NDR
NED DAVIS RESEARCH

NDR Sector Views

JULY 3, 2025

Growth back in gear

Growth in gear

The S&P 500 logged another impressive month in June, gaining just shy of 5.0%. The index has now erased all its post-Liberation Day decline, **finishing the month at a fresh record**.

While gains from the April low have been broad based, **Growth sectors have been the clear leaders**. Technology led all sectors for the **third-straight month** in June, rising 9.7% and contributing over 60% of the S&P 500's return.

Communication Services was the next best, gaining 7.2%. The two sectors, along with Industrials and Financials, are the only that have set new record highs at the sector level since the low.

Defensives lag

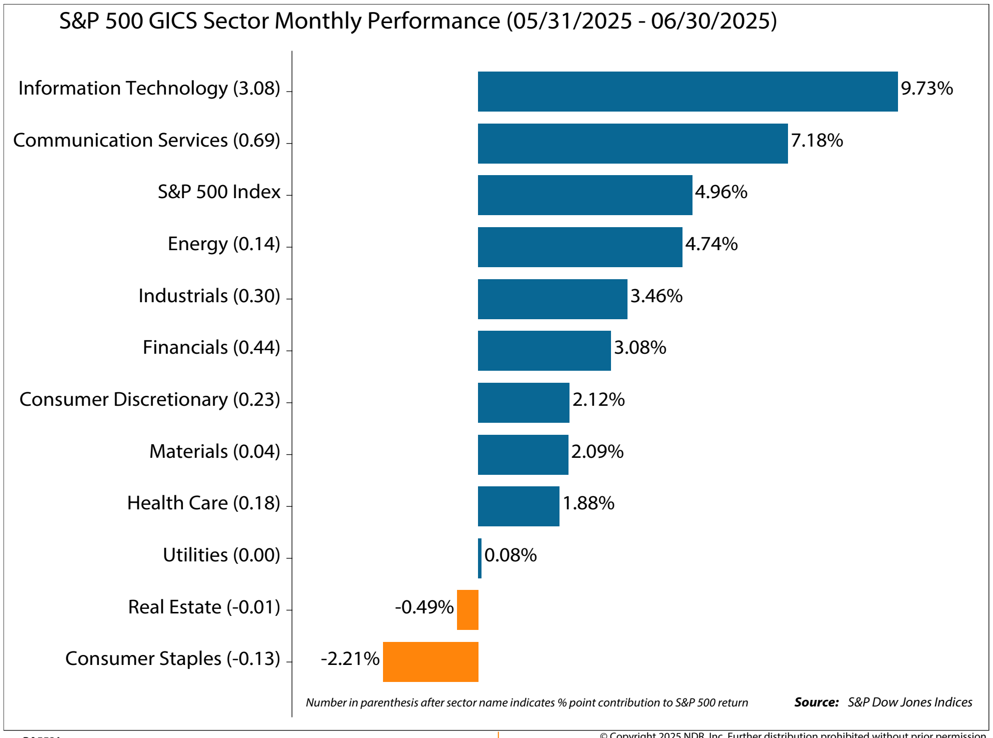
The risk-on rotation has been evident not just by the leaders but also the laggards. For June, Consumer Staples, Real Estate, Utilities, and Health Care finished as the worst performers. The four sectors also sport the lowest betas among all sectors (chart, page 2).

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%
Technology	Marketweight	30%	30.1%
Real Estate	Marketweight	2%	2.3%
Utilities	Marketweight	3%	2.3%
Energy	Underweight	2%	3.7%
Materials	Underweight	1%	2.3%

Overweight Marketweight Underweight

Growth continued to lead in June



We have previously noted that Health Care has seen more underperformance during this cyclical bull market than any prior ones. The sector has now underperformed the S&P 500 by 58% over the last three years, the sector's worst stretch over that timeframe since our sector data starts in 1972.

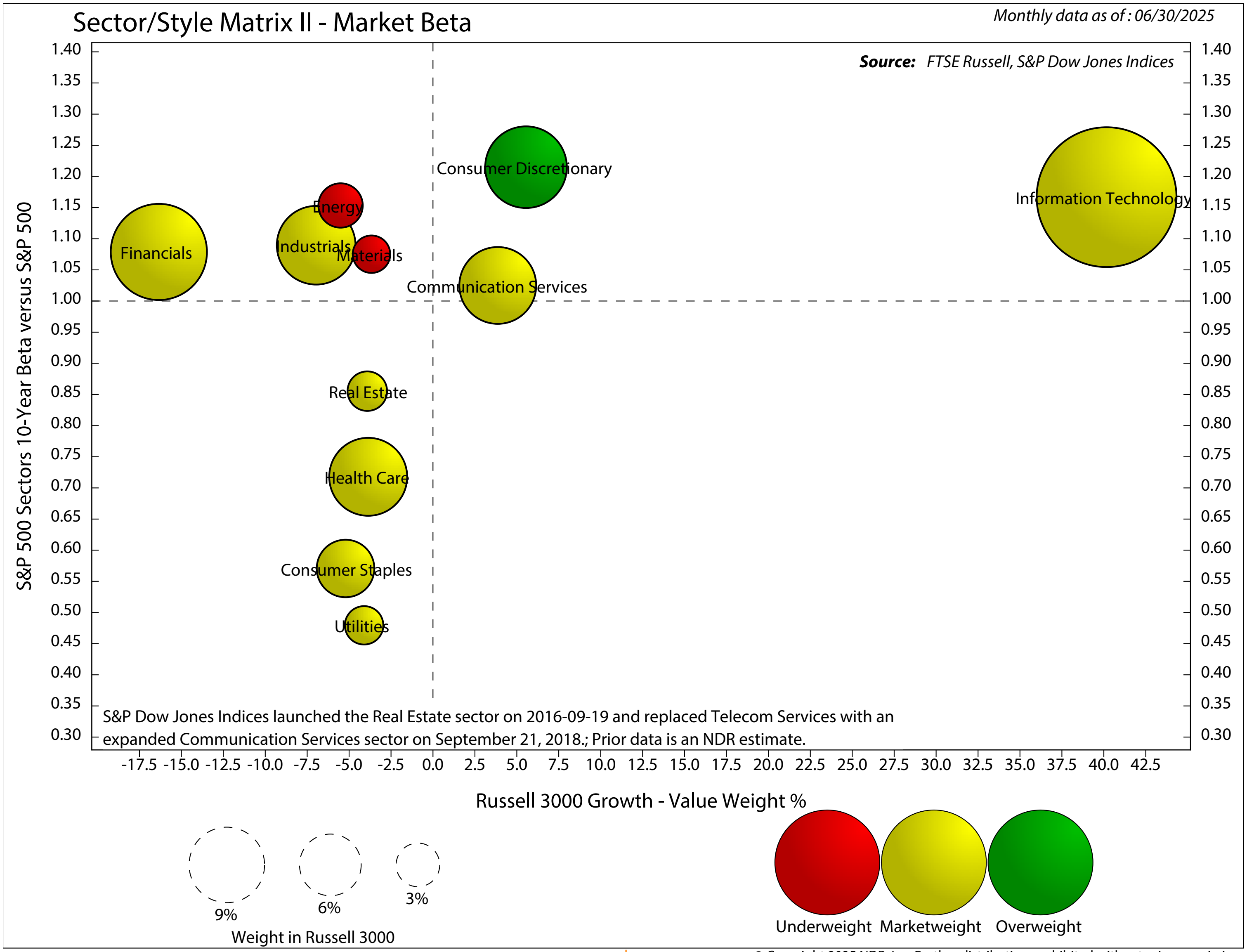
Earnings update

Q1 earnings season wrapped up in June, with the S&P 500 finishing with a solid, albeit unspectacular, beat rate of 78%. Health Care (93.3%), Communication Services (90.5%), Technology (89.6%), and Industrials (85.3%) finished with the highest beat rates among sectors. Looking forward, **Technology is expected to drive most of the EPS growth for the S&P 500**. A misstep from the sector could further pressure one of the key pillars of the bull market.

Model update

The sector model made five position changes at its month-end update but **maintained its Growth over Value stance**. Technology was upgraded to overweight, while Energy and Health Care were upgraded to marketweight. Consumer Discretionary was downgraded to marketweight and Industrials was downgraded to underweight. The model is now overweight Technology, underweight Industrials and Real Estate, and marketweight all other sectors.

