Dynamic Allocation Strategy

NDR
NED DAVIS RESEARCH

DECEMBER 2023

Macro/Market Update

The global economy stagnated in October, as the S&P Global Purchasing Managers' Index (PMI) global composite (services and manufacturing) fell to the lowest level since January and down significantly from its May peak. It was the fifth straight decline in the composite PMI, the worst streak since 2014 and matching the second longest on record. Successive decreases of this length occurred both during the 2001 and 2008 global recessions, raising concerns about the global economy. However, for now the PMI is still comfortably above the 47.8 threshold typically associated with severe global recession, giving the current expansion the benefit of the doubt.

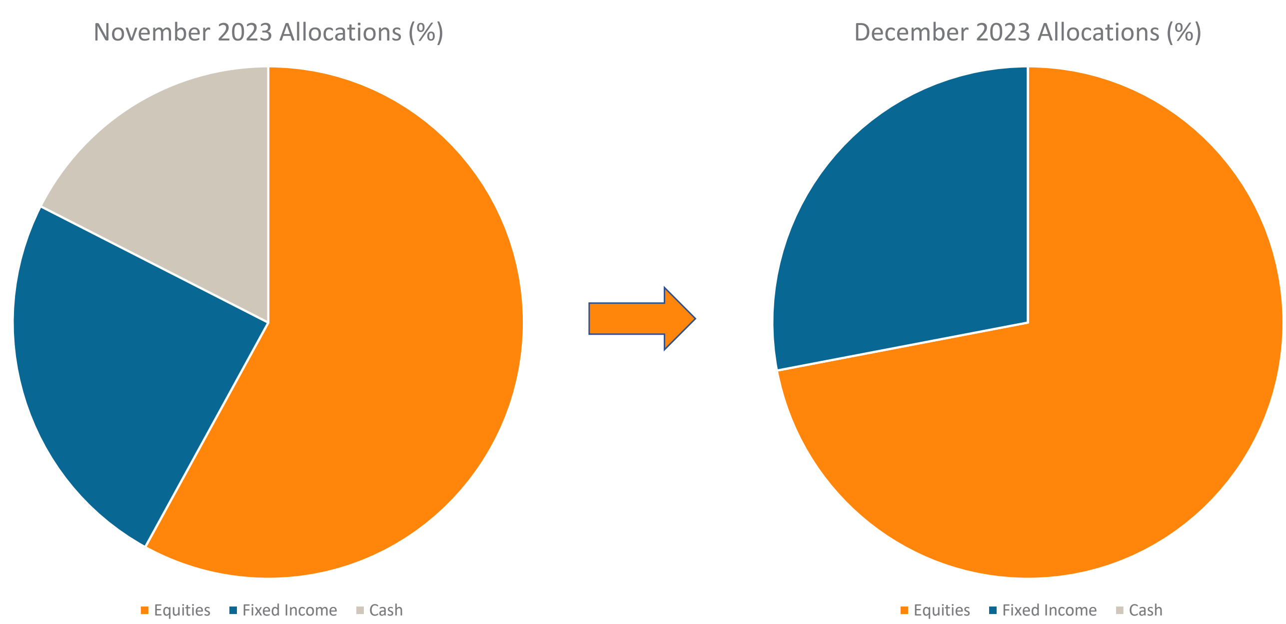
New orders contracted for a second month and at a slightly faster pace, while employment barely grew. The future output index slipped to its lowest level this year. The manufacturing sector contracted at a faster pace, after showing signs of stabilization in the prior month, while services modestly grew.

Most of the slowdown since earlier this year has been due to Europe, which is seeing rising recession risk, and the cooling of the Chinese economy following a short-lived rebound earlier this year due to the end of its zero-COVID policy. The outlook now hinges on the U.S., the world's largest economy, where trends there appear to be slowing. The few bright spots continue to be in emerging markets outside of China, namely India and the Middle East.

Global price growth continued to moderate, as both the composite input and output price indexes fell to their lowest levels since Q4 2020. Price growth in the services sector continued to slow, as the input and output price indexes fell to their lowest levels since early 2021. Even so, they are still well above pre-pandemic levels. Conversely, manufacturing prices remain in line with pre-pandemic norms, but have begun to edge up in recent months as supply chain pressures normalize.

