NDR
NED DAVIS RESEARCH

FEBRUARY 3, 2023

Early cycle leaders starting to lead

Despite the lingering macro risks, markets have been trying to form a bottom for seven months. Long-term breath indicators have registered bullish signals, something that did not happen in any of the 2022 rallies. The percentage of stocks above their 200-day moving averages and the Big Mo Tape hit 14-month highs.

Another piece of bullish evidence is the decisive shift in leadership. After trailing in Q4, the types of stocks and sectors that led in January often outperform during the early stages of bull markets (chart, below).

Quick primer

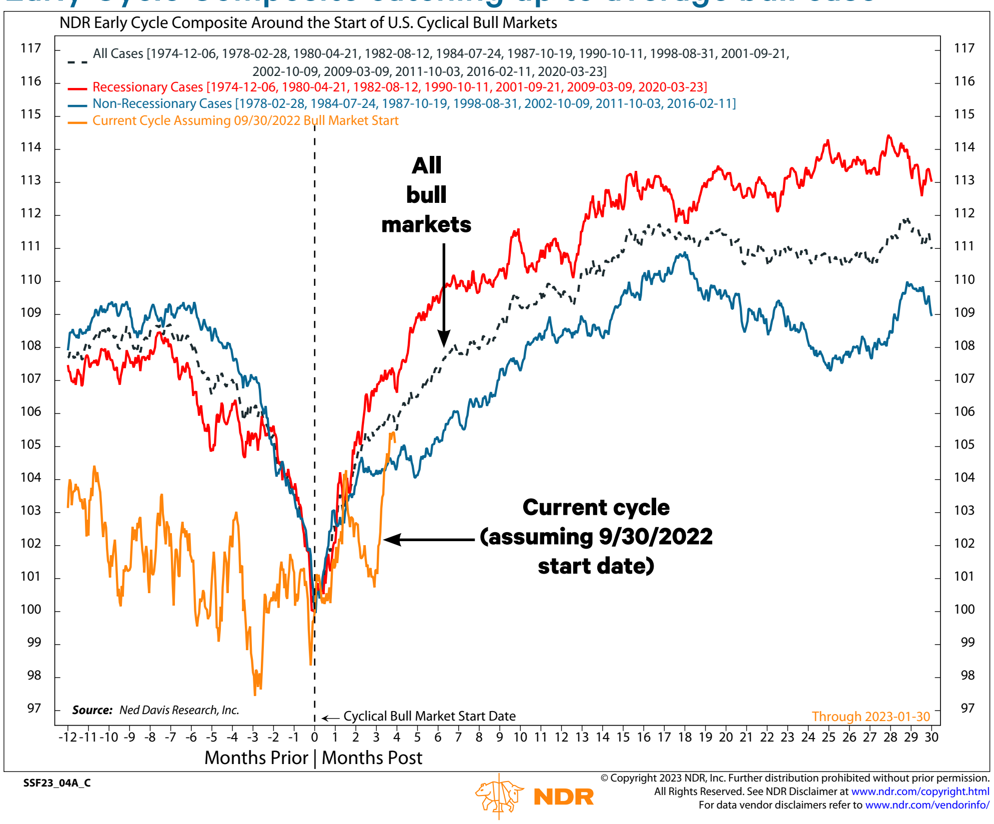
Each component of the Early Cycle Composite is a relative strength line. The numerator represents a group of stocks that has consistently outperformed during the early phases of NDR-defined cyclical bull markets. The black line shows the average performance around the start of all bull markets. The red line is the average of bull markets that followed bears that overlapped with recessions. The blue line is the average of bulls that followed non-recession

Current Recommendations

Sector	Position	Recommended	Benchmark
Energy	Overweight	5%	4.4%
Financials	Overweight	14%	10.8%
Materials	Overweight	4%	2.6%
Consumer Discretionary	Marketweight	10%	11.5%
Communication Services	Marketweight	9%	8.8%
Consumer Staples	Marketweight	7%	7.3%
Industrials	Marketweight	8%	8.0%
Real Estate	Marketweight	2%	2.7%
Technology	Marketweight	27%	26.9%
Utilities	Marketweight	3%	2.8%
Health Care	Underweight	11%	14.2%

● Overweight ● Marketweight ● Underweight

Early Cycle Composite catching up to average bull case



Technical Update

With the S&P 500's gain in January, the index hit on a trifecta of positive seasonal indicators: Santa Claus Rally, First Five Days, and January Barometer. The trifecta has been somewhat rare, hitting in 38 out of 94 years. Looking forward, February - December returns have been stronger in trifecta cases than any of the three individually: up 86.8% of the time by a median of 12.7% versus 58.9% of the time and 3.0% in all other years. 17 of the 38 cases experienced a bear market in the prior year. The statistics have been even stronger in those cases, with the S&P 500 up 94.1% of the time by a median of 13.6%.

bears. The orange line is the current case, assuming a 9/30/2022 start date.

From the start

The Materials sector is the early cycle component that has shown the strongest performance since the market low (chart, below). The Materials/ S&P 500 relative strength line bottomed in line with the broad market and has outperformed the average of all cases by 7.2% and even post-recession bulls by 5.7%.

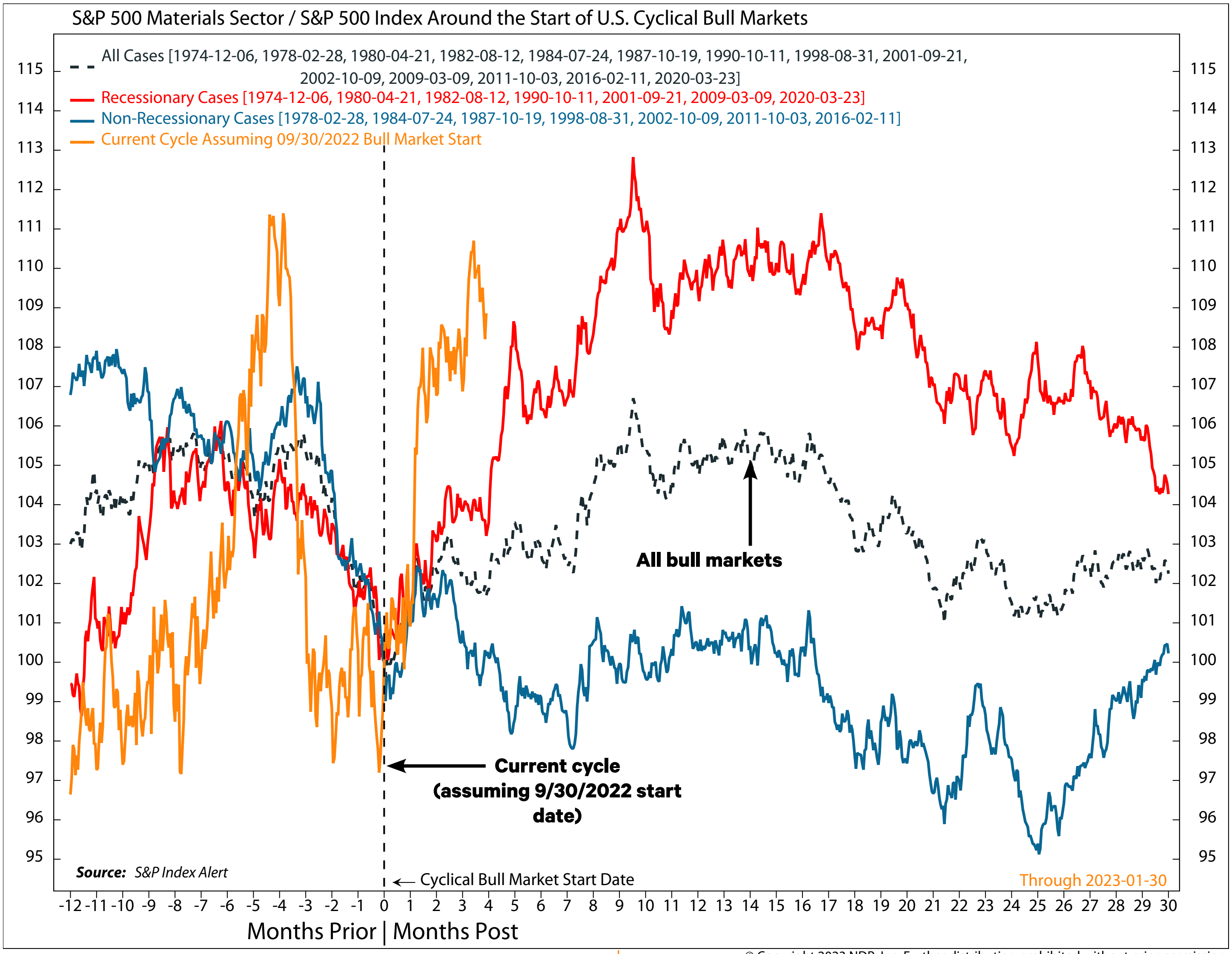
Financials has been outperforming since about two months before the 9/30/2022 low and has been running roughly in line with the average case. Financials' relative strength is particularly interesting this cycle since many points along the yield curve have been the most inverted since the early 1980s.

Late bloomers

Each bear/bull cycle is unique, and it shows in the Early Cycle Composite. Many early cycle leaders were delayed due to COVID shutdowns, a point we highlighted at the time. To a lesser extent, that is what happened to several components. The Fed tightening cycle, four-decade-high inflation, and recession fears delayed some themes for a few months. Some delays were clearer than others.

Technology is considered a high-beta sector, but our research found that small-cap Technology has tended to be a more consistent early cycle leader than large-cap Tech, on average. This cycle, the S&P 600 Technology sector traded sideways versus the S&P 500 for the first three months after the 9/30 low. The ratio has started to recover in January, but it still trails the average for this point in a bull market.

Materials has been outperforming since late September



SSF23_04J_C

NED DAVIS RESEARCH

NDRsales@ndr.com
www.ndr.com
(800) 241-0621

NOKOMIS
2520 North Tamiami Trail
Nokomis, FL 34275
(941) 412-2300

NEW YORK
1270 Avenue of Americas
Suite 1100
New York, NY 10020
(646) 810-7270

MONTREAL
1001 de Maisonneuve West
Suite 1510
Montreal, QC, Canada H3A 1X8
+1 800 724 2942, +1 514 499 9550

LONDON
8 Bouverie Street
Temple, London
EC4Y 8AX
+44 (0) 20 7779-8682

HONG KONG
12/F, V-Point, 18 Tang Lung Street,
Causeway Bay
Hong Kong
+852 3416 6676

AUSTRALIA
Suite 305, 3 Spring St
Sydney, Australia
+61282491867

SINGAPORE
1 Marina Boulevard,
Level 20, Suite #2020,
Singapore 018989
+65 643 134 78

NDR
NED DAVIS RESEARCH

Disclaimer

Recommendations

NDR's sector team uses a quantitative sector model as the primary guide to deriving our recommendations. The model is designed to identify sectors and industries with the strongest fundamental (macro, economic, valuation, profitability) and technical price trends. Our team uses the model as the framework for our tactical shifts around longer-term fundamental themes. As a discipline, our recommendations are put on a "short leash" if they rank opposite the model's top and bottom quintiles, unless industry-specific influences can be shown to dominate.

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.

Definitions

S&P 500 Index. A capitalization-weighted stock index of 500 of the largest and best known common stocks. The S&P 500 is one of the most quoted indexes, and is the often used as a benchmark for the stock market.
Alpha. The remaining portion of excess return after compensating for market risk.
Price-to-Earnings (P/E) Ratio. The price of a stock divided by its earnings. Also known as Price Multiple.
Price/Earnings to Growth (PEG) Ratio. A stock's price-to-earnings ratio divided by the growth rate of its earnings for a specified time period. The price/earnings to growth (PEG) ratio is used to determine a stock's value while taking the company's earnings growth into account, and is considered to provide a more complete picture than the P/E ratio.
Return on Equity (ROE). The amount of net income returned as a percentage of shareholder equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.
Basis Point. One hundredth of a percent. Used when describing change in yield. There are 100 basis points in 1%.
Price-to-Dividend. The price of a stock divided by the amount of dividends per share paid by the company each year. It is a measure of the return on investment for a stock.

ALPS Portfolio Solutions Distributor, Inc., a registered broker-dealer, is distributor for the Select Sector SPDR Trust.

See the signals.™

Founded in 1980, Ned Davis Research Group is a leading independent research firm with clients around the globe. With a range of products and services utilizing a 360° methodology, we deliver award-winning solutions to the world's leading investment management companies. Our clients include professionals from global investment firms, banks, insurance companies, mutual funds, hedge funds, pension and endowment funds, and registered investment advisors.