NDR
NED DAVIS RESEARCH

Fixed Income Allocation Strategy

APRIL 2024

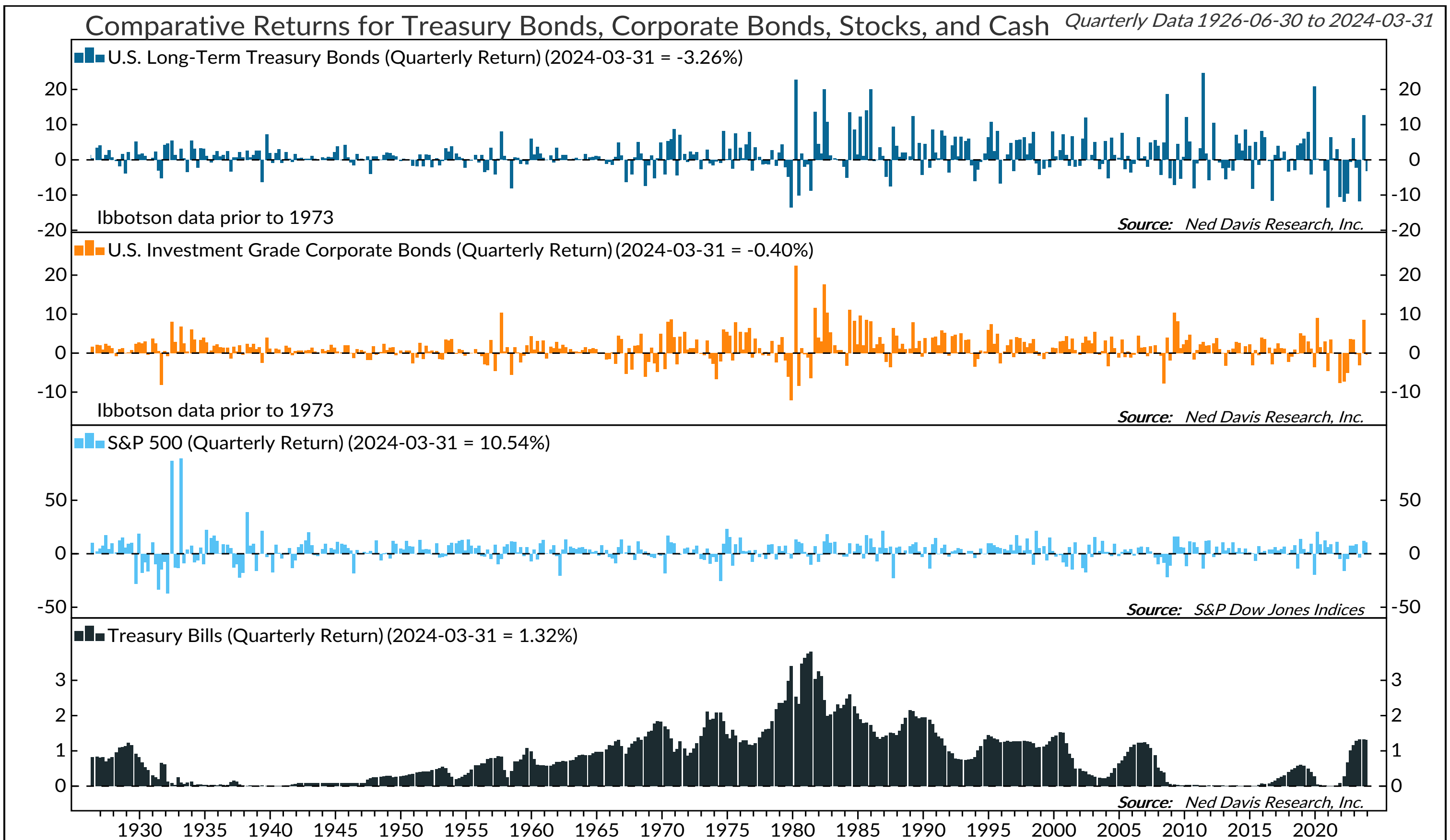
Fixed Income Market Update

After a weak February, the Bloomberg Barclays U.S. Aggregate Bond Total Return Index rebounded in March, gaining just under 1%. Breadth improved sharply—all nine fixed income sectors we track posted positive returns for the month.

Sticky inflation, strong economic growth, and the repricing of when and how many times the Fed is going to cut rates soured investors on bonds. In Q1 2024, stocks beat bonds by 11.3% on a total return basis, the most in Q1 since 2012 (chart below). History's message for the rest of 2024 is positive for stocks on an absolute basis and relative to bonds, albeit at a slower rate than Q1's torrid pace.

Since the Bloomberg Aggregate Index began in 1976, when stocks have beaten bonds by at least 10% points in Q1, stocks have outperformed 66% of the time in Q2-Q4 by a median of 3.4%.

