Dynamic Allocation Strategy

MARCH 2025

Macro/Market Update

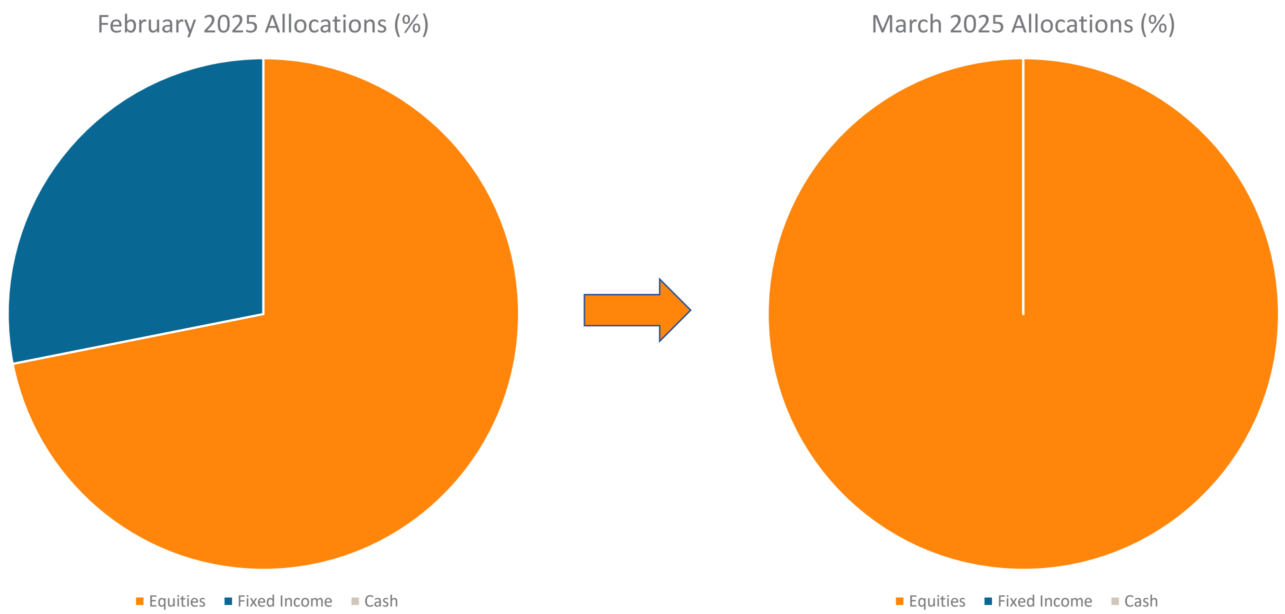
Global economic momentum weakened in January, as measured by the global composite (services and manufacturing) Purchasing Managers' Index (PMI). The global composite declined for the first time in four months, to a 13-month low.

However, the PMI data continue to reside in economic expansion territory, indicating that the risk of a large market decline (typically associated with recessions) is low. Global manufacturing returned to expansion territory in January, as the PMI rose to the best level in seven months. Although global services activity expanded for a 25th straight month in January, the pace of growth weakened to a 13-month low.

The global composite input and output price indexes have remained in a tight range since late 2023, above pre-pandemic levels. But a series of several monthly increases have seen both indexes test the upper end of that range. While both sectors have contributed to the rise, the services sector is the bigger culprit, reflecting its relatively stronger demand. Tariffs and their price and currency impacts could present upside risks to global inflation.

During February, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by over 200 basis points (bps). Although stocks have underperformed bonds for two of the last three months, stocks have outpaced bonds for twelve of the last sixteen months. As long as forward earnings estimates maintain momentum, beat rates remain elevated and sector earnings revisions keep rising, the market should be able to tolerate the relatively expensive market conditions.

