NDR Global Allocation Strategy

APRIL 2025

Macro/Market Update

Global economic growth slowed in February amid mounting U.S. risks, as measured by the global composite (services and manufacturing) Purchasing Managers' Index (PMI). The global composite edged down to its lowest level since December 2023.

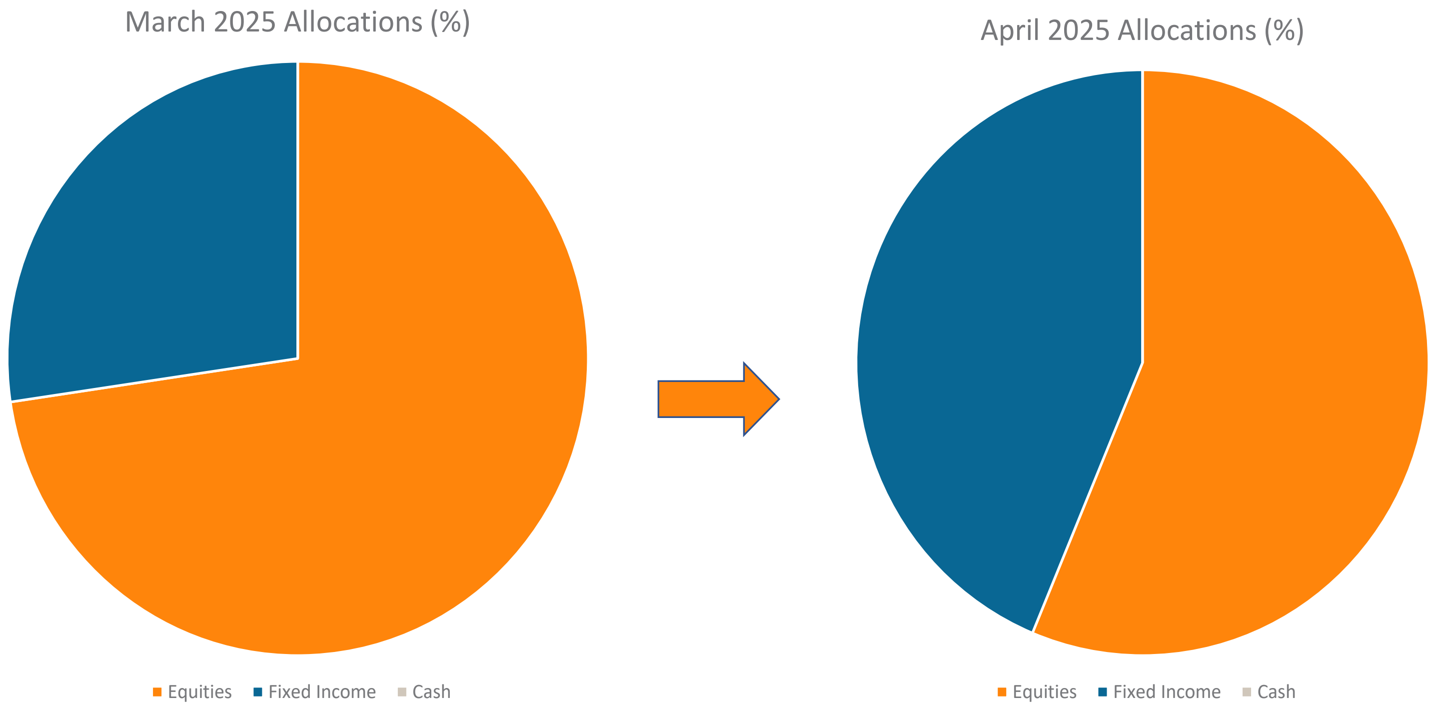
The three-month change of the composite turned negative, which has historically been associated with less upside in global equities. The good news is that the PMI remains well above its recessionary threshold, a condition associated with the worst equity bear markets.

Leading indicators within the report were less upbeat and point to weaker, but still-positive growth, in the months ahead. Global new orders, while still growing, did so at the slowest pace in over a year. The future output index also edged down.

The U.S., the world's largest economy and biggest contributor to the global PMI, was the key culprit behind the fall in the global PMI, as rising domestic uncertainty has curtailed growth. Excluding the U.S., the composite PMI climbed to a four-month high.

During March, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays U.S. Aggregate Bond Index by over 390 basis points (bps). It was the worst month for stocks relative to bonds since September 2022. Stocks have underperformed bonds for three of the last four months. Although volatility has risen, a larger market decline would likely require rising bond yields, increasing recession probability, slowdowns in trailing and forward earnings growth, and dropping beat rates.

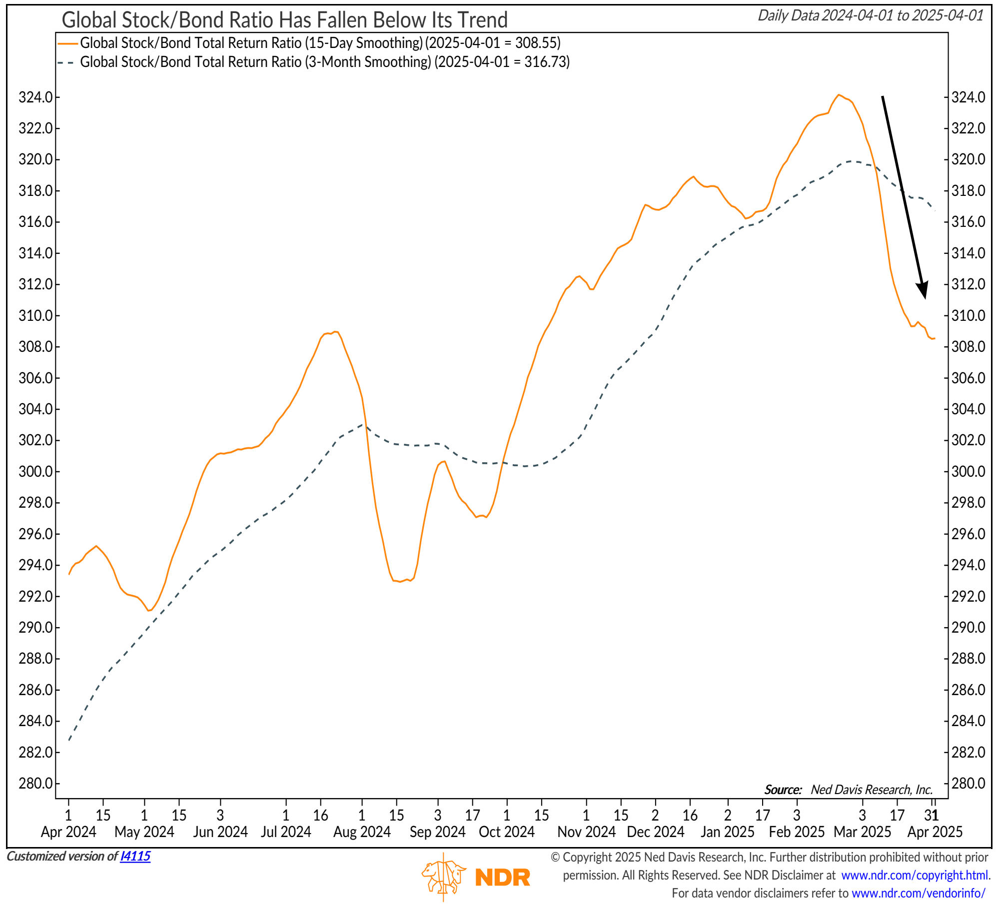
Asset Allocation Summary

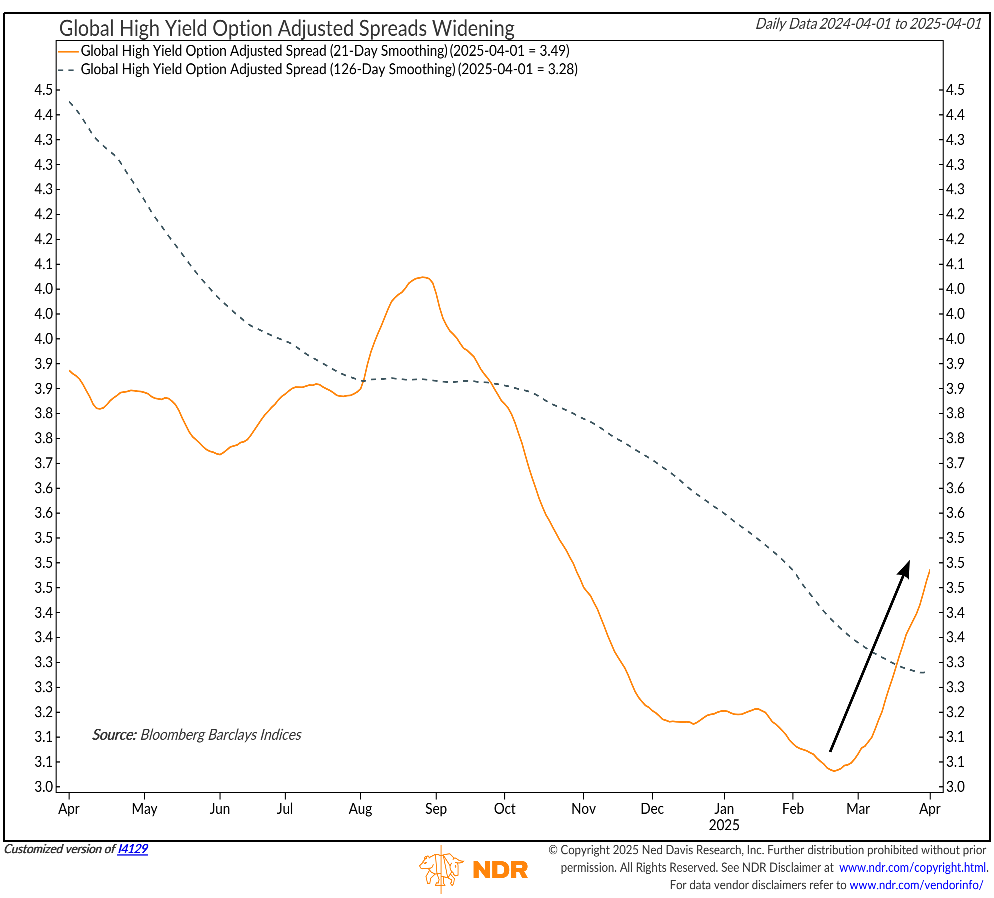


* See Equity Allocation Summary for how the equity allocation is distributed

The model's equity exposure fell below benchmark allocation, as fixed income is now overweight. The price-based indicators (internals) slightly favor fixed income over equities. Volatility, trend, and breadth measures support an above-average fixed income weighting.

The stock/bond relative strength indicator dropped below its 3-month moving average for the first time since early August (chart right).





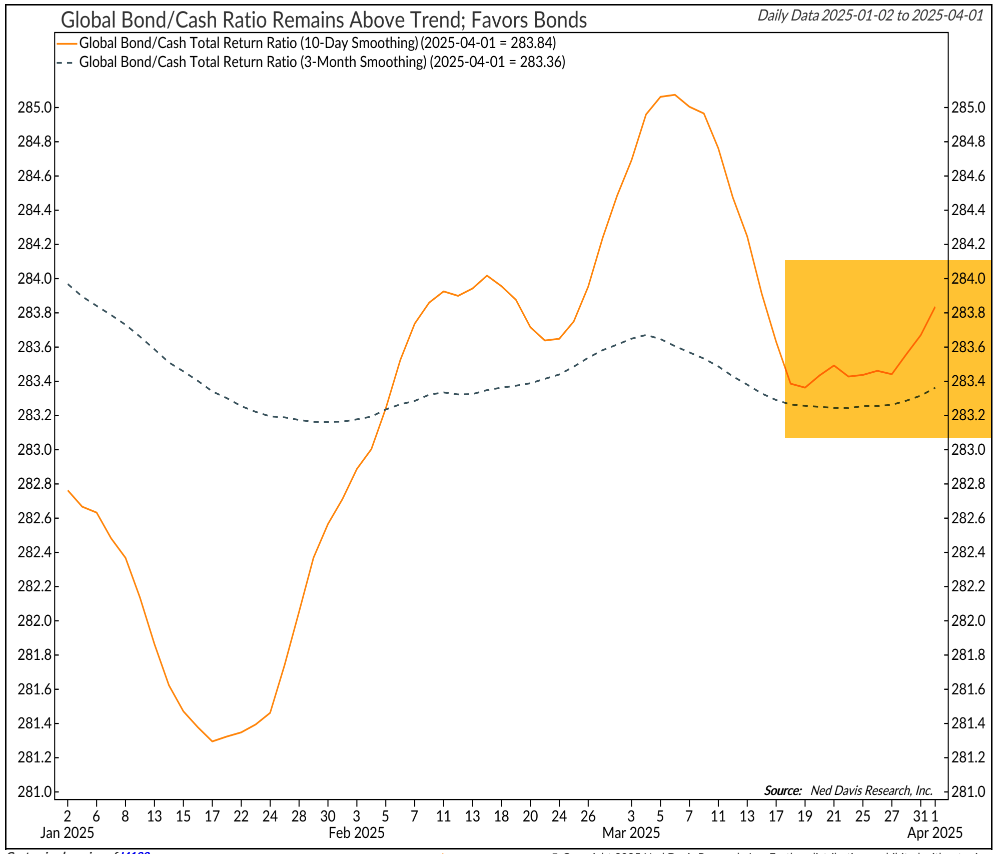
The macroeconomic, fundamental, and sentiment (external) indicators also slightly favor fixed income over equities. Earnings reversions are declining, defensive sectors are leading, and global high yield option-adjusted spreads (OAS) are widening.

