



MAY 2025

Macro/Market Update

Global economic growth accelerated in March, as measured by the global composite (services and manufacturing) Purchasing Managers' Index (PMI), to the highest level this year. This data included periods of rising policy uncertainty and some U.S. tariff announcements but came before the large and sweeping tariffs announced by the U.S. on April 2.

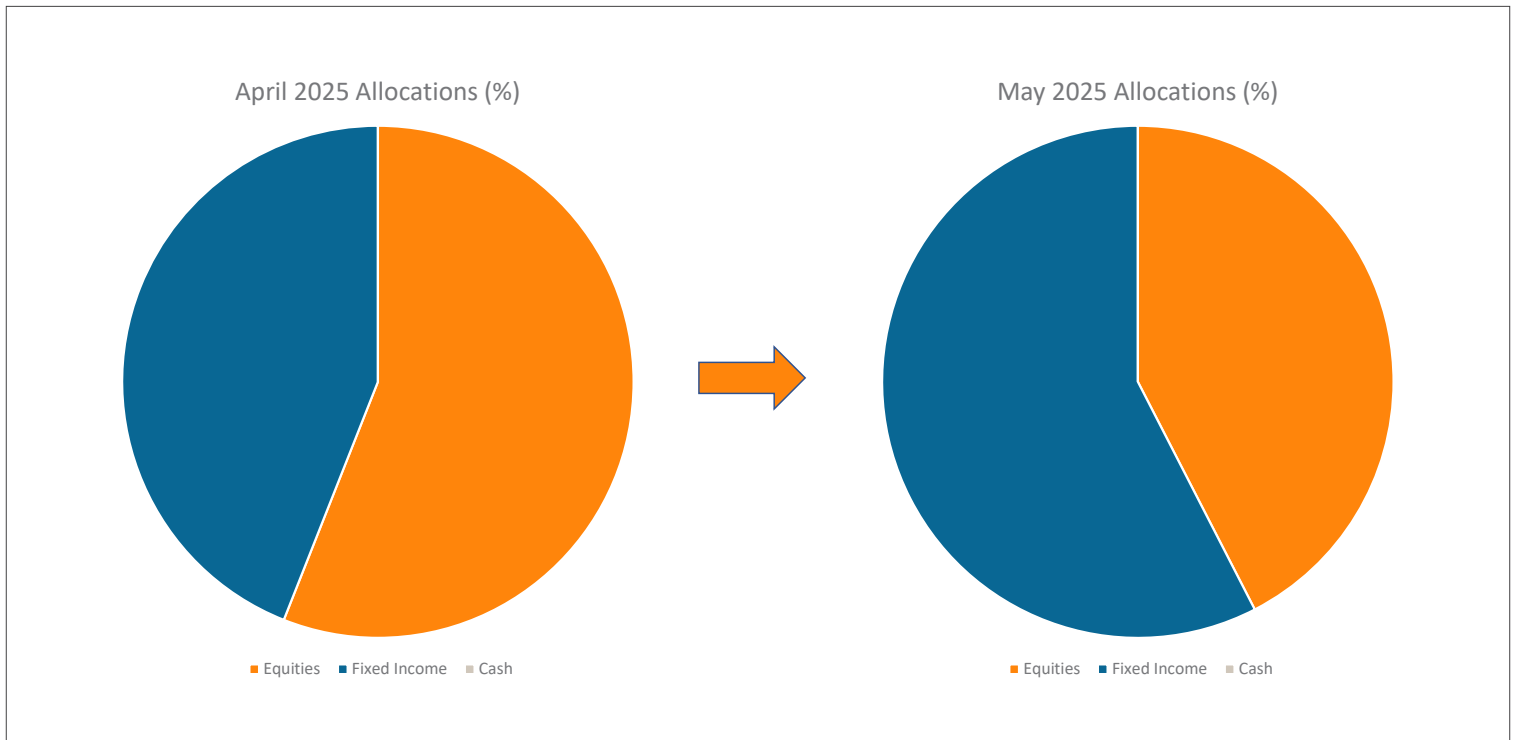
The global manufacturing sector continued to grow, albeit at a slower pace, amid signs that manufacturers are worried about tariffs. Prices accelerated too, for

similar reasons. The services sector, which has been the stronghold of the global economy, saw momentum pick up and breadth remain strong.

Despite the pickup in activity in March, services companies became more hesitant about the future, as the future output index fell to a six-month low, with most individual economies posting declines. Cost pressures could be partly to blame as the input price index rose to its highest level since September 2023. Meanwhile, output price growth eased, suggesting pressure on margins.

During April, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by over 196 basis points (bps). Stocks have underperformed bonds for four of the last five months. If the tariffs were to go fully into effect and see counter measures elsewhere, there's a large chance the global economy would succumb to recession, which typically favors fixed income relative to equities.

Asset Allocation Summary

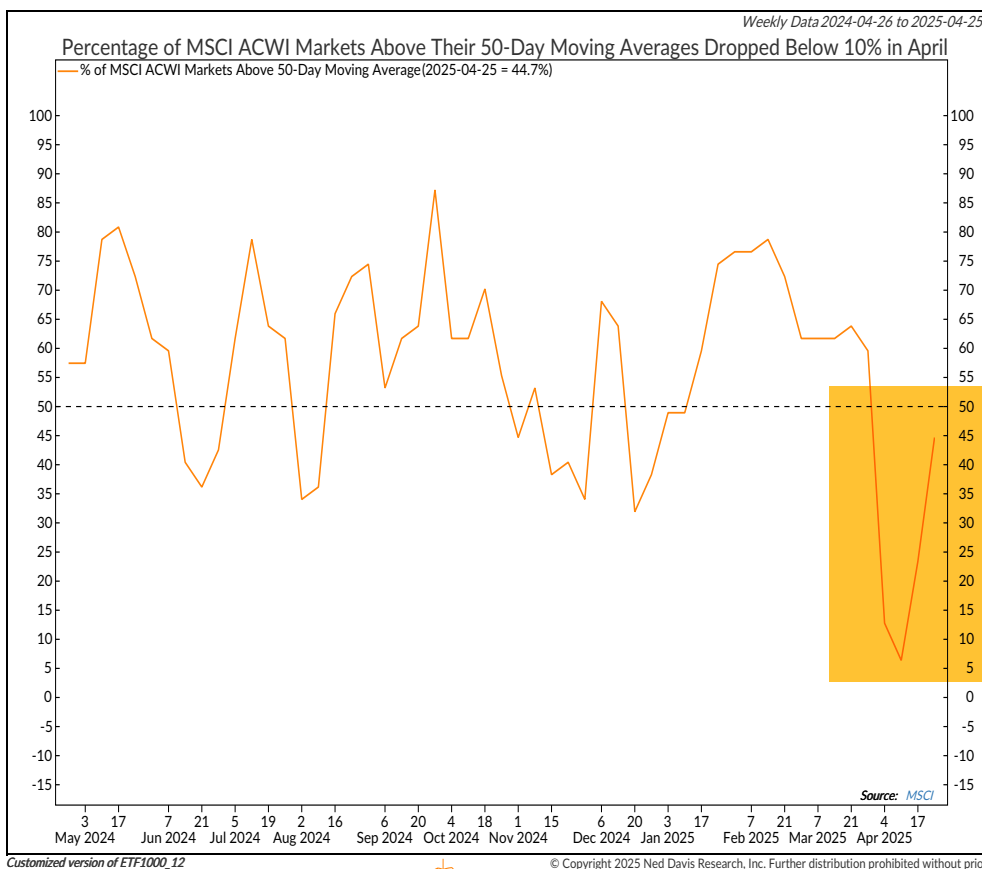


* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

