DAY HAGAN
ASSET MANAGEMENT

NDR
NED DAVIS RESEARCH

Smart Sector® Strategy

JULY 2022

Catastrophic Stop Update

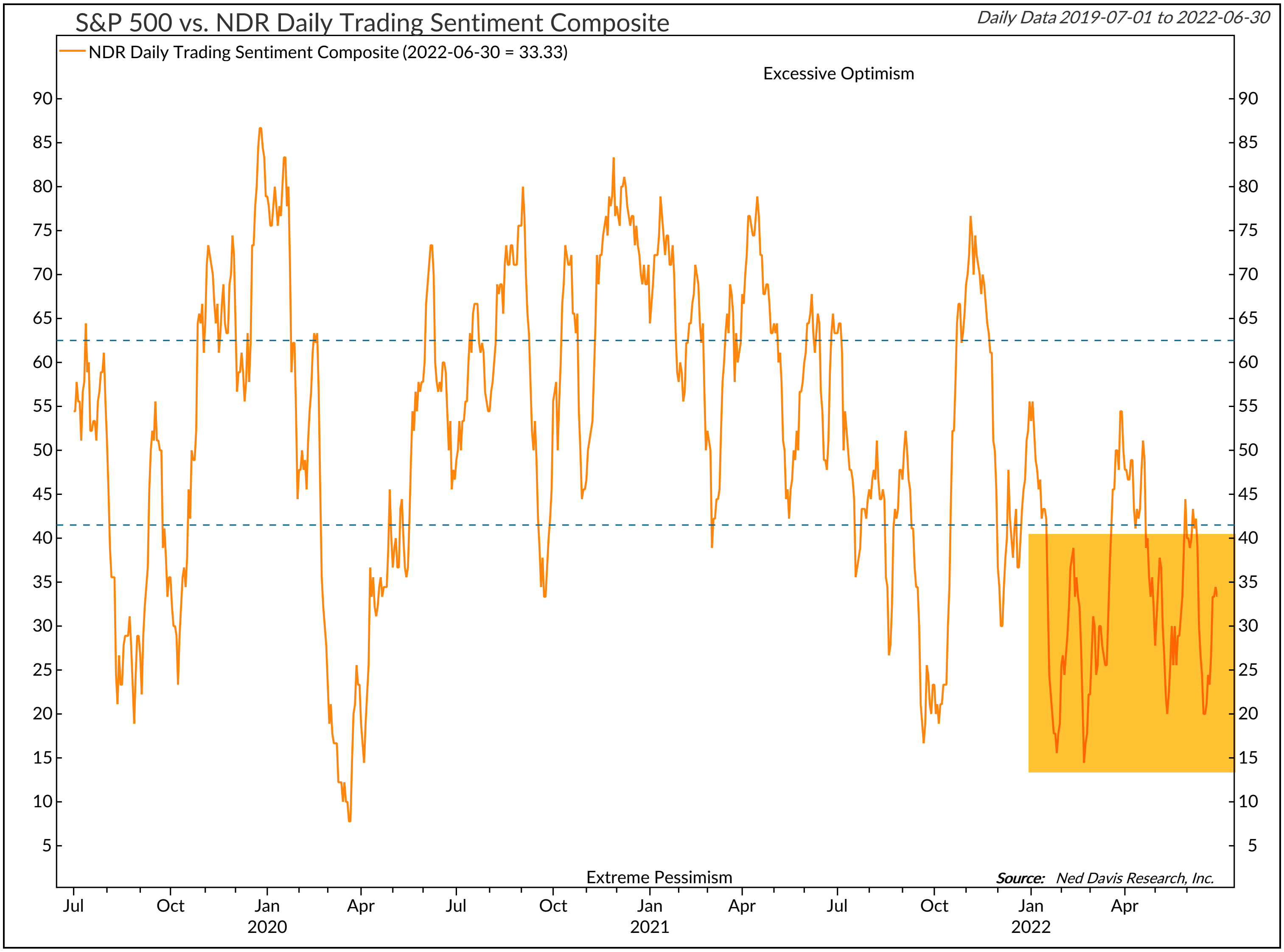
The S&P 500 Index has been lower for four of the first six months in 2022. For two of the last three months, the U.S. large-cap space plunged by more than 800 basis points (bps).

