APRIL 2025

Global Market Update

The ACWI ex. U.S. Total Return Index declined by less than 14 basis points (bps) in March. This followed two strong months to start the year, where the index increased more than 140 bps in both January and February. Among the strongest performing markets were Poland, Czech Republic, Colombia, Greece, and Spain, while the largest underperformers included Thailand, Denmark, Taiwan, Indonesia, and Turkey.

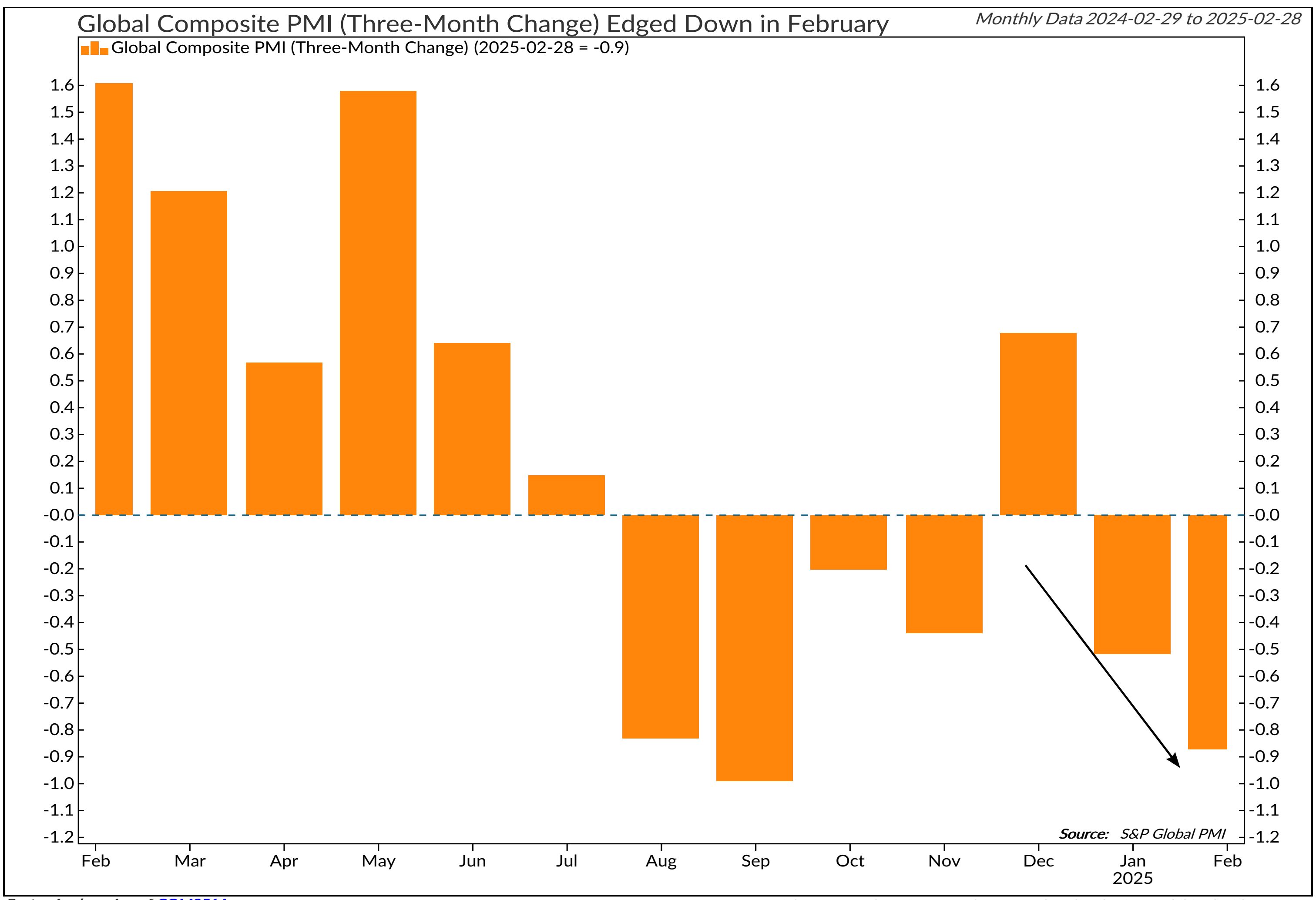
Global economic growth slowed in February amid mounting U.S. risks, as measured by the global composite (services and manufacturing) Purchasing Managers' Index (PMI). The global composite edged down to its lowest level since December 2023.

The three-month change of the composite turned negative (chart bottom), 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.

Entering March, the non-U.S. equity Core model overweighted Germany, China, France, and Switzerland while underweighting Australia, Japan, Canada, and the U.K. The Explore model favored Hong Kong, Israel, Peru, Sweden, and Taiwan.



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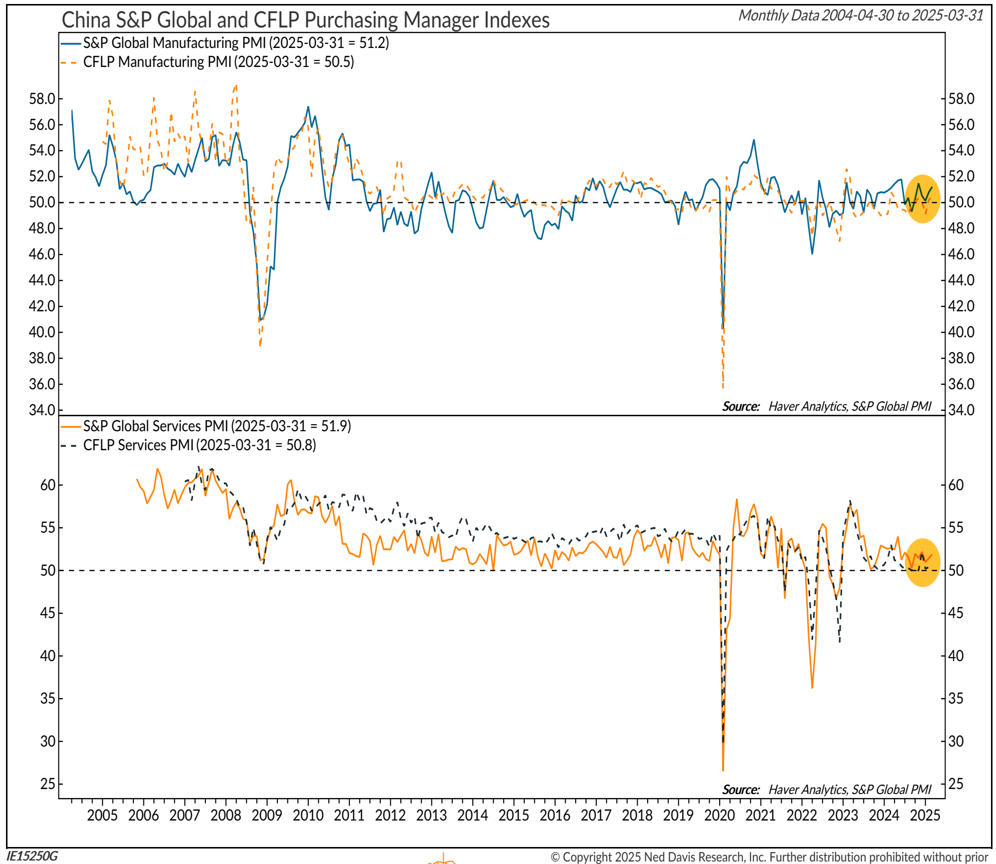
Core Allocations

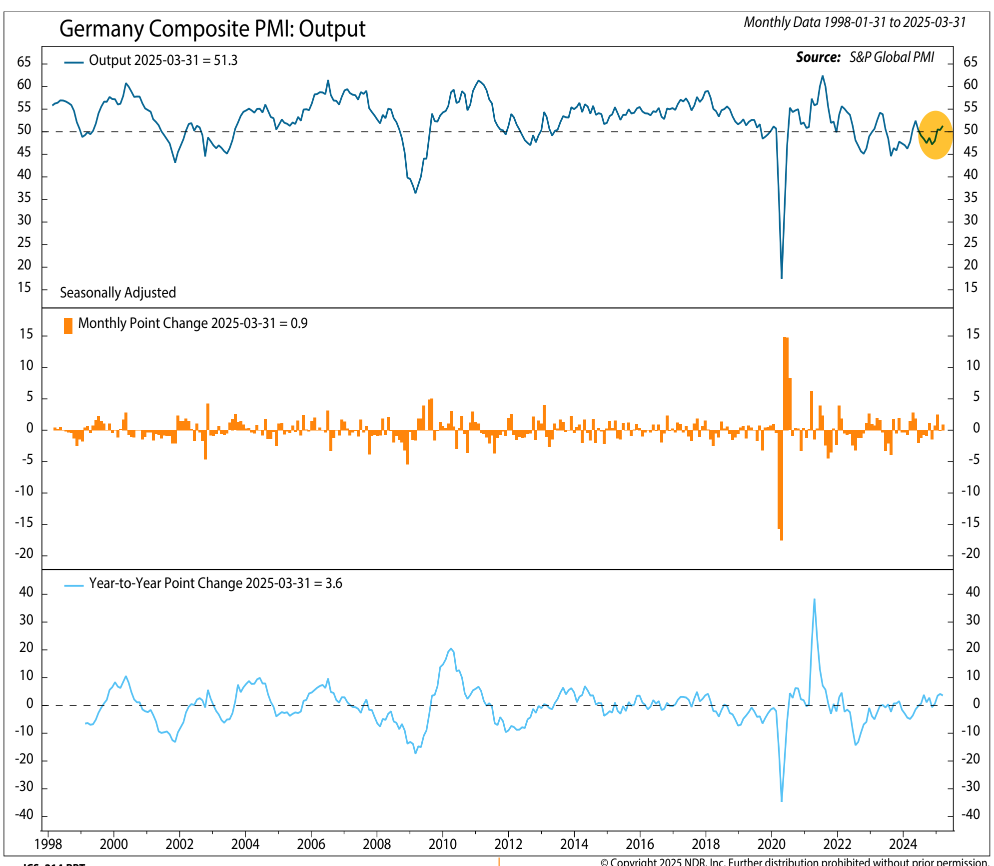
China maintained its overweight status for April, as more than 70% of its indicators are bullish.

The government recently announced that it will maintain that 5% growth goal for 2025. More government support will be needed to meet that growth goal.

The PMIs, both the Caixin and official, have indicated expansion so far this year, but have come in lower than the 2024 average (chart right).

China is likely to take advantage of the early-April U.S. tariff announcement and form stronger relationships with Taiwan, South Korean, and southeast Asia economies at the expense of the U.S.





Germany, France, and Switzerland are all overweight for April. ETFs that track Europe have responded by growing assets.

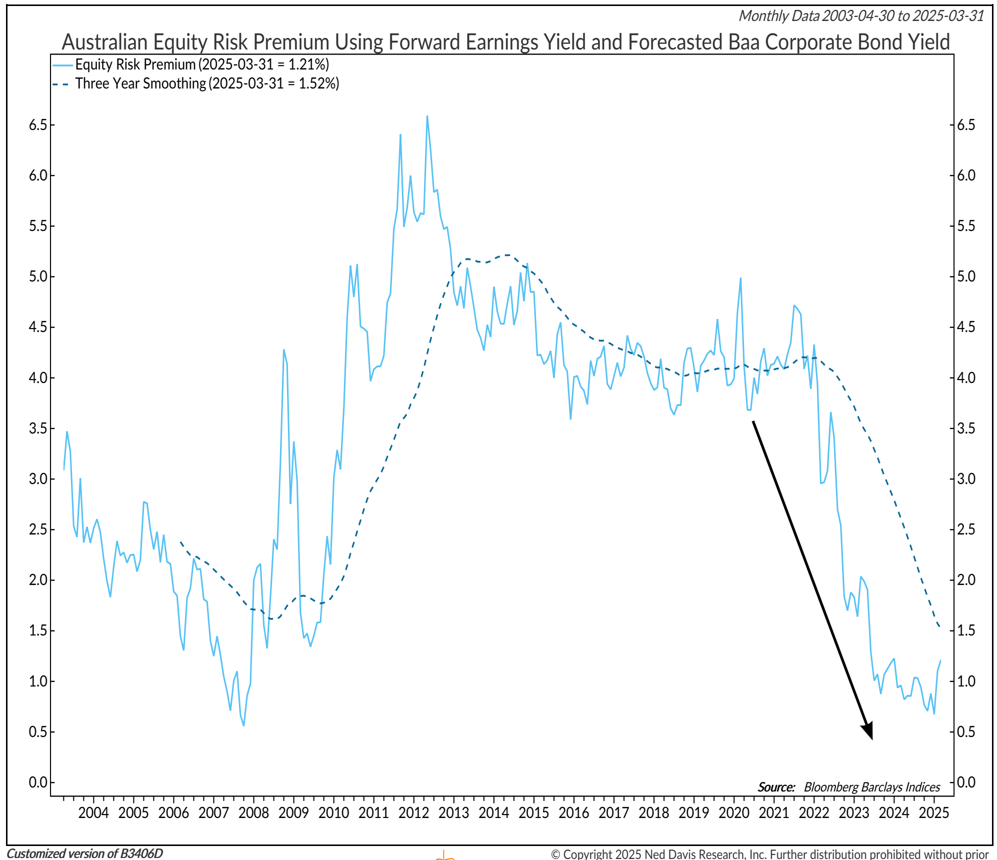
There are signs of a broadening recovery. Notably, the eurozone composite PMI held in expansion territory for the second straight month, due in part to a rebound in German activity (chart left).

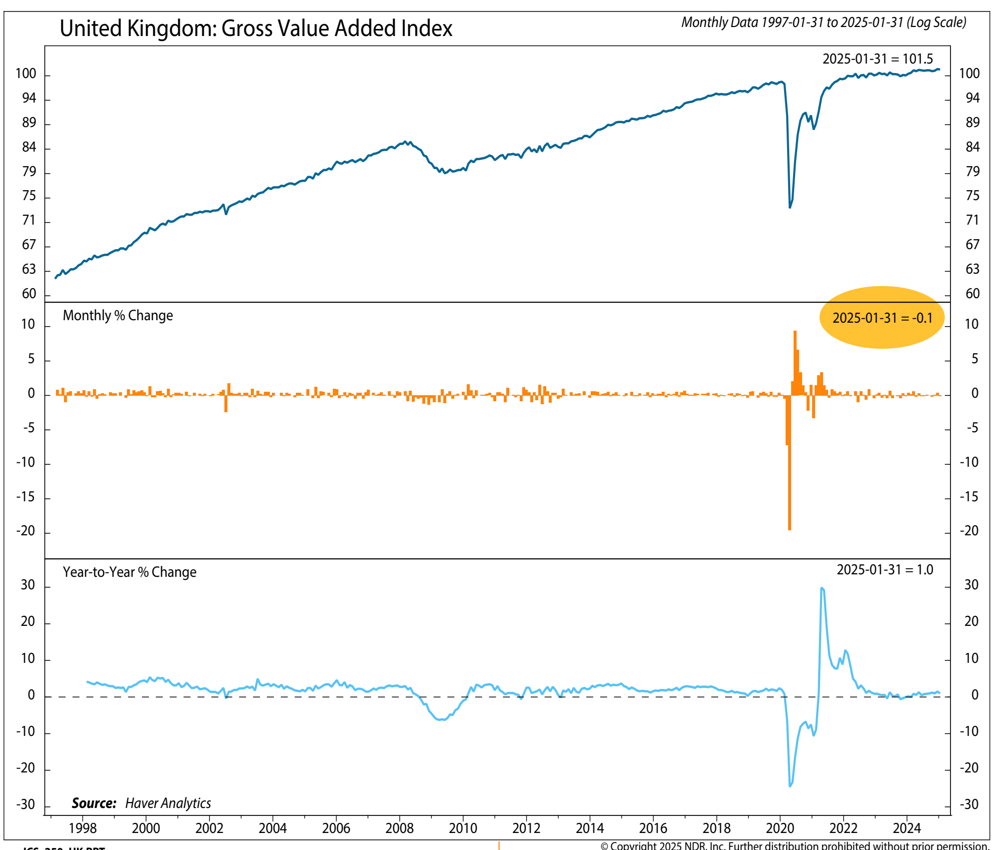
Sentiment, which often leads the hard data, has improved from low levels. The Economic Sentiment Index for the eurozone climbed to a five-month high in February, while German business and investor sentiment have rebounded. On balance, eurozone economic data has been surprising to the upside, moving back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

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

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.

