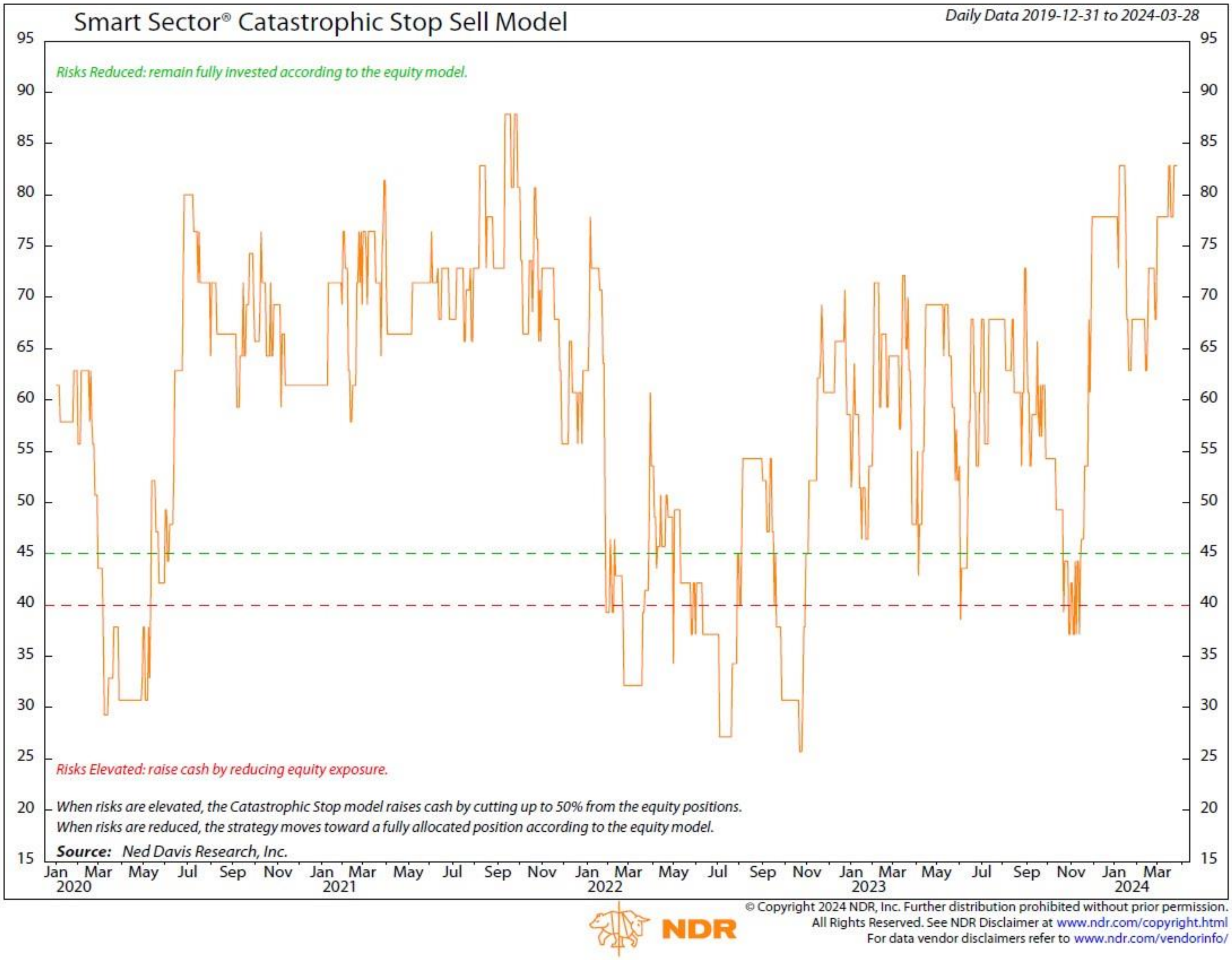
Smart Sector®
International Strategy

APRIL 2024

Catastrophic Stop Update

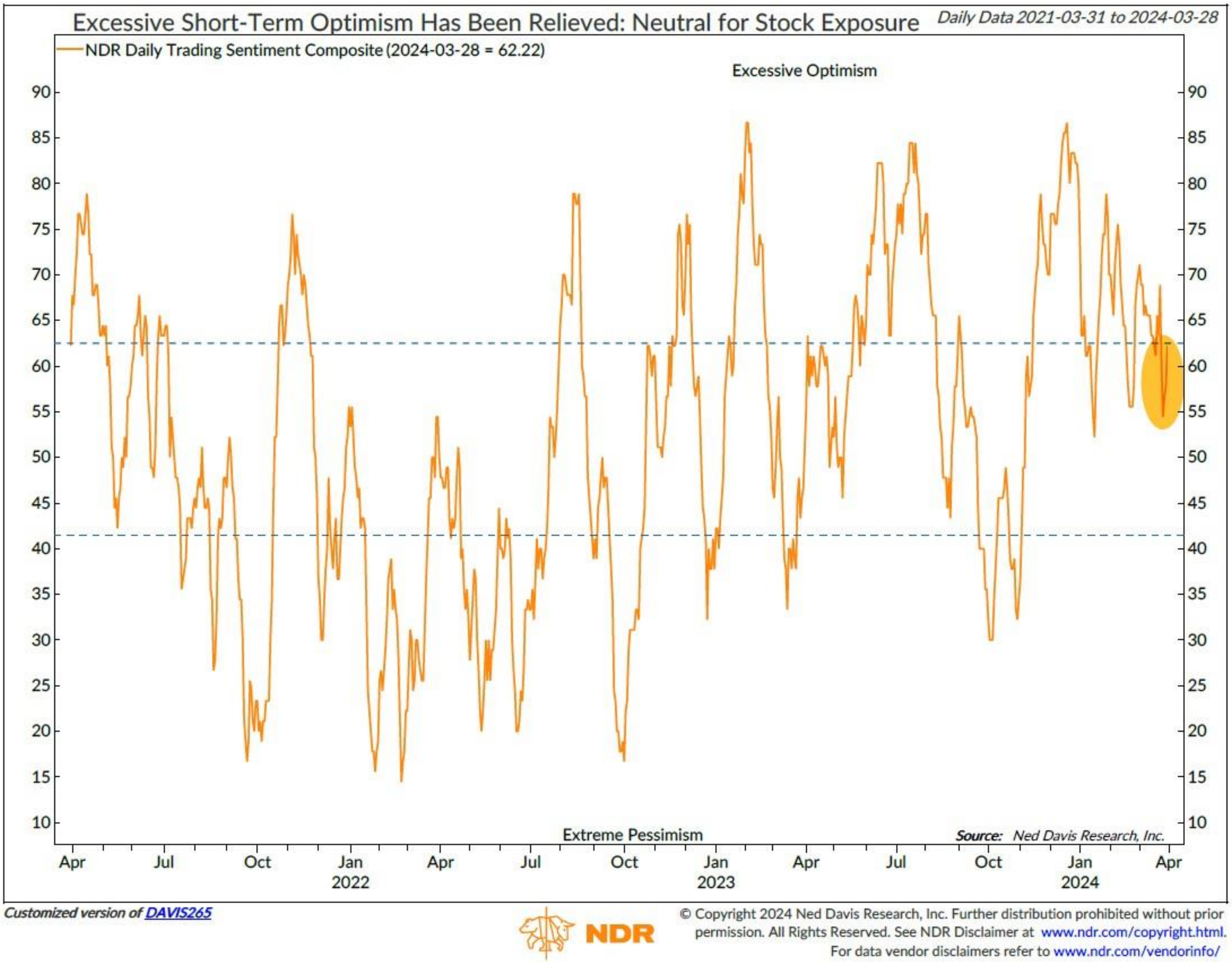
The NDR Catastrophic Stop Sell model combines time-tested, objective indicators designed to identify high-risk periods for the equity market. The model (Figure 1) improved during the month and entered April with a recommendation for a fully invested equity allocation.

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 such as option-adjusted spreads, global trade, and high-yield and emerging market breadth remained bullish. Short-term sentiment—as measured by the NDR Daily Trading Sentiment Composite—moved back to neutral during the month (Figure 2). For now, the weight of the evidence recommends a fully invested allocation to equities according to the model.

Figure 2: Excessive Short-Term Optimism Has Been Relieved: Neutral for Stock Exposure



Global Market Update

The ACWI ex. U.S. Total Return Index gained over 320 basis points (bps) in March. The index has risen for four of the last five months. Spain, Peru, Austria, Taiwan, and Italy were among the strongest-performing markets, while the largest underperformers included Hong Kong, Qatar, Portugal, Greece, and Hungary.

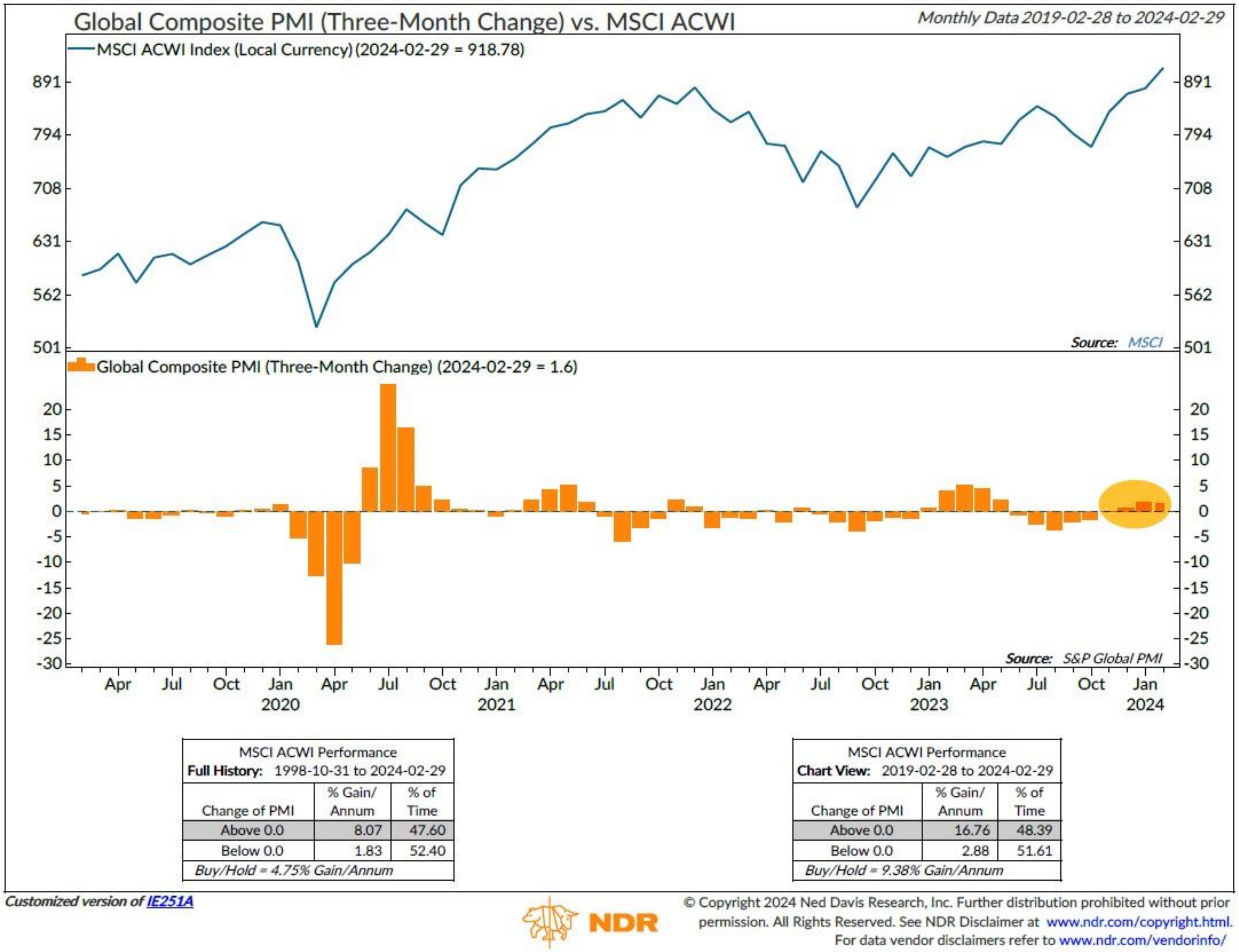
The world economy remains on solid footing, according to the latest global composite (services and manufacturing) S&P Global Purchasing Managers' Index (PMI). The global composite rose in February for a fourth straight month, and it showed the strongest growth in eight months. Accelerating economic momentum, as depicted by the composite PMI, has historically been associated with equity market outperformance (Figure 3).

Global economic indicators have been showing increasingly more signs that global recession risk is ebbing. Global composite new orders grew at the fastest pace in eight months, while the future output index remained near its highest level since May. Perhaps most significantly, trends are broadening. Both the manufacturing and services sectors expanded in tandem for the first time since May 2023.

Along with the pick-up in growth came a modest pick-up in inflation, particularly output prices. The increase was broad-based among both developed and emerging economies. If sustained, this could delay the widely anticipated broad-based central bank easing in the second half of this year.

Entering April, the non-U.S. equity Core model overweighted China and Germany. Japan and Canada are neutral. The U.K., France, Switzerland, and Australia are underweight. The Explore model favored Malaysia, the Philippines, Poland, Sweden, and Taiwan.

Figure 3: Global Composite PMI (Three-Month Change) vs. MSCI ACWI



Core Allocations

Canada maintained its neutral allocation as the market's trend continued to move higher (Figure 4) with strengthening long-term breadth. On a relative basis, valuations remain attractive as the economy is improving.

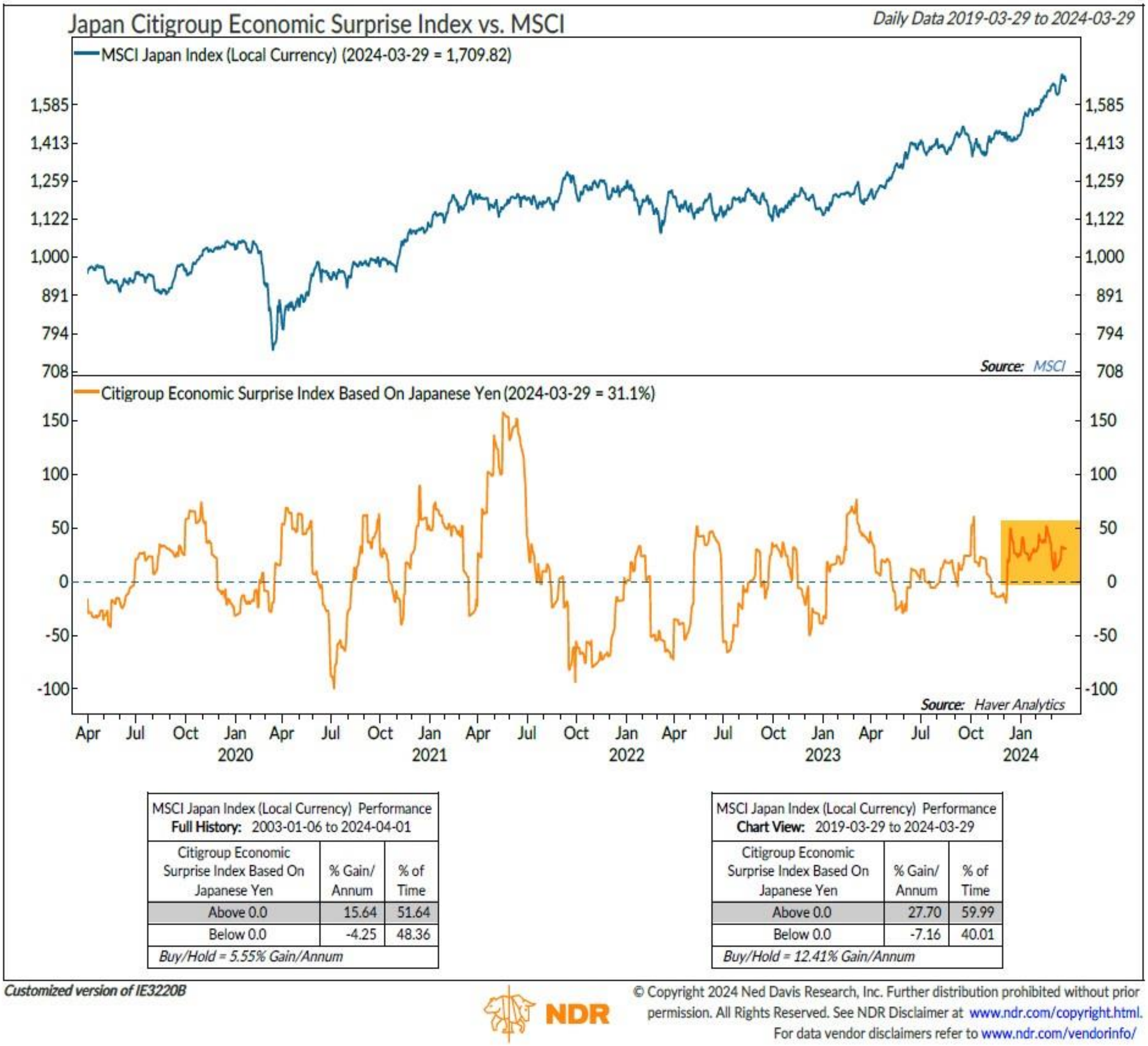
Inflation eased in February, indicating that the Bank of Canada may shift to a less restrictive monetary policy in the coming months. The consumer price index rose 2.8% last month from a year ago, following a 2.9% increase in January. The Bank of Canada's preferred core inflation measures also decreased.

