Dynamic Allocation Strategy

MAY 2024

Macro/Market Update

The global economy finished the first quarter on a strong note, according to the S&P Global Purchasing Managers' Index (PMI). It was the fifth straight month of expansion and the strongest growth in nine months, but still below its long-term average.

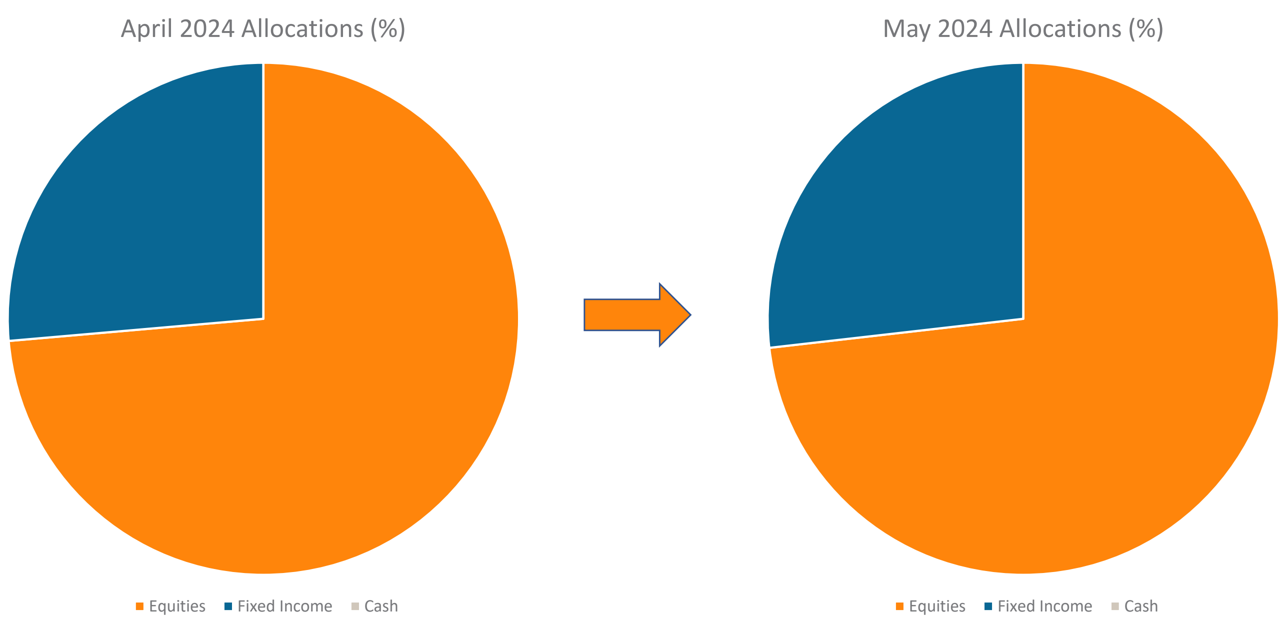
The composite continues to move further away from historically recessionary levels, indicating diminishing risk of a sustained global slowdown. The eurozone, U.K., and Japan are no longer brushing with recession, while economic growth in the U.S., China, and India remains resilient.

Leading indicators, such as new orders and future output expectations, continue to move higher, suggesting further upside in the months ahead. Growth continued to broaden among sectors and economies. Global services grew at its fastest pace since June, while manufacturing expanded for the second straight month. Accelerating economic momentum is consistent with ongoing outperformance in global equities.

With the strong expansion has come inflation that has struggled to come down measurably over the past year, due to stickiness in services prices. This will keep many of the world's central banks on hold in the near-term.

During April, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by over 70 basis points (bps). It was the first month that bonds outpaced stocks since October. The recent sell-off notwithstanding, the global market uptrend is well intact with economic growth holding its own and earnings growth rising.

