



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.

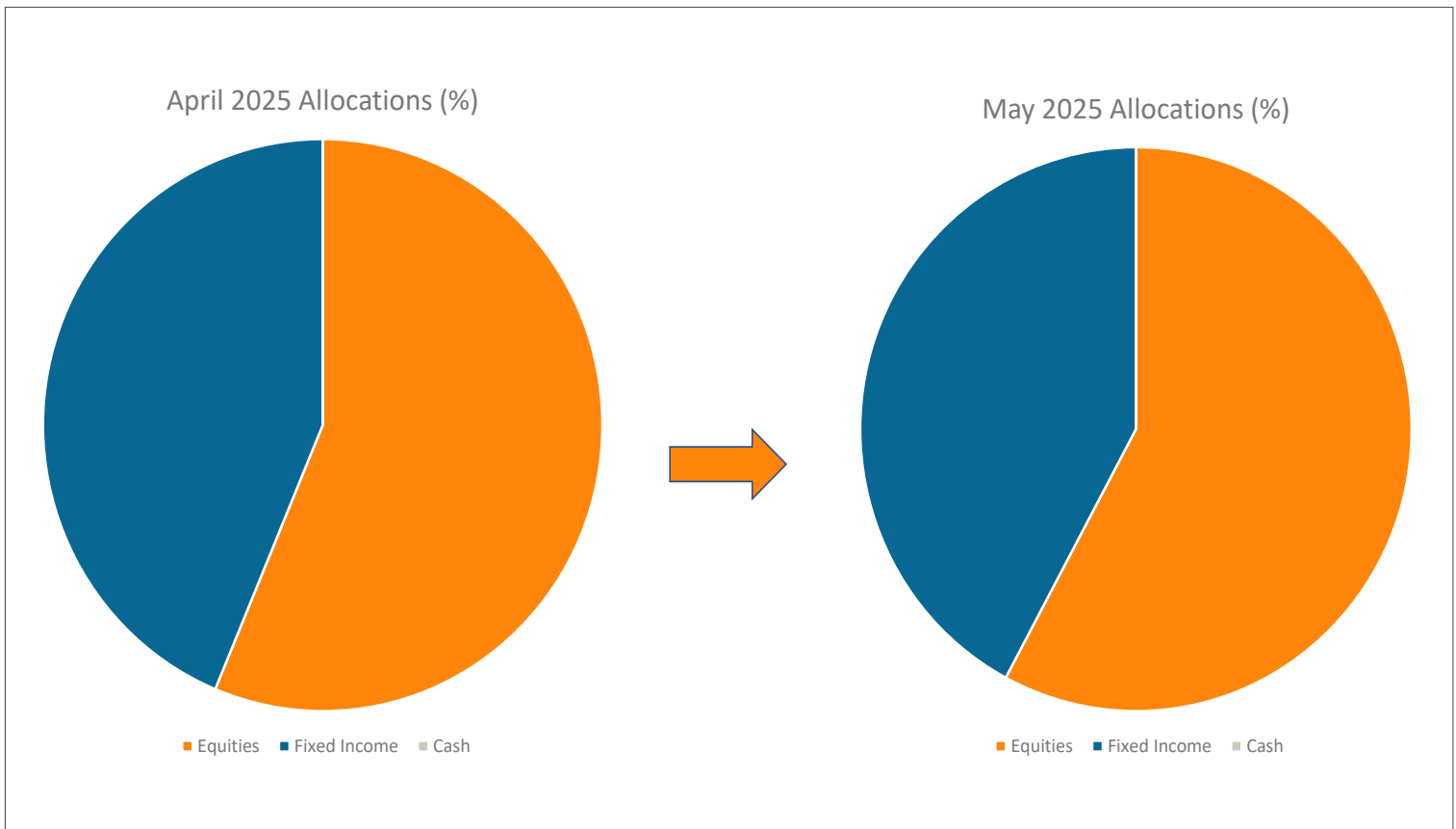
The global manufacturing sector continued to grow, albeit at a slower pace, amid signs that manufacturers are worried about tariffs. Prices accelerated too, for similar

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) outperformed the Bloomberg Barclays U.S. Aggregate Bond Index by over 50 basis points (bps). Stocks have underperformed bonds for three 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.

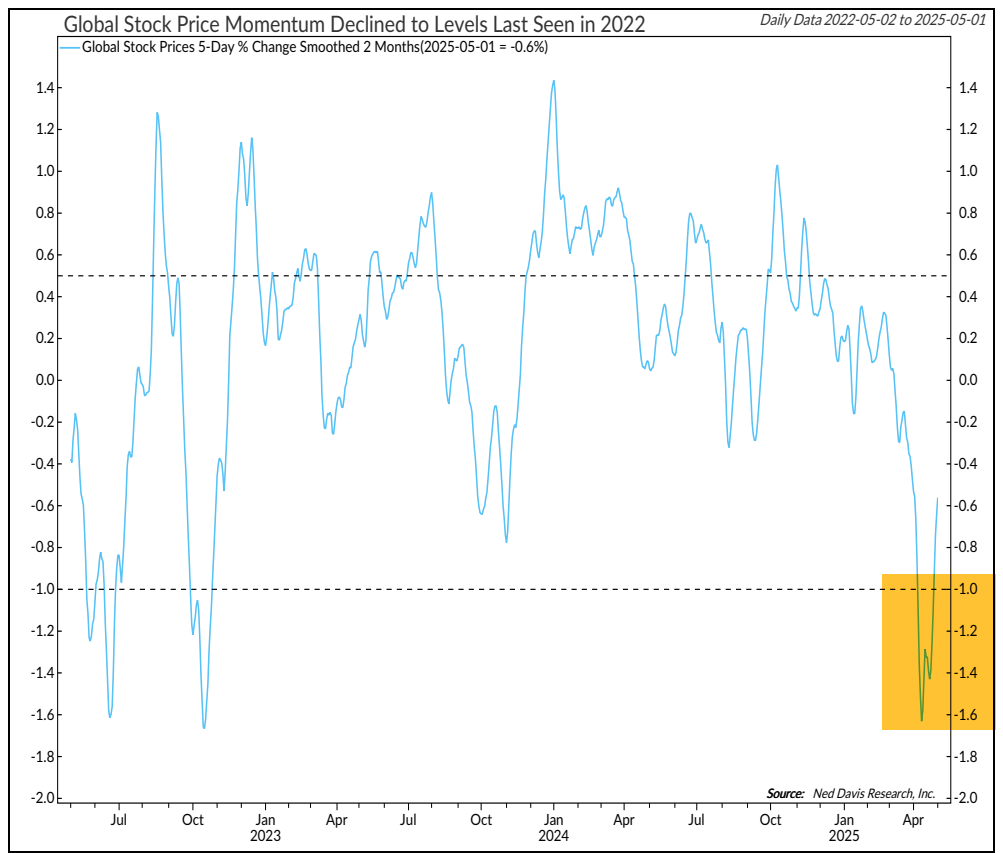
## Asset Allocation Summary



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

The model's equity exposure remains modestly below benchmark allocation. The price-based indicators (internals) slightly favor fixed income over equities. Volatility, trend, and momentum measures support an above-average fixed income weighting.

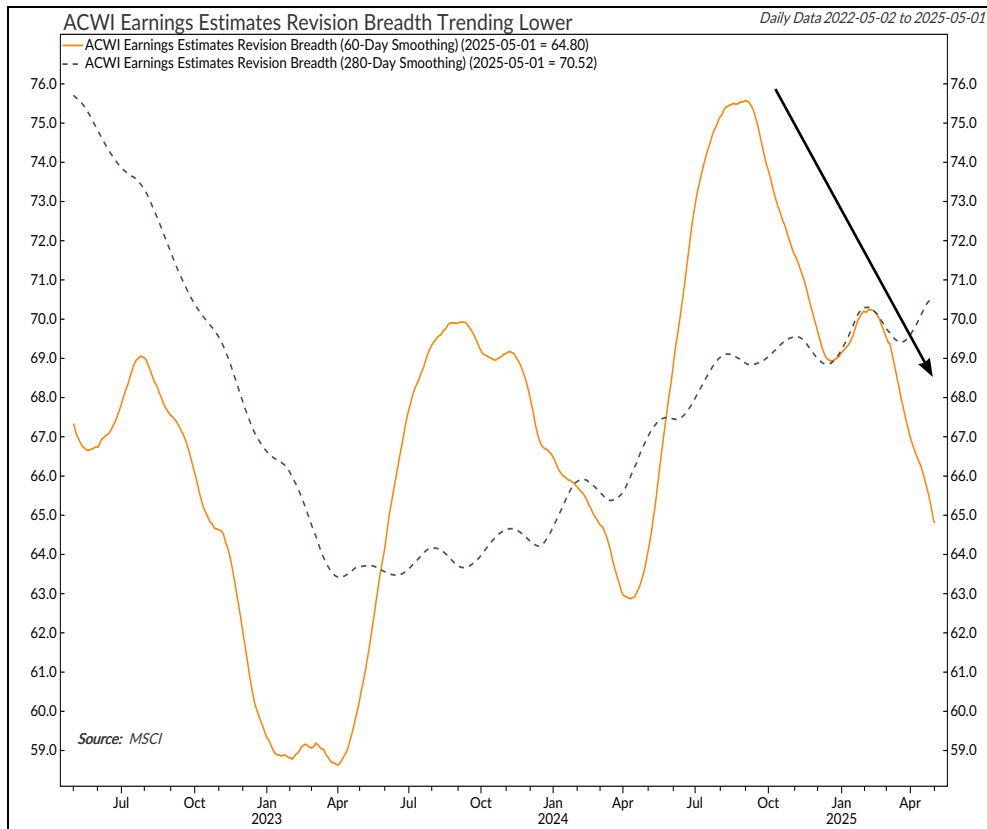
Global stock price momentum declined in April to levels not seen since 2022 (chart right).



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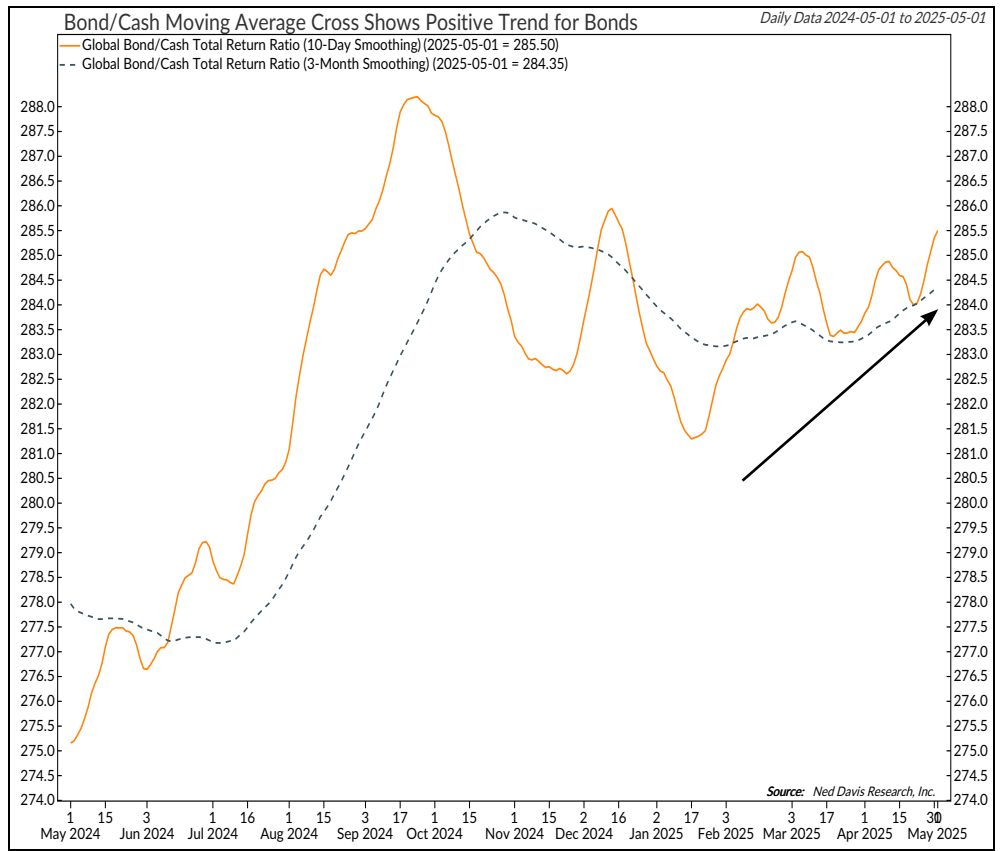
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The macroeconomic, fundamental, and sentiment (external) indicators also slightly favor fixed income over equities. Earnings revisions are declining, defensive sectors are leading, and global high yield option-adjusted spreads (OAS) are widening.

The global earnings outlook continues to be cautious. The percentage of stocks with upward revised forward earnings estimates from analysts is in a downtrend (chart left) due to global economic uncertainty.

Within the bond/cash decision, no indicators favor a cash allocation over bonds. The trend supports fixed income over cash (chart right).

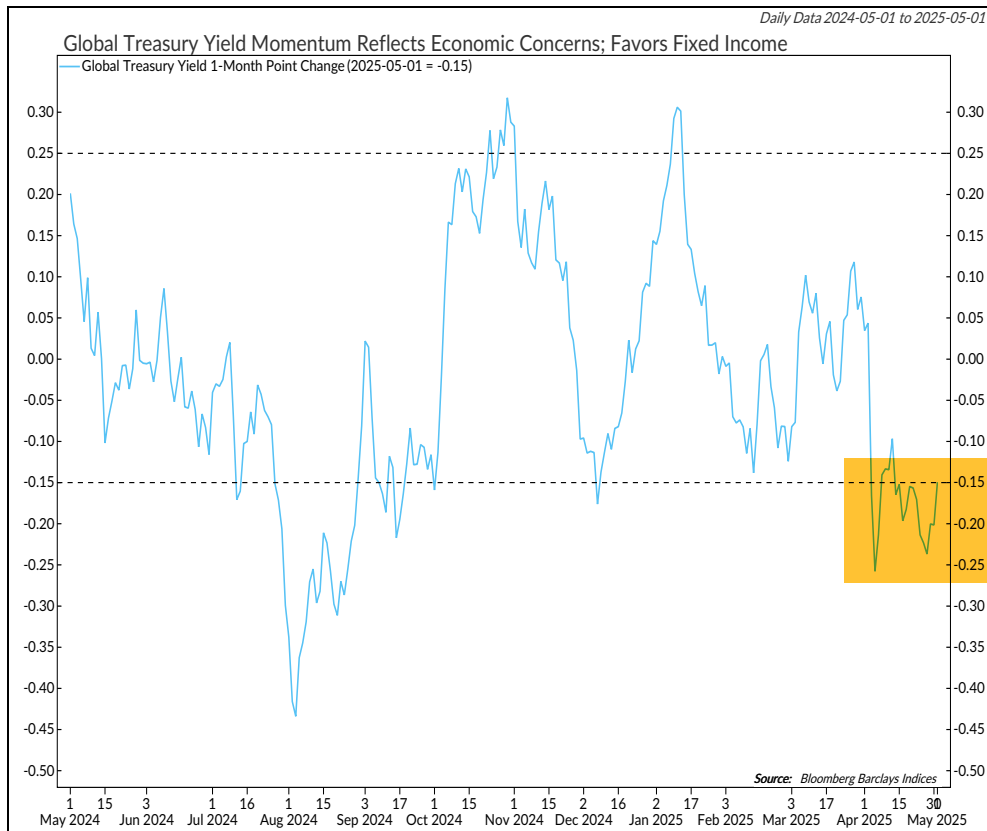
Following the trend is important as it can help to keep you on the right side of major market moves. The trend also can reduce behavioral biases. Ned Davis has said that following the trend is important because “the degree of unprofitable anxiety in an investor’s life corresponds directly to the amount of time one spends dwelling on how an investment should be acting rather than the way it actually is acting.”



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Both U.S. and global yields have declined on growing economic fears (chart left). Due to the inverse relationship between yields and prices, the downward movement in rates has positive implications for bond returns.

## Equity Region Update

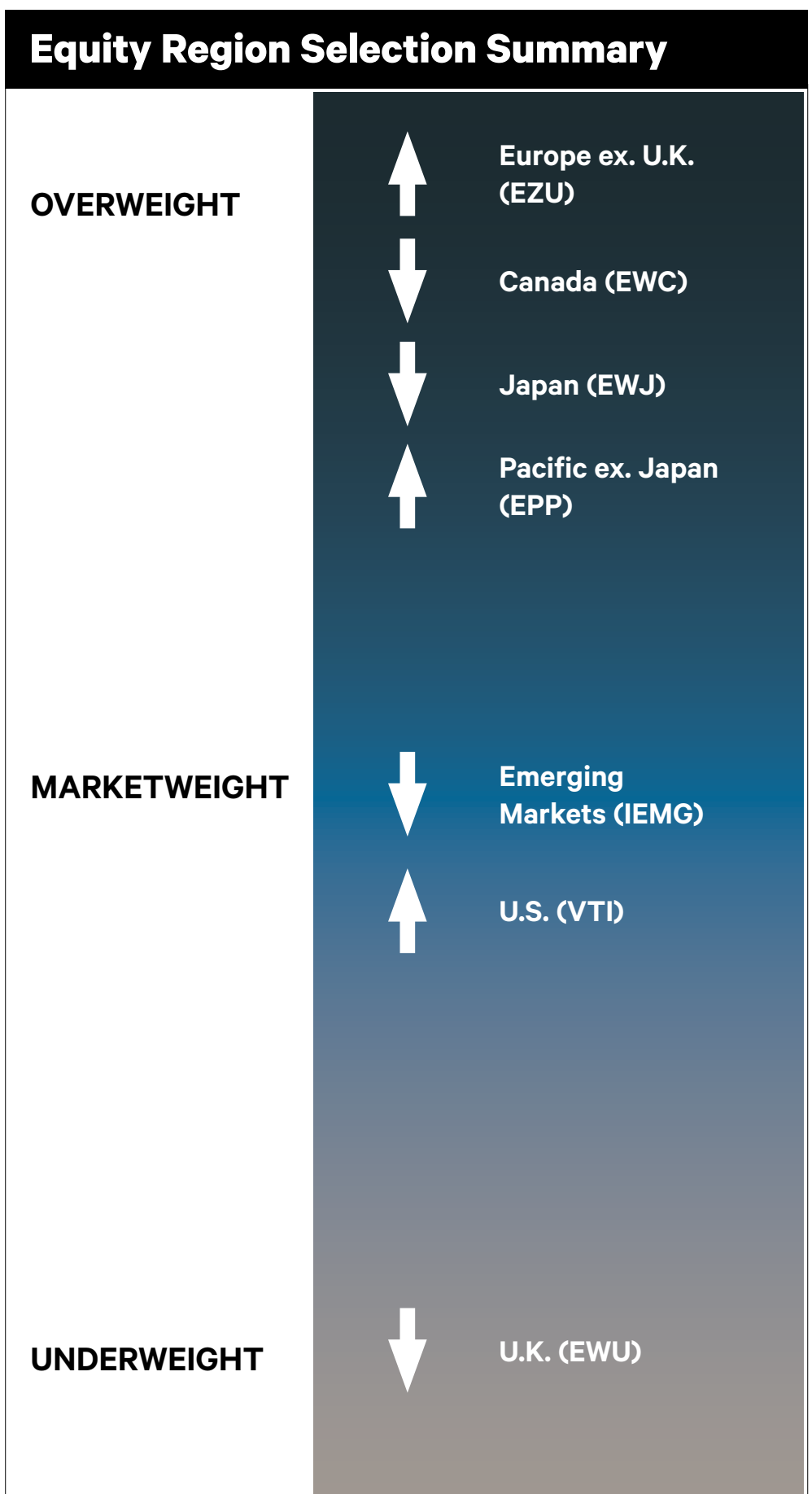
Only the U.S. produced a negative return in April. The region, on a three-month losing streak, has been lower for five of the last seven months.

Europe ex. U.K. and Japan both jumped more than 500 bps last month. Europe ex. U.K. has increased over 350 bps for three of the last four months. Japan had its best month since July.

Canada and Pacific ex. Japan rose over 400 bps in April. Canada had its best month since November. Pacific ex. Japan has been lower for four of the last seven months.

The U.K. and Emerging Markets each gained less than 275 bps. However, both markets are on four-month winning streaks.

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



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

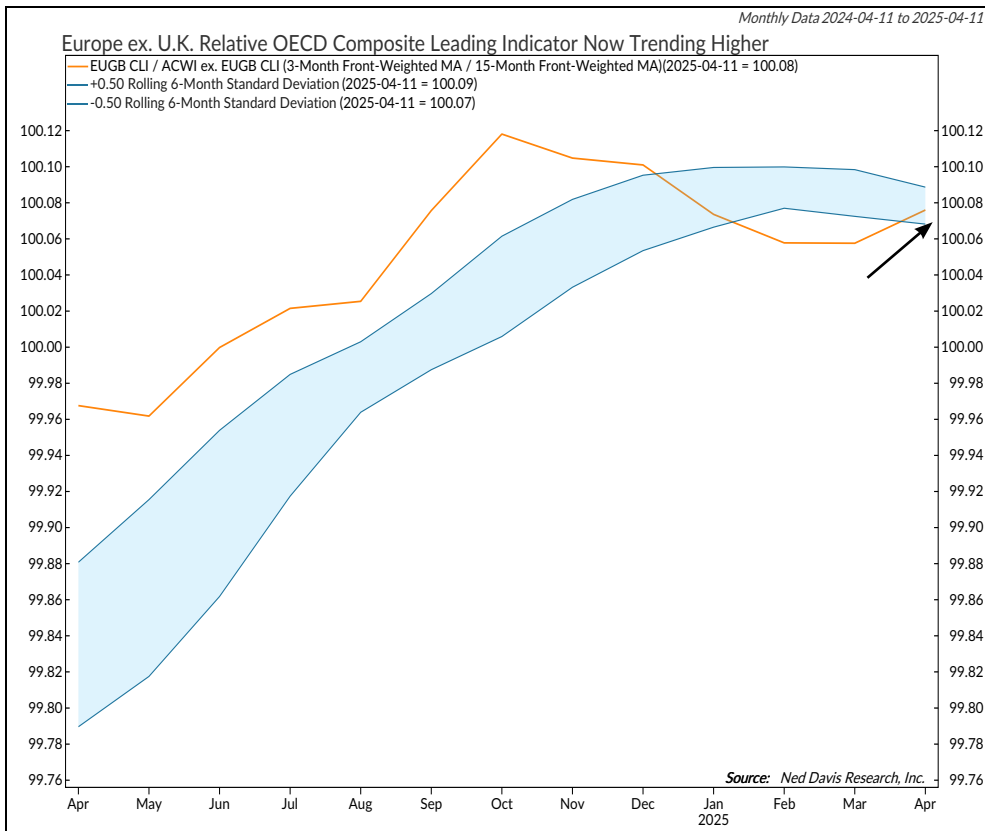
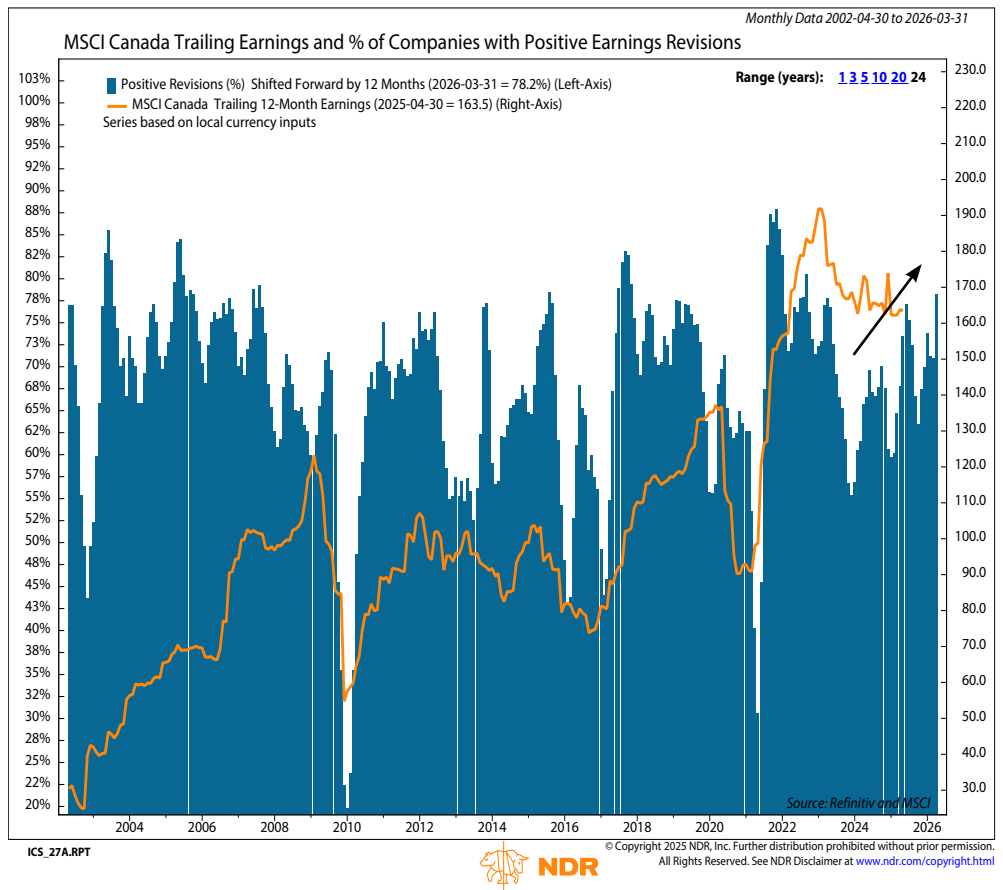
## Equity Region Selection Summary

Canada remained at overweight status for May, as the majority of its internal and external indicators were bullish. Although there are underlying tariff concerns from the U.S., the Canadian economy remains in decent shape.

The OECD Composite Leading Indicator suggests more optimism ahead, as the index rose in March to its best level since 2022.

The Canada Manpower Employment Outlook Survey improved, suggesting a moderate hiring environment for the region in the second quarter.

Analysts have responded by raising their expectations. Earnings estimates have improved within the region as more than 75% of companies received upward revisions (chart right).



Europe ex. U.K. continues to be above benchmark weighting as no technical indicators are bearish on the region. Sentiment is reversing from a pessimistic condition, and ETFs that track Europe have responded by growing assets.

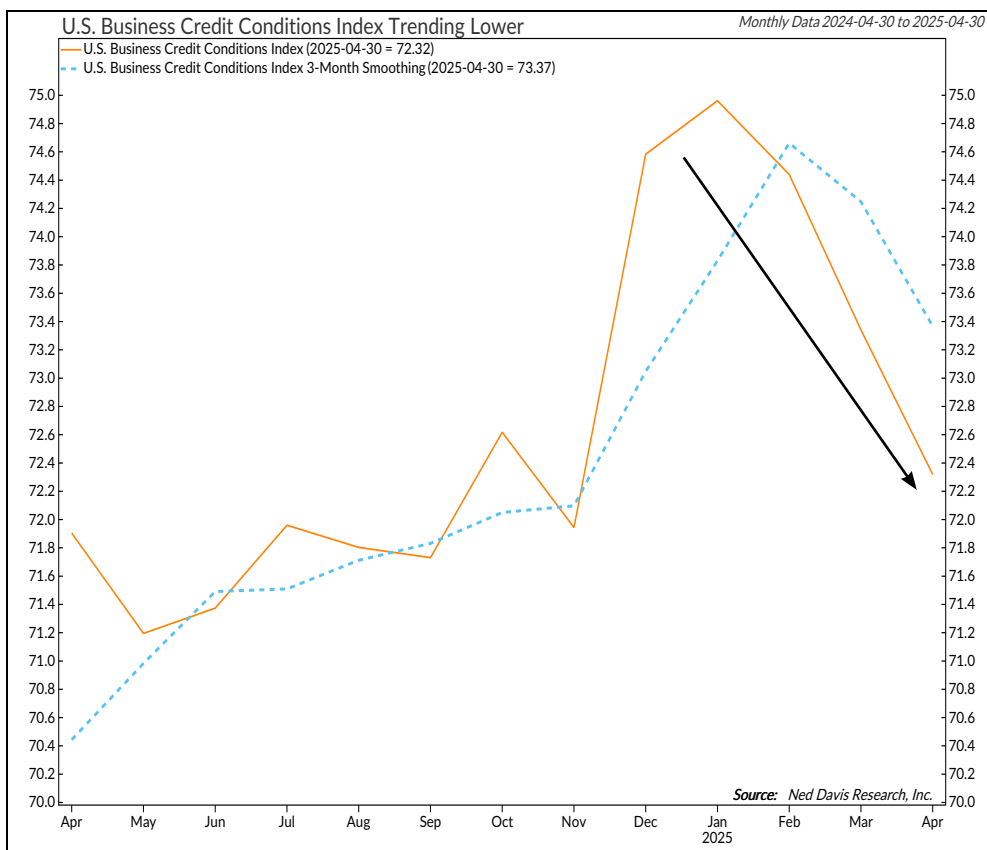
Relative economic data have also gotten more bullish. The Composite Leading Indicator for Europe ex. U.K. relative to the other regions has turned higher and now reside in an uptrend (chart left).

On an absolute basis, the eurozone's composite PMI, which tends to closely track real GDP growth, expanded through April after contracting throughout most of the second half of last year. The prospect of easier monetary policy and a jump in fiscal support from Germany, add more positive elements to the outlook.

The U.S.' allocation improved for May, but remains below benchmark allocation. Technical indicator improvement drove the higher weighting.

However, only one external measure (relative valuations) has a bullish outlook on the region. The PMI is trending lower, business credit conditions are tightening (chart right), and relative ETF asset levels are declining.

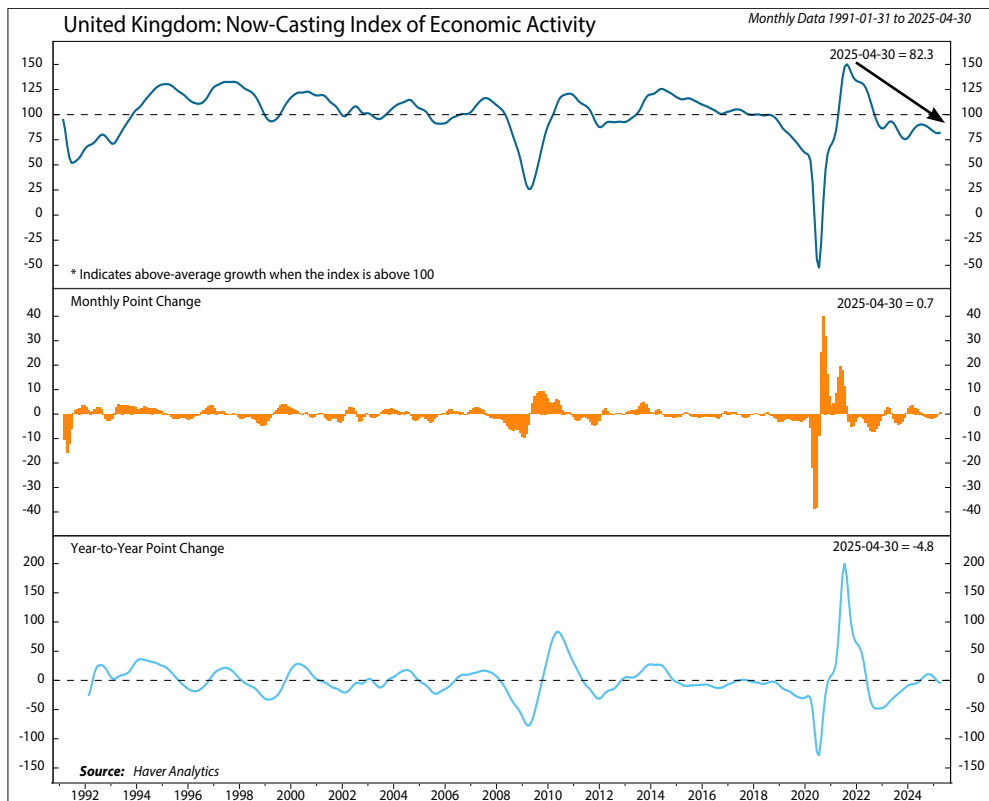
The ISM Manufacturing PMI indicated a decline in factory activity for a second consecutive month, after modest growth in the first two months of this year. Tariffs and economic policy uncertainty dominated survey respondents' comments and were broadly described as disruptive to the business climate.



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The U.K. has an underweight allocation for May. Eight of the region's eleven indicators are bearish.

The region's manufacturing PMI and Now-Casting Index of Economic Activity (chart left) both firmly remain in contractionary territory. Consumer expectations, as measured by the Gfk Consumer Confidence and Expectations surveys, remain negative and in downtrends.

The percentage of companies with positive earnings revisions has been declining as a result of the weaker economic outlook.

## Summary

The global asset allocation framework maintained a below-benchmark equity exposure this month. Within the global equity decision, the model has overweight positions on Europe ex. U.K., Canada, Japan, and Pacific ex. Japan, while holding below benchmark allocations for Emerging Markets, the U.S., and the U.K.



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## NDR Global Allocation Strategy

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