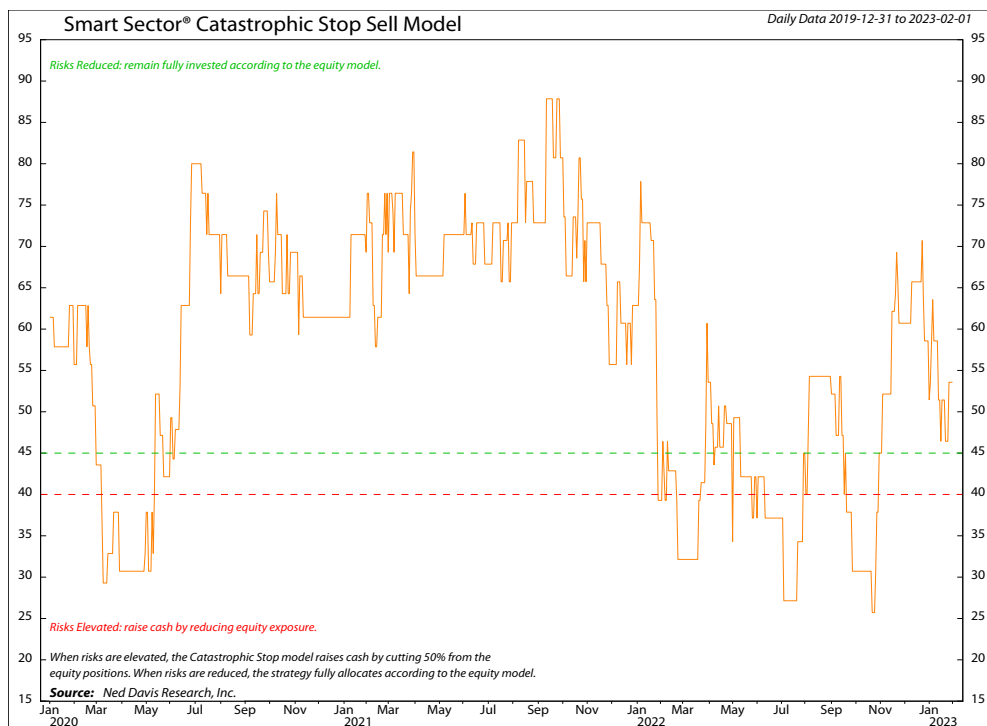


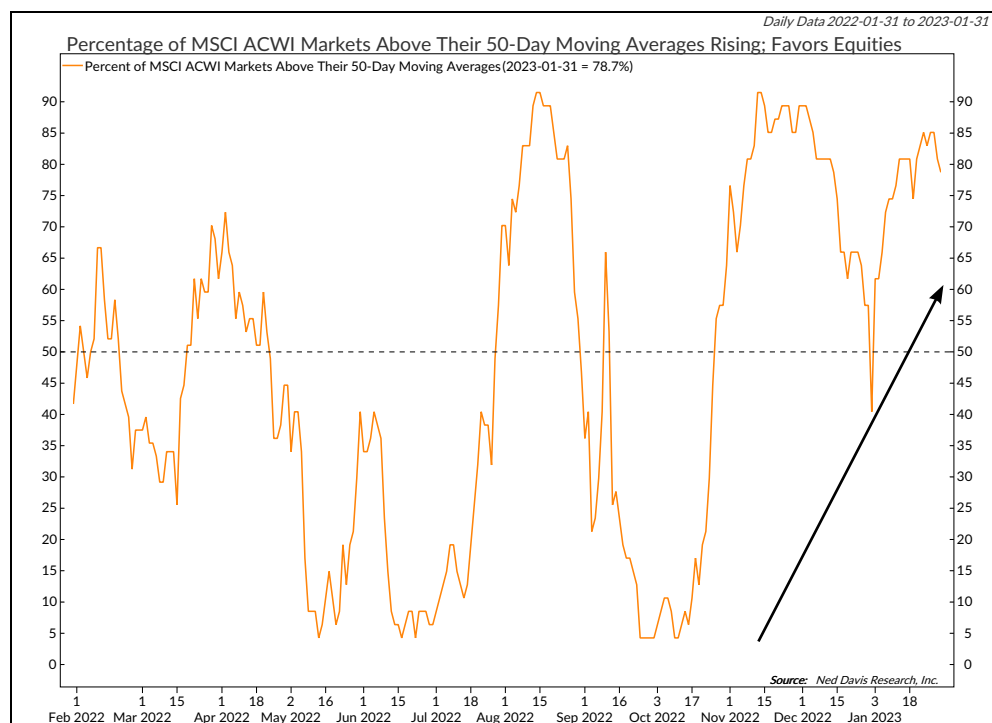
FEBRUARY 2023

Catastrophic Stop Update

The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify high risk periods for the equity market. The model (chart at right) remains with a fully invested equity allocation recommendation, as the composite score improved toward month-end.



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Stronger breadth measures drove the model improvement. The percentage of global equity markets above their 50-day moving average rose to 85%, well above the 50% positive threshold for the model (chart left). In terms of external influences, high yield and Emerging Market bond breadth improved, which was offset by extremely optimistic, short-term stock market sentiment.

If the relative strength of stocks vs. bonds, stock volume demand outpaces supply, and global shipping rates improve, then it could indicate the rally could be sustained. Conversely, if the stock market weakens in the near-term and investors return to fears of a recession, the stock market rally could be short-lived.

U.S. Market Update

After a 5% drop in the S&P 500 Total Return Index in December, the market rallied in January, gaining over 6% for the month. Longer-term breadth measures improved, including the percentage of stocks above their 200-day moving average.

Additionally, a trifecta of positive seasonal indicators—the Santa Claus rally, the First Five Days performance, and the January Barometer—bode well for the S&P 500 for the remainder of the year.

Eight of the 11 S&P 500 sectors registered positive returns in the month of January. Driven by a rally in FANMAG stocks, the Consumer Discretionary, Communications Services, and Technology sectors had some

of the strongest returns year-to-date (chart below).

