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NED DAVIS RESEARCH

Fixed Income Allocation Strategy

SEPTEMBER 2022

Fixed Income Performance Update

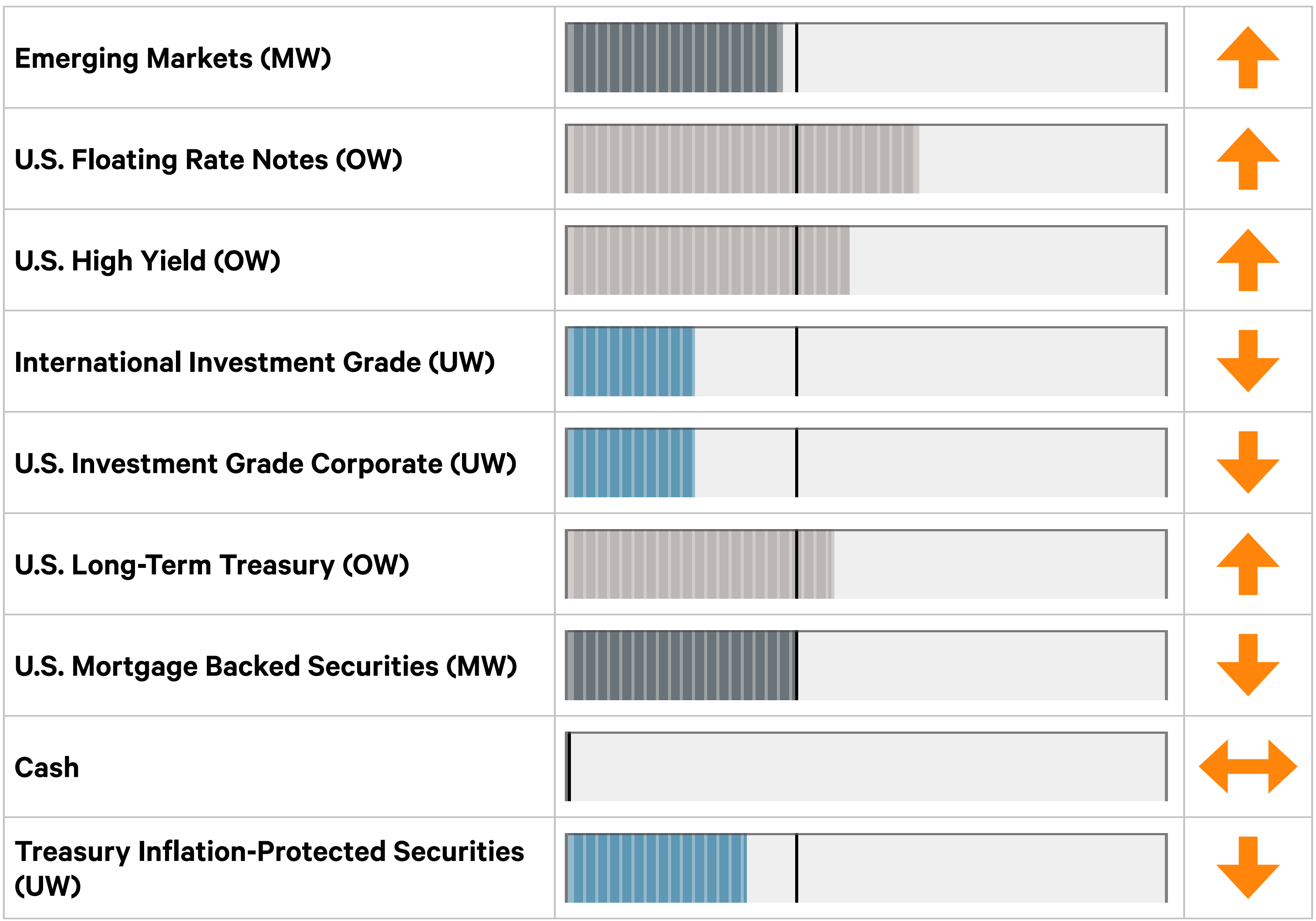
After all fixed income categories rose in July, performance was bleak in August as the Fed remains hawkish. The only sector with positive returns was Floating Rate Notes (FLOT), up 43 basis points (bps) for the month. FLOT has only risen for three months of 2022.

Emerging Market bonds (EMB) and Treasury Inflation-Protected Securities (TIP) each dropped 270 bps, while International Investment Grade (BNDX) and U.S. Mortgage-Backed Securities (MBB) both dropped by over 350 bps in August.

Credit markets were under pressure as both U.S. Investment Grade (LQD) and U.S. High Yield (JNK) fell by more than 400 bps. Both sectors have declined for nine of the last 12 months.

