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NED DAVIS RESEARCH

MAY 15, 2025

Cyclical rotation strengthens

Positive developments

From a technical standpoint, the equity market has made strides in recent weeks that suggest the worst of the Liberation Day volatility surge may be behind us.

Since the April 8 low, the S&P 500 has rallied over 18% on widespread participation. All S&P 500 sectors except for Health Care have posted positive returns since then, led by the cyclical sectors of Technology (+31.4%), Consumer Discretionary (+24.7%), and Industrials (+20.7%). Big Mo Tape, which measures the percentage of sub-industries in uptrends, has risen from a low of 45% back to a healthy 62%.

The broad advance has been sufficient to trigger multiple breadth thrust signals, with six indicators in our Breadth Thrust Watch Report now flashing buy signals. Historically, when five or more signals are triggered, it has been a bullish sign for equities.

The chart below shows that a cluster of five or more thrust signals has historically tipped the scale in favor of cyclical over defensive leadership. Following the signals, our Broad Cyclical Sector Index has been more than twice as likely to outperform the Defensive SHUT Index over the subsequent four-, six-, and 12-month periods.

In response to the technical and sector model (details below) developments, we are making several position changes. We are removing 4% from Consumer Staples and 1% from Utilities, with both sectors downgraded to marketweight. Additionally, we are cutting Energy's allocation by 1% and downgrading the sector to underweight.

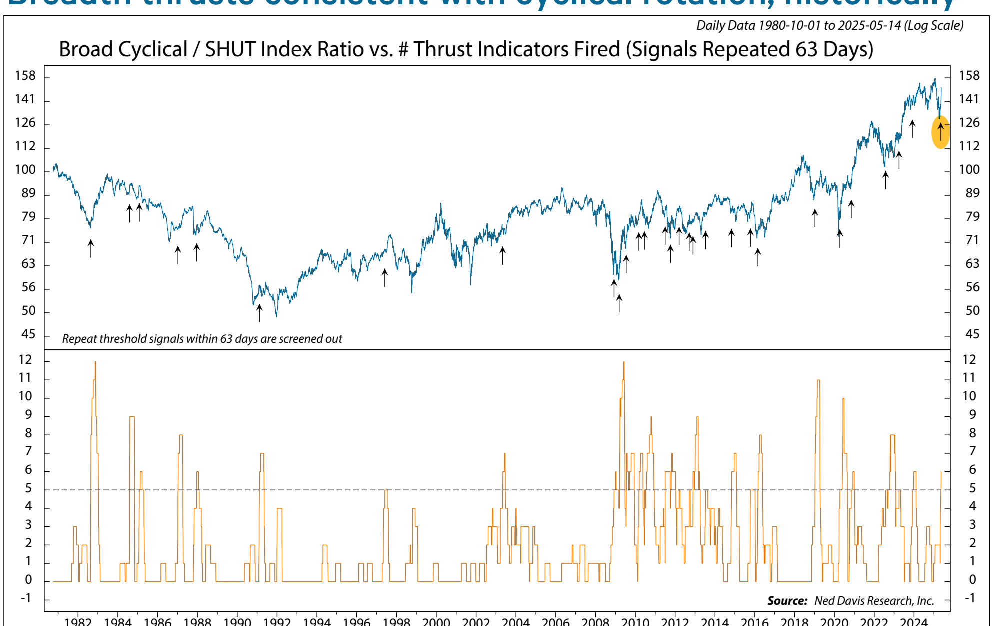
Consumer Discretionary's allocation is increasing by 4%, with the sector upgraded to overweight. Finally, 1% will be added to both Real Estate and Technology, with the former upgraded to marketweight and the latter remaining marketweight. A summary of all the changes can be seen in the chart on page 2.