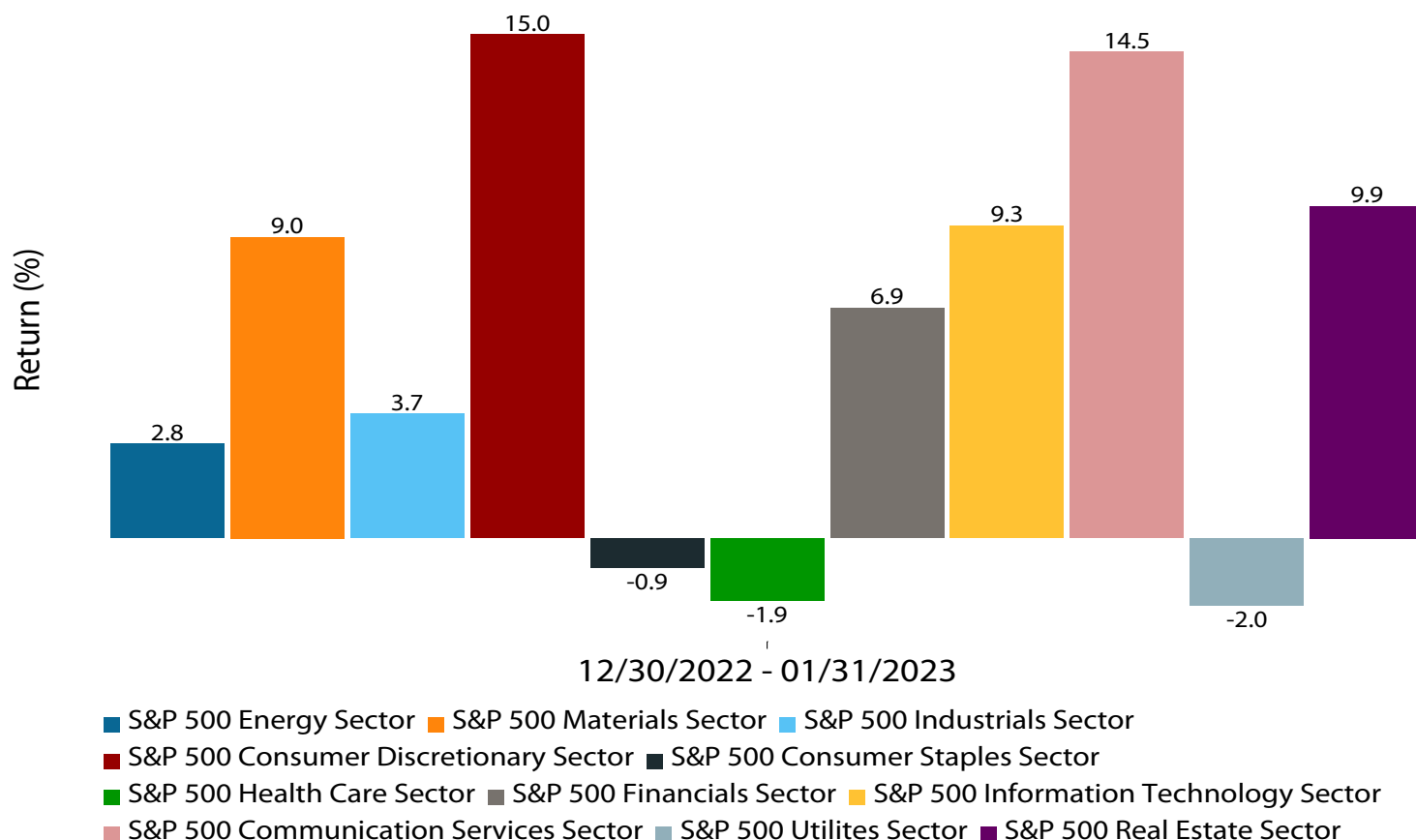
As widely expected, the Fed, once again, downshifted its pace of rate hikes to 25 basis points (bp) in February, following a slowdown in December to 50 bp. As a result, the fed funds target range is now 4.50% to 4.75%, the highest since October 30, 2007. The Fed has raised rates a total of 450 bp since March 2022, making it the fastest hiking cycle ever with data going back to 1963.

While recession risks continue to rise, investors appear to be “looking through the recession” and have moved into riskier assets. However, with the labor market still

tight, a Fed pivot (or even pause) near-term would likely be pre-mature.

Entering February, the sector model continued to overweight Value areas such as Energy, Materials, and Financials, as well as added more Growth-oriented Technology to its overweights. Real Estate also moved to a slight overweight. The prior month's significant underweights in Consumer Discretionary and Communication Services were neutralized. Defensive sectors such as Consumer Staples, Health Care, and Utilities were recommended underweights, as well as cyclically oriented Industrials.

Sector Returns in January 2023



Chart's date range is 12/30/2022 to 01/31/2023. U.S. sector returns are based on S&P 500 GICS sectors and calculated using total return indices.

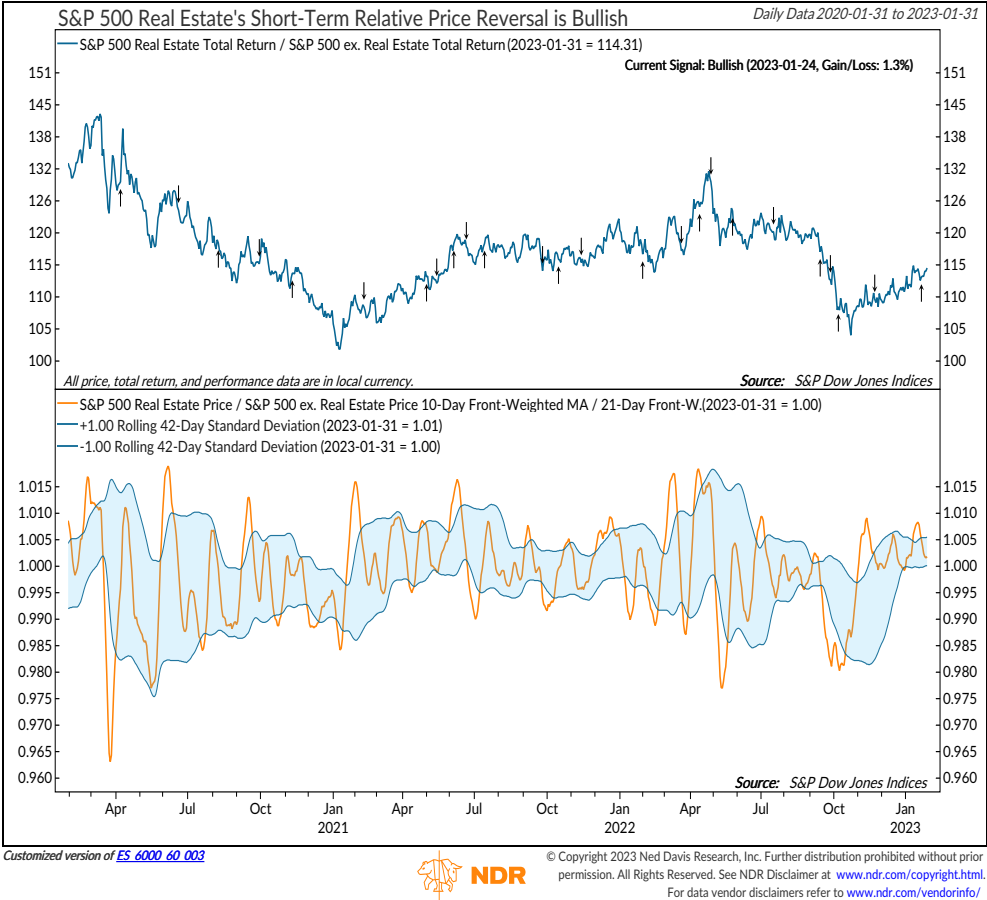
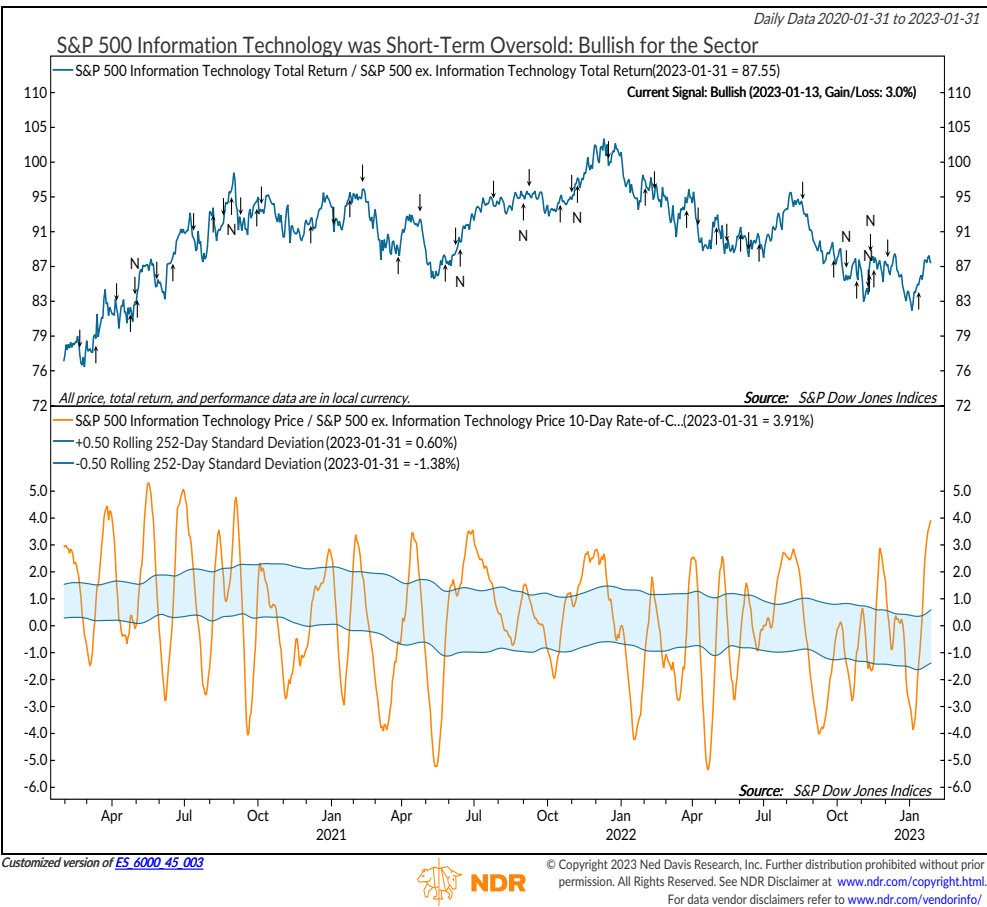
Source: Ned Davis Research