Asset Allocation Summary

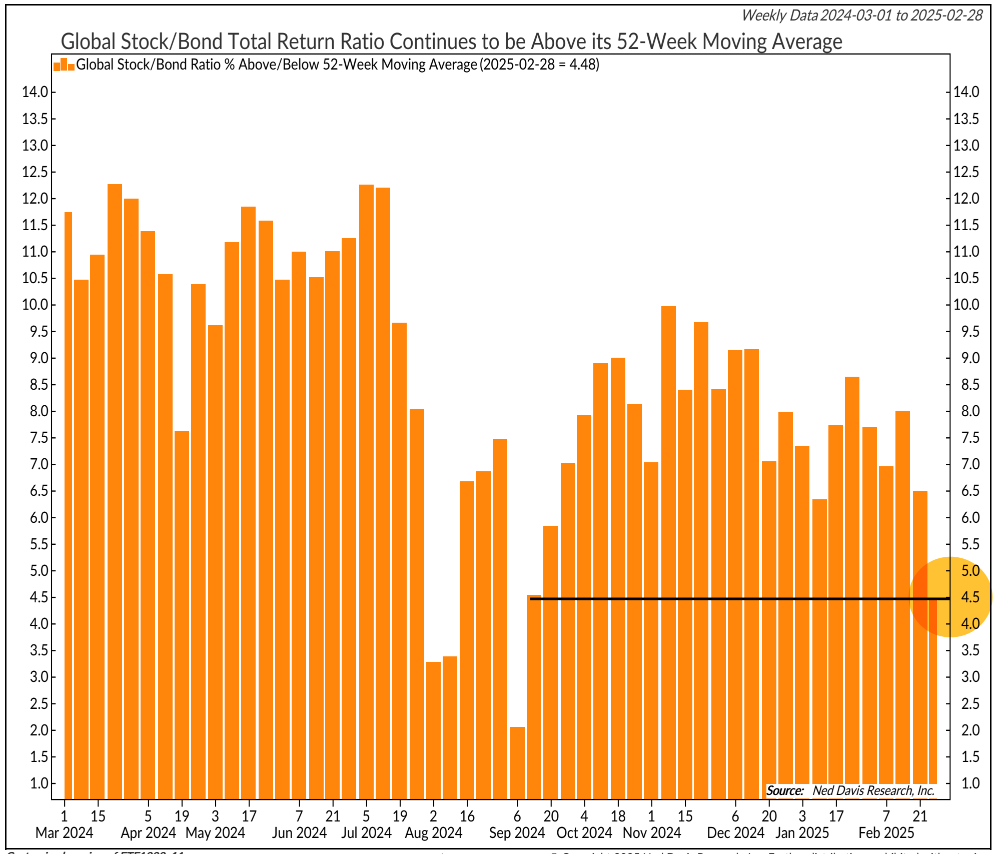


* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

The equity allocation jumped to its maximum weighting as all indicators, which weigh the relative attractiveness of stocks and bonds, now 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 declined during February to its lowest level since September, as it is dropped to less than 5% above its 52-week moving average (chart right). However, this indicator remains positive and 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."



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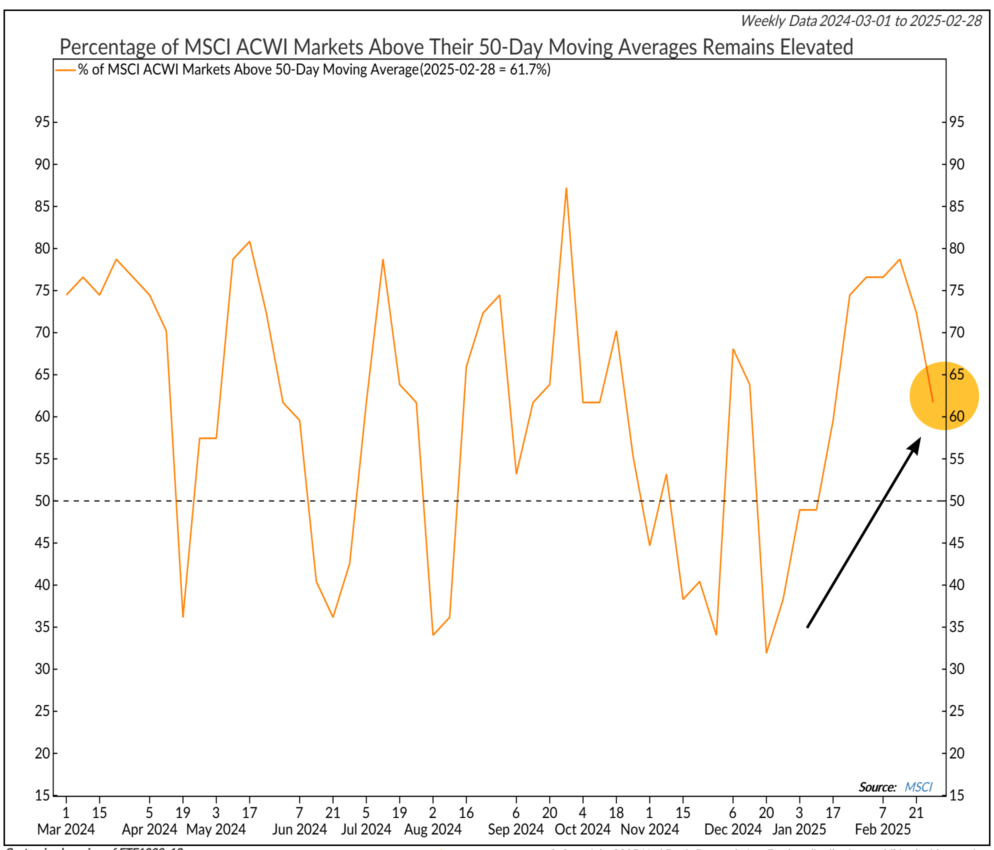
The trend is supported by favorable breadth, as more than 60% of global equity markets are trading above their 50-day moving averages (chart left). This is a significant improvement from the 38% level at the end of December.

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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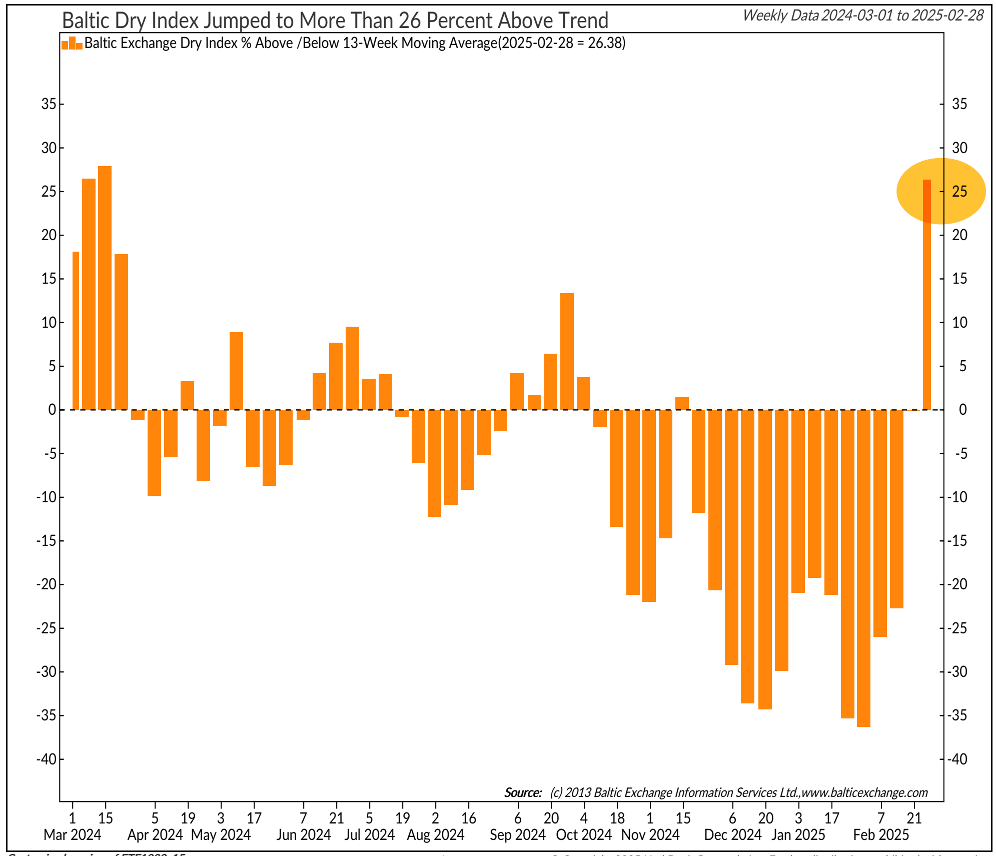
The strength of trend is supported by a new bullish reading from a macroeconomic indicator, the Baltic Dry Index (BDI). The BDI measures the cost of chartering freighters on key global cargo routes, which can be used as a proxy for global economic activity.

During January, the BDI fell to more than 35% below its 13-week moving average. But that reversed last month, as the BDI is now more than 26% above its intermediate trend (chart right).



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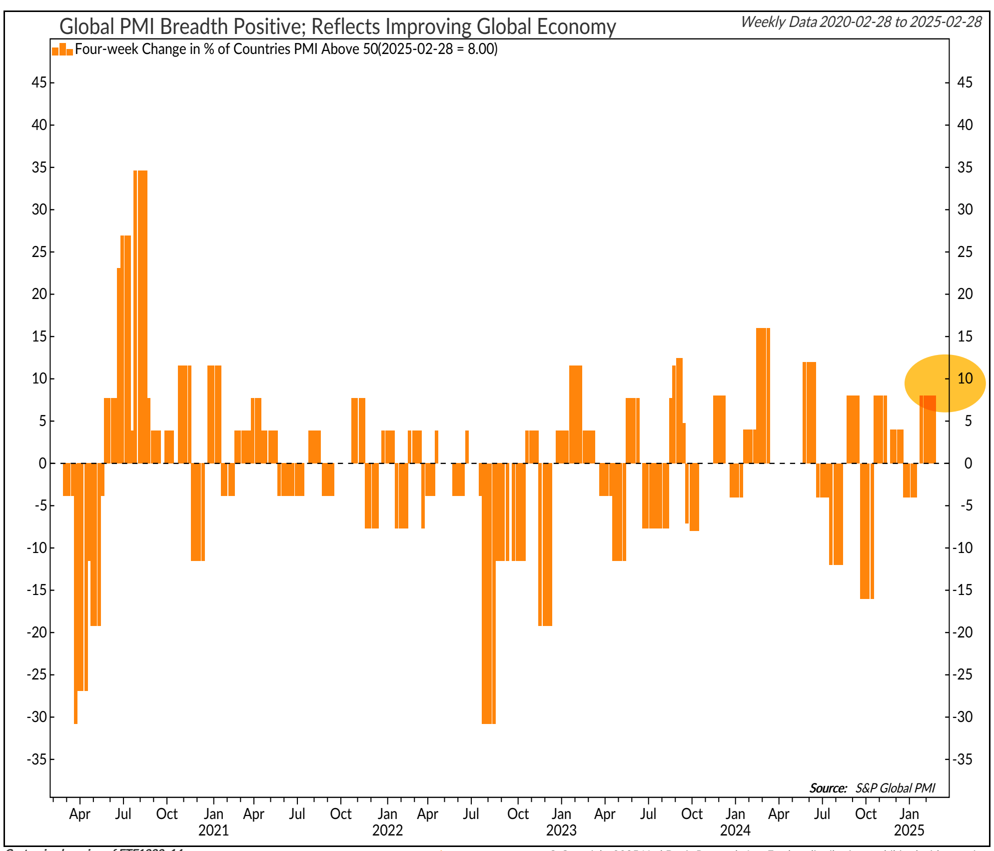

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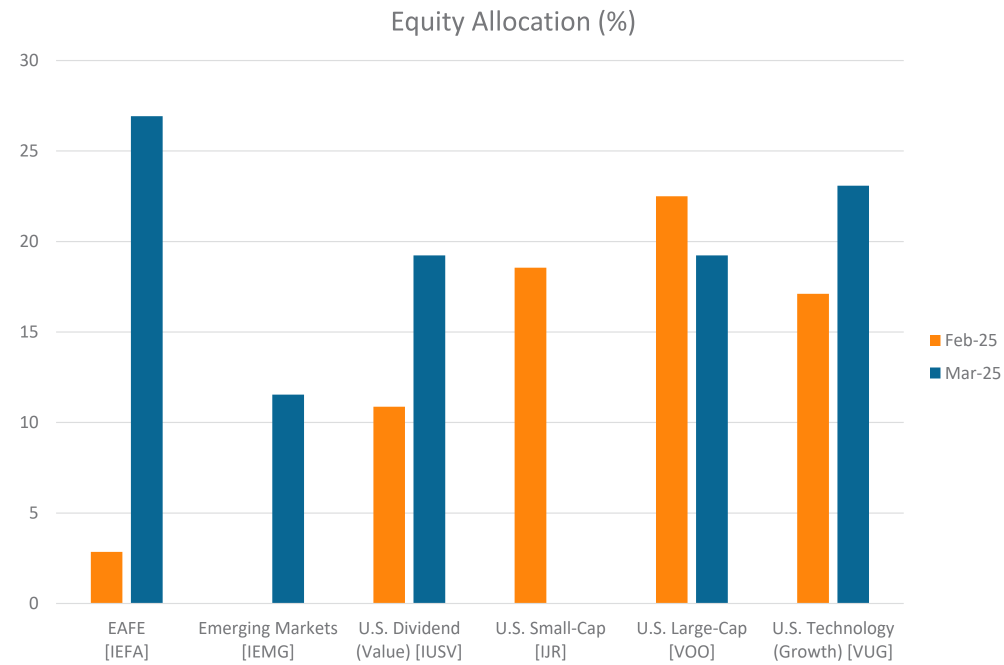
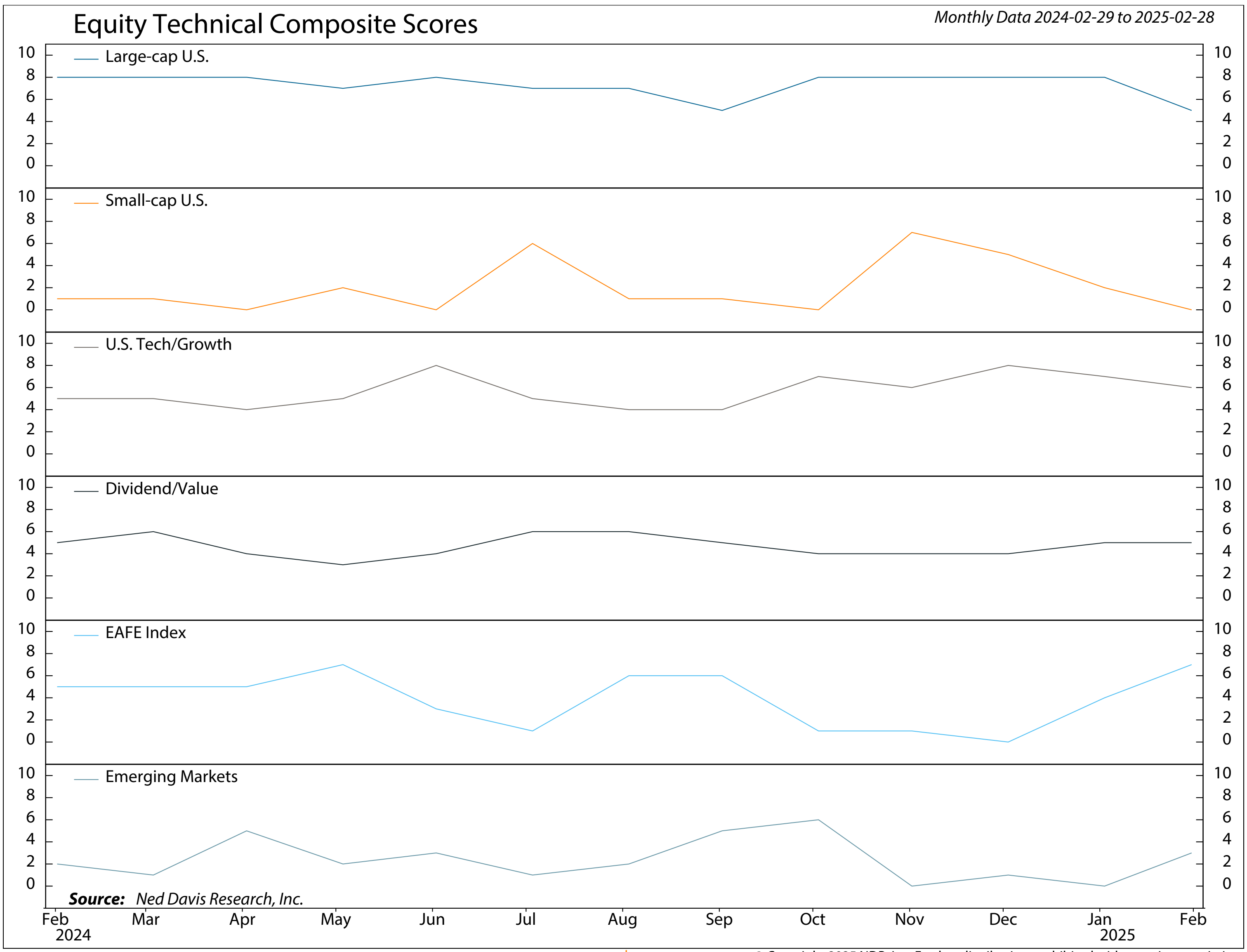
The Purchasing Managers' Index (PMI) breadth indicator measures the four-week point change of the percentage of economies with a PMI greater than 50 (expanding activity). The PMI is based on a survey sent to executives regarding their outlook on areas such as inventories, production, and employment. A change greater than zero favors stocks, while a change less than zero supports bonds.

