

Large Cap Sector Allocation: Where We See the Best Risk/Reward

We recently launched on US [Large Cap Strategy](#) with a bullish outlook for the S&P 500. Our sector allocation continues to favor areas with accelerating earnings, improving fundamentals, and macro support. Overweight: Fins, Health Care, Tech, and Materials; Market Weight Energy, Industrials, Staples, & Utilities; Underweight Comm Services, Discretionary, and Real Estate.

Tech 41% 2027 earnings growth outlook keeps it at the center of our overweight positioning. AI remains the primary driver; however, the growth story is broadening beyond semis into software, infrastructure, and hardware. Revisions are still among the strongest in the market, and positioning has become healthier after cooling from earlier extremes. Higher rates remain the biggest risk, but we continue to believe the earnings opportunity is large enough to offset valuation pressure.

Health Care offers one of the market's best combinations of growth, valuation, and defensiveness, with earnings expected to accelerate from 4% this year to 22% in 2027. Despite recent outperformance, the sector remains inexpensive, trading in just the 12th percentile relative to the S&P 500. Improving revisions, strong biotech and pharma fundamentals, and an active M&A environment provide additional support, while the sector's defensive characteristics remain valuable given ongoing macro uncertainty.

Financials look increasingly attractive as improving capital markets activity supports roughly 9% earnings growth in 2027. Sentiment and flows have recovered from depressed levels but still do not appear stretched, leaving room for additional investor interest. Capital markets remain strong, and a higher 10-year Treasury yield is typically supportive for the group. The key risks remain yield-curve flattening and any signs of deterioration in credit quality.

Materials remains a differentiated cyclical opportunity, supported by 13% expected earnings growth, reasonable valuations, and a constructive commodity backdrop. Positioning has cooled significantly from the peak in February, reducing crowding concerns, while a weaker dollar, infrastructure spending, and AI-related demand should continue to support commodity markets. We also see potential upside from a longer-lasting commodity cycle, with growth across much of the sector still expected to outpace the broader market next year.

Our underweights are focused on sectors where growth is slowing, valuations remain challenging, or higher rates continue to create headwinds. We remain underweight Comm Services, Discretionary, and Real Estate. While valuations in some of these sectors appear attractive, we see limited catalysts relative to other areas of the market. Discretionary continues to face pressure from weaker consumer confidence and elevated valuations, Real Estate remains sensitive to higher yields and borrowing costs, and Comm Services relies heavily on a narrow group of companies for growth.

STRATEGY NOTE

Our Large Cap Sector Ratings

Rating

Overweight

Financials

Health Care

Materials

Tech

Market Weight

Energy

Industrials

Staples

Utilities

Underweight

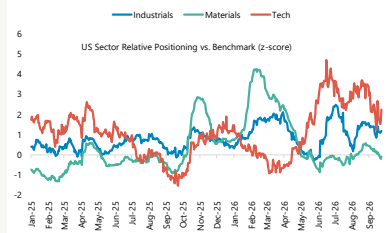
Comm Services

Discretionary

Real Estate

Source: Standard & Poor's, Jefferies

Positioning for Tech and Materials has come down since their peaks earlier this year



Source: VandaXasset, Jefferies

Jane Gibbons * | Equity Strategist

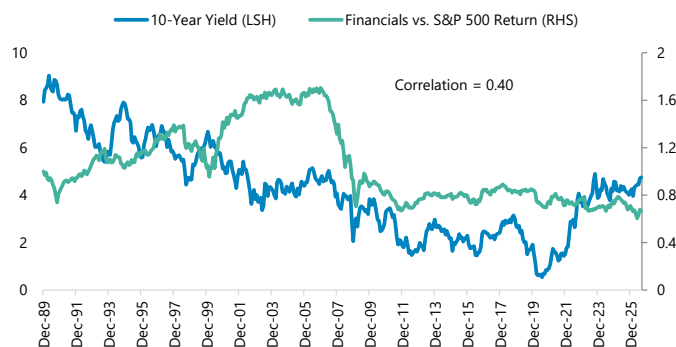
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Overweight—Financials

The setup for Financials remains attractive as we look ahead to 2027. Fundamentals are improving, earnings growth is expected to accelerate, and a higher 10-year yield remains supportive, while positioning and sentiment suggest there is still room for performance to catch up.

- Sentiment has improved, with ETF flows moving from -1 standard deviation below average back toward more normal levels. Positioning no longer looks particularly depressed, but it also does not look stretched, suggesting there could still be room for additional inflows to support performance.
- Capital markets activity has been strong this year, with rolling 12-month fee pools sitting in quintile 5 (highest). While the SPCX deal has been an important contributor, underlying activity still looks far from overheated, with deal volumes only in the 45th percentile. If capital markets remain open, we think there is still room for activity to improve from here.
- Financials are expected to deliver strong earnings growth in 2027, with consensus forecasting roughly 9% growth, led by Capital Markets and Consumer Finance. A better activity backdrop and improving earnings revisions should continue to support the group.
- **On the macro side, a higher 10-year yield is generally a positive for Financials.** The main risk is further yield curve flattening, which could weigh on profitability. Credit quality remains another area to watch. Delinquencies have yet to show meaningful deterioration, but a turn higher would likely be concern for investors.

Exhibit 1 - A higher 10 Year Yield is a positive for Financials



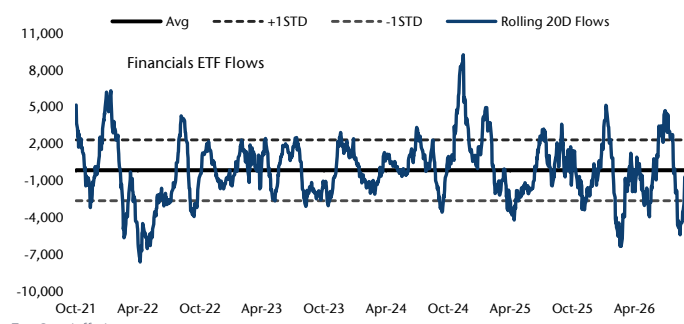
Source: FactSet; Standard & Poor's; Jefferies

Exhibit 3 - Capital Markets and Consumer Finance expected to drive earnings growth in 2027

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Financials	12.6	9.2	9.1	5.0
Banks	18.7	11.4	9.6	4.3
Capital Markets	18.8	14.3	13.3	8.0
Consumer Finance	3.5	12.8	15.5	7.5
Financial Services	10.5	7.5	-5.5	4.3
Insurance	2.1	1.4	1.0	4.1
Mortgage REITs	-	-	-	-

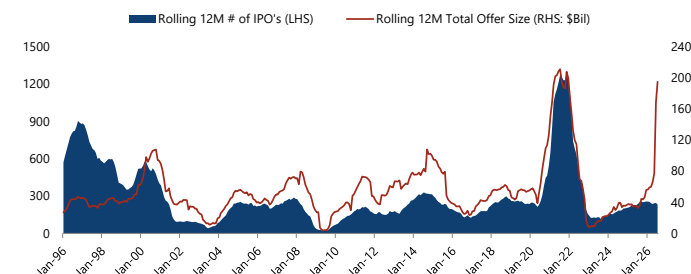
Source: FactSet; Standard & Poor's; Jefferies

Exhibit 2 - ETF flows have improved to Fins, could be more to go which boosts performance



FactSet; Jefferies

Exhibit 4 - Capital markets activity continues to increase, a tailwind for the group

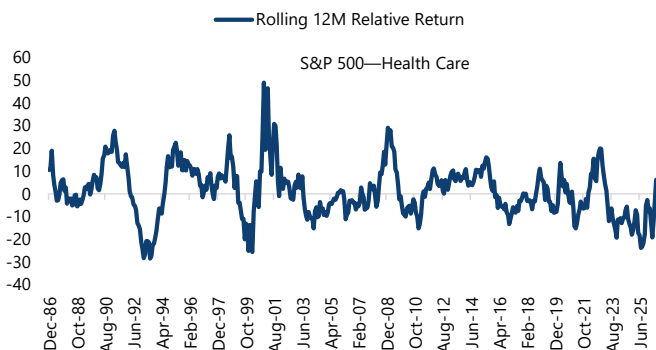


Overweight—Health Care

We are overweight Health Care, as it offers a strong combination of accelerating earnings growth, attractive valuations, improving revisions, and a healthy M&A backdrop, while its defensive characteristics provide some protection if the macro environment becomes more challenging.

