Dynamic Allocation Strategy

NDR
NED DAVIS RESEARCH

DECEMBER 2021

Macro/Market Update

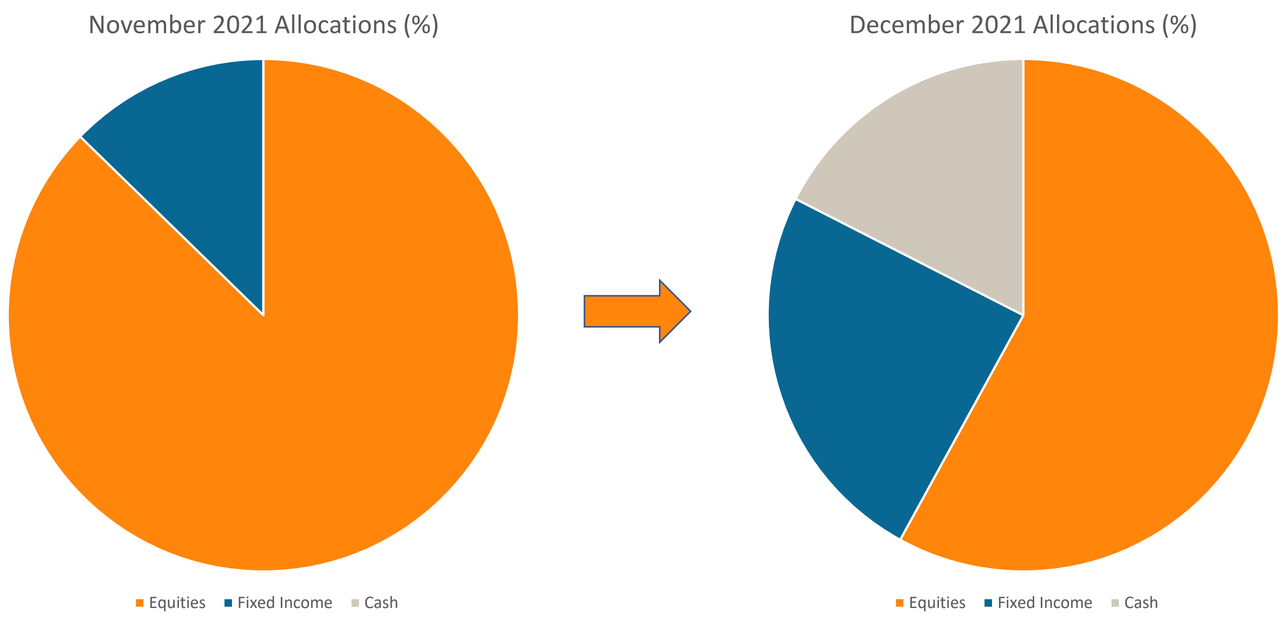
Global economic momentum strengthened for a second straight month in October, according to last month's Purchasing Managers' Index (PMI) data. The global composite (manufacturing and services) PMI increased 1.2 points last month to 54.5. It was the largest gain in five months to its highest level since July.

The latest global PMI reading is almost a point above its long-term average and historically consistent with 3.7% annual global real GDP. However, supply chain issues, labor and raw material shortages, and rising prices continue to restrain output.

Reflecting the global supply chain issues, supplier delivery times lengthened to a record. Strong demand coupled with supply constraints has led to inflation. The global composite input price index surged to the highest since July 2008, while output prices jumped to a record since data began in 2009.

During November, the MSCI All Country World Index (ACWI) underperformed the Barclays Global Aggregate Bond Index by more than 200 basis points (bps). The spread between stocks and bonds has whipsawed between negative and positive values each month since July. Stocks have risen for seven of the first eleven months in 2021, while the global bond index has fallen during five of the last six months. In the coming year, we could see increased market volatility, due to challenging year/year earnings comparisons, inflation uncertainties, and less dovish central bank policies.

Asset Allocation Summary

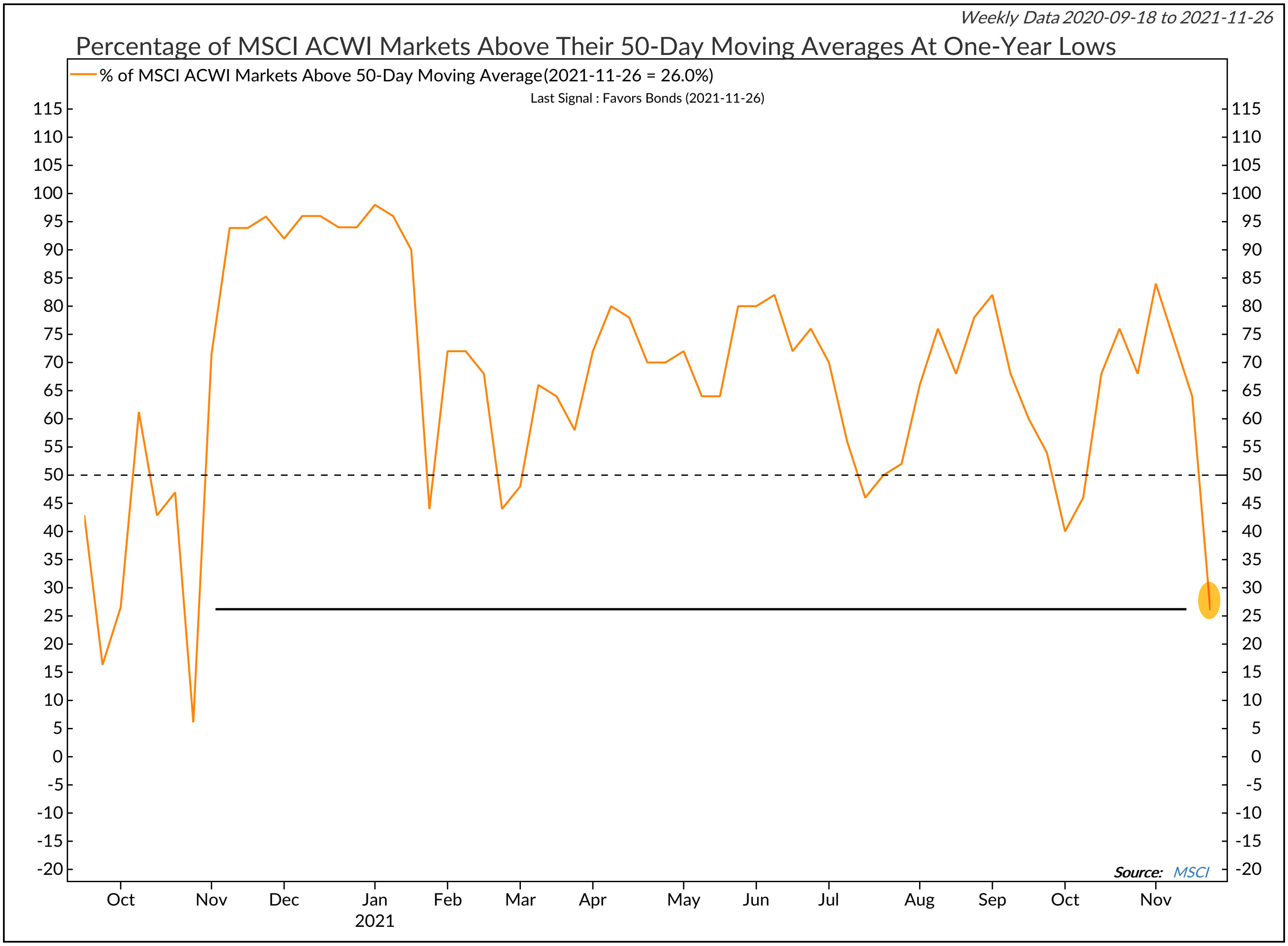


* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

- The equity allocation plummeted to under 60%.
- The fixed income allocation continued to be less than 30%.
- Cash saw a significant allocation this month as it was more than 15%.
- The Purchasing Managers' Index (PMI) breadth indicator returned to favoring equities as both China's and Russia's PMIs rose into the expansion zone.
- However, equity market breadth (chart at bottom) and the Composite Leading Indicator (CLI) produced new signals supporting fixed income.
- At the end of last week, only 26% of global equity markets traded above their intermediate trends, its lowest level in more than one year.
- The one-month change in the CLI dropped into negative territory for the first time since the spring of 2020.
- The top-level indicators are evenly split between equities over fixed income (table, below).

Top Level Factors

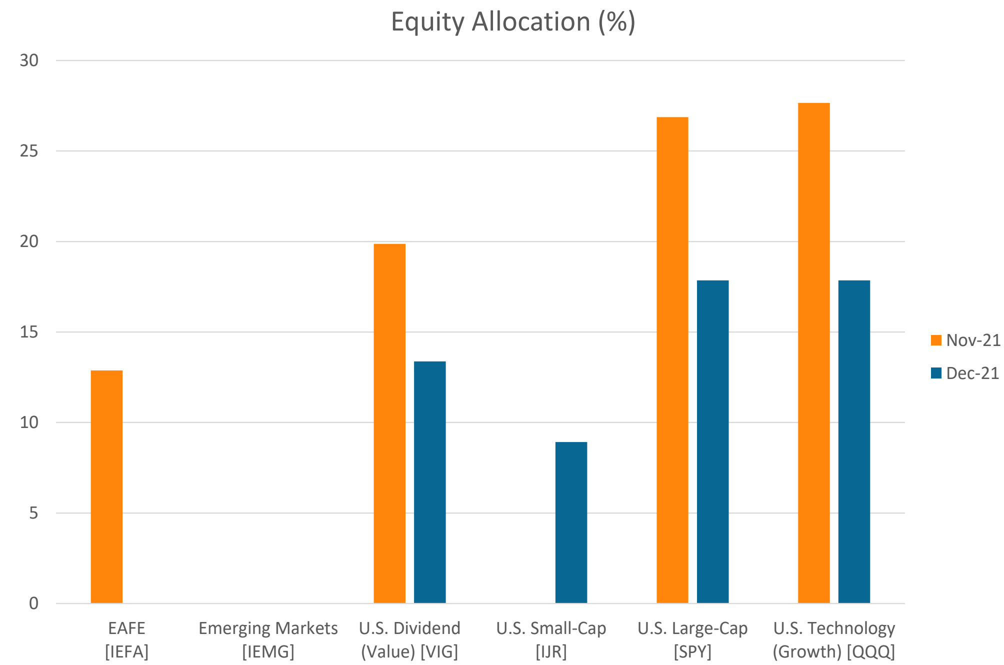
Indicator	Current Signal (Red = New Signal)	Comment
Equities/Fixed Income Relative Strength (indicator receives a heavier weighting)	Favors Equities	The relative strength ratio is now only 7.5% above its one-year moving average. The spread reached an all-time high earlier this year.
Global Market Breadth	Favors Fixed Income	This indicator now favors fixed income. Only 26% of global equity markets are trading above their 50-day moving average. This was a significant drop from the 68% reading last month.
OECD Leading Indicator	Favors Fixed Income	This indicator now favors fixed income. The four-week change in the OECD Composite Leading Indicator (CLI) declined for the first time since the spring of 2020.
PMI Breadth Factor	Favors Equities	This indicator now favors equities. The four-week change in economies with expanding manufacturing industries rose into positive territory, as China and Russia crossed above the key threshold of 50 last month.
Baltic Exchange Dry Index	Favors Fixed Income	The Baltic Dry Index plummeted to more than 29% below its 13-week moving average.
Central Bank Policy	Favors Equities	To favor fixed income, this indicator required a significant drop in global short-term rates.
Ned Davis Research		T_ETFM20211129.1

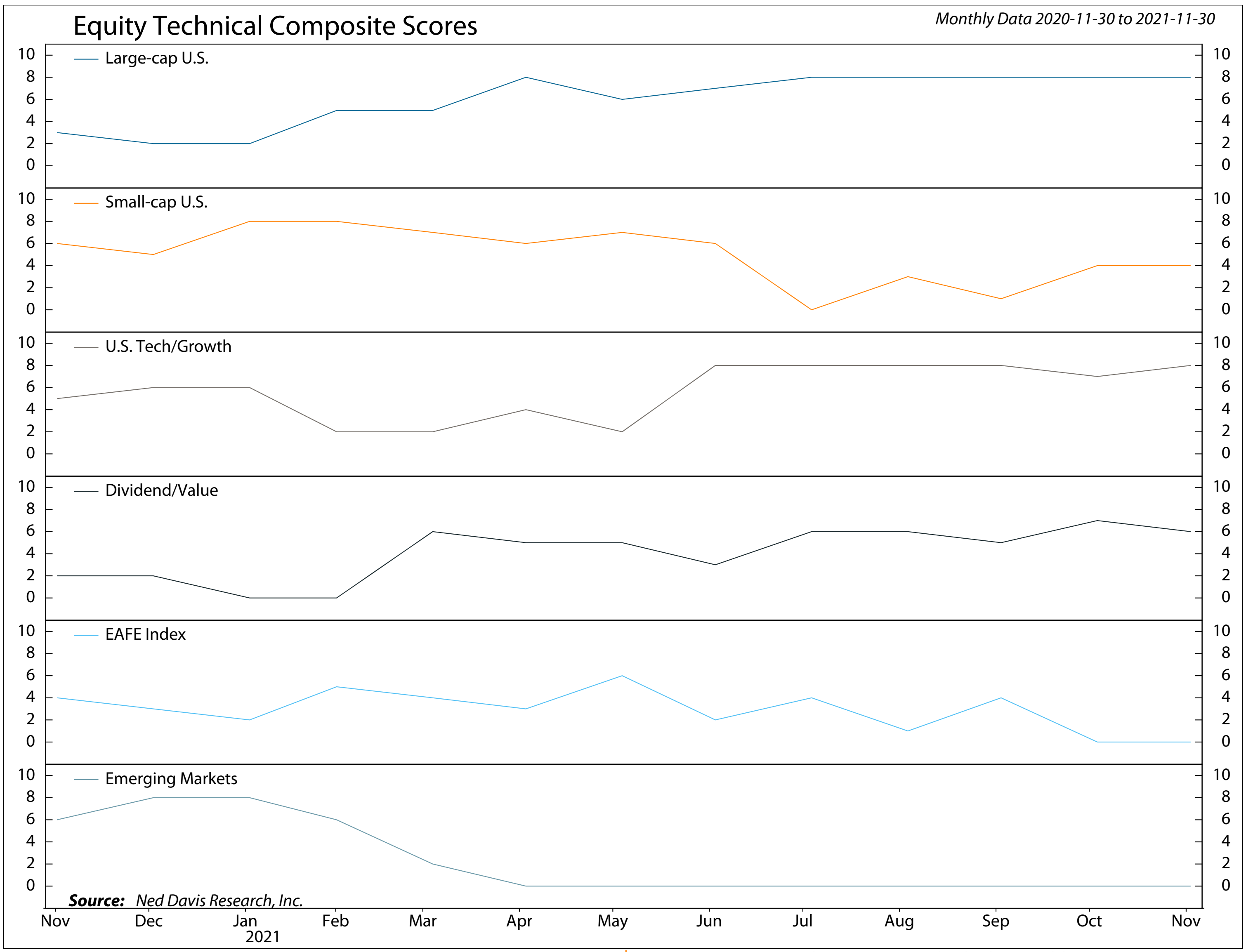


Customized version of ETF1000_12

Equity Allocation Summary

During November, only U.S. Growth [Technology] (QQQ) produced a positive return within the equity decision. QQQ gained more than 100 bps. U.S. Value [Dividends] (VIG), U.S. Large Caps (SPY), and U.S. Small Caps (IJR) each declined by less than 300 basis points (bps). Europe, Australasia, and the Far East [EAFE] (IEFA) and Emerging Markets (IEMG) both plummeted by over 300 bps. QQQ and SPY each received more than 15% allocation for December (image at bottom).

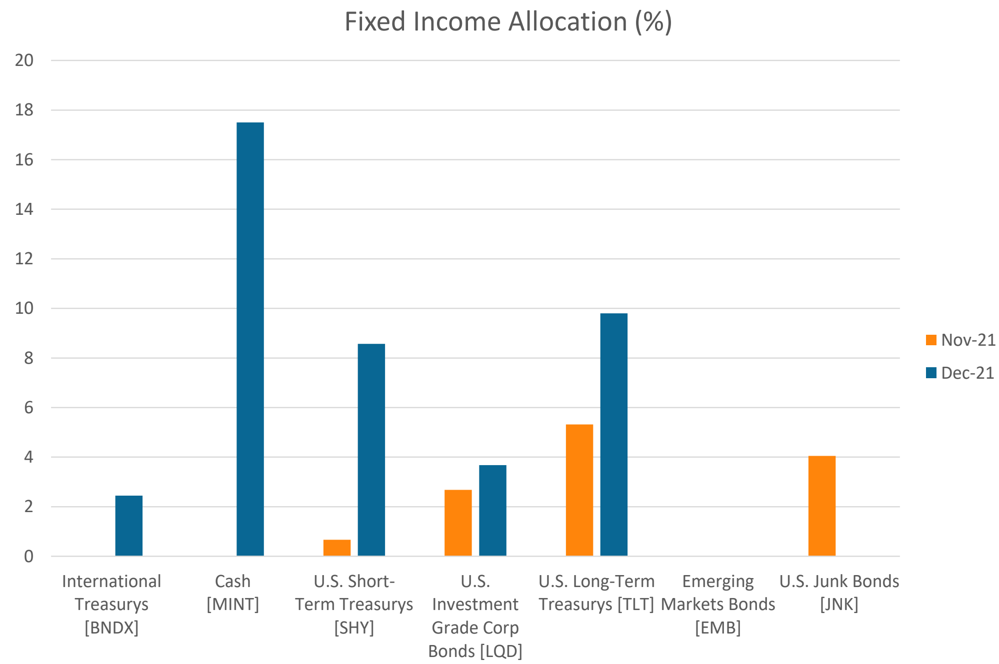


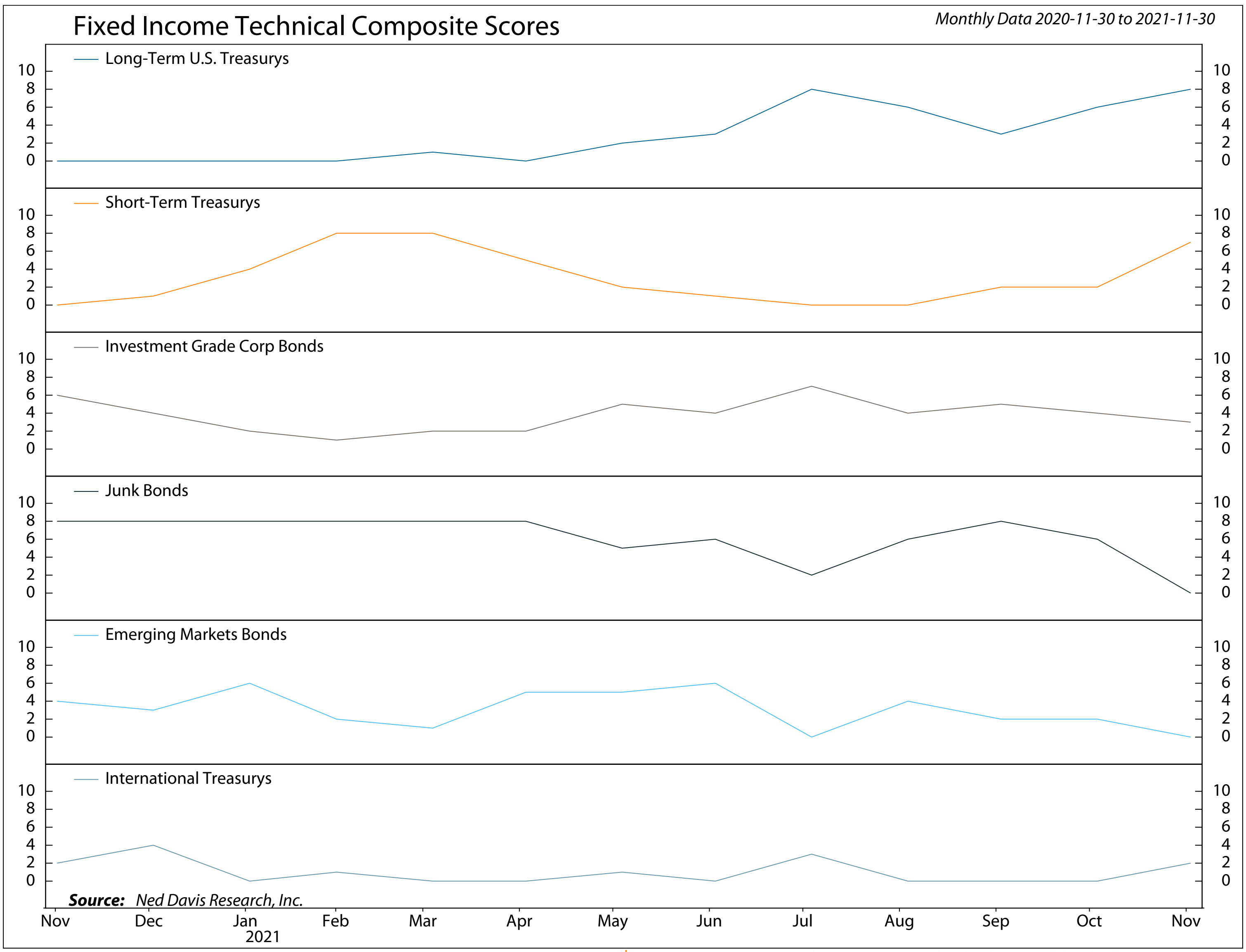


ETF1000_M_NDRIS

Fixed Income Allocation Summary

U.S. Long-Term Treasurys (TLT) was the top-performing fixed income area during November, as it rose by more than 200 bps. Over that same period, only International Investment Grade Bonds (BNDX) generated a positive return. BNDX increased by more than 100 bps. U.S. High Yield (JNK) and Emerging Market bonds (EMB) were the worst performers as they each dropped by more than 100 bps. TLT, SHY, and MINT all received more than 8% allocation for December (image at bottom).





ETF1000_M_NDRIS

Ned Davis Research Disclaimer:

The data and analysis contained within are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. All performance measures do not reflect tax consequences, execution, commissions, and other trading costs, and as such investors should consult their tax advisors before making investment decisions, as well as realize that the past performance and results of the model are not a guarantee of future results. The NDR Dynamic Allocation model is not intended to be the primary basis for investment decisions and the usage of the model does not address the suitability of any particular investment for any particular investor.

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns JUNE not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs.