Dynamic Allocation Strategy

JUNE 2023

Macro/Market Update

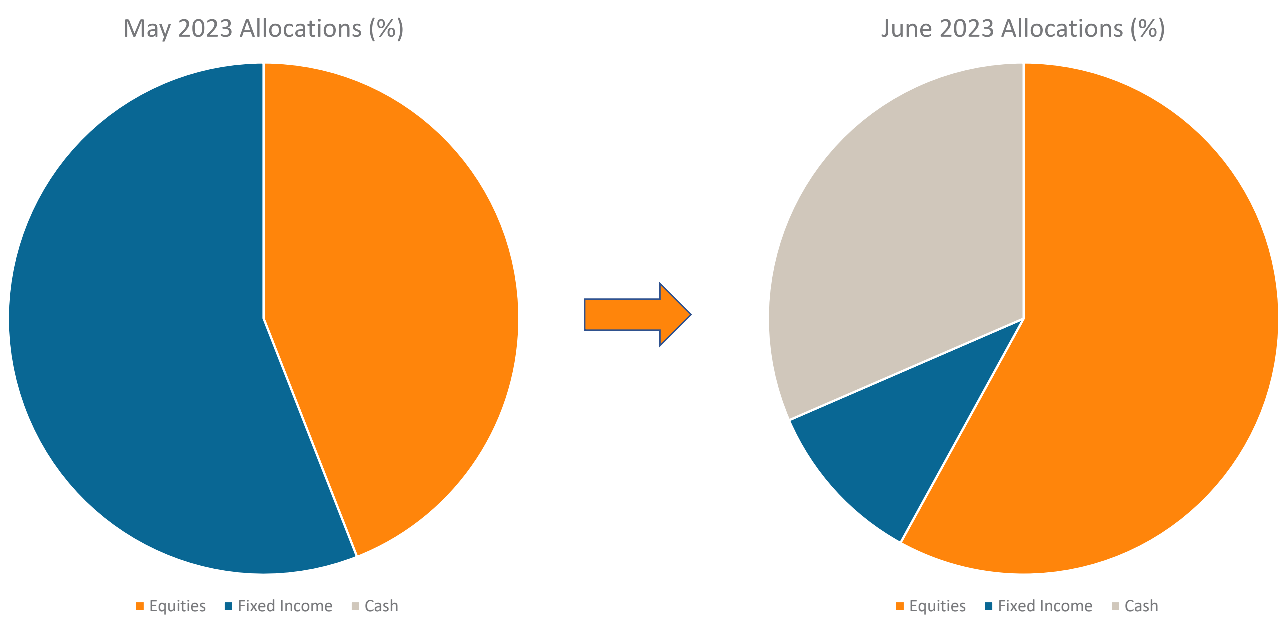
Global economic growth continued to accelerate in April, according to the S&P Global Purchasing Managers' Index (PMI) readings. The global composite (services and manufacturing) PMI climbed 0.8 points to 54.2, the highest level in 16 months and nearly a point above its long-term average. It was the fifth straight gain in the composite, the longest winning streak since October 2020. Historically, this many successive increases in the composite PMI almost always have been in the early stages of a global economic recovery.

The global services sector continued to power ahead strongly in April, as the PMI rose 1.0 point to 55.4, its fourth straight month of growth and the highest level since November 2021. Forward-looking indicators such new orders and the future output index also ticked up, suggesting continued upside in the global economy over the near-term.

Despite these constructive signs, the expansion may be short-lived. Growth remains uneven, as the strength in the PMI composite has almost entirely been driven by the services component. Manufacturing is declining among most economies. The share of PMIs in expansion territory slipped to just 34%, a four-month low and just shy of the one-third threshold historically associated with severe global recession. Moreover, fewer than half of the world's economies reported either monthly or year-to-year gains in their PMIs. Furthermore, given the strength in services, inflation in the sector continues to run high, suggesting a central bank pivot to easing is less likely in the near-term.

During May, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays Global Aggregate Bond Index by more than 95 basis points (bps). Global stocks have outpaced bonds for eight of the last 11 months. An increasing number of global equity indices have moved near their new highs for the year. If this trend continues, it will be a sign that inflation and recession worries have dissipated near-term, creating a backdrop for rising stock prices and stable interest rates. However, the

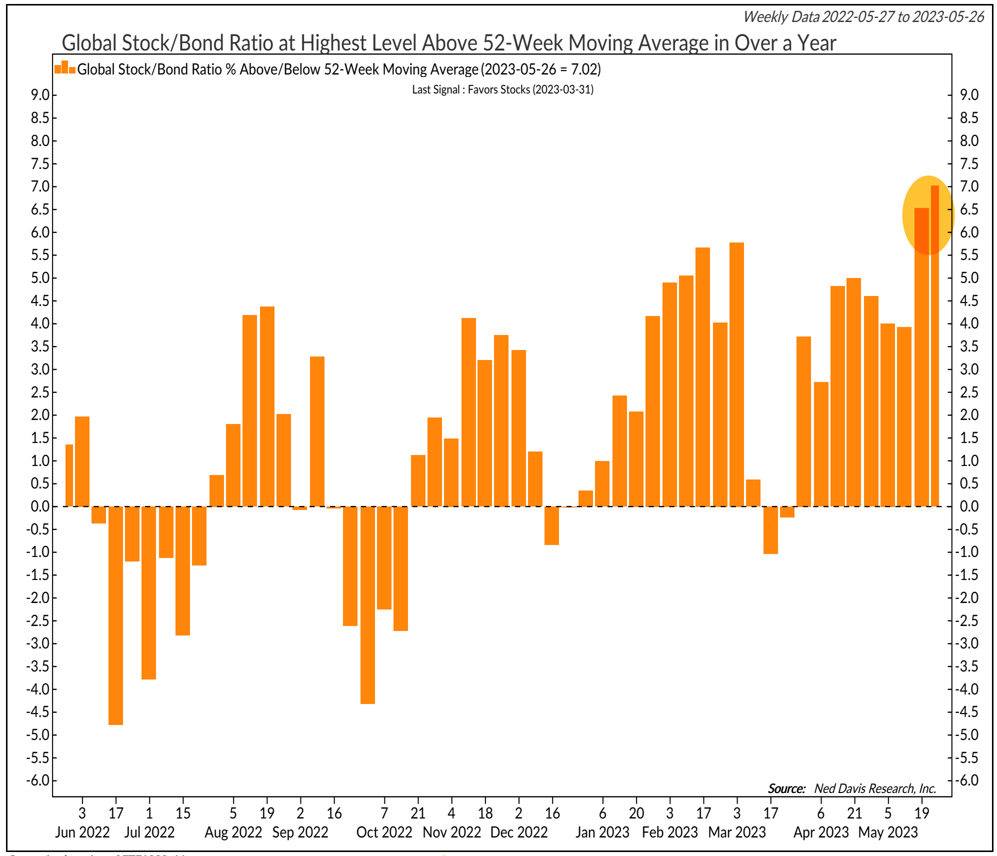
Asset Allocation Summary



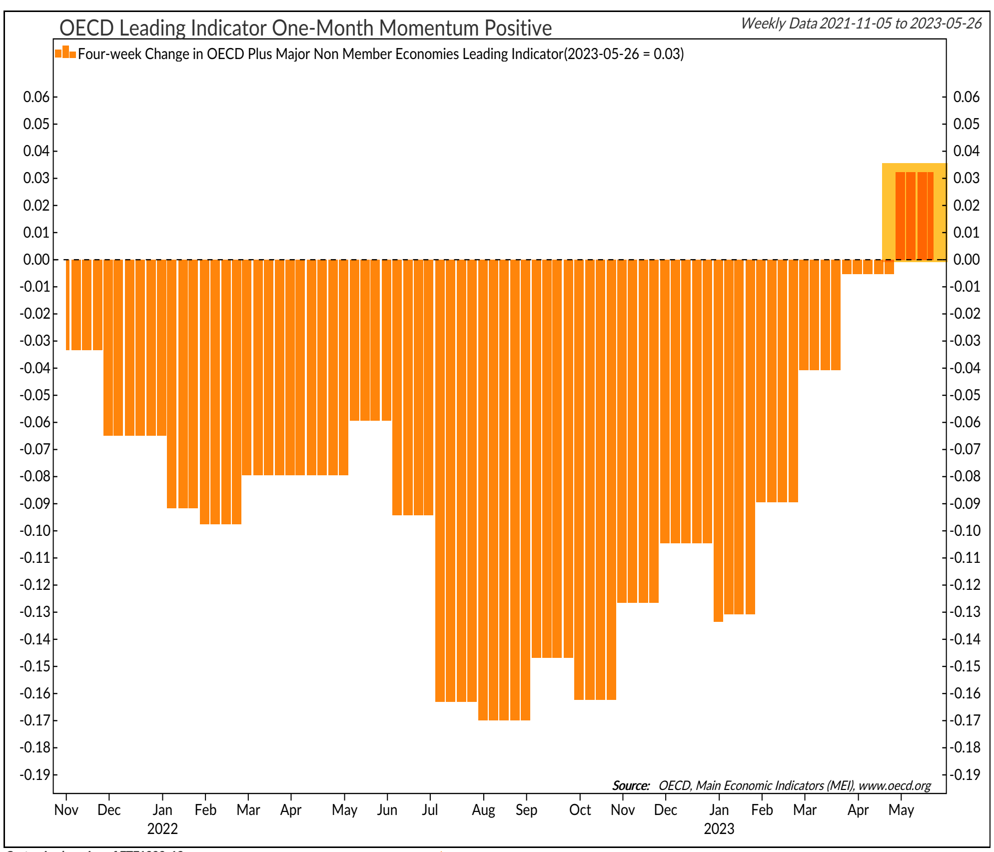
* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

cumulative impact of tight monetary policy and the eventual easing of Chinese demand increases the risk of a renewed global slowdown later this year or early 2024. A worsening economic outlook would lower earnings expectations, produce expense valuations, and likely lead to market weakness.

The equity allocation improved to near benchmark allocation. The stock/bond relative strength indicator, which receives the greatest weighting in the model, compares the stock/bond ratio to its 52-week moving average. The stock/bond ratio is more than 7% above its one-year moving average (chart at right), its highest spread in over a year. Currently, the trend is equity's friend relative to fixed income.



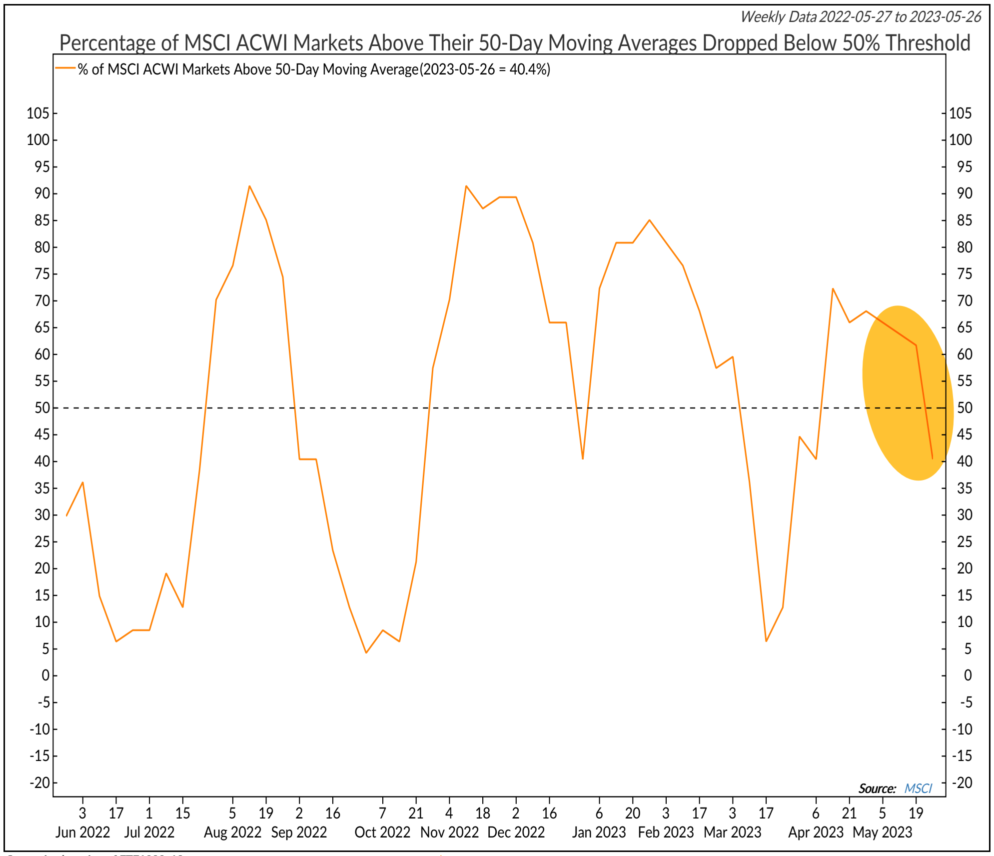
Customized version of ETF1000_11



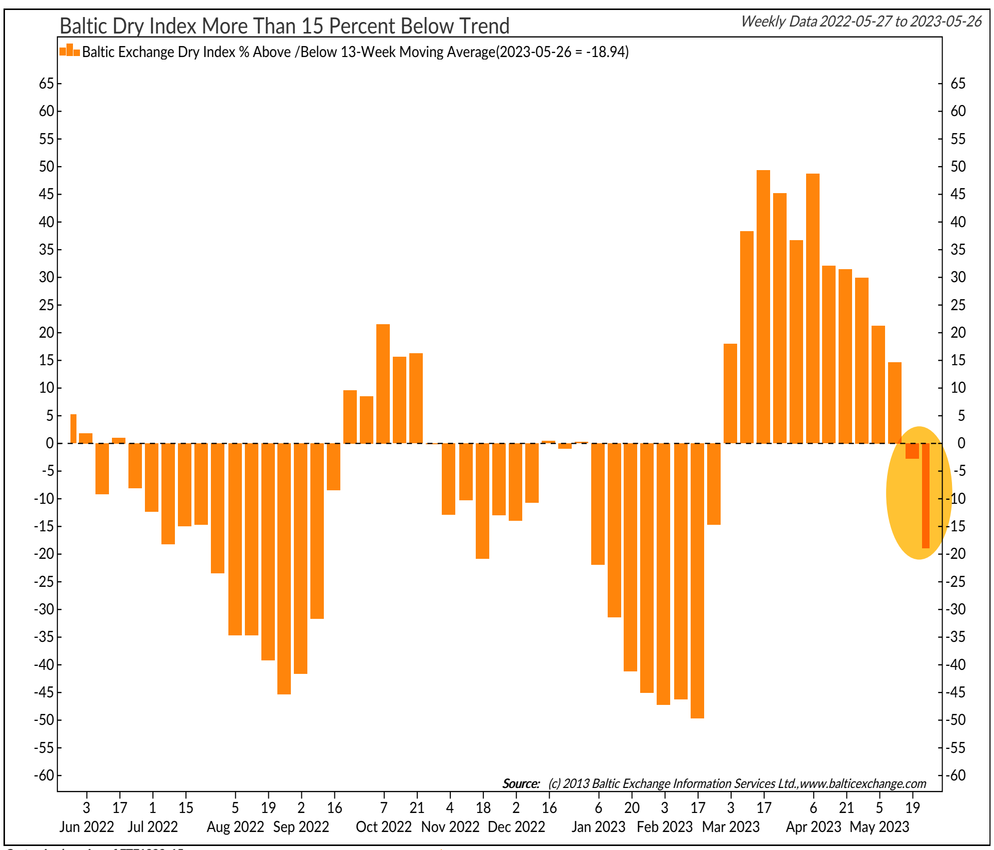
Customized version of ETF1000_13

The one-month change in the Composite Leading Indicator (CLI) was positive for the first time in 18 months (chart at left). The Organization for Economic Cooperation and Development (OECD) creates monthly CLIs for 35 economies to capture turning points in the growth cycle. Each CLI contains a wide range of indicators such as money supply, yield curve, building permits, consumer and business sentiment, share prices, and manufacturing production. Improvement in global economic momentum supports the trend.

There were multiple indicator changes that gave a weaker outlook for equities. The global equity breadth indicator calculates the percentage of global equity markets trading above their 50-day moving average. This indicator recently has experienced significant volatility. The global equity market breadth indicator has produced bullish and bearish extremes over the last few months. At the end of January more than 85% of global equity markets traded above their 50-day moving average. By mid-March only 6% of equity markets met that criterion. The indicator improved to 68% at the end of April, but it declined to 40% by the end of May (chart at right).



Customized version of ETF1000_12

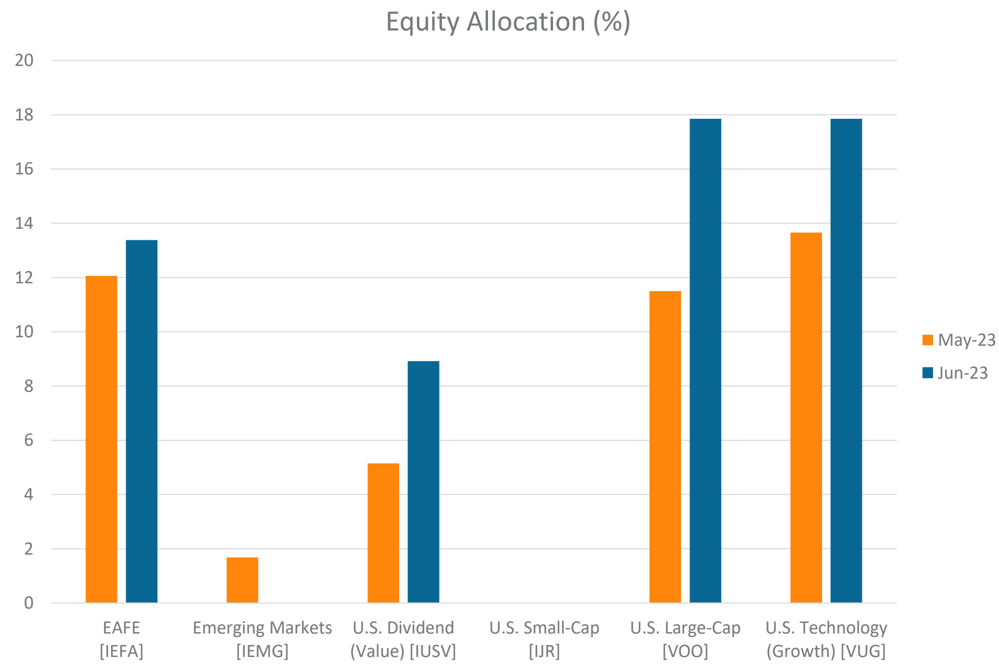


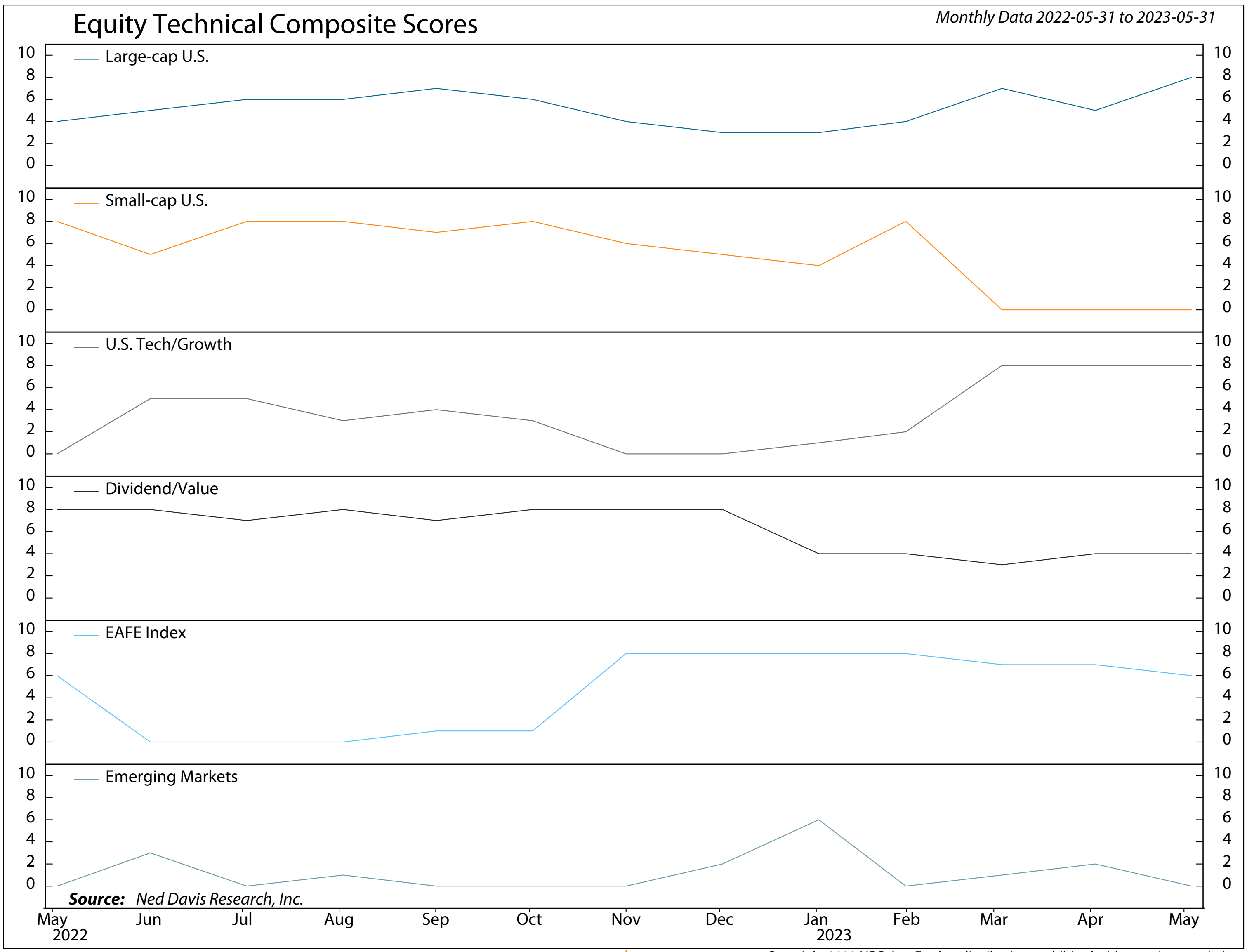
Customized version of ETF1000_15

Global shipping rates now support fixed income. This indicator compares the Baltic Dry Index (BDI) to its 13-week moving average. By the end of May, the BDI resided at almost 20% below its intermediate trend (chart at left). The BDI tracks the cost of transporting raw materials at sea and is considered to be a leading economic indicator.

Equity Allocation Summary

During May, only U.S. Growth (VUG) and U.S. Large-Caps (VOO) rose. VUG increased more than 510 bps. VOO and VUG have gained for four of the last five months. U.S. Value (IUSV), Emerging Markets (IEMG), and International Developed (IEFA) declined over 200 bps. VUG, IEFA, and VOO each received more than 10% allocation for June due to their technical composite scores.

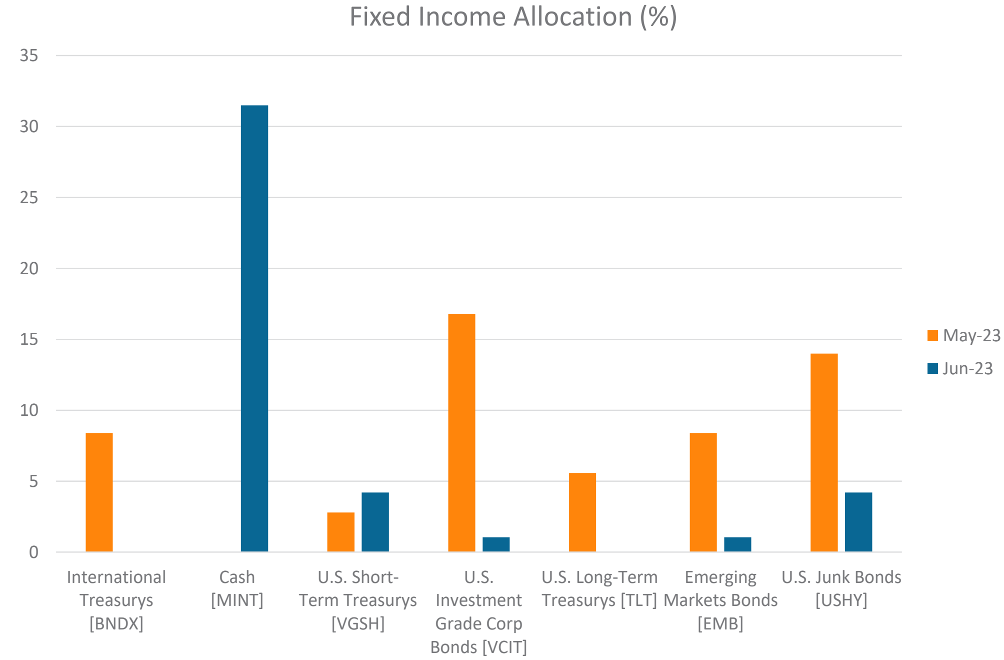


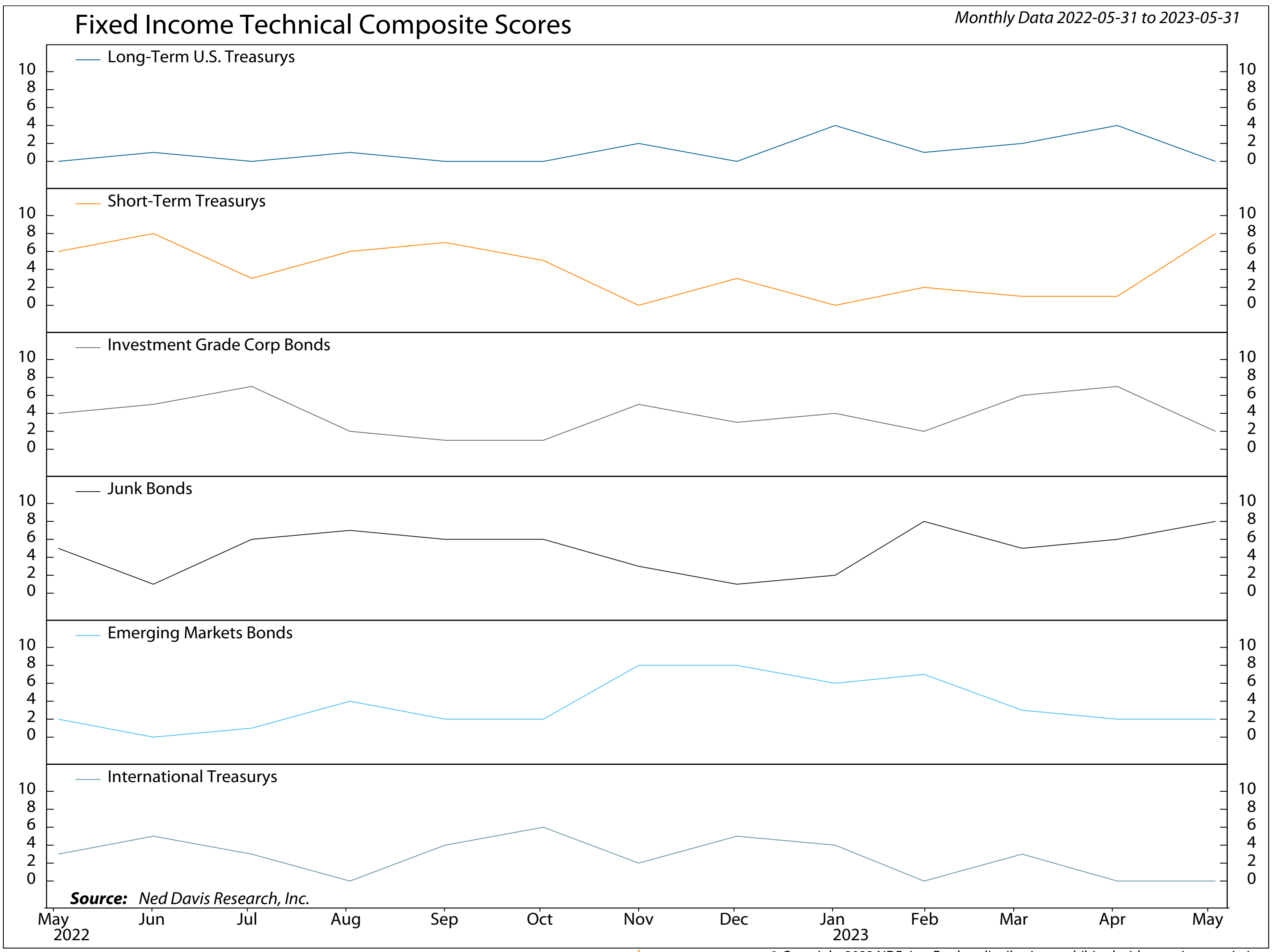


ETF1000_M_NDRIS

Fixed Income Allocation Summary

Except for International Investment Grade (BNDX), all fixed income areas declined during May. U.S. Long-Term Treasurys (TLT) dropped over 300 bps. U.S. Investment Grade Corporates (VCIT), U.S. High Yield (USHY), and Emerging Markets (EMB), declined over 100 bps. Cash (MINT) has over 30% allocation for June. The bond intra-asset class model determines the opportunity for each area relative to cash and then relatively allocates across the segments with favorable attributes. The uncertainty within the fixed income space has caused the model to raise cash again.





ETF1000_M_NDRIS

NDR

Ned Davis Research Disclaimer:

The data and analysis contained within are provided "as is" and without warranty of any kind, either expressed or implied. The information is based on data believed to be reliable, but it is not guaranteed. NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. All performance measures do not reflect tax consequences, execution, commissions, and other trading costs, and as such investors should consult their tax advisors before making investment decisions, as well as realize that the past performance and results of the model are not a guarantee of future results. The NDR Dynamic Allocation model is not intended to be the primary basis for investment decisions and the usage of the model does not address the suitability of any particular investment for any particular investor.

Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs.