Fixed Income Allocation Strategy

NDR
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Fixed Income Performance Update

During June all fixed income categories declined, the third time that has happened this year.

Floating Rate Notes (FLOT) was the only area to fall less than 100 basis points (bps). FLOT has been down for nine of the last twelve months.

U.S. Mortgage-Backed Securities (MBB), International Investment Grade (BNDX), and U.S. Long-Term Treasurys (TLT) all declined less than 200 bps. MBB has increased during only three of the last 17 months. BNDX has risen only once in the last eleven months. TLT has dropped by more than 100 bps for seven straight months. It is the longest monthly losing streak in the history of the ETF.

U.S Investment Grade (LQD) and Treasury Inflation-Protected Securities (TIP) plunged over 300 bps last month. LQD has dropped for nine of the last eleven months. TIP is on a four-month losing streak.

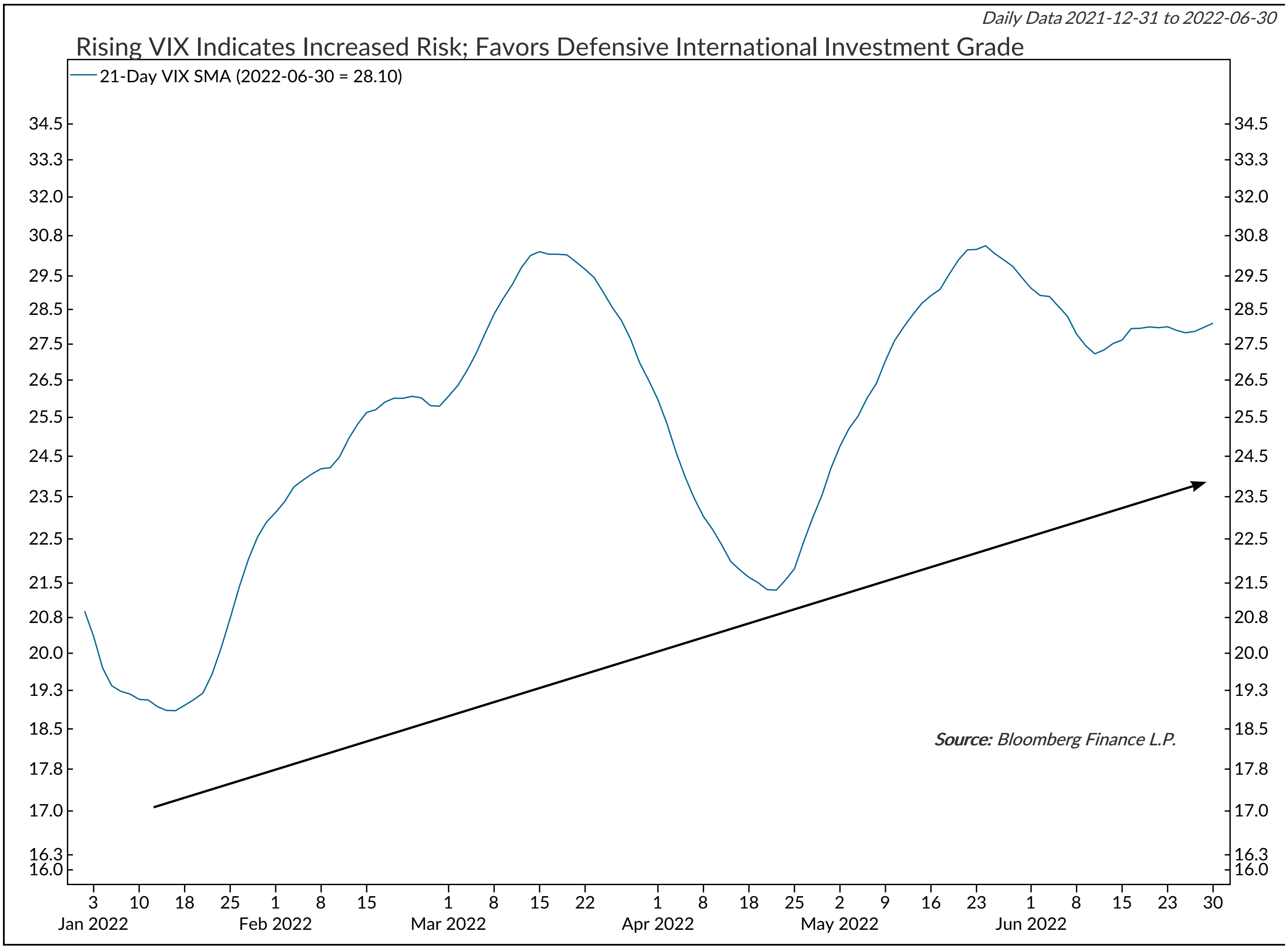
Fixed Income Allocation Summary

Emerging Markets (UW)	↓
U.S. Floating Rate Notes (OW)	↔
U.S. High Yield (UW)	↓
International Investment Grade (OW)	↑
U.S. Investment Grade Corporate (UW)	↓
U.S. Long-Term Treasury (OW)	↑
U.S. Mortgage Backed Securities (OW)	↔
Cash	↔
Treasury Inflation-Protected Securities (UW)	↔

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.

U.S. High Yield (JNK) and Emerging Market bonds (EMB) plummeted over 600 bps during June. JNK has declined for eight of the last ten months, while EMB has been lower for seven of the last ten months.

