International Equity Strategy

MARCH 2024

Global Market Update

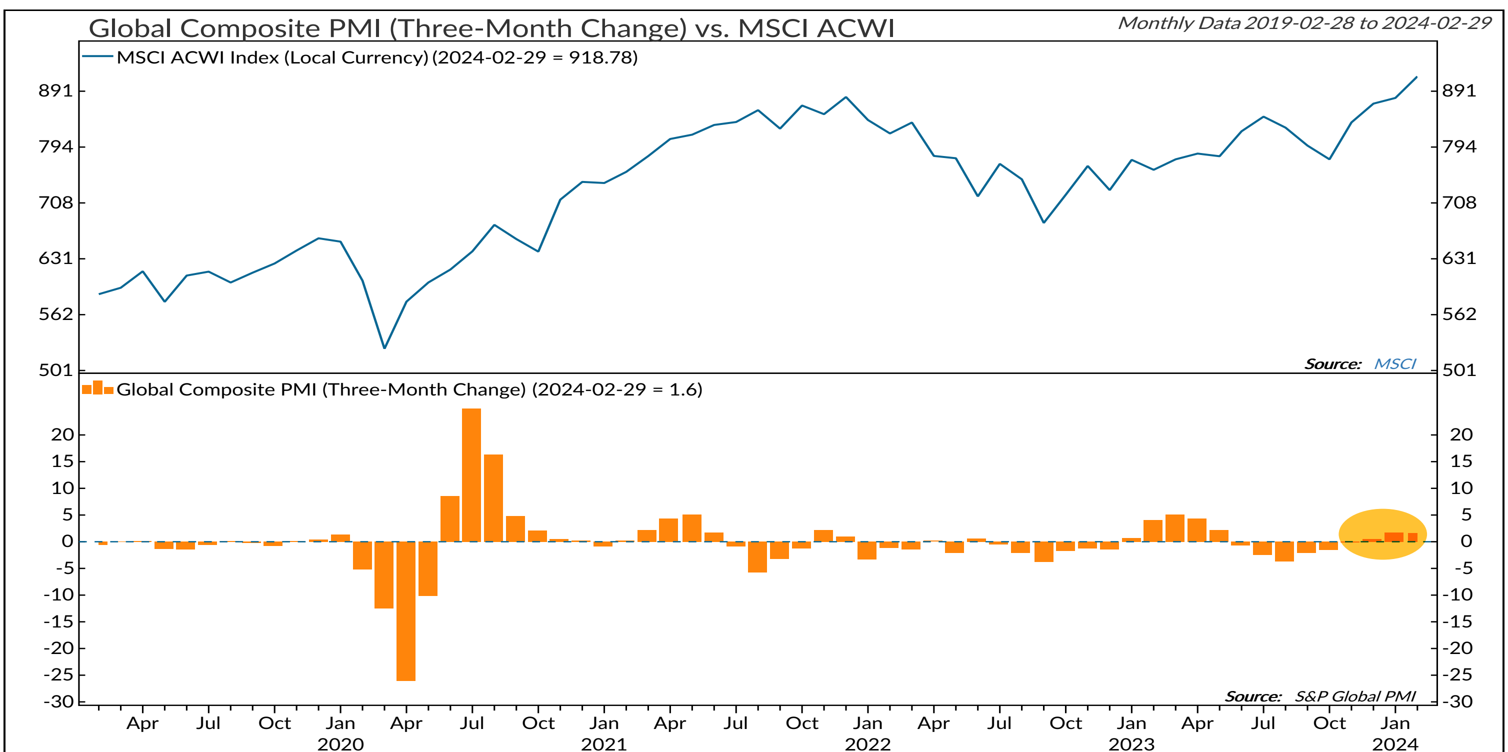
The ACWI ex. U.S. Total Return Index gained over 320 basis points (bps) in March. The index has risen for four of the last five months. Among the strongest performing markets were Spain, Peru, Austria, Taiwan, and Italy, while the largest underperformers included Hong Kong, Qatar, Portugal, Greece, and Hungary.

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 (chart bottom).

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.

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.

Entering April, the non-U.S. equity Core model overweighted Canada, China, Japan, and Germany, while underweighting the U.K., Australia, France, and Switzerland. The Explore model favored Malaysia, Philippines, Poland, Sweden, and Taiwan.