During November, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays Global Aggregate Bond Index by

Asset Allocation Summary

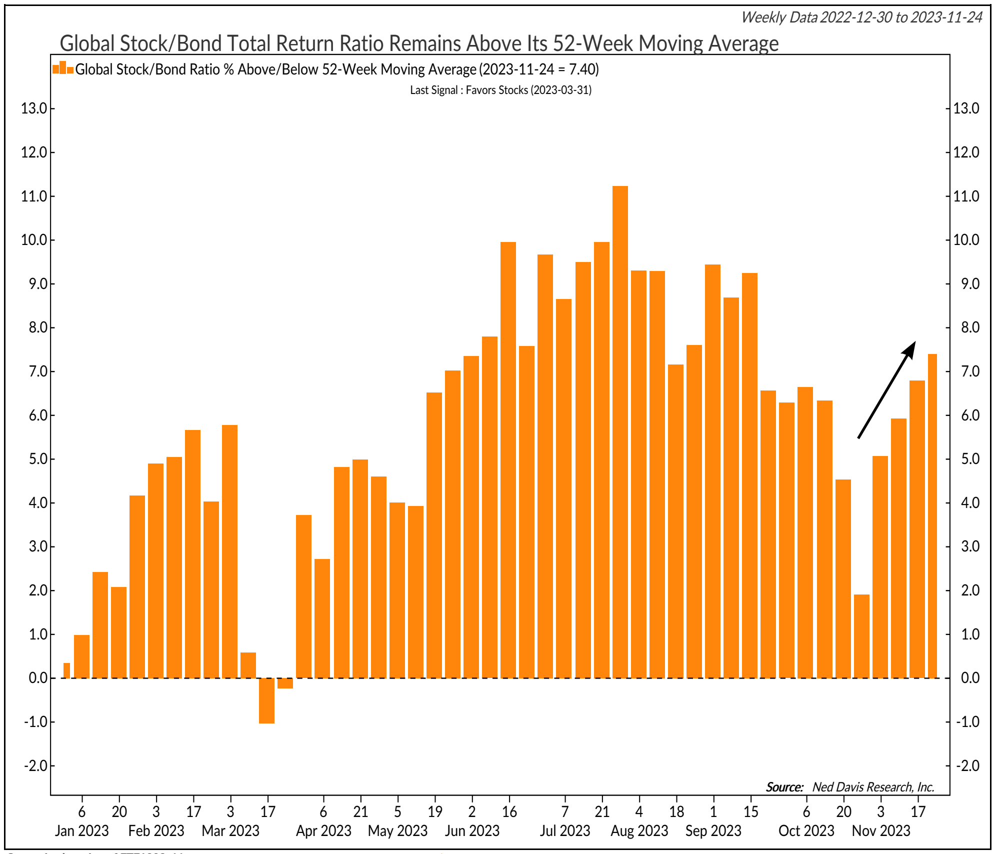


* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

over 400 basis points (bps). It was the second largest monthly return spread this year and it broke a three-month losing streak for stocks relative to bonds. The recent yield decline has reinvigorated the stock market and its relative performance trends, driving investors toward a risk-seeking appetite.

The equity allocation improved to above benchmark weighting. Two-thirds of the asset allocation indicators favor stocks over bonds. 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 has moved to more than 7% above its one-year moving average (chart right).

