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NED DAVIS RESEARCH

Dynamic Allocation Strategy

SEPTEMBER 2022

Macro/Market Update

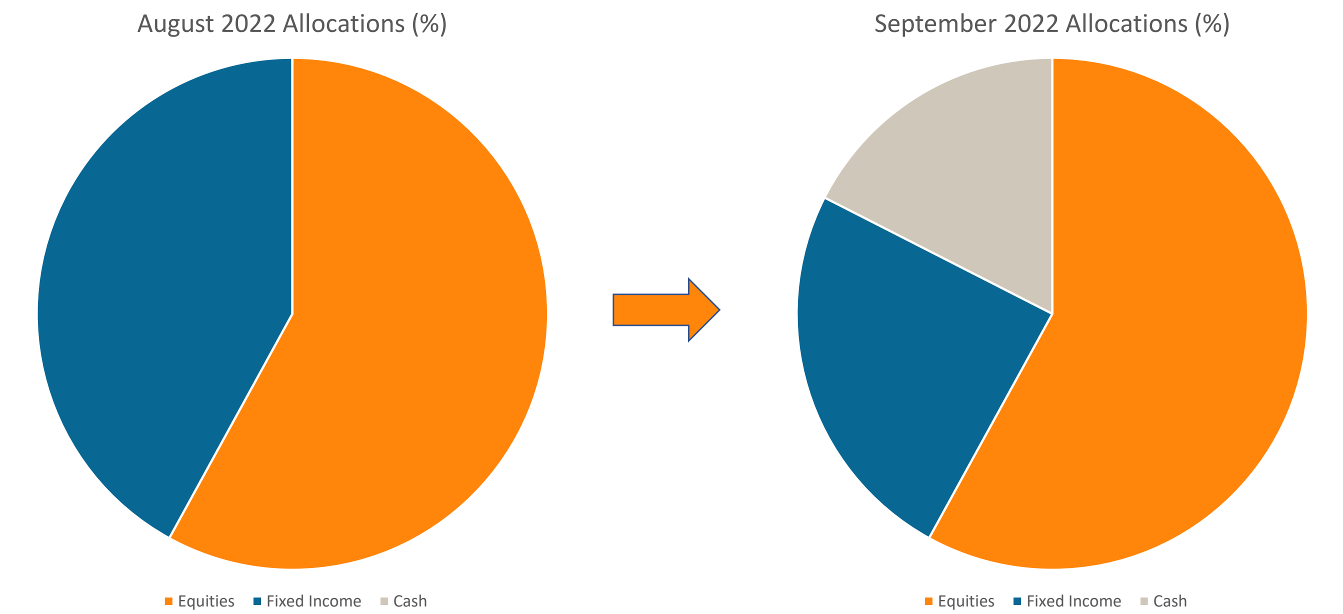
Global economic growth slowed markedly in July, as the global composite Purchasing Managers' Index (PMI) plunged 2.7 points to 50.8, the lowest level since June 2020. The latest reading is on the cusp of stagnation and consistent with just 1.3% annual real Gross Domestic Product (GDP) growth. Although the weakening in activity was broad-based across the globe, developed economies showed the most marked deterioration.

Forward-looking indicators point to further deterioration in global economic activity in the coming months. New order growth slowed to a five-month low, while the future output index plunged to its lowest point since September 2020.

The most favorable development, however, was that inflation continued to edge lower in response to the weakening global demand. Supply chain issues continued to improve, which bodes well for easing inflation. Supplier delivery times lengthened at the slowest pace since November 2020, with almost two-thirds of economies reporting improving conditions. Also, the global composite input price index fell for a third straight month to 67.7, a five-month low.

During August, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays Global Aggregate Bond Index by over 30 basis points (bps). Global stocks have trailed bonds for five of the first eight months in 2022. We are closely watching copper, as it strongly reflects economic conditions. Now that the ACWI has returned to an oversold condition with the DSI Global Sentiment Composite indicating excessive pessimism, a continuing copper recovery would suggest that the recession fears have been overblown.

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 maintained its equity allocation this month.
- Weight shifted from fixed income into cash.
- The equity allocation is slightly below 60%, the fixed income allocation is less than 25%, and cash is greater than 17%.
- No indicators changed signals this month.
- The technicals favor equities, while the macro indicators support fixed income (table below).
- External indicators, such as the Baltic Dry Index (chart below), produced their worst readings since the first half of 2020.
- Although the internal indicators are still positive, they have started to roll over.

Top Level Factors

Indicator	Current Signal (Red = New Signal)	Comment
Equities/Fixed Income Relative Strength (indicator receives a heavier weighting)	Favors Equities	The equities/fixed income relative strength ratio is more than 2% above its one-year moving average, but that is half of what the reading was last week .
Global Equity Market Breadth	Favors Equities	More than 70% of global equity markets are trading above their 50-day moving averages, but that is off the 91% reading from mid-August.
OECD Leading Indicator	Favors Fixed Income	The four-week change in the OECD Composite Leading Indicator (CLI) declined for a tenth straight month. The drop accelerated at its fastest rate since 2020.
PMI Breadth Factor	Favors Fixed Income	The four-week change in economies with expanding manufacturing industries declined to its lowest level since March 2020.
Baltic Exchange Dry Index	Favors Fixed Income	Entering this month, the Baltic Dry index (BDI) was more than 45% below its 13-week moving average. It was the widest gap between the BDI and its intermediate-term trend since early 2020.
Central Bank Policy	Favors Equities	To favor fixed income, this indicator requires a significant drop in global short-term rates.

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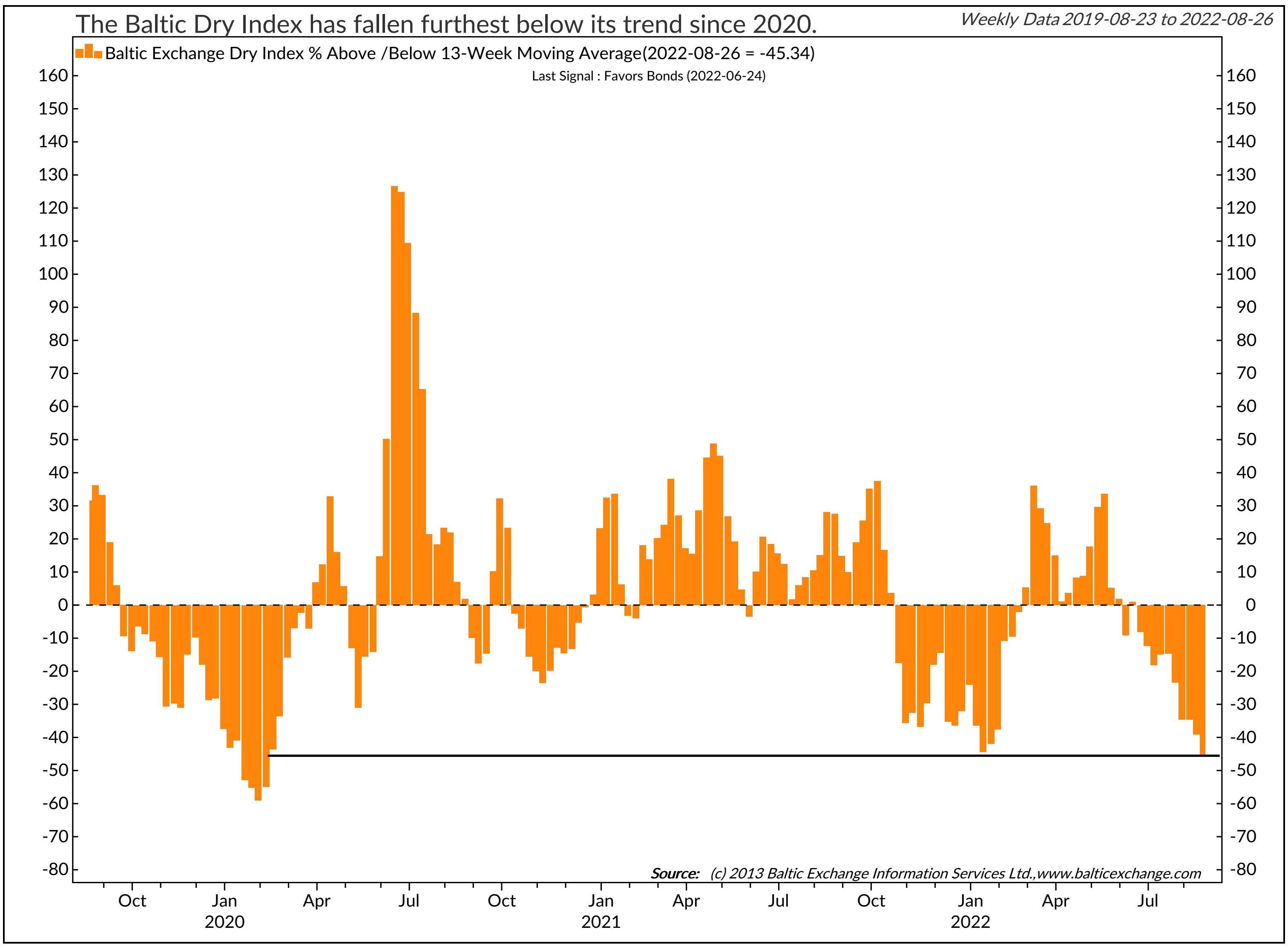