Explore Opportunities

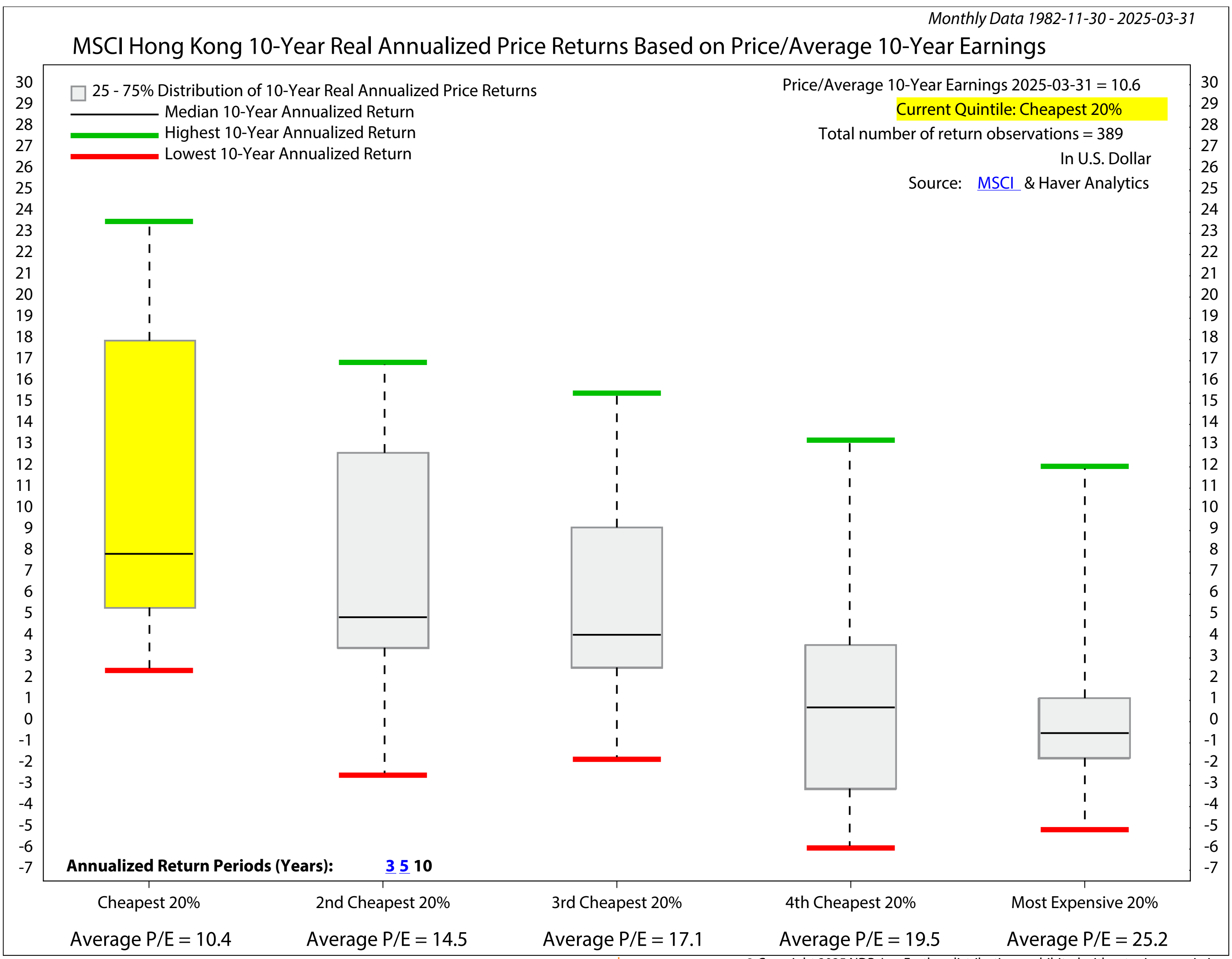
Among the top ranked Explore markets are Hong Kong, Israel, Peru, Sweden, and Taiwan.

- Hong Kong, Israel, Sweden, and Taiwan have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- Sweden and Taiwan are more than one standard deviation oversold over the long-term.
- Peru and Israel have low market capitalization-to-GDP ratios, which typically indicates a favorable valuation.
- Hong Kong, Israel, Sweden, and Taiwan have positive relative valuation spreads between their respective earnings yields and 10-year government bond yields.
- Hong Kong's cyclically adjusted price-to-earnings ratio is more than one standard deviation below its historical tendency and resides in the cheapest quintile (chart bottom).
- India and Sweden have expansionary manufacturing PMI readings.
- Sweden's Citigroup Economic Surprise Index reading is the highest across developed economies.
- Israel, Peru, and Sweden have at least 60% of their stocks with positive earnings revisions from analysts.
- Hong Kong, Peru, and Taiwan have double-digit forward earnings growth readings.

Summary

Entering March, the non-U.S. equity Core model overweighted Germany, China, France, and Switzerland while underweighting Australia, Japan, Canada, and the U.K. The Explore model favored Hong Kong, Israel, Peru, Sweden, and Taiwan.

The models combine macro, fundamental, technical, and sentiment indicators to determine opportunities and identify risks in an objective, weight-of-the-evidence approach.



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