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NED DAVIS RESEARCH

Dynamic Allocation Strategy

MAY 2022

Macro/Market Update

Global economic growth slowed at the end of Q1, according to the latest Purchasing Managers' Index (PMI). The global composite PMI fell 0.8 points to 52.7, resulting in 21 consecutive months of expansion. The reading was consistent with 2.7% annual global real Gross Domestic Product (GDP) growth. While not anywhere close to recession, this is well below growth levels observed in 2021.

The global manufacturing PMI slipped 0.7 points to 53.0 in March, the lowest level since September 2020 and three points below its cycle high in May 2021. Nonetheless, the PMI is still well above its long-term average of 51.5, indicating that global manufacturing remains historically robust.

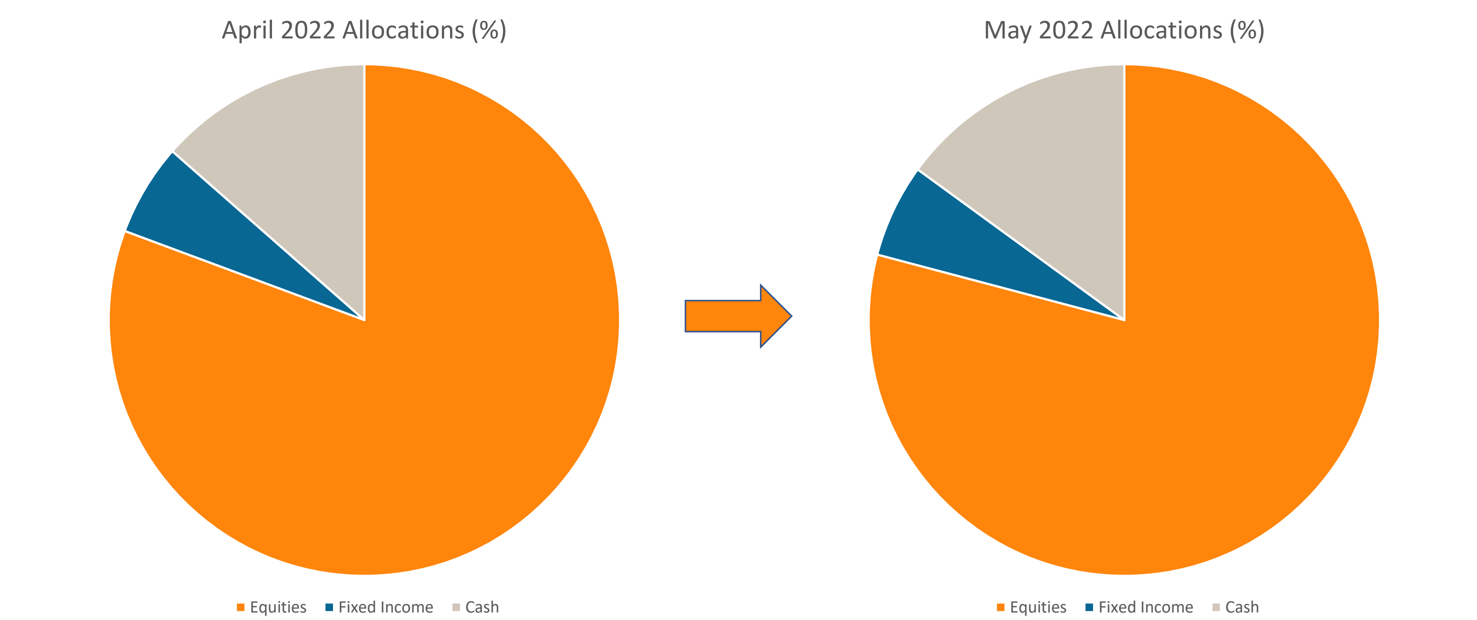
The global services PMI edged down 0.6 points to 53.4 in March, but broadly in line with its long-term average. The recovery remains healthy, as most additional indexes increased, including faster growth in new orders, employment, and backlogs. Notably, jobs grew at the fastest pace since December 2007.

The Russia/Ukraine war added downside risks to the global economy in March. The future output index slumped by the most since April 2020 to its lowest point in 15 months. But even before the crisis, global economic growth was slowing due to high inflation, ongoing supply chain issues, waning monetary and fiscal support, and the fact that COVID is not yet behind us.

After some encouraging signs of easing in late 2021/early 2022, price growth has reasserted itself to multi-year highs. The global composite input price index rose to its highest level since July 2008, while the output price index jumped to its greatest point since data began in 2009.

During April, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by almost 250 basis points (bps). Global stocks have trailed bonds for three of the previous four months. With global equities stuck in the middle of a range bounded by the ACWI's recent extremes, it remains to be seen if the market is heading for a bullish breakout or a bearish breakdown. Market performance is likely to be driven by the sentiment surrounding the inflation numbers, expectations for future inflation, and the prospects for tightening monetary policy. And the market's direction should become evident in global market breadth, which tends to lead the economic fundamentals and earnings impact to follow.

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 did not trade this month as the proposed trades did not breach the turnover reduction threshold.
- The equity allocation is slightly below 80%, while the fixed income allocation is less than 10%.
- Cash allocation rose to almost 15% this month.
- The global equity market breadth indicator examines the percentage of global equity markets trading above their 50-day moving averages. After jumping to 66% last month, the indicator reversed to under the 50% threshold this month, which historically has favored fixed income and cash over equities (chart, below).
- Two-thirds 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 dropped to less than 3% above its one-year moving average.
Global Equity Market Breadth	Favors Fixed Income	This indicator now favors fixed income. Less than half of global equity markets are trading above their 50-day moving averages.
OECD Leading Indicator	Favors Fixed Income	The four-week change in the OECD Composite Leading Indicator (CLI) declined for a sixth straight month, but the pace of the decline did not accelerate.
PMI Breadth Factor	Favors Equities	The four-week change in economies with expanding manufacturing industries did not change this month.
Baltic Exchange Dry Index	Favors Equities	Last month, the Baltic Dry index was more than 20% above its intermediate-term trend. Now, the BDI is less than 10% above 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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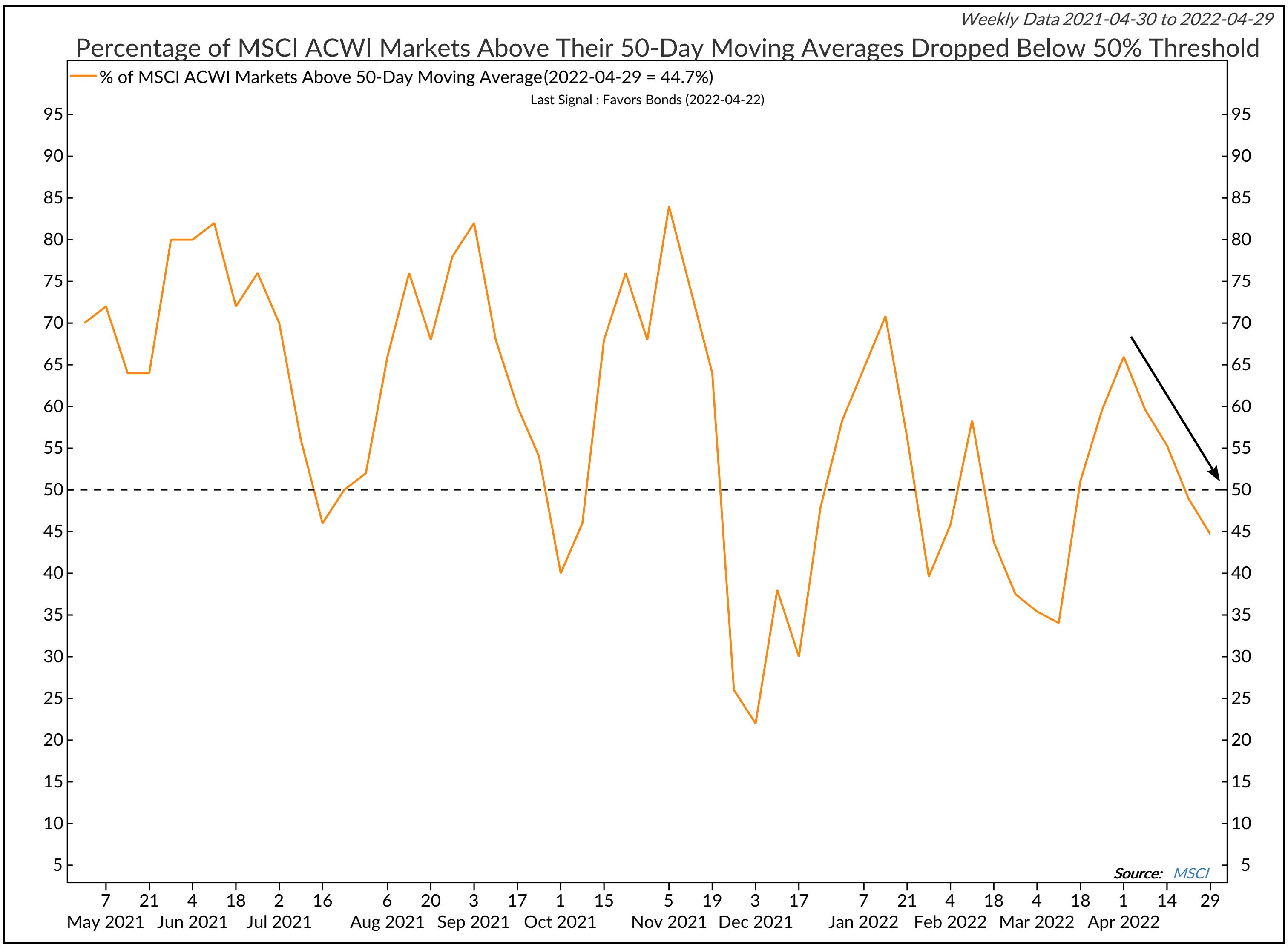

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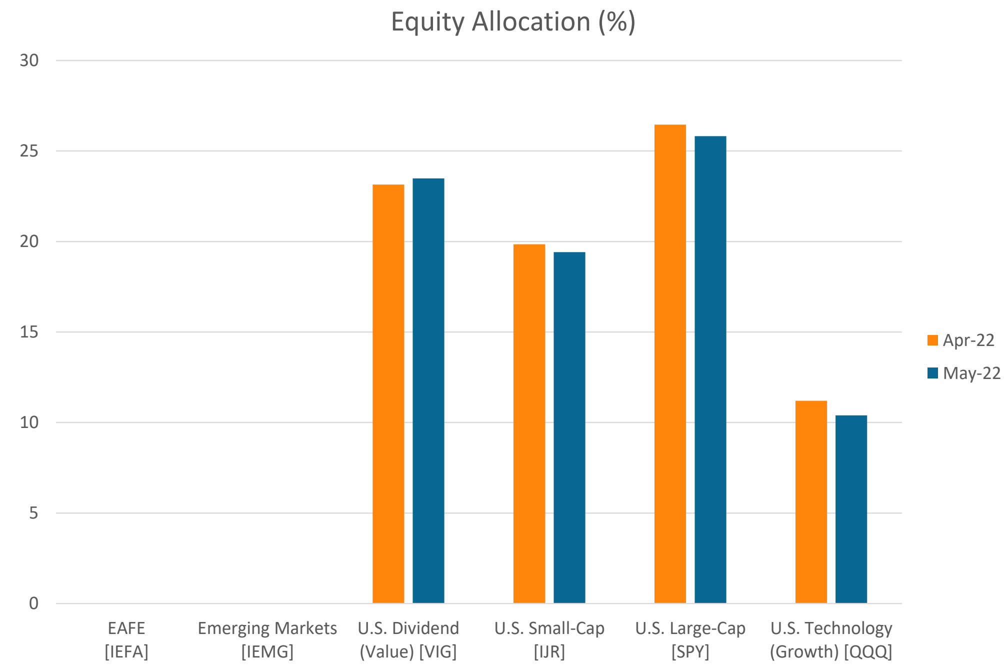
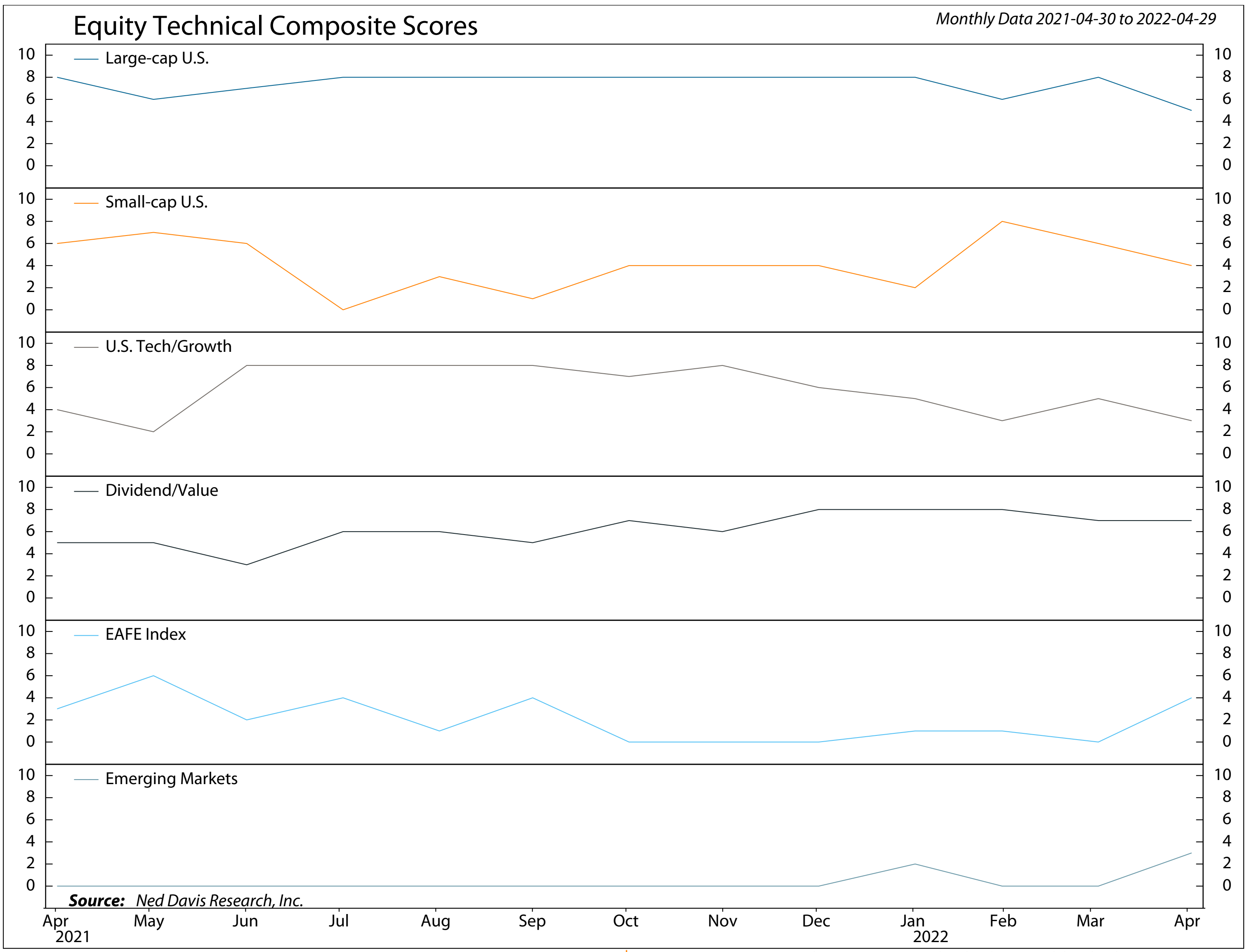
Equity Allocation Summary

During April, all six equity categories declined by more than 500 basis points (bps). It was the worst month for U.S. Large Caps (SPY), U.S. Small Caps (IJR), Emerging Markets (IEMG), and Europe, Australasia, and the Far East [EAFE] (IEFA) since March 2020. U.S. Growth [Technology] (QQQ) plummeted by more than 13%, its largest monthly drop since 2008. U.S. Value [Dividends] (VIG) , SPY, and IJR each received more than 19% allocation for May (image at bottom).





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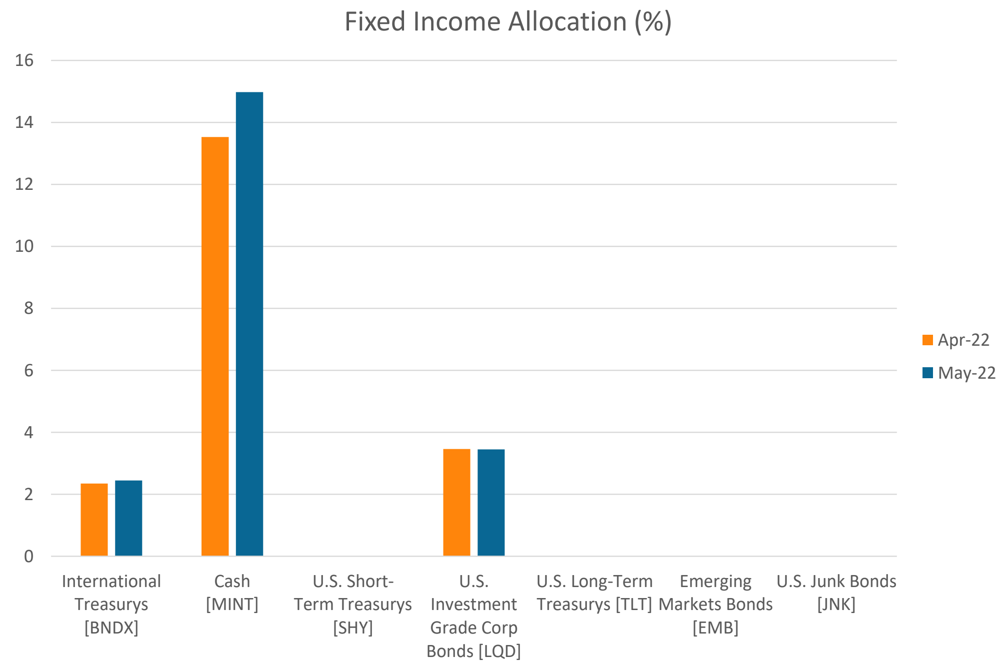
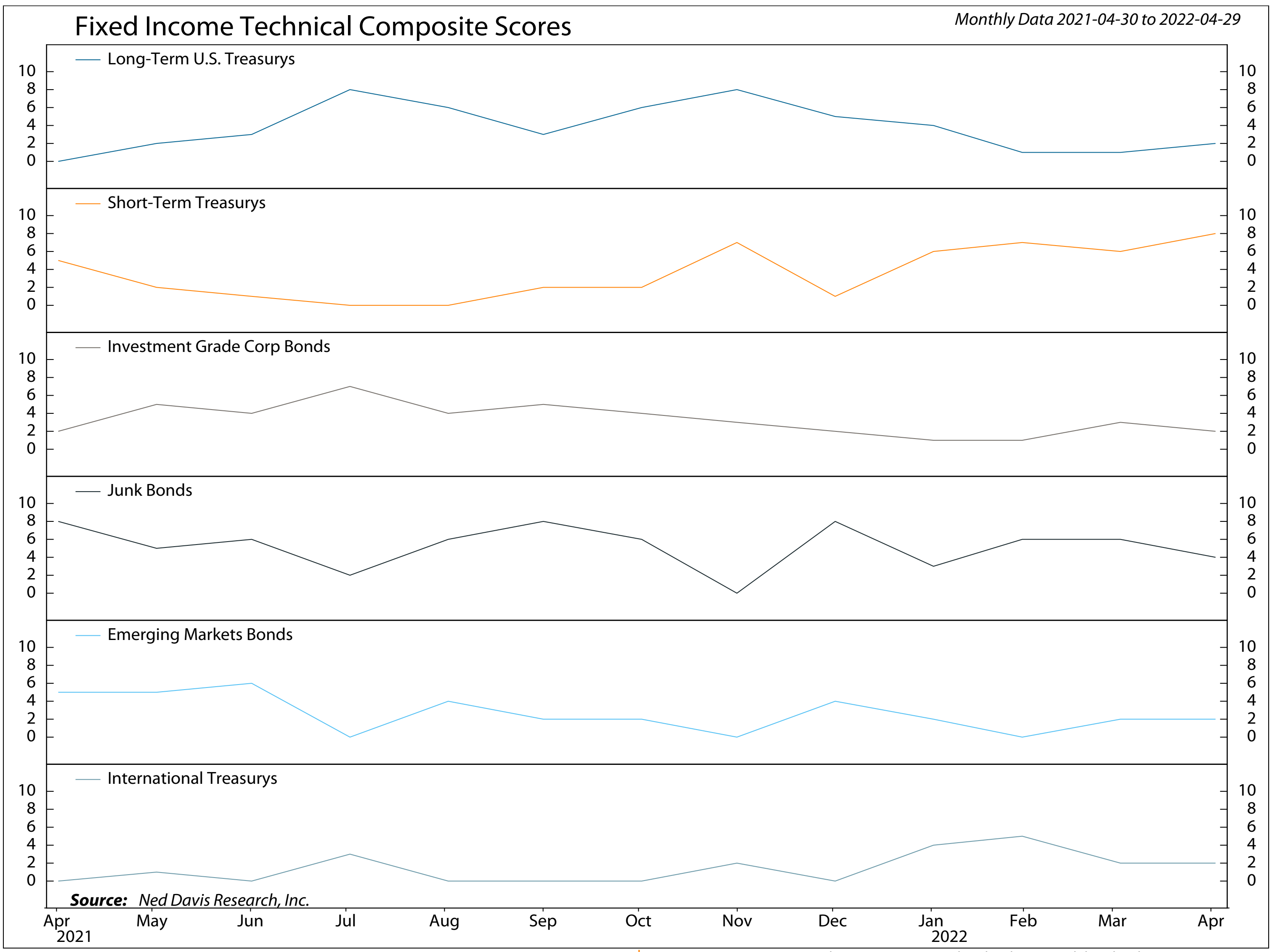
Fixed Income Allocation Summary

For a fourth consecutive month, all fixed income areas fell. U.S. Short-Term Treasurys (SHY) was the only segment to decline by less than 100 bps. All other areas fell by at least 300 bps. It was the worst month in the history of International Investment Grade (BNDX). Emerging Market bonds (EMB) and U.S. High Yield (JNK) suffered their worst months since March 2020. U.S. Long-Term Treasurys (TLT) and U.S. Investment Grade (LQD) declined the most since the global financial crisis. Only cash received more than 10% allocation for May (image at bottom).





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