Dynamic Allocation Strategy

FEBRUARY 2024

Macro/Market Update

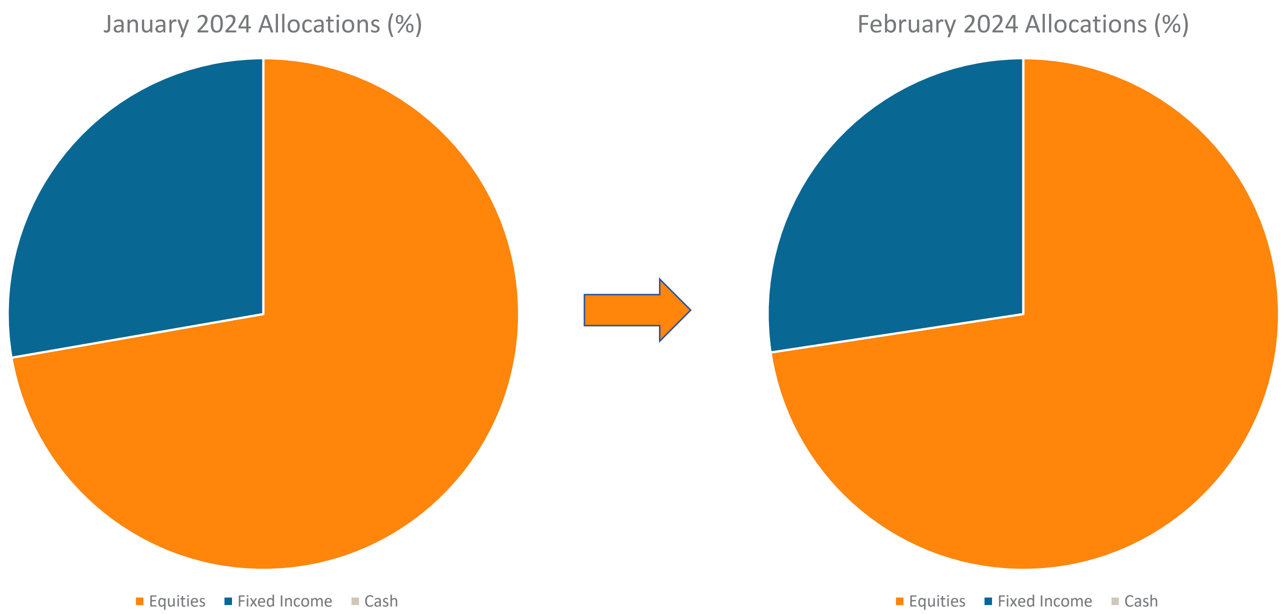
The global economy ended 2023 showing signs of resiliency, exhibiting a modest expansion, according to the S&P Global Purchasing Managers' Index (PMI). It was the second straight month of growth, following stagnation in October, and the highest reading since July. Leading indicators, such as overall new orders and the future output index, rose to their highest levels in six months, indicating continued strength in the near-term.

However, the global economic expansion is much slower than it was earlier in 2023, as the PMI peaked in May, and is still well below its long-term average. Downside risks abound, including the delayed impact of tight monetary policy, sticky inflation, less fiscal support, and an abundance of geopolitical risk. The global expansion also lacks broad participation across economies. The services sector is expanding, but manufacturing continues to sputter. Many economies, with greater concentration in Europe, are still showing contracting services and manufacturing activity. This supports an outlook for slower economic growth, but no recession. The lack of a recession would be critical for investors, since the largest bear markets typically occur during economic contractions.

Global input prices accelerated in December, while output price growth was little changed. Both indexes, while down from last year, made little headway in the second half of the year and remain above pre-pandemic levels. Sticky prices continue to present challenges to central banks regarding monetary policy.

During January, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays Global Aggregate Bond Index by over 198 basis points (bps). Stocks have outpaced bonds for nine of the last 13 months. Global equities started 2024 with a healthy consolidation, cooling the excessive optimism and relieving the overbought condition produced by the market surge into year-end. Overall, global equity performance continues to be robust as evidenced by the record highs on the Dow Jones Industrial Average and the S&P 500 Index. Among the 47 MSCI indices, record highs have been reached by the MSCI U.S. Index and several other markets, representing most of global market capitalization.

Asset Allocation Summary

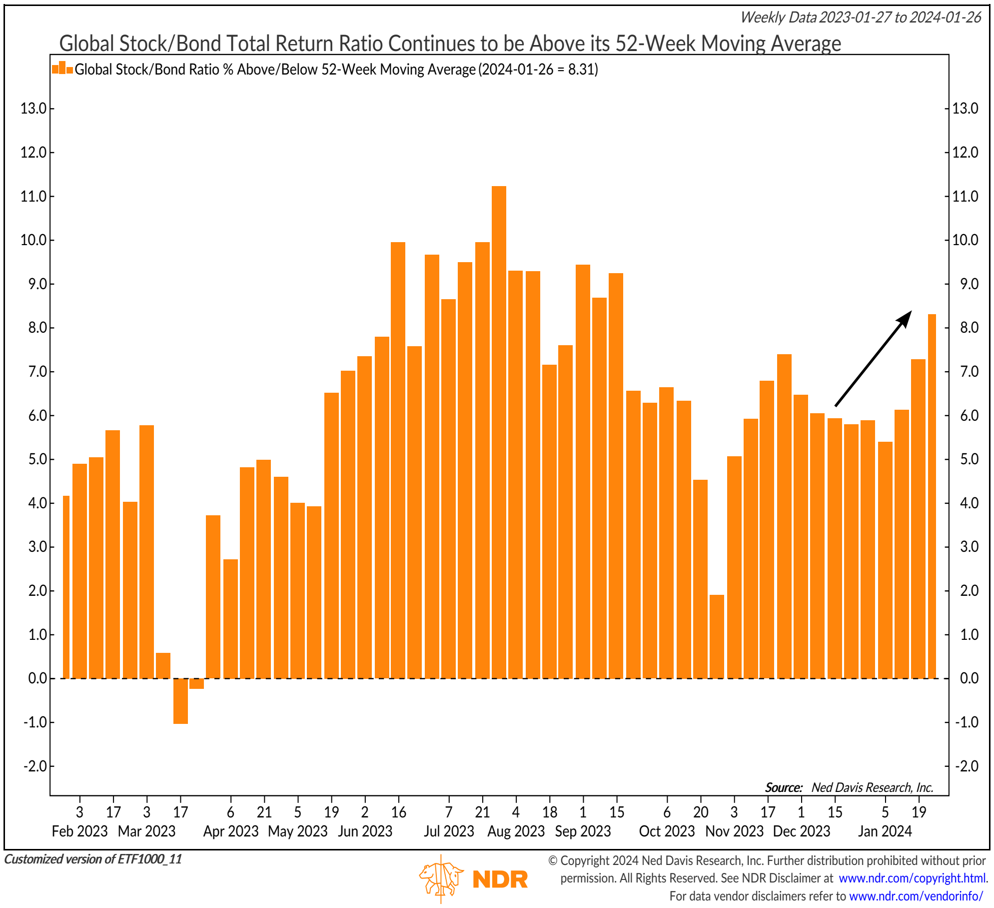


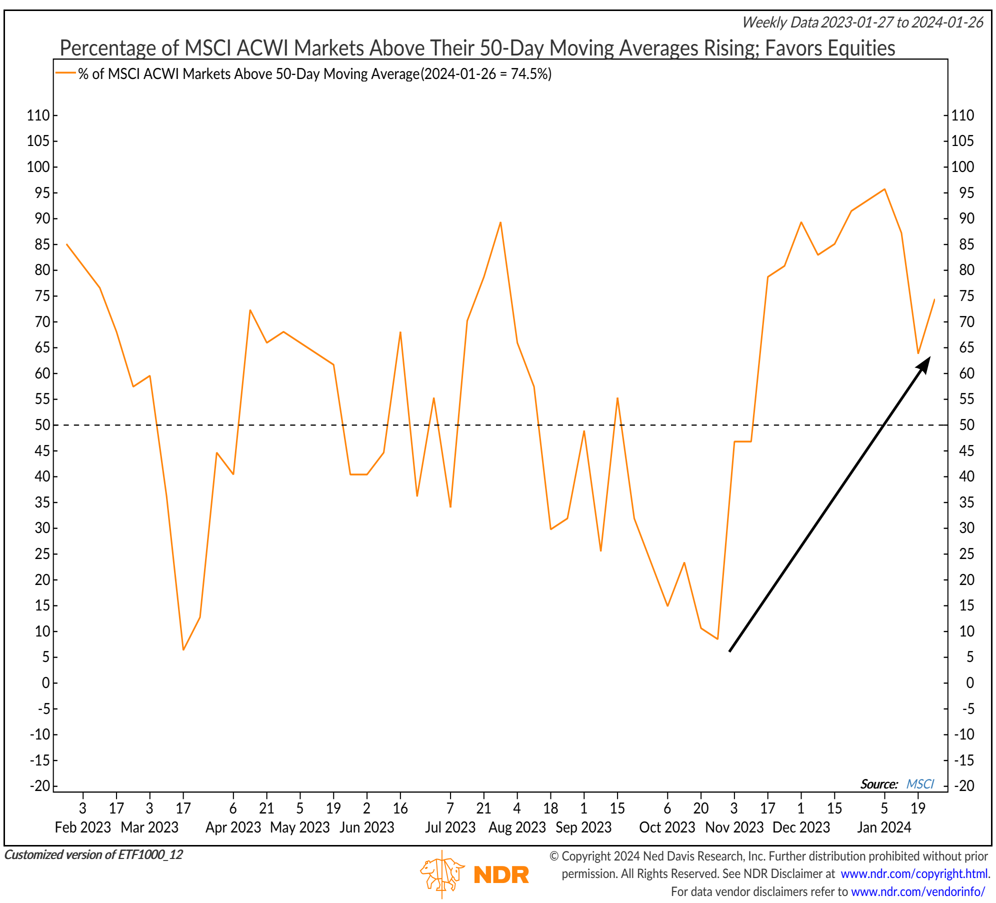
* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

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. The stock/bond ratio resides at more than 8% above its one-year moving average, its highest level since mid-September (chart right). This indicator has favored equities since last March.

