Smart Sector® International Strategy

NOVEMBER 2023

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) deteriorated from last month and entered November raising cash.

Figure 1: Smart Sector® Catastrophic Stop Sell Model

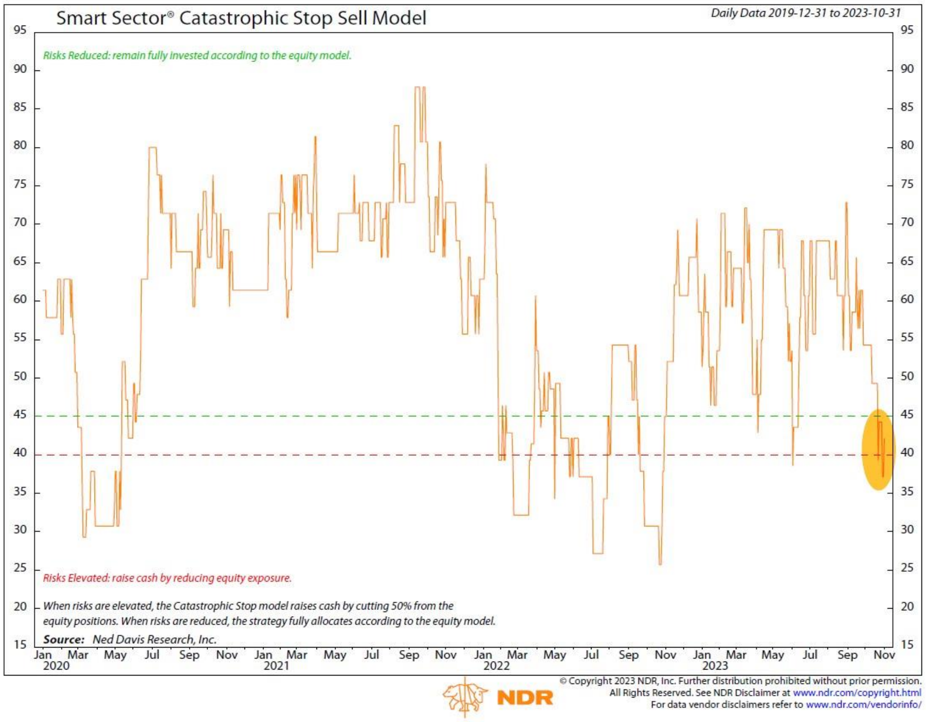
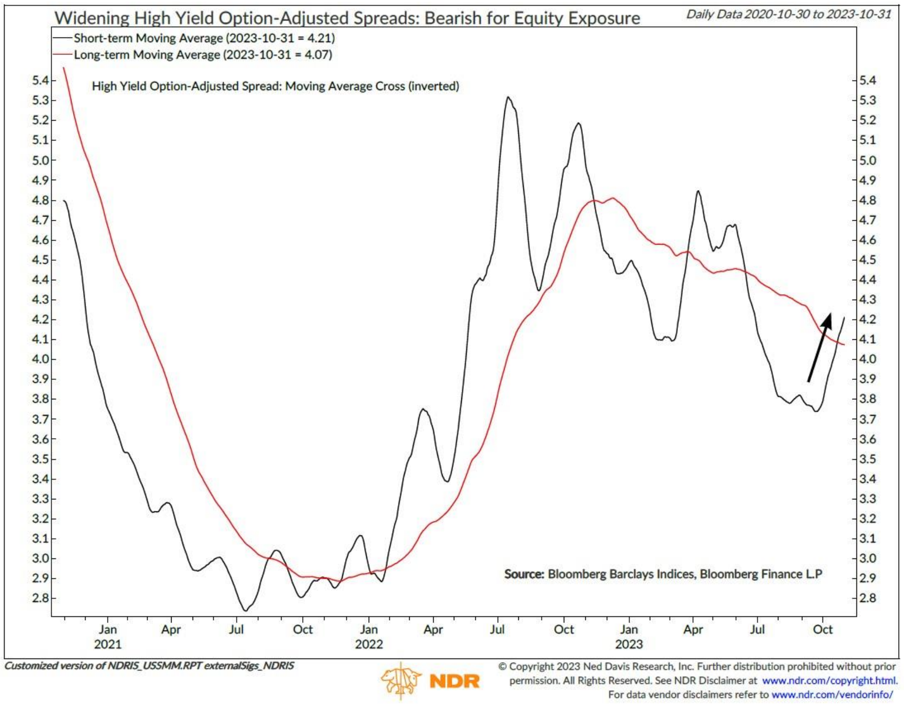


