Dynamic Allocation Strategy

NDR
NED DAVIS RESEARCH

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Macro/Market Update

Global economic momentum picked up in September, according to last month's Purchasing Managers' Index (PMI) data. The global composite (services and manufacturing) PMI increased 0.5 points, its first gain in four months, to 53.0. Despite the gain, the index remains noticeably below its May 2021 high, further confirming the likelihood that global economic momentum peaked in the second quarter of this year.

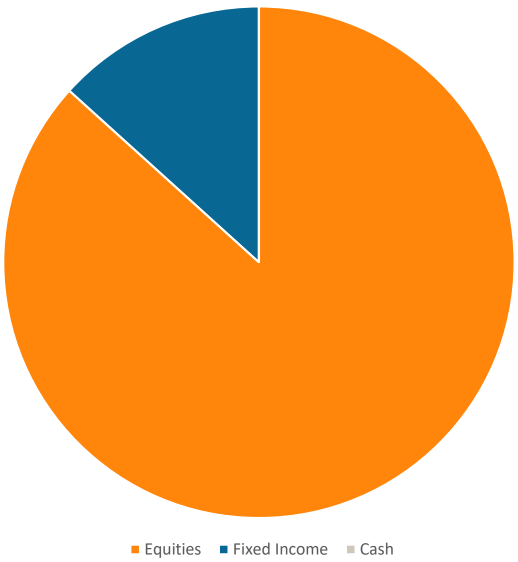
Nonetheless, economic growth remains resoundingly positive. The global economy is still set to grow at its fastest pace since at least 1980 and above its long-term average of 3.4%. Upside potential stems from more pent-up demand that can be unleashed as the vaccination rollout continues to gain pace across the world.

Downside risks, however, remain heightened. COVID-19 continues to be the biggest danger to the outlook, along with rising inflation risks, worsened by supply chain disruptions, which may prompt a quicker paring back of monetary support.

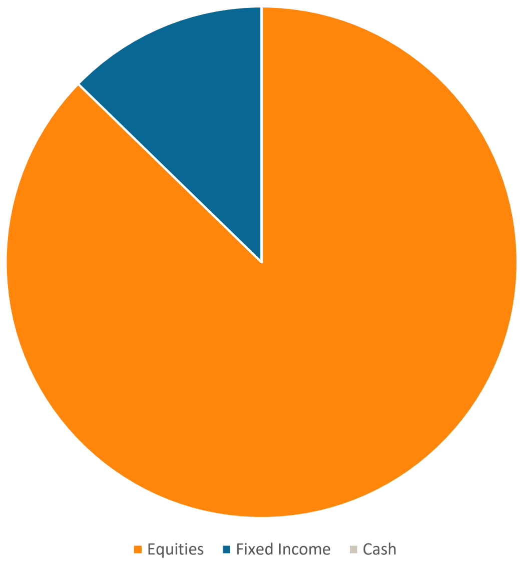
During October, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by more than 535 basis points (bps). It was the best month for global stocks relative to bonds since November 2020. Stocks have risen for eight of the first ten months in 2021, while the global bond index has fallen during four of the last five months. This has allowed the global stock/bond ratio to maintain its uptrend, with its 50-day and 200-day moving averages continuing to reach new highs.

Asset Allocation Summary

October 2021 Allocations (%)



November 2021 Allocations (%)



