Dynamic Allocation Strategy

APRIL 2022

Macro/Market Update

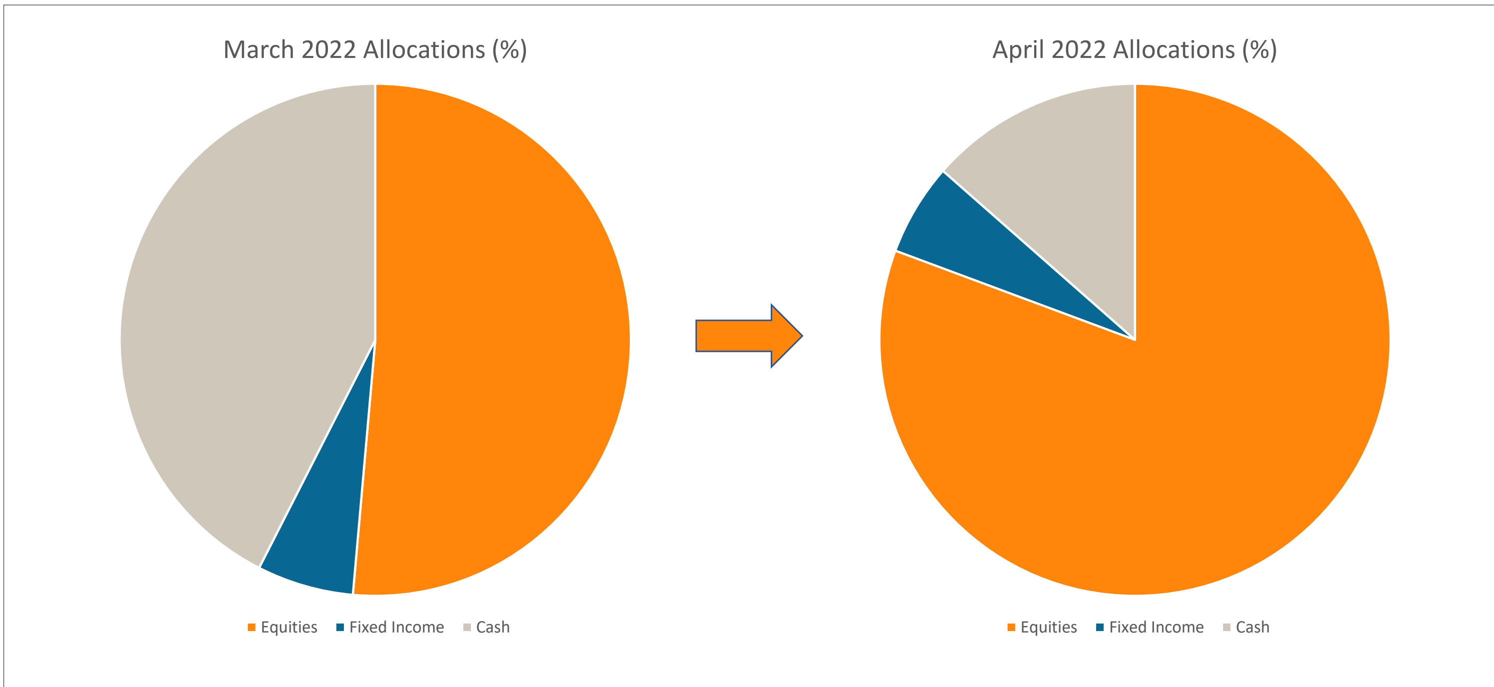
Global economic growth rebounded in February, after reaching an 18-month low in the prior month, as the negative impact from the Omicron variant faded. The global composite (manufacturing and services) Purchasing Managers' Index (PMI) jumped 2.3 points to 53.4, consistent with 3.2% annual global real Gross Domestic Product (GDP) growth. Businesses in both the manufacturing and services sectors were highly optimistic, with the composite future-outlook index rising to its second-highest level on record.

The global services PMI surged 2.9 points in February, the most since June 2020, to 53.9. The reading is in line with its long-term average, indicating that the sector is normalizing and adjusting to COVID. New business growth picked up, boosted by a record reading in the export index. Employment growth also accelerated. Global manufacturing activity improved in February, as the PMI rebounded 0.5 points to 53.6. Although down from its peak in mid-2021, the PMI is still well above its long-term average of 51.5.

After a brief reprieve, global price pressures have edged higher. The global composite input price index increased for the first time in three months in February, but it remained below its record high. The output price index rose for a second month and is now just 0.3 points shy of its all-time high in October. As commodity prices surge and supply chains face disruptions due to the Russia/Ukraine crisis, price pressures are likely to reassert themselves in the manufacturing sector. Coupled with the rising pressures in services prices, global inflation is likely to stay higher for longer.

During March, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by more than 500 basis points (bps), the largest spread since October. Prior to last month, global stocks trailed bonds for three of the previous four months. When market downtrends turn into uptrends, it usually happens in four steps – pessimism reaches an extreme, a bottoming process stops the bleeding, a breadth thrust indicates renewed momentum, and longer-term breadth indicators confirm that a sustainable advance has gotten underway. Steps one to three are now behind us, which brings step four into focus: increased participation has led to thrust signals. Until longer-term breadth indicators confirm the recent upward move, the jury is still out on the rally's staying power.

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 reallocated back into equities this month.
- The equity allocation is slightly above 80%, while the fixed income allocation is less than 10%.
- Cash allocation declined to less than 15% this month, after having its largest allocation in the model's history last month.
- Three indicators flipped to favoring equities this month: global equity market upside participation, Purchasing Managers' Index (PMI) breadth, and the Baltic Dry Index's (BDI) trend (chart, below).
- All but one of the top-level indicators favor equities over fixed income (table, below).

Top Level Factors

Indicator	Current Signal (Red = New Signal)	Comment
Equities/Fixed Income Relative Strength (indicator receives a heavier weighting)	Favors Equities	The relative strength ratio rose to more than 7% above its one-year moving average.
Global Market Breadth	Favors Equities	This indicator now favors equities. Almost 60% of global equity markets are trading above their 50-day moving averages. It was the indicator's highest reading since mid-January.
OECD Leading Indicator	Favors Fixed Income	The four-week change in the OECD Composite Leading Indicator (CLI) declined for a fifth straight month, but the pace of the decline slowed in March.
PMI Breadth Factor	Favors Equities	This indicator now favors equities. The four-week change in economies with expanding manufacturing industries rose into the growth territory, as China and Australia each crossed above the key threshold of 50 last month.
Baltic Exchange Dry Index	Favors Equities	This indicator now favors equities. The Baltic Dry Index is more than 20% above its intermediate-term trend. Two months' ago, the BDI was 40% below its 13-week moving average.
Central Bank Policy	Favors Equities	To favor fixed income, this indicator requires a significant drop in global short-term rates.

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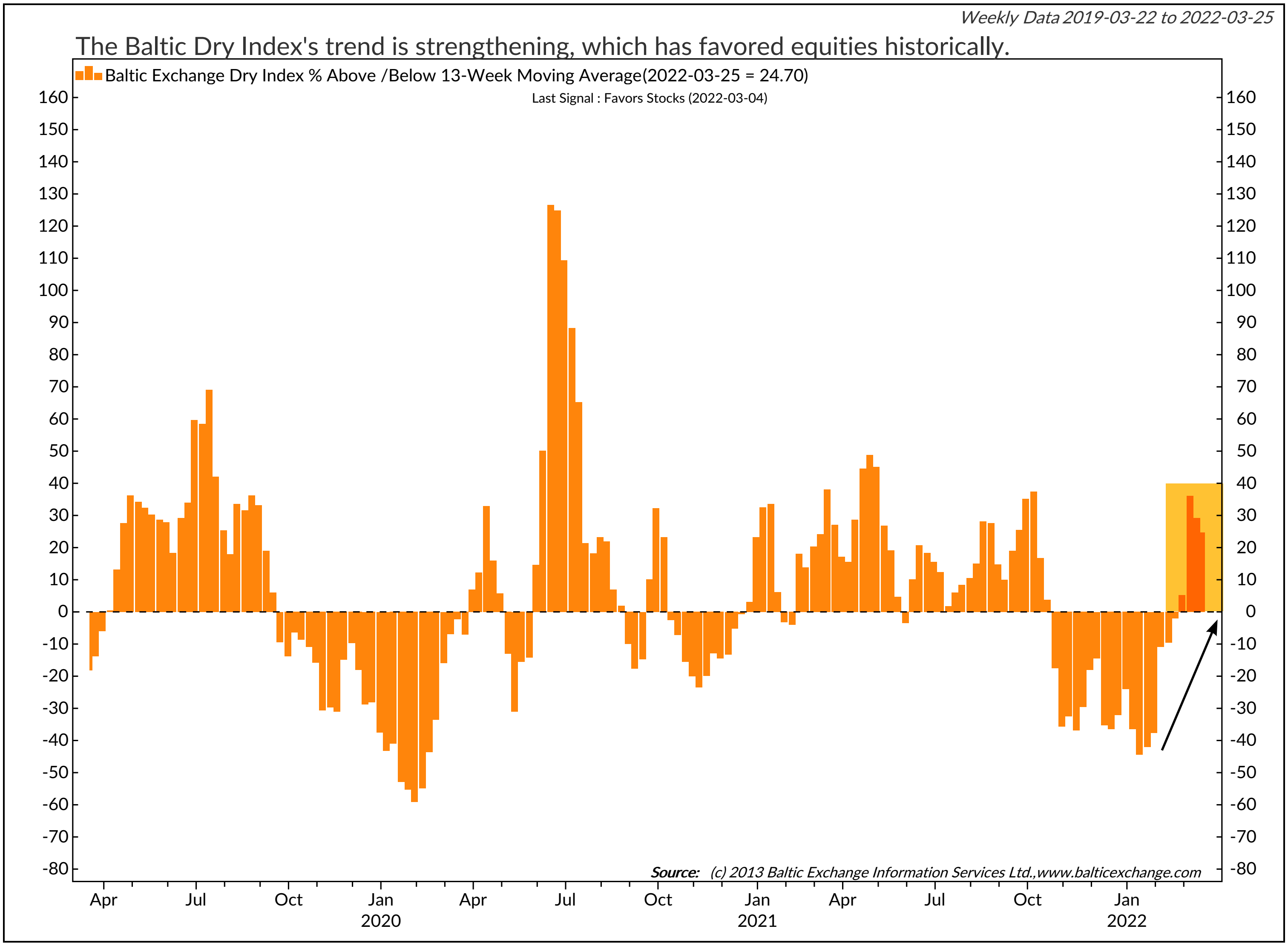

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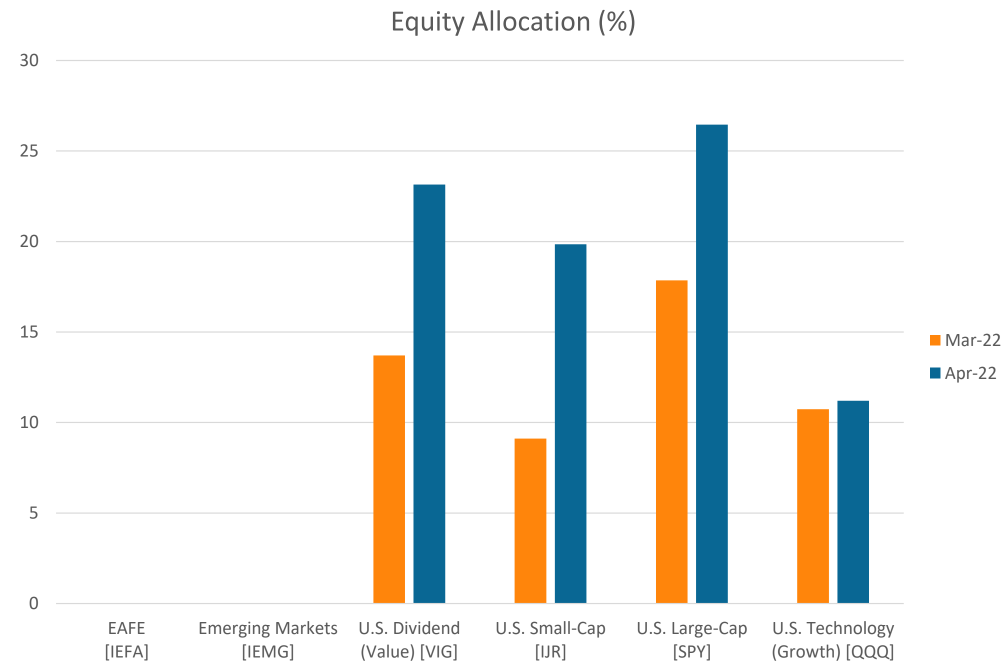
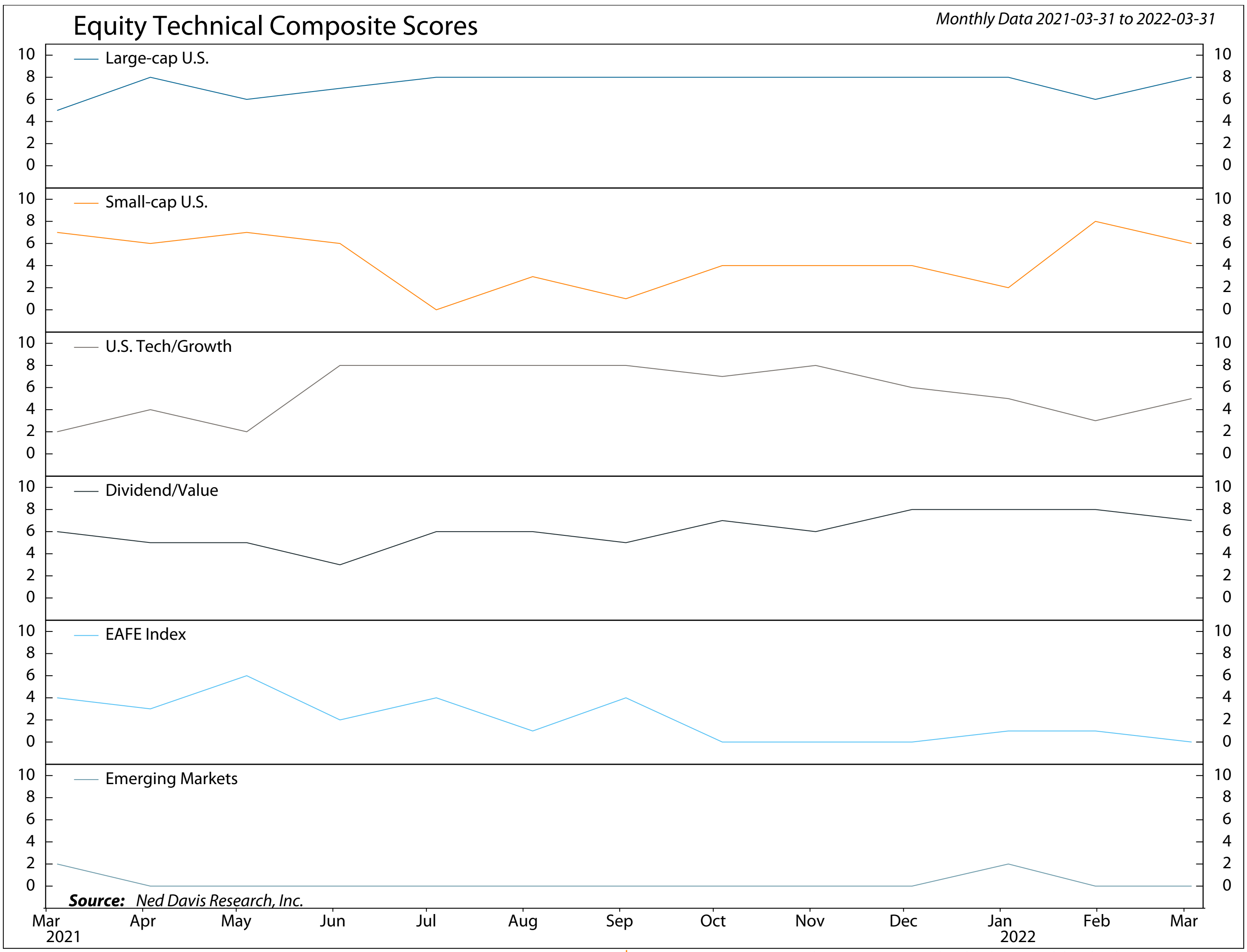
Equity Allocation Summary

During March, U.S. Growth [Technology] (QQQ) jumped by more than 400 bps. During each of the prior two months, QQQ declined by more than 400 bps. U.S. Large Caps (SPY) and U.S. Value [Dividends] (VIG) rose by over 300 bps last month. SPY and VIG had positive returns for only three of the last six months. U.S. Small Caps (IJR) and Europe, Australasia, and the Far East [EAFE] (IEFA) increased by less than 100 bps. IJR has risen for three of the last four months. Emerging Markets (IEMG) was the only area to decline in March as it dropped by almost 300 bps. IEMG has fallen for three consecutive months. VIG, QQQ, IJR, and SPY each received more than 10% allocation for April due to their elevated technical composite scores (image at bottom).





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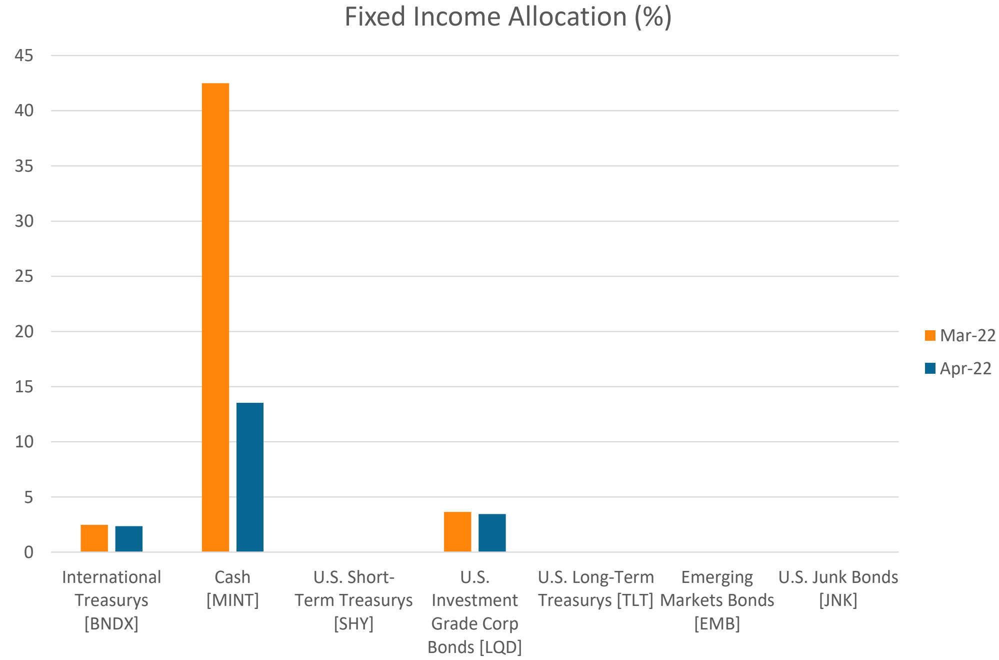
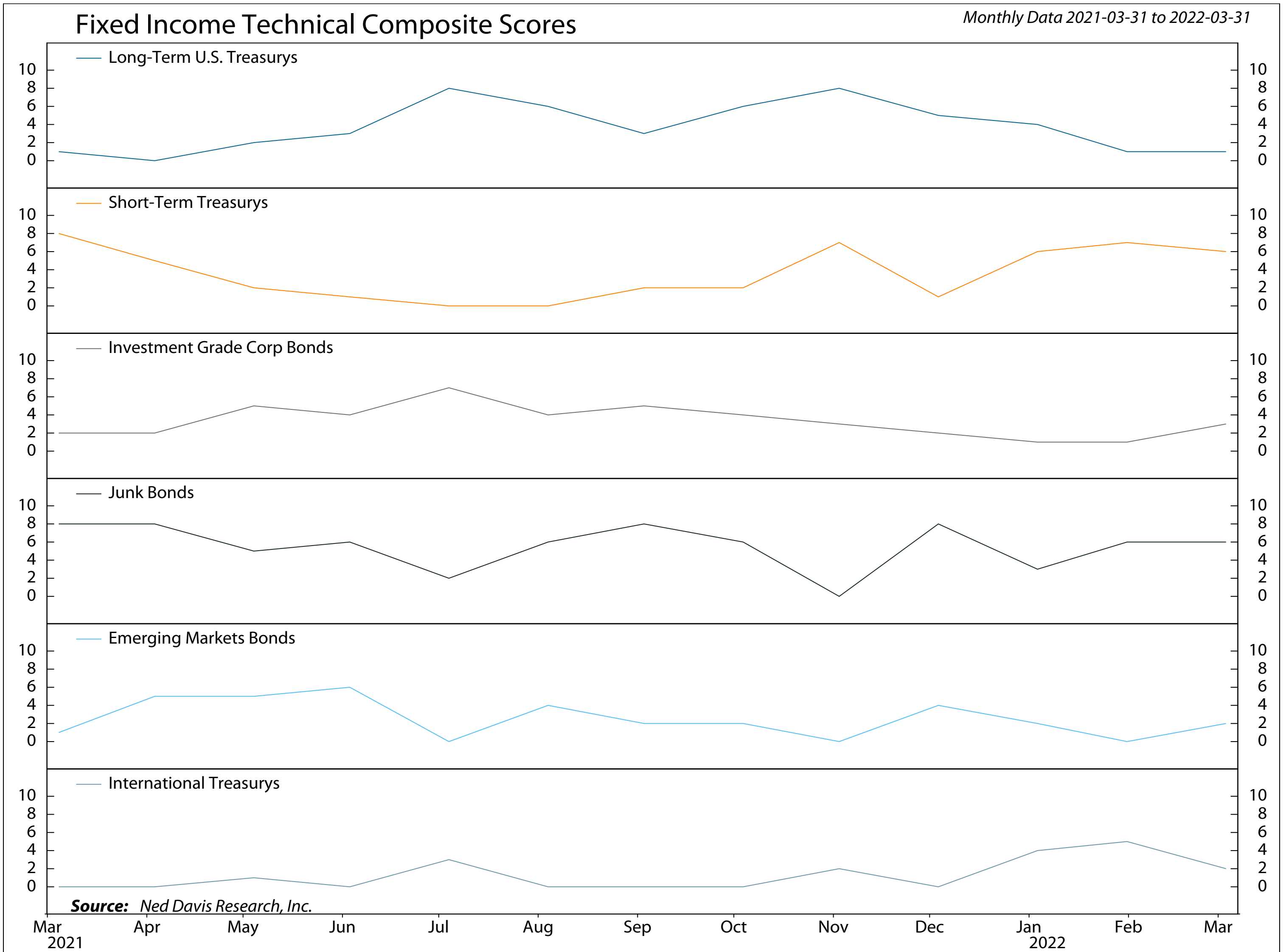
Fixed Income Allocation Summary

For a third straight month, all fixed income areas fell. U.S. Short-Term Treasurys (SHY) , U.S. High Yield (JNK), and Emerging Market bonds (EMB) each declined by less than 150 bps. International Investment Grade Bonds (BNDX) and U.S Investment Grade (LQD) dropped by less than 300 bps. U.S. Long-Term Treasurys (TLT) plunged over 500 bps. BNDX and LQD have less than 5% allocation for April. The model recommends raising cash until a better opportunity presents itself.





Source: *Ned Davis Research, Inc.*

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