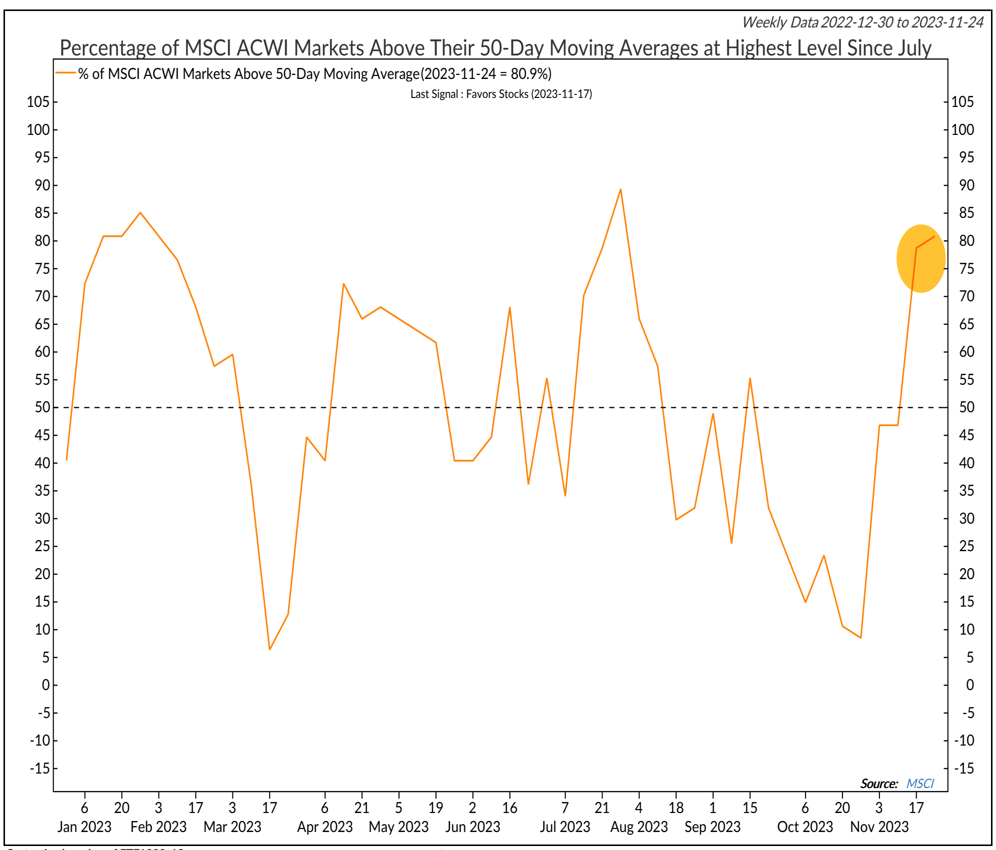
Following the trend is important as it can help to keep you on the right side of major market moves. The trend also can reduce behavioral biases. Ned Davis has said that following the trend is important because "the degree of unprofitable anxiety in an investor's life corresponds directly to the amount of time one spends dwelling on how an investment should be acting rather than the way it actually is acting."



Customized version of ETF1000_11

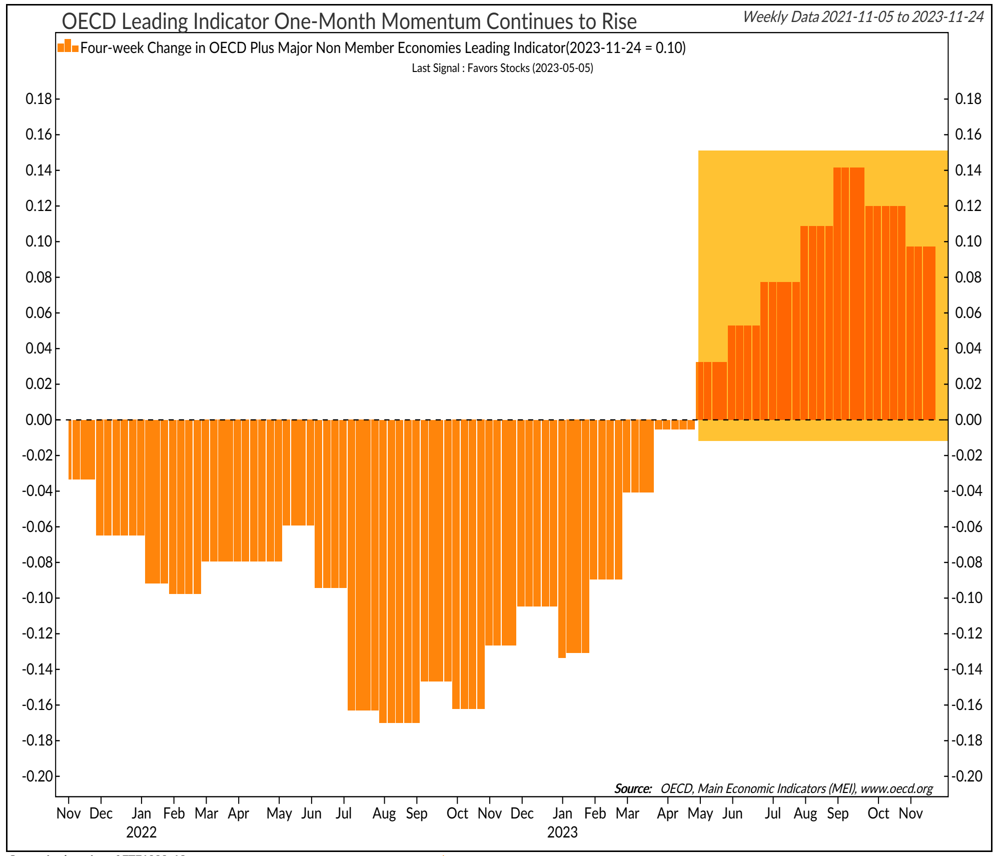
Global equity market breadth rebounded to its highest level since late July. The percentage of global equity markets trading above their 50-day moving averages has experienced significant volatility in 2023. After declining to less than 10% at the end of October, more than 80% of markets now reside above the intermediate-term trends (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.