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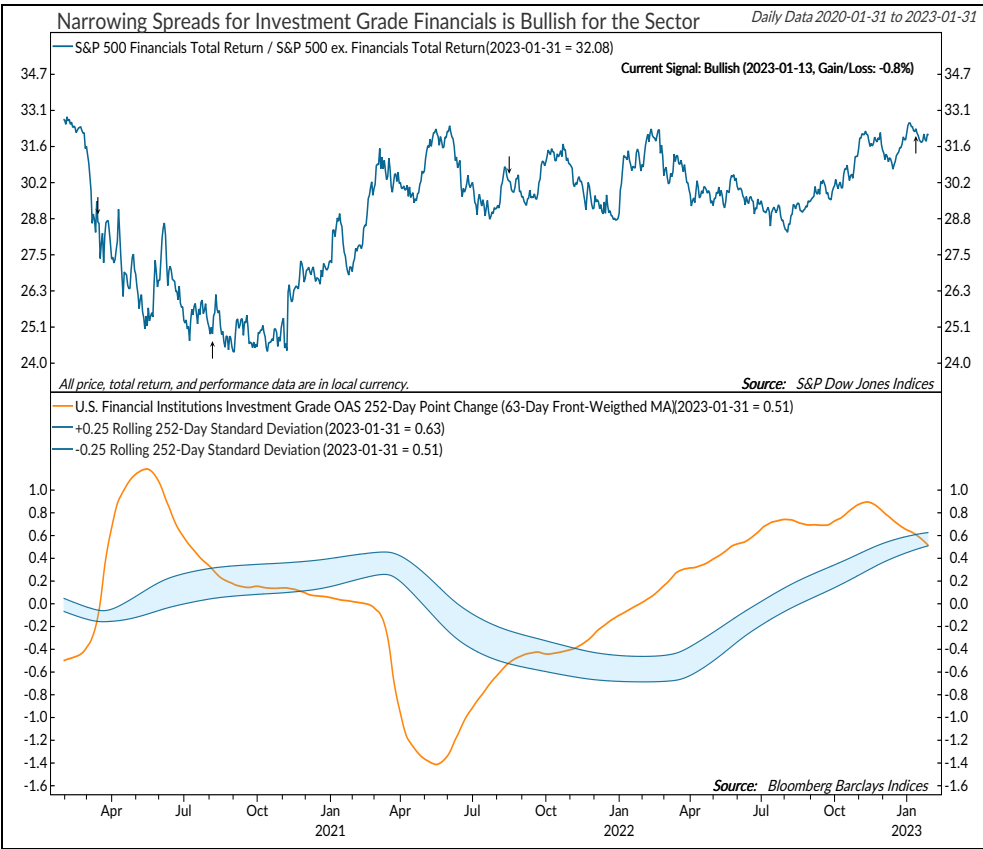
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The Technology sector's allocation improved in February, moving it to an overweight from a marketweight position. External measures like valuation, relative short interest, and performance of Emerging Asia equities continued to be bullish for the sector. The model's improvement was driven purely by technicals. Tech was short-term oversold at the end of December, so the sector's 9%+ gain in January (driven primarily by Apple and Nvidia) pushed two overbought/oversold indicators to bullish readings (chart right).