Equities typically outperform fixed income when there is widening improvement in the economic outlook. This economic momentum breadth indicator (chart left) turned bullish on equities as the readings for Netherlands, Poland, and South Korea rose above 50.

Equity Allocation Summary

During February, non-U.S. markets and U.S. Value produced positive returns. International Developed was the top-performing area for a second straight month. It has risen more than 200 bps for two consecutive months. U.S. Growth dropped more than 300 bps, its worst month since April 2024. U.S. Large Caps and U.S. Small Caps have declined for three of the last five months. International Developed, U.S. Large Caps, U.S. Growth, and U.S. Value each received more than 19% allocation for March (chart, right).





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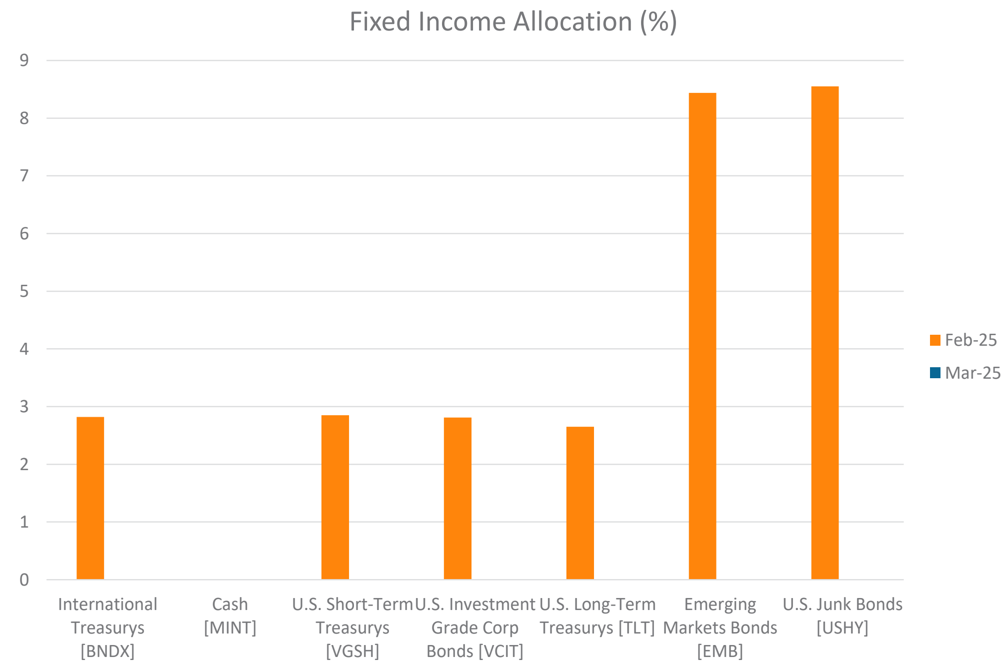
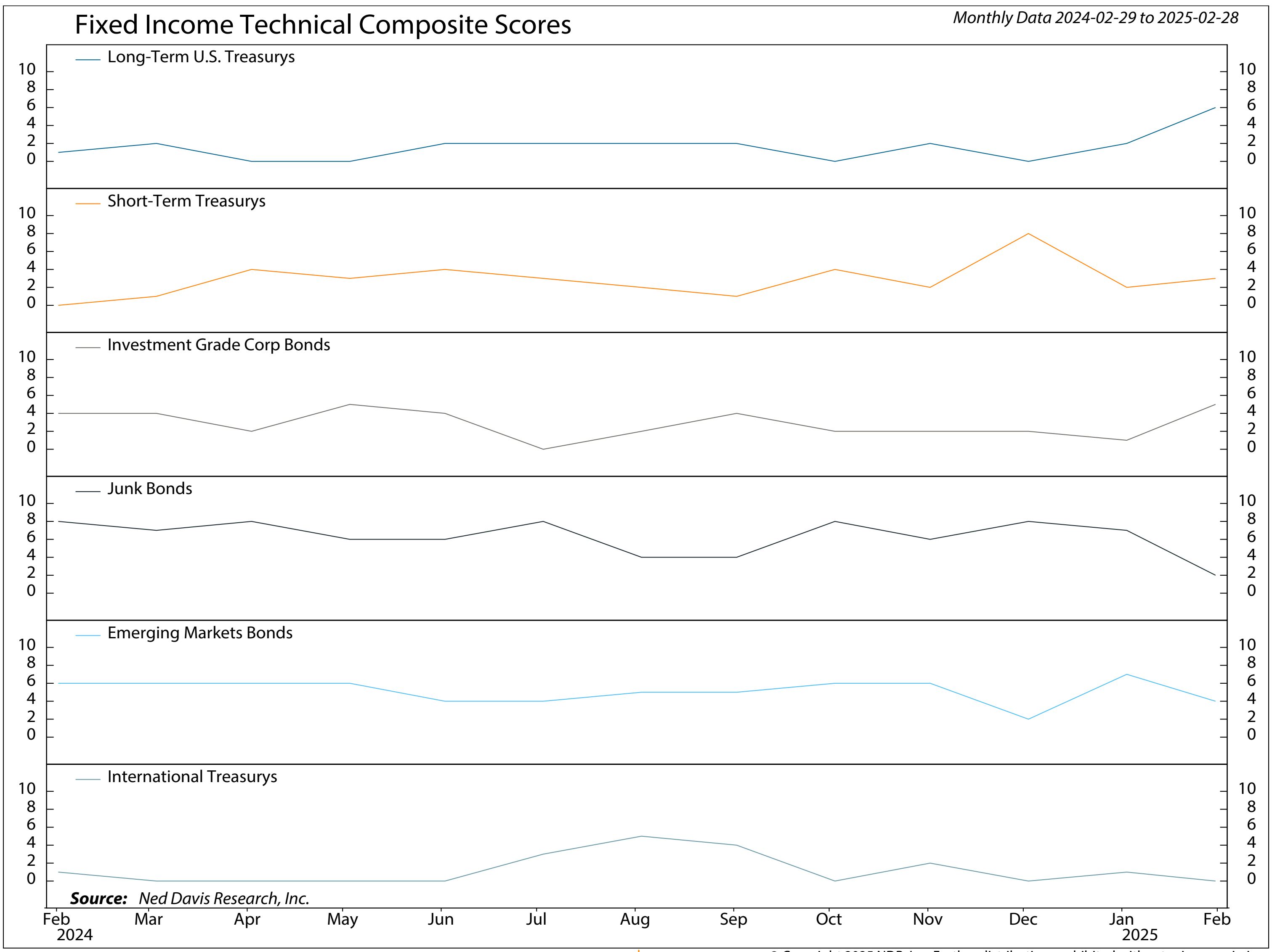
Fixed Income Allocation Summary

All fixed income areas produced positive returns for a second straight month. U.S. Long-Term Treasurys had its best month in more than one year. U.S. Investment Grade Corporates, U.S. High Yield, and Emerging Market bonds all gained over 100 bps. High Yield and EM bonds have risen by more than 100 bps for three of the last four months. No fixed income segments received an allocation for March since all top-level indicators favored stocks over bonds.





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