

# DYNAMIC INTERNATIONAL ALLOCATION

## TRADE UPDATE

March 2025

### » Market Review

- » International equity markets are poised to outperform U.S. equities in the first quarter of 2025, driven by a strong rally across international equity markets. While the Russia-Ukraine conflict appears to be moving toward resolution under U.S.-led diplomatic mediation, progress on the Israel-Hamas ceasefire—initially agreed upon at the end of January—has faltered. The reimposition of tariffs under the Trump administration remains a key risk for international markets. Nevertheless, near-term gains are being supported by region-specific fiscal stimulus measures and renewed momentum in innovation-led sectors, giving non-U.S. equities an edge over their U.S. counterparts.
- » Among developed markets, European equities rebounded from their underperformance in the fourth quarter of 2024, with Spain, Italy, and Germany posting gains of approximately 20% in the first quarter of 2025. The European Central Bank delivered a 25-basis-point rate cut at its March meeting, citing continued progress in the disinflationary trend and a need to support the region's sluggish economic growth. In a notable policy shift, Germany unveiled a fiscal package aimed at increasing investment in infrastructure and defense, signaling a more proactive stance on economic revitalization. Meanwhile, the Bank of Japan held its policy rate steady at 0.5% in March, following a 25-basis-point hike in January as it cautiously monitors inflation and wage growth.
- » Emerging markets posted solid year-to-date returns, though performance varied significantly across regions. Last year's top performers, Taiwan and India, pulled back from recent highs amid profit-taking and valuation concerns. In contrast, Chinese and Hong Kong equities found support from a rebound in the technology sector, buoyed by the launch of the DeepSeek R1 large language model and renewed optimism following high-profile meetings between government officials and leading tech executives—part of a broader effort to reinvigorate the private sector. Meanwhile, Brazilian equities rebounded from last year's sharp sell-off, as investor sentiment improved despite lingering concerns over the government's fiscal trajectory.

### » Moving forward:

- » We remain cautiously optimistic on international markets heading into the second quarter. While tariff concerns have intensified and the range of potential outcomes remains broad, we expect these developments to weigh more on U.S. equities more than their international counterparts.
- » We believe there are a few tailwinds for international equities. Lower valuations relative to U.S. stocks, recent German stimulus measures, and improving economic indicators in Europe all point to potential upside. Moreover, with fewer major elections in 2025, policy uncertainties should be lower.
- » Growth trajectories continue to vary across regions, creating greater disparities in equity market attractiveness and opening opportunities for country-specific strategies. Reflecting this outlook, the Innealta Capital investment team rebalanced the Dynamic International Allocation ("DIA") on 03/21/2025 and increased allocations in equity.

### » Position changes within the DIA

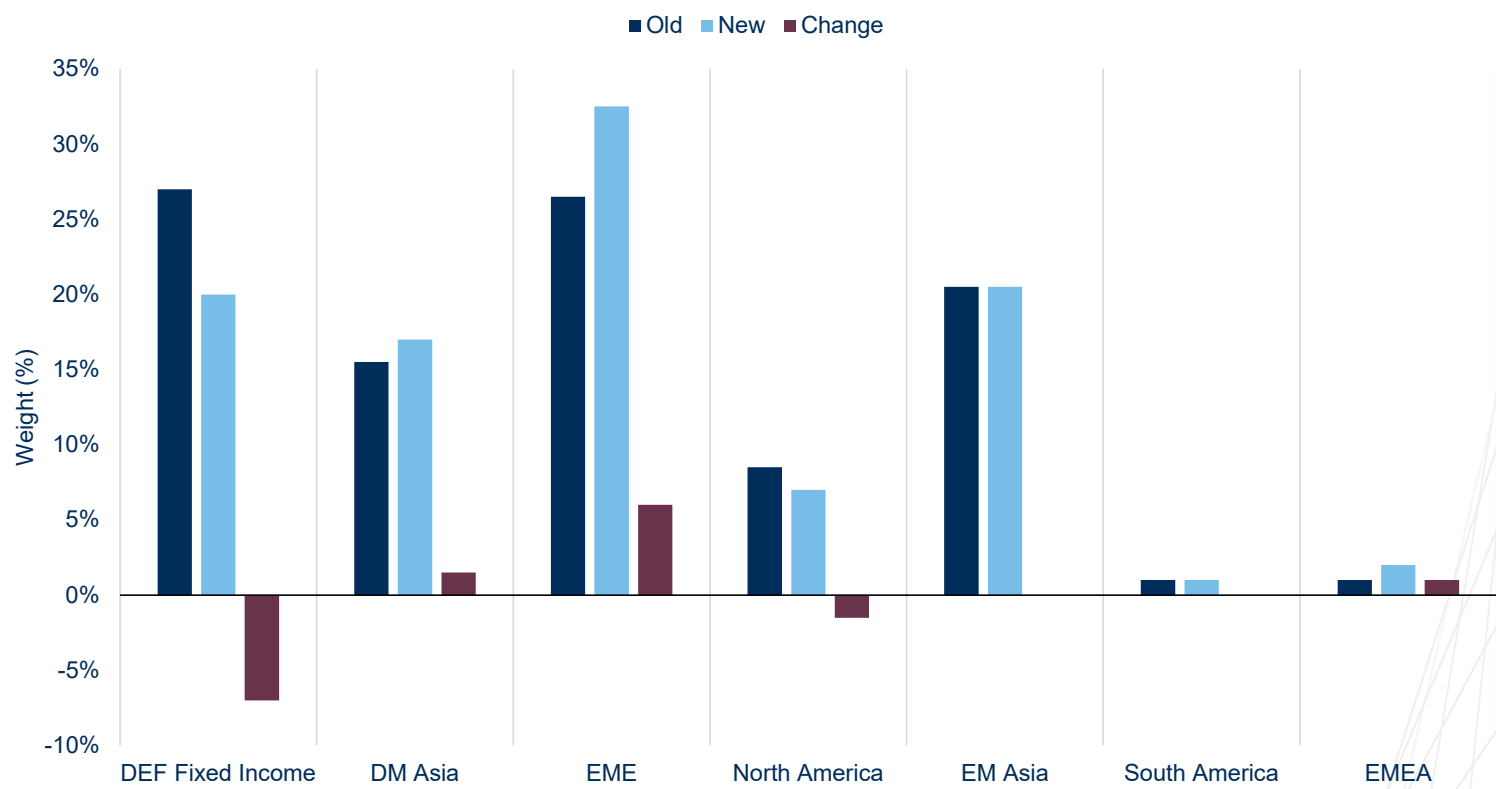
- » **Asset Allocation:** Within the strategy, the equity allocation increased from 73% to 80%, while the fixed income position reduced from 27% to 20%.
- » **Equity Allocation:** DIA trimmed its allocation to Canada and Denmark. Meanwhile, it increased its exposure to Japan, France, Germany, Switzerland, Sweden and Saudi Arabia.
- » **Fixed Income Allocation:** DIA reduced its allocation to international and US core bonds.

### » Positioning of DIA relative to its benchmark

- » **Asset Allocation:** Relative to its benchmark, DIA is 10% overweight to equities and 10% underweight to fixed income.
- » **Equity Allocation:** Within the equity allocation, DIA has a combined ~5% overweight to EM Asia and North America regions, and has an overweight allocation to the Europe, Middle East, and Africa region.
- » **Fixed Income Allocation:** DIA has an underweight allocation to credit relative to its benchmark. The strategy has a slightly higher effective duration compared to its benchmark (6.01x vs. 6.41x).

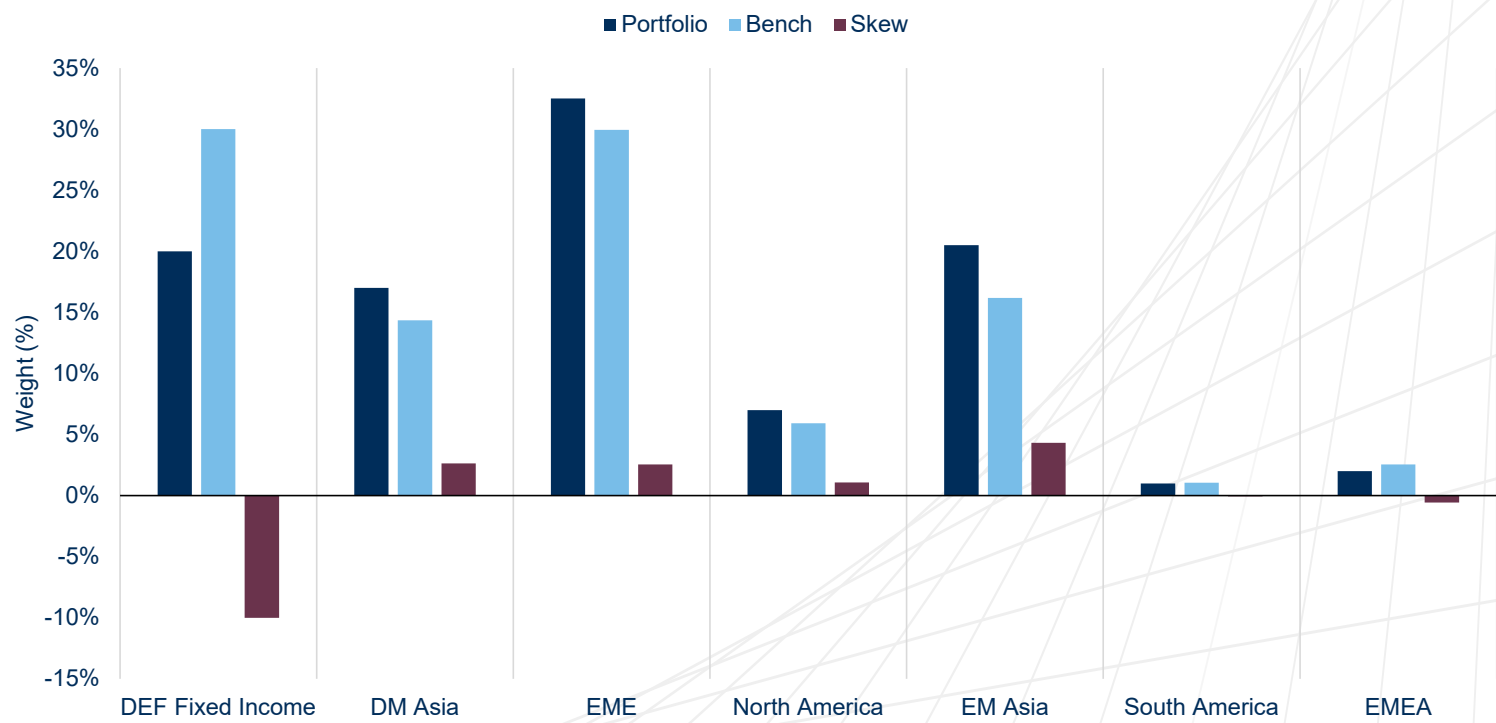
# PORTFOLIO SNAPSHOT

## HOLDINGS CHANGES



SOURCE: Innealta Capital, as of 03/21/2025. New refers to the portfolio as of the trade update date. Old refers to the portfolio as of previous to the trade update. Change refers to the difference between each. See disclosures for more details..

## HOLDINGS RELATIVE TO BENCHMARK



SOURCE: Innealta Capital, as of 03/21/2025. Portfolio's benchmark refers to a blend of 70% MSCI All Country World ex U.S. index and 30% Bloomberg Barclays Global Aggregate index. Skew refers to the difference between the portfolio and the benchmark. See disclosure for more detailed descriptions.

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