MSCI ACWI Performance
Full History: 1998-10-31 to 2024-02-29

Change of PMI	% Gain/ Annum	% of Time
Above 0.0	8.07	47.60
Below 0.0	1.83	52.40

Buy/Hold = 4.75% Gain/Annum

MSCI ACWI Performance
Chart View: 2019-02-28 to 2024-02-29

Change of PMI	% Gain/ Annum	% of Time
Above 0.0	16.76	48.39
Below 0.0	2.88	51.61

Buy/Hold = 9.38% Gain/Annum

Customized version of IE251A

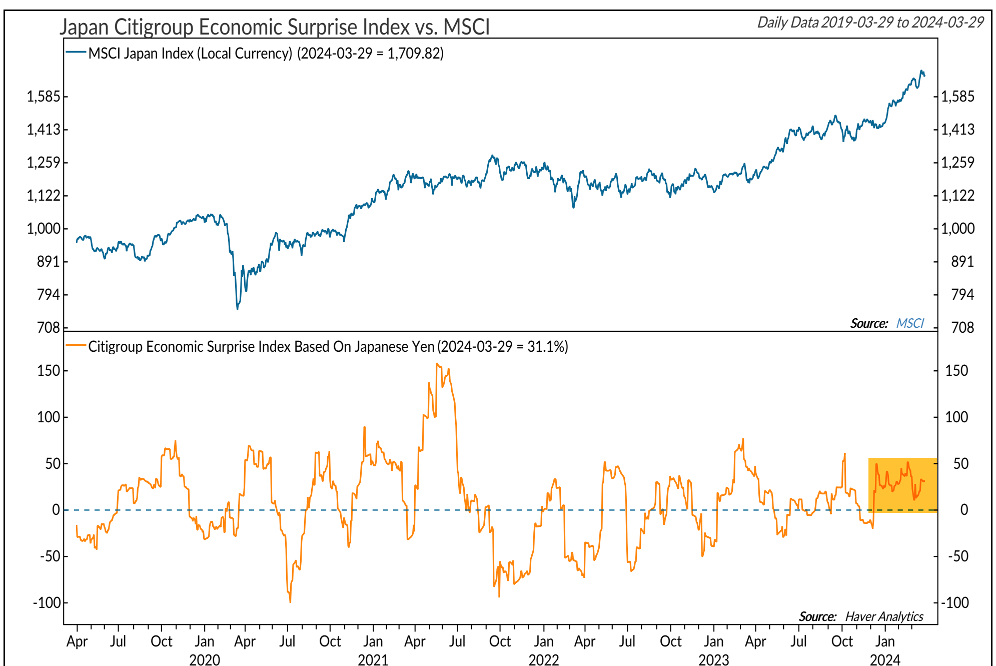
Core Allocations

Canada maintained its overweight allocation as the market's trend continues to move higher (chart right) with strengthening long-term breadth. On a relative basis, valuations remain attractive, as the economy is improving.

Inflation eased in February, indicating that the Bank of Canada may shift to less restrictive monetary policy in the coming months. The consumer price index rose 2.8% last month from a year ago, following a 2.9% increase in January. The Bank of Canada's preferred core inflation measures also decreased.

Japan's allocation remains above benchmark weighting as the trend and breadth remain positive. None of the technical indicators are bearish on the market. However, half the 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 left), a historically favorable condition for equities. Other data, including business sentiment, services PMI, and the unemployment rate are holding up reasonably well.



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

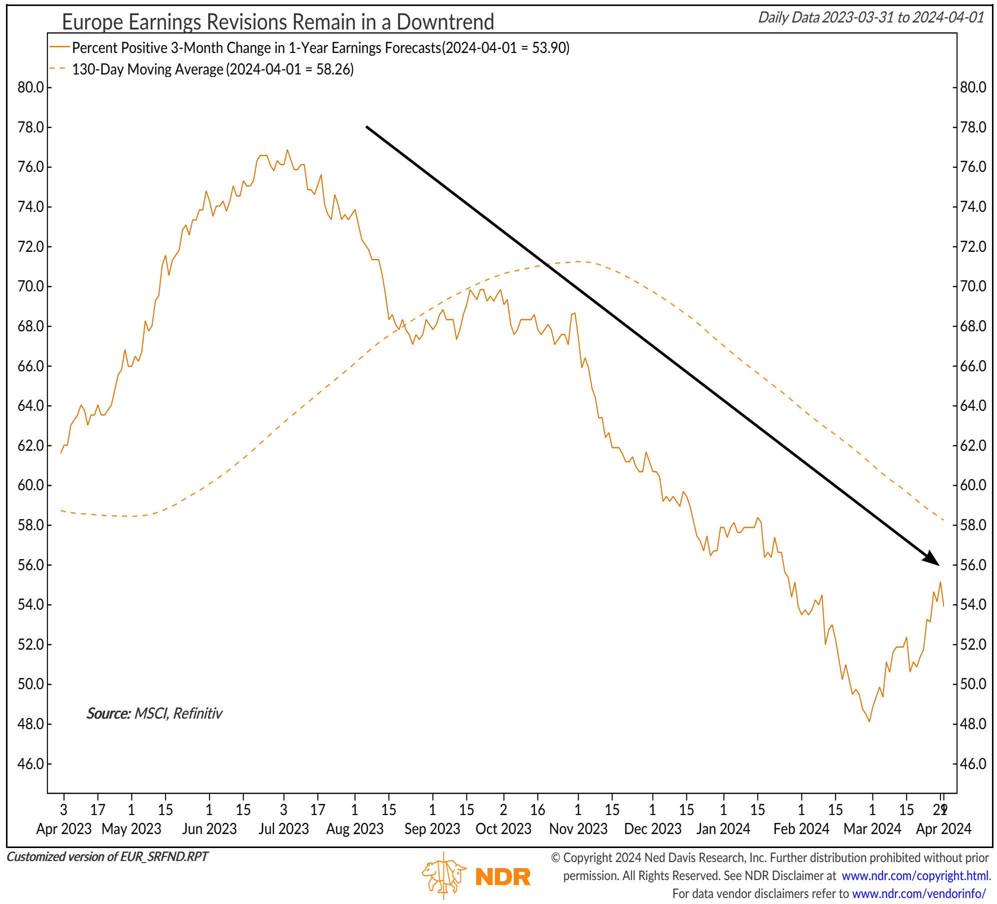
MSCI Japan Index (Local Currency) Performance
Chart View: 2019-03-29 to 2024-03-29

