Dynamic Allocation Strategy

APRIL 2024

Macro/Market Update

The world economy remains on solid footing, according to the latest global composite (services and manufacturing) S&P Global Purchasing Managers' Index (PMI). The global composite rose in February for a fourth straight month, and it showed the strongest growth in eight months. Accelerating economic momentum, as depicted by the composite PMI, has historically been associated with equity market outperformance.

Global economic indicators have been showing increasingly more signs that global recession risk is ebbing. Global composite new orders grew at the fastest pace in eight months, while the future output index remained near its highest level since May. Perhaps most significant, trends are broadening. Both the manufacturing and services sectors expanded in tandem for the first time since May 2023.

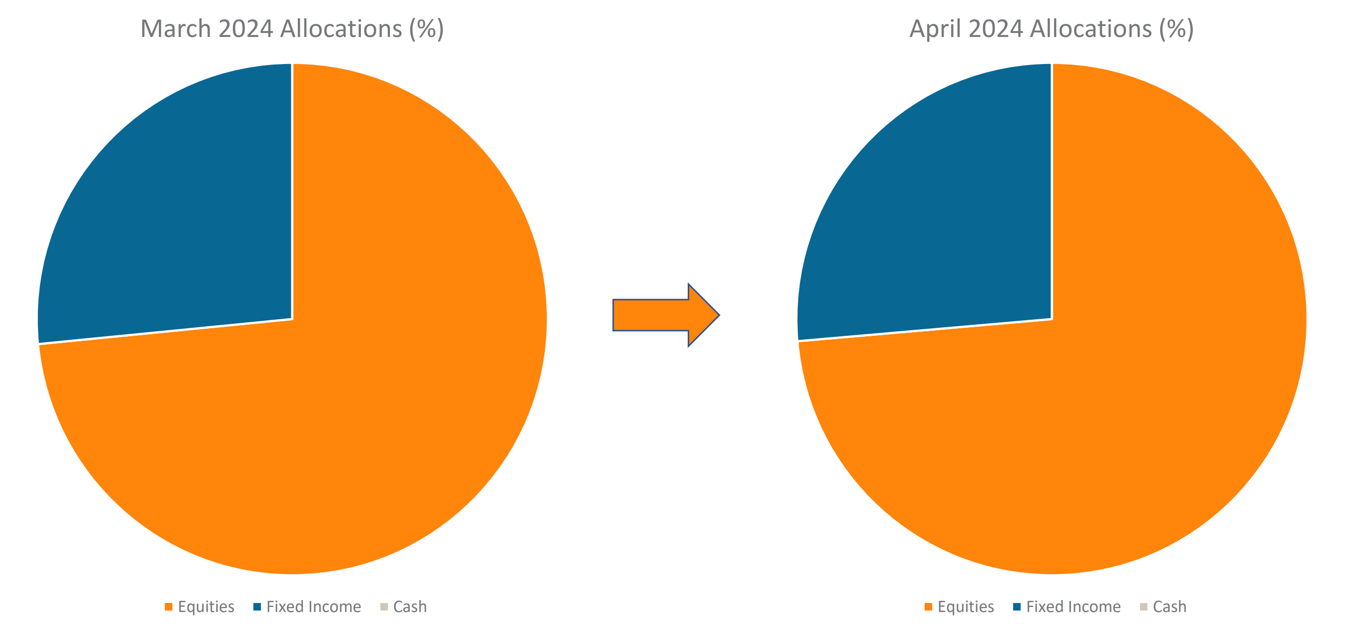
The strongest expansions are most evident in emerging markets outside of China, while the weakest have been in the eurozone. The U.S. and China, the world's largest economies, continued to grow at a steady pace.

Along with the pick-up in growth came a modest pick-up in inflation, particularly output prices. The increase was broad based among both developed and emerging economies. If sustained, this could delay the widely anticipated broad-based central bank easing in the second half of this year.

During March, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays Global Aggregate Bond Index by over 225 basis points (bps). Stocks have outpaced bonds for 11 of the last 15 months.

With investors still expecting central bank interest rate cuts, the equity cyclical bull should persist, though not without some volatility. With excessively optimistic sentiment, and the seasonal tailwinds fading, there is an increasing risk of a correction. However, a near-term market pullback would likely relieve the optimism and set the stage for the next move higher in the bull market.

