

3/31/25

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Expecting More Downside; Get Defensive

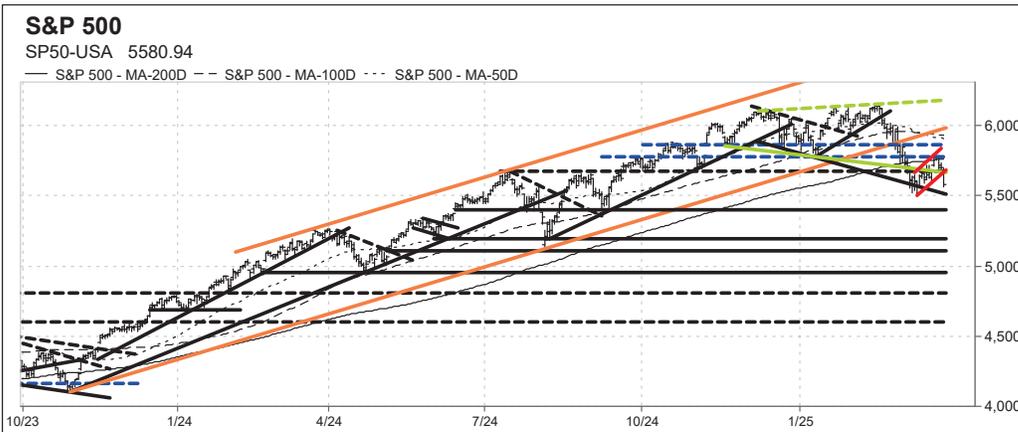
In our 2/25/25 *Compass*, we discussed our expectation for near-term downside, and to not be surprised if there is a test of the bottom of the range at either 5770-5850 or 5600-5670. We also discussed how it is normal for there to be one or two 8-10% pullbacks in any given year. The SPX had a -10.3% peak-to-trough decline, with support showing up at 5500; close enough to our 10% pullback and 5600 level. Still, for a number of reasons discussed below, we are concerned that the lows are not yet in, and there is potential for a more prolonged bear market. Therefore, we are cautious and would get defensive as long as the S&P 500 is below 5770-5780 and its 200-day MA; and even if there is a break above it, it would likely only provide short-term relief.

- **Sector Weighting Changes.** We are upgrading Staples (XLP) to market weight, and we are downgrading Discretionary (XLY) to market weight... see pages 4 & 6.
- **Concerning Developments.** There have been several concerning developments over the past week that leads us to expect more downside and shift to a cautious outlook: (1) The SPX displays a bear flag breakdown that targets 5100-5200, (2) high yield spreads are testing our crucial 355bps level and appear likely to widen above it, (3) market leaders including **NVDA** and **META** appear to be forming major tops, (4) semiconductors (**SOXX**) have topped, and (5) defensive Sectors including Utilities (**XLU**), Staples (**XLP**), and Health Care (**XLV**) display continued outperformance. This all points to a risk-off environment and suggests more downside is likely... see page 2.
- **Actionable Industry ETFs: KIE, GDX, DJP, and UNG...** see page 9.
- **EM and Int'l Markets.** MSCI EAFE (**EFA**) and EM (**EEM**) both display 2.5-month up-trend violations; we expect near-term downside, at minimum... see page 10.
- **Actionable International ETFs: EWS, EWU, EWI, EWP, EPOL, GREK, UAE, and ARGV...** see pages 11-13.

Sector Weighting Recommendations

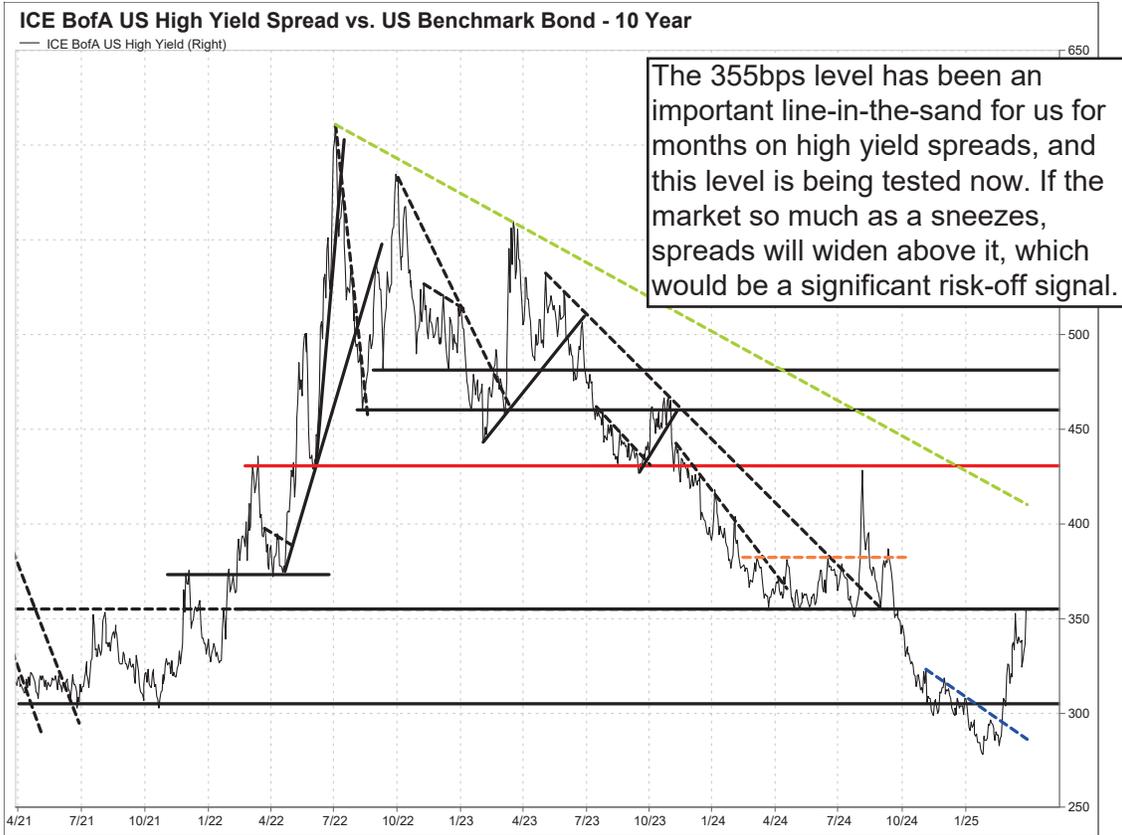
Sector	Under-Weight	Market-Weight	Over-Weight
Comm. Services (XLC)			X
Cons. Discretionary (XLY)		X ←	X
Cons. Staples (XLP)	X →	X	
Energy (RSPG, XLE)	X		
Financials (XLF)			X
Health Care (XLV)	X		
Industrials (XLI)		X	
Materials (XLB)	X		
Real Estate (XLRE)		X	
Technology (XLK)		X	
Utilities (XLU)		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

Upgrading Staples and downgrading Discretionary.



