Dynamic Allocation Strategy

NDR
NED DAVIS RESEARCH

MARCH 2022

Macro/Market Update

The global economy began 2022 on a weak note, according to the latest Purchasing Managers' Index (PMI) data. The global composite (services and manufacturing) PMI slumped 2.9 points in January, the most since the Delta variant surge in August 2021, to 51.4, the lowest level since July 2020. The latest reading in the PMI is historically consistent with a paltry 1.6% annual rate of real GDP growth.

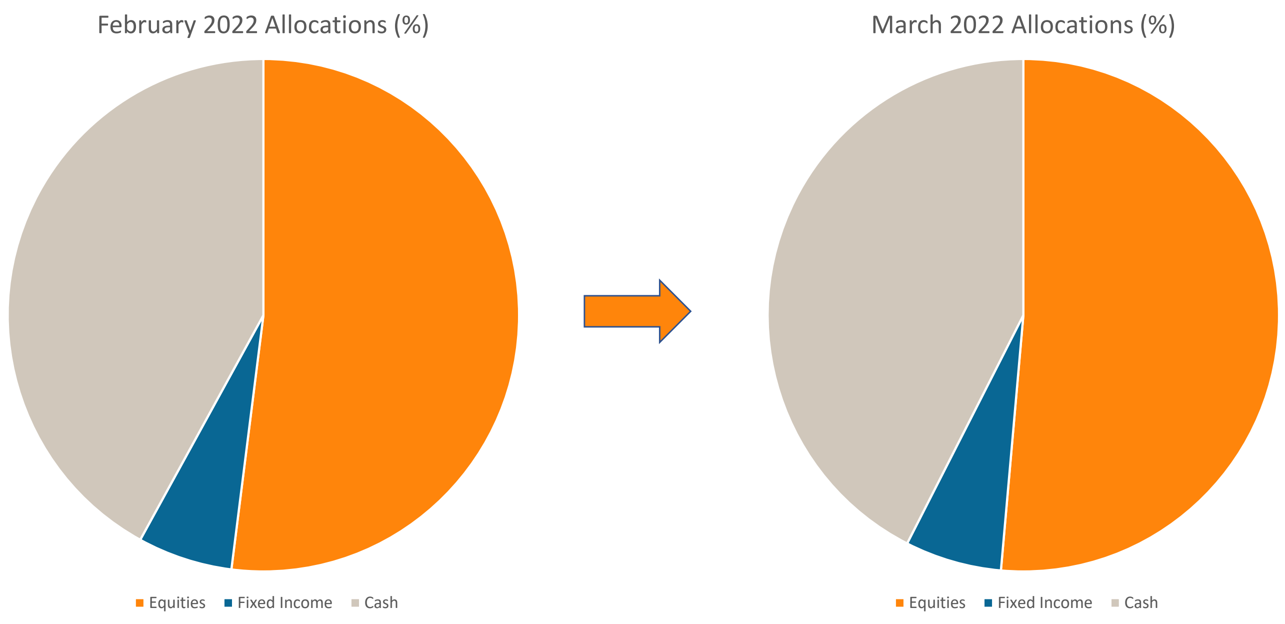
Services activity took the greatest blow in January. The global services PMI plunged 3.3 points to 51.3, indicating the weakest expansion since July 2020. Notably, consumer services contracted for the first time in nine months.

The manufacturing sector also grew at a slower pace, but the slowdown was less pronounced than services. The manufacturing PMI fell 1.1 points to 53.2, the lowest since October 2020, but still well above the long-term average of 51.5. Manufacturers noted strains associated with Omicron, but also ongoing supply chain concerns.

Although economic conditions remain positive among most of the world's largest economies, momentum is easing due to the Omicron wave, rising inflation, and tighter monetary policy. Inflation will likely ease by the second half of the year, but geopolitical tensions in Russia and ongoing supply-chain issues remain elevated risks.

During February, the MSCI All Country World Index (ACWI) underperformed the Barclays Global Aggregate Bond Index by more than 130 basis points (bps). Global stocks have trailed bonds by more than 100 bps for four of the last six months. Furthermore, global breadth has worsened on worries surrounding the Russia/ Ukraine crisis and the impact on oil prices and global growth.

