

2/3/25

Tariff Tantrum Underway; Market Dynamics Still Risk-On

Ross LaDuke, CMT
Global Strategist
612-482-8442
Ross@vermilioncap.com

David Nicoski, CMT
Chief Investment Officer
612-682-1900
Dave@vermilioncap.com

Joseph Jasper, CFA
President
612-712-1300
Joe@vermilioncap.com

Eric Anderson
Research Sales
612-482-6622
Eric@vermilioncap.com

Sean Cusick
Director of Quant Systems
612-712-1400
Sean@vermilioncap.com

Vermilion Research LLC
920 2nd Ave S, Ste. 1225
Minneapolis, MN 55402

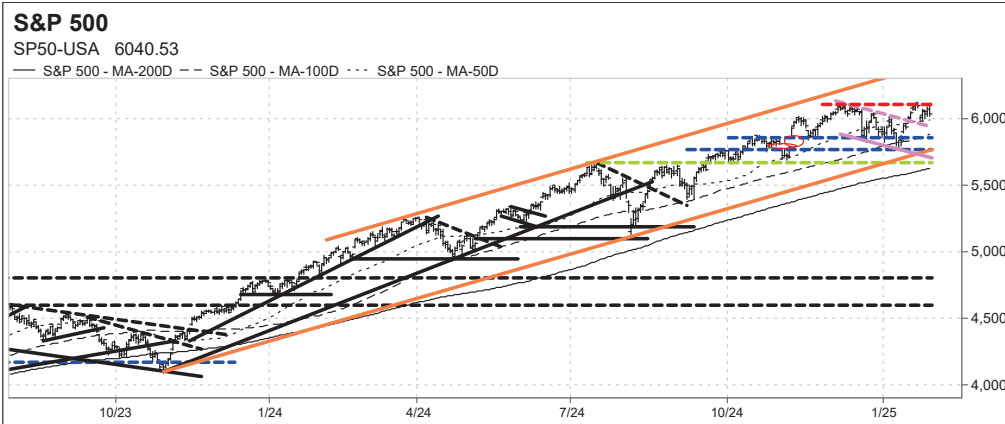
As discussed throughout the first half of January, we continue to believe that tariffs will mostly be used as a negotiation tactic, and much like Trump's prior presidency, will be much less impactful than feared. We anticipate the Canada/Mexico tariffs to be resolved relatively quickly, and therefore we view the latest pullback as a buying opportunity. Bottom line: market dynamics remain risk-on, and our outlook remains bullish as long as the S&P 500 remains above 5850 and 5600-5670. While we expect an eventual breakout above 6100 on the S&P 500, the latest rejection suggests more consolidation below 6100 for another month or so is another possibility.

- Market Dynamics Remain Risk-On.** High yield spreads are at 17-year narrows. The major indexes across the market cap spectrum remain in uptrends. The U.S. dollar (DXY) and 10-year Treasury yield display local tops that could easily turn out to be major tops. WTI crude oil and gasoline prices (UGA) remain in long-term downtrends. Interest rate volatility (MOVE index) continues to stabilize and move lower. Discretionary (XLY), Communications (XLC), Financials (XLF), Services, and many other high growth risk-on areas are near new RS highs, while defensive Sectors such as Staples (XLP) are underperforming. Europe's EURO STOXX 50 displays a 9-month base breakout and MSCI EAFE (EFA) is reversing its 4-month downtrend. Bitcoin remains near all-time highs and is above \$90,000-92,000 support. Discretionary vs. Staples ratios (XLY vs. XLP, RSPD vs. RSPS) remain in uptrends This is all risk-on behavior that is consistent with an equity bull market... see page 2.

Sector Weighting Recommendations

Sector	Under-Weight	Market-Weight	Over-Weight
Comm. Services (XLC)			X
Cons. Discretionary (XLY)			X
Cons. Staples (XLP)	X		
Energy (RSPG, XLE)	X		
Financials (XLF)			X
Health Care (XLV)	X		
Industrials (XLI)		X	
Materials (XLB)	X		
Real Estate (XLRE)		X	
Technology (XLK)		X	
Utilities (XLU)			X

- Actionable Industry ETFs: FDN, ARKW, ARKK, and IAI...** see page 9.
- EM and Int'l Markets.** Remain underweight both MSCI EM (EEM) and MSCI EAFE (EFA), though EFA displays a bullish reversal... see page 10.
- Actionable International ETFs: ARGV, UAE, EPOL, EWG, EIS, HEDJ, EUFN, and EUSC...** see page 11.

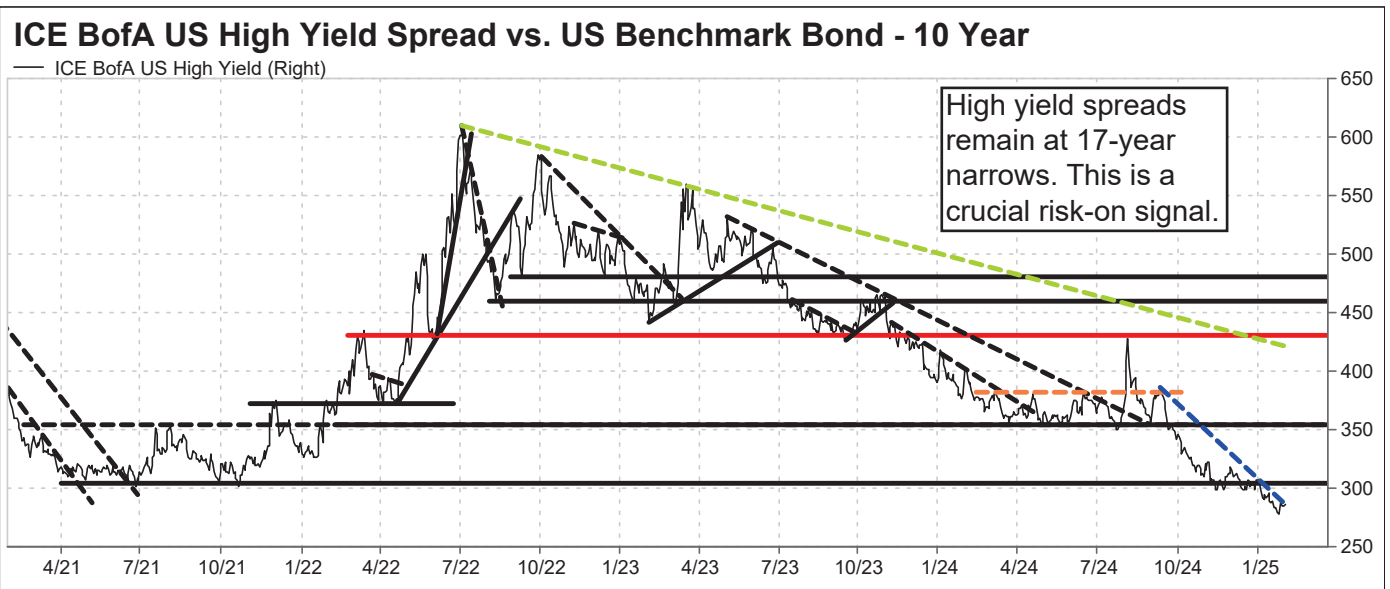
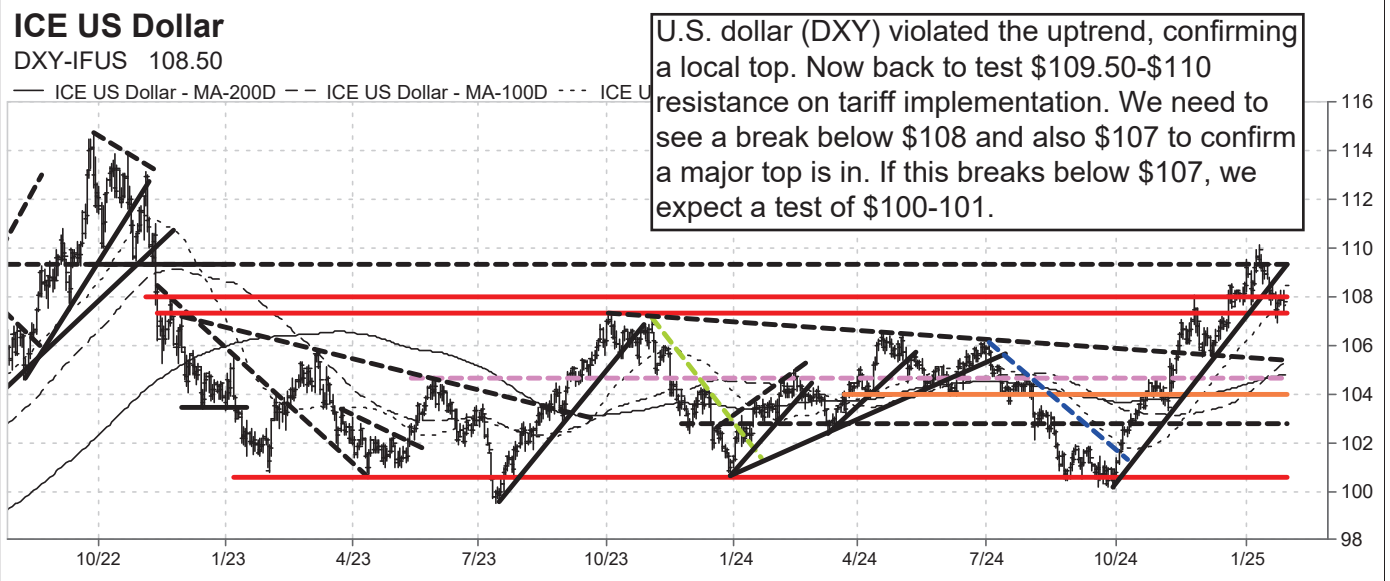
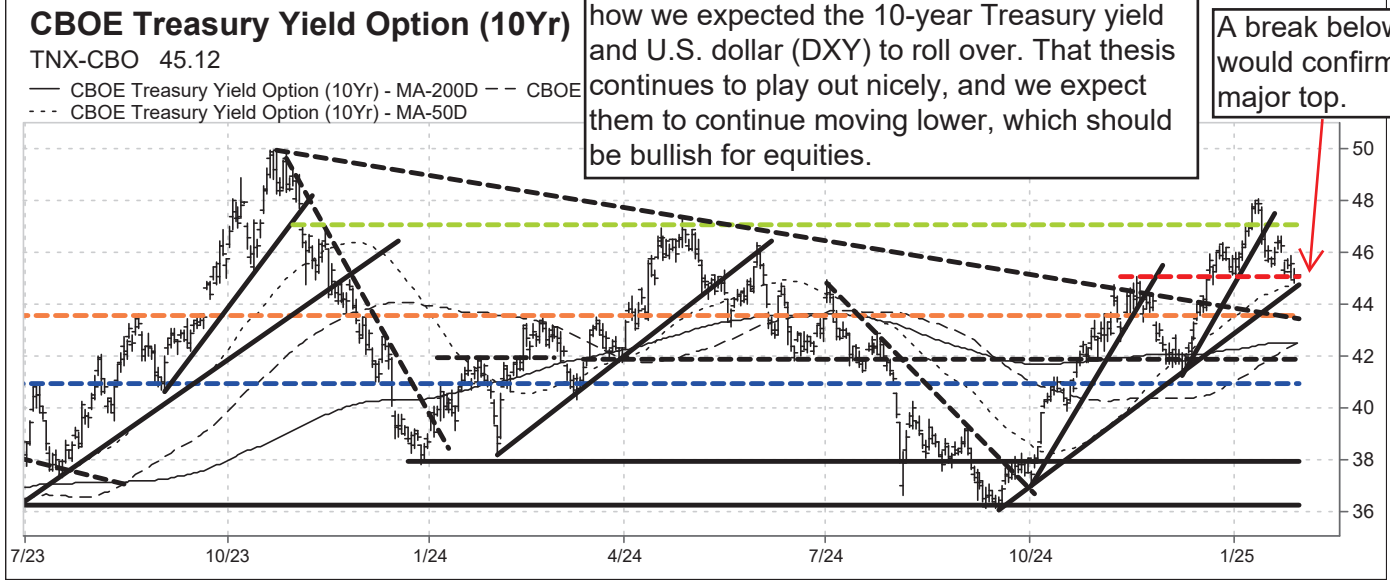


The S&P 500 bounced at support from the bull flag (in purple), but remains below resistance at 6100 (in red). Now appears to be testing bull flag support yet again, near 5925. While we expect an eventual breakout, another month+ consolidation below 6100 is possible. 5770-5850 remains important support (in blue), but long-term we remain bullish as long as 5600-5670 holds.

Market Dynamics Remain Risk-On

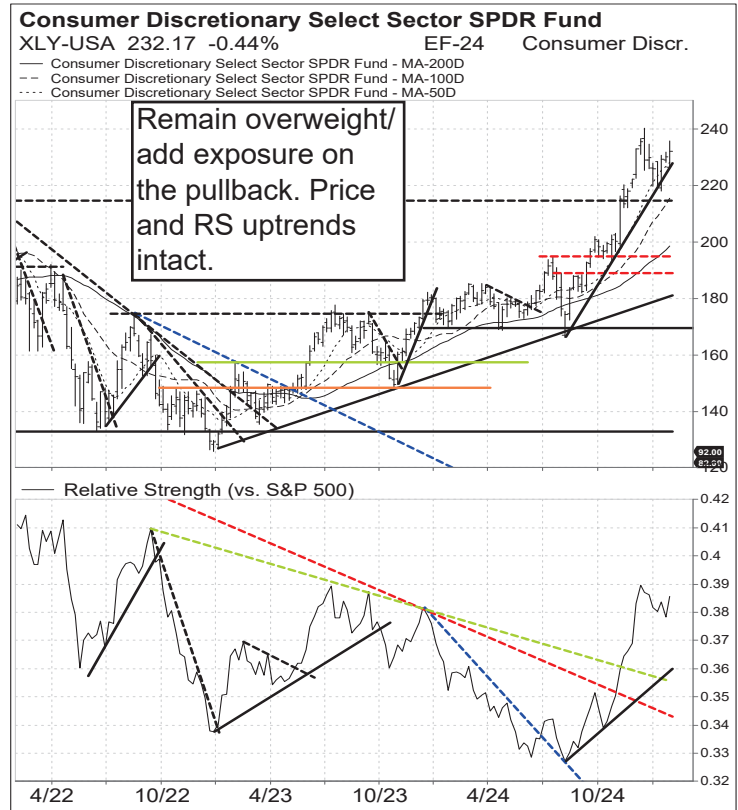
We discussed over the first half of January how we expected the 10-year Treasury yield and U.S. dollar (DXY) to roll over. That thesis continues to play out nicely, and we expect them to continue moving lower, which should be bullish for equities.

A break below 4.5% would confirm a major top.



Consumer Discretionary (XLY): Overweight (upgraded 11/26/24 from Market Weight)

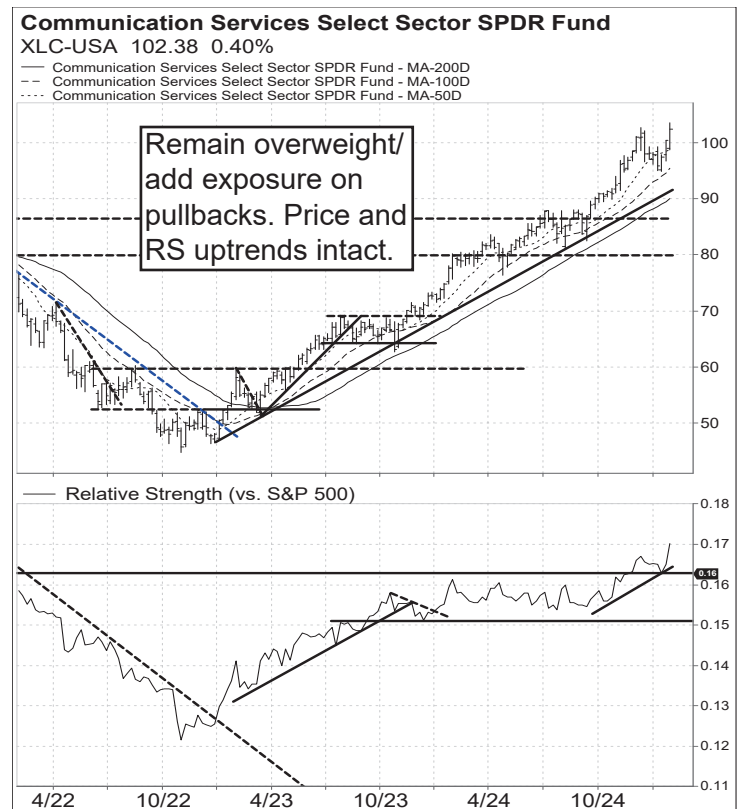
- Price and RS uptrends remain intact on *cap-weighted* Consumer Discretionary (XLY) -- remain overweight. The *equal-weighted* Sector (RSPD) displays bullish price and RS trends as well, indicating broad-based strength within the Sector. Buy pullbacks/stay long.
- Hotels & Leisure names remain leadership. Buy/stay long: **CCL, NCLH, RCL, BKNG, EXPE, HLT, and MAR.**
- Additional attractive names include: **TSLA, AMZN, EBAY, TJX, LULU, RL, TPR, DRI, SBUX, GRMN, AZO, ORLY,** and bottom-fishing candidates **BBWI, KMX, and ULTA.**



Top 10 Holdings (XLY)			
Ticker	Weight (%)	Ticker	Weight (%)
AMZN	23.5	LOW	3.4
TSLA	20.8	TJX	3.4
HD	6.9	SBUX	2.4
BKNG	4.1	NKE	2.3
MCD	3.8	CMG	2.1

Communication Svcs (XLC): Overweight (upgraded 11/19/24 from Market Weight)

- Price and RS uptrends remain intact on *cap-weighted* Communications (XLC) -- remain overweight/buy pullbacks.
- Internet-related names (FND, ARKW) remain leadership -- buy pullbacks/remain overweight. Attractive internet names include: **NFLX, META, and GOOGL.**
- Additional attractive names: **FOXA, LYV, TMUS, TTWO, T,** and bottom-fishing candidates **DIS** and **WBD.**

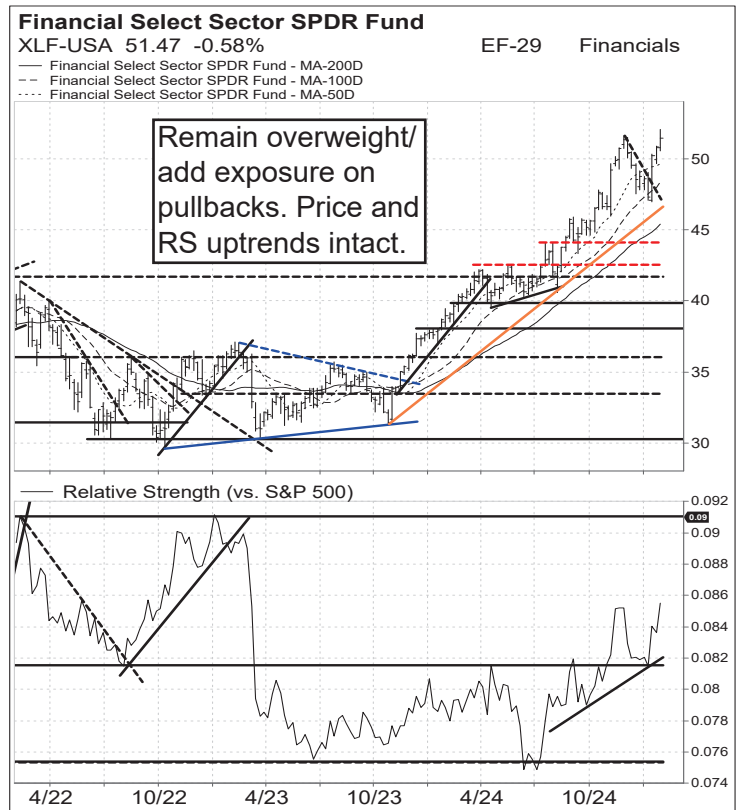


Top 10 Holdings (XLC)			
Ticker	Weight (%)	Ticker	Weight (%)
META	19.2	TTWO	4.7
GOOGL	11.5	TMUS	4.3
GOOG	9.5	T	4.2
NFLX	7.2	CHTR	4.1
DIS	4.9	EA	4.1

Financials (XLF): Overweight

- Price and RS uptrends remain intact on *cap-weighted* Financials (XLF), which is the only "value" Sector that we are overweight. Deregulation under Trump is likely to continue supporting the Sector. Buy any pullbacks.
- Credit card issuers remain leadership and our favorite theme within Financials. Buy/stay long: **AXP, COF, DFS**, and **SYF**. Banks/investment banks/capital markets (**KBE, KRE, IAI, KCE**) also remain leadership -- buy/stay long: **BK, JPM, C, BAC, CFG, CMA, HBAN, MTB, PNC, WFC, AMP, BLK, BX, GS, IVZ, MCO, MS, NDAQ, NTRS, RJF**, and **STT**.
- Additional attractive names include: **CPAY, FI, MA, V, PYPL, BRO, GL**, and **PGR**.

Top 10 Holdings (XLF)			
Ticker	Weight (%)	Ticker	Weight (%)
BRK.B	12.4	WFC	3.6
JPM	10.1	GS	2.7
V	7.9	AXP	2.5
MA	6.5	SPGI	2.4
BAC	4.4	MS	2.3



Utilities (XLU): Overweight

- RS is testing the gradual uptrend from the February 2024 lows on *cap-weighted* Utilities (XLU); as long as the RS uptrend holds, our overweight recommendation is appropriate. Utilities is easily our *lowest*-conviction overweight, considering our bullish outlook on the broad market. Price on the XLU is consolidating, but remains constructive as long as it holds above the 200-day MA and \$74.
- Our favorite theme remains power generation. Buy/stay long **CEG, NRG**, and **VST**.
- Additional attractive names include: **AEP, ETR, AEE, CNP**, and **NI**.

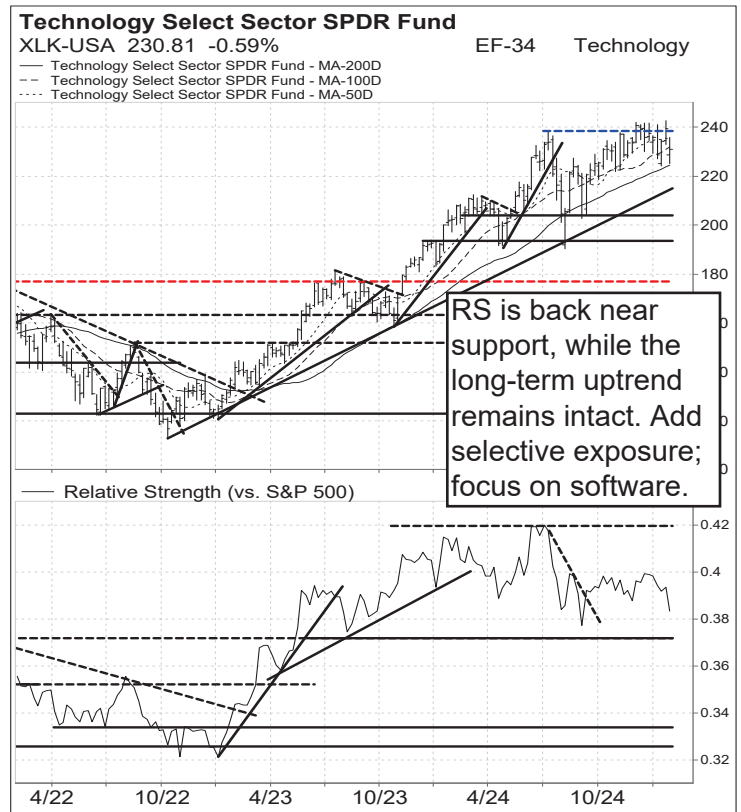
Top 10 Holdings (XLU)			
Ticker	Weight (%)	Ticker	Weight (%)
NEE	12.7	AEP	4.2
SO	7.8	VST	4.1
DUK	7.2	D	3.9
CEG	6.1	PCG	3.7
SRE	4.7	PEG	3.6



Technology (XLK): Market Weight

- *Cap-weighted* Technology (XLK) remains in a long-term uptrend, and is attempting to break above 5-month resistance at \$238-\$240. We expect a breakout eventually. RS is consolidating, but is near support -- add exposure.
- Software (IGV) names remain leadership -- buy/stay long: **FFIV, VRSN, ADSK, ANSS, CRM, FICO, FTNT, PANW**, and **PTC**.
- Additional attractive names include: **AVGO, ANET, CSCO, MSI, GLW, JBL, KEYS, TDY, TRMB, ZBRA, ACN, CTSH, IBM, IT**, and bottom-fishing candidates **EPAM, KLAC, LRCX**, and **QCOM**.

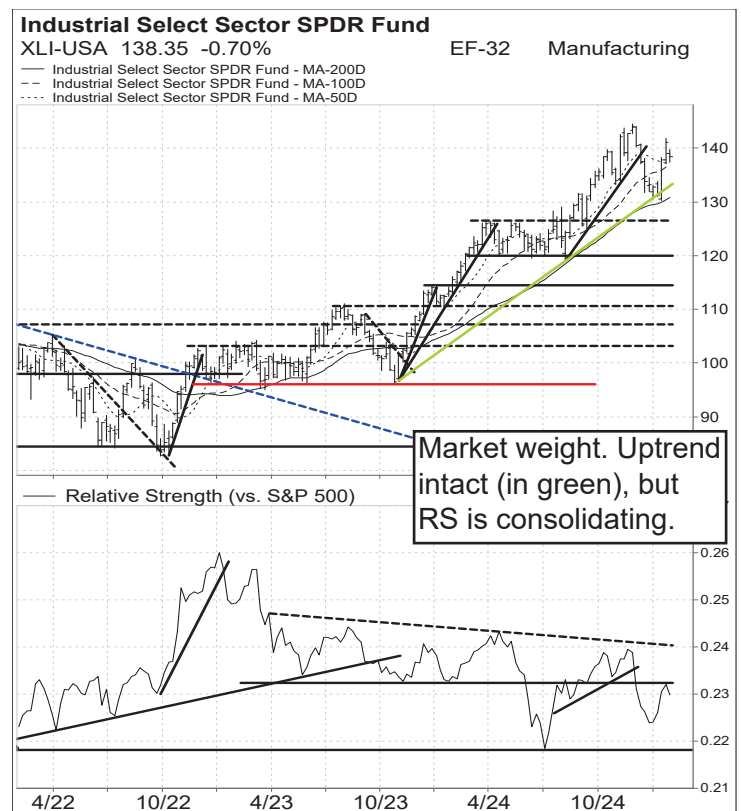
Top 10 Holdings (XLK)			
Ticker	Weight (%)	Ticker	Weight (%)
AAPL	15.7	ORCL	2.9
NVDA	13.5	CSCO	2.5
MSFT	13.2	ACN	2.4
AVGO	5.5	NOW	2.4
CRM	3.5	IBM	2.2



Industrials (XLI): Market Weight

- In our previous *ETF Pathfinder* (12/23/24) we discussed how Industrials (XLI) displayed a 4-month uptrend violation and that price is likely to test the longer-term uptrend (in green) near the 200-day MA. That is precisely where it found support and the uptrend remains intact. RS remains within a broad consolidation.
- A select few aerospace/defense stocks remain bullish. Buy/stay long: **AXON, HWM, GE**, and **RTX**.
- Additional attractive names include: **CPRT, PWR, GEV, MMM, CAT, CMI, DE, FTV, PH, PNR, SNA, WAB, AAL, DAL, UAL, ADP, BR, J, PAYC, PAYX**, and **BA** (bottom-fishing candidate).

Top 10 Holdings (XLI)			
Ticker	Weight (%)	Ticker	Weight (%)
GE	4.5	ETN	3.3
CAT	4.3	BA	3.2
RTX	3.8	UBER	3.1
HON	3.6	ADP	2.9
UNP	3.4	DE	2.7

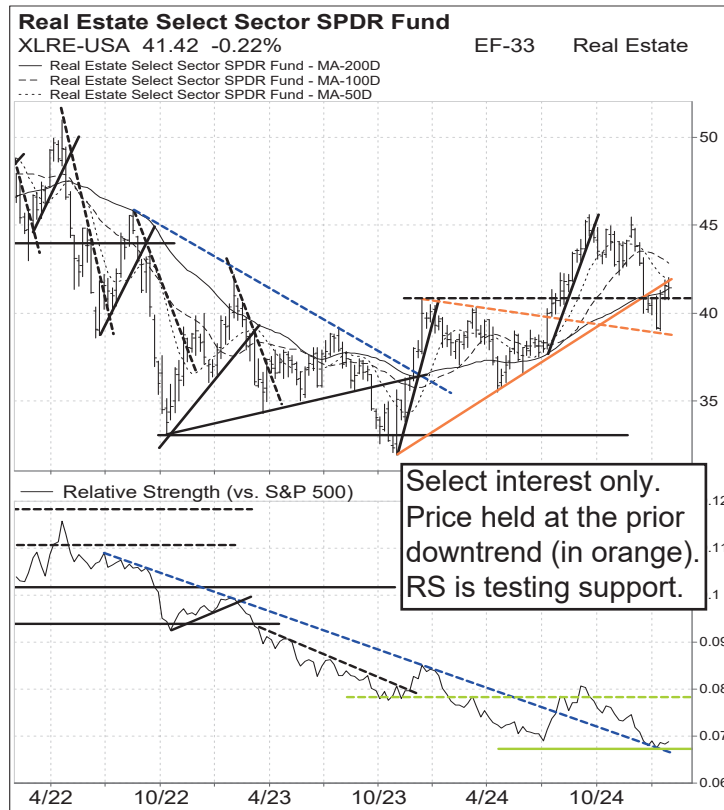


Real Estate (XLRE): Market Weight

- RS on *cap-weighted* Real Estate (XLRE) has settled-in to a horizontal range, but is now testing support; stay at market weight, but we would downgrade to underweight on a RS breakdown. Price is consolidating, but held at the prior downtrend (in orange) -- be very selective.
- Attractive names include: **CBRE**, **WELL**, and **VTR**.

Top 10 Holdings (XLRE)

Ticker	Weight (%)	Ticker	Weight (%)
PLD	9.3	SPG	5.1
EQIX	8.5	PSA	4.5
AMT	8.3	O	4.5
WELL	7.0	CCI	3.8
DLR	5.3	CBRE	3.8

