Dynamic Allocation Strategy

NDR
NED DAVIS RESEARCH

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Macro/Market Update

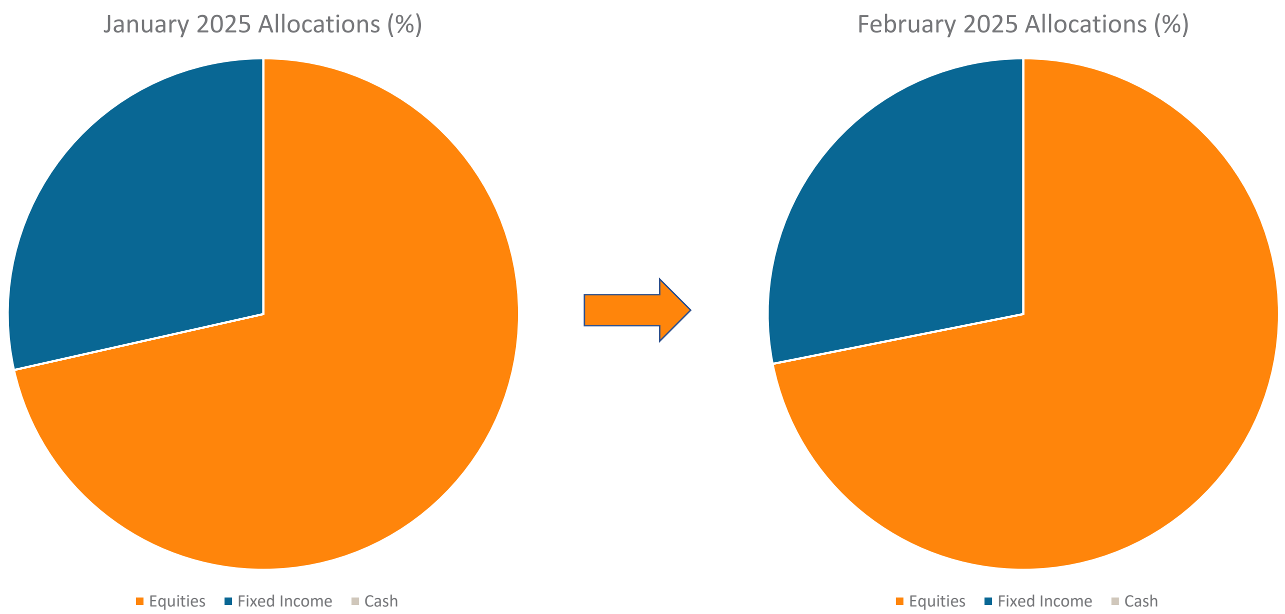
Global economic momentum grew for a third straight month in December, as measured by the global composite (services and manufacturing) Purchasing Managers' Index (PMI). The PMI resides well above levels associated with global recession, indicating a strong expansion.

The outlook appears bright in the near-term, according to leading indicators within the reports. Global new orders grew at the fastest pace in seven months, while the future output index held firm at elevated levels. This is important because higher trending global economic growth historically has been associated with a bullish environment for global equities.

The services sector has persisted as the global growth leader, as has been the case for over two years. Manufacturing continues to show some nascent signs of recovery, but the case was more compelling in the prior month's data. There are potential downside risks emanating from the political uncertainty, most notably the risk of higher tariffs from the U.S. and an ensuing trade war.

During January, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays Global Aggregate Bond Index by over 280 basis points (bps). Stocks have outpaced bonds for twelve of the last fifteen months. Easing central banks, accommodative fiscal policy, receding inflation, and lacking recessionary evidence continue to support the equity cyclical bull market.

