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NED DAVIS RESEARCH

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Assessing sector trend and breadth evidence

Market vitals

Breadth readings held up well during the S&P 500's 5.5% correction from March 28 through April 19. The percentage of S&P 500 stocks trading above their 200-day moving averages reached a low of 64.8% on April 16 and has since improved to 79.2%. The breadth progress has been broad based among sectors, with **all S&P 500 sectors currently having at least two-thirds of issues trading above their 200-day averages.**

Trend evidence also held up. Big Mo Tape, which measures the percent of subindustries

in uptrends, never turned bearish. As measured by golden cross signals, all sectors remain in long-term uptrends (chart, below).

Signs of rotation?

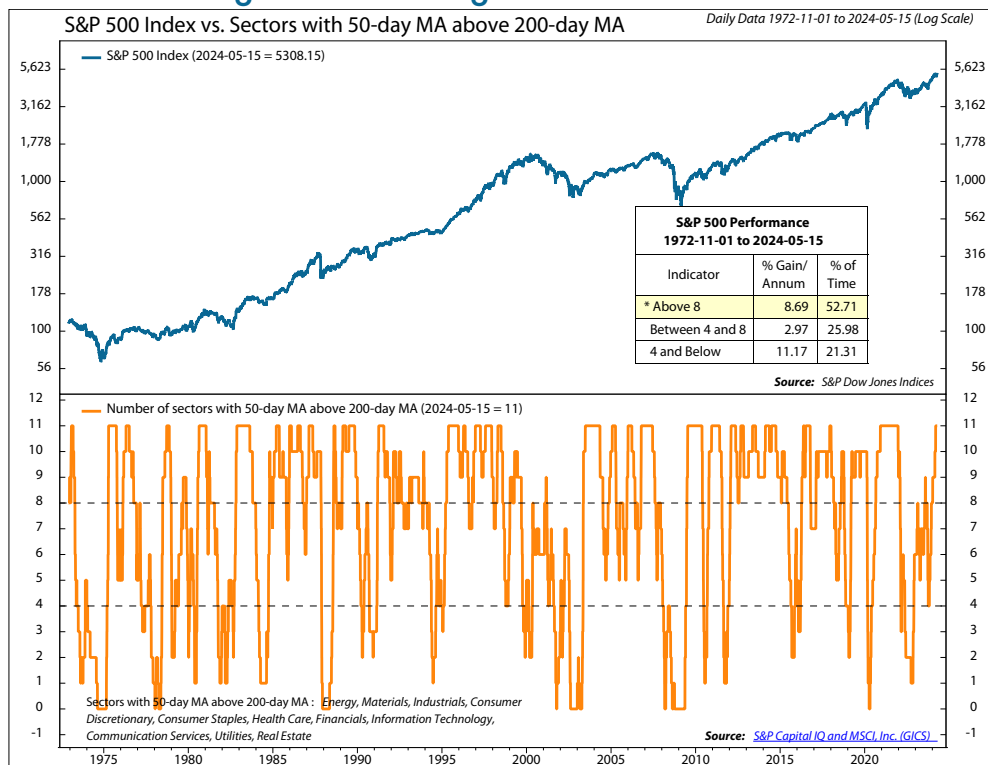
While absolute breadth and trend evidence continue to look strong, there have been some notable developments on a relative basis. Breadth has held up well across sectors, but defensive sectors have gained ground on cyclical sectors on a relative basis. Growth sectors of Technology, Consumer Discretionary, and Communication Services have among the weakest breadth for both the 50- and

Current Recommendations

Sector	Position	Recommended	Benchmark
Financials	●	16%	12.3%
Utilities	●	5%	2.3%
Communication Services	●	9%	8.9%
Consumer Discretionary	●	10%	10.9%
Energy	●	4%	4.1%
Health Care	●	12%	13%
Industrials	●	9%	8.5%
Technology	●	28%	28.1%
Materials	●	2%	2.4%
Consumer Staples	●	4%	7%
Real Estate	●	1%	2.4%

● Overweight ● Marketweight ● Underweight

All sectors on golden cross signals



Technical Update

The Dow Jones Industrial Average is on the cusp of closing above 40,000 for the first time. Round numbers are often psychologically important. While it may take a few tries to break above them, market returns have been above average after the DJIA has cleared round numbers. One month later, the DJIA has risen an average of 1.5% versus a long-term mean of 0.6%. One year later, the DJIA has climbed an average of 11.6% versus a long-term mean of 6.8%. Overall market breadth matters more than round numbers, and they support the bull case. Over 75% of stocks are above their 200-day moving averages, and 70% of sub-industries are in uptrends.

200- day periods. The best overall breadth profiles come from the Value-leaning sectors of Utilities, Financials, Materials, Energy, and Industrials.

The relative breadth shift towards defensive and cyclical Value sectors has **not been accompanied by a decisive shift in broad leadership trends**. The chart below shows that the cyclical Growth/cyclical Value ratio (second clip) and the cyclical Value/ defensive Value ratio (third clip) continue to trend sideways, while the cyclical Growth/ defensive Value ratio remains in its uptrend (fourth clip).

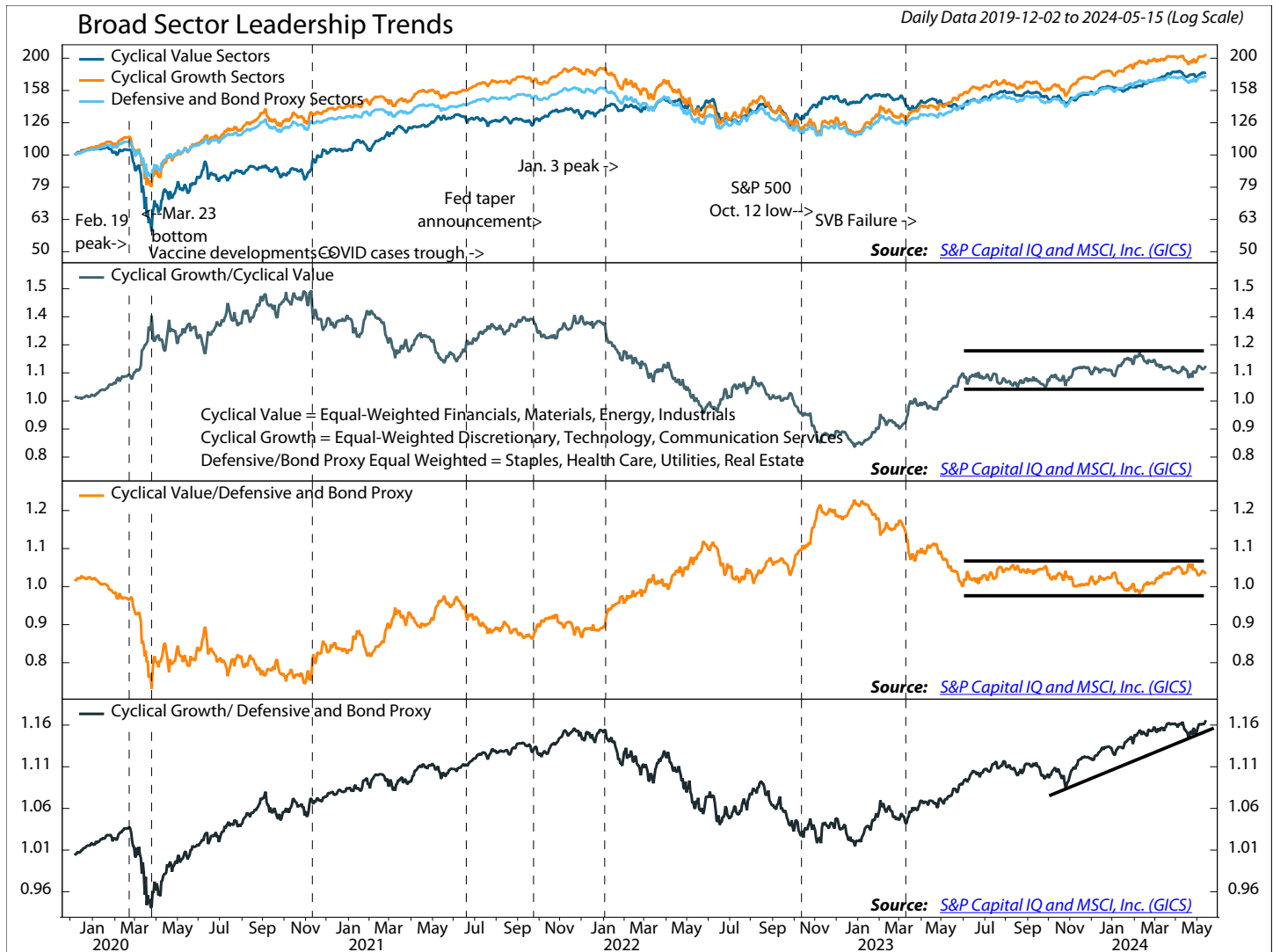
As shown in the chart on page 1, on an absolute basis, the 50-day averages of all sectors are currently trading above their 200-day averages (golden cross). Relative to the S&P 500, Communication Services, Technology, Financials, and Industrials are the only sectors on golden cross signals. The spreads between the 50-day and 200-day averages have been narrowing for Technology and Industrials, and the sectors could quickly go on death cross signals if relative underperformance continues. Conversely, Materials, Energy, and Utilities are trending toward relative

golden cross signals.

Model trends

The average sector model composite score for defensive sectors is higher than the average cyclical score by its widest margin since March 2023. Most of the shift has come from the model's technical composites, while the external composite continues to lean cyclical. Within cyclicals, the model's preference has shifted towards Value over Growth. The move is in line with the breadth trends, as well as some of the emerging price trends, from recent weeks.

Broad relative trends holding steady



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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.

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See the signals.™

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