The global high yield OAS indicator has risen above its longer-term trend, indicating reduced risk appetite by fixed income investors.

The last time global high yield OAS widened to this degree was following the Bank of Japan's surprising rate hike at the end of July, which sparked worries regarding a massive unwind of the yen carry trade.

Within the bond/cash decision, only one technical measure favored cash over fixed income. The trend remains bullish on bonds relative to cash (chart right).

Following the trend is important as it can help to keep you on the right side of major market moves. The trend also can reduce behavioral biases. Ned Davis has said that following the trend is important because “the degree of unprofitable anxiety in an investor’s life corresponds directly to the amount of time one spends dwelling on how an investment should be acting rather than the way it actually is acting.”



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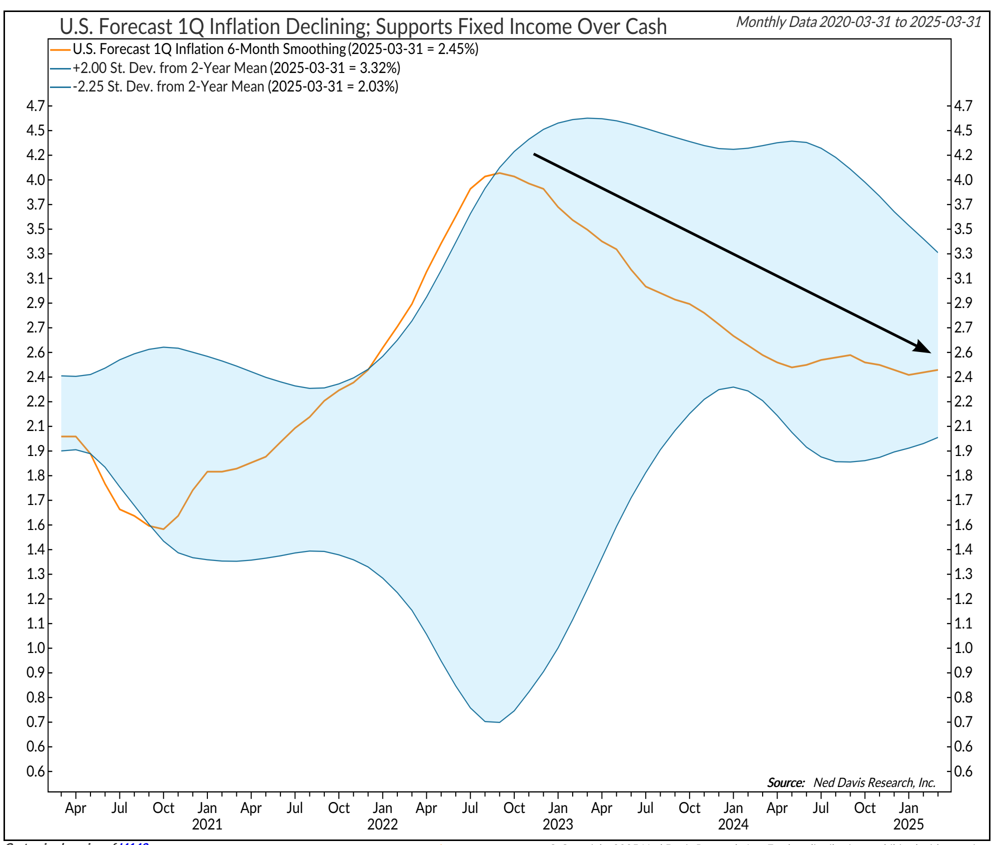

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The external indicators mostly favor cash over bonds. However, expected inflation continues to trend lower (chart left), which favors fixed income. Disinflation allows global central bank to ease monetary policy. Falling interest rates benefit bonds, as rates and bonds prices are inversely related.

Equity Region Update

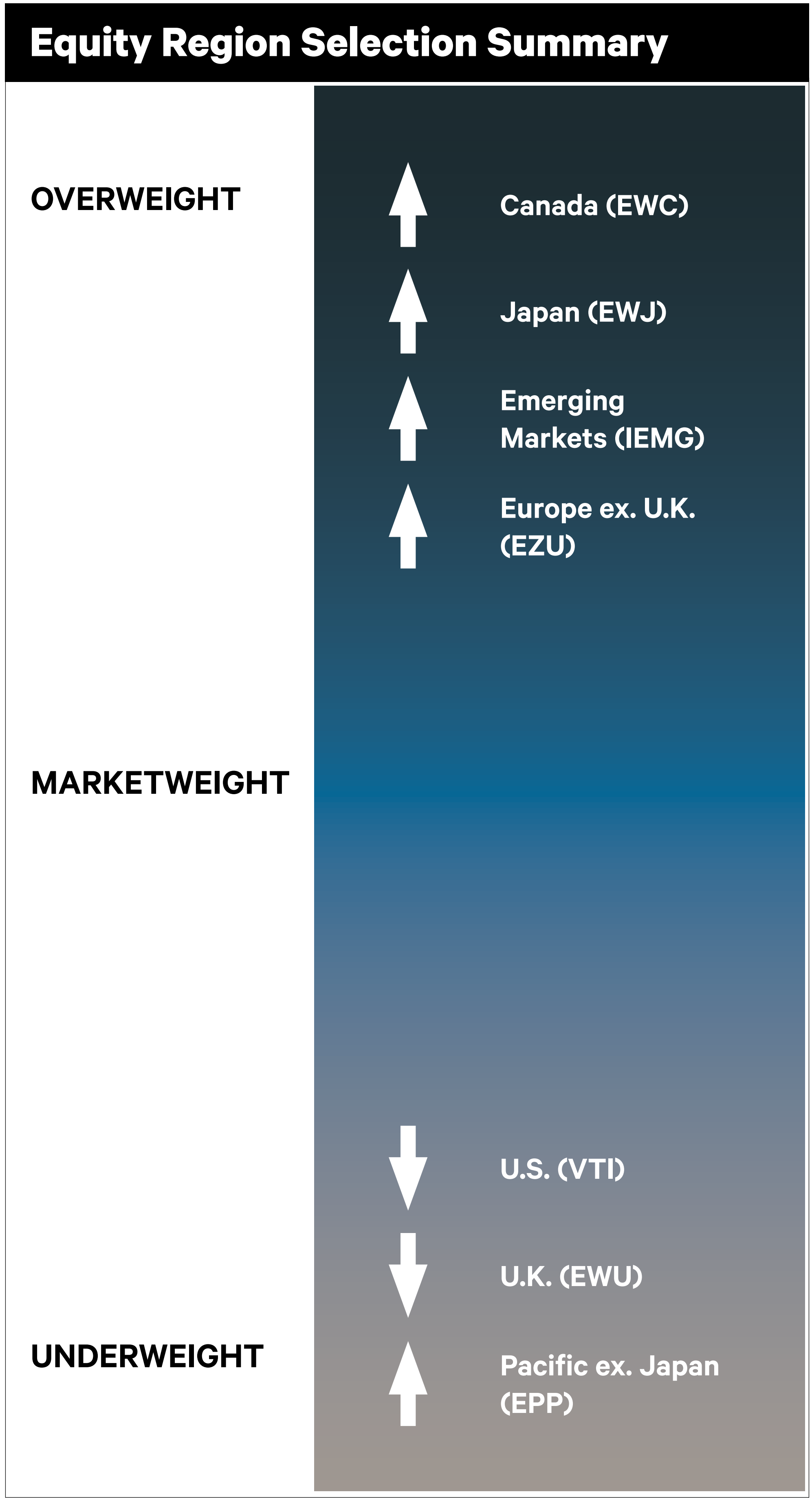
Only the U.K., Japan, and Emerging Markets produced positive returns in March. The U.K. and Japan have risen for three consecutive months. Japan has oscillated between positive and negative returns for the last six months.

After being the top-performing region for January and February, Europe ex. U.K. declined by over 40 bps last month.

Canada and Pacific ex. Japan each declined more than 175 bps. Pacific ex. Japan has fallen by more than 100 bps for four of the last six months.

The U.S. had its worst month since December 2022, as it plummeted more than 585 bps. The U.S. has fallen by more than 150 bps for three of the last four months.

This month the model has overweight positions on Canada, Japan, Emerging Markets, and Europe ex. U.K., while holding below benchmark allocations for the U.S., the U.K., and Pacific ex. Japan.