Asset Allocation Summary

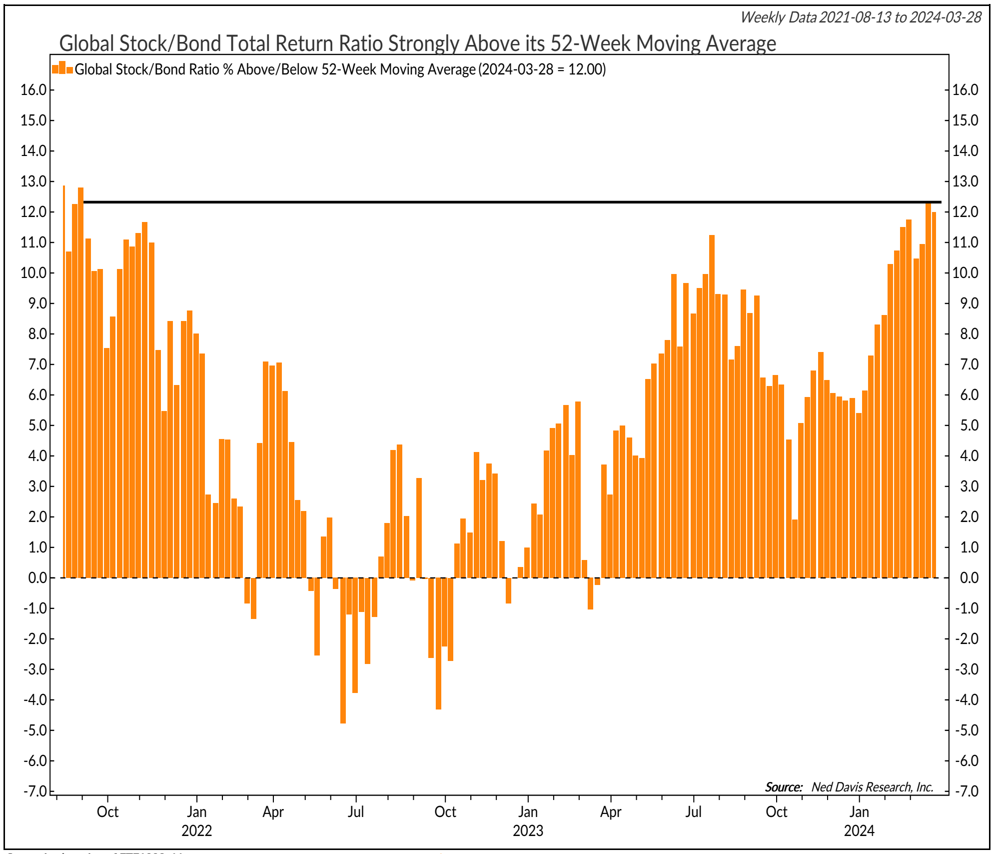


* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

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 relative strength ratio reached its largest gap versus its one-year moving average since late 2021 (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."