Concerning bear flag breakdown, which has a measured move target of 5100-5200. Immediate support is at 5500 followed by 5400, but we are cautious and expect more downside as long as this is below the 200-day MA and 5770-5780 level (in blue).

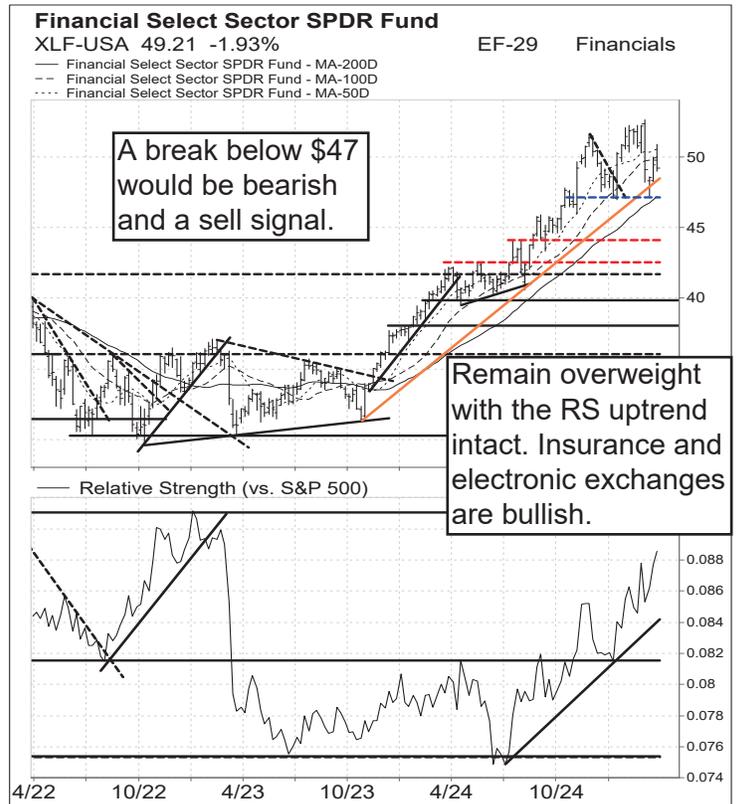
Concerning Developments



Financials (XLF): Overweight

- Price and RS uptrends remain intact on *cap-weighted* Financials (XLF). Insurance stocks are leadership, which is not a great sign for the broad market. Crucial \$47 support must hold on XLF or we would sell.
- Credit card issuers (AXP, COF, DFS, SYF) and most banks (KBE, KRE) are breaking down -- sell. The leaders which we have liked for quite some time (JPM, C, WFC, BK, and GS) are all that is left, but even with them we would sell and look to buy lower.
- Insurance stocks (KIE) and display bullish price and electronic exchanges are bullish; buy pullbacks/stay long: CBOE, CME, ICE, BRK.B, AFL, AIG, AJG, ALL, AON, BRO, CB, CIN, GL, HIG, L, MMC, PGR, TRV, WRB, and WTW. Also attractive: FI, MA, and V.

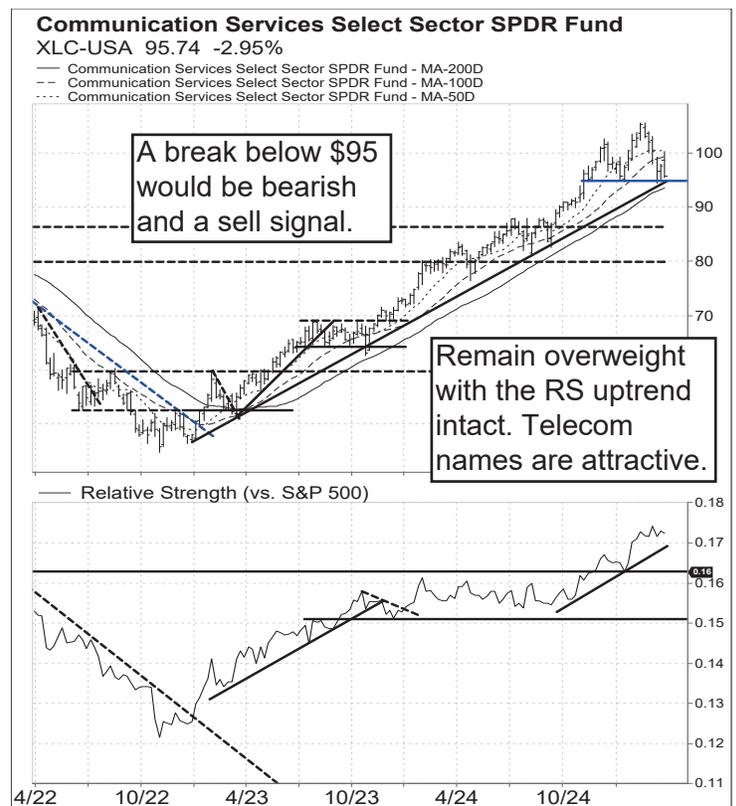
Top 10 Holdings (XLF)			
Ticker	Weight (%)	Ticker	Weight (%)
BRK.B	12.8	WFC	3.6
JPM	10.2	GS	2.7
V	8.6	SPGI	2.3
MA	6.4	AXP	2.3
BAC	4.2	PGR	2.3



Communication Svcs (XLC): Overweight

- Price and RS uptrends remain intact on *cap-weighted* Communications (XLC) -- remain overweight. \$94-\$95 is crucial support that we need to see hold in order to remain bullish.
- Telecommunication names (IYZ) remain leadership -- buy pullbacks/remain overweight. Attractive names include: T, TMUS, and VZ.
- Additional attractive names remain largely unchanged, and include: NFLX, TTWO, VZ, WBD, FOXA, and bottom-fishing candidates CHTR and PARA.

Top 10 Holdings (XLC)			
Ticker	Weight (%)	Ticker	Weight (%)
META	20.1	TMUS	5.2
GOOGL	9.1	TTWO	5.0
GOOG	7.5	VZ	4.6
NFLX	7.1	DIS	4.5
T	5.2	CHTR	4.3



Utilities (XLU): Overweight

- RS remains in a gradual uptrend from the February 2024 lows on *cap-weighted* Utilities (XLU); as long as the RS uptrend holds, our overweight recommendation is appropriate. RS is now approaching 5-month highs and appears ready to break out again. Price on the XLU is consolidating, but remains constructive as long as it holds above the 200-day MA and \$74.
- We would sell the power generation stocks which we have been bullish on for nearly two years, as they are topping. Sell **CEG**, **NRG**, and **VST**.
- Attractive names include: **AEP**, **DUK**, **ETR**, **EVRG**, **EXC**, **LNT**, **PNW**, **PPL**, **SO**, **XEL**, **ATO**, **AEE**, **CMS**, **CNP**, **DTE**, **ED**, **NI**, **WEC**, and **AWK**.