Asset Allocation Summary



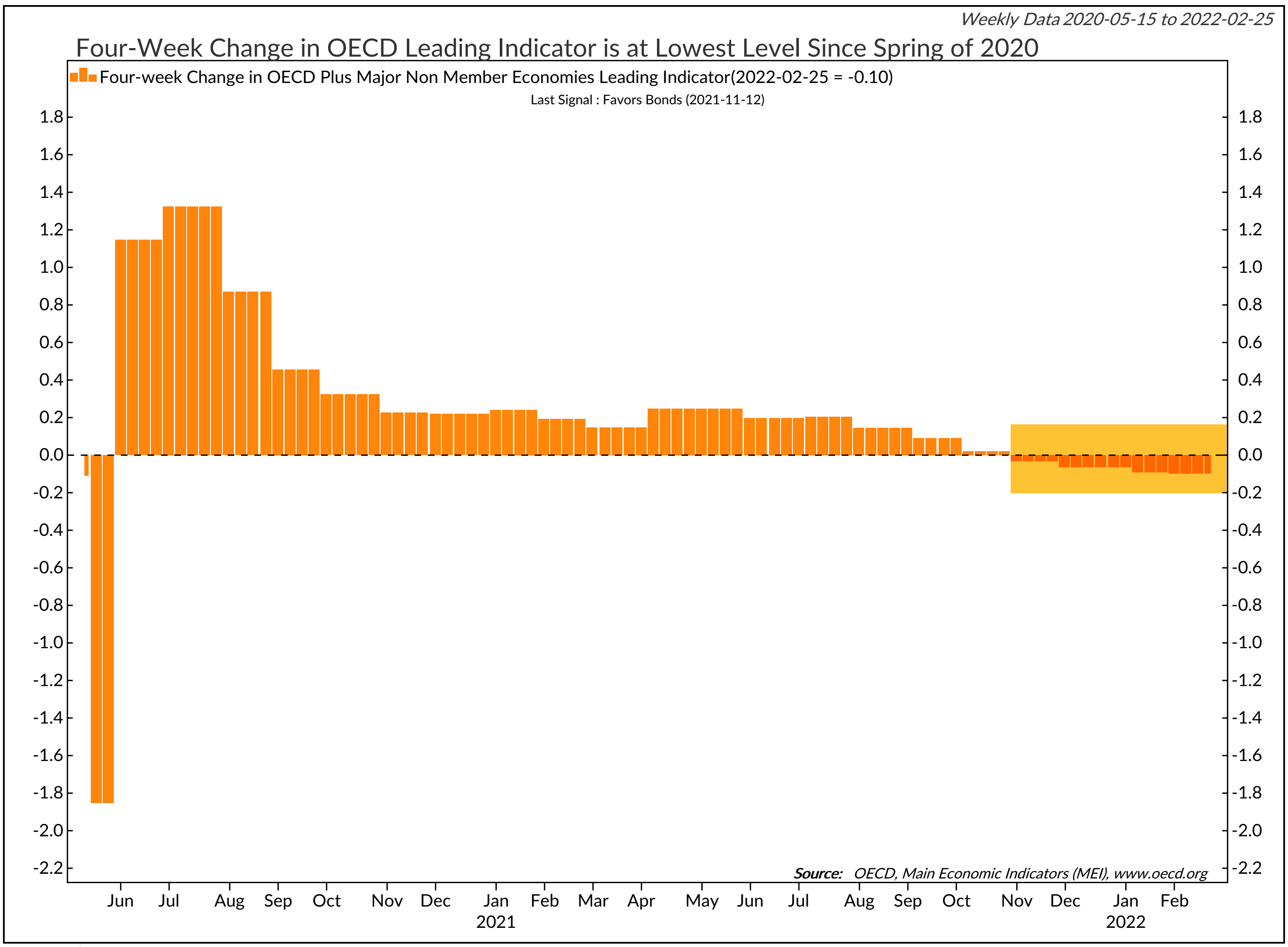
* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

- The model did not trade this month as the turnover reduction threshold was not breached.
- The equity allocation is slightly above 50%.
- The fixed income allocation is less than 10%.
- Cash allocation remains over 40%, the largest allocation to the asset in the model's history.
- The Purchasing Managers' Index (PMI) breadth indicator returned to favoring fixed income as the China PMI fell into the contraction zone. Over the last six months, the China PMI has oscillated around the key threshold and spent equal time within the expansion and contraction zones.
- Two-thirds of the top-level indicators favor fixed income and cash over equities (table, 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 is less than 3% above its one-year moving average, its lowest spread in more than one year.
Global Market Breadth	Favors Fixed Income	Less than 40% of global equity markets are trading above their 50-day moving average.
OECD Leading Indicator	Favors Fixed Income	The four-week change in the OECD Composite Leading Indicator (CLI) declined for a fourth straight month to its lowest levels since the spring of 2020 (chart, below).
PMI Breadth Factor	Favors Fixed Income	This indicator now favors fixed income. The four-week change in economies with expanding manufacturing industries declined into contraction territory, as China crossed below the key threshold of 50 last month.
Baltic Exchange Dry Index	Favors Fixed Income	After being more than 40% below its 13-week moving average last month, the Baltic Dry index is now only 2% below its intermediate-term trend.
Central Bank Policy	Favors Equities	To favor fixed income, this indicator required a significant drop in global short-term rates.

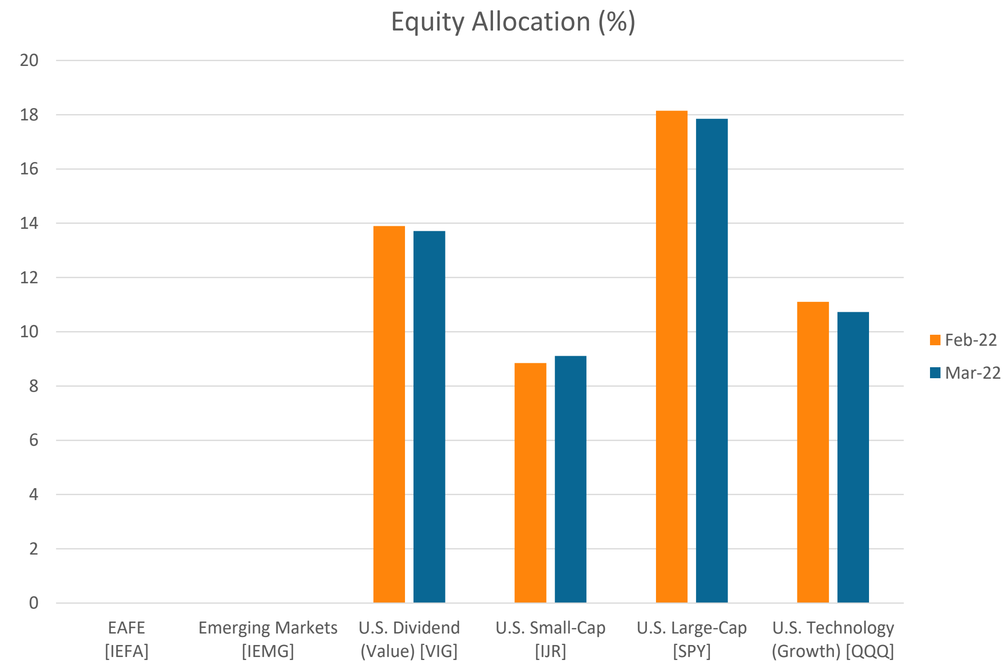
Ned Davis Research T_ETFM2022022811

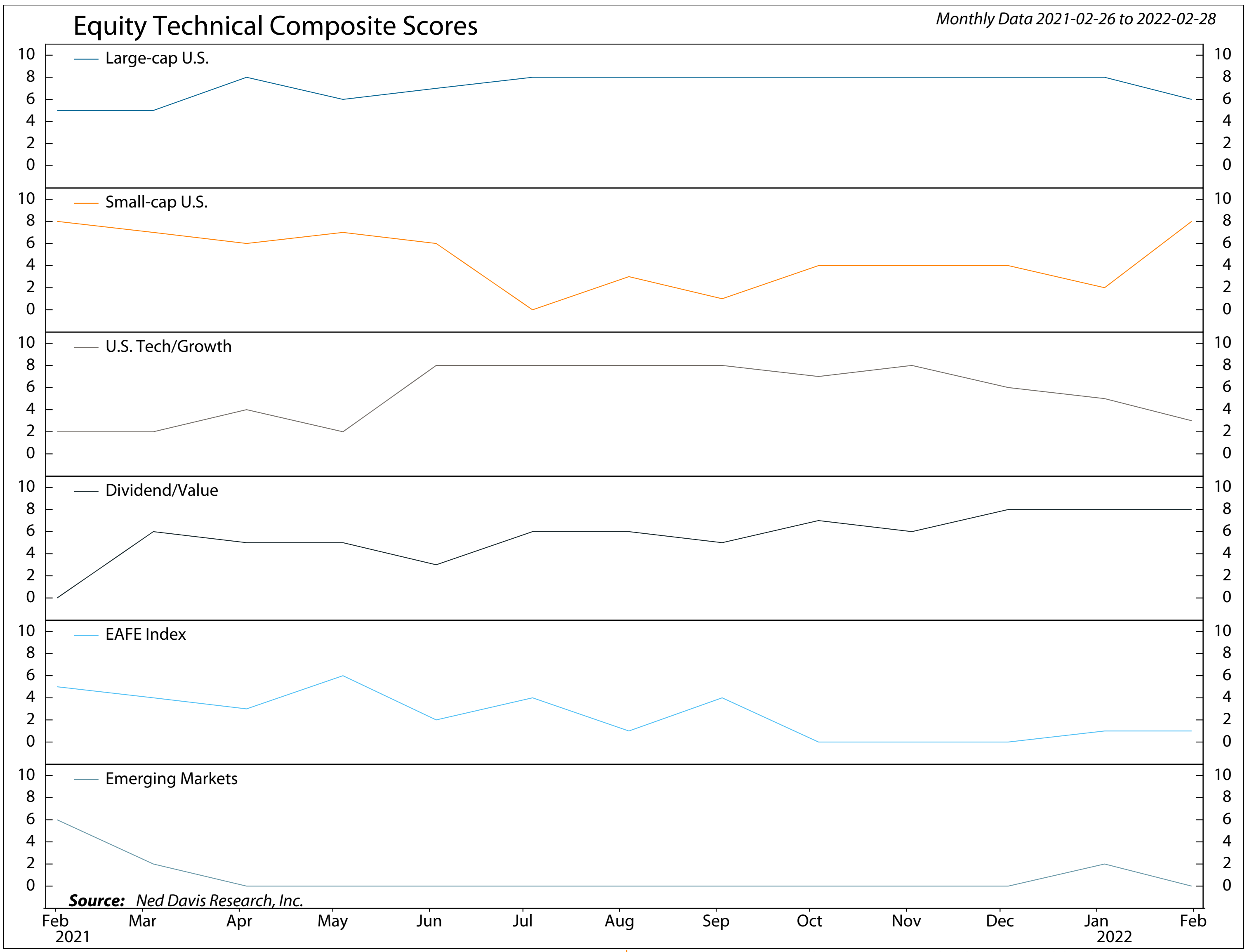


Customized version of ETF1000_13

Equity Allocation Summary

During February, only U.S. Small Caps (IJR) produced a positive return. All other equity areas declined. U.S. Large Caps (SPY) and U.S. Value [Dividends] (VIG) fell by over 200 bps. Emerging Markets (IEMG) and Europe, Australasia, and the Far East [EAFE] (IEFA) declined by more than 300 bps. U.S. Growth [Technology] (QQQ) plummeted by over 400 bps. VIG, QQQ, and SPY each received more than 10% allocation for March due to their elevated technical composite scores (image at bottom).

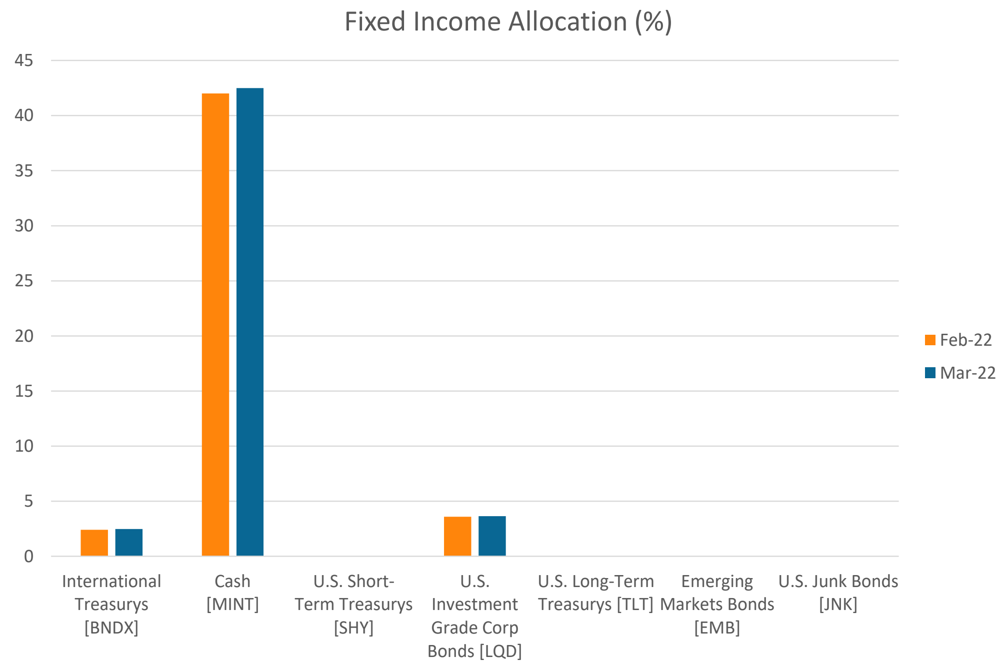


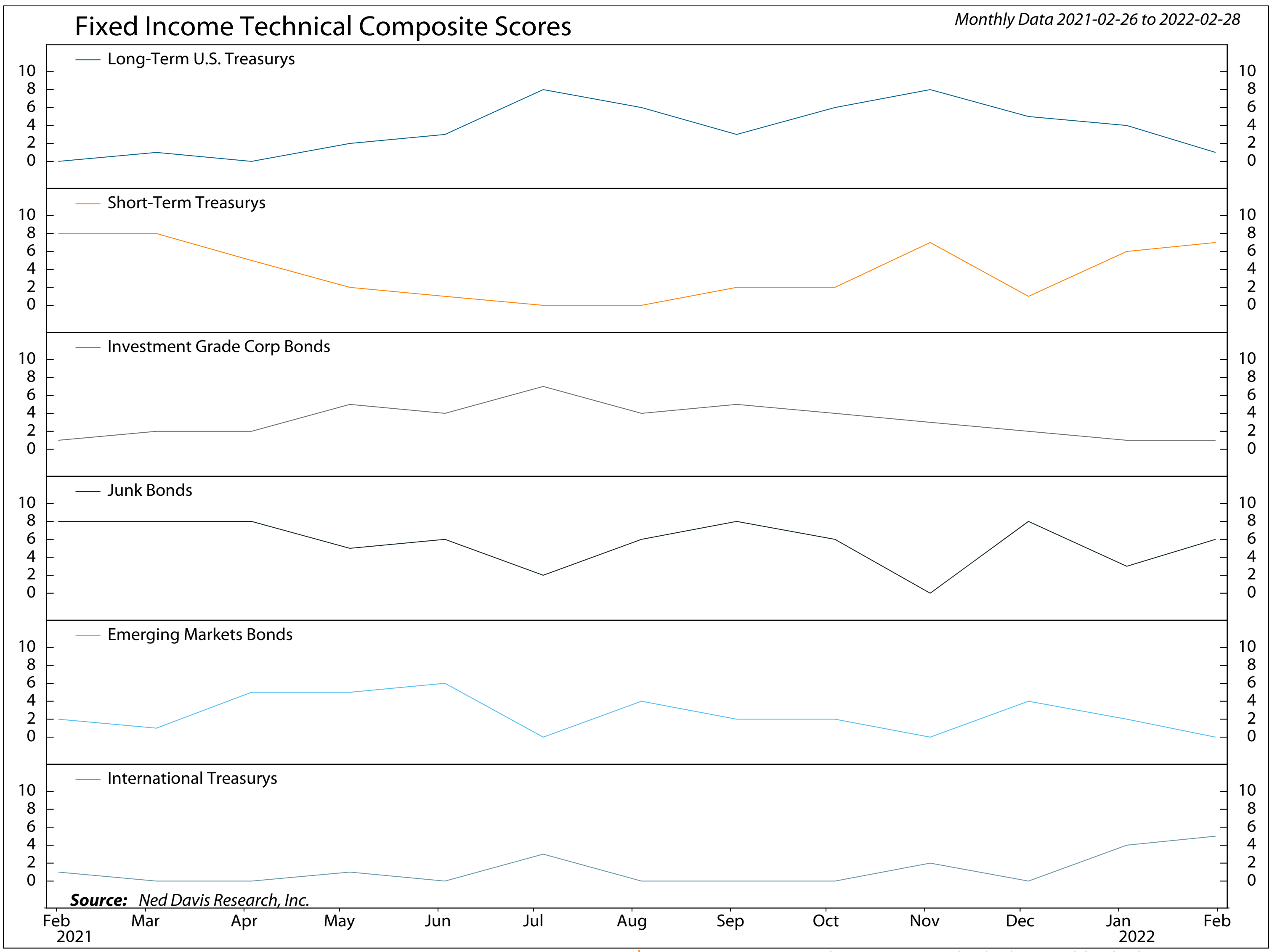


ETF1000_M_NDRIS

Fixed Income Allocation Summary

For a second straight month, all fixed income areas fell. U.S. Short-Term Treasurys (SHY) and U.S. High Yield (JNK) declined by less than 100 bps. International Investment Grade Bonds (BNDX), U.S. Long-Term Treasurys (TLT), and U.S Investment Grade (LQD) each dropped by less than 250 bps. Emerging Market bonds (EMB) plunged over 500 bps. BNDX and LQD have less than 5% allocation for March. The model recommends raising cash until a better opportunity presents itself.





ETF1000_M_NDRIS

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.