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."

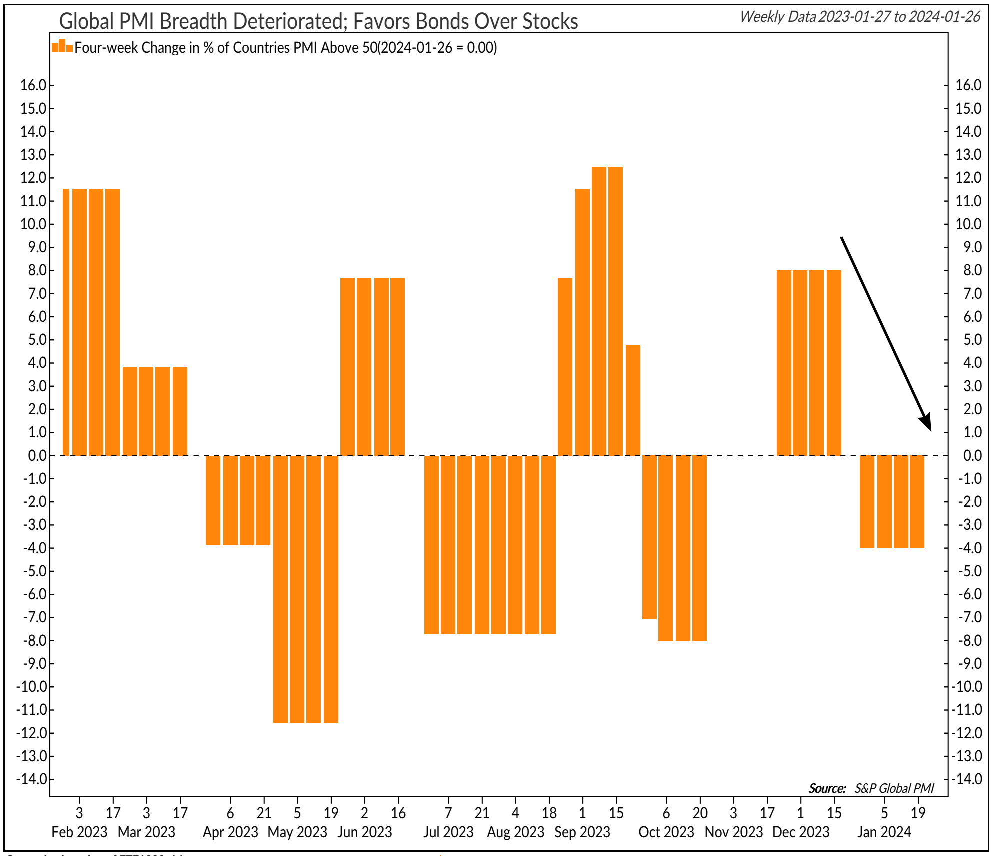




After reaching its highest level in three years at the beginning of January, global equity market breadth pulled back last month. However, almost 75% of global equity markets still trade above their 50-day moving averages (chart left).

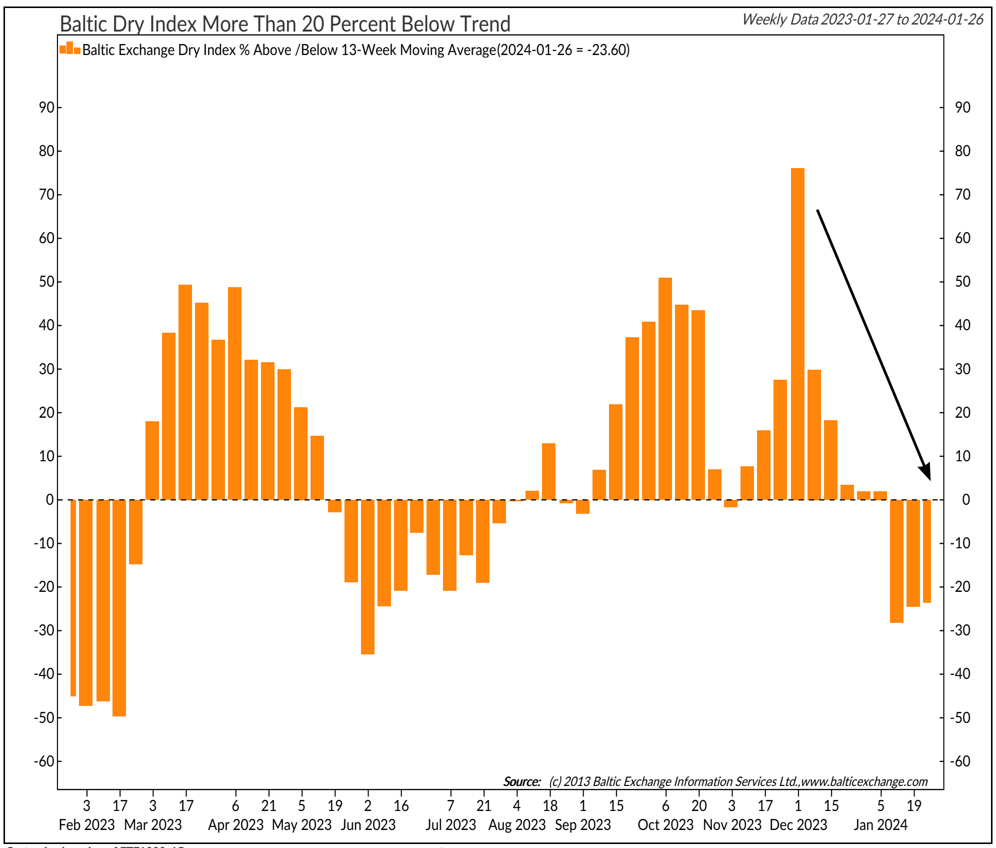
This indicator describes the underlying health of global equities, since it tracks the number of markets participating on the upside. Elevated breadth is important because if many stocks rally, even if a few run into trouble, enough stocks remain in uptrends that they can support the popular averages.

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. A change greater than zero favors stocks, while a change less than zero supports bonds. Equities typically underperform fixed income when there is deterioration in the economic outlook. This economic momentum breadth indicator weakened in January as Ireland's PMI fell below 50 (chart right).



Customized version of ETF1000_14

With increased conflict in the Middle East putting pressure on the critical Suez Canal trading route and negative seasonality, the Baltic Dry Index (BDI) plummeted more than 30% in mid-January, its largest one-week drop since 2008. For this month's update, the BDI resided at more than 20% below its intermediate-term trend (chart left).



