

Macro/Market Update

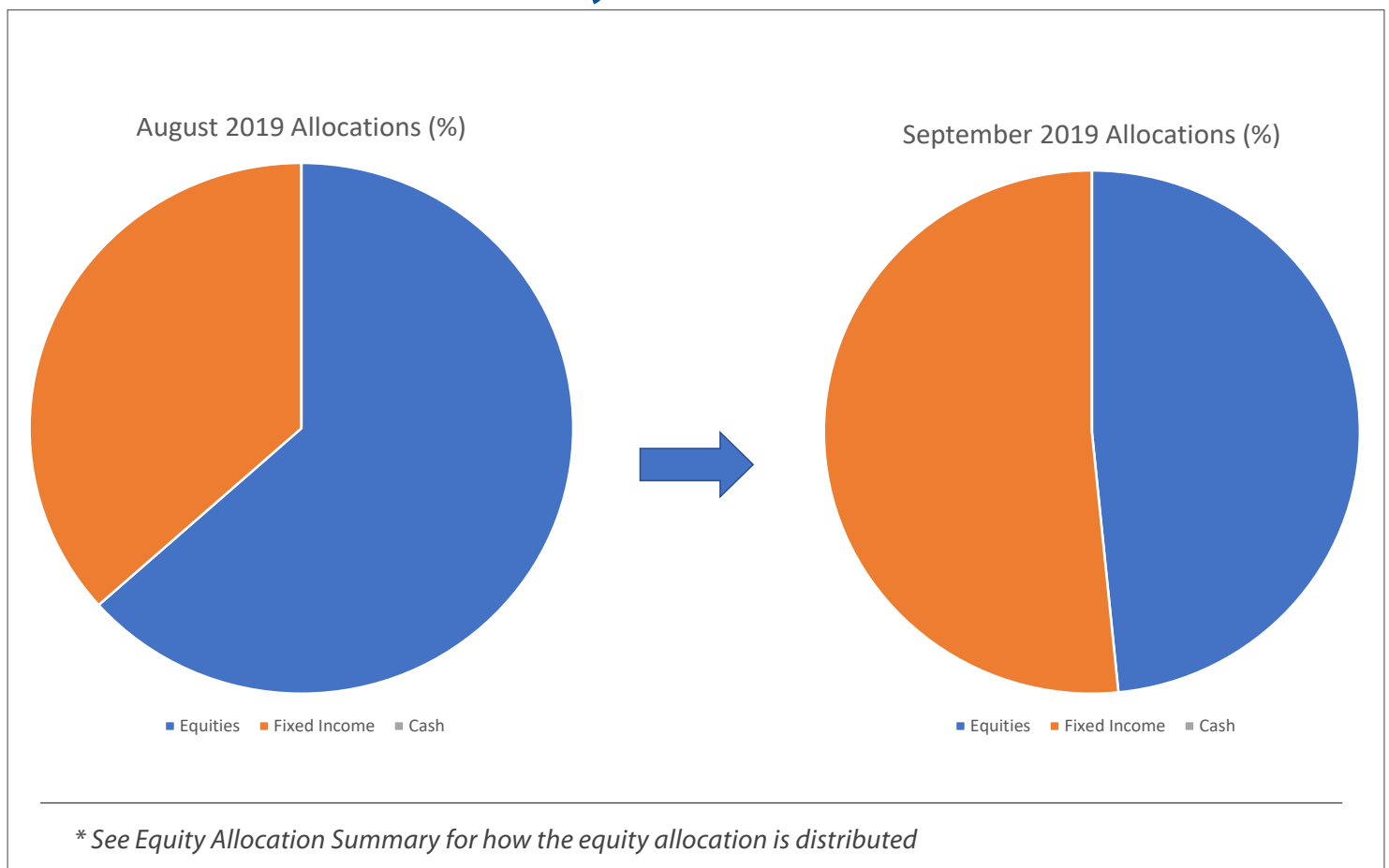
Economic conditions remain relatively weak among most of the world's largest economies. The World Trade Uncertainty Index has reached all-time highs this year. Although the trade war, which has had negative repercussions on most of the world's largest economies, continues to pose the most significant geopolitical threat, there are heightened risks in many other parts of the world, including a no-deal Brexit and tensions between Japan and South Korea.