Top 10 Holdings (XLU)			
Ticker	Weight (%)	Ticker	Weight (%)
NEE	12.0	D	3.9
SO	8.2	VST	3.8
DUK	7.5	SRE	3.8
CEG	6.5	EXC	3.7
AEP	4.7	XEL	3.4



Cons. Discretionary (XLY): Market Weight (downgrading today from Overweight)

- **DOWNGRADE.** We are downgrading Discretionary to market weight; RS on *cap-weighted* Discretionary (XLY) displays a 7-month uptrend violation -- reduce exposure. Price on XLY has held above \$193-194 support, but we cannot be bullish as long as the XLY remains below its 200-day MA (currently \$576).
- Auto parts retailers are leadership (buy pullbacks/stay long **AZO** and **ORLY**), as are restaurant stocks (buy/stay long **DRI**, **MCD**, **SBUX**, and **YUM**).
- Additional attractive names include: **EBAY**, **GRMN**, **BKNG**, **RCL**, and bottom-fishing candidates **LKQ**.

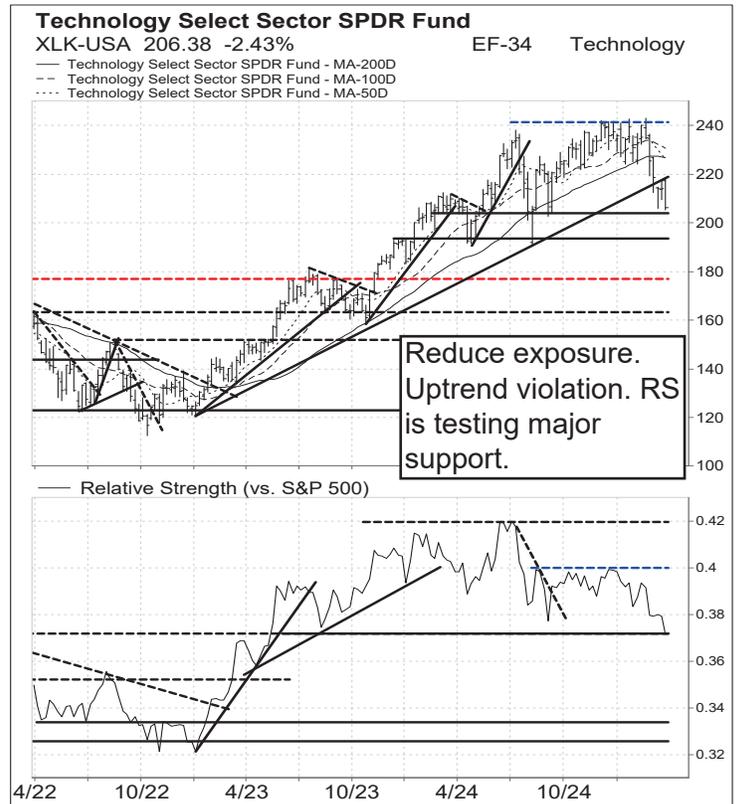
Top 10 Holdings (XLY)			
Ticker	Weight (%)	Ticker	Weight (%)
AMZN	20.9	LOW	4.1
TSLA	13.6	TJX	4.0
HD	6.6	SBUX	3.8
MCD	5.1	NKE	2.7
BKNG	4.7	ORLY	2.3



Technology (XLK): Market Weight

- *Cap-weighted* Technology (XLK) has violated its long-term uptrend -- reduce exposure. This is very concerning. RS is consolidating, and still remains near multi-year support. We are monitoring for a downgrade.
- There is very little that is attractive within the Sector.
- Semiconductors (**SOXX**) just broke below major 1+ year support at \$195. This is very bearish for the broad equity market -- underweight/avoid.
- Attractive names include: **CSCO, TDY, IBM, ROP, and VRSN**.

Top 10 Holdings (XLK)			
Ticker	Weight (%)	Ticker	Weight (%)
AAPL	15.4	ORCL	3.0
NVDA	12.9	CSCO	2.8
MSFT	12.4	IBM	2.6
AVGO	5.2	ACN	2.4
CRM	3.2	ADBE	2.1



Industrials (XLI): Market Weight

- The Industrial Sector (XLI) has broken below its long-term uptrend (in green), and is in a consolidation period. We are constructive as long as \$126.50 support holds, but we would overweight defensives (waste services and aerospace/defense). RS remains within a broad consolidation -- be selective.
- Waste services stocks remain leadership. Buy/stay long: **ROL, RSG, and WM**.
- Additional attractive names include: **HWM, RTX, TDG, GE, ADP, BR, PAYX, VRSK**, and bottom-fishing candidates **GD** and **NOC**.

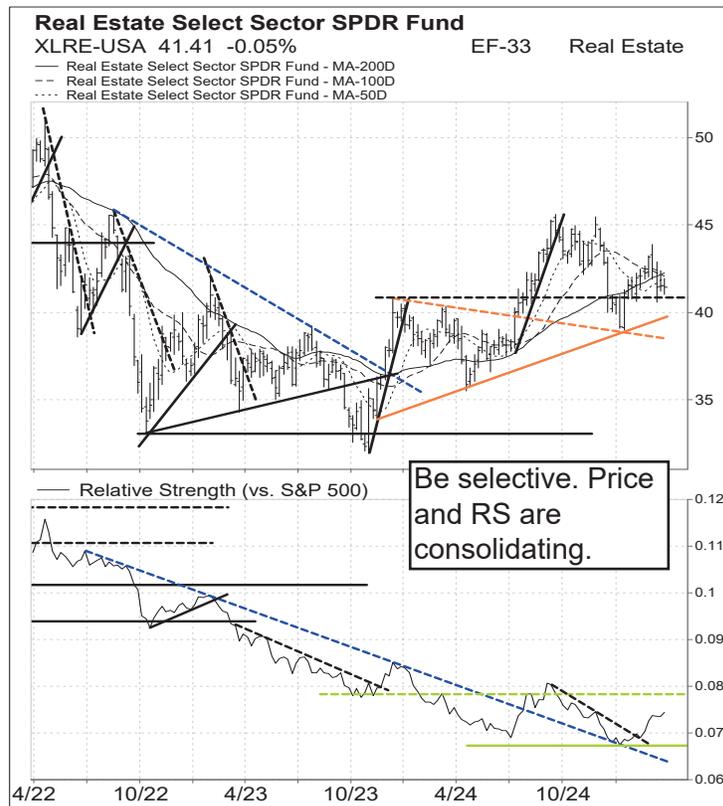
Top 10 Holdings (XLI)			
Ticker	Weight (%)	Ticker	Weight (%)
GE	5.3	HON	3.3
RTX	4.2	BA	3.1
CAT	4.0	ADP	3.1
UBER	3.8	DE	2.9
UNP	3.6	ETN	2.8



