

STOCK MARKET SECTORS: HOW OIL & AI AFFECT PORTFOLIOS

Markets have experienced a rotation across sectors in response to the conflict in the Middle East and developments in artificial intelligence. What does this mean for portfolios?

When investors think about the stock market, they tend to focus on broad indices like the S&P 500 or Dow Jones Industrial Average. While this is a natural starting point, it's often helpful to look one level deeper at the sectors within each index. For instance, the 11 sectors that make up the S&P 500 each have unique characteristics and can behave differently based on economic conditions and geopolitical developments. Understanding these dynamics is important for portfolio construction, diversification, and long-term financial planning.

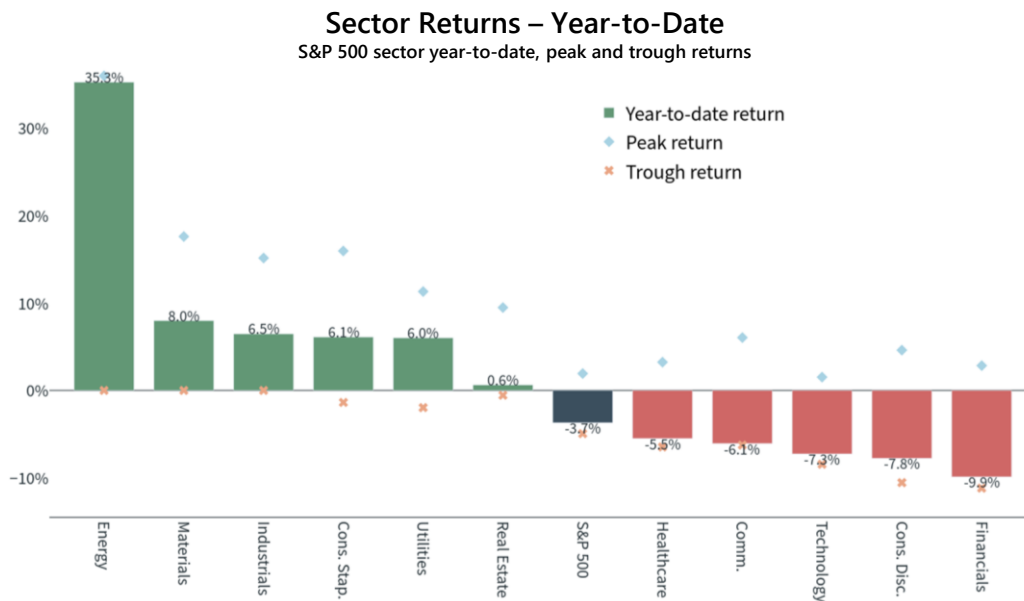
In today's environment, the difference between the best and worst performing sectors has widened to over 40% this year. This is a significant development driven by the ongoing conflict in the Middle East, oil price swings, and the evolving narrative around AI.

At the moment, the S&P 500 also experienced its first pullback of more than 5% from its all-time high, even though 6 of the 11 sectors are positive so far this year. This is possible because the S&P 500 index does not weigh all sectors equally, with Technology currently making up nearly one-third of the index, compared to Energy and Utilities at just 3.5% and 2.5% respectively.

Taking a longer-term view, many sectors have performed well over the past few years, often in ways that surprised investors. This is a reminder that maintaining balance across sectors matters as much as doing so across asset classes. So, what perspective is needed to understand the recent sector rotation and market pullback?

The Energy Sector Has Surged Amid Geopolitical Uncertainty

The energy sector has benefited from geopolitical risk so far in 2026, gaining around 30% year-to-date. This outperformance has been driven by a sharp rise in oil prices, with Brent crude hovering above \$100 per barrel following escalating tensions in the Middle East. This has pushed energy stocks higher, something that has occurred throughout historical periods of geopolitical conflict.



For instance, in 2022 when Russia invaded Ukraine, the energy sector gained 65% for the full year while the broader S&P 500 declined 18%. The year before that, energy gained 55% as the economy rebounded from the pandemic. While the broad market did rebound from these historic episodes, they demonstrate how energy stocks have served as a counterweight during times of global uncertainty.

Higher oil prices directly benefit producers by boosting revenues and encouraging investment and exploration. However, they also act as a headwind for the broader economy in the short run by raising costs for consumers, businesses, and many other sectors. This is why the same shock that supports energy stocks can weigh on transportation, consumer spending, and corporate profit margins elsewhere.

In the long run, there are reasons not to be overly pessimistic about higher oil prices. Between 2011 and 2014, oil prices sustained levels near \$100 per barrel, and the economy still grew while the stock market continued its bull run. Economists often view these types of

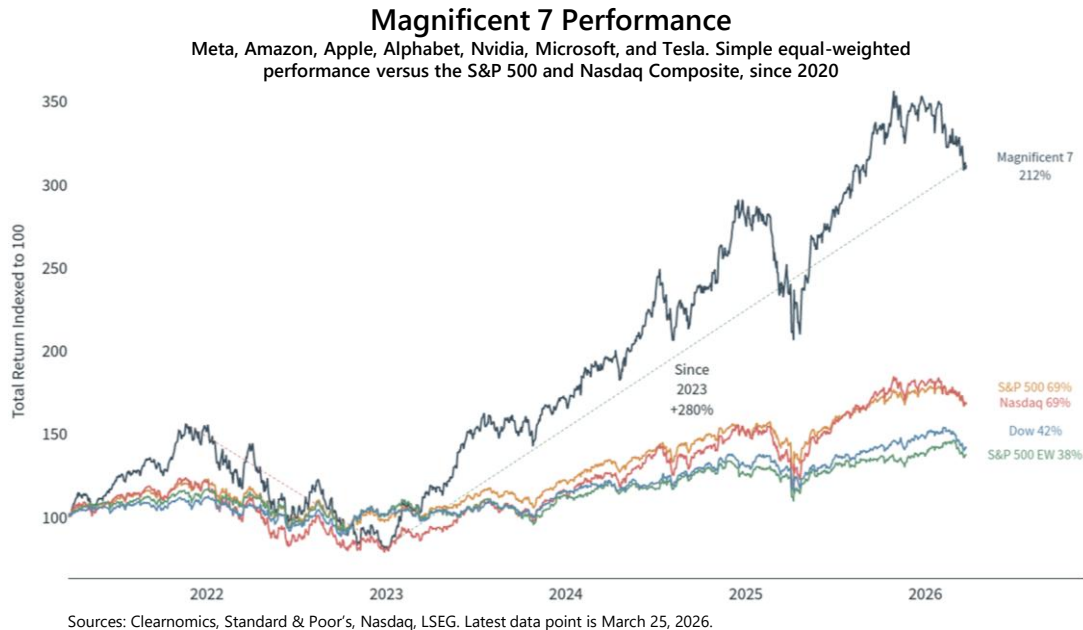
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“supply-side shocks” as temporary, since eventually production will be restored and other suppliers will step in.

AI Has Raised New Questions About Technology Companies

Over the past several years, AI stocks have led the market, driving significant gains across sectors like Information Technology, Communication Services, and Consumer Discretionary. The outperformance of these sectors, including the so-called Magnificent 7, has resulted in greater market concentration and sensitivity to just a handful of companies.

More recently, however, the narrative has shifted. While these companies continue to post strong earnings, other sectors have performed well over the past year, including Energy, Industrials, Utilities, Materials, and Consumer Staples. Some of these groups are perceived as more “defensive” and have benefited in this year’s market environment.



Part of the evolving story around technology stocks reflects growing questions about how AI will affect existing software business models. Some are concerned that AI tools could disrupt traditional software-as-a-service (SaaS) companies. This is an ongoing debate and whether or not these fears prove justified, they have already contributed to a reassessment of technology valuations.

This rotation highlights how quickly market leadership can shift and is why investors should be cautious about becoming overly concentrated in any single sector, no matter how compelling the growth story may seem at the time.

Defensive Sectors and Broader Diversification Have Supported Portfolios

As uncertainty jumped over the past months, markets turned to traditionally defensive sectors such as Utilities, Consumer Staples, and to a lesser extent Health Care. Defensive sectors tend to outperform when uncertainty and market volatility rise. This is not because these companies are suddenly posting exceptional financial results, but because their cash flows are generally more stable and less dependent on a strong economic cycle. Utilities still collect payments, consumers still buy groceries, and healthcare remains essential regardless of geopolitical developments.

Just as with asset classes, it is difficult to predict which sector will lead or lag in any given year. For example, technology's recent struggles come after an extended period of market leadership. This unpredictability is why maintaining broad sector exposure is so important.

A well-diversified portfolio that includes cyclical sectors like energy, growth-oriented sectors like technology, and defensive sectors like utilities and consumer staples is better positioned to weather different market environments. Rather than trying to time sector rotations, which is just as counterproductive as timing the overall market, investors benefit from holding a balanced portfolio that can participate in gains across different parts of the economy while managing risk.



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