Fixed Income Allocation Strategy

NDR
NED DAVIS RESEARCH

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Fixed Income Performance Update

U.S. Long-Term Treasurys (TLT) gained more than 400 basis points (bps) during June. It was TLT's best month since July 2020. TLT has risen for three consecutive months.

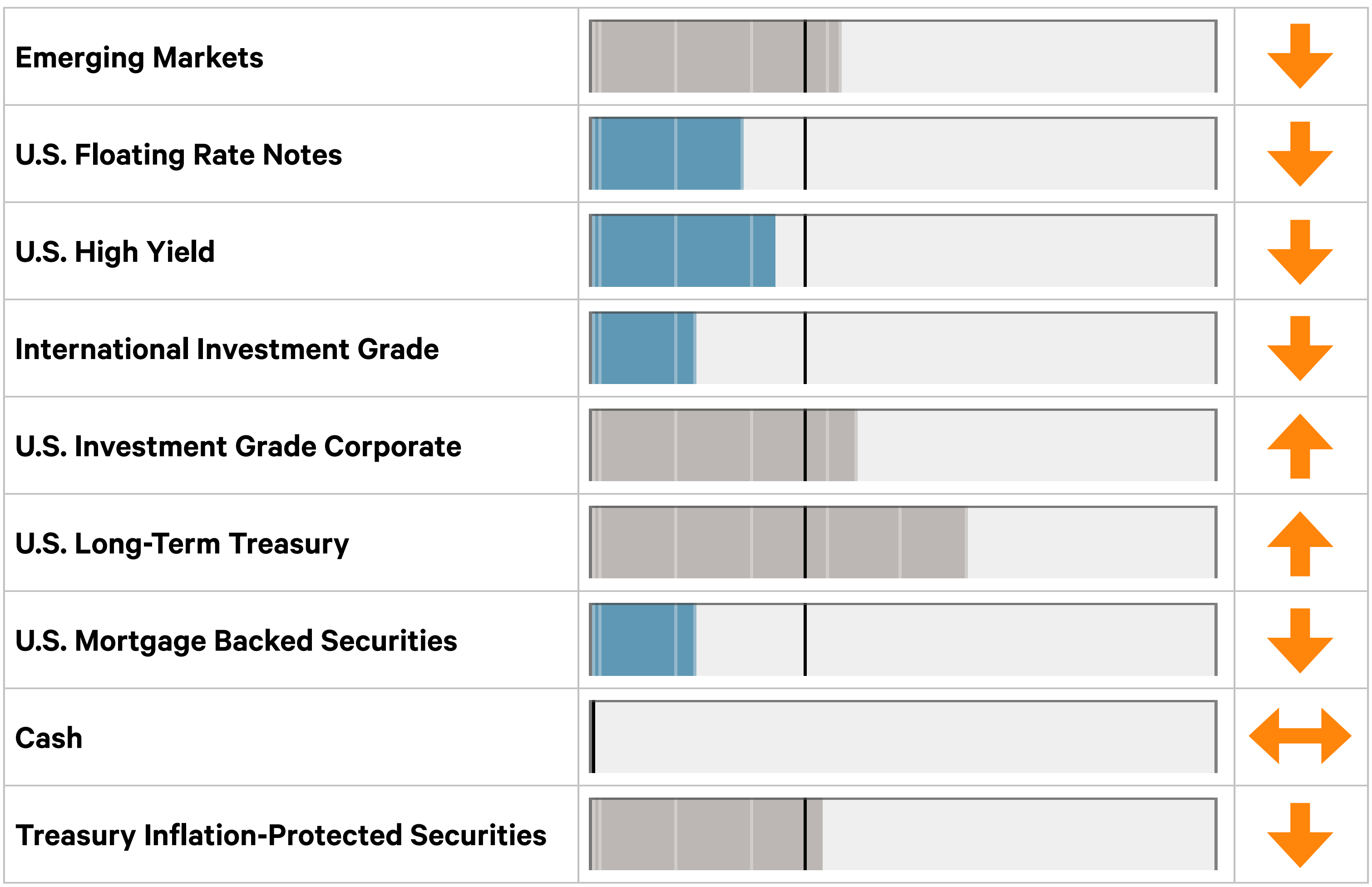
U.S. High Yield (JNK) and U.S. Investment Grade (LQD) both rose more than 100 bps last month. It was the best month for LQD since November. LQD has increased for three straight months. JNK has produced positive returns for eight of the last nine months.

Treasury Inflation-Protected Securities (TIP) and Emerging Market bonds (EMB) both increased by more than 50 bps. TIP and EMB have risen for three consecutive months. However, in each month the gains have been lower than the preceding month.

Floating Rate Notes (FLOT) and International Investment Grade Bonds (BNDX) both gained less than 50 bps. FLOT has produced positive returns for two of the last four months. BNDX broke a five-month losing streak.

