NDR Global Allocation Strategy

APRIL 2024

Macro/Market Update

The world economy remains on solid footing, according to the latest global composite (services and manufacturing) S&P Global Purchasing Managers' Index (PMI). The global composite rose in February for a fourth straight month, and it showed the strongest growth in eight months. Accelerating economic momentum, as depicted by the composite PMI, has historically been associated with equity market outperformance.

Global economic indicators have been showing increasingly more signs that global recession risk is ebbing. Global composite new orders grew at the fastest pace in eight months, while the future output index remained near its highest level since May. Perhaps most significant, trends are broadening. Both the manufacturing and services sectors expanded in tandem for the first time since May 2023.

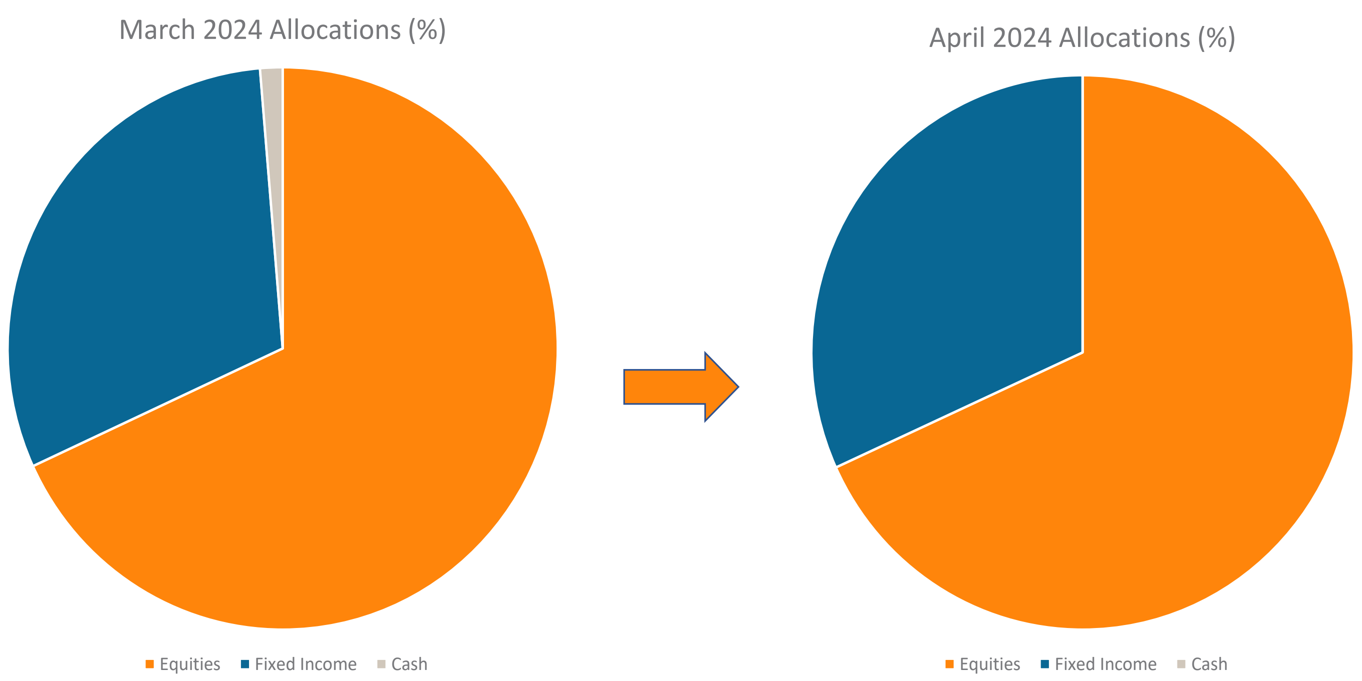
The strongest expansions are most evident in emerging markets outside of China, while the weakest have been in the eurozone. The U.S. and China, the world's largest economies, continued to grow at a steady pace.

Along with the pick-up in growth came a modest pick-up in inflation, particularly output prices. The increase was broad based among both developed and emerging economies. If sustained, this could delay the widely anticipated broad-based central bank easing in the second half of this year.

