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NED DAVIS RESEARCH

Fixed Income Allocation Strategy

JANUARY 2021

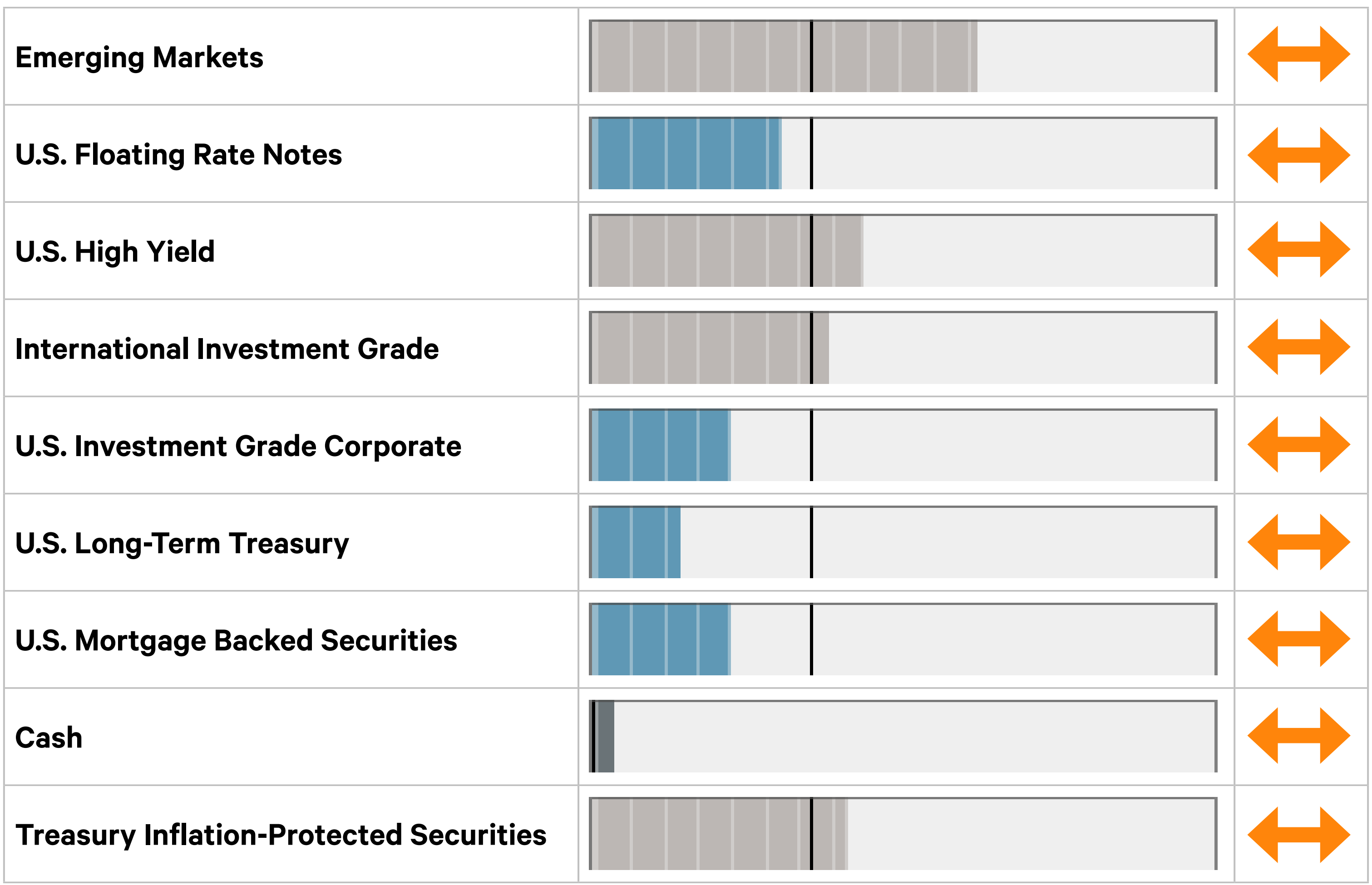
Fixed Income Performance Update

U.S. High Yield (JNK) and Emerging Market bonds (EMB) were the top sectors within fixed income during December. It was the fourth time in 2020 that EMB was the best performer. Both JNK and EMB grew by more than 210 basis points (bps) last month and over 495 bps for the year.

Treasury Inflation-Protected Securities (TIP) rose by over 100 bps last month. TIP was one of the top three performers in 2020 as it increased by more than 10%.

U.S. Investment Grade (LQD), International Investment Grade Bonds (BNDX), Floating Rate Notes (FLOT), U.S. Mortgage-Backed Securities (MBB), and Cash (MINT) all increased by less than 40 bps. LQD was the second-best sector last year as it grew by almost 11%. BNDX declined during only two months in 2020. MBB has risen during 18 of the last 20 months. FLOT has risen for 21 of the last 24 months.

