# Dynamic Allocation Strategy

JULY 2022

## Macro/Market Update

Global economic risks have heightened, as the Russia/Ukraine war and China's COVID-zero policy amplified already-high inflation and put central banks in hyper-tightening mode.

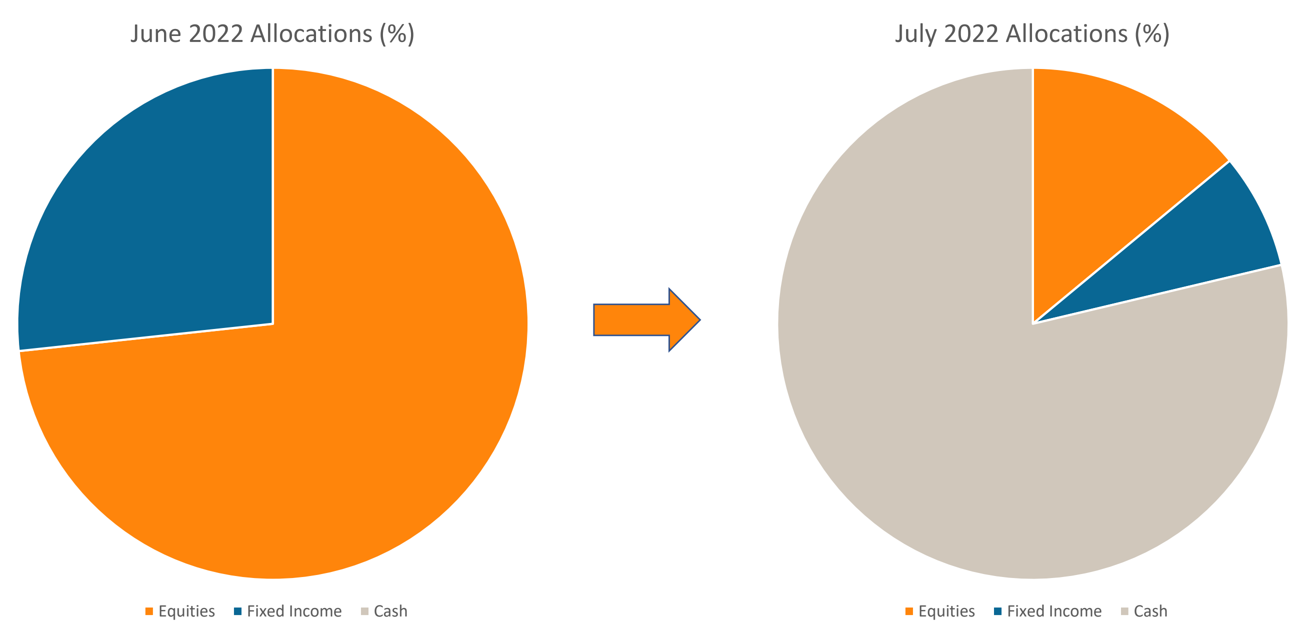
The NDR U.S. Economic Timing Model (ETM) recently plunged, moving our characterization of activity from "moderate growth" to "slow growth". Since 1948, a drop in the ETM into the slow growth zone has been followed by recession a median of two months later. The only exceptions were in 1951 and 1956 when the model returned to moderate growth.

But our ETM has tumbled 20 points in three months. Such large, sharp drops are unusual and have only occurred on four other occasions – all associated with recession (January 1970, September 1981, October 1990, and during the pandemic). As a result, the risk of U.S. recession has been pulled forward into this year from 2023.

The U.S. recession call is important because a U.S. recession is typically associated with severe global economic declines, which strongly impacts global equities. Severe recessions usually have coincided with peak-to-trough declines for the MSCI All Country World Index (ACWI) between 30%-50%. Furthermore, the NDR Global Recession probability model's current reading reflects an elevated risk of recession.

During June, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by over 515 basis points (bps). It was the largest negative spread between stocks and bonds since March 2020. Global stocks have trailed bonds for five of the first six months in 2022. With global earnings growth now slowing and the earnings revisions rate pointing to more of the same, slowing inflation, stabilizing interest rates, and improving economic developments will be needed for the current cyclical bear to give way to a new cyclical bull.

## Asset Allocation Summary



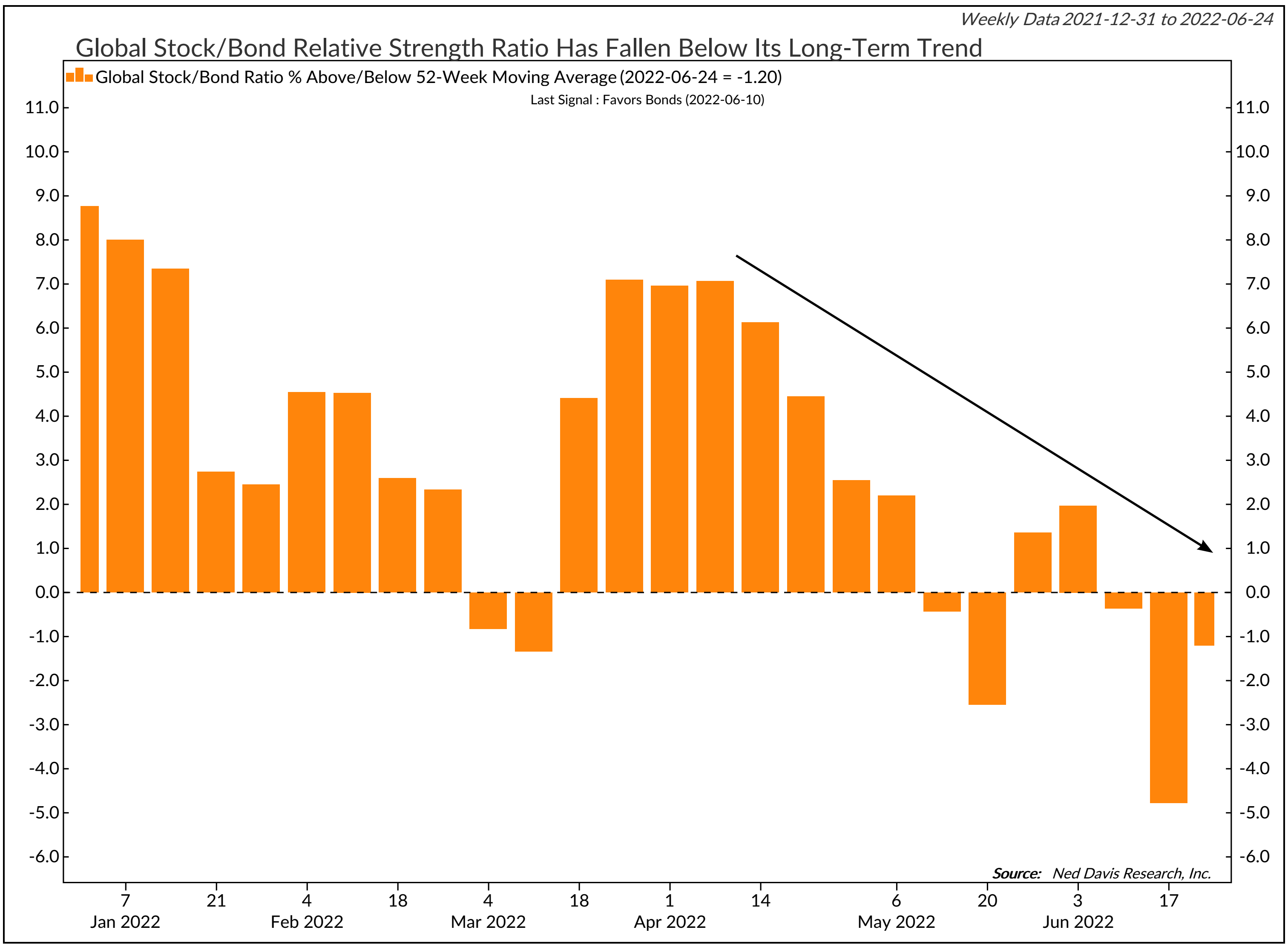

* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

- The model shifted allocation from equities and fixed income into cash this month.
- The equity allocation is slightly below 15%, while the fixed income allocation is less than 10%.
- Cash has an all-time high allocation this month at greater than 75%.
- Multiple indicators changed signals this month, as the stock/bond relative strength (chart, below), global economic sentiment, and global shipping activity indicators flipped from favoring stocks to bonds/cash.
- The indicator changes imply that the market action is confirming the weaker economic environment, so the model is recommending that investors reduce risk.
- Only one of the top-level indicators favors equities over fixed income (table, below).

**Top Level Factors**

| Indicator | Current Signal (Red = New Signal) | Comment |
|---|---|---|
| Equities/Fixed Income Relative Strength (indicator receives a heavier weighting) | Favors Fixed Income | This indicator now favors fixed income. The relative strength ratio is hovering near it's one-year moving average, as it is less than 1.5% below its long-term trend. |
| Global Equity Market Breadth | Favors Fixed Income | Entering the week, less than 10% of global equity markets traded above their 50-day moving averages. |
| OECD Leading Indicator | Favors Fixed Income | The four-week change in the OECD Composite Leading Indicator (CLI) declined for an eighth straight month. The drop accelerated at its fastest rate since February. |
| PMI Breadth Factor | Favors Fixed Income | This indicator now favors fixed income. The four-week change in economies with expanding manufacturing industries declined as both Poland's and Taiwan's PMIs now reflect contracting activity. |
| Baltic Exchange Dry Index | Favors Fixed Income | This indicator now favors fixed income. During June, the Baltic Dry index (BDI) was more than 8% below its 13-week moving average. It was the widest gap between the BDI and its intermediate-term trend since February. |
| Central Bank Policy | Favors Equities | To favor fixed income, this indicator requires a significant drop in global short-term rates. |

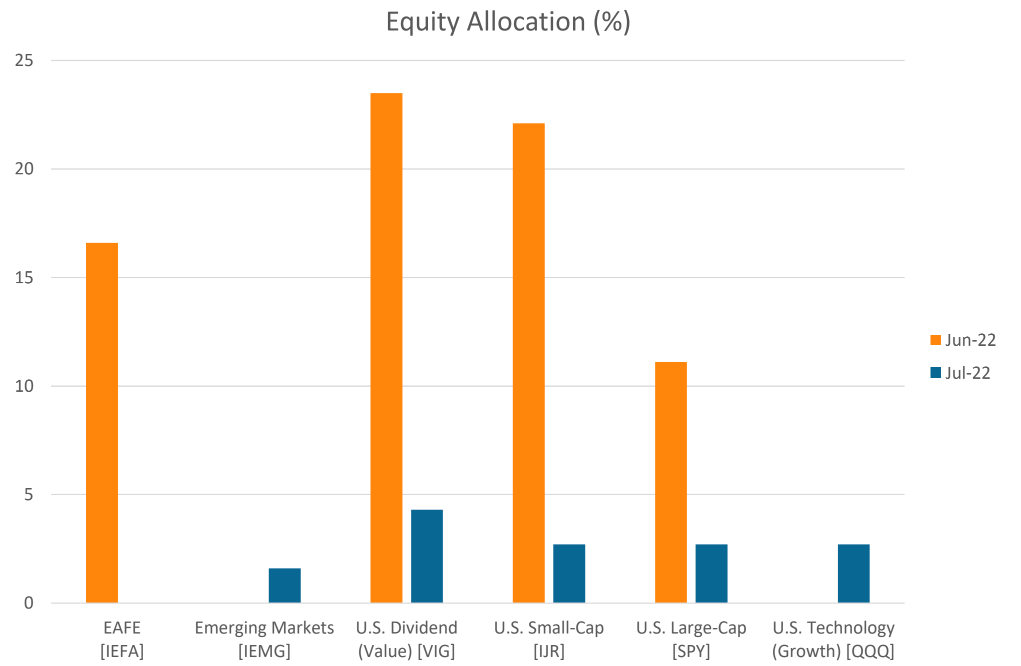
Ned Davis Research T_ETFM202206261.1

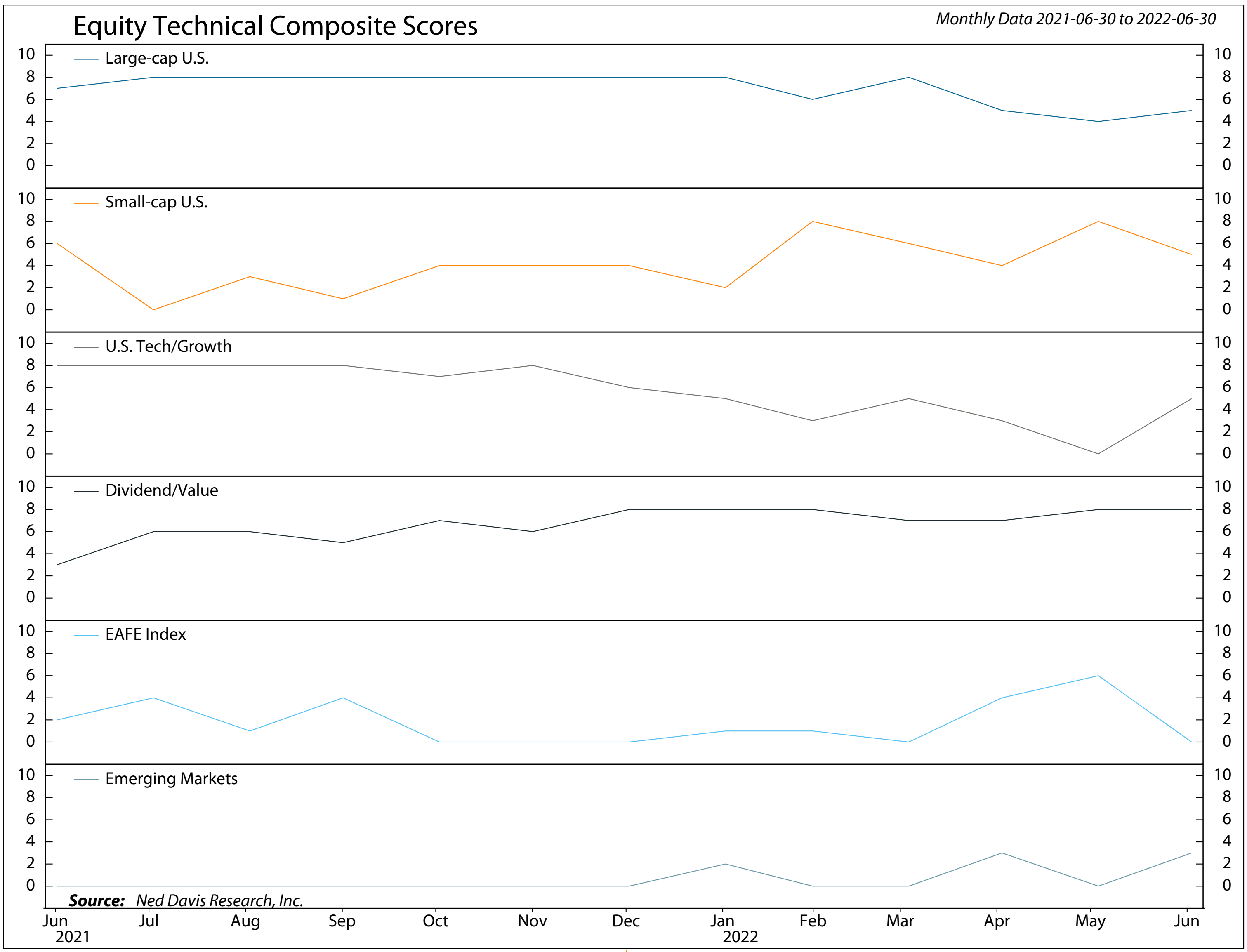



*Customized version of ETF1000_11*

## Equity Allocation Summary

During June, all six equity areas declined more than 500 basis points (bps). Emerging Markets (IEMG) and U.S. Value [Dividends] (VIG) fell less than 700 bps. U.S. Large Caps (SPY), U.S. Growth [Technology] (QQQ), U.S. Small Caps (IJR), and Europe, Australasia, and the Far East [EAFE] (IEFA) all plummeted over 800 bps. QQQ, VIG, and IEMG have produced only one positive monthly return during 2022. It was the worst month for IJR, VIG, and IEFA since March 2020. QQQ, VIG, SPY, IEMG, and IJR each received less than 5% allocation (chart, right) for July due to their technical composites (image at bottom).