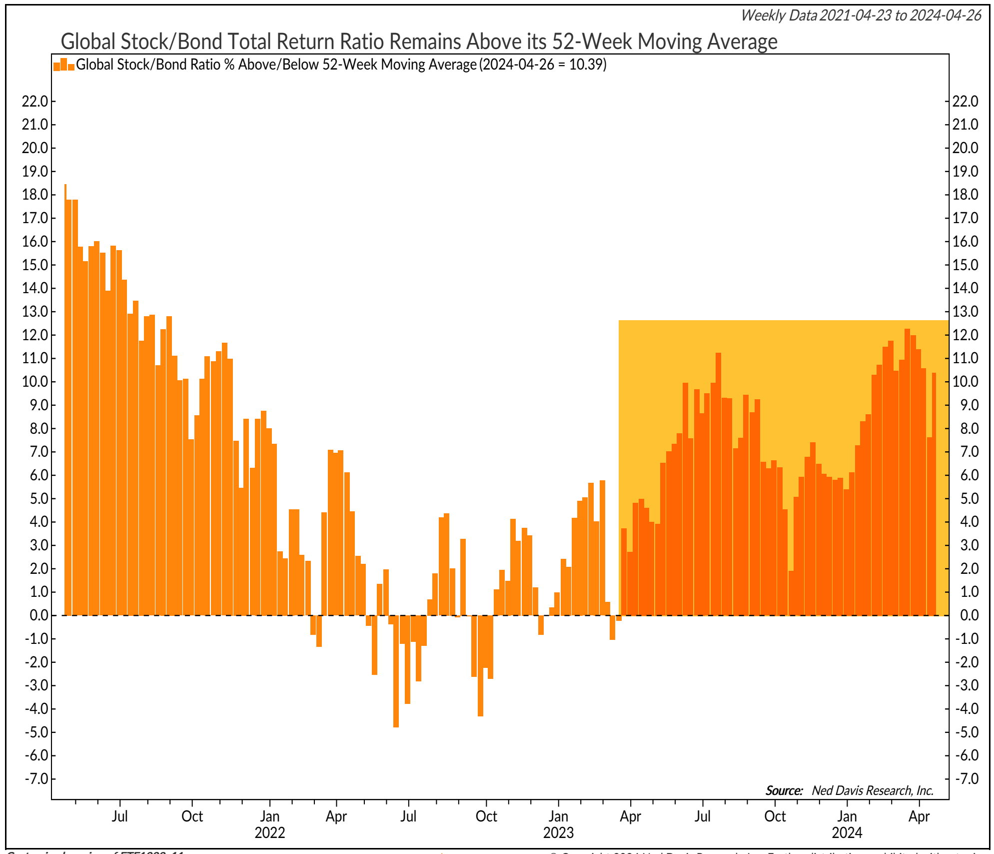
Asset Allocation Summary



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

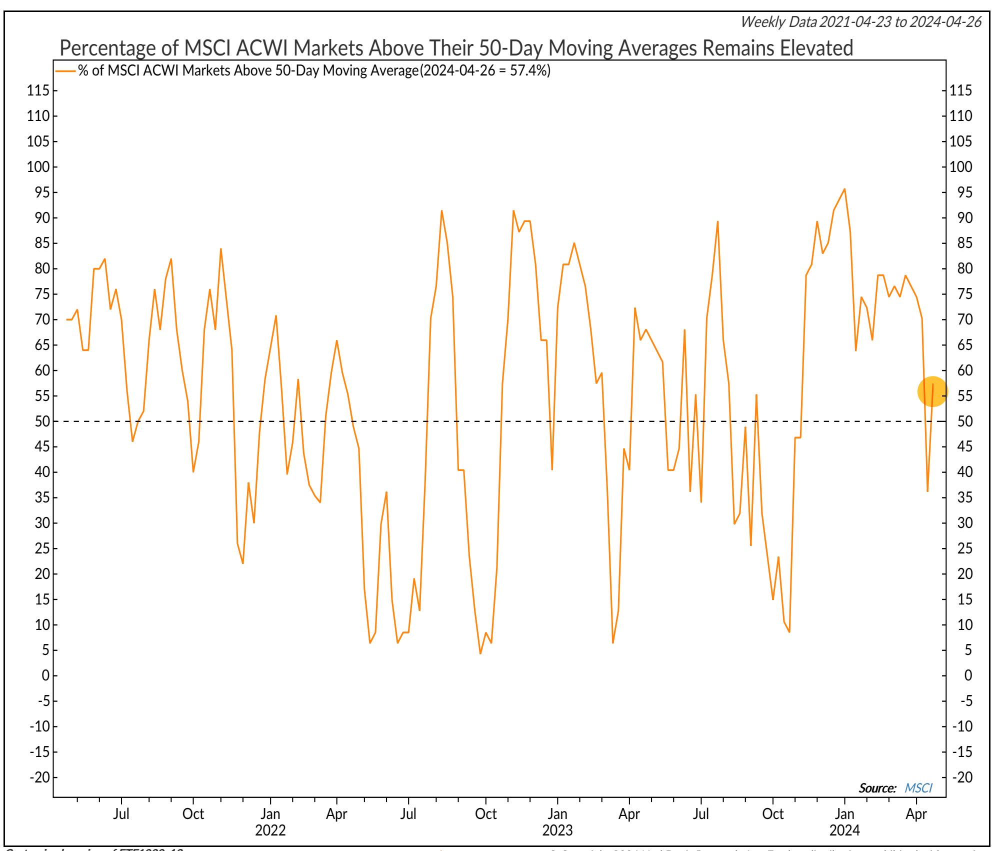
The equity allocation remained above benchmark weighting, as the model did not trade this month. The model uses a turnover reduction mechanism, which reduces trading. The proposed allocations did not deviate enough from the existing weightings to warrant a model rebalance.