During March, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays U.S. Aggregate Bond Index by over 225 basis points (bps). Stocks have outpaced bonds for 11 of the last 15 months.

With investors still expecting central bank interest rate cuts, the equity cyclical bull should persist, though not without some volatility. With excessively optimistic sentiment, and the seasonal tailwinds fading, there is an increasing risk of a correction. However, a near-term market pullback would likely relieve the optimism and set the stage for the next move higher in the bull market.

Asset Allocation Summary

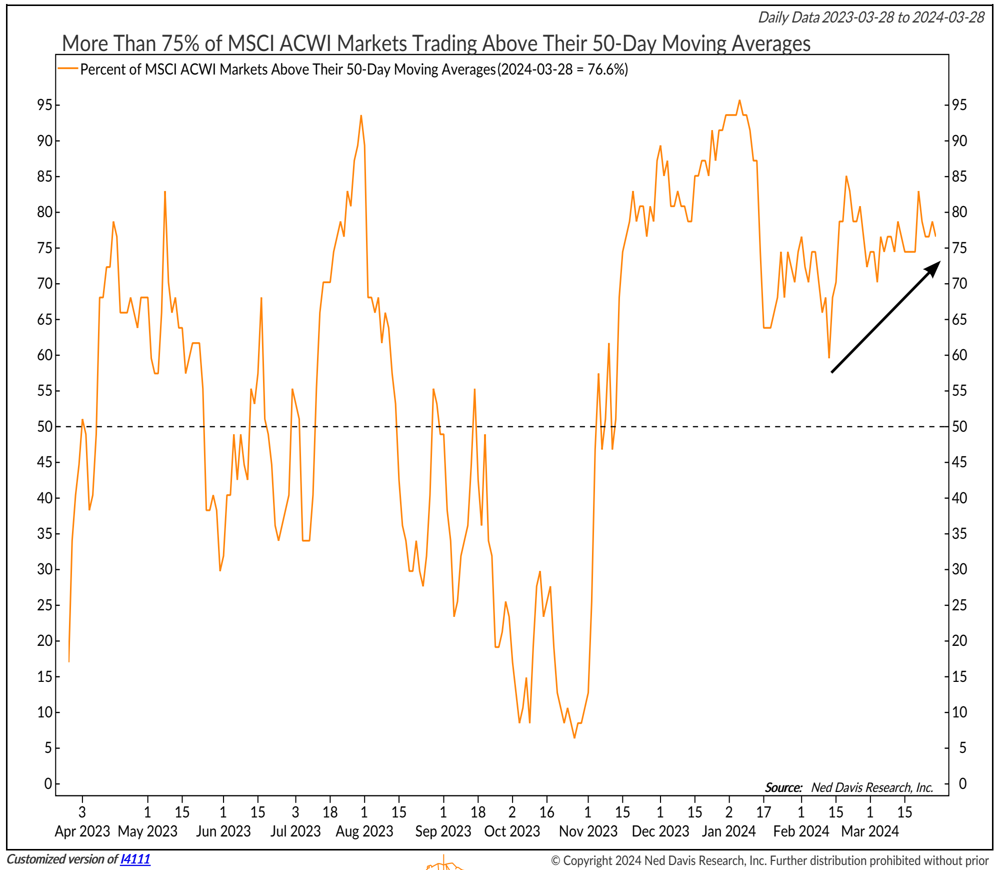


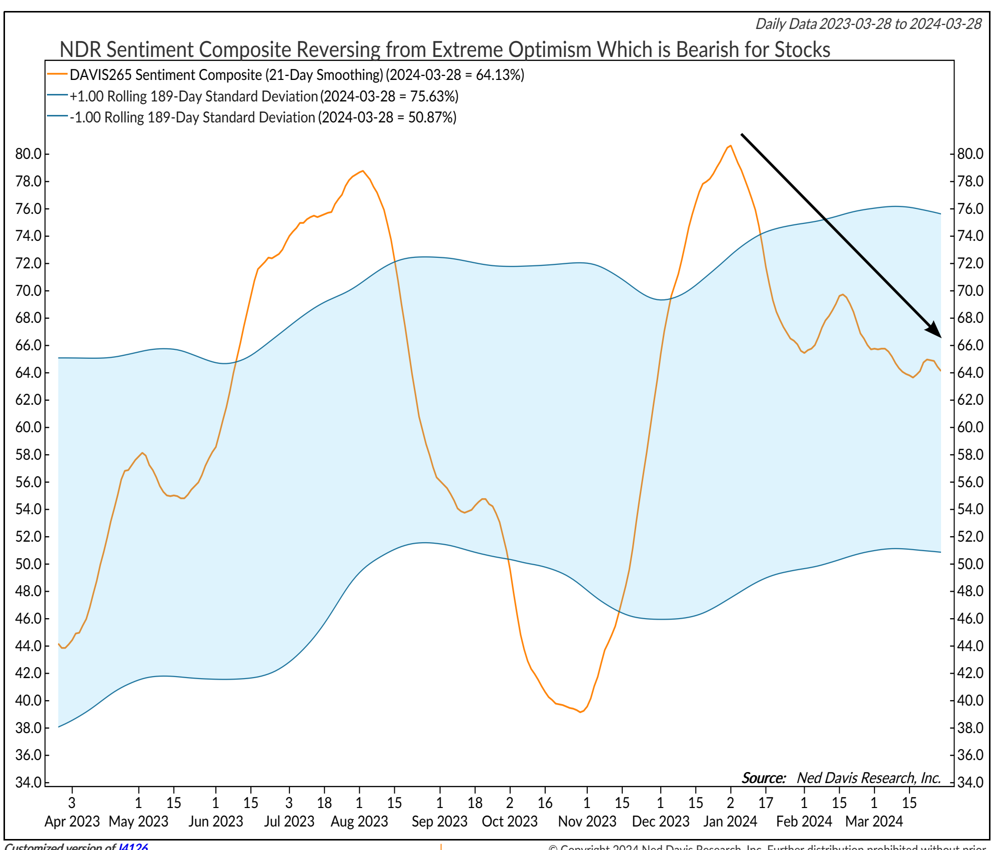
* See Equity Allocation Summary for how the equity allocation is distributed

The model's equity exposure remains above benchmark allocation for April. Following the strong market rally after the late-October correction lows, the price-based indicators (internals) turned bullish on equities. Trend, breadth (chart right), and risk measures continue to support an above average equity weighting. None of the internal indicators are bearish on stocks.

The improvement in trend was supported by widening breadth as the percentage of global equity markets trading above their 50-day moving averages rose by more than 15 percentage points since mid-February. Over 75% of global equity markets traded above their intermediate-term moving averages (chart right).

This indicator describes the underlying health of global equities, since it tracks the number of markets participating on the upside. Elevated breadth is important because if many stocks rally, even if a few run into trouble, enough stocks remain in uptrends that they can support the popular averages.



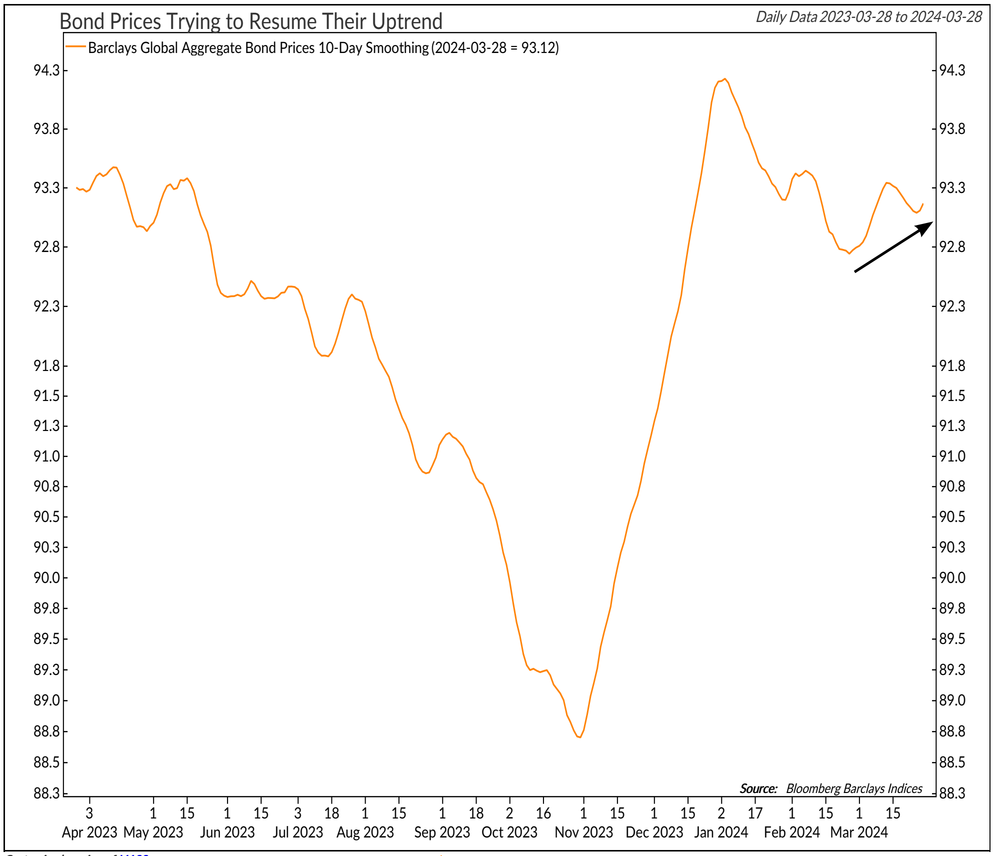


The macroeconomic, fundamental, and sentiment (external) indicators slightly favor fixed income over equities. Economic sentiment remains negative, trailing earnings growth breadth is weak, earnings expectations have rolled over, and investor sentiment is bearish.

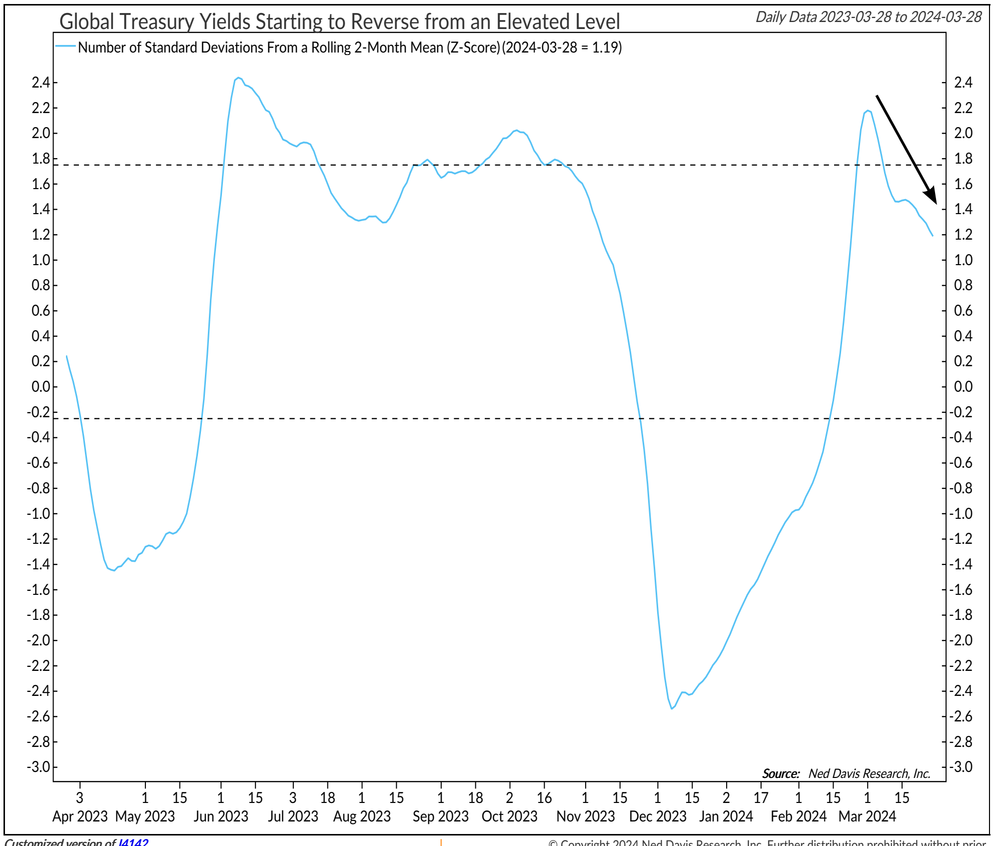
NDR's most popular indicator is its Daily Trading Sentiment Composite (chart left). This indicator composite consists of various measures of market sentiment including surveys, asset holdings, volume, VIX, SKEW, and put/call ratios. It combines many individual indicators to represent the psychology of a broad array of investors to identify trading extremes that may be used for contra or hedging trades. It is reversing from an optimistic condition, which is typically bearish for stocks.

Within the bond/cash decision, the technical measures improved and now favor fixed income over cash. On absolute basis, the trend for bonds has improved (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."



Customized version of I4132



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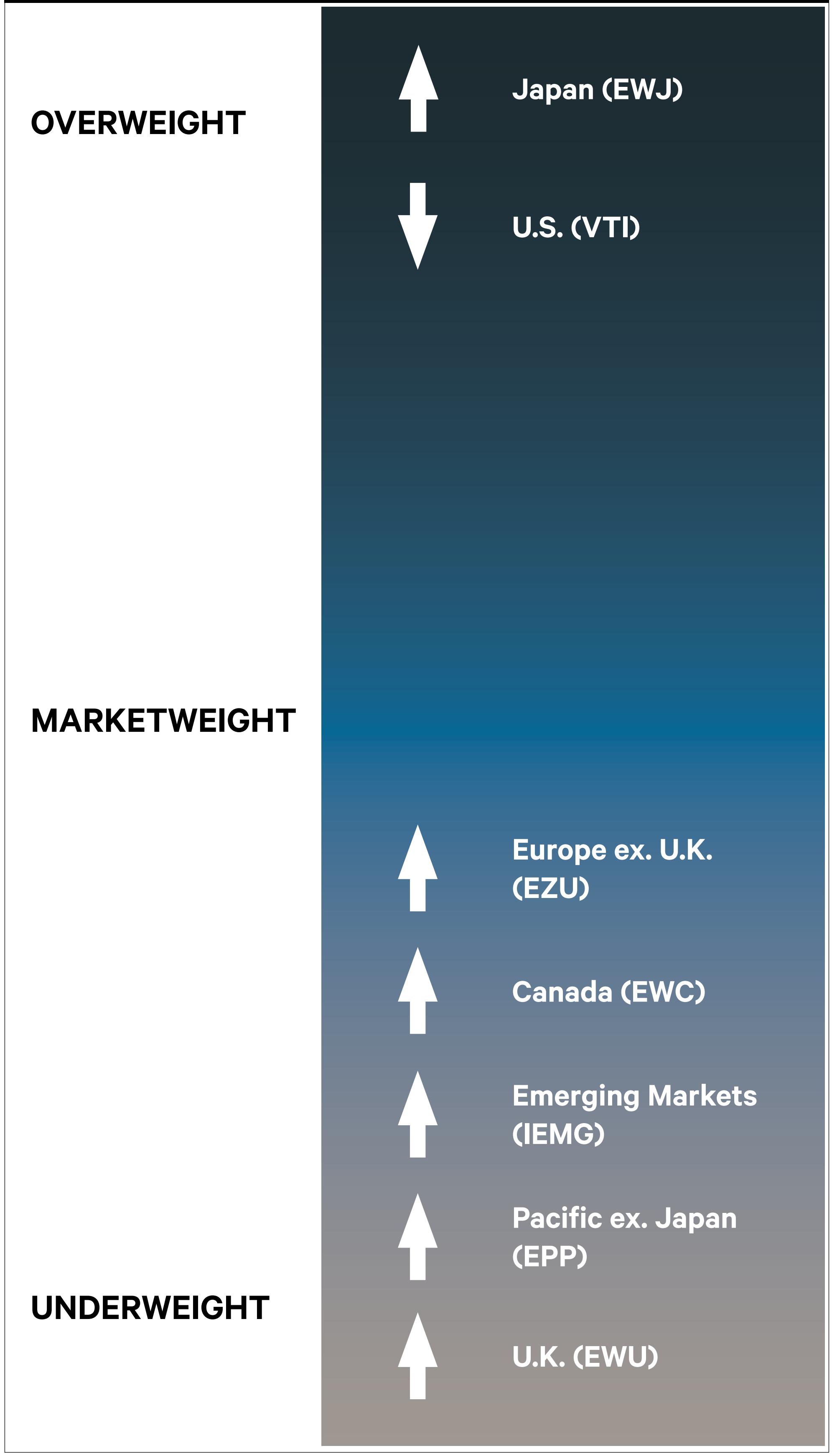
The external indicators are split between bonds and cash. Global yields have started to reverse lower from extremely high levels (chart left).

Equity Region Update

All equity regions increased more than 100 bps during March. After being the worst-performing region during February, the U.K. was the top-performing geography last month. The U.K. and Canada both jumped over 400 bps. The U.S., Europe ex. U.K., and Japan all gained more than 300 bps. All three regions have risen for five consecutive months.

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

Equity Region Selection Summary

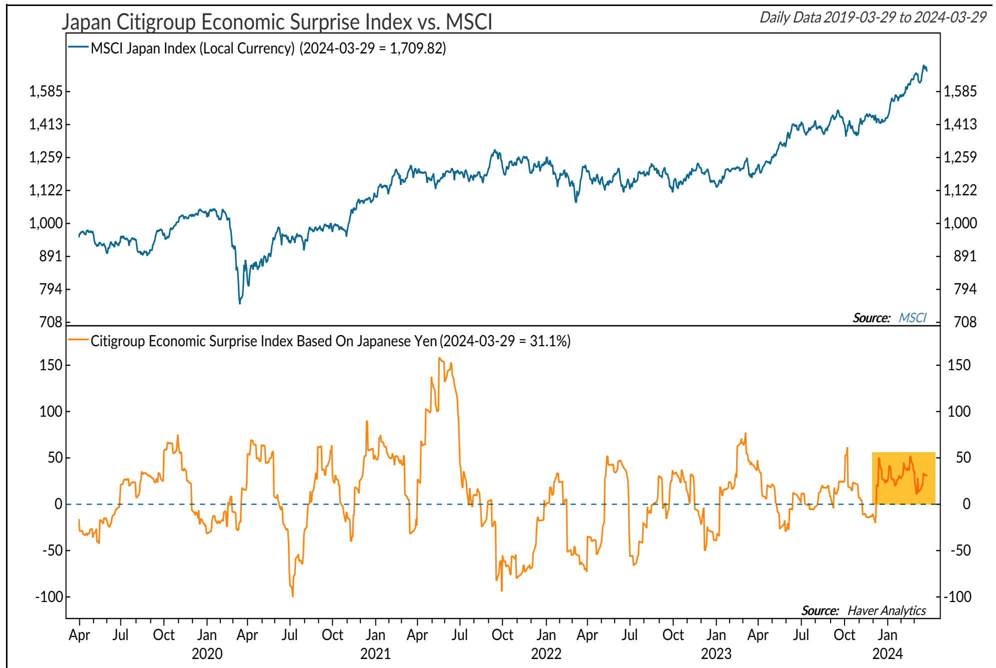


Arrow indicates direction in which region's weight (as a percentage of benchmark allocation) moved from last month (up = weight increased, down = weight decreased).

Japan's allocation improved this month to the largest overweight allocation. None of the technical indicators are bearish on the market. However, most external indicators (relative valuations, near-term earnings growth, and investor sentiment) are negative on the region.

Despite the slump in real GDP, economic surprises have been positive on balance (chart right), a historically favorable condition for equities. Other data, including business sentiment, services PMI, and the unemployment rate are holding up reasonably well.

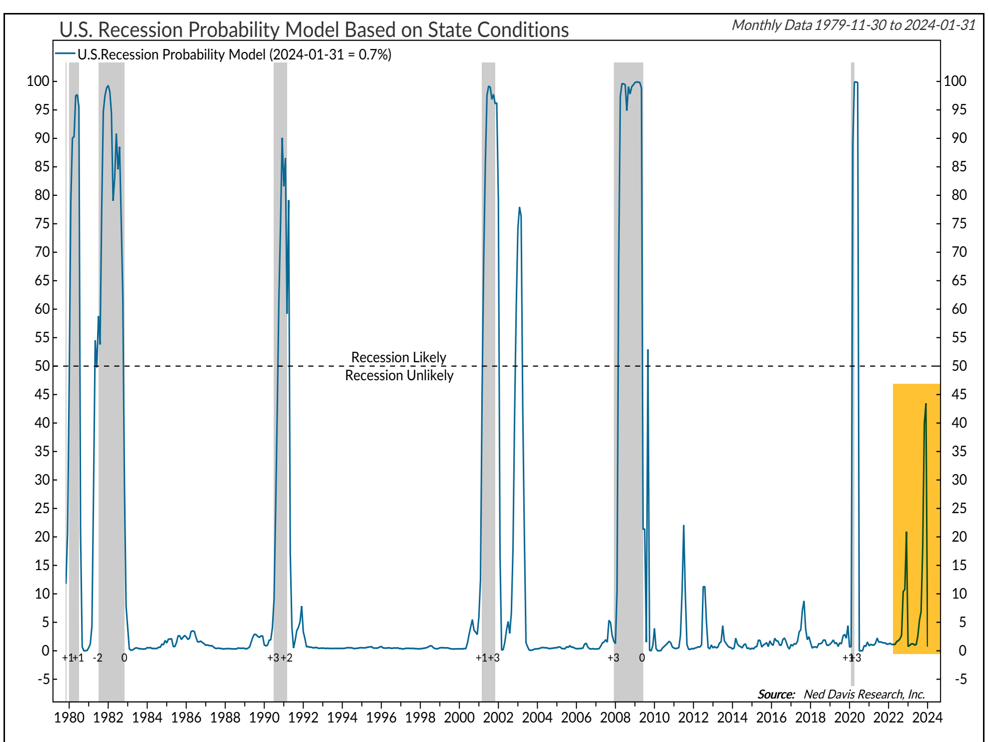
The U.S.' allocation declined, but it remains overweight this month. Breadth and momentum remain positive as most external indicators are bullish on the market. Relative ETF asset levels are growing, the U.S. Dollar is improving, the economic outlook is strengthening, and business credit conditions remain favorable.



MSCI Japan Index (Local Currency) Performance **Full History:** 2003-01-06 to 2024-04-01		
Citigroup Economic Surprise Index Based On Japanese Yen	% Gain/ Annum	% of Time
Above 0.0	15.64	51.64
Below 0.0	-4.25	48.36
Buy/Hold = 5.55% Gain/Annum		

MSCI Japan Index (Local Currency) Performance **Chart View:** 2019-03-29 to 2024-03-29		
Citigroup Economic Surprise Index Based On Japanese Yen	% Gain/ Annum	% of Time
Above 0.0	27.70	59.99
Below 0.0	-7.16	40.01
Buy/Hold = 12.41% Gain/Annum		

Customized version of IE3220B



Shaded areas represent National Bureau of Economic Research recessions
Numbers indicate length of Leads (-) and Lags (+) in months from reference turning dates (shown above)

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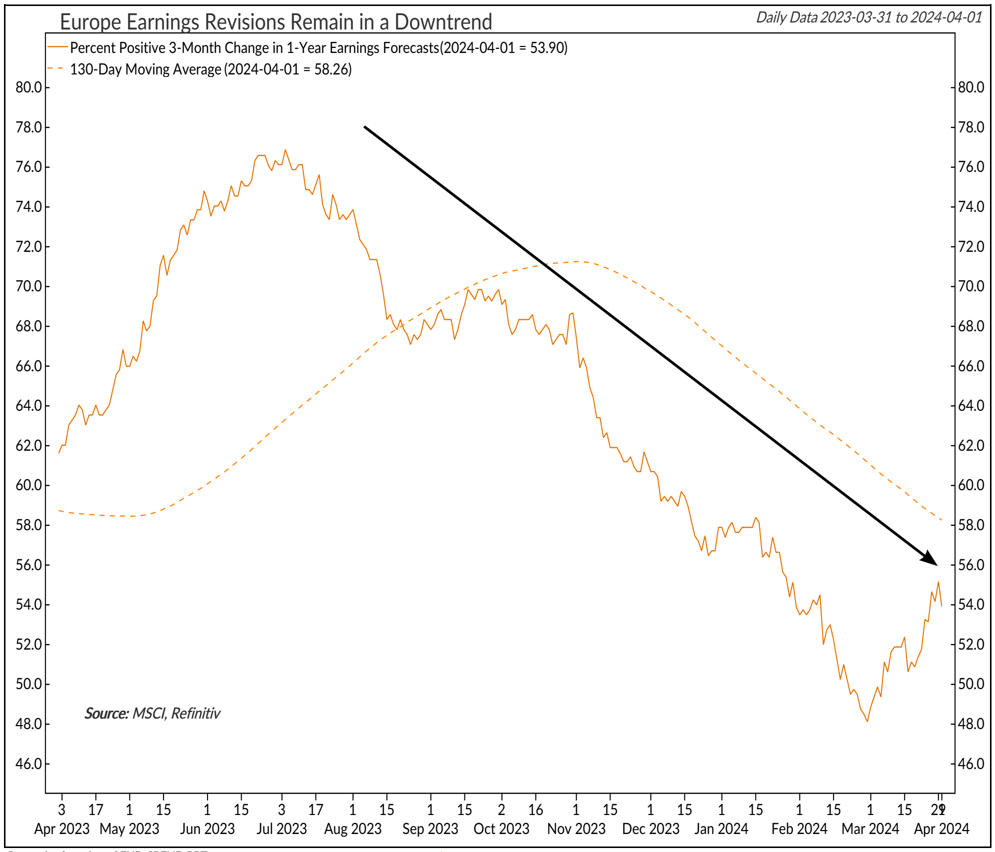
Economic growth in Q4 was stronger than previously estimated, with real GDP revised up to a 3.4% annualized rate, above the prior estimate and the consensus of 3.2%. There were upward revisions to consumer spending, business investment, and government spending that were partly offset by downward revisions to inventories and net exports.

The Philly Fed state coincident indexes confirmed the strengthening of economic activity across most of the country in Q4 2023 and at the start of 2024. The improvement in the state coincident indexes was reflected in a sharp drop in NDR's Recession Probability Model, down to 0.7% in January from 43.5% at the end of last year (chart left).

Europe ex. U.K. remains underweight this month due to technical, macro, and fundamental weakness. Only one internal indicator is bullish.

French industrial production slumped more than expected to start the year, indicating the region's second largest economy is struggling to recover from the energy crisis. Forward earnings expectations reflect the challenging environment as they remain in a downtrend (chart right). But the European Central Bank (ECB) recently noted that although the odds for monetary easing have increased, it does not imply a series of forthcoming interest rate cuts.

The U.K. possesses the largest underweight allocation for April. Economic trends are still lackluster, as NDR's U.K. Economic Timing Model is declining, and relative PMI momentum has been negative for over a year.



Relative market sentiment improved from its fall lows, but it has now started to reverse from an optimistic extreme. Earnings revisions remain low relative to historical tendencies, and the equity risk premium is weakening on a relative basis.

The market recognizes these risks as equites remain in a relative downtrend (chart left) with weak breadth. None of the region's technical indicators are bullish

Summary

The global asset allocation framework maintained an overweight equity exposure this month. Within the global equity decision, the U.S. and Japan received above benchmark allocations, while Pacific ex. Japan, Emerging Markets, Canada, Europe ex. U.K., and the U.K. are underweight. The global allocation framework uses objective, asset class and region-specific indicators to determine opportunities and identify risks.

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