Asset Allocation Summary

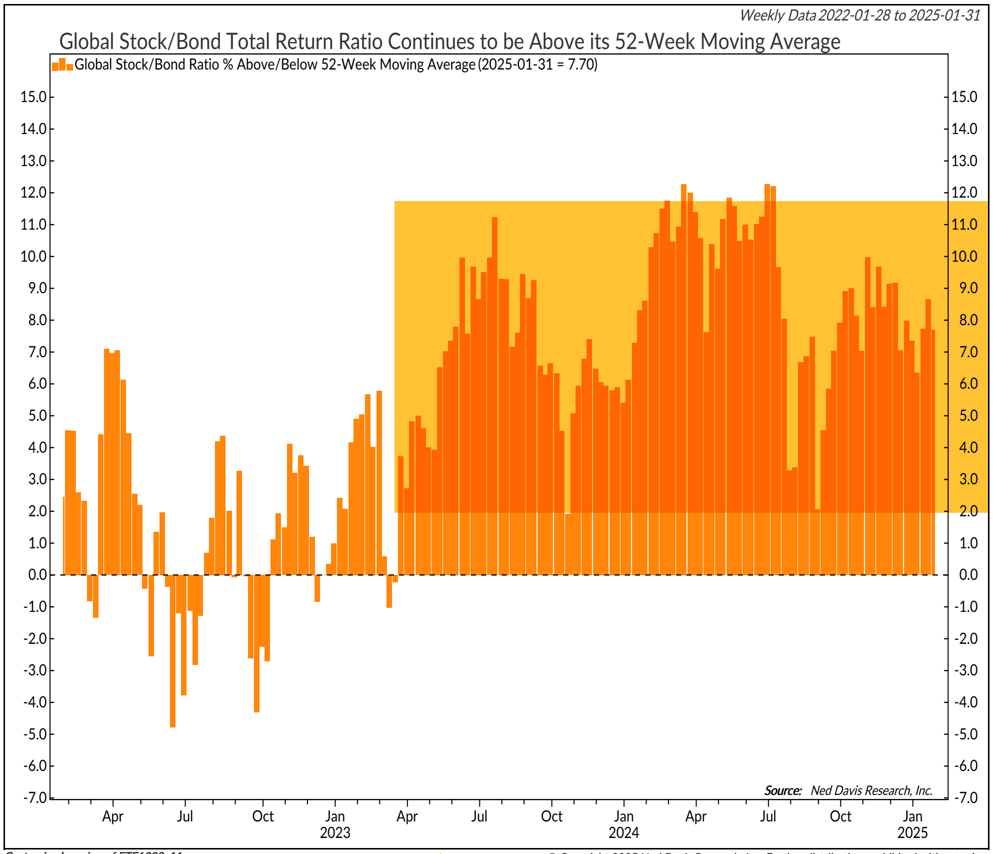


* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

The equity allocation continues to be 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. Two-thirds of the indicators, which weigh the relative attractiveness of stocks and bonds, favor stocks.

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 remained stable during January, as it is more than 7.5% above its 52-week moving average (chart right). This indicator has favored equities for over one year.

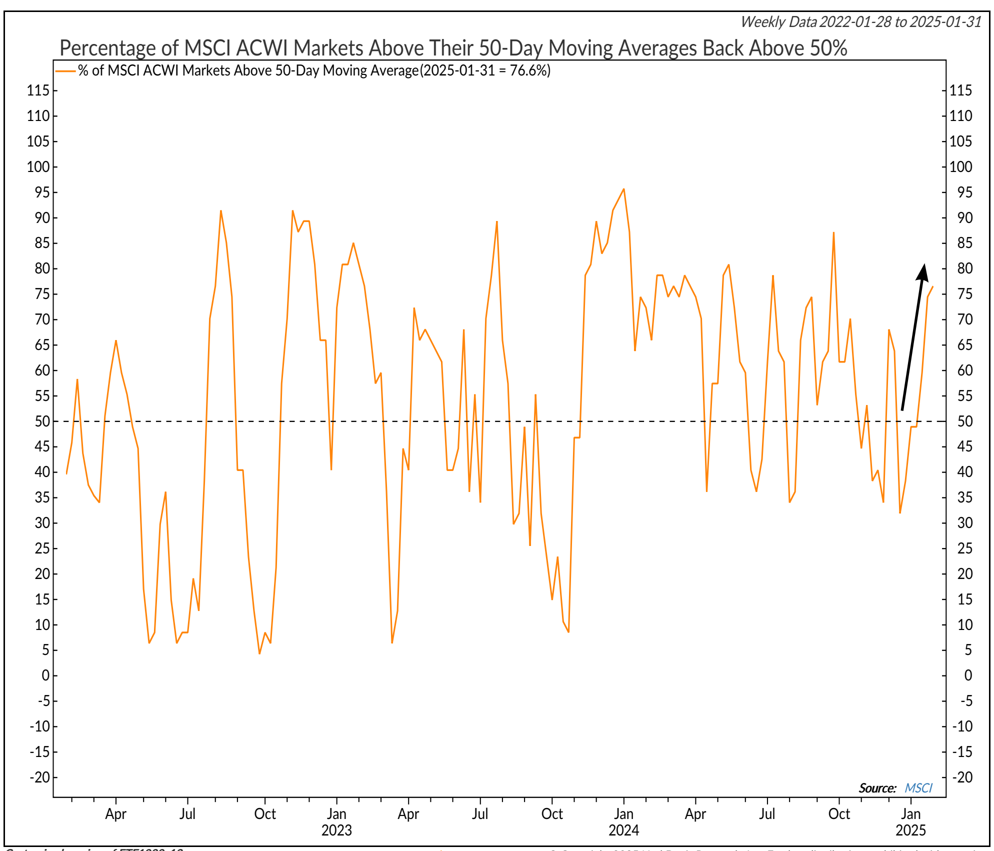
Following the trend is important as it can help to keep you on the right side of major market moves. The trend also can reduce behavioral biases. Ned Davis has said that following the trend is important because "the degree of unprofitable anxiety in an investor's life corresponds directly to the amount 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