Real Estate (XLRE): Market Weight

- RS on *cap-weighted* Real Estate (XLRE) remains in a horizontal range -- stay at market weight. Price is also consolidating after holding at the prior downtrend (in orange). This Sector should continue to benefit from falling yields, which remains our expectation.
- Attractive names include: **VTR**, **WELL**, **MAA**, and bottom-fishing candidates **AMT** and **CCI**.

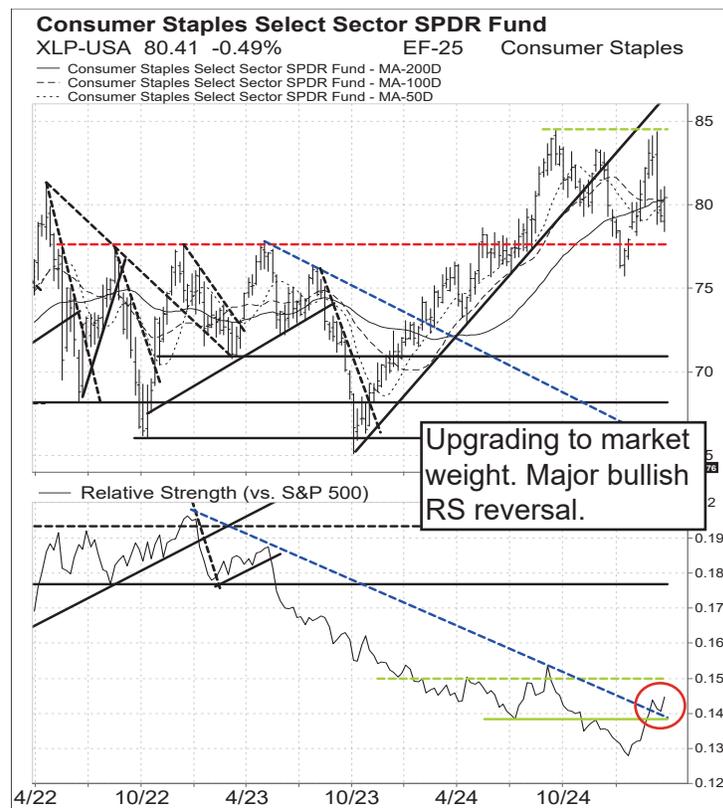
Top 10 Holdings (XLRE)			
Ticker	Weight (%)	Ticker	Weight (%)
PLD	10.4	O	4.5
AMT	8.7	DLR	4.4
WELL	8.2	PSA	4.3
EQIX	7.9	CBRE	3.9
SPG	5.2	CCI	3.7



Consumer Staples (XLP): Market Weight (upgrading today from Underweight)

- **UPGRADE.** RS for Consumer Staples (XLP) is reversing above resistance at the long-term downtrend, and we are upgrading the Sector to market weight. This is a risk-off signal for the broad equity market. Price held above major support in the \$77.50-\$79 range, but failed at \$84.50 resistance from September 2024. Be selective.
- Beverage stocks are improving. Attractive names include: **MNST**, **KO**, and **TAP** (bottom-fishing candidate).
- Additional attractive names include: **MO**, **PM**, **COST**, **KR**, **WMT**, **CHD**, **KVUE**, and bottom-fishing candidates **DG**, **SJM**, **TSN**, and **CL**.

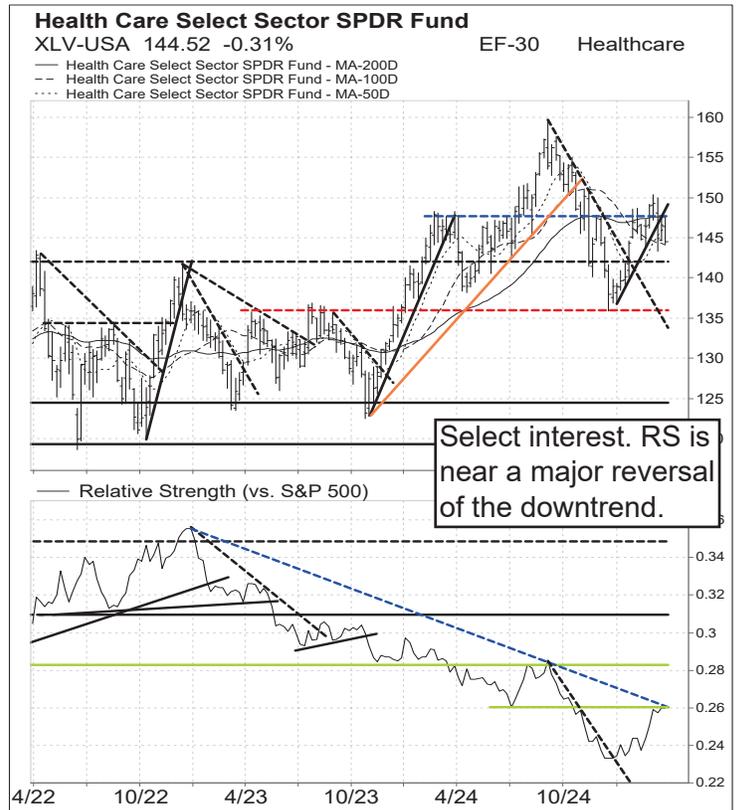
Top 10 Holdings (XLP)			
Ticker	Weight (%)	Ticker	Weight (%)
COST	10.8	PEP	4.9
WMT	9.9	MO	4.5
PG	9.5	MDLZ	4.5
KO	6.4	CL	4.3
PM	5.6	TGT	3.3



Health Care (XLV): Underweight

- The *cap-weighted* XLV remains below resistance at \$148 (in blue) -- be very selective. Support on the XLV remains at \$142-\$143 and \$135-\$136 (in red). RS is testing resistance at the long-term downtrends on both the XLV and *equal-weighted* RSPH, and we would upgrade to market weight on decisive RS reversals. We are already preparing for this bullish RS reversal to happen (see individual stock buys below).
- Essentially all the stocks we like (see below) are defensives within large-cap services/providers (IHF), pharmaceuticals (PPH), or large-cap biotech.
- Attractive names: **ABBV, GILD, BMY, JNJ, CAH, COR, DGX, MCK, ABT, BSX, SOLV, ZBH, CVS,** and bottom-fishing candidates **CI, HCA, MOH, and UHS.**

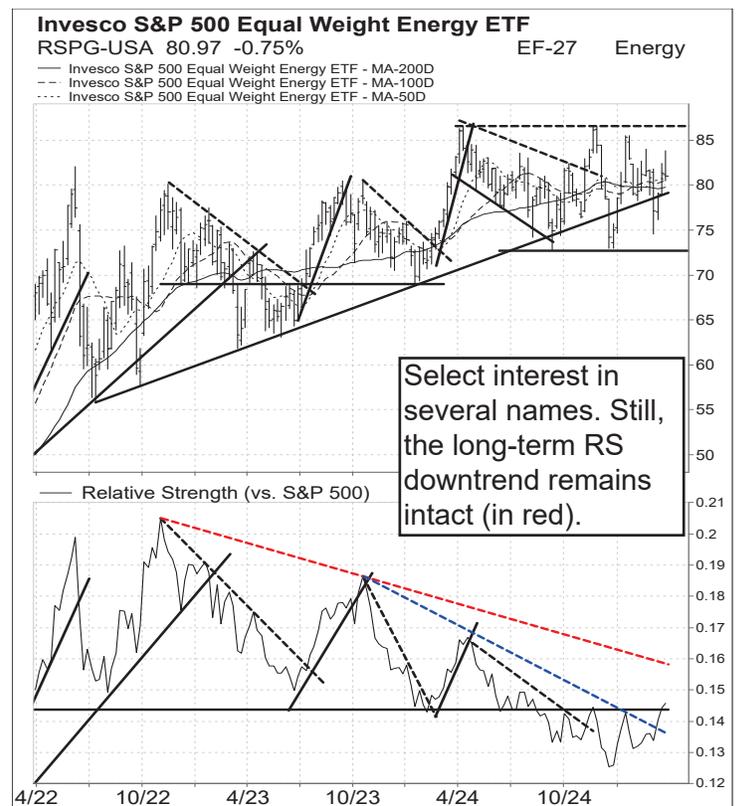
Top 10 Holdings (XLV)			
Ticker	Weight (%)	Ticker	Weight (%)
LLY	13.4	MRK	4.3
UNH	8.0	ISRG	3.8
JNJ	7.3	TMO	3.7
ABBV	6.8	AMGN	3.1
ABT	4.4	BSX	2.8



Energy (XLE, RSPG): Underweight

- RS downtrends (bottom clip at right, in red) remain intact on *equal-weighted* and *cap-weighted* Energy (RSPG, XLE), but we definitely want to be long the leaders (see individual names below). While we are underweight, we are monitoring for an upgrade to market weight, as Energy acts as a defensive Sector during downside market volatility. Price on the RSPG is consolidating below major resistance at \$86.50; a breakout would be very bullish.
- Attractive names include: **BKR, EQT, KMI, TRGP, WMB, HES,** and bottom-fishing candidates **CTRA, CVX, and XOM.**

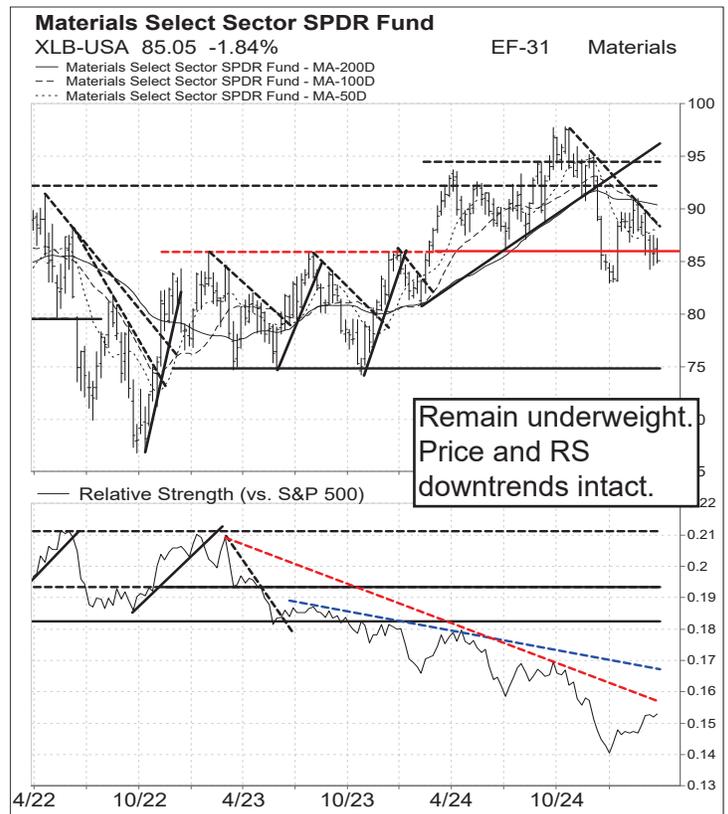
Top 10 Holdings (XLE)			
Ticker	Weight (%)	Ticker	Weight (%)
XOM	22.6	OKE	4.3
CVX	15.9	SLB	4.1
COP	7.7	PSX	3.7
WMB	4.7	KMI	3.7
EOG	4.4	MPC	3.4



Materials (XLB): Underweight

- RS on *cap-weighted* Materials (XLB) remains in a downtrend -- remain underweight. Price on the XLB is below resistance at the multi-month downtrend and 200-day MA. Be extremely selective.
- Gold miners (GDX) remain leadership. Buy **NEM**.
- Additional attractive names include: **ECL**, **CTVA**, and **LIN** (bottom-fishing candidate).