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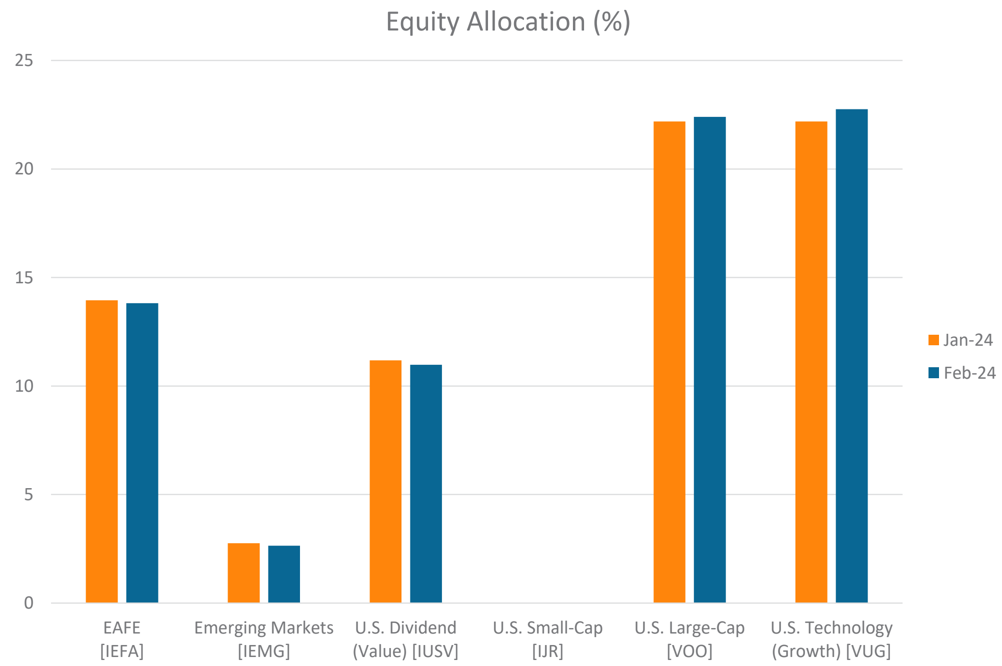
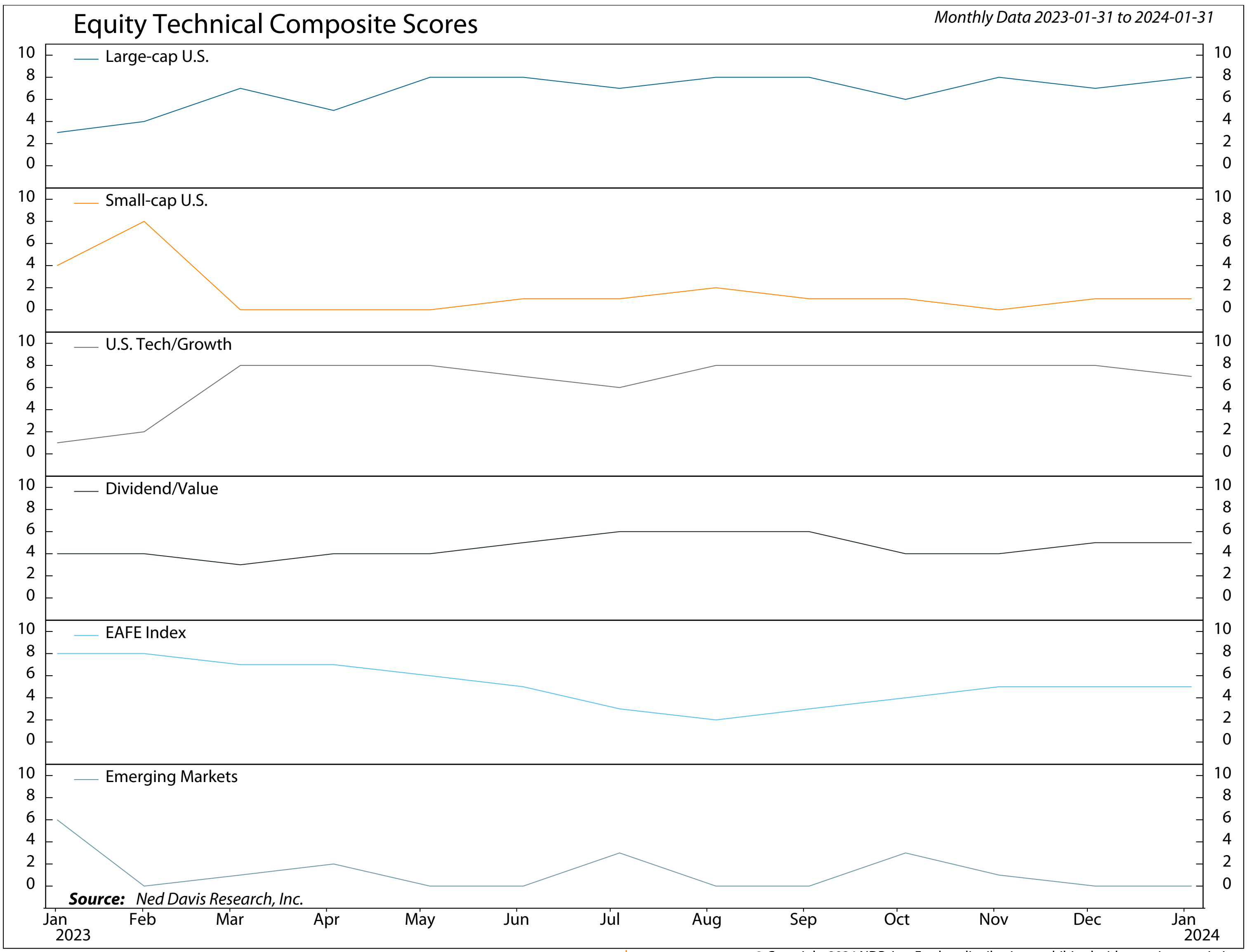
Equity Allocation Summary

During January, U.S. Large-Caps and U.S. Growth were the top-performing equity areas, as they each grew more than 150 bps. Both segments, along with U.S. Value, have risen for three consecutive months. U.S. Small-Caps and Emerging Markets declined over 390 bps. U.S. Large-Caps, U.S. Growth, U.S. Value, and International Developed received more than 10% allocation for February (chart right).





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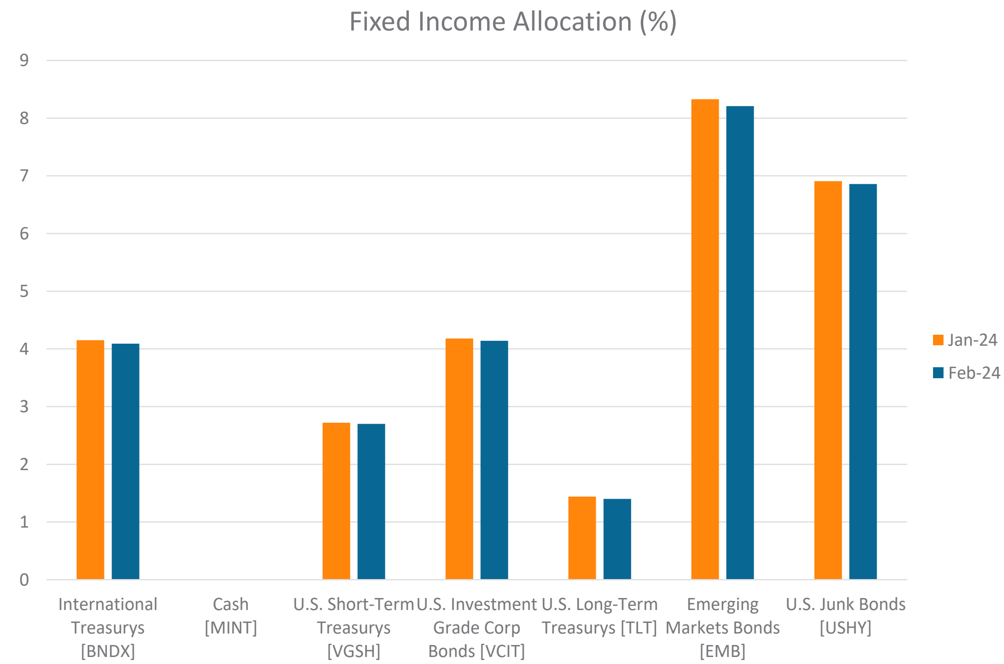
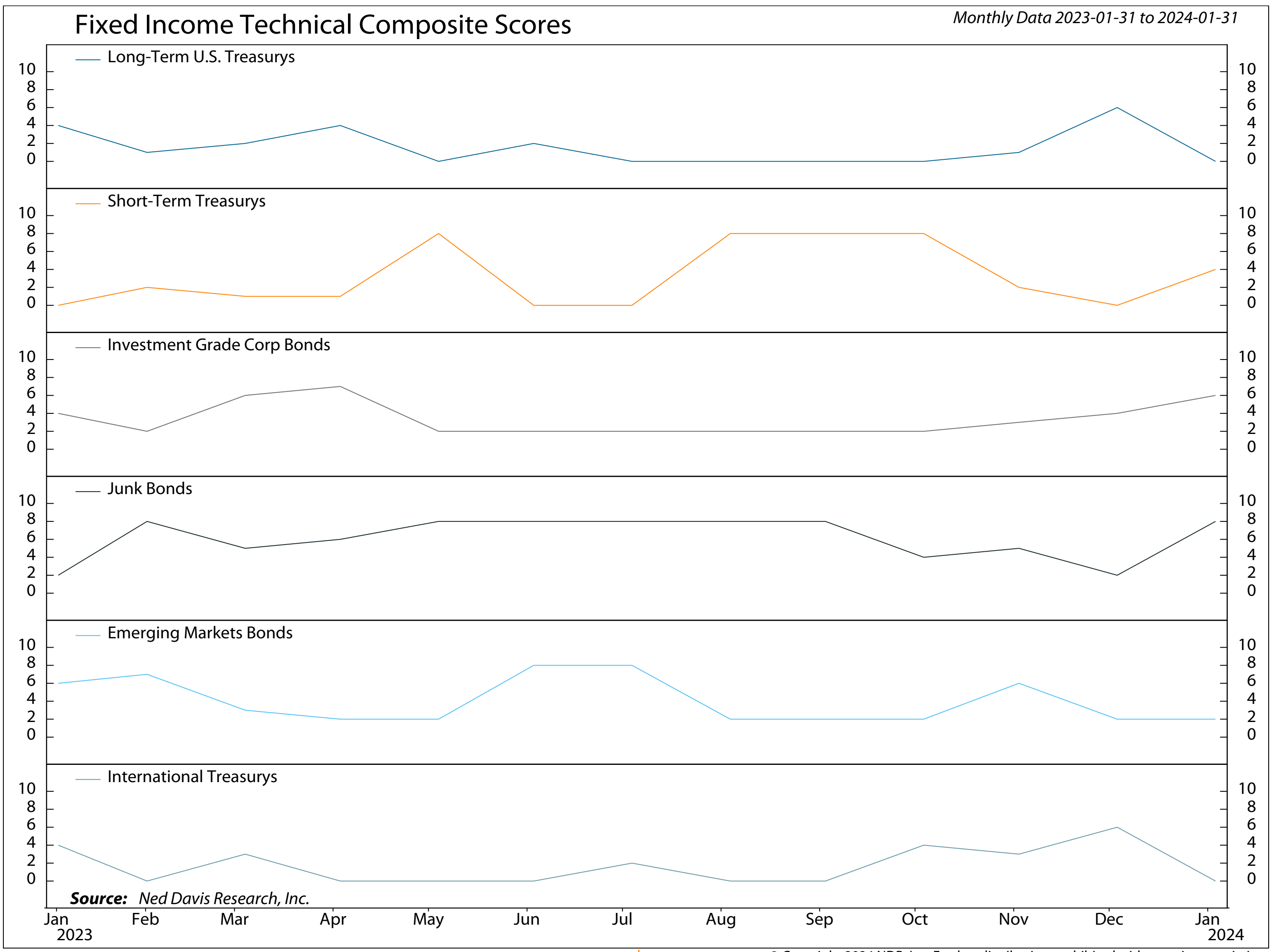
Fixed Income Allocation Summary

Only U.S. Short-Term Treasurys and U.S. High Yield produced positive returns during January. Emerging Market bonds and U.S. Long-Term Treasurys (TLT) dropped over 100 bps. TLT has declined by more than 200 bps for five of the last seven months. Emerging Market bonds and U.S. High Yield were the only areas to receive more than 5% allocation for February (chart right).





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