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Fixed Income Allocation Strategy

APRIL 2021

Fixed Income Performance Update

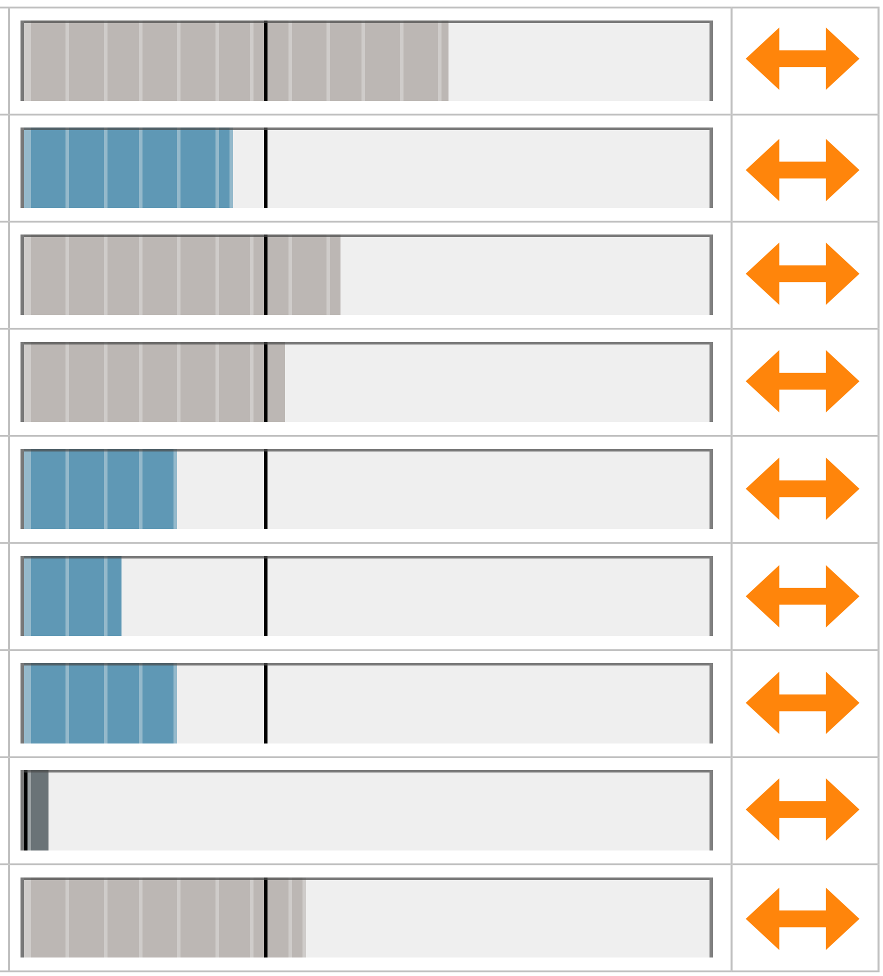
U.S. High Yield (JNK) was the only area within fixed income to produce a positive return for March, as it rose by more than 96 basis points (bps). JNK also was the top-performing area for the first quarter as it gained more than 60 bps. JNK has risen for five of the last six months.

Floating Rate Notes (FLOT), International Investment Grade Bonds (BNDX), and Cash (MINT) each declined by less than 10 bps last month. FLOT was the only other area within fixed income to produce a positive return for the first quarter. BNDX fell by over 200 bps for the first three months of the year. FLOT and MINT have risen for ten of the last twelve months.

Emerging Market bonds (EMB), U.S. Mortgage-Backed Securities (MBB), and Treasury Inflation-Protected Securities (TIP) all dropped by less than 100 bps in March. EMB has fallen for three straight months and declined by almost 550 bps during that time. TIP and MBB suffered negative returns during February and March. Both areas fell over 120 bps for the first quarter.

Fixed Income Allocation Summary

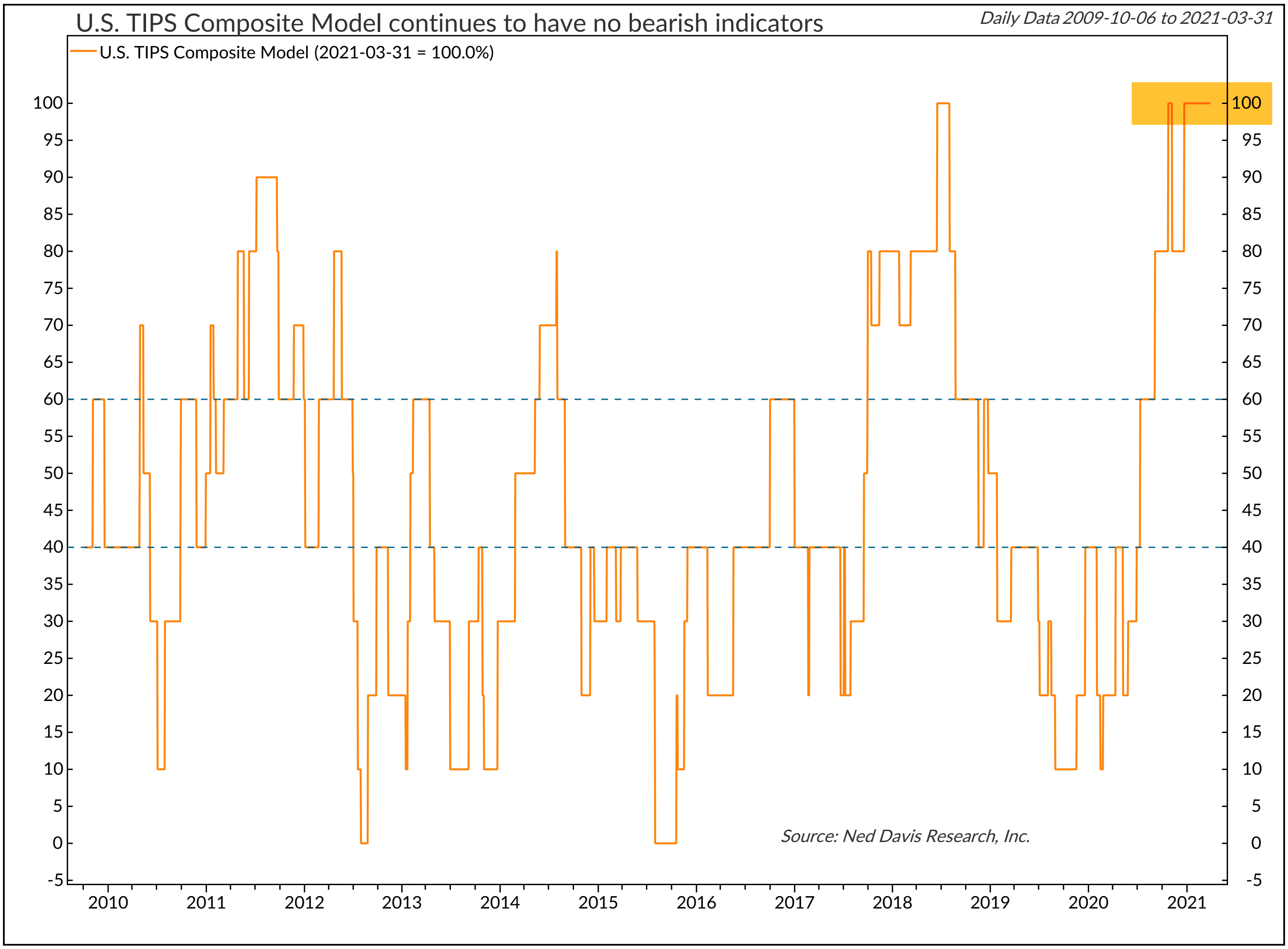
Sector
Emerging Markets
U.S. Floating Rate Notes
U.S. High Yield
International Investment Grade
U.S. Investment Grade Corporate
U.S. Long-Term Treasury
U.S. Mortgage Backed Securities
Cash
Treasury Inflation-Protected Securities



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.