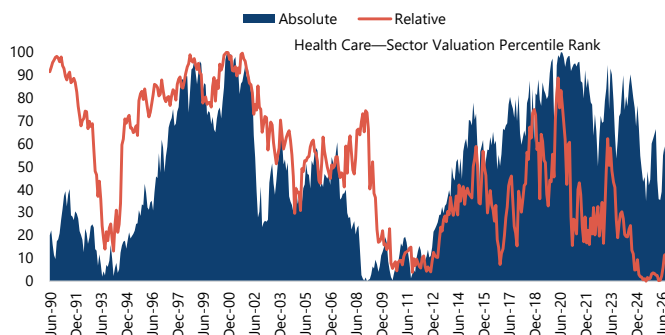
- Health Care's relative performance has improved significantly in recent months, and history suggests there could be more upside ahead. The rolling 12-month return versus the S&P 500 moved from just the 4th percentile at the end of April to the 67th percentile today. Historically, when relative performance reaches these levels, Health Care outperforms by >200bps over the next 6 and 12 months.
- **Valuations remain attractive despite the recent move.** Relative to the S&P 500, Health Care is the third-cheapest sector, in just the 12th percentile.
- Earnings growth is set to accelerate meaningfully. Consensus expects earnings growth to increase to 22% in 2027 from 4% in 2026, making Health Care one of the few sectors expected to see both accelerating earnings growth and growth above the broader index. The outlook is broadly supportive across industries, with Biotech expected to be a particular source of strength.
- Earnings revisions continue to move in the right direction. Both earnings and sales revisions have been running above the broader market on a 3-month basis, as analysts continue to raise estimates as fundamentals improve.
- M&A and capital markets activity have been strong throughout 2026, a trend that has historically been supportive of the sector. As long as financing markets remain open, we would expect that backdrop to continue providing a tailwind.
- Large-cap Health Care tend to be less sensitive to the macro than many other sectors. We see that as an advantage, given the number of macro and policy uncertainties.

Exhibit 5 - The rolling 12M relative return is in the 67th percentile, which historically means the group outperforms going forward



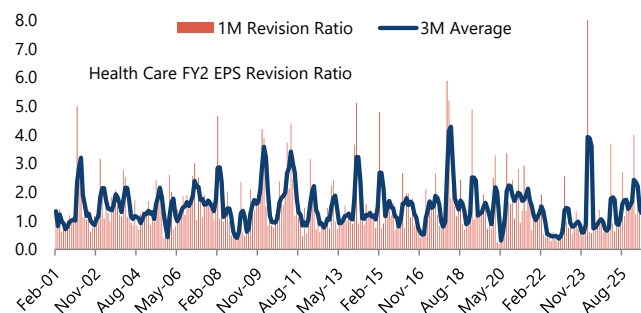
Source: FactSet; Standard & Poor's; Jefferies

Exhibit 7 - Health Care is inexpensive on a relative basis in just the 12th percentile



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 6 - FY2 revisions continue to trend higher



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 8 - Earnings growth is expected to accelerate in 2027, with double digit group across multiple sectors

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Health Care	4.0	5.1	22.2	4.3
Biotechnology	-3.1	9.0	46.7	6.9
Health Care Equip & Supp	10.9	7.0	8.9	6.3
Health Care Providers & Serv	8.8	4.9	11.5	3.8
Health Care Technology	12.9	15.6	11.5	12.5
Life Sciences Tools & Serv	20.2	9.5	9.5	6.2
Pharmaceuticals	2.3	9.4	27.4	5.3

Source: FactSet; Standard & Poor's; Jefferies

Overweight—Info Tech

We remain overweight Tech given its unmatched earnings growth, strong earnings revisions, and direct exposure to AI. Valuations remain elevated and higher rates could be a headwind, but we think the strength of the earnings story continues to outweigh those concerns.

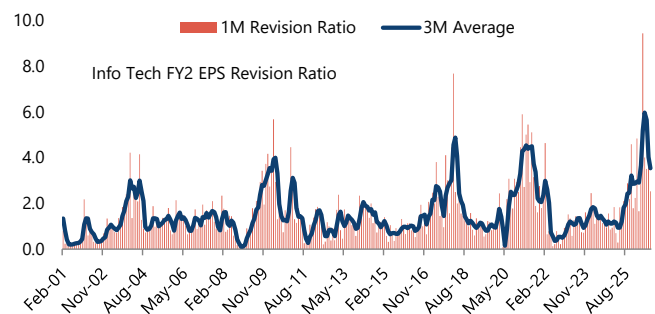
- Tech is expected to deliver the strongest earnings growth of any sector, with consensus forecasting 58% earnings growth in 2026 and 41% in 2027. Growth is set to slow next year, but it will remain well ahead of the broader market and continue to be driven by AI beneficiaries. Importantly, strength is becoming more broad-based, with Software still expected to deliver double-digit earnings growth despite investor concerns earlier this year that it would be an AI laggard.
- While higher rates are typically a challenge for Tech, history suggests the group tends to look through the initial adjustment period. Tech has historically underperformed during the first three months following the first rate hike, then outperforms over the subsequent 6- and 12-months.
- Positioning had become crowded earlier in the year, which was one of our concerns. However, positioning has come down meaningfully since its June peak relative to the broader market, leaving the sector in a healthier spot and reducing the risk from overly bullish sentiment.
- Earnings revisions remain exceptionally strong. Technology's earnings revision ratio has averaged 3.5 over the last three months, compared with 1.7 for the S&P 500. While that pace is unlikely to continue, it suggests analysts are still underestimating the earnings power.
- **Higher rates and a rising 10-year yield will likely remain a headwind**, and is typically not positive for performance; however, given the growth profile, we believe Tech can still see attractive returns with valuation compression as a result of higher rates.
- Valuation remains the biggest pushback. Tech is the second-most expensive sector relative to the S&P 500 and the third-most expensive on an absolute basis.

