NDR
NED DAVIS RESEARCH

NDR Sector Views

MAY 7, 2025

Tariff whiplash

Leadership in April played out in two distinct phases. From the April 3 tariff announcement through April 21, defensive sectors took the lead as investors sought safety amid rising uncertainty and volatility. In the latter part of the month, momentum shifted, and cyclical sectors led as stocks rallied and risk appetite returned.

The net result was a modest 0.8% decline in the S&P 500, with five sectors posting gains while six finished the month in the red. April marked the third consecutive month in which the S&P 500 registered a loss.

Leadership reversal

Energy was the best performer in Q1 and was the hardest hit from the Liberation Day tariff announcements that reduced growth expectations for the year and reignited recession concerns. The sector finished down almost 14% during the month, **erasing all the sector's Q1 gains and more**. Energy is now down 6% year to date, third worst among all sectors.

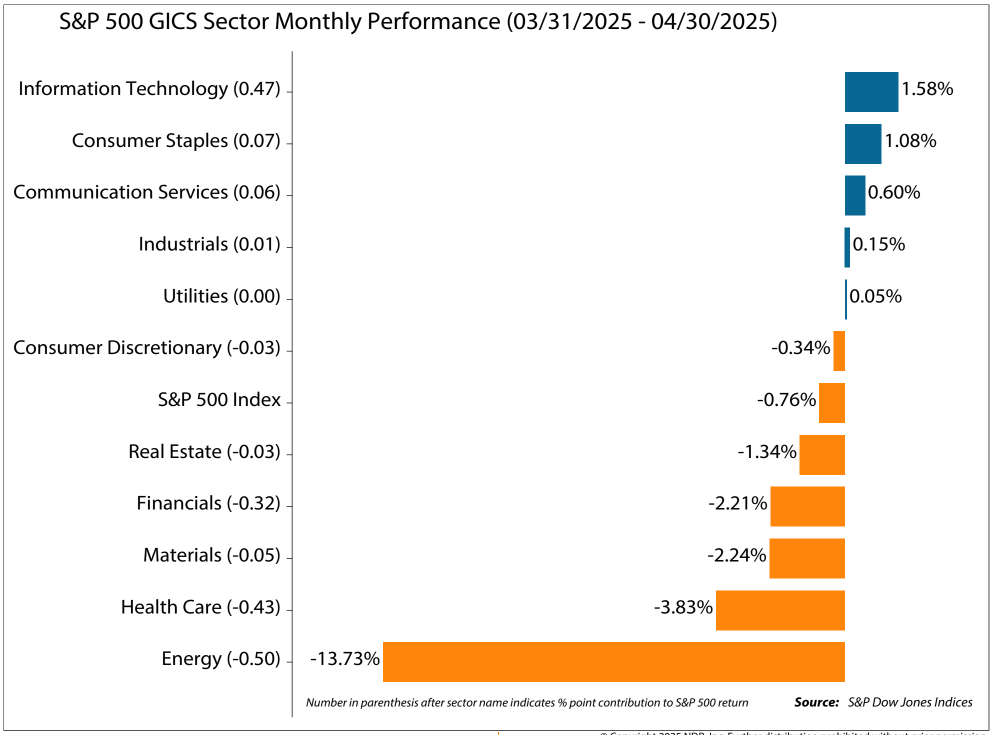
Technology, which was the second worst performer in Q1, rose 1.6% in April and finished as the top performing sector. We have shown that while Technology rallies following weak Q1s have been common, they have also **tended to be fleeting**.

CURRENT RECOMMENDATIONS

Sector	Position	Recommended	Benchmark
Consumer Staples	Overweight	10%	6.5%
Utilities	Overweight	4%	2.3%
Communication Services	Marketweight	9%	9.2%
Consumer Discretionary	Marketweight	10%	10.6%
Energy	Marketweight	3%	3.7%
Financials	Marketweight	12%	12.6%
Health Care	Marketweight	12%	12.1%
Industrials	Marketweight	9%	8.5%
Technology	Marketweight	29%	30.1%
Materials	Underweight	1%	2.3%
Real Estate	Underweight	1%	2.3%

● Overweight ● Marketweight ● Underweight

Tech on top, Energy worst in April



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Q1 earnings

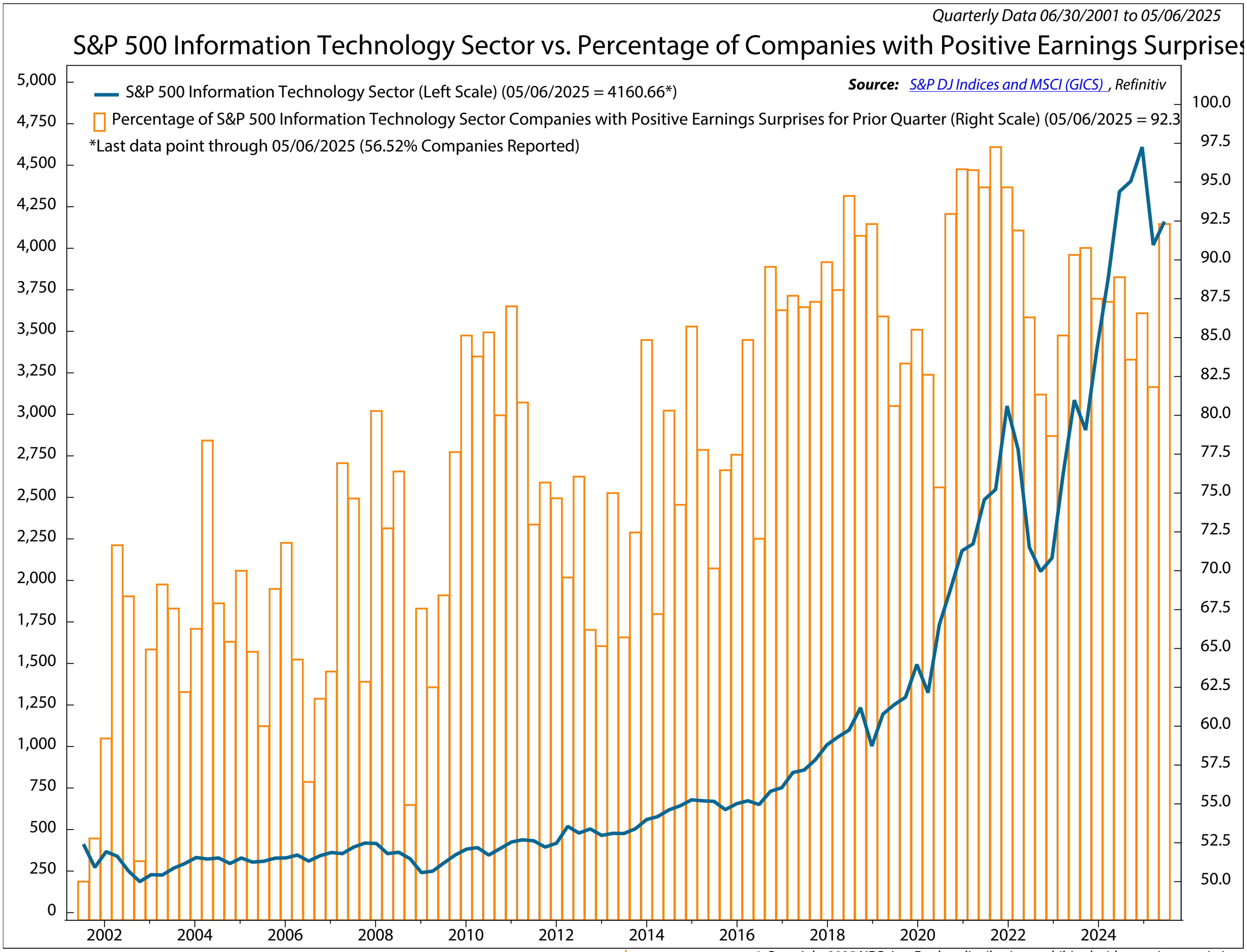
With 70% of S&P 500 companies reporting, the index's 75% beat rate marks a **modest improvement over Q4**. Communication Services, Technology (chart, page 2), and Health Care have had the best starts to earnings season, while the beat rates for Utilities, Consumer Discretionary, and Energy have been the worst.

Notably, **all Mag 7 companies outside of Tesla that have reported beat on bottom line estimates**. In recent weeks, full-year 2025 ESP growth estimates were revised up the most for Alphabet and Meta, while Tesla has seen the steepest downward revisions.

Model update

The sector model made three recommendation changes at its month-end update: **Utilities was downgraded from overweight to marketweight, while both Energy and Technology were downgraded from marketweight to underweight**. Expect us to move closer to the model's positioning in the coming weeks.

Technology has the highest Q1 earnings beat rate



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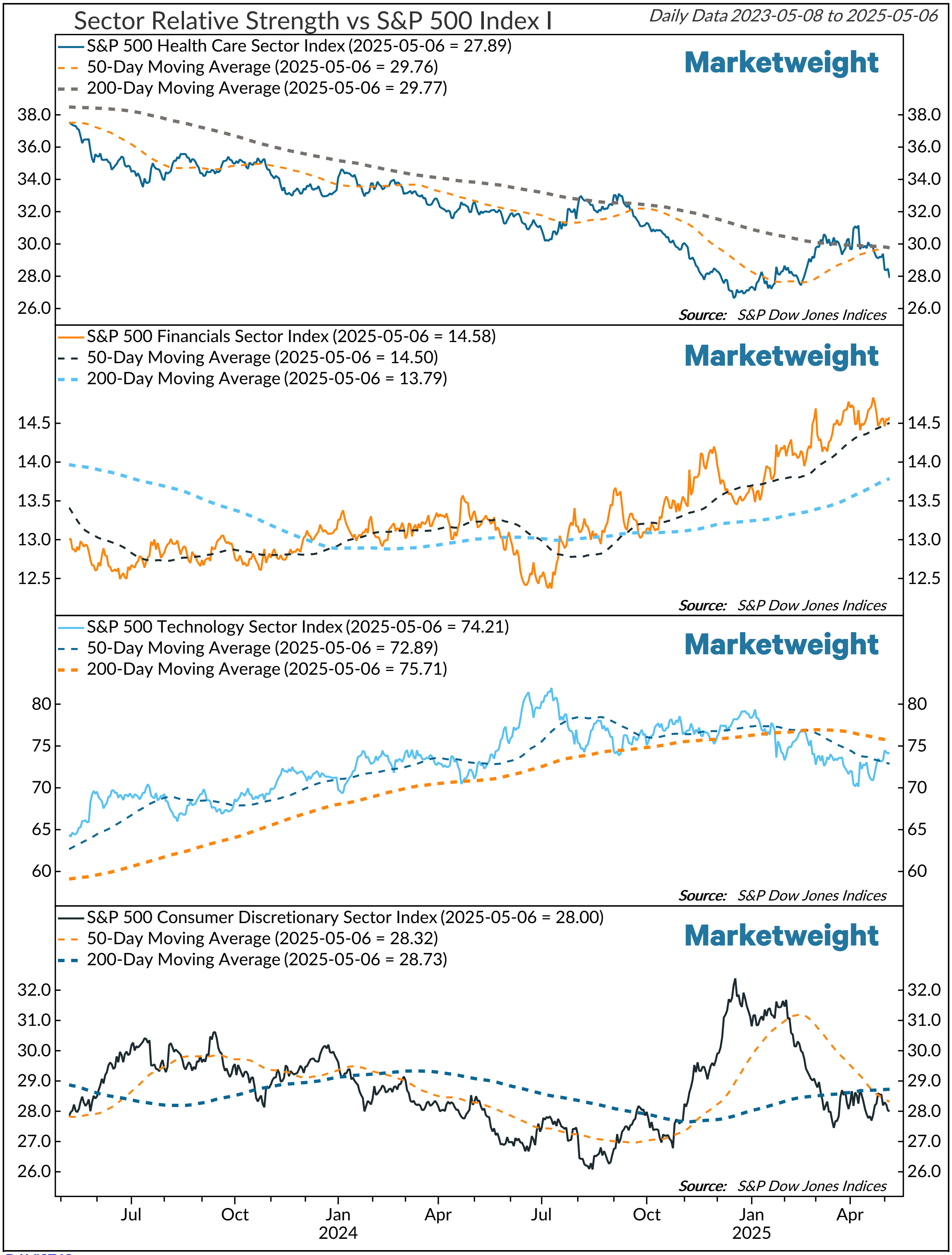
Financials has proven resilient despite tariffs



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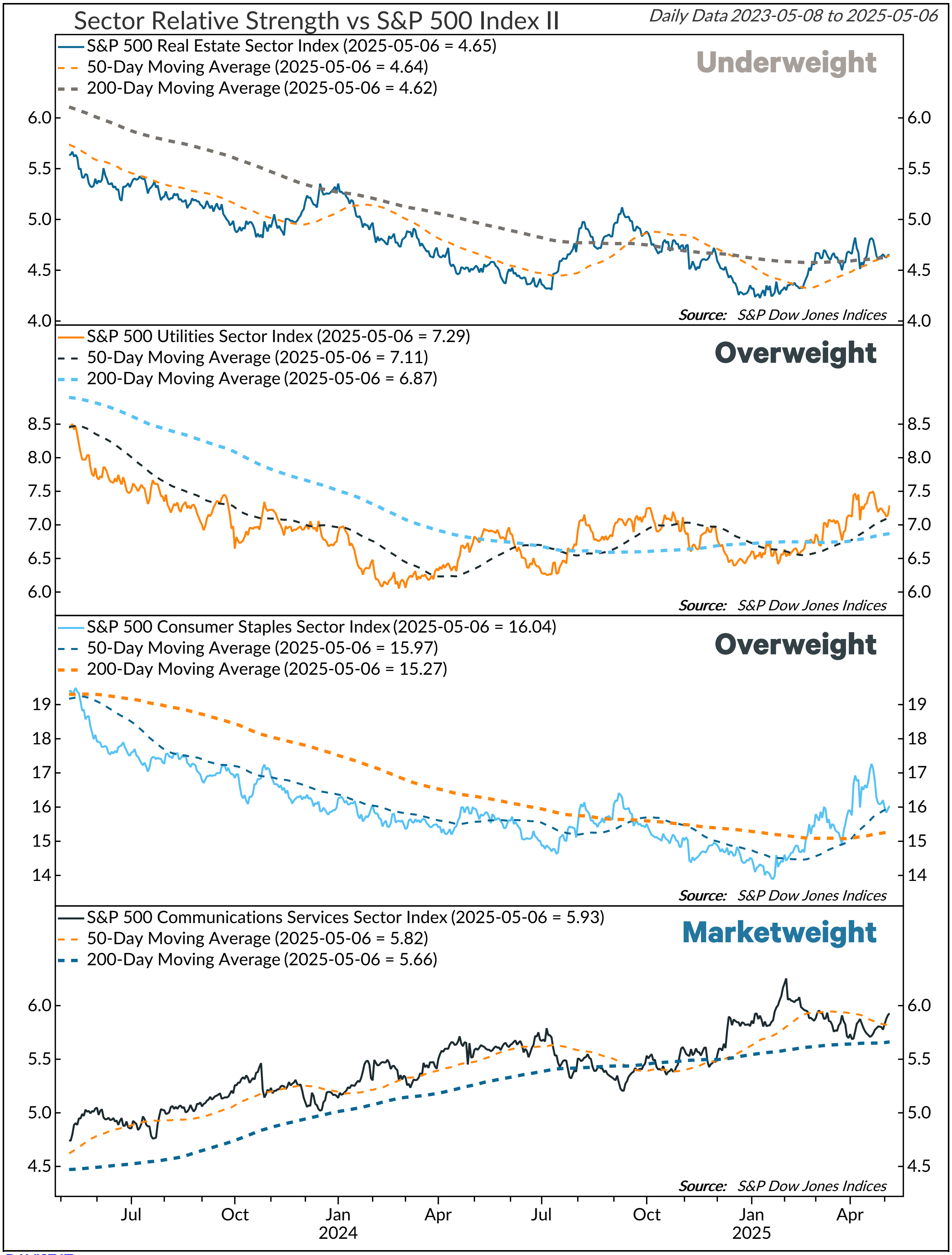
Real Estate, Utilities, and Staples went on golden cross signals in April



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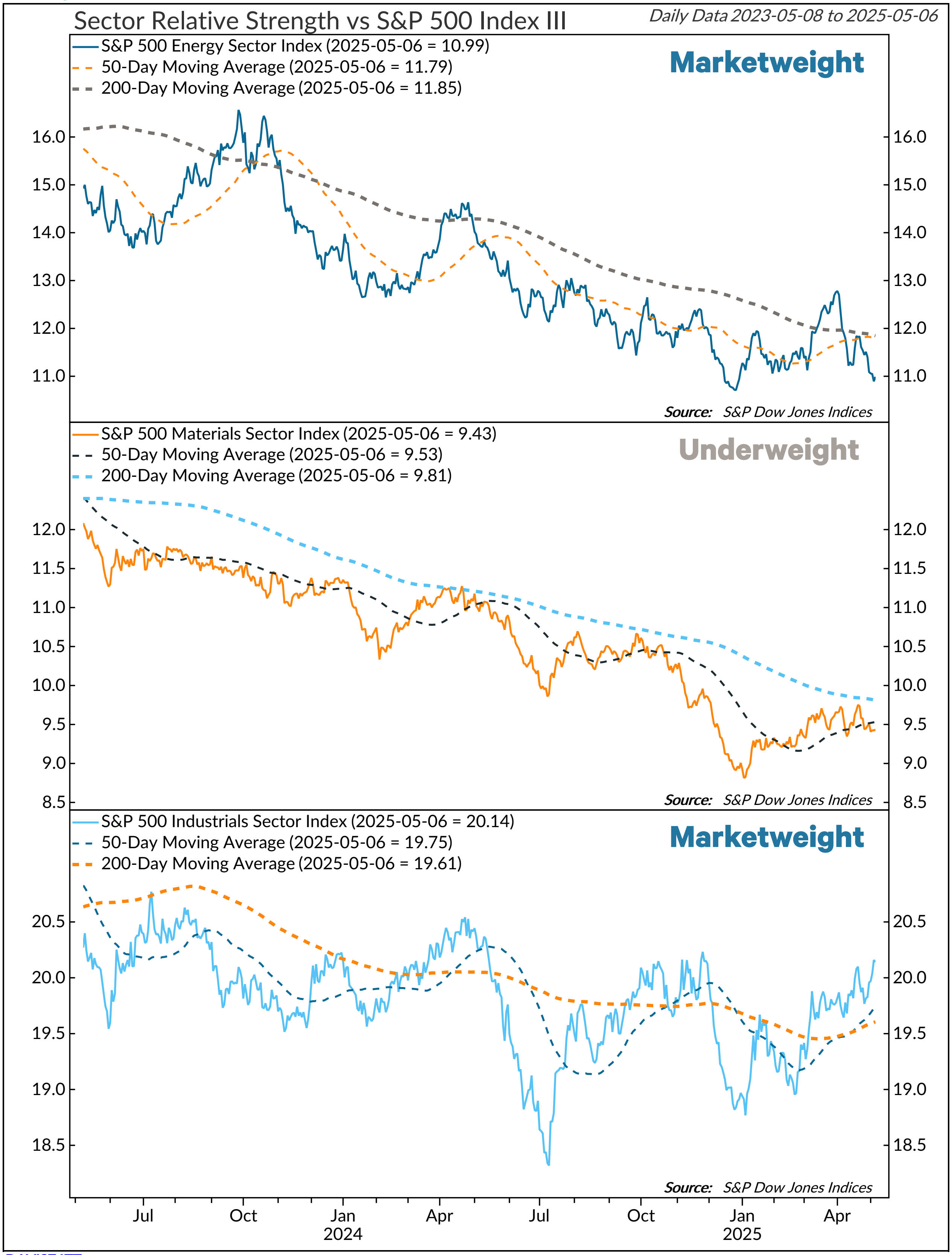
Energy was hit hard by tariff announcements



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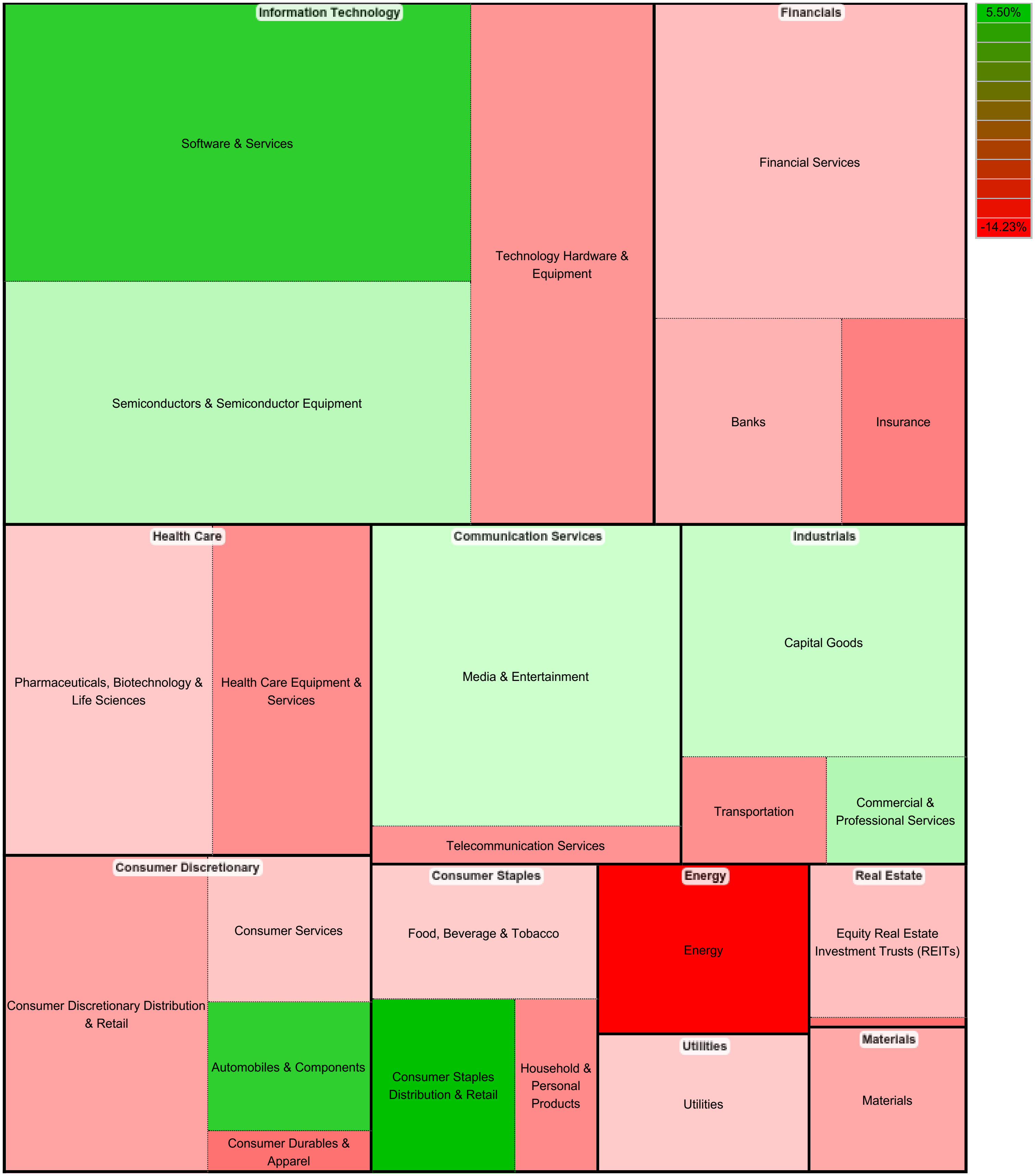
April 2025 S&P 500 Sector Return Heat Map



Box sizes represent market-cap of sectors and industry groups. Color intensity reflects magnitude of return.
Sources: S&P Dow Jones Indices, Ned Davis Research.

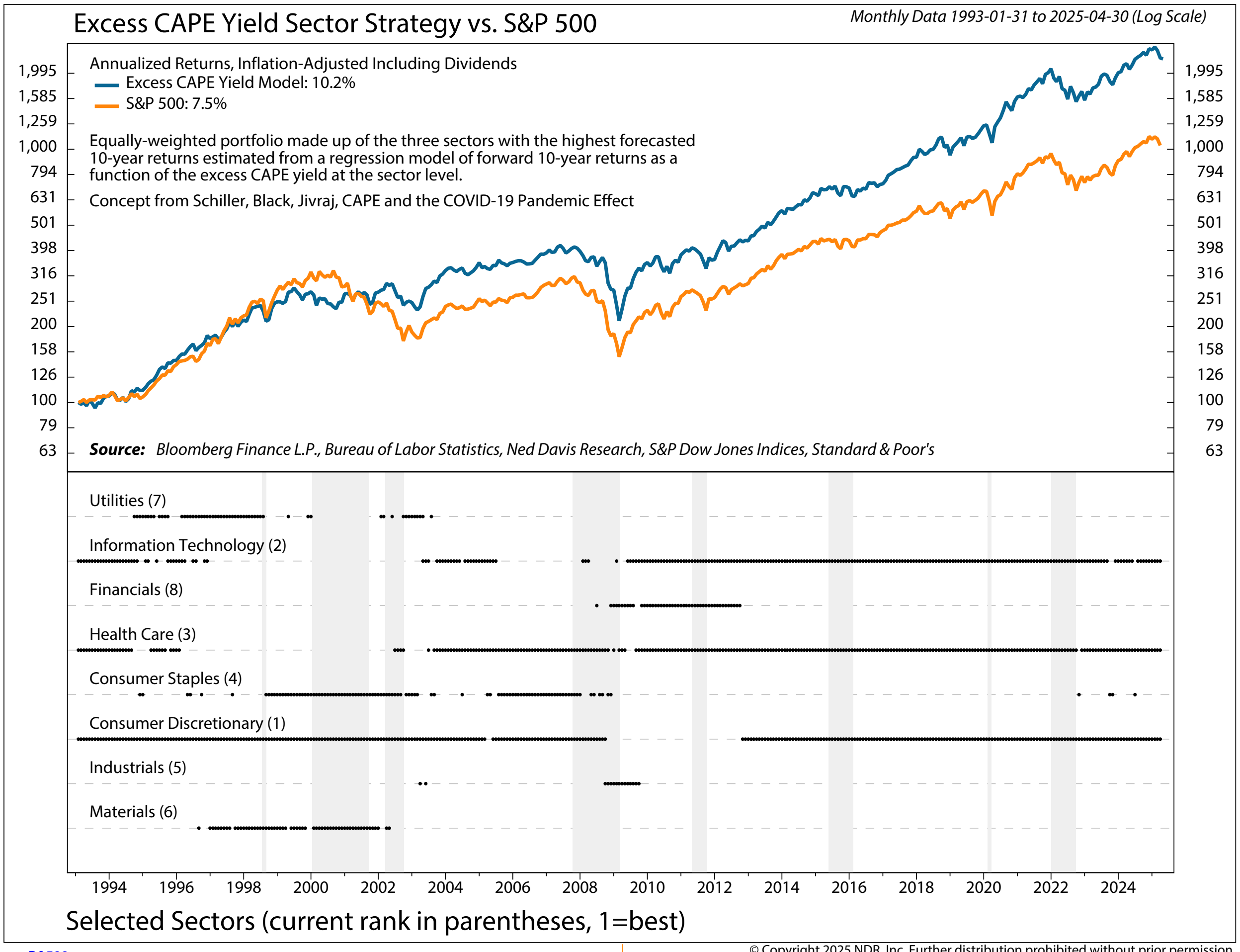
Utilities has started to look more expensive

Sector | Excess

Sector	EBIT/ Enterprise Value	Dividend Yield	Book Yield	Earnings Yield	Sales Yield	Forward Earnings Yield	Cap-Weighted Cyclically Adjusted Earnings Yield
Energy	7.83	3.45	57.42	6.82	49.43	7.04	2.90
Materials	5.70	2.35	42.69	3.31	61.70	5.88	3.70
Industrials	4.83	1.43	17.13	3.92	30.86	4.92	2.98
Consumer Discretionary	6.55	1.22	13.26	5.09	48.17	5.67	2.41
Consumer Staples	6.48	3.11	22.05	4.78	62.10	6.02	3.40
Health Care	5.24	0.64	25.97	3.79	30.68	6.68	3.14
Financials	9.28	1.70	48.26	6.53	49.63	7.83	4.45
Information Technology	3.58	0.58	13.82	3.18	18.82	4.76	1.89
Communication Services	8.12	0.97	32.08	4.50	60.52	5.89	2.95
Utilities	4.47	3.27	47.36	4.68	34.53	5.39	3.89
Real Estate	2.80	3.95	37.82	2.73	11.69	2.59	2.94

- : Cheap
- : Expensive
- A sector is identified as cheap/expensive when the sector valuation spread (valuation yield - S&P 500 ex-sector valuation yield) crosses below/above its five-year average spread.
- The best measure, based on historical spreads, for each sector is Energy (EBIT/EV), Materials (Dividend Yield), Industrials (Dividend Yield), Consumer Discretionary (Sales Yield), Consumer Staples (Cyclically Adjusted Earnings Yield), Health Care (Cyclically Adjusted Earnings Yield), Financials (Dividend Yield), Information Technology (Earnings Yield), Communication Services (Sales Yield), and Utilities (Cyclically Adjusted Earnings Yield). Real Estate excluded due to lack of history.
- *Source: Ned Davis Research calculations using Compustat data.*

Excess CAPE Yield Model remains unchanged



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Communication Services: Marketweight effective 11/24/24

Key Takeaways

- Communication Services was the third-best performing sector in April..
- Q1 earnings season is off to a good start for the sector.
- The sector saw slight model deterioration but remains marketweight.

After falling 8.4% in March, Communication Services performed better in April, rising 0.6% versus a decline of 0.8% for the S&P 500. Netflix's 21% surge and Alphabet's 3% gain offset weakness from Meta, which declined roughly 5% during the month. Communication Services has held up much better than the other Growth sectors to begin the year and will be a top upgrade candidate if we shift more cyclical. However, we remain more defensive for now and maintain our marketweight on the sector.

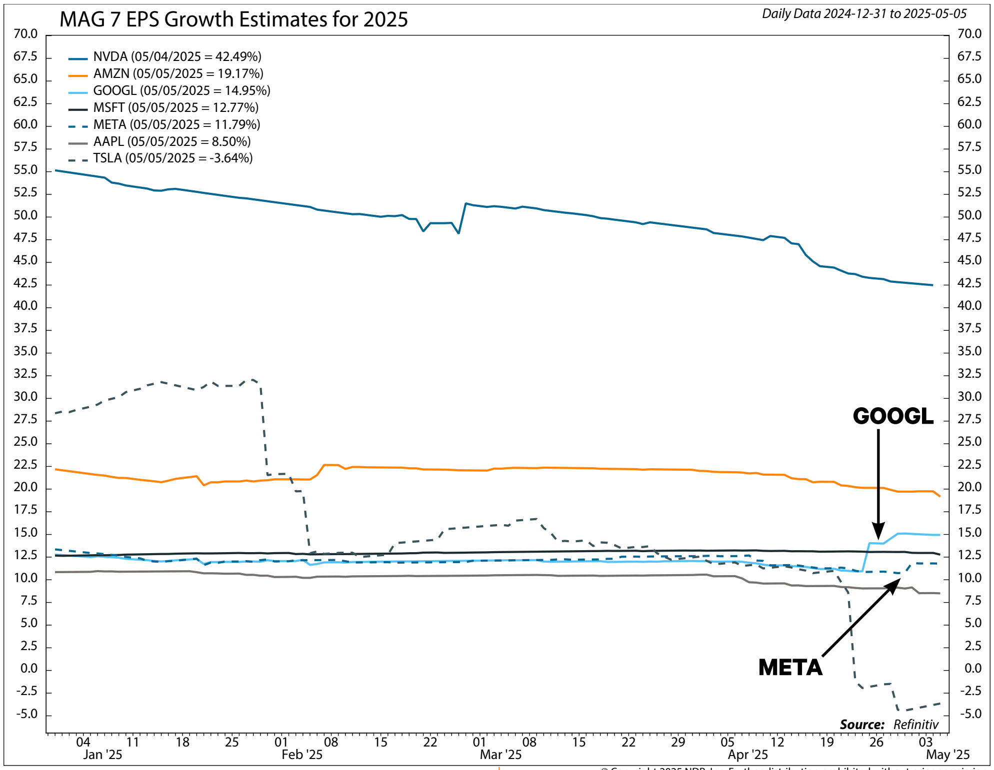
Key drivers: Q1 earnings season has gone well for Communication Services. With 57% of the sector reporting, 92% have beat on bottom line estimates, best among all sectors. Importantly, Alphabet and Meta, the sector's largest constituents representing more than 65% of the sector's market cap, both beat estimates. Additionally, analysts turned more optimistic for the full year, raising 2025 growth targets for both companies.

Indicators to watch: From a sector model perspective, indicator evidence deteriorated slightly in April. While a drop in the sector's volatility was enough to turn the sector's Relative Volatility indicator from bearish to neutral, both the Relative Overbought/Oversold and Earnings Revisions Breadth indicators turned from bullish to neutral.

Despite the composite score drop, the sector finished the month with the second-highest overall composite score. However, the model remains marketweight, matching our recommendation on the sector.

Sector positives	Sector negatives
• Sector's relative Volume Supply/Demand indicator remains bullish • Telecom Services industries were among the top performers in Q1 • Mag 7 relative valuations looks attractive versus long-term averages	• Capex surge from mega-caps represent a risk if market turns lower • EPS growth from Meta and Alphabet is decelerating in 2025 • Tariffs uncertainty has hit tech names hard

Jump in Meta and Alphabet 2025 EPS growth estimates



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Consumer Discretionary: Marketweight effective 2/13/25

Key Takeaways

- Consumer Discretionary was the worst performer in Q1 but was a slight outperformer in April.
- The sector's mega-caps have been the biggest drags on the sector.
- The model remains marketweight, matching our recommendation on the sector.

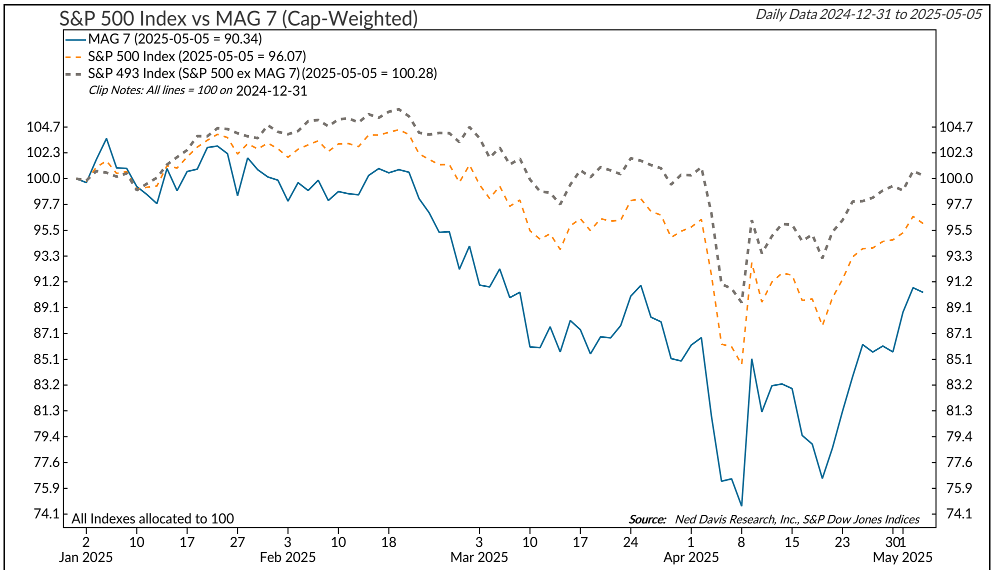
Consumer Discretionary was a slight outperformer in April, finishing the month down 0.3% versus a decline of 0.8% for the S&P 500. While the sector struggled during most of the month, it eventually found its footing and outperformed by almost 1000 basis points from April 21 through the end of the month. We remain marketweight the sector while the market continues to work through its bottoming process.

Key drivers: The high levels of market concentration rarely proved a problem for stocks since the cyclical bull began in September 2022. The largest companies have often been leaders of the bull market, driving concentration to record highs. However, the risk of a highly concentrated market has been on full display this year. The largest 10 stocks peaked at 39% of S&P 500 market cap in January. The pullback this year has been mega-cap driven, with the cap-weighted Mag 7 Index down 9.7% on the year. While the S&P 500 has fallen almost 4.0% during the year, the S&P 500 ex-Mag 7 has seen a gain of 0.3%. Mag 7 weights at the sector level are much greater, making it nearly impossible for Growth sectors to perform well when the mega-caps are in downtrends.

Indicators to watch: Consumer Discretionary saw the second most composite score improvement in April. Despite the improvement, the model remains marketweight, matching our recommendation on the sector.

Sector positives	Sector negatives
• Relative valuations look reasonable • NASDAQ sentiment has fallen out of extreme optimism • Homebuilders P/B reached extreme oversold levels	• Volume Supply/Demand indicator is bearish • Uncertain trade policy bearish for durables and textile industries • The sector's second-largest company Tesla has struggled in 2025

Mag 7 bounced back after post-Liberation Day low



Ticker	Name
META	Meta (Facebook)
AMZN	Amazon.com
MSFT	Microsoft
AAPL	Apple
GOOGL	Alphabet
TSLA	Tesla
NVDA	Nvidia

Index (Cap-Weighted)	Gain/Annum % 2024-12-31 to 2025-05-05	YTD % 2024-12-31 to 2025-05-05
MAG 7	-25.66	-9.66
S&P 500 Index	-11.05	-3.93
S&P 493 Index (S&P 500 ex MAG 7)	0.81	0.28

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Consumer Staples: Overweight effective 4/8/25

Key Takeaways

- Consumer Staples was the second-best performer in April.
- Seasonality suggests cyclical sectors could gain the upper hand.
- The sector had the highest sector model score at the end of April and we maintain our overweight for now.

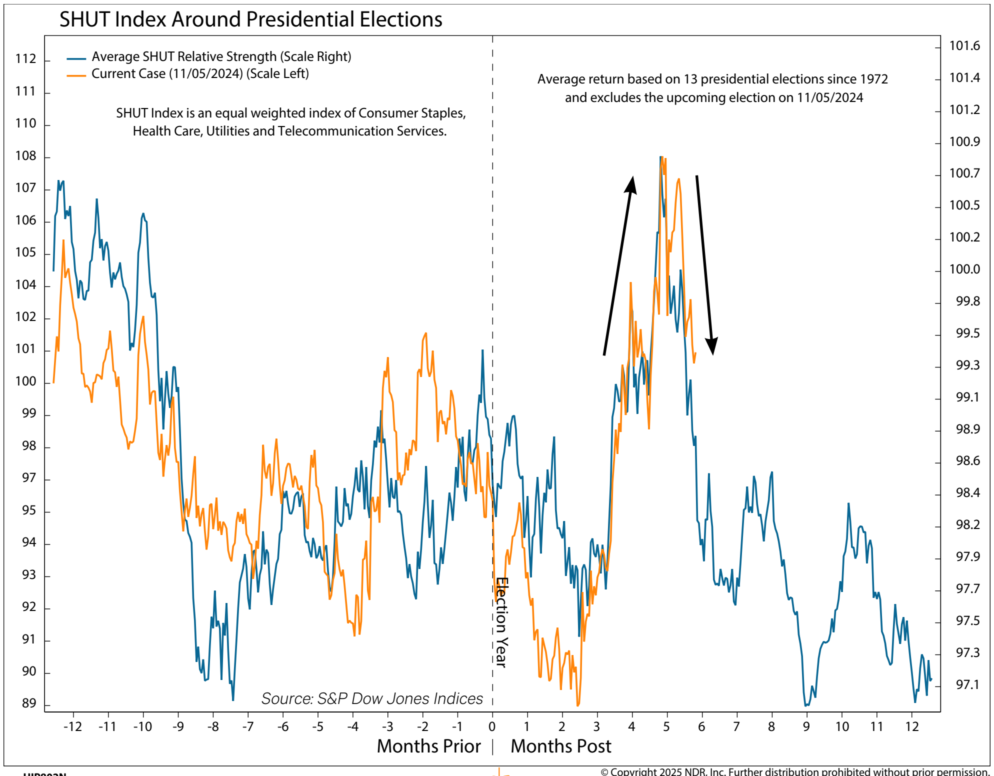
Consumer Staples finished April up 1.1% and was the second-best performing sector during the month. All the relative gains came early in the month around Liberation Day, with the sector trailing the index from April 21 through the end of the month as the S&P 500 rallied. The model continues to lean defensive, with Consumer Staples finishing the month with the highest overall composite score. We maintain our overweight of the sector for now.

Key drivers: The rotation back towards defensive sectors to begin the year was in line with the four-year presidential cycle. Historically, after an initial cyclical surge post-election, defensive sectors gain the upper hand for around three months, on average. However, after that, leadership has tended to rotate back toward cyclical sectors, suggesting that the cyclical leadership established at the end of April could persist.

Indicators to watch: Of course, every cycle plays out differently and trade policy could derail the typical seasonal tendency this year. For now, the sector model is indicating high risk, with defensive sectors having higher composite scores than cyclical sectors, on average. While the model is officially marketweight Consumer Staples, it finished April with the highest overall composite score, and we maintain our overweight for now.

Sector positives	Sector negatives
• Consumer Staples' relative P/E ratio is below its long-term average • Economic Surprise Index shows more data missing expectations than beating, bullish for defensive sectors • Sector's Supply/Demand indicator turned bullish in April	• Forward P/E ratio near record high • S&P 500 cyclical composite turned higher in April, bearish for defensive sectors • Weak start to Q1 earnings season

SHUT Index continues to follow election-year pattern



Energy: Marketweight effective 12/19/24

Key Takeaways

- Energy was the top performer in Q1 but plummeted in April.
- Q1 earnings season has started off poorly for the sector.
- The model downgraded Energy to underweight at the month-end update.

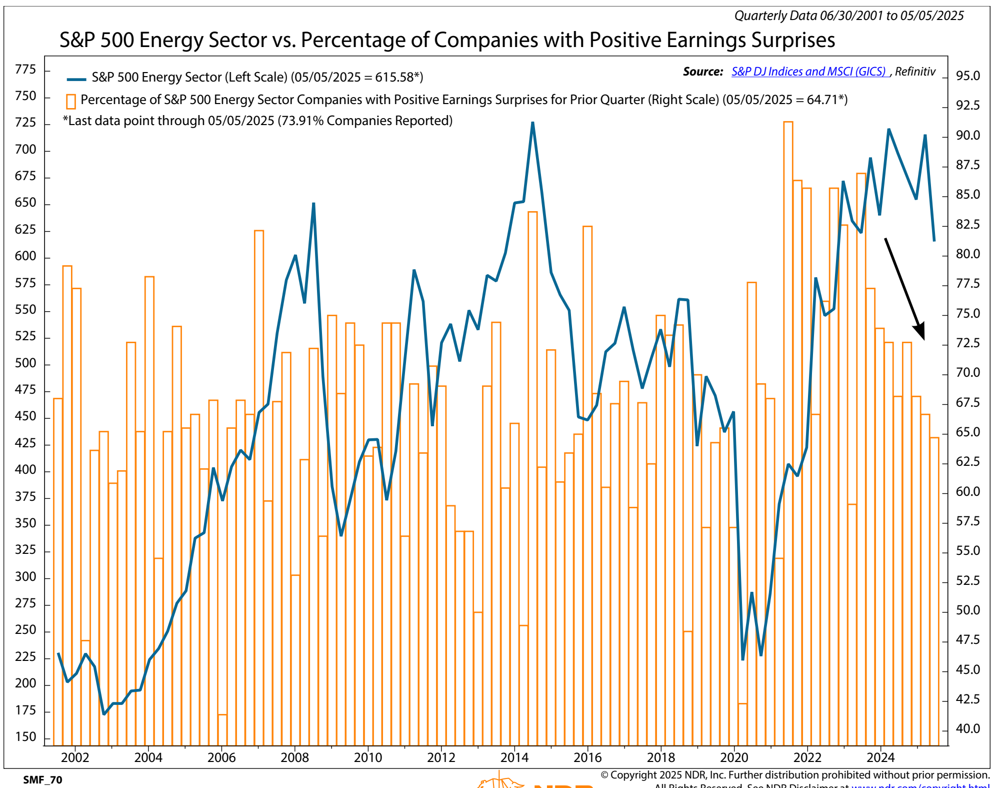
Indicators to watch: The sector model turned more bearish on Energy in April. Three internal (price-based) sector model indicators – Relative Price Momentum, Relative Price Overbought/Oversold, and Moving Average Cross - all turned bearish during the month. The sector finished April with the second-lowest composite score and was downgraded to underweight by the model. We remain marketweight for now but have the sector on watch for a downgrade.

Sector positives	Sector negatives
• U.S. reserves are depleted and will need to be refilled • Crude Managed Money Short indicator remains on September buy signal • Valuations look relatively attractive	• OPEC set to increase production. • Economic surprises have been low in U.S., bearish for crude historically • Energy Supply/Demand indicator turned bearish in April

Trump tariffs reintroduced growth and recession concerns in April, leading several economically sensitive sectors to underperform. Crude prices fell by more than $10 per barrel and the International Energy Agency (IEA) reported a downward revision in global oil demand growth for 2025 amid the deteriorating economic outlook. Energy fell almost 14% during the month, the worst among all sectors.

Key drivers: Q1 earnings season has started off poorly for the sector. With 74% of S&P 500 Energy companies reporting, only 65% have beat on bottom line estimates, the third lowest among all sectors. If the result holds, it will be the lowest beat rate for the sector since Q1 of 2023. Falling oil prices have led to downward revisions on 2025 earnings estimates. The combination of weakening fundamentals and a deteriorating outlook may keep investors cautious on Energy moving forward.

Q1 earnings season has gone poorly for Energy



Financials: Marketweight effective 4/8/25

Key Takeaways

- Financials underperformed in back-to-back months.
- While the yield curve and loan growth have trended in positive directions for the sector, other indicators are flashing warnings.
- We remain marketweight, matching the sector model.

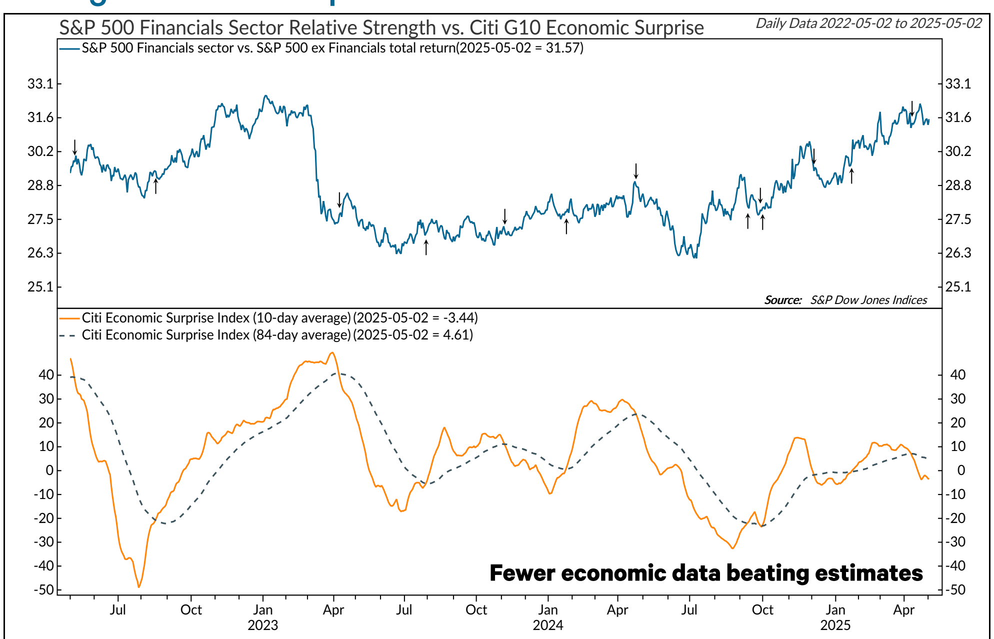
Financials followed its 4.3% decline from March with a 2.2% drop in April, fourth worst among all sectors. Weakness was broad based, with all industries other than Consumer Finance trailing the broad market during the month. With the sector clearly losing momentum among tariff uncertainty, the weight of the evidence has turned more cautious. We remain marketweight for now, matching the sector model.

Key drivers: Two of the macro drivers we watch closely for Financials are the yield curve and loan growth. Both concepts are represented in our sector model. The sector's Yield Curve model indicator turned bearish on February 21 for the first time in over a year but turned bullish again on April 7. While the sector's loan growth indicator remains bearish, it has improved in recent months and could turn bullish soon.

Indicators to watch: While the yield curve and loan growth messages have improved, other factors are flashing new warning signs. The sector's G10 Economic Surprise Index indicator turned bearish on April 10 as fewer economic data points have beaten estimates. Weakening credit conditions turned the sector's Business Credit Condition Index indicator bearish on April 30. The sector finished April with the fourth lowest overall composite score, but the model remains marketweight for now, matching our recommendation.

Sector positives	Sector negatives
• Four of six curve composite models are in their steepening zones • Sector could benefit from deregulation • Berkshire Hathaway, the sector's largest company, is up almost 20% on the year.	• Berkshire Hathaway sold off after Buffett stepped down • A weak dollar is historically bearish for the sector • Financials has been the poorest performer when inflation is rising

Falling economic surprises bearish for Financials



Bullish when short-term smoothing crosses above long-term smoothing.

Bearish when short-term smoothing crosses below long-term smoothing.

Financials RS Performance
Full History: 2003-05-02 to 2025-05-02

Moving average cross indicator is	% Gain/ Annum	% of Time
Bullish	2.59	51.17
Bearish	-11.48	48.83

Buy/Hold = -4.52% Gain/Annum

Financials RS Performance
Chart View: 2022-05-02 to 2025-05-02

Moving average cross indicator is	% Gain/ Annum	% of Time
Bullish	5.95	53.10
Bearish	-1.32	46.90

Buy/Hold = 2.48% Gain/Annum

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Health Care: Marketweight effective 2/13/25

Key Takeaways

- Health Care was the second-worst performer in April.
- Policy uncertainty around the sector is high but a lot looks priced in.
- The model turned more bearish on the sector during the month.

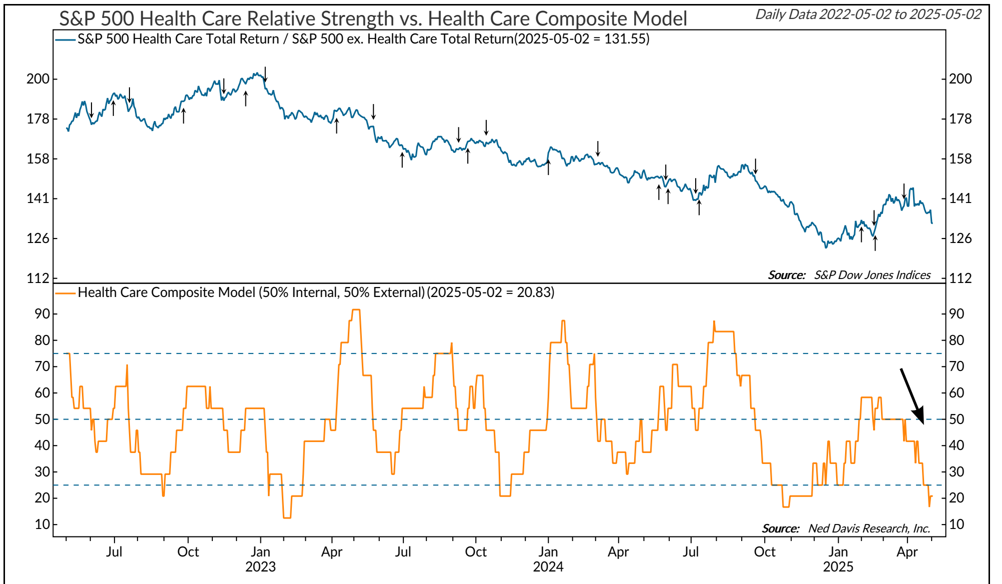
Unlike the other defensive sectors of Consumer Staples and Utilities, Health Care underperformed the S&P 500 in April. The sector fell 3.8% during the month and was the second-worst performer. Health Care has also trailed the other defensive sectors on the year, with the sector roughly flat in 2025 versus 5% gains for Consumer Staples and Utilities. While we remain overweight Consumer Staples and Utilities, we maintain our marketweight on Health Care.

Key drivers: Heading into both the 2016 and 2024 elections, Health Care was weak relative to the S&P 500. Back then, uncertainty regarding how Trump and a Republican-controlled Congress would handle the campaign promise to repeal and replace the ACA hung over the sector post- election. Trump's choice of Robert F. Kennedy Jr. to lead the Department of Health and Human Services and the newly created Department of Government Efficiency (DOGE) have kept the outlook for the sector uncertain this cycle as well. While much of the uncertainty is likely priced in, with the sector's forward P/E ratio now below its long-term average, technical evidence suggests caution.

Indicators to watch: Four internal (price-based) sector model indicators for Health Care turned bearish during the month. While the sector's external (non-price-based) composite saw some improvement, the overall composite score deteriorated and fell to its lowest level since October 2024. While the model stayed marketweight, the weight of the model evidence is closer to an underweight than an overweight.

Sector positives	Sector negatives
• Q1 earnings beat rate is second best among all sectors	• All internal (price-based) model indicators are bearish
• Biotech and Pharma sentiment is at extreme pessimism	• Inflation Reduction Act looks to reduce Medicare spending on prescription drugs
• Sector remains very oversold versus S&P 500 (one-and three-year basis)	• DOJ looking into UnitedHealth's billing practices

Health Care's composite score deteriorated in April



Health Care / S&P 500 ex. Health Care Performance **Full History:** 1979-12-31 to 2025-05-02		
Health Care Composite Model is	% Gain/ Annum	% of Time
Above 75	18.37	15.86
Between 50 and 75	2.79	41.37
Between 25 and 50	-2.93	33.84
25 and Below	-17.43	8.93
Buy/Hold = 1.11% Gain/Annum		

Health Care / S&P 500 ex. Health Care Performance **Chart View:** 2022-05-02 to 2025-05-02		
Health Care Composite Model is	% Gain/ Annum	% of Time
Above 75	-2.99*	7.78
Between 50 and 75	-11.11	37.45
Between 25 and 50	2.55	47.07
25 and Below	-14.86*	7.69
Buy/Hold = -8.78% Gain/Annum		
** Cases less than one year are not annualized*		

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Industrials: Marketweight effective 1/18/24

Key Takeaways

- Industrials has outperformed the S&P 500 in back-to-back months.
- Capex spending could be at risk amid rising policy uncertainty following tariff announcement.
- The sector model remains marketweight, matching our recommendation.

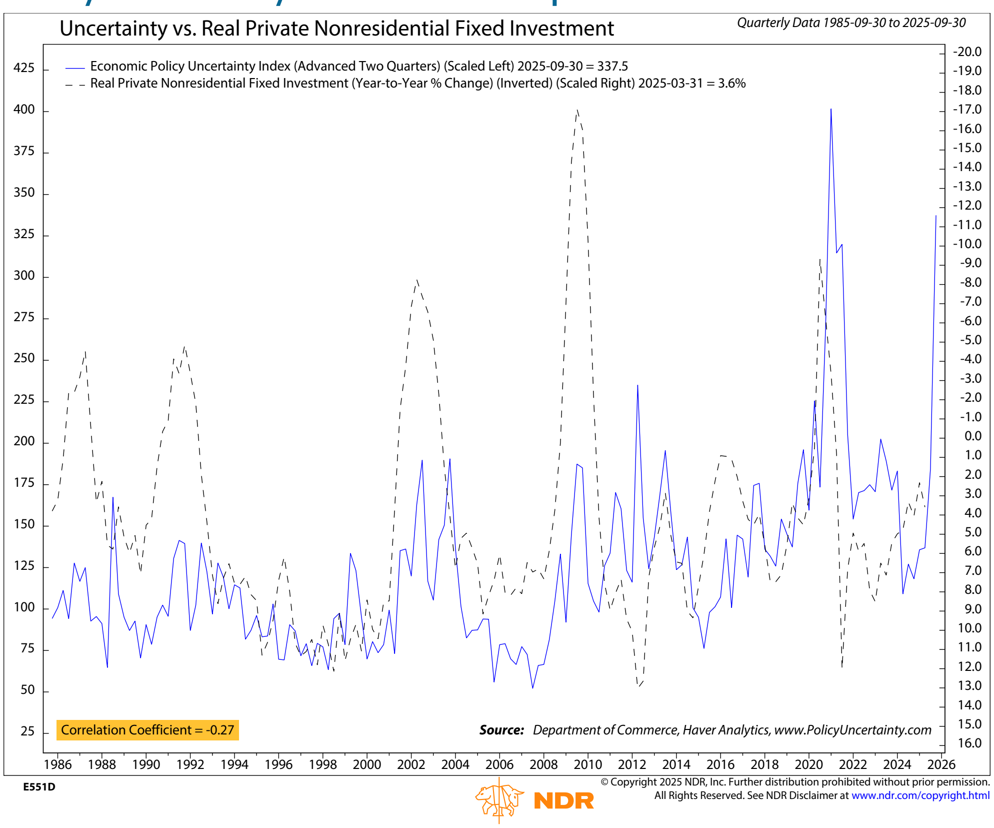
Industrials was the only cyclical value sector to outperform in April, managing to eke out a 0.2% gain versus a decline of 0.8% for the S&P 500. Aerospace & Defense, the sector's largest industry at 25% of market cap, was responsible for most of the gains, outperforming the S&P 500 by more than 400 basis points during the month. Despite outperforming in back-to-back months, the weight of the evidence for the sector remains mixed and the sector model remains marketweight, matching our recommendation on the sector.

Key drivers: Capital spending is key for Industrials, with the Capital Goods industry group comprising two-thirds of the sector's market cap. During economic downturns, capex plans are often postponed to conserve cash, and this trend may be particularly pronounced in the current cycle. Uncertainty surrounding future tariff rates, both in the short- and long-terms, could lead businesses to delay investment decisions. Historically, an increase in the Economic Policy Uncertainty Index has been followed by a slowdown in nonresidential fixed investment.

Indicators to watch: While tariffs have clouded the capex outlook, the weight of the model evidence remains mixed. The sector's internal (price-based) composite leans bullish, with only two of six indicators on bearish signals. The sector's external (non-price-based) composite, however, leans bearish, with only two of the seven indicators on bullish readings. The net result is a marketweight recommendation from the model, matching our recommendation on the sector.

Sector positives	Sector negatives
• Airlines Scorecard remains bullish • Sentiment is extremely pessimistic based on the sector's percentage of S&P 500 market cap • China stimulus and tight credit spreads suggest more capex spending	• Tighter lending standards and policy uncertainty is bearish for capex • Weak breadth profile • Slowing growth bearish for cyclical Value sectors

Policy uncertainty is bearish for capex



Information Technology: Marketweight effective 8/8/24

Key Takeaways

- Technology was the second-worst performer in Q1 but bounced back in April.
- However, weak starts to the year for Technology have seen negative momentum persist, on average.
- The sector model downgraded Technology to underweight.

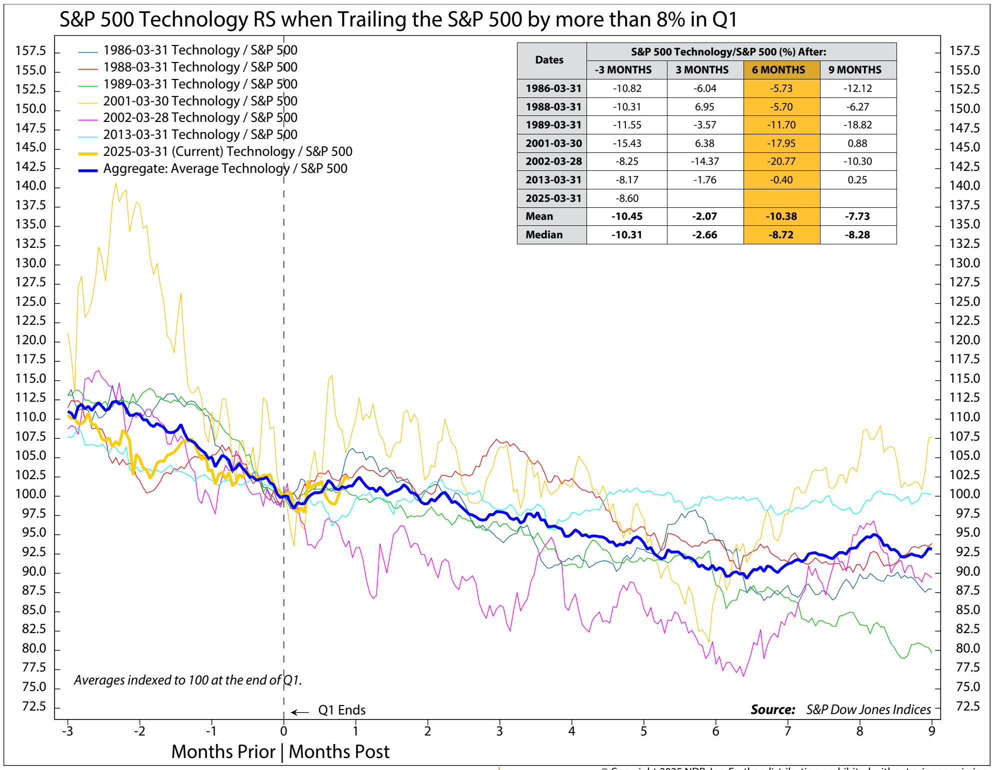
After trailing the S&P 500 each month in Q1, Technology bounced back in April. The sector gained 1.6% during the month, the best among all sectors. Among the sector's three industry groups, Software (Microsoft) and Semiconductors (Nvidia) outperformed, while Hardware (Apple) continued to underperform. The sector model turned more bearish on Technology during the month and downgraded the sector to underweight at the month-end model update.

Key drivers: Given the deep selloff in Technology this year, it is fair to ask if it is too late to turn bearish. We showed on March 27 that negative Q1 momentum has tended to persist throughout the remainder of the year, but the magnitude of the weakness has mattered. This year, Technology trailed the S&P 500 by 8.6% in Q1, fifth worst on record. The result marked just the 7th time the sector has trailed by more than 8% during the first quarter since 1972. While short-term bounces have been common, the sector consistently remained weak through Q3.

Indicators to watch: The sector model has turned progressively more bearish on Technology this year and downgraded the sector to underweight at the month-end update. The sector finished the month with just one bullish internal (price-based) indicator and one bullish external (non-price-based) indicator. We have the sector on watch for a downgrade.

Sector positives	Sector negatives
• Nasdaq sentiment reached extreme pessimism • Mag 7 valuations based on forward estimates look reasonable • Sector has performed well in low growth environments	• Trump trade war could hurt tech multinationals and make earnings misses more likely • Massive capex spending on AI has come under more investor scrutiny • Sector's Volume Supply/Demand indicator turned bearish in April

Tech has consistently underperformed following weak Q1s



Dates	S&P 500 Technology/S&P 500 (%) After:			
	-3 MONTHS	3 MONTHS	6 MONTHS	9 MONTHS
1986-03-31	-10.82	-6.04	-5.73	-12.12
1988-03-31	-10.31	6.95	-5.70	-6.27
1989-03-31	-11.55	-3.57	-11.70	-18.82
2001-03-30	-15.43	6.38	-17.95	0.88
2002-03-28	-8.25	-14.37	-20.77	-10.30
2013-03-31	-8.17	-1.76	-0.40	0.25
2025-03-31	-8.60			
Mean	**-10.45**	**-2.07**	**-10.38**	**-7.73**
Median	**-10.31**	**-2.66**	**-8.72**	**-8.28**

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Materials: Underweight effective 8/8/24

Key Takeaways

- Materials was the third worst performer in April.
- Concern that tariffs will negatively impact demand and commodity prices have weighed on the commodity sectors.
- The model upgraded Materials to marketweight and we have the sector on watch for an upgrade.

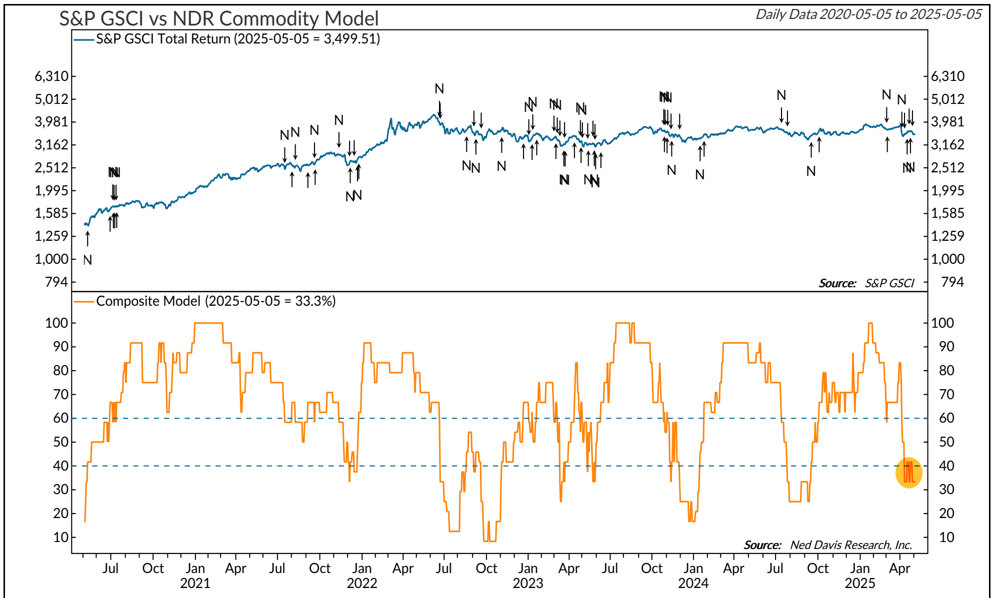
Materials was among the sectors that responded most poorly to Trump's tariff announcement, ending April down more than 2% versus a 0.8% decline for the S&P 500. The sector was the third-worst performer during the month, reflecting investor concern over the potential impact of the protectionist trade policies on supply chains and commodity demand. We remain underweight but the sector model upgraded Materials to marketweight and we may upgrade the sector to get in line with the model.

Key drivers: Commodities are a key macro driver for Materials. Metal prices influence the sector's mining companies, while natural gas represents an input cost for chemical companies. The negative price action from most commodities since Liberation Day was enough to turn the NDR Commodity Model bearish in April. NDR currently maintains its neutral view on commodities but has the asset on watch for a downgrade.

Indicators to watch: Among Materials' four commodity-based model indicators, only the Gold Futures Momentum indicator is bullish. The sector's copper, silver, and natural gas based indicators are all bearish. Overall, the weight of the evidence still leans bearish but improved enough for the model to upgrade the sector from underweight to marketweight. We have the sector on watch for an upgrade.

Sector positives	Sector negatives
• Gold miners have underperformed bullion prices and could mean revert • Materials is extremely oversold • Clean energy transition and AI data center buildout should support copper prices	• It has been the weakest bull market on record for Materials • Falling China Credit Impulse Index suggests weak metal prices in 2025 • Growth slowdown will likely dent demand for commodities

Commodity model turned bearish in April



S&P GSCI Total Return Performance **Full History:** 1979-12-31 to 2025-05-05		
Composite Model is	% Gain/ Annum	% of Time
Above 60.0	10.60	57.69
40.0 - 60.0	17.89	17.04
Below 40.0	-18.03	25.27
Buy/Hold = 3.65% Gain/Annum		

S&P GSCI Total Return Performance **Chart View:** 2020-05-05 to 2025-05-05		
Composite Model is	% Gain/ Annum	% of Time
Above 60.0	24.19	65.39
40.0 - 60.0	19.42	20.87
Below 40.0	-0.58*	13.75
Buy/Hold = 19.43% Gain/Annum		
** Cases less than one year are not annualized*		

Customized version of COM800

Real Estate: Underweight effective 2/13/25

Key Takeaways

- Real Estate was a slight underperformer in April.
- Low growth environments have been bearish for the sector, historically.
- We remain underweight for now.

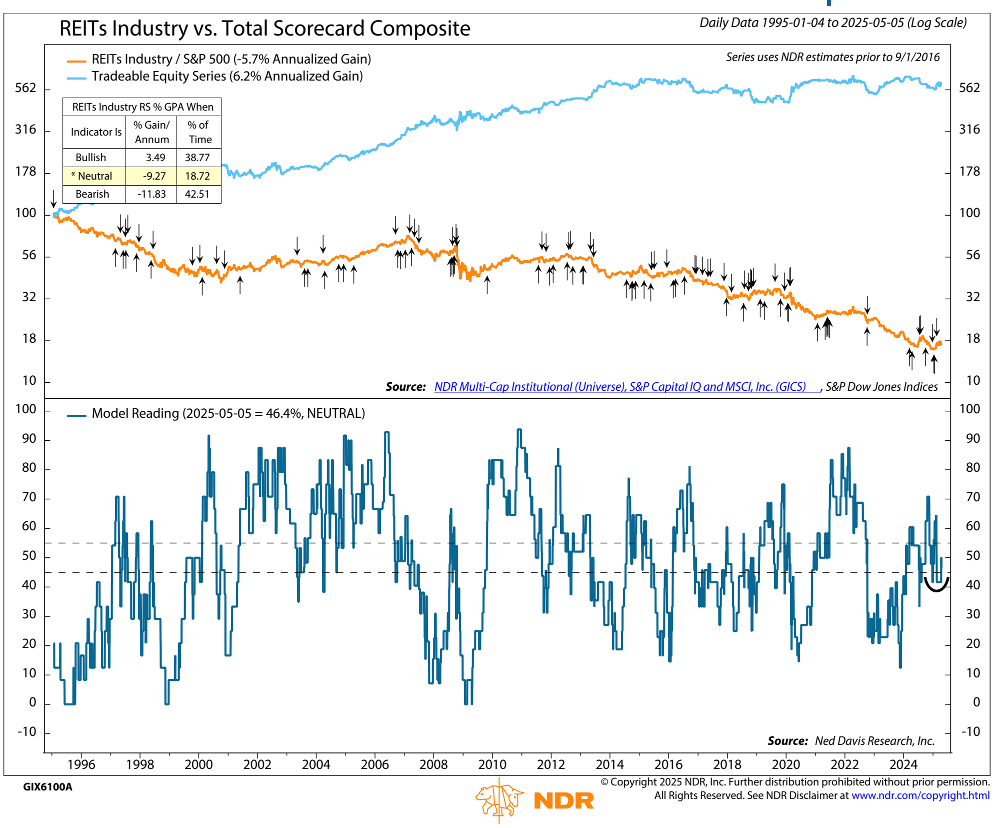
While Real Estate was a slight underperformer in April, falling 1.8% versus a 0.8% decline for the S&P 500, it remains up roughly 3% on the year and has been the third-best performer in 2025. Weakness was broad based during the month, with only the Specialized REITs sub-industry outperforming of the sector's eight REITs sub-industries. We underweighted the sector in February, but indicator evidence has turned more positive and we may close out the position in the coming weeks.

Key drivers: Two macro drivers we are watching are credit spreads and inflation. Credit spreads have begun to widen, and Real Estate has tended to struggle when its high yield – investment grade spread has been above its long-term average. We are also watching inflation trends. Our macro team's Growth and Inflation Regime Report shows the current environment of slow growth and neutral inflation has tended to be bearish for Real Estate. The analysis shows that the sector has proven a good inflation hedge but has often been vulnerable when growth has been weak.

Indicators to watch: Real Estate saw model composite improvement in April, with the sector's relative price mean reversion indicator in the sector's internal (price-based) composite turning bullish on April 11. Additionally, our REITS Scorecard, which is designed to make a call on the REITs industry specifically, flipped from bearish to neutral during the month. We have the sector on watch for an upgrade.

Sector positives	Sector negatives
• Demographics are a long-term tailwind for Health Care REITs	• Inflationary fiscal policy could lead to higher yields
• NDR's Recession Watch Report shows little risk of recession in near term	• Yields tend to bottom around first cut in non-recession easing cycles
• Yields have trended lower since January highs	• Office REITs continuing to struggle with high vacancy rates

REITS Scorecard turned from bearish to neutral in April



Utilities: Overweight effective 3/13/25

Key Takeaways

- Utilities was a slight outperformer in April and has been the best performer YTD.
- Breadth has been the strongest among all sectors.
- We upgraded the sector to overweight on March 13.

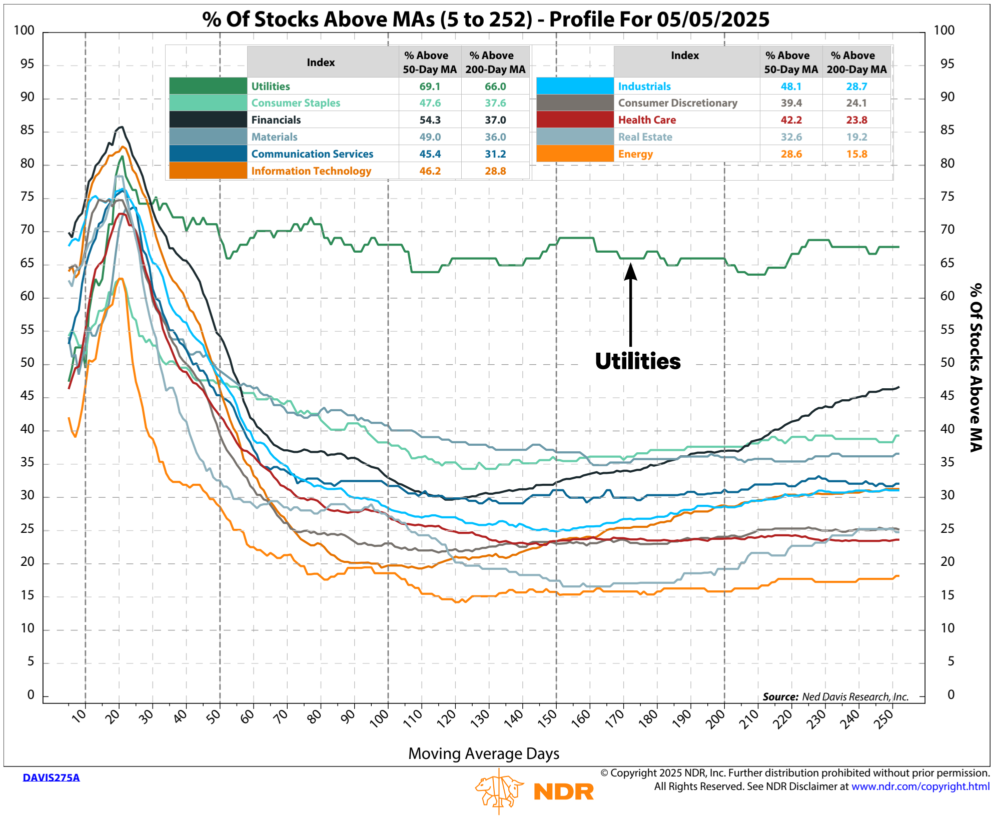
Utilities' low beta has proven a valuable attribute in 2025. The sector was flat in both March and April versus declines of 5.8% and 0.8% for the S&P 500, respectively. For the year, the sector is up roughly 5% versus a decline of 4% for the S&P 500. We turned more defensive in March and upgraded the sector to overweight.

Key drivers: The year-to-date relative strength shown by Utilities has been the best since last summer, when the sector was caught up in the AI trade. Unlike then, when Utilities was outpacing a fast-rising S&P 500, recent outperformance has come by the sector maintaining value while the broad index declined. Sector participation has been broad based, with the sector having the most issues trading above moving averages ranging from 50 days to one year.

Indicators to watch: Utilities saw the most model composite deterioration in April and has fallen even more to begin May. In total, three internal (price-based) indicators turned bearish to go along with a net of one external (non-price-based) indicator. The sector's overall composite score is now only sixth best among all sectors. We remain overweight for now but if the sector begins to underperform, we will need to cut exposure to get in line with the model.

Sector positives	Sector negatives
• Relative P/E remains attractive • A.I. buildout is a tailwind for demand • A Trump tax cut extension could benefit capex-heavy sectors and industries	• Q1 earnings beat rate of 50% is lowest among all sectors • Net debt to cash flow ratio near record high • Dividend yield looks less attractive versus bonds

Utilities' breadth remains best among all sectors



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Disclaimer

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.

ALPS Portfolio Solutions Distributor, Inc., a registered broker-dealer, is distributor for the Select Sector SPDR Trust

See the signals.™

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