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Monthly Insights: December Outlook
S&P 500

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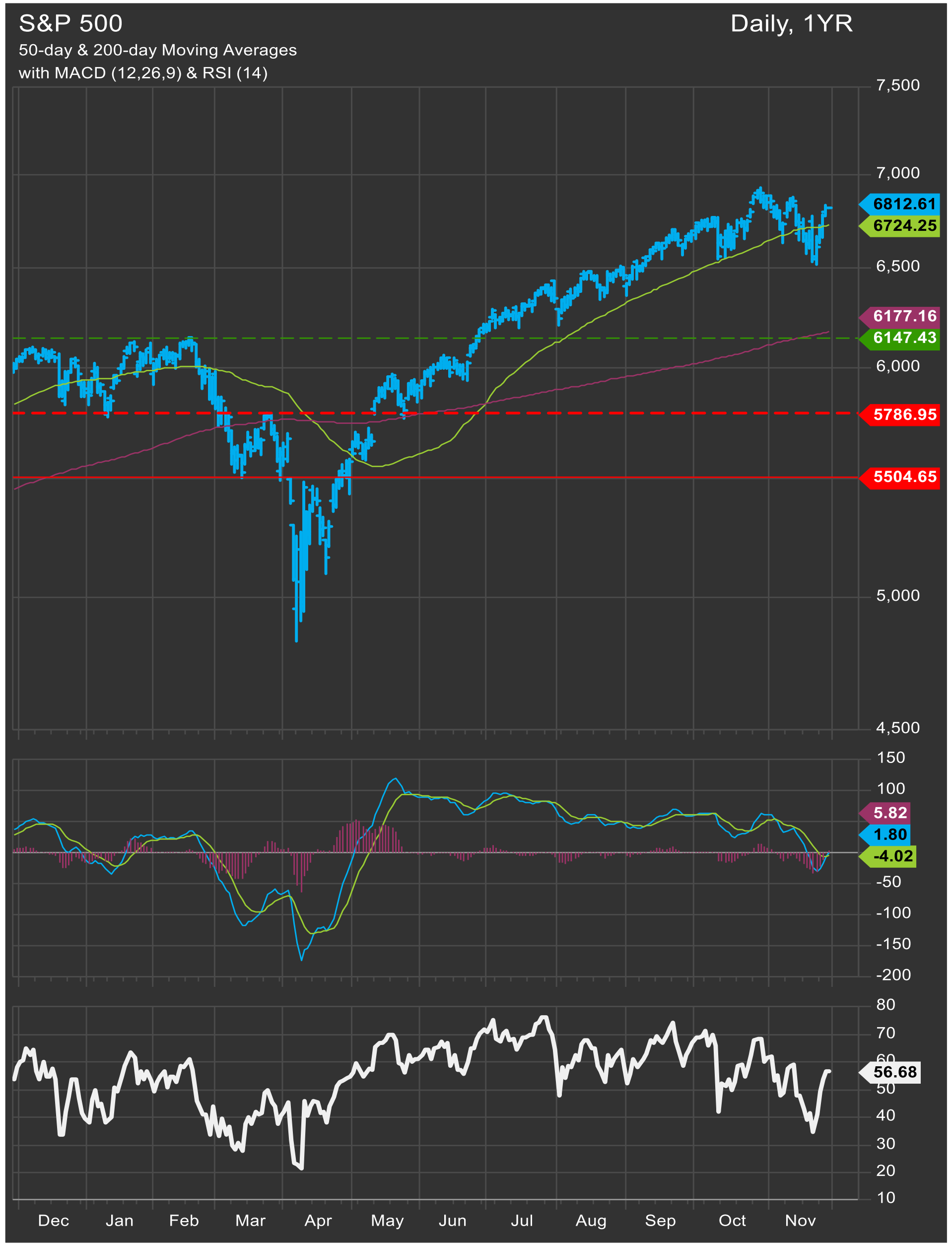
Sector Price Action & Performance Review: S&P 500



The S&P 500 consolidated in November with the buyer stepping in at oversold conditions in the last week of the month. The macro narrative firmed around expectations that the Fed would lower rates at its December meeting after starting the month with inflation and AI over-valuation concerns.

From a technical perspective, the S&P 500 registered oversold conditions during December while price held near-term horizontal support above the 6500 level. We project downside risk potential to 6147 based on the longer-term price structure though equities remain supported by strong AI demand dynamics, moderating inflation, falling interest rates and expectations of a supportive Fed.