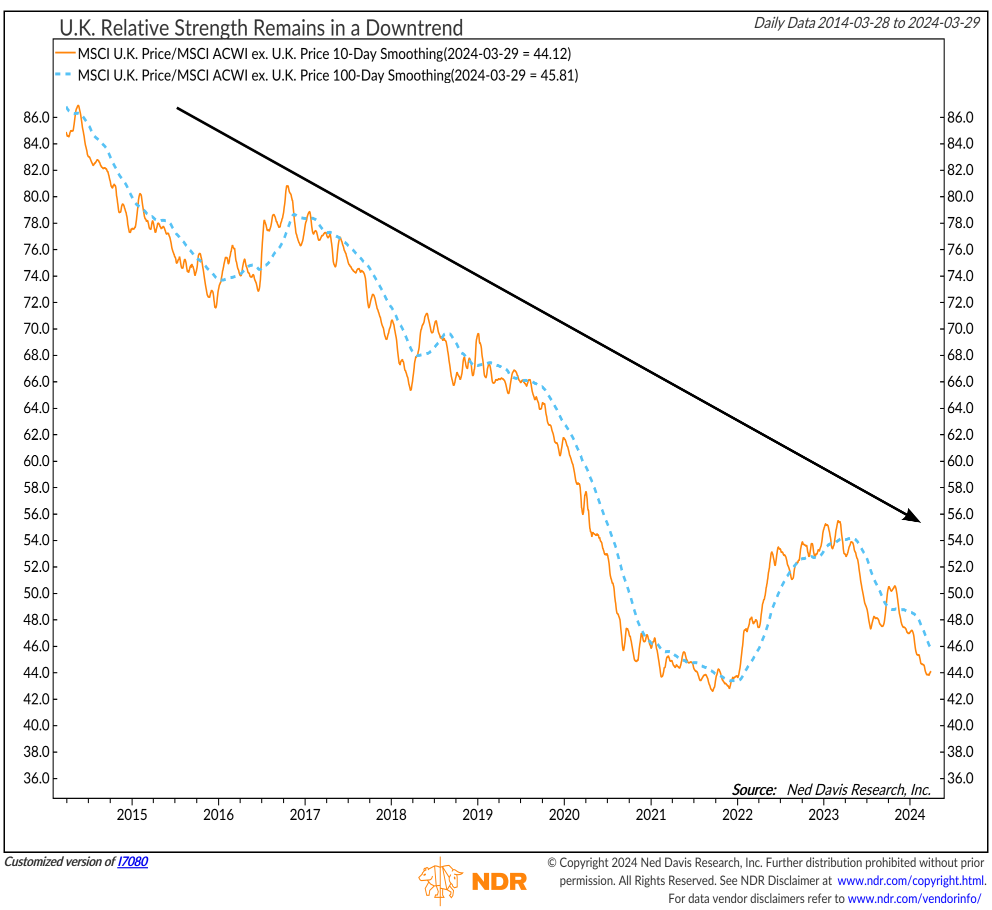
Citigroup Economic Surprise Index Based On Japanese Yen	% Gain/ Annum	% of Time
Above 0.0	27.70	59.99
Below 0.0	-7.16	40.01

Buy/Hold = 12.41% Gain/Annum

France and Switzerland remain underweight this month due to technical, macro, and fundamental weakness. No technical indicators are bullish for either market.

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. European 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. maintained an 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.

Explore Opportunities

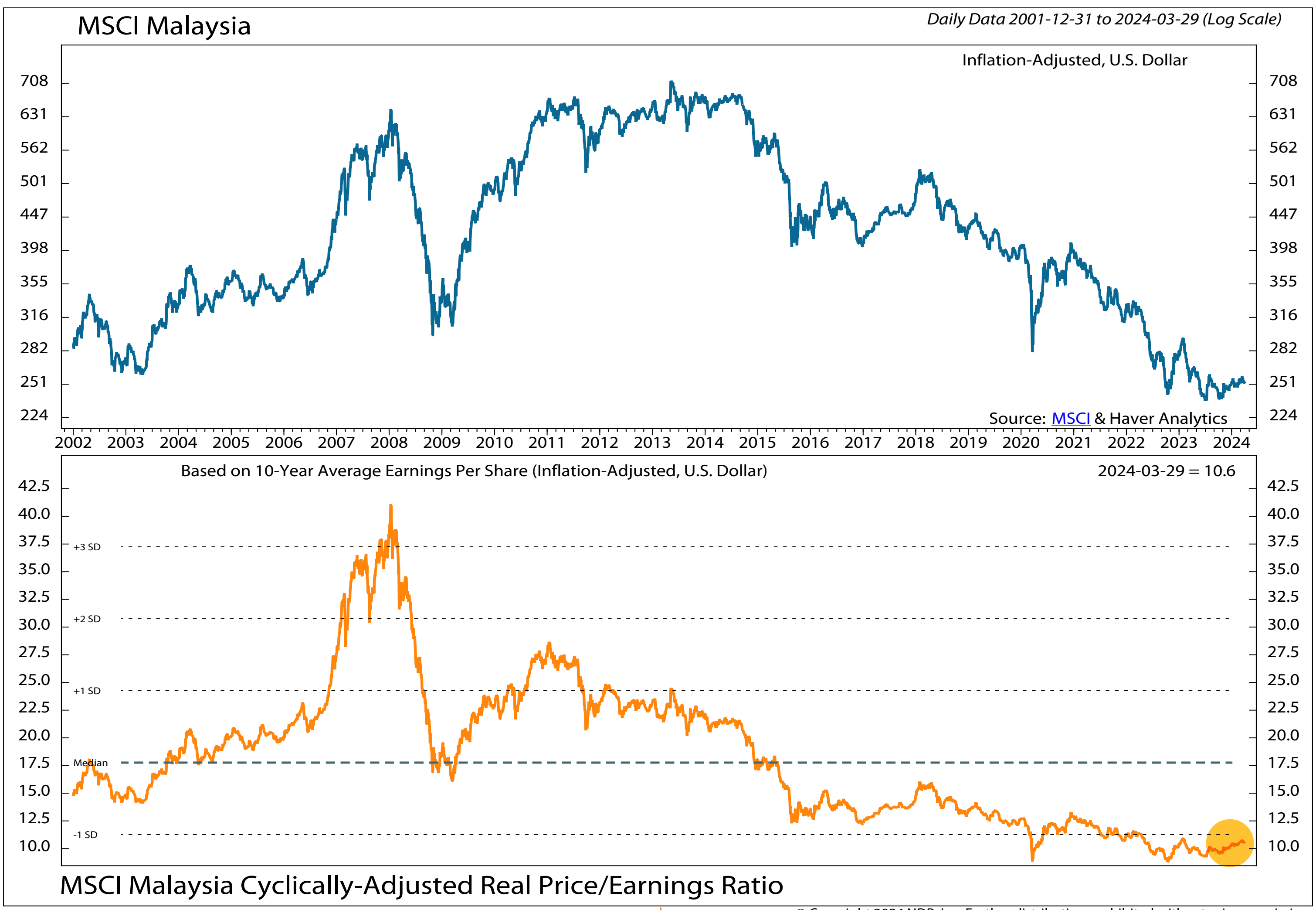
Among the top ranked Explore markets are Malaysia, Philippines, Poland, Sweden, and Taiwan.

- All markets have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- Near-term, Sweden is more than one standard deviation oversold. Over the long-term, Malaysia and Philippines are oversold. Such oversold conditions may provide a near-term bounce opportunity.
- Malaysia, Philippines, and Poland have low market capitalization-to-GDP ratios, which typically indicates a favorable valuation.
- All markets have positive relative valuation spreads between their respective earnings yields and 10-year government bond yields.
- Malaysia's cyclically adjusted price-to-earnings ratio is more than one standard deviation below its historical tendency (chart bottom).
- The Philippines has a manufacturing Purchasing Managers' Index in expansionary territory.
- All markets have over 50% of stocks with positive earnings revisions from analysts. Malaysia has among the highest percentage of earnings revisions across markets.
- Malaysia, the Philippines, and Taiwan have double-digit forward earnings growth readings.

Summary

Entering April, the non-U.S. equity Core model overweighted Canada, China, Japan, and Germany, while underweighting the U.K., Australia, France, and Switzerland. The Explore model favored Malaysia, Philippines, Poland, 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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