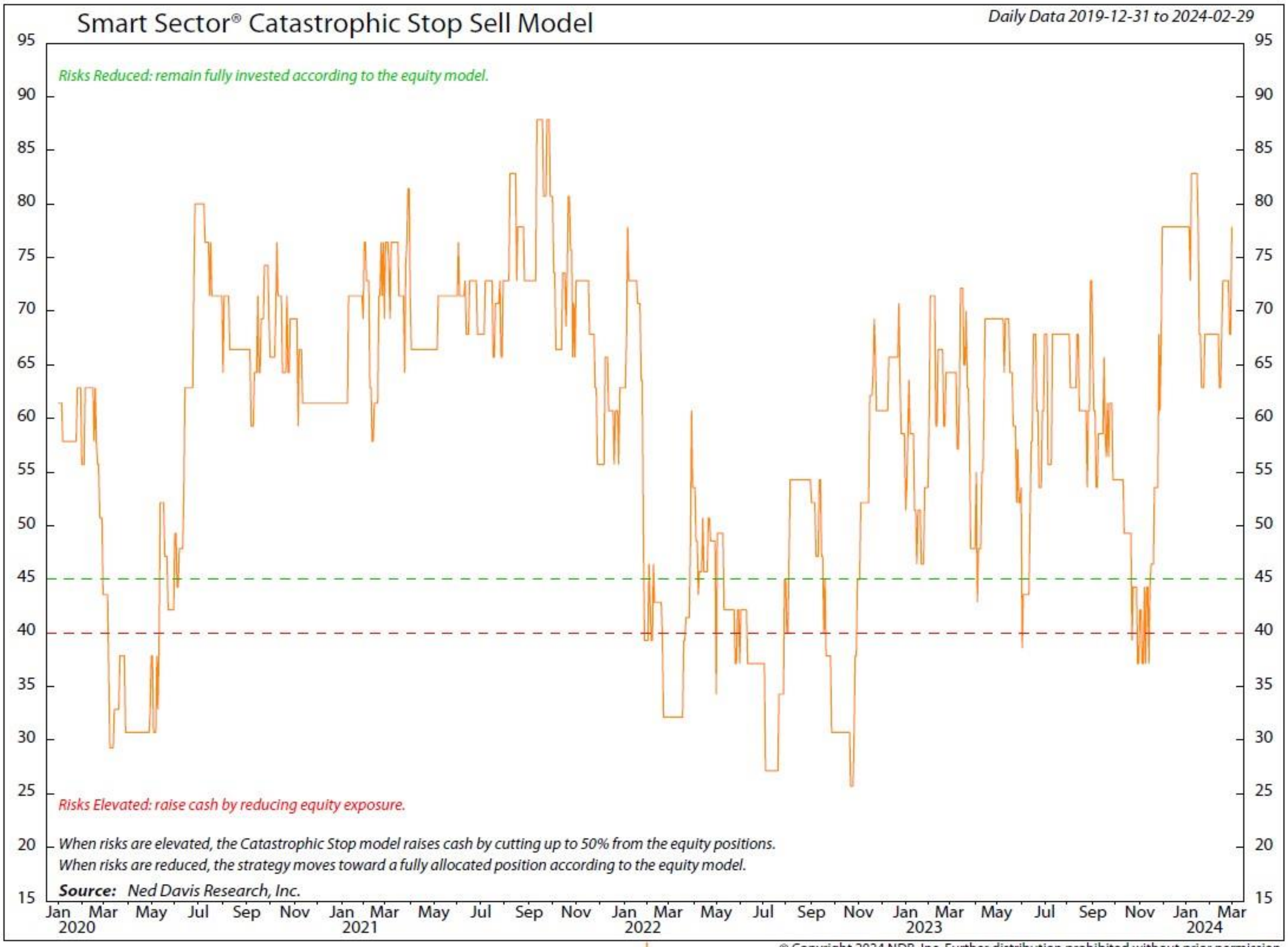
Smart Sector® International Strategy

MARCH 2024

Catastrophic Stop Update

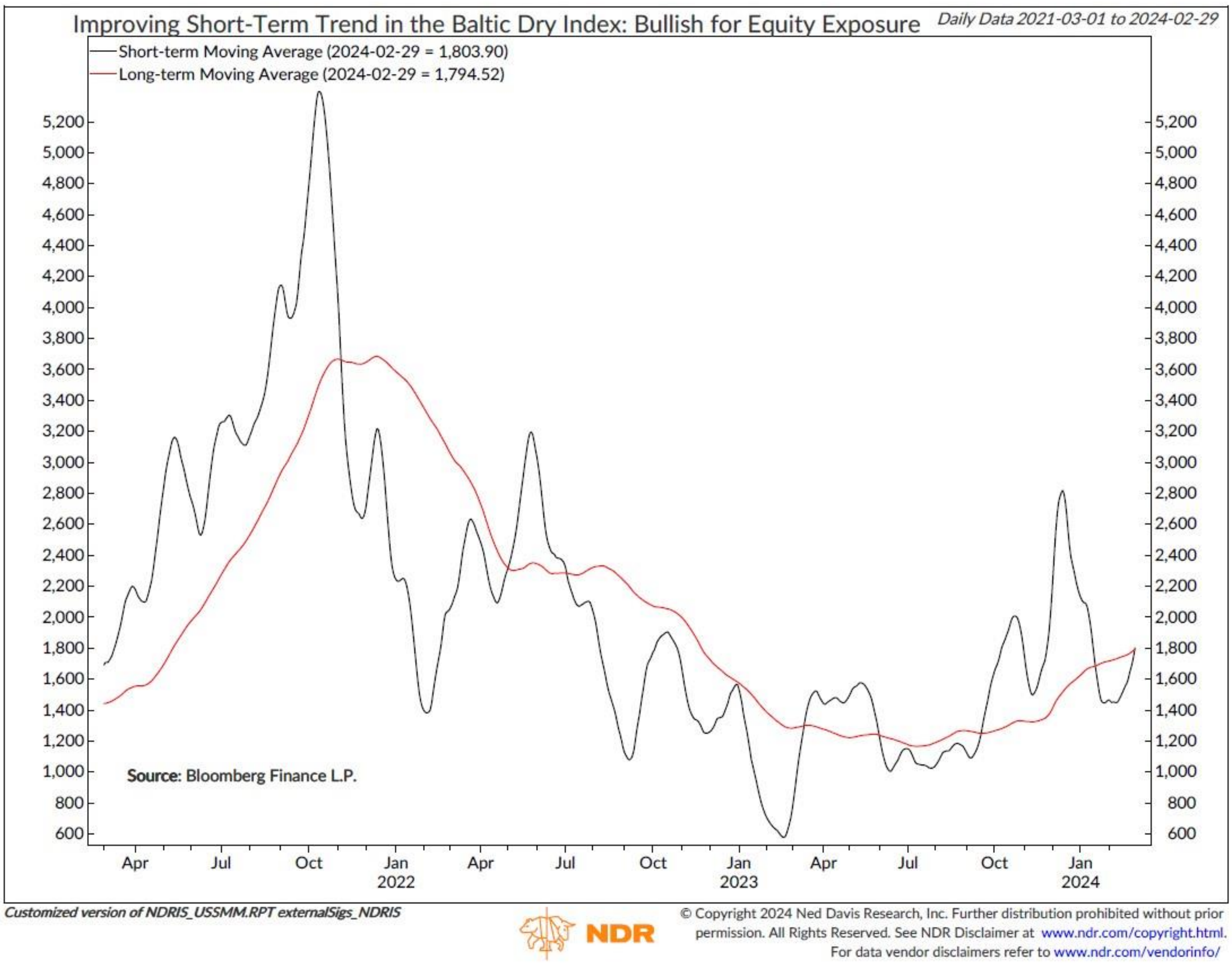
The NDR Catastrophic Stop Sell model combines time-tested, objective indicators designed to identify high-risk periods for the equity market. The model (Figure 1) improved during the month and entered March with a recommendation for a fully invested equity allocation.

Figure 1: Smart Sector® Catastrophic Stop Sell Model



The bullish reading from the model is driven by strong internals. Five of the seven price-based measures—including relative strength, trend, and breadth—remain bullish. External measures improved. The short-term trend in global trade—as measured by the Baltic Dry Index—flashed a bullish signal during the month (Figure 2), joining bullish readings from option-adjusted spreads and high-yield and emerging market breadth. Investor sentiment remains excessively optimistic, which is bearish for stocks. For now, the weight of the evidence recommends a fully invested allocation to equities according to the model.

Figure 2: Improving Short-Term Trend in the Baltic Dry Index: Bullish for Equity Exposure



Global Market Update

The ACWI ex. U.S. Total Return Index gained over 250 basis points (bps) in February. The index has risen for three of the last four months. Among the strongest performing markets were Israel, China, South Korea, Peru, and Poland, while the largest underperformers included Egypt, Austria, Portugal, South Africa, and Czech Republic.

The global economic lull from the second half of 2023 is abating at the start of 2024. The global composite (services and manufacturing) S&P Global Purchasing Managers' Index (PMI) rose for a third straight month in January to an eight-month high. This suggests minimal near-term recession risk. However, the global composite is still well below its long-term average, indicating historically slower growth.

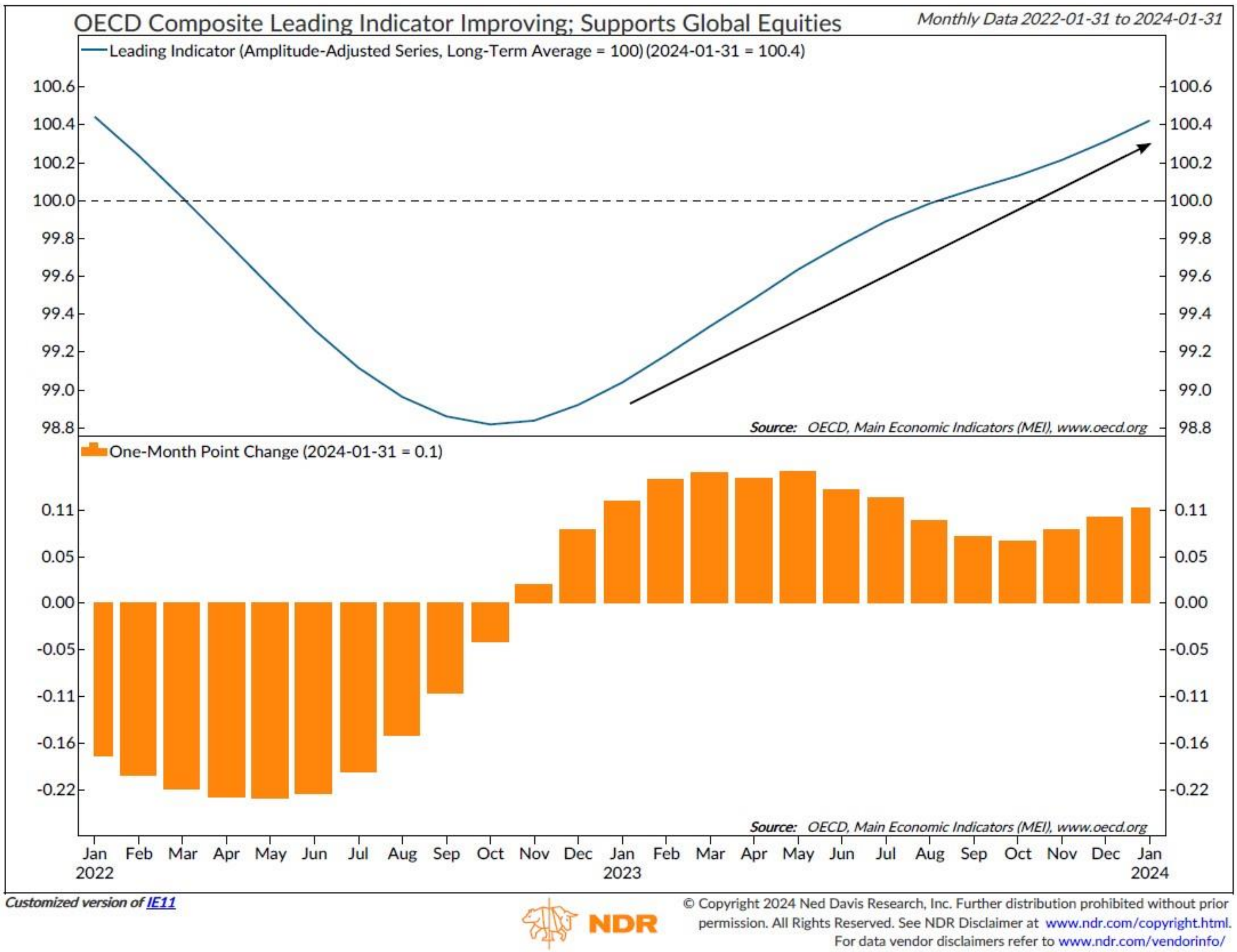
Leading indicators were constructive (Figure 3). The new orders index showed its strongest expansion in seven months. The future output index also jumped to its best level since June, led by both the manufacturing and services sectors.

Manufacturing, which has been an economic laggard for some time, pulled out of contraction territory for the first time in 17 months. Meanwhile, services, the largest chunk of the economy, remain strong. Breadth in both sectors picked up, indicating that the expansion is broadening.

Global supply chain pressures picked up, in part due to disruptions in the Suez and Panama Canals, but prices have so far been little affected. The global composite output price index fell to its lowest level since October 2020.

Entering March, the non-U.S. equity Core model overweighted Japan and Germany. China and Canada are neutral, and the U.K., France, Switzerland, and Australia are underweight. The Explore model favored Mexico, Turkey, Brazil, Spain, and the Philippines.

Figure 3: OECD Composite Leading Indicator Improving: Supports Global Equities

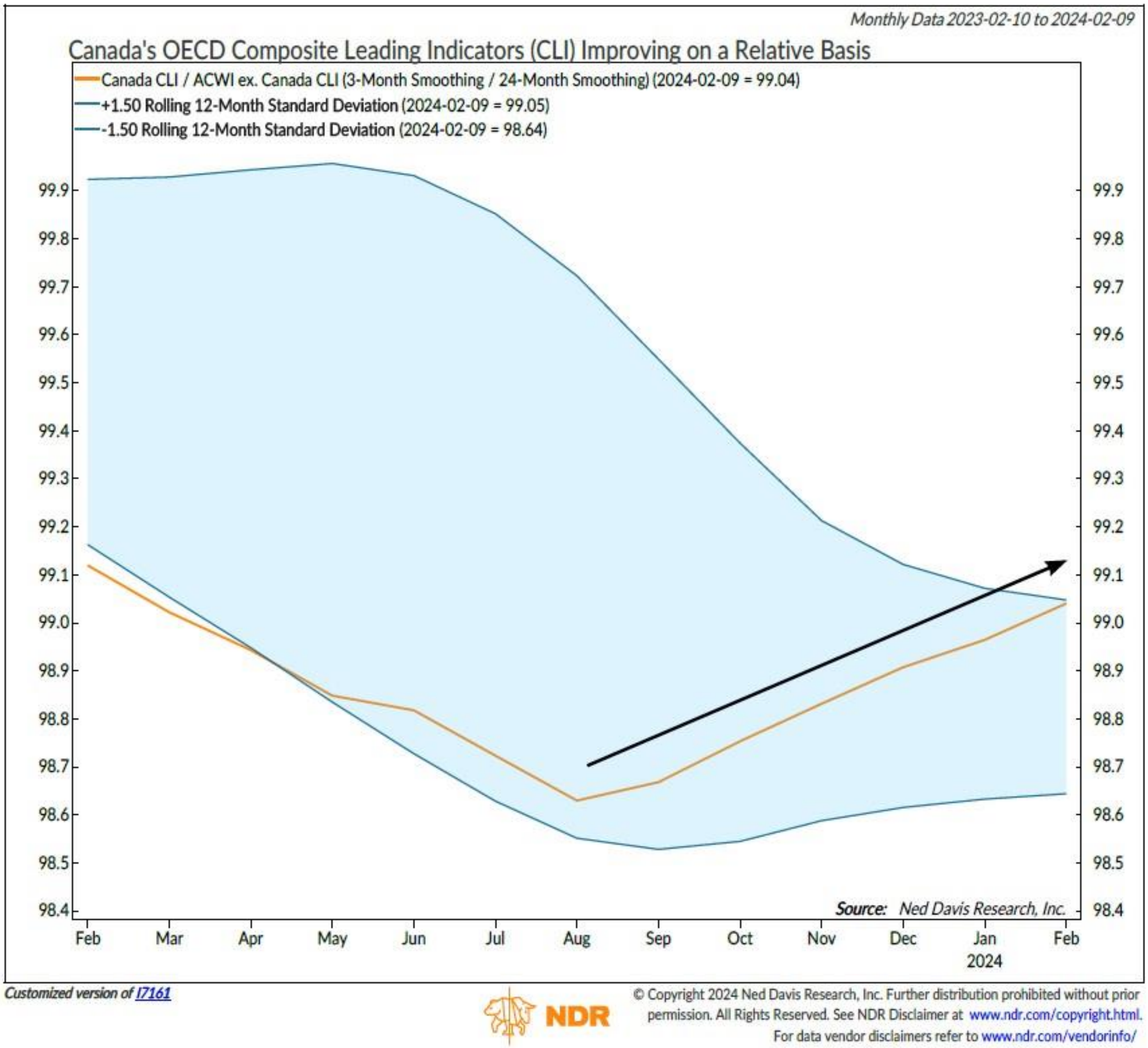


Core Allocations

Canada remained an overweight allocation as the market's trend continued to move higher with strengthening long-term breadth. On a relative basis, valuations remain attractive, and the economy has turned higher (Figure 4).

Canadian consumer prices eased at the start of this year, giving the Bank of Canada more room to consider rate cuts in the coming months. However, the Bank of Canada was expected to hold rates steady at its early March meeting after a better-than-expected GDP report.

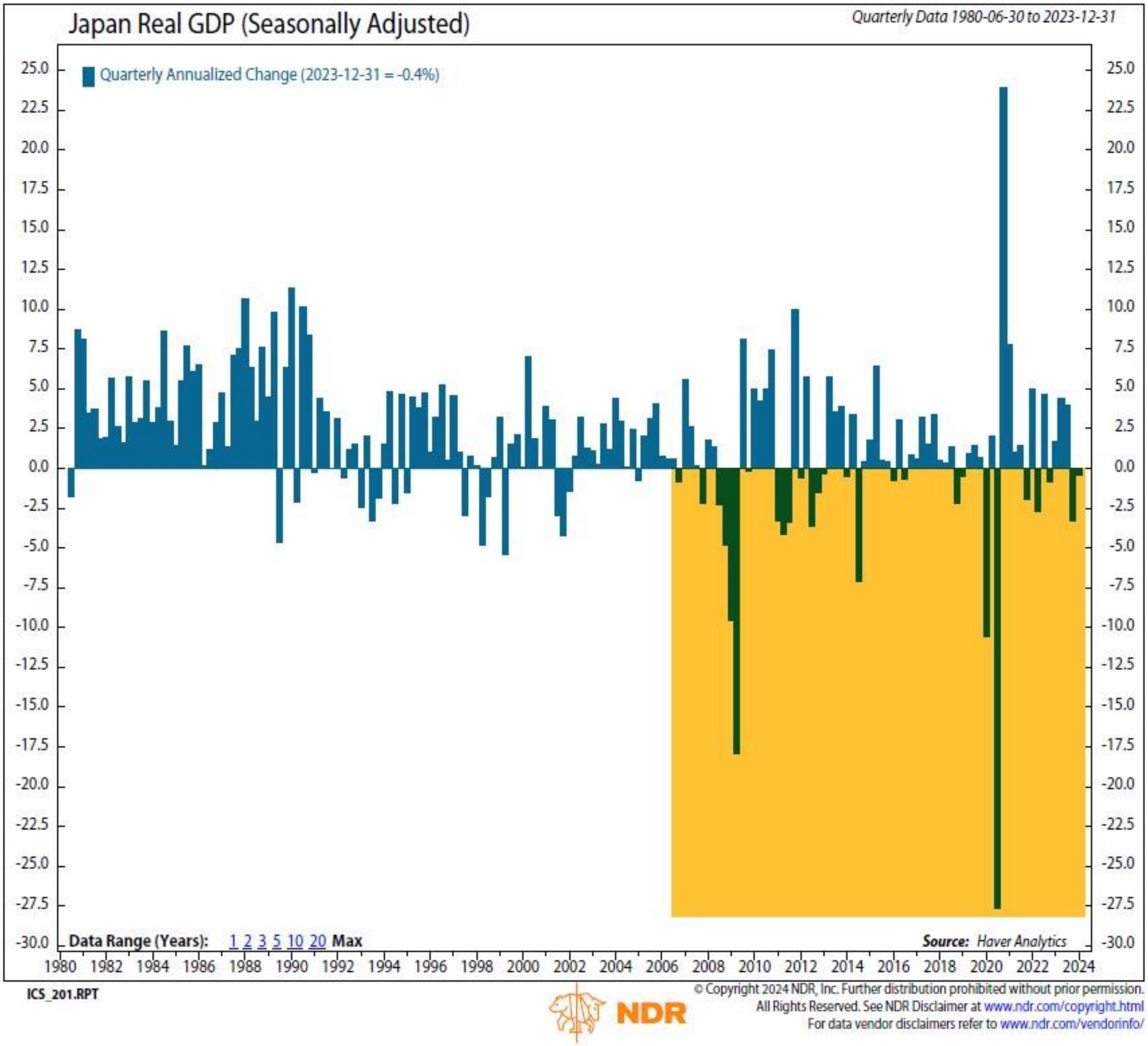
Figure 4: Canada's OECD Composite Leading Indicators (CLI) Improving on a Relative Basis.



Japan's allocation remains above benchmark weighting as the trend and breadth remain positive. Almost all technical indicators favor the market. However, many external indicators (including relative valuations and inflation swaps) are negative on the region. One bright spot is that near-term earnings growth has reversed higher and is now above its intermediate trend.

Japan's real GDP contracted an annualized 0.4% in Q4, following a 1.1% decline in Q3, putting the economy into a technical recession. However, Japan's economy contracts quite often. In fact, in 17 of the past 18 years, Japan's economy has contracted at least one quarter per year (Figure 5). Japanese equities haven't always responded negatively to a recession, with historically very mixed performance around economic downturns.

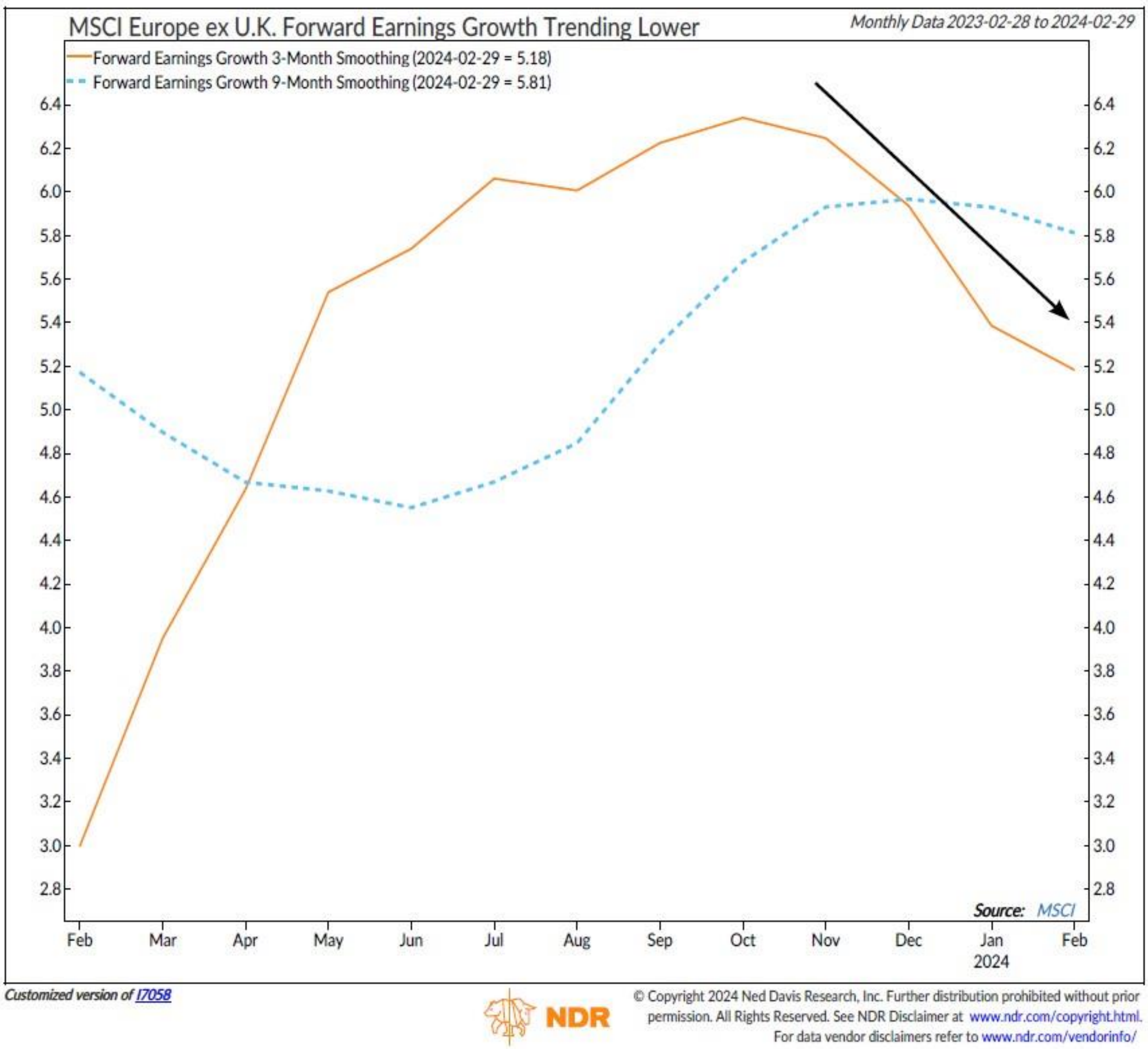
Figure 5: Japan Real GDP (Seasonally Adjusted)



France and Switzerland remain underweight this month due to macro and fundamental weakness. The outlook has deteriorated as inflation remains elevated and the European Central Bank's (ECB) most aggressive tightening cycle on record works its way into the economy.

Forward earnings expectations reflect the challenging environment as they remain in a downtrend (Figure 6). Last quarter, less than 60% of companies beat earnings estimates. Most internal indicators are bearish.

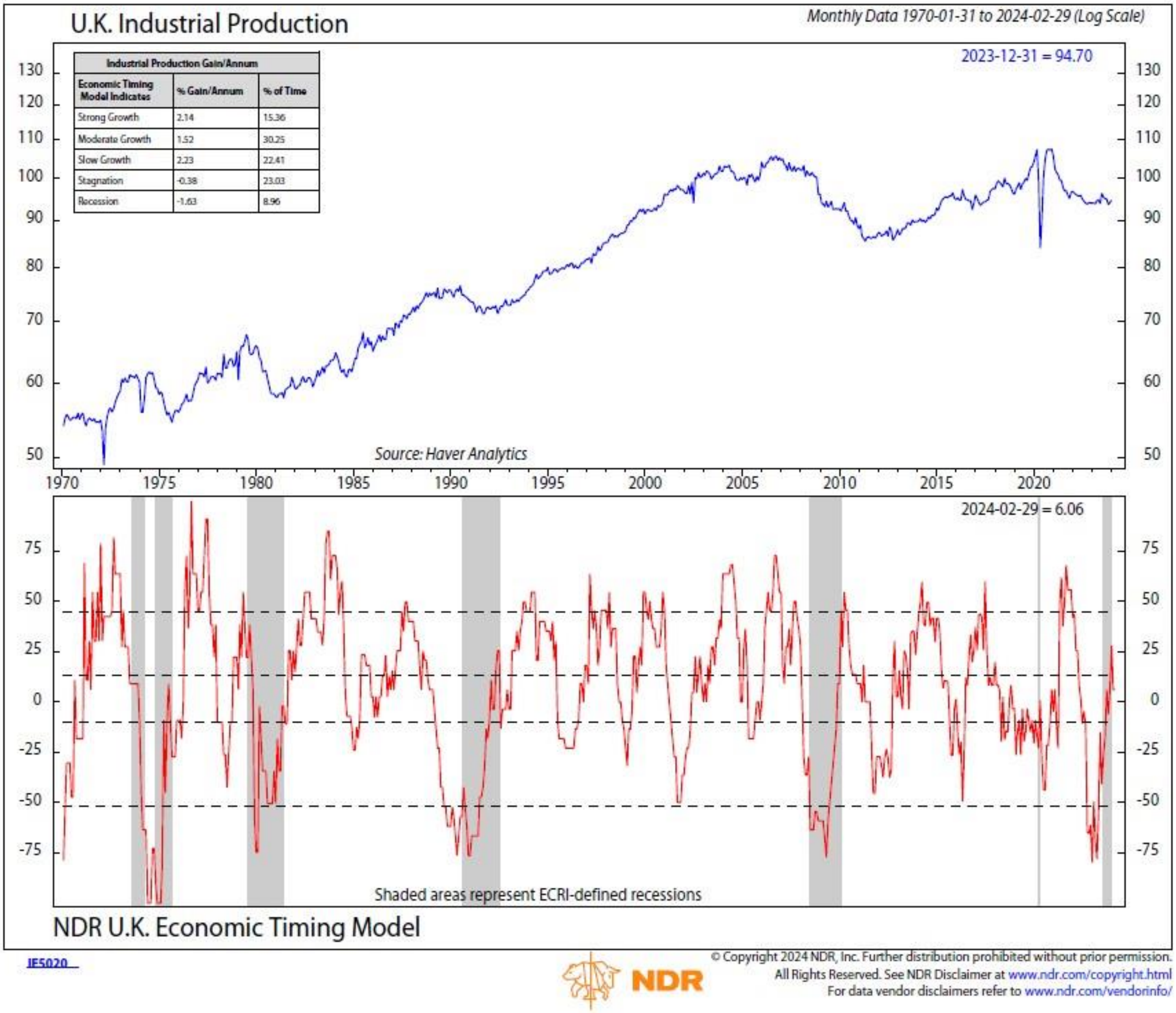
Figure 6: MSCI Europe ex U.K. Forward Earnings Growth Trending Lower



The U.K. remains significantly underweight for March. Economic trends are still lackluster, as NDR's U.K. Economic Timing is declining (Figure 7). High interest rates, inflation eating into consumer purchasing power, ebbing labor market trends, and the structural downside associated with Brexit continue to drag on the economy. The fundamental outlook is also unfavorable. Less than 55% of companies had positive one-year forward earnings revisions during February.

The market recognizes these risks as equities remain in a downtrend with weak breadth. None of the region's technical indicators are bullish.

Figure 7: U.K. Industrial Production



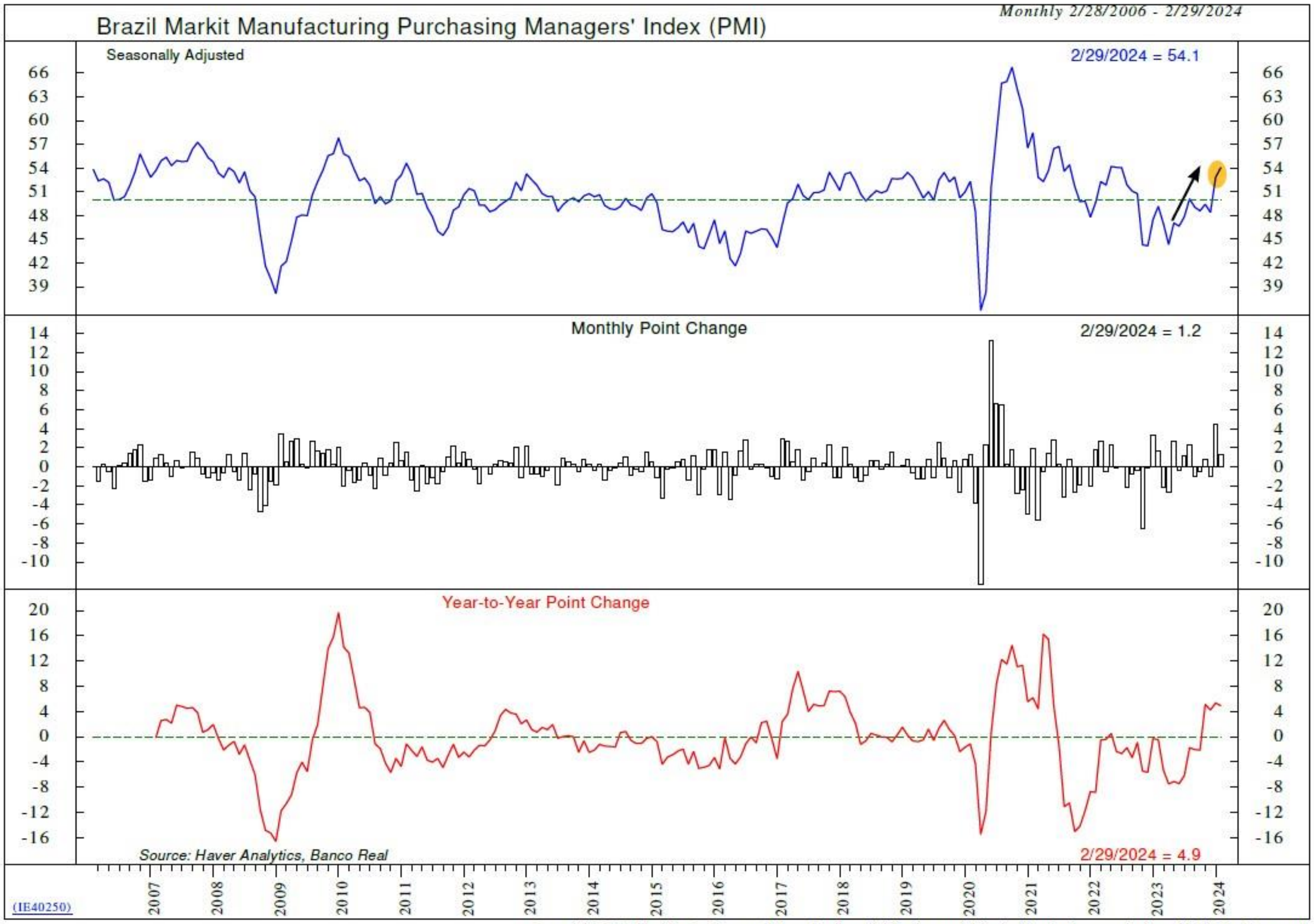
Explore Opportunities

Among the top-ranked Explore markets are Brazil, Mexico, the Philippines, Spain, and Turkey.

- All markets have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- Near-term, the Philippines and Turkey are one standard deviation oversold. Over the long term, Brazil, Mexico, and Spain are oversold. Such oversold conditions may provide a near-term bounce opportunity.
- All markets have low market capitalization-to-GDP ratios, typically indicating a favorable valuation.
- Brazil and Spain have positive relative valuation spreads between their respective earnings yields and 10-year government bond yields.
- The Philippines’ cyclically adjusted price-to-earnings ratio is almost one standard deviation below its historical tendency.

- All markets have a manufacturing Purchasing Managers' Index in expansionary territory. Brazil possesses one of the highest readings across economies and is at its highest level in 18 months (Figure 8).
- Brazil and Mexico have Composite Leading Indicator readings in expansionary territory.
- Mexico, Spain, and Turkey have over 50% of stocks with positive earnings revisions from analysts.
- Spain, Turkey, and the Philippines have some of the strongest trailing and forward earnings growth readings.

Figure 8: Brazil Markit Manufacturing Purchasing Managers' Index (PMI)



Summary

Entering March, the non-U.S. equity Core model overweighted Japan and Germany. China and Canada are neutral, and the U.K., France, Switzerland, and Australia are underweight. The Explore model favored Mexico, Turkey, Brazil, Spain, and the Philippines.

The models combine macro, fundamental, technical, and sentiment indicators to identify opportunities and risks in an objective, weight-of-the-evidence approach.

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Smart Sector® International Strategy

Strategy Description

- The Smart Sector® International strategy combines three Ned Davis Research quantitative investment strategies: The Core International, Explore International, and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

Core Allocation

- The fund begins by overweighting and underweighting the largest non-U.S. equity markets based on Ned Davis Research's proprietary models.
- Each of the models utilize market-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each area's probability of outperforming the ACWI ex. U.S. Markets are weighted accordingly relative to benchmark weightings.

Explore Allocation

- To select smaller markets, the fund uses a multi-factor technical ranking system to choose the top markets. The markets with the highest rankings split the non-Core model allocation equally.

When market risks become extraordinarily high — reduce your portfolio risk

- The model remains fully invested *unless the Ned Davis Research Catastrophic Sell Stop (CSS) model is triggered,* whereupon the equity-invested position may be trimmed by up to 50%.

- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad U.S. equity market. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When the NDR CSS model moves back to bullish levels, indicating lower risk, the strategy will reverse toward being fully invested.

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