S&P Dow Jones Indices

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TalkingPoints

Understanding U.S. Sector Dynamics

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Sector dynamics have become an increasingly important driver of equity market performance, but return dispersion across sectors and sector leadership can shift throughout the market cycle.

Andrea Ip and David Huang from State Street Investment Management (SSIM) and S&P DJI's Amit Pathak explore how the S&P U.S. Sector Indices provide a precise framework for understanding key sector metrics and tracking meaningful underlying shifts. It examines historical patterns of sector dispersion, shifting leadership across market cycles and the role of sectors in portfolio construction.

U.S. sectors can offer Asian investors a practical way to better understand U.S. equity market dynamics, including more precise measurements to structural and cyclical trends shaping the global economy.

1. What are the S&P U.S. Sector Indices, why are they important and how are they used within the broader S&P DJI index ecosystem? (S&P DJI)

The S&P U.S. Sector Indices are a series of benchmarks that break down the U.S. equity market into its core economic segments using the Global Industry Classification Standard (GICS®), a widely adopted industry taxonomy. Instead of viewing the market as a single entity, these indices isolate sectors such as Information Technology, Health Care, Energy and Real Estate.

Sectors are important because market performance is not evenly distributed. For example, in 2025, when the S&P 500® rose by 18%, not every sector benefitted equally. The Communications Services sector gained a whopping 33%, while Real Estate posted only 3%. The gap between the best and worst S&P 500 sectors exceeded 30 percentage points, highlighting the impactful role U.S. sectors play in modern markets (see Exhibit 3).

While the S&P 500 provides a broad snapshot of large-cap U.S. equities, there are important differences beneath the surface.

Market participants with specific views—such as growth in Artificial Intelligence (AI) infrastructure or rising defense spending—often require more targeted benchmarks. Sector indices allow them to zoom in on these themes.

Exhibit 1: S&P U.S. Sector Indices – Key Facts

1989 First Value Year of S&P 500 Sector Indices	**USD 3,591 billion** Index Equivalent Trading against S&P 500 Sector Indices*	**>500** S&P 500-Based Sector and Industry Indices

Source: S&P Dow Jones Indices LLC. Chart is provided for illustrative purposes. For more information on GICS sectors, please refer to TalkingPoints: An Overview of S&P 500® Sector Indices and 25 Years of GICS® - Education | S&P Dow Jones Indices. *The Liquidity Landscape: Trading Linked to S&P DJI Indices in 2024.

Within financial markets, sector indices and sector-linked products serve several key functions.

Sector Indices

- Benchmarking: Comparing performance against a specific part of the economy
- Risk attribution: Identifying whether performance comes from sector or stock selection
- Investment products: Forming the basis for ETFs, futures and options

Sector-Linked Products

- Tactical allocation: Shifting exposure based on economic cycles
- Risk management: Gaining exposure to sector-leading companies without single company risk

Together, they provide both analytical clarity and practical tools for implementation.

Sector indices also play an important role within the broader S&P DJI index ecosystem. They represent one layer in a hierarchical framework that spans from broad market benchmarks to core economic segments. Investors can move between different levels of granularity—from total market indices down to sector- and industry-specific indices.

Exhibit 2: Overview of U.S. Sector and Industry Indices

Size	Float Market Cap Weighted	Capped	Equal Weight
Large-Cap	– S&P 100 – S&P 500 – S&P 500 Ex-Sectors (excluding sectors) – S&P 500 Plus Indices (combined sectors) – S&P 500 Shariah Sectors (company exclusions)	– Select Sector Indices* – S&P 500 Capped 35/20 Indices** – S&P Select Daily Sector Capped 35/20 Indices** – S&P Select Sector Capped 20% Indices** – S&P Select Sector 15/60 Indices – S&P Select Sector 15/40 Plus Indices – S&P 500 Plus Sector Enhanced Weighted and Screened Indices*** – S&P 500 Consumer Select 15/60 Index – S&P 500 Semiconductors & Semiconductor Equipment (Industry Group) 35% Capped Index (USD)	– S&P 500 Equal Weight Sectors – S&P 500 Plus Equal Weight Sectors – S&P 500 Sectors Equal Allocation Index^ – S&P 500 Sectors Top 5 Equal Capped Indices^^ – S&P 500 Sectors Top 10 Equal Capped Indices^^
Mid-Cap	S&P MidCap 400®	S&P MidCap 400 Capped*	S&P 400 Equal Weight Sectors
Small-Cap	S&P Small Cap 600®	S&P SmallCap 600 Capped*	S&P 600 Equal Weight Sectors
Broad Market	S&P Composite 1500		S&P Composite 1500 Equal Weight
	S&P Composite 1500 Ex-Sectors		S&P Composite 1500 Equal Weight
Total Market	S&P Total Market Index (TMI)		S&P Select Industry Indices^^^
Large-Mid		S&P 900 Banks (Industry) 7/4 Capped	
Mid-Small	S&P 1000		
	S&P 1000 Ex-Real Estate		
Completion	S&P Completion Index		