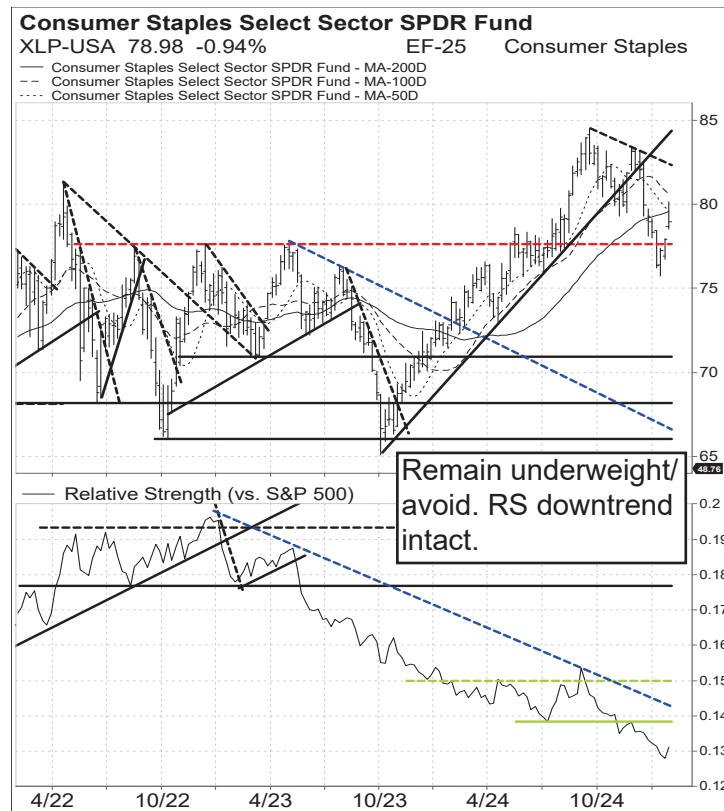


Consumer Staples (XLP): Underweight

- RS for Consumer Staples (XLP) remains in a long-term downtrend and is near 25-year lows (a major risk-on signal for the broad equity market). As previously discussed in our 11/4/24 *ETF Pathfinder* and each report since, price has violated the 1-year uptrend and is likely to test major support in the \$77.50-\$79 range. This range is being tested and remains key support. Be extremely selective.
- Staples retailers remain one of the only attractive themes within Staples -- buy/remain overweight **COST**, **WMT**, and **KR**.
- Additional attractive names include: **MO** and **PM**.

Top 10 Holdings (XLP)

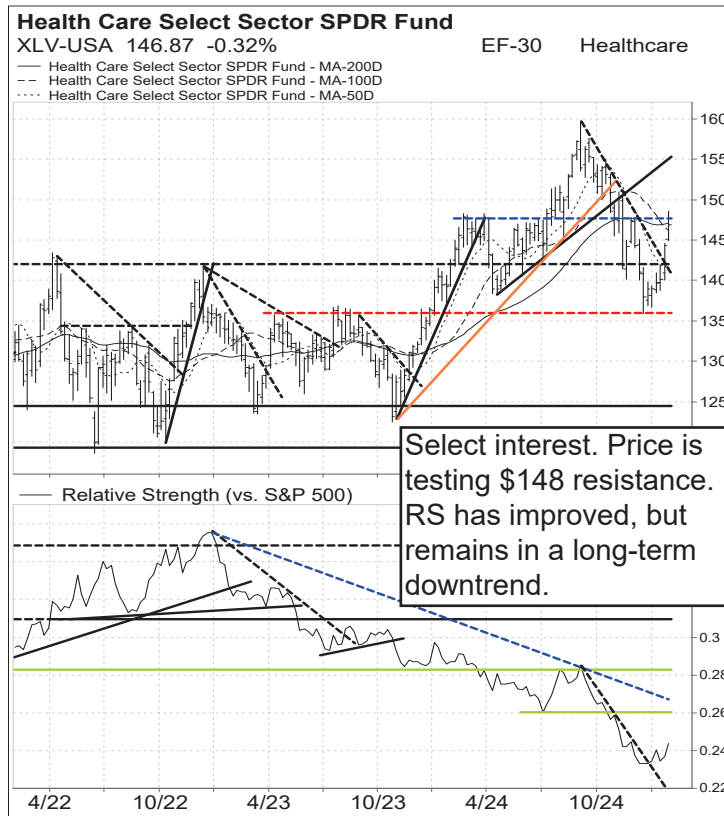
Ticker	Weight (%)	Ticker	Weight (%)
COST	10.6	PM	4.8
WMT	10.0	MO	4.8
PG	9.9	CL	4.1
KO	6.1	MDLZ	3.7
PEP	5.3	TGT	3.6



Health Care (XLV): Underweight

- In our previous *ETF Pathfinder* (12/23/24) we discussed to watch for support at \$135-\$136 (in red), and this is exactly where the XLV bottomed. Now, there are bullish 3.5-month RS downtrend reversals on the *cap-weighted XLV* and *equal-weighted RSPH*, and price is reversing the downtrend as well. Still, the long-term RS downtrend remains intact -- be selective.
- Medical devices/equipment (IHI) remains our favorite area within Health Care. Attractive names to buy/stay long include: **BSX, ISRG, PODD, SYK, A, WAT**, and bottom-fishing candidates **WST, BDX, DXCM, MDT, BIO, RVTY**, and **TMO**.
- Additional attractive names include: **GILD, INCY, ABT, BMY, CAH, COR, DVA, HSIC**, and **LH**.

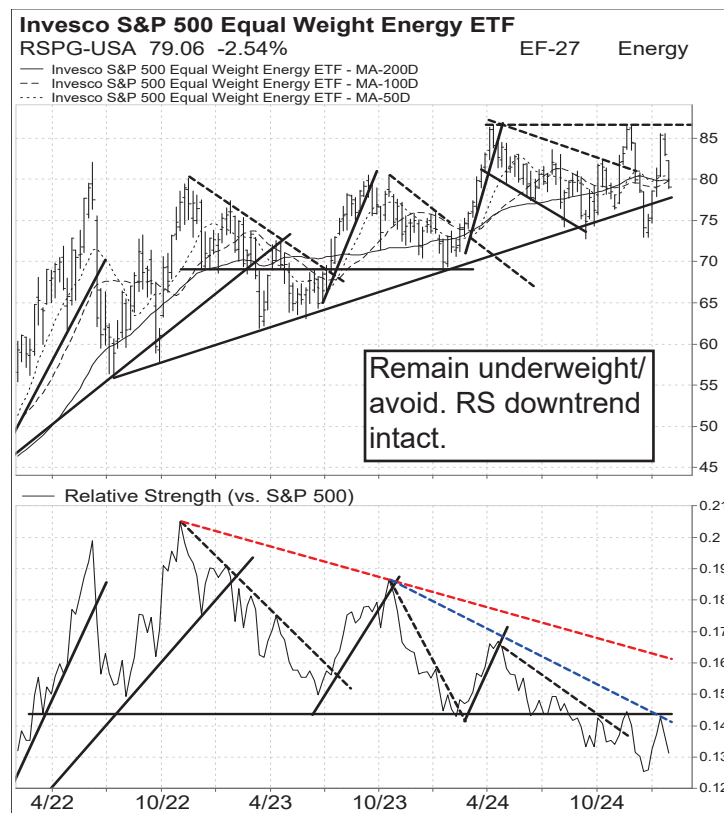
Top 10 Holdings (XLV)			
Ticker	Weight (%)	Ticker	Weight (%)
LLY	12.0	TMO	4.0
UNH	9.2	ABT	3.9
JNJ	6.9	ISRG	3.7
ABBV	6.1	PFE	3.0
MRK	4.9	DHR	2.9



Energy (XLE, RSPG): Underweight

- RS downtrends remain intact on *equal-weighted* and *cap-weighted* Energy (**RSPG, XLE**) -- remain underweight. Price on the RSPG is consolidating below major resistance at \$86.50. Avoid/be extremely selective.
- Attractive names have not changed for months, and include: **BKR, EQT, KMI, TRGP**, and **WMB**.

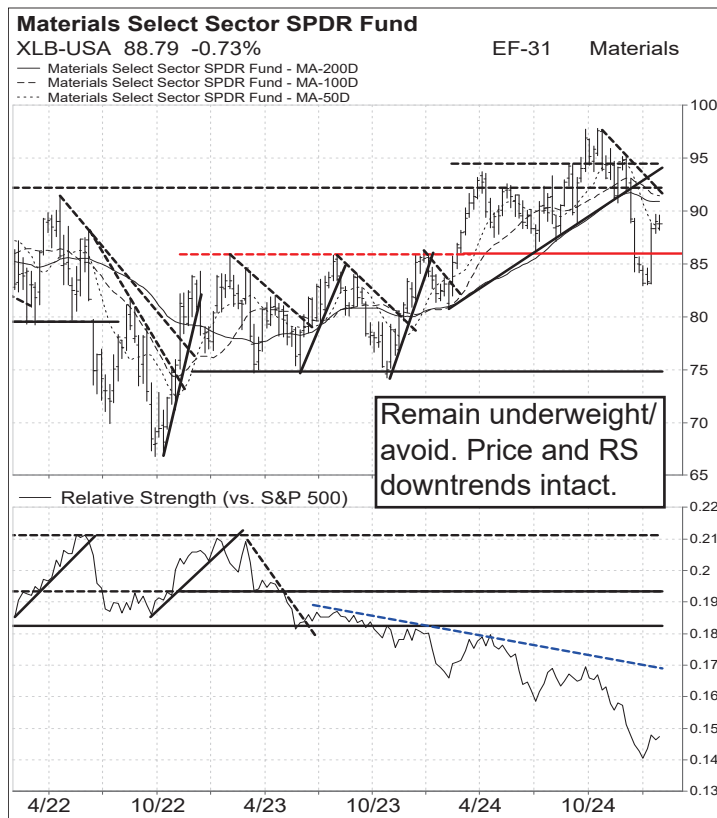
Top 10 Holdings (XLE)			
Ticker	Weight (%)	Ticker	Weight (%)
XOM	21.7	EOG	4.5
CVX	15.5	SLB	4.1
COP	7.9	KMI	4.0
WMB	5.1	PSX	3.6
OKE	4.5	MPC	3.5



Materials (XLB): Underweight

- RS on *cap-weighted* Materials (XLB) remains in a downtrend -- remain underweight. Price on the XLB managed to reclaim \$86 support (in red) after a brief dip below. Be extremely selective or, better yet, avoid the Sector entirely.
- Attractive names include: **APD**, **CF**, **CTVA**, **ECL**, and **MOS** (bottom-fishing candidate).

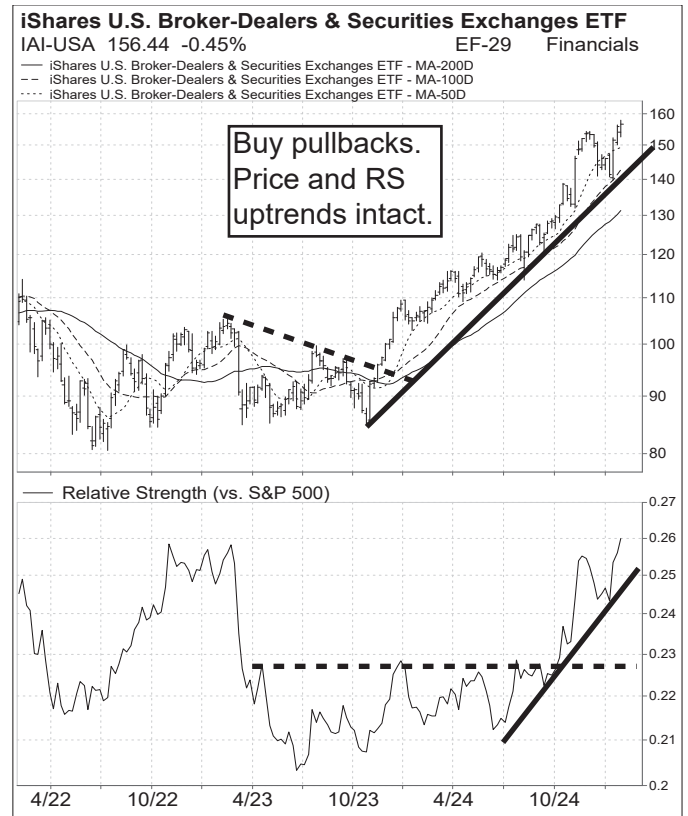
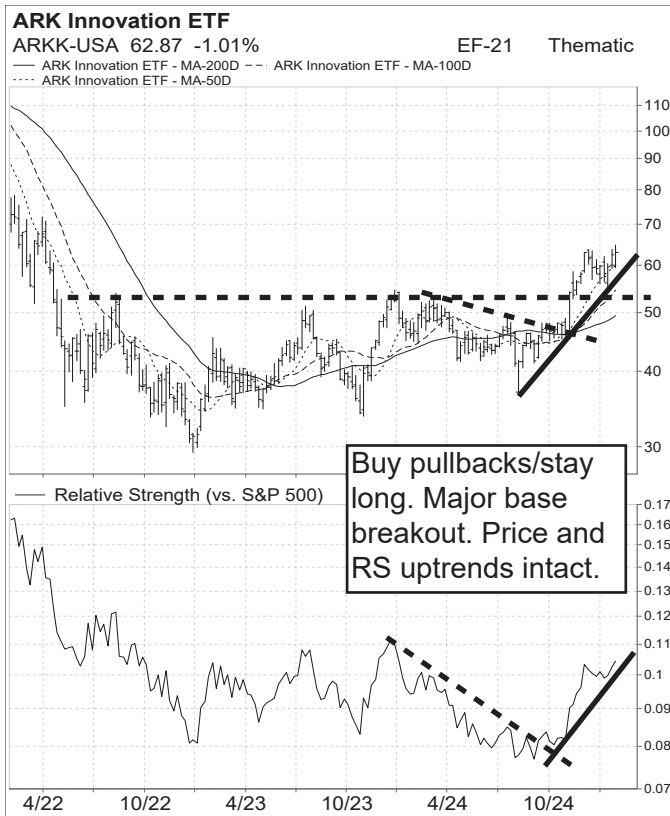
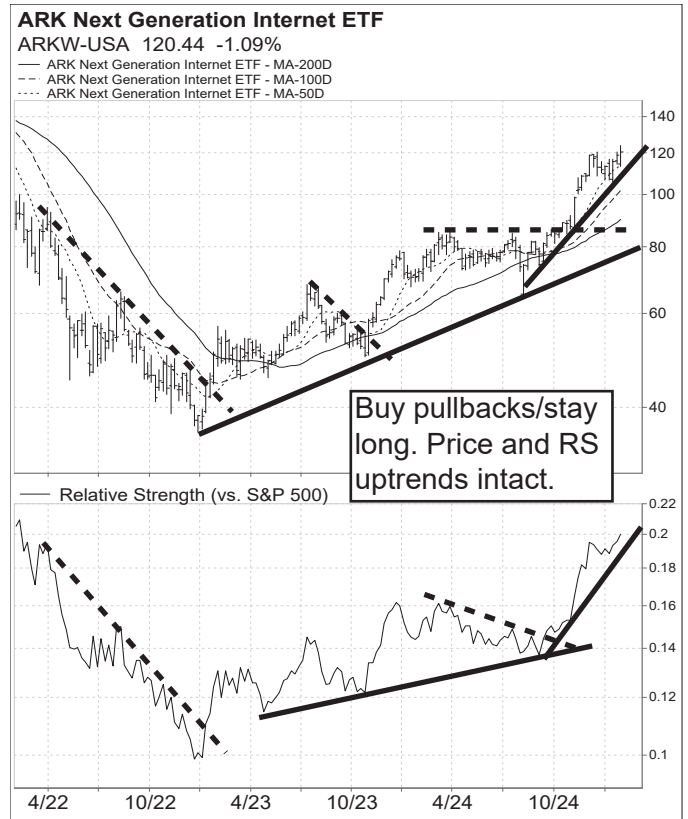
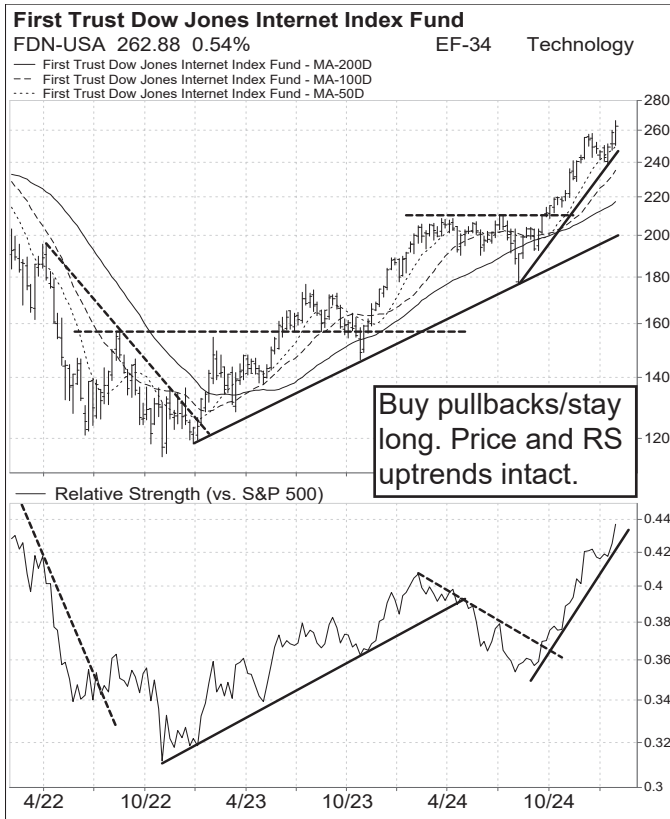
Top 10 Holdings (XLB)			
Ticker	Weight (%)	Ticker	Weight (%)
LIN	18.2	FCX	5.0
SHW	7.2	VMC	4.4
APD	5.9	MLM	4.2
ECL	5.4	DD	4.1
CTVA	5.1	NEM	3.9



