DAY HAGAN
ASSET MANAGEMENT

NDR
NED DAVIS RESEARCH

Smart Sector® Strategy

MARCH 2021

U.S. Market Update

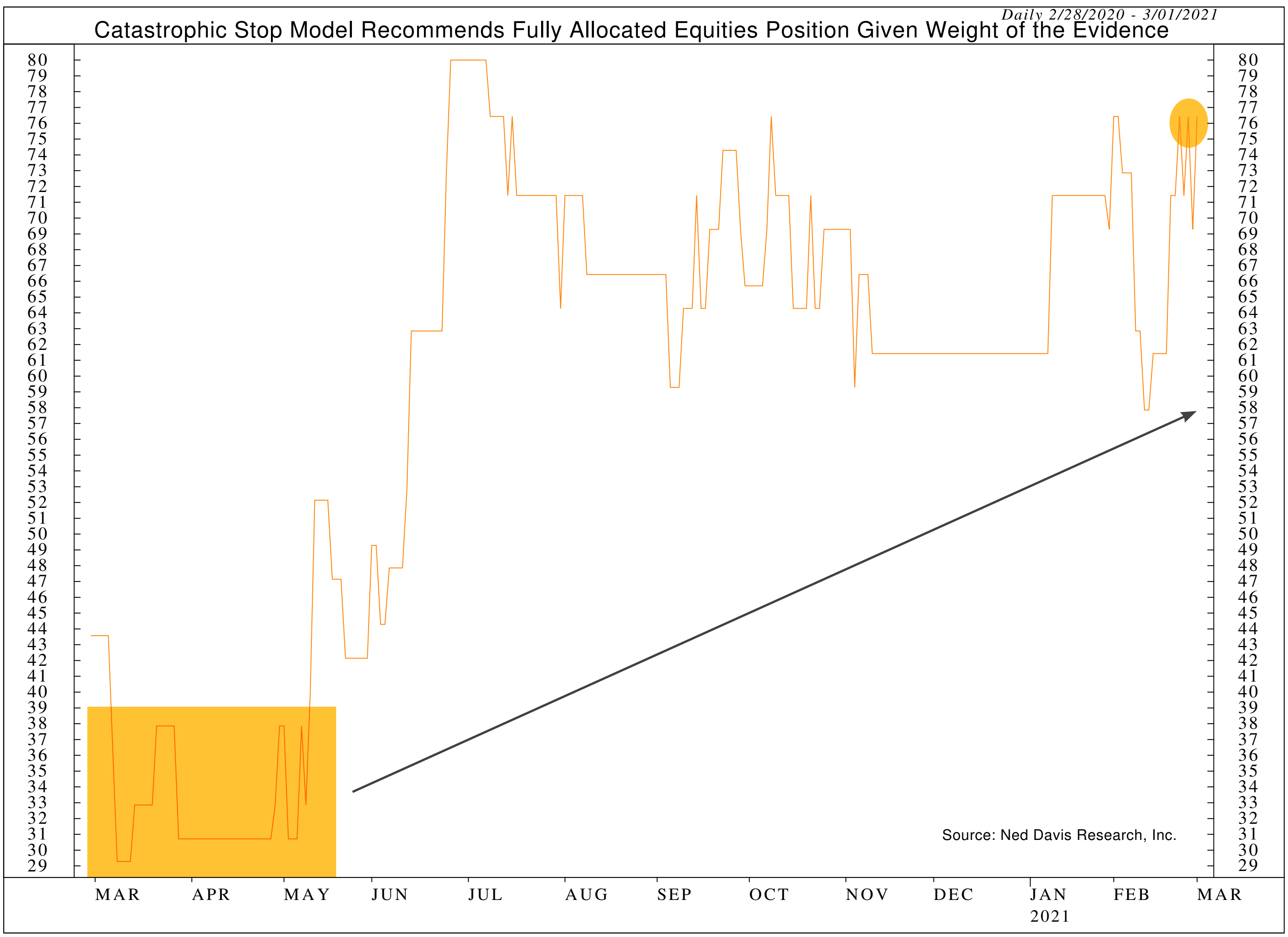
The S&P 500 Total Return Index grew by more than 2.75% last month. The market has risen for eight of the last eleven months.

The Catastrophic Stop model exited its March 10, 2020 sell signal on May 14th and continues to recommend a fully invested equity position. The overall model's composite reading **(chart at bottom)** shows that the weight of the evidence remains supportive of equities.

At the start of the month, the technical (internal) composite had one neutral, one bearish, and five bullish indicators. The global equity market participation indicator (breadth) remained on a bearish signal. This breadth measure examines the percentage of global equity markets trading above their 50-day moving average. At the start of March, 44% of markets met that criterion.

Only one external (macro, fundamental, and behavioral) indicator remains bearish at the end of February. The yield curve continues to suggest headwinds for the market.

For the Catastrophic Stop model to turn bearish requires further deterioration from both price-based and macro-fundamental indicators. For now, the weight of the evidence recommends that the Smart Sector™ strategy maintains a 100% equity allocation.



Sector Performance Update

During February, Energy (XLE) gained over 22%. XLE has been one of the top-three performing sectors for each of the last four months.

Financials (XLF) jumped by more than 11%. The sector has risen by more than 629 basis points (bps) for three of the last four months. It was the second-best monthly return for the sector since the end of 2016.

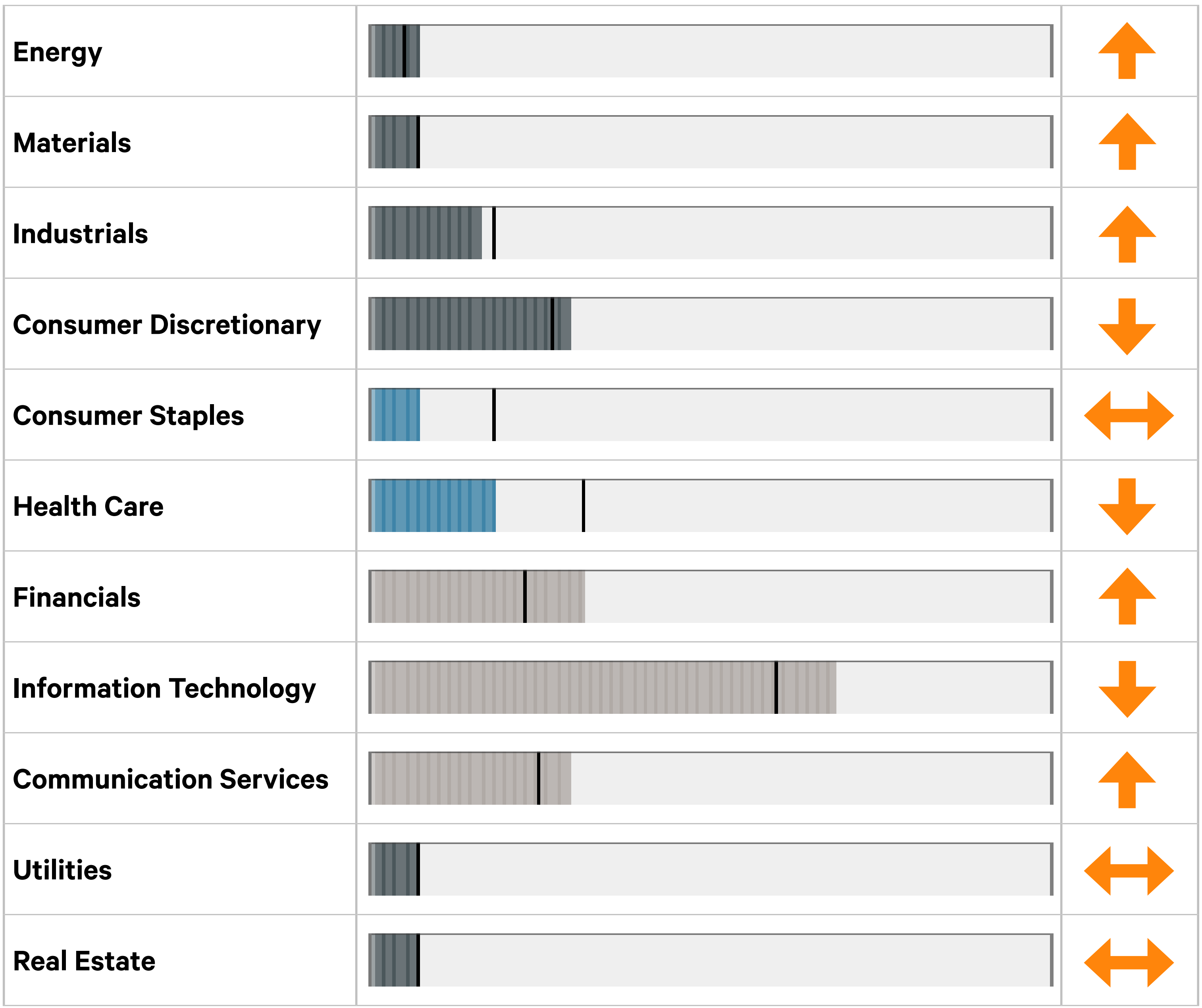
Communications Services (XLC), Materials (XLB), and Industrials (XLI) all increased by over 410 bps. XLB has risen for nine of the last eleven months.

