



MAY 2025

U.S. Market Update

The S&P 500 Total Return Index's performance was quite volatile in April. After dropping into bear market territory, the index recovered later in the month and closed down only -0.68%.

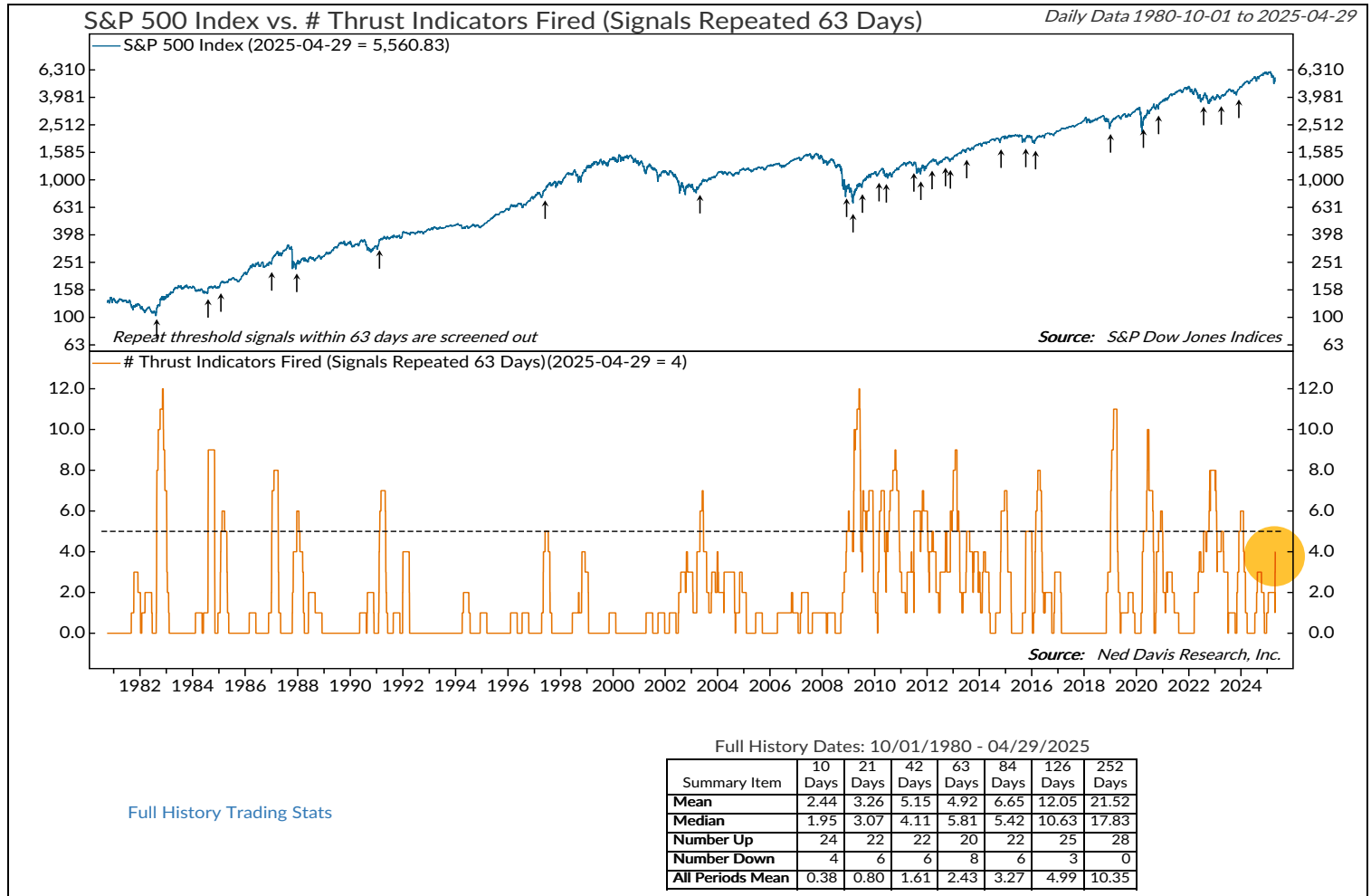
Sector breadth remained weak—6 of the 11 S&P 500 sectors had negative returns during the month. Leadership was a mix of Cyclical and Defensive sectors. Energy had the worst returns, dropping more than -13% in April.