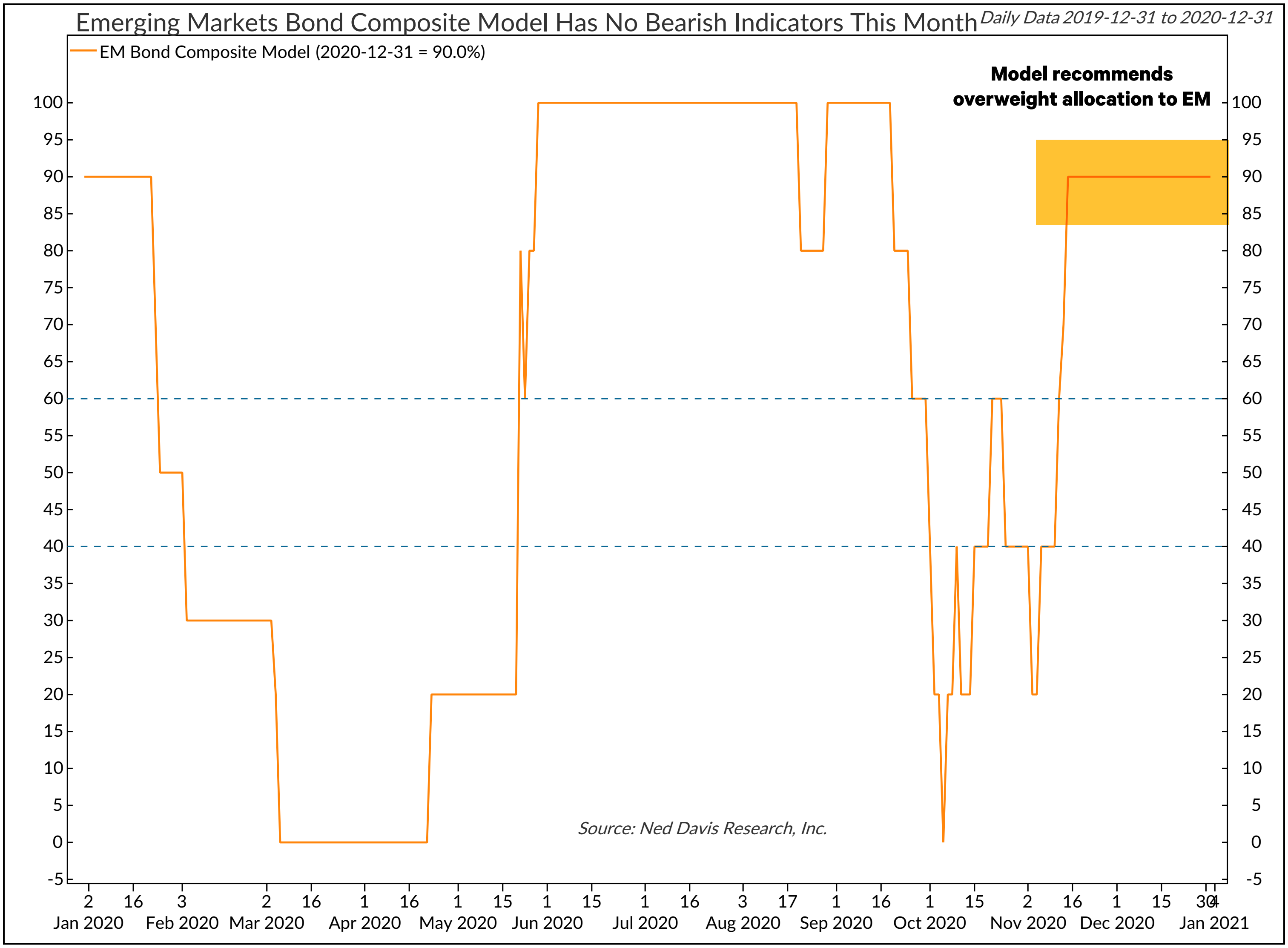
Fixed Income Allocation Summary



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.

U.S. Long-Term Treasurys (TLT) was the only area with negative returns for December. TLT fell by over 120 bps. However, TLT was the top sector in 2020 as it jumped by more than 18%.