Exhibit 9 - Although decelerating, Tech is expected to have the best earnings growth in 2026, driven by AI beneficiaries

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Information Technology	58.1	36.1	41.1	28.3
Communications Equipment	28.0	19.0	24.3	16.7
Electronic Equip Instrum & Comp	39.2	22.3	23.6	17.3
IT Services	6.9	4.6	7.8	4.4
Semi & Semi Equipment	101.2	63.7	63.4	52.3
Software	22.6	18.6	17.1	19.6
Tech Hardware Storage & Periph	36.4	28.6	20.5	16.3

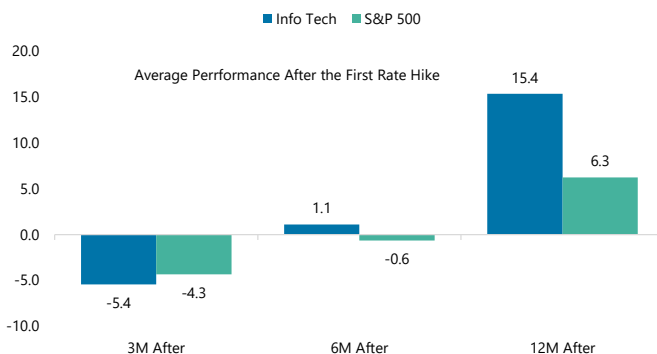
Source: FactSet; Standard & Poor's; Jefferies

Exhibit 10 - FY2 revisions have cooled, but continue to outpace the rest of the S&P 500



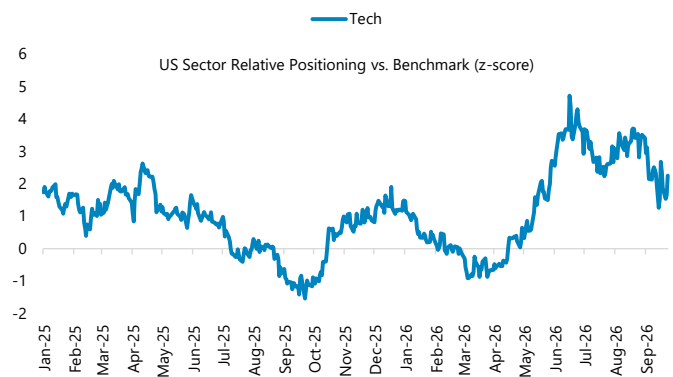
Source: FactSet; Standard & Poor's; Jefferies

Exhibit 11 - Tech tends to underperform immediately after a rate hike, but outperforms over the longer term



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 12 - Tech positioning has seen a pullback, which we view as a positive



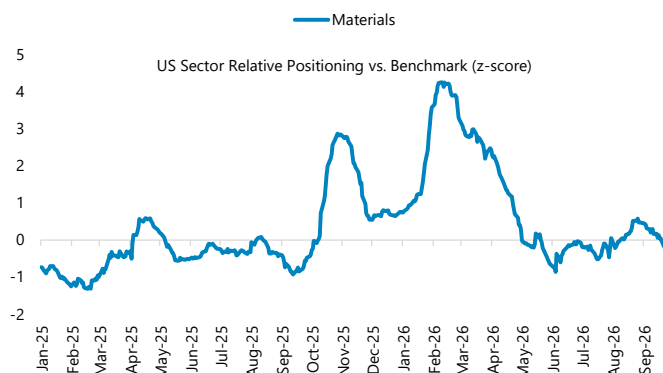
Source: VandaXasset; Jefferies

Overweight—Materials

Materials offers an attractive combination of strong earnings growth, reasonable valuations, and leverage to a more constructive commodity backdrop. While earnings growth is expected to moderate in 2027, the sector remains well-positioned if commodity prices stay firm and the dollar continues to weaken.

- Positioning has become more supportive. Investor exposure has declined meaningfully since peaking in February relative to broader equity positioning, easing crowding concerns and leaving room for investors to rotate back into the sector.
- Earnings growth remains one of the biggest positives. Consensus expects earnings to grow 33% in 2026, followed by a still healthy 13% in 2027. While growth is expected to slow next year, much of the deceleration is driven by Chemicals. Across most other industries, earnings growth is still expected to outpace the broader market.
- The commodity backdrop remains supportive. Materials historically outperforms with oil and commodity prices; prices could remain elevated given ongoing supply constraints and resilient demand. The dollar is also an important driver for the group. Materials outperforms during periods of dollar weakness, making the recent trend in the trade-weighted dollar a potential tailwind if it continues.
- We continue to see structural support for the commodity complex. Chris LaFemina, Jefferies' Metals & Mining analyst, believes the sector may still be in the early stages of a commodity supercycle. Growing infrastructure demand and AI-related infrastructure spending could continue to support demand, boosting the sector.
- Valuations remain attractive relative to the broader market. Materials sits in the 43rd percentile relative to the S&P 500. However, valuations are less compelling on an absolute basis in the 85th percentile.

Exhibit 13 - Materials' positioning has cooled since the peak in February



Source: VandaXasset; Jefferies

Exhibit 15 - Valuations are attractive in just the 43rd percentile relative to the S&P 500

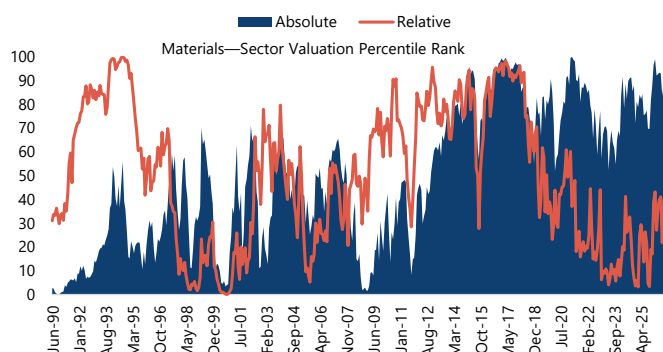


Exhibit 14 - Several industries within Materials will likely see double digit earnings growth next year

	Earnings	Sales	Earnings	Sales
Materials	32.7	7.6	12.6	5.8
Chemicals	34.4	6.2	1.2	1.4
Construction Materials	11.0	5.2	21.4	6.1
Containers & Packaging	13.0	5.5	57.4	12.3
Metals & Mining	61.3	21.4	15.2	7.7
Paper & Forest Products	-	-	-	-

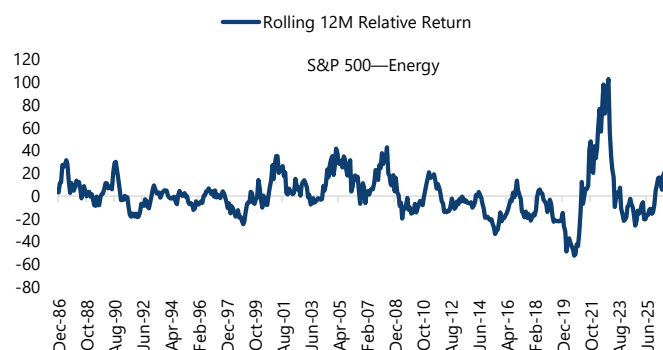
Source: FactSet; Standard & Poor's; Jefferies

Market Weight—Energy

Energy has been one of the market's strongest performers this year, but it remains one of the most difficult sectors to forecast. With returns and earnings heavily tied to commodity prices, we prefer to stay neutral rather than take a strong view on where oil goes next.

- Energy is the best-performing sector year-to-date, returning 41% and contributing roughly 1.2% to overall index performance.
- Despite the strong run, the rolling 12-month performance is still well below the extremes reached during the 2022-2023 energy rally.
- Earnings are expected to grow 85% in 2026 before declining -10.5% in 2027. Given the sector's sensitivity to oil prices, those estimates could change materially.
- Valuations remain attractive relative to the market, with Energy ranking in the 24th percentile versus the S&P 500. On an absolute basis, valuations are less compelling, sitting in the 80th percentile.
- While the backdrop remains supportive, conviction ultimately depends on having a view on commodity prices. Given that uncertainty, we prefer to remain Market Weight.

