Dynamic Allocation Strategy

JANUARY 2021

Macro/Market Update

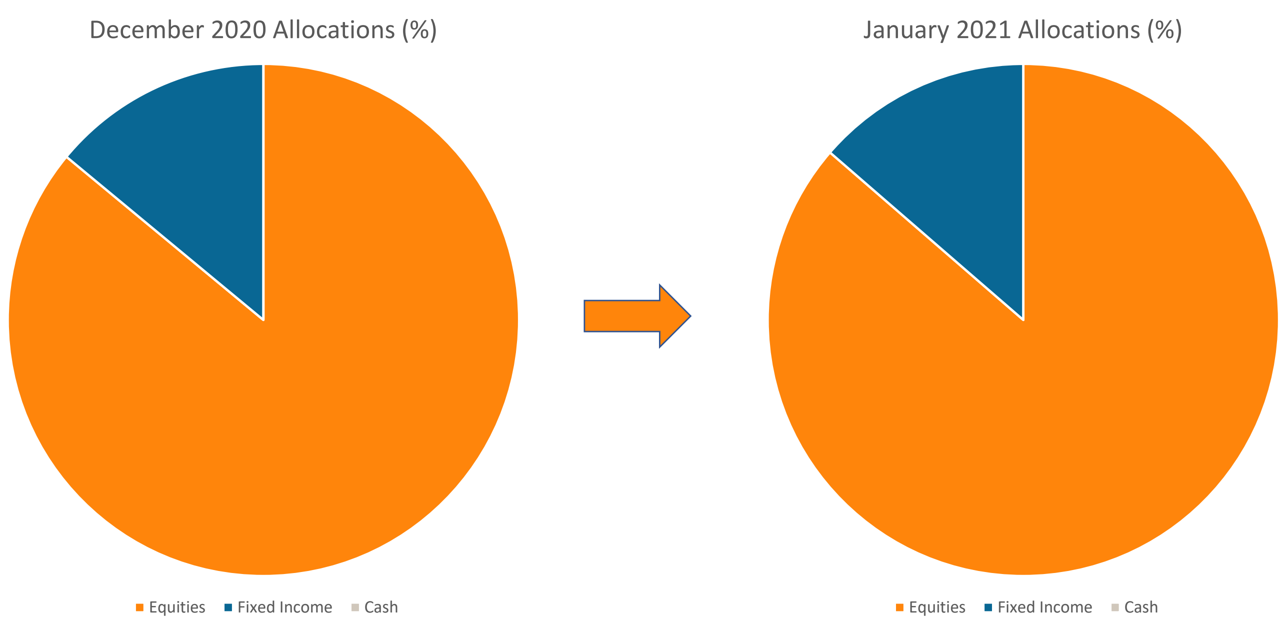
The global economy felt the impact from second and third waves of COVID-19 in November, based on the global Purchasing Manager's Index (PMI). In aggregate, the damage has been minor and attributable entirely to the services sector.

The global composite PMI (services and manufacturing) edged down 0.2 points to 53.1 in November. It was the first decline in the index since the lockdowns in April. However, it was still the fifth straight month of expansion, with the latest reading just slightly below the index's long-term average. The latest reading in the composite is consistent with 2.9% annual global GDP growth, indicating that the recovery firmly remains intact.

Forward-looking indicators point to more upside in the coming months. New orders grew at its fastest pace since January 2018. Additionally, new orders exceeded inventories by the most since early 2011, indicating manufacturing gains in the near future.

During December, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by more than 333 basis points (bps). For the year, stocks outpaced bonds by over 760 bps. Entering this year, the momentum is with equities, which are supported by strong market participation (breadth), expectations that a vaccine will curb COVID-19, and accommodative central banks helping to revive the global economy.