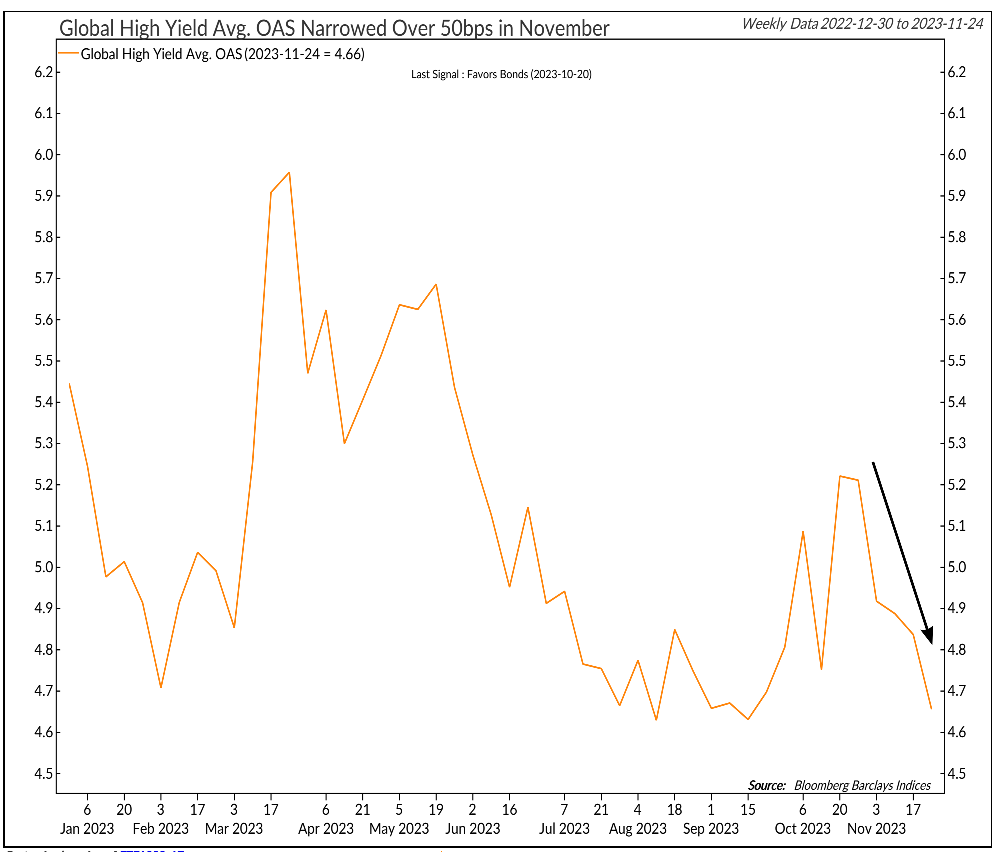


Customized version of ETF1000_12

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 seven months (chart right). 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.



