Fixed Income Allocation Strategy

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NED DAVIS RESEARCH

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Fixed Income Performance Update

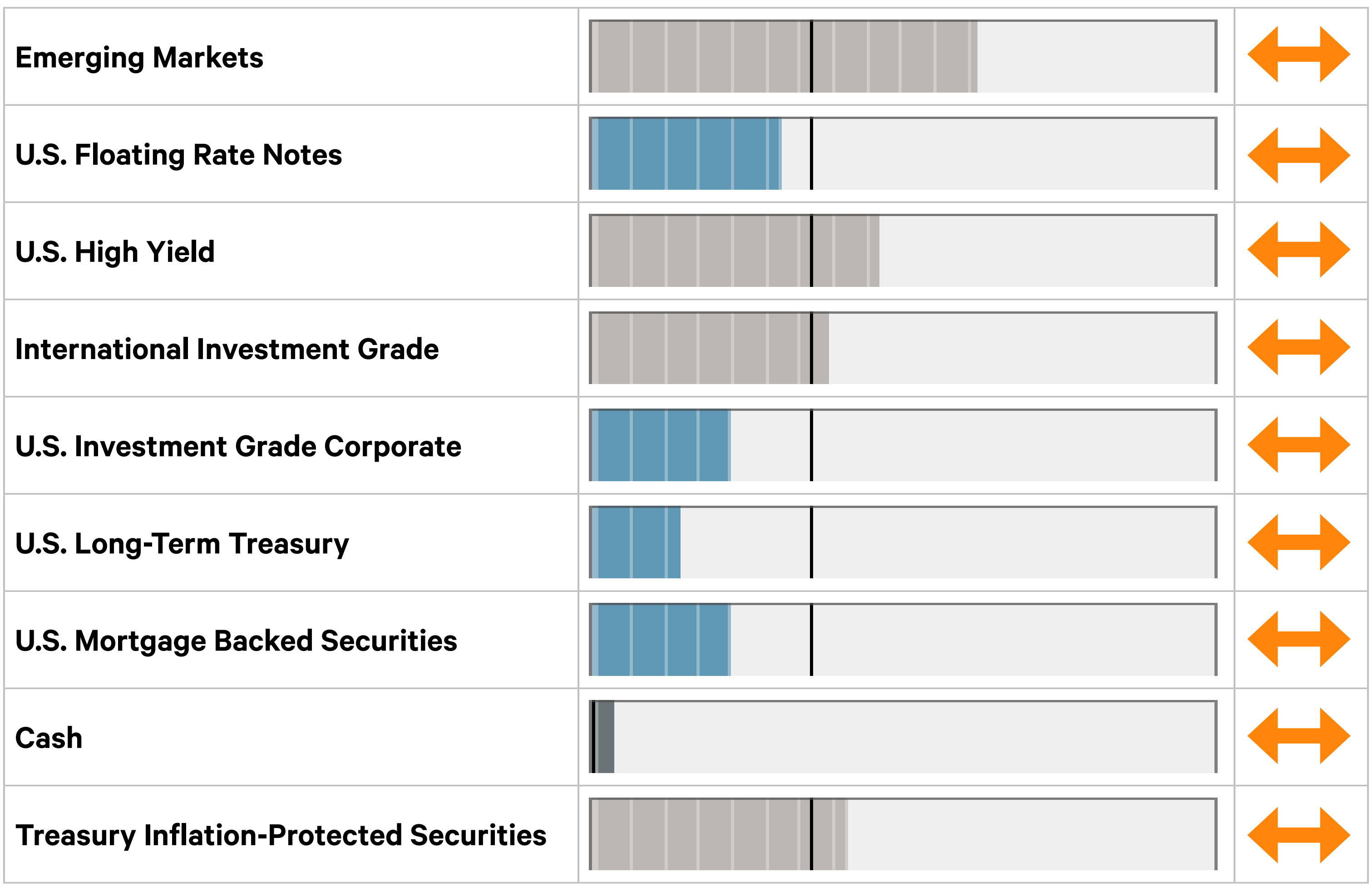
Treasury Inflation-Protected Securities (TIP) was the only area within fixed income to gain more than 100 basis points (bps) in May. TIP has increased by more than 100 bps for two consecutive months.

Emerging Market bonds (EMB) and U.S. Investment Grade (LQD) each rose by more than 50 bps. Both EMB and LQD have risen for the last two months. EMB was the top-performing fixed income area during that period.

U.S. Long-Term Treasurys (TLT), Floating Rate Notes (FLOT), Cash (MINT) and U.S. High Yield (JNK) all gained less than 15 bps. JNK has been higher for four straight months. TLT, FLOT, and MINT have produced positive returns for two of the last four months.

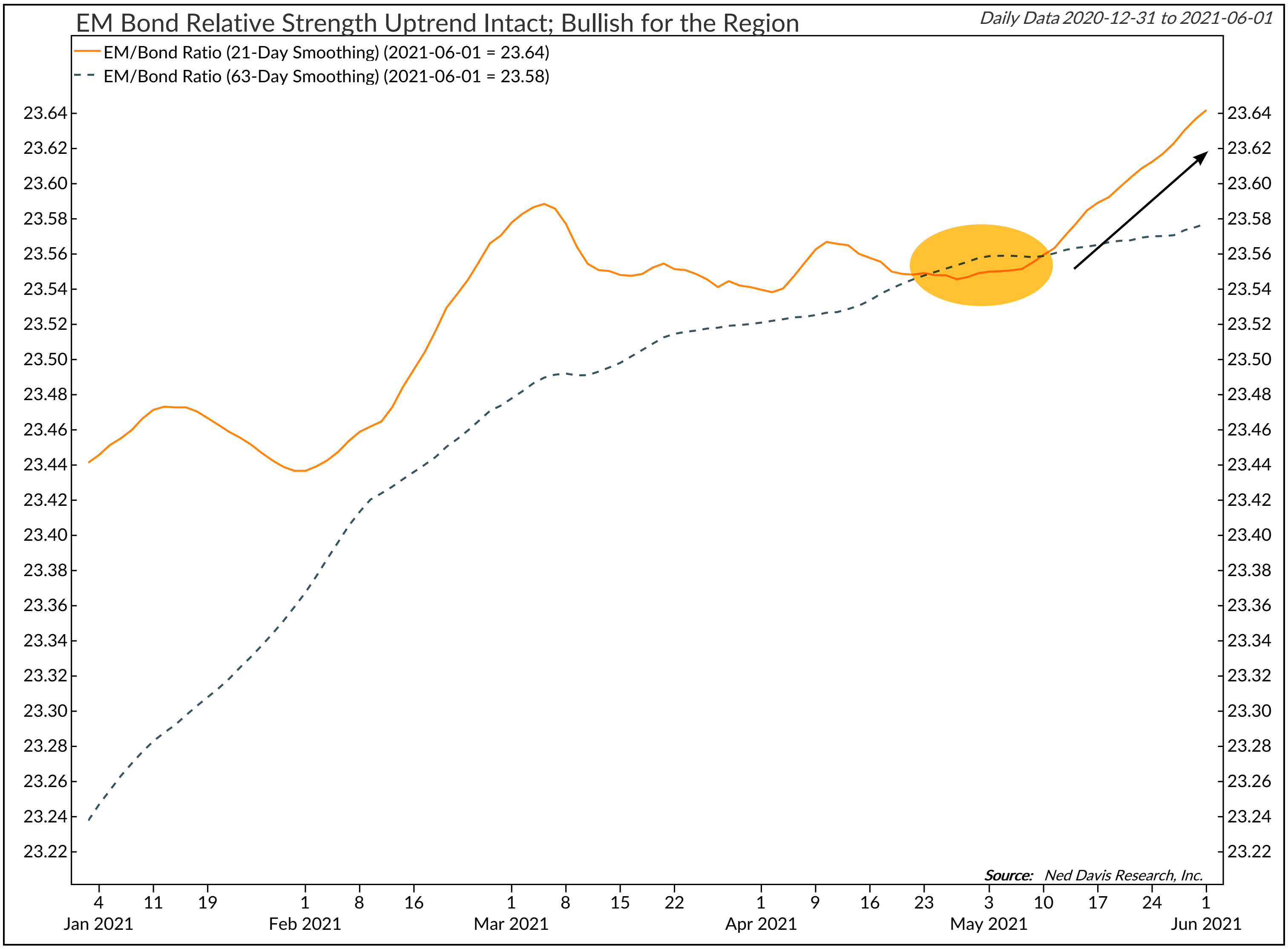
International Investment Grade Bonds (BNDX) and U.S. Mortgage-Backed Securities (MBB) were the only areas to decline during May. MBB has dropped for three of the last four months. BNDX has fallen for five consecutive months.

Fixed Income Allocation Summary



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.

- 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. Trend (chart, below), overbought/oversold, and EM currency indicators exited their bearish readings. However, an Emerging Market equity momentum indicator whipsawed back to a bearish signal.
- U.S. High Yield is 400 bps overweight. No indicators changed signal this month. Trend, breadth, and U.S. small-cap equity strength indicators reflect a favorable environment for this sector.
- Treasury Inflation-Protected Securities is greater than 200 bps overweight. No indicators changed signals this month. All of the sector's indicators (trend, overbought/oversold, inflation expectations, U.S. Dollar, and commodity prices) are bullish.
- Cash has over 50 bps in allocation this month.



Customized version of ISBM1_EM_RS_MACR

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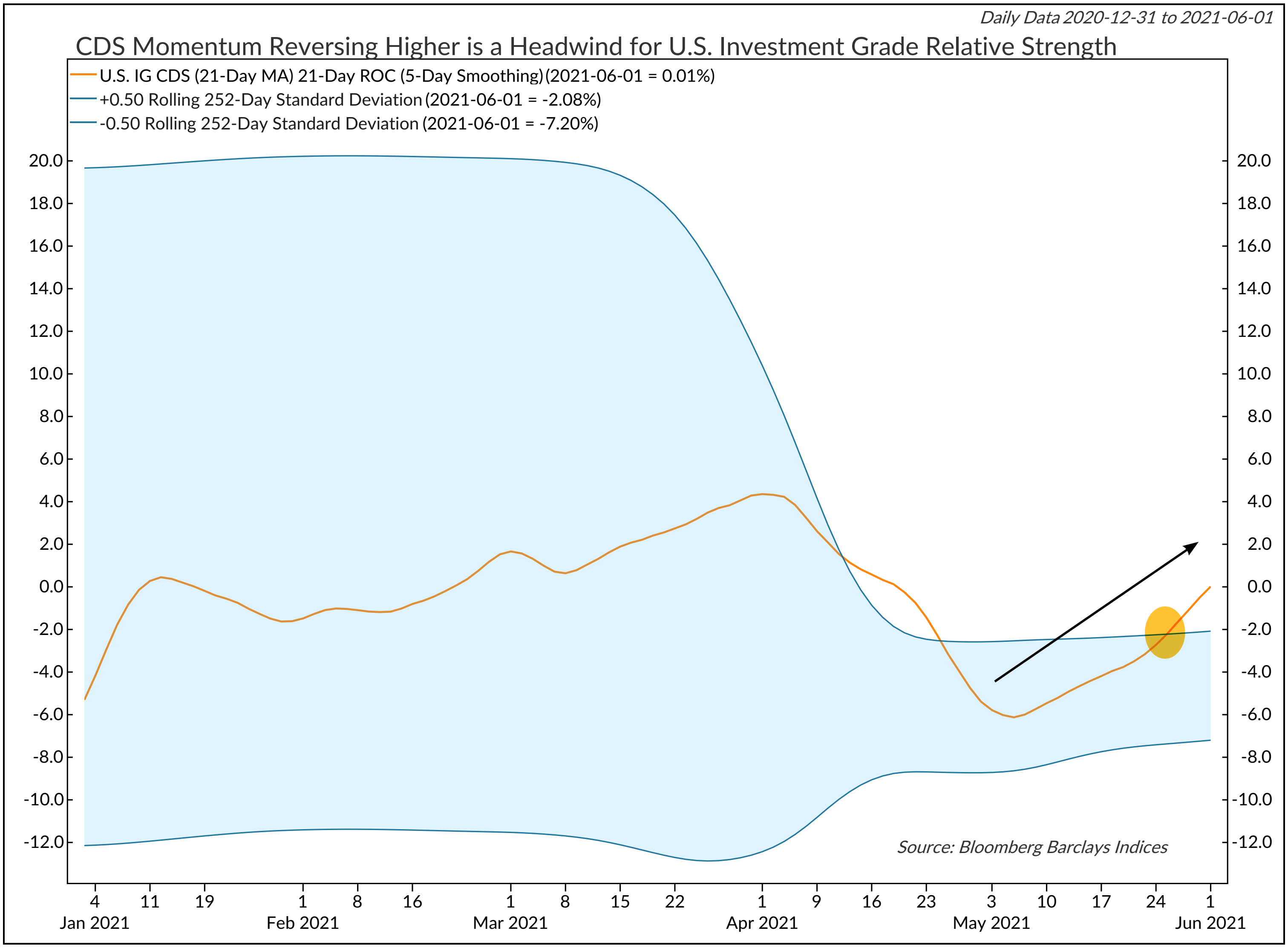
- Floating Rate Notes continues to be more than 100 bps underweight. The near-term trend of the yield curve has slowed relative to its longer-term trend, which triggered a bearish signal for this sector.
- The U.S. Investment Grade Corporate bonds sector's allocation is greater than 400 bps below benchmark. A credit default swap (CDS) indicator exited its bullish reading on the sector. CDS momentum reversed lower during April, but it returned to elevated levels in May (chart, below).
- U.S. Mortgage Backed Securities' (MBS) is more than 400 bps underweight. A trend indicator flipped from bullish to bearish. Only one indicator (inflation expectations) for this sector is bullish.
- U.S. Long-Term Treasurys' allocation is greater than 700 bps below benchmark. A momentum indicator exited its bearish signal. However, none of the sector's indicators possess a bullish reading.



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