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Actionable Industry ETFs

- Below we highlight industry-specific ETFs with timely technical patterns.
- Highlighted charts: FDN, ARKW, ARKK, and IAI



Emerging Markets

In our previous *ETF Pathfinder* we discussed how support at \$40-\$41 on MSCI EM (**EEM**) must hold or we would turn bearish from a price perspective. That is precisely where EEM found support, and it is now testing 4-month downtrend resistance. Watch for a reversal as another opportunity to buy, but we remain constructive as long as \$40-41 support holds. RS (vs. MSCI ACWI) remains near multi-year lows; remain underweight EM (vs. MSCI ACWI).

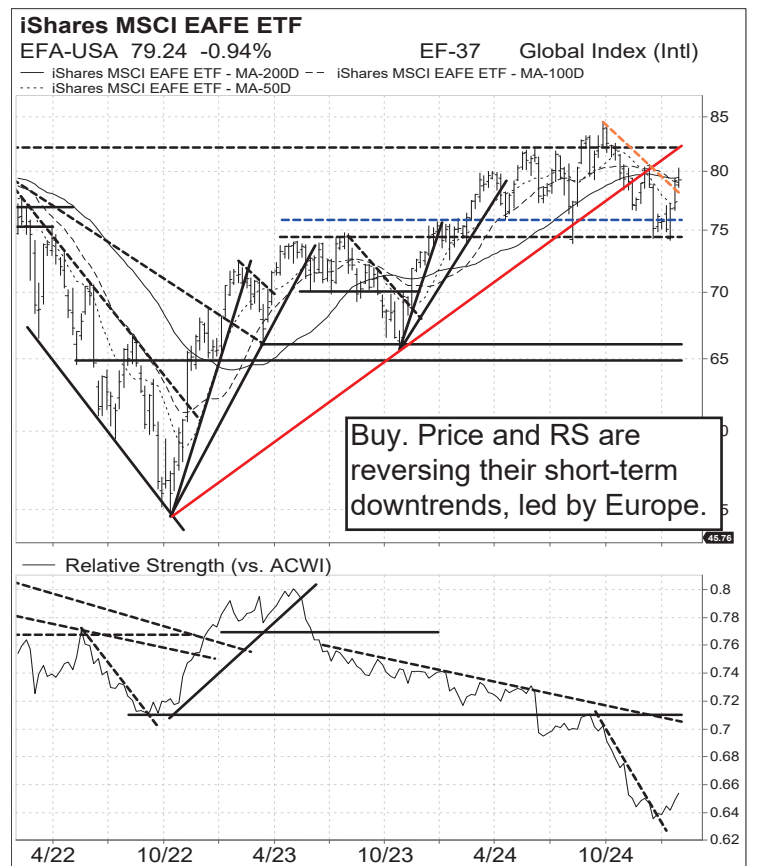
EM countries/regions highlighted to buy/stay long: Argentina (**ARGT**), United Arab Emirates (**UAE**), and Poland (**EPOL**)... see charts on page 11.



Developed Int'l Markets

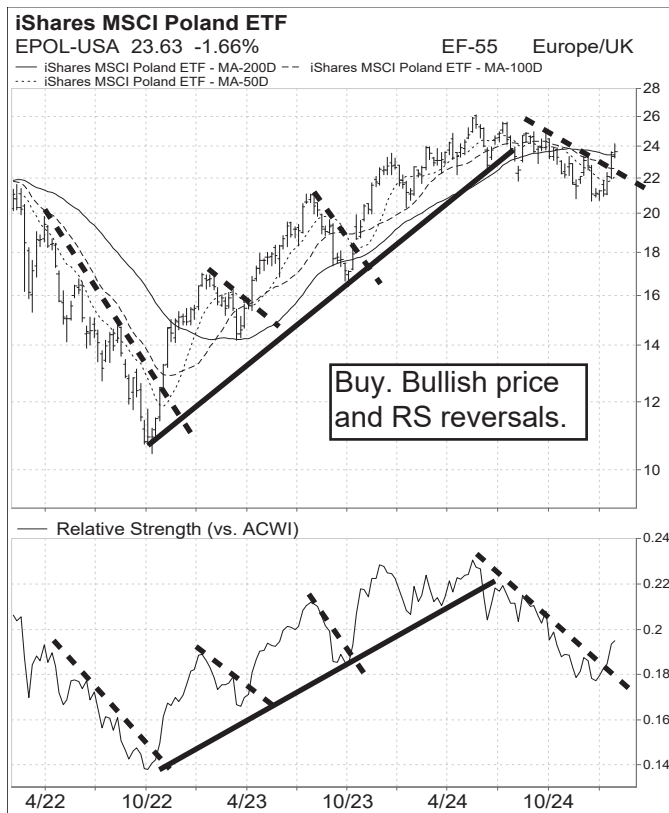
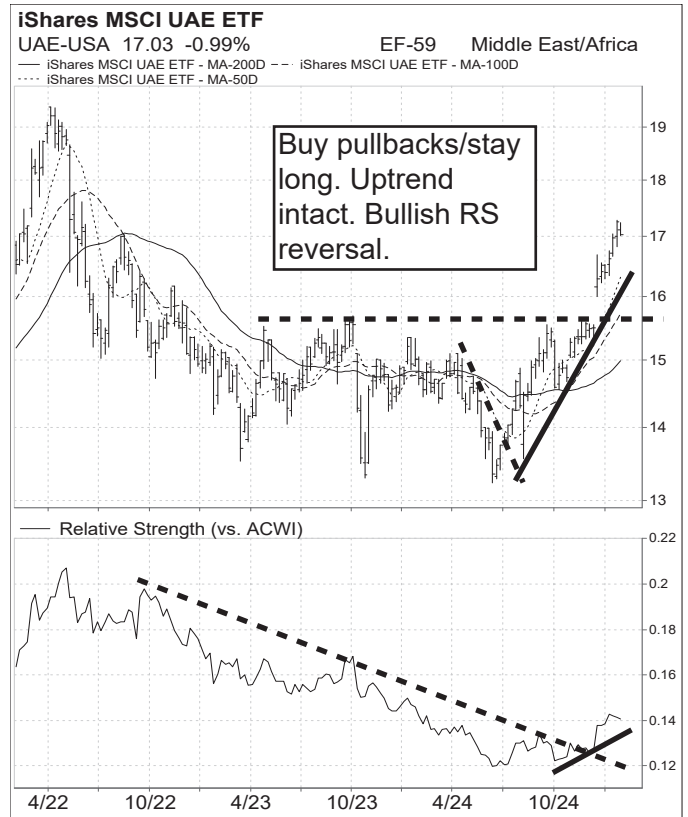
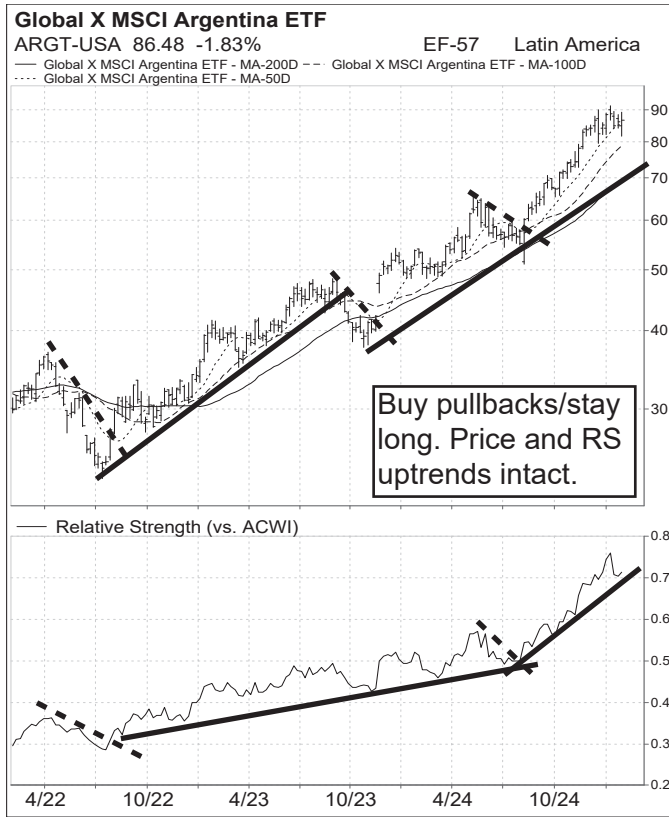
We have been saying to watch for support at \$74.50-\$76 on MSCI EAFE (**EFA**) since our 11/18/24 *ETF Pathfinder*. This support has held strong, and both price and RS display bullish 4-month downtrend reversals -- add exposure. While it is possible this is the start of a major RS bottom (vs. MSCI ACWI), the longer-term RS downtrend remains intact -- stay underweight EAFE.

