



JANUARY 2025

## Global Market Update

The ACWI ex. U.S. Total Return Index declined by over 190 basis points (bps) in December. It was the third straight monthly decline for the index, which last occurred from August-October 2023. Among the strongest performing markets were United Arab Emirates, Greece, Austria, Israel, and Taiwan, while the largest underperformers included Denmark, Brazil, Australia, South Korea, and Portugal.

Global economic momentum saw continued growth in November, as the global composite (services and manufacturing) Purchasing Managers' Index (PMI) has risen for three of the

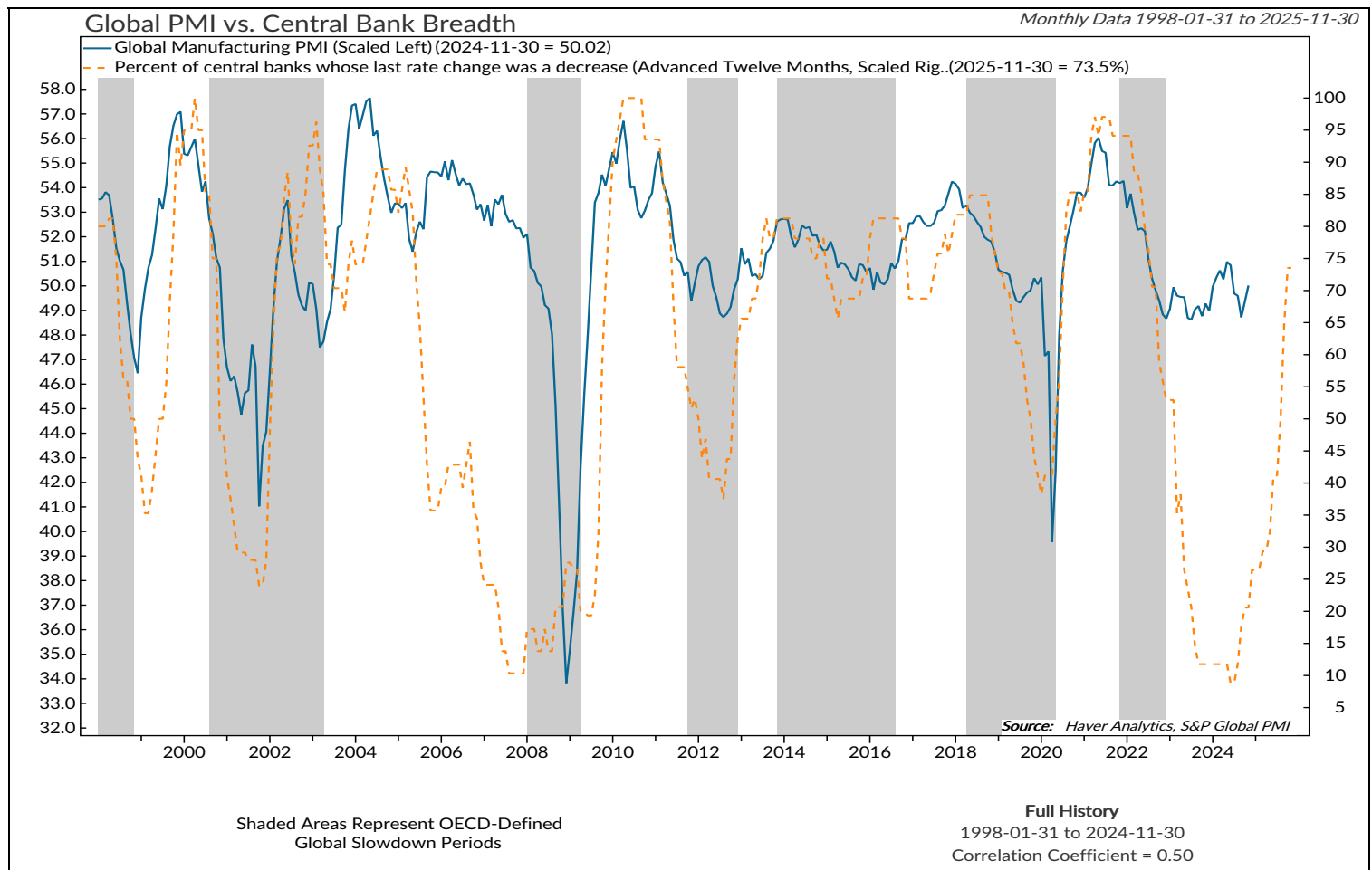
last four months. The PMI resides well above levels associated with global recession, as the economy has reasserted itself to the upside.

Leading indicators within the report point to further improvement at the aggregate level. Both the new orders index and the future output index rose to their highest levels in six months. While services have continued to lead the expansion, which has been the case for over two years, we see burgeoning signs of a turning point in global manufacturing based on leading indicators within the report (chart bottom).

The global economy appears positioned

for an ongoing expansion, as easier global monetary policy, positive real wage growth, and increased fiscal support from some of the world's largest economies provide compelling evidence for this trend. However, there are potential downside risks emanating from the geopolitical sphere, most notably the risk of higher tariffs from the U.S. and an ensuing trade war.

Entering January, the non-U.S. equity Core model overweighted Japan and Switzerland, while underweighting China, Germany, France, and the U.K. The Explore model favored India, Peru, Mexico, South Africa, and South Korea.



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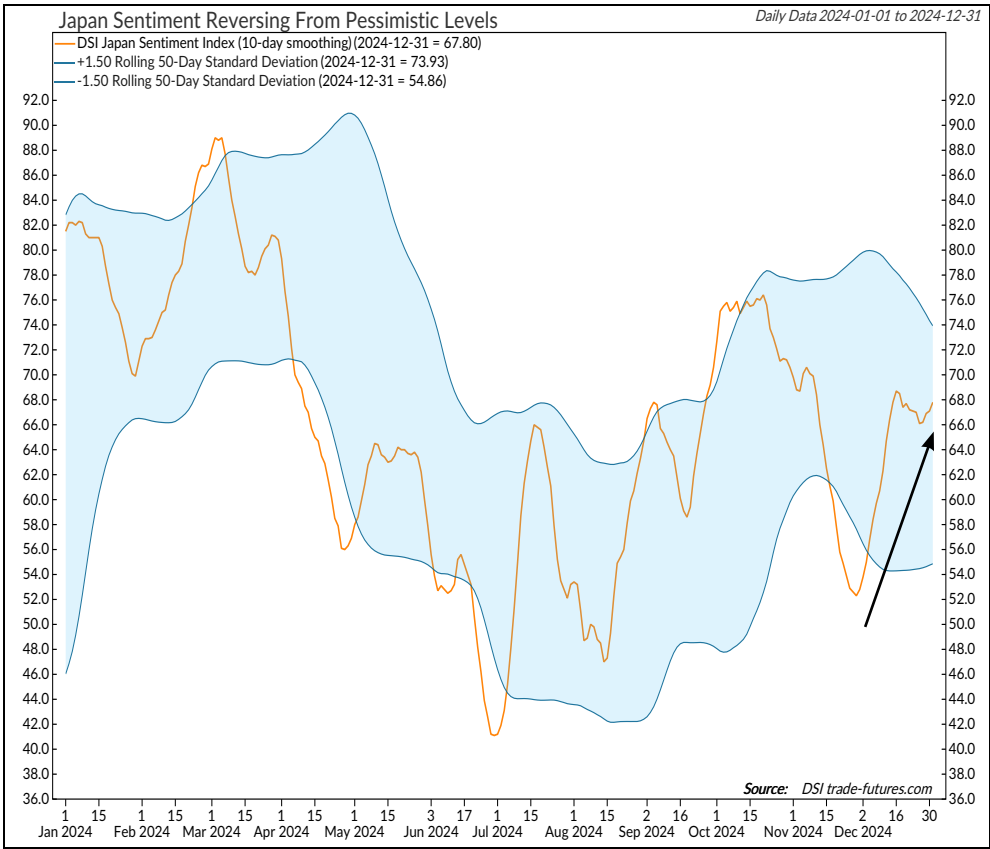
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Core Allocations

Japan improved to an overweight allocation. Trend, momentum, and breadth measures are positive as sentiment is reversing from a pessimistic condition (chart right).

The Japanese consumer appears to be on solid footing, as retail sales rose over three times more than expectations in November. Moreover, the unemployment rate remained low.

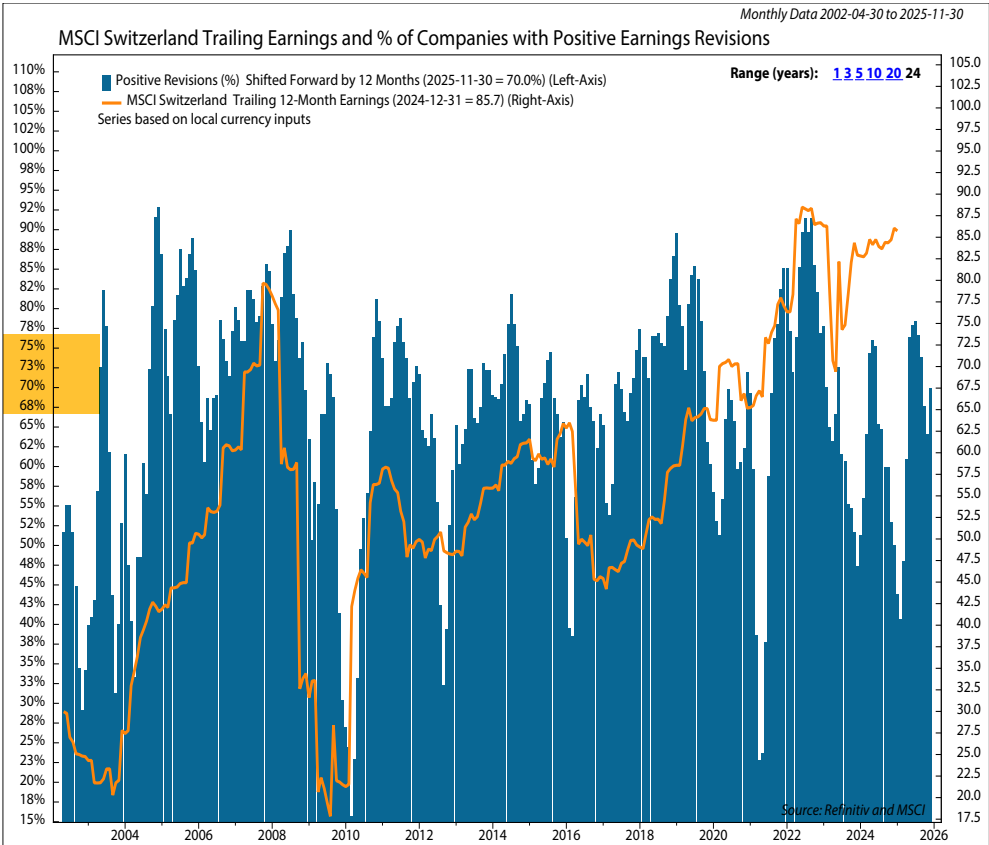
The services sector of Japan's economy has also been shining brighter. The cyclical picture among Japanese businesses was positive in the fourth quarter, according to the latest Tankan survey. Non-manufacturing sector sentiment has been the strongest since the early 1990s, with almost all major sub-sectors breaking out to new highs.



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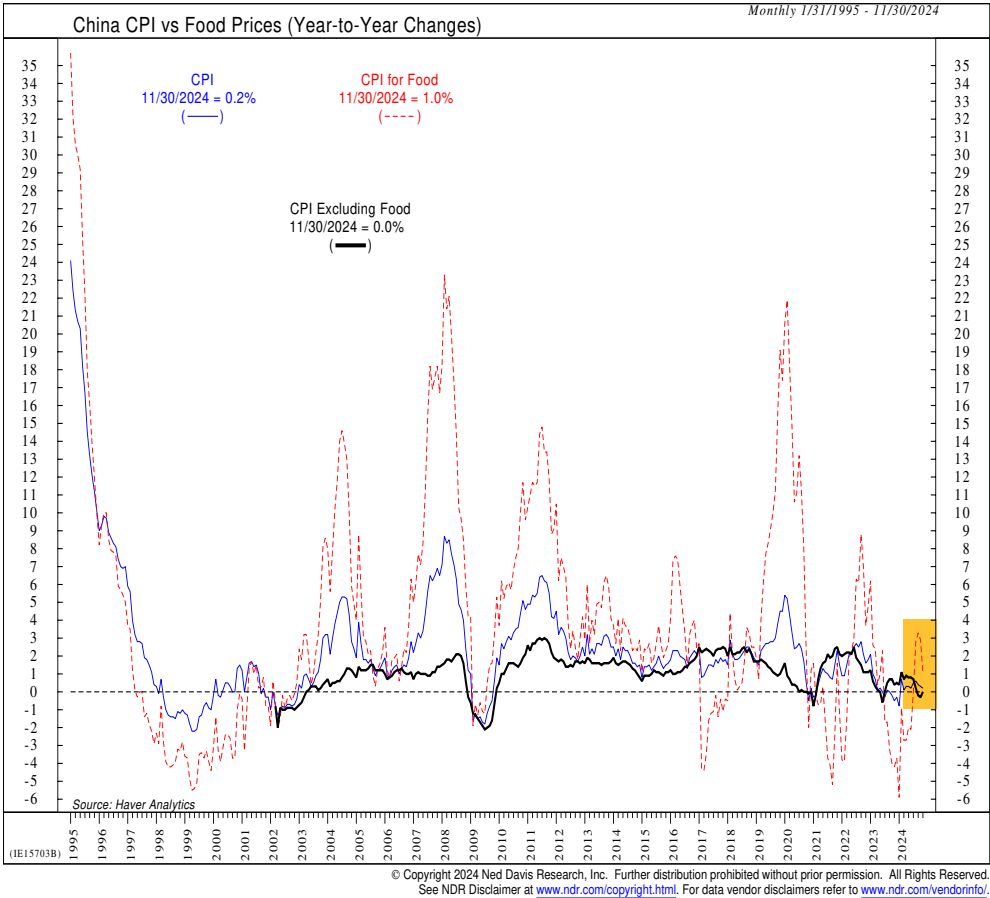
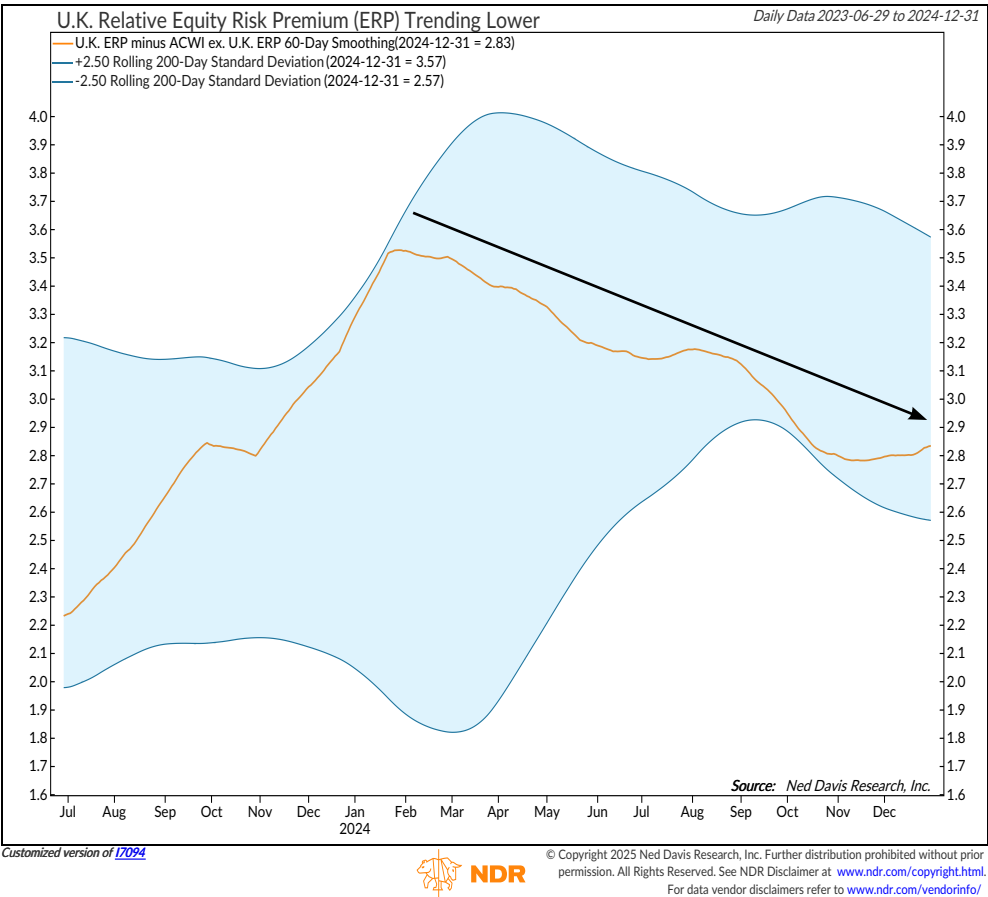
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Although most European markets are underweight, Switzerland improved to overweight.

70% of companies in the market have positive earnings revisions (chart left). The improving earnings outlook is complemented by favorable valuations. The market's dividend yield has been growing over recent months. There also has been significant improvement in Switzerland's Citigroup Economic Surprise Index, which has jumped more than 30 points over the last month.

The U.K. fell to an underweight allocation  
Trend and breadth measures are bearish.  
Relative valuations are unfavorable, the yield  
curve reflects weakening conditions, and the  
equity risk premium is unattractive (chart  
right).

U.K. retail sales volumes rose less-than-  
expected in November, adding to other soft  
data in the fourth quarter. Discretionary  
items such as clothing and footwear took a  
hit, suggesting consumers remain cautious.  
Sentiment remains in the doldrums as  
consumers await contractionary fiscal  
policies.



China fell further underweight this month.  
No indicators are bullish on the market.  
China retail sales disappointed significantly,  
its weakest pace in three months. Sales  
of discretionary items, such as apparel,  
cosmetics, and phones, were abysmal. Weak  
demand among consumers has been a  
consistent cause of stagnation in inflation  
(chart left).

China's potential growth is likely to continue  
its downtrend due to poor demographics,  
deglobalization, and elevated debt. China's  
labor force has been declining since 2018  
due to low fertility rates and immigration.  
The overall reduction in trade and the  
narrowing of trade ties impedes its long-  
term comparative advantage, which will also  
weigh on productivity. At over 200%, China's  
private nonfinancial debt as a share of GDP  
is quite high.

Explore Opportunities

Among the top ranked Explore markets are India, Peru, Mexico, South Africa, and South Korea.

- India, Peru, and South Africa have favorable price trends as their 50-day moving averages trade above their 200-day counterparts.
- Mexico and Peru have low market capitalization-to-GDP ratios, which typically indicates a favorable valuation.
- South Korea has a positive relative valuation spread between its earnings yield and 10-year government bond yield.
- The cyclically adjusted price-to-

earnings ratios for Mexico, South Africa, and South Korea are almost one standard deviation below their historical tendencies, which would indicate a significant oversold condition.

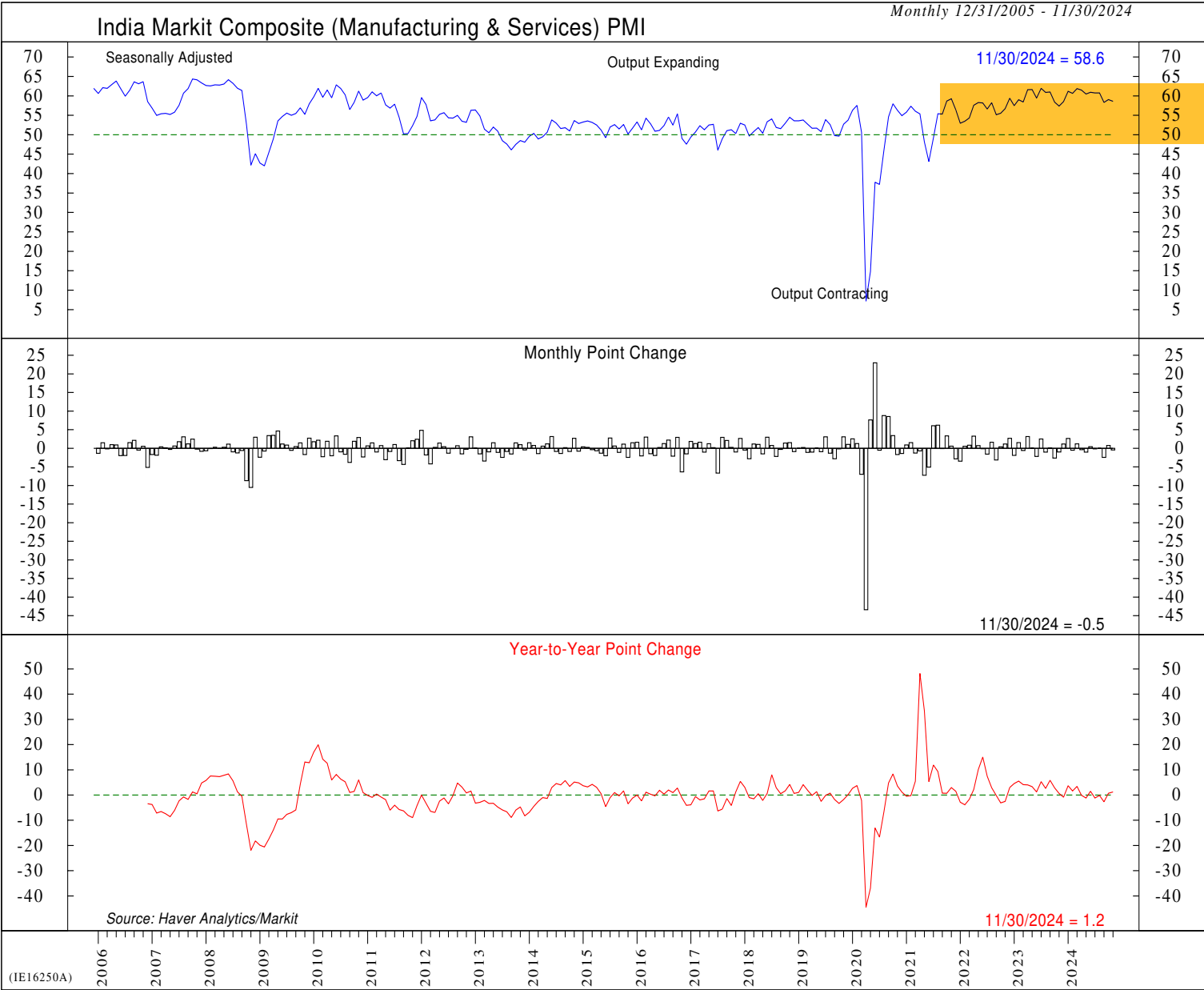
- India and South Africa have manufacturing Purchasing Managers' Indices in expansionary territory. India has one of the strongest readings across ACWI markets (chart bottom).
- India, Peru, Mexico, and South Africa have at least 70% of their stocks with positive earnings revisions from analysts.
- India, Peru, Mexico, South Africa, and South Korea have double-digit forward

earnings growth readings.

Summary

Entering January, the non-U.S. equity Core model overweighted Japan and Switzerland, while underweighting China, Germany, France, and the U.K. The Explore model favored India, Peru, Mexico, South Africa, and South Korea.

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



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