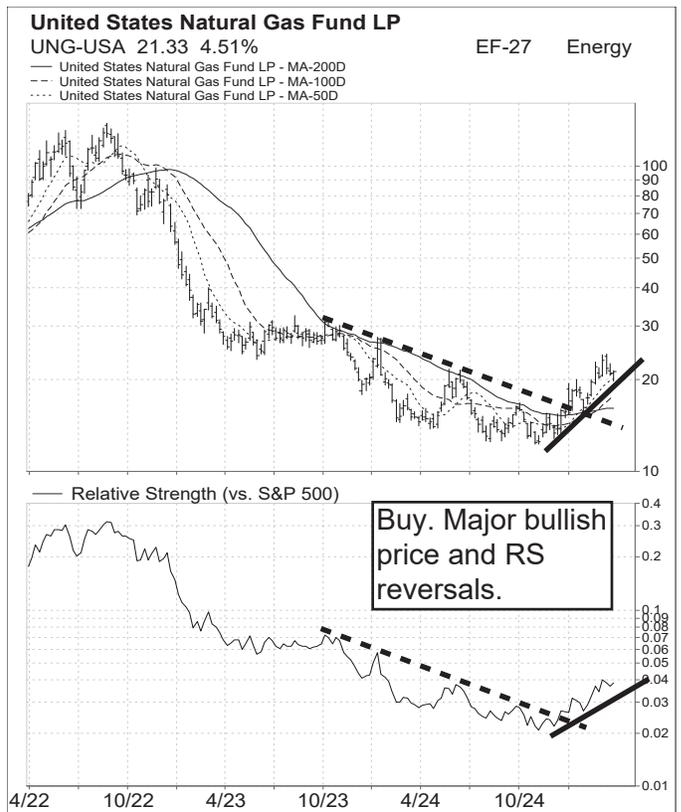
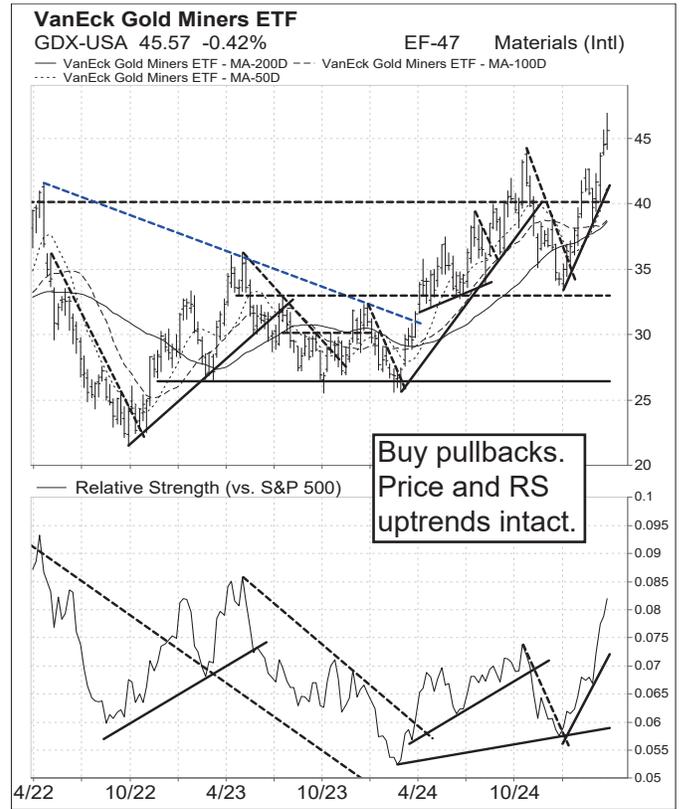
Top 10 Holdings (XLB)			
Ticker	Weight (%)	Ticker	Weight (%)
LIN	22.7	NEM	5.0
SHW	8.6	CTVA	4.4
APD	7.2	DD	3.5
ECL	6.9	VMC	3.3
FCX	5.4	NUE	3.3



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Actionable Industry ETFs

- Below we highlight industry-specific ETFs with timely technical patterns.
- Highlighted charts: KIE, GDX, DJP, and UNG

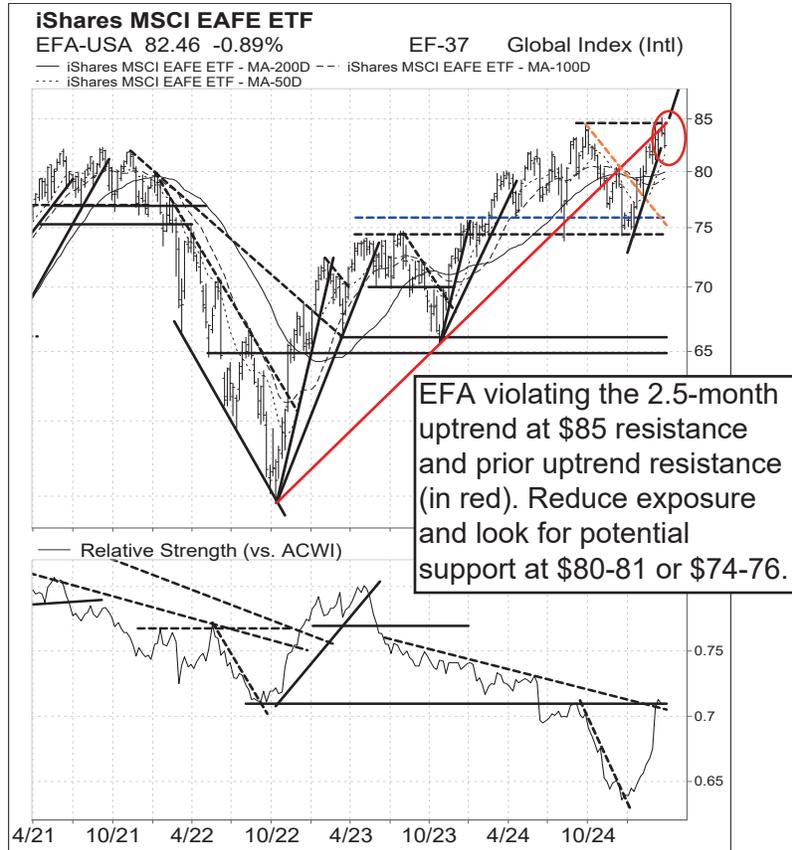


International Equities

Developed Int'l Markets

In our 2/3/25 *ETF Pathfinder* we discussed buying MSCI EAFE (EFA) following its bullish 4-month price and RS display downtrend reversals. However, EFA is now in pullback mode as it displays a 2.5-month uptrend violation after failing to break above \$85 resistance -- reduce exposure and look for support at \$80-\$81. We also discussed in our 2/3/25 *ETF Pathfinder* how it is possible this is the start of a major RS bottom (vs. MSCI ACWI), which could very well be the case. Still, we would stay underweight EAFE until RS is able to reverse above the longer-term downtrend, which is being tested now.

