



JUNE 2025

U.S. Market Update

After being in bear market territory in April, the S&P 500 Total Return Index continued to rally off its lows and was up 6.3% in May. Sector breadth improved sharply—10 of the 11 S&P 500 sectors had positive returns during the month. Leadership favored Growth Cyclical vs. Value sectors. Health Care had the worst return, dropping more than -5% in May.

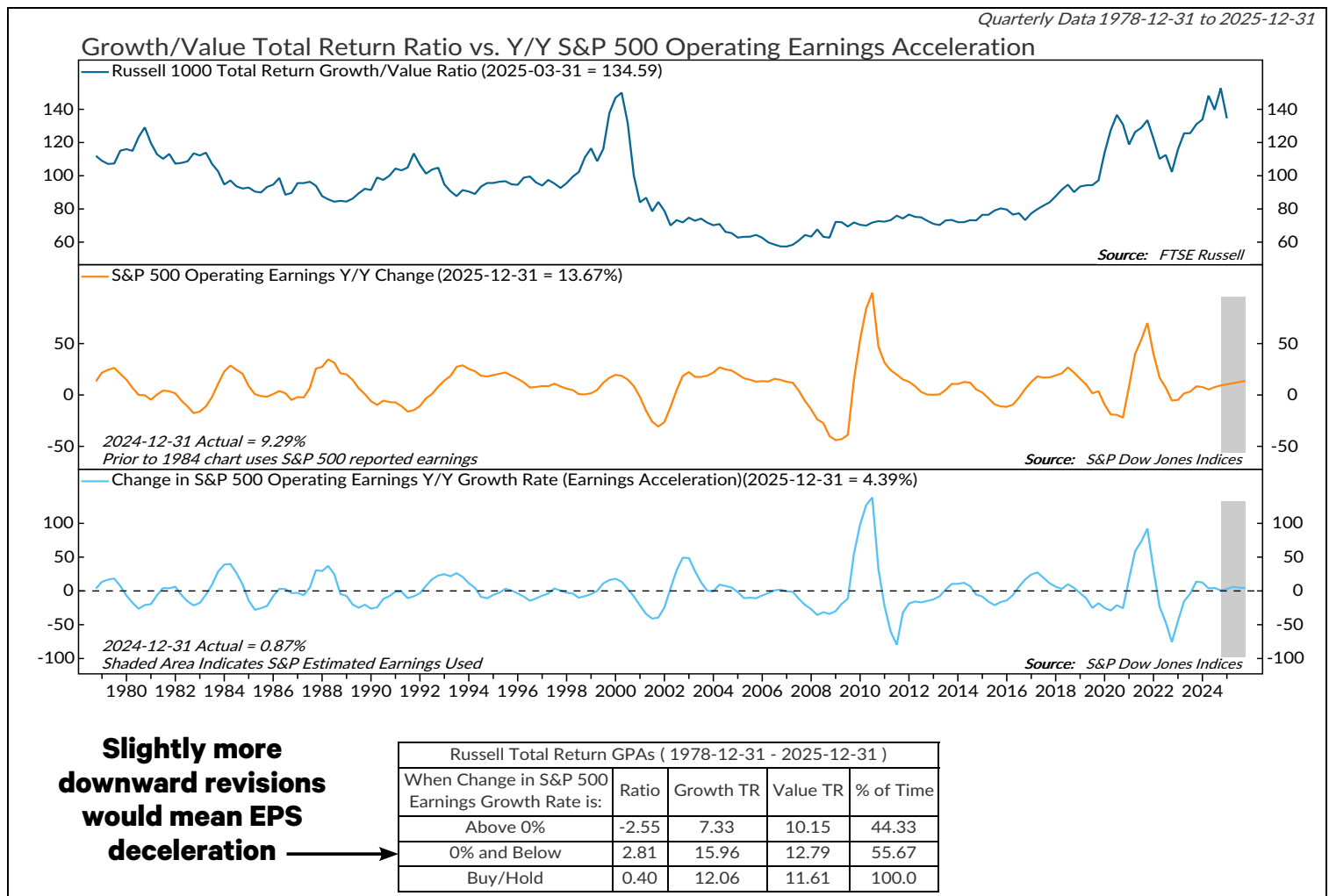
The rally off the April 21 retest continues to impress from a technical perspective. The five-week total of NYSE advances minus declines is the latest breadth thrust indicator to

fire, bringing the total in our Breadth Thrust Watch Report to seven. Five has been the key threshold historically, so the latest breadth thrust is additional confirmation that the market has completed the four-step bottoming process.