Developed int'l countries/regions highlighted to buy/stay long: Germany (**EWG**), Israel (**EIS**), Europe Hedged (**HEDJ**), European Financials (**EUFN**), and Europe Hedged Small-Caps (**EUSC**)... see charts on pages 11-12.



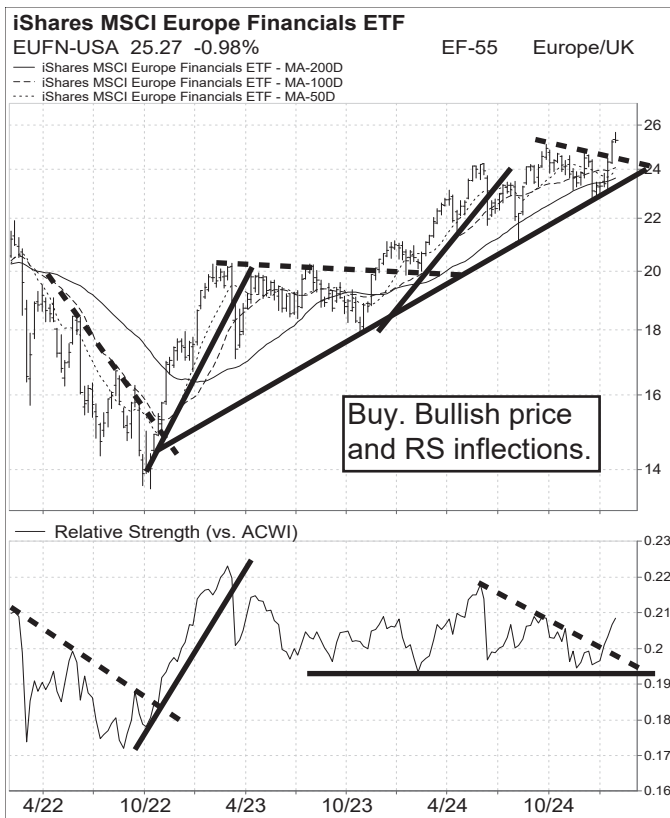
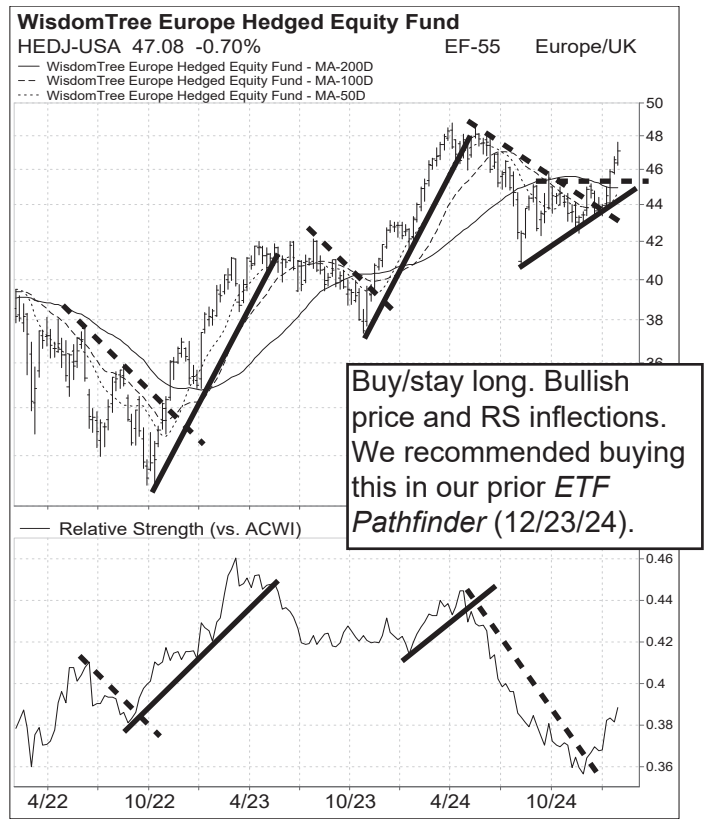
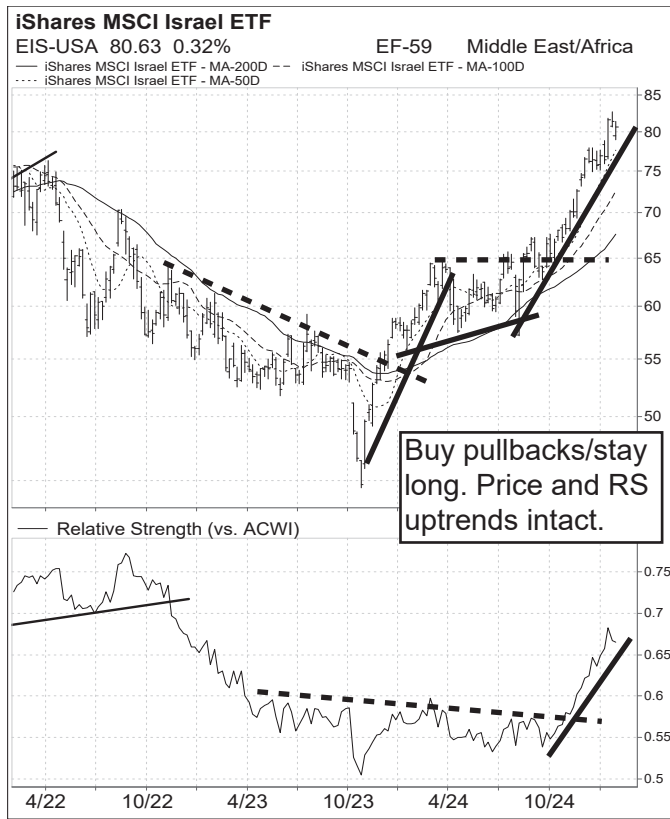
Actionable International ETFs

- Below we highlight international-focused ETFs with timely technical patterns.
- Highlighted charts: ARGV, UAE, EPOL, EWG, EIS, HEDJ, EUFN, and EUSC



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David P. Nicoski, CMT
612-682-1900
dave@vermillioncap.com

Joe W. Jasper, CFA
612-712-1300
joe@vermillioncap.com

Ross W. LaDuke, CMT
612-482-8442
ross@vermillioncap.com

920 Second Avenue S., Ste. 1225 • Minneapolis, MN 55402 • 612-482-6800 • www.vermillioncap.com

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