Entering April, the fixed income allocation strategy continued to favor risk-on leadership but did not rebalance. The model remained overweight Emerging Market bonds, U.S. High Yield, U.S. Investment Grade Corporate, and U.S. Mortgage-Backed Securities. U.S. Long-Term Treasurys is marketweight. The model remained underweight U.S. Floating Rate Notes, U.S. Treasury Inflation-Protected Securities, and International Investment Grade.

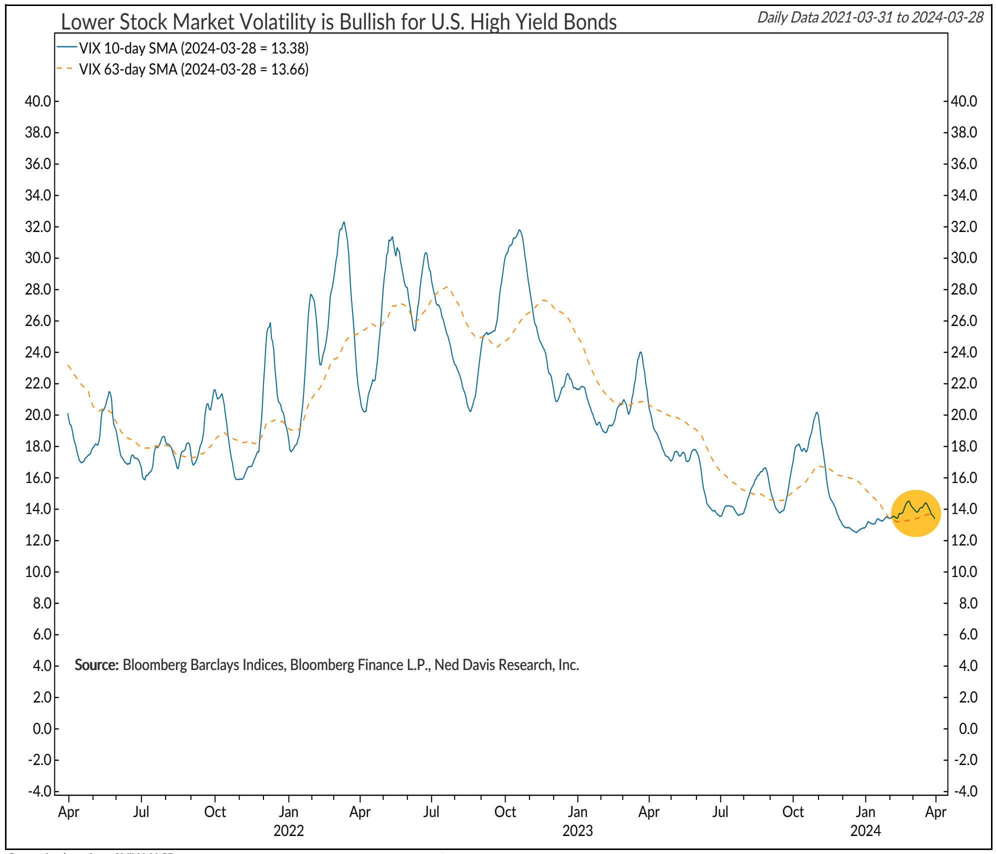


Available Return Periods:
Monthly | **Quarterly** | Annual

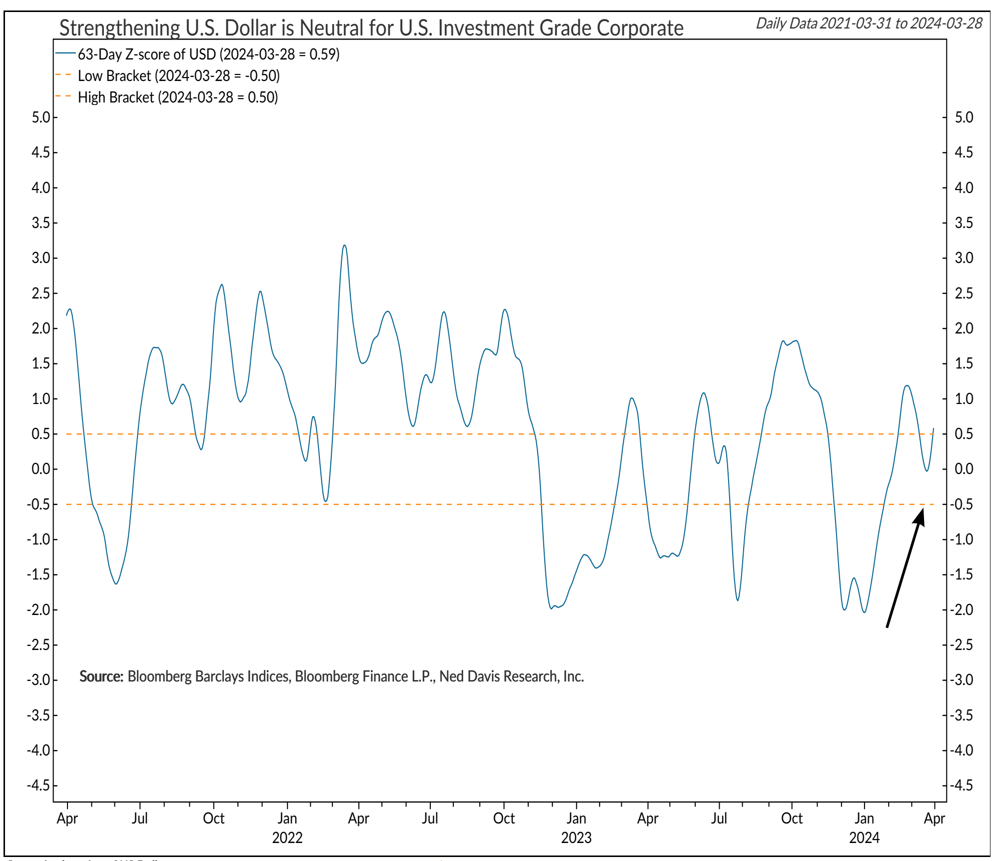
Available Return Types:
Nominal | Real (CPI-Adjusted)

B1F

U.S. High-Yield bonds' allocation remained the largest overweight. All six indicators are bullish for the sector. During the month, market volatility (as measured by the VIX) moved bullish for high-yield bonds (chart right).



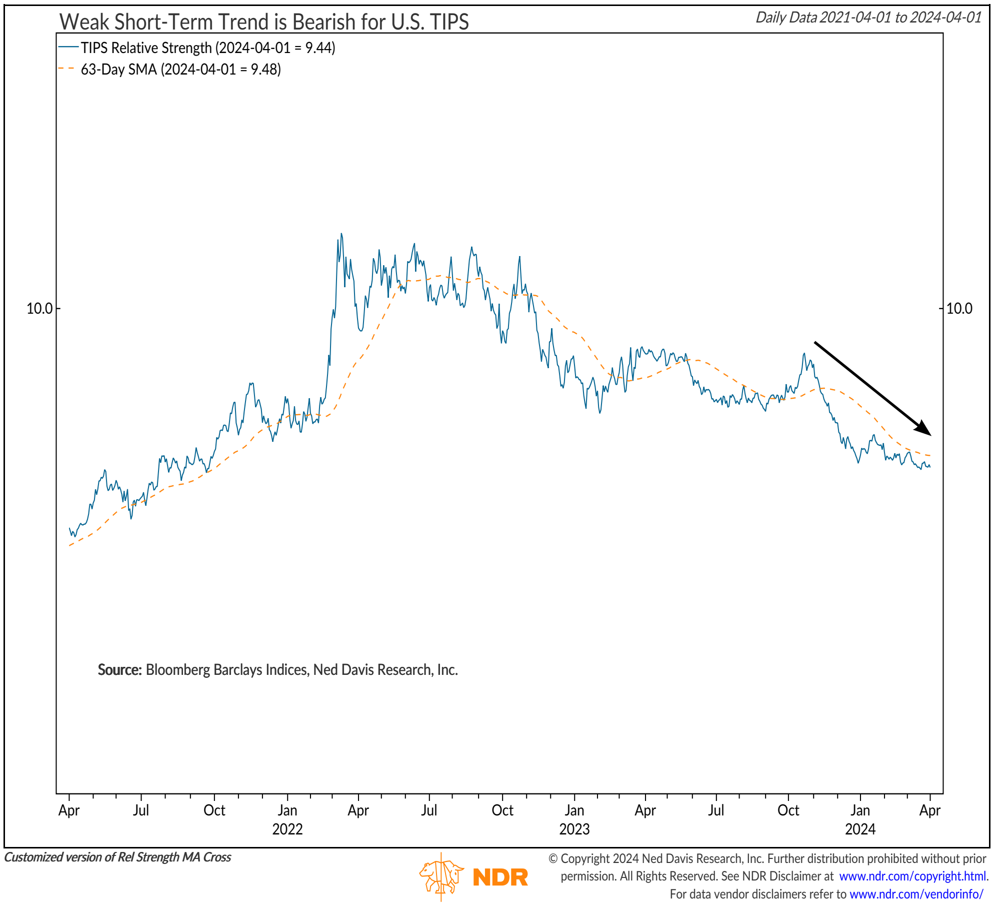
Customized version of VIX MACR

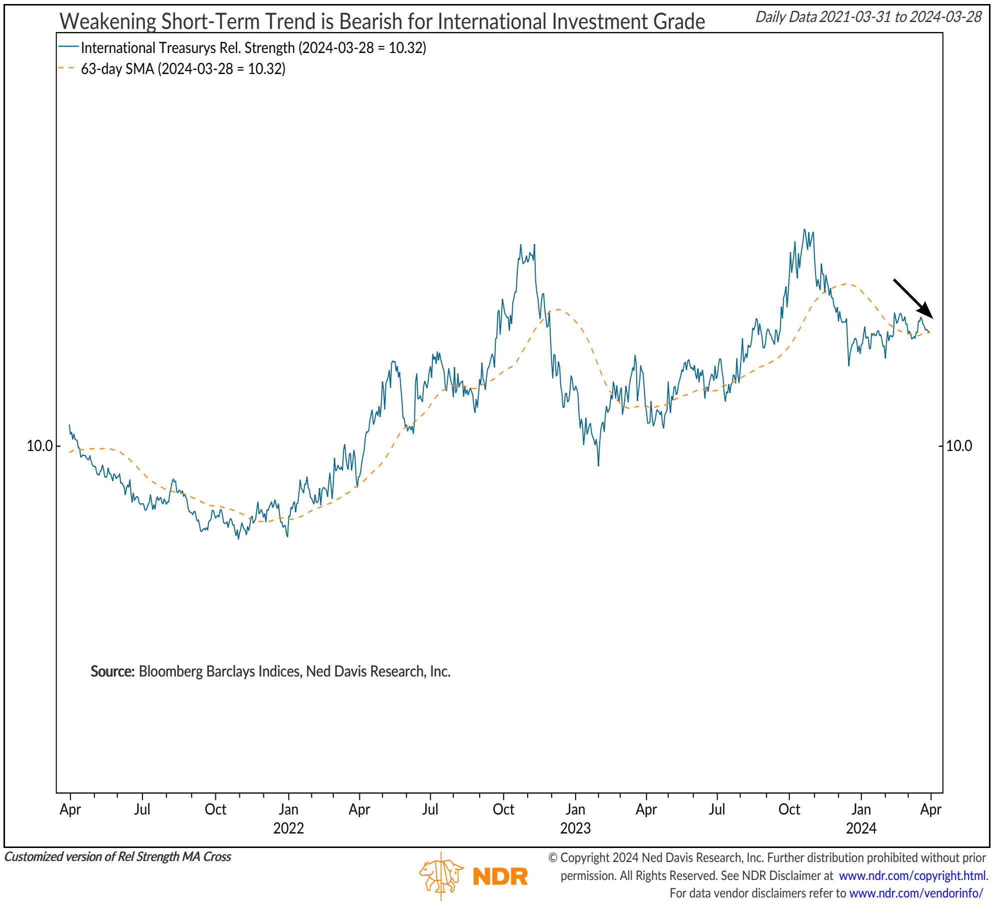


Customized version of US Dollar

U.S. Investment Grade Corporate bonds' allocation remained at overweight. Indicators are now mixed. On a fundamental basis, bond volatility is bullish, but is offset by bearish option-adjusted spreads and credit default swaps. Furthermore, a strengthening U.S. dollar moved neutral for the sector during the month (chart left). Technicals are mixed—a bullish mean reversion indicator is offset by a bearish short-term trend measure.

U.S. Treasury Inflation-Protected Securities' (TIPS) allocation remained the largest underweight. Commodity price trends and high-yield option-adjusted spreads remain headwinds for TIPS. These bearish measures are being confirmed by TIPS' weak technicals including the relative strength index, the slope of its relative strength, and short-term trend (chart right).





International Investment Grade bonds' allocation remained at underweight. Stock market volatility joined inflation expectations as bearish indicators for the sector. Price-based measures are now mixed—rising relative strength is offset by short-term trend which weakened during the month—the index's relative strength is sitting just below its 63-day moving average (chart left).

Summary

Entering April, the fixed income allocation strategy continued to favor risk-on leadership. The model remained overweight Emerging Market bonds, U.S. High Yield, U.S. Investment Grade Corporate, and U.S. Mortgage-Backed Securities. U.S. Long-Term Treasurys is marketweight. The model remained underweight U.S. Floating Rate Notes, U.S. Treasury Inflation-Protected Securities, and International Investment Grade.

Ned Davis Research Disclaimer:

The data and analysis contained within are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. All performance measures do not reflect tax consequences, execution, commissions, and other trading costs, and as such investors should consult their tax advisors before making investment decisions, as well as realize that the past performance and results of the model are not a guarantee of future results. The Fixed Income Allocation Strategy is not intended to be the primary basis for investment decisions and the usage of the model does not address the suitability of any particular investment for any particular investor.

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs.