Fixed Income Allocation Strategy

MAY 2022

Fixed Income Performance Update

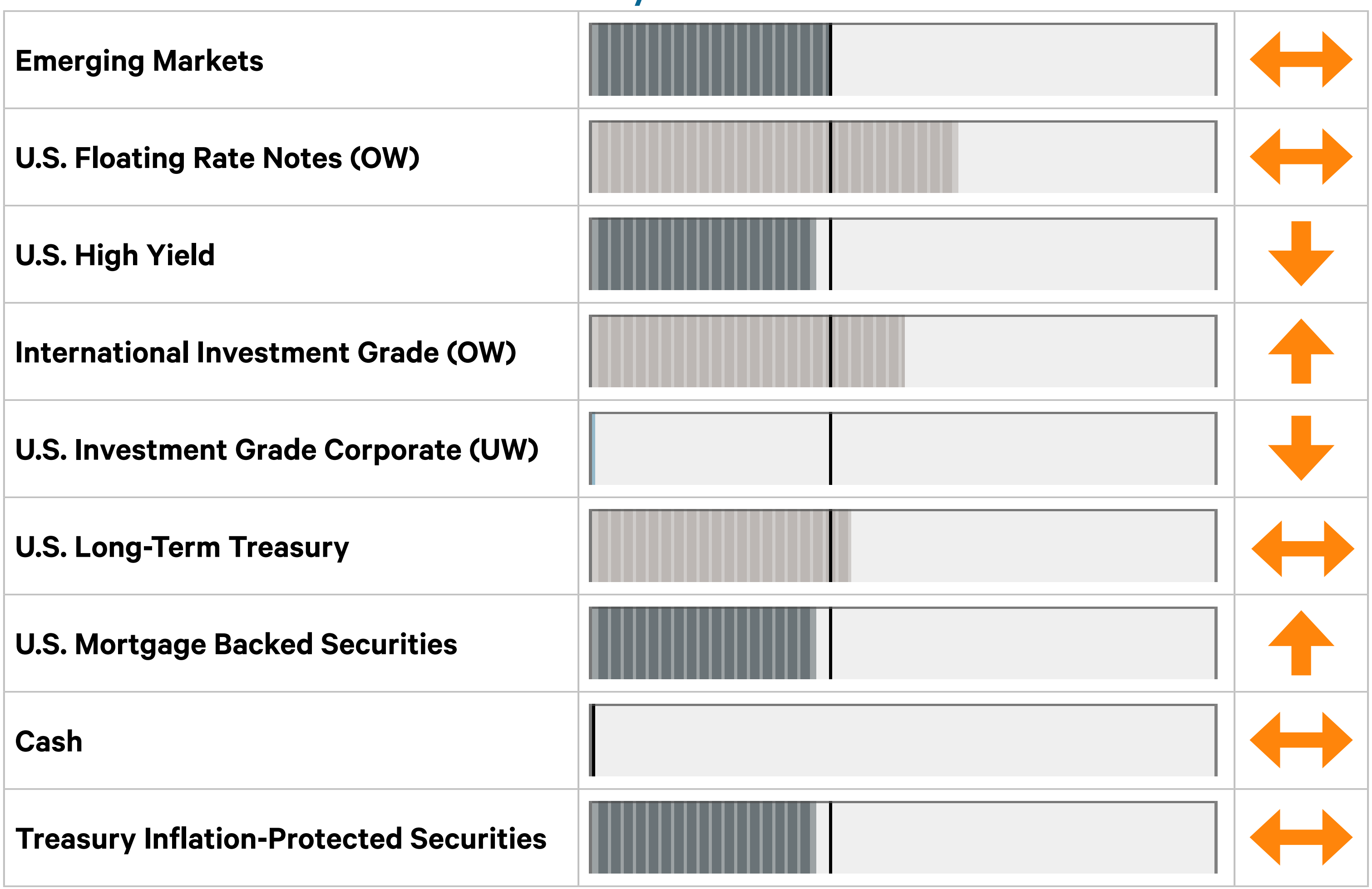
Floating Rate Notes (FLOT) was the only fixed income area to rise in April. However, FLOT has declined during seven of the last ten months.

Treasury Inflation-Protected Securities (TIP), International Investment Grade (BNDX), and U.S. Mortgage-Backed Securities (MBB) all fell by less than 400 basis points (bps). MBB has dropped for eleven of the last twelve months. BNDX has risen only once in the last nine months. April was the worst month in the history of BNDX.

U.S Investment Grade (LQD), Emerging Market bonds (EMB) and U.S. High Yield (JNK) all plummeted by more than 400 bps. JNK and EMB suffered their worst months since March 2020 and have been lower for five of the last six months.

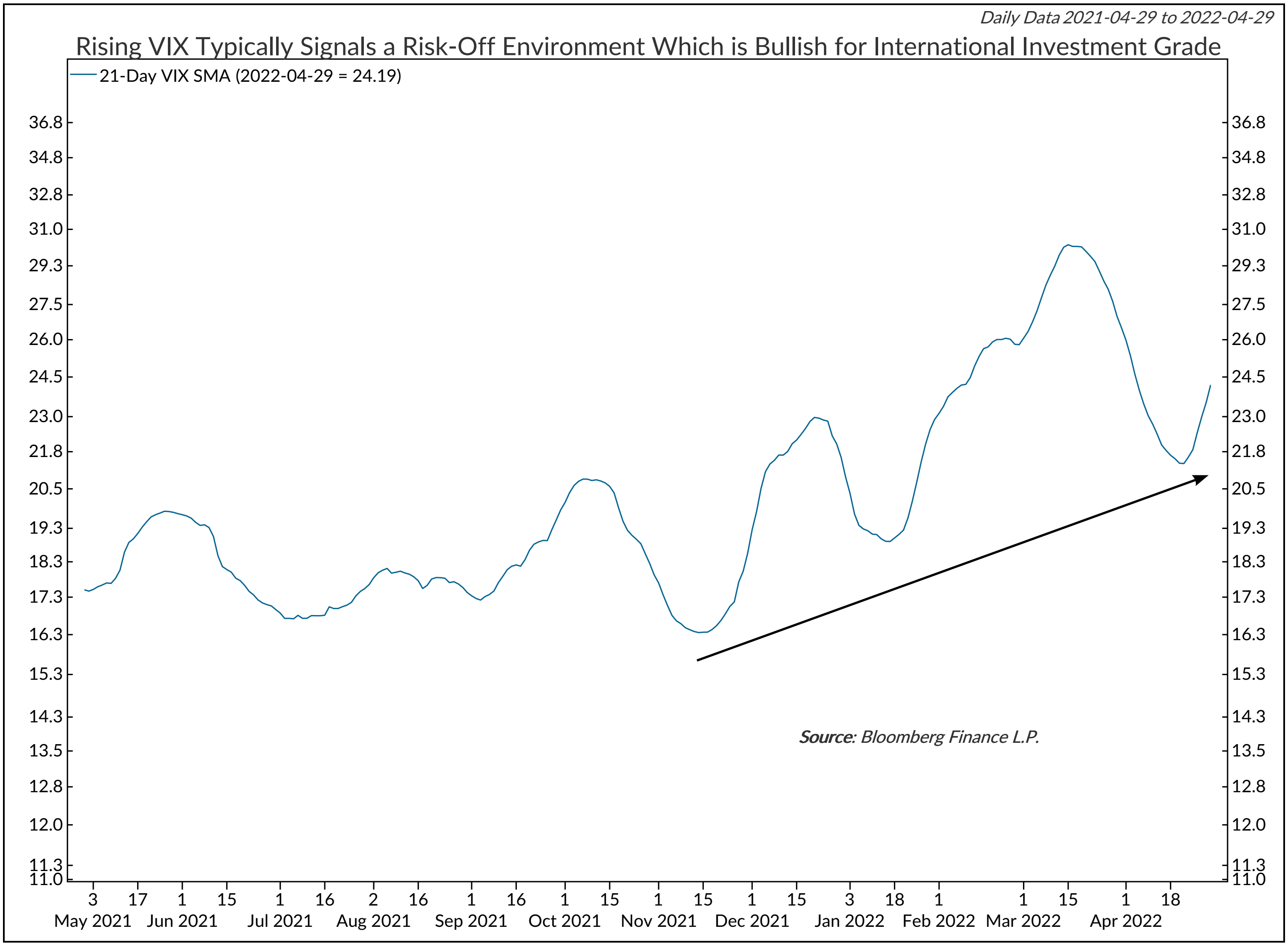
U.S. Long-Term Treasurys (TLT) plunged over 900 bps. TLT and LQD declined the most since the global financial crisis. TLT has dropped by more than 100 bps for five straight months.

Fixed Income Allocation Summary



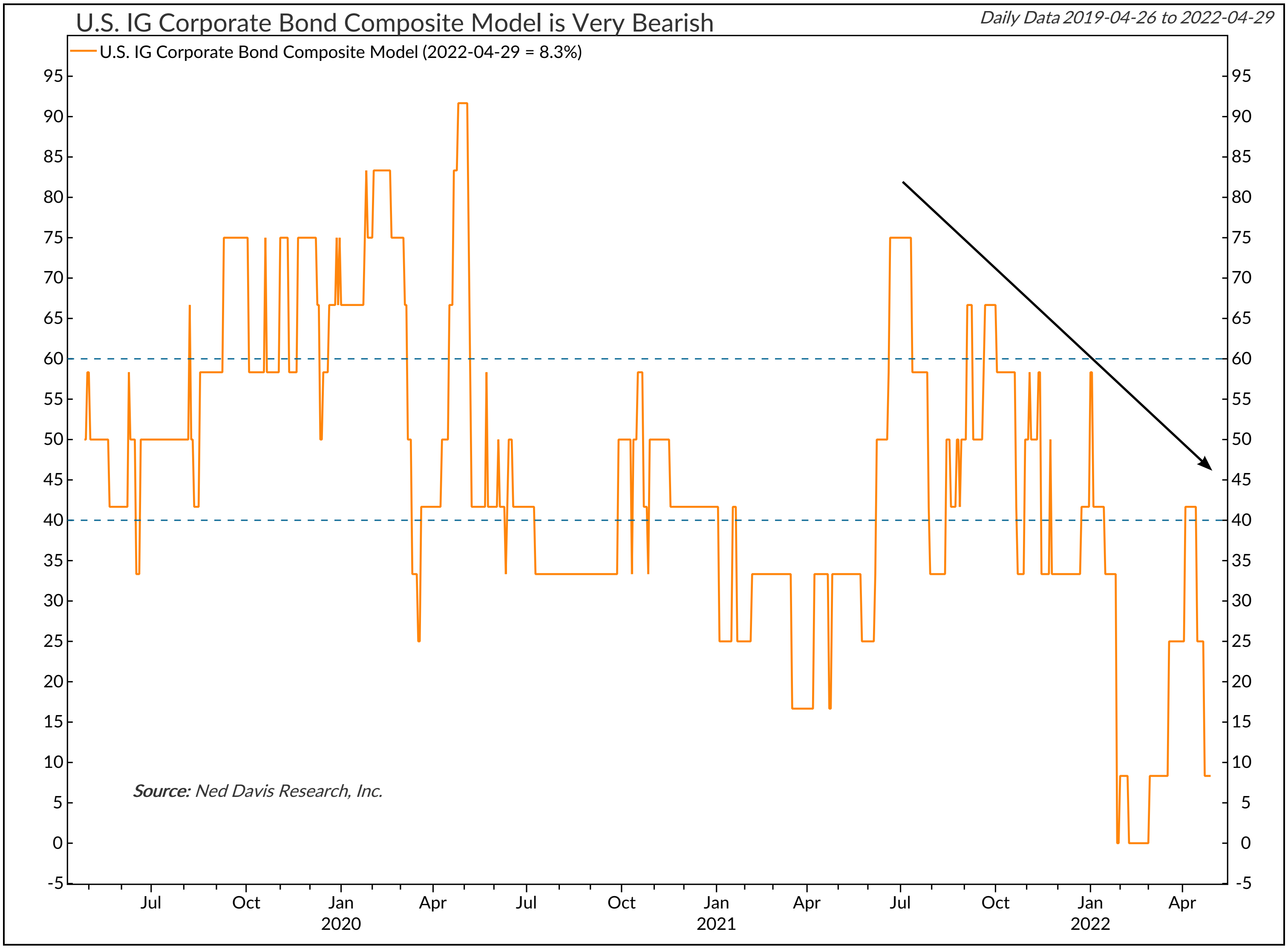
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

- Floating Rate Notes (FRN) has the largest overweight status. With the VIX rising, this conditional relative strength indicator produced a new bullish reading. All the sector's indicators are bullish.
- International Investment Grade bonds' allocation is above benchmark. Rising VIX (chart, below) and falling high yield are bullish for this defensive sector. None of the sector's indicators is bearish this month.
- U.S. Long-Term Treasurys remains above benchmark. However, the sector's momentum is weakening.
- Emerging Markets (EM) continues to be above benchmark allocation. EM currencies weakened and the region's price trend deteriorated. However, the region's relative strength improved.



Customized version of Equity Risk VIX

- U.S. Mortgage-Backed Securities' (MBS) is near benchmark allocation. Although the sector is reversing from an overbought condition, widening OAS favors this defensive segment.
- U.S. High Yield dropped to below benchmark allocation. Weakening small-cap trends, deteriorating absolute trend, rising VIX, and widening spreads indicate a challenging environment for this risk-on area. Only one measure is bullish on the category.
- Treasury Inflation-Protected Securities (TIPS) remains near benchmark allocation. The sector is reversing from an overbought condition and its trend worsens. However, OAS and inflation expectations have become bullish on the sector.
- The U.S. Investment Grade Corporate bond sector continues to be the most underweight area. Widening spreads are creating headwinds for the sector. None of the sector's indicators are bullish (chart, below).



Customized version of ISBM1_IG_COMP

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