Fixed Income Allocation Strategy

OCTOBER 2021

Fixed Income Performance Update

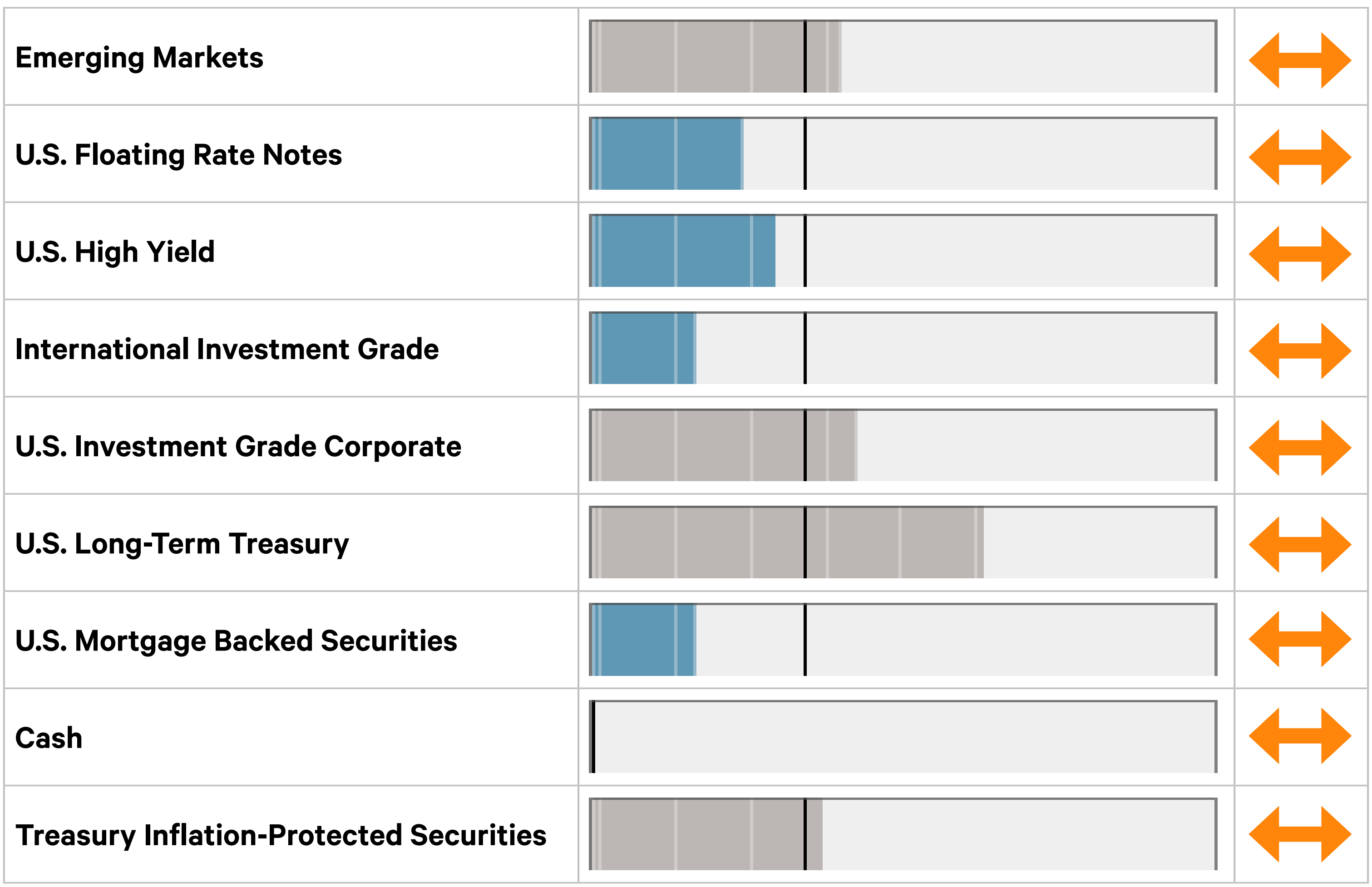
Floating Rate Notes (FLOT) was the only fixed income area to produce a positive return in September. It broke a two-month losing streak for the category. FLOT only has had a positive return for three of the last seven months.

U.S. Mortgage-Backed Securities (MBB), Treasury Inflation-Protected Securities (TIP), and U.S. High Yield (JNK) all fell by less than 100 basis points (bps). It broke a seven-month winning streak for JNK. MBB has fallen for six of the last eight months.

International Investment Grade Bonds (BNDX) and U.S. Investment Grade (LQD) both declined by more than 100 bps. Both areas have dropped for two consecutive months. BNDX has had negative returns for seven of the last nine months.

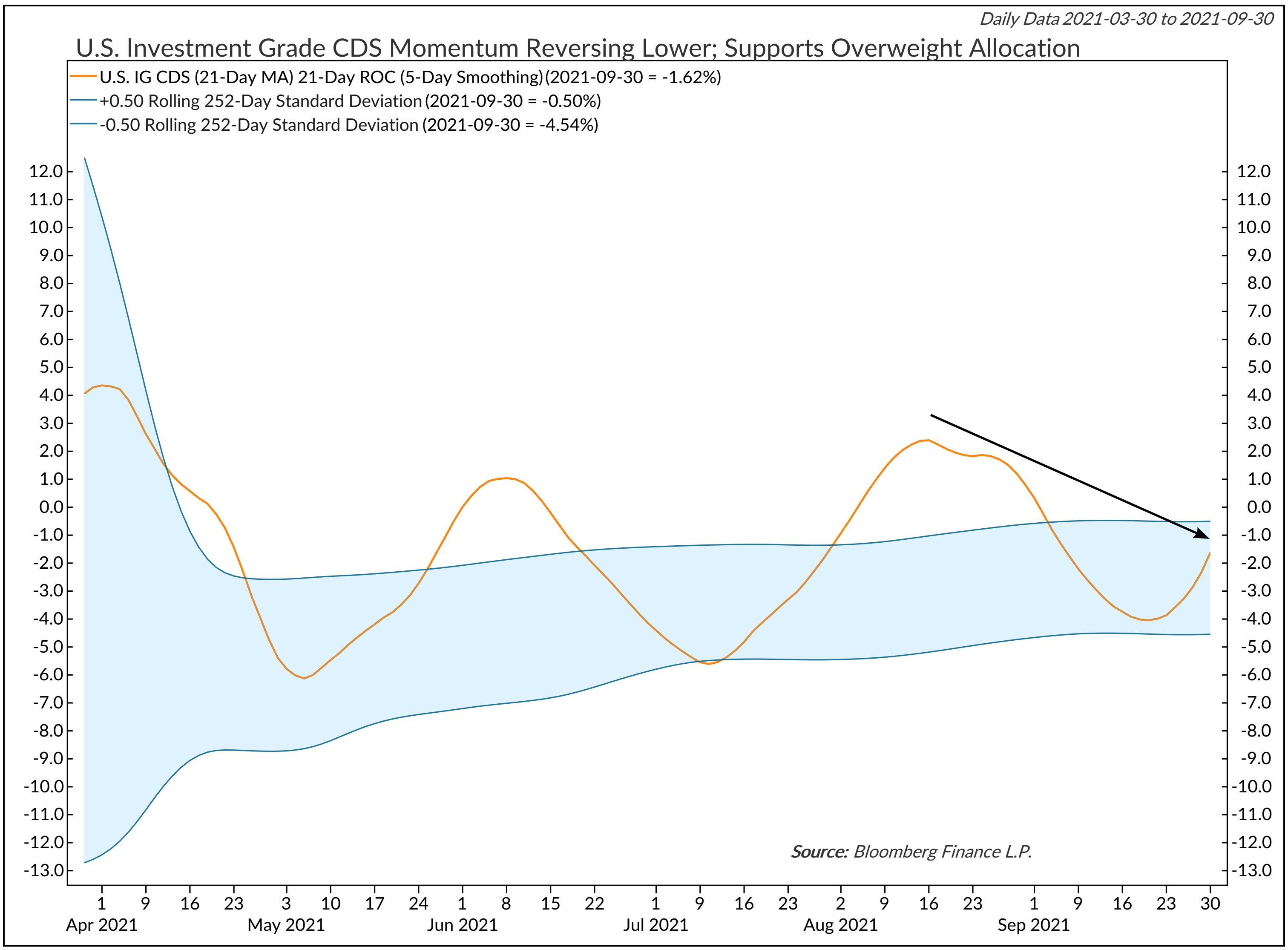
Emerging Market bonds (EMB) and U.S. Long-Term Treasurys (TLT) both declined by more than 200 bps. It was TLT's worst month since March. Prior to September, EMB had risen for the previous five months.

Fixed Income Allocation Summary



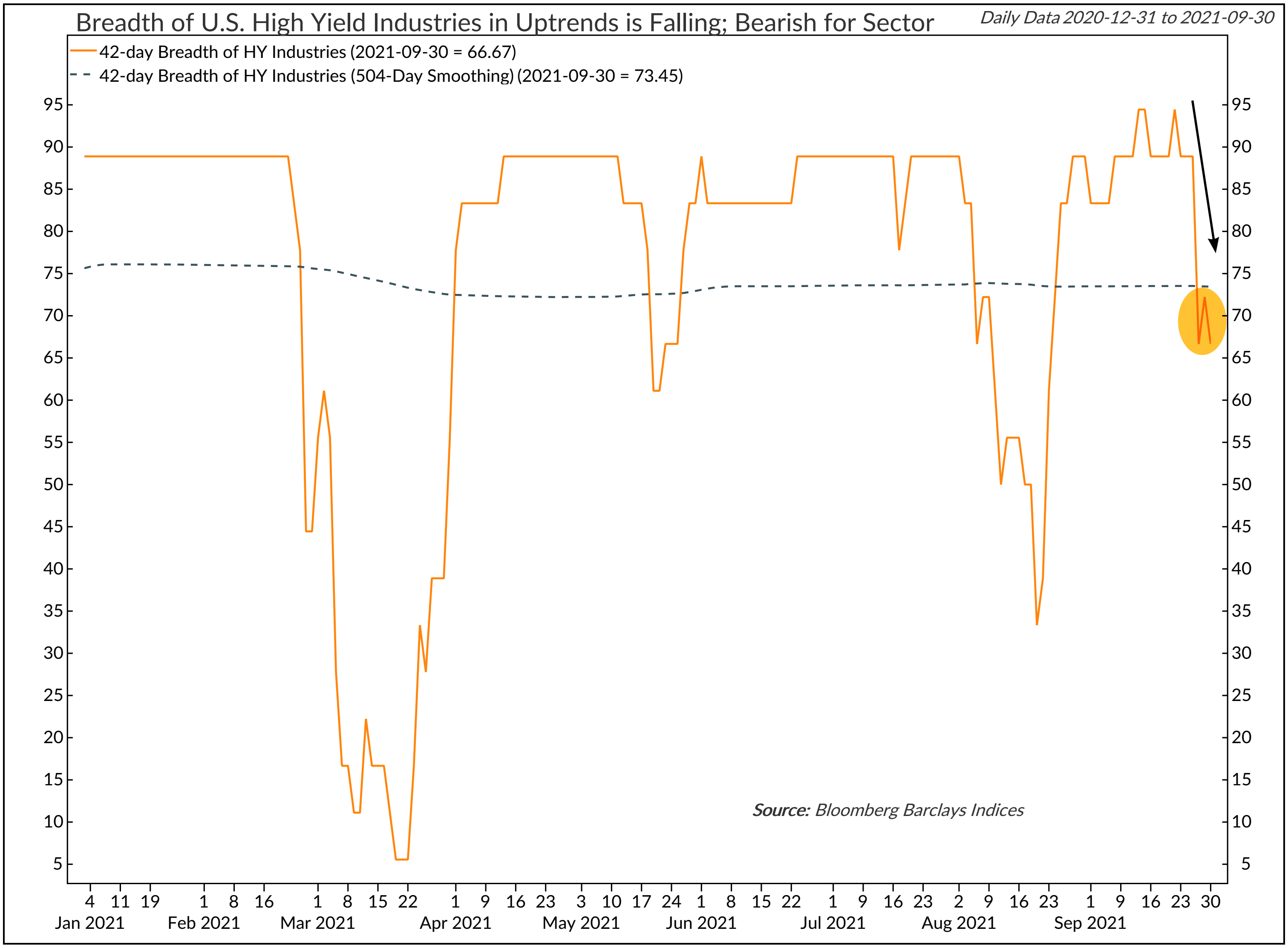
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

- U.S. Long-Term Treasurys' remains significantly above benchmark. Treasurys' relative price momentum weakened and fell from bullish to neutral. None of the sector's price-based (internal) and macro, fundamental, and behavioral (external) indicators are bearish.
- The U.S. Investment Grade Corporate bond sector's allocation continues to be overweight. Treasury bond implied volatility failed to breakout above significant levels, which caused this indicator to exit its bearish reading on U.S. Investment Grade. The USD index is overbought, but it has not reversed lower to warrant a bearish outlook for U.S. Investment Grade. Credit default swaps (CDS) have narrowed from elevated levels (chart at bottom), which produced a new bullish signal for the area.
- Emerging Markets (EM) remains overweight, but it is near benchmark allocation. The trend has improved, as it is supported by EM equities and commodity prices. However, EM bonds have started to reverse from a near-term overbought reading, which is a headwind for the region.
- Treasury Inflation-Protected Securities (TIPS) continues to receive higher than benchmark allocation. A USD index trend measure has turned bearish on TIPS. Only one of the sector's indicators is bearish.
- Cash has no allocation this month.



Customized version of ISBM1_IG_CDS_MO_REV

- U.S. High Yield is slightly below benchmark allocation. High yield bond sector upside participation deteriorated, which triggered a bearish reading on the sector (chart at bottom). The indicators are evenly split between bullish and bearish for this category.
- Floating Rate Notes remains underweight. However, there was significant indicator improvement. Internal indicators such as trend and price momentum turned bullish. The yield curve has steepened, which is bullish for the sector. Only one of the sector's indicators (10-year yield) is bearish.
- International Investment Grade bonds is underweight. The sector has failed to breakout from an oversold condition, neutralizing the previously bullish signal. However, equity market volatility increased, which is a tailwind for the region.
- U.S. Mortgage Backed Securities' (MBS) continues to be underweight. MBS is reverting higher from an oversold condition, which triggered a bullish mean reversion signal. The sector's indicators are evenly split between bullish and bearish.



Customized version of ISBM1_HY_BREADTH_MACR

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