Dynamic Allocation Strategy

OCTOBER 2022

Macro/Market Update

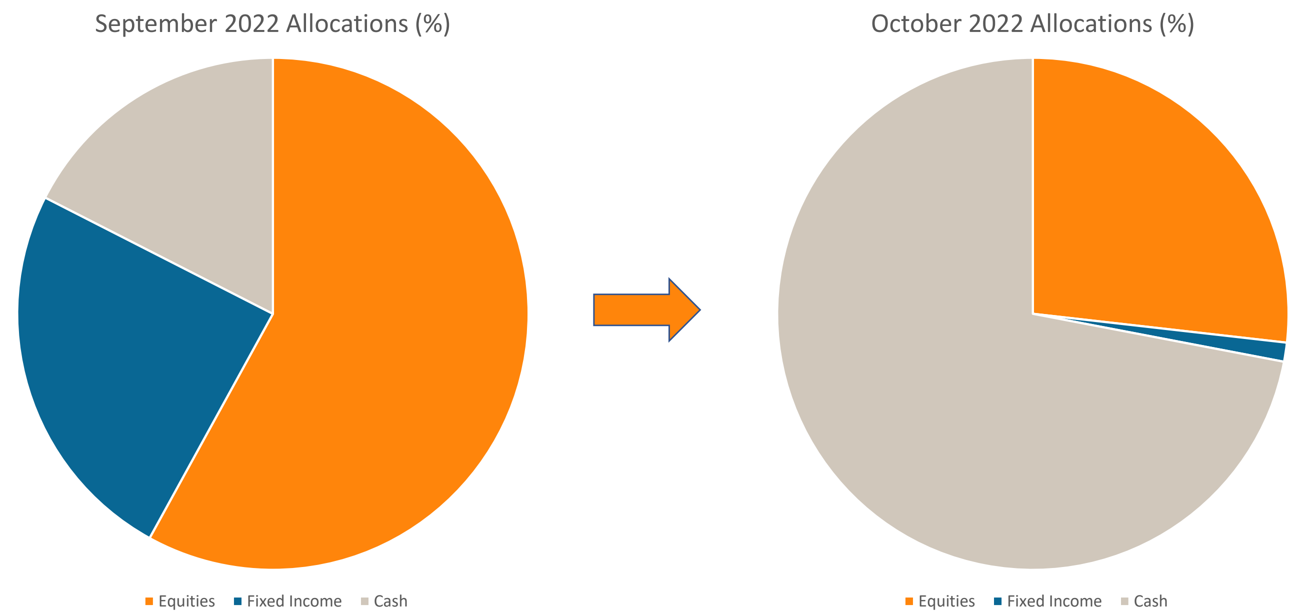
The global economy took a sharp turn for the worse this summer, as the global composite Purchasing Managers' Index (PMI) slipped for the second straight month in August, down 1.5 points to 49.3. It was its lowest level and its first time in contraction territory since June 2020, led by weakness in both the manufacturing and services sectors. The latest reading in the PMI is historically consistent with just 0.1% annual global real Gross Domestic Product (GDP) growth.

The OECD Composite Leading Indicator (CLI) for OECD countries plus six large nonmember economies (e.g., China, India) fell to 98.7 in August. The CLI has been down for 13 of the past 14 months and is well below its long-term average of 100.

Forward-looking indicators suggest that the outlook is unlikely to improve in the near term. The global new orders index indicated contraction for the first time since June 2020, while the future output index remained near a two-year low. The Sentix Economic Expectations Index tumbled to -23.7 in September, its lowest level since January 2009. The only sign of reprieve was that global price pressures and supply-chain hurdles continued to be less of a problem.

During September, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by over 430 basis points (bps). Global stocks have trailed bonds for six of the first nine months in 2022. As inflation has arrived in 2022, markets have been rattled by reversals in accommodative global monetary policy, worried about the economic and earnings impact of quantitative tightening and central bank rate hikes designed to quell the rising prices with positive real interest rates.

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 lowered its equity allocation this month.
- Weight shifted from fixed income into cash.
- The equity allocation is below 30%, the fixed income allocation is less than 5%, and cash is greater than 70%.
- The equities/fixed income relative strength ratio rolled over (chart below), as global equity market upside participation deteriorated.
- However, after being more than 45% below its 13-week moving average last month, the Baltic Dry Index entered this week more than 8% above its intermediate-term trend.
- Most indicators favored fixed income and cash over equities (table below).

Top Level Factors

Indicator	Current Signal (Red = New Signal)	Comment
Equities/Fixed Income Relative Strength (indicator receives a heavier weighting)	Favors Fixed Income	This indicator now favors fixed income. The equities/fixed income relative strength ratio is more than 4% below its one-year moving average, its second weakest reading this year.
Global Equity Market Breadth	Favors Fixed Income	This indicator now favors fixed income. Less than 5% of global equity markets are trading above their 50-day moving averages, which is significantly lower than 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 an eleventh straight month.
PMI Breadth Factor	Favors Fixed Income	The four-week change in economies with expanding manufacturing industries declined as multiple European economies' PMI readings fell into contractionary territory.
Baltic Exchange Dry Index	Favors Equities	This indicator now favors equities. Last month, the Baltic Dry index (BDI) was more than 45% below its 13-week moving average. The BDI is now more than 8% above its intermediate-term trend.
Central Bank Policy	Favors Equities	To favor fixed income, this indicator requires a significant drop in global short-term rates.

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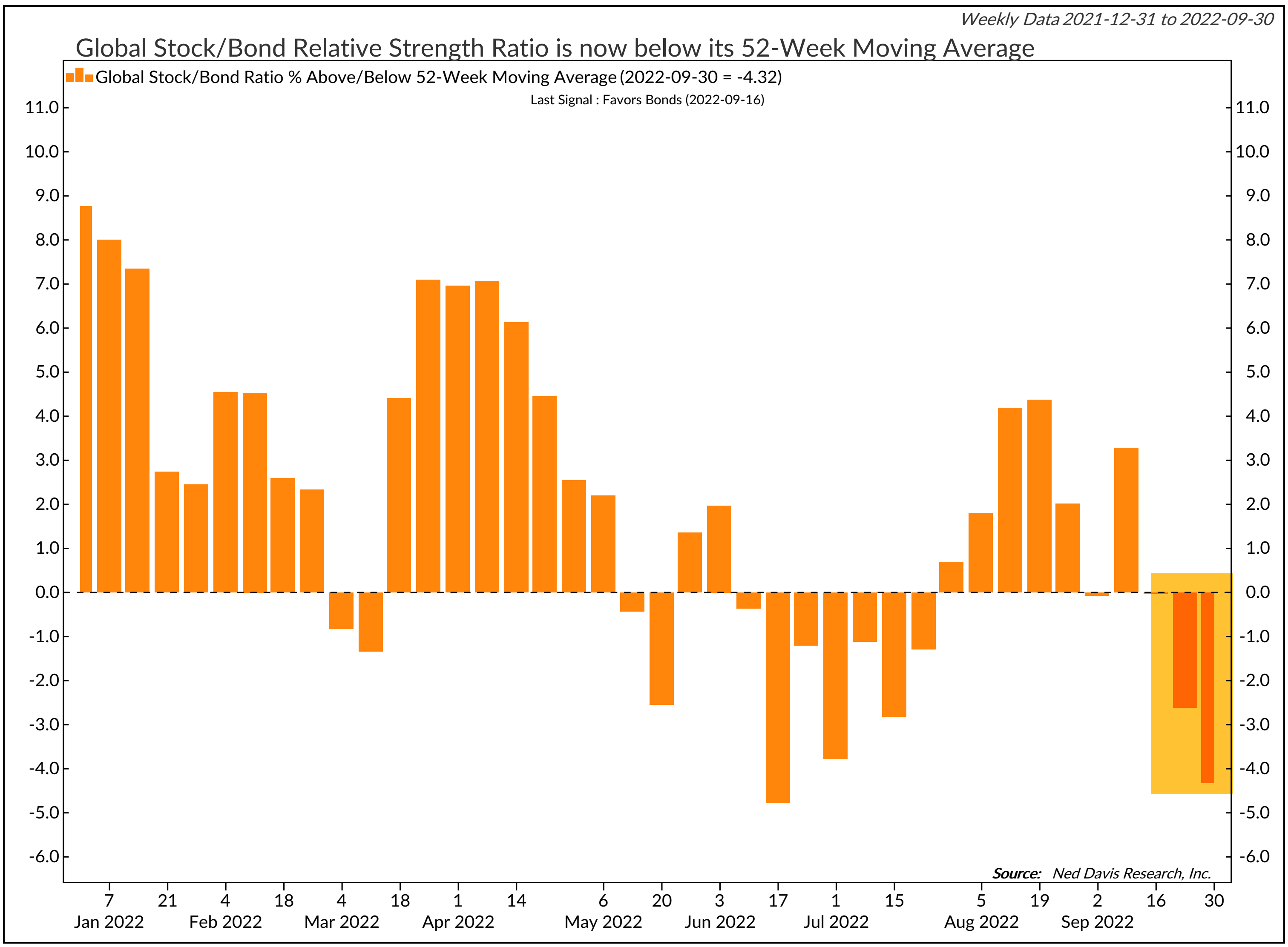

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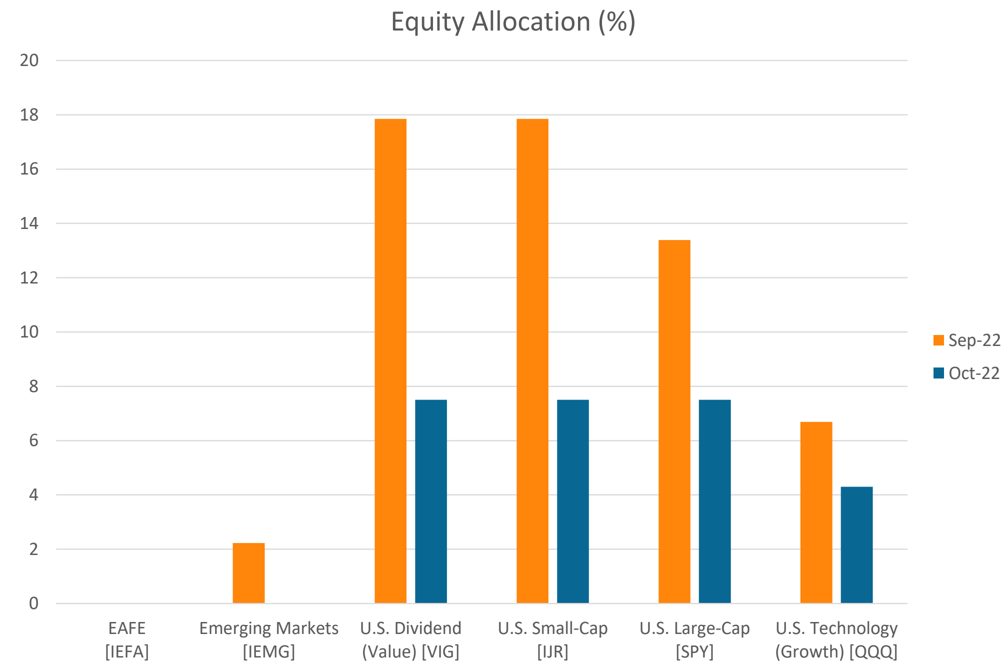
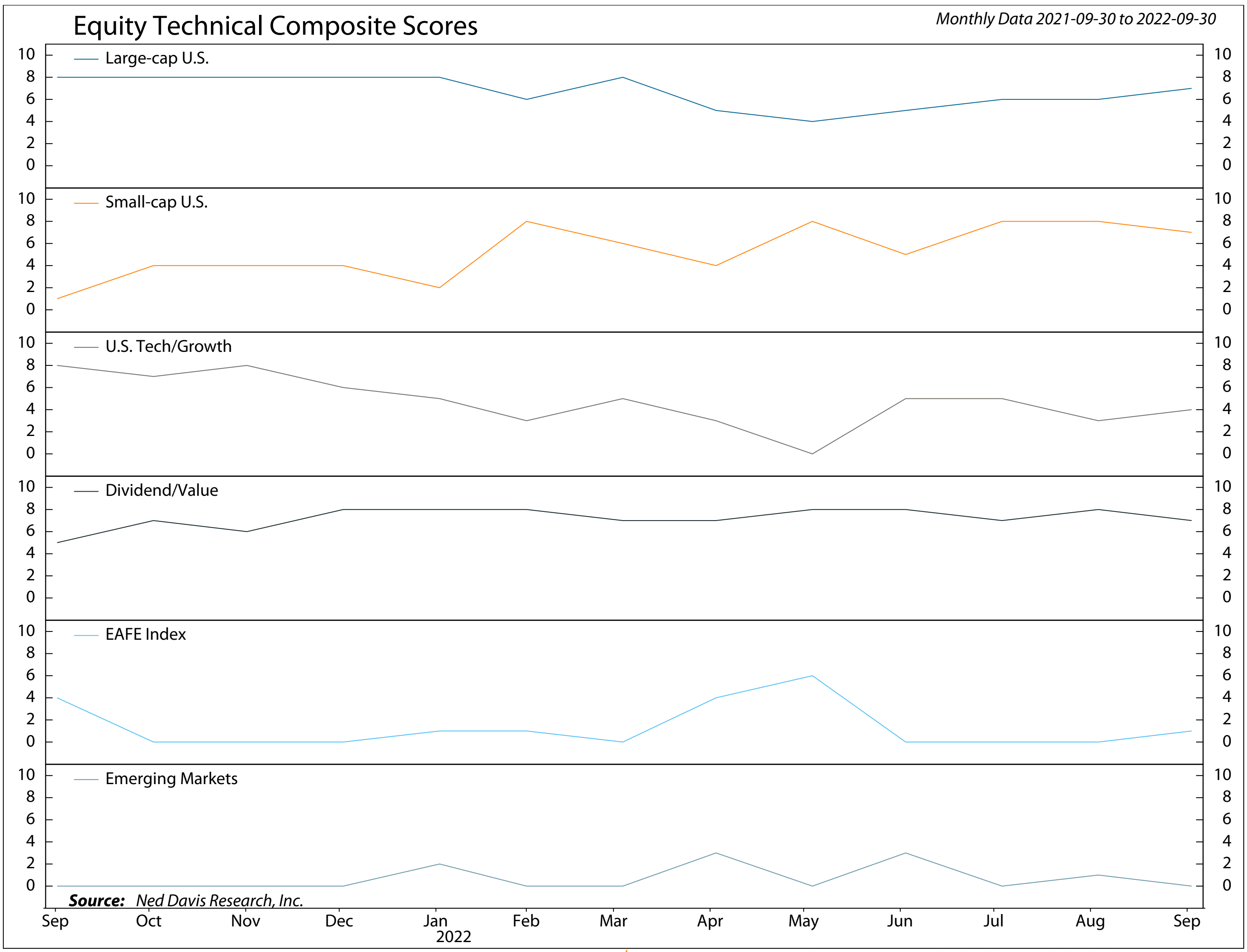
Equity Allocation Summary

All equity areas dropped by more than 800 bps during September. U.S. Large Caps (SPY), U.S. Small Caps (IJR), Europe, Australasia, and the Far East [EAFE] (IEFA), and U.S. Value [Dividends] (VIG) all declined by less than 1,000 bps. Emerging Markets (IEMG) and U.S. Growth [Technology] (QQQ) both plummeted over 1,000 bps. Except for QQQ, all equity areas suffered their worst monthly performance since March 2020. VIG, SPY, and IJR each received more than 7% allocation for October due their technical composite scores (image at bottom).





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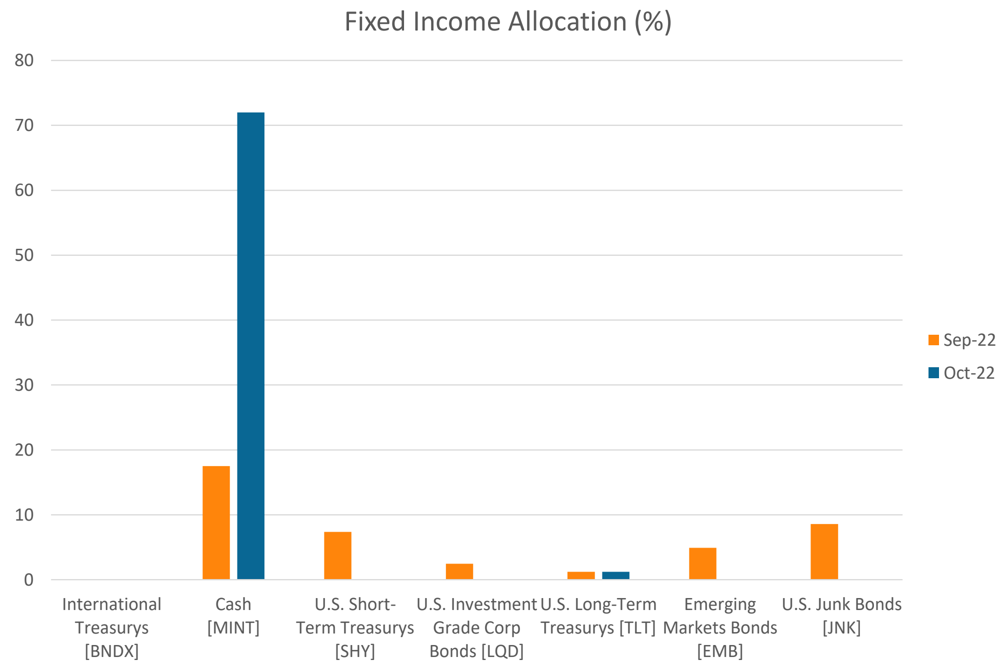
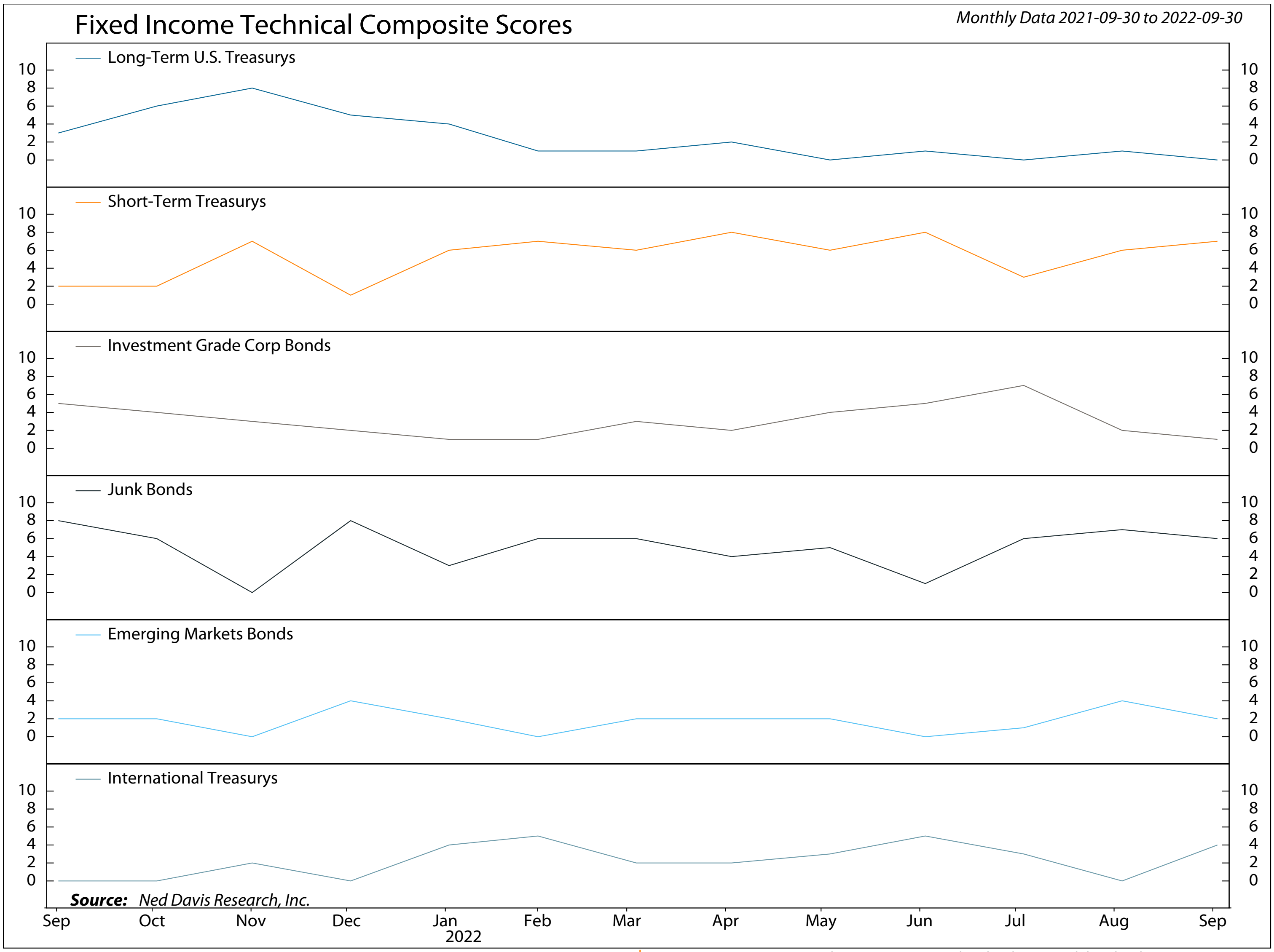
Fixed Income Allocation Summary

For a second consecutive month, all fixed income segments declined. U.S. Short-Term Treasurys (SHY), U.S. High Yield (JNK), and International Investment Grade (BNDX) fell by less than 400 bps. Emerging Market bonds (EMB), U.S. Investment Grade (LQD), and U.S. Long-Term Treasurys (TLT) all dropped over 575 bps. TLT and BNDX only have risen during one month in 2022. Cash received more than 70% allocation for October (image at bottom).





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