From a macro and policy perspective investors are pricing in more Fed support than they were at the beginning of the month. Economic data releases point to deteriorating consumer credit and weaker manufacturing prints. Consumer earnings showed continued bifurcation with pressure on the middle- and lower-income strata. Alphabet Corp. posted a strong quarter to the point that it re-catalyzed concerns about AI capex efficiency and NVDA's dominant position in the AI supply chain. The Healthcare sector had a standout quarter from an earnings standpoint with a high upside surprise rate.

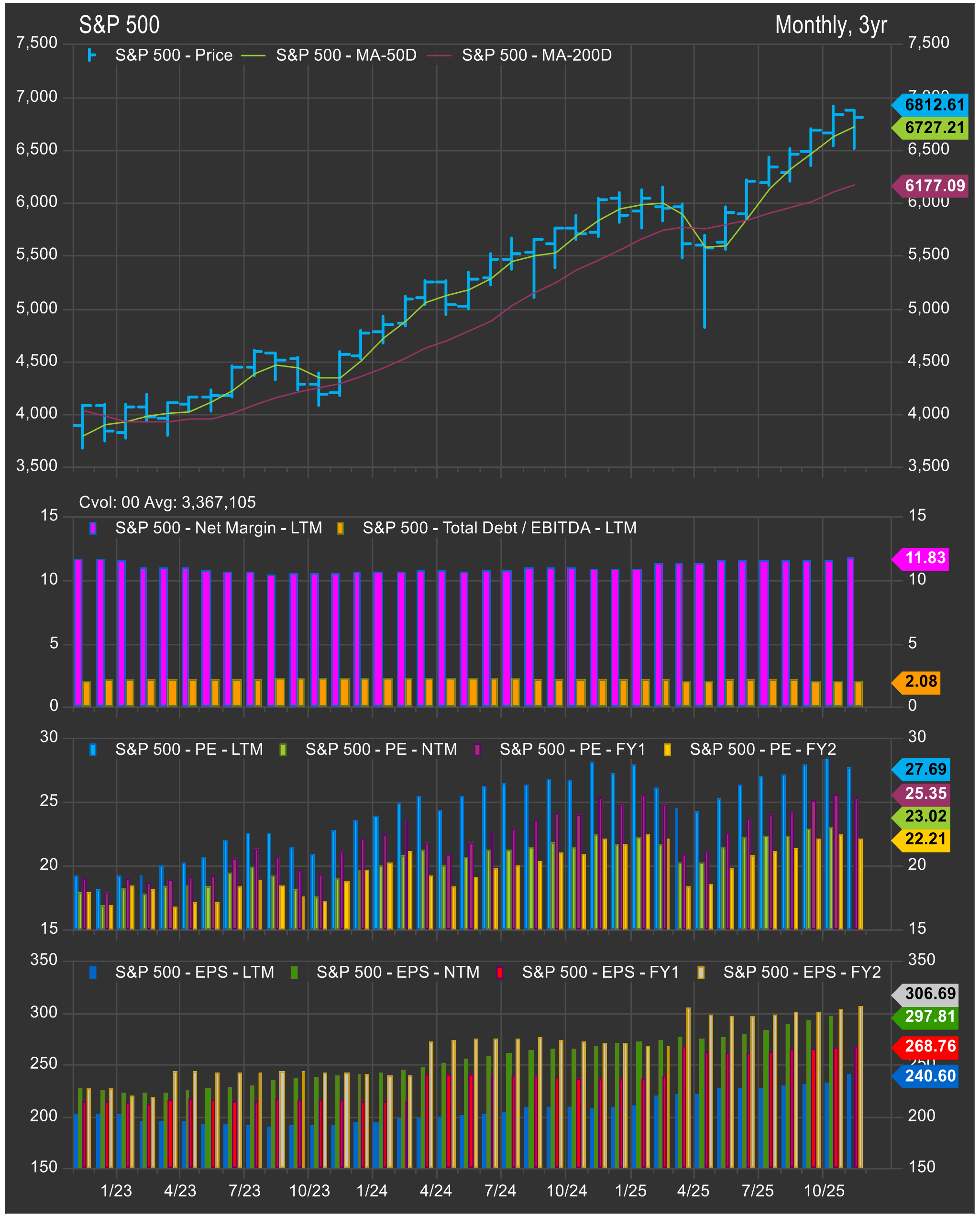
This month our model gives the highest scores to Healthcare, Technology, Comm. Services and Utilities sectors. While bullish expectations for Fed easing are currently being discounted, our model inputs are negative for cyclical exposures. Historically the Value trade has outperformed against backdrops of robust economic growth and rising rates. We are currently seeing the opposite with Discretionary, Industrial and Financial Sectors scoring the weakest in our Elev8 Model this month.

Our Elev8 Sector Rotation Model Portfolio starts December with the following sector allocations:

Elev8 Model Positions: December 2025

	BMK Weigh	Elev8 Mode	+/-
XLV	10.05%	18.23%	8.18%
VGT	34.60%	39.38%	4.78%
XLU	2.40%	6.34%	3.94%
VNQ	1.90%	5.63%	3.73%
XLB	1.74%	5.47%	3.73%
XLC	9.88%	13.17%	3.29%
XLE	2.88%	5.52%	2.64%
XLP	4.91%	6.26%	1.35%
XLI	8.16%	0.00%	-8.16%
XLY	10.24%	0.00%	-10.24%
XLF	13.23%	0.00%	-13.23%

Fundamentals: S&P 500



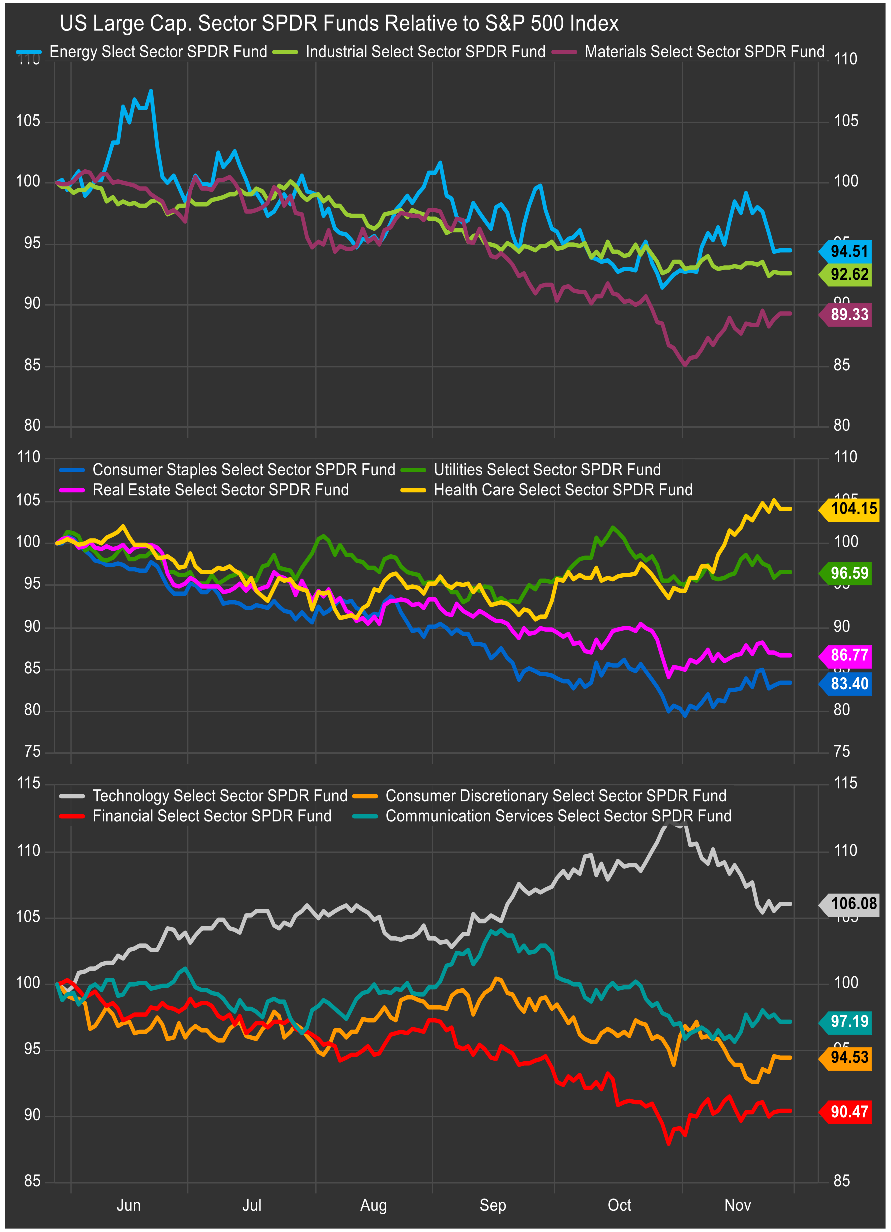
The chart (left) shows S&P 500 Margins, Debt/EBITDA, Valuation and Earnings

Net Margin for the S&P 500 ticked higher as earnings season has been better than feared. Valuations have also contracted on data points generated in November

While a trailing multiple of 28x is high by historical standards, we tend to be skeptical of longitudinal comparisons that measure the current environment to the past. We would be more concerned if there was a wide valuation spread between sectors, but we note that elevated valuations are fairly wide-spread

Financials and Energy sectors are the only sectors that screen as “cheap”

Industry/Sub-Industry Performance and Breadth: S&P 500



S&P 500 Sectors (chart, left): The Information Technology Sector (bottom panel) retraced recent gains accrued since the beginning of September

The Healthcare sector was the primary beneficiary of rotation and is charting out an intermediate-term bullish reversal vs. the S&P 500. Commodities linked sectors and other low vol. sectors were also beneficiaries.

We think near-term discounting in the AI trade will attract buyers into year-end, but we are long low vol. exposures as a defensive hedge while we remain skeptical of economically sensitive cyclicals given continued pressure on the consumer and uncertainty surrounding the global trade and economic cycle narratives.

S&P 500 Internals (chart, right): As investors took profits from Tech sector outperformance the **% of stocks above their 50-day moving average** and **200-day moving average** are firming as AI trade correction has benefitted a far wider swath of Value and Low Vol. exposures

Top 10/Bottom 10 Stock Level Performers: S&P 500

Symbol	Name	GICS Sector Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
REGN	Regeneron Pharmaceuticals, Inc.	Health Care	Bullish Reversal	81,036.3	0.73	27.6	0.3	0.54	35.0
LLY	Eli Lilly and Company	Health Care	Bullish Reversal	1,044,025.0	1.42	40.4	0.4	0.31	34.6
ALB	Albemarle Corporation	Materials	Bullish Reversal	14,937.0	6.91	50.4	0.8	2.06	32.7
CAH	Cardinal Health, Inc.	Health Care	Uptrend	50,641.0	0.83	32.8	0.6	0.80	30.9
WDC	Western Digital Corporation	Information Technology	Uptrend	53,931.2	0.77	90.7	0.2	2.32	25.3
CHRW	C.H. Robinson Worldwide, Inc.	Industrials	Bullish Reversal	18,847.6	1.09	27.2	1.0	0.90	24.4
EXPD	Expeditors International of Washington, Inc.	Industrials	Bullish Reversal	19,749.3	1.00	17.5	0.8	1.15	23.9
TER	Teradyne, Inc.	Information Technology	Bullish Reversal	28,092.4	1.45	51.6	0.2	2.00	22.5
BIIB	Biogen Inc.	Health Care	Bullish Reversal	26,691.0	0.48	25.7	0.0	0.61	21.7
AMGN	Amgen Inc.	Health Care	Bullish Reversal	185,544.3	0.63	15.4	1.9	0.27	20.0

Symbol	Name	GICS Sector Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
FISV	Fiserv, Inc.	Financials	Downtrend	32,701.4	0.29	-61.6	0.0	0.69	-51.2
SMCI	Super Micro Computer, Inc.	Information Technology	Support	19,598.6	0.53	-34.1	0.0	1.73	-35.5
ARE	Alexandria Real Estate Equities, Inc.	Real Estate	Downtrend	9,258.2		-35.9	6.2	1.45	-30.4
AXON	Axon Enterprise Inc	Industrials	Retracement	42,072.7	2.87	-35.3	0.0	1.77	-28.0
ORCL	Oracle Corporation	Information Technology	Consolidation	584,298.4	1.11	-14.8	0.6	1.76	-26.4
TTD	Trade Desk, Inc. Class A	Communication Services	Downtrend	17,220.9	1.46	-36.3	0.0	1.99	-26.3
COIN	Coinbase Global, Inc. Class A	Financials	Support	60,456.2	1.59	-20.9	0.0	4.73	-25.9
DASH	DoorDash, Inc. Class A	Consumer Discretionary	Support	79,633.5	2.43	-24.3	0.0	2.24	-24.8
GRMN	Garmin Ltd.	Consumer Discretionary	Retracement	37,464.9	0.90	-21.8	1.2	0.99	-21.7
NCLH	Norwegian Cruise Line Holdings Ltd.	Consumer Discretionary	Support	8,344.9	0.28	-25.1	0.0	2.57	-21.2

Healthcare stocks, Air Freight and a smattering of Tech stocks led the S&P 500 in November with the former reinforcing a clear bullish reversal at the sector level

On the downside ORCL and SMCI led AI capex exposures lower, joined weakening consumer names (GRMN, NCLH) and Fin. Services plays (FISV, COIN) which have broken lower with crypto

Metrics:

(Formulas are in the appendix at the end of the report)

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valueation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: S&P 500

U.S. equities spent November moving through a sharp mid-month drawdown before staging a firm rebound into month-end. The S&P 500 briefly fell **nearly 5% from its Oct-28 high**, with breadth deteriorating to the point where **roughly two-thirds of constituents traded below their 50-day moving averages**, the weakest since April. The selloff was concentrated in AI-linked names after concerns surfaced about capex sustainability, rising credit spreads, and uncertain ROI—punctuated by reports that **Google may sell or rent TPU chips to Meta**, posing a competitive threat to NVDA, which analysts estimate could impact **~10% of its annual revenue**.

Macro data added to the cautious tone. The **unemployment rate rose to 4.4%**, the highest in four years, while **average hourly earnings slowed to +0.2% m/m**, reinforcing disinflation momentum. Consumer sentiment weakened sharply—**Conference Board confidence dropped to 88.7**, its lowest since mid-2022—and September's control-group retail sales logged their **first decline since April**. Inflation continued to ease through the pipeline: **core PPI printed at 0.1%**, well below expectations. At the same time, business investment held up somewhat, with **core capital-goods orders rising 0.9%**.

The narrative turned more supportive late in the month as Fed expectations shifted. After dipping below 30% mid-month, the probability of a **December rate cut jumped above 80%** following dovish commentary from Williams, Daly, and Waller. Combined with "cleaner" positioning after the momentum unwind and seasonally strong flows, the shift helped re-anchor equity sentiment even as the AI narrative remained volatile.

Sector Rotation & Leadership

Sector leadership broadened significantly. Healthcare delivered its **best earnings-surprise rate in more than four years**, supported by strong procedure volumes and constructive pipeline updates. Within tech, performance was split: Communication Services surged on GOOGL strength as Gemini 3 momentum accelerated, while NVDA and select AI hardware names lagged on competitive concerns and valuation pressure.

Consumer sectors produced mixed results. Off-price and specialty apparel (ANF, ROST, KSS) delivered some of the month's biggest earnings beats and raised guidance, while consumer staples struggled against tariff effects and softer traffic. Energy underperformed as **WTI crude fell more than 4% for the week** at one point amid Russia-Ukraine volatility and expectations for a **2026 supply overhang**. Breadth improved meaningfully throughout the month, with SPW outperforming the S&P 500 by **50–100 bp** on several sessions.

December Outlook — Catalysts, Risks & Market Setup

The December 10 FOMC meeting is the month's dominant driver. Markets now price **80%+ odds of a December cut**, with nearly **90 bp of easing expected by year-end 2026**. Market reaction hinges on the tone: a normalization cut would reinforce the November recovery, while a risk-management cut tied to labor-market weakness—highlighted by **1.96M continuing claims**, the highest since 2021—would support long-duration growth but could challenge more cyclical pockets. A hawkish hold remains a low-probability but high-impact risk given how aggressively markets have repriced.

Early-December data will determine whether the soft-landing narrative holds. ADP estimates showed **~13.5K weekly job losses** into early November. Initial claims recently printed **216K**, better than expected but trending higher. Inflation readings remain supportive: **core PPI at 0.1%** and cooling wage growth point to ongoing disinflation. Consumer sentiment remains fragile, with **UMich at 51.0**, matching its weakest final print in more than two years. ISM manufacturing/services, ADP, PCE inflation, and consumer-spending releases will all directly influence the Fed meeting's tone.

Seasonality and positioning bias remain constructive for December. Historically, December produces some of the year's strongest equity returns, and the recent unwind has left positioning cleaner than at any point since early Q2.

Positioning Into Year-End

A selectively **risk-on** bias remains reasonable heading into December, though with greater attention to factor dispersion and AI-related volatility.

Tech leadership is broadening beyond mega-cap AI beneficiaries toward software, cloud infrastructure, and semis with clearer FY26 profitability visibility. Healthcare remains one of the most dependable sources of defensive growth, supported by **above-trend earnings execution** and resilient demand signals. Industrials tied to automation, logistics, and aerospace also offer improving visibility into 2026 budgets.

Consumer discretionary deserves a more nuanced stance: off-price and specialty retailers with strong Q3 prints continue to outperform, while categories tethered to lower-income demand face headwinds from deteriorating sentiment and **4.4% unemployment**.

Energy remains sensitive to geopolitical headline risk and shifting expectations for a **2026 supply surplus**, keeping near-term upside capped. Meanwhile, unprofitable tech, speculative AI hardware vendors, and companies with heavy capex commitments remain most vulnerable to valuation compression—especially in an environment where **Google's TPU expansion** is reshaping competitive dynamics.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS) / (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.3

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.