

### Q: What sectors are poised to lead the recovery?

**Brian Lockhart, CFP®:** The two most obvious sectors that could lead in the recovery are health care and energy, but for very different reasons. The Health Care Select Sector SPDR dropped approximately 25% in March before recovering as the market rallied. There is going to be a lot of funding in the health care sector that will draw investor attention, and valuation on many blue chip health care stocks is compelling. Energy is more of a speculative answer, but the sector appears to be priced as if oil will remain below \$30/barrel forever, which we know is not the case. Many MLPs with reasonable levels of debt have fallen more than 70% since the beginning of 2020, and should recover some of the stock price losses when demand for energy stabilizes. From a historical perspective, consumer cyclicals and financials have been the strongest early cycle performers when emerging from a recession. I think cyclicals will perform well even if they do not lead the market higher, but financials face headwinds on two fronts: low interest rates and potential increase in defaults. While technology may not be the early winner in the recovery, valuations have fallen to very attractive levels early in the anticipated recession, and over the coming years should be in high demand as supply chains gravitate back to the U.S. and raising productivity becomes the next corporate focus.

**Clint Pekrul, CFA:** Well, given how beaten up the market is now, it's easy to just say that the sectors that have suffered the greatest declines are the sectors that will lead us on the upside. But, I'm not sure that's going to be the case. Just sorting through the year-to-date sector returns, the worst performing sectors are energy, real estate, financials, industrials, and materials.

It seems there are some structural issues in the energy sector, with oil prices hovering around \$20 per barrel. The market is flooded with supply. Real estate, or particularly REITs, are represented in part by hotel, retail, and casino properties. Vacancies are running high now due to COVID-19 and shops are closed in many cases. But I think REITs could bounce back meaningfully once the economy goes back on line. Banks are flush with liquidity, but face a world of super low interest rates that I don't see changing any time soon. Industrial stocks include the beaten down airlines which may take considerable time to recover, and material stocks might struggle through a potential recession. Honestly, I think the sector that might lead the way through the end of the year could be the sector that's led the market for the past several years, and that's technology.