Customized version of ETF1000_13

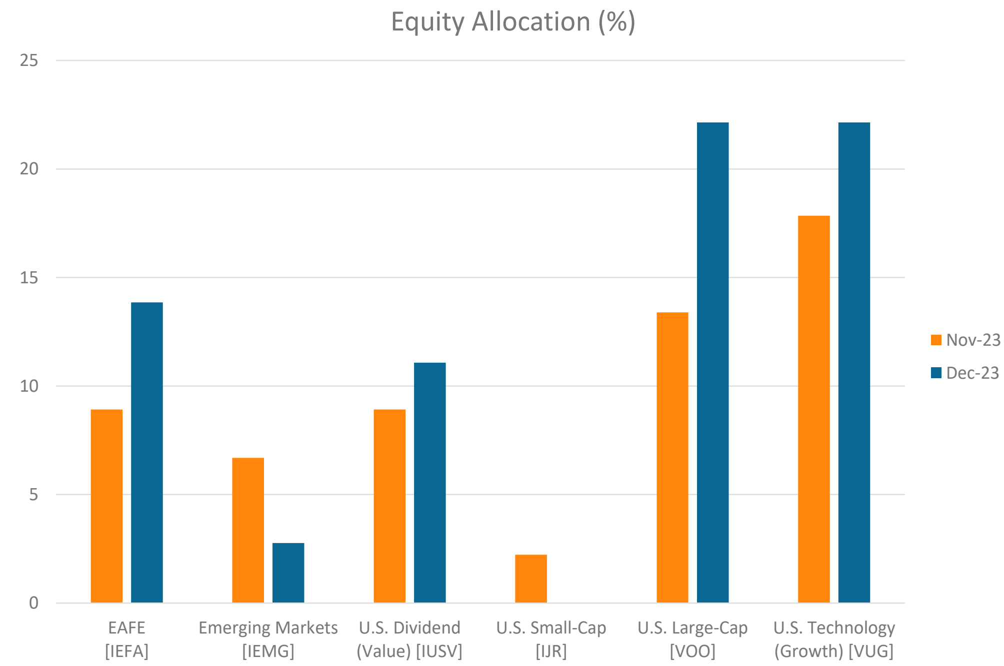


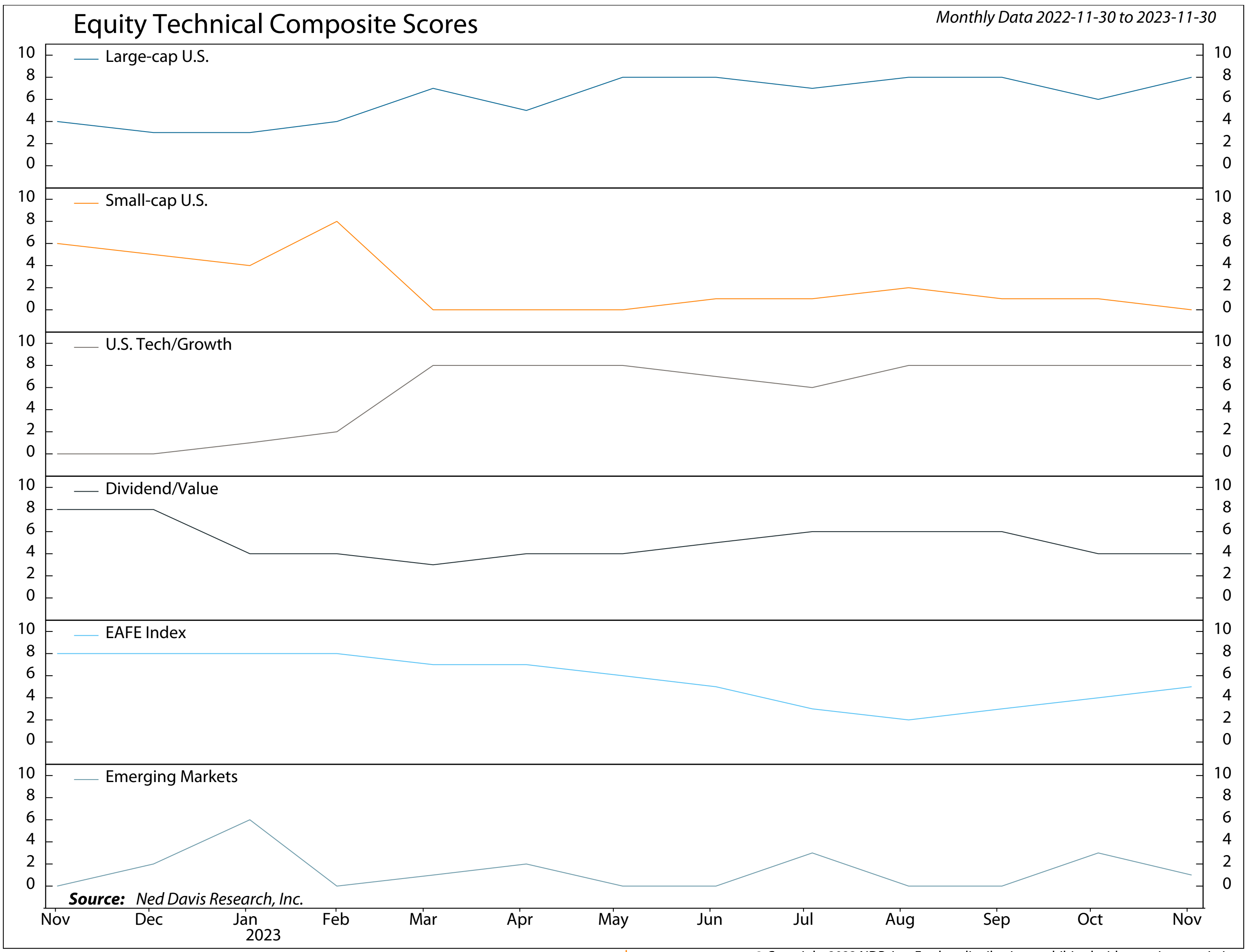
Customized version of ETF1000_17

After rising by almost 60 basis points (bps) from mid-September through October, global high yield option-adjusted spreads (OAS) fell over 50 bps in November (chart left), which reflects improving risk appetite. Although this indicator currently favors bonds over stocks, it is near the threshold to recommending stocks.

Equity Allocation Summary

During November, all six equity areas increased by more than 800 bps. Such widespread strength last occurred in November 2022, following the October bear market bottom. U.S. Growth and U.S. Large-Caps experienced their best month since July of last year. U.S. Large-Caps, Growth, Value, and International Developed received more than 10% allocation for December (chart right).