The stock/bond relative strength indicator, which receives the greatest weighting in the model, compares the stock/bond ratio to its 52-week moving average. Although the ACWI pulled back by more than 5% during April, the stock/bond relative strength ratio continues to reside at more than 10% above its 52-week moving average (chart right). This indicator has favored equities for more than one year.



Customized version of ETF1000_11

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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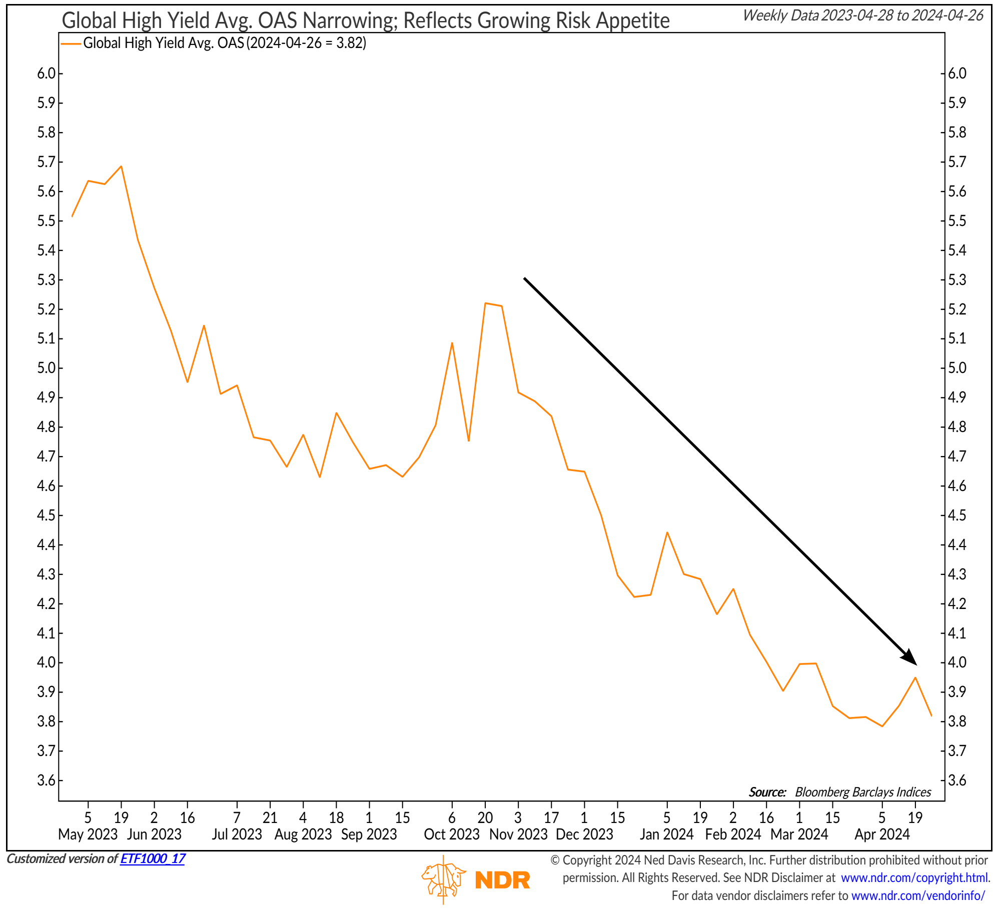
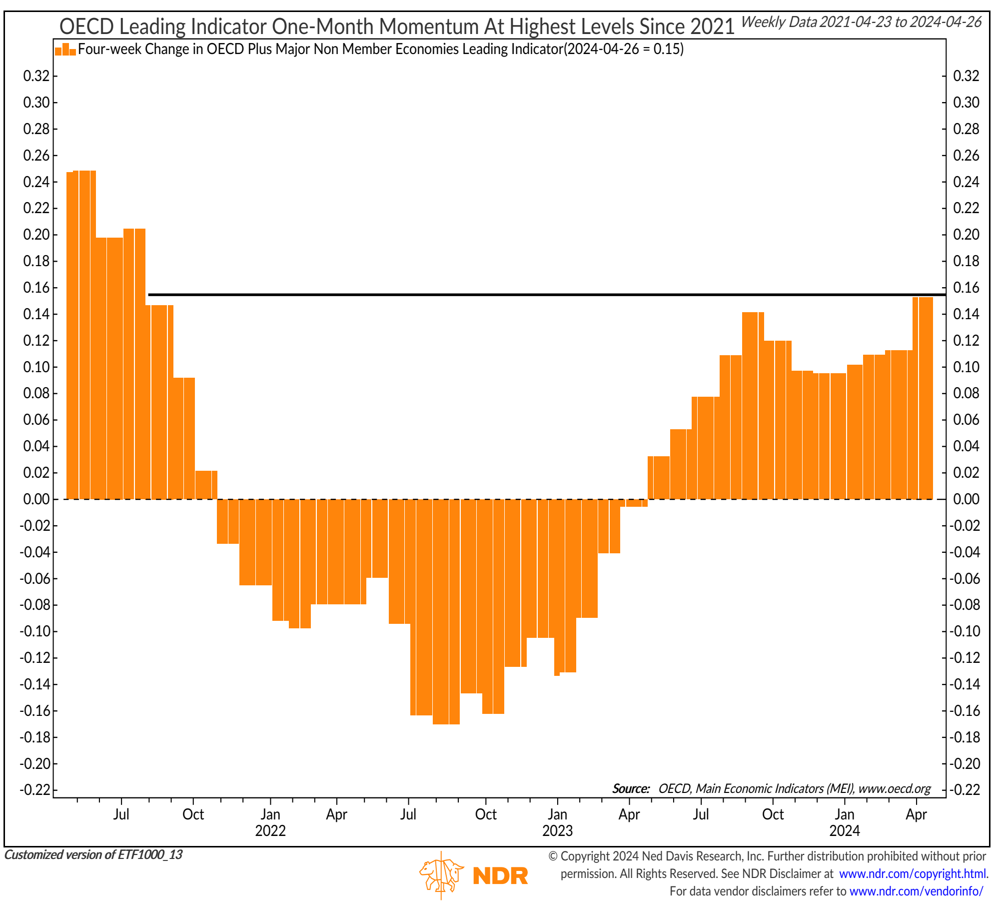
The strength in trend continues to be supported by positive breadth, as more than 57% of global equity markets are trading above their 50-day moving averages (chart left). At the beginning of April, 75% of market met that criterion. During the pullback, breadth deteriorated causing the percentage of markets above trend to drop as low as 36%. During the last week of the month, breadth strengthened in support of the uptrend.

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 they can support the popular averages.

After rising by almost 60 basis points (bps) from mid-September through October, global high yield option-adjusted spreads (OAS) have fallen 140 bps through April (chart right), which reflects improving risk appetite.