- Emerging Markets (EM) remains more than 1,000 bps overweight. There were no indicator changes for the region this month. None of the geography's indicators are bearish (chart at bottom)
- U.S. High Yield is greater than 300 bps overweight. An option-adjusted spread (oas) indicator exited its bearish signal as the momentum in spreads has reversed lower
- International Investment Grade bonds' allocation is more than 150 bps above benchmark. A measure of the international yield curve declined enough to flip the indicator from bullish to bearish on the region
- Treasury Inflation-Protected Securities is greater than 200 bps overweight. An



Customized version of ISBM1_EM_COMP

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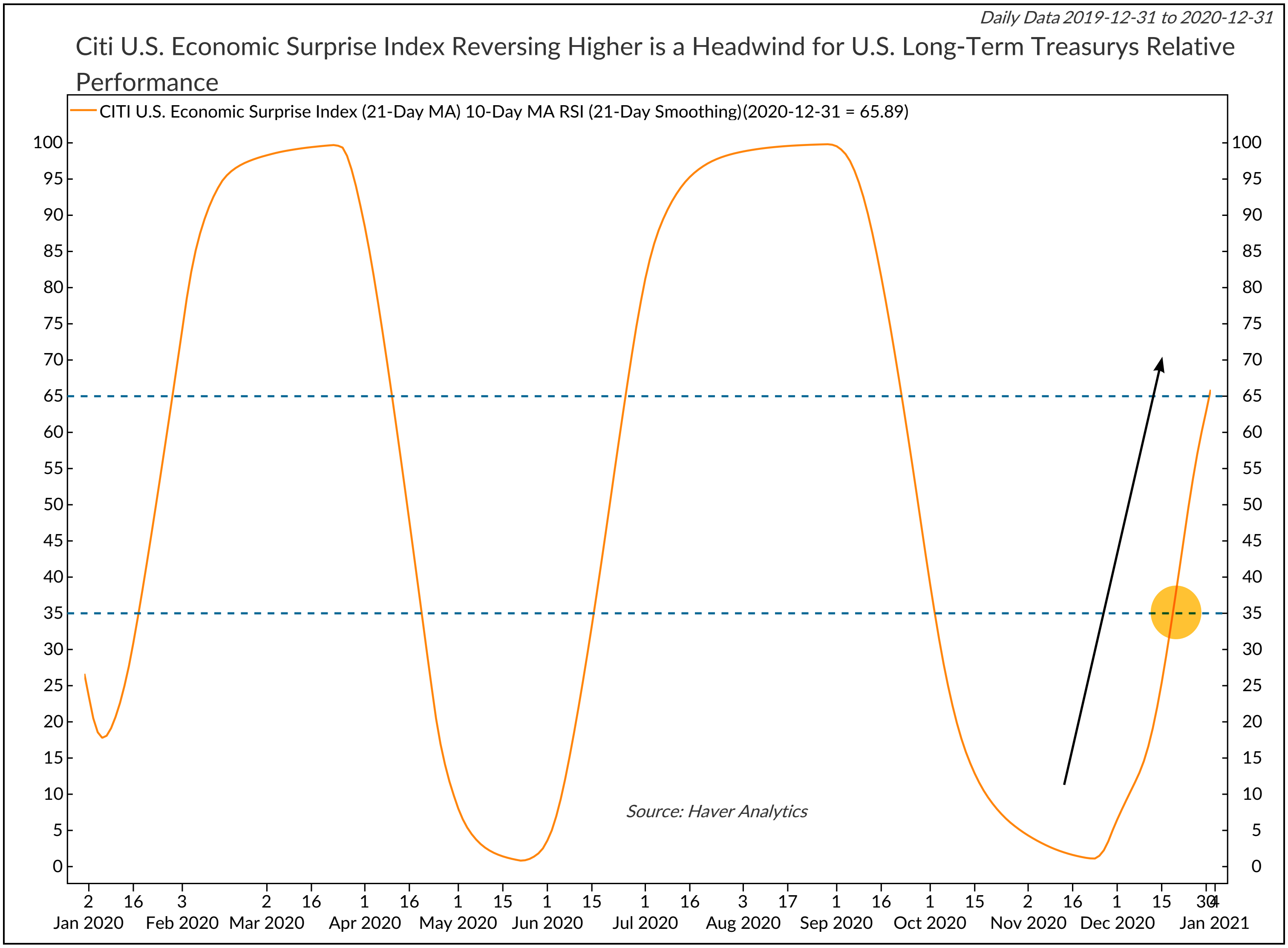
- overbought/oversold indicator switched from bearish to bullish. All of the sector's indicators are bullish
- Cash has over 50 bps in allocation this month

- Floating Rate Notes continues to be more than 150 bps underweight. No indicators changed signal this month. Trend and momentum measures remain bearish on the sector
- The U.S. Investment Grade Corporate bonds sector's allocation is greater than 400 bps below benchmark. No indicators changed signal this month. Half of the sector's measures are bearish
- U.S. Mortgage Backed Securities' (MBS) is more than 450 bps underweight. Credit conditions' short-term trend has become stretched to the upside, which is bearish on the near-term relative outlook for the sector
- U.S. Long-Term Treasurys' allocation is greater than 700 bps below benchmark. Price momentum and equity trend indicators exited their bearish signals. However, a measure of U.S. economic strength improved (chart at bottom), which is bearish for the relative performance of this sector



Customized version of ISBM1_USLT_CITI_RSI

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