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Dynamic Allocation Strategy

APRIL 2021

Macro/Market Update

Global economic activity grew at a robust pace in February, according to the latest Purchasing Managers' Index (PMI) readings. The global composite PMI, which includes both the services and manufacturing sectors, rose 0.9 points to 53.2. It was the first gain in four months and its second-highest level since August 2018. The latest reading in the composite is historically consistent with 3.2% annual global real GDP growth, above its 10-year average.

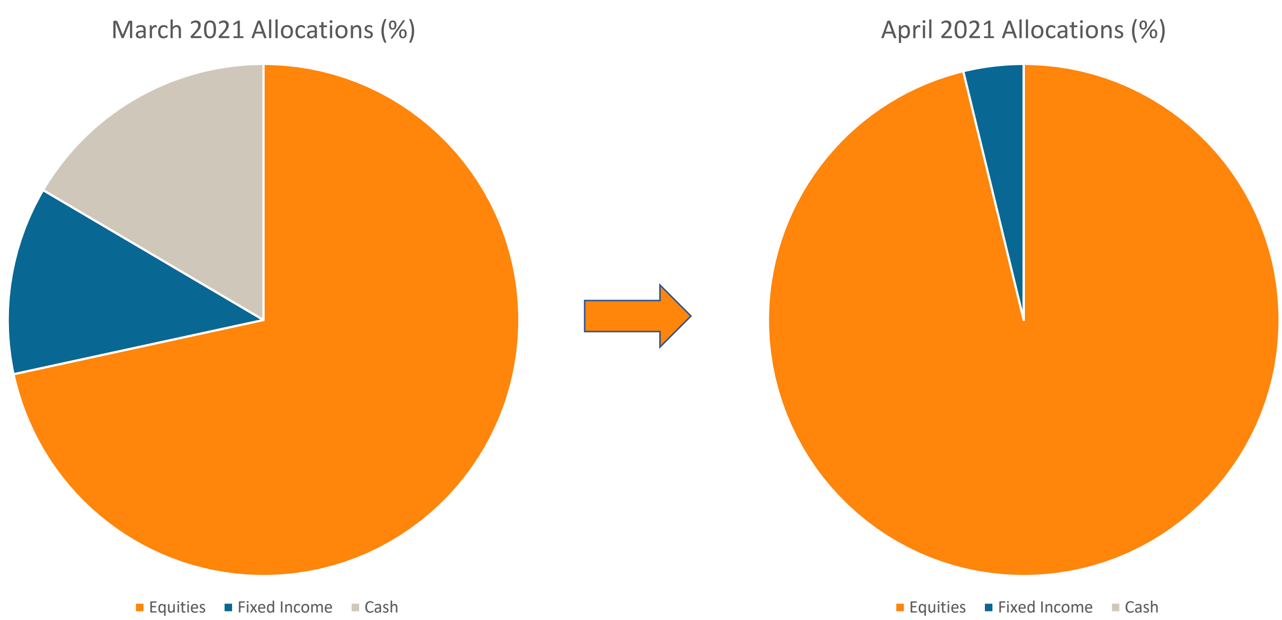
Although the services sector has consistently lagged manufacturing during the pandemic, the sector showed some positive signs in February. The global services PMI jumped 1.2 points to 52.8, a four-month high. Output should improve in the coming months, as new orders grew at the fastest pace in over a year.

Amid supply chain disruptions, higher commodity prices, and a resumption in demand, global price pressures continued to build in February. The global composite input price index surged to its highest level since September 2008, while the output price index jumped to the highest since records began in 2009.

The Citigroup Economic Surprise Index for developed economies persists at historically elevated levels, a condition typically associated with strong equity market performance.

During March, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by more than 464 basis points (bps). Stocks have outpaced bonds for ten of the last twelve months. The global magnitude of the stock market rally has reenergized the long-term bull market, which started in 2009. However, there are risks associated with optimistic sentiment, elevated valuations, and rising interest rates.

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 dramatically increased equity allocation to more than 95%.
- The fixed income allocation plummeted to under 5%.
- Cash fell from more than 16% allocation to no weighting.
- All six top-level indicators favor equities over fixed income (table, below).
- The composite PMI breadth indicator and global equity market participation indicator produced new signals favoring equities.
- The global stock/bond relative strength indicator continues to produce readings near its all-time highs (chart, bottom).

Top Level Factors

Indicator	Current Signal (Red = New Signal)	Comment
Equities/Fixed Income Relative Strength (indicator receives a heavier weighting)	Favors Equities	The relative strength ratio continues to be more than 17% above its one-year moving average, near the highest reading in the indicator's twenty-year history.
Global Market Breadth	Favors Equities	This indicator now favors equities. 58% of global equity markets are trading above their 50-day moving average.
OECD Leading Indicator	Favors Equities	The four-week change in the OECD Composite Leading Indicator (CLI) is still positive after hitting an all-time high during August.
PMI Breadth Factor	Favors Equities	This indicator now favors equities as the four-week change in economies with expanding manufacturing industries returned to positive territory. The PMI indicator's signals have whipsawed over the last five months.
Baltic Exchange Dry Index	Favors Equities	During March, the Baltic Dry Index was more than 38% above its 13-week moving average. It was the indicator's highest reading since last summer.
Central Bank Policy	Favors Equities	In order to favor fixed income, the global short-term rates indicator requires a significant drop in global short-term rates.

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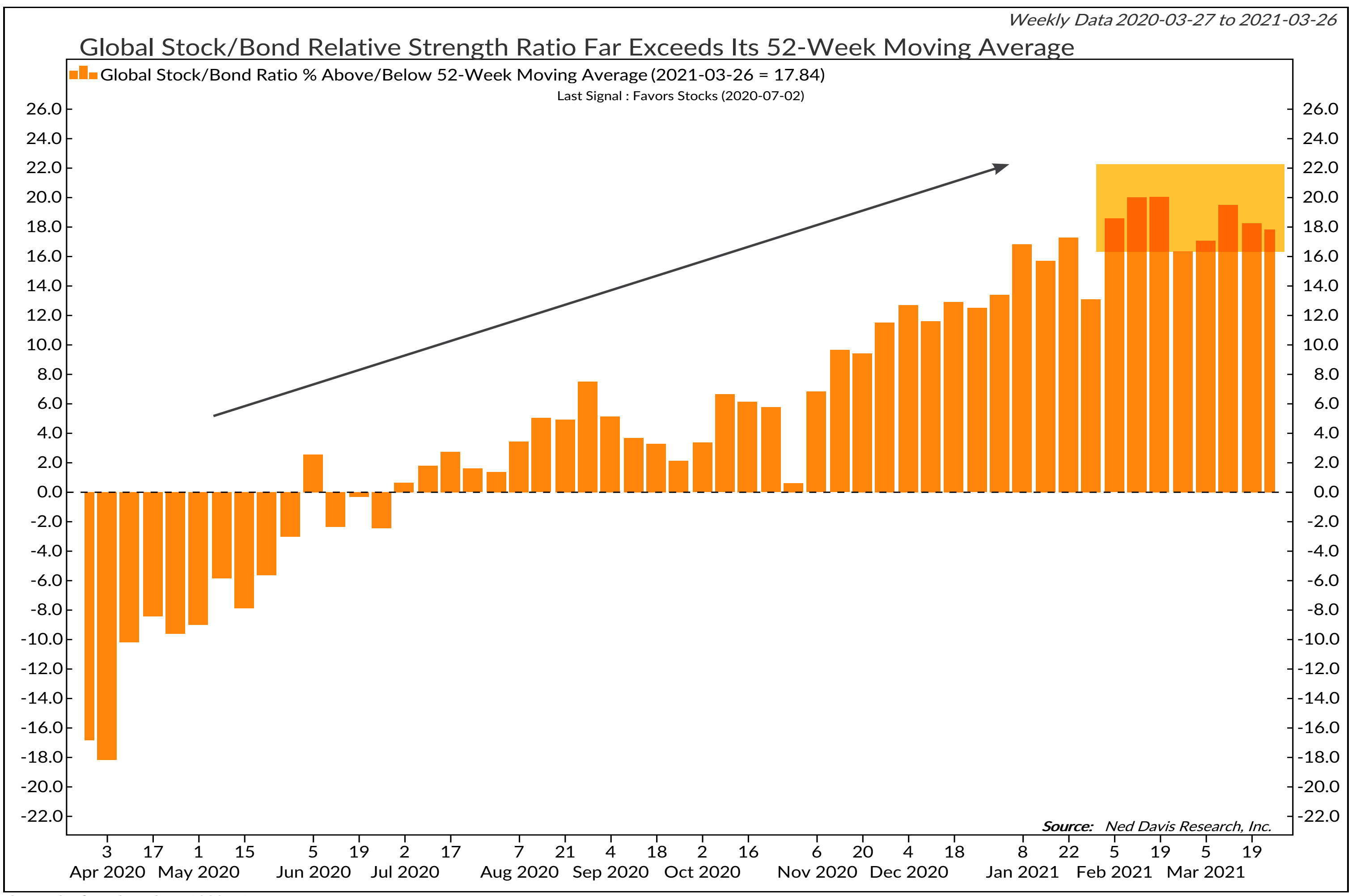

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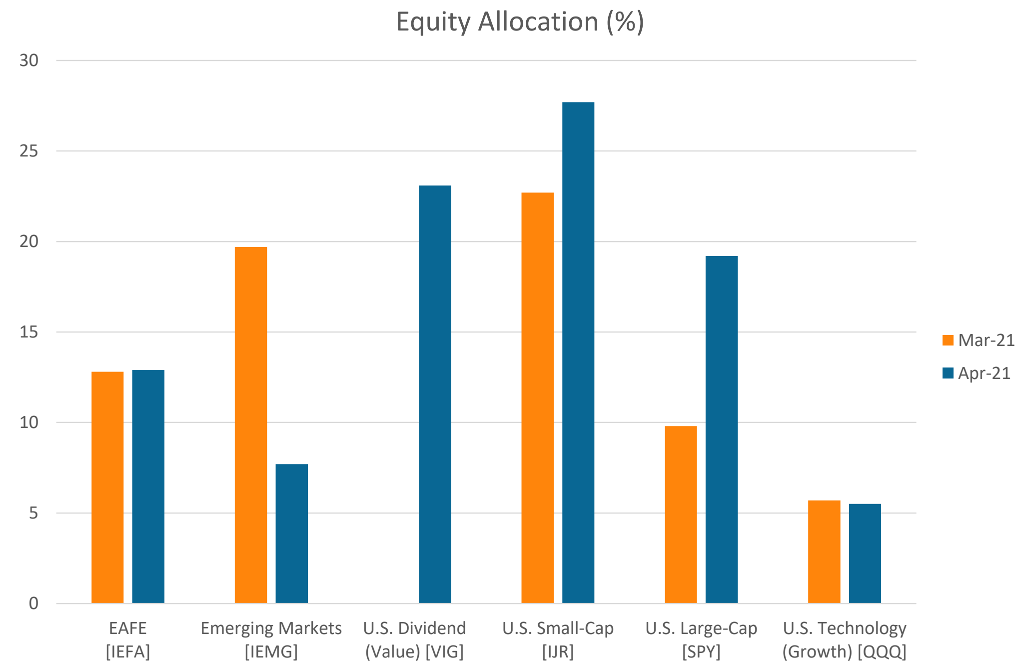
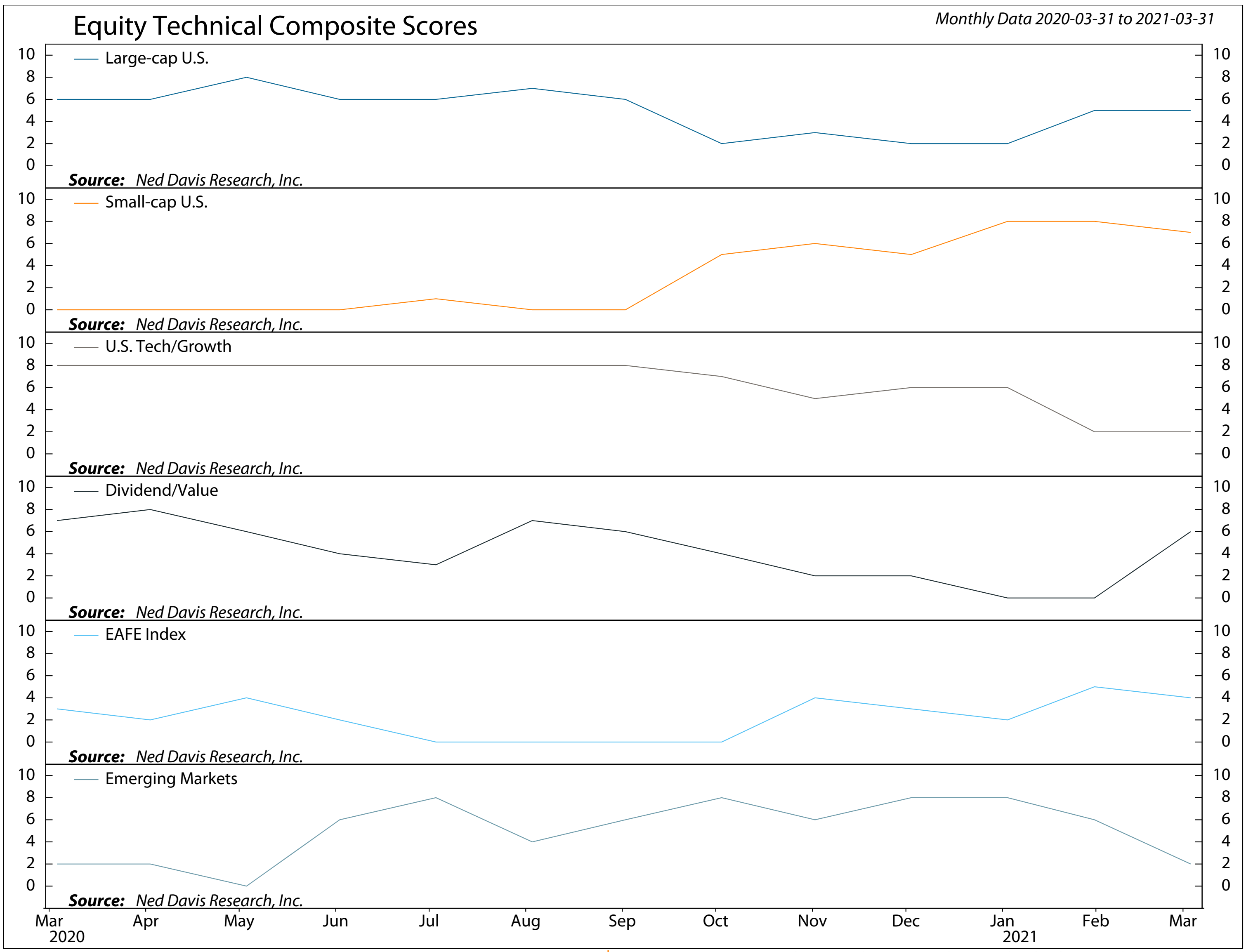
Equity Allocation Summary

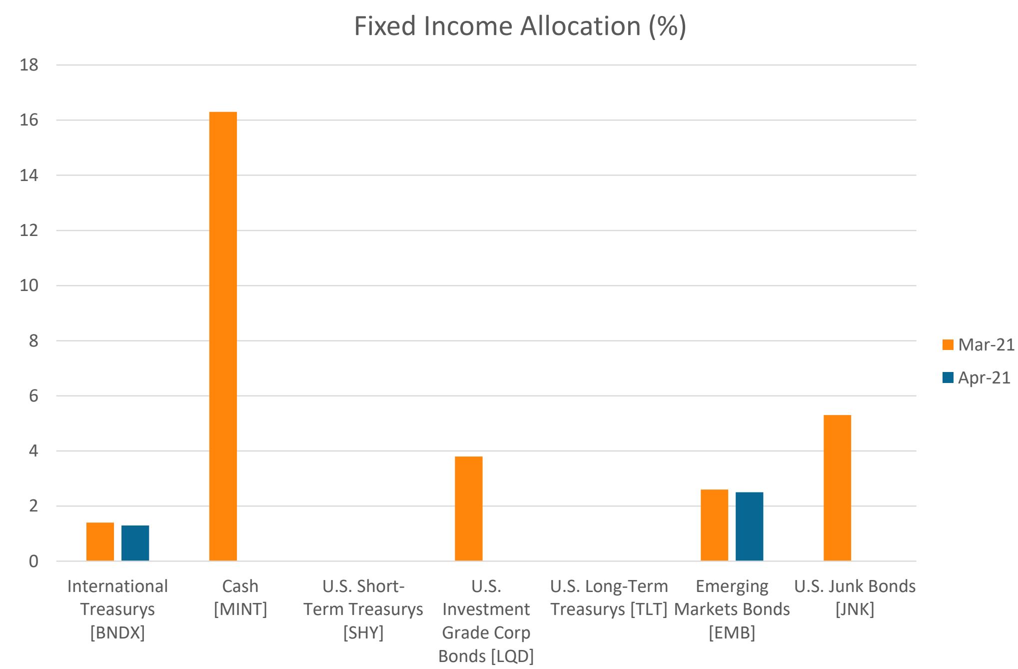
During March, U.S. Value [Dividends] (VIG), U.S. Large Caps (SPY), and U.S. Small Caps (IJR) all gained more than 350 basis points. It was the best month for VIG and SPY since November. IJR has risen for six consecutive months. Each of these areas received greater than 19% allocation for April due to their elevated technical composite scores. Europe, Australasia, and the Far East [EAFE] (IEFA) and U.S. Growth [Technology] (QQQ) both produced positive returns last month. Emerging Markets (IEMG) was the only area within the equities decision to decline. It was IEMG's second monthly decline since March 2020. IEFA, QQQ, and IEMG each received more than 5% weighting.

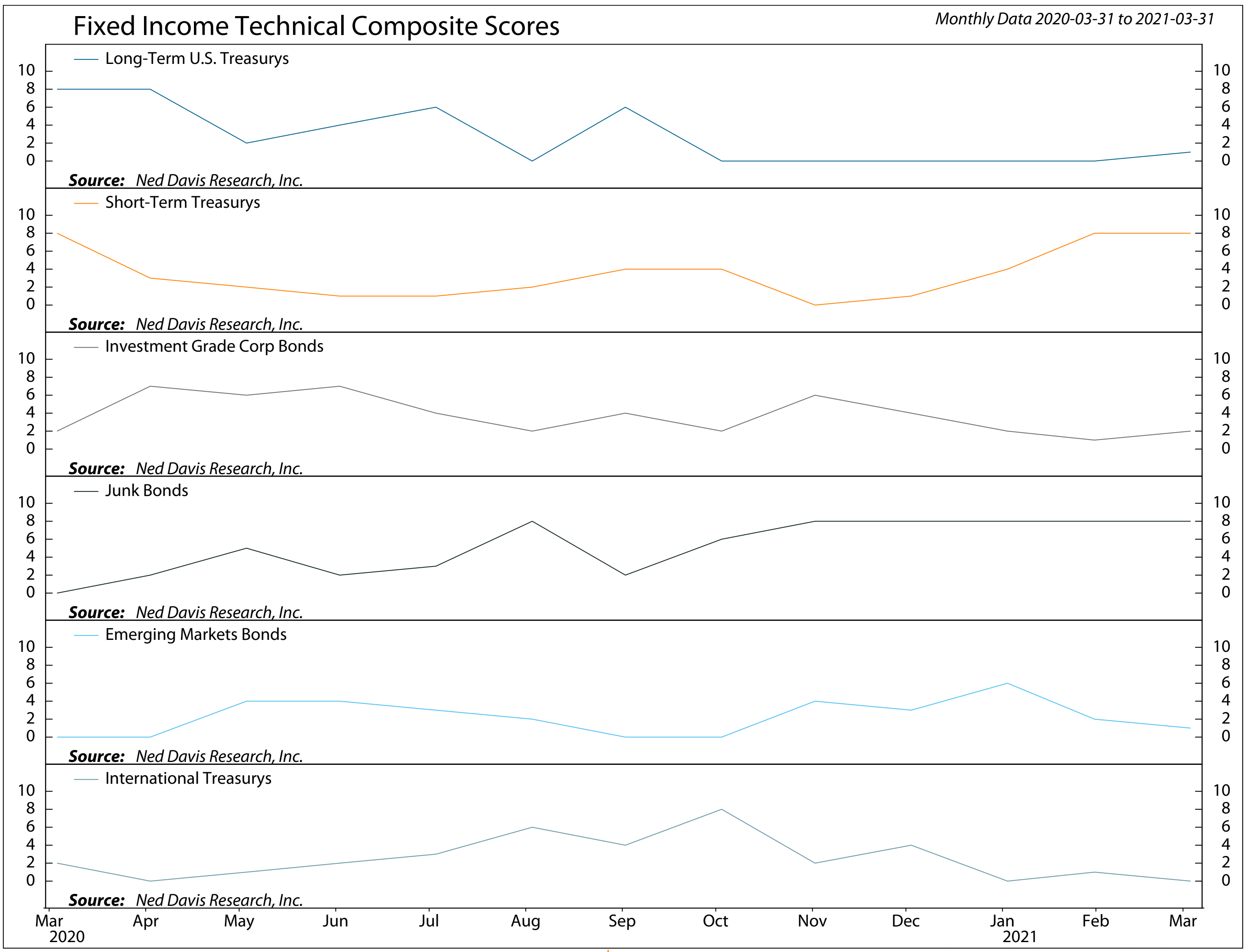




Fixed Income Allocation Summary

Due to all six indicators within the top-level allocation model favoring stocks, there is little fixed income allocation. U.S. High Yield (JNK) was the only area in this space to produce a positive return in March. U.S. Short-Term Treasurys (SHY), Cash (MINT), International Investment Grade Bonds (BNDX), and Emerging Market bonds (EMB) all declined by less than 100 bps. U.S. Investment Grade (LQD) and U.S. Long-Term Treasurys (TLT) both dropped by more than 145 bps and have fallen for five of the last seven months. Only EMB and BNDX received allocations as the model's turnover-reduction mechanism did not trade those areas.





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