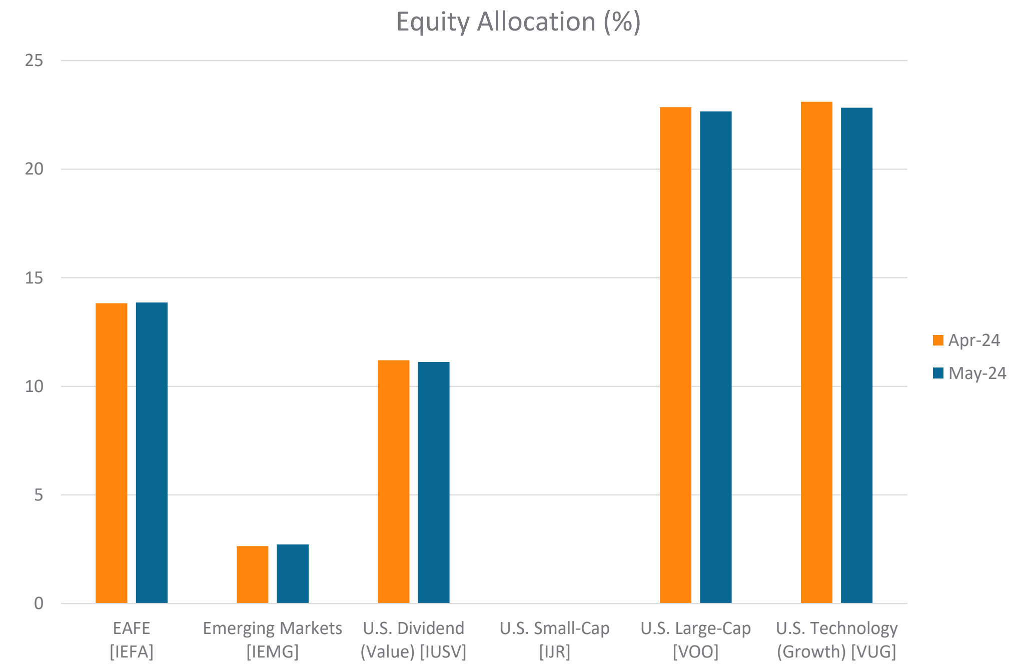


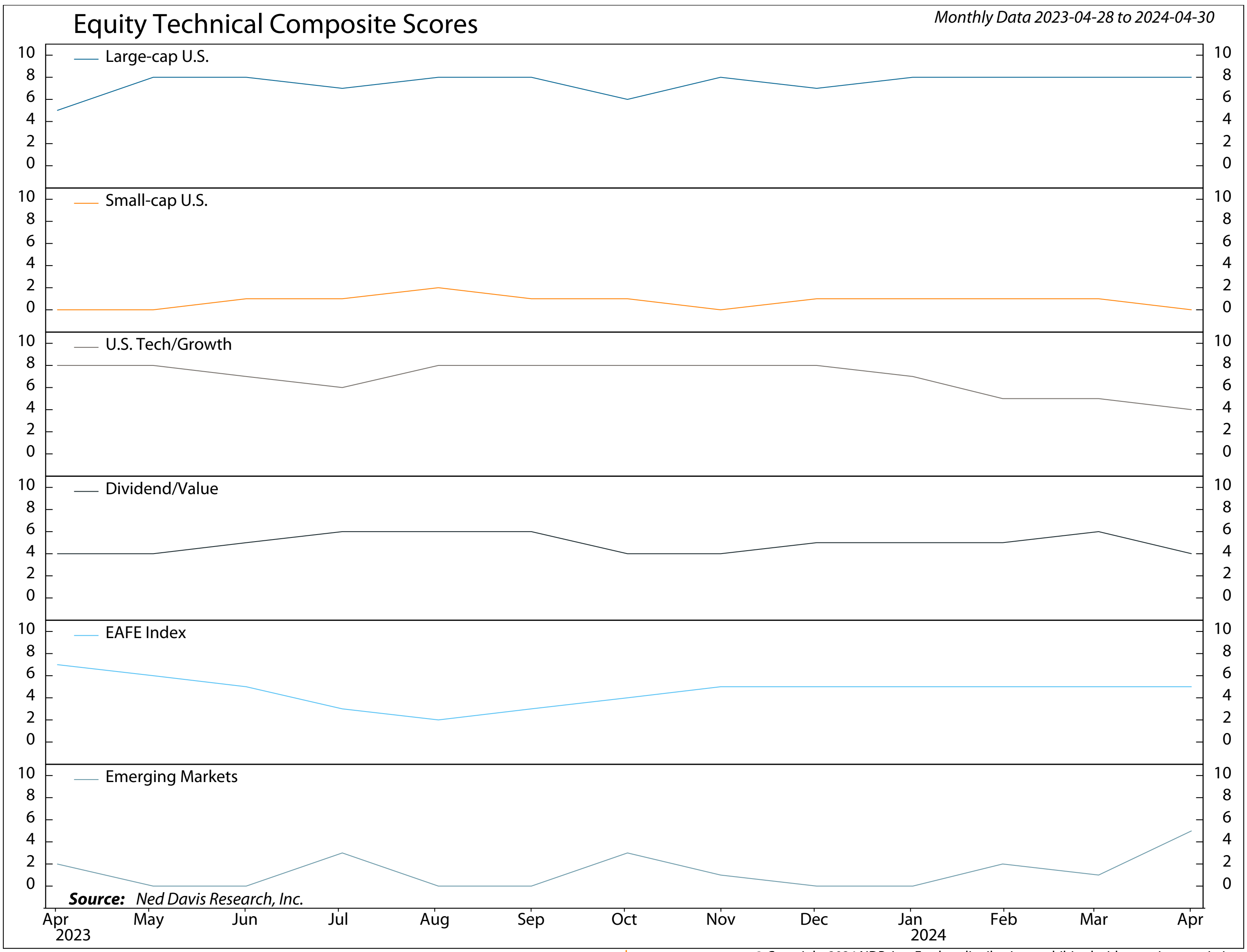
After declining for 18 consecutive months, the four-week change in the Organization for Economic Cooperation and Development (OECD) Composite Leading Indicator (CLI) has increased for the past 12 months and is at its highest level since 2021 (chart left).

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 supports the trend.

Equity Allocation Summary

During April, only Emerging Markets produced a positive return. The remaining five regions declined by at least 325 basis points (bps). It broke five-month winning streaks for U.S. Large-Caps, U.S. Growth, and U.S. Value. U.S. Small-Caps dropped more than 550bps. U.S. Large-Caps, U.S. Growth, U.S. Value, and International Developed received more than 10% allocation for May (chart right).





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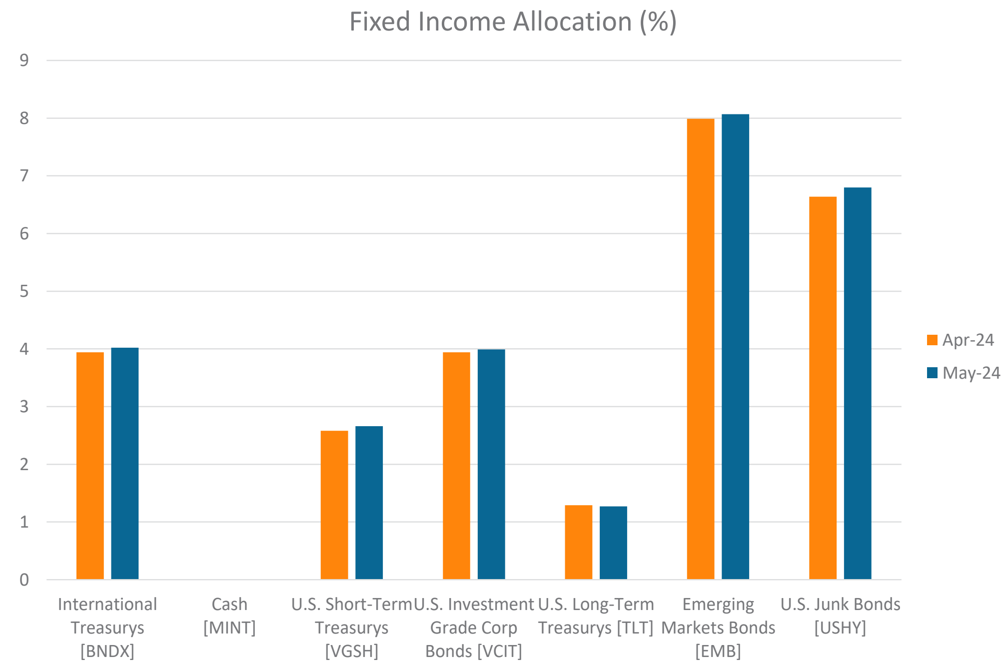
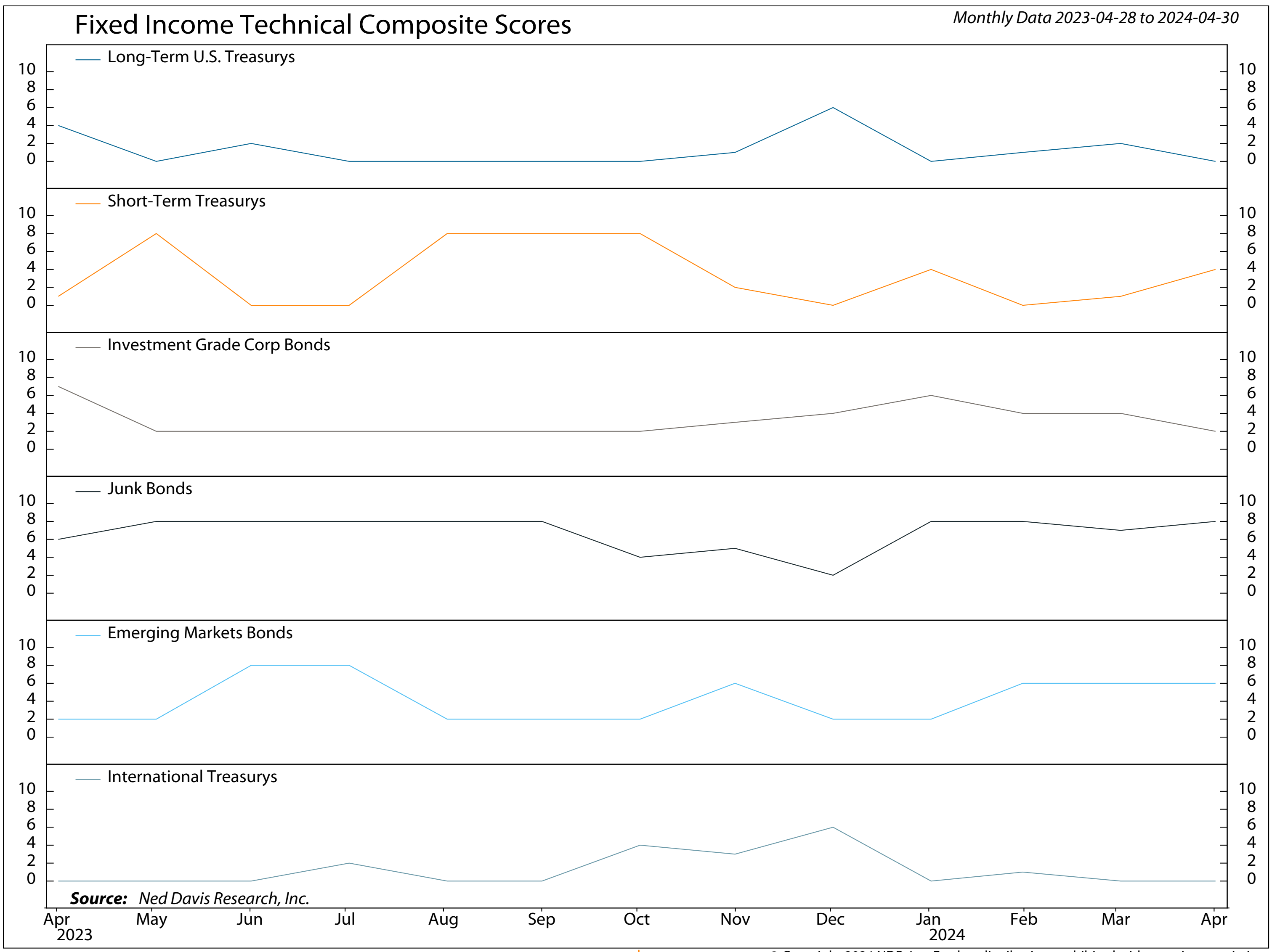
Fixed Income Allocation Summary

All fixed income areas fell last month. Down more than 6%, U.S. Long-Term Treasurys (TLT) generated its worst monthly return since September. Emerging Market (EM) bonds, U.S. Investment Grade Corporates, and International Investment Grade each declined over 140 bps. U.S. High Yield's five-month winning streak ended. Emerging Market bonds and U.S. High Yield were the only areas to receive more than 5% allocation for May (chart right).





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