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

Asset Allocation Summary

- The model did not trade this month as the turnover reduction algorithm threshold was not breached
- At 86%, the equities allocation is significantly above the benchmark
- The fixed income allocation is 14% and cash continues to receive zero weight
- All six top-level indicators favor equities over fixed income (table, below)
- The equities/fixed income relative strength ratio improved to 13.4% above its one-year moving average, its highest spread since 2013
- Global equity market participation (breadth) now favors equities. At the end of October, approximately 6% of global equity markets were above their 50-day moving averages. Now, 94% of markets reside above their intermediate-term
- The OECD CLI measure continues to recommend equities. The indicator remains positive after registering an all-time high in August
- The PMI breadth indicator supports an equity allocation as the four-week change in countries with expanding manufacturing industries continues to be positive after recently reaching an all-time high
- The Baltic Dry Index measure now favors equities. After reaching an all-time high in late June, global shipping rates' deviation from trend fell to more than 23% below its moving average in mid-November. However, this indicator has improved over recent weeks to a level that favors equities (chart, below)
- The central bank policy indicator favors equities and requires a significant move in order to support fixed income

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 improved to 13.4% above its one-year moving average, its highest spread since 2013.
Global Market Breadth	Favors Equities	94% of global equity markets are trading above their 50-day moving average.
OECD Leading Indicator	Favors Equities	The four-week change in the OECD CLI is still positive after hitting an all-time high during August.
PMI Breadth Factor	Favors Equities	The four-week change in economies with expanding manufacturing industries remains positive after making an all-time high during the summer.
Baltic Exchange Dry Index	Favors Equities	The global shipping rates indicator now favors stocks. The Baltic Dry Index ended the year at more than 3% above its 13-week moving average. This indicator has rebounded from more than 23% below its trend in mid-November.
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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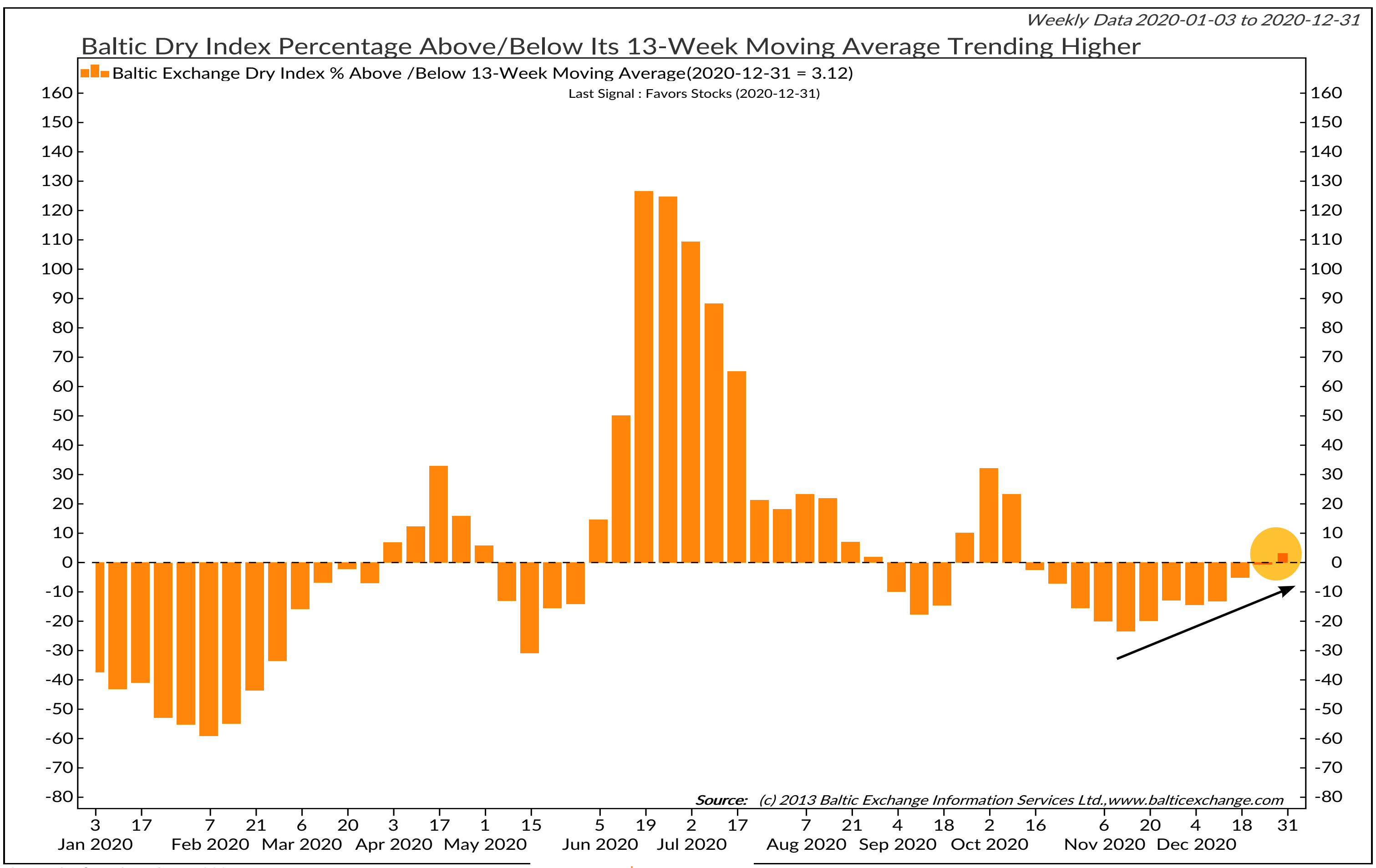

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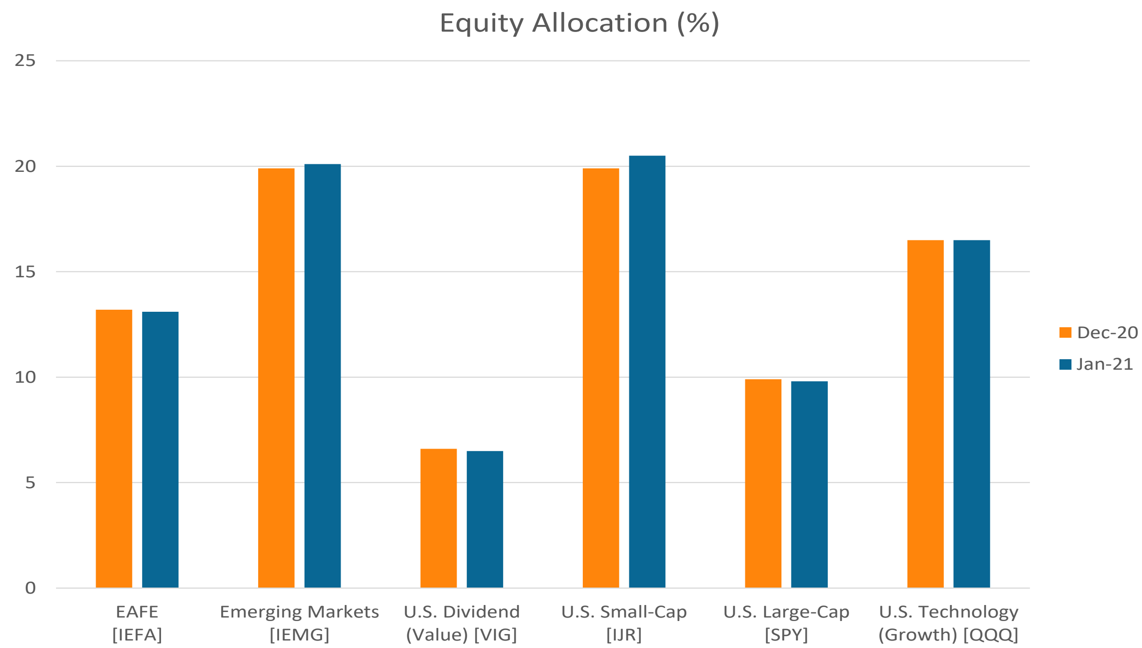
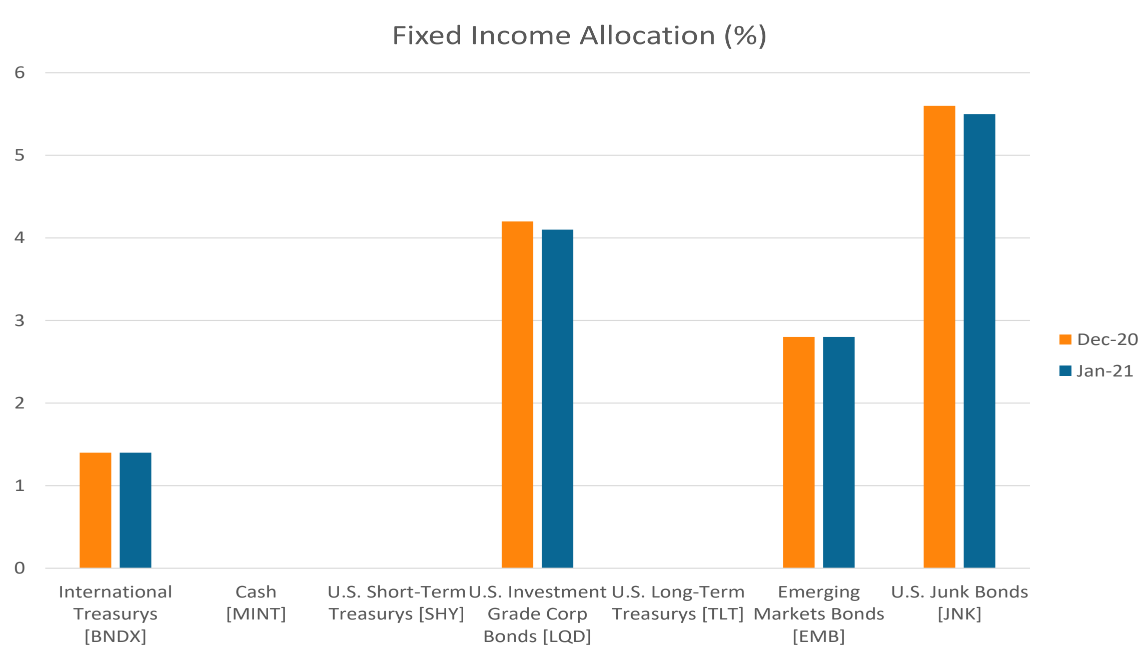
Equity Allocation Summary

Emerging Markets (IEMG), U.S. Technology (QQQ), and U.S. Small-caps (IJR) received more than half of the total allocation. All three areas have risen by more than 4.9% for each of the last two months. IEMG, QQQ, and IJR all increased by over 10% last year. Europe, Australasia, and the Far East [EAFE] (IEFA) received more than 10% allocation. IEFA has been the second-best performing area over the previous two months as it rose by almost 20%. U.S. Large-caps (SPY) and U.S. Dividends (VIG) each obtained more than 6% allocation. Both areas jumped more than 15% during 2020, but had the smallest gains during December.



Fixed Income Allocation Summary

U.S. High Yield (JNK) and Emerging Market bonds (EMB) were the top sectors within fixed income during December. Both JNK and EMB grew by more than 210 basis points (bps) last month and over 495 bps for the year. JNK is the only area to receive more than 5% allocation. U.S. Investment Grade (LQD) and International Investment Grade Bonds (BNDX) increased by less than 40 bps. LQD was the second-best sector last year as it grew by almost 11%. LQD received more than 4% weighting. U.S. Long-Term Treasurys (TLT) was the only area with negative returns for December. However, TLT was the top sector in 2020 as it jumped by more than 18%.



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