Information Technology (XLK) and Real Estate (XLRE) both rose by more than 135 bps. XLRE has risen for four consecutive months.

Health Care (XLV), Consumer Discretionary (XLY), and Consumer Staples (XLP) all fell by less than 215 bps. This broke three-month winning streaks for XLV and XLY. XLP has declined for two straight months.

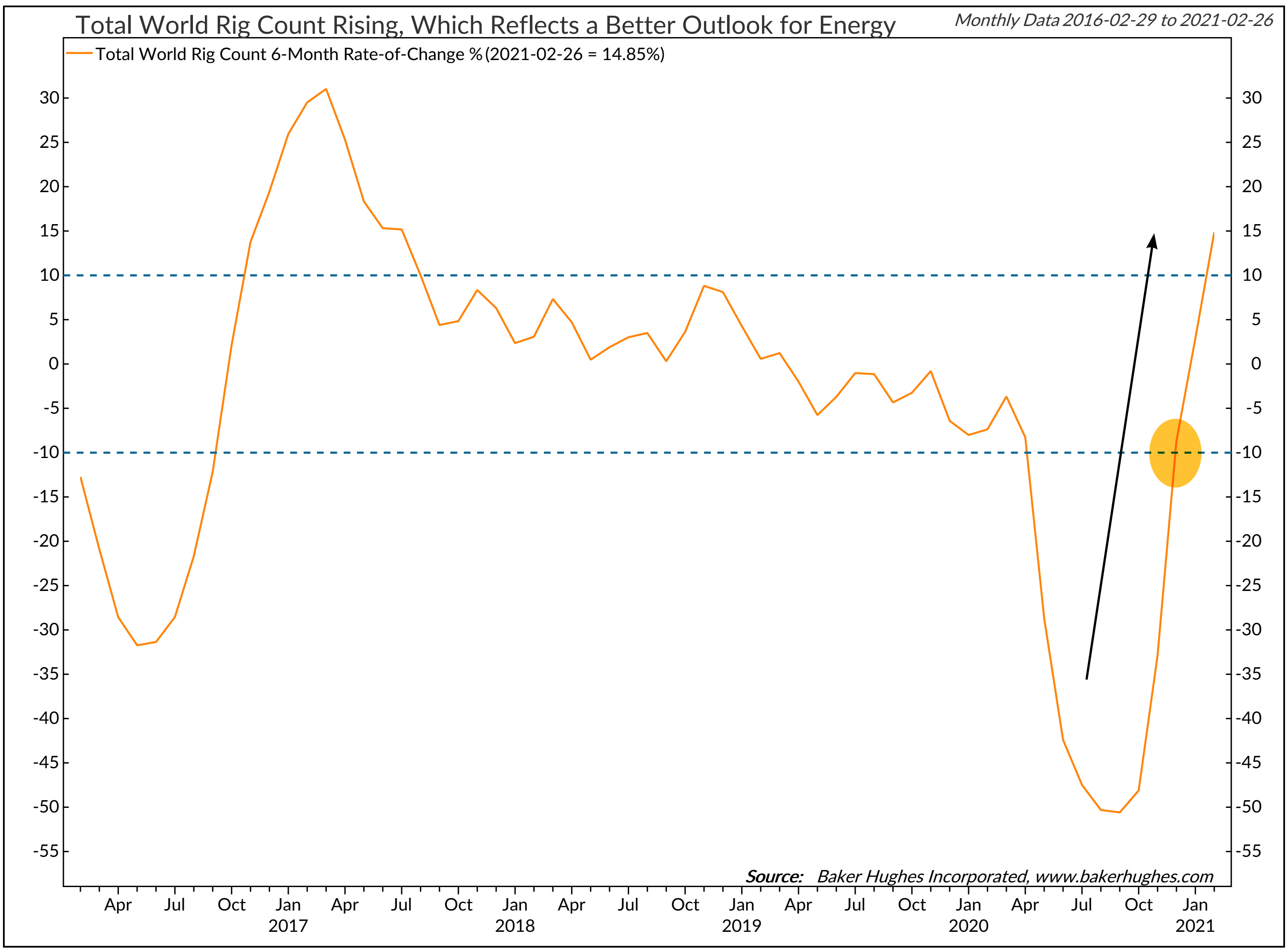
Utilities (XLU) was the worst performing sector in February as it declined by over 600 bps. It was the sector's worst month since March 2020. XLU has fallen for two consecutive months.

Sector 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 Financials sector's allocation improved to 400 bps above benchmark. A Citi Economic Surprise indicator flipped from bearish to bullish, as the economic outlook improves.
- The Information Technology sector's allocation fell, but remains almost 400 bps above benchmark. The sector's allocation declined due to breadth and overbought/oversold measures switching from bullish to bearish.
- The Communication Services sector's allocation jumped by more than 300 bps to an above benchmark allocation. The trend has improved as the sector reverses from an oversold condition. None of the sector's external (macro, fundamental, and behavioral) indicators are bearish.
- The Consumer Discretionary sector's allocation decreased by more than 100 bps, but it continues to be above benchmark. The sector's allocation declined due to deterioration in trend and overbought/oversold indicators. Not all of the indicator changes were negative. An earnings surprise measure flipped from bearish to bullish, which reflects an improving fundamental outlook.
- The Materials sector's weighting increased by over 100 bps to an above benchmark allocation. The macro outlook improved for the sector as copper spot and natural gas futures indicators both produced new bullish signals.
- The Energy sector's allocation rose by more than 100 bps and it now resides above benchmark. Although the U.S. Dollar reversing higher produced headwinds for the sector, there were multiple indicators with a new, favorable outlook. Sector breadth has improved, rig counts are rising **(chart at bottom)**, and valuations are more attractive.



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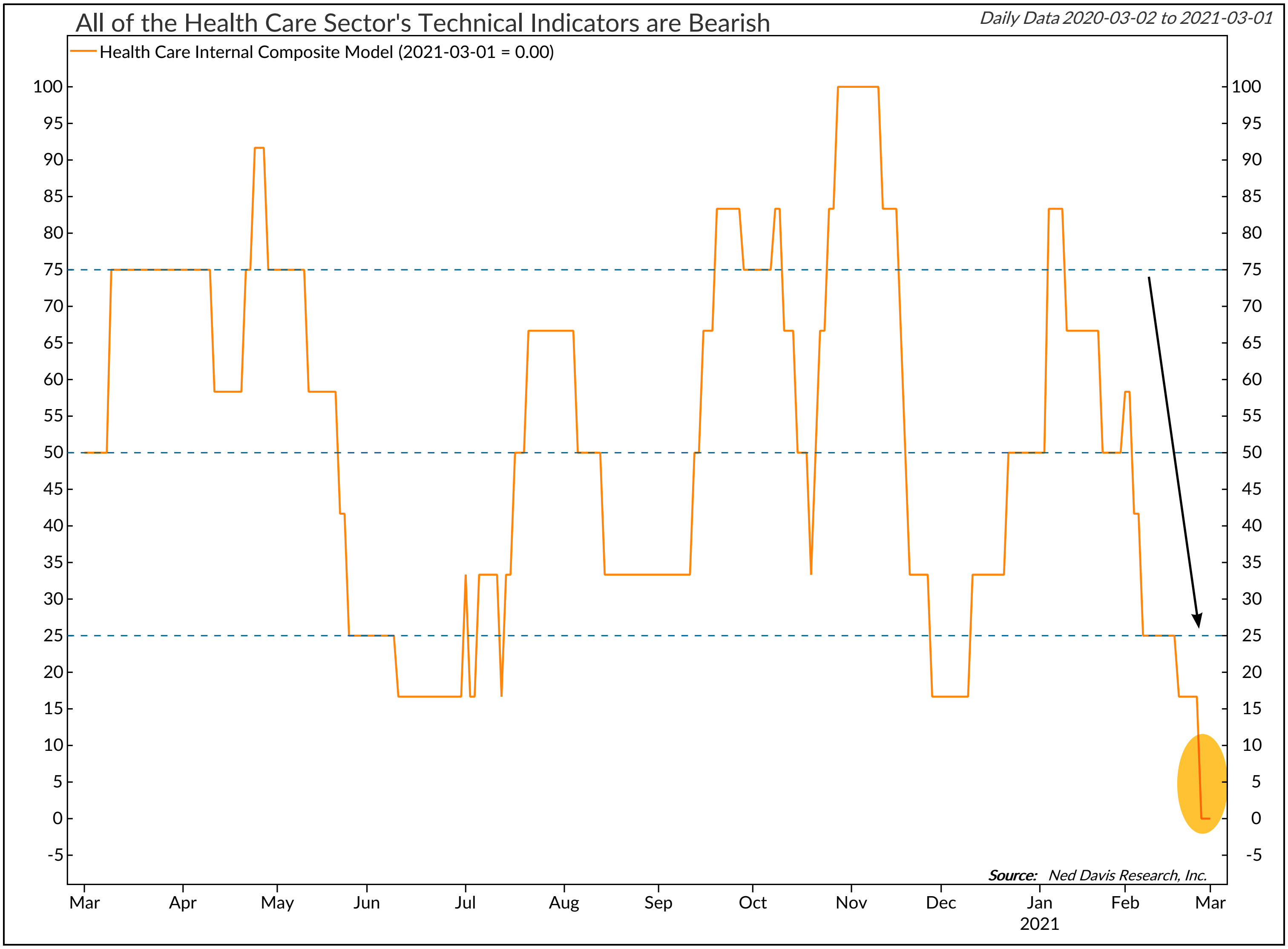
- The Real Estate sector's weighting fell by almost 100 bps to benchmark allocation. The sector lost weighting due to a mean reversion indicator reversing from an overbought extreme.
- The Utilities sector allocation fell to slightly below benchmark. Although crude oil no longer represents a headwind for the sector, both breadth and trend reversal indicators produced new bearish readings.
- Industrials' weighting increased by more than 100 bps, but remains less than benchmark allocation. A volatility indicator exited its bullish signal, but a price momentum measure flipped from bearish to bullish.
- The Consumer Staples sector's allocation is still almost 500 bps below benchmark weight. All of the sector's internal (price-based) indicators are bearish.
- The Health Care sector's allocation dropped by over 300 bps, remaining significantly below benchmark. Trend, price momentum, and health care new construction indicators exited their bullish readings. However, health care personal expenditure and health care high yield vs. investment grade option-adjusted spread measures flashed new bullish signals. All of the sector's internal indicators are bearish **(chart at bottom)**.



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Strategy description

- The Smart Sector® with Catastrophic Stop strategy combines two Ned Davis Research quantitative investment strategies: The NDR Sector Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting the S&P 500 sectors based on Ned Davis Research's proprietary sector models.
- Each of the sector models utilize sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each sector's probability of outperforming the S&P 500.
- Sectors are weighted accordingly relative to benchmark weightings.

When market risks become extraordinarily high — reduce your portfolio risk

- The model remains fully invested unless the Ned Davis Research Catastrophic Sell Stop (CSS) model is triggered, whereupon the equity-invested position is trimmed to 50%.
- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad U.S. equity market. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When the NDR CSS model moves back to bullish levels, indicating lower risk, the strategy immediately moves back to fully invested.

For more information, please contact:

Day Hagan Asset Management

1000 S. Tamiami Trl

Sarasota, FL 34236

Toll Free: (800) 594-7930

Office Phone: (941) 330-1702

Website: https://dayhagan.com/ or https://dhfunds.com/

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