Real Estate's allocation improved in February, moving the sector to a slight overweight from a modest underweight. On a fundamental basis, indications of home buying, the strength of the homebuilders, and lower mortgage rates remained bullish for the sector, while business credit conditions, economic surprises, production of construction supplies, and the change in the unemployment rate remained bearish. While technicals remain mixed, the sector's short-term relative price reversal moved to a bullish reading (chart left).

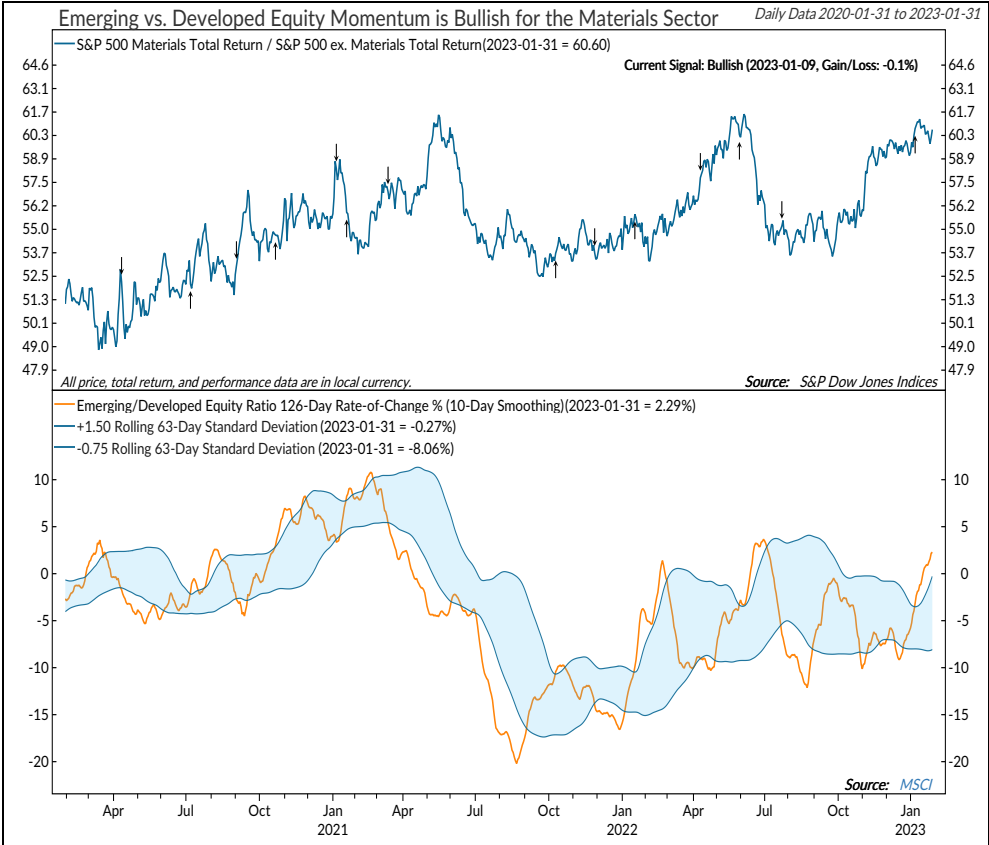
The Financials sector has been seeing steady improvement in our model since August. In February, allocation increased again, and it remains significantly overweight, as investors continue to anticipate the end of the tightening cycle sometime in Q1 2023. Economic surprises, bank loan growth, an attractive valuation, and a slight improvement in the yield curve have all supported strong technicals. This past month, narrowing spreads for investment grade Financials joined the list of bullish indicators (chart right).



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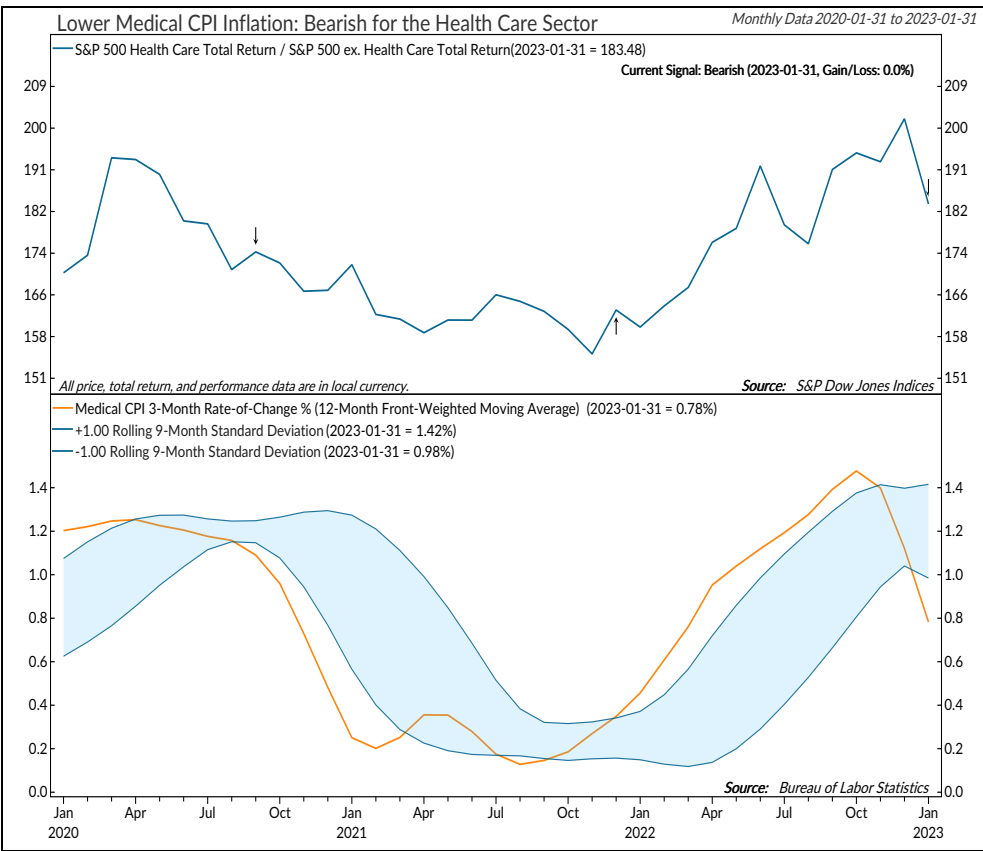
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Within Commodity sectors, Energy's overweight allocation was reduced slightly, as oil inventories rose to a bearish level for the sector by mid-January. However, Materials increased its overweight allocation in February. The trend in commodity prices has continued to support the strong price trend for the Materials sector. The reopening of China has pushed Emerging Market equities higher relative to Developed equities, a bullish development for the sector (chart left).

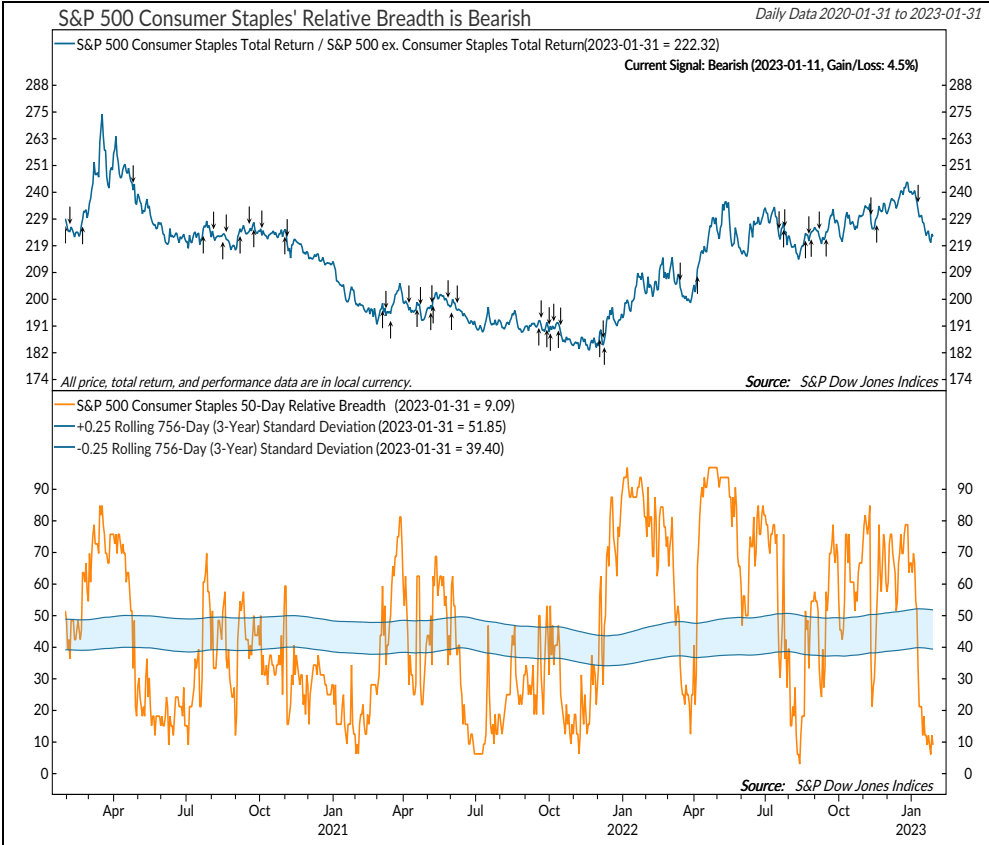
Health Care sector's allocation dropped sharply in February, moving it from a slight overweight to the largest underweight position. Fundamentally, personal consumption expenditures for Health Care and CPI inflation for medical deteriorated to bearish levels (chart right). Investors moved out of this defensive sector, leading to bearish relative price momentum and trend.



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Consumer Staples' allocation deteriorated in February, moving it to a slight underweight. Fundamentally, nothing changed during the month. Credit conditions, food price inflation, and annual change in food sales remain bullish, while relative short interest, economic surprises, valuation, and narrowing relative spreads remain bearish. However, as investors' expectations for a recession diminished, the sector's relative breadth turned bearish during the month (chart left).

Summary

As investors look beyond a potential recession, the sector allocation strategy has shifted to early cycle areas of the market. Value sectors like Energy, Materials, and Financials remain overweight. A rally in FANMAG stocks pushed Tech to overweight and Communication Services and Consumer Discretionary to marketweight. Defensive sectors such as Health Care, Consumer Staples, and Utilities are underweight.

Strategy description

- The Smart Sector® with Catastrophic Stop strategy combines two Ned Davis Research quantitative investment strategies: The NDR Sector Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting the S&P 500 sectors based on Ned Davis Research's proprietary sector models.
- Each of the sector models utilize sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each sector's probability of outperforming the S&P 500.
- Sectors are weighted accordingly relative to benchmark weightings.

When market risks become extraordinarily high — reduce your portfolio risk

- The model remains fully invested unless the Ned Davis Research Catastrophic Sell Stop (CSS) model is triggered, whereupon the equity-invested position is trimmed to 50%.
- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad U.S. equity market. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When the NDR CSS model moves back to bullish levels, indicating lower risk, the strategy immediately moves back to fully invested.

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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.

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