Dynamic Allocation Strategy

JULY 2026

Macro/Market Update

The global economy stabilized in May and remained firmly out of recession territory, according to the global composite (services and manufacturing) Purchasing Managers' Index (PMI).

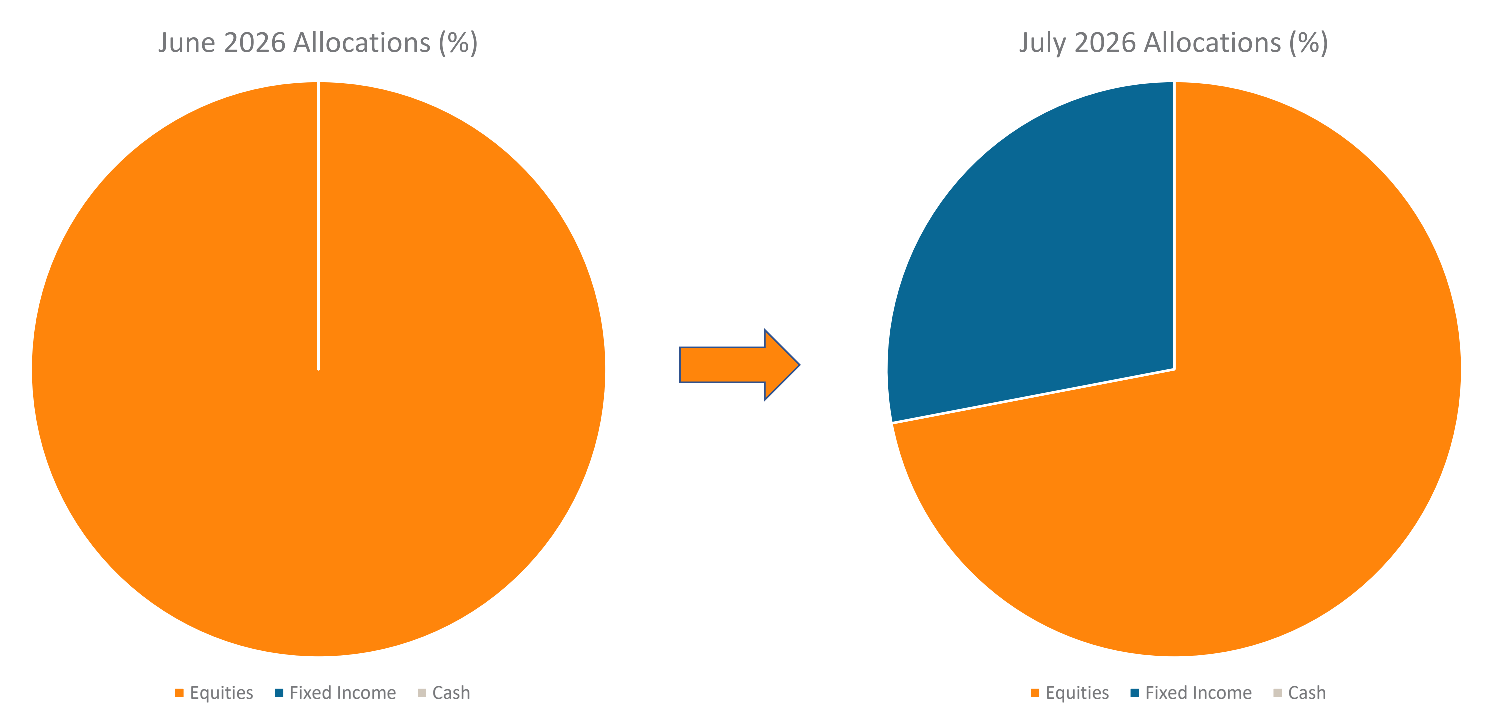
Other indicators in the report were mixed. New orders growth accelerated, a positive sign for near-term output. However, businesses appear less sanguine beyond that horizon. Employment contracted by the most since August 2020, indicating a lack of longer-term commitment, while the future output index fell to its lowest level since Liberation Day last year. This indicates that the global economy is likely to grow, but at a slower pace in the second half of the year.

