



JUNE 13, 2025

Can cyclical leadership hold in 2H? Watching policy, yields, and mega-caps

When we published our 2025 U.S. Outlook in December, we noted that the priority President Trump gives to policy initiatives would likely be a key influence on market and leadership trends. While we anticipated that tax cut extensions would be high on the agenda, we also reasoned that “tariffs and immigration may be given top priority in 2025,” as both could be advanced without congressional involvement.

With trade negotiations still ongoing, tariff-related volatility could resurface in the second half. However, the market appears to have priced out the worst-case scenario and inves-

tor focus has shifted back toward other market drivers.

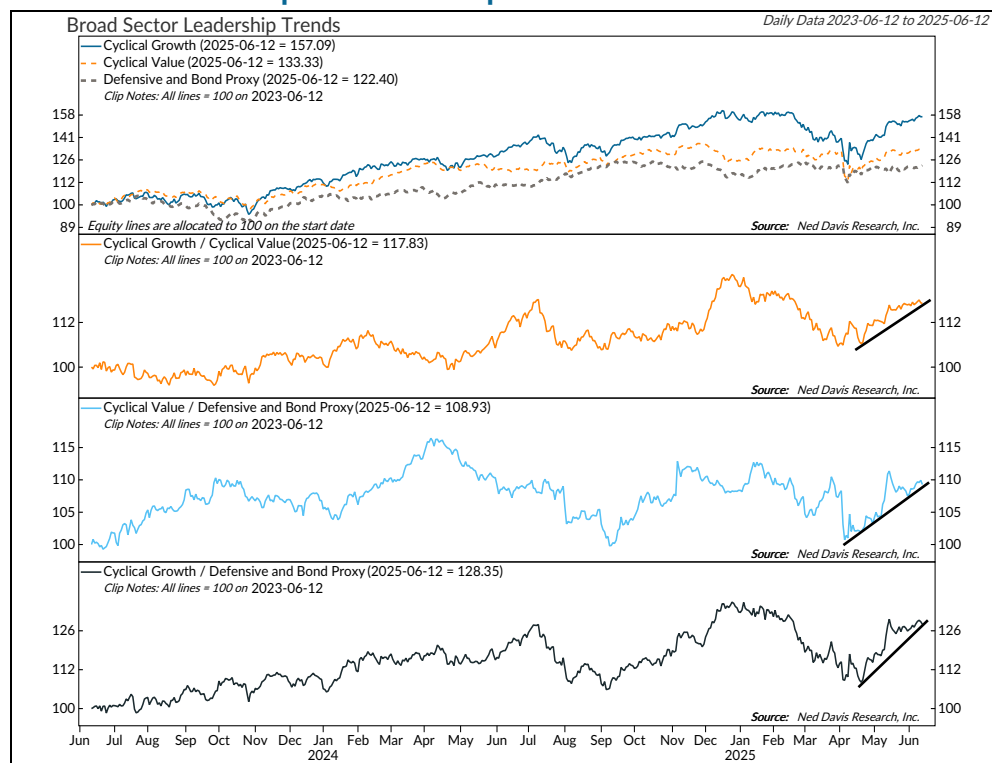
Leadership off the low has **been overwhelmingly cyclical over defensive**. The chart below highlights that cyclical Growth sectors have outperformed both cyclical Value (second clip) and defensive/ bond proxies (fourth clip) since the April bottom. While the trends from the low have been decisive, **all three ratios remain near the middle of their long-term ranges**.

In this report, we examine key factors that

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

● Overweight ● Marketweight ● Underweight

Growth leadership since the April low



Customized version of UIPS18



© Copyright 2025 Ned Davis Research, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html. For data vendor disclaimers refer to www.ndr.com/vendorinfo/

Technical Update

S&P 500 futures plunged and oil futures soared on news of Israeli airstrikes against the Iranian nuclear infrastructure. Markets often react negatively to crises but recover over the following months. In 56 crisis events since 1919, the DJIA has fallen an average of 7.1% during the crisis period but gained 9.4% six months later and 15% one year after. The reaction to Liberation Day is on track to follow the pattern. The DJIA plunged 10.9% from April 2-8 but has recouped all the losses and then some, gaining 14.1% since. How the market reacts to the latest news depends on the fundamentals on the ground, but history suggests any short-term losses should be recouped over the intermediate term.

could shape leadership trends in the second half, including monetary and fiscal policy actions, the direction of interest rates, mega-cap stock performance, and global trade developments. These drivers will likely help determine whether the above ratios break out or stay in their multi-year ranges.

Monetary policy

While economic growth and inflation have continued to trend lower, tariff uncertainty has kept the Fed on the sidelines. The last rate cut was on December 18, and Fed Funds Futures now point to September as the most likely meeting for the Fed to resume easing. Pauses in easing cycles, defined as breaks of six months or more between rate cuts, have

been relatively rare. Only seven of the Fed's 104 post-WWII rate cuts have met the pause criteria. While pause periods often coincide with weak market returns and a tilt toward defensive leadership, the chart below shows that equities have historically rallied following pauses (blue line), with leadership skewing more cyclical than defensive (orange line), on average. This suggests the **resumption of rate cuts should serve as a bullish tailwind for equities in the second half.**

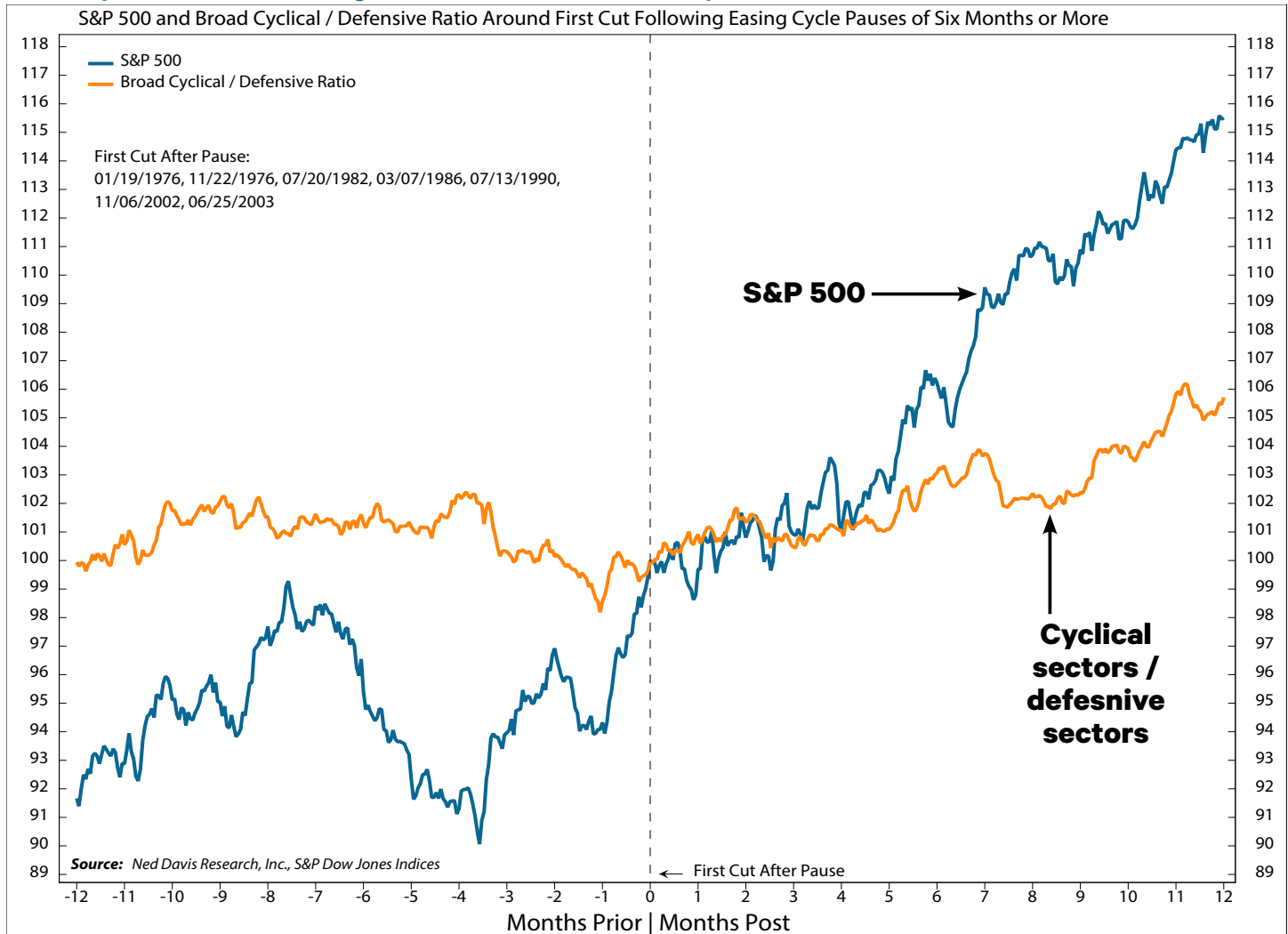
Fiscal policy

President Trump's messy rollout of tariffs in April triggered a spike in policy uncertainty and market volatility. While investors continue to monitor trade negotiations, particularly

with China, the market has largely priced out the most bearish scenario of a major break of global trade and supply chains.

The passage of the "One, Big, Beautiful Bill" would help alleviate uncertainty and give the economy a boost to withstand tariff impact. Our macro team estimates that the combined effect of tax cuts and tariffs will deliver a **net fiscal stimulus**, which should act as a tailwind for equities. Drawing on Trump's first term as an analog, tax cuts could tip the scale in favor of cyclical leadership, mirroring the 2017 period when Congress worked toward passing the Tax Cuts and Jobs Act

Resumption of Fed easing bullish for stocks and cyclicals



IF25_23A_C



© Copyright 2025 NDR, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html

Risks

At the start of the year, market concentration was at record highs at the same time the Mag 7 faced slowing earnings growth and elevated valuations. While the S&P 493 are still expected to close the gap on the Mag 7's earnings growth lead, the **recent correction reduced much of the relative overvaluation.**

However, concentration remains elevated at the index level, with the top 10 stocks making up 37% of the S&P 500. Concentration is even more extreme at the sector level, making it difficult for Technology, Consumer Discretionary, and Communication Services to outperform when mega-caps are under

pressure. **The outsized influence of the group represents a risk if sentiment turns negative again in the second half.**

Additionally, the combined effects of tax cuts and tariffs are likely to fuel inflationary pressures over the near-to-intermediate term, potentially keeping upward pressure on bond yields.

Since the Liberation Day tariff announcement, yields have risen sharply, approaching levels that have historically posed risks to equities. Rapid increases in yields have also tended to be bearish for cyclical sector leadership. **If yields break out in the second half, both the equity rally and cyclical**

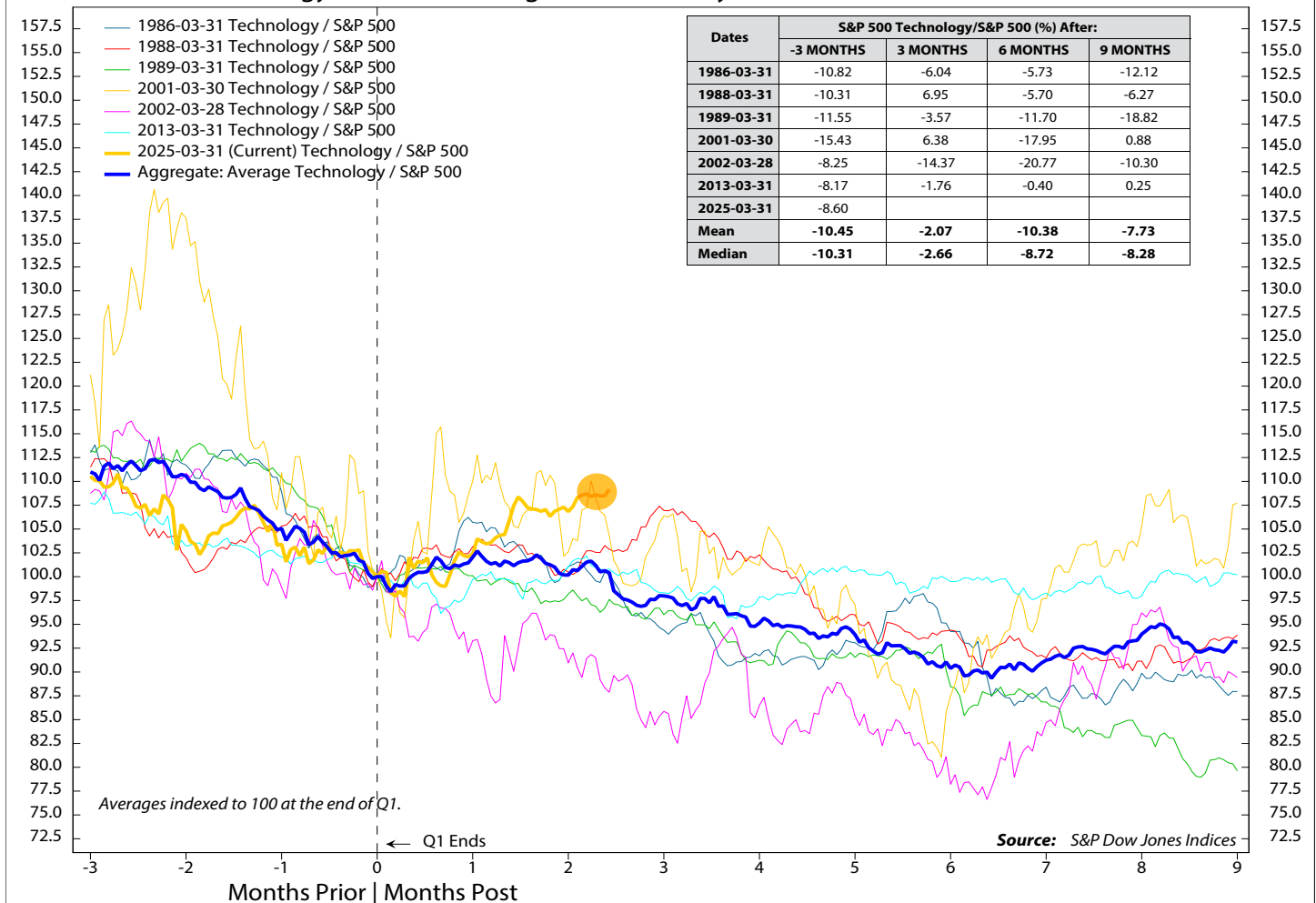
rotation could be at risk.

Another potential risk for cyclical leadership is the negative momentum Technology experienced to begin the year. The chart below shows that following prior cases of Technology trailing the S&P 500 by more than 8% during the first three months of a year, Tech weakness has tended to persist, on average (blue line). While short-term bounces have been common, **the sector consistently remained weak through Q3.**

Given Technology represents 32% of the S&P 500, **if the sector succumbs to the tendency, it will be a drag on stocks in the second half of the year.**

More than an oversold bounce from Tech?

S&P 500 Technology RS when Trailing the S&P 500 by more than 8% in Q1



IF25_16C_C



© Copyright 2025 NDR, Inc. Further distribution prohibited without prior permission. All Rights Reserved. See NDR Disclaimer at www.ndr.com/copyright.html

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



NDR
NED DAVIS RESEARCH

Disclaimer

The data and analysis contained herein are provided "as is" and without warranty of any kind, either expressed or implied. Ned Davis Research, Inc. (NDR) any NDR affiliates or employees, or any third-party data provider, shall not have any liability for any loss sustained by anyone who has relied on the information contained in any NDR publication. **NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE.**

NDR's past recommendations and model results are not a guarantee of future results. This communication reflects our analysts' opinions as of the date of this communication and will not necessarily be updated as views or information change. All opinions expressed herein are subject to change without notice. NDR or its affiliated companies or their respective shareholders, directors, officers and/or employees, may have long or short positions in the securities discussed herein and may purchase or sell such securities without notice.

NDR's reports are not intended to be the primary basis for investment decisions and are not designed to meet the particular investment needs of any investor. The reports do not address the suitability of any particular investment for any particular investor. The reports do not address the tax consequences of securities, investments, or strategies, and investors should consult their tax advisors before making investment decisions. Investors should seek professional advice before making investment decisions. The reports are not an offer or the solicitation of an offer to buy or to sell a security.

Using any graph, chart, formula or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such device.

Further distribution prohibited without prior permission. Full terms of service, including copyrights, terms of use, and disclaimers are available at <https://www.ndr.com/web/ndr/terms-of-service>.

Copyright 2025 (c) Ned Davis Research, Inc. All rights reserved.

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.™

Founded in 1980, Ned Davis Research Group is a leading independent research firm with clients around the globe. With a range of products and services utilizing a 360° methodology, we deliver award-winning solutions to the world's leading investment management companies. Our clients include professionals from global investment firms, banks, insurance companies, mutual funds, hedge funds, pension and endowment funds, and registered investment advisors.

