Sector Rotation, Sector Weight, and ETF Price Implications

Overview

This page outlines the current sector rotation occurring in the S&P 500. Why is there more room for capital rotation, and how this will affect the S&P 500.

Sector Weights

The S&P 500 is divided into eleven sectors.

From heaviest weight to lightest weight:

- Information Technology: ~33.5%
- Financials: ~12.5%
- Communication Services: ~10.5%
- Health Care: ~9.5%
- Industrials: ~8%
- Consumer Staples: ~5%
- Energy: ~3%
- Utilities: ~2%
- Real Estate: ~1.85%
- Materials: ~1.85%

Note: I rounded these numbers some are whole integers while other decimals. This rounds up to be right around 100%. The market is always fluctuating so it's hard to have a definitive number.

The sector weights are market-cap weighted and reflect just how heavily concentrated the S&P 500 is to technology. About 1/3rd of the S&P 500 is technology.

Sector Rotation - Why are we experiencing sector rotation?

There is a cyclical shift in the capital markets from technology to Energy, Utilities, Staples, Industrials, & Materials. There are multiple reasons why this is happening.

First, the United States is undergoing a transformative reindustrialization phase. During Covid-19, the United States experience supply shock and geopolitical tensions. This supply shock showed just how vulnerable the United States is due mass importing many critical commodities such as rare earths, semiconductors, and industrial metals which are all essential to modern manufacturing.

Second, the United States has printed an exorbitant amount of money and has ~38 trillion dollars in debt. This has happened to ever major superpower that has had the privilege of being the global reserve currency. Consequently, as the US dollar strengthened, the cost of manufacturing in the U.S rose dramatically and manufacturing in the United States became outsourced to maintain a competitive advantage in the pricing of goods & services. Which directly ties to the vulnerability experienced during the Covid-19 supply shock.

As the United States continue to print money, many foreign governments and sovereign wealth funds are diversifying their holdings and selling U.S bonds. These funds are abandoning the U.S dollar because of the mounting fear that the U.S government will not be able to repay the bonds.

This doesn’t mean abandoning the US dollar, or that the US dollar will not be used, but it does mean reducing exposure to U.S. Treasuries and increasing allocations to commodities, gold, and non-USD trade agreements.

As the dollar’s share of global reserves slowly declines, the U.S. loses some of the privilege that allowed it to run persistent deficits without immediate economic consequences.

Which has led to the reindustrialization of the United States. As the US continues to reindustrialize, Energy, Utilities, Materials, & Industrials will continue to outperform.

Reindustrialization of America

The reindustrialization of America will take time and cannot be changed overnight. It is a multi-year structural shift that requires consistency and long-term capital investment.

The current administration is taking steps to accelerate this transition with their policies and trade renegotiations. It is highly likely the reindustrialization of the United States will take longer than this political cycle.

Picture a locomotive traveling 65 miles per hour. You cannot expect that locomotive to come to a complete stop in the middle of its route and immediately reverse direction. That would require a tremendous amount of energy.

The same principle applies to the U.S. economy and the capital markets during this transformative phase. The reindustrialization requires consistency, not abrupt reversals. That is why the next administration will need to maintain the current policy trajectory.

Sector Weights

The following estimates assume the S&P 500 is flat to moderately higher while these sectors outperform.

Energy (XLE)

Current sector weight: ~3.2 percent Target weight: 5–8 percent

Target Weight	Estimated Price Range
5 percent	120–135
6 percent	135–150
7–8 percent	150–175

Utilities (XLU)

Current sector weight: ~2.25 percent Target weight: 5–8 percent

Target Weight	Estimated Price Range
5 percent	95–105
6 percent	105–115
7–8 percent	115–130

Materials (XME)

Current sector weight: ~1.8–2.0 percent Target weight: 5–8 percent

Target Weight	Estimated Price Range
5 percent	90–100
6 percent	100–115
7–8 percent	115–135

Note, this is a sample model and should not be taken as financial advice.

Sector Shifts

12–18 Months: Accelerated Rotation

- Technology underperforms
    - Technology can underperform and has been underperformed due to earnings compression and reduced Price/Free-Cash-Flow from heavy AI Capex.
    - The market has been discounting and basically punishing heavy spending because the rewards have yet to be quantified.
- Commodity prices rise
    - We have already seen this with the spike in Gold, Silver, and similar precious metals.
    - An increase in oil due to geopolitical tensions – Iran, Venezuela, or Russia/Ukraine can lead to an interim spike in Oil prices causing energy to increase.
- Utilities benefit from falling yields or surging electricity demand.
    - Surging electical demand will be needed for AI datacenters, AI training, and AGI.
    - Yields will fall in the short term as the FED continues to cut rates.
        - We may see 1 Basis Point cut before the end of 2026 which will drop the short end of the curve.
        - This will be more prominent if the new FED chair does one jumbo cut at 1 basis point.
            - *The 2 Year bond is the short end, and the 20 Year bond is the long end.*

18–36 Months: Full Regime Change

- Technology weight declines materially as capital continues to rotate.
    - Continued investment into AI with margin compression and uncertainty in the long-term payoff in AI.
- Sustained outperformance in Energy, Utilities, and Materials.
    - The reindustrialization continues beyond the current President's administration.
    - Energy & Utilities are still required for the AI infrastructure to build as well as reindustrialization of the US.
- The Macro environment supports real-asset sectors.
    - The United States ISM Manufacturing > 50 signaling an expansion in the US manufacturing economy. The manufacturing economy requires real sector assets such as industrials, materials, and energy.
    - We see a resurgence of inflation or experience sticky inflation.
    - Central banks continue to buy silver and gold.
    - China begins to become the global reserve currency, or the Chinese Yuan is used more in trade deals.

Summary

A 12–36-month period represents a realistic timeframe for capital rotation in the financial markets, during which integral sectors such as Energy, Utilities, and Materials could increase to heavier weights of approximately 5–8% within the S&P 500

This capital rotation directly aligns with the restructuring and reindustrializing of America.

However, it is important to distinguish market rotation from physical reindustrialization. The industrial build is a much larger structural transformation which will take a longer time and will span beyond a single political cycle.