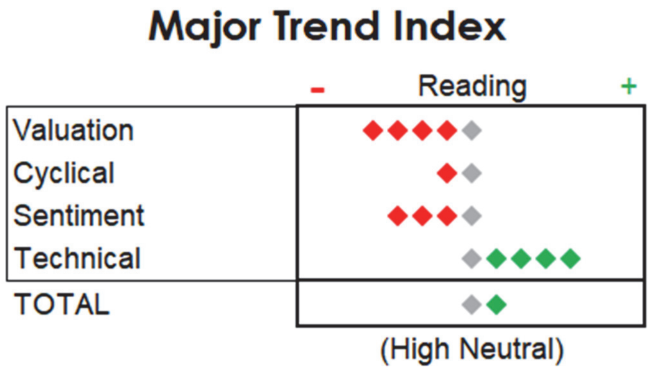
MAJOR TREND INDEX

By: Doug Ramsey, CFA, CMT

Report Date: August 4, 2025
Data for Week Ending: August 1, 2025



The Major Trend Index held at a high neutral reading of +1 in the week ended August 1st, with no changes across the four factor categories. There have been no changes to the asset allocation in tactical portfolios; net equity exposure stands at 55%.

The Technical composite has been the only category on the right side of the ledger since the MTI emerged from bear territory on May 16th. Ideally, we'd like to see broader fundamental support for the stock market. Yet, stock prices are a "fundamental" in and of themselves, and their impact—via the wealth effect—has no doubt forestalled the onset of a U.S. recession, which we see as inevitable.

Last Thursday's downside market reversal after blowout earnings from Microsoft and Meta is the sort of "good news/bad price" action that will sometimes mark a short- or intermediate-term market top. From a technical point of view, though, last Monday's all-time high in the S&P 500 isn't a great candidate for a *bull market* top. That's because the past several days have seen new bull market highs in the NYSE Daily Advance/Decline Line, Equal Weighted S&P 500, and other important bellwethers (Financials, Utilities, the S&P Cyclical Composite). If the topping process were to unfold according the to the usual playbook, we should expect higher, *but narrower* highs in the near future.

The July employment report released on Friday was the first one under the current administration to fall short of consensus estimates—and the White House response was to shoot the messenger. As usual, year-over-year comparisons provide more clarity than the one-month trend. Growth in nonfarm payrolls slowed to 0.9% in July from 1.0% in June, and represented the 14th consecutive month that growth has undercut its historical "stall speed" of 1.4%. The job market slowdown continues to show up in every single metric except initial unemployment claims: Last week saw both the Conference Board's "Jobs Hard To Get" Index and the ISM Manufacturing Employment diffusion index move to their worst levels of the expansion.

We were pretty confident entering 2025 that Value stocks were set to wrest leadership away from Growth after an 18+ year supercycle in the latter. We still think that's the best bet, but acknowledge that last Thursday the Russell 1000 Growth Index poked above its March 2000 all-time relative strength high versus the Russell 1000 Value Index. In other words, Growth stocks have spent the entirety of their leadership supercycle *in catchup mode* versus Value. (See additional analysis below.)

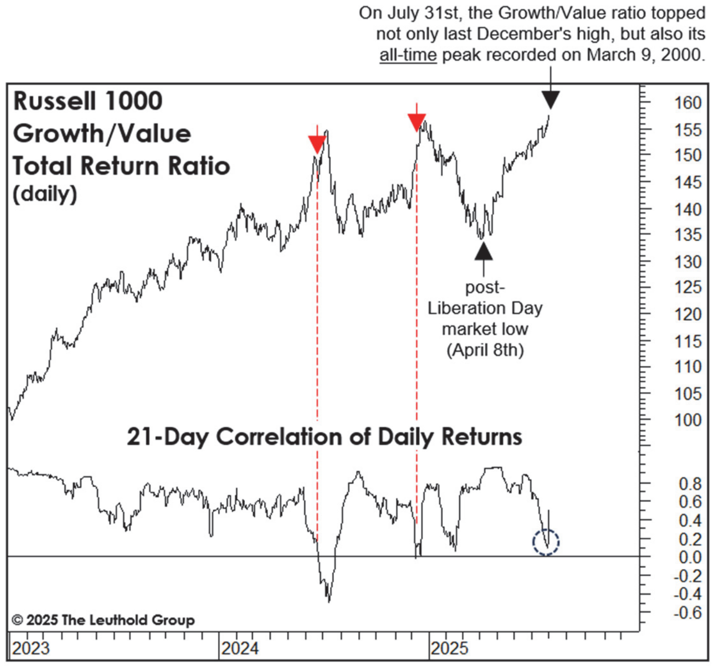
Clients who have questions regarding any of the components or indicators should contact Doug Ramsey at 612-332-1567 or dramsey@LWCM.com