The Catastrophic Stop model recommends a cautious approach at the start of July. High yield option-adjusted spreads remain wide. The percentage of high yield and Emerging Market bonds that are in uptrends has weakened.

Finally, none of the technical indicators, which track how the market is processing macro influences, are bullish. The indicator weakness spans relative strength, trend, breadth, and volume supply/demand.

Not all the news is bad. NDR's most popular indicator combines various measures of sentiment (surveys, asset flows, overbought/oversold, valuation, volatility, and put/call areas) to determine swings in investor psychology. This composite reflects extreme levels of pessimism (chart at bottom), indicating that investors have priced in a worst-case scenario.

For the Catastrophic Stop model to recommend a fully invested allocation requires improvement from the internal (price-based) and external (macro, fundamental, and sentiment) indicators.



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Sector Performance Update

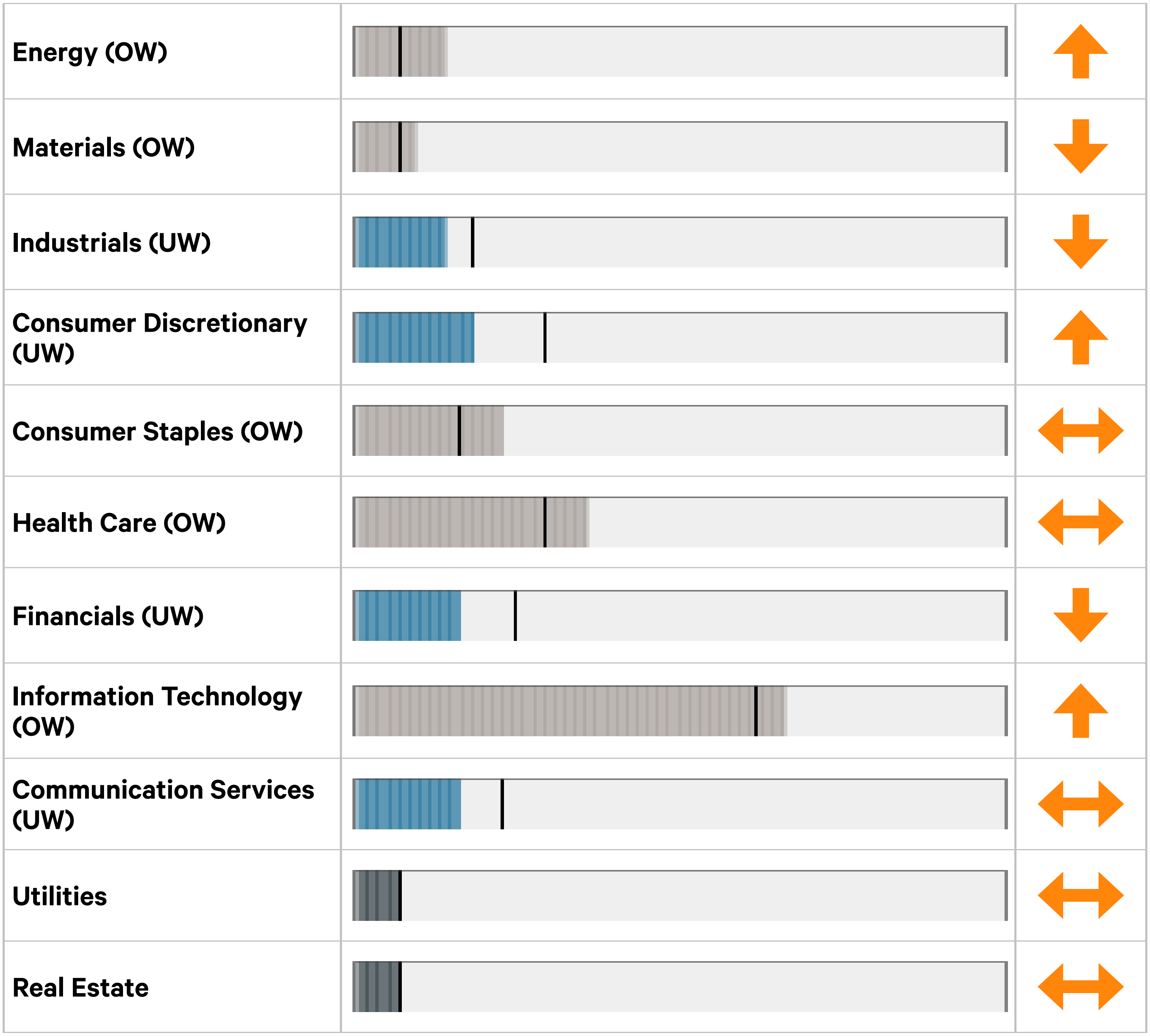
All equity sectors declined during June. Such widespread losses last occurred in March 2020.