Current Recommendations

Sector	Position	Recommended	Benchmark
Consumer Discretionary	Overweight	14%	10.6%
Communication Services	Marketweight	9%	9.2%
Consumer Staples	Marketweight	6%	6.5%
Financials	Marketweight	12%	12.6%
Health Care	Marketweight	12%	12.1%
Industrials	Marketweight	9%	8.5%
Real Estate	Marketweight	2%	2.3%
Technology	Marketweight	30%	30.1%
Utilities	Marketweight	3%	2.3%
Energy	Underweight	2%	3.7%
Materials	Underweight	1%	2.3%

● Overweight ● Marketweight ● Underweight

Breadth thrusts consistent with cyclical rotation, historically



Full History Dates: 10/01/1980 - 05/14/2025

Summary Item	10 Days	21 Days	42 Days	63 Days	84 Days	126 Days	252 Days
Mean	0.60	1.54	2.42	3.00	3.56	5.82	8.61
Median	0.63	1.01	1.76	3.17	3.26	5.42	5.43
Number Up	18	17	17	17	19	20	19
Number Down	10	11	11	11	9	8	9
All Periods Mean	0.06	0.11	0.23	0.35	0.49	0.75	1.50

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Trust the thrust

The chart on page 1 showed that signals from the Breadth Thrust Watch Report have historically shifted the odds in favor of cyclical sector leadership. **Consumer Discretionary has the most consistent record post signals**, being the only sector with a greater than 60% outperform rate three-, six-, and 12-months later. **Utilities has the worst record**, outperforming in just 11% of cases one year later.

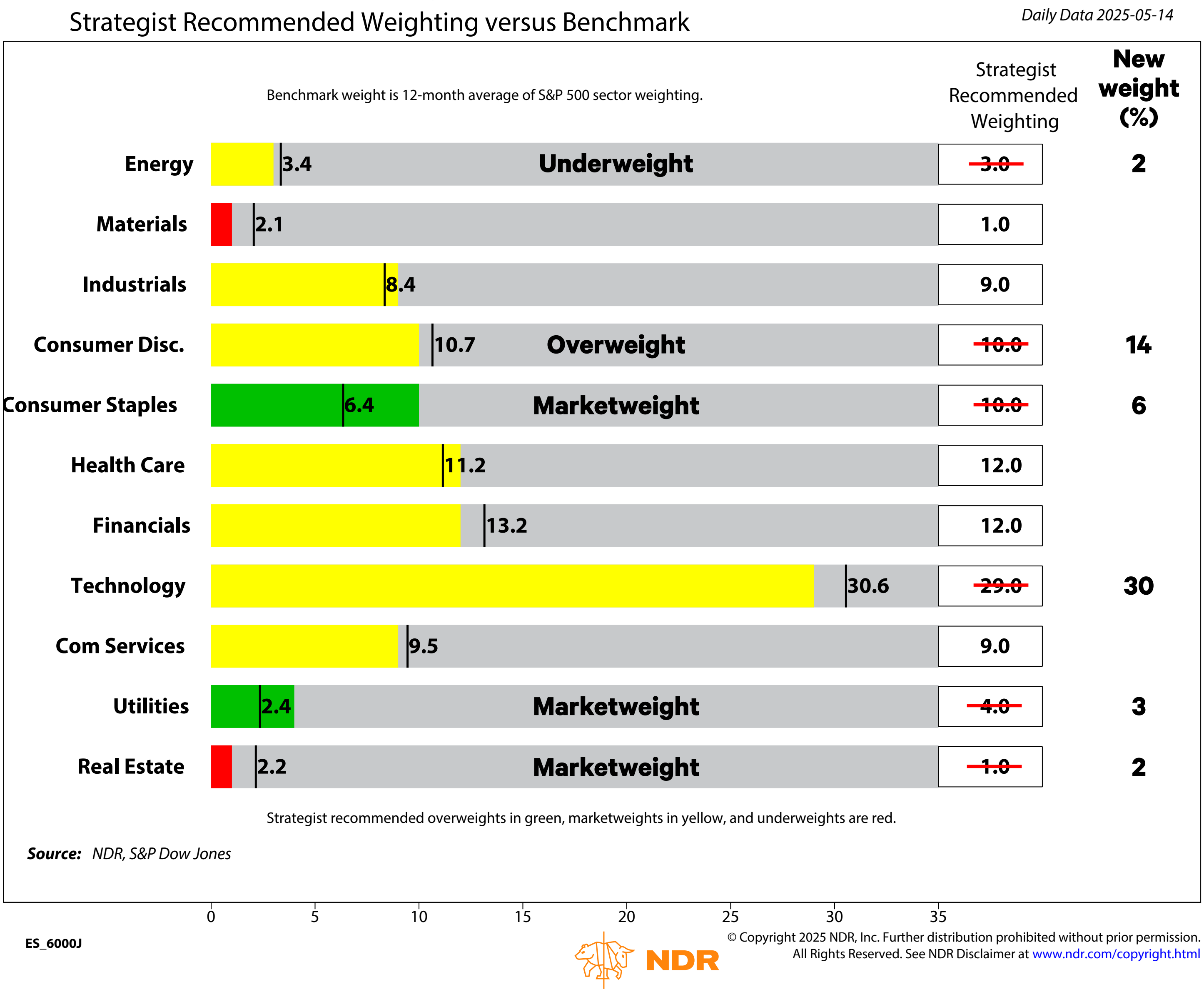
Model messages

The sector model began shifting more cyclical in mid-April, and that trend has continued into May. As shown in the chart on page 3, the average composite score for cyclical sectors now exceeds that of defensive sectors (second clip).

The recent shift toward cyclical sectors has been **driven almost entirely by the model's technical indicators** (third clip), while the non-price-based indicators remain cautious and continue to favor defensive sectors (bottom clip). The divergence is not uncommon, as technical indicators are typically the first to react to shifts in market momentum, while macro and fundamental signals tend to lag. **Confirmation from the non-technicals in the coming weeks would strengthen the case for a more sustained rotation into cyclicals.**

Consumer Discretionary has seen the

Now OW Discretionary, UW Energy

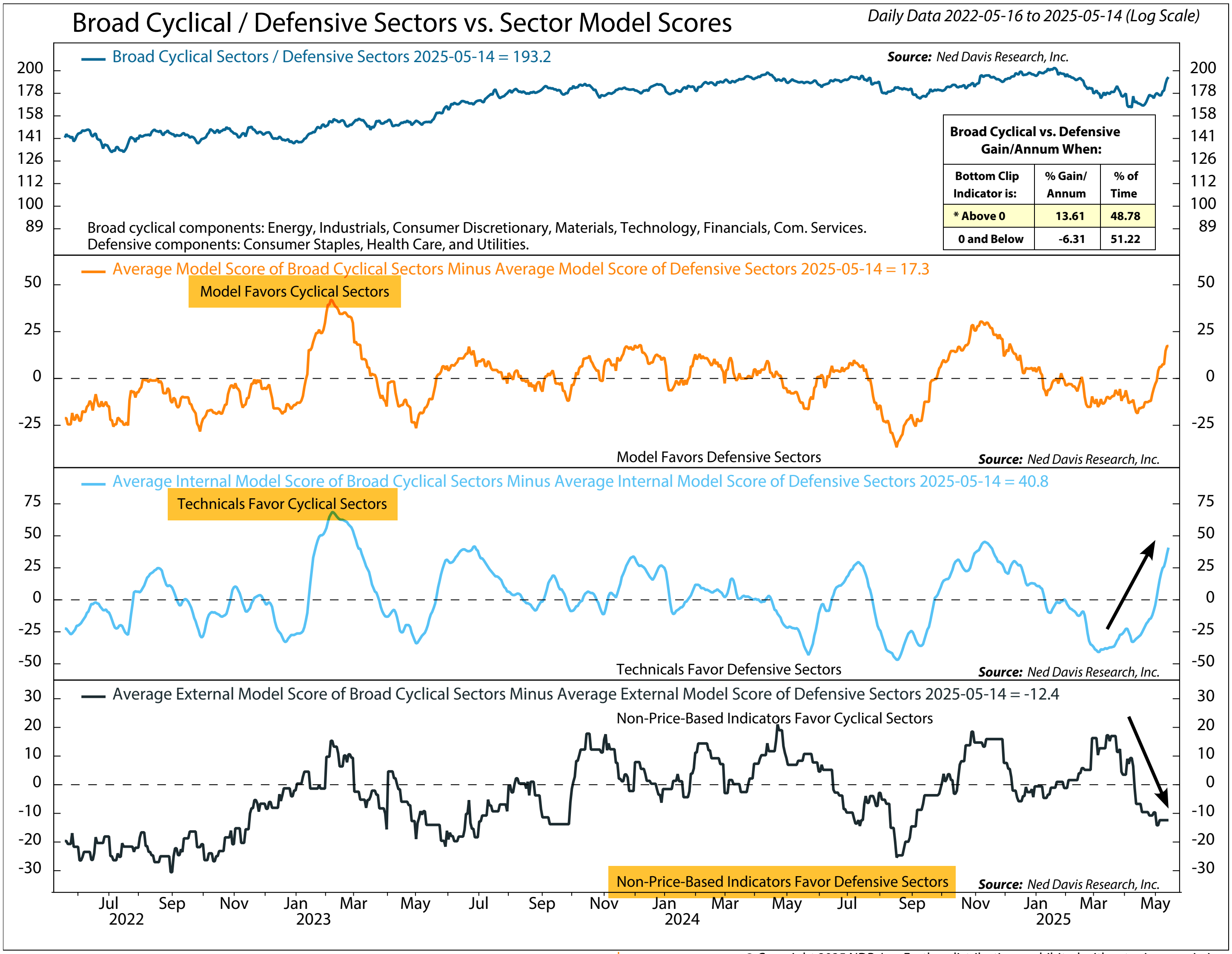


most model composite improvement over the last two months and now has the highest overall score among all sectors.

In contrast, Energy's composite score has been trending lower since February, leading to a model downgrade to underweight at the end of April. Currently, none of the sector's five internal (price-based) indicators are bullish, while just two of six external (non-price-based) indicators are bullish.

Slower growth could weigh on the sector even if the economy avoids a recession. Weakening demand may be compounded by increased supply from OPEC. However, Energy has continued to act defensively and could outperform if inflation resurges as prices react to tariffs and in anticipation of the passage of the Big, Beautiful Bill that encompasses tax reforms, adjustments to social programs, defense and border spending, and a rollback of clean energy policies. **The sector's downgrade will be on a short leash.**

Technicals support cyclicals but other indicators are cautious



Broad Cyclical vs. Defensive Gain/Annum When:		
Bottom Clip Indicator is:	% Gain/ Annum	% of Time
* Above 0	13.61	48.78
0 and Below	-6.31	51.22

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NED DAVIS RESEARCH

NDRsales@ndr.com
www.ndr.com
(800) 241-0621

SARASOTA

3665 Bee Ridge Road Suite 306

Sarasota, FL 34233

United States

800 241 0621 (U.S. & Canada)

941 412 2300

NEW YORK

1270 Avenue of the Americas

11th Floor

New York, NY 10020

(800) 241-0621

LONDON

4 Bouverie Street

Temple, London

EC4Y 8AX

+44 20 7779 8454

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Recommendations

NDR's sector team uses a quantitative sector model as the primary guide to deriving our recommendations. The model is designed to identify sectors and industries with the strongest fundamental (macro, economic, valuation, profitability) and technical price trends. Our team uses the model as the framework for our tactical shifts around longer-term fundamental themes. As a discipline, our recommendations are put on a "short leash" if they rank opposite the model's top and bottom quintiles, unless industry-specific influences can be shown to dominate.

Some sectors receive "over-," "market-," or "under-" weight recommendations, which means that the research firm recommends that more, the same, or less of the sector should be held in your portfolio than is held in the market.

Definitions

S&P 500 Index. A capitalization-weighted stock index of 500 of the largest and best known common stocks. The S&P 500 is one of the most quoted indexes, and is the often used as a benchmark for the stock market.
Alpha. The remaining portion of excess return after compensating for market risk.
Price-to-Earnings (P/E) Ratio. The price of a stock divided by its earnings. Also known as Price Multiple.
Price/Earnings to Growth (PEG) Ratio. A stock's price-to-earnings ratio divided by the growth rate of its earnings for a specified time period. The price/earnings to growth (PEG) ratio is used to determine a stock's value while taking the company's earnings growth into account, and is considered to provide a more complete picture than the P/E ratio.
Return on Equity (ROE). The amount of net income returned as a percentage of shareholder equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.
Basis Point. One hundredth of a percent. Used when describing change in yield. There are 100 basis points in 1%.
Price-to-Dividend. The price of a stock divided by the amount of dividends per share paid by the company each year. It is a measure of the return on investment for a stock.

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See the signals.™

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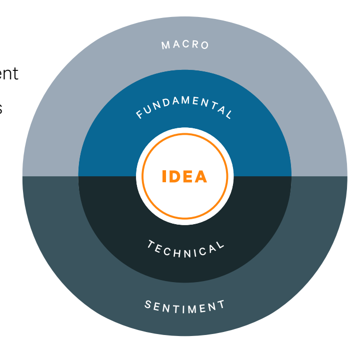

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