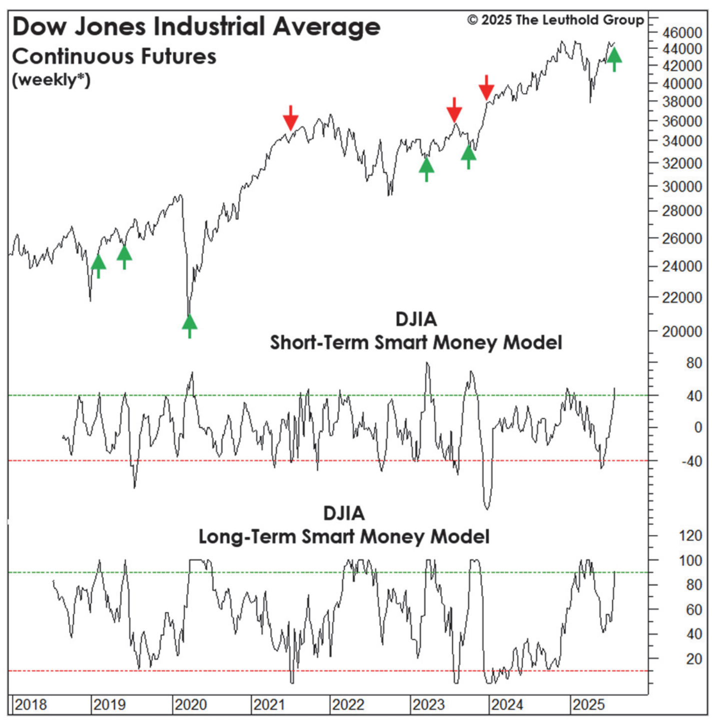
- It's official: Large-Cap Growth stocks have finally bettered their longstanding relative performance peak versus Value stocks, which was recorded back on March 9, 2000 (Chart 1). For those keeping score at home, it took Growth stocks a bit over 19 years to recoup their massive underperformance versus Value during the 2000-2006 period. Passive equity investors could not be more poorly positioned for a similar leadership shift.

- The latest action calls into question our verdict made last summer, and again in December, that the breakdown in the short-term correlation between Value and Growth performance might herald a turn in leadership, as it did in both 2000 and 2021. Note that last week, the 21-day return correlation once again came pretty close to the trigger threshold of zero.

- There's at least one sign that the smart money is warming up to the underperforming Value stocks. Last week, actions by the commercial hedgers in DJIA futures produced joint BUY signals in our Short-Term and Long-Term Smart Money Models for that index. The Long-Term Model is based on a normalized net position held by the hedgers in Dow futures, while the Short-Term Model is based on the six-week change in that net position. All such "double" signals (both BUYs and SELLs) are shown on Chart 2. What's most intriguing is that this signal occurs after the significant upswing of the last four months; whereas the hedgers' big moves usually run counter to the recent price trend. Perhaps they're expecting a turn in leadership?

- Recall that three weeks ago, an identical dual signal was triggered by commercial activity in the futures of another underperforming index—the Russell 2000.





Long-Term Model = Net position of commercial hedgers in e-mini DJIA futures versus 52-week range.
Short-Term Model = Six-week change in Long-Term Model reading.
Arrows denote simultaneous BUY or SELL signals from Long-Term and Short-Term Models.
*Tuesday closing prices are used to match the Commitment of Traders' position dates.
Data through July 29th, 2025.

Clients who have questions regarding any of the components or indicators should contact Doug Ramsey at 612-332-1567 or dramsey@LWCM.com