* 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 turnover reduction algorithm rebalance threshold was not breached.
- The equity allocation remained above 80%.
- The fixed income allocation continued to be less than 20%.
- Cash had no weighting within the model.
- The global shipping rates indicator switched to favoring bonds this month. This indicator compares the Baltic Dry Index (BDI) to its 13-week moving average.
- At the end of October, the BDI fell to more than 17% below its intermediate-term trend (chart, below). Last week the BDI dropped more than 20%, its largest one-week decline in one year. It was also the BDI's largest monthly decline (more than 30%) since January 2020
- Four of the six top-level indicators favored 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 remains at more than 10% above its one-year moving average. The spread reached an all-time high earlier this year.
Global Market Breadth	Favors Equities	68% of global equity markets are trading above their 50-day moving average. This was a significant improvement from the 54% reading last month.
OECD Leading Indicator	Favors Equities	The four-week change in the OECD Composite Leading Indicator (CLI) is still positive, but at its lowest level since hitting an all-time high one year ago.
PMI Breadth Factor	Favors Fixed Income	The four-week change in economies with expanding manufacturing industries maintained its signal favoring bonds, as no economies crossed the key threshold of 50 last month.
Baltic Exchange Dry Index	Favors Fixed Income	This indicator now favors fixed income. The Baltic Dry Index plummeted to more than 17% 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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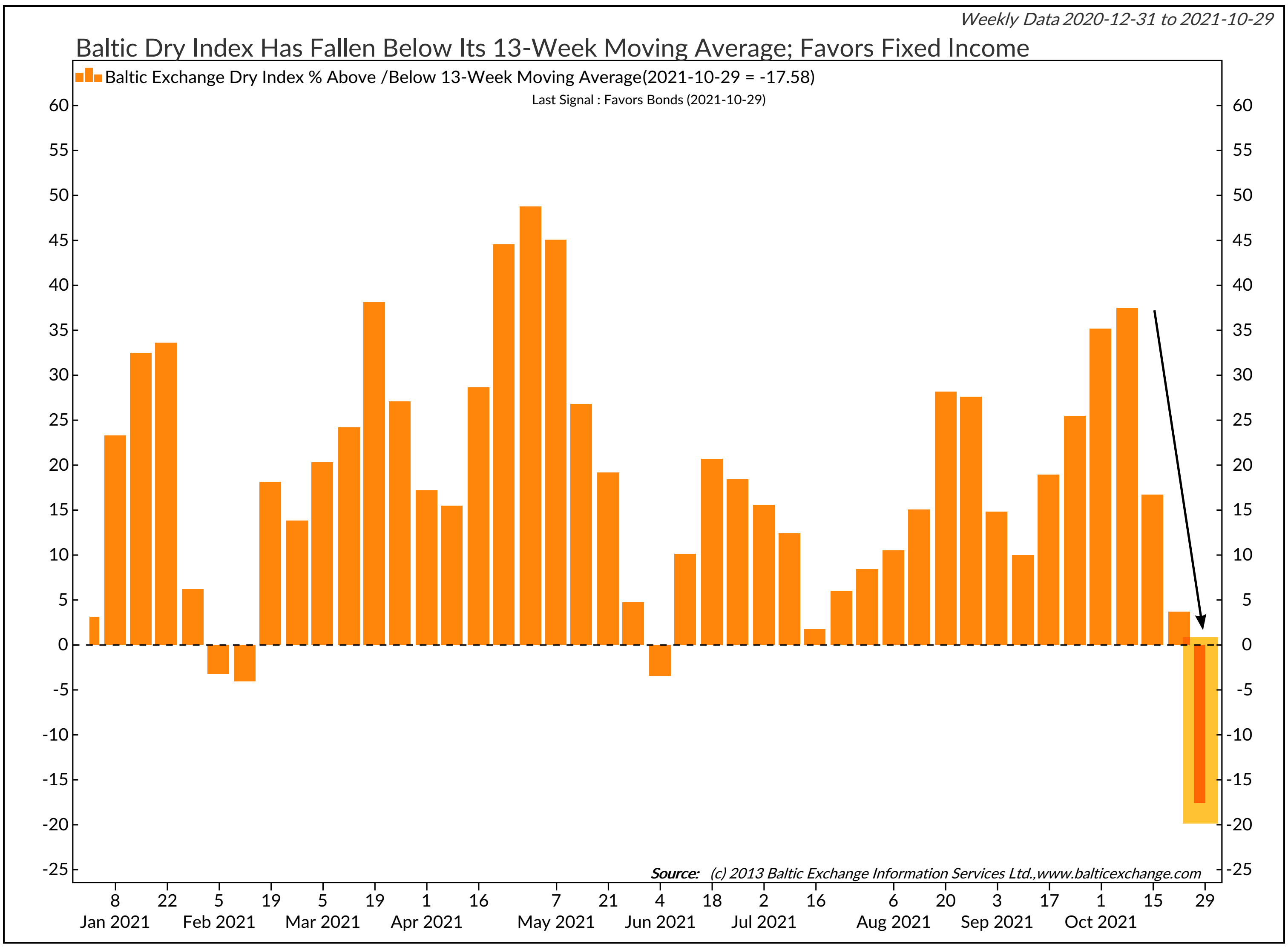
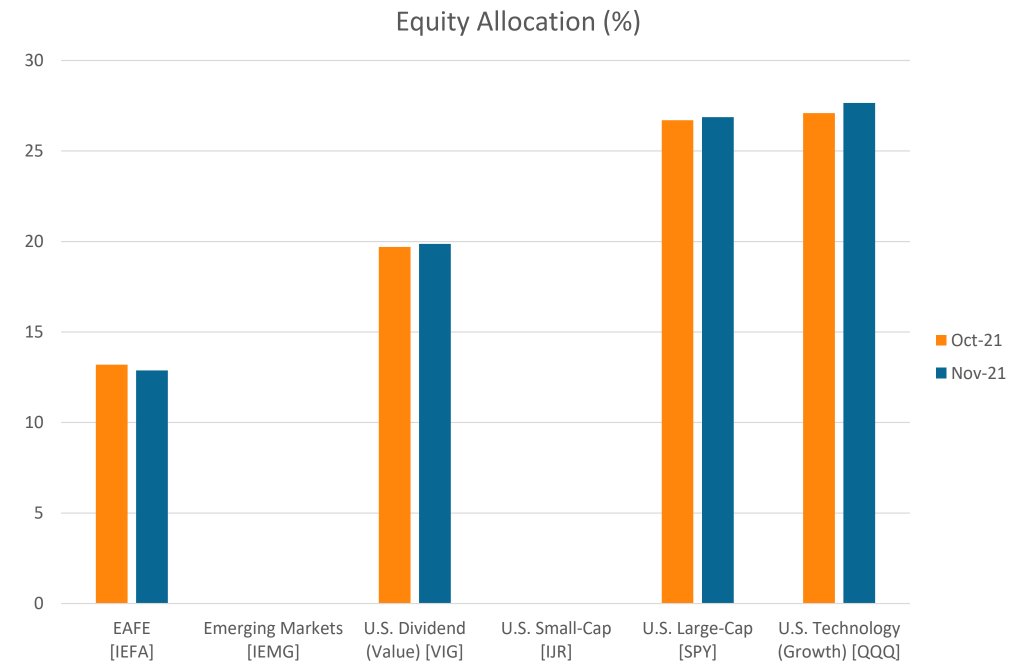
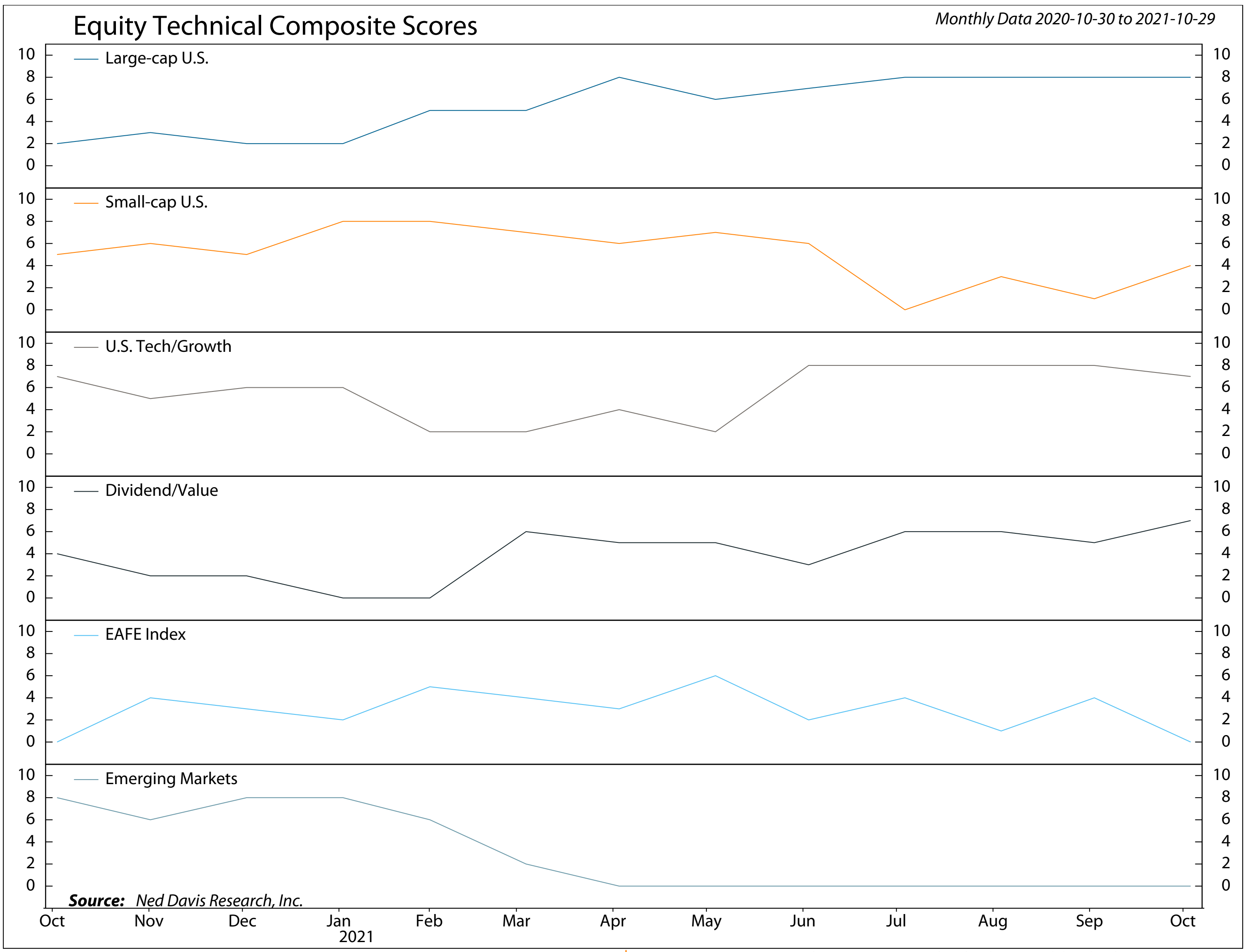


Customized version of ETF1000_15

Equity Allocation Summary

During October, all six equity areas produced positive returns. U.S. Value [Dividends] (VIG), U.S. Large Caps (SPY), and U.S. Growth [Technology] (QQQ) all jumped by more than 690 bps, their best month since November 2020. U.S. Small Caps (IJR) and Europe, Australasia, and the Far East [EAFE] (IEFA) each increased by more than 300 bps. Emerging Markets (IEMG) was the worst-performing category, but it still gained over 100 bps. QQQ, SPY, and VIG continued to receive more than 15% allocation for November due to their elevated technical composite scores (image at bottom).





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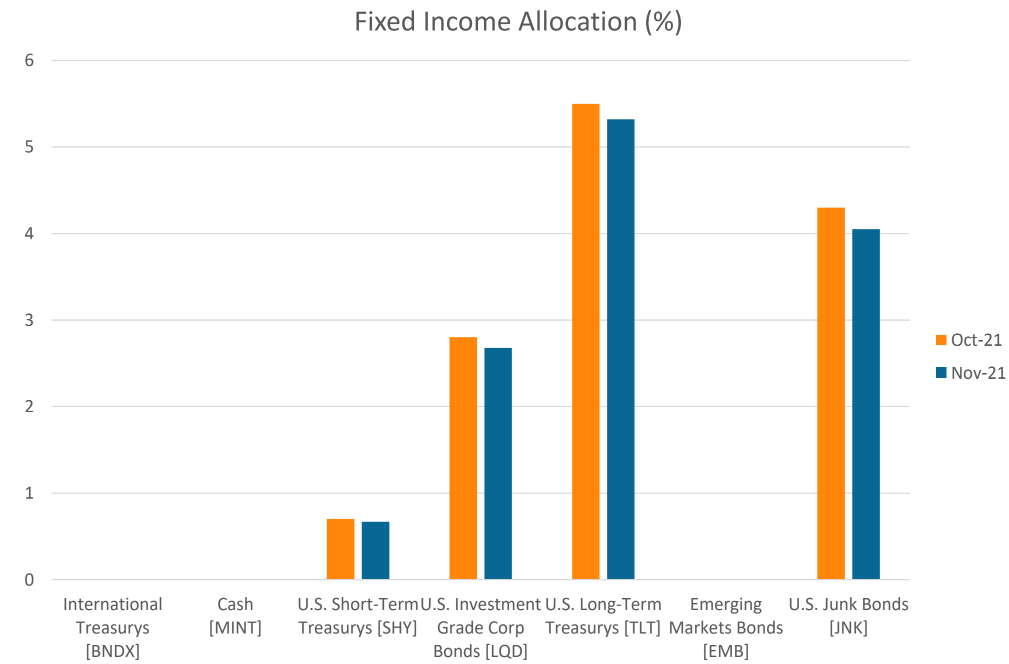
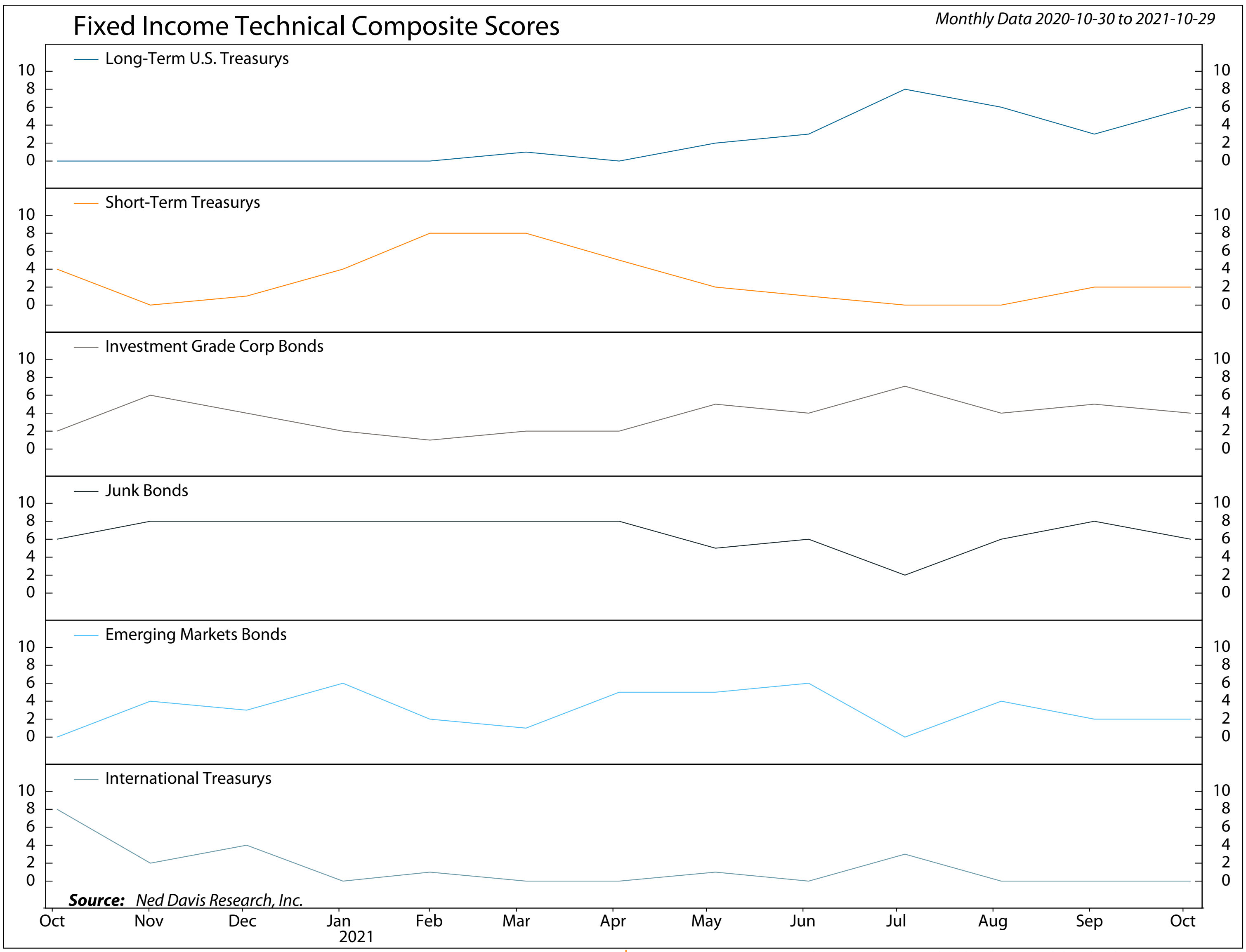
Fixed Income Allocation Summary

U.S. Long-Term Treasurys (TLT) was the top-performing fixed income area during October, as it rose by more than 200 bps. TLT had declined during the previous two months. U.S. Investment Grade (LQD) and Emerging Market bonds (EMB) both increased last month. It broke a two-month losing streak for LQD. U.S. Short-Term Treasurys (SHY), U.S. High Yield (JNK), and International Investment Grade Bonds (BNDX) each dropped by more than 30 bps. SHY and BNDX have dropped for the last three months. TLT and JNK both received more than 3% allocation for November due to their elevated technical composite scores (image at bottom).





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