Lowest beta stocks all lagged in June



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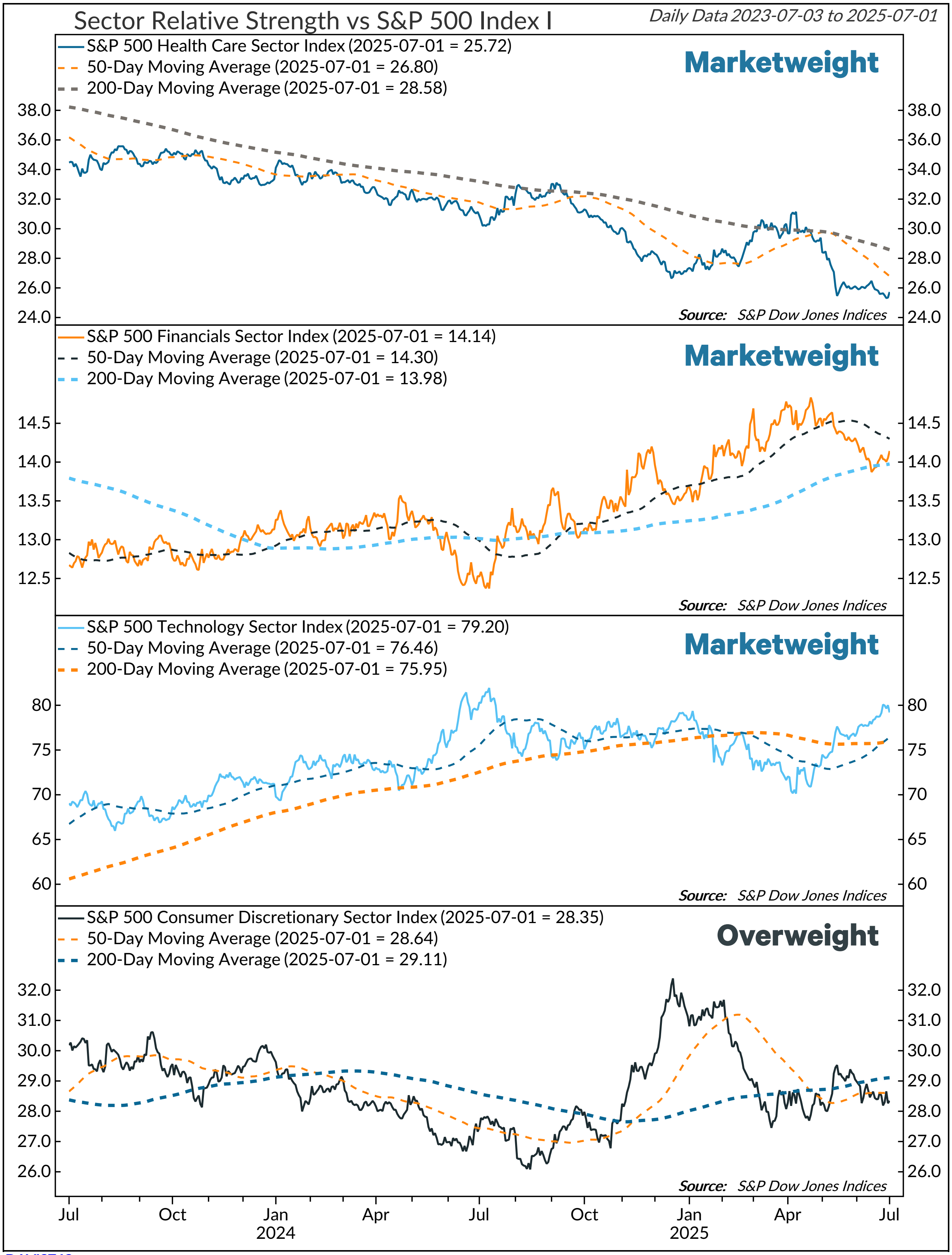
Technology continues to impress



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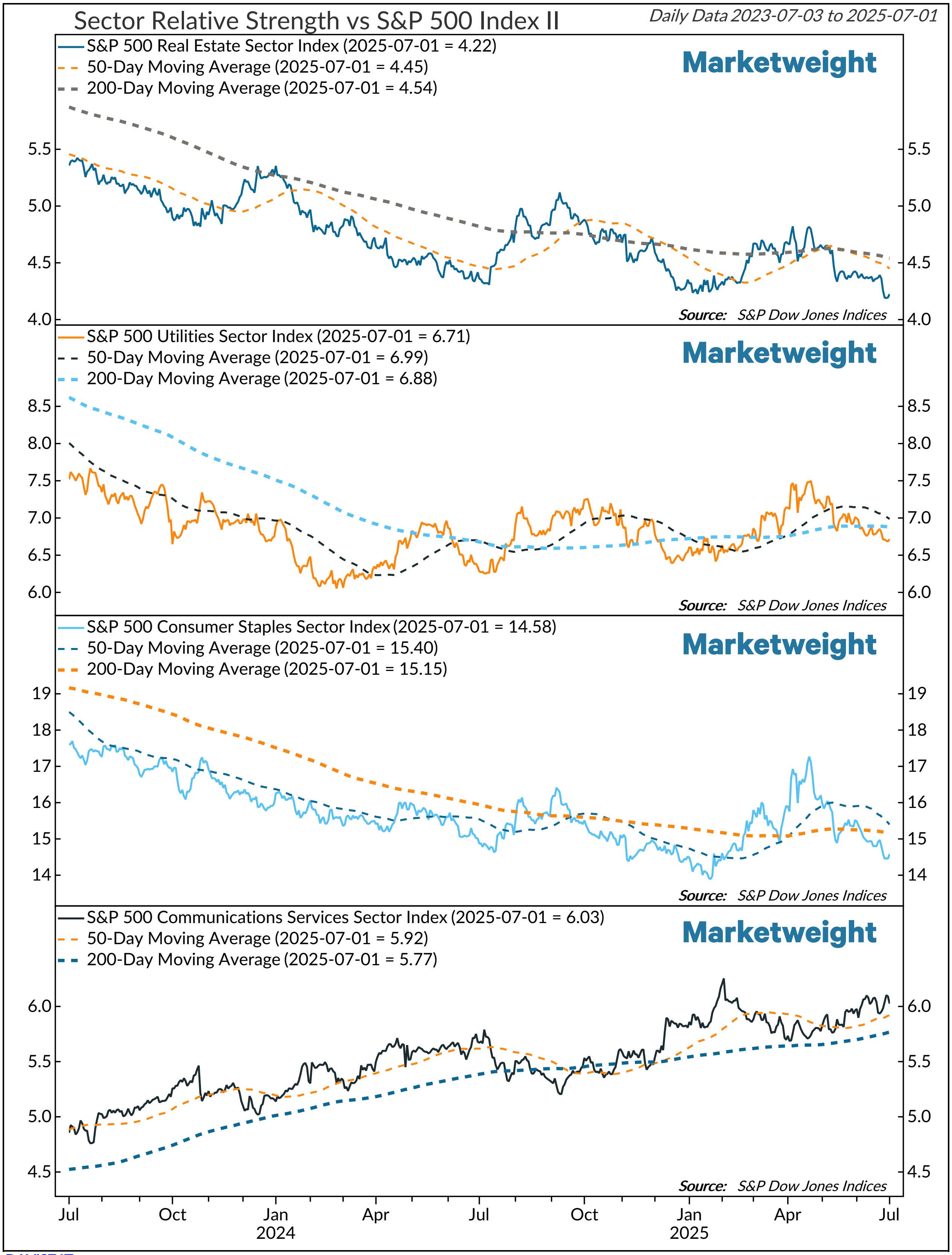
Defensive/bond proxies continue to look unimpressive



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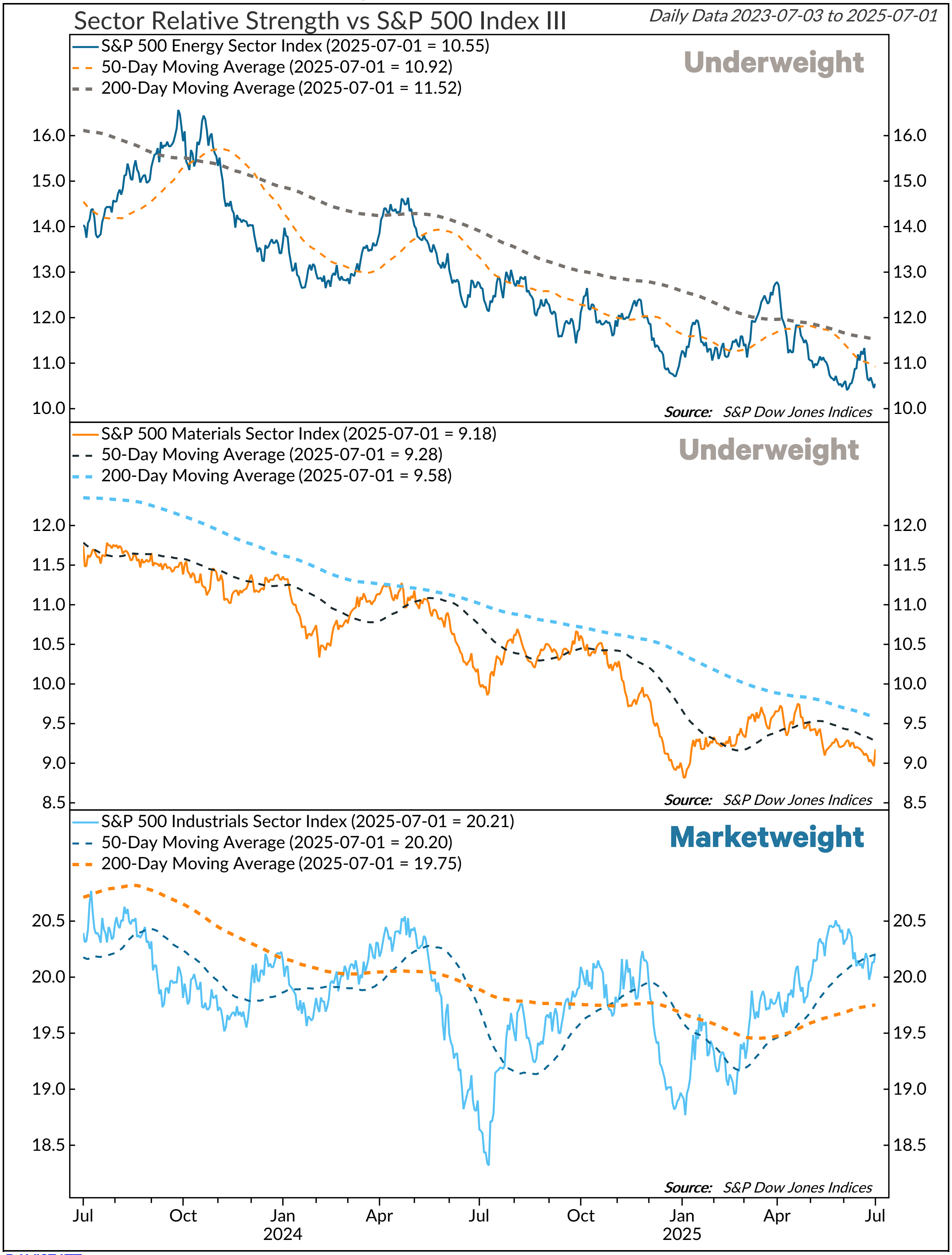
Industrials has been a rare bright spot for Value



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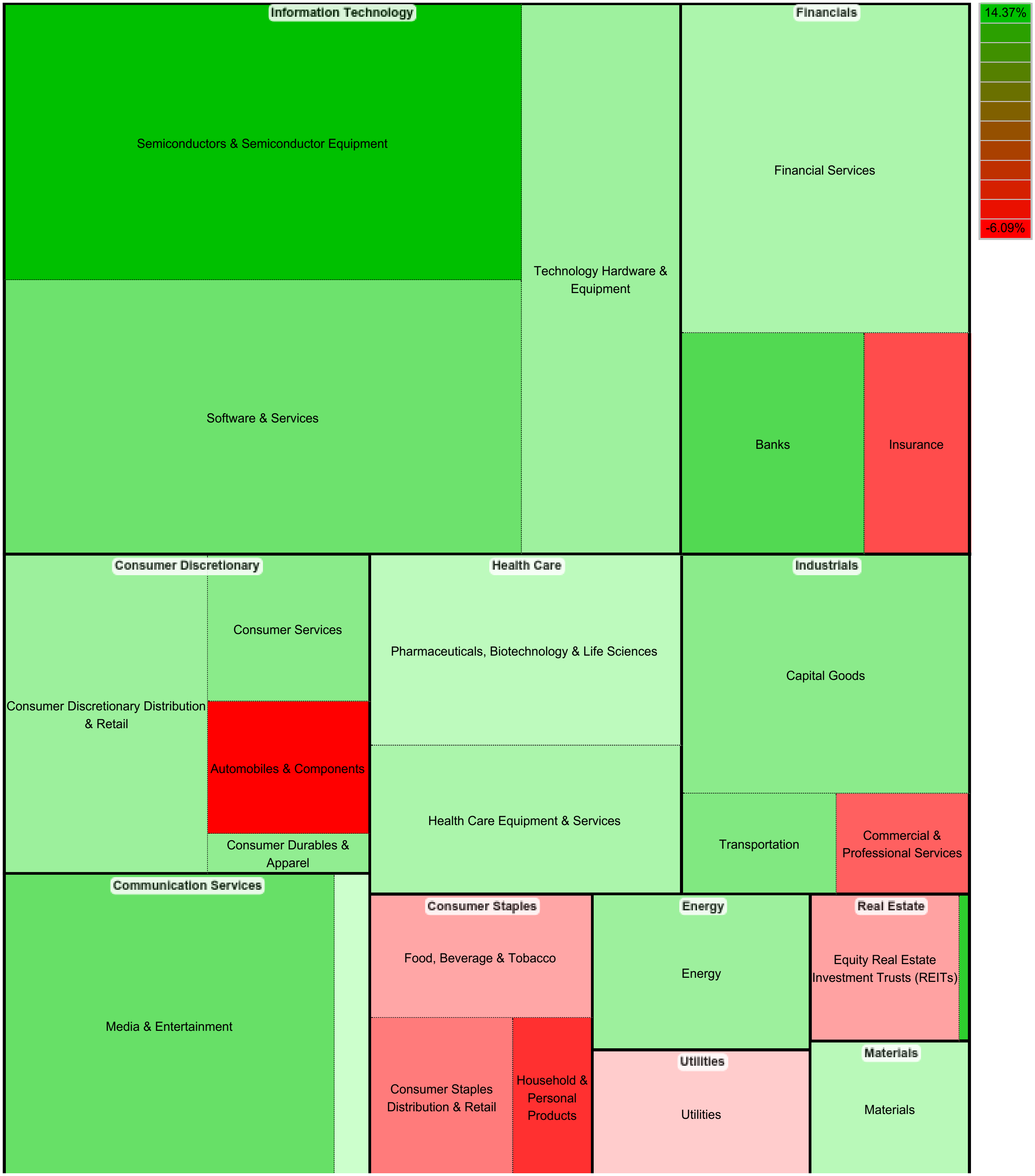
June 2025 S&P 500 Sector Return Heat Map



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.

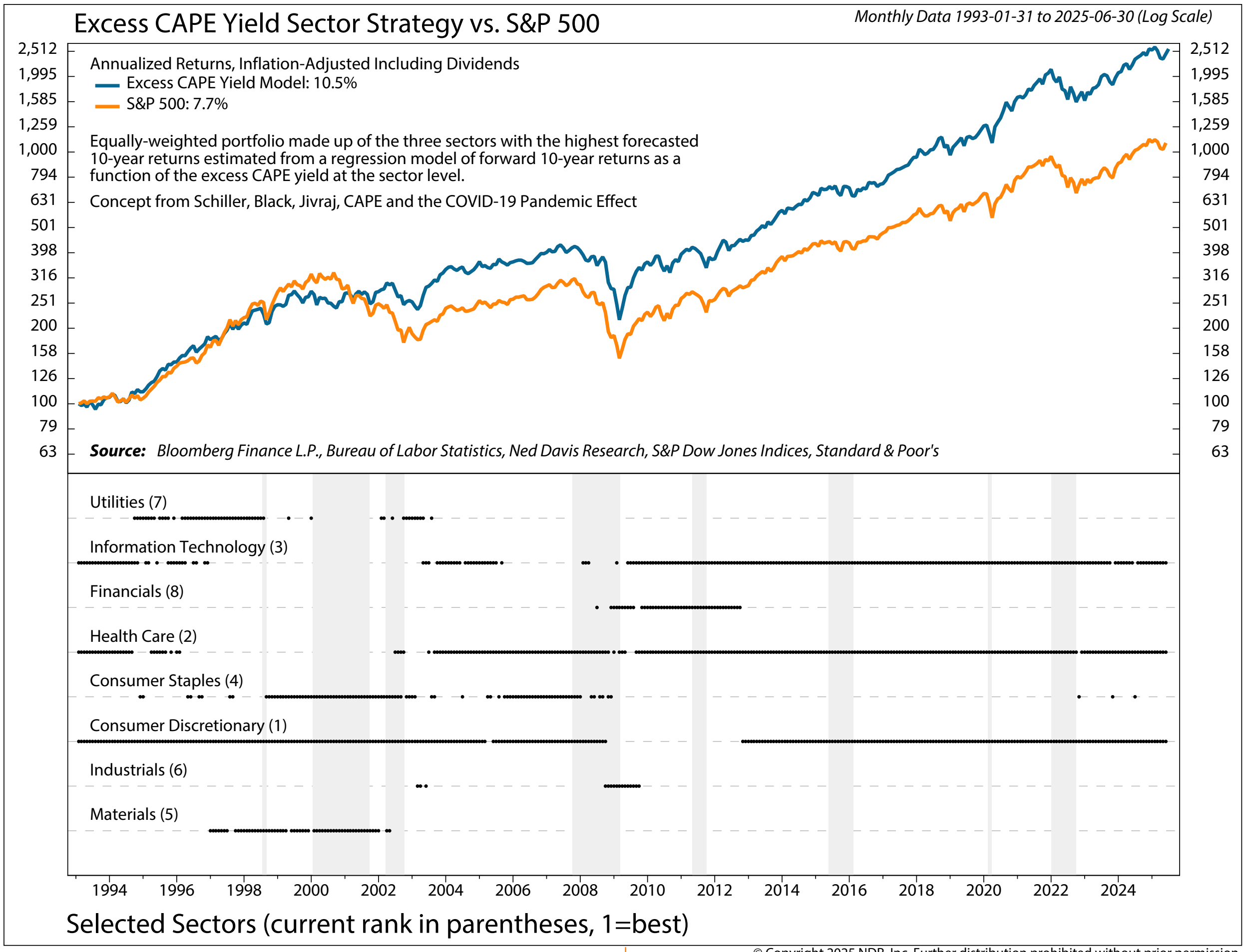
Industrials' surge has the sector looking more expensive

Sector | Excess

Sector	EBIT/ Enterprise Value	Dividend Yield	Book Yield	Earnings Yield	Sales Yield	Forward Earnings Yield	Cap-Weighted Cyclically Adjusted Earnings Yield
Energy	7.38	3.35	55.54	6.15	50.25	6.83	2.80
Materials	5.75	2.18	39.59	3.12	60.14	5.82	3.55
Industrials	4.46	1.23	16.56	3.61	27.11	4.43	2.69
Consumer Discretionary	5.72	1.19	11.44	4.24	43.53	5.31	2.19
Consumer Staples	6.01	2.89	22.63	4.62	55.81	5.95	3.44
Health Care	5.34	0.66	25.73	3.54	30.39	6.43	3.31
Financials	8.38	1.60	46.02	5.92	44.44	6.86	4.17
Information Technology	3.59	0.37	12.79	2.85	18.07	4.01	1.58
Communication Services	7.98	0.68	31.16	4.37	53.44	5.52	2.59
Utilities	4.60	3.31	47.48	4.75	34.97	5.48	3.79
Real Estate	2.65	4.00	37.48	2.38	11.97	2.71	2.93

- : 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.*

Cape Yield Model was unchanged in June



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Communication Services: Marketweight effective 11/24/24

Key Takeaways

- Communication Services was the second-best performer in June.
- The sector had a solid Q1 earnings season and earnings expectations remain high.
- The sector ended the month with the highest overall composite score.

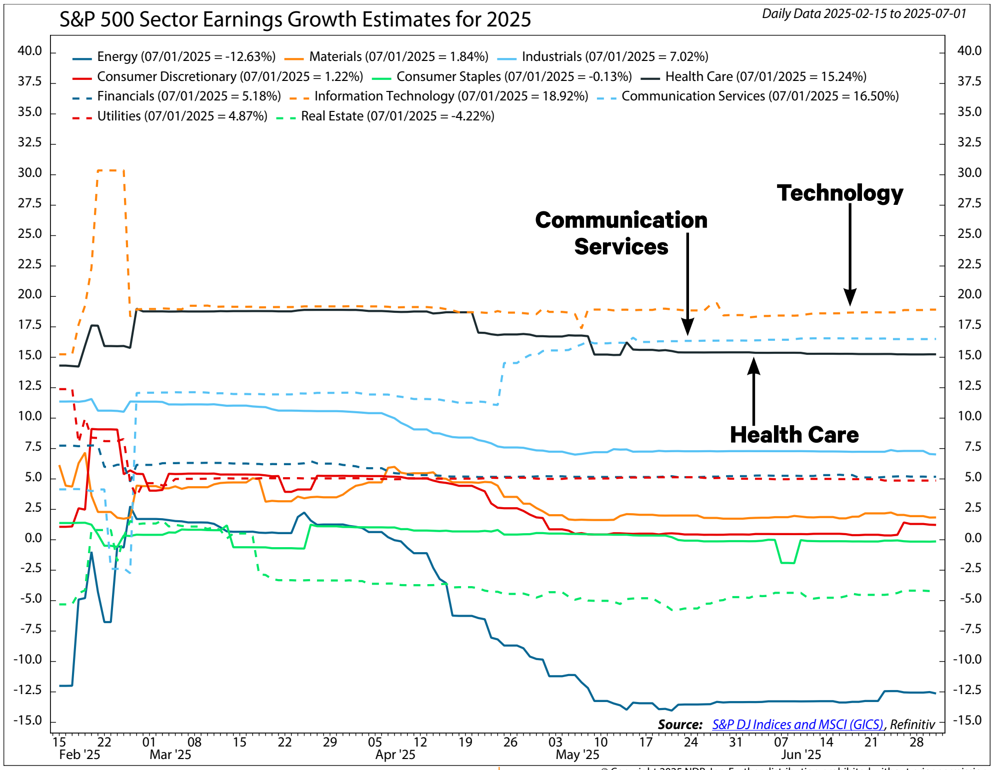
Alphabet, Communication Services' biggest member, was up just 2.6% in June, trailing the S&P 500 during the month. However, Meta, the sector's second largest constituent, was up 14.0%, helping to propel the sector to a 7.2% gain, second best among all sectors. Model and indicator evidence improved for the sector in June, and for Growth over Value in general. NDR now favors Growth over Value in its style recommendation. We may add to our Communication Services' allocation in the coming weeks.

Key drivers: Analysts used tariff uncertainty to meaningfully lower earnings expectations. S&P 500 operating earnings estimates for the year have fallen from north of 15% at the start of the year, down to 9.6%. While Q2 estimates look reasonable at 6.6%, analysts are projecting a jump in the back half of the year to 12.8% in Q3 and 13.1% in Q4. Among sectors, Technology leads the pack, with earnings growth expectations holding steady near 19%. However, Communication Services is not far behind at 16.5%. With expectations high, investors could punish Growth sectors if earnings fall short of forecasts, representing a risk for Growth as we enter the second half of the year.

Indicators to watch: While Communication Services' sector model composite score was unchanged in June, the sector ended the month with the highest overall score as Consumer Discretionary's score deteriorated during the month. The sector could see further near-term improvement as its Relative Price Momentum indicator is approaching a bullish reading. We have the sector on watch for an upgrade.

Sector positives	Sector negatives
• Sector's relative Volume Supply/Demand indicator is bullish	• Capex surge from mega-caps represents a risk if market turns lower
• Mag 7 relative valuations look attractive versus long-term averages	• EPS growth from Meta and Alphabet is decelerating in 2025
• Along with Alphabet and Meta, Disney has performed well	• Despite highest composite score, model remained marketweight at June update

Earnings expectations are high for Communication Services



Consumer Discretionary: Overweight effective 5/15/25

Key Takeaways

- Consumer Discretionary underperformed by over 200 basis points in June.
- Breadth Thrust Watch Report signals have been bullish for the sector, historically.
- The model downgraded the sector to marketweight in favor of Technology.

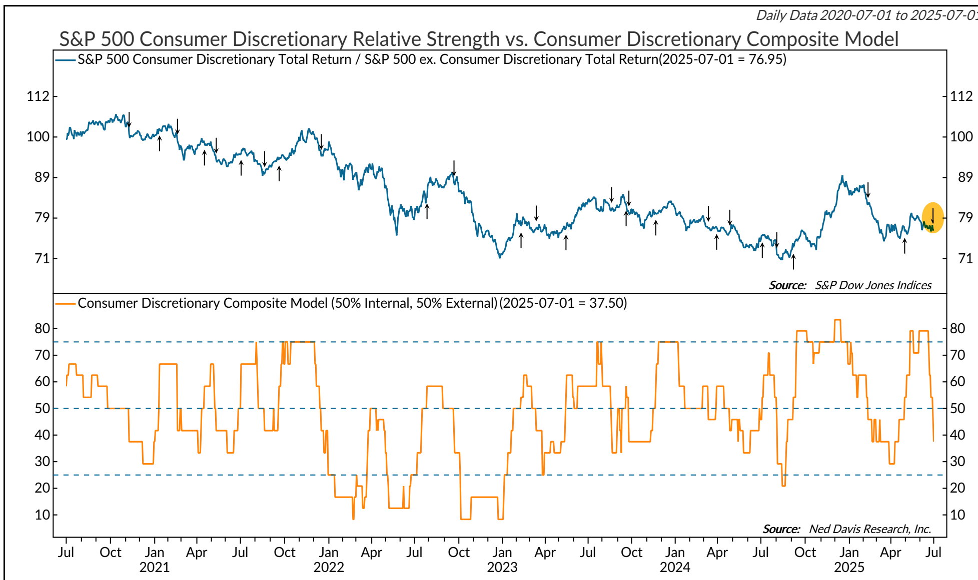
While Consumer Discretionary did not rally as much as the other Growth sectors in June, the sector's 2.1% gain was still the sixth best among all sectors. Tesla was the biggest drag during the month, with shares falling more than 6%. The stock was the only member of the Mag 7 with a negative return in June. We maintain our May 15 overweight of the sector for now.

Key drivers: The market's rally off the April lows has been strong enough to trigger multiple breadth thrust signals, with seven indicators in our Breadth Thrust Watch Report now flashing buy signals. Five or more signals have historically tipped the scale in favor of cyclical over defensive leadership. Leadership has typically come from a mix of cyclical Growth and Value sectors. Consumer Discretionary has had the most consistent record post signals, being the only sector with a greater than 60% outperform rate three-, six-, and 12-months later.

Indicators to watch: There were several notable sector model indicator developments for Consumer Discretionary in June. On the positive side, the Earnings Surprise indicator turned bullish on June 6 in the sector's external (non-price-based) composite. Only one of the six external indicators is now bearish. However, three internal (price-based) indicators turned bearish during the month, leaving the sector's technical composite leaning bearish. We may swap out our Discretionary overweight with one of the other Growth sectors that the model currently likes more.

Sector positives	Sector negatives
• Volume Supply/Demand indicator is bullish	• Uncertain trade policy is bearish for durables and textile industries
• NASDAQ sentiment has fallen out of extreme optimism	• Concentration is high and Tesla stumbled in June
• Homebuilders P/B reached extreme oversold levels	• However, Amazon outperformed in June

Consumer Discretionary's composite score fell in June



Consumer Discretionary / S&P 500 ex. Consumer Discretionary Performance
Full History: 1979-12-31 to 2025-07-01

Consumer Discretionary Composite Model is	% Gain/ Annum	% of Time
Above 75	14.76	16.40
Between 50 and 75	3.51	40.19
Between 25 and 50	-2.56	34.05
25 and Below	-17.47	9.36
Buy/Hold = 0.97% Gain/Annum		

Consumer Discretionary / S&P 500 ex. Consumer Discretionary Performance
Chart View: 2020-07-01 to 2025-07-01

Consumer Discretionary Composite Model is	% Gain/ Annum	% of Time
Above 75	0.91*	4.93
Between 50 and 75	-2.09	45.02
Between 25 and 50	-3.13	37.02
25 and Below	-14.73*	13.03
Buy/Hold = -5.00% Gain/Annum		
** Cases less than one year are not annualized*		

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Consumer Staples: Marketweight effective 5/15/25

Key Takeaways

- Consumer Staples was the worst performer in June.
- Seasonality and breadth thrusts suggest cyclical sectors could maintain the upper hand.
- The sector model reduced allocation in the sector but remains marketweight.

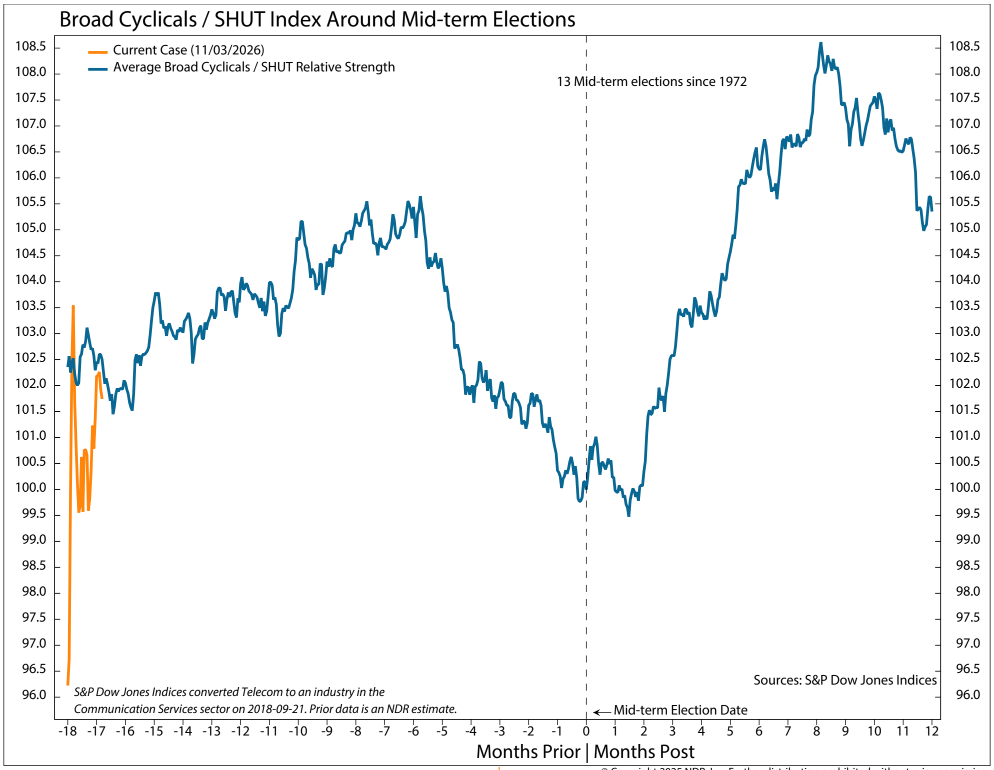
Consumer Staples' low beta has proven a drag during the S&P 500's recovery from the April low. For June, the sector fell almost 3% and was the worst performer among all sectors. The three biggest industries of Distribution & Retail, Beverages, and Household Products, all fell during the month on weakness from Walmart, Coke, and Procter & Gamble, respectively. The sector model shifted more defensively by reducing allocation in the sector but remains officially marketweight.

Key drivers: The early-year rotation into defensive sectors aligned with the typical pattern of the four-year presidential cycle. Historically, following a post-election surge in cyclical sectors, defensive sectors have tended to lead for roughly three months. However, leadership then tended to shift back to cyclicals. Looking ahead, mid-term uncertainty has shown up about five months prior to the election, on average, with leadership turning more defensive at that point. The implication is that cyclical sectors should have more room to run before the election cycle seasonality becomes a headwind.

Indicators to watch: Of course, every cycle plays out differently and if the indicator evidence once again turns more defensive, we will readjust our sector allocation to reflect the changes. For now, the indicator trend is clear – improving for cyclicals and deteriorating for defensives. Consumer Staples saw more sector model composite deterioration in June and we could reduce allocation in the coming weeks.

Sector positives	Sector negatives
• High economic and trade uncertainty could keep volatility high	• Sector's forward P/E ratio is the highest since 1998
• 79% Q1 earnings beat rate was higher than the prior three quarters	• Breadth thrusts favor cyclical leadership
• Quick rise in yields could threaten cyclical leadership	• Sector's Supply/Demand indicator turned bearish in May

Election cycle suggests mid-term uncertainty not yet a risk



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Energy: Underweight effective 5/15/25

Key Takeaways

- Energy was the third best performer in June as heightened geopolitical tensions led to rising risk premiums across the energy complex.
- However, commodity and equity prices have fallen since Iran's response to the attacks.
- The model upgraded Energy to marketweight at the month-end update.

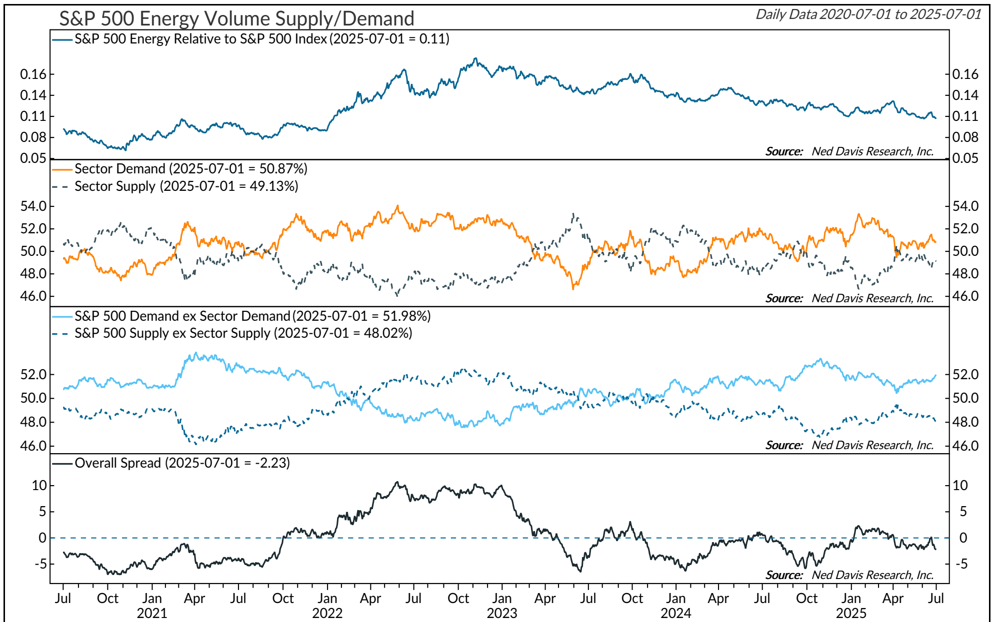
Oil prices soared in June on Middle East escalations between Iran and Israel. WTI closed as high as $75 on June 19 before ultimately setting at $65, up roughly 8% during the month. Energy stocks followed a similar path, with the sector ending June up 4.7%, third highest among all sectors. While indicator evidence still leans more bearish than bullish, it improved enough for the sector model to upgrade Energy to marketweight at the month-end update.

Key drivers: One indicator that has proven useful for calling Energy is the sector's Volume Supply/Demand indicator. Despite Energy being in a relative downtrend for most of the last three years, the indicator has done a good job at turning bullish to capture countertrend rallies and quickly reversing back to bearish when the relative downtrend has continued. The indicator briefly turned bullish on June 20 but has since returned to bearish levels.

Indicators to watch: Energy remains near the middle of its trading range going back to early 2023. Relative to the S&P 500, the sector remains in its long-term downtrend. While breakouts have yet to materialize, Energy has been the top performer since its June 4 relative strength low, and there are signs that evidence may be beginning to turn more positive. Declining Energy volatility turned the Energy Rolling 6-Month Volatility indicator in the sector model bullish on June 16 in the sector's internal (price-based) composite. Two of the sector's five internal (price-based) composite indicators are now bullish. We have the sector on watch for an upgrade.

Sector positives	Sector negatives
• U.S. reserves are depleted and will need to be refilled • Lower seasonally adjusted crude inventories • Valuations look relatively attractive	• OPEC set to increase production • Only 68% of S&P 500 Energy companies beat bottom line estimates, third lowest among all sectors • The International Energy Agency (IEA) reported a downward revision in global oil demand growth for 2025

Supply/demand indicator is back on a sell signal



Relative Strength Performance **Full History:** 1975-12-30 to 2025-07-01		
When:	% Gain/ Annum	% of Time
Sector Spread > ex Sector Spread	4.17	48.65
Sector Spread < ex Sector Spread	-6.62	51.35
Buy/Hold = -1.52% Gain/Annum		

Relative Strength Performance **Chart View:** 2020-07-01 to 2025-07-01		
When:	% Gain/ Annum	% of Time
Sector Spread > ex Sector Spread	24.02	41.46
Sector Spread < ex Sector Spread	-9.34	58.54
Buy/Hold = 3.24% Gain/Annum		

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Financials: Marketweight effective 4/8/25

Key Takeaways

- Financials gained more than 3% in June but trailed the S&P 500 by roughly 200 basis points.
- The yield curve and loan growth have trended in positive directions for the sector in recent months.
- We remain marketweight, matching the sector model.

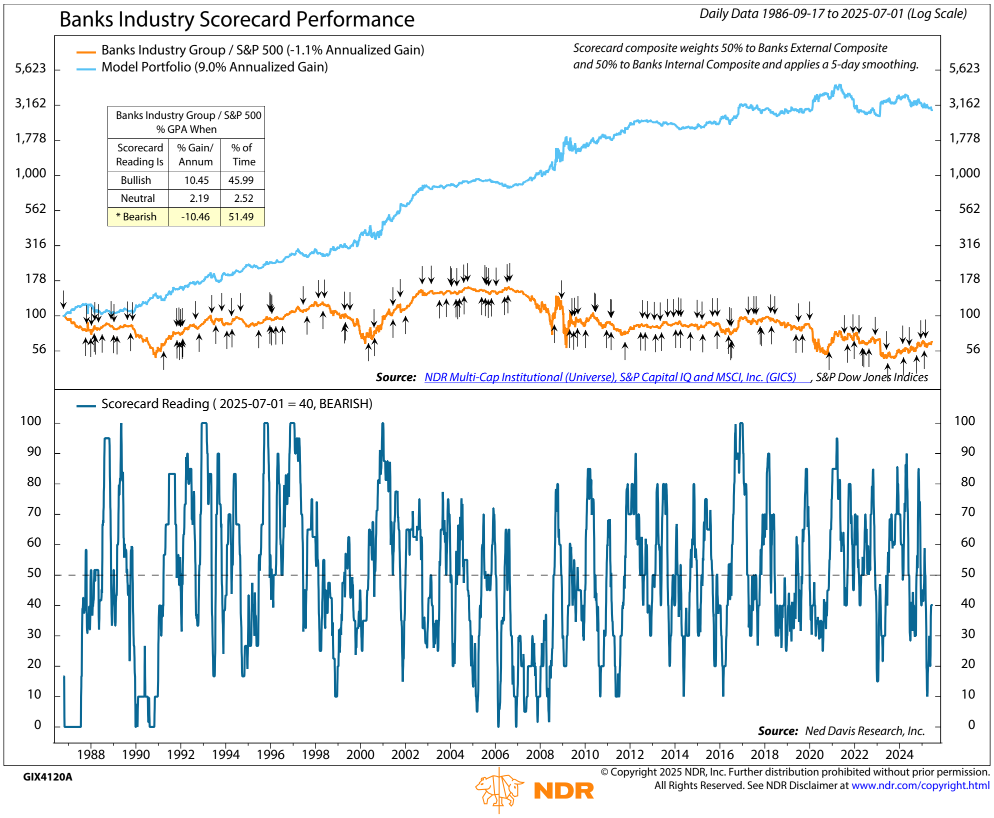
Financials finished June up 3.1% on mixed results within the sector. While the Consumer Finance and Banks industries gained 11.1% and 8.4% respectively, the Insurance and Financial Services industries were down 2.6% and 1.7%, respectively. The sector's inability to get its major industries outperforming at the same time has prevented the sector model from turning bullish and has kept us marketweight the sector this year.

Key drivers: Two of the most important macro inputs we monitor for Financials are the yield curve and loan growth, both of which are reflected in our sector model. The Yield Curve indicator turned bearish on February 21 for the first time in over a year, but encouragingly reversed back to bullish on April 7, signaling that a steepening curve could act as a tailwind for the sector. While the Loan Growth indicator remains in bearish territory, it has shown steady improvement in recent months and appears on track to turn bullish soon.

Indicators to watch: Along with the sector model, we monitor our Yield Curve Composite Models and Banks Scorecard to help gauge the prospects for the sector. Currently, all six of the yield curve composites are in their steepening zones, historically bullish for the sector. Additionally, while our Banks Scorecard remains bearish, it has improved in recent weeks. We side with the model for now and remain marketweight.

Sector positives	Sector negatives
• All curve composite models are in their steepening zones • Sector could benefit from deregulation • Sector's internal (price-based) indicators lean bullish	• Sector's external (non-price-based) indicators lean bearish • A weak dollar is historically bearish for the sector • Financials has been the poorest performer when inflation is rising

Banks Scorecard has improved but remains bearish



Health Care: Marketweight effective 2/13/25

Key Takeaways

- Health Care trailed again in June and was one of only three sectors with a negative return in the first half.
- Several measures of sentiment have reached extreme pessimism.
- The model upgraded the sector to marketweight at its month-end update.

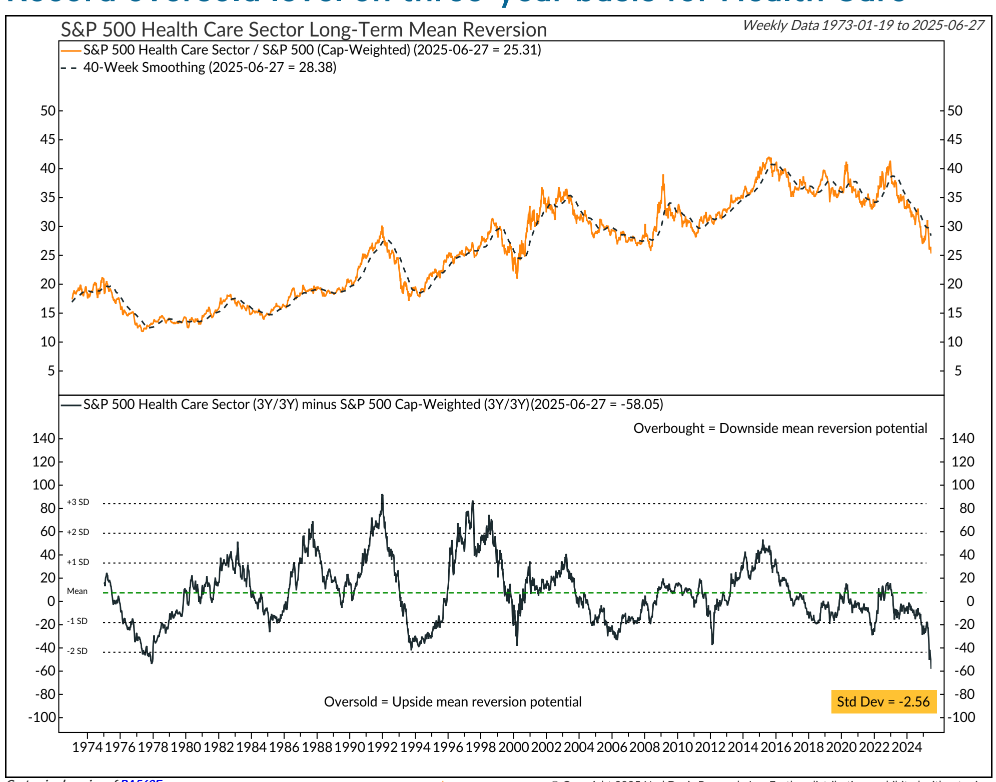
Health Care's struggles continued in June, with the sector gaining just 1.8%, which was the fourth lowest among all sectors. Several headwinds remain in place, including weakness from UnitedHealth stock amid a Justice Department investigation and President Trump's "Most Favored Nation" executive order, which could signal a significant shift in pharmaceutical pricing. While the sector is now extremely oversold, we will wait for confirmation from the sector model before increasing our Health Care allocation.

Key drivers: Health Care is experiencing its weakest bull market on record relative to the S&P 500. Over the last three years, the sector has trailed the broad market by almost 60%, the worst three-year stretch on record for the sector. Prolonged underperformance has led to a significant decline in the sector's representation within the S&P 500, with its weight falling to just 9.5%, the first time it has dropped below 10% since 2000. The evidence suggests that the sector is due for a bounce but stills lacks a catalyst.

Indicators to watch: Health Care's deeply oversold condition and elevated investor pessimism suggest the potential for a multi-year stretch of outperformance. However, we are looking for improvement in the sector model before turning more constructive. At the end of June, Health Care's composite score was near the middle of the pack and the model upgraded the sector to marketweight, matching our recommendation on the sector.

Sector positives	Sector negatives
• 93% Q1 earnings beat rate was best among all sectors • Biotech and Pharma sentiment is at extreme pessimism • Sector's forward P/E ratio is now below its long-term average	• 1/3 of internal (price-based) model indicators are bearish • Inflation Reduction Act looks to reduce Medicare spending on prescription drugs • DOJ looking into UnitedHealth's billing practices

Record oversold level on three-year basis for Health Care



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Industrials: Marketweight effective 1/18/24

Key Takeaways

- After outperforming for three-straight months, Industrials lagged the S&P 500 in June.
- Capex spending could be at risk amid rising policy uncertainty following tariff announcements.
- The sector model downgraded Industrials to underweight at the month-end update.

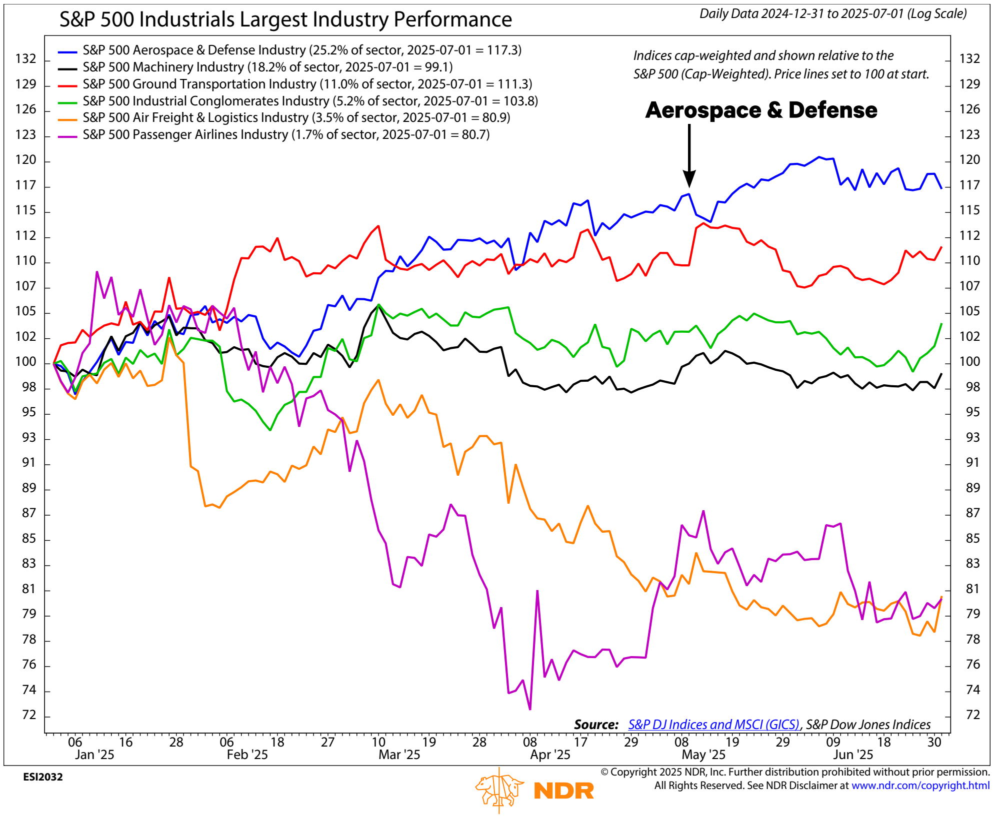
Industrials ended June more than 3% higher but trailed the S&P 500 by about 200 basis points during the month. Industrials has performed particularly well since the April lows, gaining more than 25% and setting a new record high. While the rally has been strong, it has been led by Aerospace & Defense, which outperformed by almost 20% in 2025. Other industries, including Passenger Airlines, Air Fright & Logistics, and Machinery, have proven drags, all underperforming during the year. We are looking for increased participation within 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 the trend may be particularly pronounced this cycle. Uncertainty surrounding future tariff rates, both in the short- and long-termv, 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 (capex).

Indicators to watch: The weak month for the sector was enough to turn two of Industrials' internal (price-based) indicators bearish, with the Relative Price Momentum I indicator turning bearish on June 16 and the Relative Price Momentum II indicator turning bearish on June 17. The sector finished the month with the lowest overall composite score and was downgraded to underweight by the sector model.

Sector positives	Sector negatives
• Several countries looking to increase defense spending, bullish for defense companies • China stimulus and tight credit spreads suggest more capex spending • Airlines Scorecard remains bullish	• Tighter lending standards and policy uncertainty are a capex headwind • Weak breadth profile • Slowing growth is bearish for cyclical Value sectors

Aerospace & Defense has been the standout in Industrials



Information Technology: Marketweight effective 8/8/24

Key Takeaways

- Technology has been the top performing sector for three-straight months.
- Nvidia and Microsoft have helped to propel the sector while Apple has lagged.
- The sector model upgraded Technology to overweight at the month-end update.

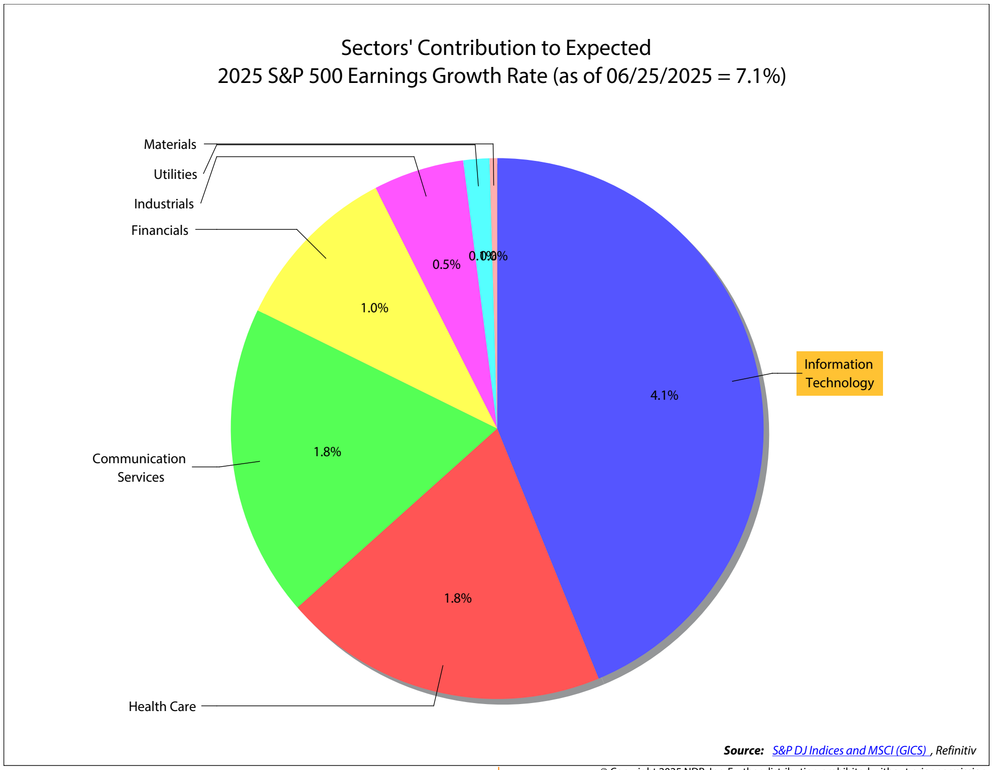
Technology surged 9.7% in June to lead all sectors for the third-straight month. Of the sector's three industry groups, Semiconductors and Software were the key drivers, gaining 16.1% and 7.2% respectively on Nvidia and Microsoft strength. Hardware trailed during the month on continued weakness from Apple. Indicator evidence improved and the model upgraded Technology to overweight at its month-end update.

Key drivers: Given elevated valuations, earnings will be key for the sector and the broader market in the second half. Technology's 89.6% Q1 beat rate was third best among all sectors and expectations are high for the remainder of the year. The sector is expected to contribute 4.1% points of the S&P 500's expected 7.1% EPS growth in 2025. Nvidia is the single biggest driver, expected to contribute 1.5% points of growth to the broad index by itself. An earnings misstep from the sector could have an outsized impact on growth and put further pressure on one of the key pillars of the bull market.

Indicators to watch: Technology finished the month with the second-highest overall composite score and the model upgraded the sector to overweight. In total, only two of the sector's five internal (price-based) indicators were bearish at month end, to go along with just one bearish external (non-price-based) indicator. Given the improvement, we have Technology on watch for an upgrade.

Sector positives	Sector negatives
• Nasdaq sentiment is not yet at extreme optimism. • Mag 7 valuations based on forward estimates no longer look excessive • Sector's Volume Supply/Demand indicator is bullish	• Trump trade war could hurt tech multinationals and make earnings misses more likely • Absolute valuations look expensive • High concentration means that a mega-cap misstep can disproportionately hurt the sector

Technology expected to drive EPS growth in 2025



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Materials: Underweight effective 8/8/24

Key Takeaways

- Materials trailed the S&P 500 by almost 300 basis points in June.
- The China Credit Impulse Index has surged, potentially bullish for metal prices.
- We have the sector on watch for an upgrade.

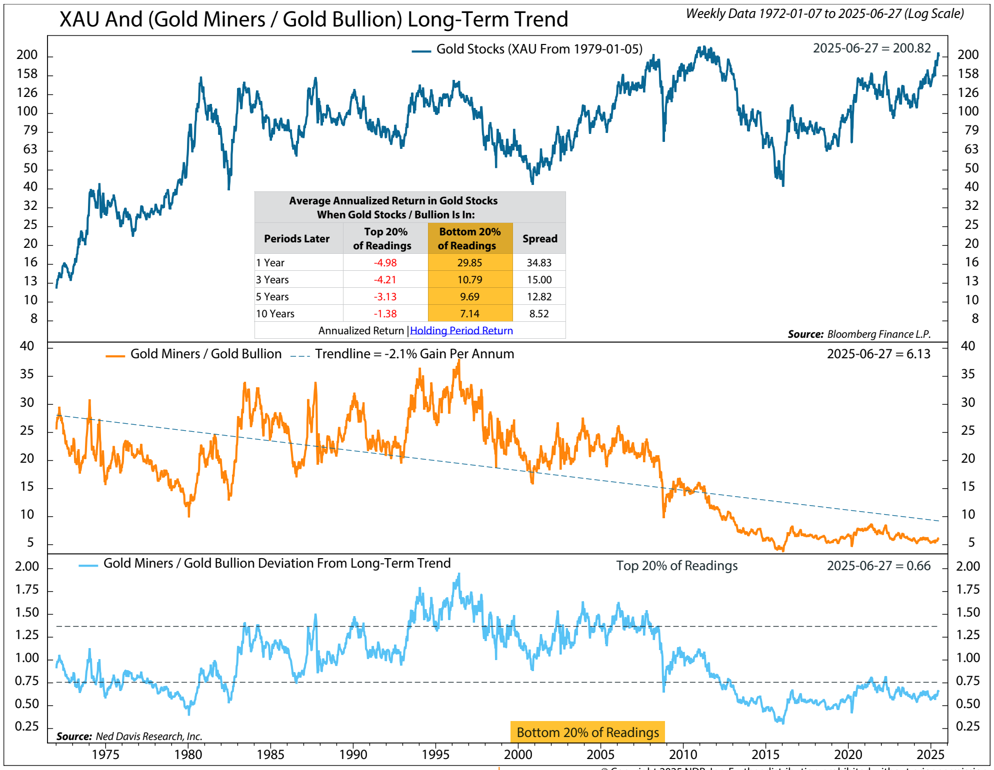
Materials finished June up 2.1%, trailing the S&P 500 by roughly 300 basis points during the month. Of the four sector's industries, only Metals & Mining had a positive return and outperformed the S&P 500. We have maintained our underweight on the sector, but model evidence continued to improve in June, and we may follow the model by closing out the position in the coming weeks.

Key drivers: Metals & Mining, the sector's second-largest industry, representing 16% of the sector's market cap, struggled for much of 2024. China, which has been an important driver of metal demand, proved a headwind for the industry. However, recent developments suggest a potential shift. The China Credit Impulse Index, a measure of credit growth relative to GDP, has surged following announced stimulus measures. Historically, the index has led metal prices by about four months. If the current trend holds, China could transition from a headwind to a tailwind for the industry.

Indicators to Watch: Within Metals & Mining, the Gold Miners sub-industry has been the standout, up nearly 60% this year. However, relative to gold bullion prices, miners look like they have room to run. The Gold Futures Momentum sector model indicator remains bullish, and the sector model stayed marketweight the sector at the June month-end update. We have Materials on watch for an upgrade.

Sector positives	Sector negatives
• Clean energy transition and AI data center buildout should support copper prices • Breadth thrusts have been bullish for cyclical leadership, historically • Copper Momentum is positive, historically bullish for the sector	• Rising natural gas prices are bearish for Chemicals • NDR macro team sees economic growth slowing globally, bearish for commodity demand • Growth continues to outperform Value

Gold miners oversold versus gold bullion



Average Annualized Return in Gold Stocks When Gold Stocks / Bullion Is In:

Periods Later	Top 20% of Readings	Bottom 20% of Readings	Spread
1 Year	-4.98	29.85	34.83
3 Years	-4.21	10.79	15.00
5 Years	-3.13	9.69	12.82
10 Years	-1.38	7.14	8.52

Annualized Return | Holding Period Return

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Real Estate: Marketweight effective 5/15/25

Key Takeaways

- Real Estate was the second worst performer in June.
- Low growth environments have been challenging for the sector, historically.
- The model remains underweight the sector.

Indicators to watch: While Real Estate saw modest sector model composite score improvement in June, it remained an underweight recommendation by the sector model. Our other key model for the sector, the REITs Industry Scorecard, which is designed to make a call on the REITs industry specifically, is a bit more bullish.

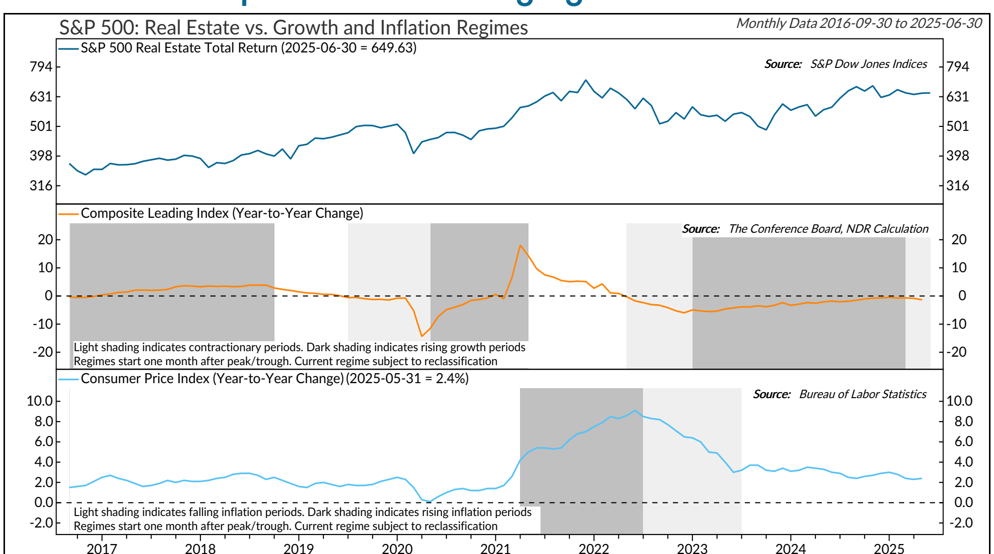
The scorecard currently sits at a neutral reading of 54%. We upgraded the sector to marketweight on May 15 and will likely maintain the position, but evidence suggests the sector is closer to another downgraded than an upgrade.

Sector positives	Sector negatives
• Relative P/E remains attractive	• Lowest Q1 beat rate among all sectors
• Breadth profile is the best among all sectors	• Net debt to cash flow ratio near record high
• A Trump tax cut extension could benefit capex-heavy sectors and industries	• Dividend yield looks less attractive versus bonds

Real Estate was one of two sectors to register a loss in June, falling 0.5% and trailing the S&P 500 by more than 500 basis points. Underperformance was broad based, with all 14 of the sector's REITs sub-industries lagging the broad index during the month. While the sector looks oversold, indicator evidence continues to lean bearish.

Key drivers: Two key macro factors we are monitoring for Real Estate are credit spreads and inflation. Credit spreads have started to widen, and the sector has historically underperformed when the high yield–investment grade (HY–IG) spread moves above its long-term average. While spreads are not yet at bearish levels, further widening could pose a risk. We are also watching inflation. According to our macro team's Growth and Inflation Regime Report, the current backdrop of slowing growth and neutral inflation has historically been unfavorable for Real Estate.

Macro backdrop remains challenging for Real Estate



Show real returns
Show relative returns

S&P 500: Real Estate Performance
Full History: 2016-09-30 to 2025-06-30

Current Regime: Growth Weak Inflation Neutral		Inflation: Rising % Gain/ Annum	Rising % of Time	Neutral % Gain/ Annum	Neutral % of Time	Falling % Gain/ Annum	Falling % of Time
Growth	Rising	1.2*	1.0	10.3	53.3	-4.4*	5.7
	Stable	5.1	11.4	19.8*	8.5	N/A	0.0
	Weak	1.0*	1.9	-4.8	12.4	-6.5*	5.8

Buy / Hold = 6.45% Gain/Annum
** Cases less than one year are not annualized*

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Utilities: Marketweight effective 5/15/25

Key Takeaways

- Utilities gained just 0.1% in June, trailing the S&P 500 by almost 500 basis points.
- Clusters of breadth thrust signals, like we have seen recently, have supported cyclical rotations.
- Higher yields have made the sector's dividend yield less compelling.

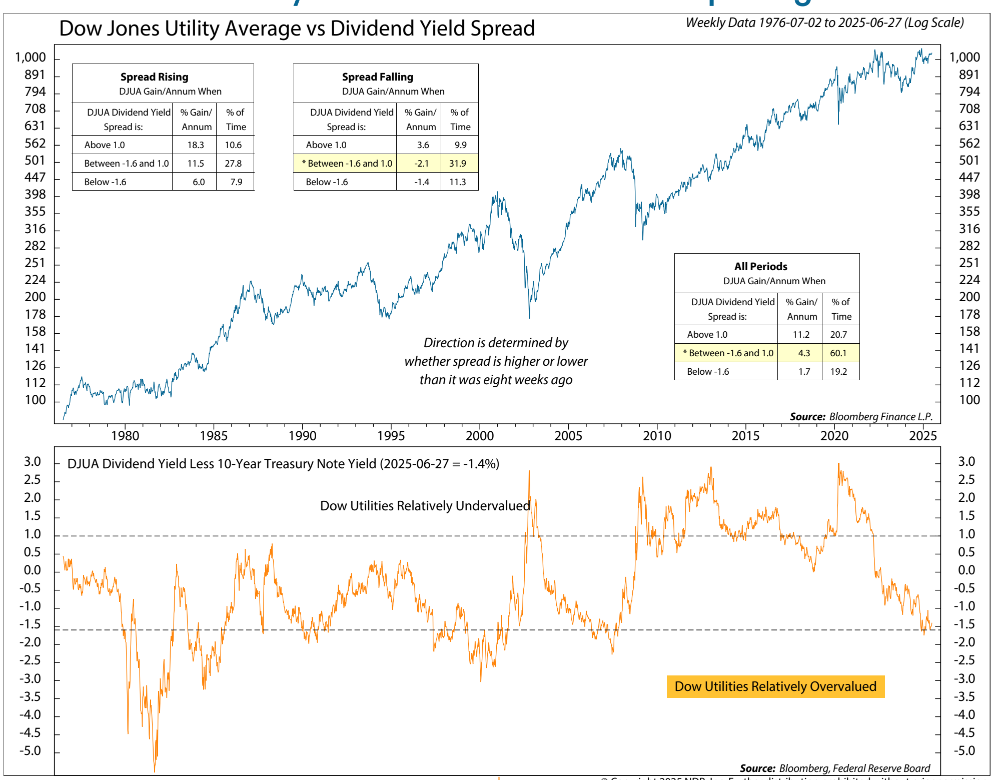
Utilities underperformed for a second-straight month in June, eking out a 0.1% gain, trailing the S&P 500 by almost 500 basis points. Since the April low, the sector's low beta has proven to be a drag. While the ongoing AI-driven infrastructure buildout has sparked renewed interest in the sector, Utilities is unlikely to lead while market leadership remains risk on. We maintain our marketweight for now but could look to add exposure if recession risks increase or market volatility picks up.

Key drivers: The stock market's rebound from the April low has been enough to trigger seven breadth thrust signals in our Breadth Thrust Watch Report. Historically, when five or more have signaled, it has been bullish for stocks and has supported cyclical over defensive leadership. Utilities' track record has been particularly poor following Breadth Thrust Watch Report signals, outperforming in only 36% of cases six months later and 11% of cases 12 months later. The technical improvement suggests fading defensive sectors.

Indicators to watch: Along with breadth thrusts, rising long-term yields have made the sector's dividend yield less competitive. The sector now yields 1.4% points less than the 10-year Treasury yield, near the widest spread since 2007, making the sector less compelling for income driven investors. The sector's model composite score was unchanged during the month and remains a marketweight recommendation.

Sector positives	Sector negatives
• Relative P/E remains attractive • Long-term breadth is holding up • A Trump tax cut extension could benefit capex-heavy sectors and industries	• Lowest Q1 beat rate among all sectors • Net debt to cash flow ratio near record high • Dividend yield looks less attractive versus bonds

Utilities' dividend yield has become less compelling



ESX5555

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.

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See the signals.™

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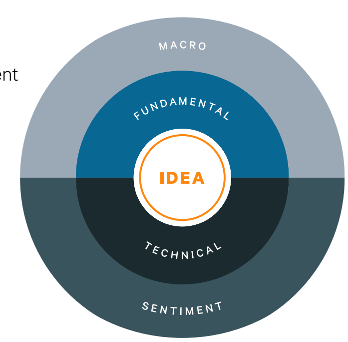

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