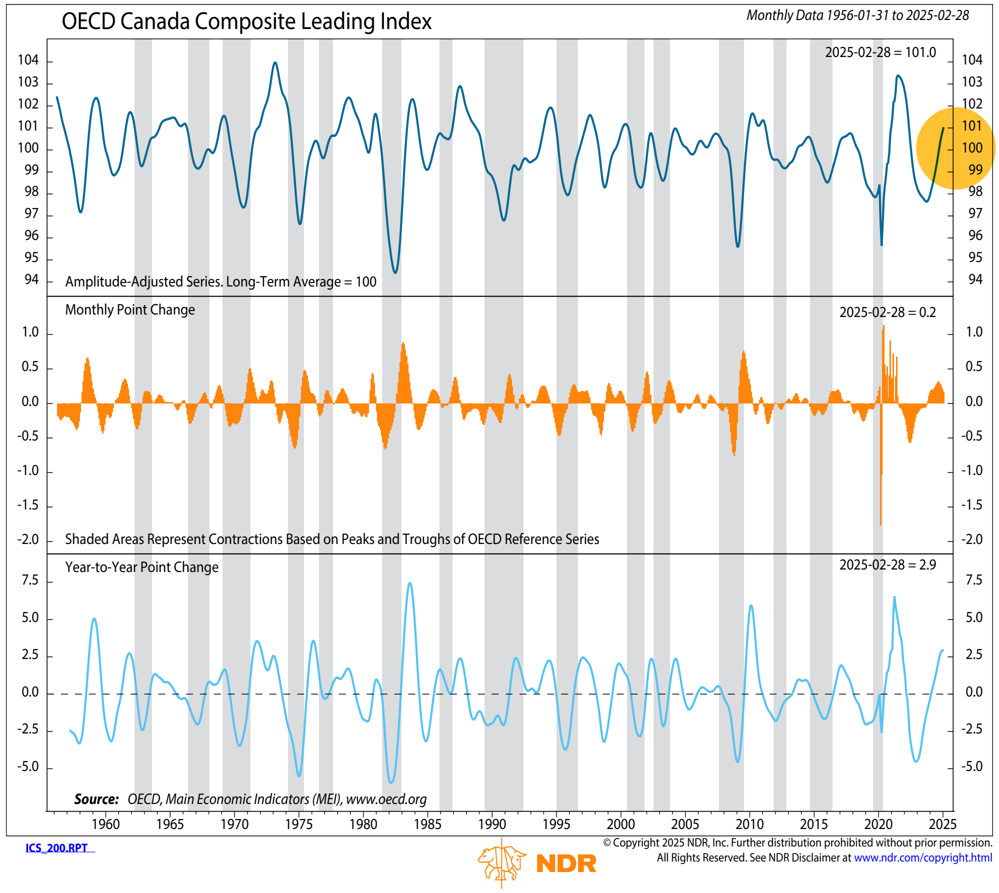
Arrow indicates direction in which region's weight (as a percentage of benchmark allocation) moved from last month (up = weight increased, down = weight decreased).

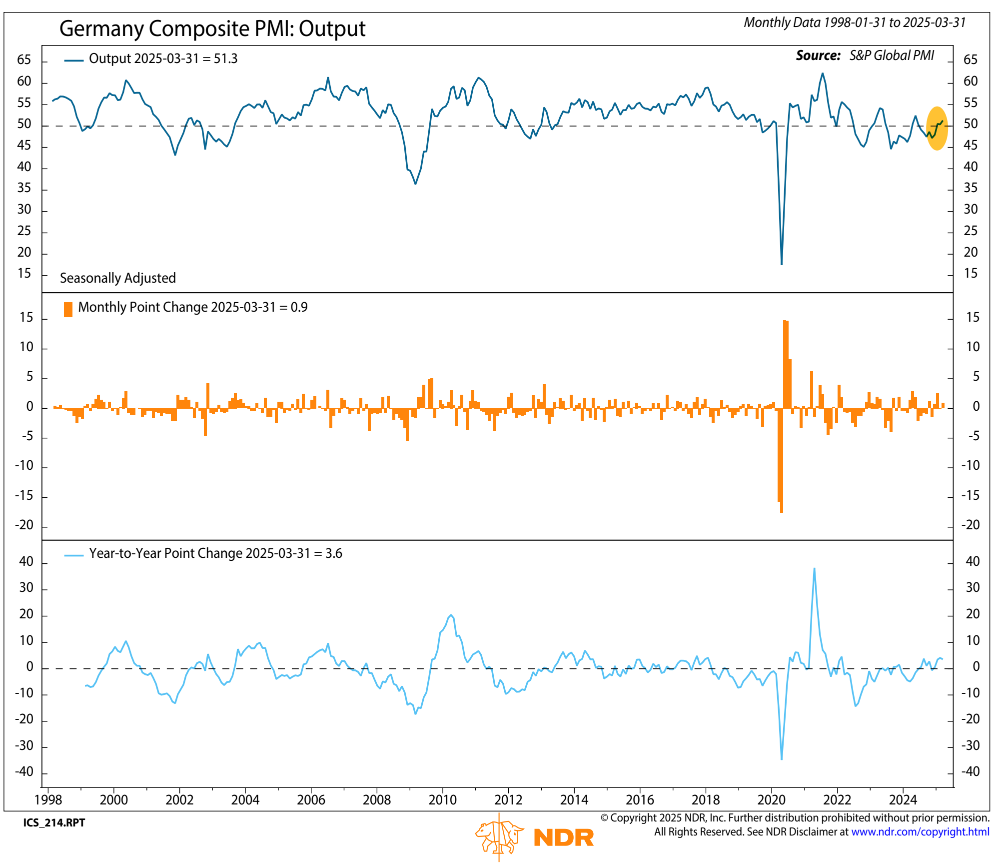
Equity Region Selection Summary

Canada remained at overweight status for April, as the majority of its internal and external indicators were bullish.

Although there are underlying tariff concerns from the U.S., the Canadian economy remains in decent shape. The Ivey PMI, which includes both the private and public sectors, jumped to a seven-month high in February. The OECD Composite Leading Indicator suggests more optimism ahead, as the index rose in February to its best level since May 2022 (chart right).

Valuations remain favorable for Canada. Financials and Energy, more value-oriented sectors, account for 54% of the weight within Canada's market index.





Europe ex. U.K. continues to be above benchmark weigthing as only one technical indicator is bearish on the region. ETFs that track Europe have responded by growing assets.

There are signs of a broadening recovery. Notably, the eurozone composite PMI held in expansion territory for the second straight month, due in part to a rebound in German activity (chart left).

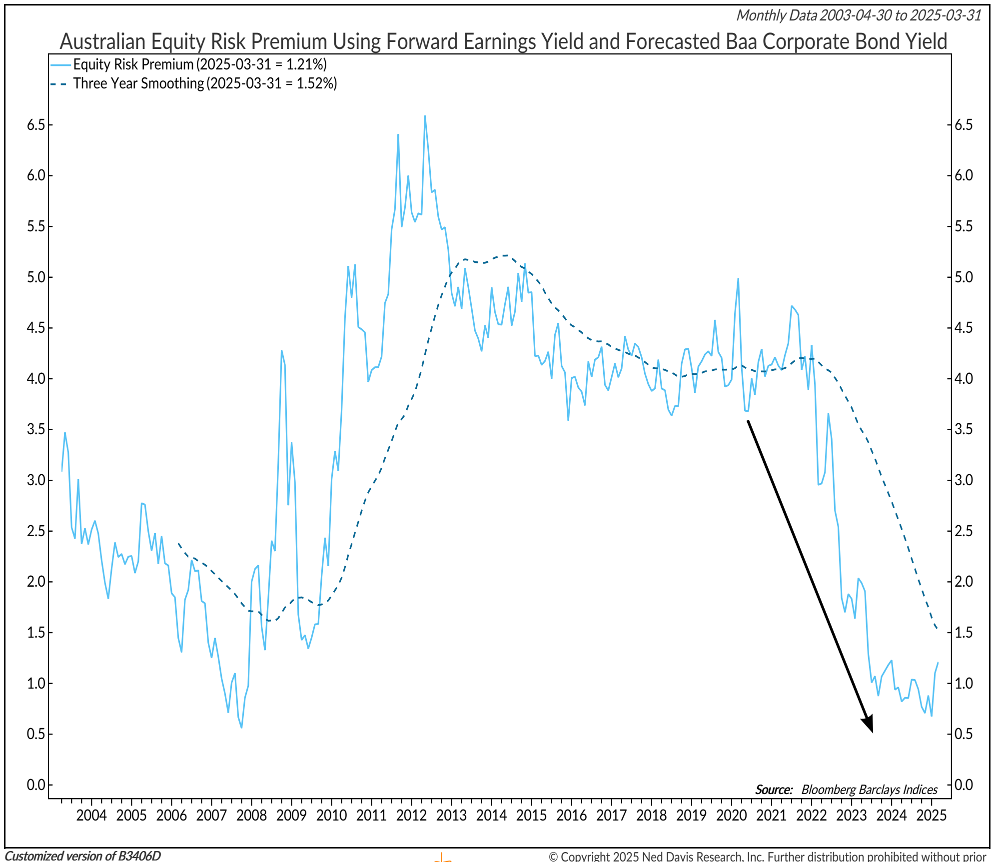
Sentiment, which often leads the hard data, has improved from low levels. The Economic Sentiment Index for the eurozone climbed to a five-month high in February, while German business and investor sentiment have rebounded. On balance, eurozone economic data has been surprising to the upside, moving back onto positive territory in late January.