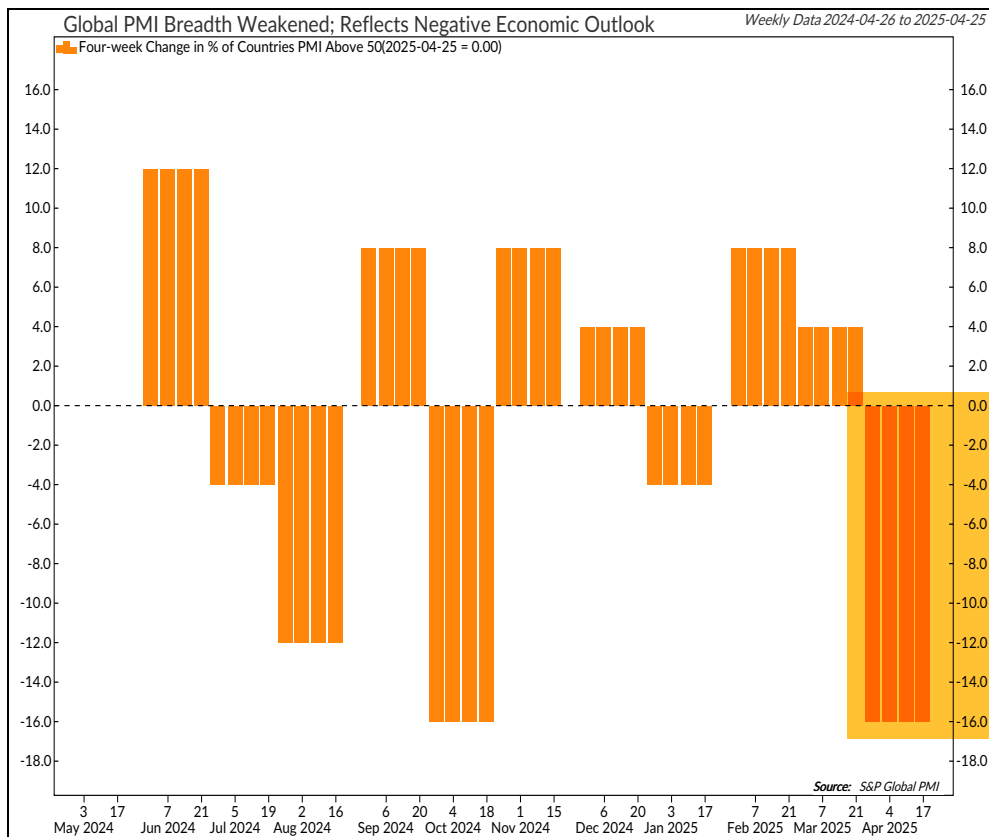
The model's equity exposure fell further below benchmark allocation. Two indicators deteriorated over the last month: global equity market breadth and economic sentiment.

Only 45% of global equity markets are trading above their 50-day moving averages (chart right). However, this is a significant improvement from the less than 10% level during April.

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 can support the popular averages.



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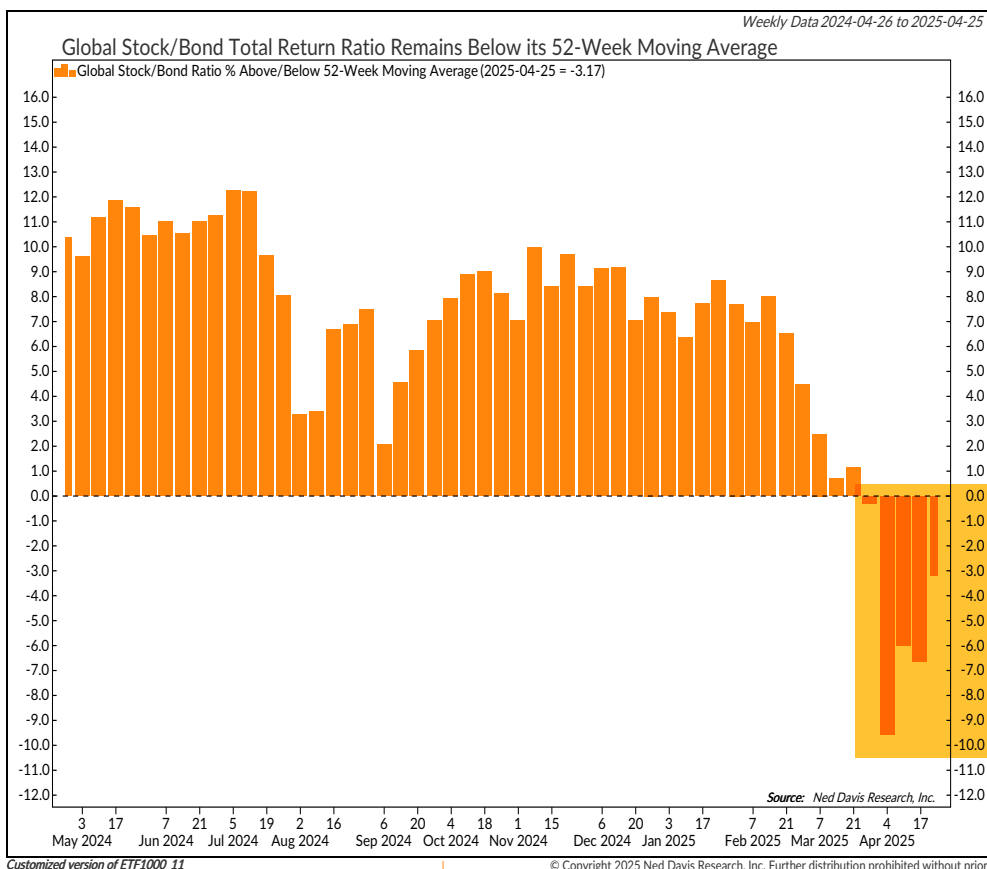
The Purchasing Managers' Index (PMI) breadth indicator measures the four-week point change of the percentage of economies with a PMI greater than 50 (expanding activity). The PMI is based on a survey sent to executives regarding their outlook on areas such as inventories, production, and employment.

Fixed income typically outperforms equities when there is deterioration in the economic outlook. This economic momentum breadth indicator (chart left) turned bearish on equities as the readings for Netherlands, U.S., and Taiwan dropped below 50.

The stock/bond relative strength ratio fell to more than 9.5% below its 52-week moving average during April (chart right). The last time stock/bond relative strength fell below its trend was amidst concerns about financial stability due to the failure of three U.S. banks.

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.”

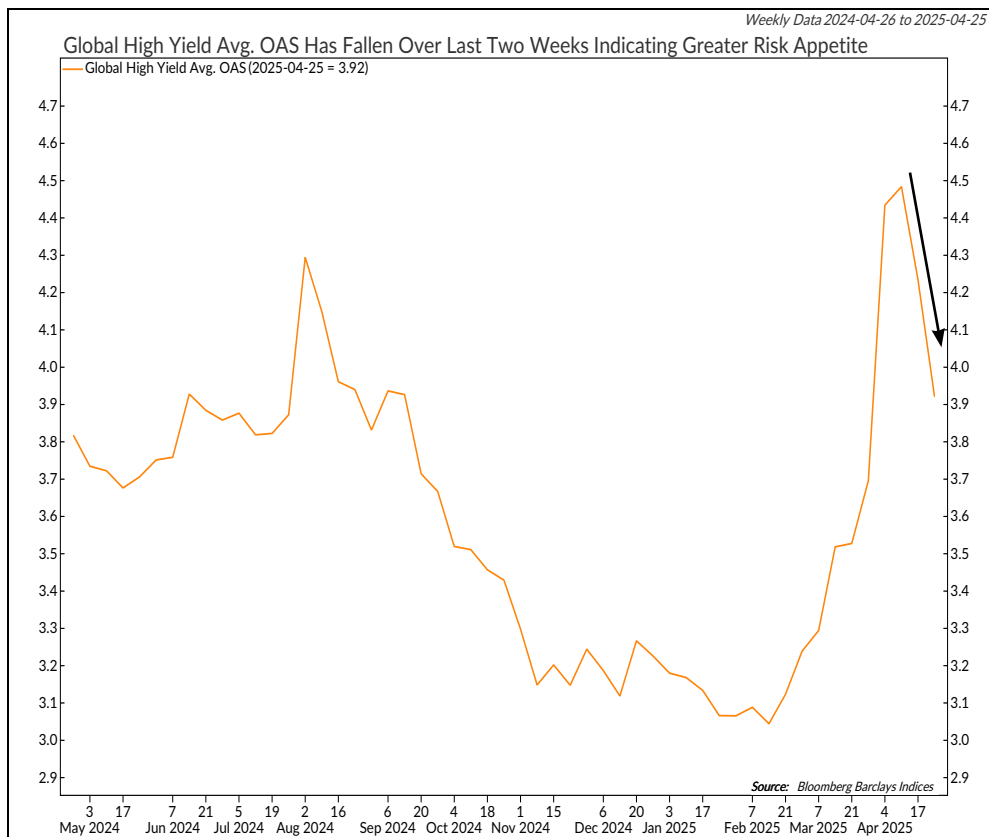
This indicator receives double weighting relative to the other indicators. Entering May, the trend was not the equity market’s friend.



Customized version of ETF1000_11



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Customized version of ETF1000_17



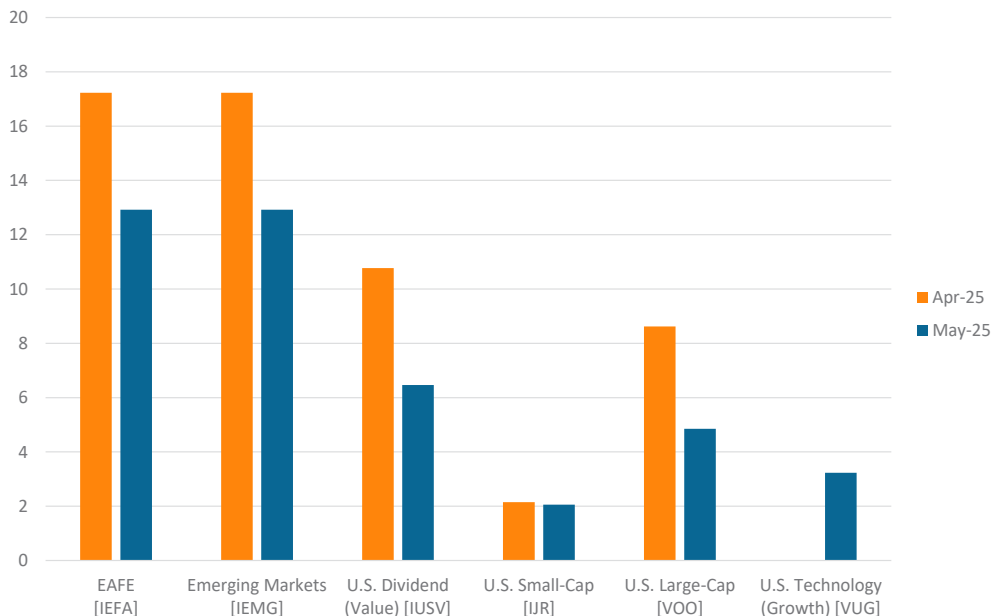
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On a positive note, the global high yield option-adjusted spreads (OAS) indicator turned bullish on equities. Global high yield OAS fell more than 50 basis points (bps) over the last two weeks of April (chart left), indicating increased risk appetite by fixed income investors.

Equity Allocation Summary

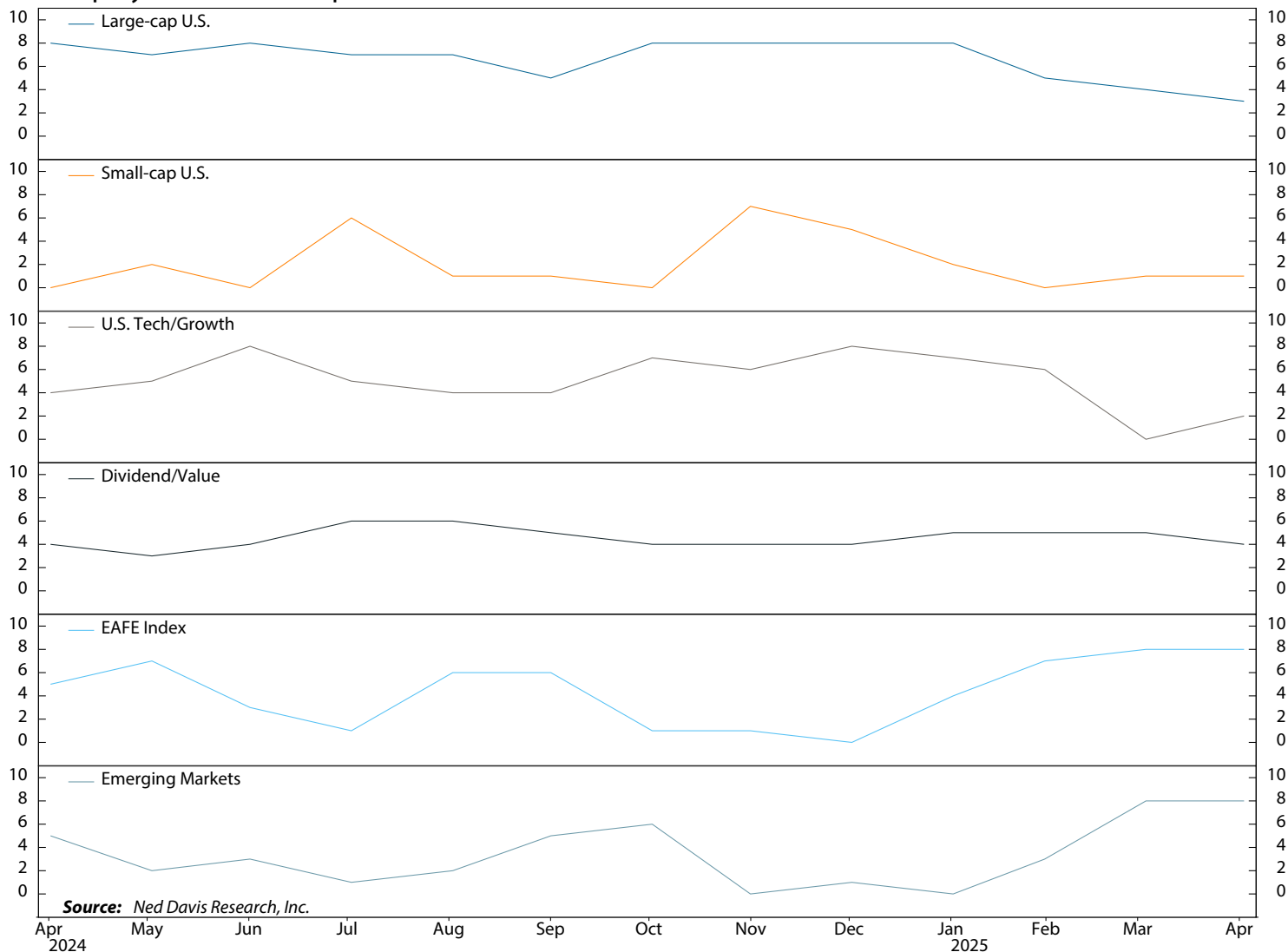
During April, only International Developed, Emerging Markets, and U.S. Growth produced positive returns. International Developed and Emerging Markets have risen for four straight months. After having its worst month since 2022 in March, U.S. Growth rose more than 200 bps in April. U.S. Small Caps and U.S. Value both declined by more than 375 bps last month. International Developed and Emerging Markets each received more than 12% allocation for May (chart right).

Equity Allocation (%)



Equity Technical Composite Scores

Monthly Data 2024-04-30 to 2025-04-30



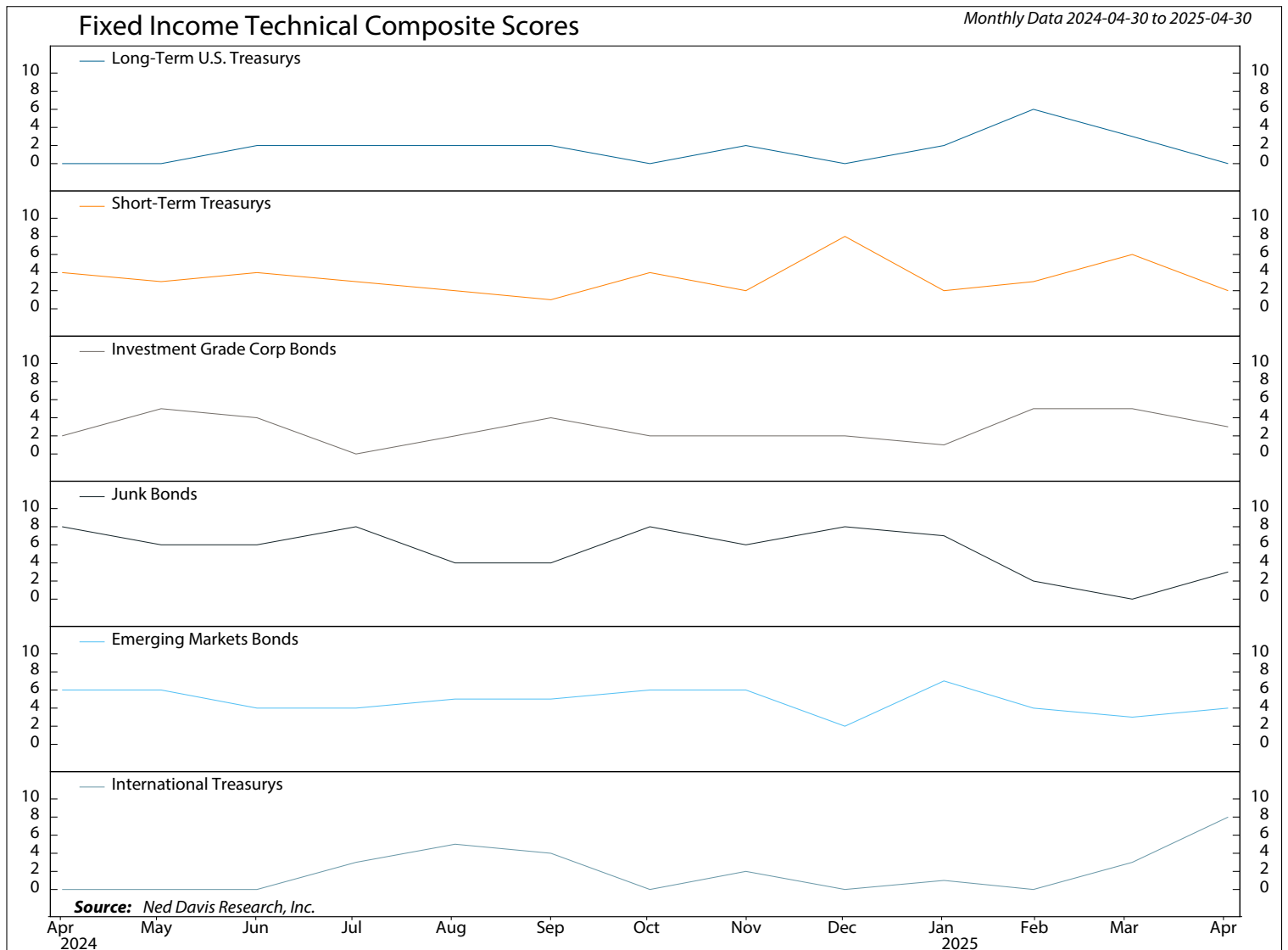
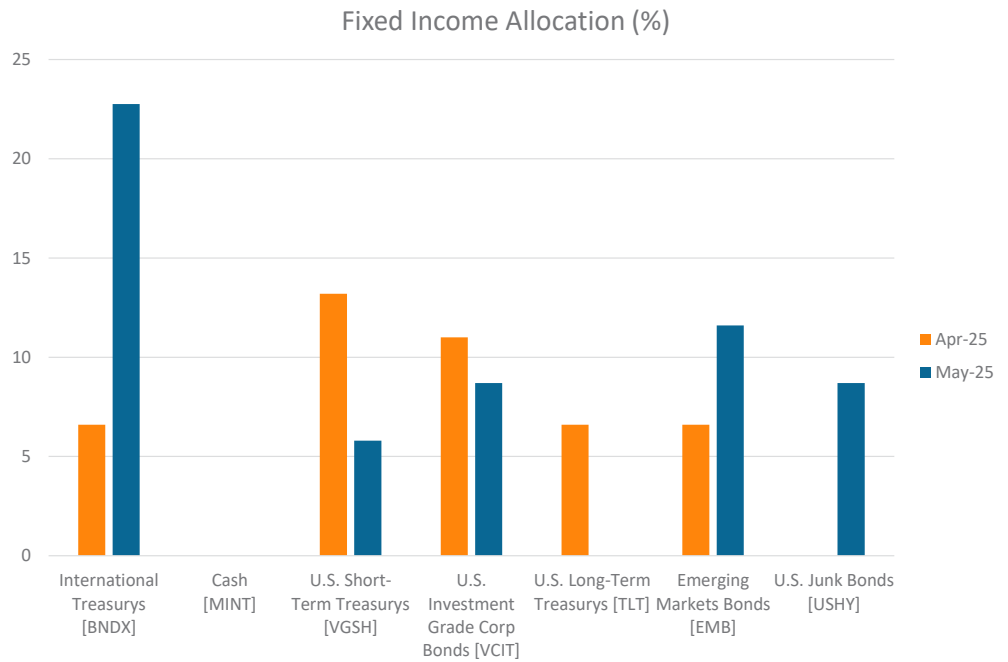
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Fixed Income Allocation Summary

U.S. Long-Term Treasurys dropped more than 100 bps for a second consecutive month. U.S. Long-Term Treasurys, U.S. High Yield, and Emerging Market bonds have fallen for two straight months. International Investment Grade was the only area to rise by more than 100 bps. U.S. Investment Grade has risen for four consecutive months. International Investment Grade and Emerging Market bonds each received more than 10% allocation for May (chart right).



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Dynamic Allocation Strategy

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