Figure 2: Widening High Yield Option-Adjusted Spreads: Bearish for Equity Exposure



The deterioration in the model was driven by widening high-yield option-adjusted spreads, which moved bearish for equity exposure (chart left). This was confirmed by technicals—five of seven price-based measures are now bearish. For now, the weight of the evidence recommends a reduced allocation to equities according to the model.

Global Market Update

The ACWI ex. U.S. Total Return Index declined by over 410 basis points (bps) in October. The index dropped more than 300 bps for three consecutive months for the first time since the Global Financial Crisis. Among the strongest performing markets were Poland, Egypt, Hungary, Greece, Czech Republic, Portugal, and Denmark, while the largest underperformers included Turkey, Israel, UAE, Chile, Indonesia, and South Korea.

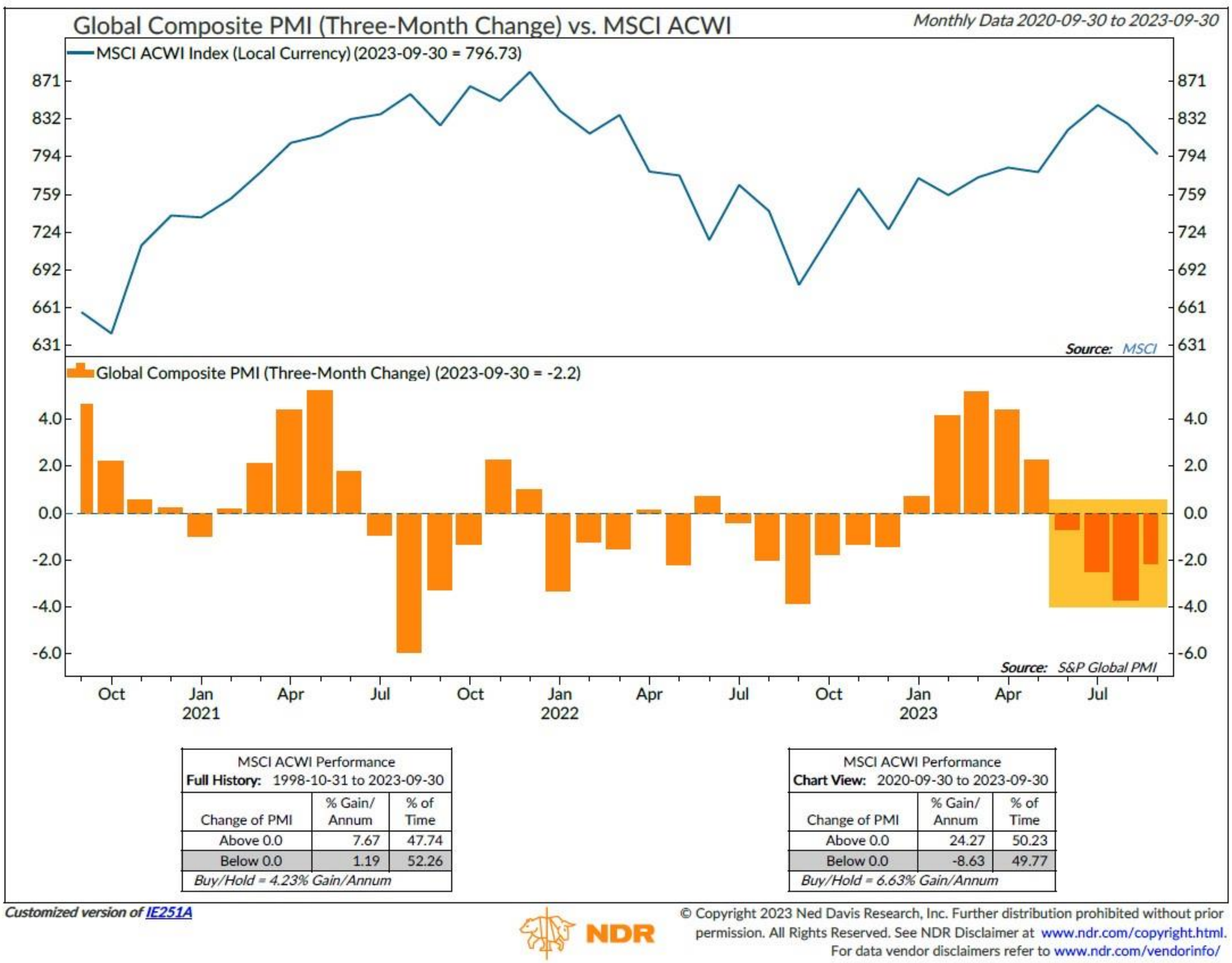
The global economy saw its momentum slow again in September, according to the S&P Global Purchasing Managers' Index (PMI) data. The global composite (services and manufacturing) PMI fell for a fourth-straight month to its weakest reading since January. The delayed impact of tighter global monetary policy and continued price stickiness pose risks to the global outlook. Historically, slowing global economic momentum has been associated with less upside in global equities (chart bottom).

Manufacturing continues to shrink modestly, but it is showing some signs of stabilization. Both output and new orders shrank at a slower pace, while future output expectations picked up. Supplier delivery times also contracted at a slower pace, suggesting further normalization in global supply chains. But the global bullwhip slipped deeper into negative territory, as the inventories index rose faster than new orders. Despite some stabilization at the aggregate level, breadth weakened to concerning levels. The share of economies with expanding manufacturing sectors ticked down to 24% in September.

Services growth has slowed significantly compared to the first half of the year, as the post-pandemic spending rebound dissipates. New orders shrank for the first time this year, while the future output index also ticked down to its lowest level this year.

In response to the Catastrophic Stop's sell signal, each of the sector allocations were reduced by approximately 50%, with the proceeds placed into the SPDR Bloomberg 1-3 Month T-Bill ETF (which currently has a 30-day SEC yield of 5.25%). Entering November, the non-U.S. equity Core model overweighted Australia, Japan, and France, while underweighting the U.K., Canada, and China. The Explore model favored Brazil, India, Israel, Turkey, and Taiwan.

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



Core Allocations

Australia remains overweight this month. On a local currency basis, the MSCI Australia Index is 10% from its all-time high, as its Services PMI improved into expansionary territory (chart right). After falling short of consensus since the end of July, the Citigroup Economic Surprise Index for Australia recently moved to above expectations. Despite the economic improvement, the market continues to be undervalued. Australia's cyclically adjusted P/E ratio remains below its long-term tendency, giving a favorable reward-to-risk ratio.