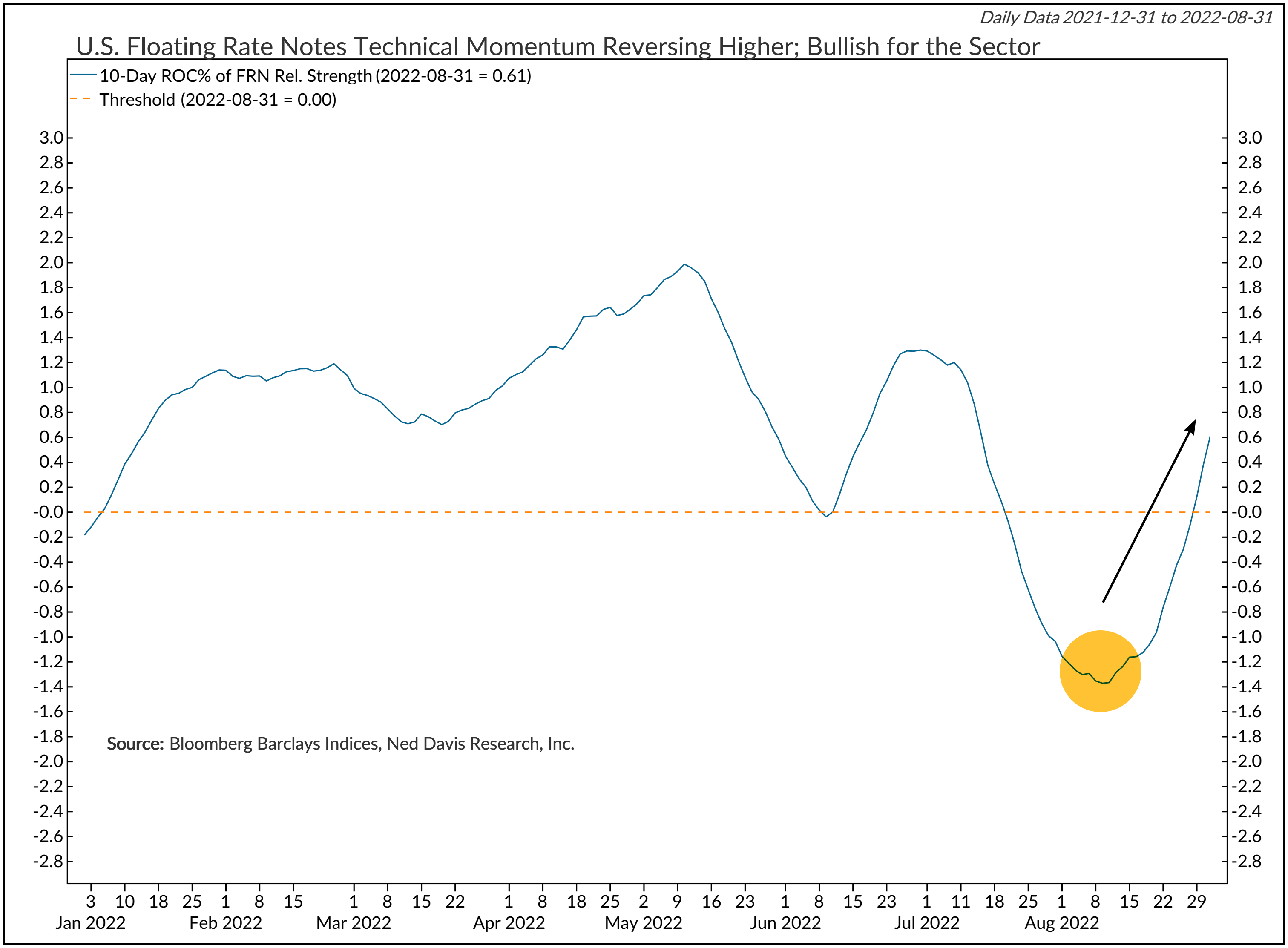
U.S. Long-Term Treasurys (TLT) was the worst-performing sector, dropping by more than 450 bps in August.

Fixed Income Allocation Summary



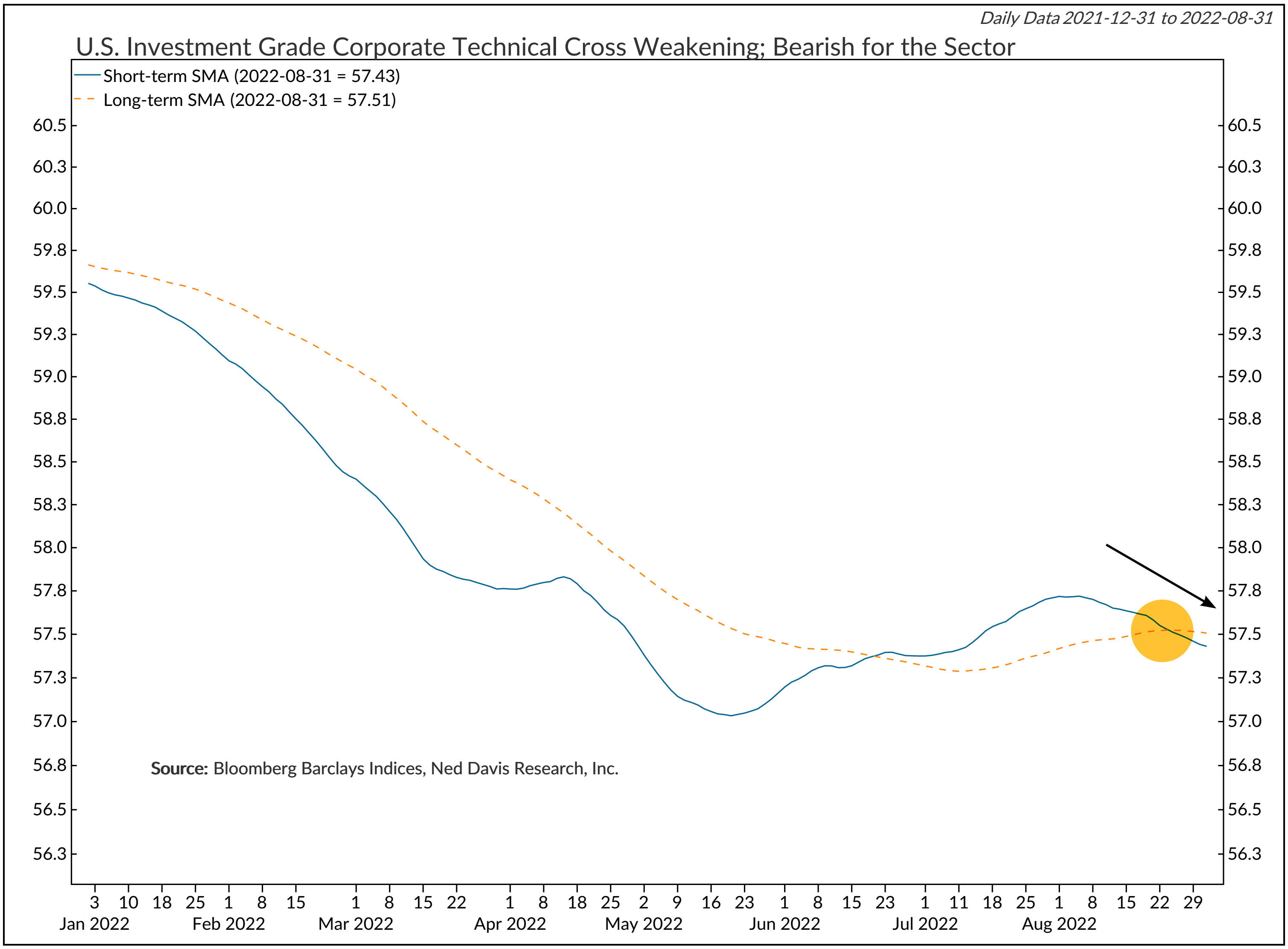
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

- The Floating Rate Notes' (FRN) allocation jumped to significantly higher than benchmark allocation and is now the largest overweight. Momentum (chart below) and three other indicators flipped from bearish to bullish this month.
- Despite the weak monthly performance, U.S. Long-Term Treasurys' weighting jumped to above benchmark allocation. No indicators changed signals this month. Technical measures remain bearish.
- U.S. High Yield's allocation rose and remained above benchmark allocation. However, the absolute trend and breadth indicators weakened in August.
- Emerging Markets (EM) increased in allocation and is now close to benchmark. There was some indicator improvement as momentum and relative strength flipped bullish. However, three of the five indicators are bearish.



Customized version of Technical Momentum

- U.S. Mortgage-Backed Securities' (MBS) dropped back to benchmark allocation. A technical indicator moved bearish and the inflation expectations indictor flipped neutral. Half of this segment's indicators remain bullish.
- Treasury Inflation-Protected Securities (TIPS) dropped and is now an underweight allocation. None of the indicators changed signals this past month.
- The U.S. Investment Grade Corporate bond sector's weighting was slashed to an underweight allocation. Investment Grade option-adjusted spreads (OAS) have widened and technicals are weakening. The short-term moving average is now below the long-term moving average which is bearish for the sector (chart below).
- International Investment Grade bonds' allocation also declined sharply, dropping below benchmark allocation. Relative strength indicators have deteriorated and are now bearish.



Customized version of Technical Cross

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