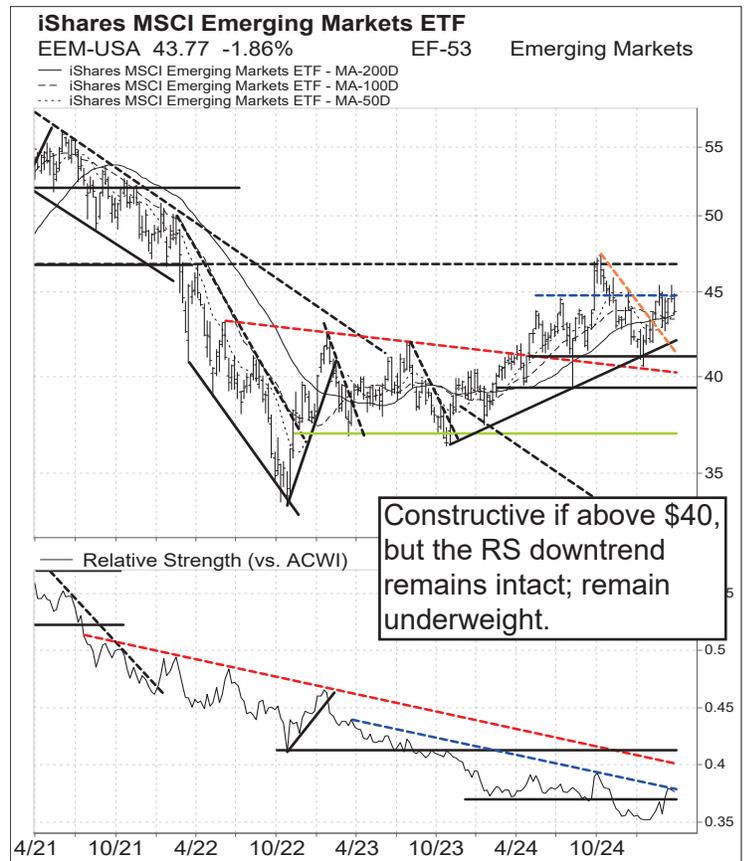
Developed int'l countries/regions highlighted to buy/stay long: Singapore (EWS), United Kingdom (EWU), Italy (EWI), and Spain (EWP)... see charts on page 11.



Emerging Markets

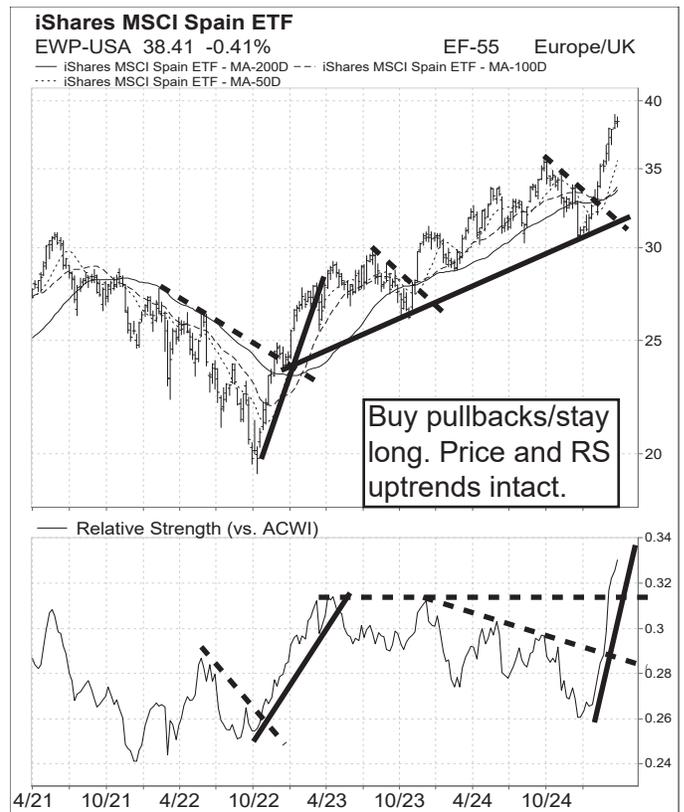
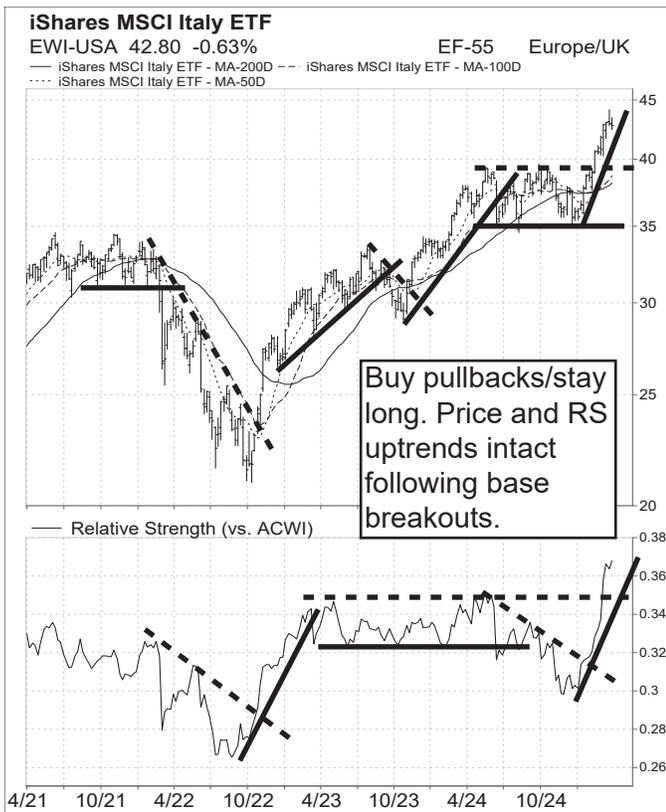
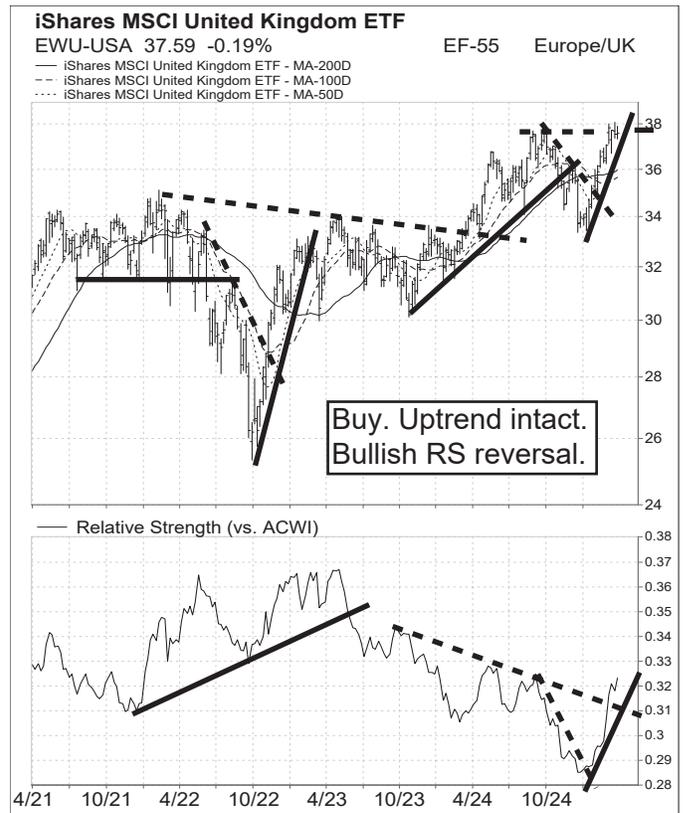
MSCI EM (EEM) remains below \$44.50-\$45.00 resistance (in blue). Support remains at \$40-\$41, and we remain constructive as long as \$40 support holds. RS (vs. MSCI ACWI) remains in a well-defined downtrend (in red); remain underweight EM (vs. MSCI ACWI).

