

NDR Sector Views

JUNE 4, 2025

Materials: Underweight effective 8/8/24

Key Takeaways

- Materials trailed the S&P 500 by over 300 basis points in May.
- The China Credit Impulse Index has surged, potentially bullish for metal prices.
- We maintain our underweight on the sector while relative momentum remains negative.

Materials trailed the S&P 500 in May amid the growth-led rally. Although the sector gained nearly 3% during the month, all five of its industries underperformed the broader index, with the sector lagging by over 300 basis points. The sector model remains marketweight Materials, but the composite score continues to lean bearish. As a result, we have elected to maintain our underweight position on the sector for now.

Key drivers: Metals & Mining, the sector's second-largest industry by market cap, 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 for most of 2024. However, recent developments suggest a potential shift. The China Credit Impulse Index, a measure of credit growth relative to GDP, has surged following newly 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 later in 2025.

Indicators to Watch: Rising copper prices turned the sector's Copper Spot Momentum indicator bullish on May 6, and the model maintains a marketweight position on

Materials. However, the sector's overall composite score remains bearish. As of the end of May, Materials ranked fifth lowest among all sectors. We remain underweight for now, as the sector's relative downtrend remains intact.

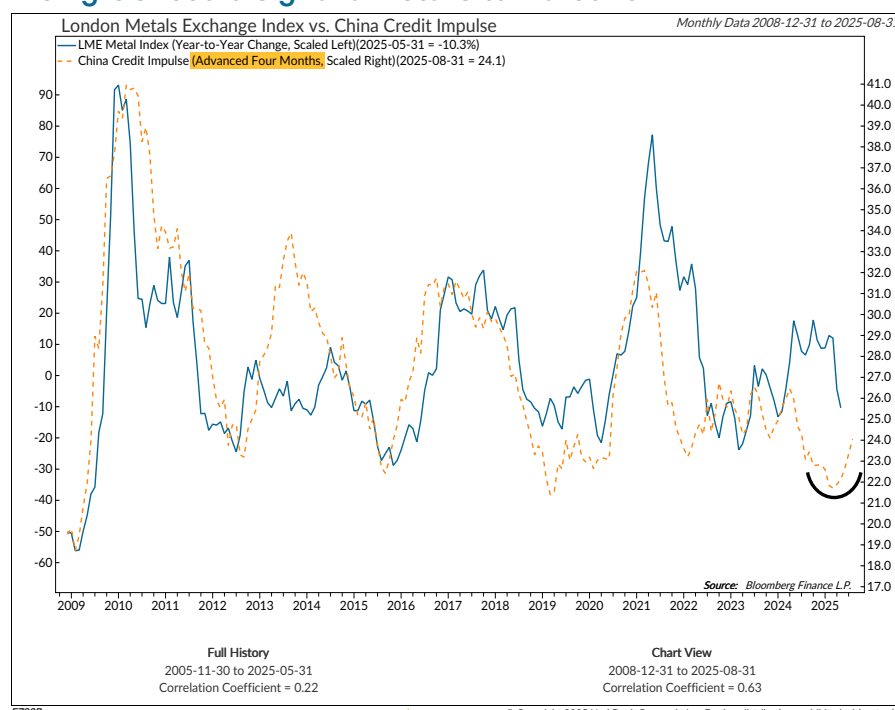
Sector positives

- Gold miners have underperformed bullion prices and could mean revert, supporting Metals & Mining
- Clean energy transition and AI data center buildout should support copper prices
- Breadth thrusts have been bullish for cyclical leadership, historically

Sector negatives

- Rising natural gas prices are bearish for Chemicals
- NDR macro teams sees economic growth slowing globally, bearish for commodity demand
- Growth continues to outperform Value

Rising CCI could signal a metal's turnaround



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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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