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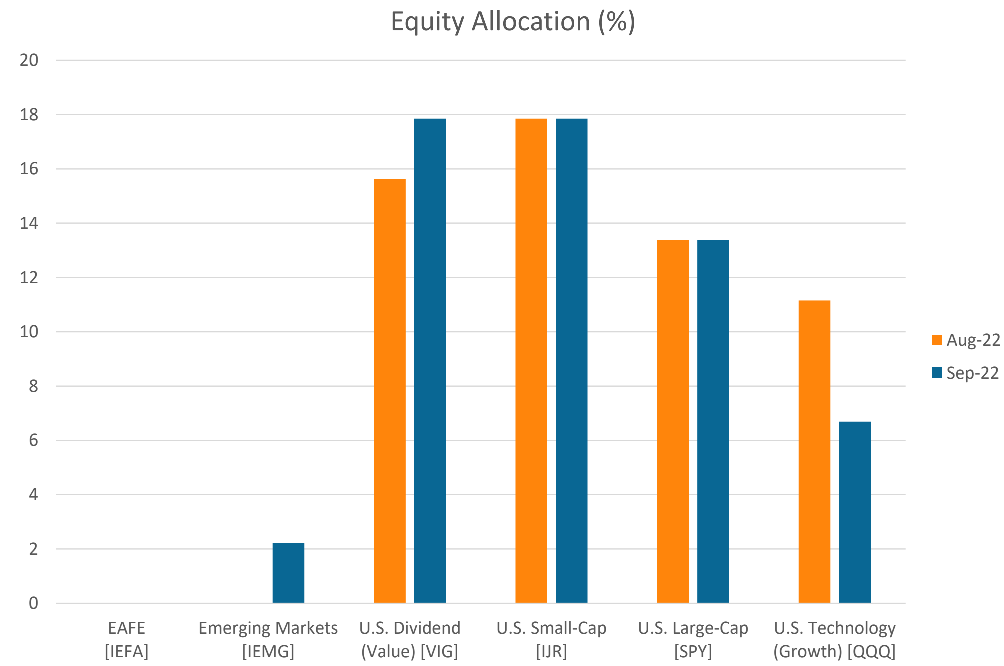
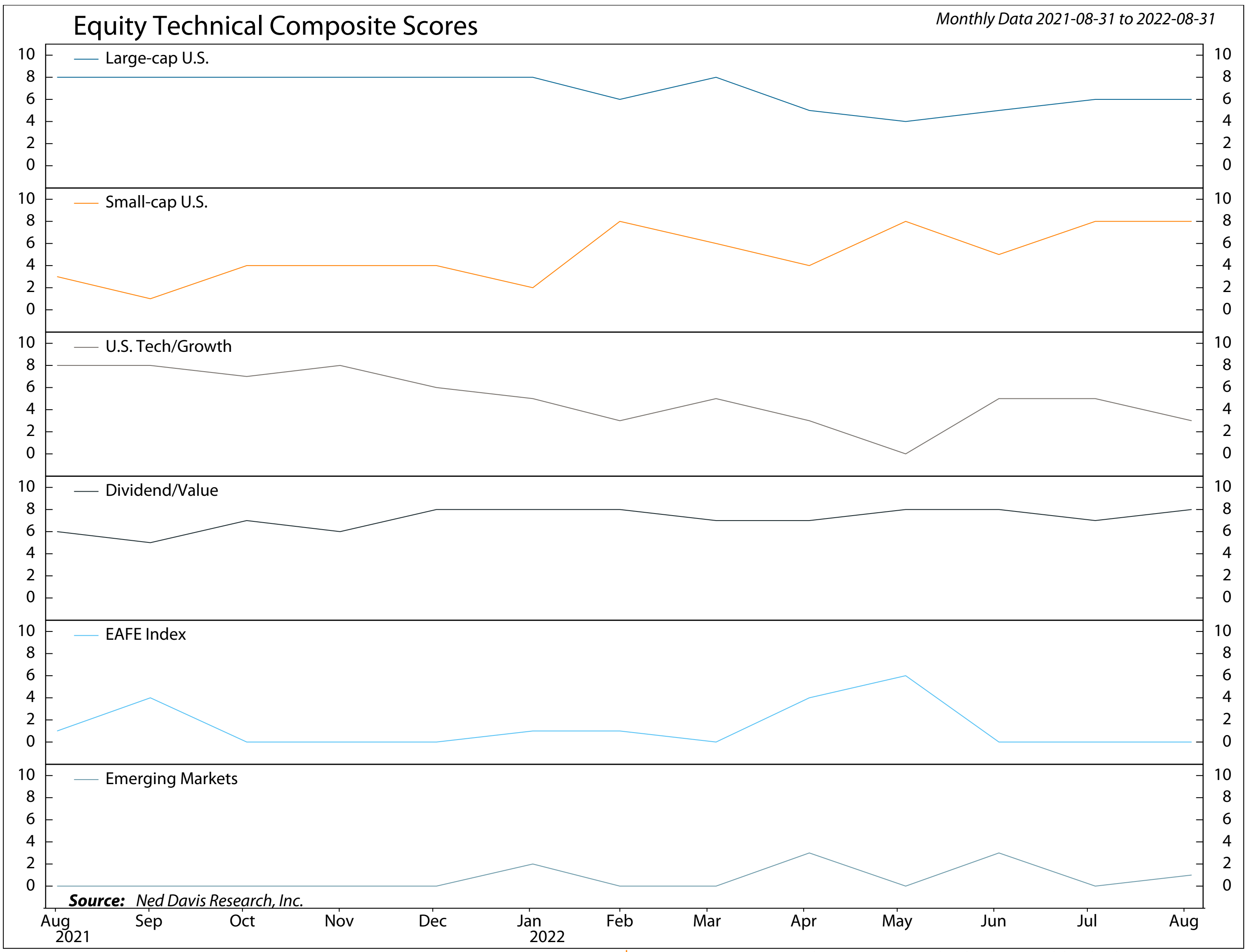
Equity Allocation Summary

