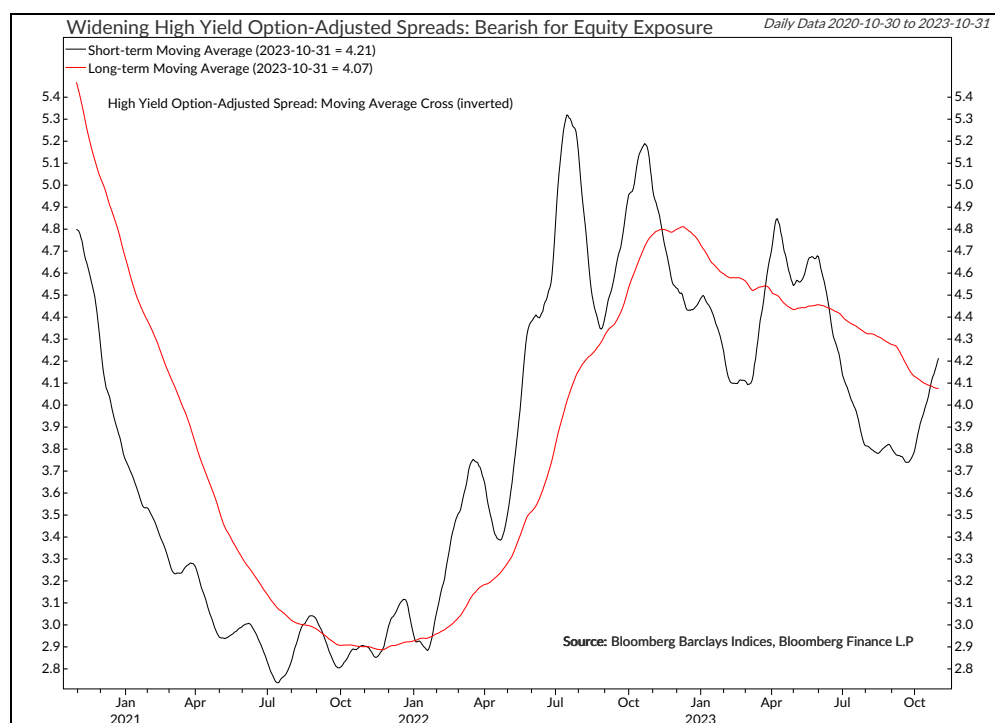
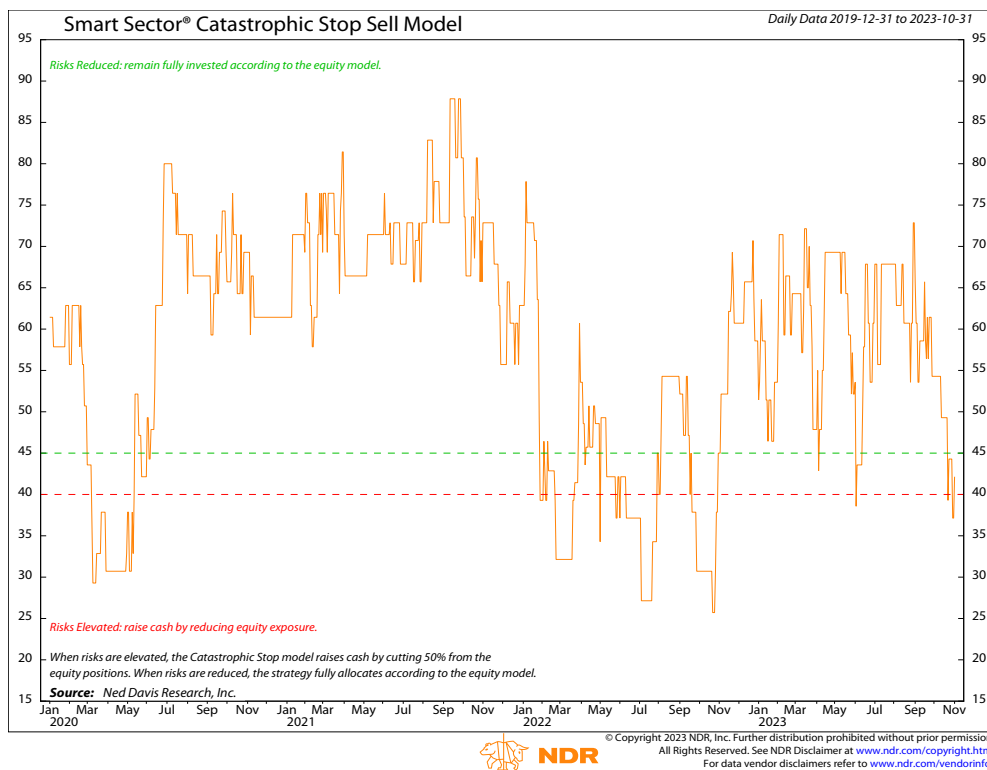


NOVEMBER 2023

## Catastrophic Stop Update

The NDR Catastrophic Stop Sell model combines time-tested, objective indicators designed to identify high risk periods for the equity market. The model (chart right) deteriorated from last month and entered November raising cash.



The deterioration in the model was driven by widening high-yield option-adjusted spreads, which moved bearish for equity exposure (chart left). This was confirmed by technicals—five of seven price-based measures are now bearish. For now, the weight-of-the-evidence recommends a reduced allocation to equity sectors according to the model.

Customized version of NDRIS\_USSMM.RPT externalSigs\_NDRIS

U.S. Market Update

For the third month in a row, the S&P 500 Total Return Index declined in October, dropping about 2.1%. Breadth remained weak—10 of the 11 S&P 500 sectors posted negative returns for the month—only Utilities had modest positive gains. Despite oil prices remaining elevated, the Energy sector went from the top performer in September to the worst performer in October (chart below).

As the stock market pulled back in the third quarter, short-term breadth gauges deteriorated—that is the nature of technical indicators. Technical indicator deterioration does

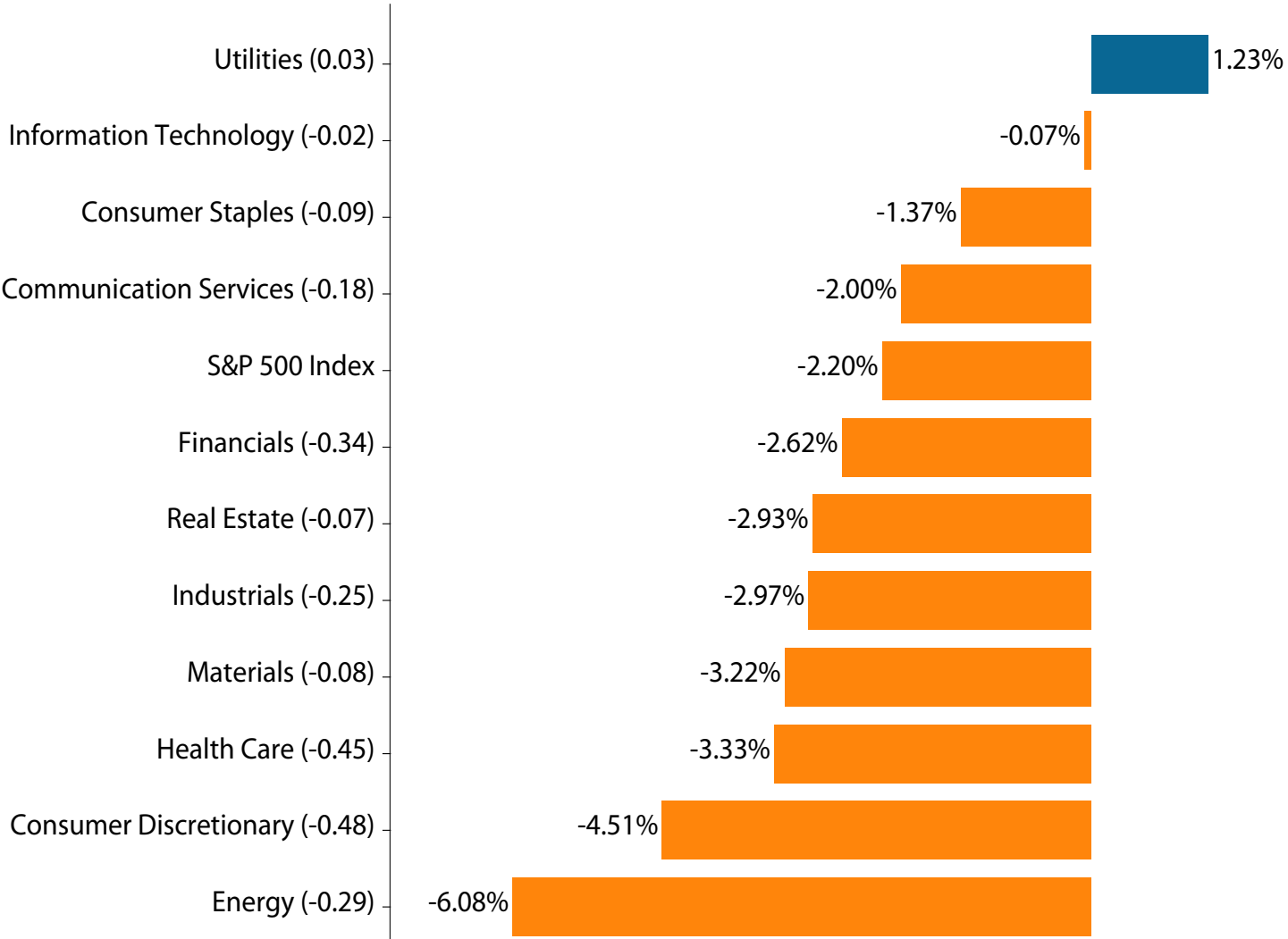
not occur in a vacuum. Macro conditions appear less favorable heading into 2024. With the backup in yields, investors appear to be accepting the Fed’s position on rates being “higher for longer.”

A year-end rally is supported by seasonals—the question is a matter of degree and timing. Market studies show November is historically up 63% of the time by an average of 1.1% and December is up 71% of the time by an average of 1.4%. The market is moderately oversold, but not extremely so. Some deeper oversold readings may be needed

first. Watch the quality of any rallies to glean whether the cyclical bull is resuming, or if the market is going through a topping process.

The sector model remained with a mix of cyclical and defensive leadership during the month. Entering November, the sector model is overweight Communication Services, Utilities, Materials, and Industrials. Information Technology dropped to marketweight, while Energy and Real Estate improved to marketweight. Health Care and Financials joined Consumer Discretionary and Consumer Staples at underweight.

S&P 500 GICS Sector Monthly Performance (09/30/2023 - 10/31/2023)



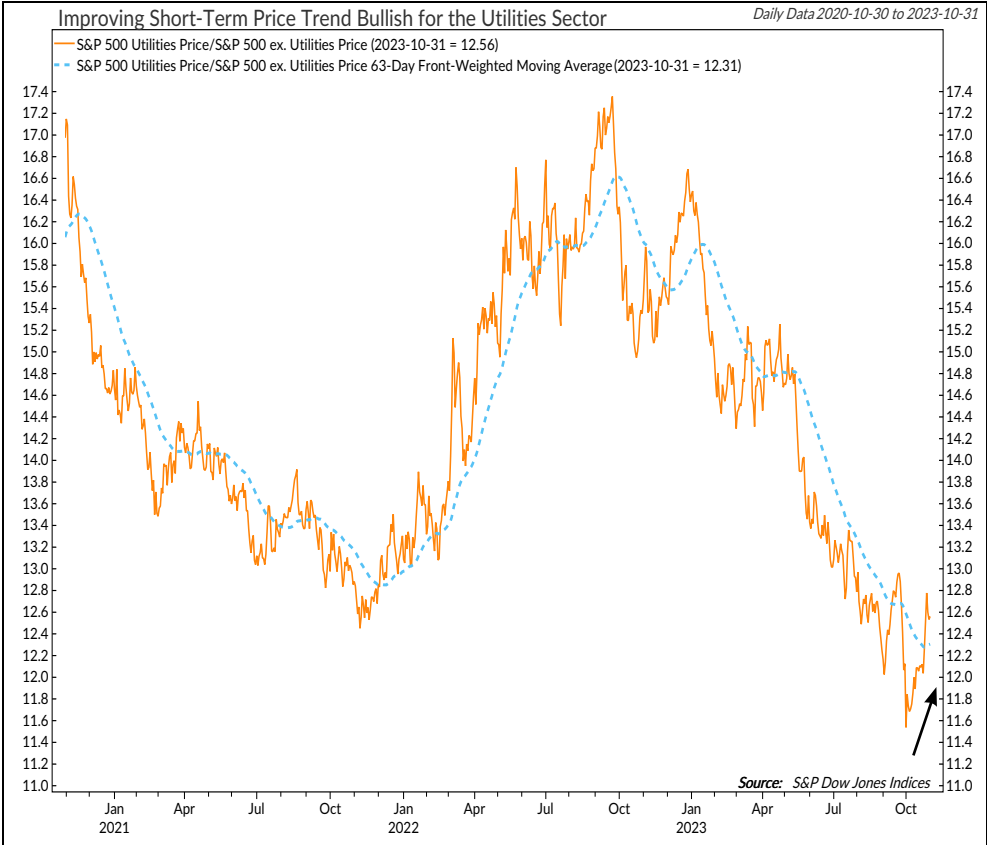
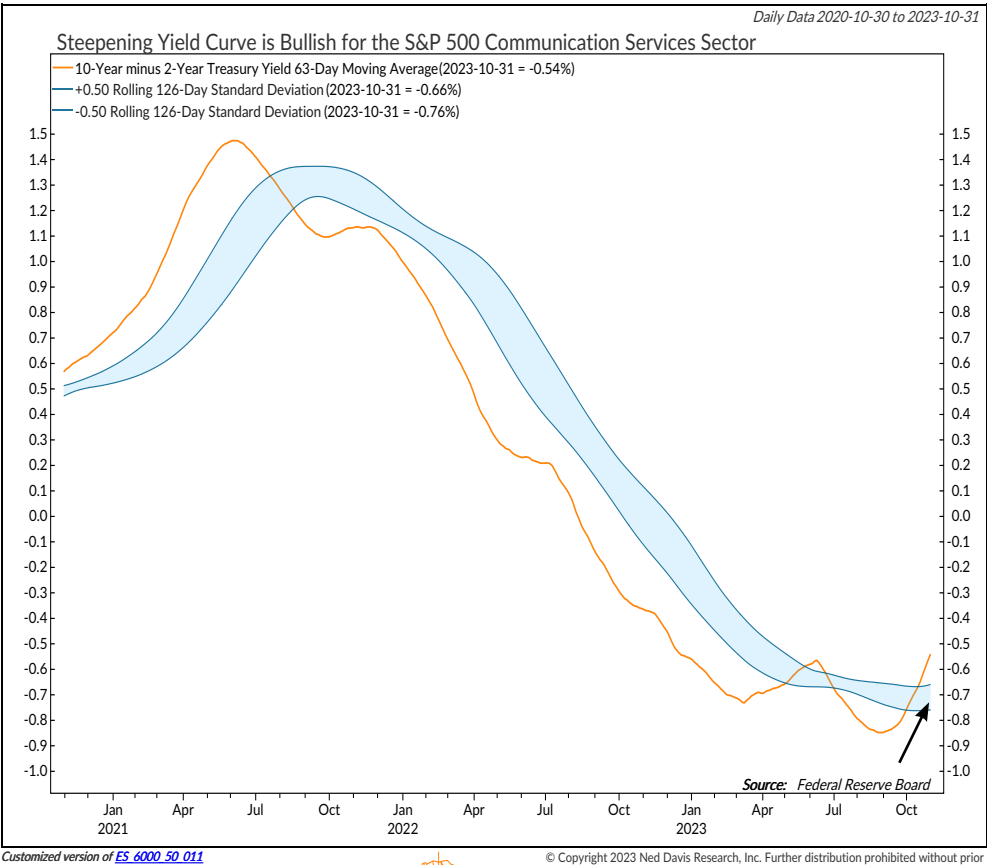
Number in parenthesis after sector name indicates % point contribution to S&P 500 return Source: S&P Dow Jones Indices

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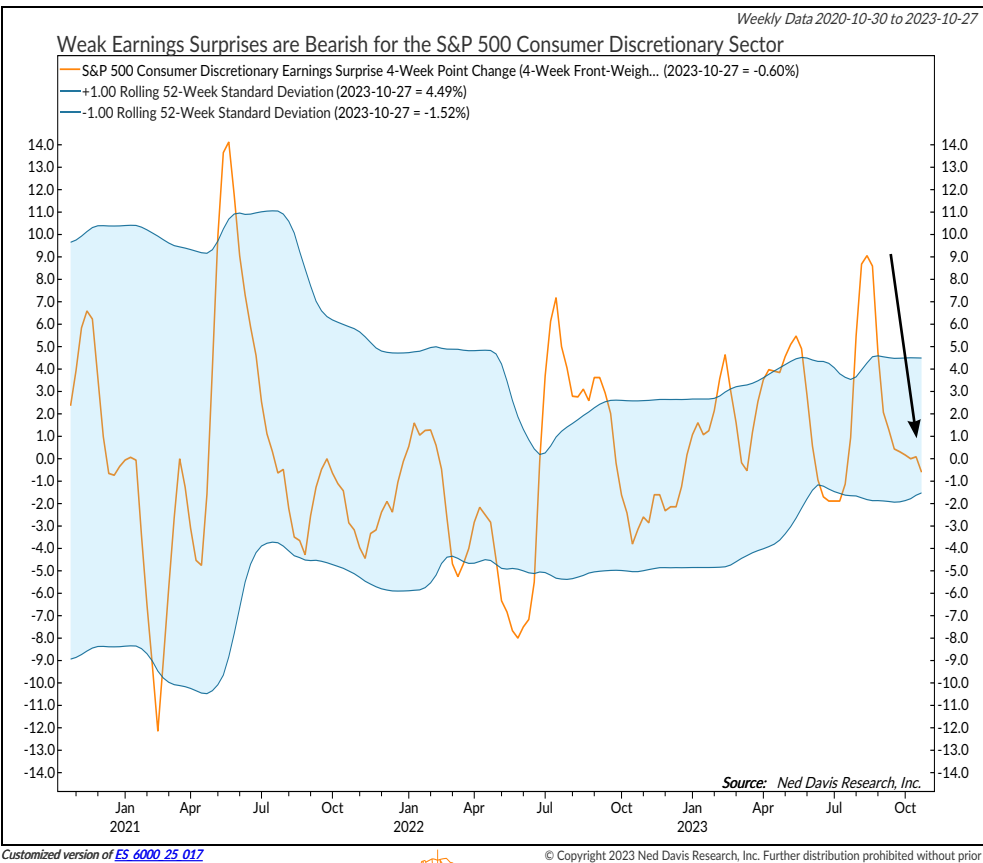
The Communication Services sector's allocation rose by over 100 basis points and remained the largest overweight. The 10-2 yield curve moved bullish for the sector (chart right), joining the Communication Services' option-adjusted spread, valuation, and earnings revision breadth indicators. This was confirmed by internal (price-based) indicators, as five of six indicators remained bullish, including strong relative price momentum.



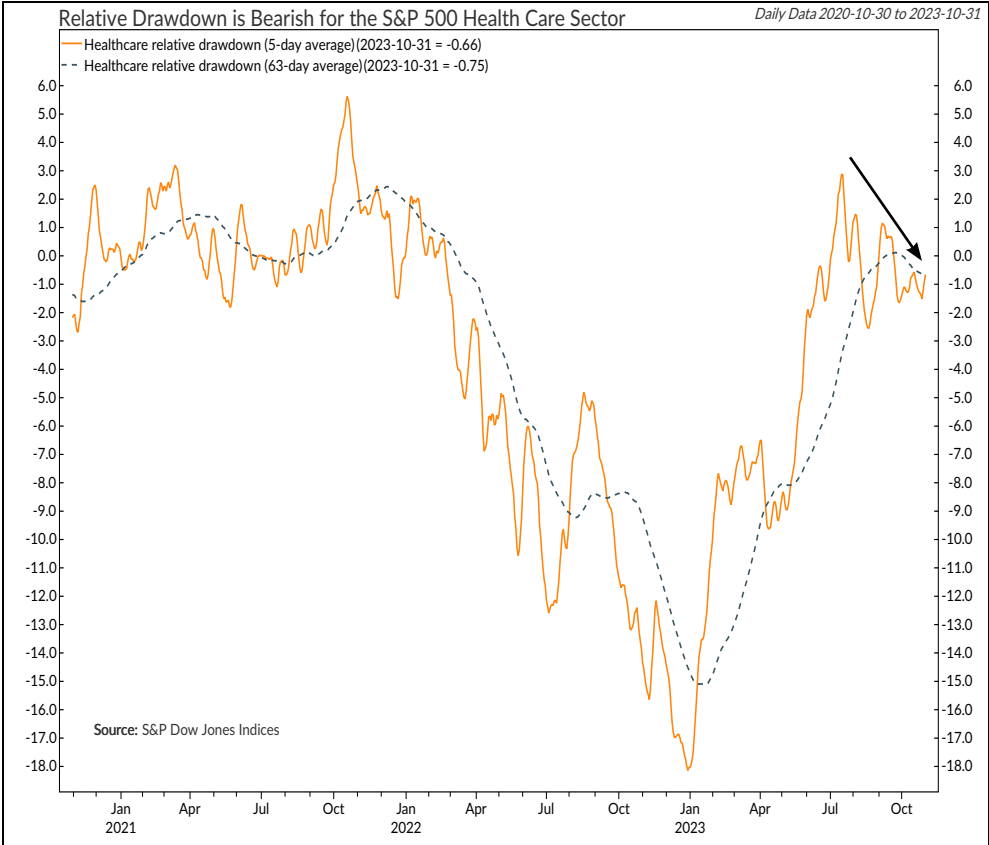
The Utilities sector's allocation rose by over 50 basis points in October and remains overweight. The copper/gold ratio and weak manufacturing PMI remain headwinds for the sector and oil price trends are now neutral. But capacity utilization, valuation and yields on investment grade utilities remain bullish. All seven internal (price-based) indicators are now bullish—a reversal measure and short-term price trends improved to a bullish level (chart left).

Consumer Discretionary's allocation was steady and remains the largest underweight. On a fundamental basis, valuation, consumer credit conditions, and housing starts remained bullish for the sector. However, long-term rates, discretionary spending, and weak earnings surprises remain headwinds (chart right). Four of the six price-based measures remain bearish.

The Health Care sector's allocation dropped by over 200 basis points and was downgraded to underweight. On a fundamental basis, indicators are mixed. New construction and health care personal expenditures are bullish for the sector. But earnings revision breadth flashed bearish, joining valuation, option-adjusted spreads, and consumer inflation as negative offsets. Technicals are confirming—five of the six price-based measures are now negative, including price reversals and relative drawdown (chart below) which moved bearish during the month.



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## Summary

Entering November, the sector model remained with a mix of cyclical and defensive leadership. the sector model is overweight Communication Services, Utilities, Materials, and Industrials. Information Technology dropped to marketweight, while Energy and Real Estate improved to marketweight. Health Care and Financials joined Consumer Discretionary and Consumer Staples at underweight. The sector model uses sector-specific indicators to determine opportunities and identify risks in an objective, weight-of-the-evidence approach.

## 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 moves back to fully invested.

For more information, please contact:

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