Exhibit 16 - Energy's performance is still nowhere near the peak it reached in 2022-2023



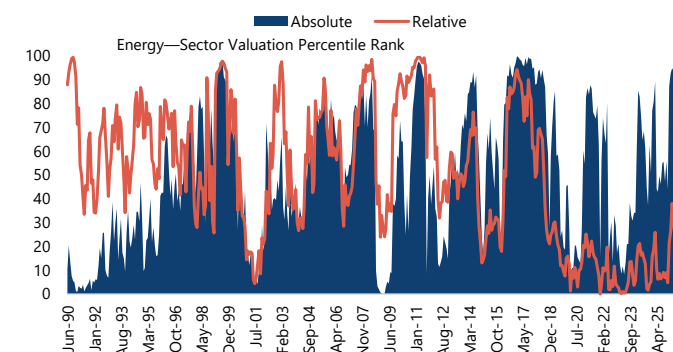
Source: FactSet; Standard & Poor's; Jefferies

Exhibit 18 - Services are still expected to see double digit growth next year

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Energy	85.5	22.2	-10.5	-5.9
Energy Equip & Serv	-8.1	2.1	22.7	8.4
Oil Gas & Consum Fuels	97.8	22.8	-12.5	-6.8

Source: FactSet; Standard & Poor's; Jefferies

Exhibit 17 - Energy is relatively inexpensive despite recent outperformance



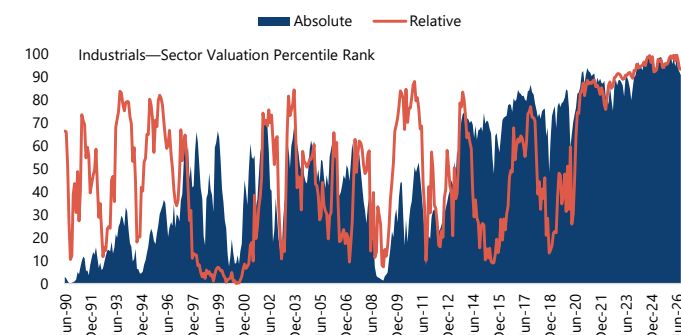
Source: FactSet; Standard & Poor's; Jefferies

Market Weight—Industrials

We continue to like the fundamental backdrop for Industrials. Earnings growth remains strong, revisions are among the best in the market, and the sector offers meaningful exposure to the "picks-and-shovels" side of the AI buildout. That said, much of the good news is already reflected in positioning and valuations, which keeps us at Market Weight.

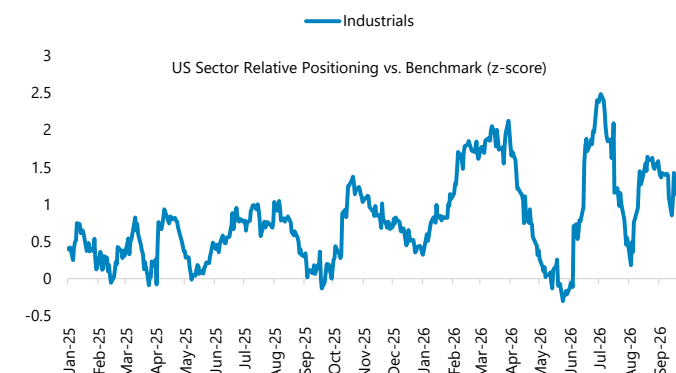
- Industrials is expected to deliver double-digit earnings growth in both 2026 (+15%) and 2027 (+18%), making it one of the few sectors where earnings are expected to accelerate next year. **Importantly, the growth story is broad-based, with consensus expecting 10% or more earnings growth for every industry**, as growth extends beyond the AI-related beneficiaries.
- The manufacturing backdrop continues to improve. ISM has remained in expansion territory, and has climbed to 54.6, but still leaves room for further expansion. Historically, Industrials' performance tracks strengthening manufacturing activity.
- Positioning remains our biggest concern. While investor exposure pulled back during the July correction, flows have since returned and positioning has become crowded again. In our view, the sector is no longer under-owned, limiting the potential boost from further reallocations.
- Valuation is another challenge. Industrials has been in the most expensive valuation quintile for nearly three years and remains the most expensive sector relative to the S&P 500, ranking in the 94th percentile.
- Higher rates are less of a concern for Industrials than for many other cyclical sectors. Historically, the sector has tended to perform roughly in line with the broader market following the start of a Fed hiking cycle, suggesting rates are unlikely to be a major driver of relative performance.

Exhibit 19 - Industrials is the most-expensive sector on a relative basis and 2nd most-expensive on an absolute basis



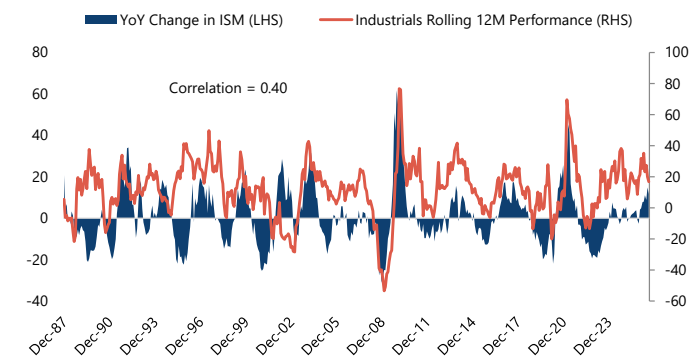
Source: FactSet; Standard & Poor's; Jefferies

Exhibit 21 - Investors have rotated right back to Industrials



Source: VandaXasset; Jefferies

Exhibit 20 - Improving ISM boosts Industrials



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 22 - Industrials earnings are broad across industries in 2027

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Industrials	15.2	11.2	18.4	7.8
Aerospace & Defense	19.4	13.4	20.7	8.8
Air Freight & Logistics	-11.7	-13.1	14.1	3.5
Building Products	9.6	5.7	14.9	6.3
Commercial Serv & Supp	5.6	5.4	10.5	5.7
Construction & Engineer	46.8	33.3	20.5	15.4
Electrical Equipment	10.2	18.0	26.7	13.1
Ground Transportation	21.4	17.9	17.4	9.8
Industrial Conglomerates	-0.1	-23.1	13.2	3.3
Machinery	16.7	9.5	15.5	7.8
Marine Transportation	-	-	-	-
Passenger Airlines	14.7	15.2	42.6	4.7
Professional Services	7.3	3.7	9.7	5.7
Trading Companies & Distrib	24.3	24.7	12.2	7.4
Transportation Infra	-	-	-	-

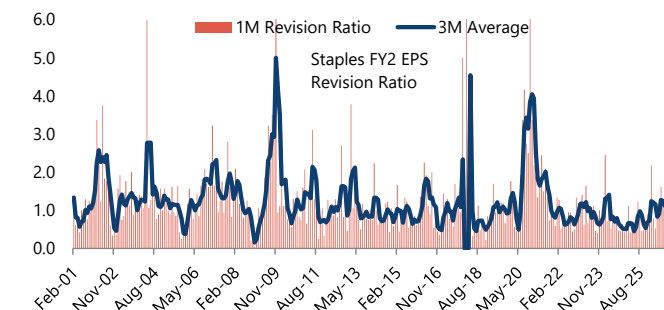
Source: FactSet; Standard & Poor's; Jefferies

Market Weight—Staples

Consumer Staples checks some important boxes, particularly for investors looking for a defensive area of the market with reasonable valuations and improving earnings growth. However, weak revisions and an unfavorable macro backdrop keep us market weight the group.

