

The Only
Rotation Is In
Favor Of
Defensives

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The Only Rotation Is In Favor Of Defensives

The much championed rotation into small caps, on expectations of a monetary easing cycle, is reversing rapidly. As we argued in our note ([When the FED Cuts, Cut Your Risk](#)), any bullishness for small caps needs growth momentum - and this is precisely what is being challenged as progressive data points suggest an economy that is cooling off. While the FED remains confident of a “soft landing”, their behind the curve stance makes it all the more challenging.

In the meantime, defensive stocks appear to have broken out of a declining trend in force since beginning of 2023.

For now, any reversals are likely to fall in the category of a “dead cat bounce”. Bonds (duration), defensive and gold appear best positioned.

Defensives (Staples, Utilities, Healthcare) vs. SPY



source: TradingView

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