- International Investment Grade bonds' allocation is now above benchmark weighting. The geography's relative strength has trended higher, as rising VIX (chart, below), weaker high yield performance, and elevated 10-year swap spreads are providing tailwinds for this defensive sector. All the sector's indicators are bullish the month.
- U.S. Mortgage-Backed Securities' (MBS) is greater than benchmark allocation. Inflation expectations are now supporting the sector's trend. Only one of the sector's indicators is bearish.
- Floating Rate Notes' (FRN) allocation remains above benchmark even though overnight indexed swap (OIS) rates are reversing lower.
- U.S. Long-Term Treasurys is above benchmark allocation. Although the sector's momentum has weakened, swap spreads are no longer a headwind, which is bullish for this segment.



Customized version of Equity Risk VIX

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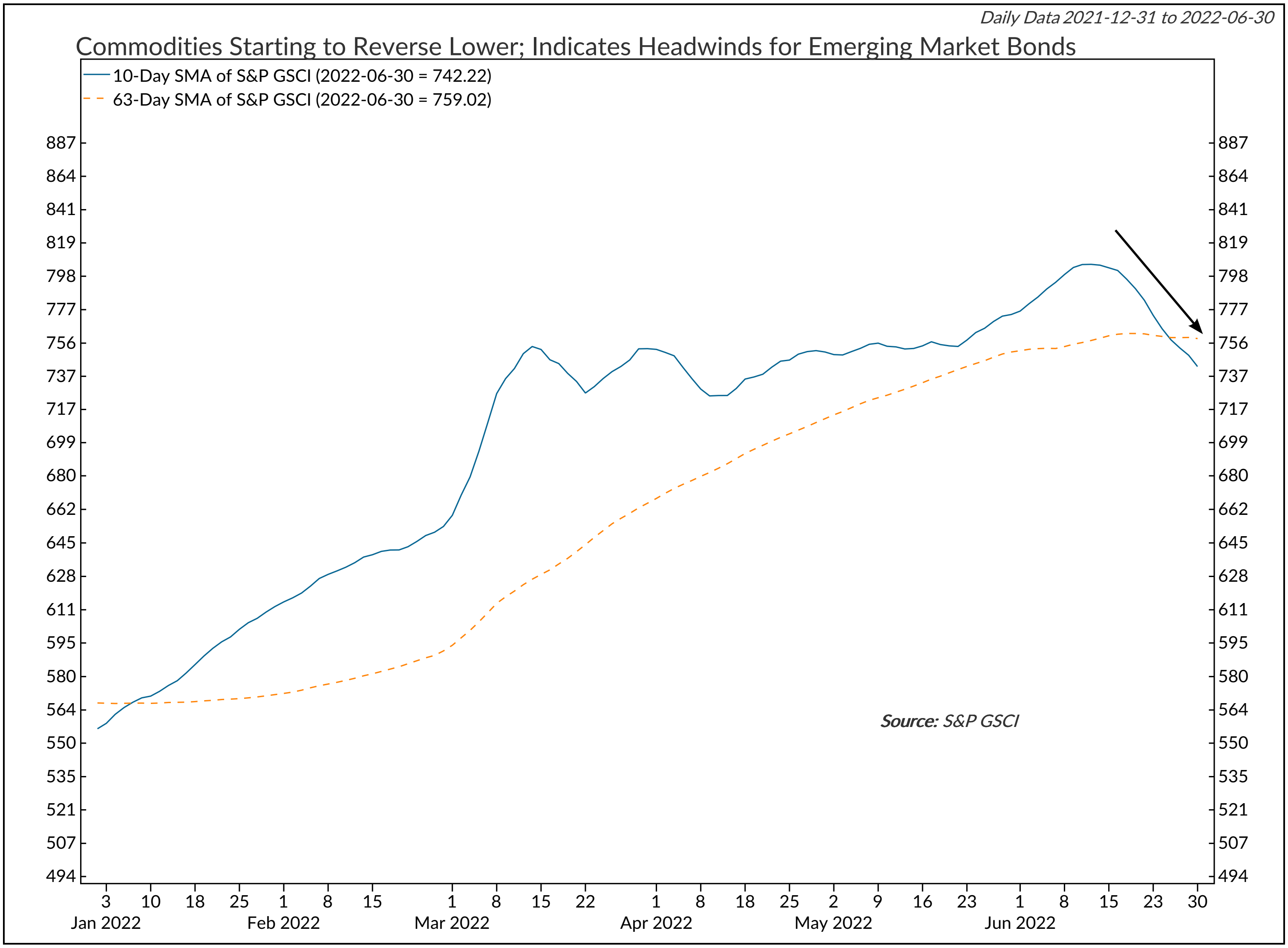
- Treasury Inflation-Protected Securities (TIPS) continues to be below benchmark allocation. High yield option-adjusted spreads (oas) have widened, which favors this defensive sector.
- U.S. High Yield's allocation declined, and it continues to be below benchmark allocation. The absolute trend rolled over, breadth deteriorated, and oas has widened. All the segment's indicators are bearish.
- Emerging Markets (EM) has fallen below benchmark allocation. The geography's absolute trend and relative strength have turned lower, as EM currencies and commodity prices weakened (chart, below). All the segment's indicators are bearish.
- The U.S. Investment Grade Corporate bond sector continues to be underweight. The sector's trend has improved, as credit spreads have started to reverse lower from elevated levels. However, widening oas has become a headwind for the segment.



Customized version of Commodity Market Strength

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