- Earnings growth is expected to accelerate to 7% in 2027, which is a solid outcome for a traditionally lower-growth sector. Strength is expected to be driven by Personal Care Products and Food Products, while sales growth is projected to remain steady at ~4%.
- Our main concern is the earnings revision backdrop. Staples has some of the weakest FY2 earnings and sales revision trends in the market, with revision ratios of 0.60 and 0.78, respectively. It is one of the few sectors seeing more downward than upward estimate revisions, suggesting analysts are becoming more cautious on next year's outlook.
- Sentiment remains weak. The sector has seen >\$1.5B in ETF outflows, reflecting limited investor enthusiasm. While flows turned positive last week, we would need to see a more sustained improvement before concluding that sentiment has meaningfully turned.
- Relative valuations remain one of the sector's most attractive features. Staples trades in just the 7th percentile relative to the S&P 500, making it one of the cheapest sectors in the market on a relative basis. That said, valuations look less compelling in absolute terms, as it's in the 63rd percentile.
- The macro backdrop remains challenging. Higher interest rates, a rising 10-year yield, sticky inflation, and higher oil prices have historically been headwinds for the sector. Consumer sentiment has also continued to deteriorate. While the consumer remains resilient, we worry that households are becoming increasingly stretched, which could make it more difficult for companies to pass through higher costs if inflation remains elevated.

Exhibit 23 - FY2 Revisions have trended upward, but are some of the weakest amongst sectors



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 24 - Staples earnings are expected to accelerate in 2027

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Consumer Staples	5.1	6.1	6.9	4.2
Beverages	6.7	9.3	6.5	3.7
Staples Distrib & Retail	11.4	5.9	9.0	4.8
Food Products	5.8	10.0	8.8	2.5
Household Products	0.7	2.7	3.7	2.8
Personal Care Products	19.6	4.0	12.1	3.3
Tobacco	8.2	5.4	6.8	4.2

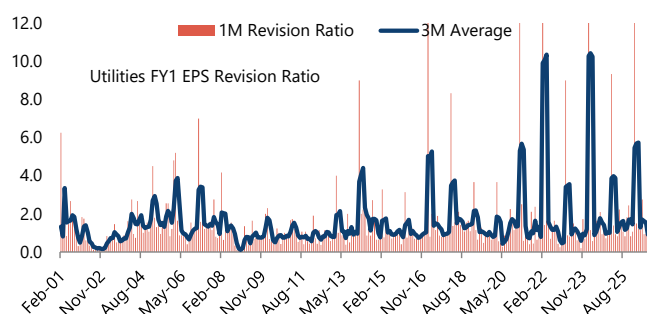
Source: FactSet; Standard & Poor's; Jefferies

Market Weight—Utilities

Utilities offers a combination of defensiveness and exposure to the AI buildout through power generation and grid infrastructure. While the sector should hold up relatively well if rates continue to rise, weaker earnings revisions and a more modest growth profile lead us to see better opportunities elsewhere.

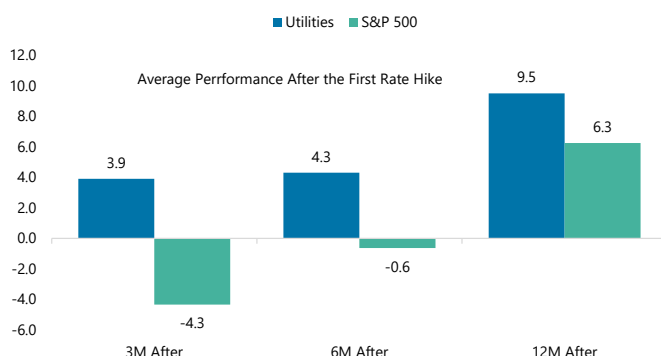
- Utilities has historically held up well during Fed hiking cycles, outperforming the S&P 500 over the 3, 6, and 12-month periods following the start of rate hikes.
- Earnings growth is expected to improve, with consensus forecasting growth of just 0.2% in 2026 accelerating to 6.0% in 2027. While the direction is encouraging, the absolute growth rate remains modest compared with many other sectors we favor.
- One area that gives us pause is the revision backdrop. FY2 earnings revisions have weakened in recent months, with Utilities posting a 3-month average earnings revision ratio of 0.91 versus 1.55 for the S&P 500. It is also one of the few sectors seeing more downward than upward estimate revisions, suggesting analysts are becoming more cautious on the outlook.
- While Utilities tends to perform well during hiking cycles, rising Treasury yields can still be a headwind. Historically, the sector has struggled when both the 10-year and 2-year yields are moving higher, as higher discount rates can pressure valuations and reduce the appeal of yield-oriented sectors.

Exhibit 25 - FY2 revisions have weakened materially, and we are now seeing more downward revisions than upward



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 27 - Utilities outperforms when the Fed is hiking rates



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 26 - Utilities' earnings are expected to accelerate in 2027

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Utilities	0.2	6.8	6.0	5.1
Electric Utilities	0.1	8.1	6.8	5.0
Gas Utilities	16.5	8.3	7.2	8.9
Ind Power & Renew Electric Prod	86.7	17.1	14.8	8.4
Multi-Utilities	0.3	4.6	4.6	4.1
Water Utilities	9.9	4.6	7.8	7.3

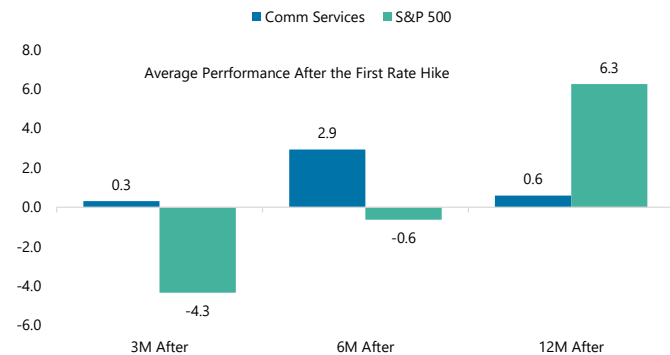
Source: FactSet; Standard & Poor's; Jefferies

Underweight—Communication Services

We struggle to find many compelling ideas in Communication Services outside of the hyperscalers. The sector looks cheap, but much of the growth story remains concentrated in a handful of names, and the backdrop tends to become more challenging when rates are moving higher.

- Outside of the hyperscalers, there are not many areas of the sector that we find particularly compelling today. The strongest earnings and sales growth continues to come from a small group of companies, which leaves the broader sector with a less attractive growth profile than many investors may realize.
- Historically, Comm Services has not performed particularly well when the Fed is hiking rates. In the 12 months following the start of a hiking cycle, average return is just 0.6%, vs. 6.3% for the S&P 500. If rates remain elevated, we think that could continue to be a headwind.
- The earnings story looks better on the surface but much is driven by the hyperscalers. Sales are expected to grow 11.6% in 2027, while earnings are expected to be negative -0.9%. Ex-GOOG and META, earnings growth improves to ~8.5%, though sales growth falls to just 2.5%.
- Valuation is one of the brighter spots. Comm Services is among the cheapest sectors in the market, trading in just the 6th percentile relative to the S&P 500.

Exhibit 28 - Comm Services tends to underperform when the Fed is raising rates



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 29 - Comm Services earnings & sales growth expectations

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Communication Services	29.3	13.6	-0.9	11.6
Diversified Telecomm Serv	-2.8	0.8	5.7	0.7
Entertainment	14.7	7.9	23.4	6.4
Interactive Media & Serv	-13.1	24.2	-43.7	22.1
Media	717.8	7.5	-5.9	0.9
Wireless Telecomm Serv	1.9	6.9	22.7	4.4

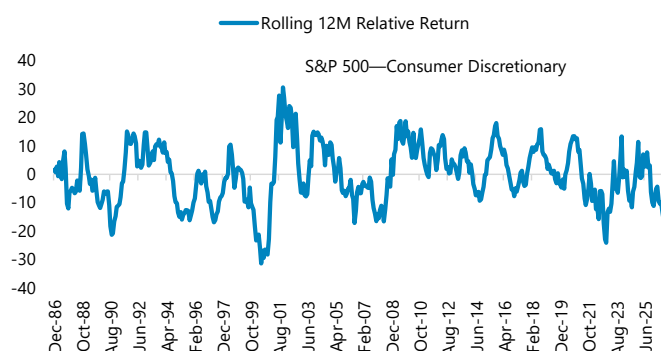
Source: FactSet; Standard & Poor's; Jefferies

Underweight—Discretionary

Discretionary continues to face a challenging backdrop. While earnings expectations remain better than many investors appreciate, weak relative performance, elevated valuations, deteriorating consumer confidence, and several macro headwinds leave us cautious on the sector.

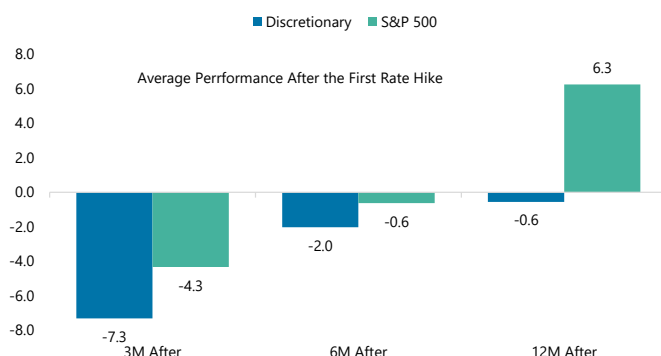
- Discretionary has continued to lag the broader market. The sector's rolling 12-month relative return is in just the 5th percentile historically, while its rolling 6-month relative return is in the 7th percentile. While poor performance alone is not a reason to be bearish, we do not yet see the catalyst needed for a sustained turnaround.
- Despite the underperformance, valuations are difficult to justify. Discretionary is the third-most expensive sector relative to the S&P 500 and ranks in the 73rd percentile. On an absolute basis, it is the most expensive sector, sitting in the 93rd percentile.
- The consumer backdrop remains a headwind. Discretionary has historically shown a strong relationship with consumer confidence, and recent trends have been moving in the wrong direction. The Consumer Confidence Index fell 7% in August alone and is down nearly 13% over the past year.
- Several macro factors also remain unsupportive. Higher interest rates, a higher 10-year Treasury yield, and rising oil prices have historically been associated with weaker relative performance for the sector. With all three factors moving in the wrong direction, the macro backdrop remains challenging.
- The earnings story is the main bright spot. Headline sector earnings growth is expected to be negative in 2027, but much of that weakness is driven by AMZN. Ex-AMZN, earnings growth is ~12%, with several industries expected to deliver double-digit growth. While encouraging, we do not think the earnings outlook is strong enough to overcome the broader valuation and macro concerns.

Exhibit 30 - Rolling 12M return relative to the S&P 500 is in just the 5th percentile



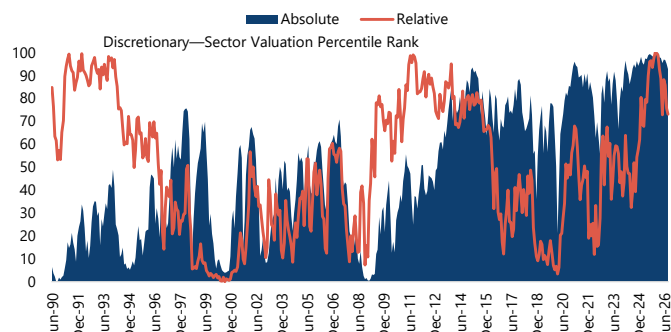
Source: FactSet; Standard & Poor's; Jefferies

Exhibit 32 - Discretionary tends to underperform in a rising rate environment



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 31 - Discretionary is the third-most expensive sector relative to the S&P 500



Source: FactSet; Standard & Poor's; Jefferies

Exhibit 33 - Earnings are expected to be negative in '27, however, several industries will likely see double digit growth

	2026 Growth		2027 Growth	
	Earnings	Sales	Earnings	Sales
Consumer Discretionary	30.0	6.9	-0.3	8.2
Automobile Components	-16.6	-37.6	13.7	4.2
Automobiles	31.6	2.3	13.1	4.8
Broadline Retail	68.3	15.5	-13.6	14.5
Distributors	4.1	5.1	7.3	3.5
Diversified Consumer Serv	-	-	-	-
Hotels Restaurants & Leis	9.4	7.2	14.6	6.5
Household Durables	-12.0	-3.9	12.2	5.0
Leisure Products	11.5	7.6	5.8	7.3
Specialty Retail	4.5	7.1	10.4	5.4
Textiles Appar & Lux Goods	-5.7	1.1	5.4	2.1

Source: FactSet; Standard & Poor's; Jefferies

Underweight—Real Estate

Real Estate continues to face a difficult backdrop. While valuations are attractive and investor sentiment has improved, relatively modest earnings growth and the sector's sensitivity to higher rates and a higher 10-year yield leave us cautious on the group.

- Sentiment has been surprisingly strong, with the sector attracting ~\$3B of inflows YTD. While that reflects growing investor interest, we are hesitant to chase the move given the less supportive fundamental and macro backdrop.
- Earnings growth remains one of the weaker stories in the market. FFO growth is expected to come in at roughly 6-7% in both 2026 and 2027, which is stable but below the growth rates available in many other sectors.
- The 10-year Treasury yield remains the most important macro variable for the sector. Given the capital-intensive nature of Real Estate, higher borrowing costs can pressure both earnings and valuations. Historically, the sector has been negatively correlated with the 10-year yield, meaning performance tends to struggle as rates move higher.
- Relative valuations are attractive, with Real Estate trading in the 28th percentile versus the S&P 500.
- More broadly, the sector lacks a clear catalyst. Improving sentiment and attractive valuations are positives, but with rates remaining elevated and earnings growth expected to remain relatively modest, we continue to see more compelling opportunities elsewhere in the market.

Exhibit 34 - A higher 10Y Yield correlates with poor performance for Real Estate

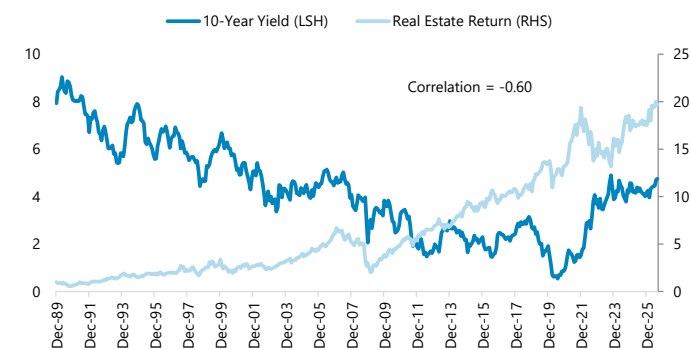
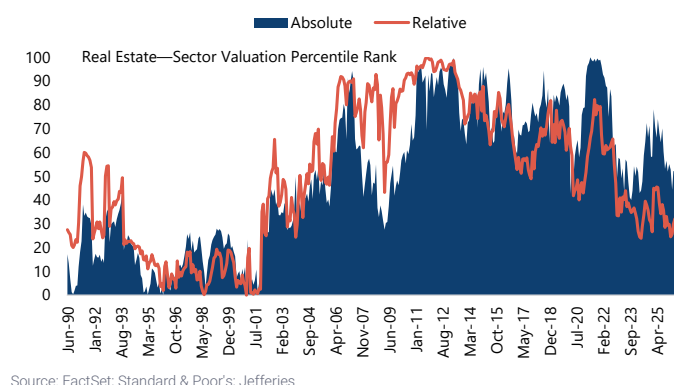