The market typically goes through a four-step bottoming process: oversold, rally, retest, and breadth thrusts. The April 8-9 lows registered some of the most oversold readings seen

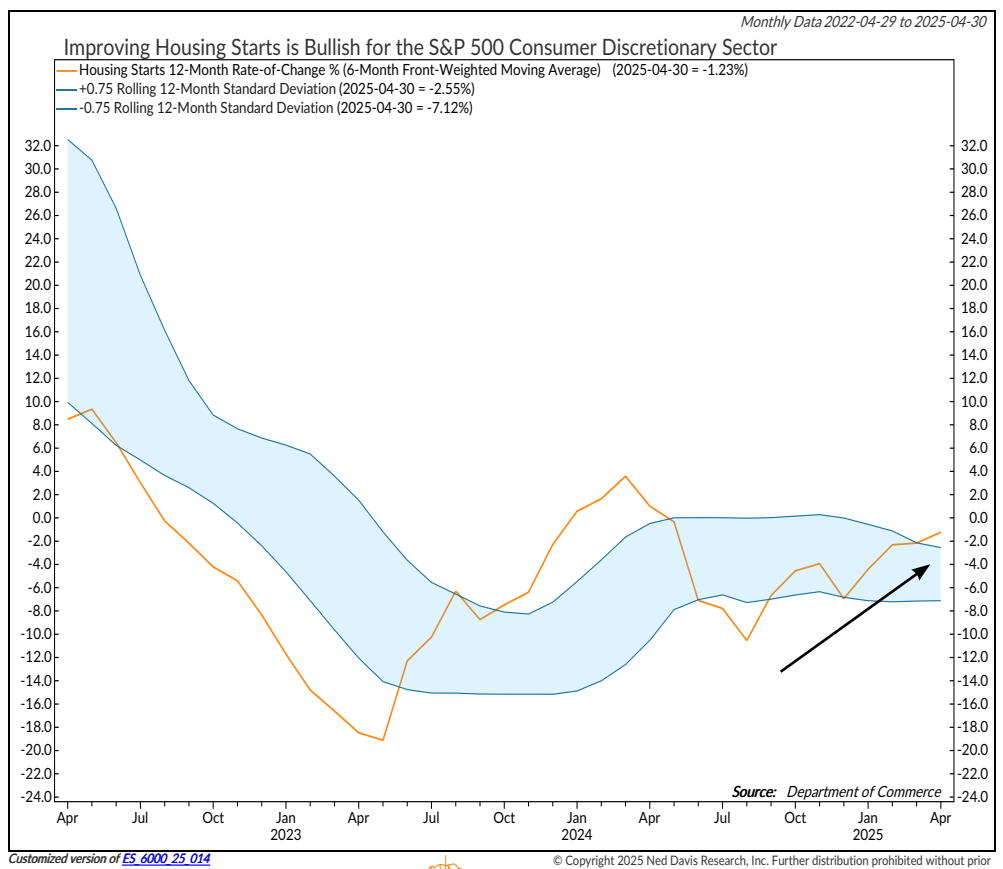
in the last 80 years (step 1). Rallies over the following weeks were strong but short, and generally inconsistent with a market done with a bottoming process. The selloff into April 21 brought the S&P 500 to within 3.5% of its April 8 low, yet most breadth measures were less severe than in early April. While not a complete retest in both time and price, it was close enough to earn a “successful retest” label (step 3). The April 22 to present rebound has been broad-based enough to trigger three more breadth thrust indicators. Our Breadth Thrust Watch Report requires five signals to indicate that a new uptrend has been estab-

lished (chart below). It currently sits at four. Given the severity of the decline, the lack of improvement in our broader models, and looming macro concerns, we may not be out of the woods yet.

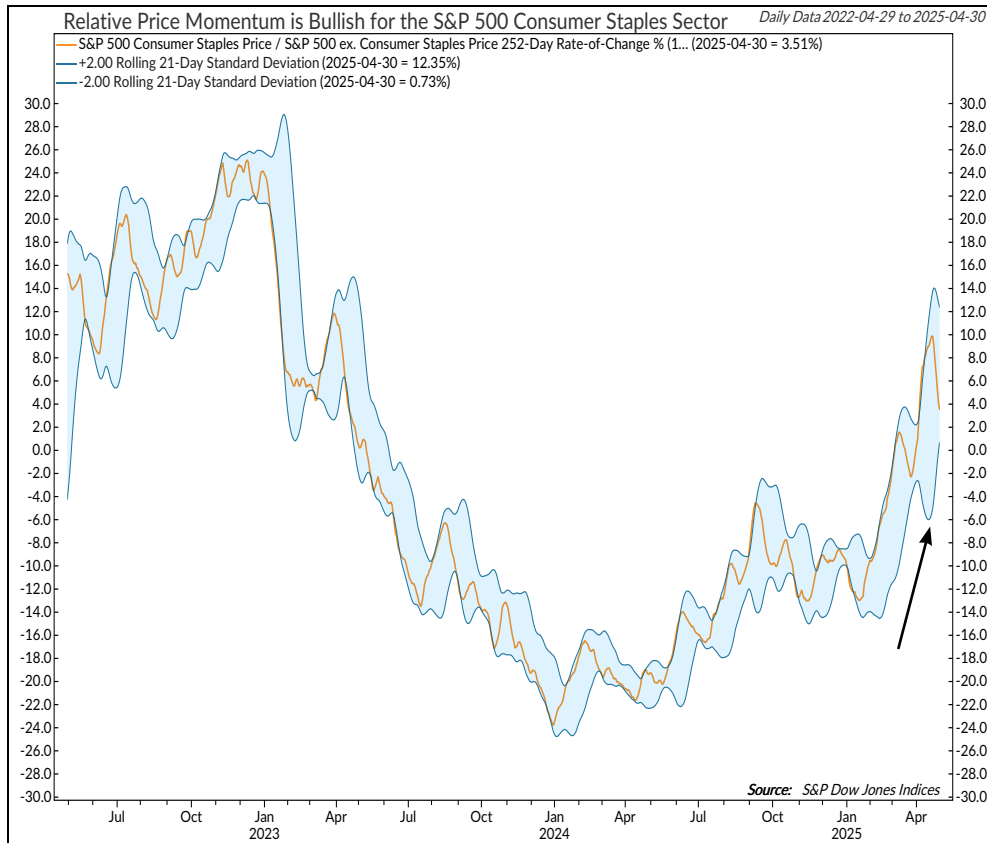
The sector model had some changes but maintained mixed leadership. Entering May, Health Care, Industrials, Consumer Discretionary, Consumer Staples, Communication Services, and Utilities are above benchmark weight. Information Technology, Real Estate, Materials, Energy, and Financials are below benchmark weight.



The Consumer Discretionary sector's allocation is above benchmark weight. Fundamentals are mixed. During the month, housing starts (chart right) joined bullish readings from consumer credit conditions and relative forward P/E. However, earnings surprises and the 30-year Treasury yield remain bearish for the sector. Three of the six price-based indicators are now at bullish levels for the sector—intermediate trend, deviation from trend, and momentum.



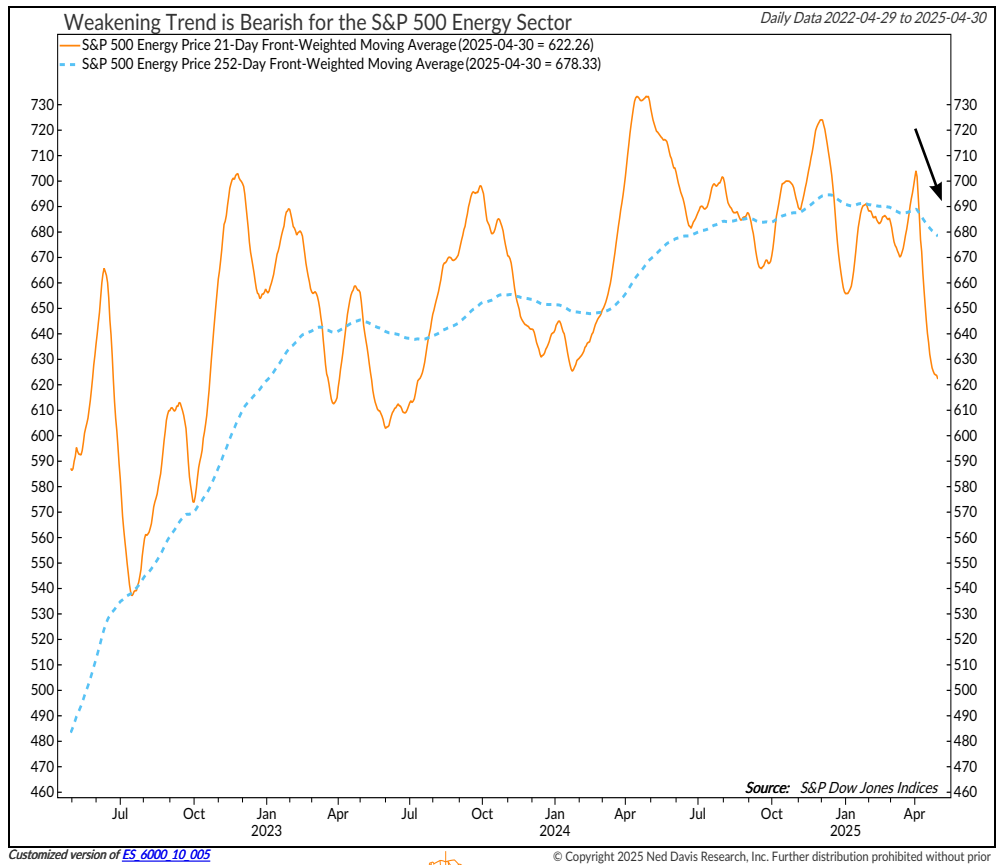
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The Consumer Staples sector's allocation is above benchmark weight. On a fundamental basis, indicators are mixed. Cyclical credit vs. food spread, relative short interest, and median sales yield are bullish for the sector. However, credit conditions, the year-to-year change change in food sales, food inflation, and economic surprises are bearish. Technicals lean bullish—four of six indicators are at positive readings for the sector including trend and relative price momentum (chart left) which reached bullish levels during the month.

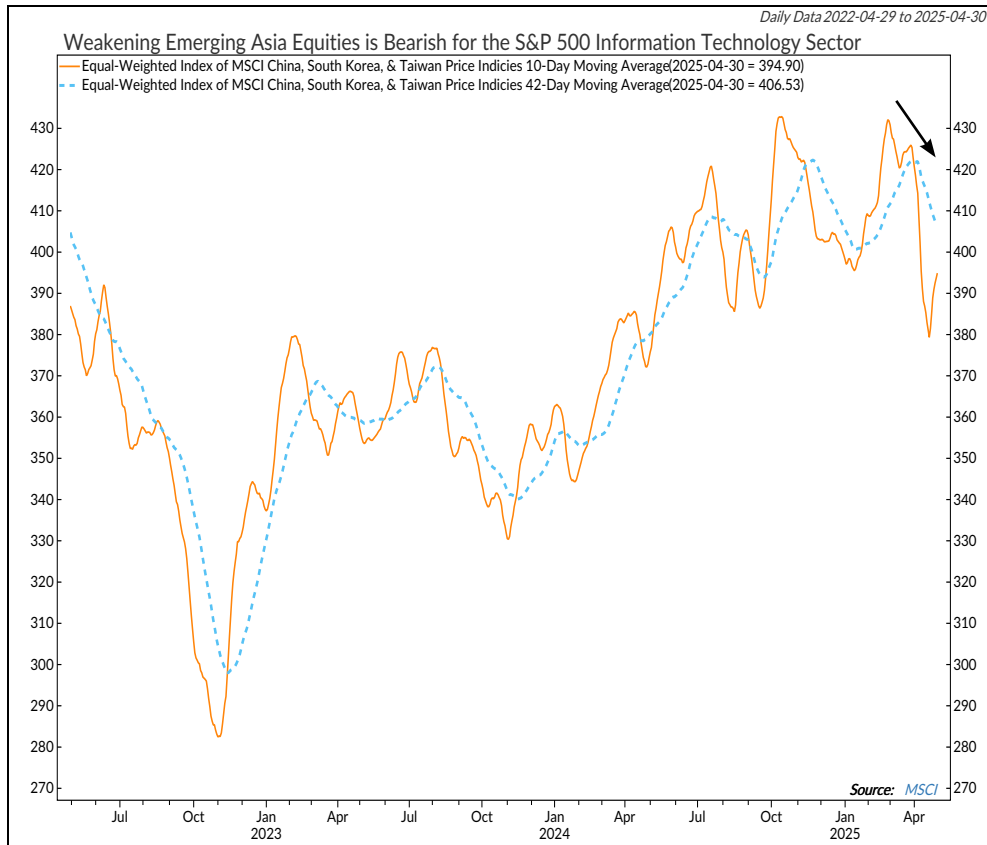
The Energy sector's allocation is below benchmark weight. On a fundamental basis, indicators are mixed. Crude oil prices, days of supply, and median cash flow yield are bearish for the sector. However, the world rig count and U.S. Dollar are bullish, while oil futures sentiment is neutral. Technicals are bearish. During the month, Energy sector trend (chart right) and momentum joined bearish readings from overbought/oversold, volatility, and breadth measures.



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The Information Technology sector's allocation is below benchmark weight. On a fundamental basis, indicators lean bearish with four of five at negative levels for the sector. During the month, weakening emerging Asia equities flashed a bearish signal (chart left) joining negative readings from inflation expectations, short interest, and earnings revision. Technicals are confirming—four of the five price-based measures are at bearish levels such as breadth, momentum, and an overbought/oversold measure.

Summary

The sector model had some changes but maintained mixed leadership. Entering May, Health Care, Industrials, Consumer Discretionary, Consumer Staples, Communication Services, and Utilities are above benchmark weight. Information Technology, Real Estate, Materials, Energy, and Financials are below benchmark weight.



NDR

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Sector Allocation Strategy

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