NDR
NED DAVIS RESEARCH

NDR Global Allocation Strategy

JUNE 2025

Macro/Market Update

The global economy slowed markedly in April, as measured by the global composite (services and manufacturing) Purchasing Managers' Index (PMI). This data provided our first reading of semi-hard data since the April 2 tariff announcement. The global composite (services and manufacturing) PMI slumped to a 17-month low. Both the manufacturing and services sectors experienced setbacks in April.

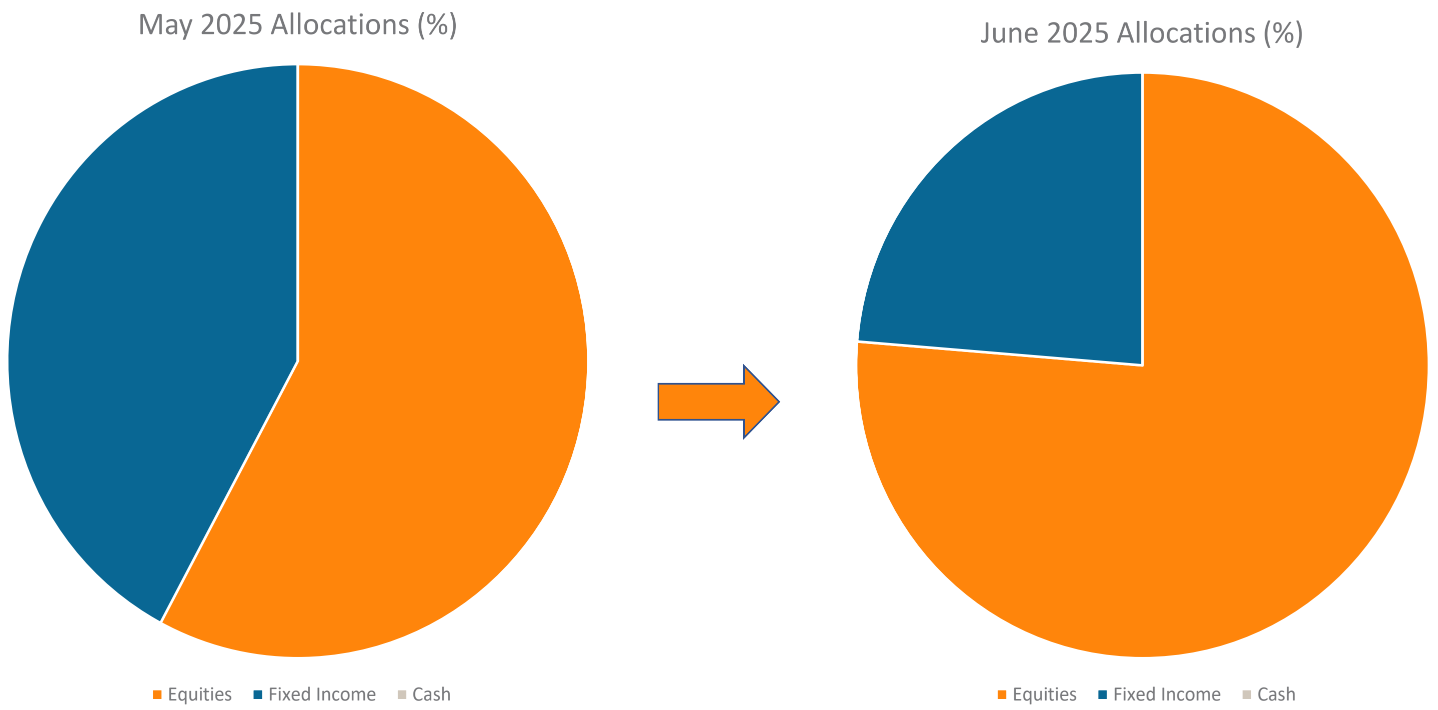
The manufacturing sector contracted for the first time in four months, reflecting waning export demand. The decline in new orders was led by the sharpest fall in export orders since August 2023. The decrease in export orders was broad-based by economy, with only 14% showing expansion, the weakest since December 2022.

Tariff woes also managed to seep their way into the larger services sector, which also grew at its slowest pace in 17 months. Despite not being the focus of U.S. tariffs, new business growth in the services sector also slowed markedly, led by a plunge in export demand. The future activity index for the services sector fell almost as much as its manufacturing counterpart.

While tariffs and uncertainty continue to provide downside risks, this is partly offset by most economies adopting an expansionary monetary and fiscal stance. Almost 80% of the world's central banks are in easing cycles, hovering around the best level since 2021.

During May, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays U.S. Aggregate Bond Index by over 600 basis points (bps). It was the strongest month of outperformance for stocks relative to bonds since October 2022. Stocks have outperformed bonds for three of the last six months. Despite strong performance in May, equities may experience more volatility if the hard economic data confirm the weaker soft readings.

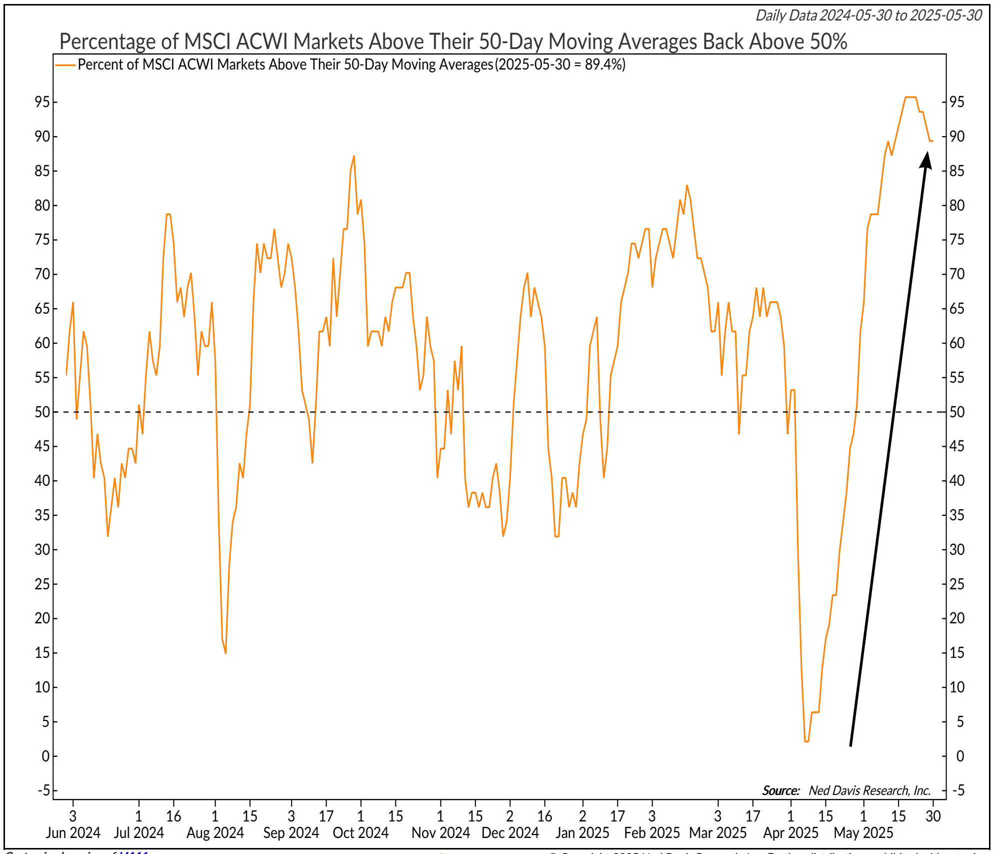
Asset Allocation Summary



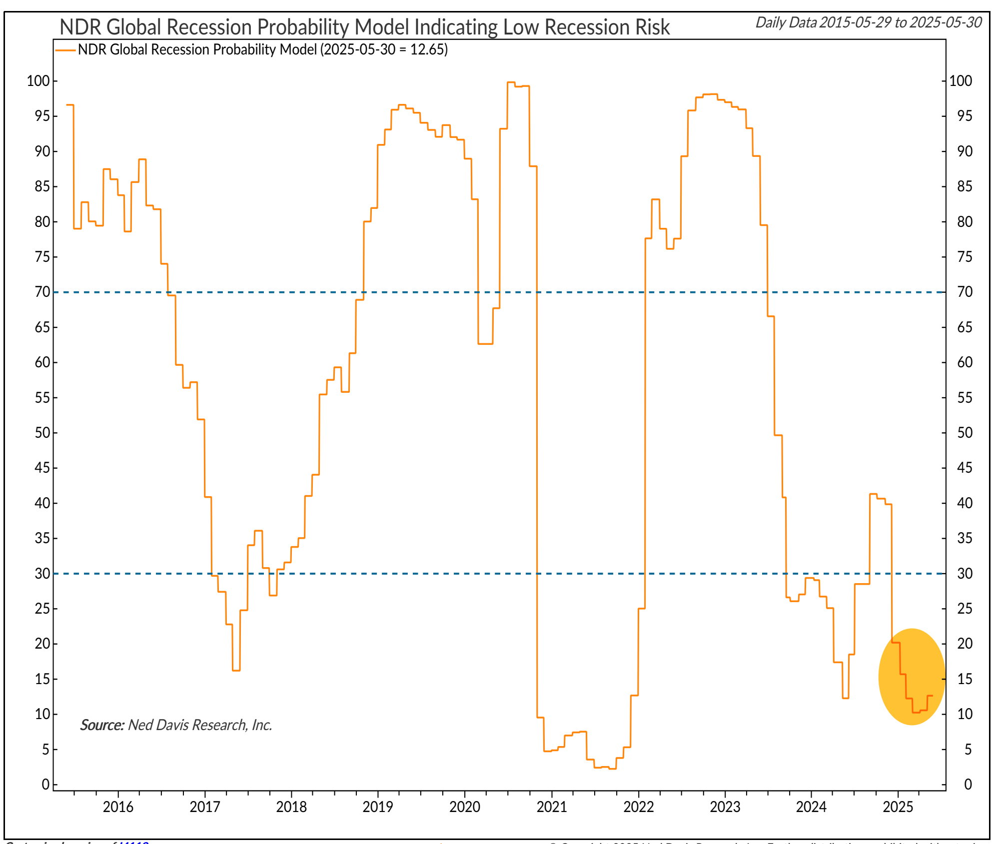
* See Equity Allocation Summary for how the equity allocation is distributed

The model's equity exposure improved to above benchmark allocation. None of the price-based indicators (internals) are bearish on equities relative to fixed income. Volatility, trend, breadth (chart right), and momentum measures support an above-average equity weighting.

Breadth measures 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 I4111



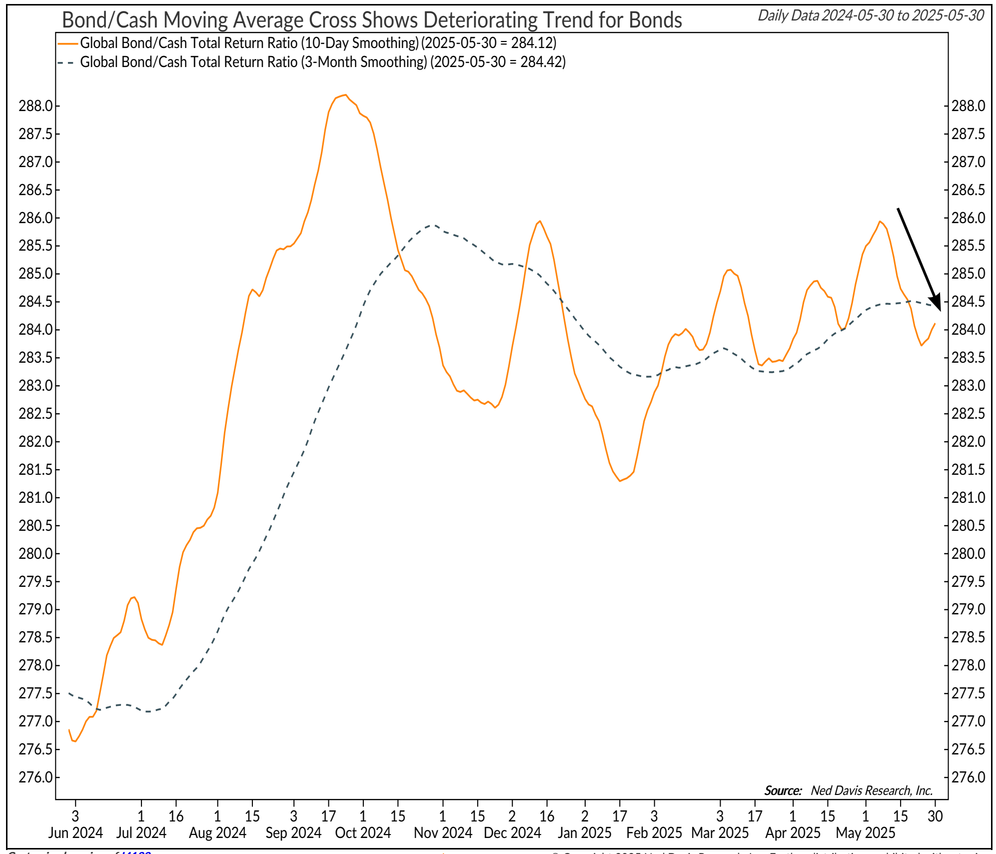
Customized version of I4119

The macroeconomic, fundamental, and sentiment (external) indicators favor equities over fixed income. Earnings growth is favorable, defensive sectors are not leading, global manufacturing has not significantly deteriorated, sentiment is reversing from a pessimistic condition, and the odds of recession remain low (chart left).

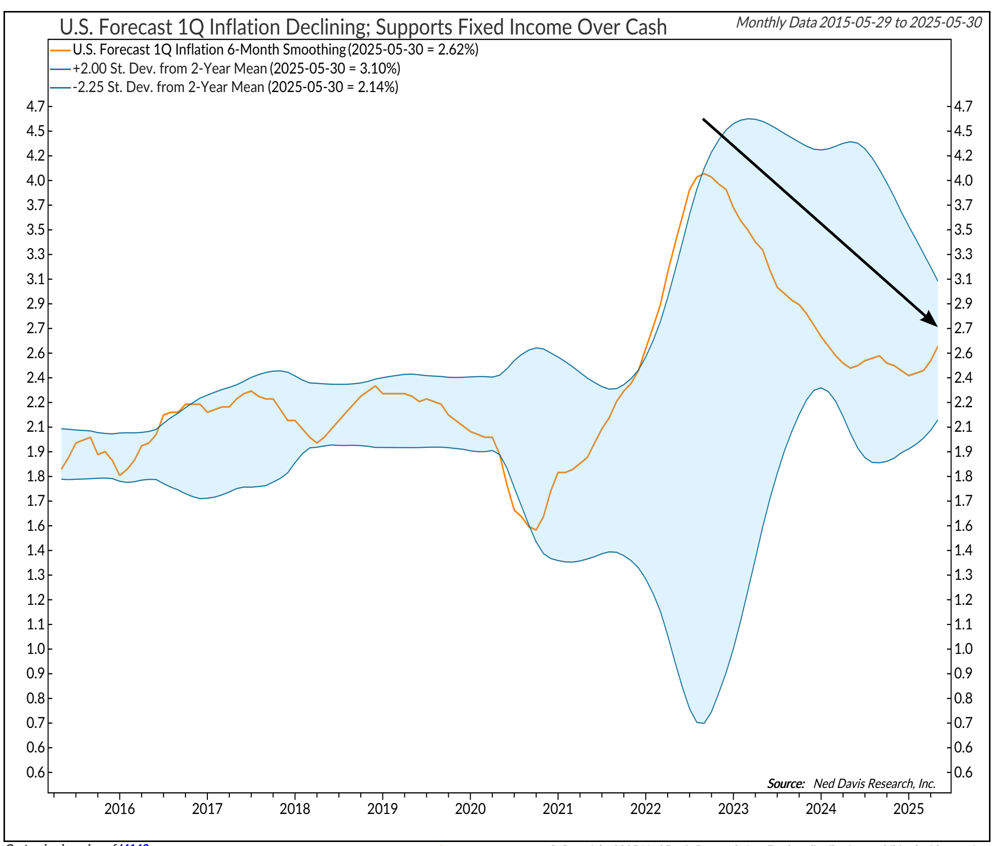
The NDR global recession probability model continues to support an overweight global equities allocation, as it shows a low risk of recession. The global recession probability model combines the levels and directions of leading indicators from various economies to determine whether the global economy is at risk of a significant slowdown. Currently, the model does not reflect a risk-off environment for stocks.

Within the bond/cash decision, the internal indicators are split between bonds and cash. However, the trend has turned bearish on fixed income (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 I4130



Customized version of I4143

None of the external indicators are bearish on fixed income. Expected inflation continues to trend lower (chart left), which favors fixed income. Disinflation allows global central bank to ease monetary policy. Falling interest rates benefit bonds, as rates and bonds prices are inversely related.

Equity Region Update

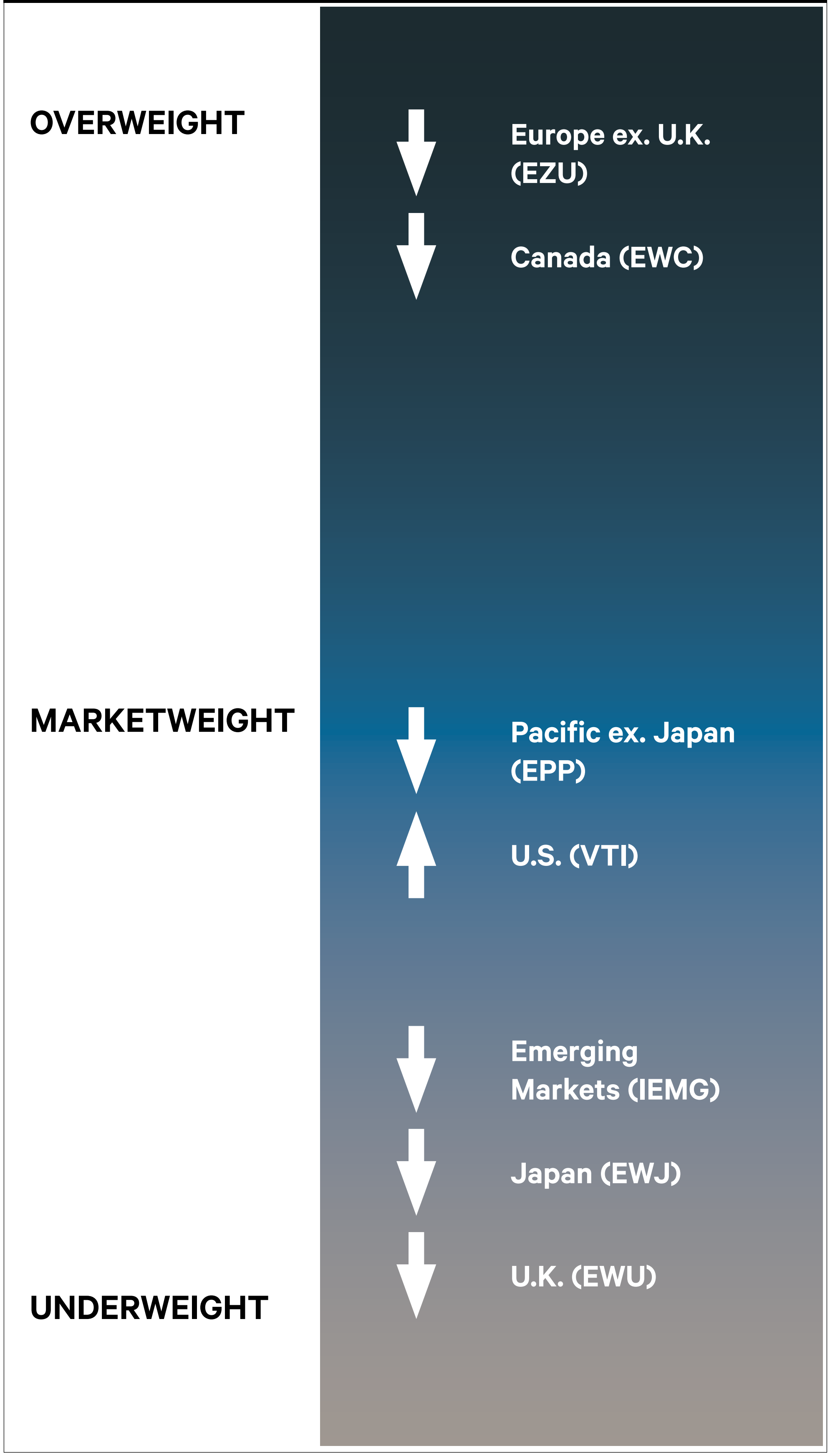
All equity regions jumped more than 400 bps during May. That last occurred in November 2023.

The U.S., Canada, and Pacific ex. Japan all gained more than 500 bps. It broke a three-month losing streak for the U.S. Canada has been higher for four of the last five months. Pacific ex. Japan had its best month since September.

The U.K., Europe ex. U.K., Japan, and Emerging Markets all rose over 400 bps. The U.K. and Emerging Markets are on five-month winning streaks. Europe ex. U.K. has risen by more than 370 bps for four of the last five months. Japan has increased for three straight months.

This month the model has overweight positions on Europe ex. U.K. and Canada, while holding below benchmark allocations for Emerging Markets, Japan, and the U.K.

Equity Region Selection Summary



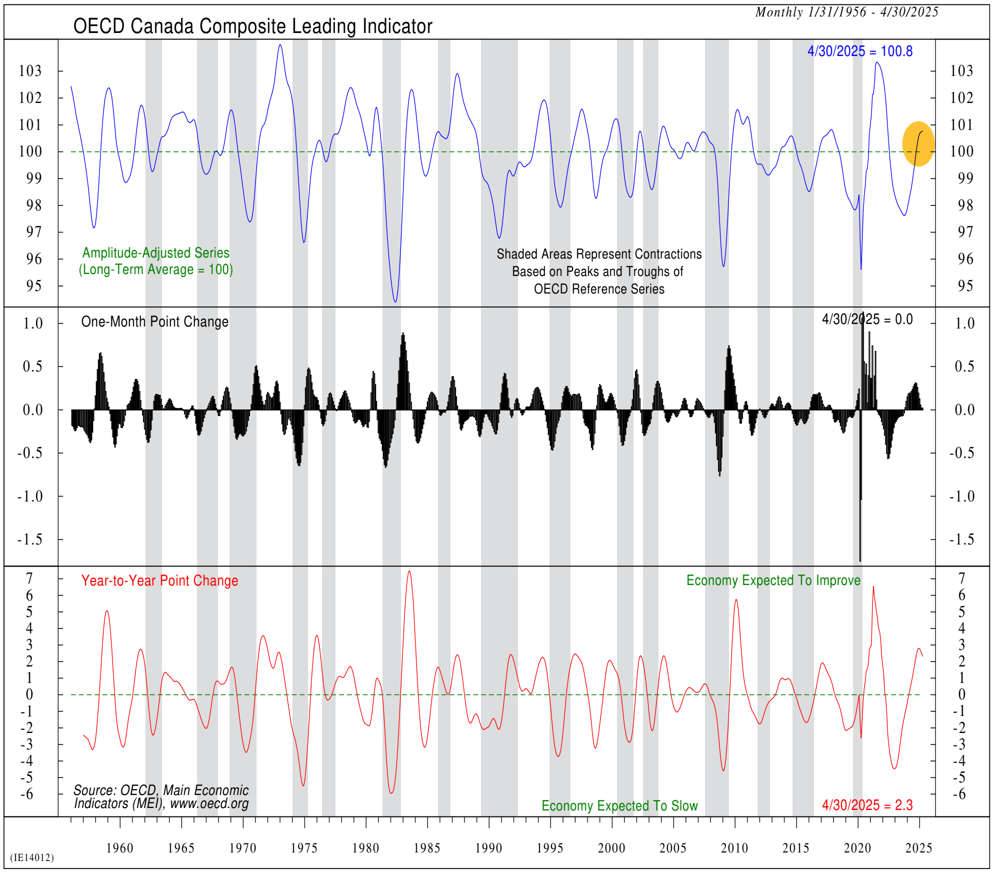
Arrow indicates direction in which region's weight (as a percentage of benchmark allocation) moved from last month (up = weight increased, down = weight decreased).

Equity Region Selection Summary

Canada remained at overweight status for May, as the majority of its internal indicators were bullish. Canada's real GDP grew a more-than-expected 2.2% annualized pace in Q1. However, the increase was mostly due to net exports and inventory accumulation, as the economy prepared for U.S. tariffs and counter tariffs.

The OECD Composite Leading Indicator suggests a continuation of the expansion, as the index remains at its best level since 2022 (chart right).

Analysts have responded by raising their expectations. Earnings estimates have improved within the region as more than 70% of companies received upward revisions.



Customized version of EUR1022

Europe ex. U.K. continues to be above benchmark weigthing as only one technical indicators is bearish on the region.

The Composite Leading Indicator for Europe ex. U.K. relative to the other regions resides in an uptrend. The European Commission's Economic Sentiment Index (ESI) for the eurozone increased a more-than-expected 1.0 point to 94.8 in May, indicating some resiliency to U.S. tariff threats and uncertainty. All subsectors either rose, led by the consumer and retail trade confidence indexes, or were flat.

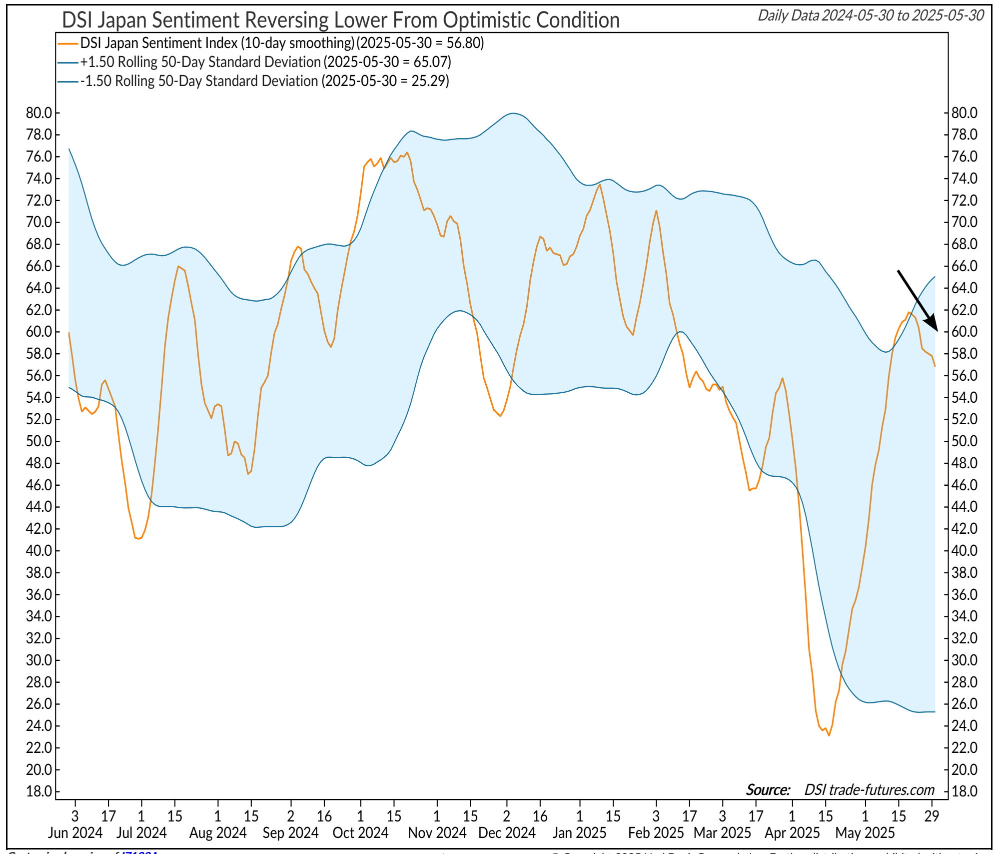
Valuations, as based on relative dividend yields, reflect an attractive opportunity. Europe high yield option-adjusted spreads have narrowed over 100 bps since early April (chart left), which reflect growing risk appetite. ETFs that track Europe have responded by growing assets.

Japan fell to underweight, as only one-fourth of its indicators are bullish. The trend remains lower as valuations are expensive relative to other markets, near-term earnings growth is weak, and sentiment is reversing from an optimistic condition (chart right).

Japan has been seeing below-replacement rate birth rates since the 1970s. These births are the pipeline to the future labor force. Labor force growth is also positively correlated with productivity growth, the other pillar of potential growth. Partly due to these reasons, Japan is experiencing relatively lower real GDP growth compared to other developed economies.

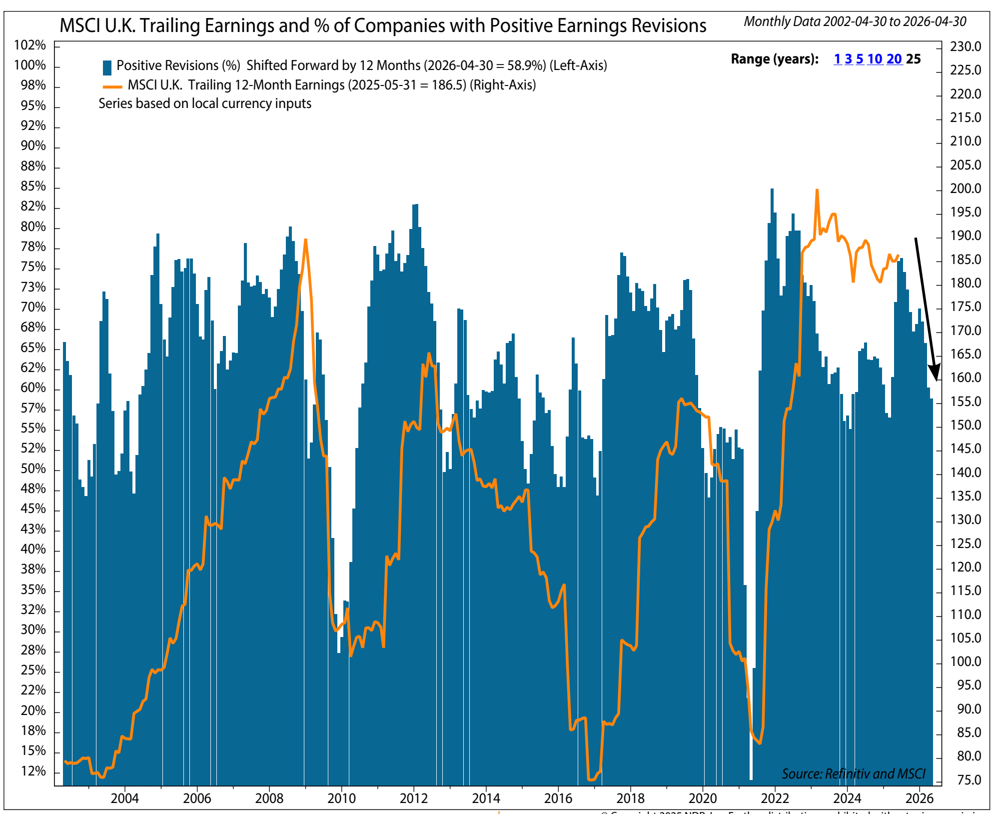
The U.K. has an underweight allocation for June. Eight of the region's eleven indicators are bearish.

The region's manufacturing PMI and Now-Casting Index of Economic Activity both firmly remain in contractionary territory. Consumer expecations, as meaured by the



Customized version of I7123A

NDR



ICS_27A.RPT

NDR

CBI Consumer Services and Gfk Consumer Confidence and Expectations surveys, remain negative.

The U.K.'s CPI increased a more-than-expected 3.5% in April from a year earlier, up from 2.6% in the prior month, and the most in over a year. Overall, this complicates the policy path of the Bank oif England, which has a 2.0% inflation target.

The percentage of companies with positive earnings revisions has been declining as a result of the weaker economic outlook (chart left).

Summary

The global asset allocation framework improved to an above-benchmark equity exposure this month. Within the global equity decision, the model has overweight positions on Europe ex. U.K. and Canada, while holding below benchmark allocations for Emerging Markets, Japan, and the U.K.

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 Global Allocation Strategy 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.