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NED DAVIS RESEARCH

AUGUST 29, 2025

Monitoring rotations

An exceptional Q2 earnings season helped to keep stocks on their upward trajectories despite some inflation and employment concerns. Powell's Jackson Hole speech last Friday added more fuel to the rally, with investors interpreting his remarks to mean the Fed's easing cycle is likely to resume at the September meeting.

More indices, styles, and sectors have confirmed by reaching new highs, including the DJIA, Russell 1000 Value, and Russell Mid-Cap indices that all set record highs last week for the first time in 2025. In total, seven

S&P 500 sectors are within 5% of record highs, the most since last December.

Along with the broadening that has taken place, **leadership has begun to rotate.** The large-cap and Growth-heavy indices, sectors, and stocks that have led for most of the rally have taken a step back in recent weeks, while several small-cap and Value areas have started to perform better.

Style boxes

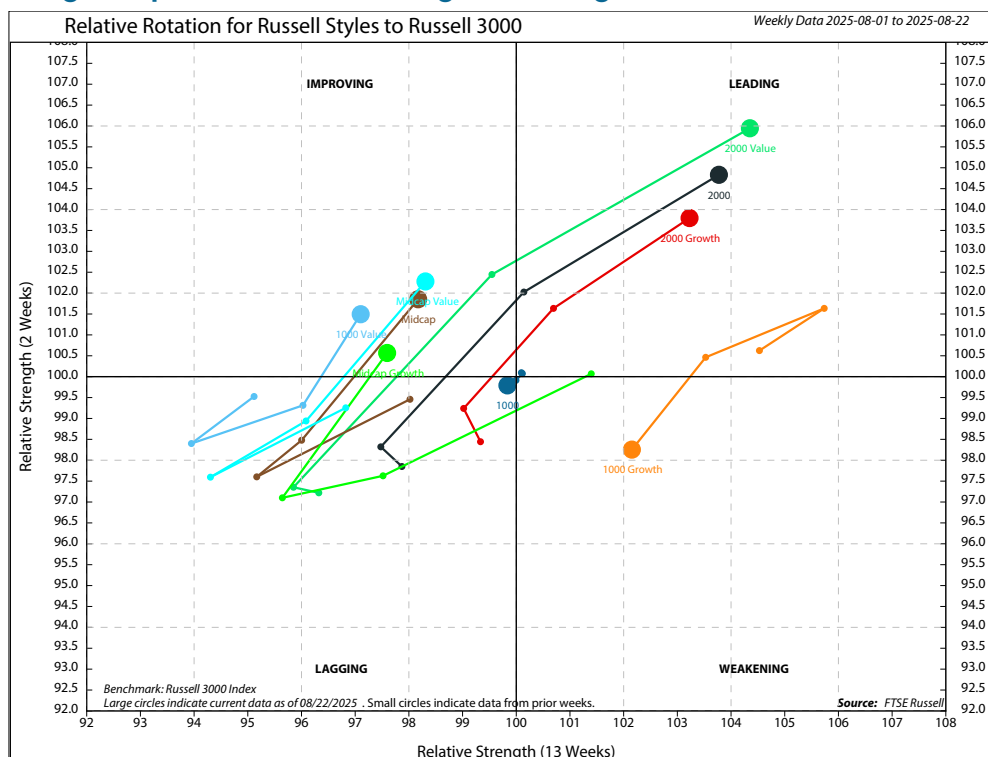
The chart below illustrates the rotation by comparing 13-week (three-month) rela-

Current Recommendations

| Sector | Position | Recommended | Benchmark |
|------------------------|----------|-------------|-----------|
| Technology | ● | 34% | 30.1% |
| Utilities | ● | 4% | 2.3% |
| Communication Services | ● | 9% | 9.2% |
| Consumer Discretionary | ● | 10% | 10.6% |
| Consumer Staples | ● | 7% | 6.5% |
| Energy | ● | 3% | 3.7% |
| Financials | ● | 12% | 12.6% |
| Health Care | ● | 12% | 12.1% |
| Industrials | ● | 8% | 8.5% |
| Materials | ● | 0% | 2.3% |
| Real Estate | ● | 1% | 2.3% |

● Overweight ● Marketweight ● Underweight

Large-cap Growth is no longer leading



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Technical Update

While the S&P 500, Nasdaq, and DJIA have made record highs in 2025, the Russell 2000 Index's last all-time high was logged on 11/8/2021. The small-cap benchmark has rallied to within 3% of its 2021 high. On a relative basis, on August 1 the Russell 2000 fell to its lowest level versus the Russell 1000 since May 2000. Since then, the Russell 2000/1000 ratio has jumped 5.4%. Since 2021, small-cap rallies have been violent, but brief, lasting a few weeks before they give back their gains and then some. New highs in the Russell 2000 and a sustained uptrend in small-caps relative to large-caps would suggest the rally is broadening, supporting the case for the cyclical bull market lasting into 2026.

tive strength for Russell style boxes to 2-week relative strength, using the Russell 3000 as the benchmark. The largest circles on the chart are current readings, and the smaller circles represent readings from the prior three weeks. Showing the past data points allow for leadership rotation trends to be more easily followed.

The chart is broken up into four quadrants. Strong short- and intermediate-term relative strength is considered

“leading”, strong intermediate-term but weak short-term relative strength is “weakening”, weak short-and intermediate-term relative strength is “lagging”, and weak intermediate-term but strong short-term relative strength is categorized as “improving”.

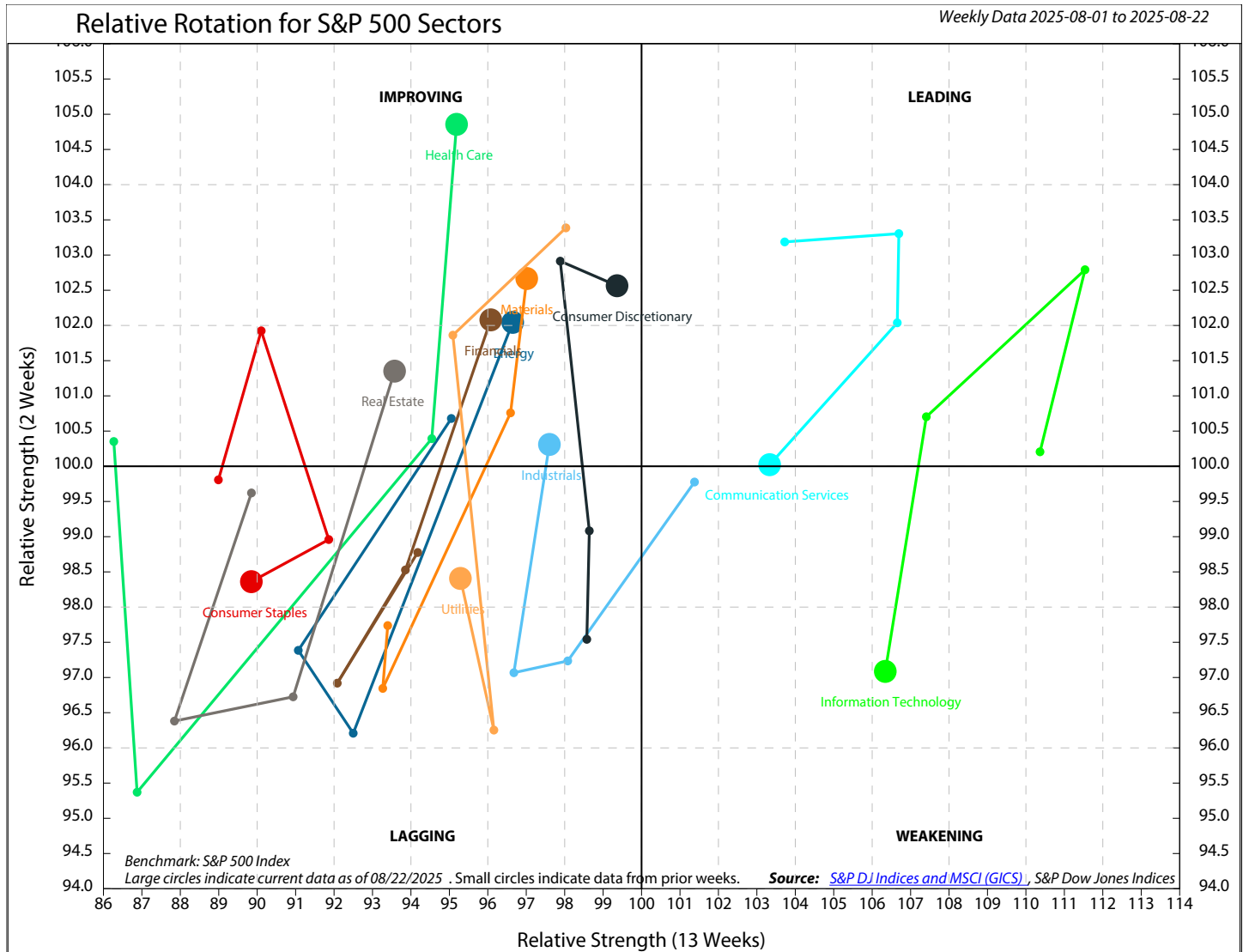
The framework shows that of the nine style boxes, **small-caps are now leading, with small-cap Value showing the most strength.** All three of the small-cap indices were lagging three weeks ago.

Additionally, mid-cap and large-cap Value indices have seen performance improve, while **large-cap Growth, the previous leader, has begun to weaken.**

Sectors

At the sector level, **Technology and Communication Services have weakened versus the S&P 500.** Near-term strength has led to **Health Care, Consumer Discretionary, Materials, Financials, Energy, and Real Estate moving into the improving quadrant.** Utilities

Leading sectors have weakened while laggards have improved



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and Consumer Staples are the only sectors currently in the lagging quadrant.

Mag 7

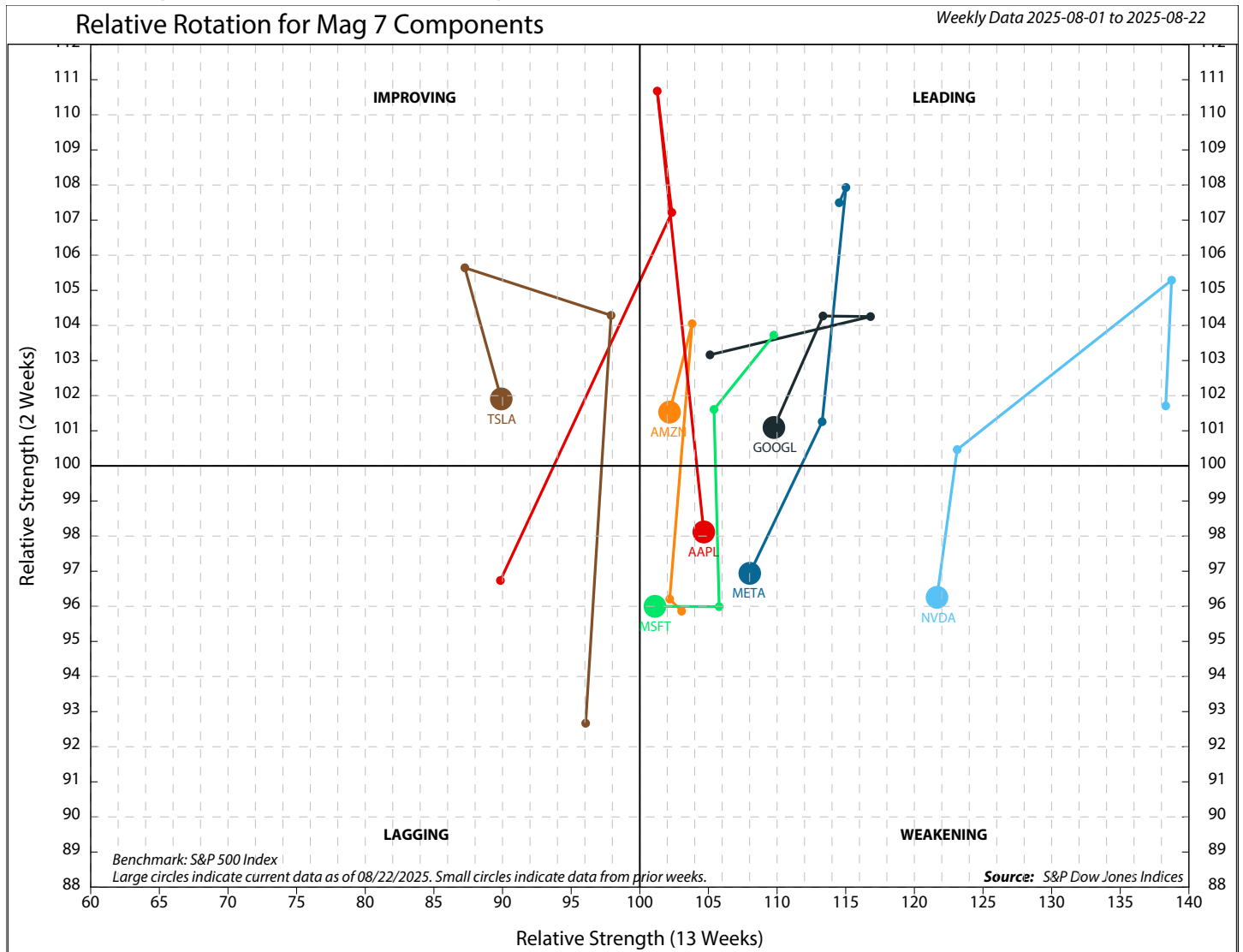
Much of the style and sector trends can be attributed to the performances of the tech mega-caps. The chart below shows that Microsoft, Nvidia, Meta, and Apple have underperformed the S&P 500 over the last two weeks. Tesla, Amazon, and

Alphabet have outperformed but have lost momentum. The weakening has left the window open for small-caps and Value to gain the upper hand.

Market rotations can serve as resets for the stock market. They prevent rallies from becoming too top heavy and allow different styles and sectors to step into the leadership role. The current rota-

tion has come amid the worst seasonal stretch of the year for stocks. It appears to be part of **a healthy broadening that could support the case for the bull market to continue to run.** However, we will rely on our indicators and models to help assess whether the rotation is likely to have staying power and to provide context for what it means for the bull market.

Several Mag 7 components are losing momentum



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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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