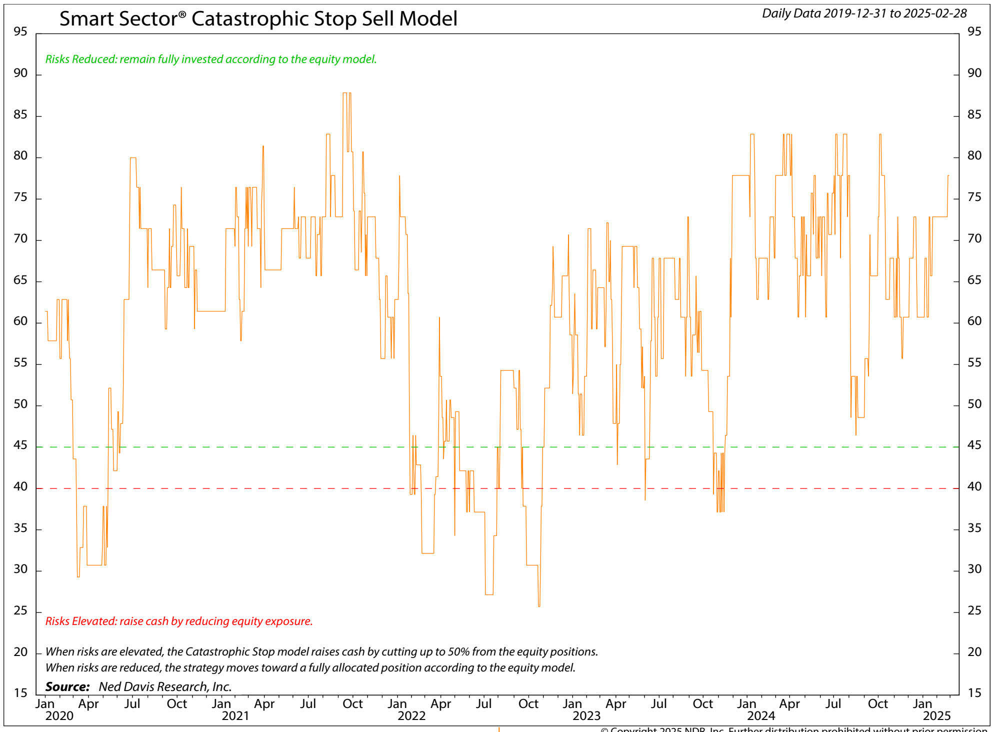
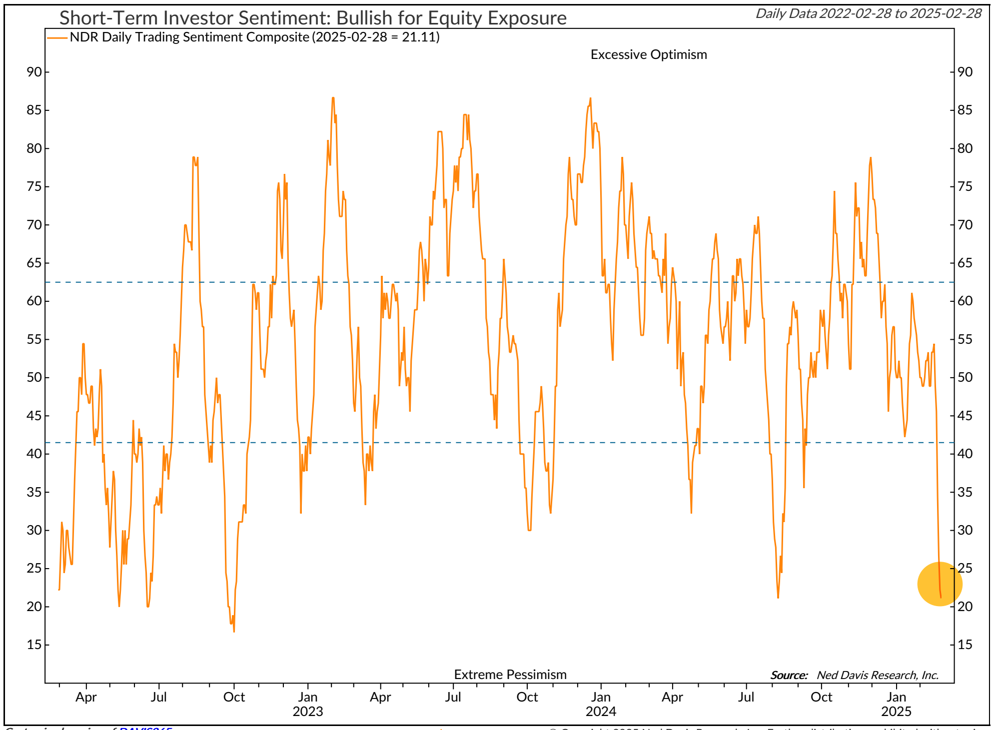
Smart Sector® Strategy