Exhibit 35 - Valuations are reasonable for Real Estate



Appendix

Exhibit 36 - S&P 500 Performance by Sector

GICS Sector	S&P 500 Performance								
	September			Quarter to Date			Year to Date		
	Absolute	Contribution	Relative	Absolute	Contribution	Relative	Absolute	Contribution	Relative
Comm Serv	5.7	0.6	4.9	4.5	0.5	1.0	4.6	0.6	-9.5
Discretionary	-4.5	-0.4	-5.3	-3.7	-0.3	-7.3	-4.5	-0.4	-18.6
Staples	-1.5	-0.1	-2.3	-0.1	0.0	-3.6	7.9	0.4	-6.2
Energy	-2.0	-0.1	-2.9	18.1	0.5	14.5	41.3	1.2	27.2
Financials	-4.6	-0.6	-5.5	2.6	0.3	-0.9	1.4	0.1	-12.7
Health Care	0.5	0.1	-0.3	8.0	0.7	4.5	11.7	0.9	-2.4
Industrials	-2.4	-0.2	-3.2	-7.7	-0.7	-11.3	10.8	1.0	-3.3
Info Tech	4.9	1.9	4.0	7.7	2.8	4.2	29.5	9.8	15.4
Materials	-4.8	-0.1	-5.6	-0.8	0.0	-4.3	11.1	0.2	-3.0
Real Estate	-4.7	-0.1	-5.6	-4.1	-0.1	-7.7	6.9	0.2	-7.2
Utilities	-5.7	-0.1	-6.5	-12.2	-0.3	-15.7	-5.4	-0.1	-19.5
S&P 500	0.8	0.8	-	3.5	3.5	-	14.1	14.1	-

Source: FactSet; Standard & Poor's; Jefferies
As of: September 22, 2026

Exhibit 37 - S&P 500 Earnings and Sales Growth

GICS Sector	Annual Earnings & Sales Growth (in %)			
	2026		2027	
	Earnings	Sales	Earnings	Sales
Comm Services	29.3	13.6	-0.9	11.6
Discretionary	30.0	6.9	-0.3	8.2
Staples	5.1	6.1	6.9	4.2
Energy	85.5	22.2	-10.5	-5.9
Financials	12.6	9.2	9.1	5.0
Health Care	4.0	5.1	22.2	4.3
Industrials	15.2	11.2	18.4	7.8
Info Tech	58.1	36.1	41.1	28.3
<i>Semis</i>	<i>107.8</i>	<i>69.3</i>	<i>63.5</i>	<i>52.5</i>
Materials	32.7	7.6	12.6	5.8
Real Estate	6.5	7.9	6.3	8.0
Utilities	0.2	6.8	6.0	5.1
Mag 7	44.1	24.1	18.6	23.8
Rest of S&P	23.3	10.7	16.7	6.2
S&P 500	28.5	12.5	17.2	8.7
Growth	41.8	23.4	23.5	18.2
Value	18.6	8.7	9.1	5.0

Source: FactSet; Standard & Poor's; Jefferies
As of: September 18, 2026

Exhibit 38 - S&P 500 Earnings Contribution by Sector

GICS Sector	S&P 500 Earnings Growth & Contribution			
	2026		2027	
	Growth	Earn. Wgt	Growth	Earn. Wgt
Comm Services	29.3	11.8	-0.9	9.9
Discretionary	30.0	8.2	-0.3	7.1
Staples	5.1	4.3	6.9	4.0
Energy	85.5	5.8	-10.5	4.4
Financials	12.6	15.9	9.1	14.9
Health Care	4.0	9.3	22.2	9.7
Industrials	15.2	6.8	18.4	6.9
Info Tech	58.1	30.0	41.1	35.9
<i>Semis</i>	<i>107.8</i>	<i>15.1</i>	<i>63.5</i>	<i>20.9</i>
Materials	32.7	2.0	12.6	2.0
Real Estate	6.5	2.1	6.3	1.9
Utilities	0.2	3.9	6.0	3.5

Source: FactSet; Standard & Poor's; Jefferies

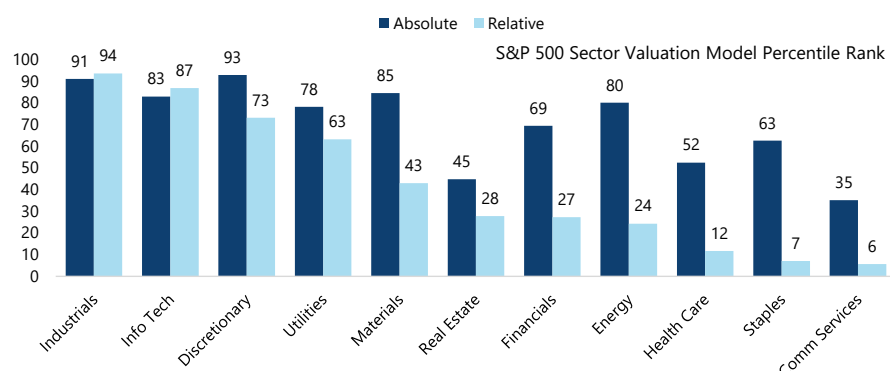
As of: September 18, 2026

Exhibit 39 - FY2 Earnings & Sales Revisions by Sector

	FY2 Revision Ratio							
	Earnings				Sales			
	Current	3M Ago	3M Avg	LT Avg	Current	3M Ago	3M Avg	LT Avg
S&P 500	1.29	1.72	1.55	1.31	1.52	1.68	1.75	1.29
Comm Services	0.85	1.22	1.03	1.34	0.64	1.00	1.21	1.37
Discretionary	1.10	1.04	1.25	1.44	1.20	0.79	1.12	1.29
Staples	0.60	1.00	1.11	1.26	0.78	1.29	1.31	1.37
Energy	1.63	1.63	1.25	2.31	4.25	0.62	3.00	1.92
Financials	1.09	2.23	1.34	1.62	1.38	1.68	1.48	1.34
Health Care	1.79	0.87	1.99	1.50	1.55	1.36	1.86	1.61
Industrials	1.44	2.43	2.09	1.77	2.43	3.63	3.12	1.55
Info Tech	2.53	4.00	3.54	1.66	2.10	3.24	2.96	1.71
Materials	0.85	1.56	1.01	1.65	0.92	1.18	1.57	1.65
Real Estate	1.42	1.17	1.45	1.54	3.00	3.43	2.24	2.10
Utilities	0.87	2.75	0.91	1.68	0.75	1.07	0.75	1.50

Source: FactSet; Standard & Poor's; Jefferies

Exhibit 40 - Absolute & Relative Sector Valuations for the S&P 500



Source: FactSet; Standard & Poor's; Jefferies
1st = Cheapest, 100th = Most Expensive

Exhibit 41 - S&P 500 Relative Sector Performance vs. Macro Factors

S&P 500 GICs Sector	Correlations with Relative Performance and Macro Factor													
	Shape of the				Inflation				Consumer					
	10-Year	2-Year	Curve	HY Spread	Expectations	Dollar	Oil	YoY LEI	YoY Vix	Fed Funds	CPI	CPI Core	Confidence	ISM
Comm Serv	-0.50	-0.24	-0.19	-0.29	-0.48	0.53	-0.27	-0.19	-0.13	-0.18	0.55	0.61	0.48	0.12
Discretionary	-0.65	-0.26	-0.34	-0.33	-0.42	0.51	-0.19	0.21	-0.06	-0.24	0.51	0.54	0.58	0.29
Staples	-0.59	-0.73	0.54	0.52	-0.10	-0.38	0.08	-0.46	0.45	-0.73	-0.31	-0.38	-0.48	-0.10
Energy	0.13	-0.22	0.54	0.39	0.46	-0.83	0.49	0.05	-0.08	-0.22	-0.54	-0.65	-0.70	-0.13
Financials	0.59	0.38	0.06	-0.09	0.26	-0.28	-0.31	0.54	-0.41	0.31	-0.75	-0.70	0.04	0.14
Health Care	-0.64	-0.49	0.06	0.23	-0.46	0.29	-0.28	-0.27	0.38	-0.52	0.01	0.02	0.18	-0.01
Industrials	0.06	-0.21	0.42	-0.01	0.30	-0.62	0.16	0.39	-0.41	-0.23	-0.62	-0.67	-0.17	0.26
Info Tech	0.05	0.34	-0.52	-0.28	-0.17	0.66	0.07	-0.26	0.13	0.38	0.91	0.94	0.30	-0.14
Materials	-0.13	-0.42	0.56	0.37	0.36	-0.83	0.50	0.12	-0.05	-0.40	-0.49	-0.60	-0.64	0.03
Real Estate	-0.21	-0.33	0.30	0.11	0.17	-0.63	0.12	0.51	-0.17	-0.31	-0.69	-0.75	-0.20	0.15
Utilities	-0.26	-0.41	0.39	0.58	0.00	-0.67	0.19	-0.12	0.30	-0.40	-0.54	-0.61	-0.51	-0.18
S&P 500	0.05	0.36	-0.55	-0.35	-0.19	0.68	0.07	0.58	-0.54	0.40	0.93	0.96	0.40	-0.11

Source: FactSet; Standard & Poor's; Jefferies

Note: Performance is monthly starting in January 2002; Sector are relative to S&P 500, S&P 500 is absolute performance

Company Valuation/Risks

Alphabet, Inc.

Our \$445 PT is based on 19x EV/EBITDA our forward NTM estimates, which is above the 12.5x 10-year historical average given its superior fundamentals relative to peers. Risks include impact from macro, regulatory overhang, margin pressure from ongoing investments, and impacts from shift toward generative AI, mobile, in-app, and voice-to-core search.

Amazon.com, Inc

Valuation: Our \$330 PT is based on ~15x 2027E EV/EBITDA. **Risks:** Ongoing need to invest keeps a lid on margin expansion; regulatory pressure leads to increasing costs; macroeconomic headwinds cause top-line growth to slow.

Meta Platforms, Inc.

Our price target of \$875 implies 25x our 2027E EPS. Risks include declines in user engagement, advertiser churn, and regulatory risk.

Analyst Certification:

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Investment Recommendation Record

(Article 3(1)e and Article 7 of MAR)

Recommendation Published	September 27, 2026 15:05 P.M.
Recommendation Distributed	September 28, 2026 5:00 A.M.

Company Specific Disclosures

Rayyan Matraji owns shares of Amazon.com common stock.
James Heaney has a long position in Facebook.

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Underperform - Describes securities that we expect to provide a total return (price appreciation plus yield) of minus 10% or less within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated securities with an average security price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated securities with an average security price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% or less within a 12-month period.

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Risks which may impede the achievement of our Price Target

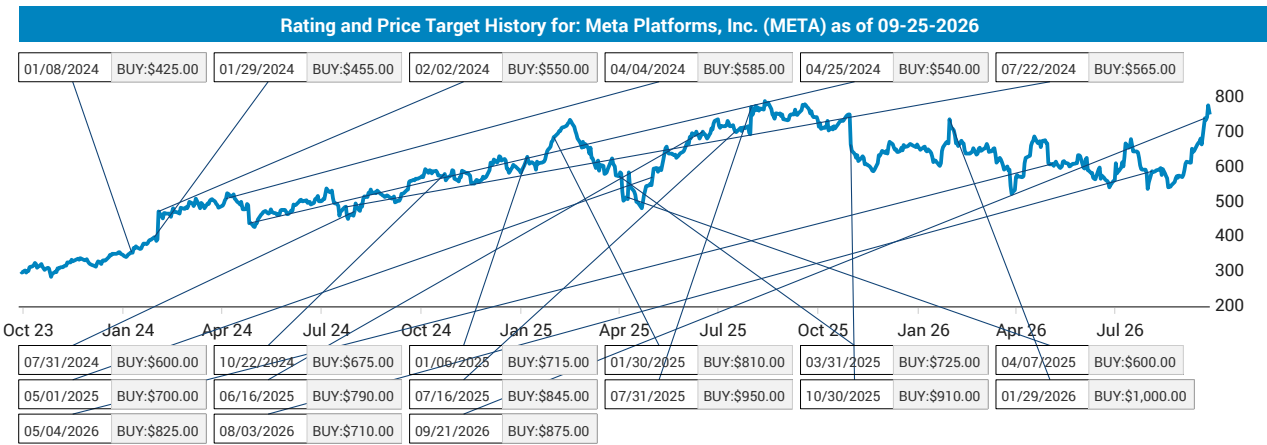
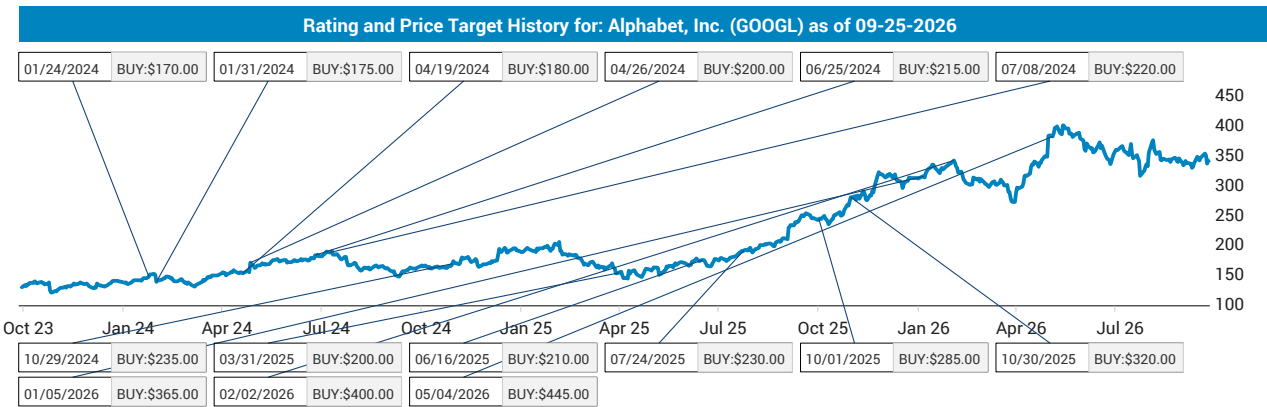
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- Alphabet, Inc. (GOOGL: \$343.92, BUY)
- Amazon.com, Inc (AMZN: \$249.67, BUY)
- Meta Platforms, Inc. (META: \$751.66, BUY)



Rayyan Matraji owns shares of Amazon.com common stock.



James Heaney has a long position in Facebook.

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Legend:

I: Initiating Coverage

D: Dropped Coverage

B: Buy

H: Hold

UP: Underperform

Distribution of Ratings

			IB Serv./Past12 Mos.		JIL Mkt Serv./Past12 Mos.	
	Count	Percent	Count	Percent	Count	Percent
BUY	2249	62.86%	364	16.18%	112	4.98%
HOLD	1180	32.98%	81	6.86%	12	1.02%
UNDERPERFORM	149	4.16%	0	0.00%	0	0.00%

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