Dynamic Allocation Strategy

JANUARY 2022

Macro/Market Update

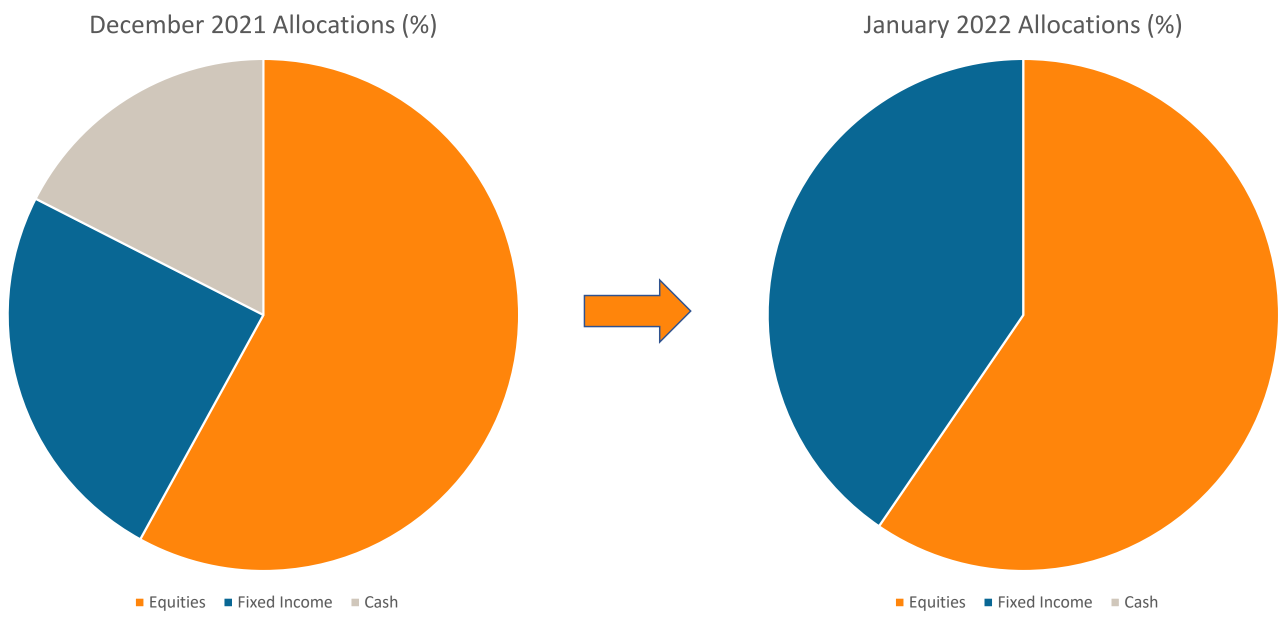
Global economic growth accelerated for a third straight month in November, according to last month's Purchasing Managers' Index (PMI) data. The global composite PMI, which measures output growth in the services and manufacturing sectors, increased 0.3 points to 54.8, its third straight gain. The PMI composite reading, which is firmly above its long-term average of 53.4, is historically consistent with 3.6% annual global real Gross Domestic Product (GDP) growth.

The share of economies with expanding services sectors jumped to 92%, the largest share since the pandemic began, indicating broad-based demand for services. Although the share of economies with expanding manufacturing sectors resides at 89%, it declined from 95% in the prior month, which incidentally, was the highest since February 2018.

Multiple macro risks persist, including the Omicron variant, ongoing supply chain issues, and higher inflation. New orders growth eased to the slowest in 15 months, despite a pick-up in overseas demand. The global composite input price index rose to its highest level since July 2008.

During December, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by more than 400 basis points (bps). The spread between stocks and bonds has whipsawed between negative and positive values each month since July. For 2021, stocks outgained bonds by more than 23 percentage points. Risks are rising as earnings growth has started to slow globally, with deceleration likely to continue. Earnings beat rates have been peaking and positive revisions have been diminishing. Uncertainty brings equity market volatility, now likely to remain elevated with corrections more stiff and more frequent in 2022.

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 is slightly under 60%.
- The fixed income allocation jumped to more than 40%.
- Cash allocation plummeted from more than 15% to zero.
- The Purchasing Managers' Index (PMI) breadth indicator returned to favoring fixed income as both China's and Brazil's PMIs fell into the contraction zone.
- However, global equity market participation (chart, below) produced a new signal supporting equities.
- At the end of December, 58% of global equity markets traded above their intermediate trends. This was a strong improvement from last month's update where only 26% of markets resided above their trends, the lowest level in more than one year.
- 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 more than 8.5% above its one-year moving average.
Global Market Breadth	Favors Equities	This indicator now favors equities. 58% of global equity markets are trading above their 50-day moving average. This was a significant rise from the 26% reading last month.
OECD Leading Indicator	Favors Fixed Income	The four-week change in the OECD Composite Leading Indicator (CLI) declined for the second straight month.
PMI Breadth Factor	Favors Fixed Income	This indicator now favors fixed income. The four-week change in economies with expanding manufacturing industries dropped into negative territory, as China and Brazil crossed below the key threshold of 50 last month.
Baltic Exchange Dry Index	Favors Fixed Income	The Baltic Dry Index fell to more than 32% 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.

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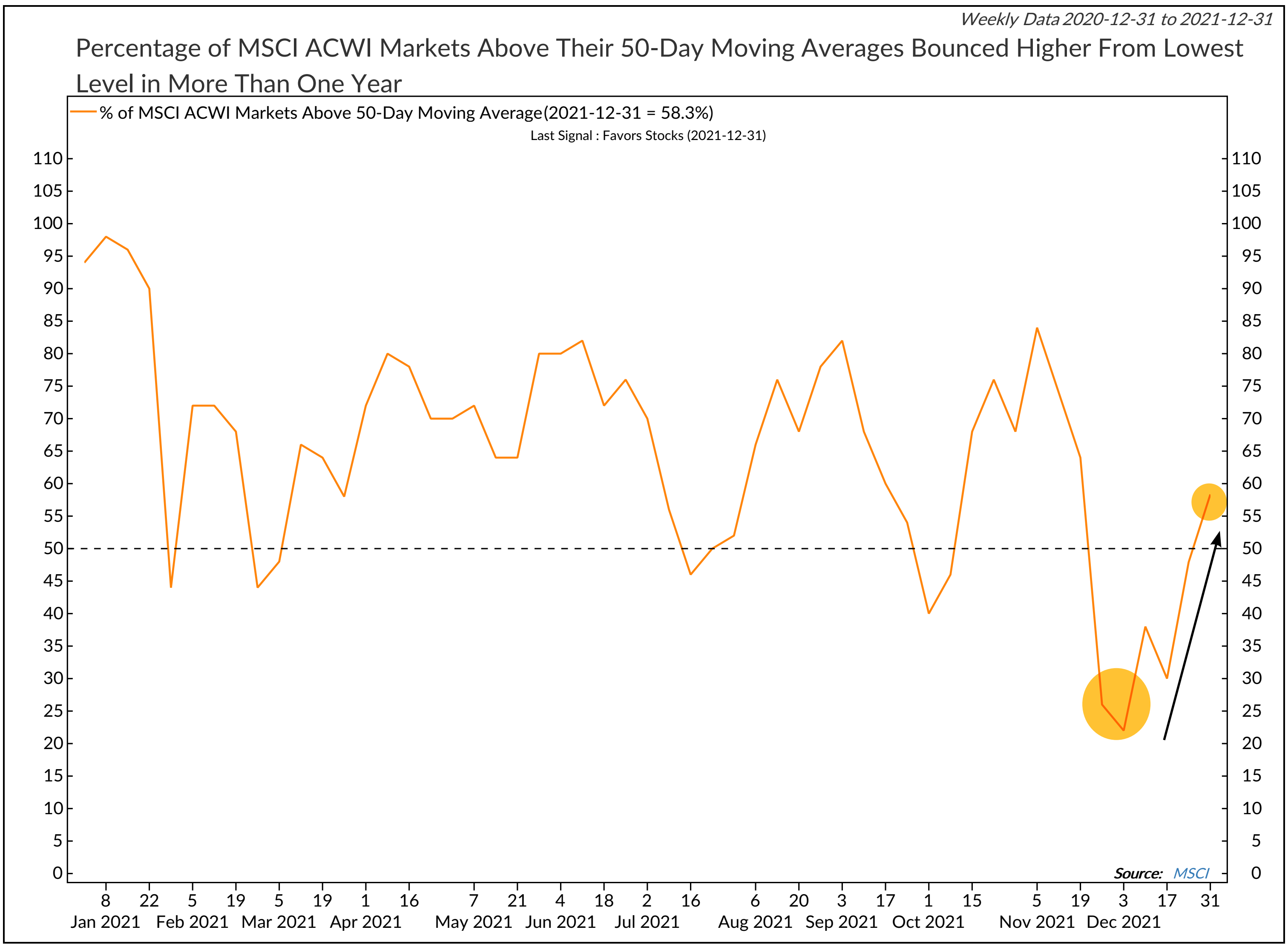

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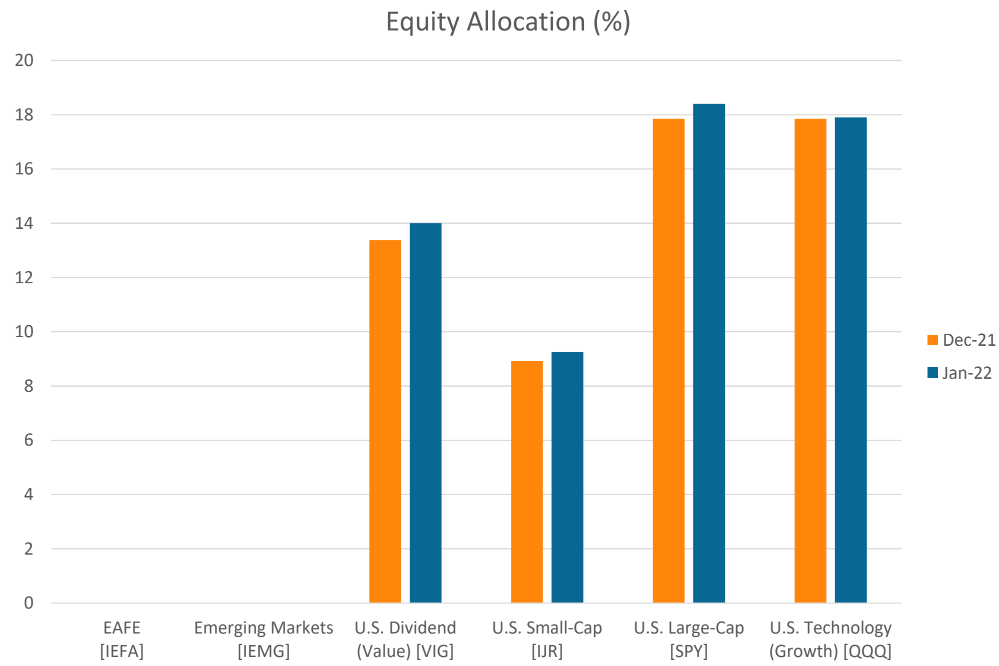
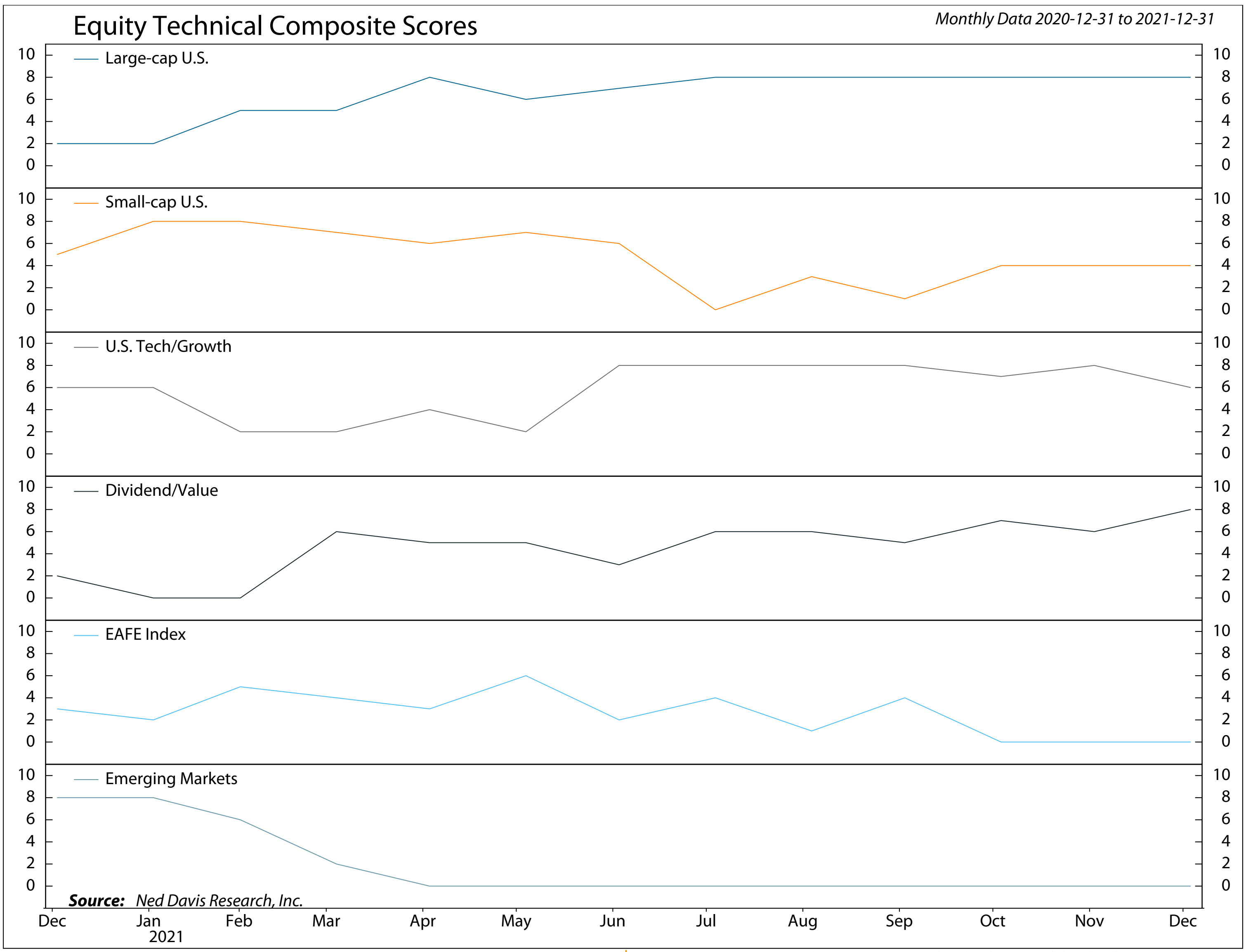
Equity Allocation Summary

During December, all equity areas produced positive returns. U.S. Value [Dividends] (VIG) increased by more than 650 bps, the second time in the last three months. U.S. Large Caps (SPY), U.S. Small Caps (IJR), and Europe, Australasia, and the Far East [EAFE] (IEFA) each gained more than 400 bps last month. U.S. Growth [Technology] (QQQ) and Emerging Markets (IEMG) rose by less than 200 bps. QQQ has risen for three straight months. For 2021, SPY, QQQ, IJR, and VIG all jumped by more than 20%. IEFA increased over 10%, while IEMG was the only category to decline for the year. QQQ and SPY each received more than 15% allocation for January (image at bottom).





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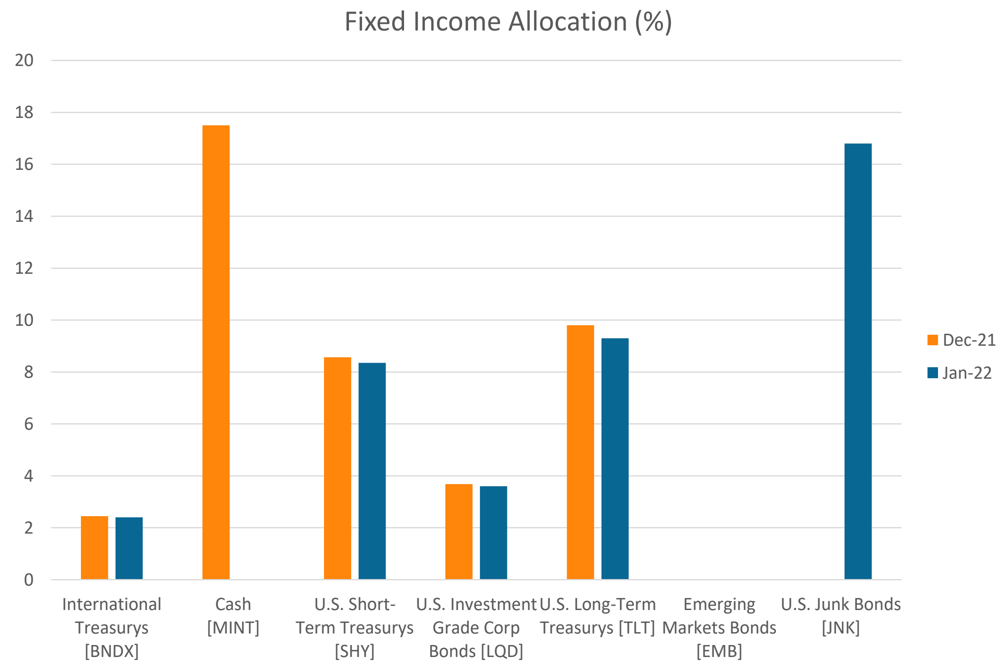
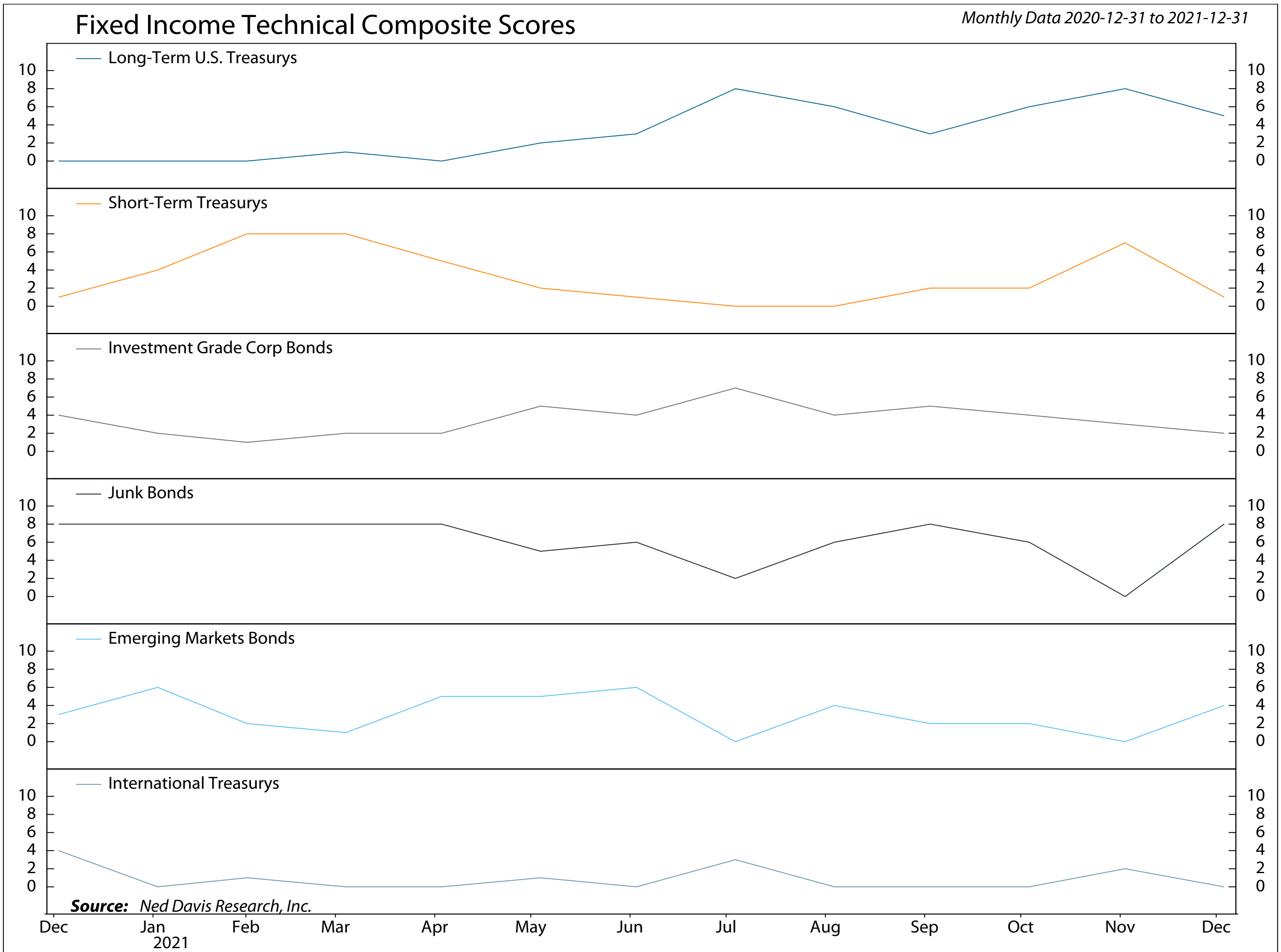
Fixed Income Allocation Summary

U.S. High Yield (JNK) and Emerging Market bonds (EMB) were the top-performing areas in December, as they each increased by more than 200 bps. This broke a three-month losing streak for JNK. International Investment Grade Bonds (BNDX), U.S. Short-Term Treasurys (SHY), and U.S Investment Grade (LQD) all fell by less than 100 bps. SHY has fallen for five consecutive months. U.S. Long-Term Treasurys (TLT) dropped by more than 200 bps in December, its worst month since September. Only JNK produced a positive return in 2021. LQD and SHY declined by less than 200 bps. EMB and BNDX fell by less than 300 bps. TLT dropped by more than 400 bps. TLT, SHY, and JNK all received more than 8% allocation for January (image at bottom).





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