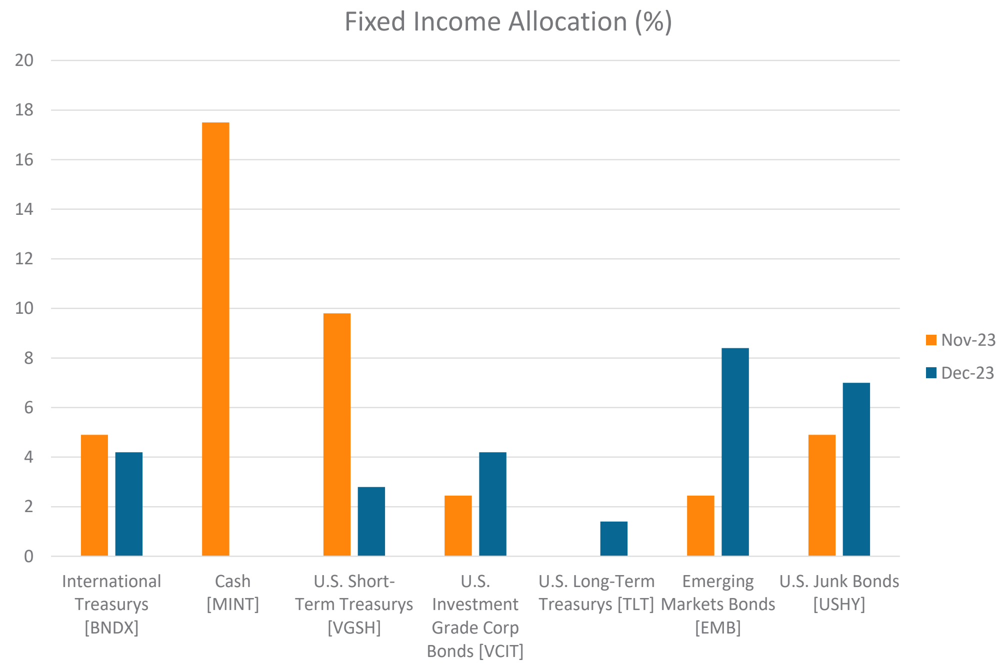


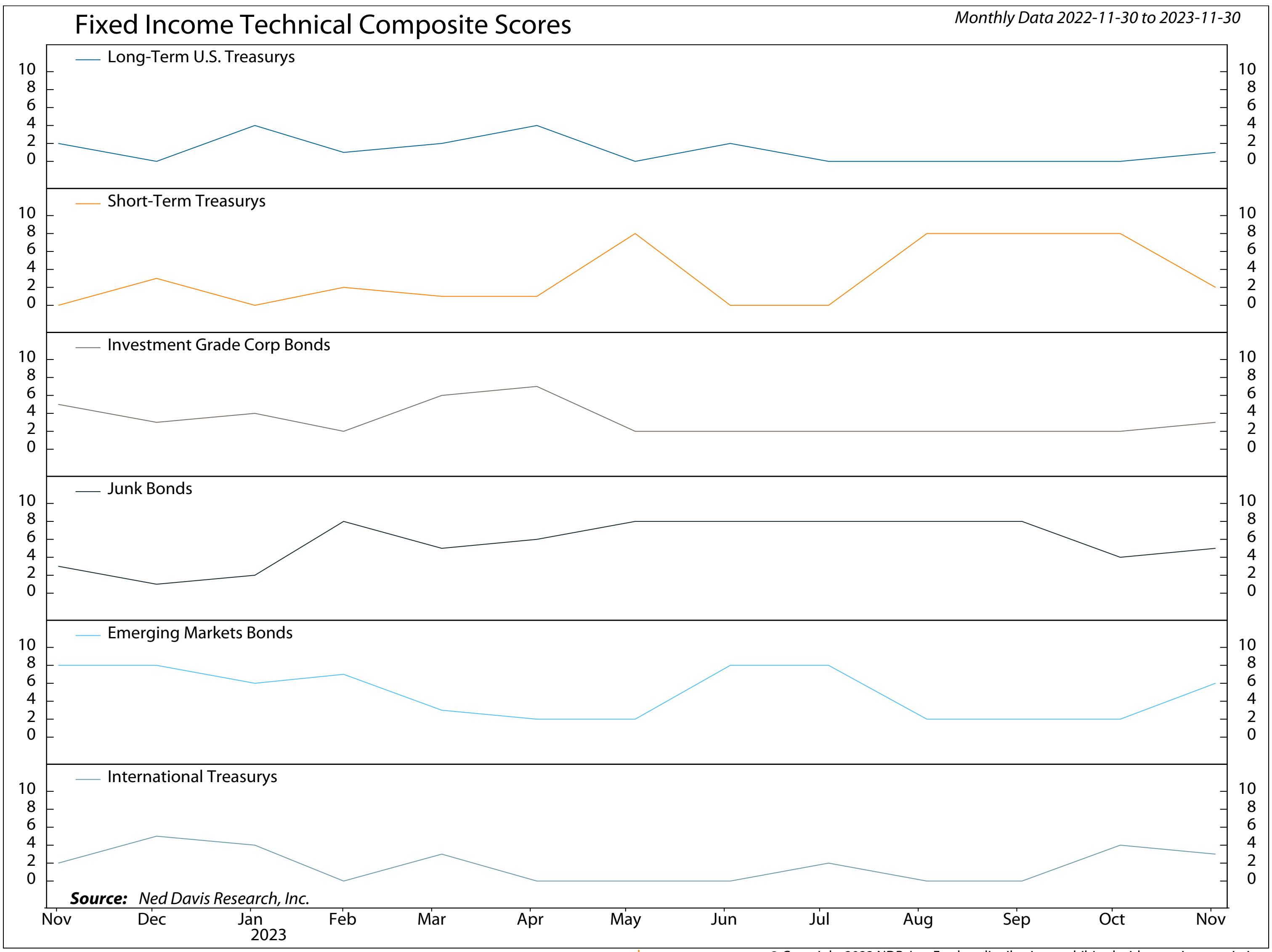


ETF1000_M_NDRIS

Fixed Income Allocation Summary

All fixed income segments were higher in November. U.S. long-term Treasurys (TLT) had its best month since August 2019 as it gained more than 900 bps. Prior to November, TLT had not produced a positive month since June. Emerging Market bonds, U.S. Investment Grade Corporates, and U.S. High Yield all rose more than 400 bps. Emerging Market bonds and U.S. High Yield were the only areas to receive more than 5% allocation for December (chart right).





ETF1000_M_NDRIS

Ned Davis Research Disclaimer:

The data and analysis contained within are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. All performance measures do not reflect tax consequences, execution, commissions, and other trading costs, and as such investors should consult their tax advisors before making investment decisions, as well as realize that the past performance and results of the model are not a guarantee of future results. The NDR Dynamic Allocation model is not intended to be the primary basis for investment decisions and the usage of the model does not address the suitability of any particular investment for any particular investor.

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs.