Dynamic Allocation Strategy

NDR
NED DAVIS RESEARCH

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Macro/Market Update

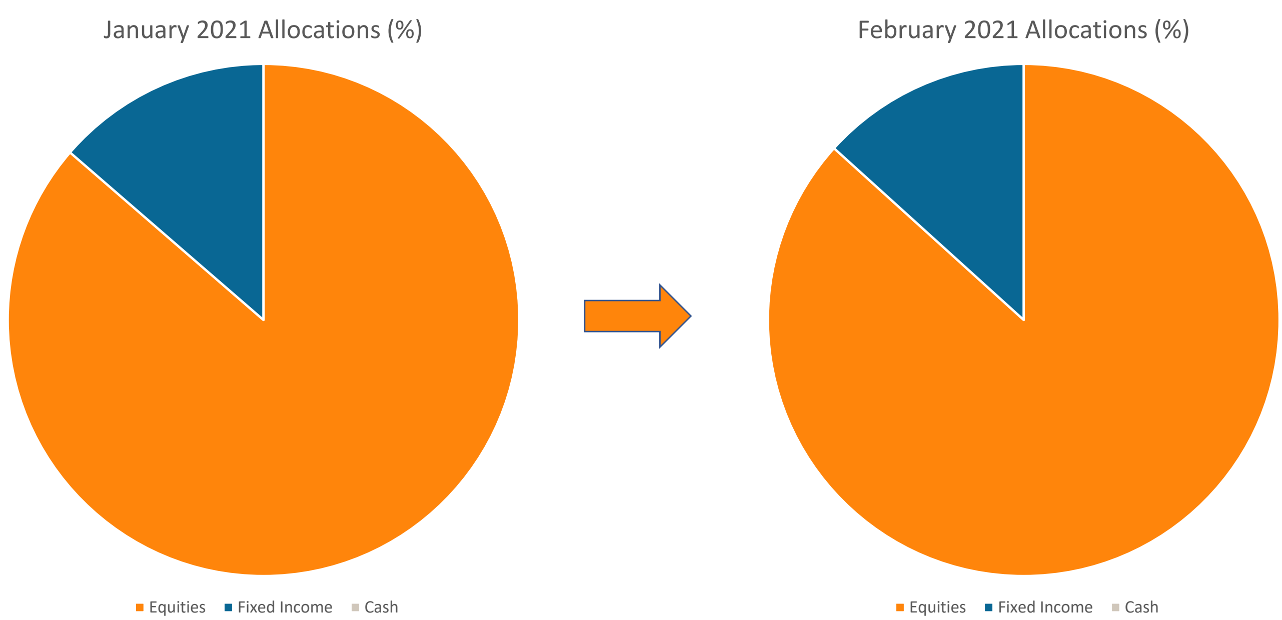
The global economy continued to grow at a firm pace at the end of 2020, as rising COVID cases and renewed lockdowns in many parts of world have so far inflicted only limited damage to the global economy. The improved economic data suggest that any disconnect between the economy and equity markets may have more to do with perception than reality.

The global composite Purchasing Manager's Index (PMI; services and manufacturing) edged down 0.4 points in December to 52.7, a three-month low. Even so, the latest reading in the PMI is historically consistent with 2.6% annual global real GDP growth, indicating that the recovery firmly remains intact. The OECD leading indicator for the global economy also rose for an eighth straight month in December, to its highest level since before the pandemic.

Annual consumer price growth (i.e., inflation) should rebound this year due to the distribution of vaccines, a low base from the prior year, and rising commodity prices. Moreover, shortages and supply-chain disruptions caused by the virus have been putting upward pressure on costs, some of which will likely feed through to the consumer.

During January, the MSCI All Country World Index (ACWI) outperformed the Barclays Global Aggregate Bond Index by 45 basis points (bps). Stocks have outpaced bonds for eight of the last ten months. Sentiment and valuation indicators reflect elevated market risks, while market breadth measures are starting to diverge. However, excess liquidity and an improving economic outlook should prevent any near-term market weakness from becoming a full-fledged bear market. In this scenario, any market weakness should help to relieve the optimistic sentiment, improve valuations, and push bond yields lower. These events would set the stage for another sustainable market advance.

Asset Allocation Summary



* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

Asset Allocation Summary

- The model did not trade this month as the turnover reduction algorithm threshold was not breached
- At 86%, the equities allocation is significantly above the benchmark
- The fixed income allocation is 14% and cash continues to receive zero weight
- Five of the six top-level indicators favor equities over fixed income (table, below)
- The global equity market participation indicator (breadth) produced a new signal favoring fixed income (chart, 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 rose to more than 17% above its one-year moving average during January, its highest spread since early 2010.
Global Market Breadth	Favors Fixed Income	The indicator now favors fixed income as global market breadth fell from 98% of global equity markets trading above their 50-day moving average to only 44% meeting that criterion.
OECD Leading Indicator	Favors Equities	The four-week change in the OECD CLI is still positive after hitting an all-time high during August.
PMI Breadth Factor	Favors Equities	The four-week change in economies with expanding manufacturing industries has fallen from its late-summer all-time highs. The indicator resides near the threshold to favoring fixed income.
Baltic Exchange Dry Index	Favors Equities	In late January, the Baltic Dry Index was more than 30% above its 13-week moving average. However, the indicator started February at slightly more than 6% above its intermediate-term trend.
Central Bank Policy	Favors Equities	In order to favor fixed income, the global short-term rates indicator requires a significant drop in global short-term rates.

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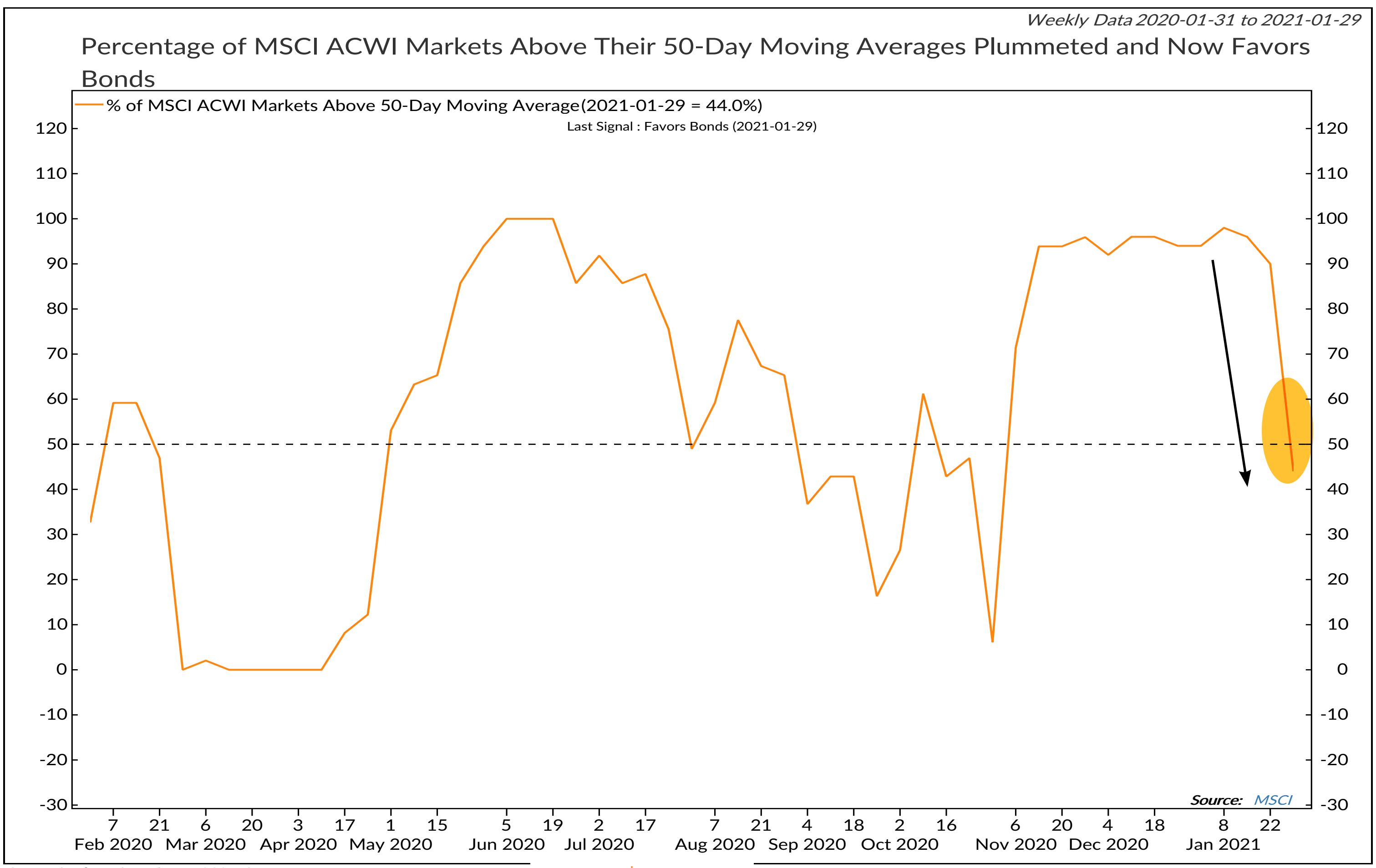
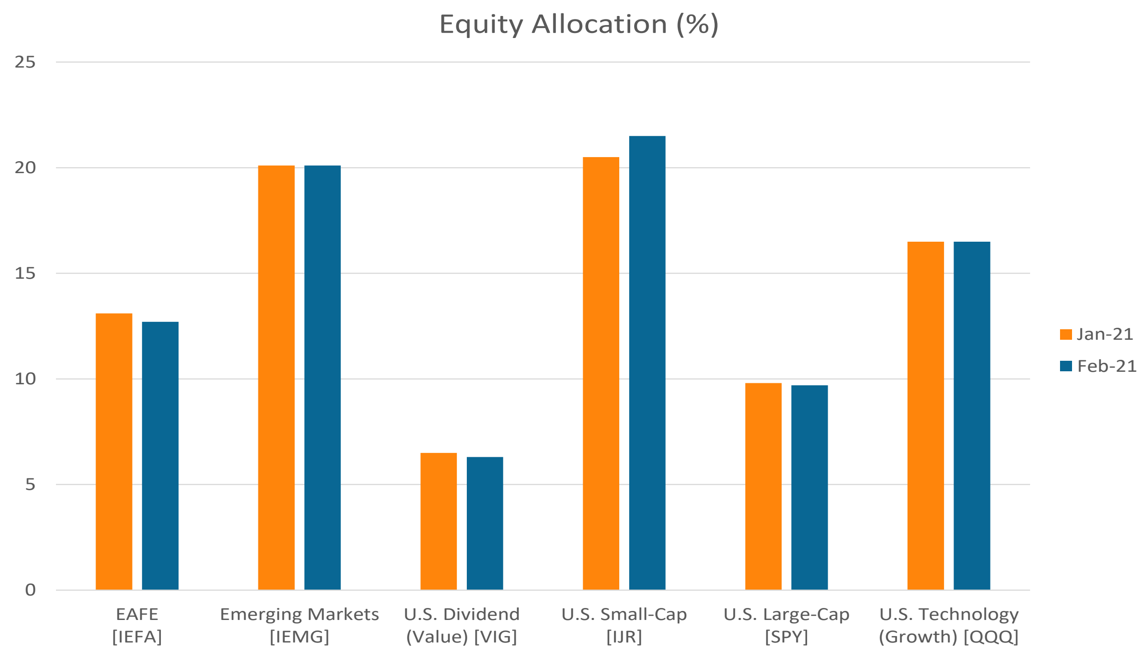


Customized version of ETF1000_12

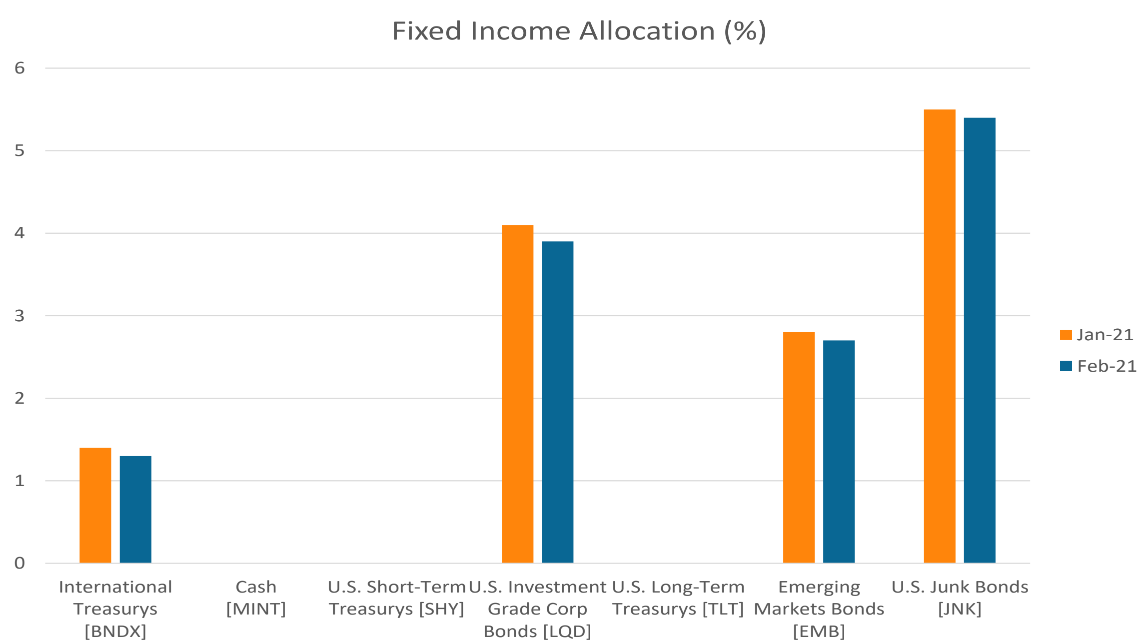
Equity Allocation Summary

Emerging Markets (IEMG), U.S. Technology (QQQ), and U.S. Small-caps (IJR) received more than half of the total allocation. These were the only three areas within the stock allocation to produce a positive return last month. IJR has risen by more than 600 bps for each of the last three months. IEMG jumped by more than 288 bps in January. Europe, Australasia, and the Far East [EAFE] (IEFA) and U.S. Large Caps (SPY) both have less than 15% allocation. IEFA and SPY each declined by more than 70 bps in January. U.S. Value [Dividends] (VIG) dropped by more than 290 bps, its worst month since March 2020. VIG received more than 5% allocation.



Fixed Income Allocation Summary

U.S. High Yield (JNK) was the only area within fixed income to receive more than 5% allocation. JNK fell by almost 50 bps during January, which broke a three-month winning streak. Emerging Market bonds (EMB) and U.S. Investment Grade (LQD) received more than 2% weighting. Both EMB and JNK dropped by more than 175 bps in January. After rising for four straight months, International Investment Grade Bonds (BNDX) declined by more than 60 bps. BNDX continues to receive more than 1% allocation.



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