



MAY 2025

Global Market Update

The ACWI ex. U.S. Total Return Index rose more than 365 basis points (bps) in April. The index has increased by over 140 bps during three of the first four months this year. Among the strongest performing markets were Mexico, Hungary, Portugal, Germany, and Belgium, while the largest underperformers included Turkey, China, Saudi Arabia, Norway, and Kuwait.

Global economic growth accelerated in March, as measured by the global composite (services and manufacturing) Purchasing Managers' Index (PMI), to the highest level

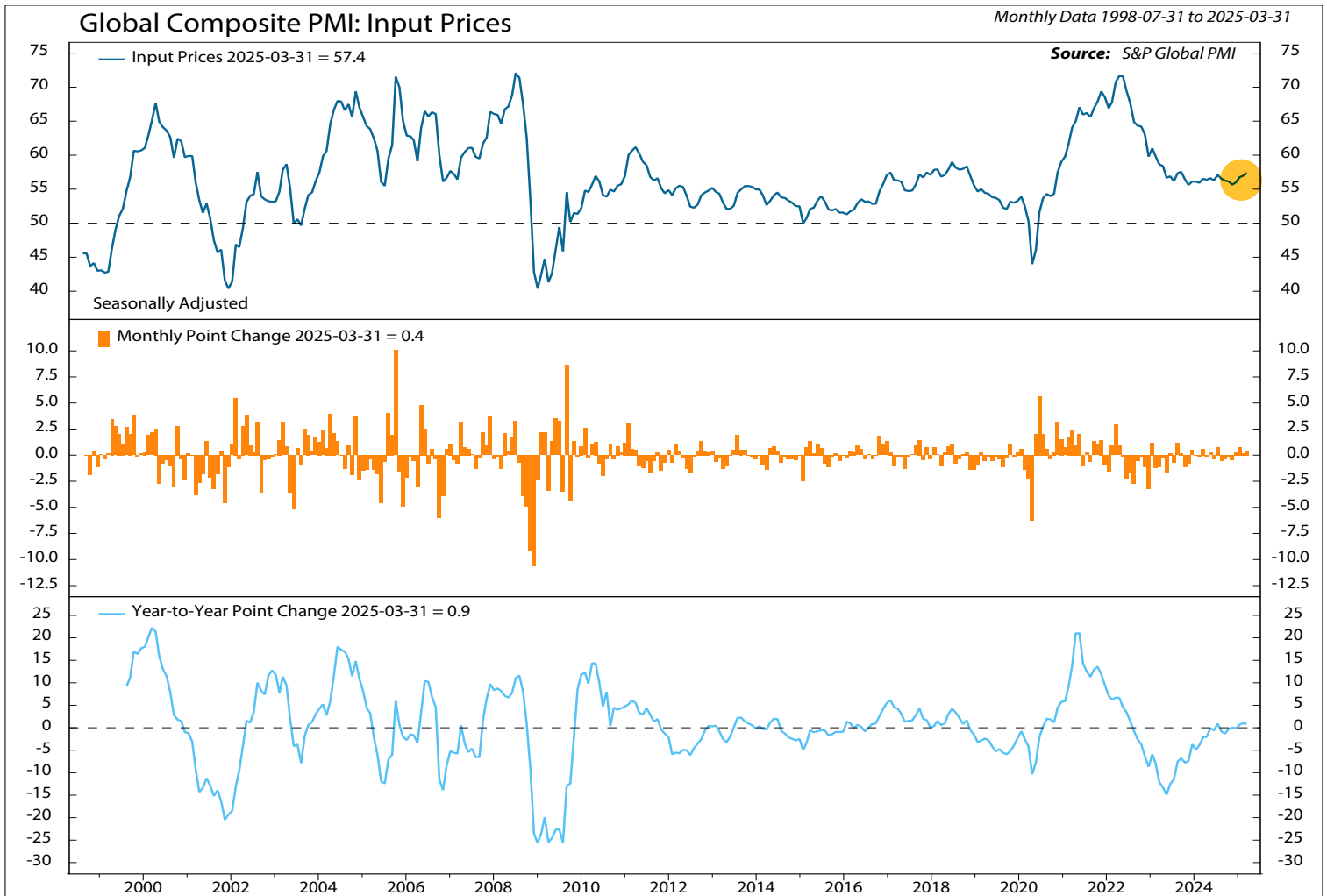
this year. This data included periods of rising policy uncertainty and some U.S. tariff announcements but came before the large and sweeping tariffs announced by the U.S. on April 2.

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 (chart below). Meanwhile, output price growth eased, suggesting pressure on margins.

Entering May, the non-U.S. equity Core model overweighted Germany, France, Canada, and China while underweighting Australia, Japan, and the U.K. The Explore model favored Israel, Philippines, Peru, Sweden, and Turkey.



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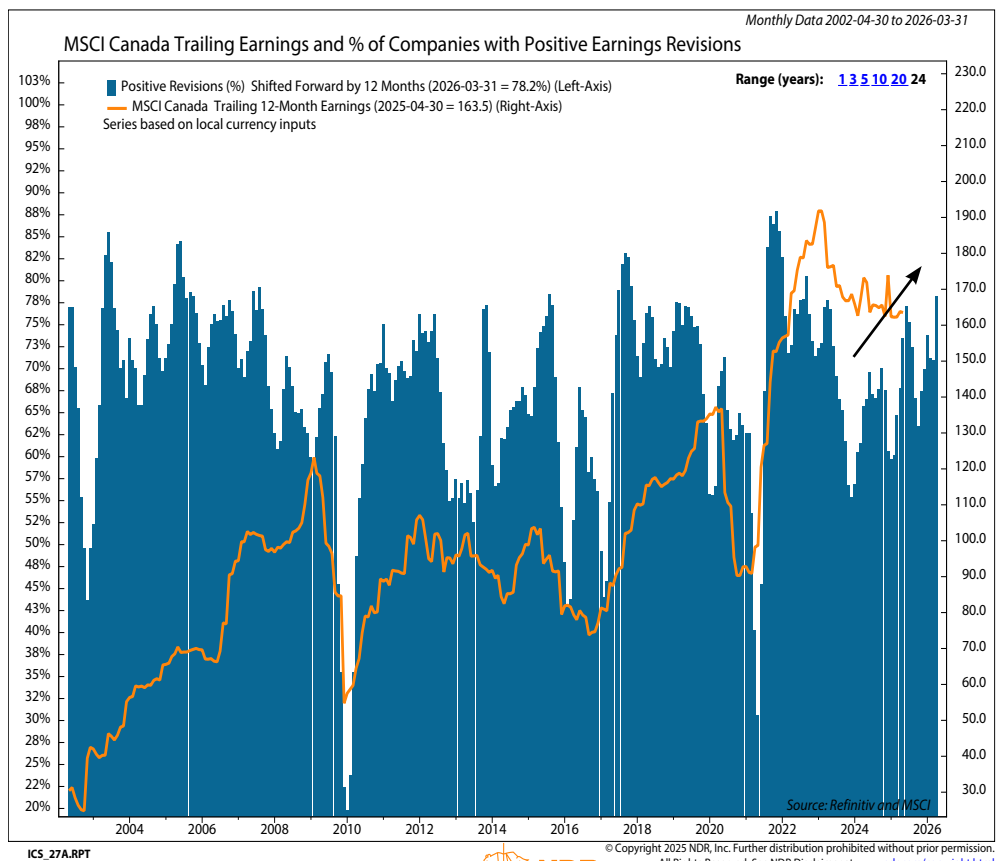
Core Allocations

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.

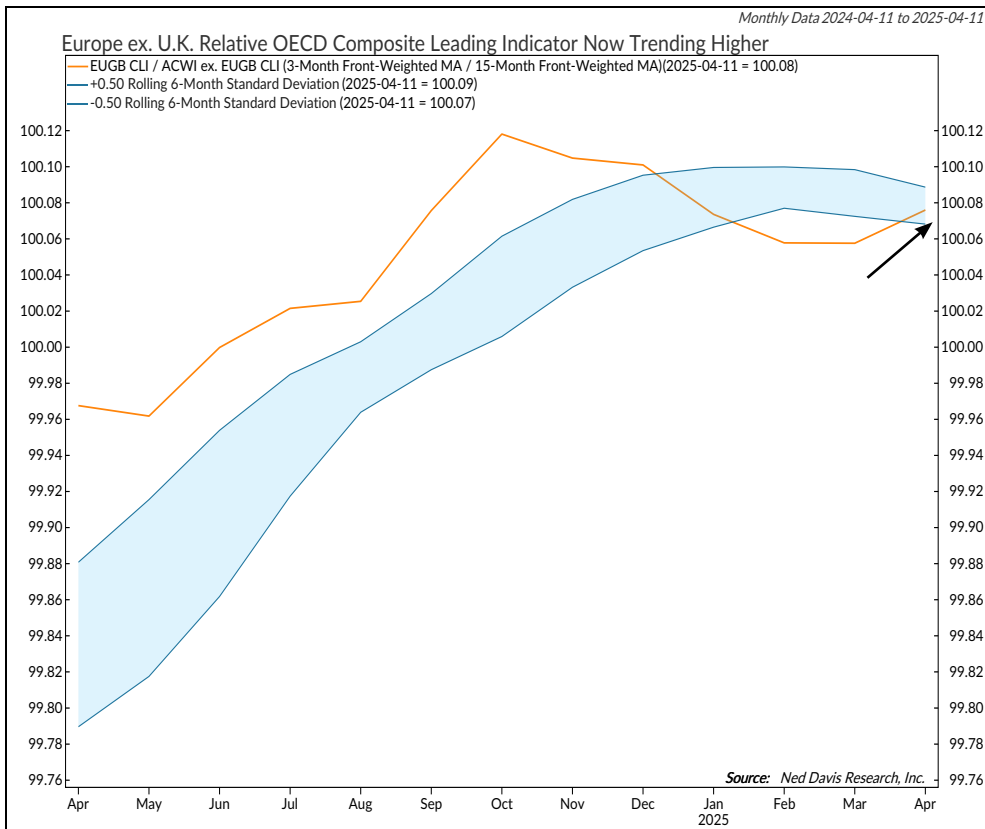
Analysts have responded by raising their expectations. Earnings estimates have improved within the region as more than 75% of companies received upward revisions (chart right).



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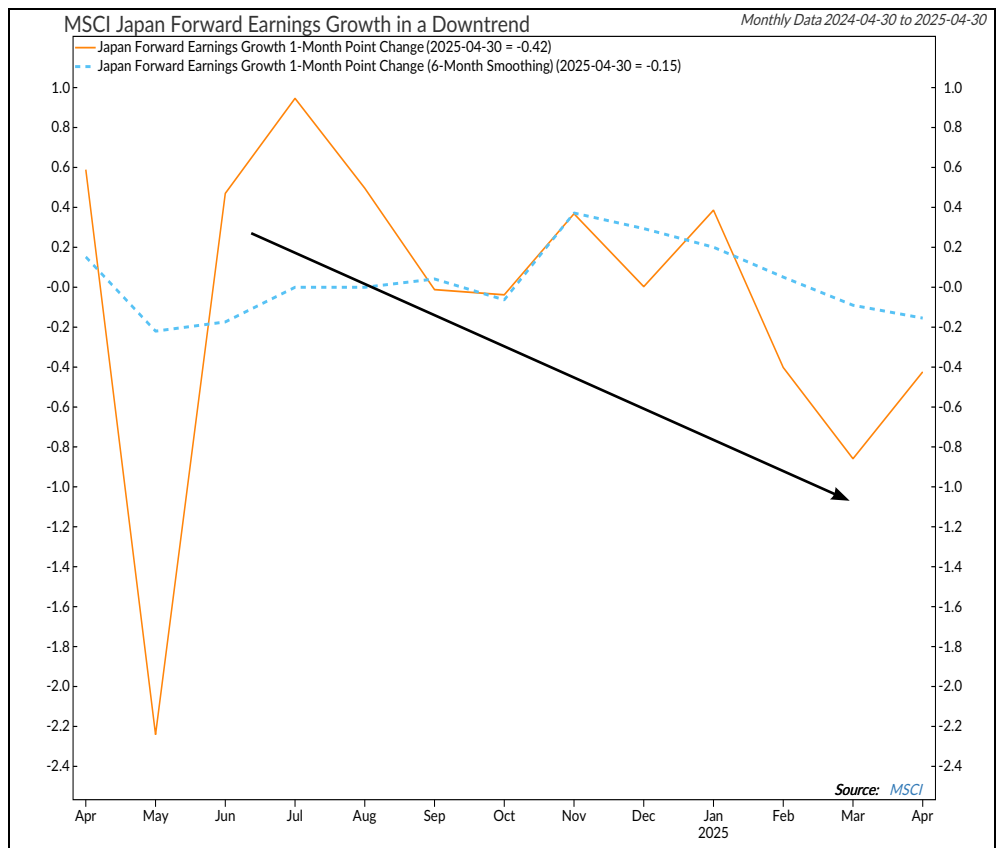
Germany and France are both above benchmark weighting as the indicators are overwhelmingly positive. Sentiment is reversing from a pessimistic condition, and ETFs that track Europe have responded by growing assets.

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.

Japan fell further underweight, as only one-fourth of its indicators are bullish. The trend remains lower as valuations are expensive relative to other markets and near-term earnings growth is weak (chart right).

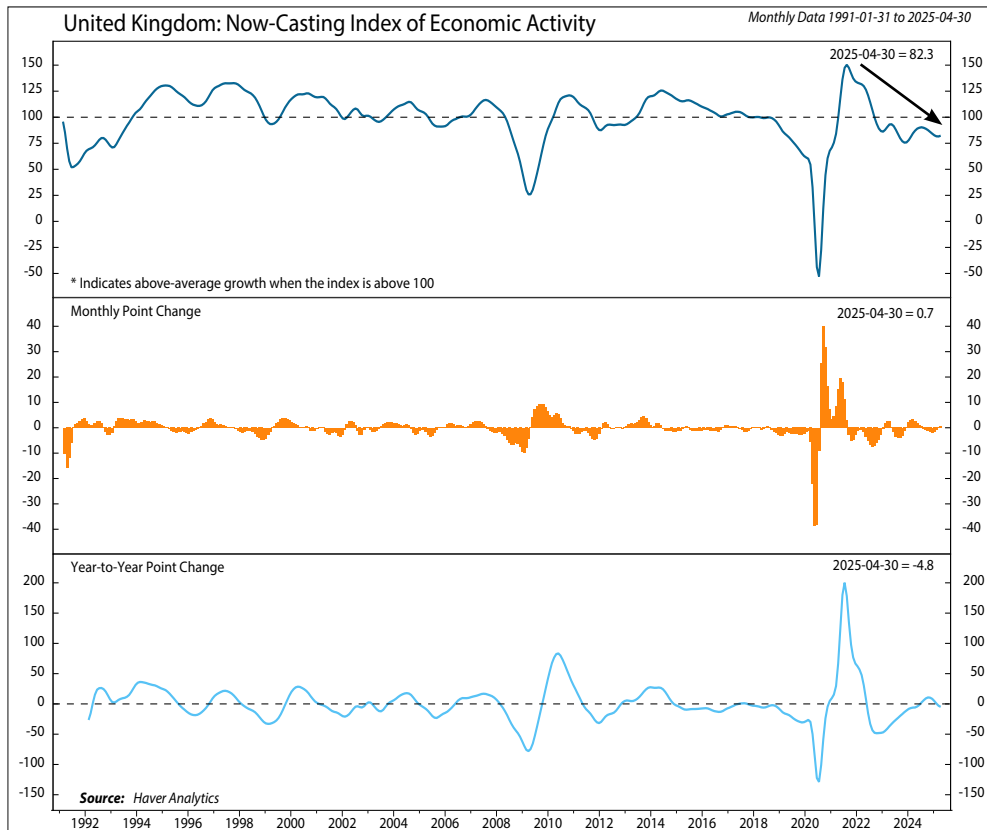
Hard economic data indicate that the economy hit a rough patch. Industrial production fell more-than-expected in March. The decline was led by transport equipment and general purpose and business-oriented machinery (typically large exports to the U.S.). Retail sales also fell to the lowest level in six months.



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The U.K. has an underweight allocation for May.

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.

Explore Opportunities

Among the top ranked Explore markets are Israel, Philippines, Peru, Sweden, and Turkey.

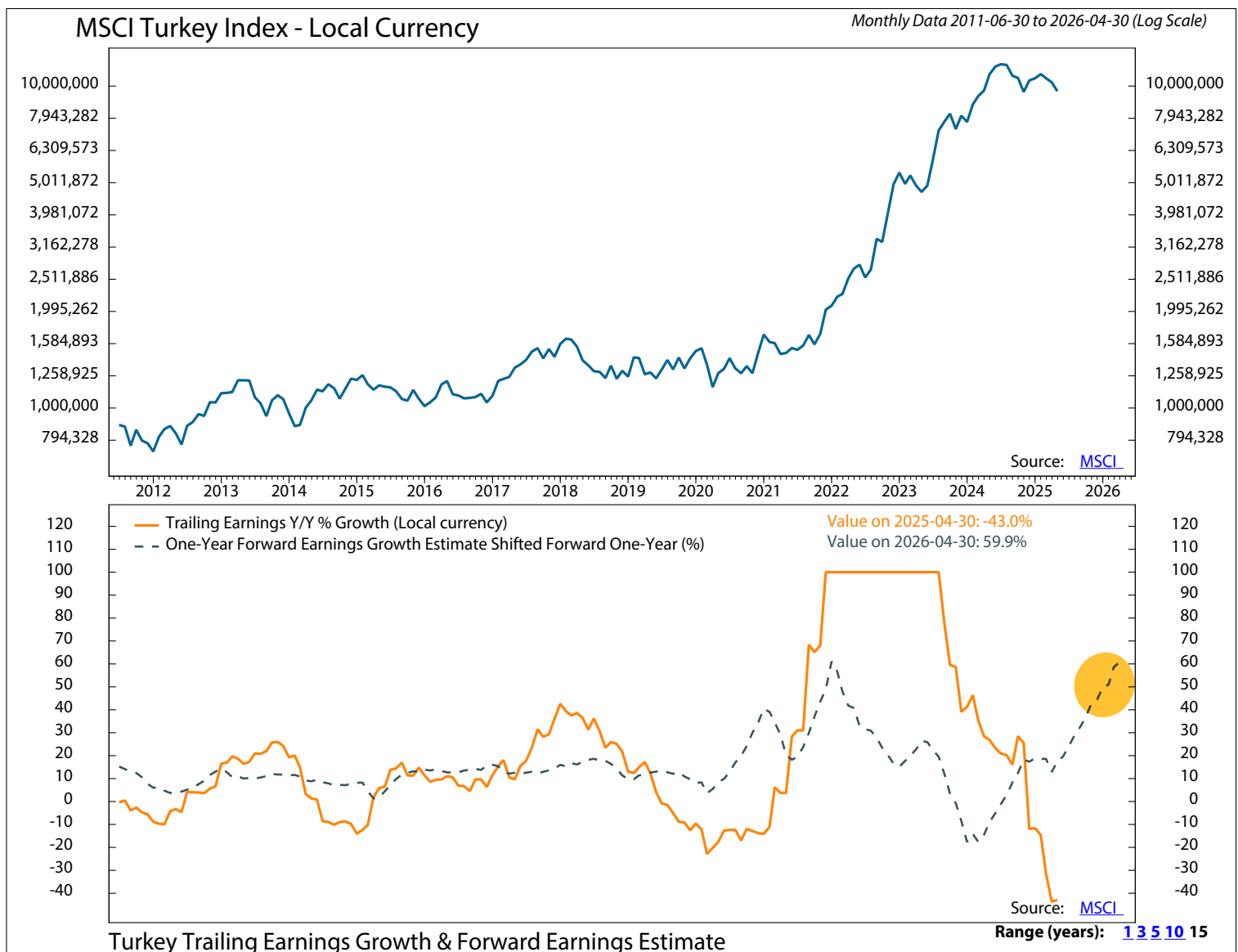
- Israel and Sweden have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- Israel, Peru, and Turkey are more than one standard deviation oversold, which indicates upside mean reversion potential.
- Israel, Peru, Philippines, and Turkey have low market capitalization-to-GDP ratios, which typically indicates a favorable valuation.
- Israel, Philippines, and Sweden have positive relative valuation spreads between their respective earnings yields and 10-year government bond yields.

- Philippines' cyclically adjusted price-to-earnings ratio is almost one standard deviation below its historical tendency.
- Turkey has an expansionary Composite Leading Indicator reading.
- Israel, Philippines, and Sweden have expansionary manufacturing PMI data.
- Sweden's Citigroup Economic Surprise Index reading is the highest across developed economies.
- Israel, Philippines, Sweden, and Turkey have at least 65% of their stocks with positive earnings revisions from analysts.
- Turkey has the largest one-year forward earnings growth reading (chart below).

Summary

Entering May, the non-U.S. equity Core model overweighted Germany, France, Canada, and China while underweighting Australia, Japan, and the U.K. The Explore model favored Israel, Philippines, Peru, Sweden, 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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