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NED DAVIS RESEARCH

Fixed Income Allocation Strategy

JANUARY 2022

Fixed Income Performance Update

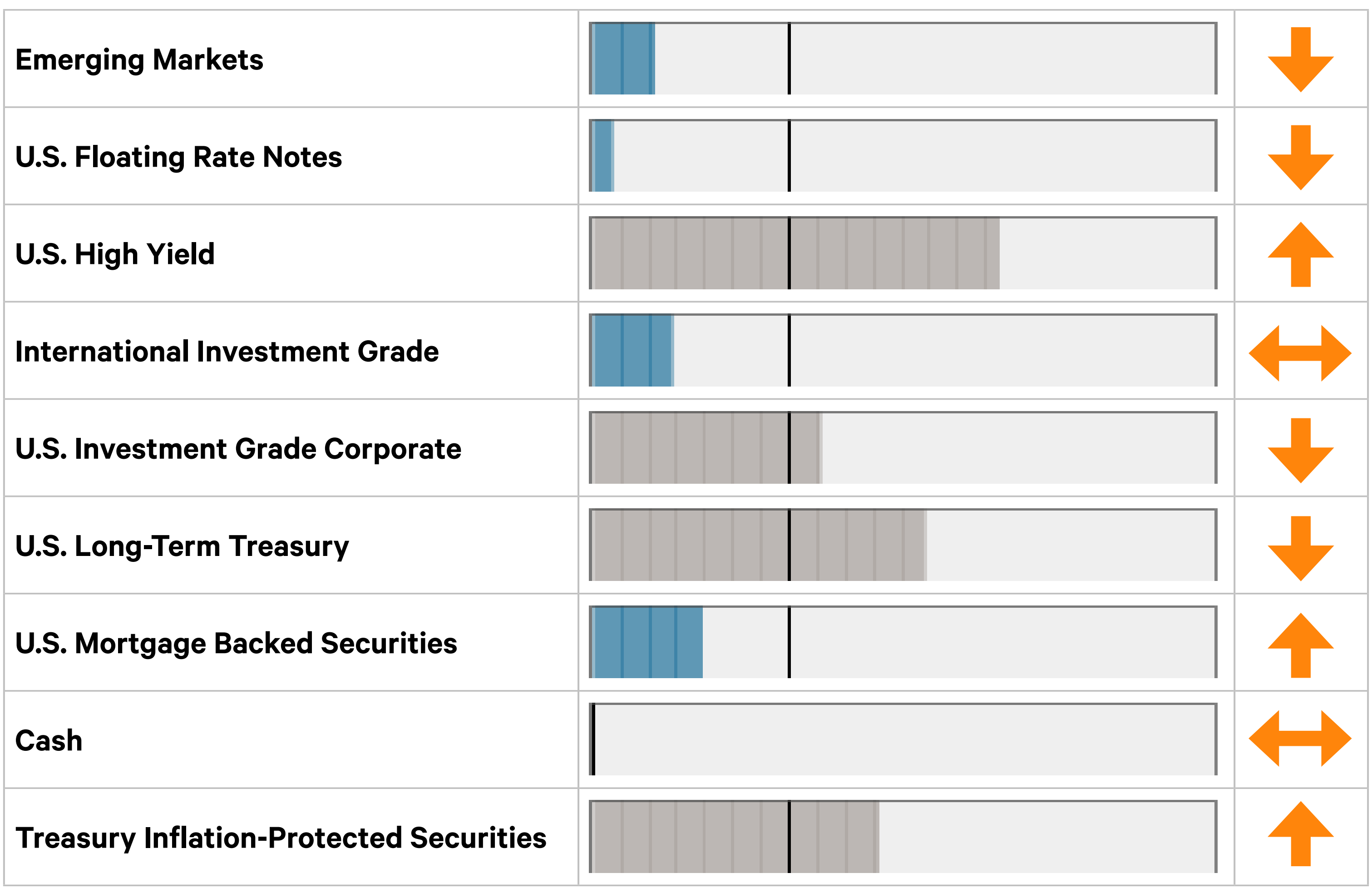
After being the worst-performing areas during November, U.S. High Yield (JNK) and Emerging Market bonds (EMB) were the top performers in December. Both JNK and EMB increased by more than 200 basis points (bps). It was the best month for JNK in a year and for EMB since April. For 2021, JNK increased over 300 bps, but EMB dropped over 200 bps.

Treasury Inflation-Protected Securities (TIP) and Floating Rate Notes (FLOT) both produced positive returns last month. TIP has risen for three straight months and was the top-performing area in 2021 as it gained more than 500 bps.

U.S. Investment Grade (LQD), International Investment Grade Bonds (BNDX), and U.S. Mortgage-Backed Securities (MBB) all fell by less than 100 bps last month. MBB has declined for five straight months. LQD and BNDX have dropped for four of the last five months. All three areas declined by more than 100 bps last year.

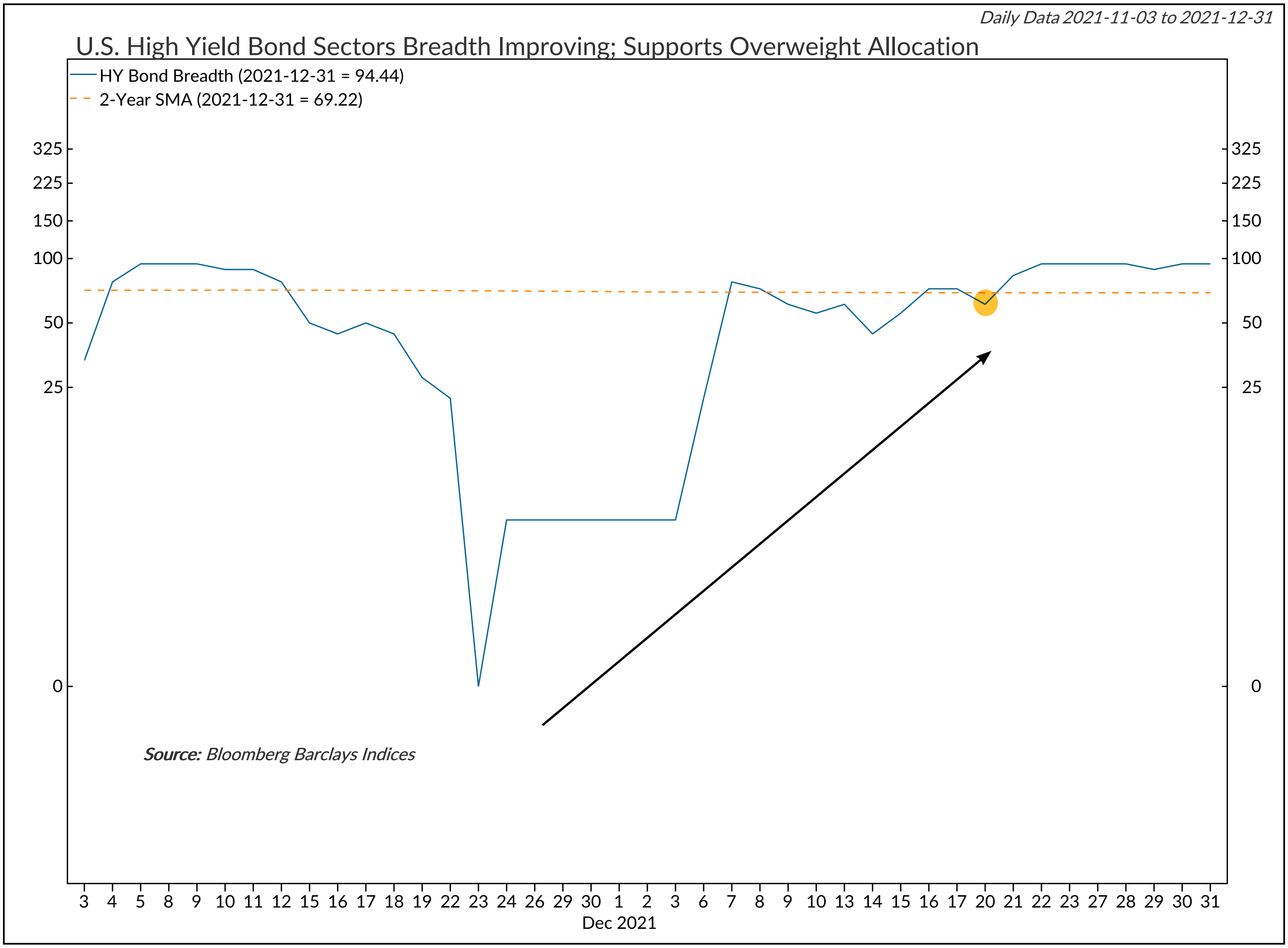
U.S. Long-Term Treasurys (TLT) was the weakest fixed income area during December, as it fell by more than 200 basis points (bps). TLT was the worst-performing fixed income category in 2021, as the segment declined over 400 bps.

Fixed Income Allocation Summary



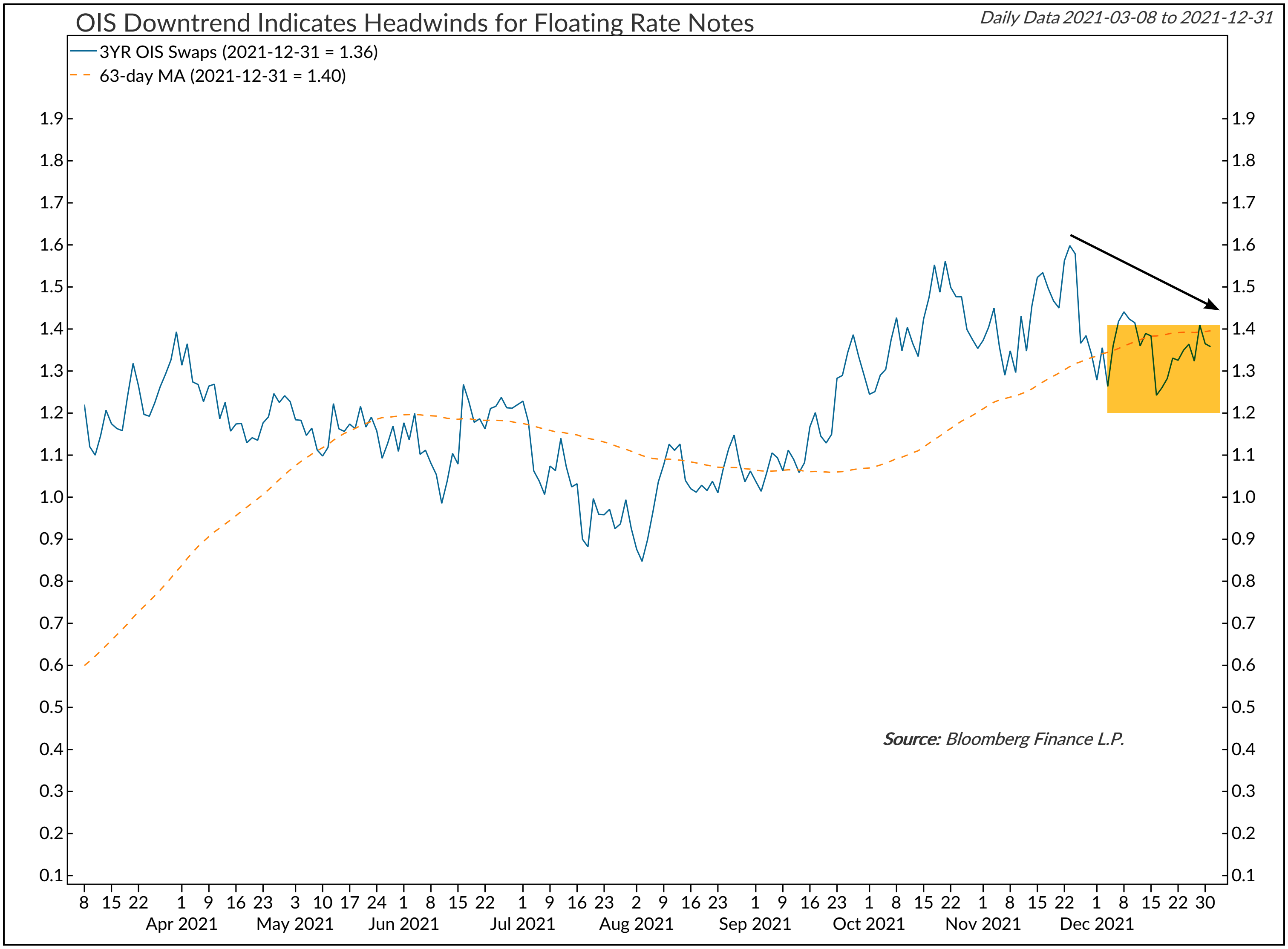
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

- U.S. High Yield jumped to significantly above benchmark allocation. All but one of the sector's indicators possesses a bullish outlook on the category. Small-cap equity improvement, declining volatility, narrowing spreads, widening breadth (chart at bottom), and a strengthening trend all reflect an improving outlook for high yield.
- U.S. Long-Term Treasurys' remains above benchmark. No indicators changed signals this month. Treasurys' near-term trend and momentum continue to support an overweight allocation. Only one of the sector's price-based (internal) and macro, fundamental, and behavioral (external) indicators is bearish.
- Treasury Inflation-Protected Securities (TIPS) continues to receive higher than benchmark allocation. After being the top-performing sector last year, TIPS has started to reverse lower from an overbought condition. However, only one of the sector's indicators is bearish.
- The U.S. Investment Grade Corporate bond sector's allocation continues to be overweight. Option-adjusted spreads (OAS) narrowed, which produced tailwinds for the sector.



Customized version of High Yield Bond Sectors Breadth

- U.S. Mortgage-Backed Securities' (MBS) continues to be underweight. High yield option-adjusted spreads have narrowed, which is a headwind for lower risk MBS. None of the sector's indicators is bullish.
- International Investment Grade bonds is underweight. There was significant indicator deterioration as equity market volatility dampened and trends weakened. All the sector's indicators are bearish this month.
- Emerging Markets (EM) fell further underweight. All but one of the area's indicators is bearish. There was some hope for the region as an absolute trend measure turned positive.
- Floating Rate Notes (FRN) fell to a strong underweight status. The deteriorating trend and momentum of the sector confirms the downward trend from overnight indexed swaps (chart at bottom). None of the sector's indicators is bullish.



Customized version of Option-Adjusted Spread MACR

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