NDR
NED DAVIS RESEARCH

Fixed Income Allocation Strategy

FEBRUARY 2022

Fixed Income Performance Update

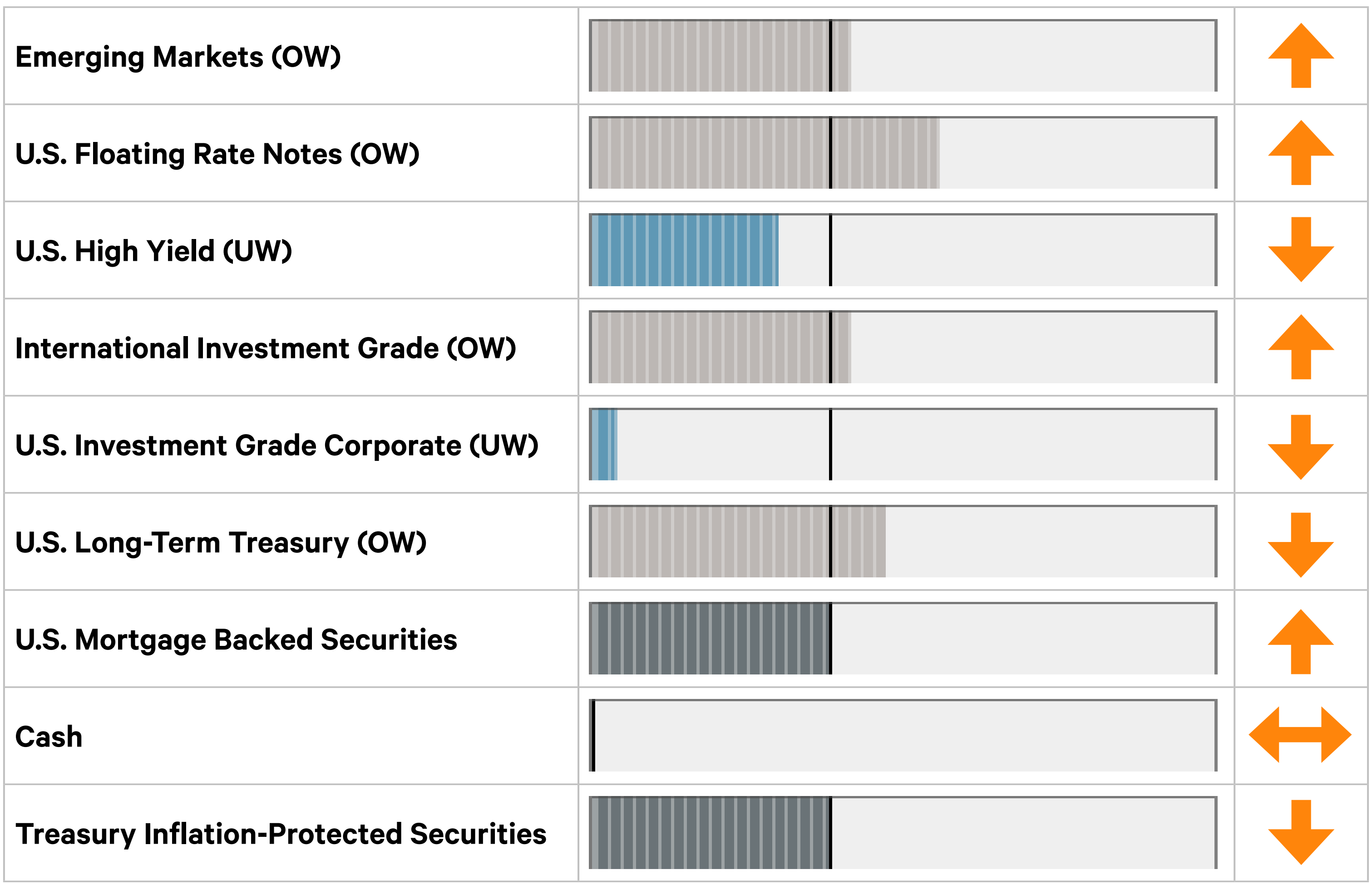
All fixed income segments produced negative returns in January. Floating Rate Notes (FLOT) dropped by less than 10 basis points (bps).

International Investment Grade Bonds (BNDX) and U.S. Mortgage-Backed Securities (MBB) each fell by more than 100 bps. MBB has declined for eight of the last nine months and it suffered its worst monthly return since 2016. BNDX has risen only once in the last six months.

U.S. High Yield (JNK) and Treasury Inflation-Protected Securities (TIP) each dropped over 200 bps. TIP's three-month winning streak was ended by its worst month in more than five years. JNK has fallen for four of the last five months.

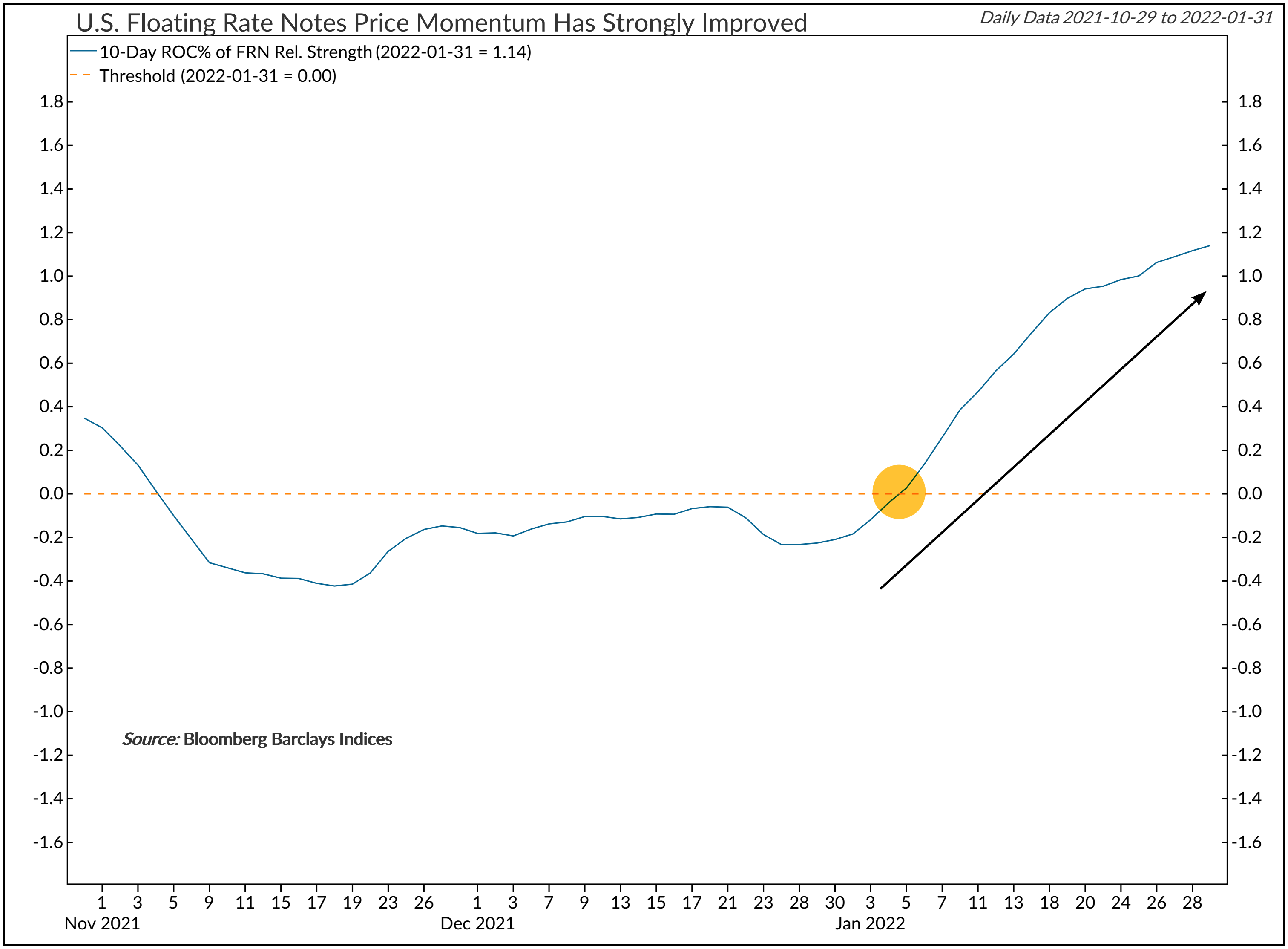
Emerging Market bonds (EMB), U.S. Investment Grade (LQD), and U.S. Long-Term Treasurys (TLT) all plunged over 300 bps in January. It was the weakest month for LQD and EMB since March 2020. After being the worst-performing fixed income category in 2021, TLT continued its weakness by having the lowest return last month.

Fixed Income Allocation Summary



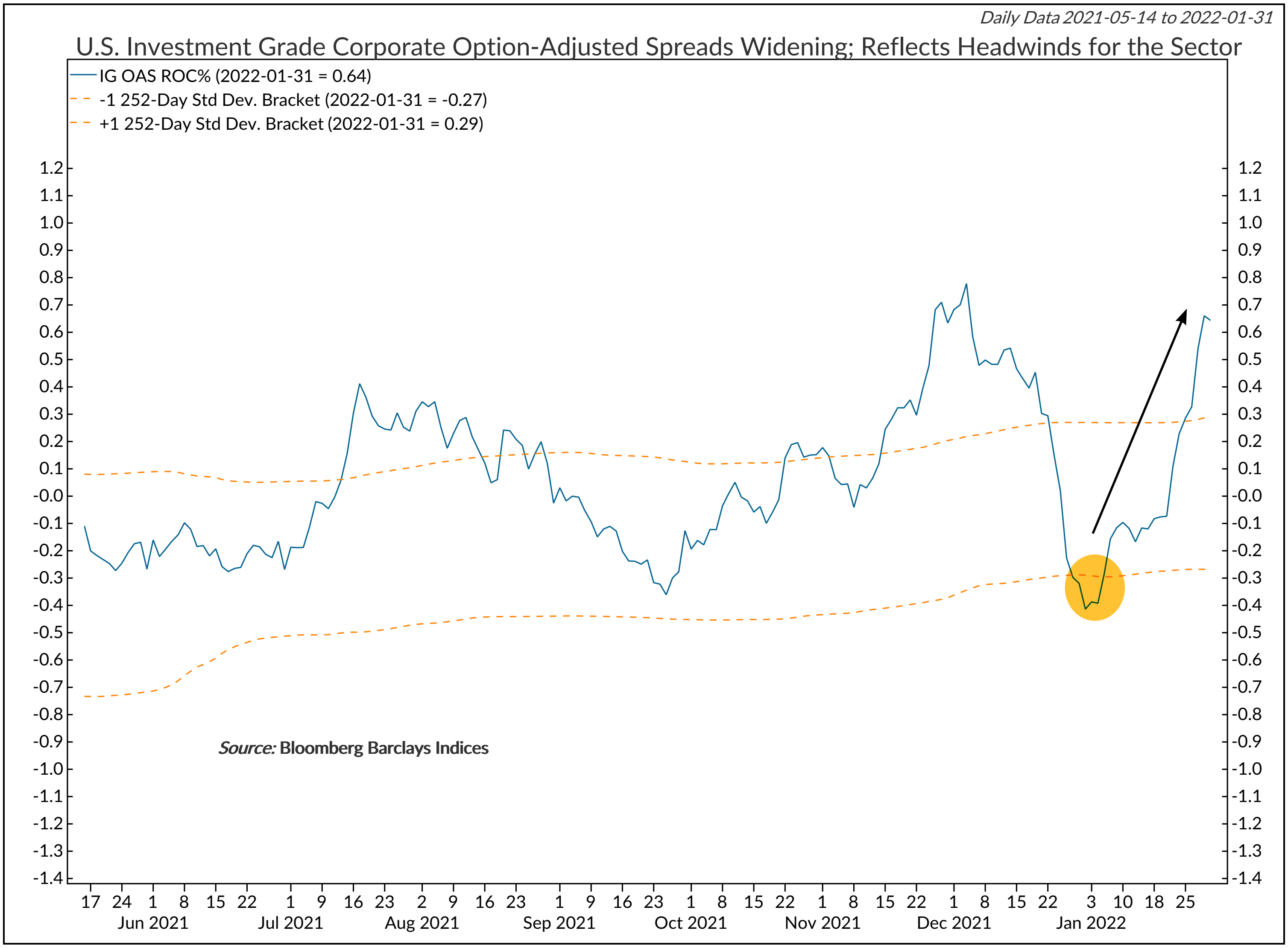
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

- Floating Rate Notes (FRN) jumped to largest overweight status. Rising OIS swaps have been confirmed by improving technicals. All the sector's indicators are bullish.
- U.S. Long-Term Treasurys remains above benchmark. Although the trend has weakened, inflation expectations have started to roll over. Only one of the sector's price-based (internal) and macro, fundamental, and behavioral (external) indicators is bearish.
- International Investment Grade bonds' allocation jumped to above benchmark. U.S. swaps are reversing from an extreme and high yield is weakening. The improving internals confirm these external tailwinds. None of the sector's indicators are bearish this month.
- Emerging Markets (EM) moved to above benchmark allocation on improving external influences. EM currencies strengthened, EM equity markets showed positive signs, and commodity markets are exhibiting strength. However, the absolute trend of the region declined during the sell-off.



Customized version of Technical Momentum

- U.S. Mortgage-Backed Securities' (MBS) improved to near benchmark allocation. High yield option-adjusted spreads have widened, which is a tailwind for lower risk MBS. The sector is reversing from an oversold condition and the trend has improved.
- Treasury Inflation-Protected Securities (TIPS) fell to near benchmark allocation. Only one of the sector's indicators is bearish.
- U.S. High Yield dropped significantly to below benchmark allocation. All but one of the sector's indicators possesses a bearish outlook on the category. Small-cap equity weakness, rising volatility, widening spreads, narrowing breadth, and a weakening trend all reflect headwinds for high yield.
- The U.S. Investment Grade Corporate bond sector plummeted to the most underweight area. Option-adjusted spreads (OAS) widened (chart at bottom), and the U.S. Dollar is reversing from an overbought condition, which produced headwinds for an overbought sector. All the sector's indicators are bearish.



Customized version of Option-Adjusted Spread

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