Figure 4: Canada Absolute Trend Continues to Move Higher

Japan’s allocation remains near benchmark weighting as the trend and breadth remain positive. None of the technical indicators are bearish on the market. However, half the external indicators (relative valuations, near-term earnings growth, and investor sentiment) are negative on the region.

Despite the slump in real GDP, economic surprises have been positive overall (Figure 5), a historically favorable condition for equities. Other data, including business sentiment, services PMI, and the unemployment rate, are holding up reasonably well.

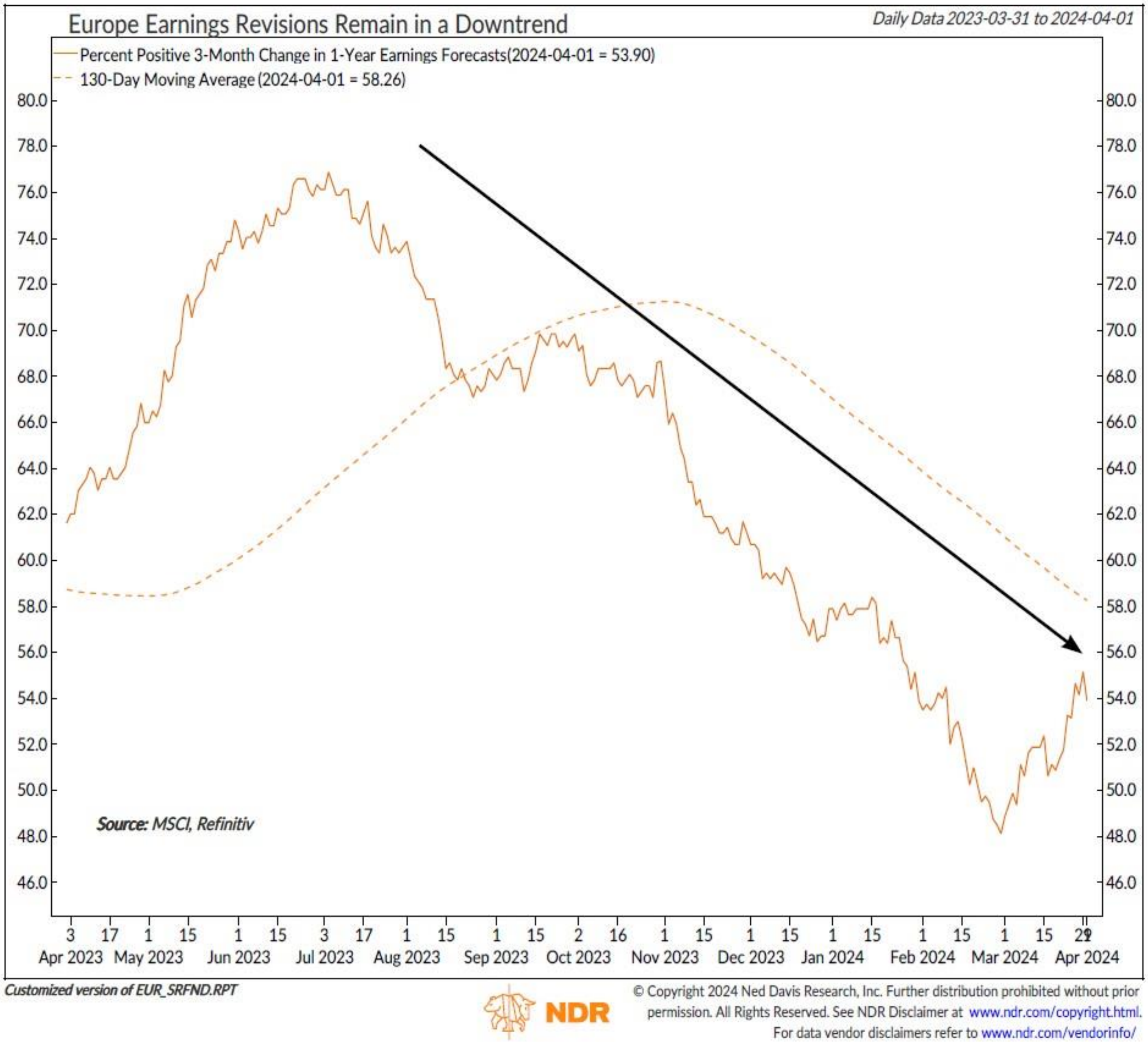
Figure 5: Japan Citigroup Economic Surprise Index vs. MSCI



France and Switzerland remain underweight this month due to technical, macro, and fundamental weaknesses. No technical indicators are bullish for either market.

French industrial production slumped more than expected to start the year, indicating the region's second-largest economy is struggling to recover from the energy crisis. European forward earnings expectations reflect the challenging environment as they remain in a downtrend (Figure 6). However, the European Central Bank (ECB) recently noted that although the odds for monetary easing have increased, it does not imply a series of forthcoming interest rate cuts.

Figure 6: Europe Earnings Revisions Remain in a Downtrend



The U.K. maintained an underweight allocation for April. Economic trends are still lackluster, as NDR's U.K. Economic Timing Model is declining, and relative PMI momentum has been negative for over a year.

Relative market sentiment improved from its fall lows, but it has now started to reverse from an optimistic extreme. Earnings revisions remain low relative to historical tendencies, and the equity risk premium is weakening on a relative basis.

The market recognizes these risks as equities remain in a relative downtrend (Figure 7) with weak breadth. None of the region's technical indicators are bullish.

Figure 7: U.K. Relative Strength Remains in a Downtrend

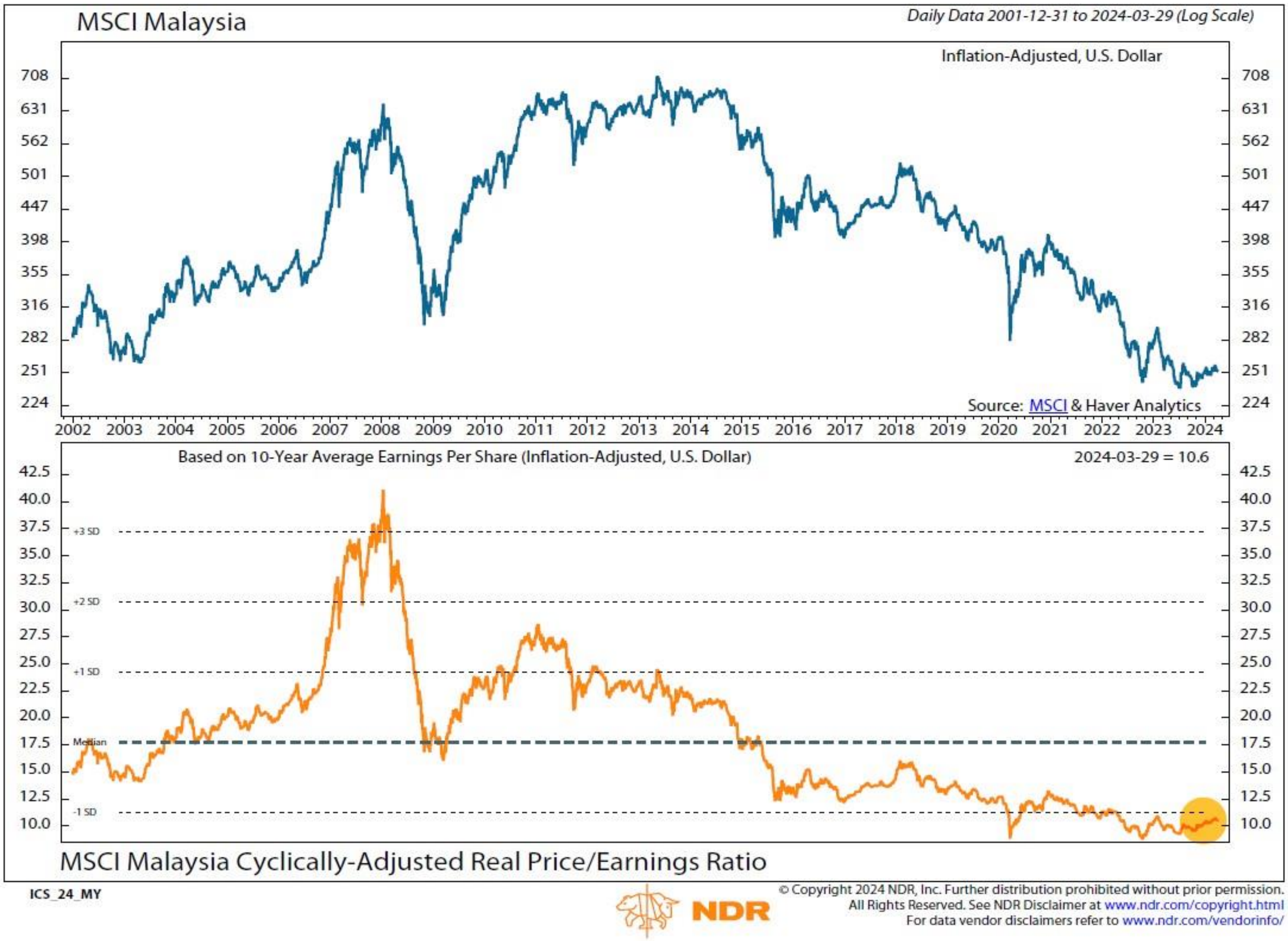
Explore Opportunities

Among the top-ranked Explore markets are Malaysia, Philippines, Poland, Sweden, and Taiwan.

- All markets have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- Near-term, Sweden is more than one standard deviation oversold. Over the long term, Malaysia and the Philippines are oversold. Such oversold conditions may provide a near-term bounce opportunity.
- Malaysia, the Philippines, and Poland have low market capitalization-to-GDP ratios, which typically indicate a favorable valuation.
- All markets have positive relative valuation spreads between their respective earnings yields and 10-year government bond yields.

- Malaysia's cyclically adjusted price-to-earnings ratio is more than one standard deviation below its historical tendency (Figure 8).
- The Philippines has a manufacturing Purchasing Managers' Index in expansionary territory.
- All markets have over 50% of stocks with positive earnings revisions from analysts. Malaysia has among the highest percentage of earnings revisions across markets.
- Malaysia, the Philippines, and Taiwan have double-digit forward earnings growth readings.

Figure 8: MSCI Malaysia



Summary

Entering April, the non-U.S. equity Core model overweighted China and Germany. Japan and Canada are neutral. The U.K., France, Switzerland, and Australia are underweight. The Explore model favored Malaysia, the Philippines, Poland, Sweden, and Taiwan.

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

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.

For more information, please contact us at:

Day Hagan Asset Management

1000 S. Tamiami Trl

Sarasota, FL 34236

Toll Free: (800) 594-7930

Office Phone: (941) 330-1702

Website: https://dayhagan.com/ or https://dhfunds.com/

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