Figure 4: Australia's Markit Services PMI Moved Into Expansionary Territory

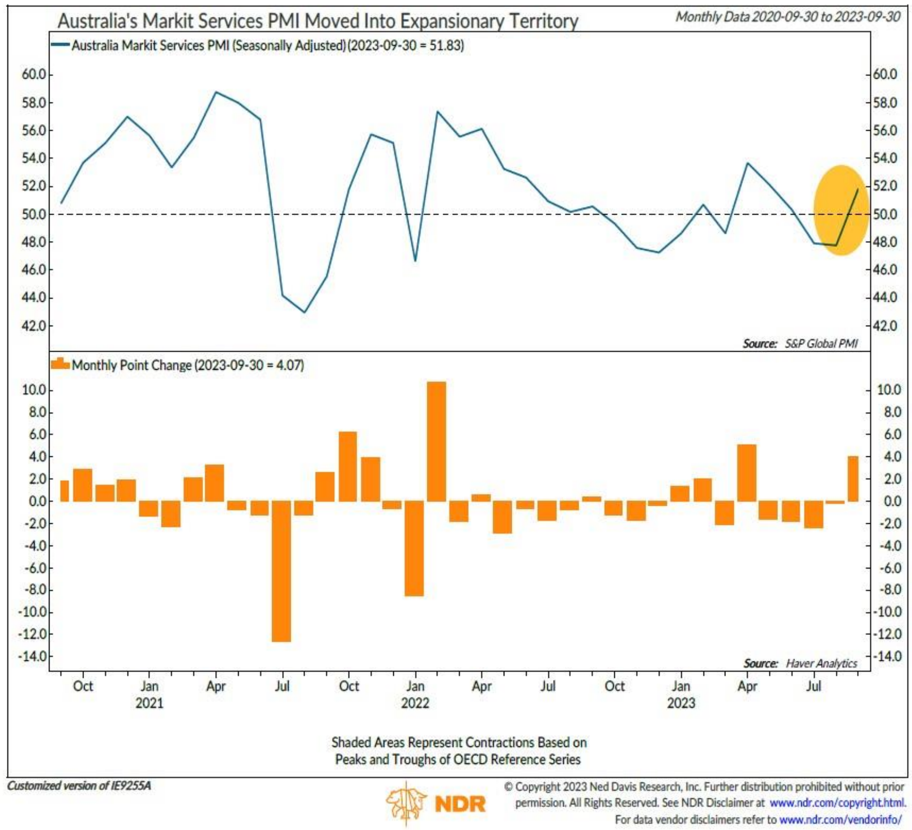
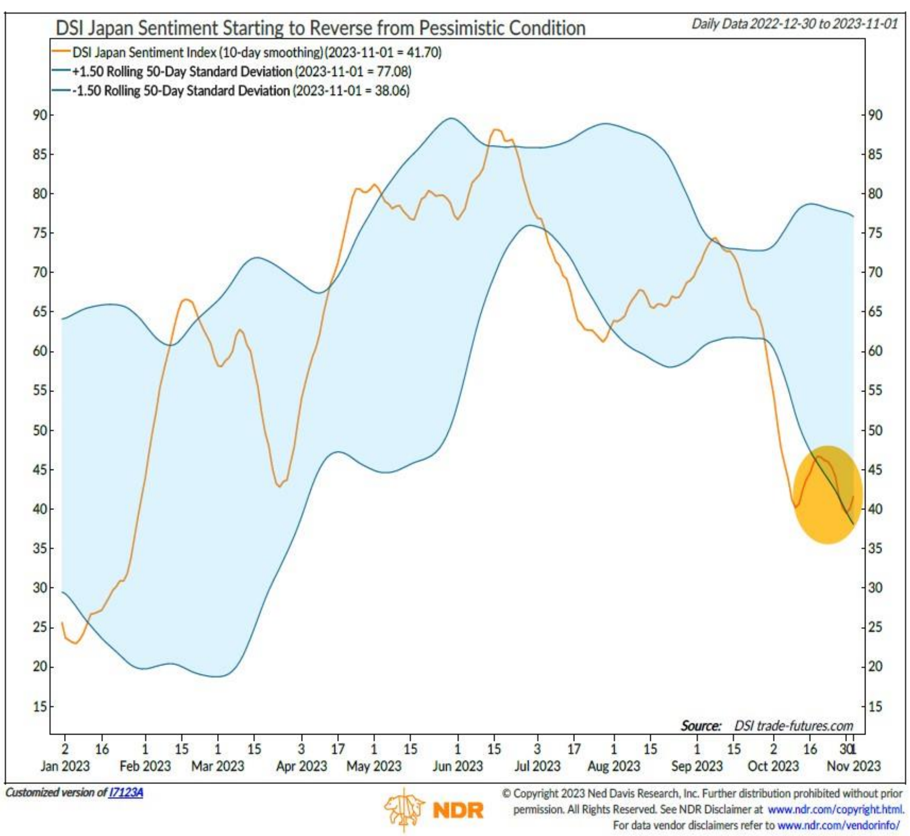


Figure 5: DSI Japan Sentiment Starting to Reverse from Pessimistic Condition



Japan maintained its overweight allocation for November. The market has fallen toward its rising 200-day moving average, but it has not broken that support. Recent market weakness has helped to create pessimistic sentiment (chart left). Japan's government recently announced a greater-than-$100B stimulus package, which includes temporary tax cuts and subsidies to reduce the impact of higher energy prices. Japan's cyclically adjusted P/E ratio is almost one standard deviation below its historical norm, putting Japan in its cheapest valuation category relative to its history.

China's allocation dropped below benchmark weighting this month. The Caixin composite PMI fell to 50.9 in September, indicating the weakest expansion in eight months, as growth in both the services and manufacturing sectors slowed. Although a stream of targeted stimulus may alleviate fears of an economic hard landing, there is little evidence of a sizable rebound. Consumer and business sentiment remains depressed, the property market is in distress, and high debt, especially at the local government level, points to little appetite for any significant fiscal and monetary stimulus. Widening high yield credit spreads reflect the increasing risks (chart right).

Figure 6: High Yield Credit Spreads Widening, Reflecting Increased Risks

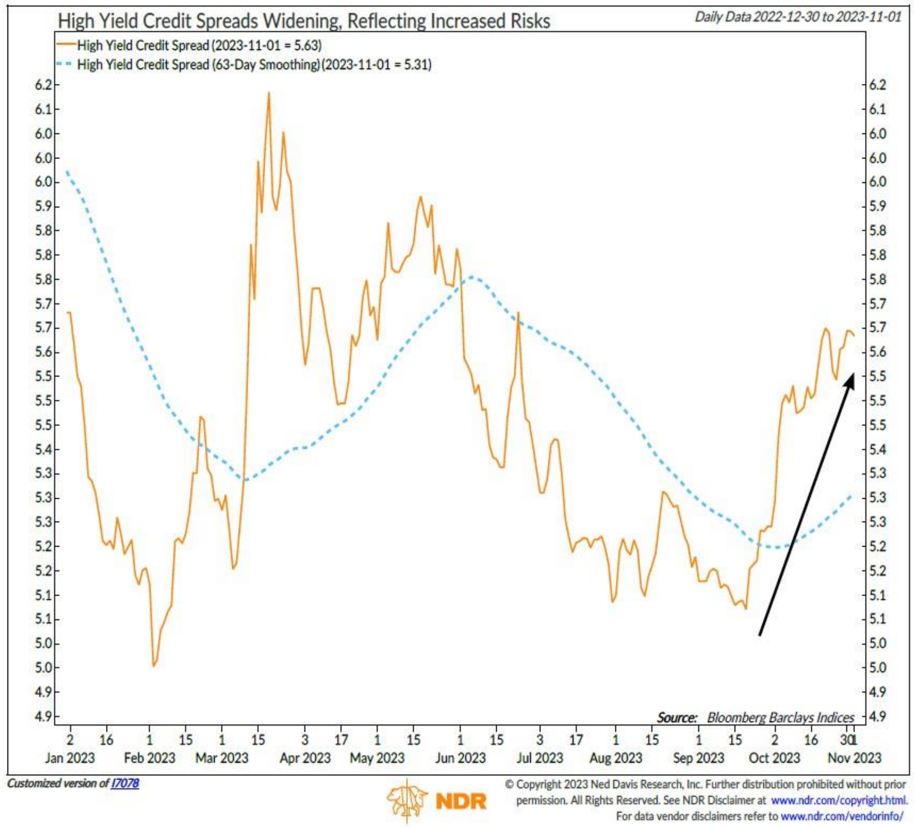
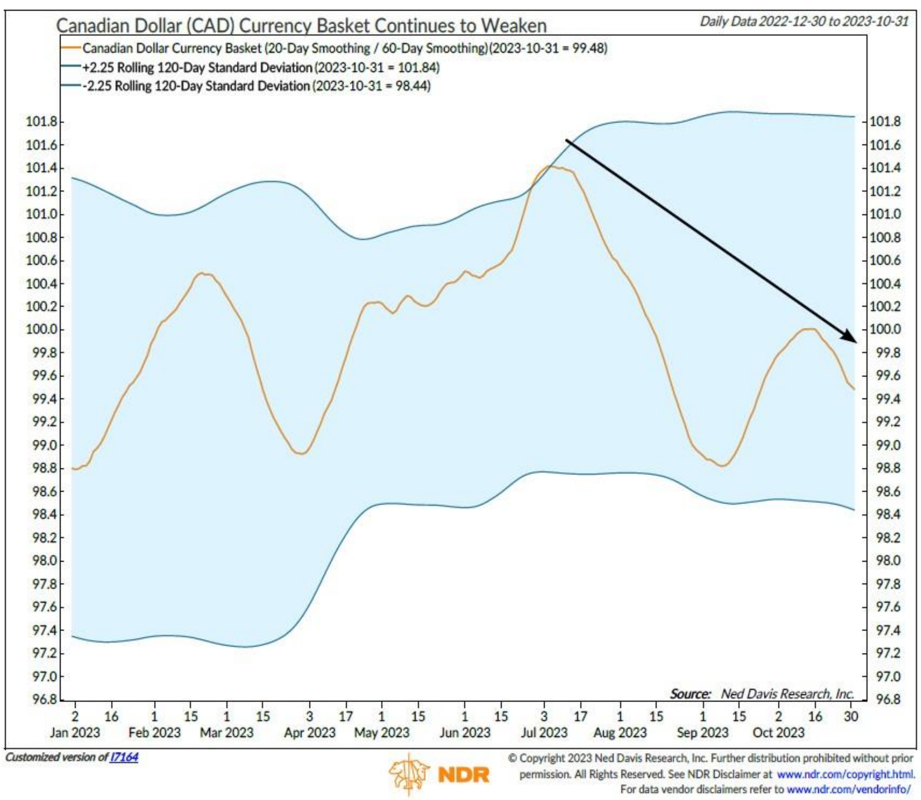


