Chris Hyzy: This is Chris Hyzy, chief investment officer, for the Viewpoint update for March, titled "As the World and Markets Turn."

As the world and markets visibly turn, we prefer to focus on the trend lines, not the headlines. The headlines have been emphasizing tariff concerns, the U.S. deficit, Federal Reserve commentary, and the potential for new policies from the current administration. Although we recognize it is always healthy to be guarded about concerns that could develop in any one year, what drives markets, at least in our opinion, and asset prices overall over the medium and long term, are fundamentals.

In the last few years, much has been discussed about the narrow performance of the U.S. markets, led by mega technology and technology-like shares. This has also occurred to some degree overseas. However, the U.S. narrow performance has driven the market capitalization relative to the rest of the world to all-time world percentage highs at around 70%.

Some have suggested that U.S. exceptionalism has peaked. We believe that American dominance is still alive, but we also believe that some rebalancing of the world order, in equity markets at least, is beginning, and could continue well into next year. In our view, this is natural, especially as more cyclical shares join the leadership groups as nominal economic growth is ticking higher.

And also, while we wait out the tariff concerns, some of the more defensive areas are also outperforming, such as utilities.

Here are the tread lines we are focused on currently: Global economic activity is picking up despite what the headlines are suggesting. We believe that the economic growth backdrop for the second half of this year is still attractive, particularly as manufacturing is now back in expansion territory.

The triple engines of solid consumer services spending, corporate capital investment, and manufacturing are revving up, in our opinion. We are just now beginning to see this, despite, again, the worries of a soft patch here in the first part of the year.

Above average inflation is sticky. It helps revenue growth and is more supportive of equities relative to fixed income, but we should watch this closely for signs of acceleration.

China is extending its equity bull market as better growth is becoming more transparent with the latest rounds of stimulus. Europe is also benefiting from China's improved growth winds, stable energy prices globally, still easy financial conditions, and potentially improved relative earnings going forward with significantly discounted valuations.

Small-caps could be in an extended limbo period given tariff concerns, and higher for longer rate structures. Double digit earnings growth in the U.S. is unfolding and more broad based than 2023 and 2024.

Reflationary activity is also promoting a potential peak in the significant valuation premium of the U.S. dollar.

And finally, could geopolitical risk be cresting as potential peace agreements turn into eventual reconstruction? Time will only tell despite the clouds that are dark at this point. We will watch this closely.

The market rotation is already happening. We're not waiting for it. The broadening out of the market led by cyclicals and some defenses is alive and well. Financials and industrials are exhibiting solid earnings, price, and news momentum. The equal weighted S&P 500 is outperforming the market cap weighted S&P 500 on a consistent basis as well. All of these trend lines suggest non-U.S. exposure has become interesting again, and not just over the short term.

Fundamentals do matter. Diversification does matter. Investors are still likely to see their growth in the U.S. but seek better relative value overseas as the dollar fades somewhat, and stable income in their bond holdings.

Portfolio rebalancing has a long way to go in our opinion. Stay active.

We are making the following tactical adjustments to our portfolios where appropriate. This month, our investment strategy committee increased our equity overweight at the March meeting relative to fixed income by lowering our allocation to fixed income in the multi-asset arena. We used the percentages to close out our underweight to non-U.S. developed markets where international developed markets are now neutral and no longer underweight.

We also reduced the magnitude of our small-cap exposure slightly by adding small percentage back to our large-cap categories. Small-caps still remain very slightly overweight. Large-cap U.S. remains still overweight relative to international developed, and international developed is now neutral overall. At the highest level, equities are now – increased the overweight relative to fixed income.

We will be out with more views in the coming months. Right now, focus on the trend lines not the headlines. Thanks and have a great day.

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