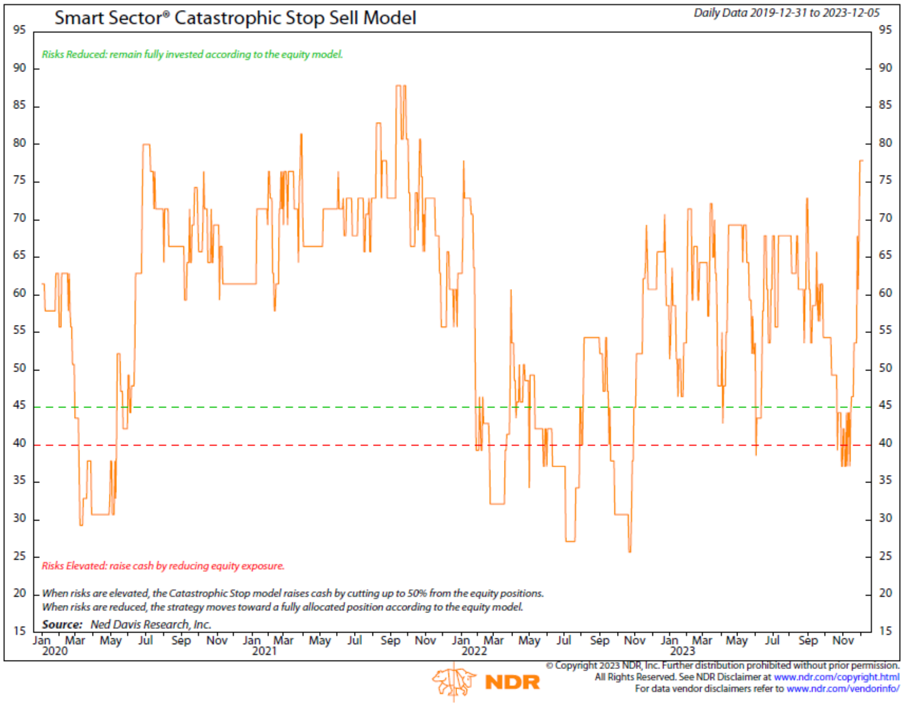
Smart Sector® International Strategy

JANUARY 2024

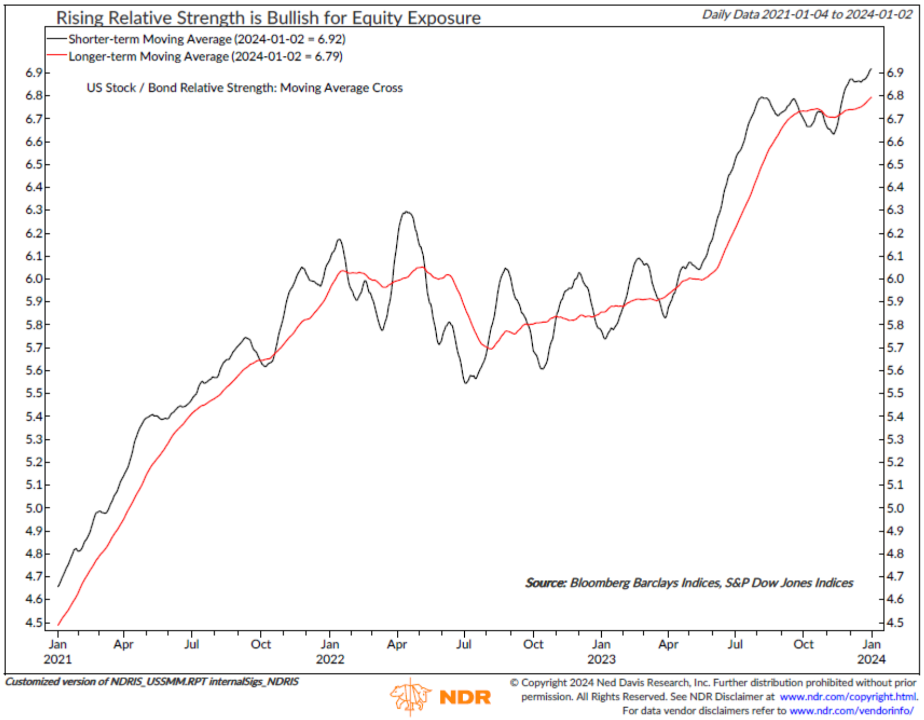
Figure 1: Smart Sector® Catastrophic Stop Sell Model



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 (chart right) remained steady during the month and entered January with a fully invested equity allocation recommendation.

Figure 2: Rising Relative Strength is Bullish for Equity Exposure



The bullish reading from the model is driven by strong externals and internals. Five of the seven price-based measures remain bullish, including relative strength (chart left). With a strong market rally off the October lows, investor sentiment remains excessively optimistic, so we will keep an eye on this measure. For now, the weight of the evidence recommends a fully invested equity allocation according to the model.

Global Market Update

The ACWI ex. U.S. Total Return Index jumped over 500 basis points (bps) in December. The index last increased by more than 500 bps for two consecutive months at the end of 2020. Among the strongest-performing markets were Peru, Sweden, Australia, Colombia, and Mexico, while the largest underperformers included Turkey, Egypt, China, the Czech Republic, and Greece.

The global economy grew modestly in November, as the S&P Global Purchasing Managers' Index (PMI) global composite (services and manufacturing) indicated moderate global growth. It was the first increase in the PMI in six months, indicating some stabilization in the economy and putting the PMI further away from severe recession.

Forward-looking indicators reflect slower global growth in 2024 but no recession. Overall new orders moved out of contraction territory for the first time in three months, but the future outlook index was little changed. While well above its cycle low in 2022, this index is still below its long-term average, indicating modest growth expectations.

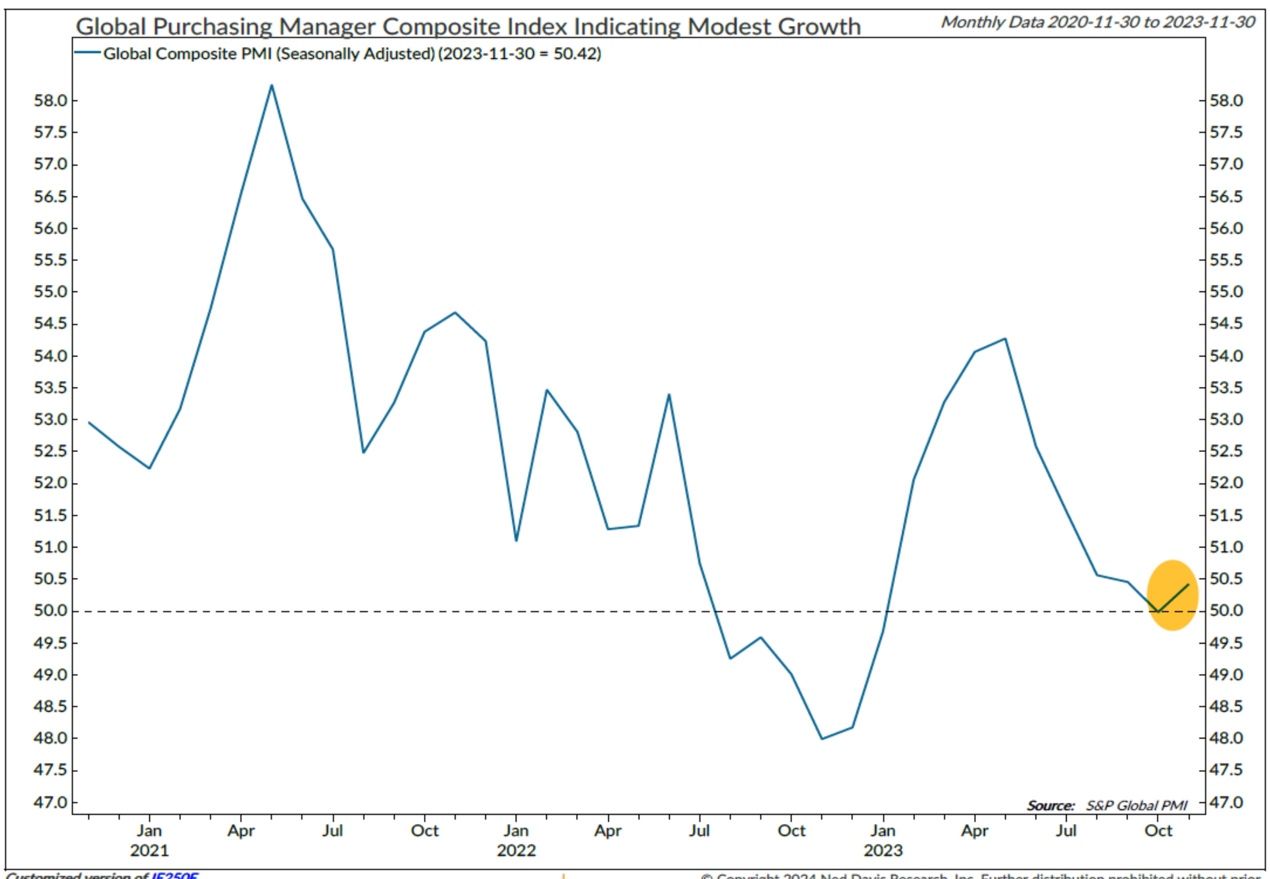
Both the manufacturing and services indexes saw modest improvement, something not seen in tandem since February. But manufacturing continued to contract, while services are growing at a fraction of the pace from earlier this year.

Due to easing global supply chain pressures and waning pandemic-related imbalances, global price growth has eased significantly from its peak in 2022. Both the global composite input and output price indexes are at or close to their lowest levels since late 2020. However, the composite price indexes are still above pre-pandemic levels as progress in bringing down inflation has slowed this year.

Among major countries and regions, growth trends in the U.S. and China remained mildly positive, while the economic decline in Europe eased somewhat. The global powerhouses remain emerging economies outside China, led by India and the Middle East.

Entering January, the non-U.S. equity Core model overweighted Canada, Australia, and Germany while underweighting the U.K., China, France, and Switzerland. The Explore model favored Mexico, the Netherlands, South Africa, Poland, and Turke

Figure 3: Global Purchasing Manager Composite Index Indicating Modest Growth



Core Allocations

Canada remains an overweight allocation relative to the benchmark as the region's trend continues to move higher with strengthening long-term breadth.

Relative to other economies, Canada's leading economic indicators have been improving (chart right). Bank of Canada officials have noted that interest rates are likely high enough to tame inflation.

Figure 4: OECD Composite Leading Indicators (CLI) for Canada Improving Relative to Other Economies

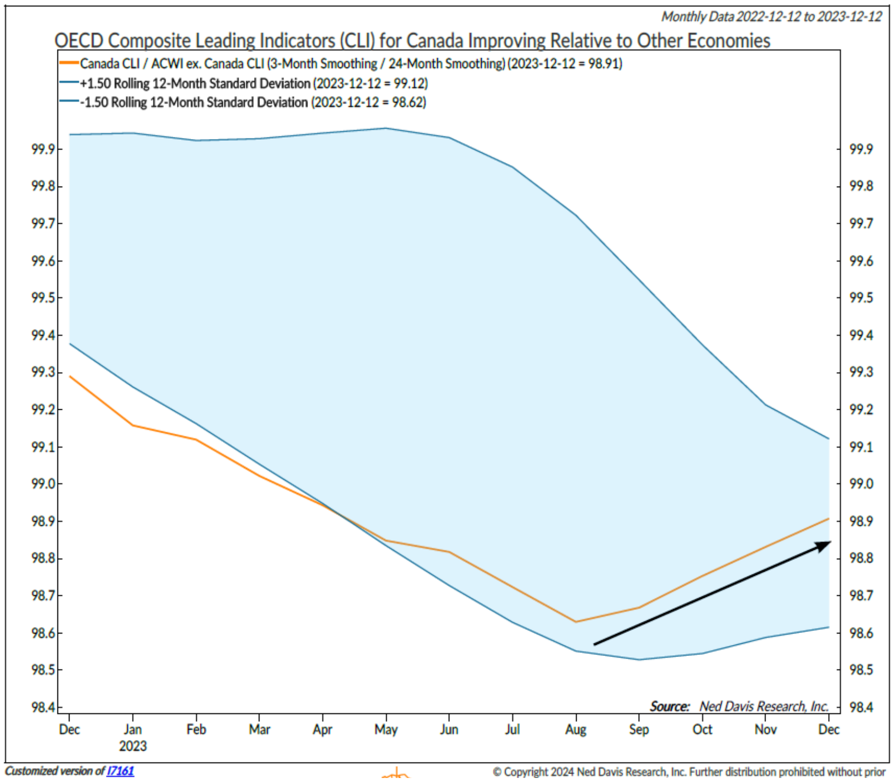


Figure 5: MSCI Australia Price Return Index (in local currency)

Australia's weighting increased, moving the market to overweight status. The MSCI Australia Index (local currency) entered the year at an all-time high (chart left). Short-, intermediate-, and long-term trend indicators have turned bullish on the market.

Net employment increased by 61,500 in November, significantly outpacing expectations. Australia has one of the strongest Citigroup Economic Surprise Index readings entering the year, as it is beating consensus.

The U.K. remained underweight for this month. Economic trends are lackluster, as real GDP growth was flat in the third quarter, with data since then suggesting continued stagnation or just modest gains in economic activity. Official hard data for October, including monthly GDP, retail sales, and industrial production, broadly declined, suggesting a poor start to the fourth quarter. Earnings revisions have moved in line with economic data, as they are now bearish on the outlook.

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

Figure 6: MSCI U.K. Relative Strength Remains in a Downtrend

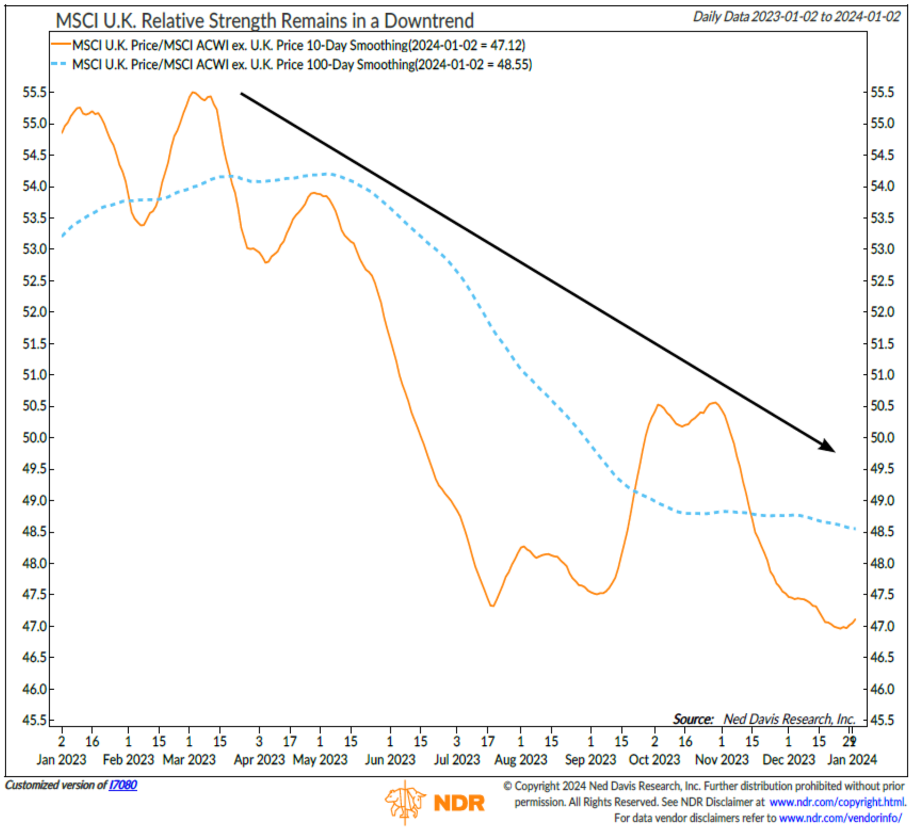
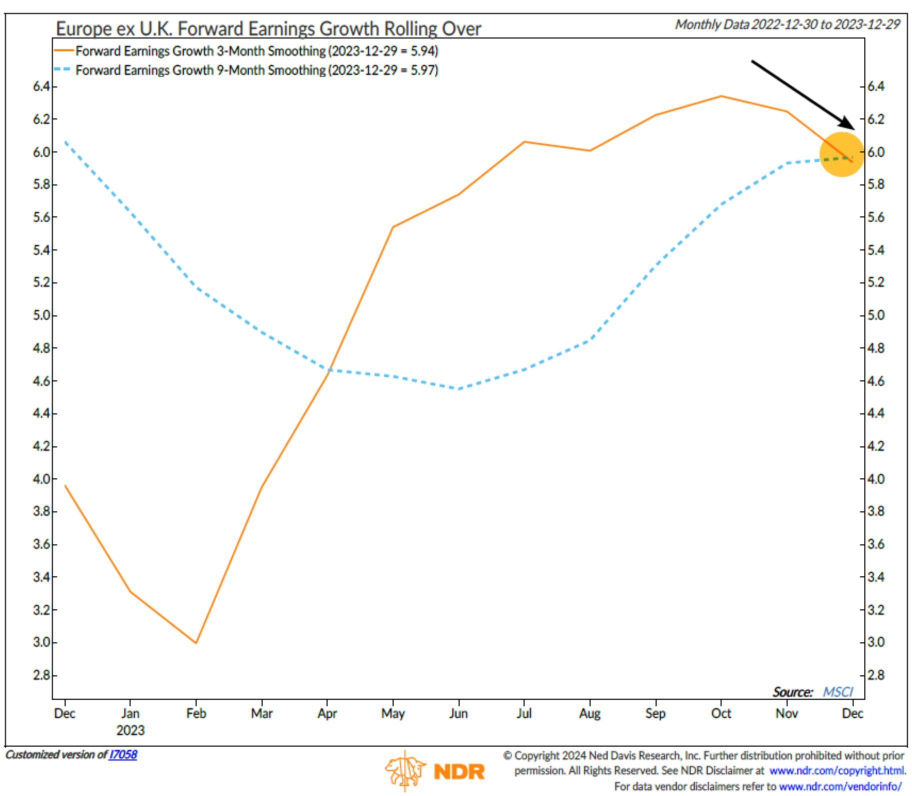


Figure 7: Europe ex. U.K. Forward Earnings Growth Rolling Over



France and Switzerland have the largest underweight positions for January. The Europe ex. U.K. region has suffered macro and fundamental deterioration. 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.

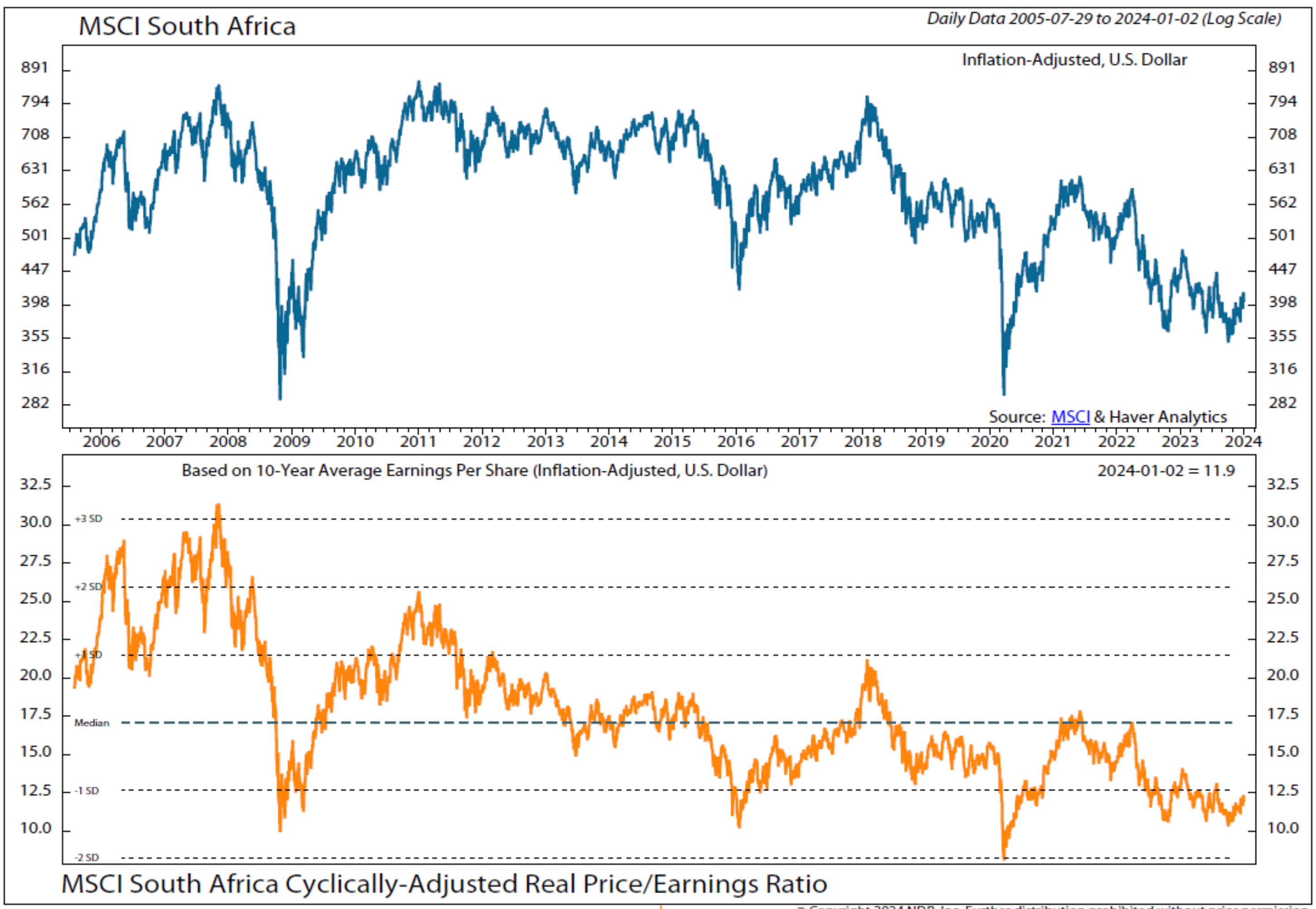
The Now-Casting Index of Economic Activity, with a reading of 80.8, is well below its long-term average of 100. Moreover, the EuroCOIN, which aims to estimate quarterly GDP, declined 0.8% in November. Forward earnings growth expectations have rolled over (chart left), as they now reflect the weakening economy.

Explore Opportunities

Among the top-ranked Explore markets are Mexico, Netherlands, South Africa, Poland, and Turkey.

- Mexico, Netherlands, Turkey, and Poland have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- Turkey is one standard deviation oversold long-term, while the Netherlands and South Africa are almost one standard deviation oversold near-term. Such oversold conditions may provide a near-term bounce opportunity.
- Poland, Mexico, and Turkey have low market capitalization-to-GDP ratios, which typically indicate a favorable valuation.
- South Africa and Turkey trade below their average cyclically adjusted price-to-earnings ratios. South Africa (chart below) is more than one standard deviation below its historical tendency.
- South Africa and Turkey have double-digit one-year forward earnings growth estimates.
- Turkey has over 80% of stocks with positive earnings revisions from analysts.
- The Netherlands has one of the strongest year-over-year earnings growth readings within Europe.

Figure 8: South Africa



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Summary

The Catastrophic Stop model improved from last month, as it recommends a fully invested allocation.

Entering January, the non-U.S. equity Core model overweighted Canada, Australia, and Germany while underweighting the U.K., China, France, and Switzerland. The Explore model favored Mexico, the Netherlands, South Africa, Poland, and Turkey.

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

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 utilizes market-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each area's probability of outperforming the ACWI, for example. 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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