MARCH 2025

Catastrophic Stop Update

The NDR Catastrophic Stop Sell model combines time-tested, objective indicators designed to identify high risk periods for the equity market. The model (chart right) was steady during the month and entered March with a fully invested equity allocation recommendation.





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The steady reading from the model was driven by offsetting indicator changes--U.S. stock/bond relative strength declined modestly, relieving some optimism in the market and moving our short-term sentiment indicator to a bullish reading for stocks (chart left). Short-term investor sentiment is now at its lowest level since August 2024. Four of the seven price-based measures remain bullish. High-yield option adjusted spreads and high yield and emerging market breadth remain bullish, while the Baltic Dry Index remains bearish. For now, the weight-of-the-evidence recommends a fully invested allocation to equity sectors according to the model.

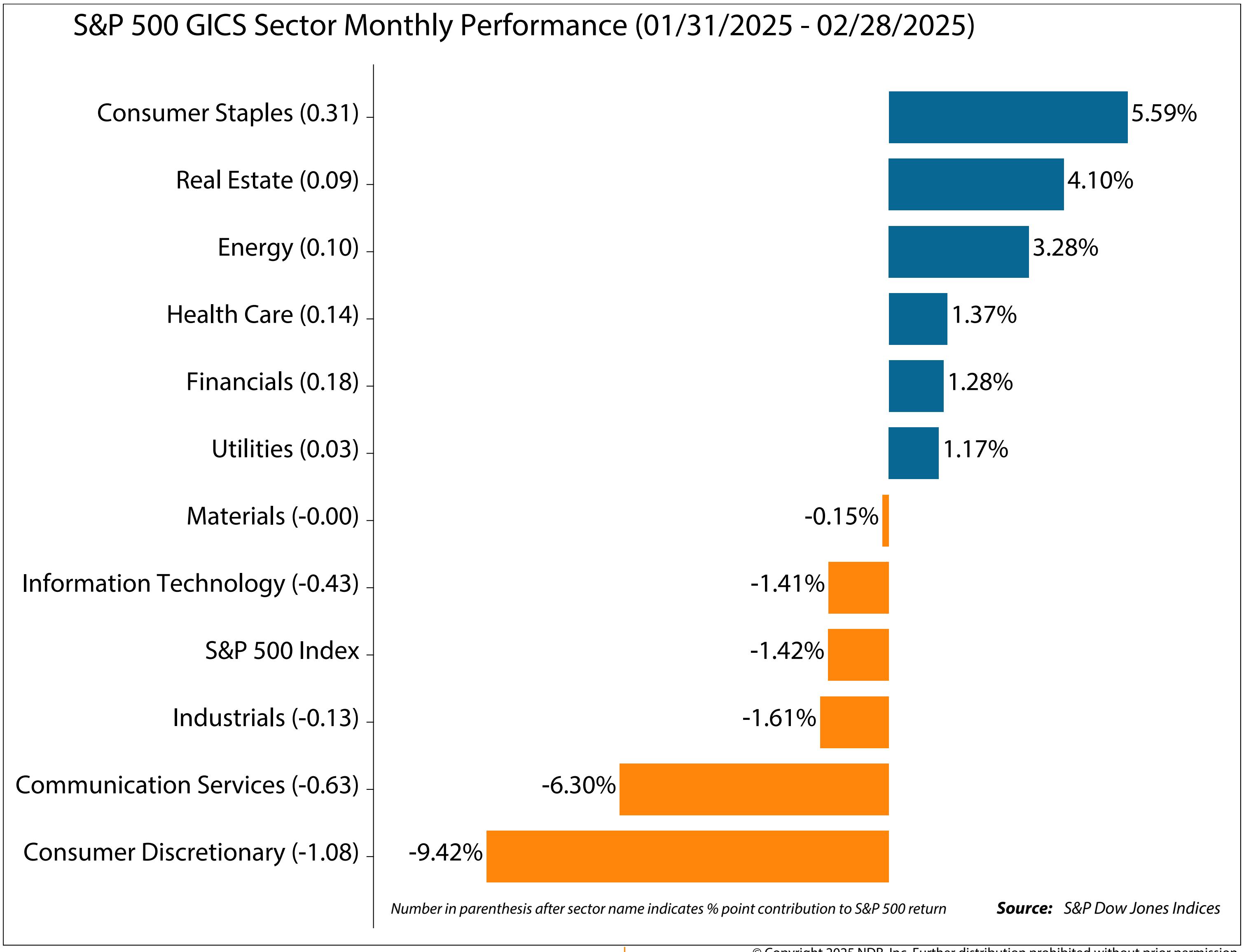
U.S. Market Update

After the rally in January, the S&P 500 Total Return Index pulled back about 1.3% in February. Sector breadth weakened—6 of the 11 S&P 500 sectors had positive returns during the month. It was a tale of two consumers--Consumer Staples was the top performer while Consumer Discretionary was the worst performer during the month (chart below).

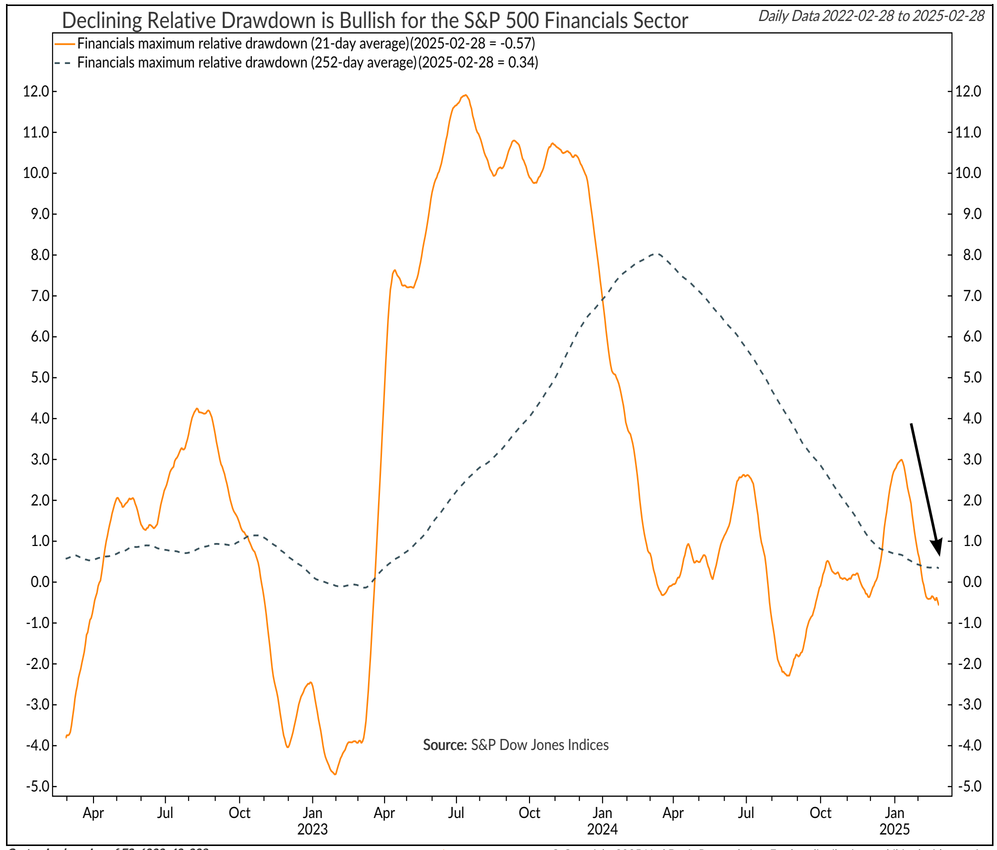
While stocks are higher to begin the year, sector leadership has been decisively defensive. The defensive rotation is in line with the four-year presidential cycle and the S&P 500 Cycle Composite (average of 1-year, 4-year, and 10-year cycles).