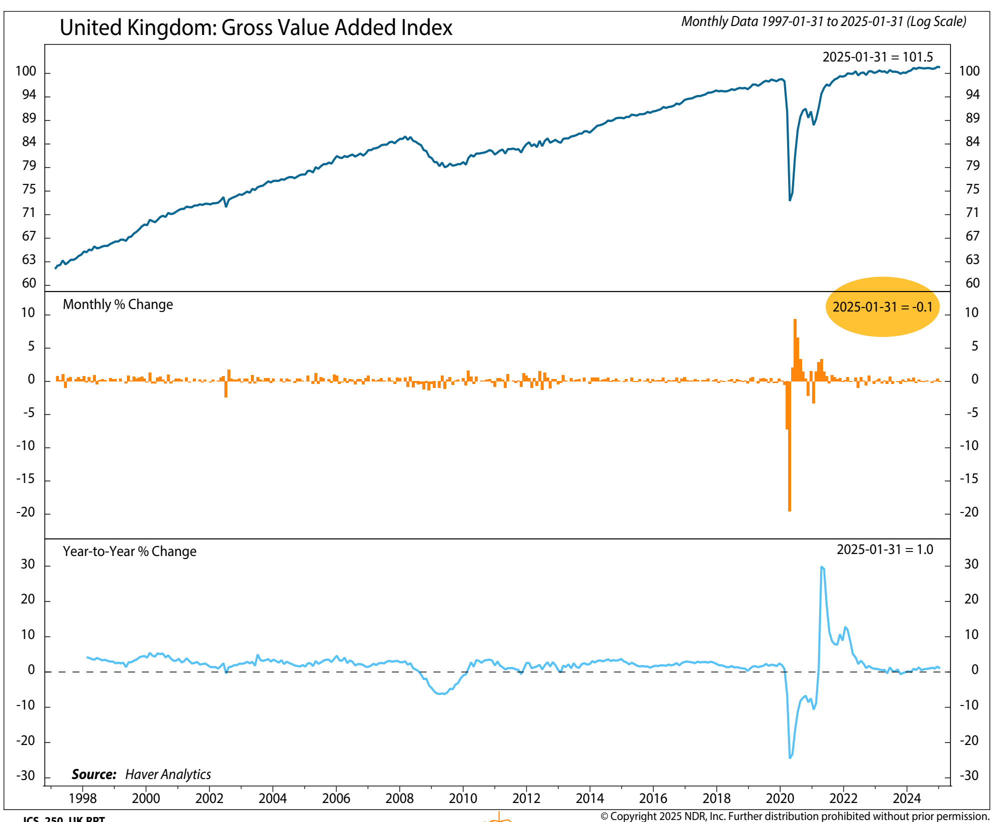
Pacific ex. Japan continues to be underweight as the majority of the region's internal and external indicators are bearish.

Australia makes up approximately two-thirds of the index. Australia's Composite Leading Indicator has decelerated, which typically coincides with lower equity market returns. Futhermore, the ANZ-Roy Morgan Consumer Confidence index declined again in March, and remains significantly pessimistic.

The weakening economic sentiment is occuring with equity valuations near the highest levels (excluding the post-COVID rebound) in 15 years and the equity risk premium near its lowest levels in 20 years (chart right).

The U.K. dropped to below benchmark allocation for April. All but one of the external indicators are bearish on the region.





The U.K.'s monthly Gross Domestic Product (GDP) measure unexpectedly fell in January (chart left). Most of the decline came from the manufacturing and construction sectors, as services continued to grow.

The U.K. economy had a rough second half in 2024 amid new leadership under the Labour party, which proposed new taxes. As such, business and household sentiment remain weak due to political developments domestically and abroad, suggesting any recovery is likely to be modest.

Summary

The global asset allocation framework shifted to an underweight equity exposure this month. Within the global equity decision, the model has overweight positions on Canada, Japan, Emerging Markets, and Europe ex. U.K., while holding below benchmark allocations for the U.S., the U.K., and Pacific ex. Japan.

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