The trend is supported by favorable breadth, as more than 75% of global equity markets are trading above their 50-day moving averages (chart, left). This is a significant improvement from the 38% level at the end of December.

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.



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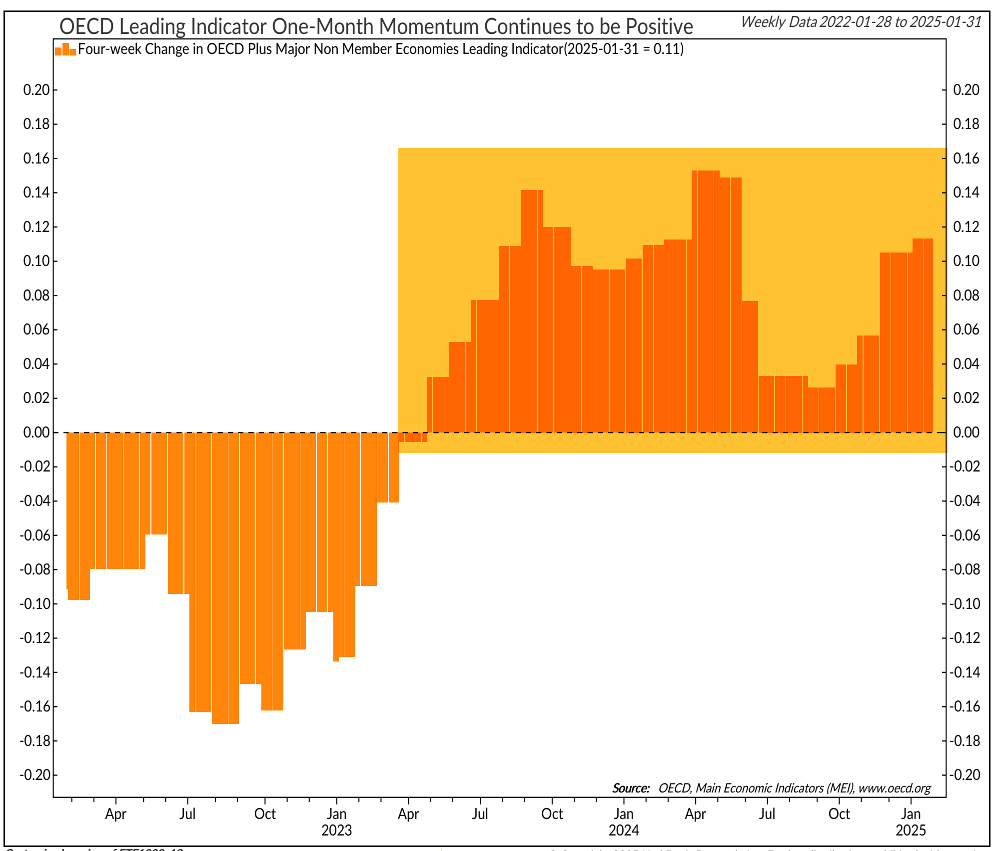
Global high yield option-adjusted spreads (OAS) have moved significantly lower since experiencing large volatility in August. During the beginning of August, OAS jumped almost 50 bps. Since then, OAS have reversed by over 100 bps (chart right), indicating improved risk appetite by fixed income investors.

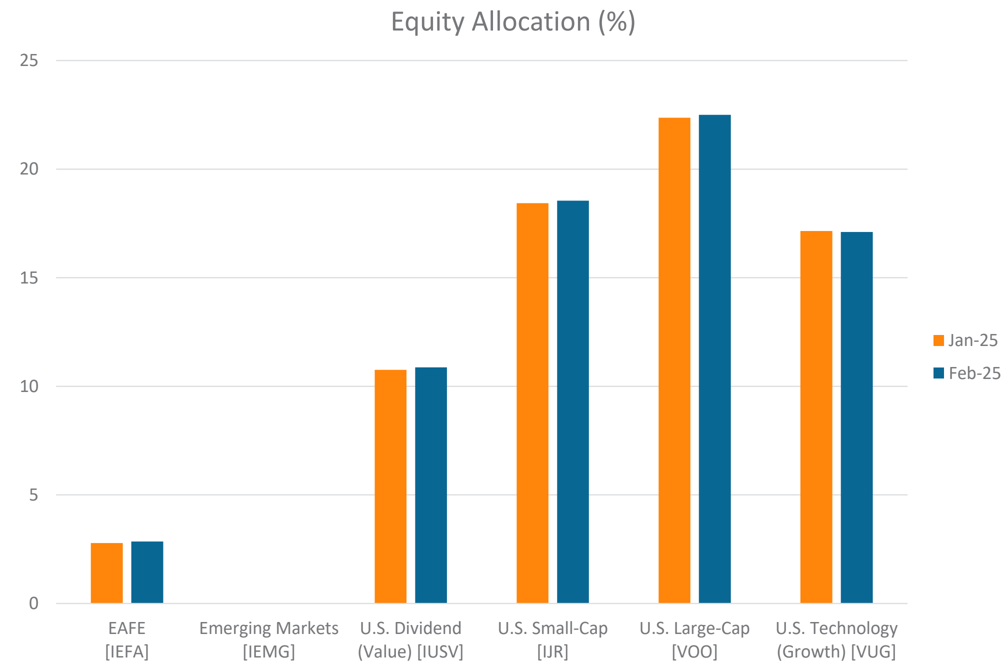


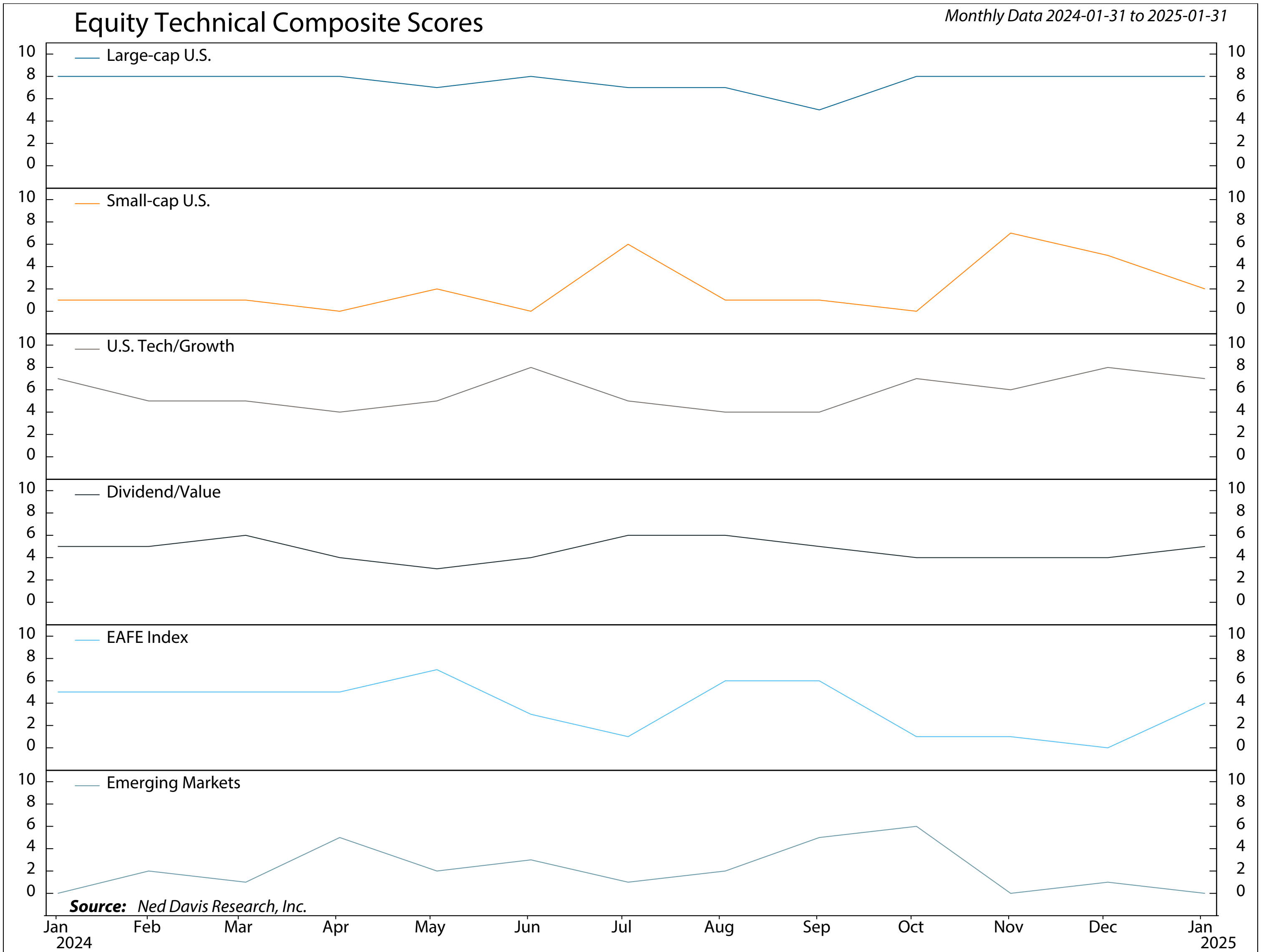
After declining for 18 consecutive months, the four-week change in the Organization for Economic Cooperation and Development (OECD) Composite Leading Indicator (CLI) has increased for the past 20 months (chart left).

