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Dynamic Allocation Strategy

JULY 2021

Macro/Market Update

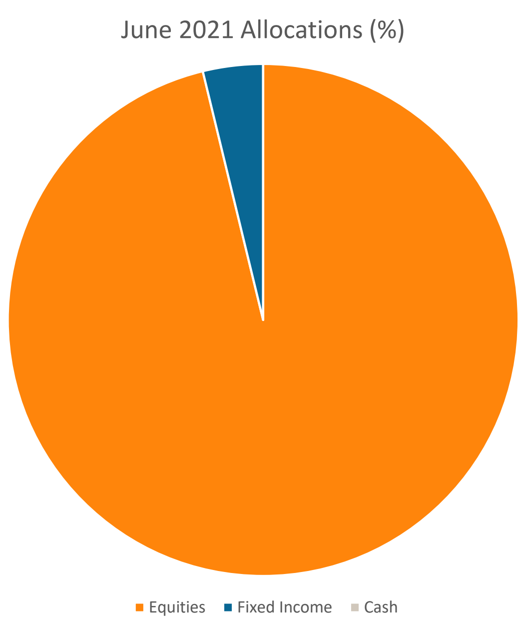
The global economy continued to grow at its fastest pace in over a decade, according to the May global Purchasing Managers' Index (PMI) data. Vaccination rollouts, the easing of stringency measures, and monetary and fiscal stimulus have contributed to the boom and broadening of the global economic recovery.

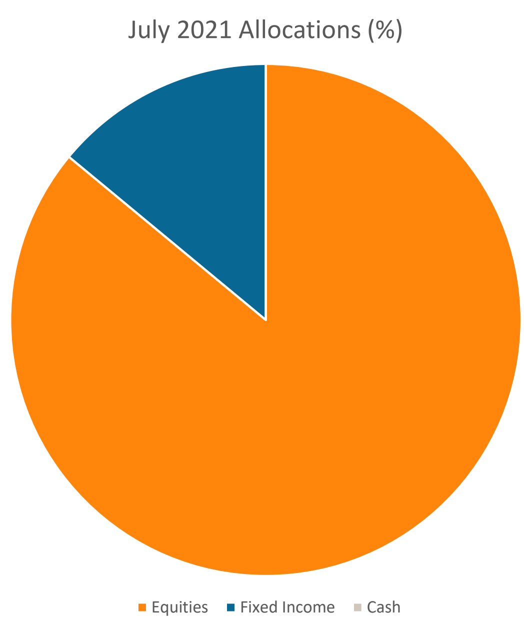
The global composite PMI, which includes both the services and manufacturing sectors, rose for a fourth straight month in May, up 1.7 points to 58.4, its best level in 15 years. The latest reading is historically consistent with 6.5% annual global Gross Domestic Product (GDP) growth.

Strong global growth, inelastic supply, and a low base for comparison from 2020, means that higher headline inflation was going to be an inevitable development this year. However, alternative measures of inflation that remove volatile and transient categories have remained anchored. Negative output gaps (difference between actual and potential economic growth), a powerful disinflationary force that has persisted since the global financial crisis, are projected to remain in place for most of the G7 over the next several years.

During June, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by more than 200 basis points (bps). Stocks have outpaced bonds for 13 of the last 15 months. Earnings have been beating expectations at a rising rate. But the beat rate has yet to reach the point at which an earnings beat is no longer a positive surprise. That will be more likely when the beat rate's momentum starts to slow. Also, global sentiment reflects optimism but is far from a market top warning. Currently, any sell-off potential is likely limited to single-digit correction risk, not double-digit bear market risk.

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 traded this month as it reduced equity allocation.
- The equity allocation declined, but it remains above 80%.
- The fixed income allocation increased to over 10%.
- Cash has no weighting within the model.
- One indicator, PMI breadth, changed signals this month. The PMI indicator measures the four-week point change of the percentage of economies with a PMI greater than 50 (expanding activity). A change greater than zero favors stocks, while a change less than zero favors bonds. Last month, all economies used within this calculation had a PMI greater than 50. However, during June Turkey's PMI fell to 49, which triggered the signal to favor fixed income over equities (chart, below).
- Five of the six 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 continues to be more than 15% above its one-year moving average, near the highest reading in the indicator's twenty-year history.
Global Market Breadth	Favors Equities	76% of global equity markets are trading above their 50-day moving average.
OECD Leading Indicator	Favors Equities	The four-week change in the OECD Composite Leading Indicator (CLI) is still positive after hitting an all-time high last August.
PMI Breadth Factor	Favors Fixed Income	The four-week change in economies with expanding manufacturing industries has fallen below its key threshold. It now favors fixed income over equities.
Baltic Exchange Dry Index	Favors Equities	The Baltic Dry Index briefly fell below its 13-week moving average in early June. Since then the indicator has rebounded to more than 18% above its intermediate-term trend.
Central Bank Policy	Favors Equities	In order to favor fixed income, this indicator requires a significant drop in global short-term rates.

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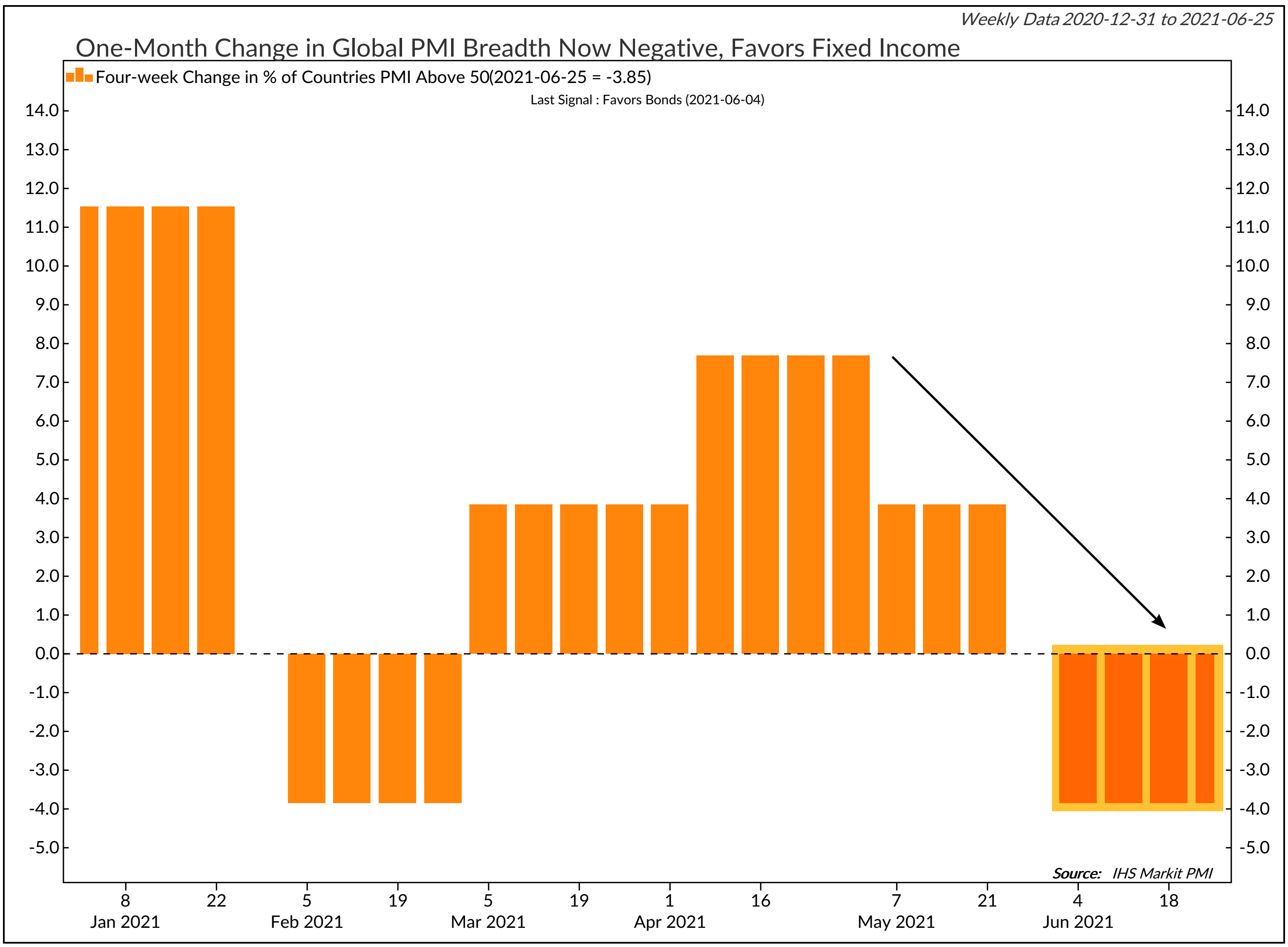

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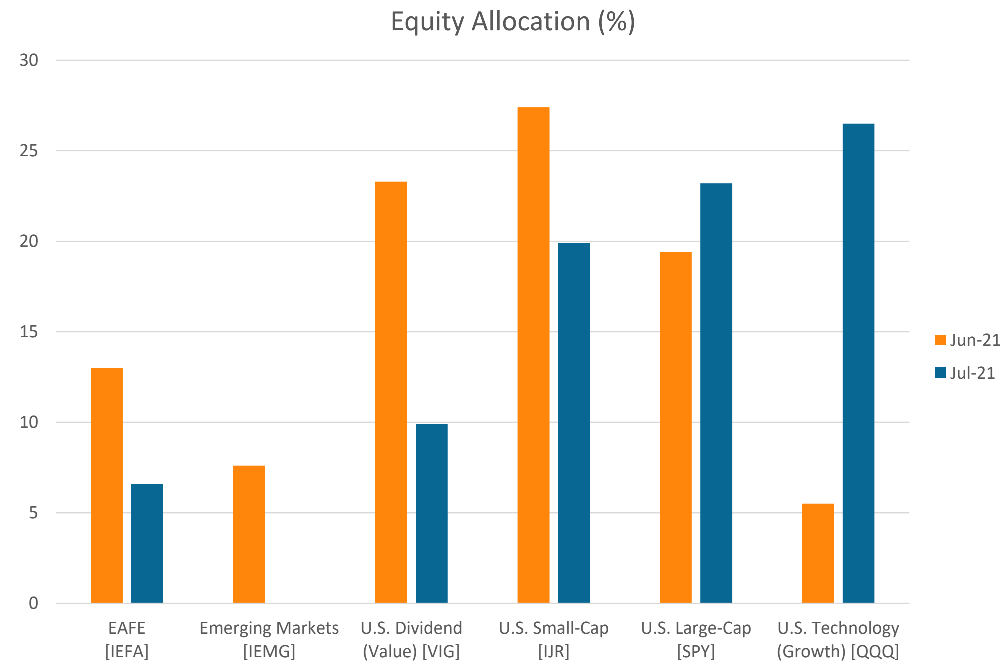
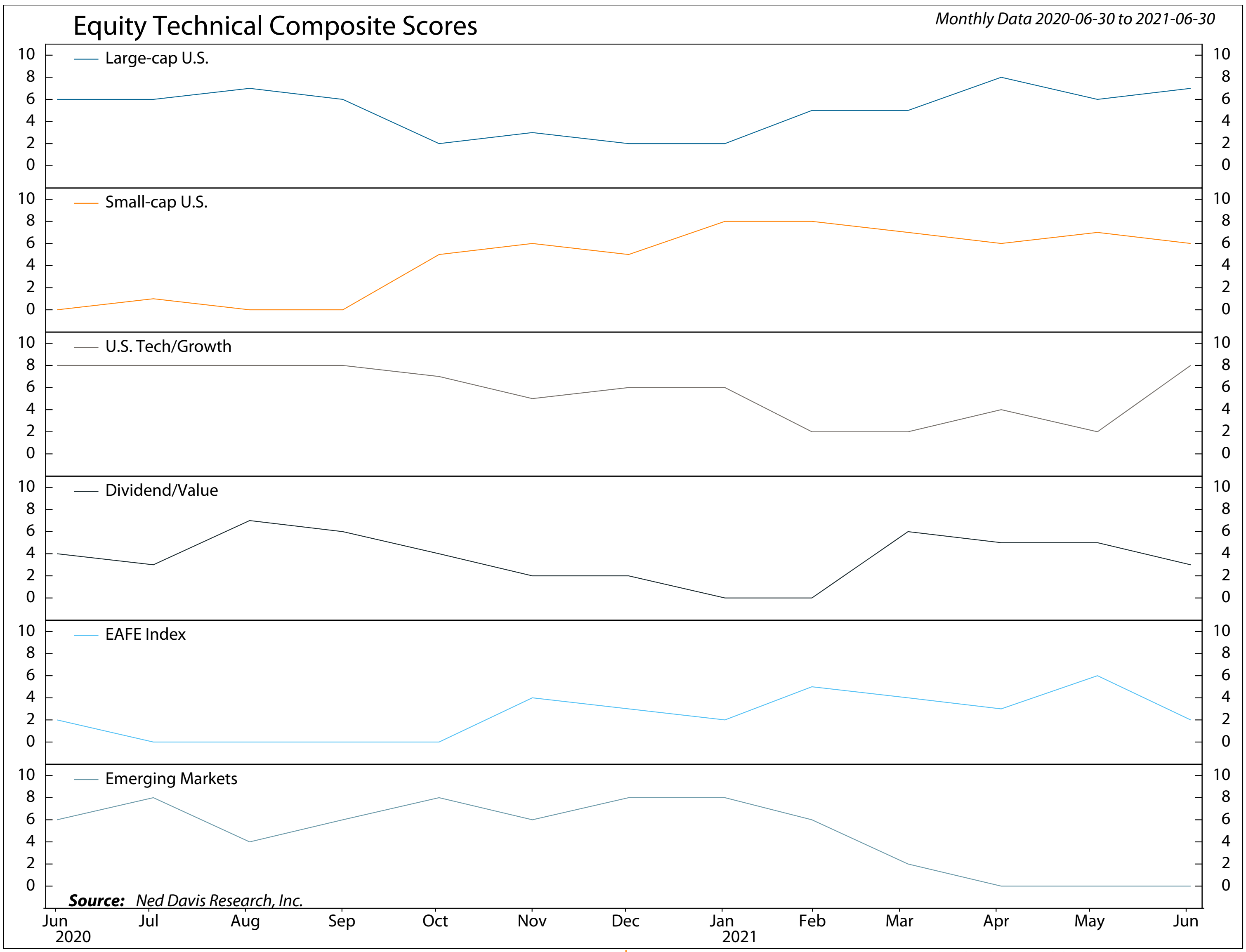
Equity Allocation Summary

During June, U.S. Growth [Technology] (QQQ) outpaced other areas by growing more than 600 basis points (bps). It was QQQ's best monthly return since November. QQQ has been the top-performing equity theme for two of the last three months. U.S. Large Caps (SPY) and Emerging Markets (IEMG) both jumped more than 100 bps last month. U.S. Small Caps (IJR) rose by more than 30 bps and has risen for nine consecutive months. U.S. Value [Dividends] (VIG) and Europe, Australasia, and the Far East [EAFE] (IEFA) both had negative returns in June. QQQ, SPY, and IJR all received more than 19% allocation for July due to their elevated technical composite scores.





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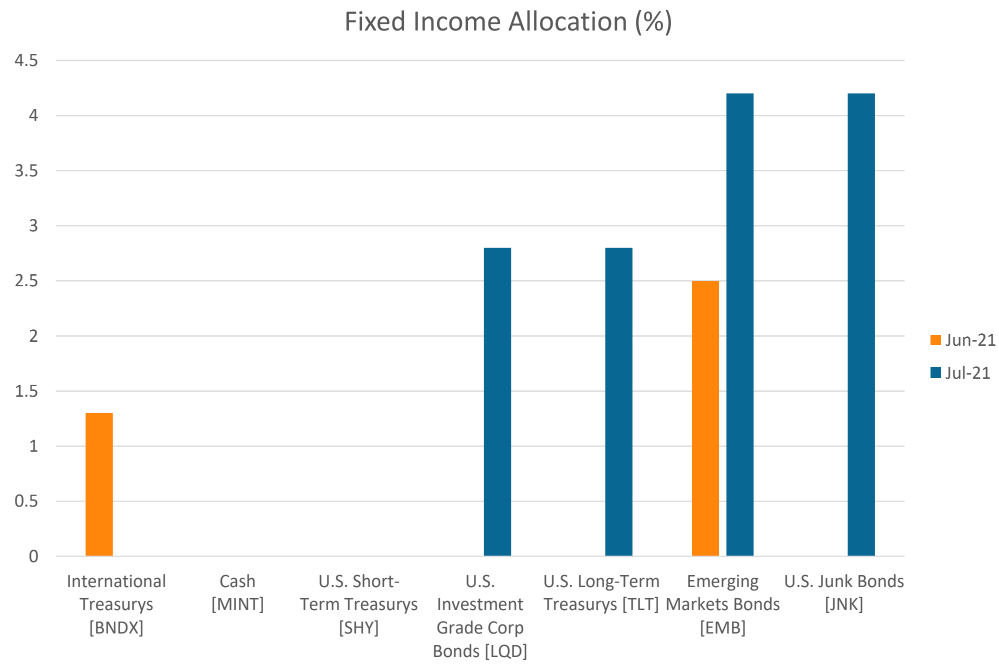
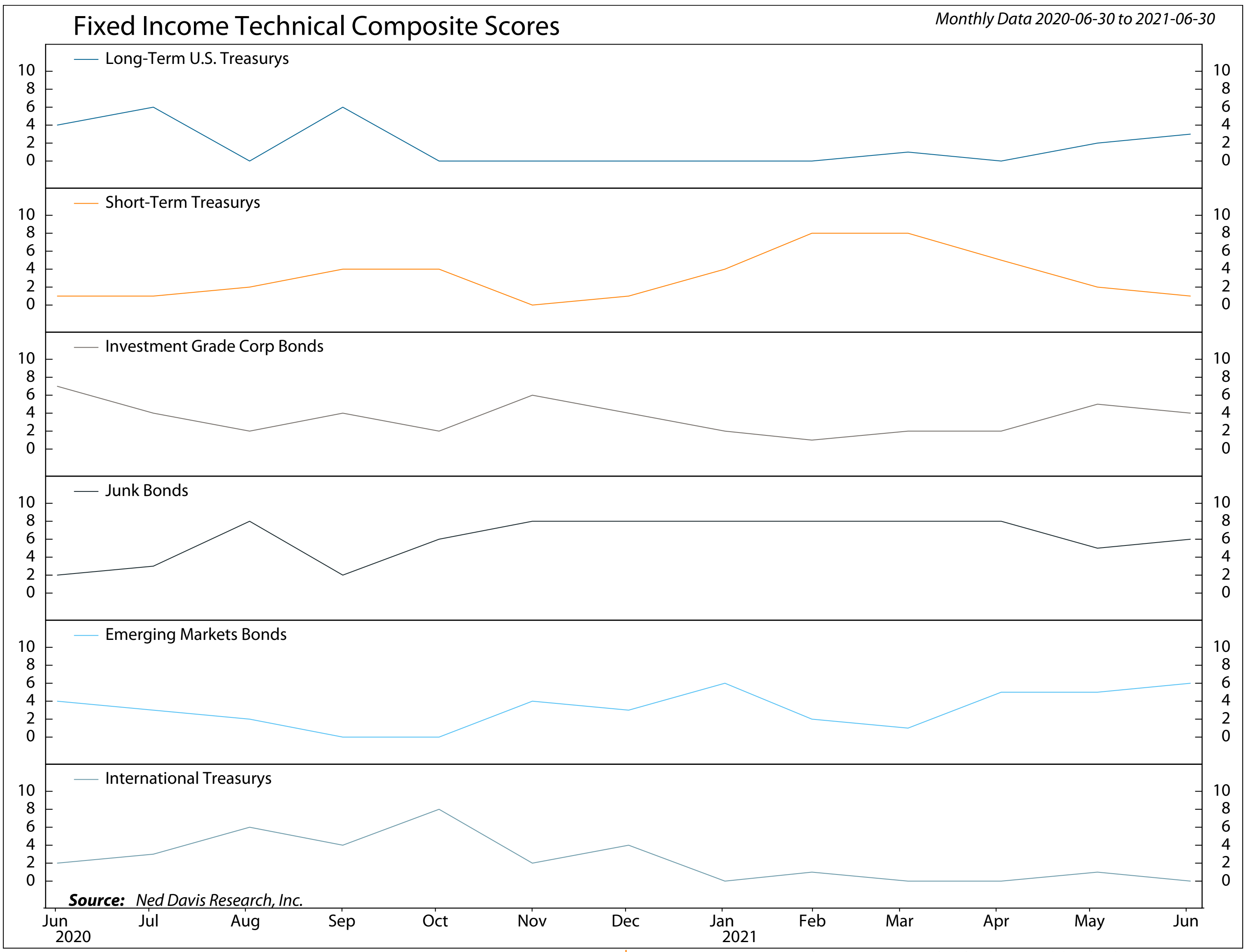
Fixed Income Allocation Summary

U.S. Long-Term Treasurys (TLT) was the best-performing sector within fixed income during June, as it gained over 400 bps. It was TLT's strongest month since July 2020. U.S. High Yield (JNK) and U.S. Investment Grade (LQD) both increased over 125 bps. JNK has risen for five straight months. International Investment Grade Bonds (BNDX) and Emerging Market bonds (EMB) each gained over 25 bps. This broke a five-month losing streak for BNDX. U.S. Short-Term Treasurys (SHY) and Cash (MINT) both had negative returns last month. JNK, EMB, TLT, and LQD all received more than 2% allocation for July.





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