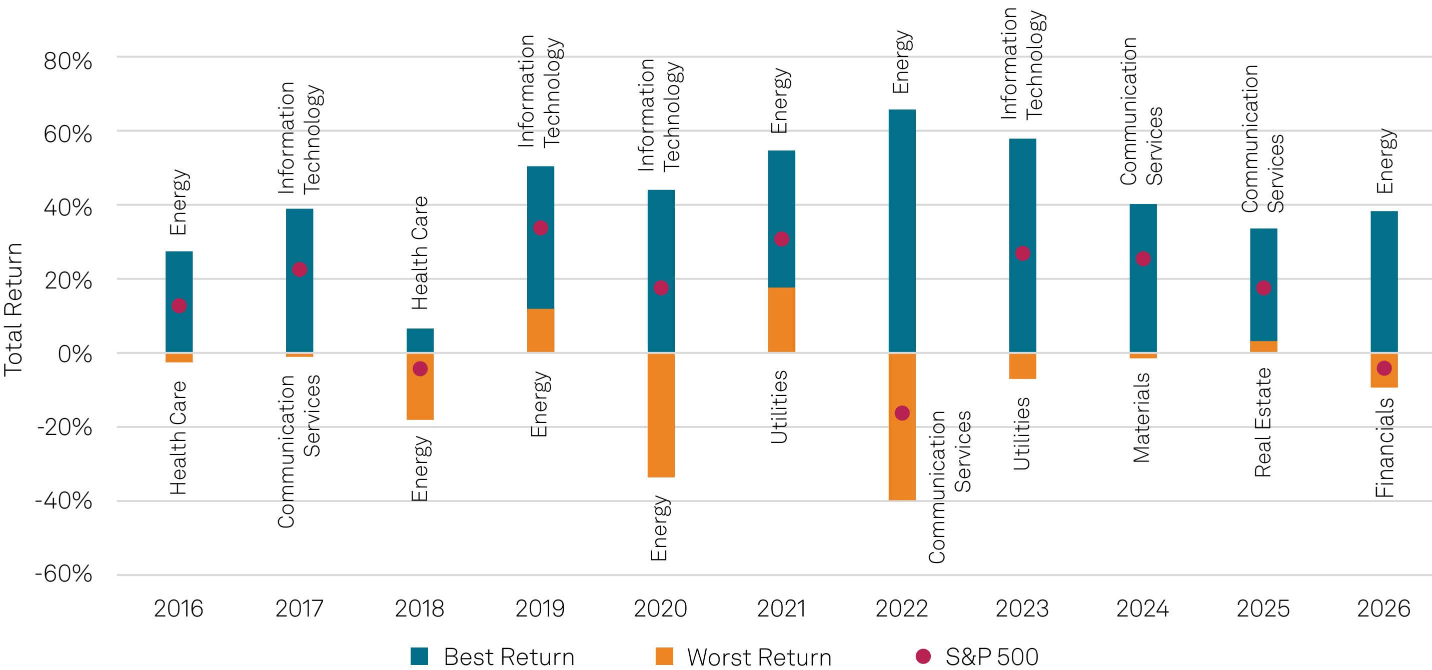
Source: S&P Dow Jones Indices LLC. Information as of March 2026. Table is provided for illustrative purposes.
*RIC Capping Rules
**UCITS Directive, please see the S&P Equity Indices Policies & Practices for more details on Regulatory Capping Requirements.
***The indices are selected and weighted to collectively enhance sustainability and ESG profiles, meet environmental targets and reduce the carbon footprint at the index level. Please see S&P 500 Plus Sector Enhanced Weighted & Screened Indices Methodology for more information.
^The index is a weighted return index measuring the equal-weighted performance of the FMC-weighted S&P 500 Sector Indices (the component indices). Please see the S&P U.S. Indices Methodology for more information.
^^The index measures the equal-weighted performance of the largest 5 and 10 companies, by FMC, in the S&P 500 Sector Indices. Please see the S&P U.S. Indices Methodology for more information.
^^^At each quarterly rebalancing, initially equal weight constituents with adjustments to ensure that, for a given theoretical portfolio value (TPV), each constituent's index weight cannot exceed 4.5% of the FMC and the value that can be traded in three days. Please see S&P Select Industry Indices Methodology for more information.

2. How differently do sectors perform over time, and has sector leadership remained consistent? (S&P DJI)

Sector performance can vary significantly from year to year, reflecting changing economic conditions, market cycles, interest rates, technological trends and investor sentiment. This variation—commonly referred to as sector performance dispersion—measures the gap between the best- and worst-performing sectors over a given period.

This dispersion can be substantial. In 2022, for example, the Energy sector increased while Communication Services declined sharply, creating a spread of over 100 percentage points. Such differences can create opportunities for sector rotation strategies and active decision-making.

Exhibit 3: U.S. Sector Performance Dispersion over the Last 10 Years



Source: S&P Dow Jones Indices LLC. Data as of March 31, 2026. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

Importantly, sector leadership has not been consistent over time.

While sectors like Information Technology have led in multiple years, others such as Energy have also experienced periods of strong outperformance. This shifting leadership reinforces the importance of active sector awareness rather than static allocation.

Exhibit 4: U.S. Sector Performance Ranking in the Last 10 Years

Rank	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
1	Energy	Information Technology	Health Care	Information Technology	Information Technology	Energy	Energy	Information Technology	Communication Services	Communication Services	Energy
2	Communication Services	Materials	Utilities	Communication Services	Consumer Discretionary	Real Estate	Utilities	Communication Services	Information Technology	Information Technology	Materials
3	Financials	Consumer Discretionary	Consumer Discretionary	Financials	Communication Services	Financials	Consumer Staples	Consumer Discretionary	Financials	Industrials	Utilities
4	Industrials	Financials	Information Technology	Industrials	Materials	Information Technology	Health Care	Industrials	Consumer Discretionary	Utilities	Consumer Staples
5	Materials	Health Care	Real Estate	Real Estate	Health Care	Materials	Industrials	Materials	Utilities	Financials	Industrials
6	Utilities	Industrials	Consumer Staples	Consumer Discretionary	Industrials	Health Care	Financials	Real Estate	Industrials	Health Care	Real Estate
7	Information Technology	Consumer Staples	Communication Services	Consumer Staples	Consumer Staples	Consumer Discretionary	Materials	Financials	Consumer Staples	Materials	Health Care
8	Consumer Discretionary	Utilities	Financials	Utilities	Utilities	Communication Services	Real Estate	Health Care	Energy	Energy	Communication Services
9	Consumer Staples	Real Estate	Industrials	Materials	Financials	Industrials	Information Technology	Consumer Staples	Real Estate	Consumer Discretionary	Information Technology
10	Real Estate	Energy	Materials	Health Care	Real Estate	Consumer Staples	Consumer Discretionary	Energy	Health Care	Consumer Staples	Consumer Discretionary
11	Health Care	Communication Services	Energy	Energy	Energy	Utilities	Communication Services	Utilities	Materials	Real Estate	Financials

Source: S&P Dow Jones Indices LLC. Data as of March 31, 2026. Index performance based on total return in USD. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

3. What do wide dispersion and changing sector leadership mean for investors? How can investors identify sector leaders? (SSIM)

The wide performance dispersion across sectors creates distinct opportunities for sector rotation strategies and alpha generation. Being positioned on the right side of sector trends, whether measuring multi-year structural growth or shorter-term cyclical opportunities may influence portfolio outcomes.

And sector leadership is fluid, often changing in response to secular trends. For example, in the less frequently cited U.S. bull market from October 2002 to October 2007, sector outperformance was not led by today's Information Technology leaders, but rather by Energy and Materials, where performance was driven by the commodity boom and rising emerging market demand.

These dynamics apply not only over long investment horizons but also across shorter business cycles. Cyclical sectors such as Financials and Consumer Discretionary have historically performed best during economic recoveries and expansions, as growth and spending tend to strengthen. Defensive sectors, including Consumer Staples, Utilities and Health Care, have been more resilient during slowdowns and recessions historically, supported by steady demand for essential goods and services.[1]

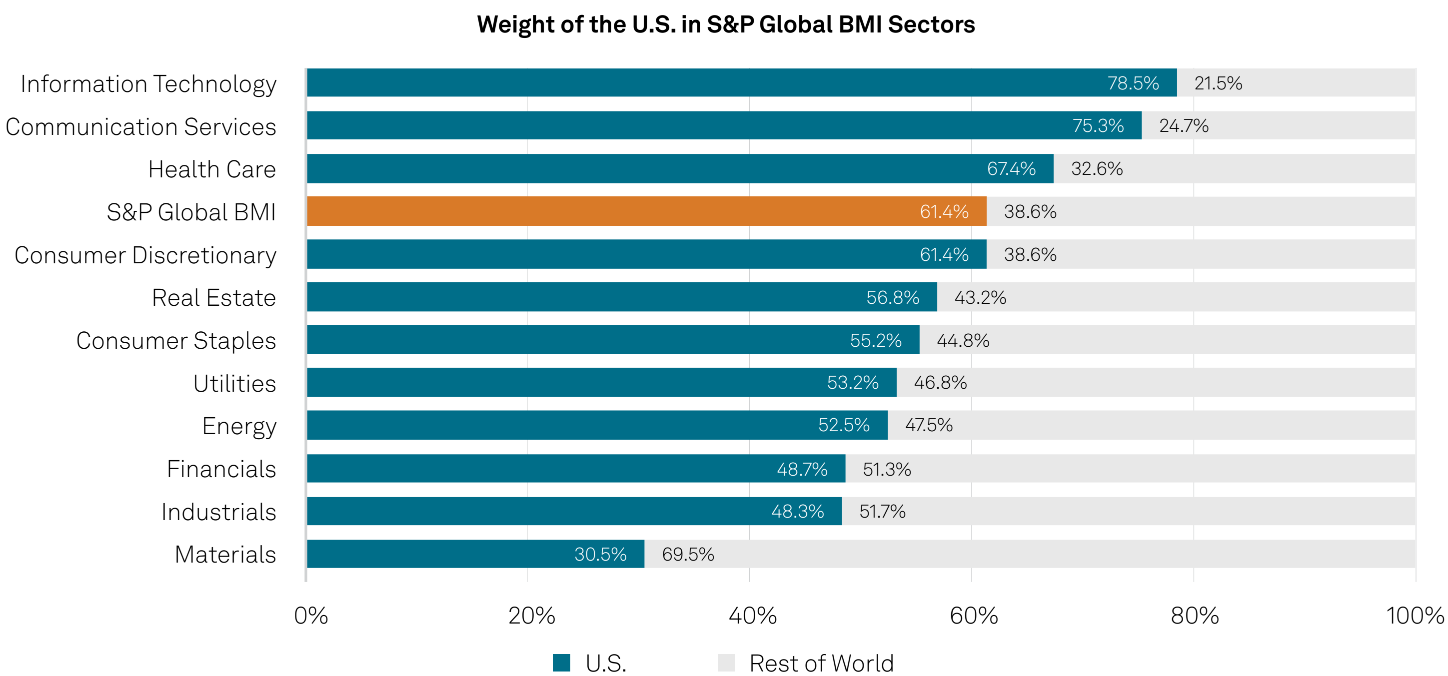
Sectors also respond differently to changes in macroeconomic conditions, such as interest rates, inflation and economic growth. For example, cyclical sectors like Financials have tended to outperform in high yield environments, as higher 10-year yields generally point to strength in economic growth. Energy has exhibited high sensitivity to inflation expectations, as higher commodity prices tend to lift inflation expectations and increase the sector's profits.[2]

4. Why are S&P 500 Sector Indices relevant for global investors? (S&P DJI)

The U.S. represents a dominant share of global equity markets. As of March 2026, the U.S. accounted for 61% of the index market capitalization in S&P DJI's global equity benchmark, the S&P Global BMI.

Furthermore, as highlighted in a recent paper,[3] U.S. equities led in all sectors by country weight and represented more than half of the index capitalization in 8 out of 11 GICS sectors within the S&P Global BMI.

Exhibit 5: U.S. Dominance in S&P Global BMI across Sectors



Source: S&P Dow Jones Indices LLC. Data as of Dec. 31, 2025. Weights based on S&P Global BMI. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

[1] Sector Business Cycle Analysis, State Street Investment Management, Oct. 31, 2025.

[2] State Street Investment Management, How macroeconomic variables impact sector performance, August 2023.

[3] An Overview of GICS and S&P 500 Sector & Industry Indices.

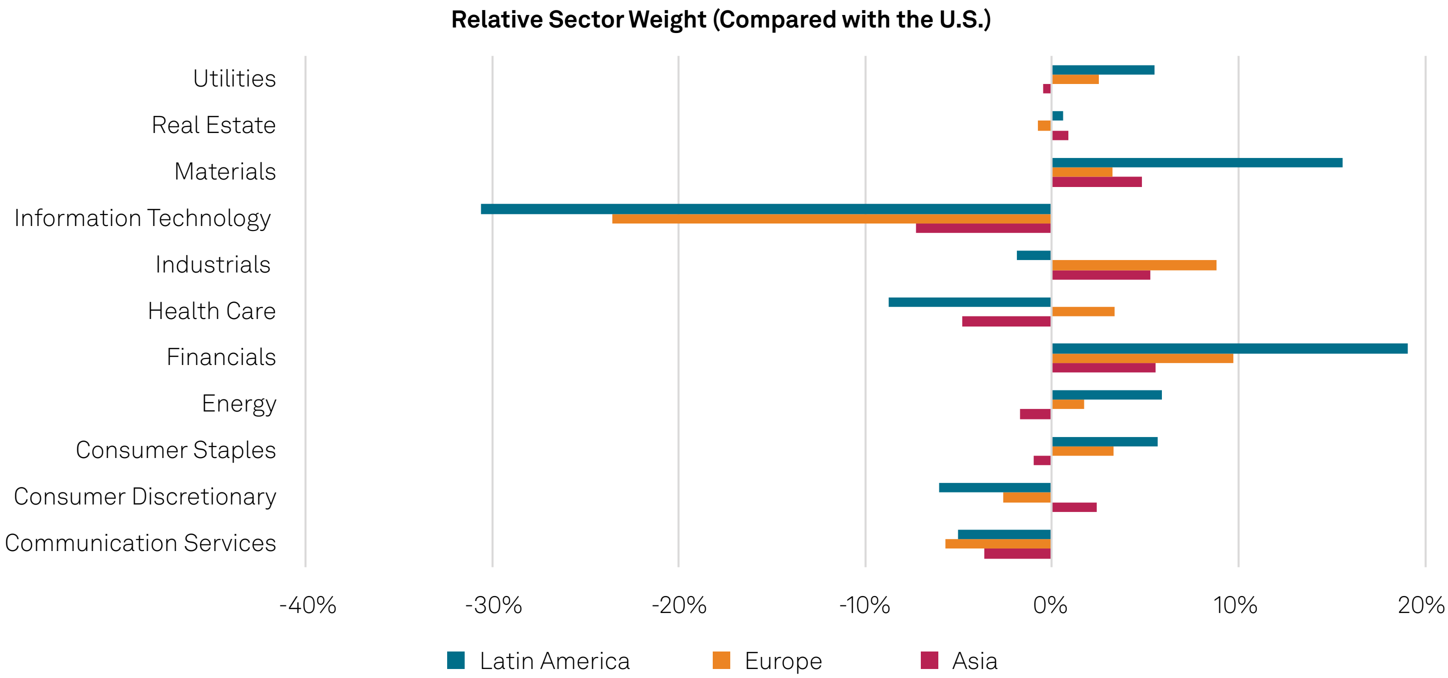
In fact, several U.S. sectors have market capitalizations that exceed those of entire nations' equity markets. If the S&P 500 Information Technology sector (USD 25.0 trillion market cap) were treated as a standalone country, it would rank as the world's second-largest equity market—larger than Japan (USD 7.3 trillion). Even the smallest U.S. sector, Real Estate (USD 1.2 trillion), would still rank as the 14th-largest equity market globally, surpassing markets such as Italy, the UAE and Brazil.[4]

5. How does S&P 500 sector makeup differ from other regions, and how have Asian investors used U.S. sectors for geographic and sectoral diversification? (S&P DJI & SSIM)

S&P DJI: The U.S. market exhibits a distinct sector composition from other regions. Compared to Europe, Latin America and Asia, the U.S. market has a significantly higher weight in Information Technology and Communication Services, with lower weight in Financials and Materials (see Exhibit 6).

These differences mean that U.S. sectors have the potential to help international investors reduce home country bias to better align with the global sector landscape.

Exhibit 6: Relative Sector Weights Show Significant Regional Differences



Source: S&P Dow Jones Indices LLC. Data as of March 31, 2026. Regions represented by the S&P United States BMI, S&P Latin America BMI, S&P Pan Asia BMI and S&P Europe BMI. Chart is provided for illustrative purposes.

SSIM: The sector compositions of Asian equity indices often reflect local economic structures such as concentration in manufacturing, financials or property. Even in tech-heavy markets like Taiwan and Korea, equity indices are often concentrated in a small number of hardware names.[5]

U.S. sectors may provide transparency into parts of the global economy that tend to be structurally underrepresented in Asian equity markets. Using the AI investment cycle as an example, upstream hardware manufacturing has been more concentrated in Asia, while downstream deployment, infrastructure build-out and commercial scaling have been more visible in the U.S. As the AI investment cycle has broadened beyond Information Technology, U.S. sectors have increasingly allowed investors to measure opportunities in U.S. data center buildout, like increasing demand for electrical equipment, engineering and construction, advanced cooling systems (Industrials), power demand (Utilities) and AI-enabled digital advertising (Communication Services).[6]

[4] Source: S&P Dow Jones Indices. The S&P Global BMI and its constituent country breakdown have been used to determine the relative rankings of country equity markets. As of May 29, 2026.

[5] Source: S&P Dow Jones Indices LLC. Data as of May 29, 2026, based on S&P 500, S&P Pan Asia BMI, S&P Japan BMI, S&P China BMI, S&P India BMI, S&P Taiwan BMI and S&P Korea BMI.

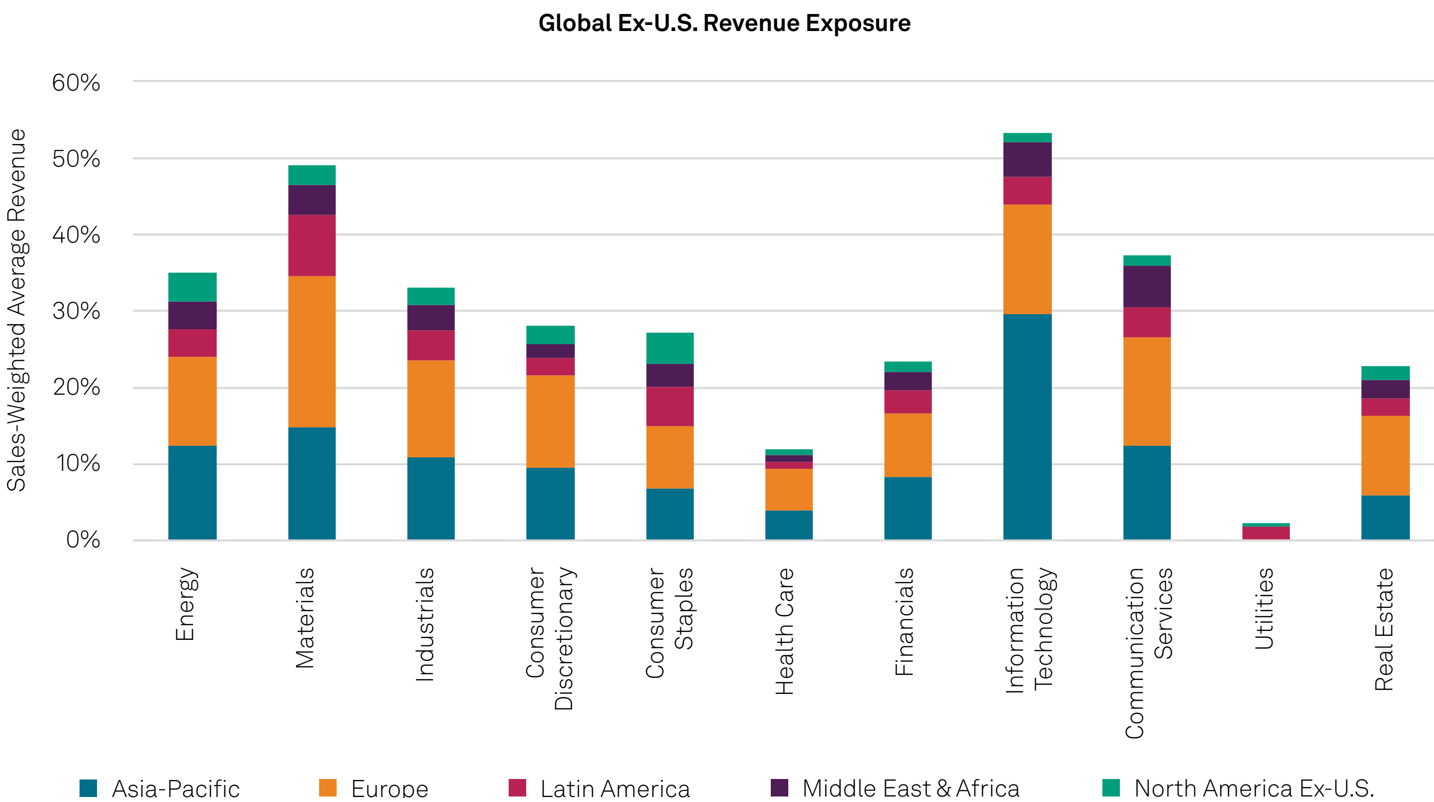
[6] Source: Reuters, "Korea taps Samsung, SK Hynix in $576 billion AI-chip drive to cement global leadership," June 29, 2026. Source: Reuters, "TSMC working hard to meet chip demand, would 'like' to hike prices," June 4, 2026. Source: Bloomberg, "US utilities spend big on rising data center demand, but affordability concerns loom," Feb. 12, 2026.

6. Do the companies in the S&P 500 Sector Indices have global exposure? (S&P DJI)

Yes; for example, the companies in 7 out of 11 S&P 500 sectors derive more than 25% of their revenue outside of the U.S. For the Information Technology sector, more than 50% of the revenue comes from outside the U.S., with Asia-Pacific alone accounting for 30% (Europe accounts for 14%).

Similarly, only 51% of the S&P 500 Materials revenue comes from the U.S., with 20% coming from Europe and 15% coming from Asia-Pacific. All of this demonstrate that these U.S. sectors are deeply global in nature (see Exhibit 7).

Exhibit 7: S&P 500 Sectors' Global Revenue Exposure



Source: S&P Dow Jones Indices LLC. Data as of March 31, 2026. Chart is provided for illustrative purposes.

7. How correlated are U.S. sectors with international markets? (S&P DJI)

Correlations are generally moderate to low across regions, suggesting that U.S. sector indices could offer potential diversification to markets around the world.

Exhibit 8 shows the correlation in monthly performance, in USD, between the S&P 500 Sector Indices and four regional benchmarks for the 10-year period ending March 2026. Compared to the S&P Pan Asia BMI, nine S&P 500 Sector Indices had correlations below 0.67, with Real Estate's 0.08 correlation being particularly notable.

Europe broadly reflects the same trend as Asia, with most sectors remaining below the two-thirds correlation threshold. In Latin America, the pattern is more pronounced, where 8 out of 11 sectors, and in some instances all 11 sectors, fall below this level when compared to S&P 500 sectors.

Exhibit 8: Long-Term Sector Correlation with Regional Markets

Sector	Europe	Latin America	Pan Asia	U.S.
Communication Services	0.64	0.46	0.62	0.80
Consumer Discretionary	0.62	0.41	0.64	0.89
Consumer Staples	0.65	0.45	0.52	0.63
Energy	0.52	0.52	0.43	0.57
Financials	0.73	0.53	0.60	0.84
Health Care	0.66	0.43	0.55	0.71
Industrials	0.80	0.56	0.73	0.90
Information Technology	0.64	0.33	0.63	0.87
Materials	0.82	0.58	0.75	0.83
Real Estate	0.05	0.09	0.08	0.09
Utilities	0.46	0.38	0.42	0.47
Europe	1.00	0.66	0.83	0.81
Latin America		1.00	0.60	0.54
Pan Asia			1.00	0.76
U.S.				1.00

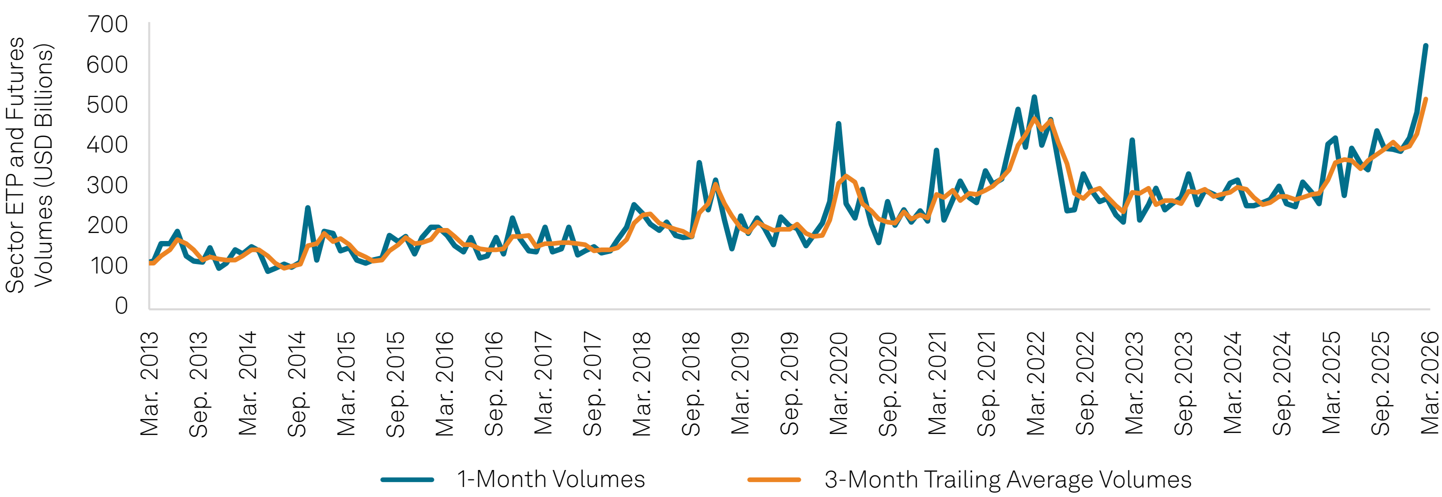
Source: S&P Dow Jones Indices LLC. Data as of March 31, 2026. Table shows 10-year correlations based on monthly total return in USD. Regions are represented by the S&P United States BMI, S&P Latin America BMI, S&P Pan Asia BMI and S&P Europe BMI.

8. How liquid are S&P 500 Sector Indices as building blocks for measuring sector performance? (S&P DJI)

Sector indices underpin a wide range of highly liquid instruments, including ETFs and derivatives.

Aggregate trading across S&P 500 sector ETPs and futures has risen significantly, with the one-month trailing average volume reaching USD 640 billion in March 2026—more than 3.5 times higher than a decade ago. This growth reflects increasing adoption by institutional and global investors.

Exhibit 9: Growth of S&P 500 Sectors ETP and Futures Volume



Source: S&P Dow Jones Indices LLC, CME, Bloomberg. Data as of March 31, 2026. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

9. What are the implementation considerations Asian investors should evaluate when tracking U.S. sectors? (SSIM)

There are three core implementation factors to consider when accessing U.S. sectors: total cost of ownership, index methodology and the depth of sector ETF options markets. Total cost extends beyond headline fees to include trading frictions such as bid-ask spreads and market impact, which can influence realized returns. Index construction also matters, as differences in constituent selection, weighting and rebalancing can influence concentration and risk characteristics. Deep and liquid ETF options markets further support efficient execution and tactical flexibility to better manage investment outcomes.

For Asian investors in particular, product structure and currency exposure add an additional layer of consideration. U.S. sector exposure is often accessed through different types of investment vehicles, such as U.S.-domiciled ETFs or UCITS-compliant ETFs listed in Europe, which differ in regulatory structure, tax treatment, trading hours and on-screen liquidity that may impact investment outcomes.

In addition, accessing U.S. sectors introduces USD currency exposure, which can materially affect returns for Asian investors based on their home currency. In practice, currency exposure decisions are typically made at the individual portfolio level based on investment horizon, risk tolerance and overall objectives.

From an implementation perspective, because an ETF's base currency often differs from the investor's home currency, the decision to accept or hedge foreign currency exposure becomes an explicit product-selection consideration alongside index methodology and ETF liquidity.

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Equity securities may fluctuate in value and can decline significantly in response to the activities of individual companies and general market and economic conditions.

Because of their narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies.

Financial Services Sector concentration is subject to government regulation, deterioration of credit markets, losses resulting from financial difficulties of borrowers and losses resulting from investment activities.

Technology companies, including cyber security companies, can be significantly affected by obsolescence of existing technology, limited product lines, and competition for financial resources, qualified personnel, new market entrants or impairment of patent and intellectual property rights that can adversely affect profit margins.