Dynamic Allocation Strategy

SEPTEMBER 2021

Macro/Market Update

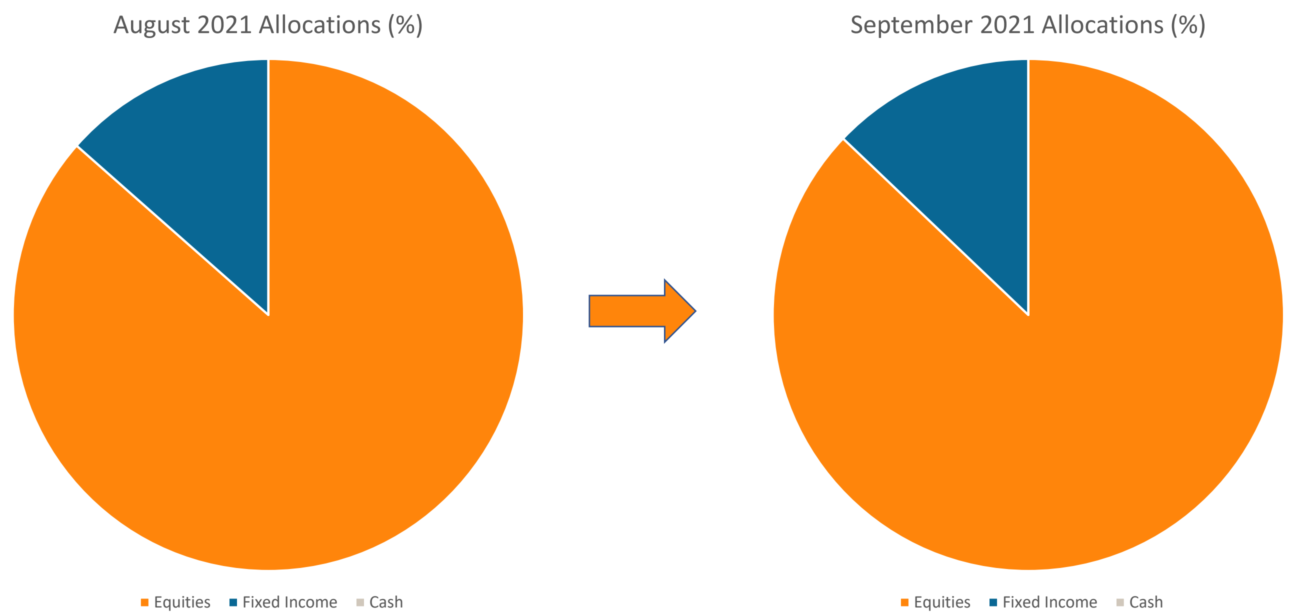
Global growth slowed modestly at the beginning of the third quarter, according to the latest global Purchasing Managers' Index (PMI) data. The composite PMI, a proxy for global economic growth, slipped 0.9 points to 55.7 in July, a four-month low. Despite the slowdown, the reading is still near its highest level in 11 years and consistent with a robust 4.7% annual rate in global Gross Domestic Product (GDP) growth.

Global manufacturing, in a V-shaped recovery since early in the pandemic, continued to exhibit strong growth in July. The global manufacturing PMI was little changed at 55.3 in July. This is down from a peak of 56.0 in May, but still near its highest level in over ten years.

The global services PMI fell for a second month, down 1.2 points to 56.3, a four-month low, but also well above the historical norm. New orders and employment indices exhibited slower but still strong growth. The exception was outstanding business, which expanded at its fastest pace since 2007, indicating that bottlenecks and shortages are also hindering growth in the services sector. Despite the Delta variant and supply chain issues, most global economic data remain broadly favorable.

During August, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by more than 250 basis points (bps). Stocks have outpaced bonds for nine of the last ten months. The global equity secular bull market persists as evidenced by the consistent outperformance of the Information Technology sector and the U.S. market. Conversely, commodity sectors, Emerging Markets, the United Kingdom, and Canada have been consistent underperformers during the secular bull market.

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 did not trade this month as the turnover reduction algorithm rebalance threshold was not breached.
- The equity allocation remains above 80%.
- The fixed income allocation continues to be less than 20%.
- Cash has no weighting within the model.
- The Purchasing Managers' Index (PMI) indicator measures the four-week point change of the percentage of economies with a PMI greater than 50 (expanding activity). A change greater than zero favors stocks, while a change less than zero favors bonds. The momentum indicator improved this month (chart, below) as India's contribution recovered following a one-month stint below 50. Alejandra Grindal, NDR Chief Economist, recently noted that India's economy has, "seen conditions improve due to a ramp-up in vaccinations."
- All six top-level indicators favor equities over fixed income (table, below).

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 remains at more than 10% above its one-year moving average. The spread reached an all-time high earlier this year.
Global Market Breadth	Favors Equities	78% of global equity markets are trading above their 50-day moving average. This was a strong improvement on the 52% reading last month.
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 one year ago.
PMI Breadth Factor	Favors Equities	This indicator now favors equities. The four-week change in economies with expanding manufacturing industries returned to a positive reading due to improvement from India.
Baltic Exchange Dry Index	Favors Equities	The Baltic Dry Index is more than 25% above its 13-week moving average, its highest month-end reading since April.
Central Bank Policy	Favors Equities	In order to favor fixed income, this indicator requires a significant drop in global short-term rates.

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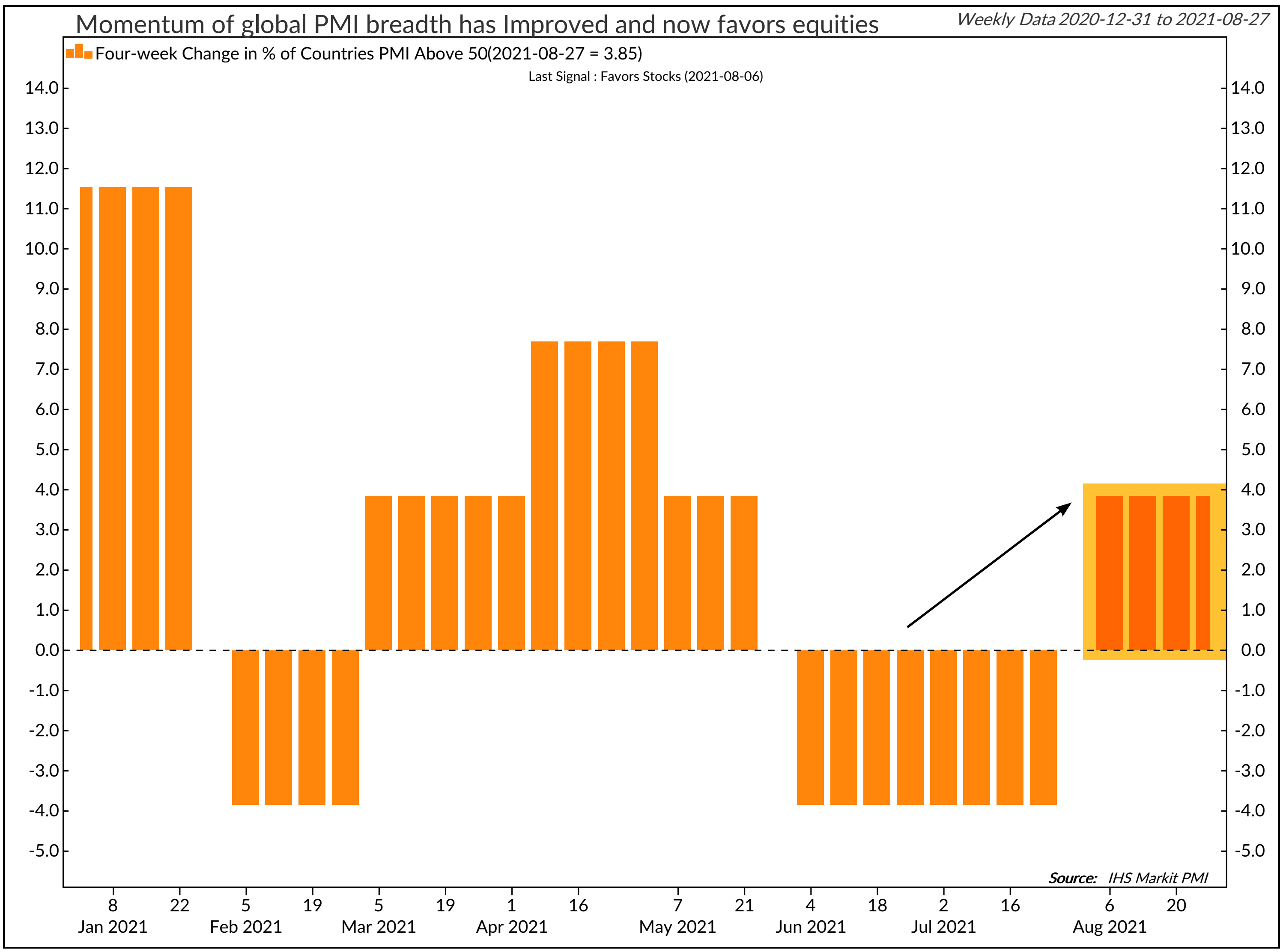

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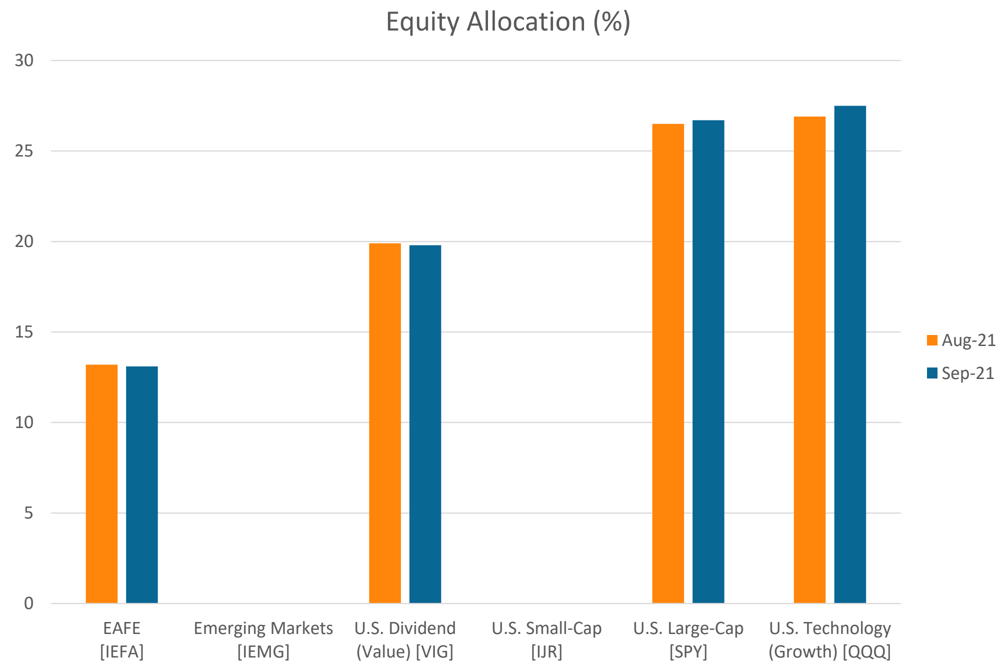
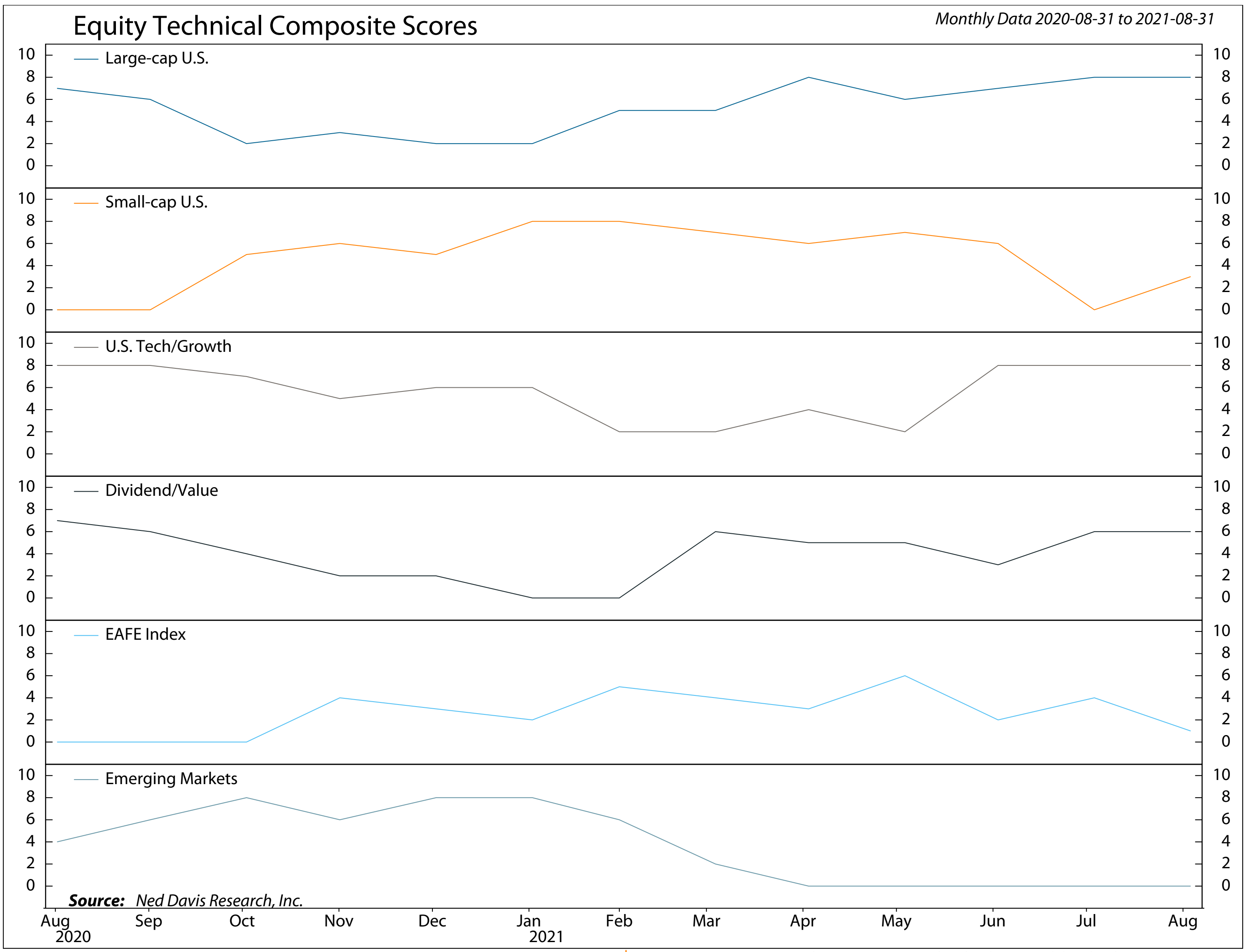
Equity Allocation Summary

During August, U.S. Growth [Technology] (QQQ) was the top-performing area within equities as it increased by more than 400 bps. U.S. Large Caps (SPY) grew over 200 bps and has risen for seven consecutive months. U.S. Small Caps (IJR), Europe, Australasia, and the Far East [EAFE] (IEFA), U.S. Value [Dividends], and Emerging Markets (IEMG) all increased by more than 100 bps. QQQ, SPY, and VIG all received more than 15% allocation for September due to their elevated technical composite scores (image at bottom).





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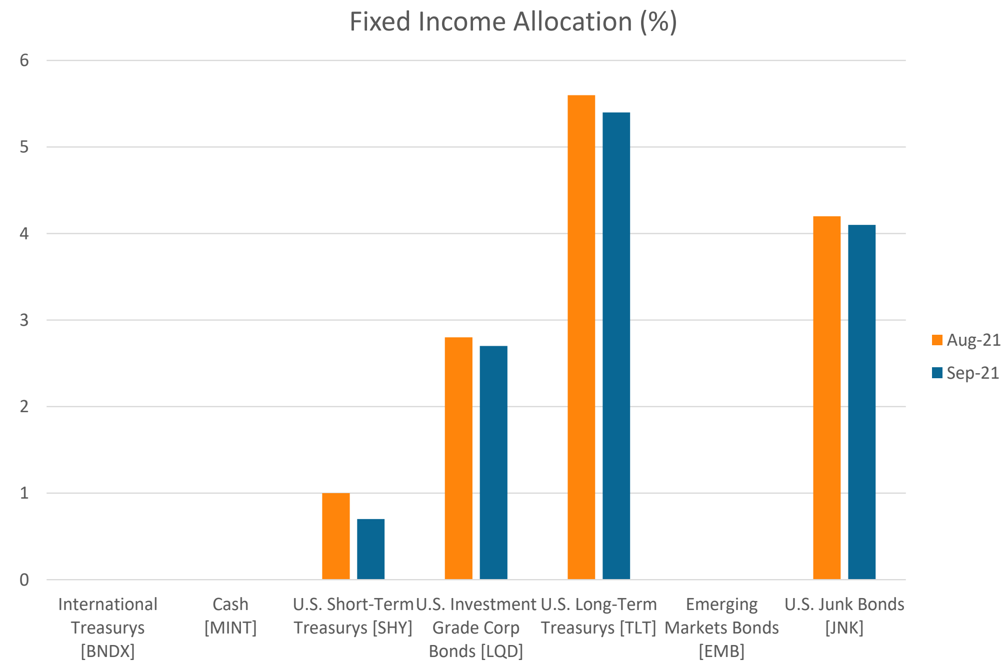
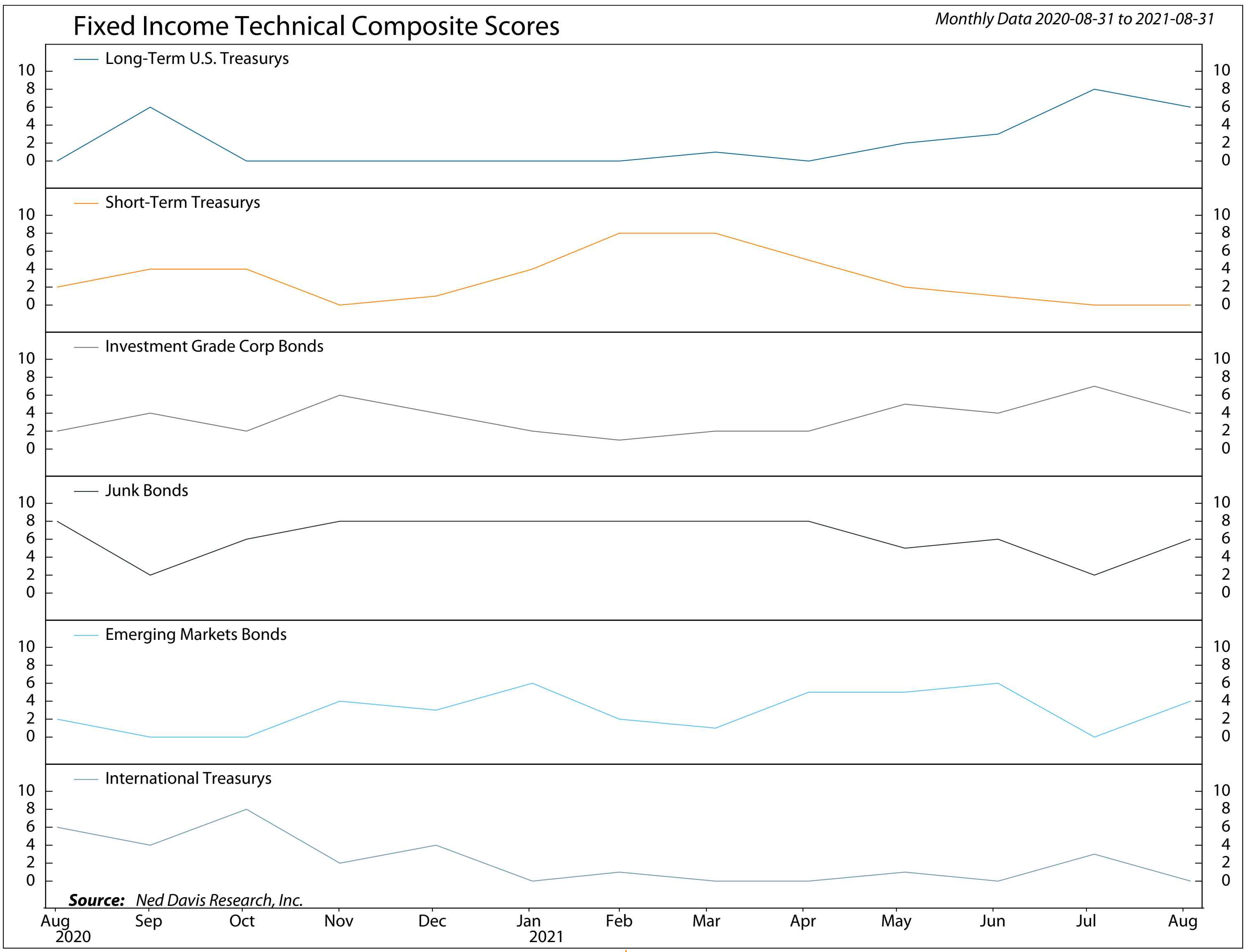
Fixed Income Allocation Summary

Last month, the most aggressive fixed income areas produced the strongest returns. Emerging Market bonds (EMB) and U.S. High Yield (JNK) were the only areas up more than 50 bps. U.S. Long-Term Treasurys (TLT), U.S. Investment Grade (LQD), International Investment Grade Bonds (BNDX), and U.S. Short-Term Treasurys (SHY) all had negative returns. TLT and JNK both received more than 3% allocation for September due to their elevated technical composite scores (image at bottom).





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