FSI Sector Allocation June 6, 2025

FSI Sector Allocation - June 2025 Update

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Market Recap

May marked a pivotal turning point in Macro investing trends as it served as a transitionary period from the turbulence and fear in April to a market more akin to that which was observed in the first 2 months of the year à la "a return to normalcy."

While the threat of tariffs still permeates public discourse, the downside risk has largely been mitigated due to major policy developments between "liberation day" and today:

- The Trump Administration's stance on tariffs has moved from aggressive and vindictive to opportunistic and negotiation focused with Lutnick and Navarro taking a back seat to Bessent in being a spokesperson for the president's economic strategy.
- Despite tensions between the US and China fluctuating, the current policy stance against other countries is far softer than it was in the wake of liberation day. Most of the tariffs that actually got imposed reflect a much lower value than initially planned and many crucial industries have been provided with exemptions.
- The recent court actions taken against tariffs also provide a potential path to relief against the Administration's tariffs, although it is currently unknown what the verdict from the Supreme Court will be or whether the administration will comply with any judicial injunctions.

As tariff severity simmers down, macro discussion has shifted towards other topics – most notably the US deficit and the economic resilience of the US economy. Due to factors like the downgrading of US debt by Moody's, the upcoming X-date in August, a weaker than expected treasury auction, and the passing of "The Big Beautiful Bill" adding Trillions to the deficit, rally skeptics have begun to worry how risk-free the risk-free rate is.

These fears contribute to pervasive market pessimism despite positive price developments (coined as "One of the Most Hated Rallies"), as can be seen in sentiment indicators like those provided by AAII and University of Michigan which, while seeming to have found a low in April, are still far lower than they were towards the end of last year.

However, it should not be understated the boon to the market that came with a clearer and more constructive path on tariff policy. Paired with an end to a relatively strong earnings season and lower than expected inflation readings, May provided plenty of fuel for the market to rally 6.2% within the month, with all sectors except Health Care ending the month higher.

FANG+ and Technology lead the charge, boasting double-digit gains of 11.7% and 10.8% respectively. Some especially noteworthy stocks are $NVDA with a 24.1% gain, recently surpassing the market cap of MSFT, and $TSLA with a 22.8% gain – although Elon's recent political drama has wiped out most of the stock's May gains. The majority of the Magnificent 7 saw double digit gains in May and all except AAPL outperformed the broader market.

Name	YTD	Jan '25	Feb '25	Mar '25	Apr '25	May '25
S&P 500	-5.3%	2.7%	-1.4%	-5.8%	-0.8%	6.2%
FANG+	-14.0%	0.3%	-5.7%	-9.7%	0.6%	11.7%
META	*-6.2%*	*17.7%*	*-3.0%*	*-13.7%*	*-4.7%*	*17.9%*
AMZN	*-15.9%*	*8.3%*	*-10.7%*	*-10.4%*	*-3.1%*	*11.2%*
NFLX	*27.0%*	*9.6%*	*0.4%*	*-4.9%*	*21.4%*	*6.7%*
GOOGL	*-16.1%*	*7.8%*	*-16.5%*	*-9.2%*	*2.7%*	*8.1%*
AAPL	*-15.1%*	*-5.8%*	*2.5%*	*-8.2%*	*-4.3%*	*-5.5%*
MSFT	*-6.2%*	*-1.5%*	*-4.4%*	*-5.4%*	*5.3%*	*16.5%*
NVDA	*-18.9%*	*-10.6%*	*4.0%*	*-13.2%*	*0.5%*	*24.1%*
TSLA	*-30.1%*	*0.2%*	*-27.6%*	*-11.5%*	*8.9%*	*22.8%*
Discretionary ex-FANG+	-4.3%	2.9%	1.1%	-6.9%	-1.2%	2.9%
Industrials	-0.4%	5.0%	-1.6%	-3.7%	0.2%	8.6%
Technology ex-FANG+	-7.6%	2.5%	-4.8%	-8.7%	3.7%	10.8%
Comm. Services ex-FANG+	9.3%	-3.6%	15.9%	1.9%	-4.0%	1.6%
Materials	0.0%	5.5%	-0.2%	-2.9%	-2.2%	2.8%
Energy	-5.7%	2.0%	3.3%	3.7%	-13.7%	0.3%
Financials	0.8%	6.4%	1.3%	-4.3%	-2.2%	4.3%
Real Estate	1.3%	1.7%	4.1%	-3.0%	-1.3%	0.8%
Healthcare	2.0%	6.6%	1.4%	-1.8%	-3.8%	-5.7%
Staples	5.7%	1.9%	5.6%	-2.8%	1.1%	1.7%
Utilities	4.2%	2.9%	1.2%	0.1%	0.0%	3.4%

Source: Fundstrat, Bloomberg

Strategic Sector Rating

Compared to last month's Sector Allocation report, the main change this time comes from Mark's 1) upgrade of Materials to Neutral and further 2) downgrade of Healthcare to Underweight.

Basic Materials
Basic Materials has broken its recent downtrend since September last year and is approaching the 200-day moving average.

In terms of relative performance against S&P 500, the relative trend has stabilized recently since mid-May.

Metals have been the biggest driver, as Trump's latest tariff levy on steel and aluminum caused U.S. prices to surge. Other industrial metals benefited from the spillover effects of steel and aluminum. In addition, the continuously weakening dollar benefits all metals in general. Mark views this downtrend in DXY as likely to continue; hence, a Neutral rating is more appropriate for the Basic Materials sector.

Healthcare
Healthcare further weakened in May, led by managed healthcare. The May decline to new yearly lows in Healthcare is likely to put further pressure on this group, despite June being a seasonally positive month for Healthcare.

Mark sees a sharp decline in relative performance for Healthcare given May's weak performance, and believes it could set up for an oversold bounce in July.

However, at present, the weak technical setup warrants lowering the sector's Neutral technical rating to Underweight.

Sector ETF Allocations – Strategic Sector Ratings

	Macro *Thomas Lee* 	Technical *Mark Newton* 
Consumer Discretionary	Overweight	Overweight
Industrials	Overweight	Overweight
Information Technology	Overweight	Overweight
Communication Services	Overweight	Neutral
Basic Materials	Neutral	Neutral *Upgrade* Underweight
Energy	Neutral	Underweight
Financials	Overweight	Overweight
Real Estate	Overweight	Neutral
Consumer Staples	Underweight	Underweight
Health Care	Neutral	Neutral *Downgrade* Underweight
Utilities	Neutral	Overweight

Source: Fundstrat

Tactical Sector Rating:

In May, the broader market continued the rebound that began after the "Liberation Day" selloff in April. There was little change in short-term momentum rankings.

Among all sectors, Utilities saw the largest drop in ranking, falling from Top 3 to No. 7. Due to its defensive nature, Utilities held up well during the Feb–Apr selloff. But since the rebound began, it hasn't bounced as much as other cyclical sectors.

From a fundamental perspective, Utilities remain favored by our quantamental model, and still rank in the Top 3 in our EPS model. The sector also benefits from the increasing demand for power grid infrastructure driven by AI. Recently, we have seen more Utilities companies such as Constellation Energy signing contracts with large hyperscalers.

Compared to last month, this sector allocation update features a broad increase in weights for cyclical sectors, with Industrials, Materials, and Technology adding the most by +2.0%, +1.6%, and +1.1%, respectively.

Sectors with the largest weight reductions were Real Estate and Utilities, both downgraded by -1.9% due to declines in tactical trend rankings.

Healthcare was further downgraded by -0.8% following Mark's call.

Relative to the Benchmark
Our overweight sectors are fully aligned with the three sectors Tom has most favored this year:

- Technology: +2.7%
- Industrials: +2.4%
- Financials: +2.4%

In addition, we also recommend clients overweight Consumer Discretionary and Communication Services by +0.4% and +0.1%, respectively.

On the underweight side, we focus on near-cyclical and defensive sectors. Consumer Staples is our largest underweight, and in fact, we have been underweighting Consumer Staples for a long time.

Energy is similar—except for a brief period two months ago when we turned overweight due to technical improvement, we have been underweight most of the time.

The overall slow recovery of the global economy and weak demand, combined with ongoing production increases from OPEC+, make it difficult for Energy to regain strength.

For Healthcare, Tom pointed out at the beginning of the year that it was facing heavy pressure from both DOGE and RFK-led HHS. Given the continued deterioration in price momentum over the past few months, we have shifted from a slightly Neutral stance to a fully Underweight position.

Finally, we recommend market weight for Materials and Utilities.

Summary

	Name	Ticker	vs Prior Allocation: Prior Result	Current	Delta vs Prior	vs Benchmark Index: Index Weight	Current	Delta vs Index	Delta Last 12M
Sector ETFs (85%)	***Cyclical***								
	Consumer Discretionary	XLY	9.6%	**9.8%**	**0.2%**	9.4%	**9.8%**	**0.4%**	
	Industrials	XLI	7.6%	**9.7%**	**2.0%**	7.3%	**9.7%**	**2.4%**	
	Information Technology	XLK	28.3%	**29.3%**	**1.1%**	26.7%	**29.3%**	**2.7%**	
	Communication Services	XLC	8.4%	**8.4%**	**0.0%**	8.3%	**8.4%**	**0.1%**	
	Materials	XLB	-	**1.6%**	**1.6%**	1.6%	**1.6%**	**-**	
	Near-cyclical								
	Energy	XLE	0.7%	**0.6%**	**-0.1%**	2.6%	**0.6%**	**-2.0%**	
	Financials	XLF	14.2%	**14.1%**	**-0.1%**	11.7%	**14.1%**	**2.4%**	
	Real Estate	XLRE	1.9%	**0.0%**	**-1.9%**	1.8%	**0.0%**	**-1.8%**	
	Defensive								
	Consumer Staples	XLP	3.4%	**3.2%**	**-0.1%**	5.5%	**3.2%**	**-2.3%**	
	Health Care	XLV	6.9%	**6.1%**	**-0.8%**	8.1%	**6.1%**	**-2.0%**	
	Utilities	XLU	4.0%	**2.0%**	**-1.9%**	2.0%	**2.0%**	**-**	
Individual ETFs (15%)	ARK Next Generation Internet ETF	ARKW	-	**3.0%**	**3.0%**				
	Global X Video Games & Esports E	HERO	3.0%	**3.0%**	**-**				
	iShares Expanded Tech-Software S	IGV	-	**3.0%**	**3.0%**				
	Bitwise Bitcoin ETF	BITB	-	**3.0%**	**3.0%**				
	iShares U.S. Aerospace & Defense	ITA	3.0%	**3.0%**	**-**				
	First Trust NASDAQ Cybersecurity	CIBR	3.0%	**-**	**-3.0%**				
	Schwab U.S. REIT ETF	SCHH	3.0%	**-**	**-3.0%**				
	Horizon Kinetics Inflation Beneficia	INFL	3.0%	**-**	**-3.0%**				
	Total		100%	**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 Picks

In the past month, our five ETF picks outperformed the S&P 500 by an average of 0.5%. Among them:

- $ITA (A&D ETF): +7.1%
- $CIBR (Cybersecurity ETF): +2.9%
- $HERO (Video Game ETF): +1.6%

The remaining two—$SCHH (REIT ETF) and $INFL (Inflation Beneficiaries ETF)—trailed the S&P 500 by -5.8% and -3.2%, respectively.

REVIEW: May 2025 Tactical ETF Picks:

Previous List

ETF Name	Ticker	% change (5/1 - 6/4) Abs	Rel (vs SPX)
Horizon Kinetics Infl Benef	INFL	3.4%	-3.2%
Global X Video Games& Esport	HERO	8.1%	1.6%
First Trust Nasdaq Cybersecu	CIBR	9.5%	2.9%
Schwab US Reit ETF	SCHH	0.7%	-5.8%
Ishares U.S. Aerospace & Def	ITA	13.6%	7.1%
Avg Return (5/1 - 6/4)		7.1%	0.5%

Source: Fundstrat, Bloomberg

In June, we decided to keep $ITA and $HERO, but replace the other three ETFs with $IGV, $ARKW, and $BITB.

Generally speaking, we believe the risk-on rally is not yet over, and strength in Technology is likely to persist.

Regarding Bitcoin, as Tom noted recently, it made a new high before the S&P 500. Given current concerns over fiscal sustainability, Bitcoin has become a uniquely versatile asset—capable of fitting both risk-on and risk-off narratives.

Updated Five ETF Picks:

- ARK Next Generation Internet ETF ($ARKW)
- Global X Video Games & Esports ETF ($HERO)
- iShares Expanded Tech-Software Sector ETF ($IGV)
- Bitwise Bitcoin ETF ($BITB)
- iShares U.S. Aerospace & Defense ETF ($ITA)

June 2025: 5 Tactical ETF Picks

- **ARK Next Generation Internet ETF ($ARKW)** NEW
- **Global X Video Games & Esports ETF ($HERO)** *Carry-over*
- **iShares Expanded Tech-Software Sector ETF ($IGV)** NEW
- **Bitwise Bitcoin ETF ($BITB)** NEW
- **iShares U.S. Aerospace & Defense ETF ($ITA)** *Carry-over*
- Horizon Kinetics Inflation Beneficiaries ETF ($INFL) *DELETE*
- First Trust NASDAQ Cybersecurity ETF ($CIBR) *DELETE*
- Schwab U.S. REIT ETF ($SCHH) *DELETE*

Source: Fundstrat

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