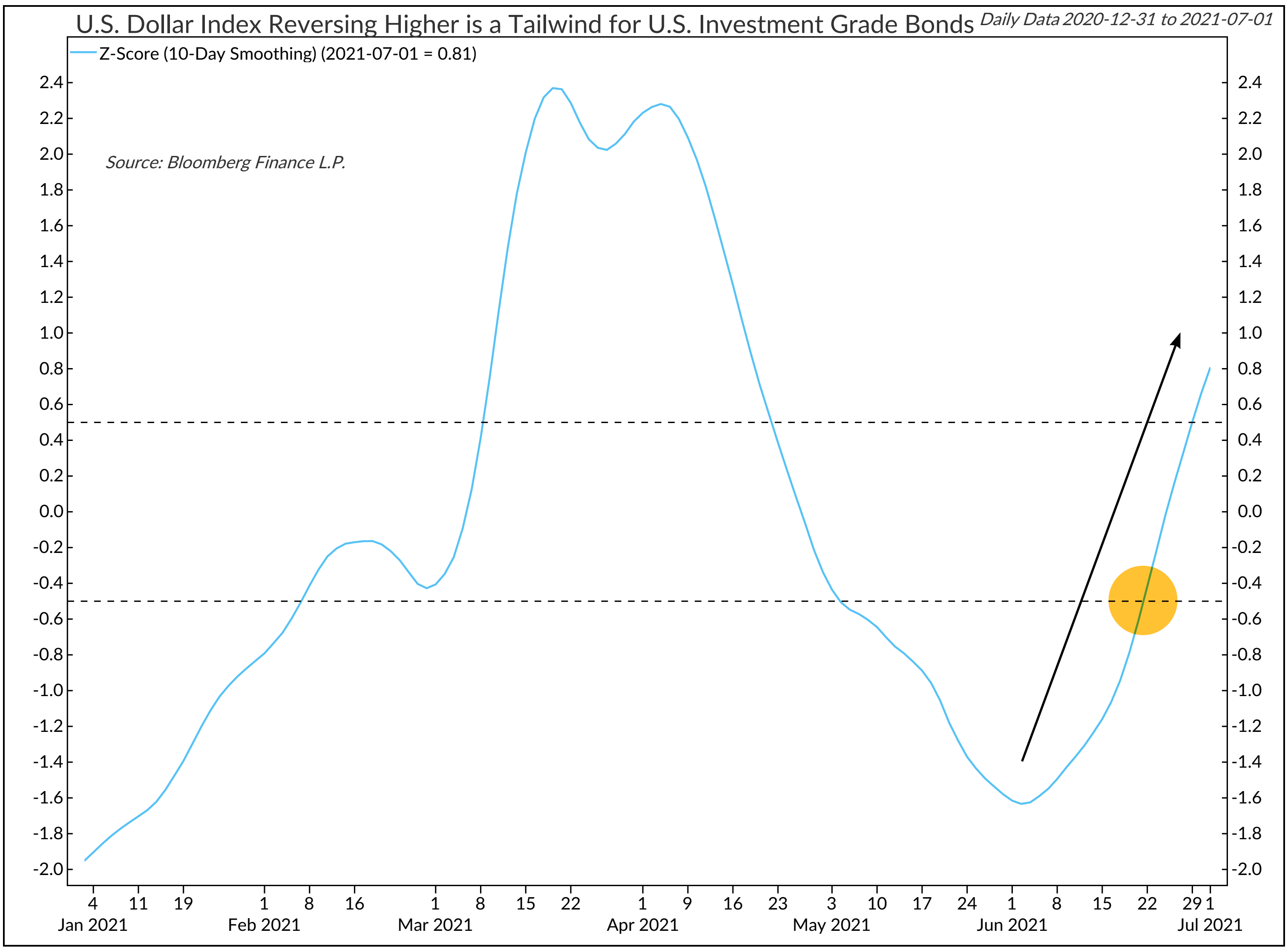
Cash (MINT) and U.S. Mortgage-Backed Securities (MBB) were the only areas to decline during June. MBB has dropped for four of the last five months.

Fixed Income Allocation Summary



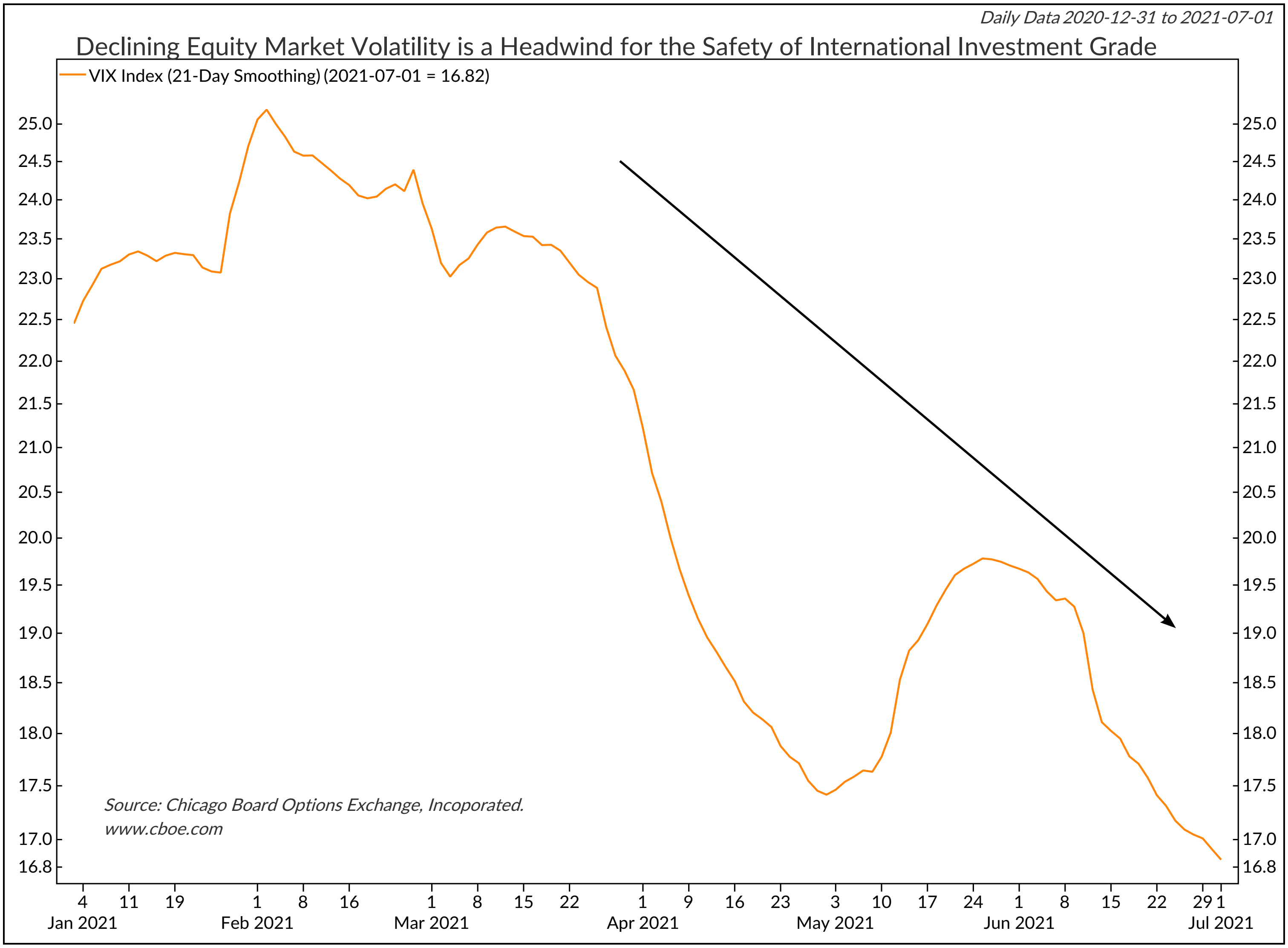
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased, or remained approximately the same as the previous month.

- U.S. Long-Term Treasurys' is now significantly above benchmark. The sector's trend has improved, economic conditions are reversing from favorable levels, and the yield curve has narrowed from recent highs. The momentum of the U.S. stock market is no longer as strong as in previous months, which is less of a headwind for Treasurys. All these indicator changes are bullish for the sector.
- The U.S. Investment Grade Corporate bond sector's allocation is now above benchmark due to significant indicator improvement. The sector's trend improved, the U.S. Dollar bounced higher from oversold levels (chart, below), and credit default swaps (CDS) narrowed from elevated conditions. These indicator changes, along with volatility improving from bearish levels, have led to a higher allocation for the sector.
- Emerging Markets (EM) remains overweight, but EM fell closer to benchmark allocation. EM currencies weakened, indicating more caution for the region. However, EM equity momentum bounced higher to a historically bullish level for the region's bonds.
- Treasury Inflation-Protected Securities (TIPS) continues to receive higher than benchmark allocation. TIPS allocation declined as an overbought/oversold indicator reversed lower from an overbought extreme. The remainder of the sector's indicators (trend, inflation expectations, U.S. Dollar, and commodity prices) are bullish.
- Cash has no allocation this month.



Customized version of ISBM1_IG_USD_Z

- U.S. High Yield has fallen to slightly below benchmark allocation. No indicators changed signal this month. Trend, breadth, and U.S. small-cap equity strength indicators reflect a favorable environment for this sector. However, there are an equal number of bearish conditions: option-adjusted spreads (oas) are widening, equity volatility is reversing higher, and flows are moving lower.
- Floating Rate Notes remains underweight. More than half of the sector's indicators are bearish. However, intermediate-term momentum on oas fell, which was bullish for the sector.
- International Investment Grade bonds plummeted from above benchmark allocation to underweight. The sector's relative strength had started to reverse higher from oversold conditions, but recently resumed its downtrend. The yield curve has started to narrow after steepening for most of this year. Equity market volatility has also been falling (chart, below), which is a headwind for the flight to safety trade.
- U.S. Mortgage Backed Securities' (MBS) fell further underweight. Although an oas measure turned bullish on the sector, two-thirds of MBS' indicators are bearish.



Customized version of ISBM1_INTL_VIX_SLP

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