



MARCH 2024

## Global Market Update

The ACWI ex. U.S. Total Return Index gained over 250 basis points (bps) in February. The index has risen for three of the last four months. Among the strongest performing markets were Israel, China, South Korea, Peru, and Poland, while the largest underperformers included Egypt, Austria, Portugal, South Africa, and Czech Republic.

The global economic lull from the second half of 2023 is abating at the start of 2024. The global composite (services and manufacturing) S&P Global Purchasing Managers' Index (PMI) rose for a third straight month in January to an eight-month high. This suggests minimal near-term

recession risk. However, the global composite is still well below its long-term average, indicating historically slower growth.

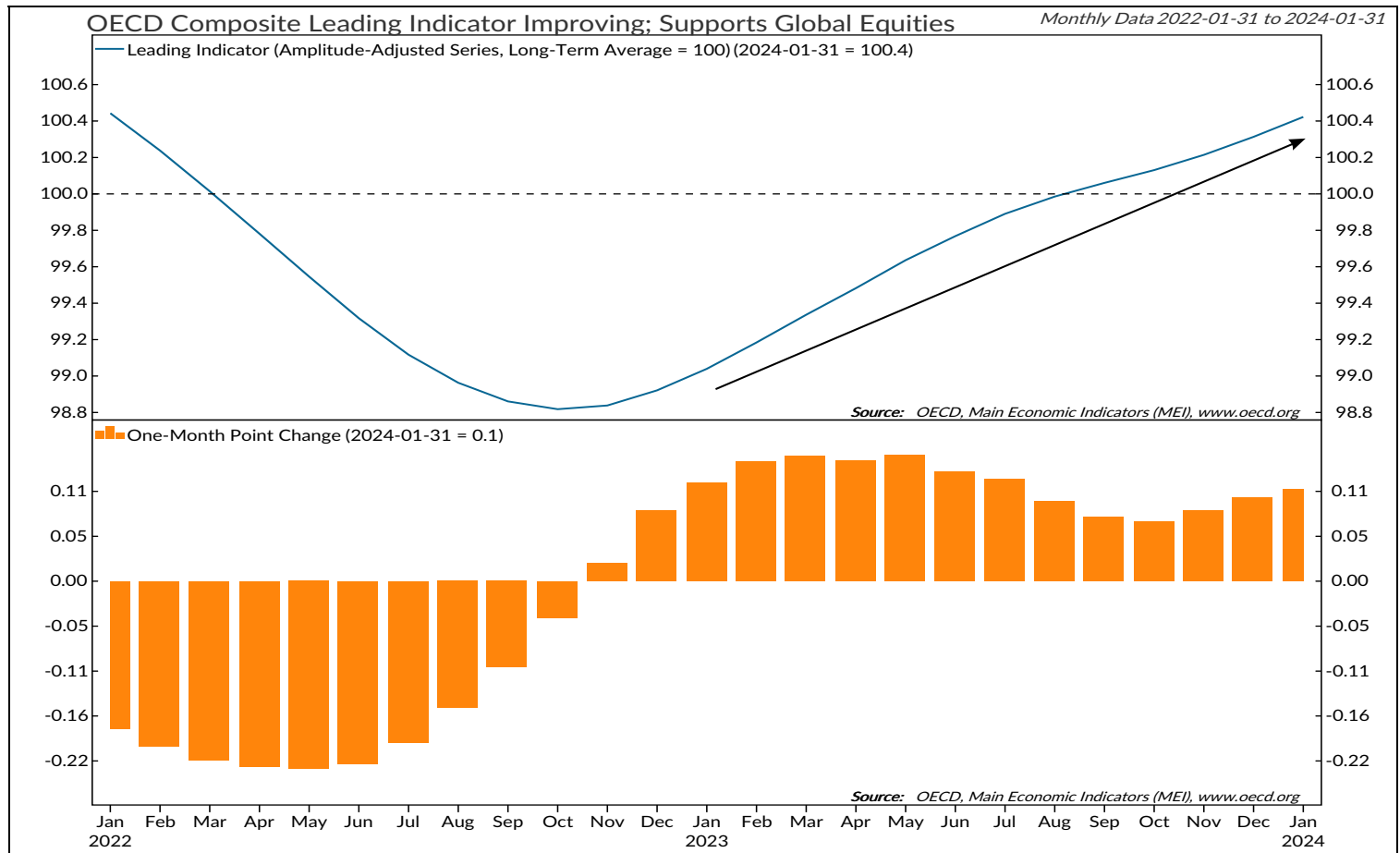
Leading indicators were constructive (chart bottom). The new orders index showed its strongest expansion in seven months. The future output index also jumped to its best level since June, led by both the manufacturing and services sectors.

Manufacturing, which has been an economic laggard for some time, pulled out of contraction territory for the first time in 17 months. Meanwhile, services, the largest chunk of the economy, remains strong.

Breadth in both sectors picked up, indicating that the expansion is broadening.

Global supply chain pressures picked up due in part to disruptions in the Suez and Panama Canals, but prices have so far been little affected. The global composite output price index fell to its lowest level since October 2020.

Entering March, 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 Brazil, Mexico, Philippines, Spain, and Turkey.



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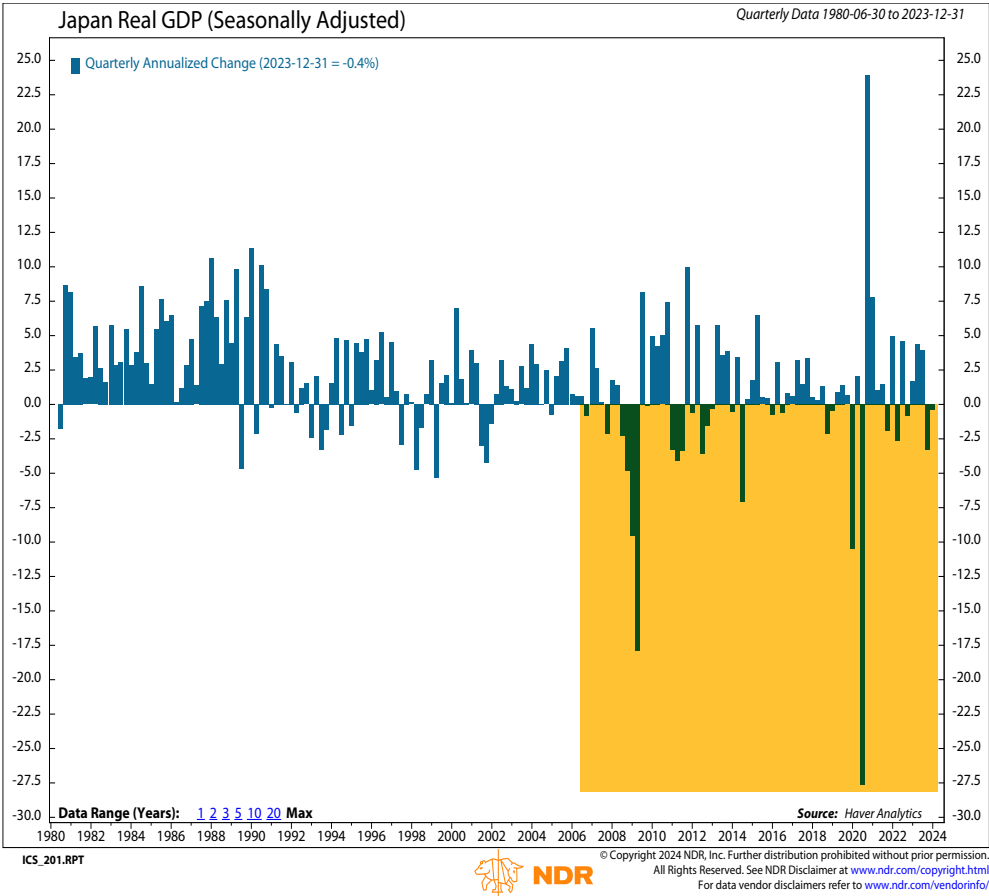
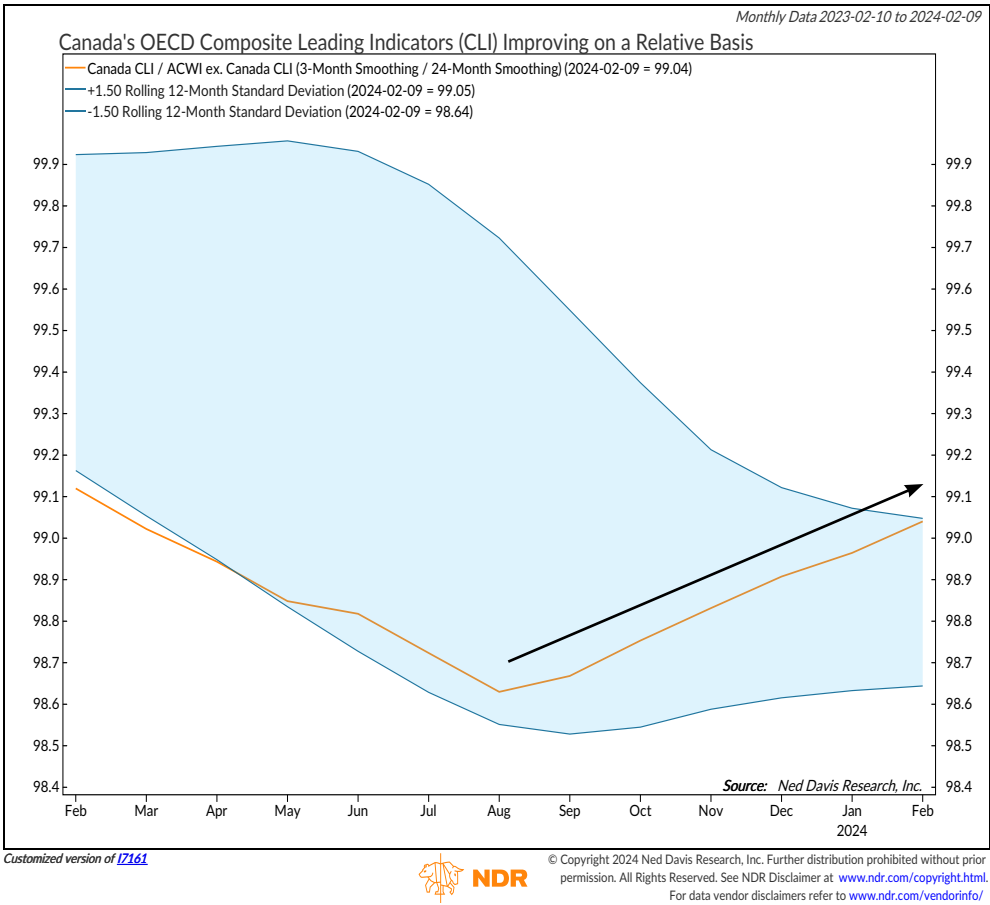


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Core Allocations

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

Canadian consumer prices eased at the start of this year, giving the Bank of Canada more room to consider rate cuts in the coming months. However, the Bank of Canada was expected to hold rates steady at its early March meeting after a better-than-expected GDP report.

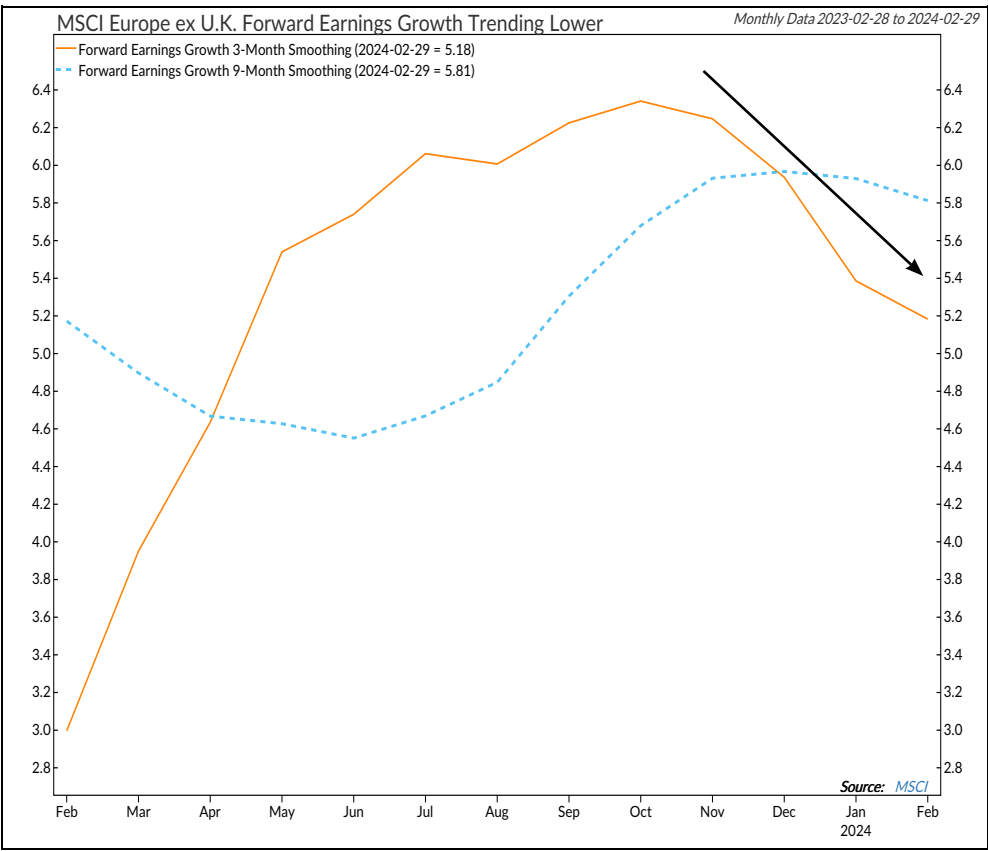


Japan's allocation remains above benchmark weighting as the trend and breadth remain positive. Almost all technical indicators favor the market. However, many external indicators (including relative valuations and inflation swaps) are negative on the region. One bright spot is that near-term earnings growth has reversed higher and is now above its intermediate trend.

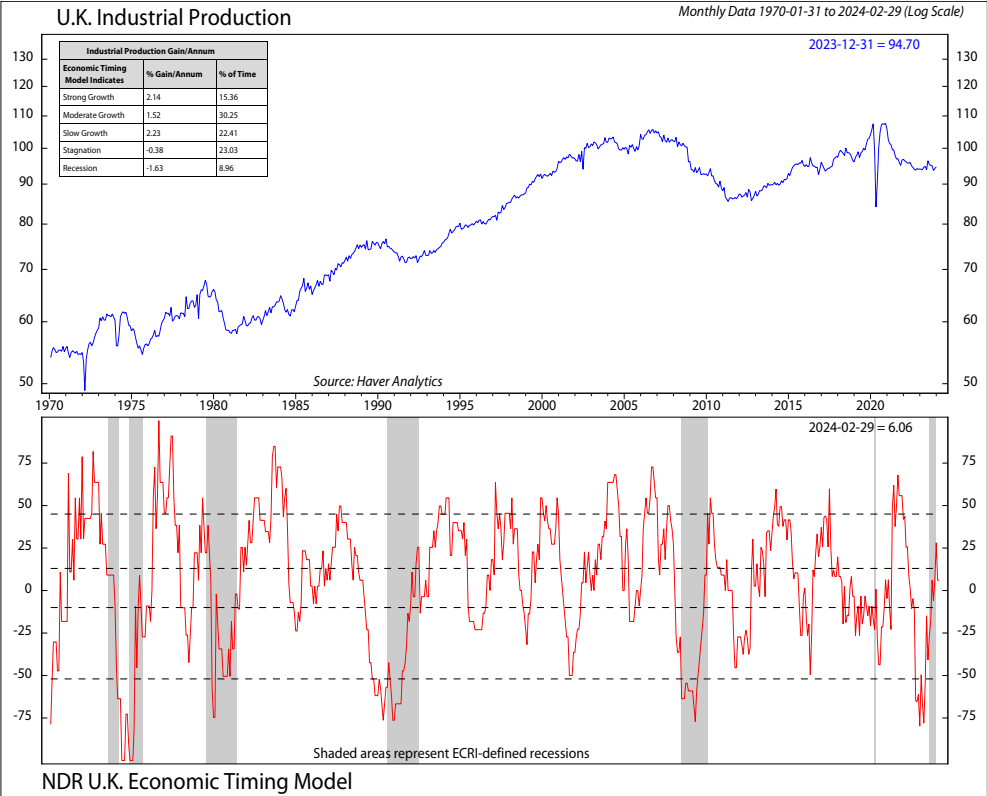
Japan's real GDP contracted an annualized 0.4% in Q4, following a 1.1% decline in Q3, which puts the economy into recession. However, Japan's economy contracts quite often. In fact, in 17 of the past 18 years Japan's economy has contracted at least one quarter per year (chart left). Japanese equities haven't always responded negatively to recession, with historically very mixed performance around economic downturns.

France and Switzerland remain underweight this month due to macro and fundamental weakness. The outlook has deteriorated as inflation remains elevated and the European Central Bank's (ECB) most aggressive tightening cycle on record works its way into the economy.

Forward earnings expectations reflect the challenging environment as they remain in a downtrend (chart right). Last quarter, less than 60% of companies beat earnings estimates. Most internal indicators are bearish.



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The U.K. remains significantly underweight for March. Economic trends are still lackluster, as NDR's U.K. Economic Timing is declining (chart left). High interest rates, inflation eating into consumer purchasing power, ebbing labor market trends, and the structural downside associated with Brexit continue to serve as a drag on the economy. The fundamental outlook is also unfavorable. Less than 55% of companies had positive one-year forward earnings revisions during February.

The market recognizes these risks as equities remain in a downtrend with weak breadth. None of the region's technical indicators are bullish.

Explore Opportunities

Among the top ranked Explore markets are Brazil, Mexico, Philippines, Spain, and Turkey.