EM countries/regions highlighted to buy/stay long: Poland (EPOL), Greece (GREK), United Arab Emirates (UAE), and Argentina (ARGT)... see charts on page 11. It is worth noting that all the China ETFs (KWEB, FXI, MCHI) are testing major multi-year resistances and a pullback is likely.



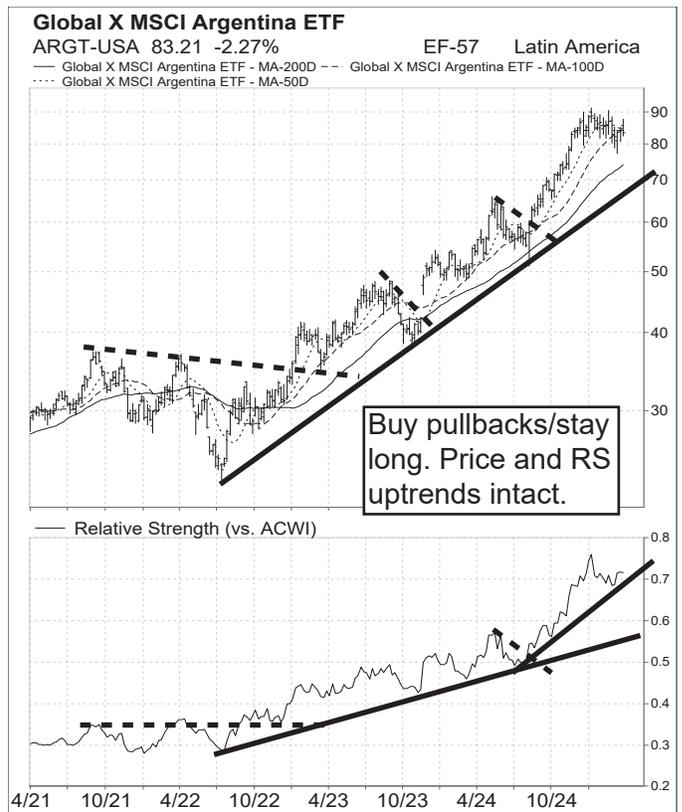
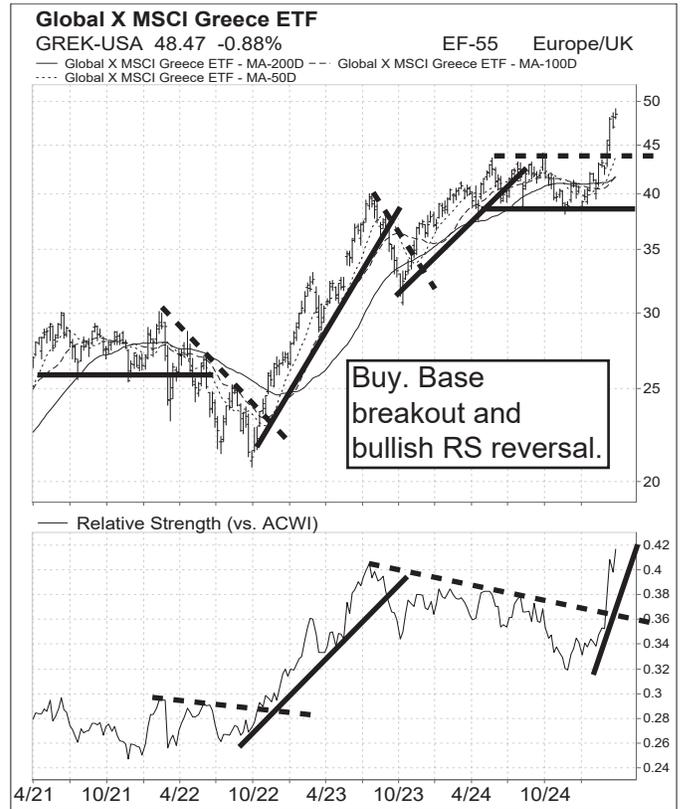
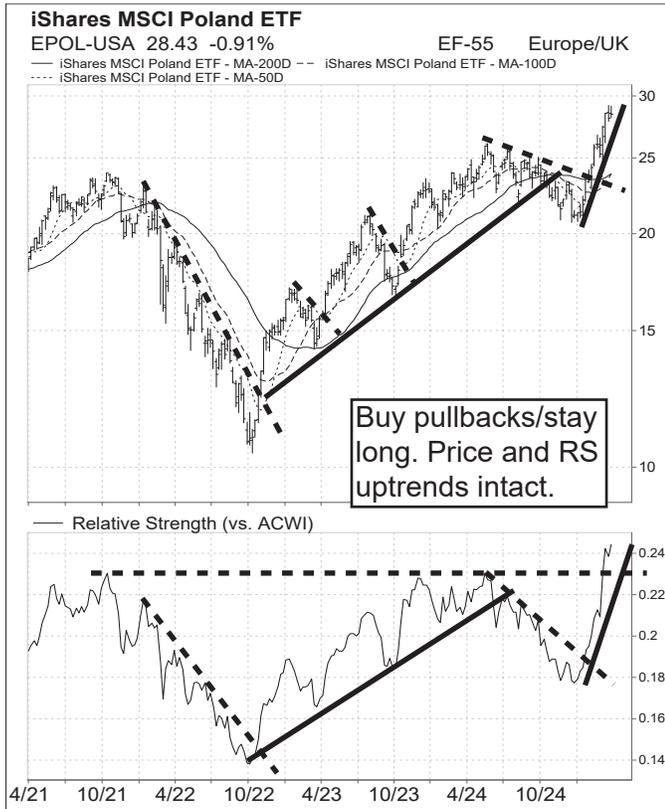
Actionable International ETFs

- Below we highlight international-focused ETFs with timely technical patterns.
- Highlighted charts: EWS, EWU, EWI, EWP, EPOL, GREK, UAE, and ARG



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