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NED DAVIS RESEARCH

Fixed Income Allocation Strategy

OCTOBER 2022

Fixed Income Performance Update

With the Fed remaining hawkish, fixed income sector performance in September was similar to August. Again, the only sector with positive returns was Floating Rate Notes (FLOT), which eked out gains of 5.5 basis points (bps) for the month.

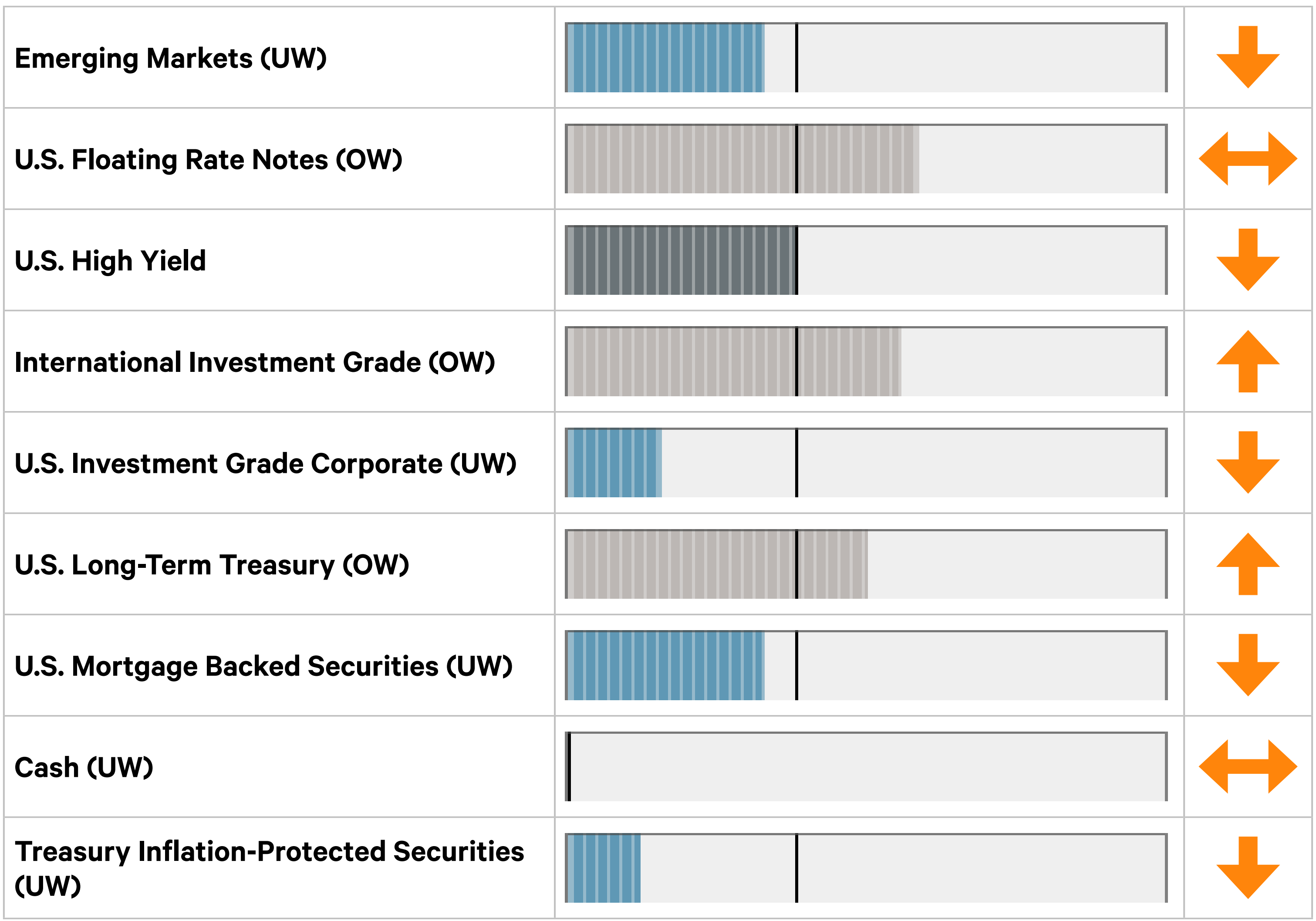
International Investment Grade (BNDX) dropped by nearly 300 bps and U.S. Mortgage-Backed Securities (MBB) declined by about 500 bps in September.

Credit markets continued to remain under pressure — U.S. Investment Grade (LQD) fell by nearly 600 bps and U.S. High Yield (JNK) fell by more than 350 bps. Both sectors have declined for 9 of the past 12 months.

Emerging Market bonds (EMB) and Treasury Inflation-Protected Securities (TIP) both dropped by over 650 bps.

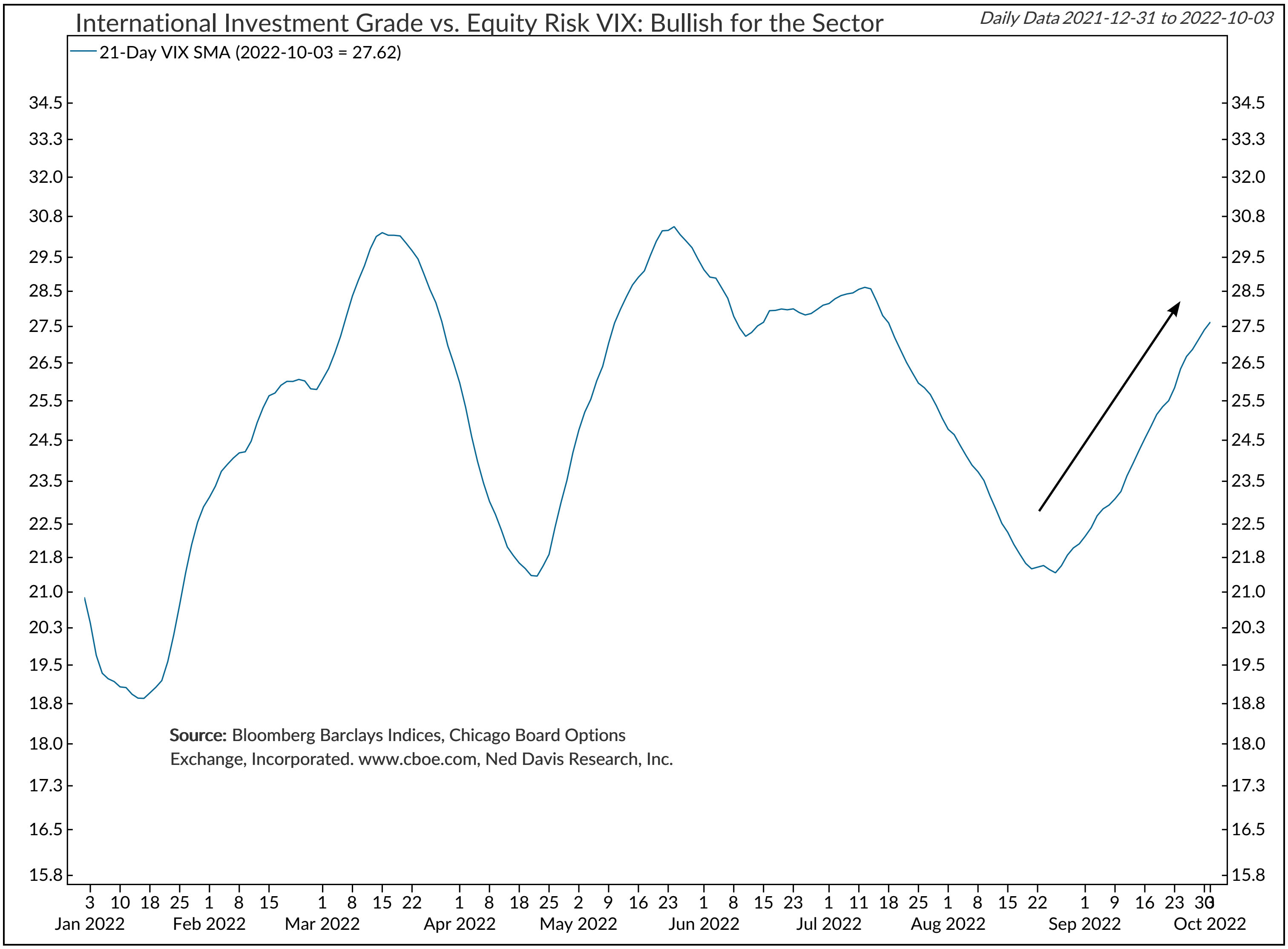
U.S. Long-Term Treasurys (TLT) was the worst-performing sector, dropping by more than 800 bps in September.

Fixed Income Allocation Summary



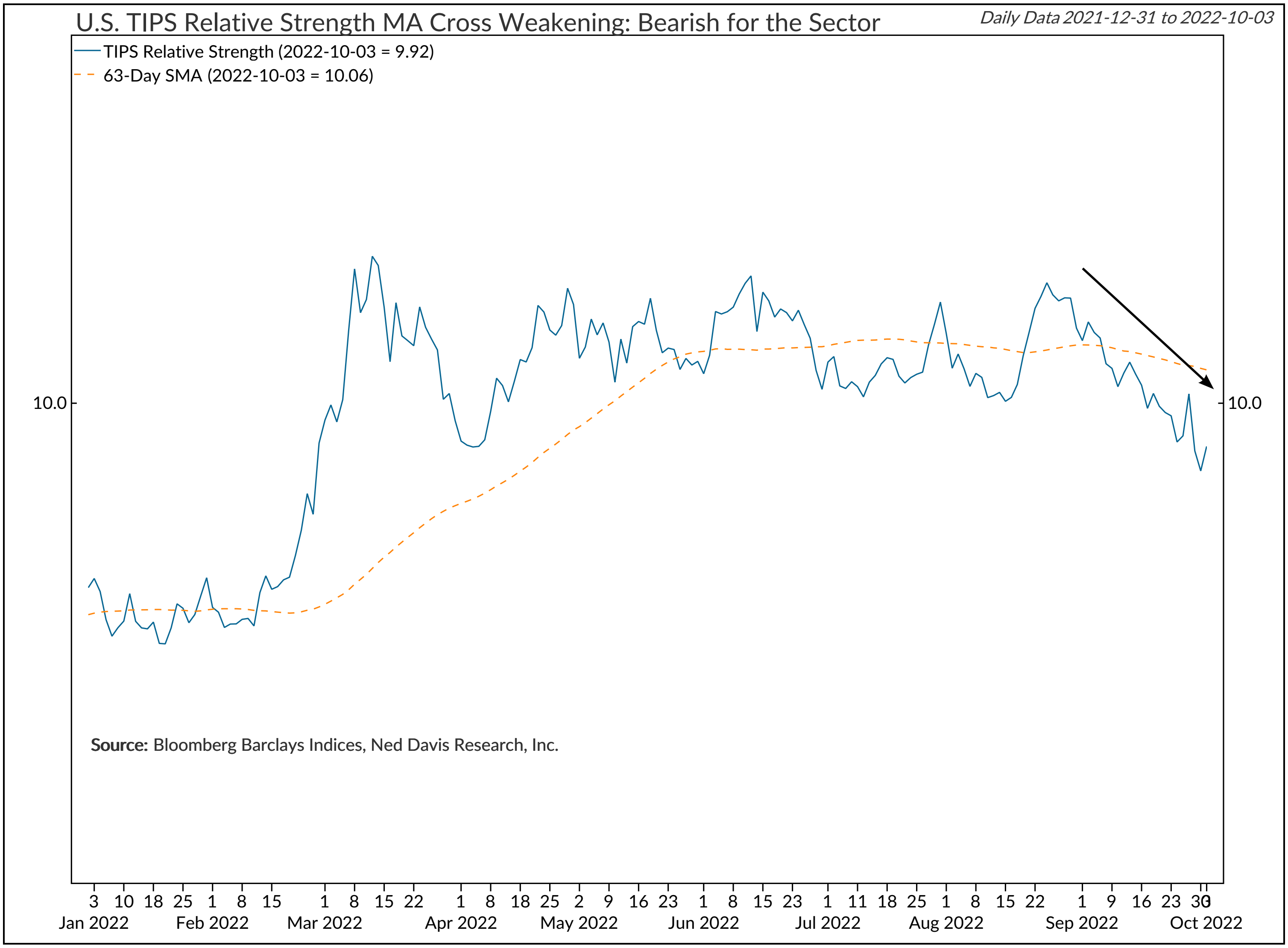
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

- International Investment Grade bonds' allocation rose sharply, moving it to an overweight allocation. All five indicators improved to bullish readings in September. For instance, a rising VIX (chart below) indicates increasing risks—this is bullish for International Investment Grade, as it is typically considered a flight-to-safety asset.
- The Floating Rate Notes' (FRN) allocation was steady and remained significantly higher than benchmark allocation. All indicators were bullish this month.
- Despite the weak monthly performance, U.S. Long-Term Treasurys' weighting rose slightly and remains above benchmark allocation. No indicators changed signals this month. Technical measures remain bearish.
- U.S. High Yield's allocation dropped slightly, moving it to a benchmark allocation. The small-cap equity trend, VIX, and OAS indicators weakened in September.



Customized version of Equity Risk VIX

- Emerging Markets' (EM) weighting declined, moving it to an underweight allocation. The emerging equity momentum indicator weakened, so now four of the five indicators are bearish.
- U.S. Mortgage-Backed Securities' (MBS) weighting declined to an underweight allocation. Two technical indicators moved bearish, and the 10-year yield indicator moved neutral. Only one indicator is bullish.
- The U.S. Investment Grade Corporate bond sector's weighting dropped further and remains an underweight allocation. Investment Grade option-adjusted spreads (OAS) indicator improved while the credit default swaps indicator weakened. Technicals remain bearish.
- Treasury Inflation-Protected Securities (TIPS) dropped sharply to a significant underweight allocation. Three indicators, including the relative strength moving-average cross indicator (chart below) moved bearish this past month.



Customized version of Rel Strength MA Cross

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