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NED DAVIS RESEARCH

Fixed Income Allocation Strategy

MAY 2021

Fixed Income Performance Update

U.S. Long-Term Treasurys (TLT) and Emerging Market bonds (EMB) both jumped by at least 240 basis points (bps) last month. It was the first positive monthly return for both areas since late 2020.

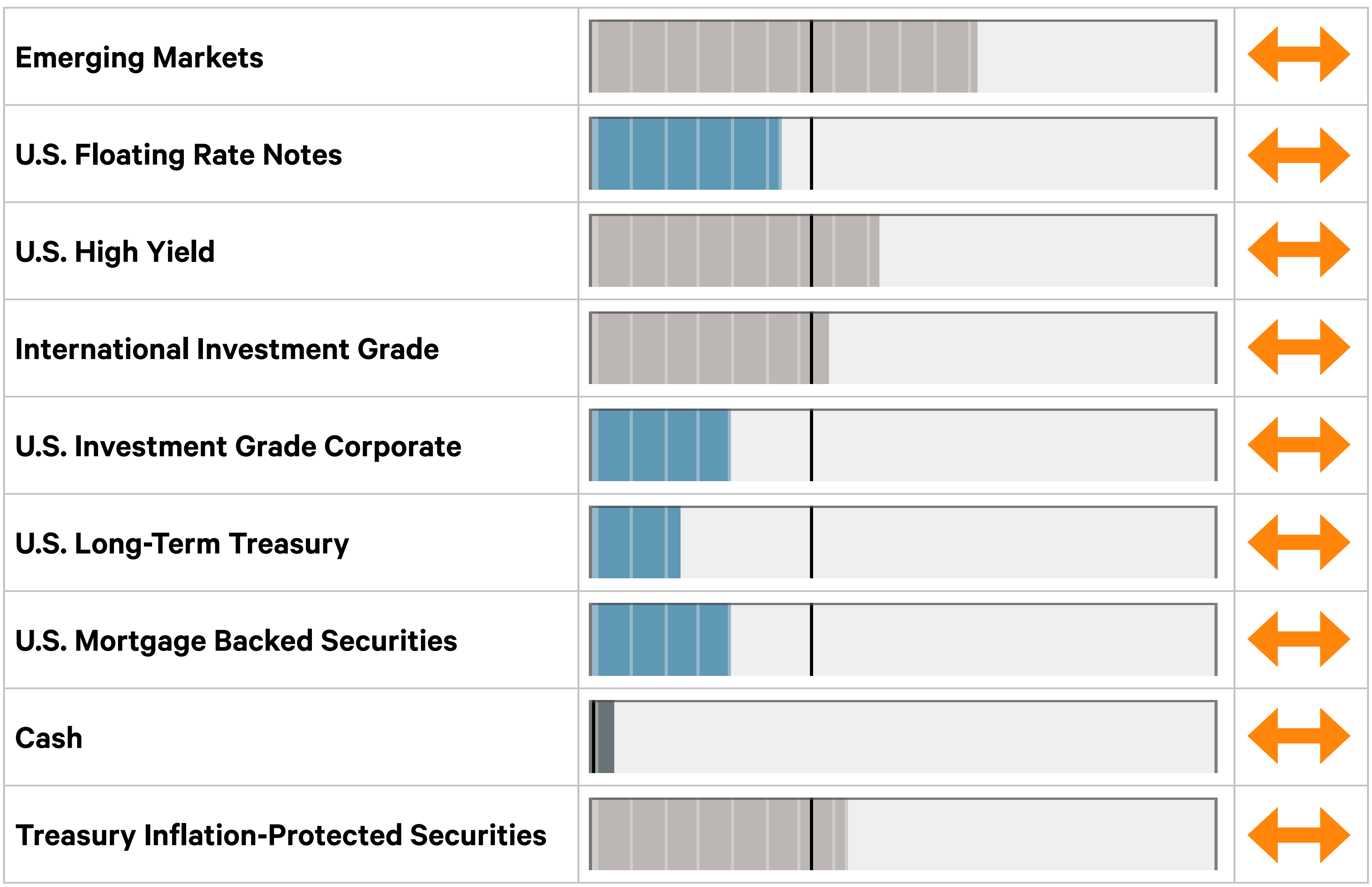
U.S. Investment Grade (LQD) and Treasury Inflation-Protected Securities (TIP) each gained over 100 bps. Both areas had declined over the previous two months. It was LQD's best month since November, while TIP had it strongest month since July.

U.S. High Yield (JNK) and U.S. Mortgage-Backed Securities (MBB) each rose by more than 55 bps in April. MBB has produced positive returns for 20 of the last 24 months. JNK has risen for six of the last seven months.

Cash (MINT) increased by over 10 bps last month. MINT had declined during the two prior months.

International Investment Grade Bonds (BNDX) and Floating Rate Notes (FLOT) were the only areas to decline during April. FLOT has dropped for the last two months, while BNDX has fallen for four consecutive months.

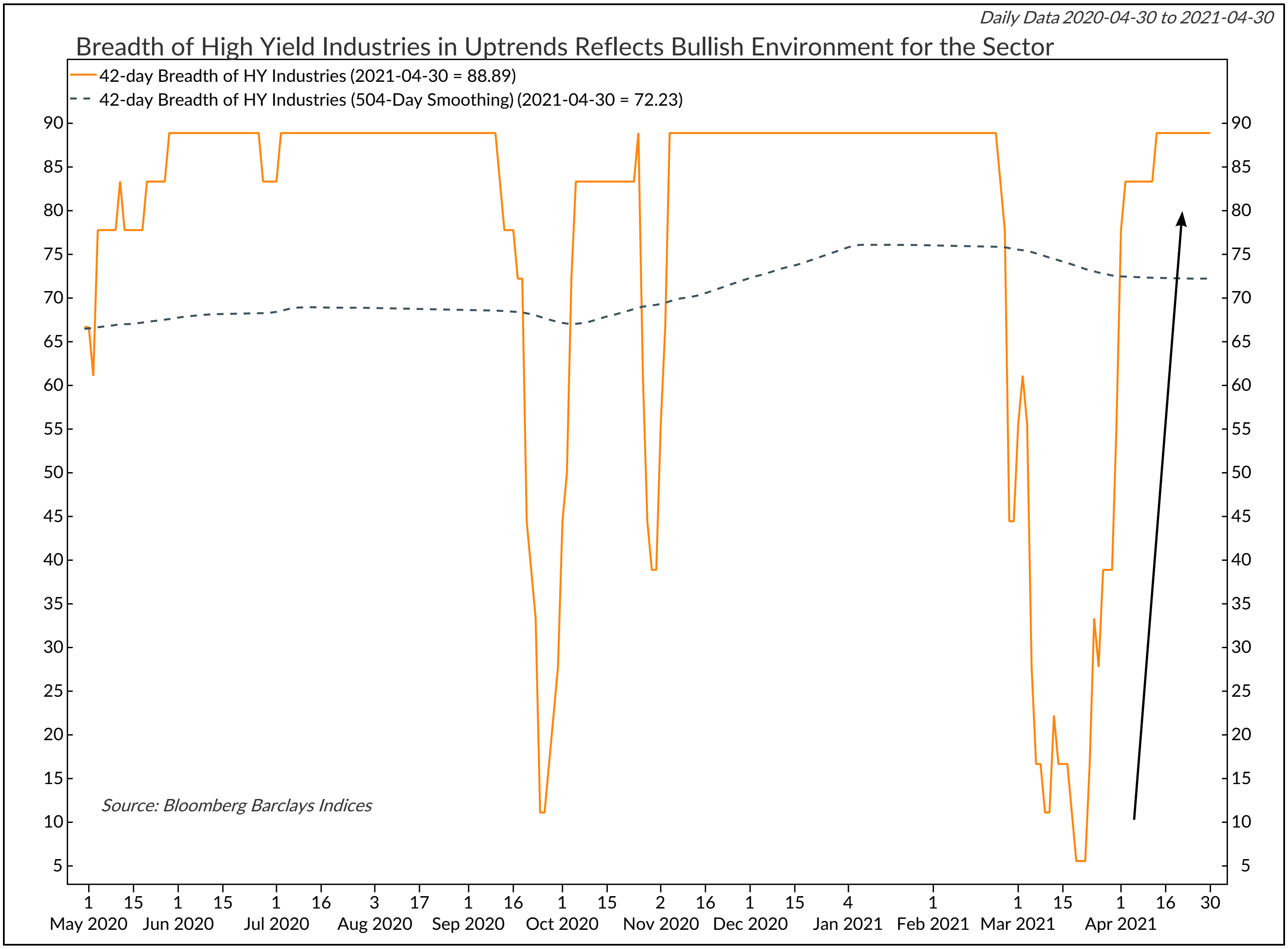
Fixed Income Allocation Summary



The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased, or remained approximately the same as the previous month.

The turnover-reduction algorithm threshold was not breached, so no trades were recommended for this month.

- Emerging Markets (EM) remains more than 1,000 bps overweight. Trend and overbought/oversold indicators flashed new bearish readings. However, an Emerging Market equity momentum indicator flipped from bearish to bullish.
- U.S. High Yield is greater than 400 bps overweight. A flows indicator produced a new bearish signal. It was offset by a breadth measure switching from bearish to bullish (chart at bottom).
- Treasury Inflation-Protected Securities is greater than 200 bps overweight. No indicators changed signals this month. All of the sector's indicators are bullish.
- Cash has over 50 bps in allocation this month.

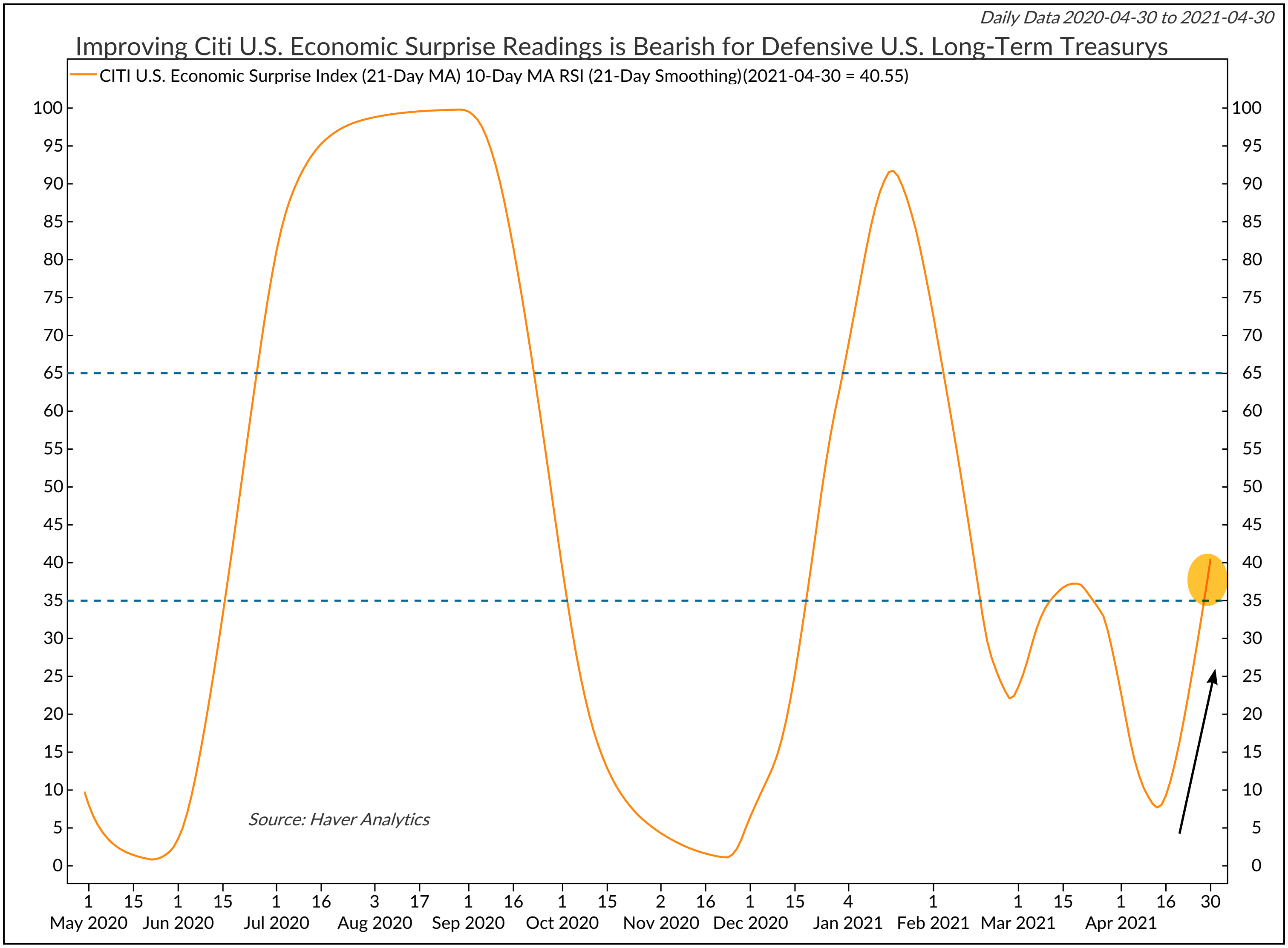


- Floating Rate Notes continues to be more than 100 bps underweight. Trend, momentum, and option-adjusted spread indicators flipped from bullish to bearish.

- The U.S. Investment Grade Corporate bonds sector's allocation is greater than 400 bps below benchmark. Mean reversion and credit default swap indicators turned bullish on the sector. They were partially offset by a USD measure changing from bullish to bearish.

- U.S. Mortgage Backed Securities' (MBS) is more than 450 bps underweight. 10-year yield and overbought/oversold indicators switched from bullish to bearish.

- U.S. Long-Term Treasurys' allocation is greater than 700 bps below benchmark. A Citi Economic Surprise Index indicator flashed a new bearish reading on the sector (chart at bottom). None of the sector's indicators possess a bullish reading.



Customized version of ISBM1_USLT_CITI_RSI

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