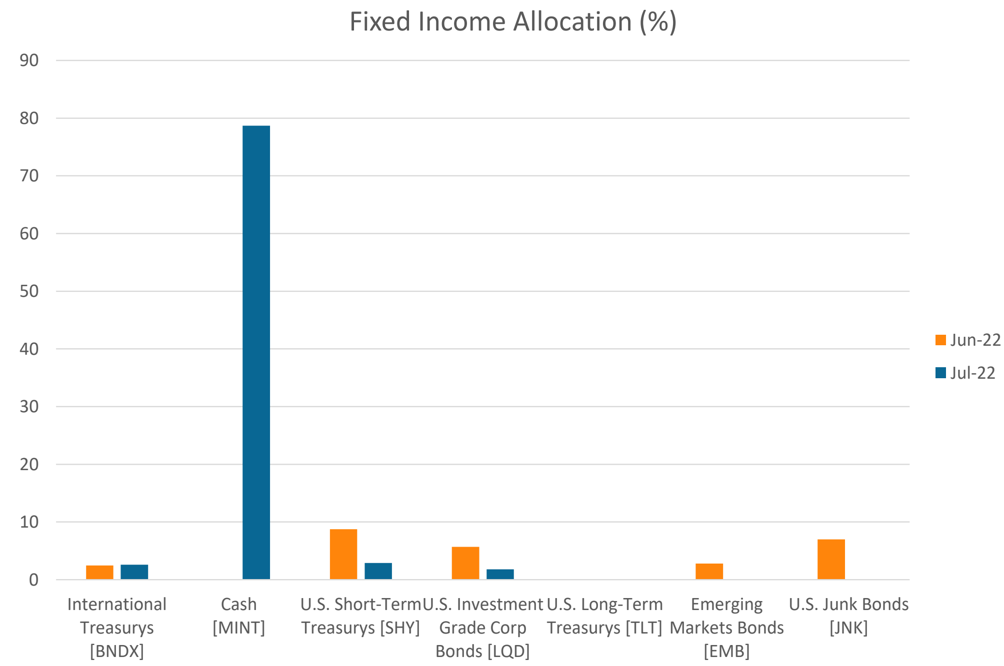


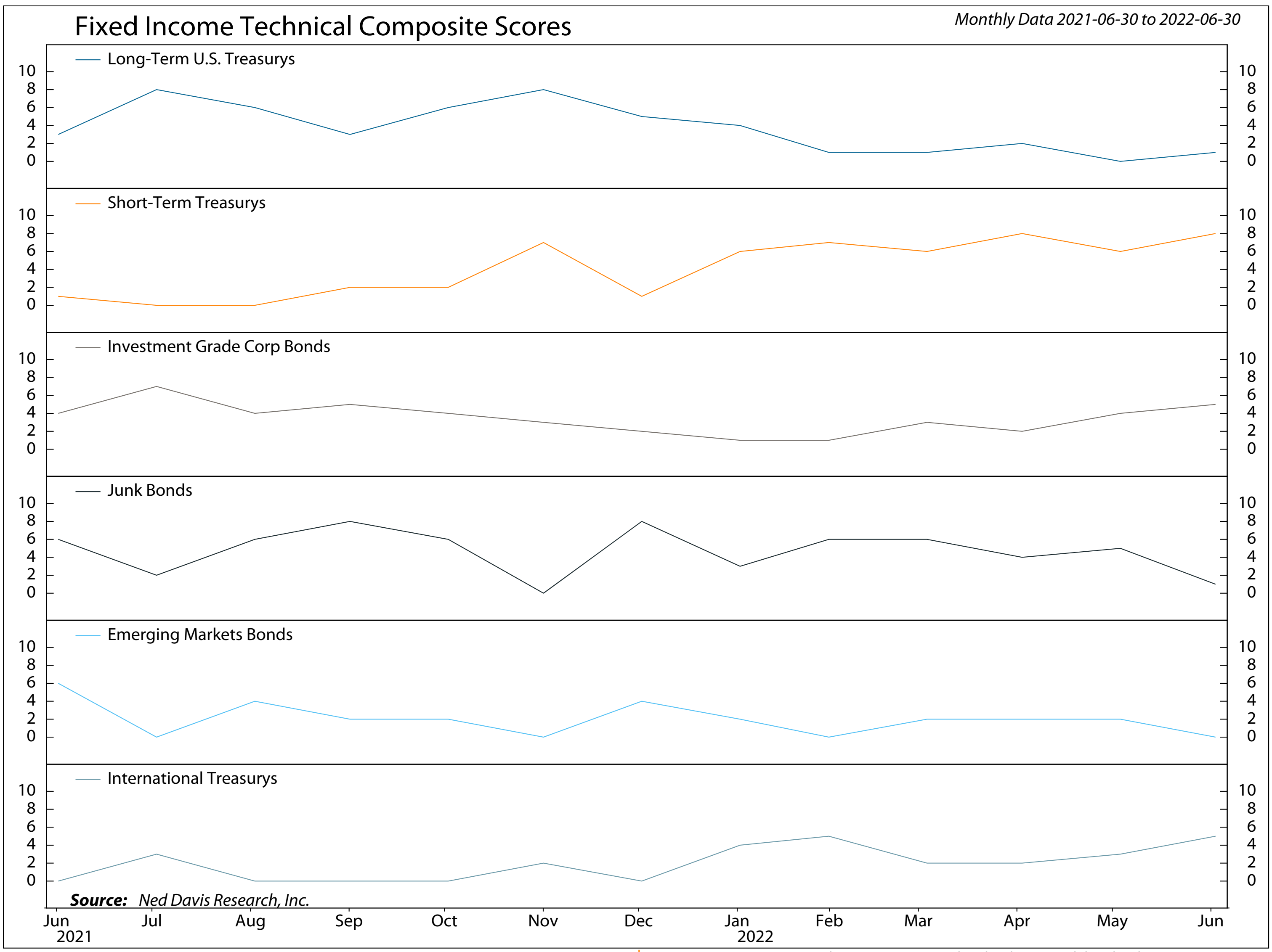




ETF1000_M_NDRIS

## Fixed Income Allocation Summary

Performance within fixed income was like its equity counterpart during June, as all segments declined. U.S. Short-Term Treasurys (SHY) was the only area to drop less than 100 bps. International Investment Grade (BNDX), U.S. Long-Term Treasurys (TLT), and U.S. Investment Grade (LQD) fell less than 400 bps. Emerging Market bonds (EMB) and U.S. High Yield (JNK) declined over 600 bps. The bond intra-asset class model determines the opportunity for each area relative to cash and then relatively allocates across the segments with favorable attributes. For July, the model recommends raising cash until a better opportunity presents itself (image at bottom).




ETF1000_M_NDRIS

**Ned Davis Research Disclaimer:**

The data and analysis contained within are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. All performance measures do not reflect tax consequences, execution, commissions, and other trading costs, and as such investors should consult their tax advisors before making investment decisions, as well as realize that the past performance and results of the model are not a guarantee of future results. The NDR Dynamic Allocation model is not intended to be the primary basis for investment decisions and the usage of the model does not address the suitability of any particular investment for any particular investor.

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs.