fell 3.3% since the last update. In mid-August, the ratio of equal-weight Discretionary to Staples failed to break the downtrend it has been in since early this year. Overall, Mark wants to see yields retreat meaningfully before buying anything consumer-related. The sector returns to a neutral tactical position rather than an underweight, which puts it back at market weight.

2\ Financials exits the top 3 despite Mark remaining Overweight on the strategic rating. Nothing in his work turned negative. Banks pushed equal-weight Financials to multi-month relative highs in the first week of September, and he called out KBE targets at \$72 and then \$75. The sector was flat since the last update. This is a case of Energy and Tech having stronger near-term setups, not Financials weakening. The sector still carries a double Overweight in the strategic layer.

Sector ETF Allocations – Tactical Sector OW/UW



	Ticker	ETF Name	YTD Return	30D Return	DQM Rank		EPS Score		Trend Score		Price / 20D 20D / 200D Price > 20D > 200D Total				
					Prior	Current	Prior	Current	Prior	Current					
+2%	1	XLE	Energy	43.3%	9.5%	7	3	7	3	9	2	101%	114%	Y	6
+2%	2	XLK	Information Technology	30.1%	0.2%	1	1	1	1	1	1	100%	115%	Y	6
+2%	3	XLV	Health Care	10.8%	5.8%	2	2	6	7	4	4	100%	110%	Y	4
	4	XLF	Financials	6.1%	0.4%	6	9	2	2	3	3	100%	108%	Y	4
	5	XLB	Materials	15.6%	0.8%	4	4	5	6	6	5	99%	105%	N	-1
	6	XLI	Industrials	13.0%	-6.0%	3	5	3	4	2	8	97%	105%	N	-1
-2%	7	XLC	Communication Services	-4.8%	0.0%	8	6	10	9	10	6	100%	98%	N	-2
	8	XLU	Utilities	0.9%	-2.3%	5	7	4	5	11	7	99%	97%	N	-3
-2%	9	XLRE	Real Estate	8.9%	-2.7%	9	8	11	11	7	10	98%	103%	N	-3
	10	XLV	Consumer Discretionary	-3.8%	-2.9%	11	11	8	8	5	11	98%	100%	N	-3
-2%	11	XLP	Consumer Staples	8.9%	-0.9%	10	10	9	10	8	9	98%	102%	N	-4

Source: Fundstrat, Bloomberg

* if an UW sector weight is less than 2%, we will bring down the sector weight to 0% (instead of making it negative). The weight addition to each OW sector will be based on the total reduction of UW sector weight divided by 3.

Portfolio Weight Changes vs Last Month

The weight changes are larger than usual because two sectors changed on both layers at once. Energy and Information Technology each gain from a strategic upgrade and entry into the tactical top 3. Consumer Discretionary and Financials give back their tactical uplift. Real Estate goes to zero.

Increases

- **Energy +4.3% to 5.1%.** The largest increase this month. On top of a 1.7% mirror weight, the strategic upgrade to double Overweight contributes 1.5% through the rating layer, and the tactical overweight adds another 1.8%. A month ago Energy sat at -2.0% versus the benchmark. It is now +2.1%, our second-largest overweight.

- **Information Technology +2.6% to 34.8%.** The double Overweight uplift plus the tactical +1.8%. Tech was close to market weight a month ago at +0.4% versus the index. It is now +2.5%, our largest overweight in absolute terms. At 34.8% of the portfolio, it is the largest position by far.
- **Health Care +0.3% to 9.7%.** A small increase that mainly reflects the sector's relative performance over the past month. The overweight versus the benchmark narrows slightly to +1.8%, and the sector stays in the top 3.

Decreases

- **Financials -2.5% to 10.9%.** The largest reduction. Exiting the tactical top 3 removes the 2.0% tactical allocation. The double Overweight pool is also now shared among three sectors rather than concentrated in Financials alone. At +0.4% versus the index, the sector goes from our largest overweight a month ago (+2.9%) to a modest tilt. Both strategists remain Overweight.
- **Consumer Discretionary -2.3% to 7.6%.** Leaving the tactical top 3 unwinds last month's addition. The position returns to market weight from +2.0% versus the benchmark.
- **Real Estate -1.6% to 0.0%.** The tactical underweight takes the sector to zero. The position is -1.5% versus the index. Essentially, Mark's tactical underweight offsets Tom's strategic Overweight rating.
- **Industrials -0.4% to 7.1%.** No rating change. The decrease tracks a shrinking index weight after the sector's 6.1% decline. Compared to the market, the model still recommends an additional +0.1% weight.
- **Communication Services -0.4% to 6.2%.** The tactical underweight holds. At -1.9% versus the index, it is the second-largest underweight.

Basic Materials, Consumer Staples, and Utilities are largely unchanged from last month.

The 15% individual-ETF sleeve remains fully allocated at 3% per position, with two substitutions described below.

Summary

		vs Prior Allocation			vs Benchmark Index			
Name	Ticker	Prior Result	Current	Delta vs Prior	Index Weight	Current	Delta vs Index	Delta Last 12M
Sector ETFs (85%)	Cyclical							
	Consumer Discretionary	XLY	9.9%	7.6%	-2.3%	7.6%	7.6%	-
	Industrials	XLI	7.5%	7.1%	-0.4%	7.0%	7.1%	0.1%
	Information Technology	XLK	32.2%	34.8%	2.6%	32.3%	34.8%	2.5%
	Communication Services	XLC	6.7%	6.2%	-0.4%	8.1%	6.2%	-1.9%
	Materials	XLB	1.5%	1.6%	0.0%	1.5%	1.6%	0.0%
	Near-cyclical							
	Energy	XLE	0.7%	5.1%	4.3%	3.0%	5.1%	2.1%
	Financials	XLFX	13.4%	10.9%	-2.5%	10.5%	10.9%	0.4%
	Real Estate	XLRE	1.6%	0.0%	-1.6%	1.5%	0.0%	-1.5%
	Defensive							
	Consumer Staples	XLP	0.3%	0.2%	-0.0%	3.8%	0.2%	-3.6%
	Health Care	XLV	9.5%	9.7%	0.3%	7.9%	9.7%	1.8%
	Utilities	XLU	1.8%	1.7%	-0.0%	1.7%	1.7%	-
Individual ETFs (15%)	iShares Expanded Tech-Software & Services	IGV	-	3.0%	3.0%			
	SPDR S&P Oil & Gas Exploration & Production	XOP	-	3.0%	3.0%			
	iShares Biotechnology ETF	IBB	3.0%	3.0%	-			
	ARK Genomic Revolution ETF	ARKG	3.0%	3.0%	-			
	iShares U.S. Pharmaceuticals ETF	IHE	3.0%	3.0%	-			
	Invesco S&P 500 High Beta ETF	SPHB	-	-	-			
Total			94%	100%		85%	85%	

Source: Fundstrat, Bloomberg

* when comparing allocation to benchmark index weight, we scaled the total benchmark index weight to 85%, so they are comparable.

ETF Performance Recap and 5 ETF Picks for September

August's basket produced a modest positive month on the back of the healthcare names. From the August report (8/5) through 9/4, the 5 tactical ETFs returned +2.0% on average. The S&P 500 was essentially flat over the period, so the relative return was also +2.0%, with 3 of 5 outperforming.

- **Best performing:** ARK Genomic Revolution ETF (ARKG) led at +14.3% absolute and +14.4% relative, followed by iShares Biotechnology ETF (IBB) at +10.5%

(+10.6% relative). Both benefited directly from the relative breakout in Health Care described above. iShares U.S. Pharmaceuticals ETF (IHE), added last month, gained 2.2%.

- **Laggards:** U.S. Global Jets ETF (JETS) fell 14.1%, by far the worst in the basket. Crude's move above \$80 reversed the jet-fuel tailwind that drove the July breakout, and the Transports broke their July lows. First Trust NASDAQ Cybersecurity ETF (CIBR) slipped 3.1% despite the broader software rally, with the group consolidating after its June-July run.

REVIEW: August 2026 Tactical ETF Picks:

ETF Name	Ticker	% change (8/5 - 9/4)	
		Abs	Rel (vs SPX)
First Trust NASDAQ Cybersecurity ETF	CIBR	-3.1%	-3.0%
U.S. Global Jets ETF	JETS	-14.1%	-14.0%
iShares Biotechnology ETF	IBB	10.5%	10.6%
ARK Genomic Revolution ETF	ARKG	14.3%	14.4%
iShares U.S. Pharmaceuticals ETF	IHE	2.2%	2.2%
Avg Return (8/5 - 9/4)		2.0%	2.0%

For September, Mark keeps 3 of 5 and makes two changes. JETS and CIBR come out. iShares Expanded Tech-Software Sector ETF (IGV) and SPDR S&P Oil & Gas Exploration & Production ETF (XOP) go in. The swaps line up directly with the two strategic upgrades. IGV is the software expression of the Tech overweight, and XOP is the E&P expression of the Energy overweight. The three healthcare names carry over intact.

- **iShares Expanded Tech-Software Sector ETF (IGV) (NEW, replacing CIBR):** Software has been Mark's favored group inside Technology all summer, ranked above both Semiconductors and Memory throughout. IGV is the cleanest vehicle for it, and it offers broader software exposure than the cybersecurity-only CIBR.
- **SPDR S&P Oil & Gas Exploration & Production ETF (XOP) (NEW, replacing JETS):** Mark was waiting for this one. On August 10, when he first called the Energy bounce, he favored OIH over XLE and said he would watch for XOP to turn higher on both a relative and absolute basis. It happened on September 1, when XOP cleared its March-April peak near \$187 to reach the highest level in two years. Swapping JETS for XOP also fits his view on crude. JETS was the falling-crude play. XOP is the rising-crude play.

Current Five ETF Picks

- iShares Expanded Tech-Software Sector ETF (IGV): NEW
- SPDR S&P Oil & Gas Exploration & Production ETF (XOP): NEW
- iShares Biotechnology ETF (IBB): Carry-over
- ARK Genomic Revolution ETF (ARKG): Carry-over
- iShares U.S. Pharmaceuticals ETF (IHE): Carry-over

September 2026: 5 Tactical ETF Picks

- iShares Expanded Tech-Software Sector ETF (\$IGV) ^{NEW}
- State Street SPDR S&P Oil & Gas Exploration & Production ETF (\$XOP) ^{NEW}
- iShares Biotechnology ETF (\$IBB) ^{Carry-over}
- ARK Genomic Revolution ETF (\$ARKG) ^{Carry-over}
- iShares U.S. Pharmaceuticals ETF (\$IHE) ^{Carry-over}
- First Trust NASDAQ Cybersecurity ETF (\$CIBR) ^{DELETE}
- U.S. Global Jets ETF (\$JETS) ^{DELETE}

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