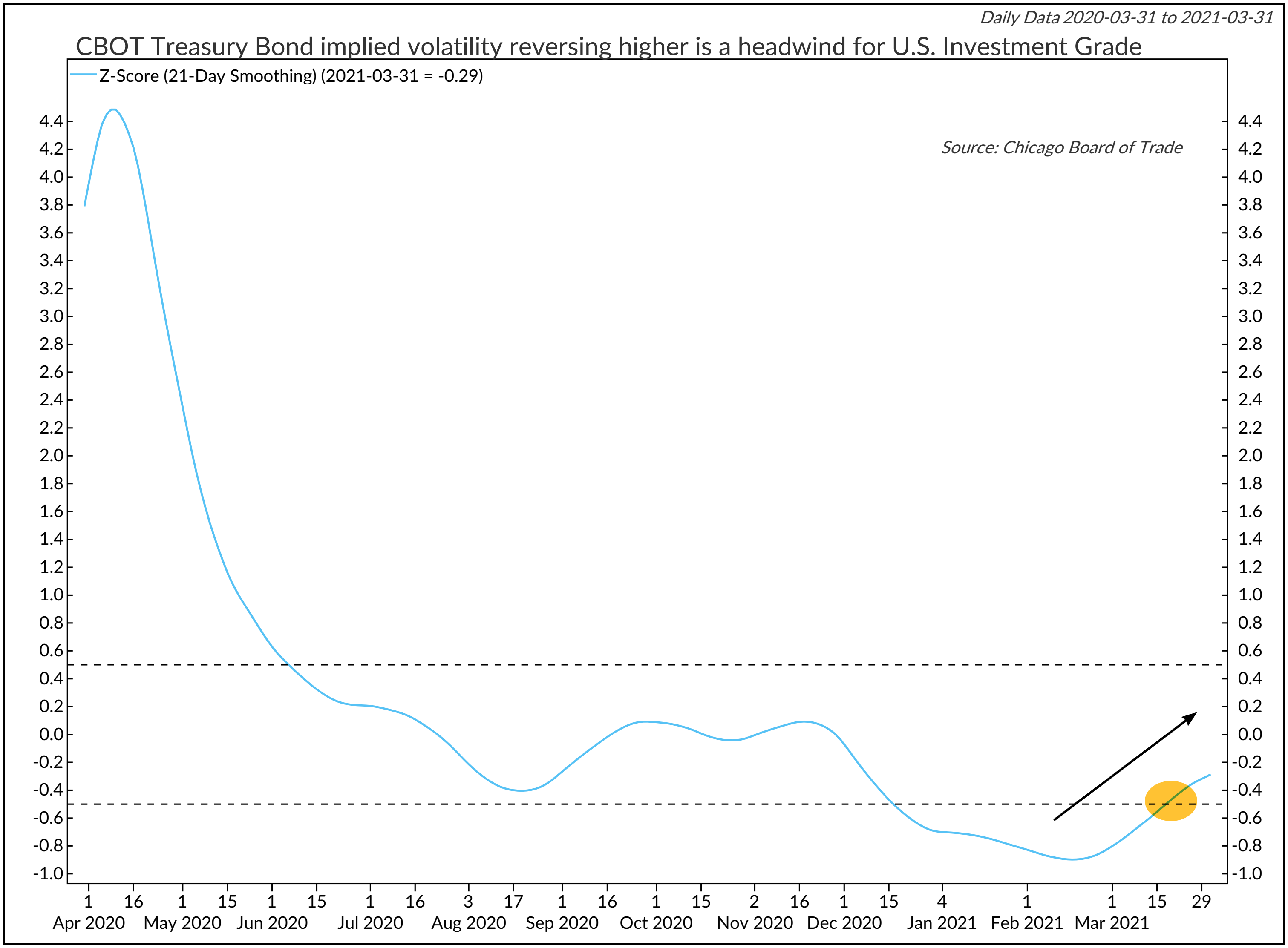
U.S. Investment Grade (LQD) and U.S. Long-Term Treasurys (TLT) both plummeted by over 145 bps last month. TLT and LQD have declined for six of the last eight months. TLT fell by almost 14% for the first quarter and has been the weakest sector in five of the last six months.

- The turnover-reduction algorithm threshold was not breached, so no trades were recommended for this month.
- Emerging Markets (EM) remains more than 1,000 bps overweight. An Emerging Market equity momentum indicator flipped from bullish to bearish.
- U.S. High Yield is greater than 400 bps overweight. A high yield option-adjusted spread indicator has started to reverse higher, indicating increased risk for the sector.
- Treasury Inflation-Protected Securities is greater than 200 bps overweight. No indicators changed signals this month. All of the sector's indicators are bullish (chart at bottom).
- Cash has over 50 bps in allocation this month.



Customized version of ISBM1_TIPS_COMP

- Floating Rate Notes continues to be more than 100 bps underweight. However, all of the sector's indicators remain bullish.
- The U.S. Investment Grade Corporate bonds sector's allocation is greater than 400 bps below benchmark. A volatility indicator (chart at bottom) flipped from bullish to bearish. All but one of the sector's measures are bearish.
- U.S. Mortgage Backed Securities' (MBS) is more than 450 bps underweight. No indicators changed signals this month.
- U.S. Long-Term Treasurys' allocation is greater than 700 bps below benchmark. A Citi Economic Surprise Index indicator exited its bullish reading on the sector. None of the sector's indicators possess a bullish reading.



Customized version of ISBM1_IG_CBOT_Z

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