Both the global services and manufacturing sectors expanded in May, but the manufacturing PMI exceeded the services PMI for a third consecutive month. This also occurred during periods of supply chain disruptions and commodity price spikes (e.g., 2011 and 2022). While the manufacturing pickup is partly driven by the AI boom, there is evidence that some of the strength is war-related, suggesting potential economic payback in the second half of the year.

The composite PMI price indices rose to, or remained near, their highest levels since late 2022, suggesting increased CPI inflation pressures in the months ahead. The New York Fed's Global Supply Chain Pressure Index, which incorporates many PMI components, held near its highest level since late 2022. Given this indicator's leading relationship with CPI, it suggests that even if the Strait of Hormuz reopens soon, supply chain disruptions stemming from the war will continue to feed into inflation at least through year-end.

During June, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by more than six basis points (bps). However, stocks have produced higher returns than bonds for eleven of the last fourteen months.

Asset Allocation Summary

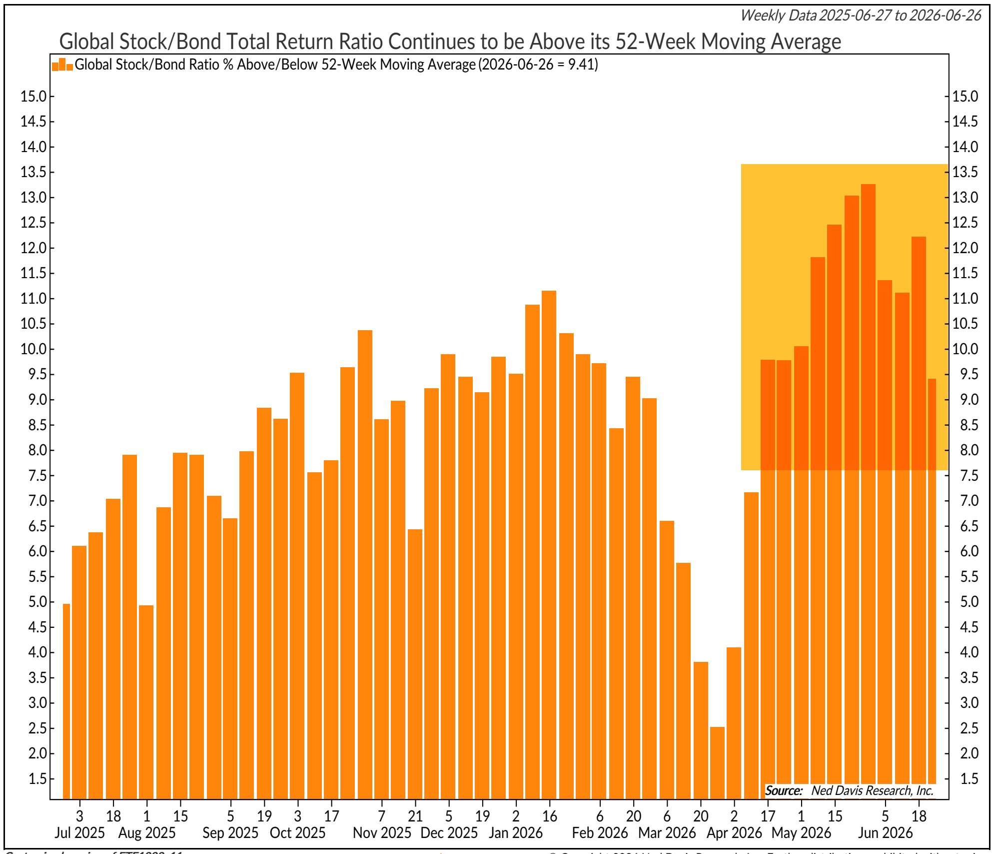


* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

The equity allocation declined, but it remains above benchmark weight. Two-thirds of the indicators, which weigh the relative attractiveness of stocks and bonds, favor stocks.

The trend remained positive this month, as the global stock/bond relative strength ratio is bullish on equities. The global stock/bond relative strength line resides at more than 9.4% above its 52-week moving average (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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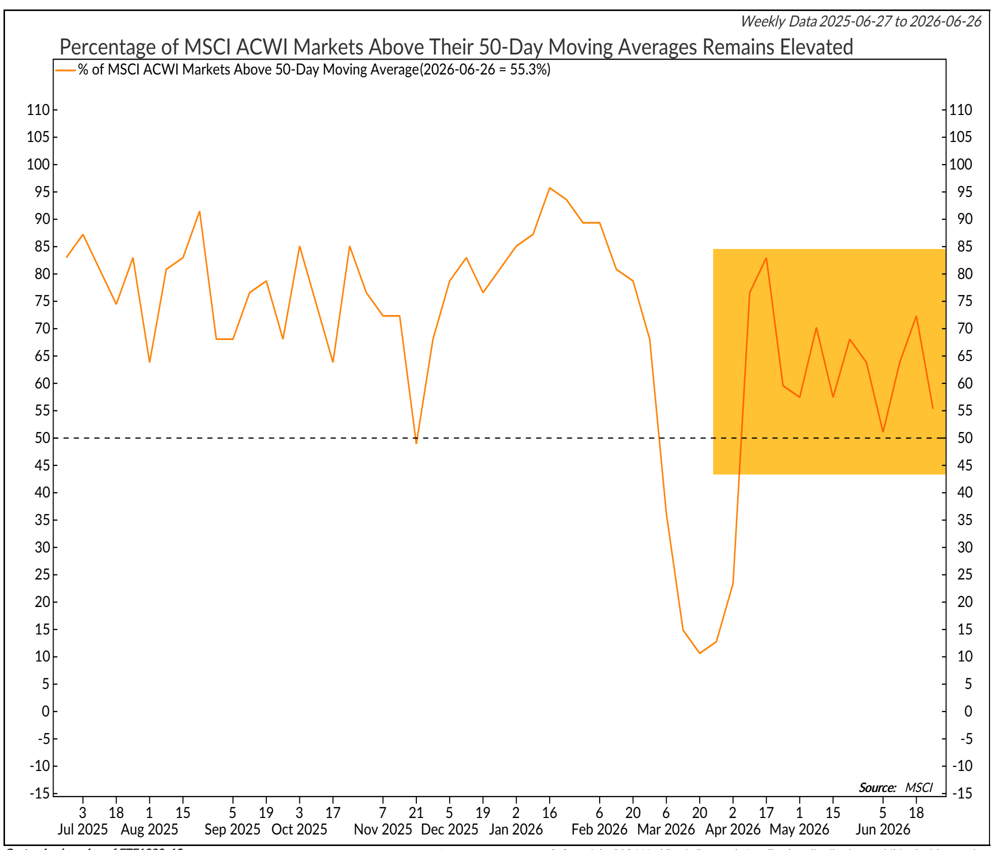

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Global upside participation (breadth) stayed bullish on equities, as over 55% of equity markets trade above their 50-day moving averages (chart left). This indicator describes the underlying health of global equities, since it tracks the number of markets participating on the upside.

The price action reflects positive macro data. Global high yield option-adjusted spreads have declined more than 55 bps since late March (chart right), which indicates increased risk appetite among fixed income investors.

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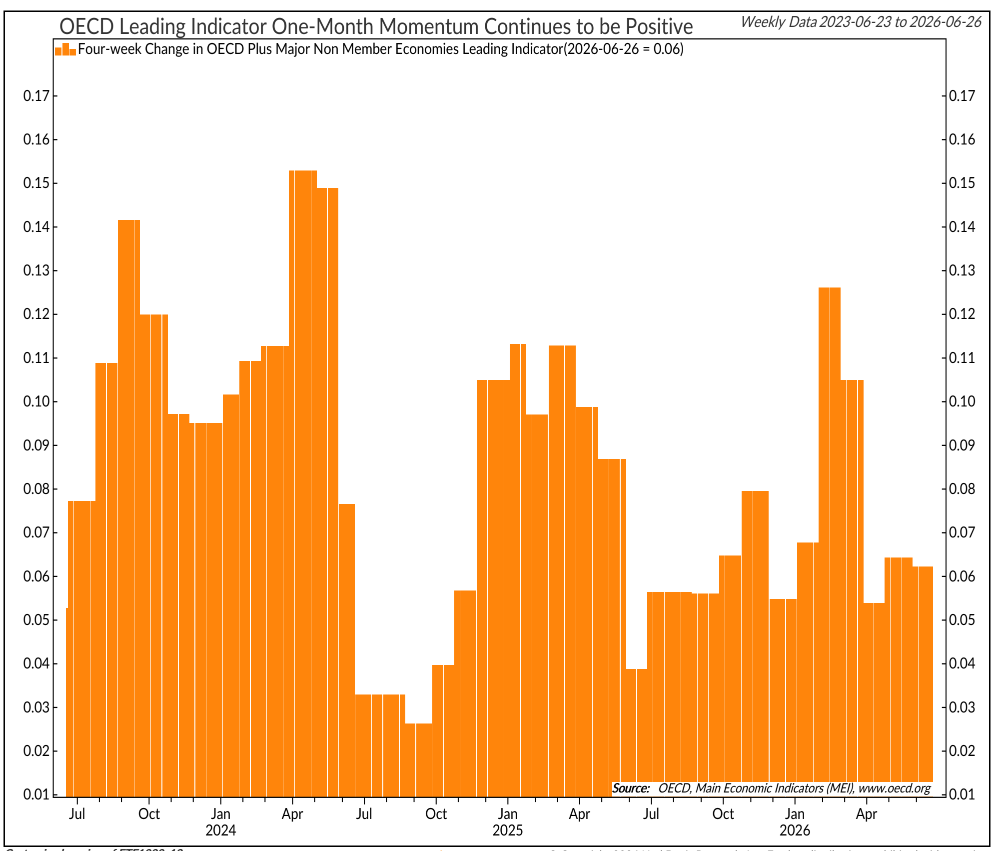

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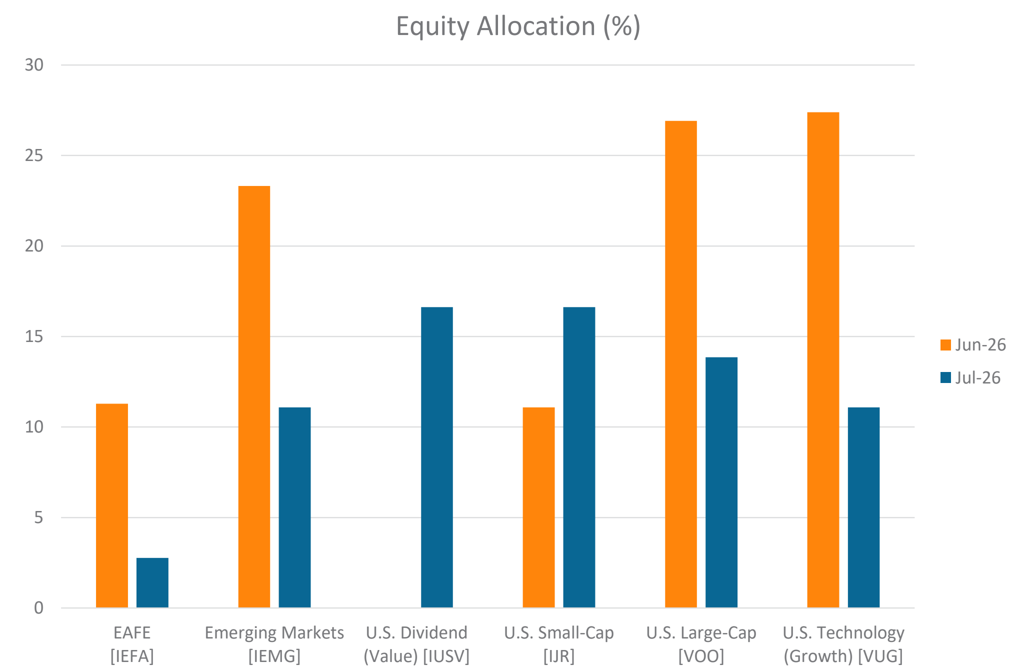
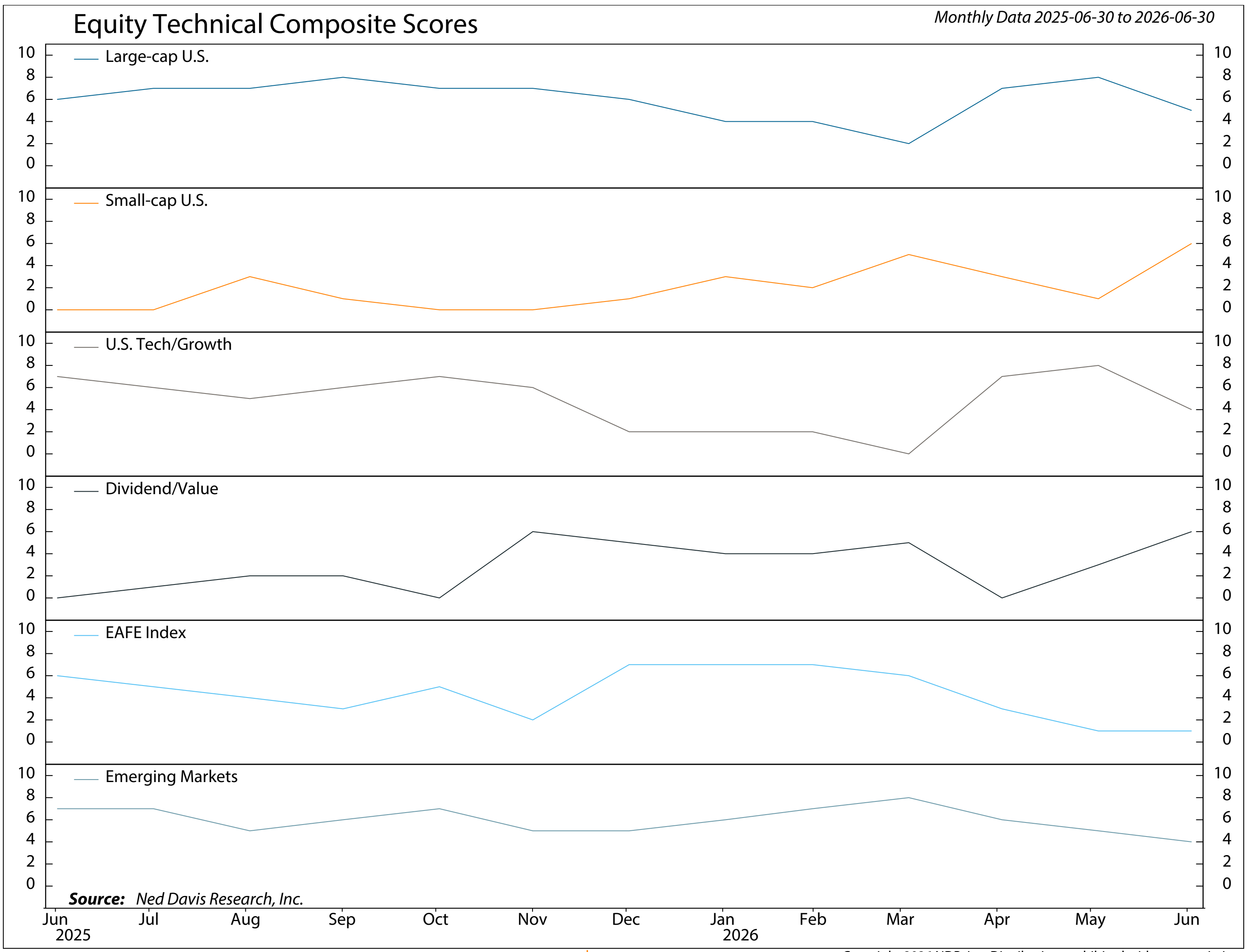
After declining for 18 consecutive months, the four-week change in the Organization for Economic Cooperation and Development (OECD) Composite Leading Indicator (CLI) has increased for the past 37 months (chart left).

The OECD creates monthly CLIs for 35 economies to capture turning points in the growth cycle. Each CLI contains a wide range of indicators such as money supply, yield curve, building permits, consumer and business sentiment, share prices, and manufacturing production. Improvement in global economic momentum is usually bullish for equities.

Equity Allocation Summary

During June, only U.S. Small Caps grew more than 100 bps. The index had its second-best month since 2024, as it soared over 725 bps. U.S. Small Caps, U.S. Value, International Developed, and Emerging Markets are on three-month winning streaks. U.S. Large Caps and U.S. Growth both fell more than 95 bps. U.S. Growth has been lower in six of the last eight months. U.S. Small Caps and U.S. Value each received more than 15% allocation for July.





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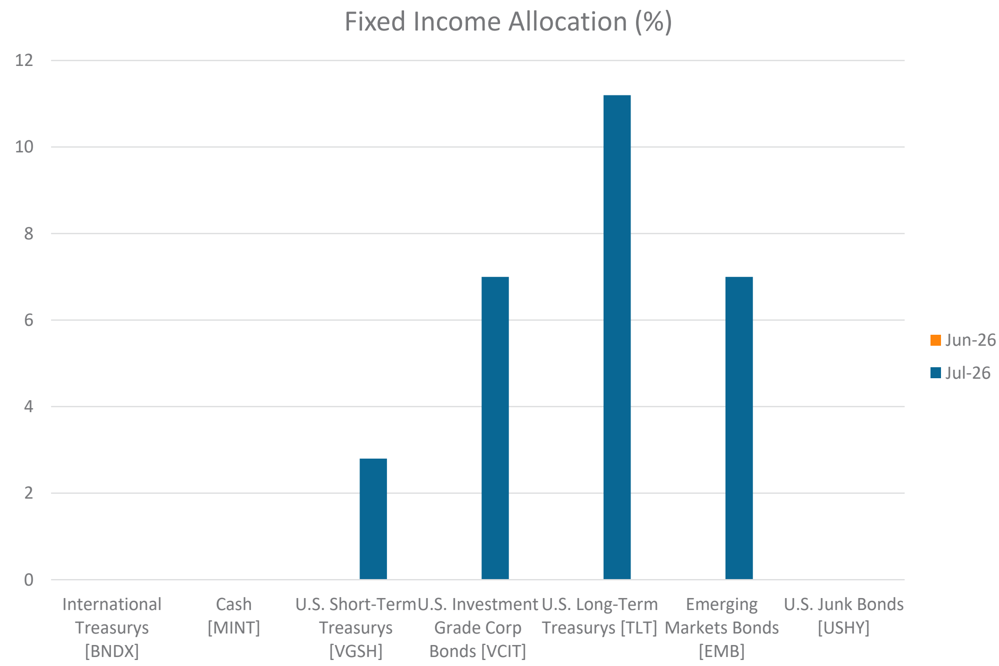
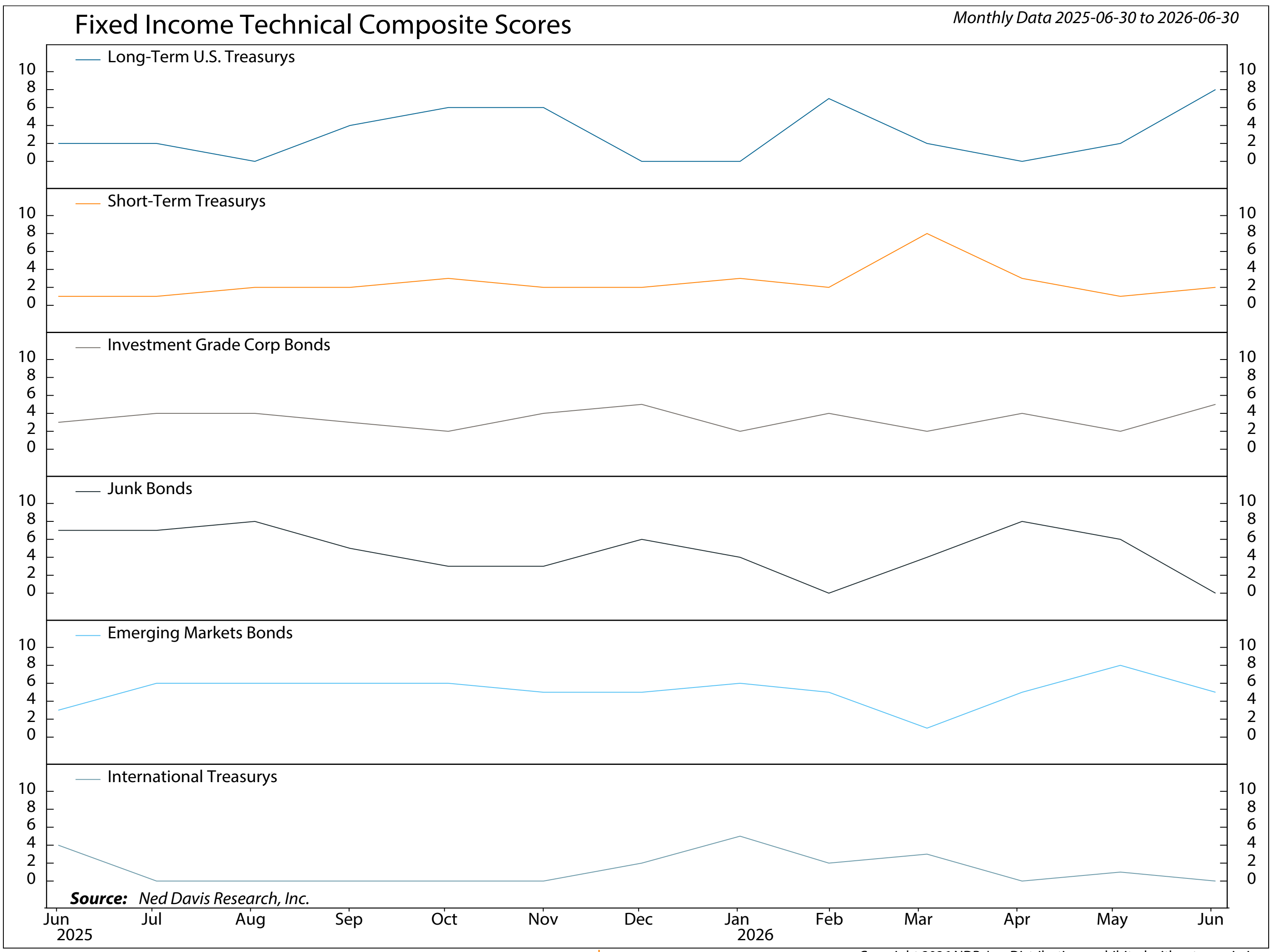
Fixed Income Allocation Summary

All fixed income areas rose in June. Only U.S. Long-Term Treasurys gained over 100 bps. Emerging Market (EM) bonds and International Investment Grade increased more than 40 bps. EM bonds have been higher for twelve of the last thirteen months. All remaining fixed income areas grew by less than 20 bps. U.S. Long-Term Treasurys, U.S. Investment Grade Corporates, and EM bonds each received at least 7% allocation for July.





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