This is in contrast to monetary policy, which has become more accommodative over recent months, providing optimism to an otherwise weak outlook. At the end of August, more than 80%

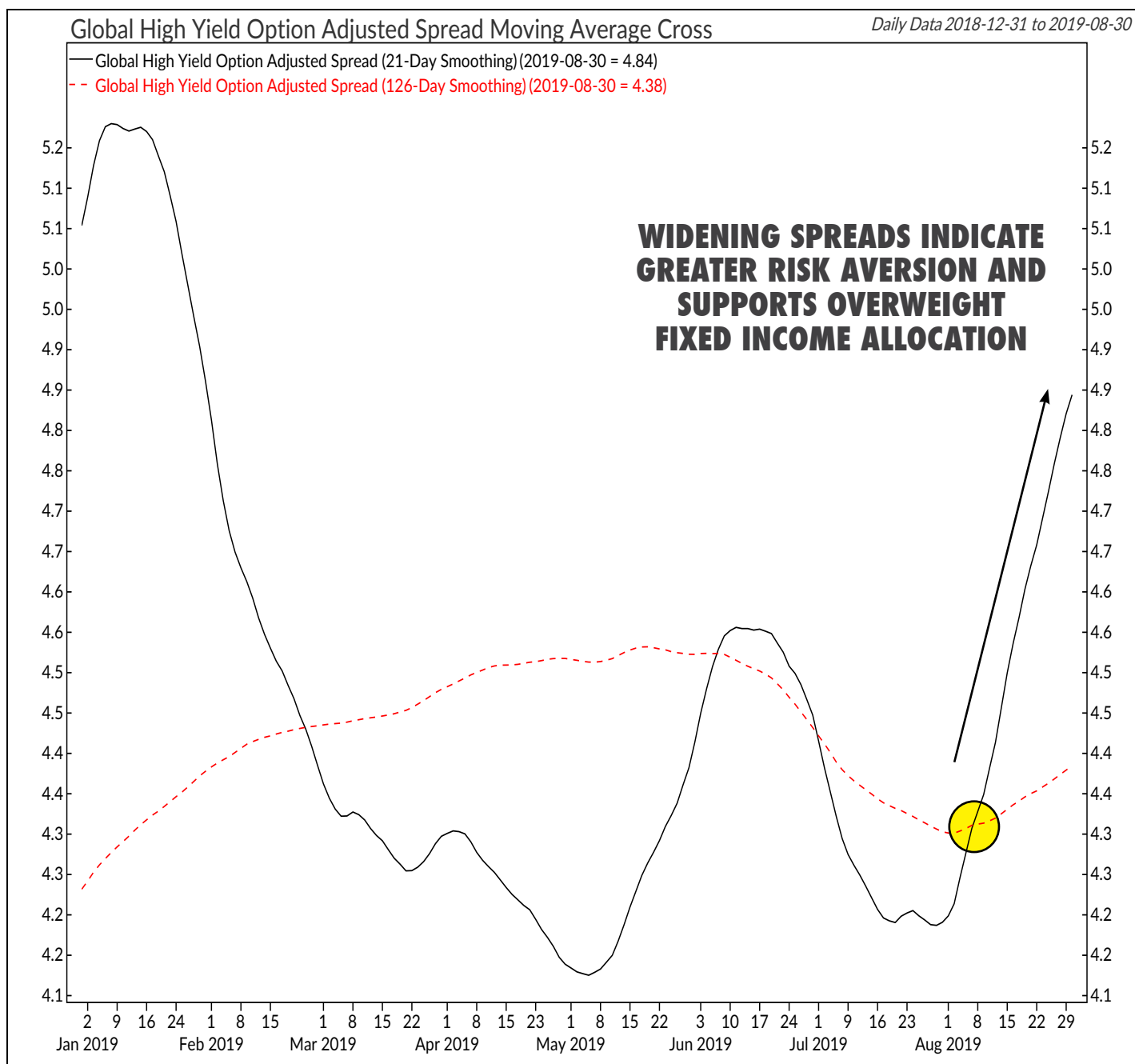
of global central banks last interest rate change was a cut. The percentage of economies with negative **real** yields has climbed to 51%, which is the highest since the global financial crisis.

During August, the MSCI All Country World Index (ACWI) underperformed the Barclays U.S. Aggregate Bond Index by more than 490 basis points (bps). It was only the third month of 2019 where bonds outpaced stocks. Equities would be poised to benefit with improved valuations, broader stock upside participation, a shift from risk aversion to risk appetite, and improving economic and earnings growth.

Asset Allocation Summary



- The model now recommends underweight equities and overweight fixed income allocations
- The equity allocation dropped this month by approximately 15 percentage points to a 48.4% allocation
- The fixed income weight rose to 51.6%, while the cash allocation remains at zero
- Within the equities/fixed income decision, five indicators (global markets' upside participation, equities/fixed income relative strength, drawdowns of equities and fixed income, equal-weighted/cap-weighted equity relative strength, and global high yield option-adjusted spreads [chart at bottom]) produced new bearish readings
- Only one indicator, earnings estimate revision breadth, flashed a new bullish signal for equities
- Only three of the thirteen equities/fixed income indicators favor equities
- There is no cash allocation this month as only one of the price-based (internal) indicators favors cash over fixed income
- A yield curve indicator flashed a new signal supporting cash over fixed income, but all of the other macroeconomic, fundamental, and behavioral (external) indicators favor fixed income over cash

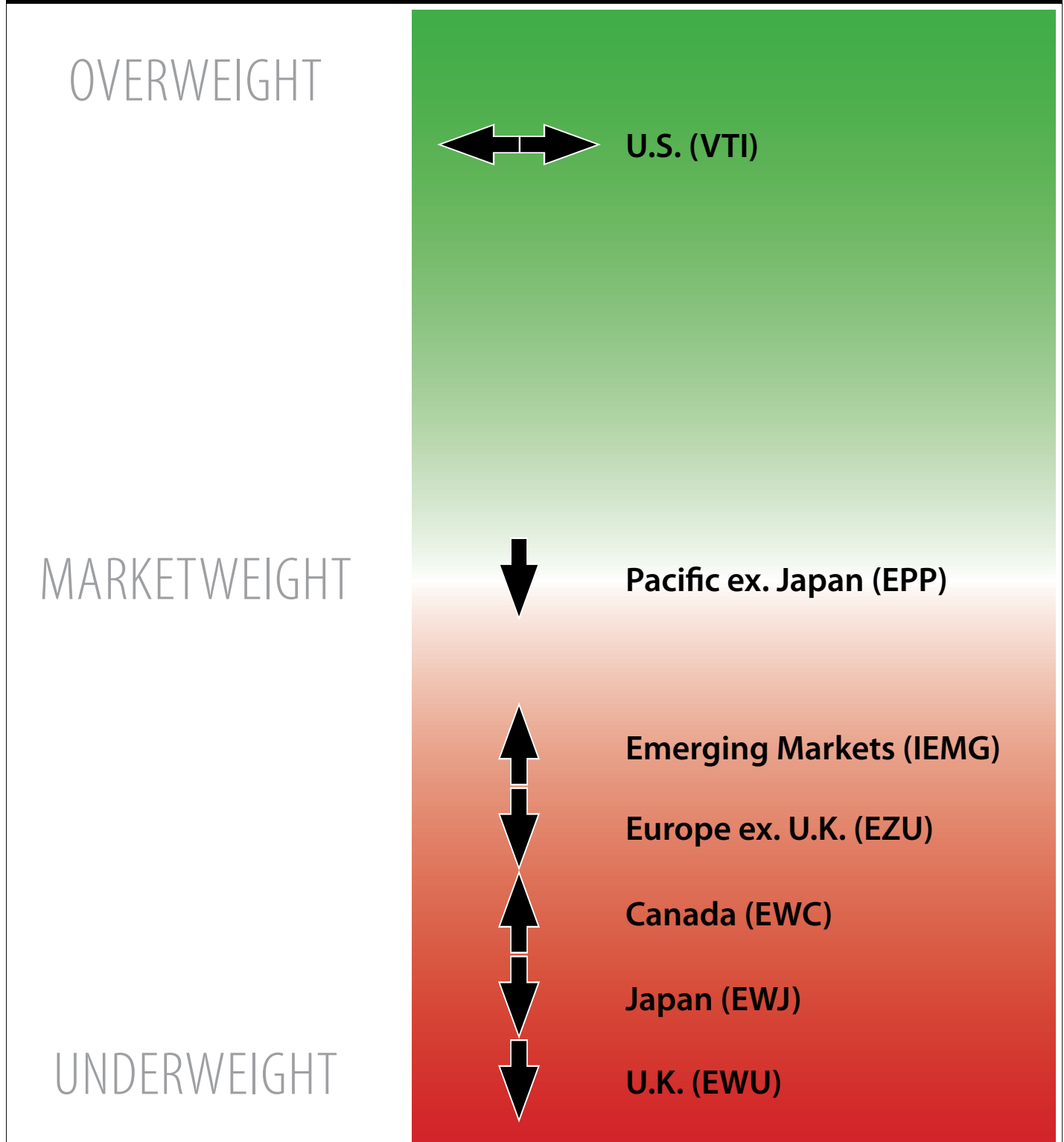


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None of the seven equity regions produced a positive return during August, as each geography declined by more than 100 bps. The U.S., Canada, Europe ex. U.K., and Japan all fell by less than 200 bps. Canada and Europe ex. U.K. have dropped for

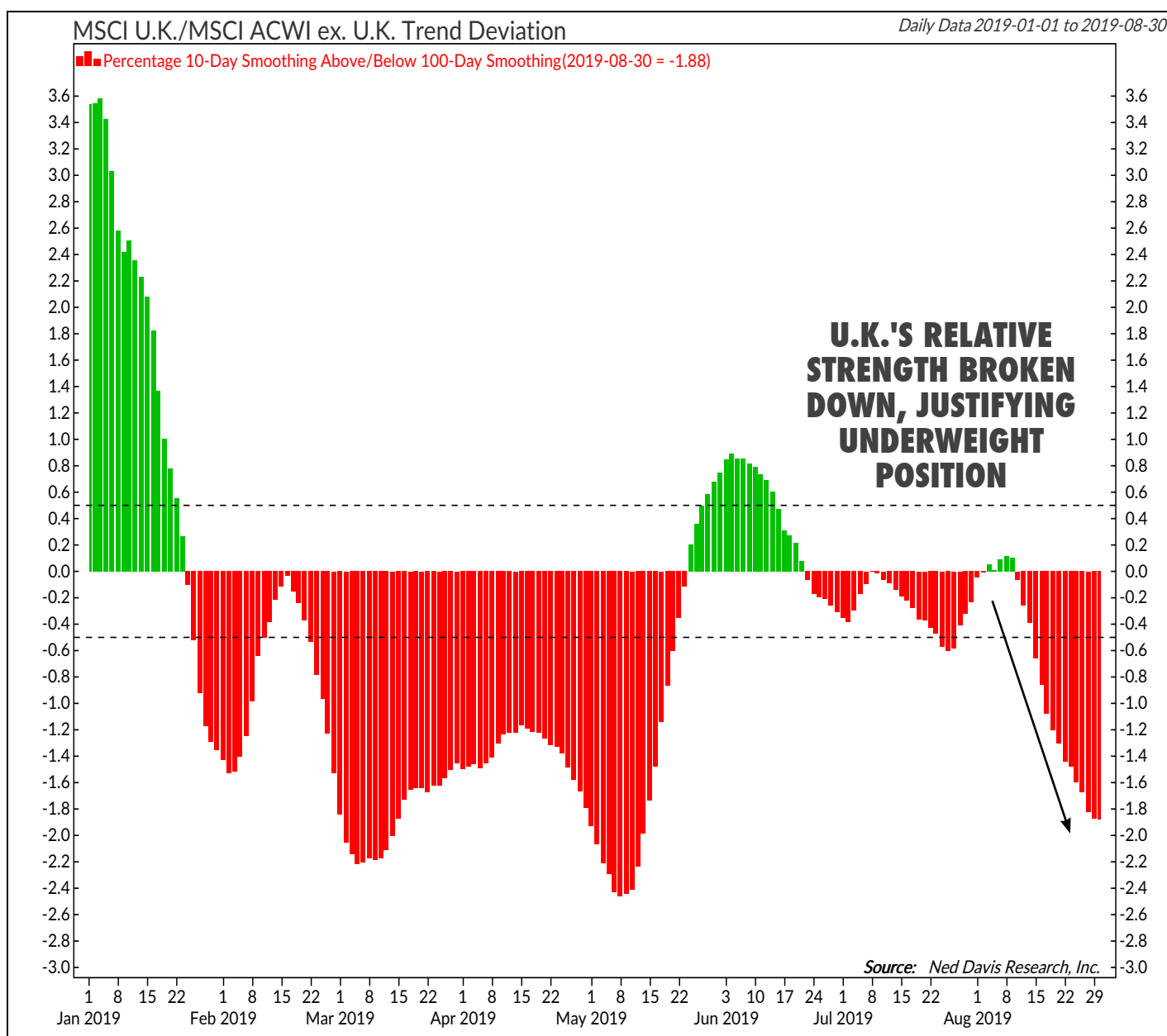
three of the last four months. It was only the second monthly decline for the U.S. in 2019. The U.K., Emerging Markets, and Pacific ex. Japan each fell by more than 460 bps. All three regions have fallen for three of the last four months.

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).

- The U.S. remains overweight as no indicators changed signals this month. None of the region's indicators has a bearish reading
- Pacific ex. Japan fell from an overweight to a marketweight allocation. Although a relative Purchasing Managers' Index (PMI) indicator generated a new bullish signal, three price-based indicators (trend, participation, and momentum) turned bearish
- Emerging Markets maintains underweight status, but received a higher allocation this month. Three indicators (relative strength, technical ranking, and valuation trend) exited their bearish readings
- Europe ex. U.K. continues to be underweight as a new bullish signal from a breadth indicator was offset by bearish readings from technical ranking and leading economic indicator measures
- Canada is underweight, but saw an improvement in allocation as a technical ranking indicator flipped from bearish to bullish
- Japan continues to be underweight. A technical ranking indicator flashed a new bearish signal
- The U.K. is the most underweight region. A trend indicator produced a new bearish reading (chart at bottom). There are only two (out of 11) indicators with bullish signals for the region



Customized version of [I7080](#)

All style and size indices declined in August after rising in July. Growth outpaced Value within both large- and small-caps. The Russell Top 200 Index outgained the Russell 2000 Index for the sixth consecutive month. The Russell 1000 Growth Index outperformed the Russell 1000 Value Index by more than 217 bps, while the Russell 2000 Growth Index outperformed the Russell 2000 Value Index by over 126 bps.

- Large-caps remain overweight relative to small-caps this month
- Three price-based indicators (percentage of stocks above their 50-day moving average, percentage of stocks above their 200-day moving average, and net new highs) switched to favoring large-caps
- A new small-cap signal based on insider activity was offset by a bullish reading for large-caps from a coincident/lagging economic measure
- The Growth versus Value model continues to favor Growth
- Seven of the eight price indicators favor Growth
- The percentage of stocks above their 200-day moving average now favors Growth, but a percentage of new highs indicator switched to Value
- Four of the six fundamental, macroeconomic, and behavioral indicators favor Growth after consumer/cyclical and dividend yield indicators flipped to Growth

U.S. Style Rotation Summary

UNDERWEIGHT	MARKETWEIGHT	OVERWEIGHT
Small-Caps ↓		Large-Caps ↑
Value ↔		Growth ↔

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NDR Global Allocation Strategy

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