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Receding volatility and sector leadership

Watching for confirmation

Outside of the brief growth scare last August, volatility remained mostly calm throughout 2024. The VIX averaged just 15 for the full year – a level consistent with a low-stress market environment.

Volatility resurfaced shortly after Trump's inauguration and spiked following Liberation Day on April 2 when the administration introduced broad tariffs on imports. The immediate retaliation from major trading partners, especially China, triggered a surge in both economic and trade policy uncer-

tainty, while reigniting recession concerns. The VIX shot above 50 on April 8 for the first time since March 2020.

The chart below looks at the VIX from a deviation from trend perspective, comparing short and long-term averages in the VIX. The indicator gave a sell signal on December 18 as volatility began to turn higher.

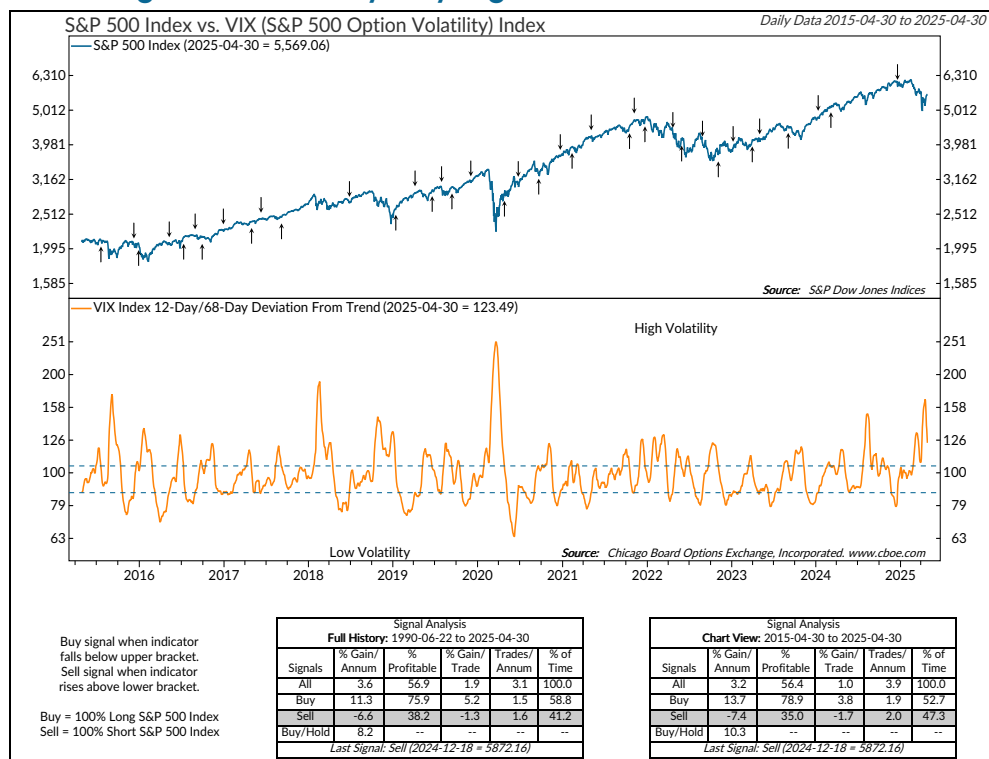
The indicator entered its high volatility zone in March and continued to rise for most of April. However, it has moved lower over the last week following Trump's 90-day tariff pause.

Current Recommendations

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

● Overweight ● Marketweight ● Underweight

Watching for a volatility buy signal



Technical Update

Through May 1, the S&P 500 had risen for eight consecutive trading days for the 30th time since WWII. Six months later, the S&P 500 has risen 83% of the time by a median of 7.3% versus 4.9% for all six-month periods. The rally has triggered several breadth thrust signals, which occur when an extremely high percentage of stocks rally together. On April 22, advancing volume was 10 times declining volume. On April 24, both the Zweig Breadth Thrust (advances versus declines over a 10-day period) and the three-day price thrust indicators fired. On April 28, the five-day advances/ declines ratio flashed. Technical action is approaching levels consistent with a multi-month low.

If the indicator continues to decline and breaks below its upper bracket, it would **trigger a volatility buy signal**, historically a bullish development for equities. It would also suggest that the **worst of the volatility surge is behind us and signal a potential inflection point in investor sentiment**.

Leadership implications

The chart below illustrates how broad

sector leadership has evolved following volatility buy signals from the deviation-from-trend indicator, with repeat signals within six months screened out.

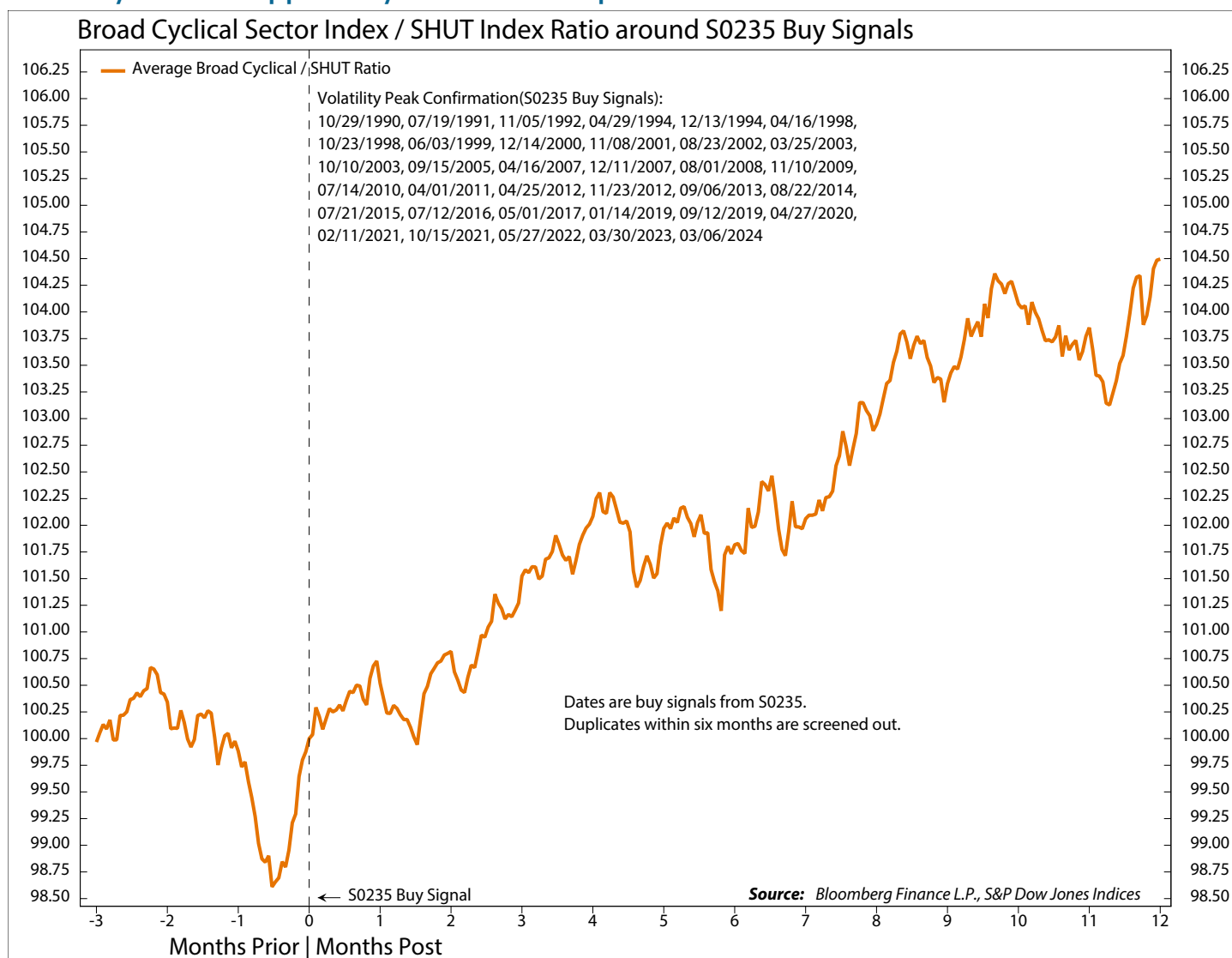
The chart shows that the signals have been **bullish for cyclical sector leadership historically**, with our Cyclical Sector Index outperforming our Defensive SHUT Index up to a year later, on average. The pattern suggests that once volatility has

subsided, investors have been more comfortable rotating back into the higher beta and more economically sensitive sectors.

Bottom spotting

A rotation into cyclical sectors would also signal that equities may have established a sustainable bottom. Our Market Bottom Spotter indicator shown on page 3 is designed to trigger when the 50-day average of the Traditional Cyclical

Volatility retreat supports cyclical leadership



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Sector Index / SHUT Index ratio forms a low and then reverses at least 1% higher (bottom clip). While the indicator is sometimes early, it has a good track record of firing near the lows of most bear markets since 1972.

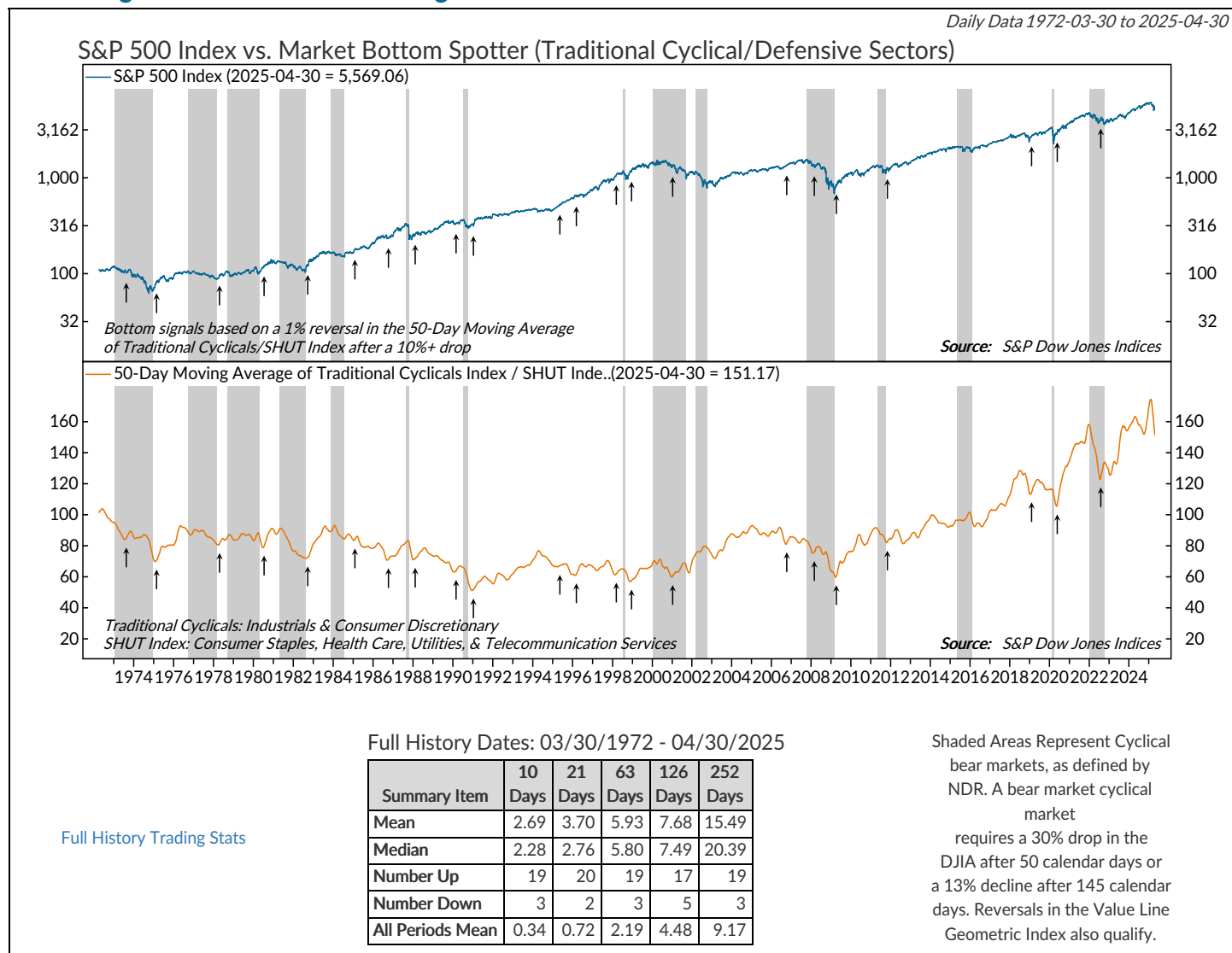
Model update

Following the latest update yesterday, the **sector model continues to lean defensive**. Three position changes were made: Technology and Energy were downgraded to underweight, and Utilities was downgraded to marketweight. The model is

now underweight Technology and Energy and marketweight the remaining nine sectors.

We will have more on April's developments and model changes in our Monthly Sector Update report that will go out next week.

Watching for a sector bottom signal



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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.

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

See the signals.TM

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