One of the themes from our 2025 U.S. Outlook was that the priority Trump assigns to policy initiatives will likely be a key influence on leadership trends throughout the year. Trade, immigration, geopolitics, and government efficiency—policies the administration can address unilaterally without Congress— have garnered the most attention to begin Trump's second term. More market-friendly policies— including extending the 2017 tax cuts set to expire at the end of the year —may be on the back burner until later in 2025.

The sector model had some rotation this past month. Entering March, Financials, Health Care, and Utilities are above benchmark weight. Communication Services, Real Estate, Energy, Materials, and Consumer Staples are below benchmark weight.



The Financials sector's allocation is above benchmark weight. On a fundamental basis, indicators are mixed. Economic surprises, the trade-weighted dollar, and business credit conditions continue to be positive for the sector. However, the 10-2 yield curve joined bank loan growth and financials' option-adjusted spreads at a bearish level. Technicals are improving with five of six indicators at positive readings for the sector. During the month, relative drawdown (chart right) joined bullish readings from trend and momentum.



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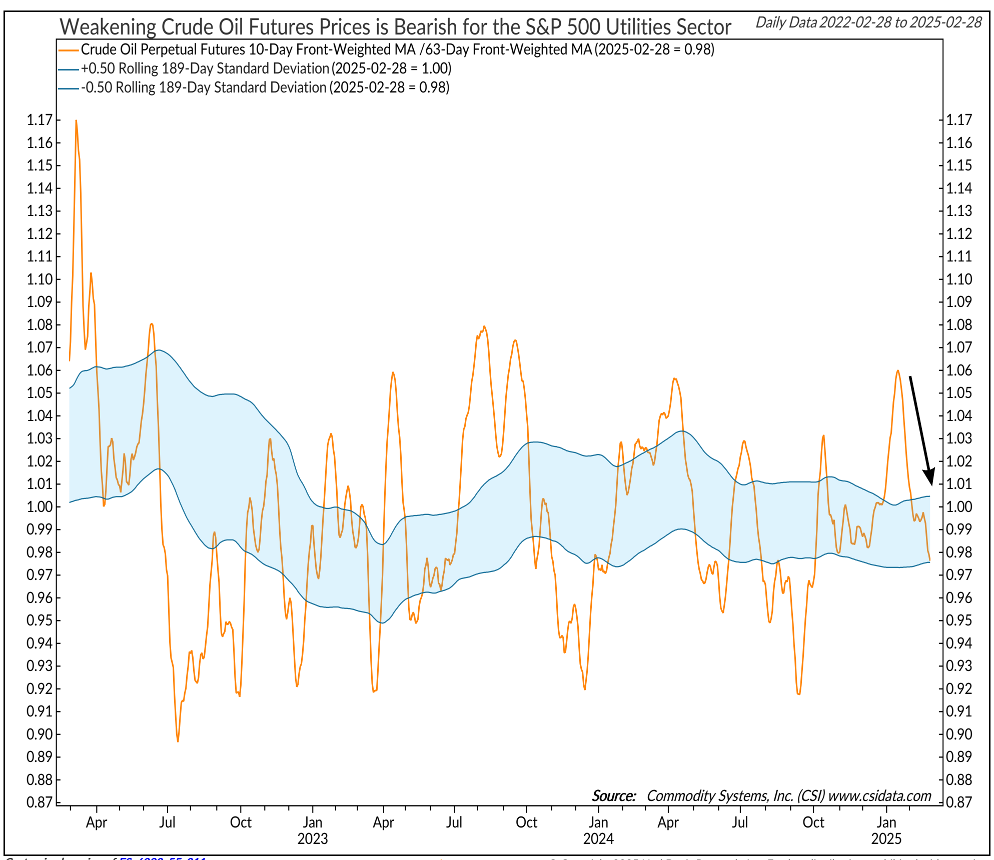

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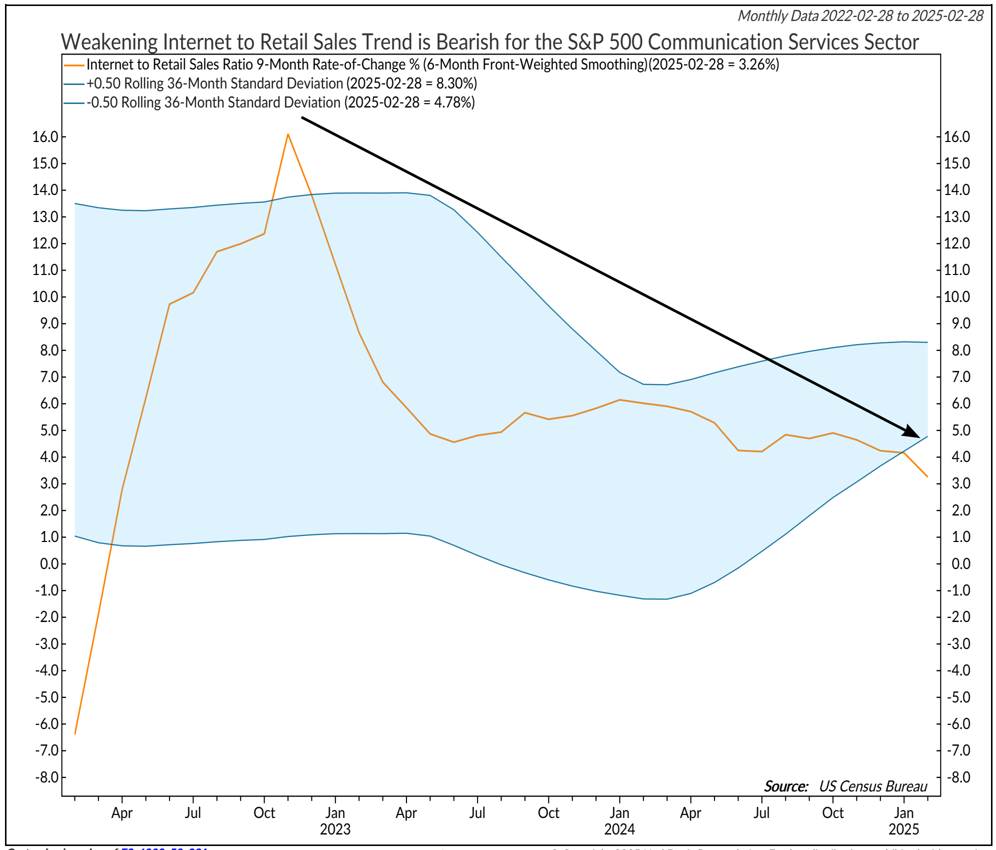
The Utilities sector's allocation is above benchmark weight. On a fundamental basis, indicators have deteriorated for the sector as crude oil futures and manufacturing PMI dropped to bearish levels (chart left). The yield on investment grade utilities, copper/gold ratio, and relative valuation (measured by the median earnings yield vs. the 10-year Treasury yield) remain bullish for the sector. Technicals remain bullish with five of seven indicators at positive readings for the sector. During the month, a trend measure joined bullish readings from momentum and reversal measures.

The Communication Services sector's allocation is below benchmark weight. Fundamentals are mixed. Relative sales growth trends joined positive readings from the 10-2 yield curve and sector option-adjusted spreads. However, relative valuation (earnings yield basis), earnings revision breadth, and internet vs. retail sales trends (chart right) remain at bearish levels for the sector. Technical measures lean bearish with four out of six indicators at negative levels for the sector.



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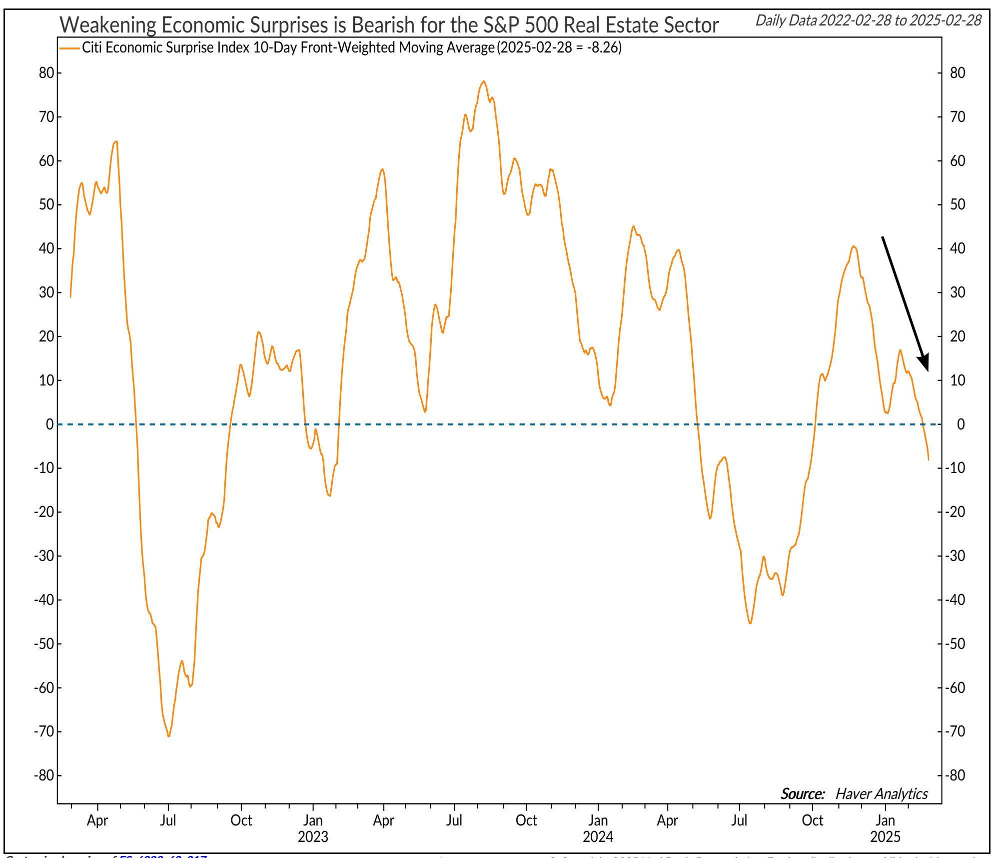

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The Real Estate sector's allocation is below benchmark weight. On a fundamental basis, indicators lean bearish with four of seven at negative levels for the sector—homebuilders equity index, unemployment data, the MBA purchase index, and economic surprises (chart right). Industrial production of construction supplies, the 30-year yield, and business credit conditions remain positive for real estate. Four of five price-based measures are bearish such as mean reversion, breadth, and deviation from trend.

Summary

The sector model had some rotation this past month. Entering March, Financials, Health Care, and Utilities are above benchmark weight. Communication Services, Real Estate, Energy, Materials, and Consumer Staples are below benchmark weight.

Smart Sector® Strategy

Strategy description

- The Smart Sector® with Catastrophic Stop strategy combines two Ned Davis Research quantitative investment strategies: The NDR Sector Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting the S&P 500 sectors based on Ned Davis Research's proprietary sector models.

- Each of the sector models utilize sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each sector's probability of outperforming the S&P 500.

- Sectors are weighted accordingly relative to benchmark weightings.

When market risks become extraordinarily high — reduce your portfolio risk

- When risks are elevated, the NDR Catastrophic Stop Sell (CSS) model raises cash by up to 50% from the equity positions.

- The NDR CSS model combines time-tested, objective indicators designed to identify periods of high risk for the broad U.S. equity market. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When risks are reduced, the strategy moves toward a fully allocated position, according to the NDR CSS model.

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