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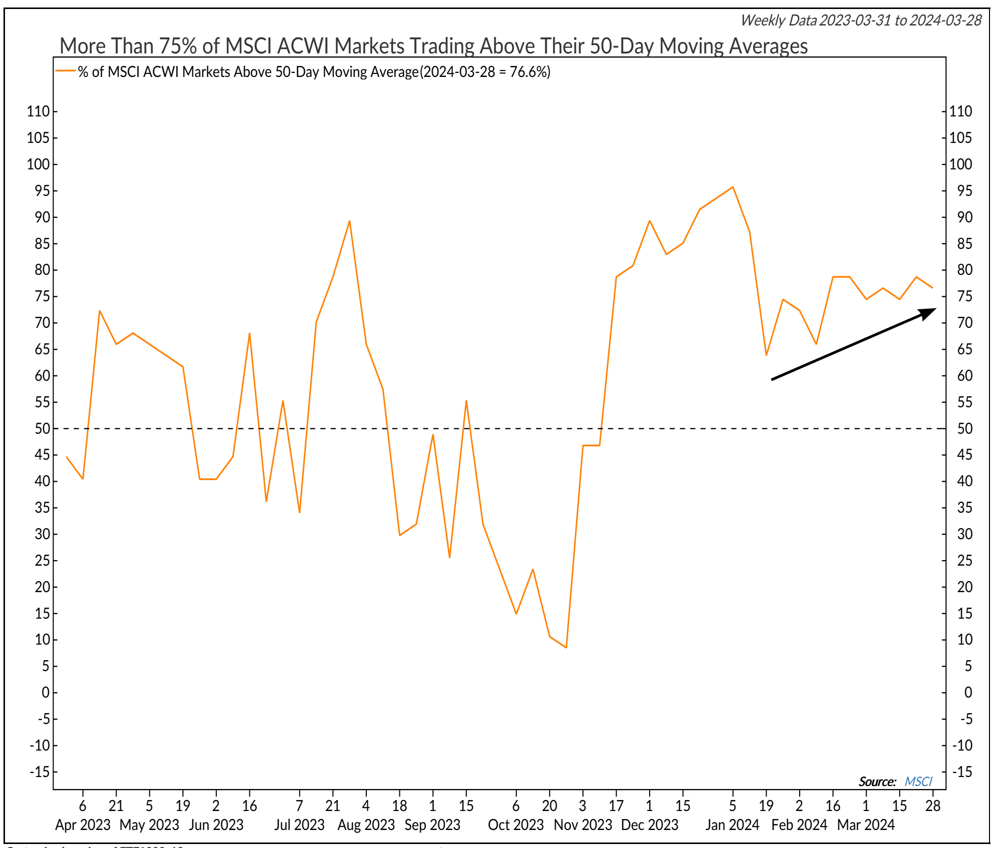

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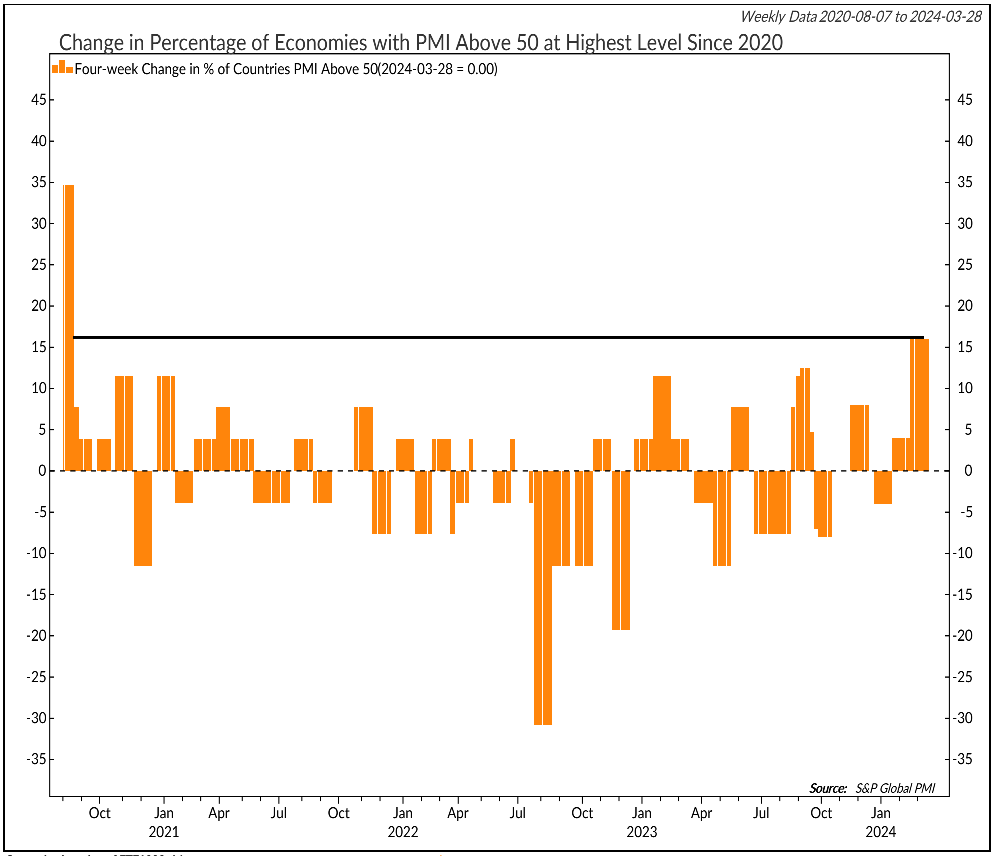
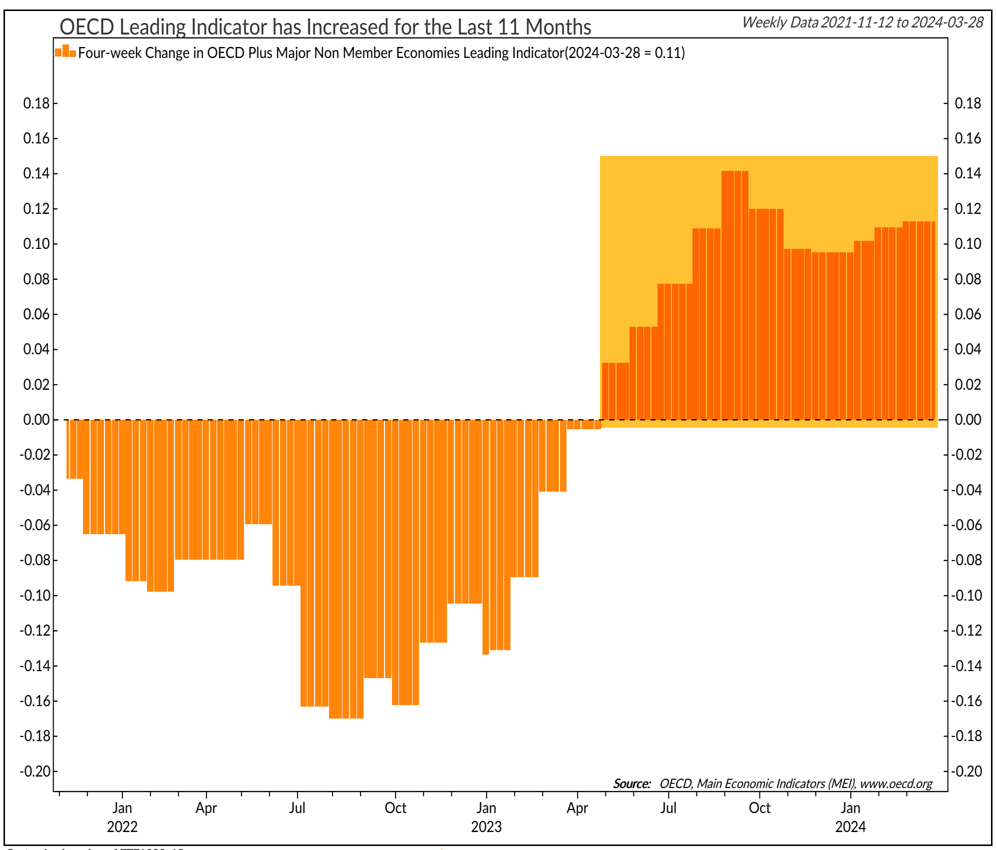
The strength in trend continues to be supported by broad breadth, as more than 75% of global equity markets are trading above their 50-day moving averages.

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 outperform fixed income when there is improvement in the economic outlook. This economic momentum breadth indicator improved to its highest level since 2020, as the PMIs for Ireland and Spain rose above 50. (chart right).



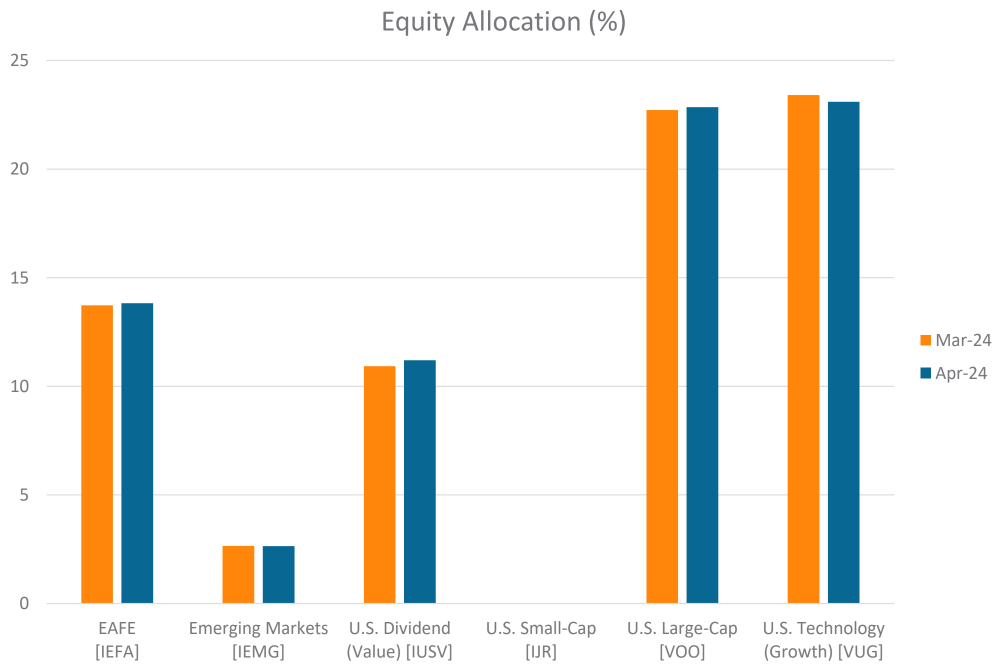


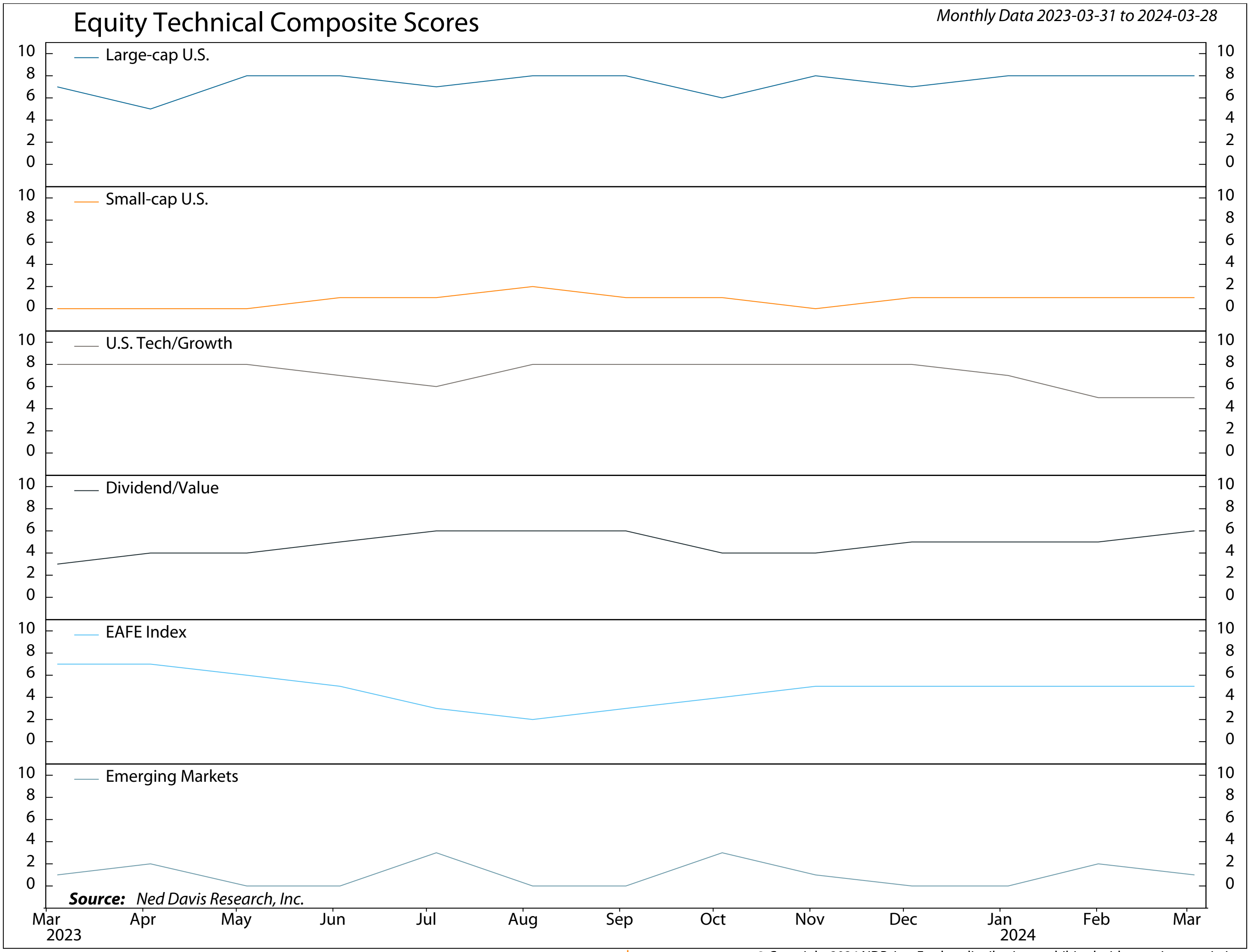
After declining for 18 consecutive months, the four-week change in the Organization for Economic Cooperation and Development (OECD) Composite Leading Indicator (CLI) has increased for the past 11 months (chart left).

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 supports the trend.

Equity Allocation Summary

During March, all equity areas increased by more than 135 basis points (bps). U.S. Value was the only area to gain more than 400 bps. It was the first time that Value outpaced the other five equity areas for a month since September 2022. U.S. Large Caps, U.S. Small Caps, and International Developed all rose over 300 bps. U.S. Large-Caps, U.S. Growth, U.S. Value, and International Developed received more than 10% allocation for April (chart right).





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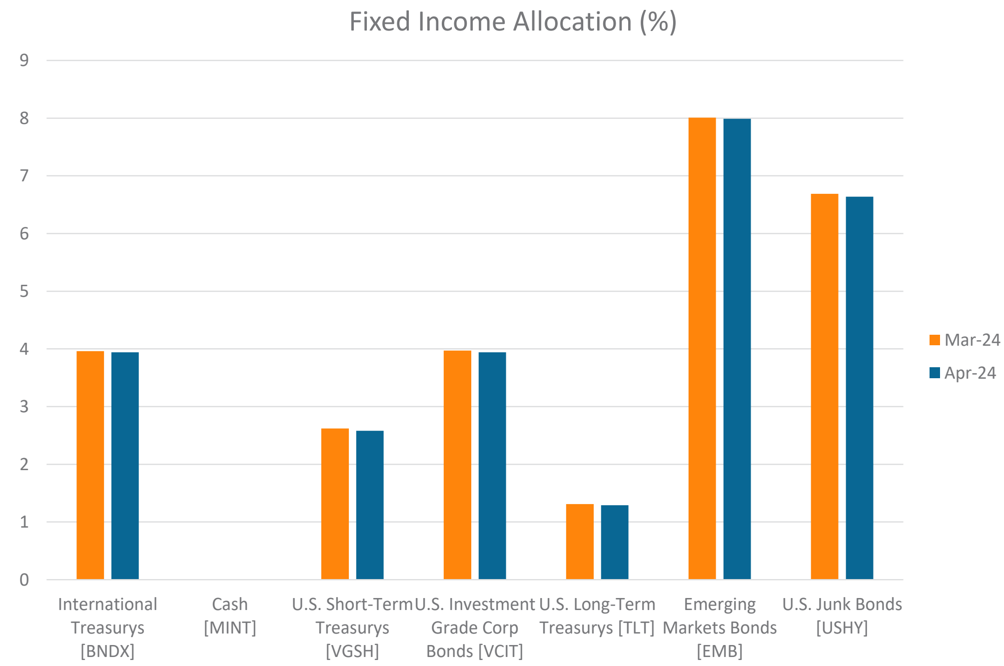
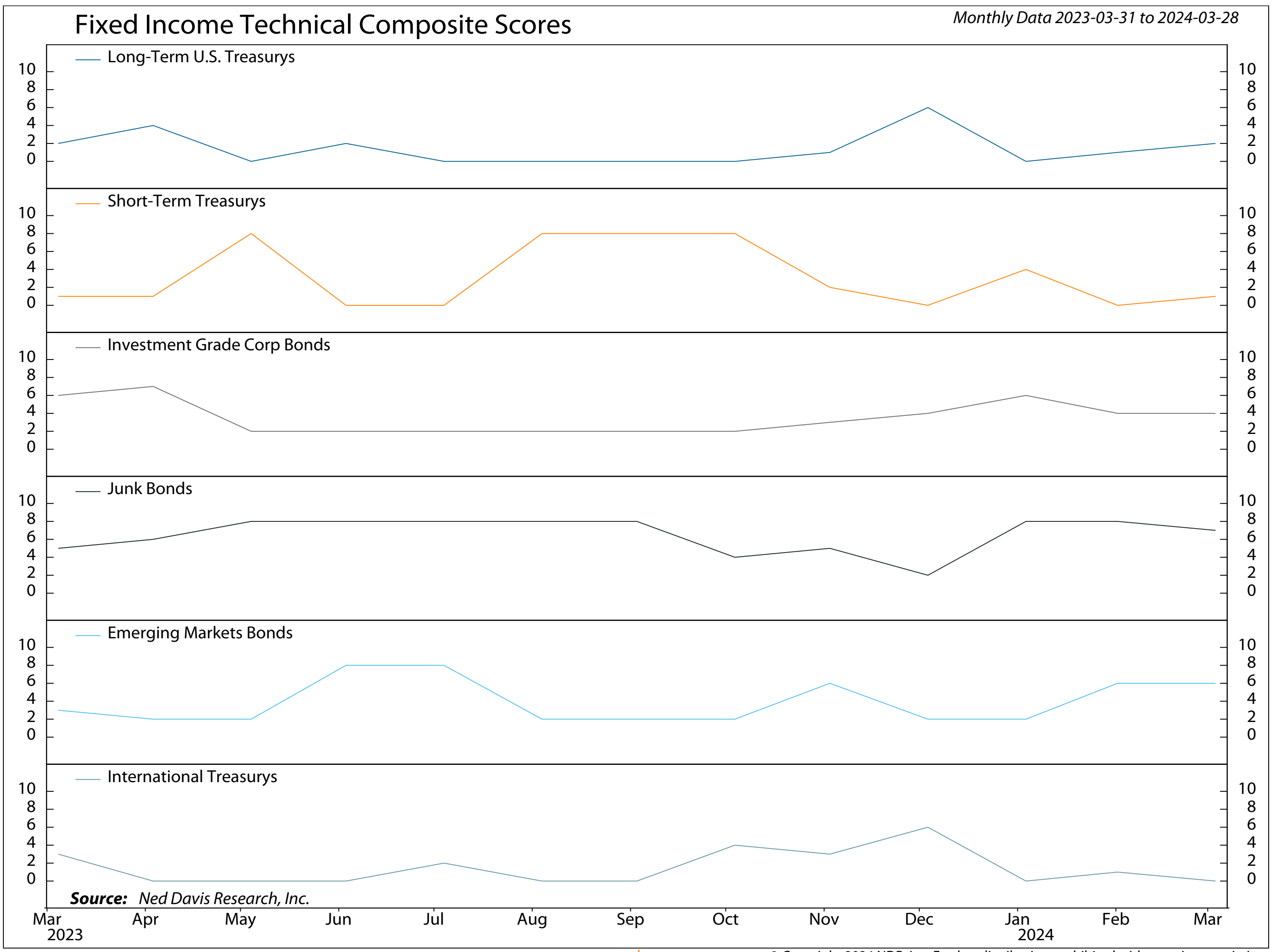
Fixed Income Allocation Summary

All fixed income areas produced positive returns during March. Emerging Market (EM) bonds, U.S. High Yield, U.S. Investment Grade Corporates, and International Investment Grade each gained over 100 bps. EM bonds was the top performer for a second straight month. U.S. High Yield has risen for five straight months. Emerging Market bonds and U.S. High Yield were the only areas to receive more than 5% allocation for April (chart right).





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