Figure 7: Canadian Dollar (CAD) Currency Basket Continues to Weaken



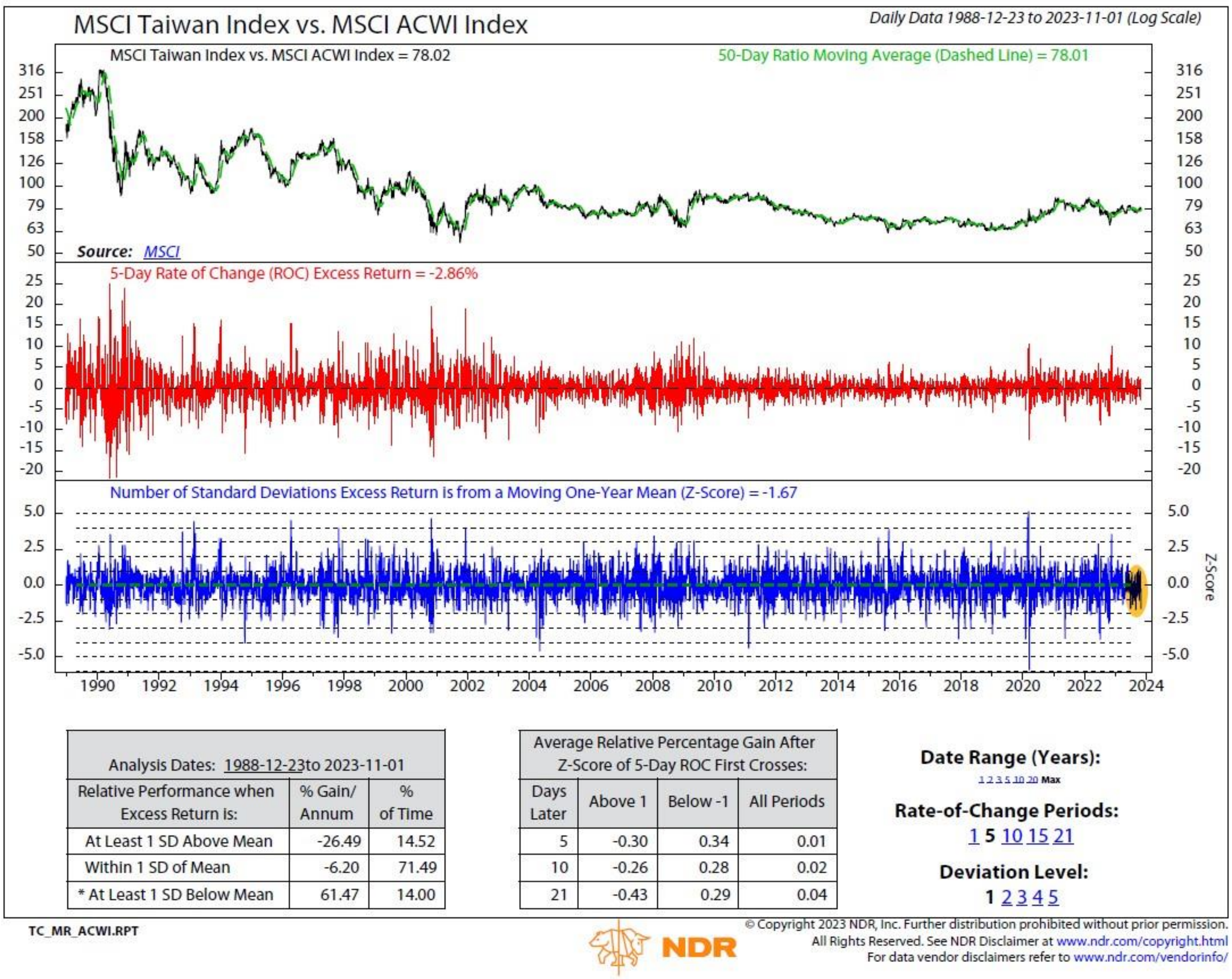
Canada plummeted to the largest underweight allocation for November. All the price-based indicators are bearish on the market. Trend, price momentum, and breadth measures reflect a challenging operating environment. The weaker Canadian Dollar (chart left) confirms the difficulties for the region. Canada has likely slipped into recession as higher interest rates curbed retail spending and slowed the housing market.

Explore Opportunities

Among the top ranked Explore markets are Brazil, India, Israel, Turkey, and Taiwan:

- India, Turkey, and Taiwan have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- India, Israel, Turkey, and Taiwan (chart bottom) are more than one standard deviation oversold, which may provide a near-term bounce opportunity.
- Brazil, India, Israel, and Turkey have low market capitalization-to-GDP ratios, which typically indicates a favorable valuation.
- Brazil, Israel, Turkey, and Taiwan all trade below their average cyclically adjusted price-to-earnings ratios, giving an attractive risk/return profile.
- India's composite PMI resides in the expansionary zone.
- Brazil is one of the few economies with a Composite Leading Indicator in expansionary territory.
- India, Turkey, and Taiwan have double-digit one-year forward earnings growth estimates.
- Israel, India, and Turkey have over 80% of stocks with positive earnings revisions from analysts.

Figure 8: MSCI Taiwan Index vs. MSCI ACWI Index



Analysis Dates: 1988-12-23 to 2023-11-01		
Relative Performance when Excess Return is:	% Gain/ Annum	% of Time
At Least 1 SD Above Mean	-26.49	14.52
Within 1 SD of Mean	-6.20	71.49
* At Least 1 SD Below Mean	61.47	14.00

Average Relative Percentage Gain After Z-Score of 5-Day ROC First Crosses:			
Days Later	Above 1	Below -1	All Periods
5	-0.30	0.34	0.01
10	-0.26	0.28	0.02
21	-0.43	0.29	0.04

Summary

The Catastrophic Stop model declined from last month and it now recommends raising cash.

Entering November, the non-U.S. equity Core model overweighted Australia, Japan, and France, while underweighting the U.K., China, and Canada. The Explore model favored Brazil, India, Israel, Turkey, 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.

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 is trimmed 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 immediately moves back to fully invested.

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