DAY HAGAN
ASSET MANAGEMENT

NDR
NED DAVIS RESEARCH

Smart Sector® Strategy

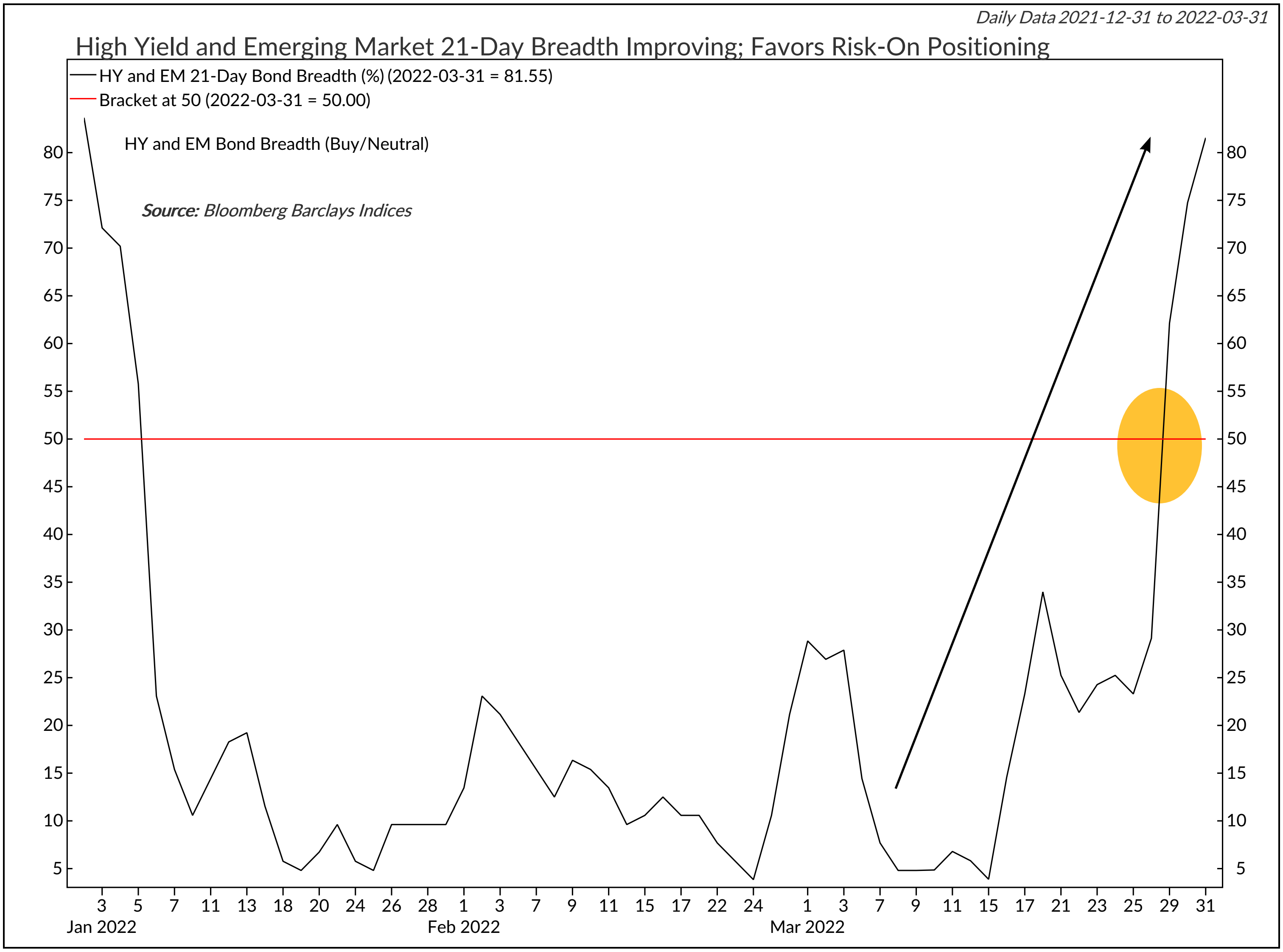
APRIL 2022

Catastrophic Stop Update

During the last week of March, the Catastrophic Stop model exited its bearish signal that initiated in late January. The model now recommends being fully invested. There was improvement across a number of indicator types including strengthening equity market trends, rising stock/bond relative strength, improving high yield and Emerging Market bond breadth (chart, below), and broadening global equity market participation.

Although not on bullish signals yet, global high yield option-adjusted spreads have started to roll over from elevated levels and the Baltic Dry Index has been trending higher. Both measures could be demonstrating initial signs of improving activity within the global economy and financial markets.

For the Catastrophic Stop model to exit its current signal would require indicator deterioration from the internal (price-based) and external (macro, fundamental, and sentiment) indicators in this weight-of-the-evidence approach. If economic growth rolls over and the market-based indicators confirm sustained weakness, the Catastrophic Stop model is positioned to respond accordingly by raising cash.



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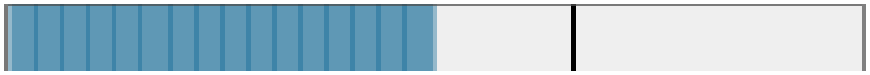
Sector Performance Update

Utilities (XLU) surged by more than 10% during March. It was the second-best monthly return for XLU since 2000. XLU has jumped by more than 900 basis points (bps) for two of the last four months.

Energy (XLE), Materials (XLB), and Real Estate (XLRE) all rose by more than 600 bps last month. Energy jumped by more than 700 bps for five of the last seven months. XLB and XLRE gained more than 600 bps for three of the last six months.

Health Care (XLV) and Consumer Discretionary (XLY) each increased more than 400 bps in March. It was XLY's best monthly return since October. XLV has risen only during three of the last seven months.
Industrials (XLI) and Information Technology (XLK) both rose over 300 bps. XLK gained more than 300 bps for eight of the last twelve

Sector Allocation Summary

Energy (OW)		↓
Materials (OW)		↔
Industrials		↔
Consumer Discretionary (OW)		↑
Consumer Staples		↓
Health Care (OW)		↓
Financials		↔
Information Technology (UW)		↔
Communication Services (UW)		↔
Utilities (OW)		↑
Real Estate		↔

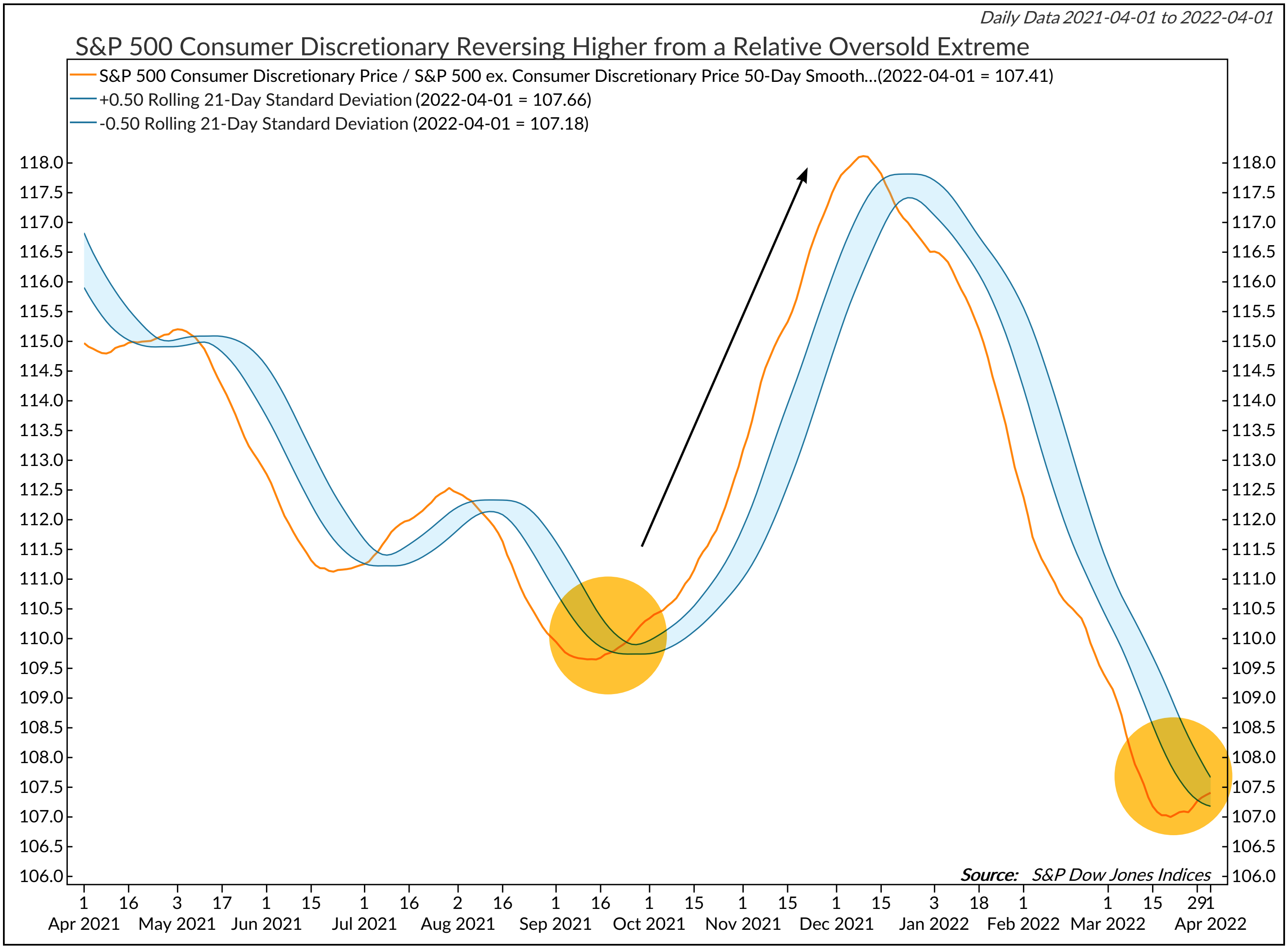
**The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation.
Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position.
The direction of the arrow indicates whether the allocation increased, decreased,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

months. XLI has been lower for four of the last seven months.

Communications Services (XLC) and Consumer Staples (XLP) increased by more than 50 bps. XLC and XLP have been lower for four of the last seven months.

Financials (XLF) was the only sector to decline during March. The last time XLF was the only sector to decline for a month was April 2011. XLF has fallen for six of the last ten months.

- The Health Care sector's weighting declined, but the sector still has the largest overweight allocation. There were conflicting price-based (internals) indicator movements. Relative price trend and price momentum indicators flipped from bullish to bearish, but relative price reversal and absolute trend measures exited their bearish signals. Two external (macro, fundamental, and behavioral) indicators, health care personal expenditures and valuations, turned bearish.
- The Energy sector remains overweight relative to benchmark. Volatility has started to increase, which indicates rising risks. Also, the U.S. Dollar index is reversing higher, which is a headwind for the sector. Currently, the sector has only one bearish external indicator.
- The Materials sector's allocation moved further overweight. Silver futures have been rising, indicating strength for commodities and Materials stocks. More than three-fourths of the sector's indicators are bullish.
- The Utilities sector's weighting increased, as the sector remains overweight. Relative price momentum and near-term upside participation indicators turned positive on the sector. None of the Utilities' sectors external measures are bearish.
- The Consumer Discretionary sector jumped to overweight status. Relative trend and momentum indicators strengthened as the sector reversed from an over-


Daily Data 2021-04-01 to 2022-04-01

S&P 500 Consumer Discretionary Reversing Higher from a Relative Oversold Extreme

Source: *S&P Dow Jones Indices*

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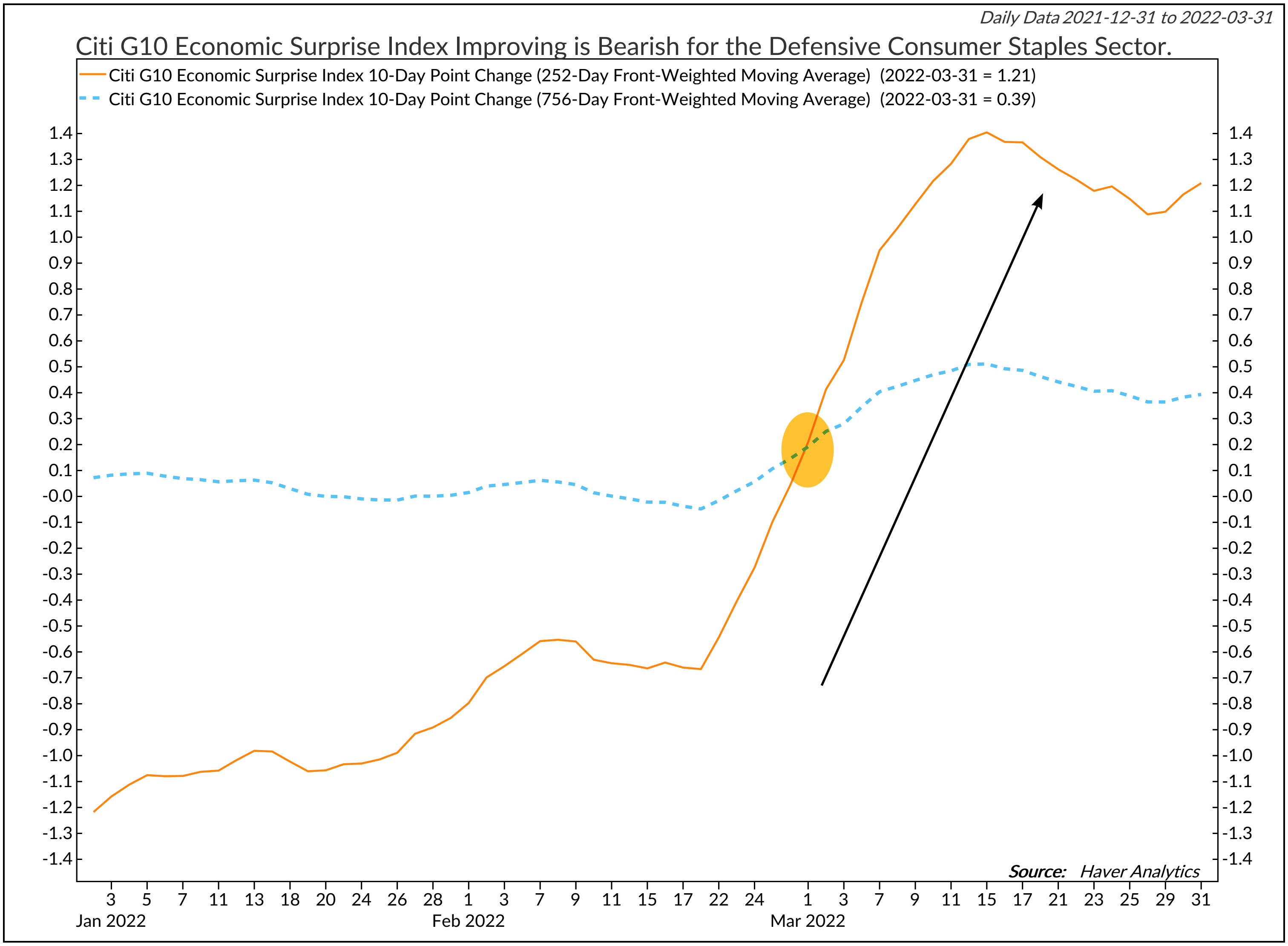
sold condition (chart, below) on improving earnings surprises. The 30-year Treasury yield has been rising, which presents headwinds for the sector.

- Industrials declined to near benchmark allocation. Relative price momentum indicators turned bullish, but weakening relative price trends and oil prices reflect a challenging outlook for the sector.
- The Real Estate sector's allocation is in line with benchmark. The sector's relative trend price improved, the MBA Purchase Index reversed higher from recent lows, and industrial production construction supplies strengthened. However, the sector is reversing lower from an overbought condition and business credit conditions are tightening.
- The Consumer Staples sector's weighting dropped below benchmark. Improving economic conditions (chart, below) are bearish for this defensive sector. Weakening relative price momentum, an overbought reversal, and deteriorating near-term breadth confirmed the challenged outlook.
- The Financials sector's allocation is slightly below benchmark. The relative price trend improved, but valuations are expensive.
- The Communication Services sector's allocation fell further below benchmark. No indicators changed signals this month. Only one of the sector's indicators is bullish.
- The Information Technology sector's allocation dropped to the largest underweight position. Long-term price action is reversing from an oversold condition as inflation expectations are elevated. However, valuations are no longer attractive as the sector reverses from an intermediate-term overbought condition.



Daily Data 2021-12-31 to 2022-03-31

Citi G10 Economic Surprise Index Improving is Bearish for the Defensive Consumer Staples Sector.

Source: *Haver Analytics*

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Strategy description

- The Smart Sector® with Catastrophic Stop strategy combines two Ned Davis Research quantitative investment strategies: The NDR Sector Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting the S&P 500 sectors based on Ned Davis Research's proprietary sector models.

- Each of the sector models utilize sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each sector's probability of outperforming the S&P 500.

- Sectors are weighted accordingly relative to benchmark weightings.

When market risks become extraordinarily high — reduce your portfolio risk

- The model remains fully invested unless the Ned Davis Research Catastrophic Sell Stop (CSS) model is triggered, whereupon the equity-invested position is trimmed to 50%.

- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad U.S. equity market. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When the NDR CSS model moves back to bullish levels, indicating lower risk, the strategy immediately moves back to fully invested.

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