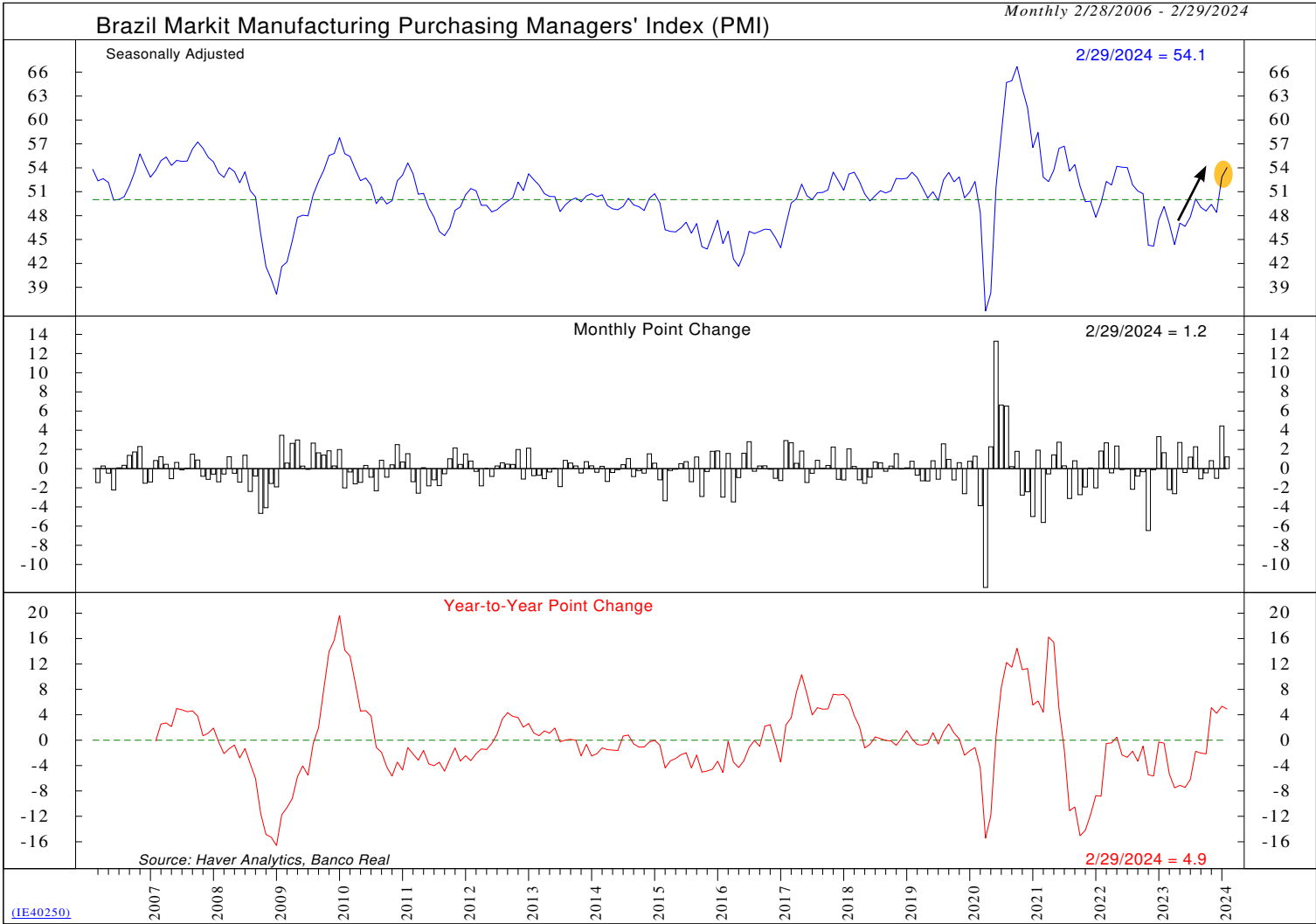
- All markets have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- Near-term, Philippines and Turkey are one standard deviation oversold. Over the long-term, Brazil, Mexico, and Spain are oversold. Such oversold conditions may provide a near-term bounce opportunity.
- All markets have low market capitalization-to-GDP ratios, which typically indicates a favorable valuation.
- Brazil and Spain have positive relative valuation spreads between their respective earnings yields and 10-year government bond yields.

- The Philippines’ cyclically adjusted price-to-earnings ratio is almost one standard deviation below its historical tendency.
- All markets have a manufacturing Purchasing Managers’ Index in expansionary territory. Brazil possesses one of the highest readings across economies and is at its highest level in 18 months (chart bottom).
- Brazil and Mexico have Composite Leading Indicator readings in expansionary territory.
- Mexico, Spain, and Turkey have over 50% of stocks with positive earnings revisions from analysts.
- Spain, Turkey, and the Philippines have some of the strongest trailing and forward earnings growth readings.

Summary

Entering March, 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 Brazil, Mexico, Philippines, Spain, and Turkey.

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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