Consensus estimates imply that S&P 500 operating EPS growth will accelerate from 9.3% in CY24 to 13.7% in CY25. However, consensus has consistently proven to be too optimistic, with S&P 500 EPS growth a median of 8% points too high one year ahead, on aver-

age. Second-half estimates appear especially vulnerable considering the potential for tariffs to hit profit margins. The net result is that earnings growth could decelerate in 2025, to the benefit of Growth stocks (chart below).

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



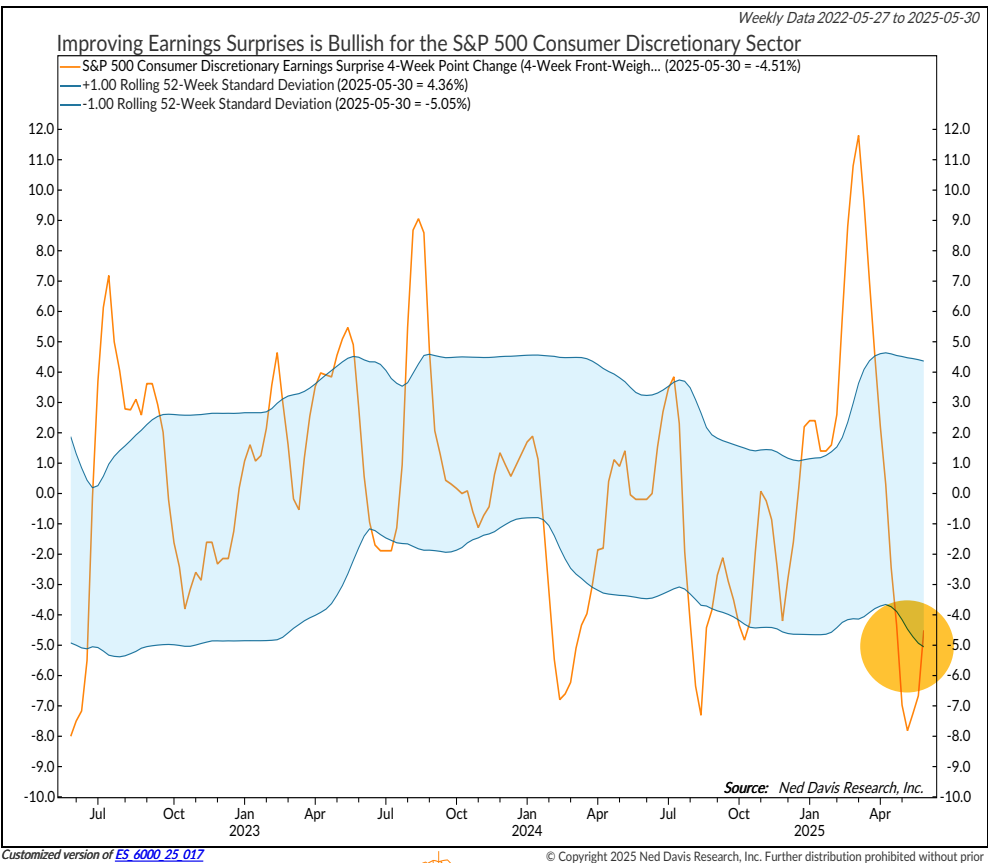
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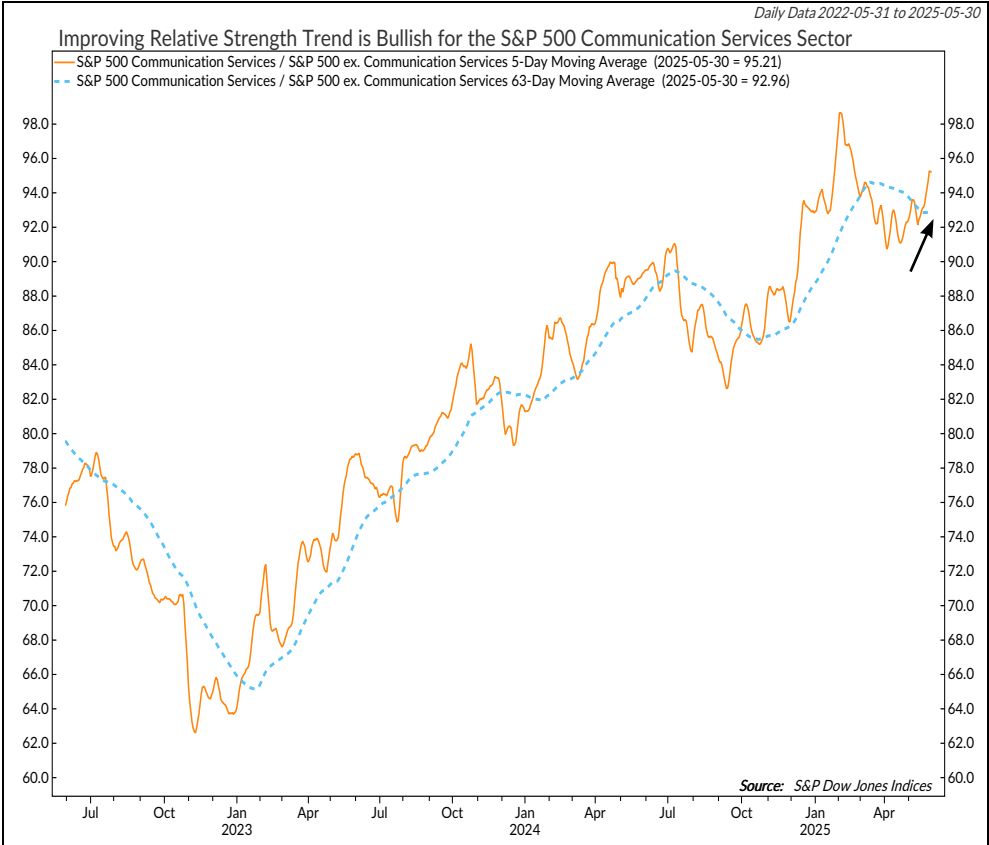
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The Consumer Discretionary sector's allocation is above benchmark weight. Fundamentals lean bullish. During the month, earnings surprises (chart right) joined bullish readings from housing starts, consumer credit conditions, and relative forward P/E.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



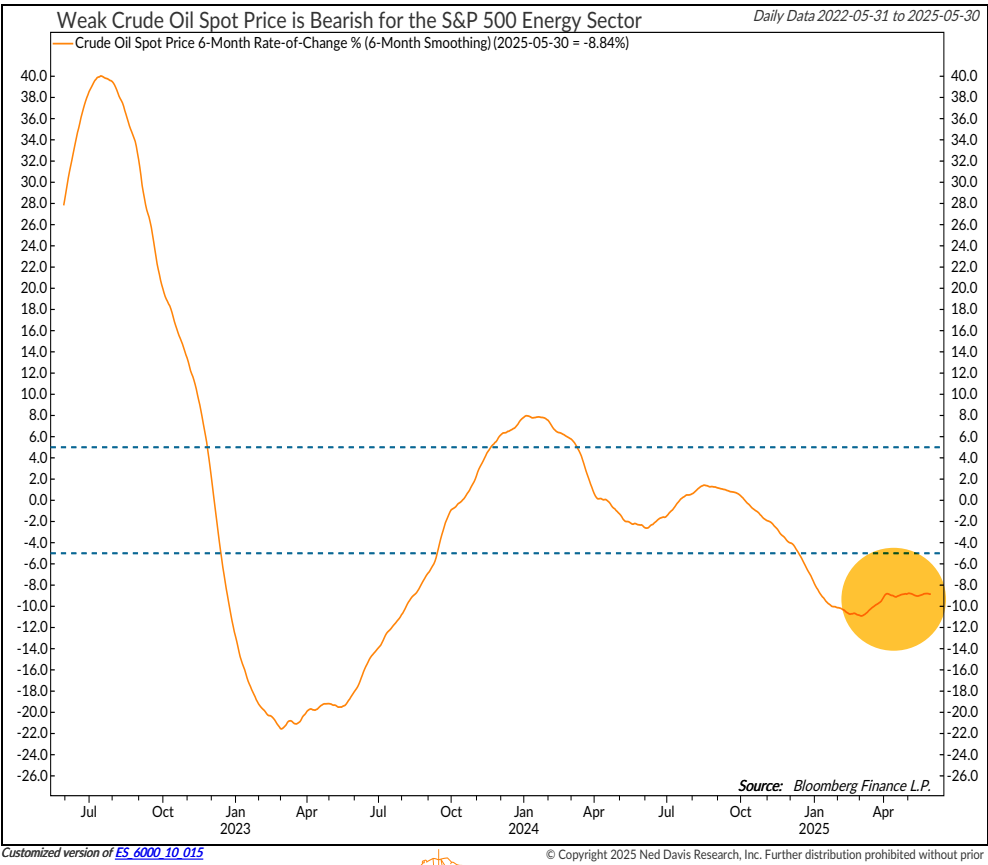
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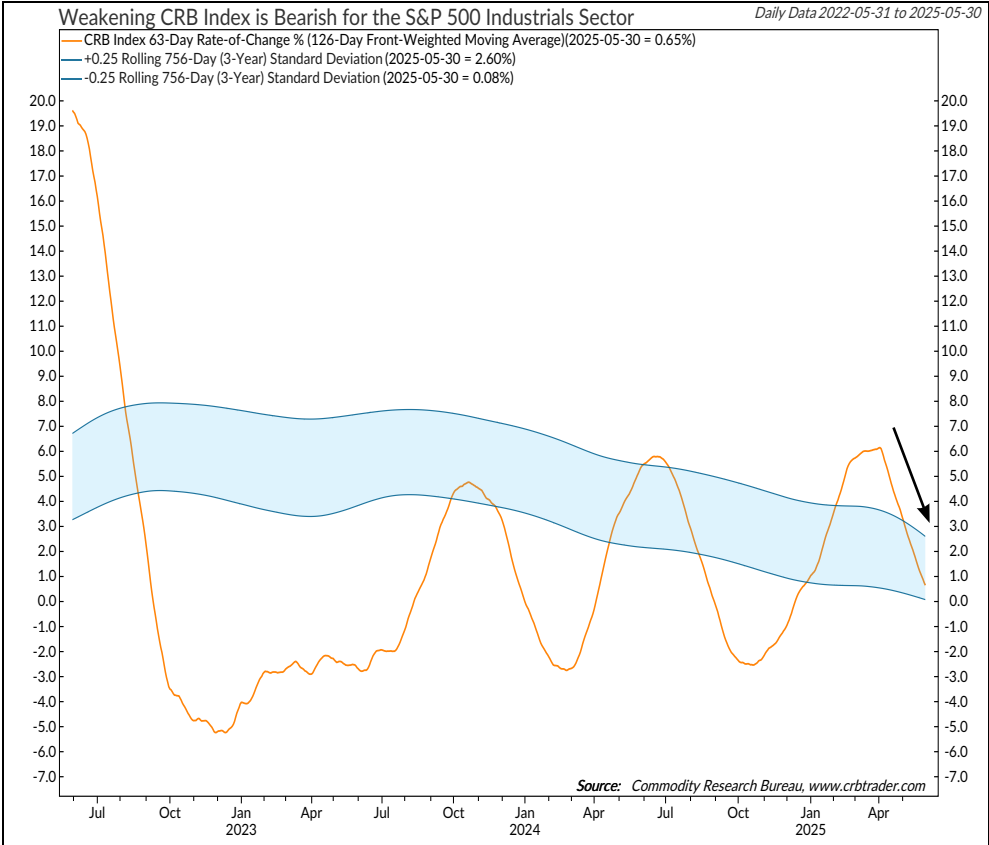
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The Communication Services sector's allocation is above benchmark weight. On a fundamental basis, indicators lean bullish. During the month, earnings revision breadth joined bullish readings from the 10-2 yield curve, relative sales growth trends, and the sector's option-adjusted spreads. However, relative earnings yield and internet vs. retail sales trends remain bearish. Furthermore, technicals are mixed—three of six indicators are at positive readings for the sector. During the month of May, the sector gained 9.6% and the sector's relative strength trend flashed a bullish signal with the 5-day moving average crossing above the 63-day moving average (chart left).

The Energy sector's allocation is below benchmark weight. On a fundamental basis, indicators are mixed. Crude oil prices (chart right), 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 weak as five of the six indicators are bearish—trend, momentum, volatility, and breadth. During the month, an overbought/oversold measure moved to a bullish level.



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The Industrials sector's allocation is below benchmark weight. On a fundamental basis, indicators lean bearish with six of seven at negative levels for the sector. During the month, a weakening CRB Index (broad commodity index) flashed a bearish signal (chart left) joining negative readings from valuation measures (median cash flow and sales yield), oil futures prices, consumer confidence, and U.S. industrial production. However, technicals are mixed—two of the six price-based measures are at bearish levels such as trend and a breadth measure, while one is neutral and three are bullish.

Summary

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

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