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 January, all equity areas gained more than 140 bps. This broke three-month losing streaks for International Developed and Emerging Markets. International Developed jumped more than 460 bps, its best month since May. After suffering their worst months since September 2022 in December, U.S. Small Caps and U.S. Value gained over 275 bps in January. U.S. Growth has risen for three straight months. U.S. Large Caps, U.S. Growth, and U.S. Small Caps each received more than 15% allocation for February (chart, right).





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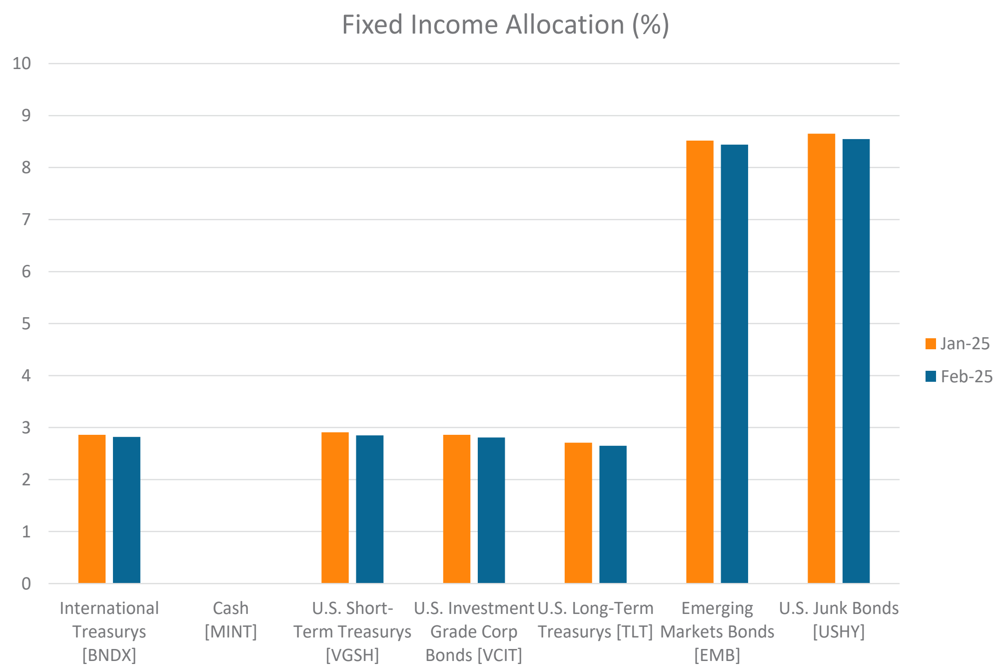
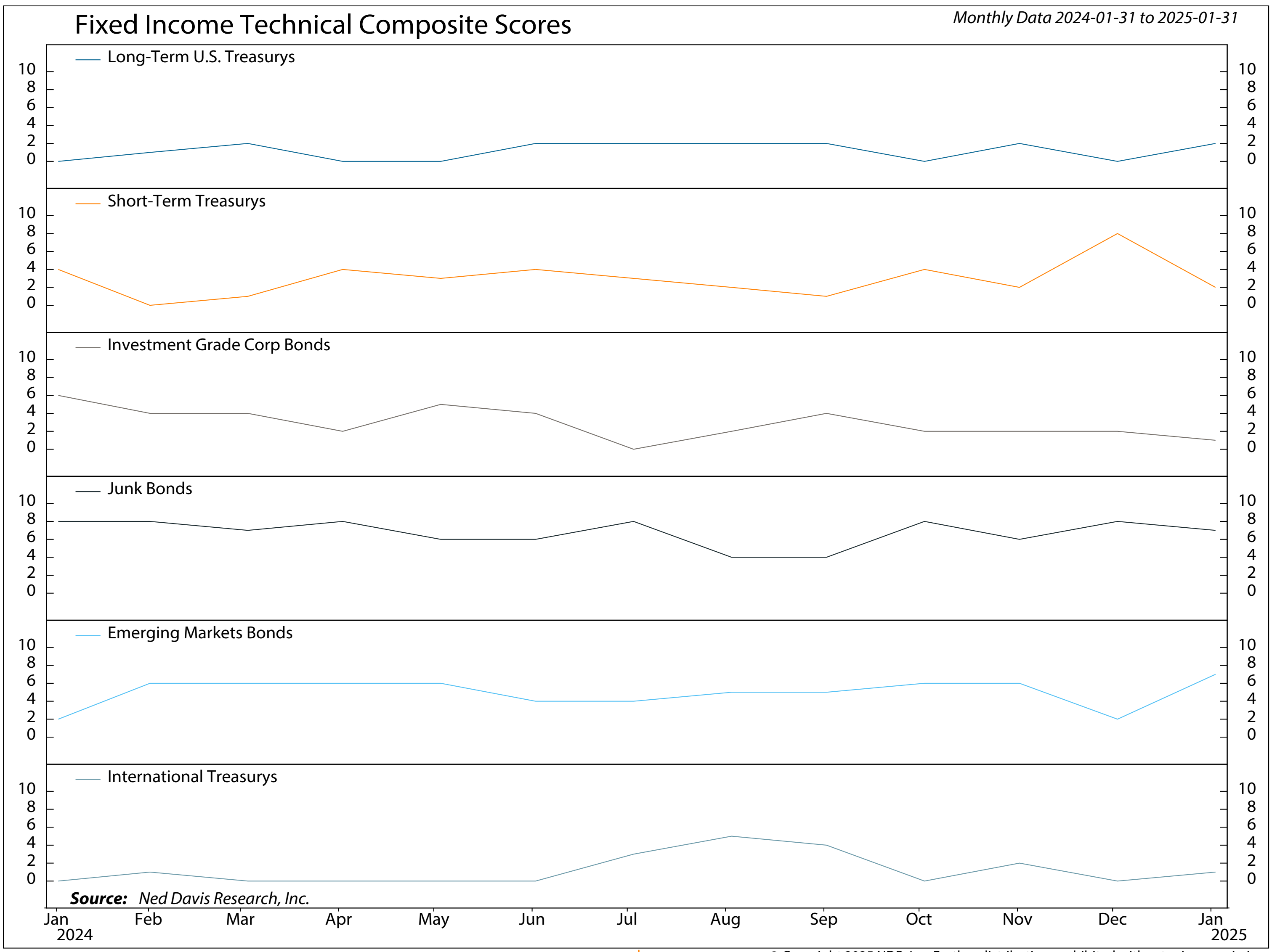
Fixed Income Allocation Summary

All fixed income areas produced positive returns in January. Emerging Market bonds and U.S. High Yield were the only sectors to increase more than 100 bps. Both segments have risen by more than 135 bps for two of the last three months. After having its worst month since April in December, U.S. Long-Term Treasurys improved in January by almost 50 bps. U.S. Short-Term Treasurys have risen for three consecutive months. U.S. High Yield and EM bonds received more than 8% allocation for February (chart, right).





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