Health Care (XLV) and Consumer Staples (XLP) had the smallest losses as they each fell less than 300 basis points (bps).

Utilities (XLU), Industrials (XLI), and Real Estate (XLRE) declined less than 800 bps. XLI has dropped more than 700 bps for two of the last three months. XLU has fallen over 300 bps during three months this year.

Communications Services (XLC) and Information Technology (XLK) decreased over 900 bps. XLK has fallen for five of the first six months this year. Both XLC and XLK declined over 900 bps for two of the last three months.

Sector Allocation Summary

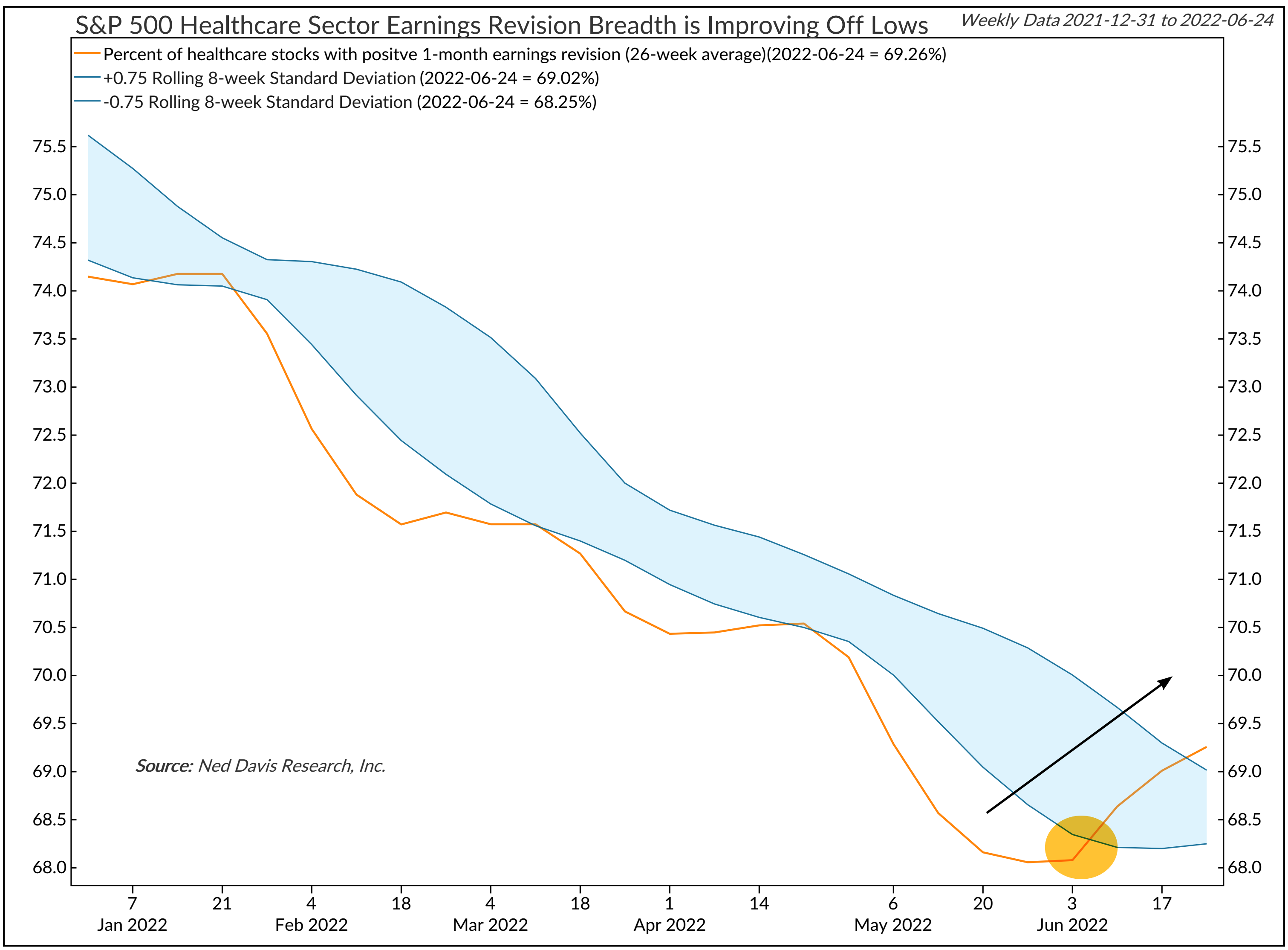


The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased, or remained approximately the same as the previous month.

Financials (XLF) and Consumer Discretionary (XLY) were down over 1,000 bps in June. It was XLF's worst month since March 2020. XLY has fallen over 400 bps for five of the first six months in 2022.

Energy (XLE) and Materials (XLB) plummeted over 13% last month. It was the worst month for both sectors since the COVID crash. However, XLE is still the only sector to have risen for the majority months this year.

- The Consumer Staples sector's weighting improved, and it now has the most overweight allocation relative to benchmark. Relative price momentum improved this month. Two-thirds of the internal (price-based) indicators are bullish, while all but one of the external (macro, fundamental, and behavioral) are bullish.
- The Health Care sector's allocation remains overweight. Although new health care construction is no longer a tailwind, earnings revisions are reversing higher from their recent lows (chart, below). Two-thirds of the internal indicators are bullish.
- The Information Technology sector's allocation jumped to an above benchmark position. Although breadth has deteriorated, the sector is reversing from an oversold condition as inflation expectations are less of a drag.
- The Energy sector's weighting increased, as it continues to be overweight relative to benchmark. Neither oil price sentiment nor the U.S. Dollar are bearish on the sector. None of the sector's external indicators are bearish.
- The Materials sector's allocation fell, but the sector continues to be overweight. The sector's momentum has weakened as it reverses lower from an overbought condition.
- The Utilities sector's weighting fell to near benchmark allocation. The weight of the evidence became more bearish. Momentum is weakening, breadth is deteriorating, and oil prices are rolling over. However, capacity utilization is improving. Only one of the Utilities' sectors external measures is bearish.



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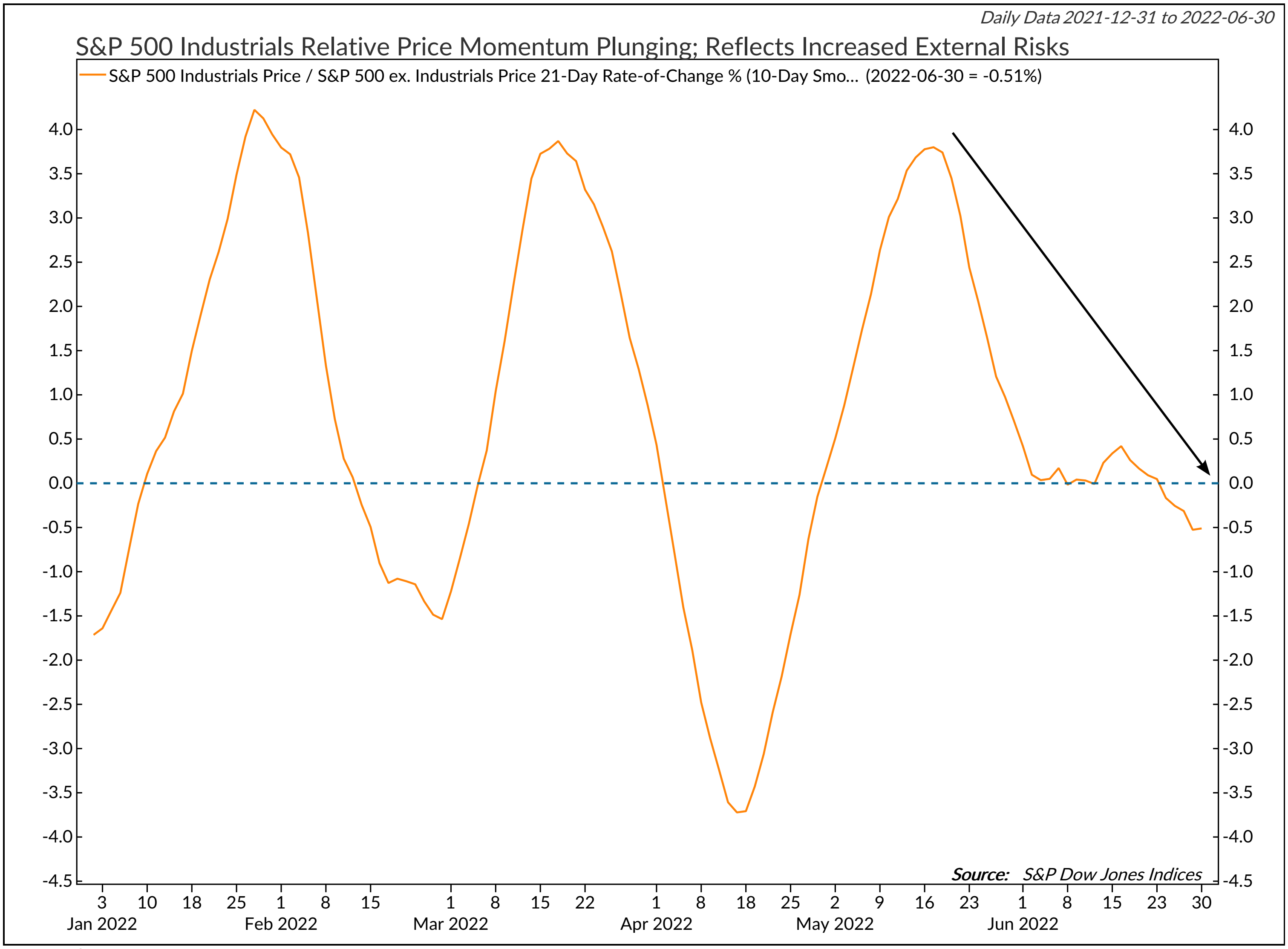
- The Real Estate sector's allocation is in line with benchmark. The sector's relative trend has weakened.
- Industrials' weighting plunged to below benchmark allocation, as the sector's price momentum deteriorated (chart, below), industrial production slowed, and consumer confidence weakened.
- The Communication Services sector's allocation is still below benchmark. No indicators changed signals this month. Only two of the sector's indicators are bullish.
- The Financials sector's allocation fell further below benchmark. The yield curve flattened, which is bearish for the sector. No internal indicators are bullish.
- Consumer Discretionary's allocation improved, but it continues to be the most underweight sector. The trend has strengthened as earnings surprises have improved. However, all but one of the internal indicators are bearish.



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Smart Sector® Strategy

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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