Fixed Income Allocation Strategy

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AUGUST 2022

Fixed Income Performance Update

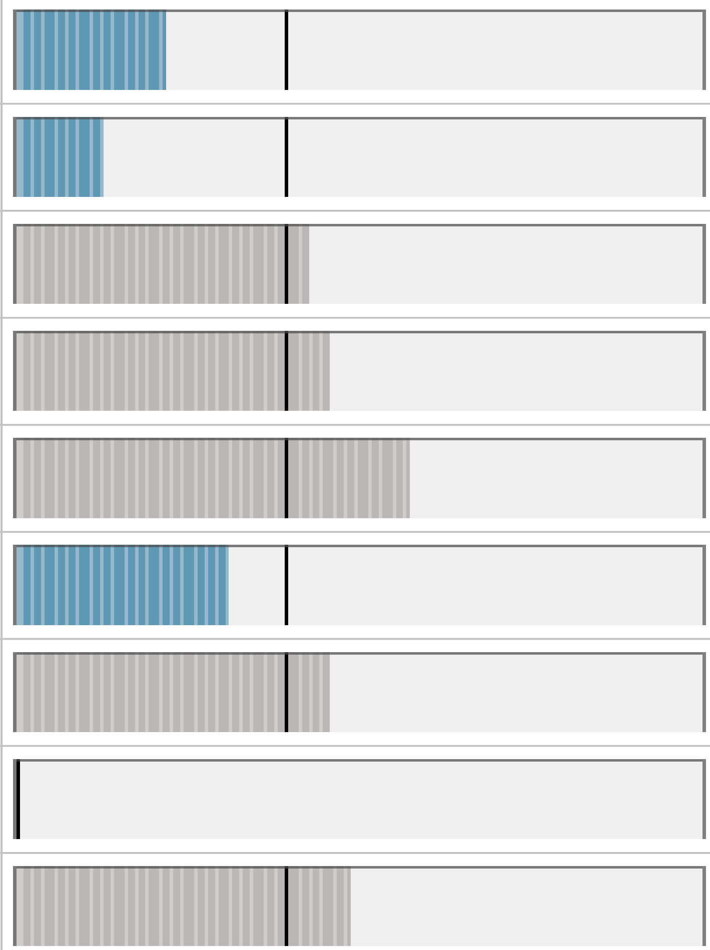
After each declining during June, all fixed income categories rose in July. U.S. High Yield (JNK) had its best month since October 2011, as it jumped by more than 600 basis points (bps), a reversal of June's significant underperformance as investors returned to higher-risk assets. JNK has declined for eight of the last 11 months.

U.S. Investment Grade (LQD) and Treasury Inflation-Protected Securities (TIP) each gained more than 400 bps. LQD had it strongest month since April 2020, while TIP produced its largest monthly return since March 2009. LQD has dropped for nine of the last 12 months. Last month's positive return for TIP broke a four-month losing streak.

Emerging Market bonds (EMB), International Investment Grade (BNDX), and U.S. Mortgage-Backed Securities (MBB) each rose over 300 bps. It was the best month in the history of BNDX, but BNDX has risen only twice in the last 12 months. It was MBB's best month since November 2008, but MBB has increased during only four of the last 18 months. U.S. Long-Term Treasurys (TLT) broke a seven-month losing streak as it gained more than 200 bps. Floating Rate Notes (FLOT) was the only area to rise by less than 100 basis points (bps). FLOT has only risen during two months in 2022.

With credit sectors outperforming in July, the overall message from investors was an increasing appetite for risk assets.

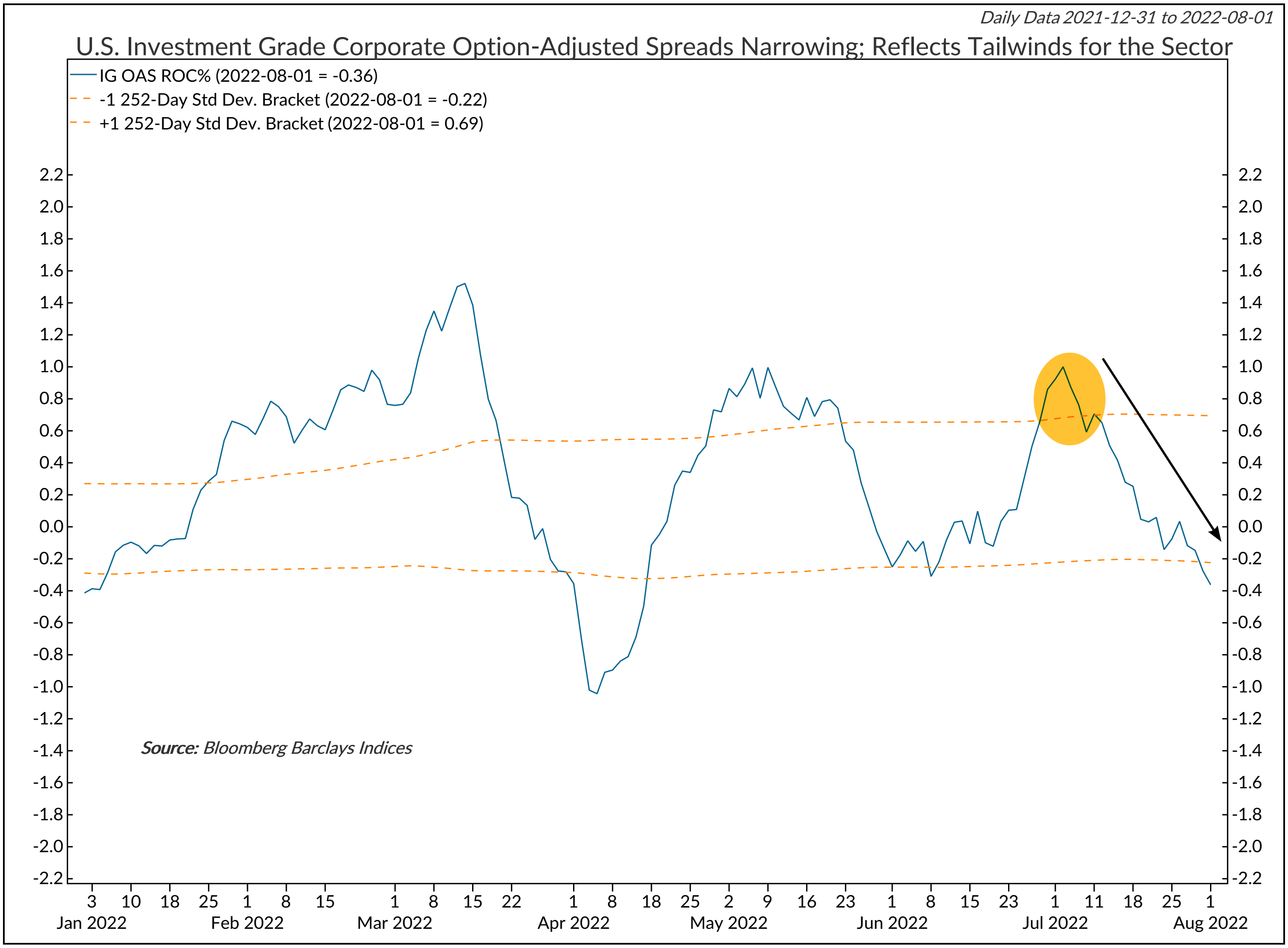
Fixed Income Allocation Summary



Emerging Markets (UW)	↔
U.S. Floating Rate Notes (UW)	↓
U.S. High Yield (OW)	↑
International Investment Grade (OW)	↓
U.S. Investment Grade Corporate (OW)	↑
U.S. Long-Term Treasury (UW)	↓
U.S. Mortgage Backed Securities (OW)	↓
Cash	↔
Treasury Inflation-Protected Securities (OW)	↑

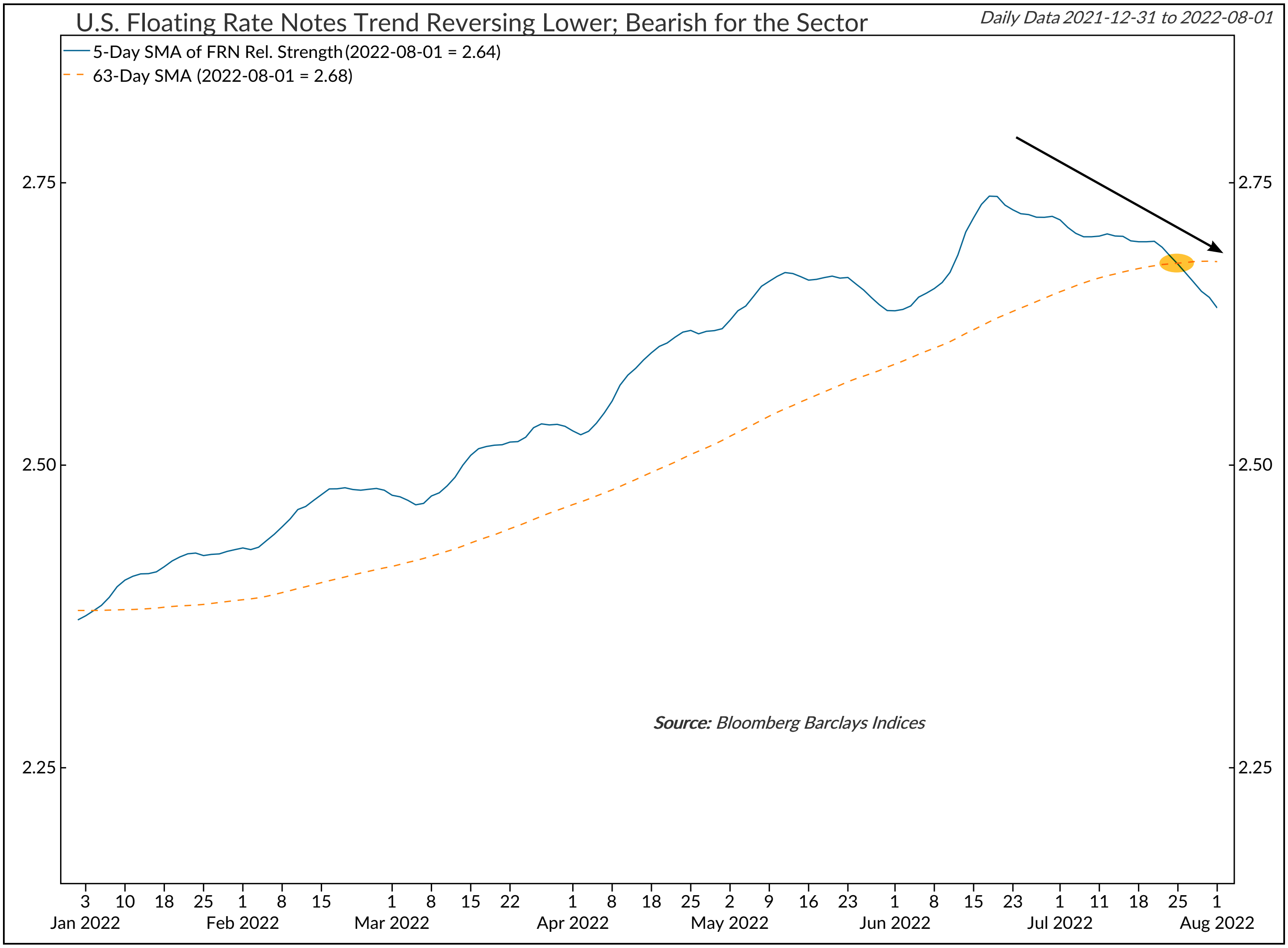
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

- The U.S. Investment Grade Corporate bond sector jumped to significantly higher than benchmark allocation. Investment Grade option-adjusted spreads (OAS) have narrowed, which supports an above-average allocation for the sector (chart at bottom).
- Treasury Inflation-Protected Securities (TIPS) is now above benchmark allocation. Although the sector has become overbought, its trend has strengthened.
- International Investment Grade bonds' allocation declined, but it remains above benchmark. A receding VIX and falling U.S. swap rates are not bullish for this defensive sector.
- U.S. Mortgage-Backed Securities' (MBS) is greater than benchmark allocation. Narrowing high yield OAS are not supportive of this defensive sector. However, two-thirds of this segment's indicators are bullish.



Customized version of Option-Adjusted Spread

- U.S. High Yield's allocation rose to above benchmark allocation. The absolute trend strengthened, breadth improved, U.S. small caps rallied, and the VIX receded. Only one of the segment's indicators is bearish.
- U.S. Long-Term Treasurys fell to below benchmark allocation. No indicators changed signals this month. The technical measures are still bearish.
- Emerging Markets (EM) remains below benchmark allocation. There was some indicator improvement as the absolute trend strengthened. All but one of the segment's indicators are bearish.
- Floating Rate Notes' (FRN) allocation plummeted to the largest underweight status as both trend (chart at bottom) and momentum indicators weakened. None of the sector's indicators are bullish.



Customized version of Technical Cross

NDR

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