

NDR Sector Views

SEPTEMBER 4, 2025

Materials: Underweight effective 8/8/24

Key Takeaways

- Materials was the top performer in August.
- The sector has been uncharacteristically weak during market rallies since Covid.
- The model remains underweight but will likely move off the position if the sector has another strong month.

Materials, which has underperformed for most of the year, was the top performer in August. The sector jumped almost 6.0% versus a 2.0% gain for the S&P 500. For the year, the sector is now up 10%, roughly in line with the broad index. The question now becomes whether August's rotation into several lagging areas of the bull market continues or is just a counter trend rally. So far, our sector model is not buying into the bounce, remaining underweight – matching our positioning on the sector.

Key drivers: At a basic level, sectors with betas above 1.0 should perform well when stocks are rising. Materials' beta has typically been above the 1.0 threshold, benefiting the sector during bull markets. However, the overwhelmingly dominant and consistent Growth leadership since the pandemic has resulted in the sector trailing during market rallies. In fact, the sector has trailed in each of the last seven rallies greater than 5%, the worst stretch for the sector going back

to 2000. Investors will likely need to shift preference from Growth stocks before the relationship changes.

Indicators to watch: Despite the strong month, Materials saw modest sector model composite deterioration. Weak relative performance from Emerging Markets turned

the Emerging/Developed Equity Momentum indicator bearish on August 22. The sector finished the month with the lowest overall composite score and the model maintained its underweight. However, another strong month would likely be enough for the model to move away from the position.

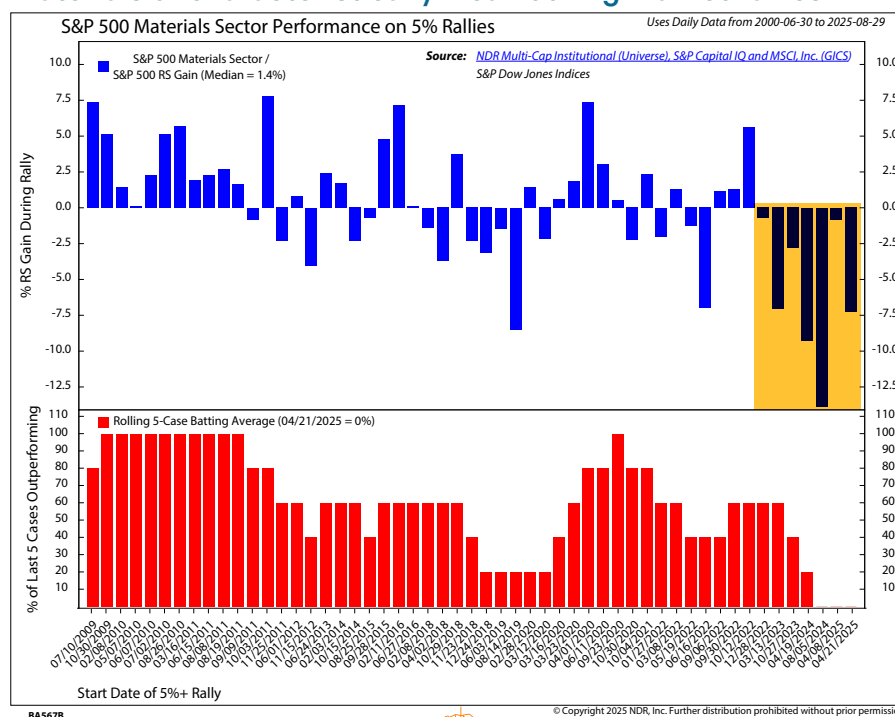
Sector positives

- Clean energy transition and AI data center buildout should support copper prices
- Gold miners have underperformed the commodity and could mean revert
- China Credit Impulse Index suggests higher metal prices

Sector negatives

- Rising natural gas prices are bearish for Chemicals
- NDR macro team sees economic growth slowing globally, bearish for commodity demand
- Forward P/E ratio near record highs

Materials uncharacteristically weak during market rallies



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Recommendations

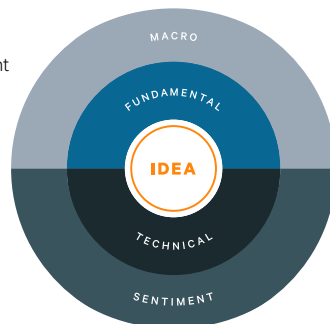
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