After not declining during July, all equity areas dropped by more than 100 bps during August. Emerging Markets (IEMG) fell by less than 200 bps. U.S. Large Caps (SPY), U.S. Small Caps (IJR), and U.S. Value [Dividends] (VIG) declined by more than 340 bps. U.S. Growth [Technology] (QQQ) dropped over 500 bps, while Europe, Australasia, and the Far East [EAFE] (IEFA) plummeted over 600 bps. VIG, SPY, and IJR each received more than 10% allocation for September due to their technical composite scores (image at bottom).





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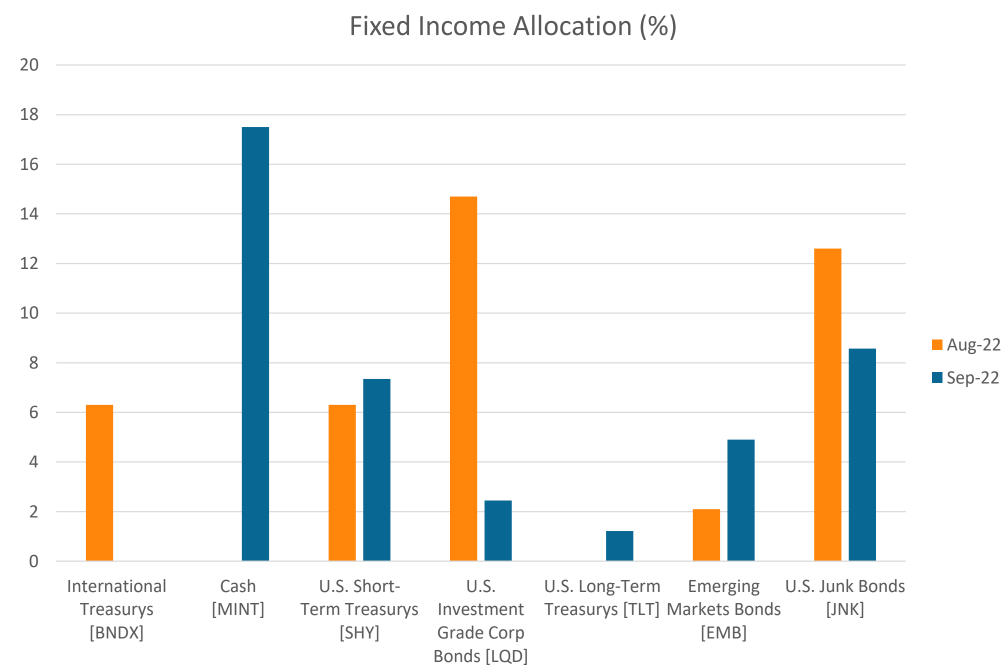
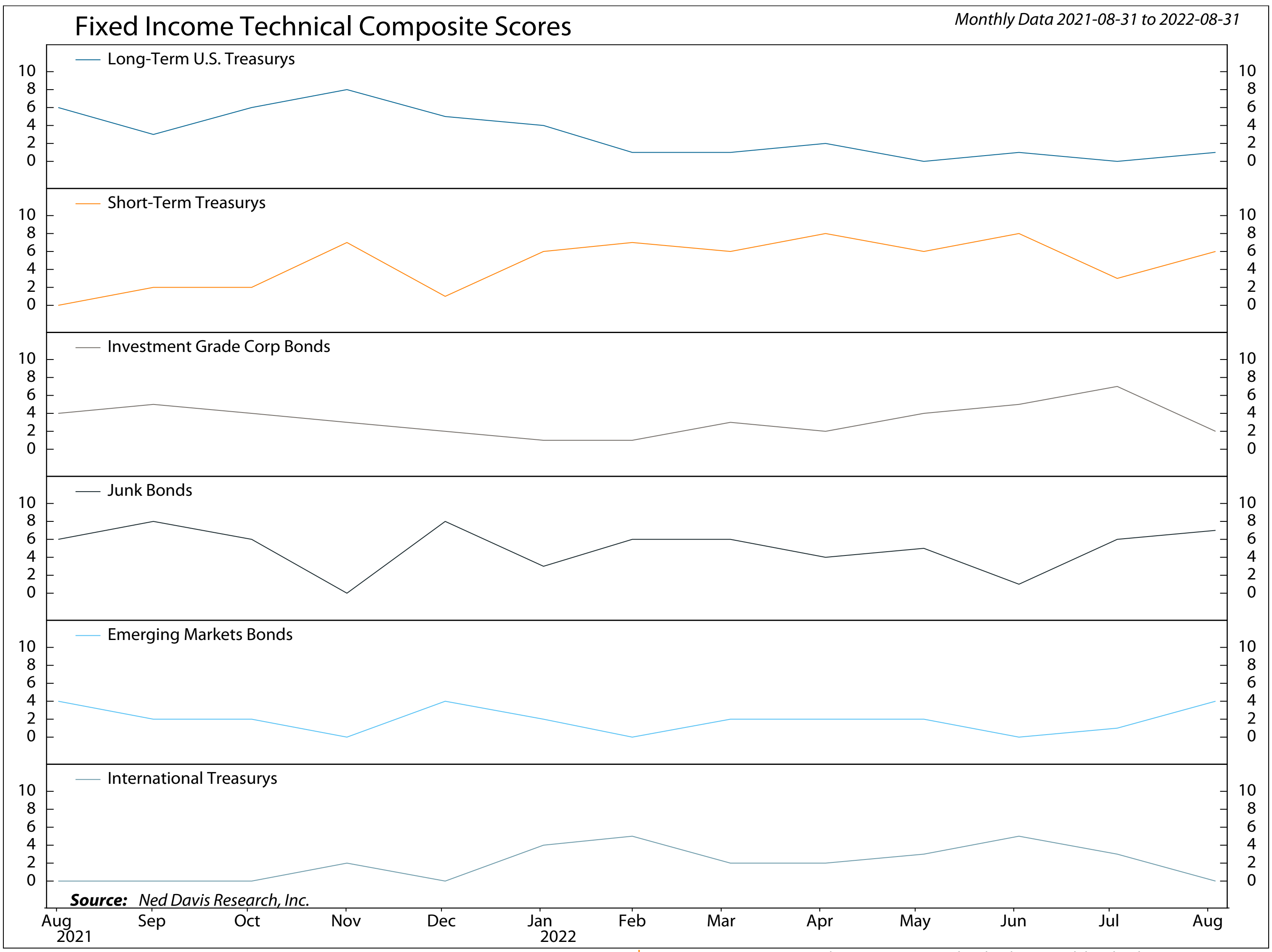
Fixed Income Allocation Summary

Performance within fixed income continued to follow its equity counterpart, as all the fixed income segments declined last month. U.S. Short-Term Treasurys fell by less than 100 bps. Emerging Market bonds (EMB) dropped over 250 bps. U.S. High Yield (JNK), International Investment Grade (BNDX), U.S. Investment Grade (LQD), and U.S. Long-Term Treasurys (TLT) all declined over 350 bps. SHY, JNK, and cash each received more than 7% allocation for September (image at bottom).





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