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Fixed Income Allocation Strategy

AUGUST 2021

Fixed Income Performance Update

Last month, U.S. Long-Term Treasurys (TLT) was the best-performing sector within fixed income, as it gained over 300 basis points (bps). TLT has jumped by more than 300 bps for two consecutive months and has risen for each of the last four months.

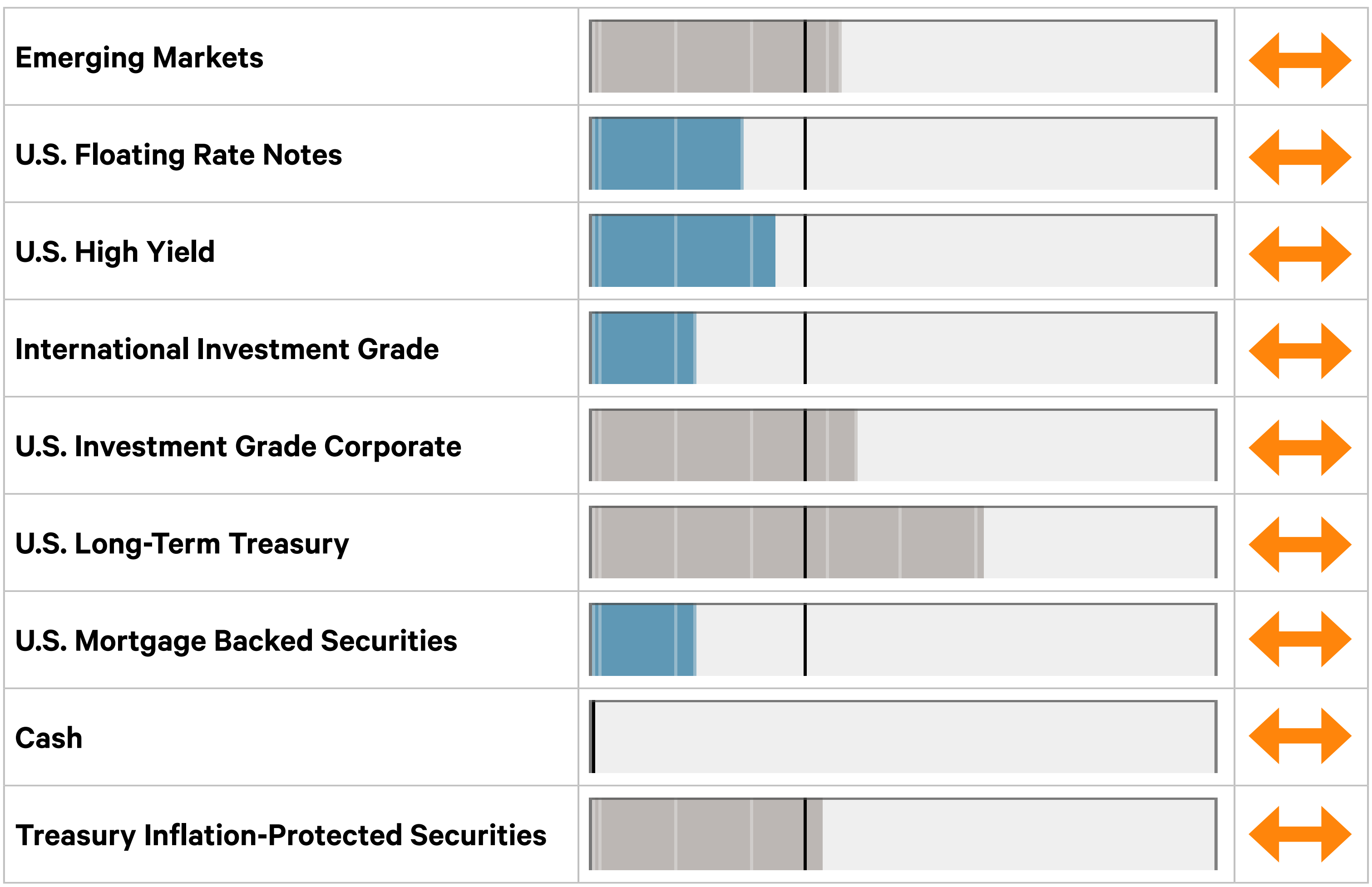
Treasury Inflation-Protected Securities (TIP) had its best month since April 2020, as it jumped by more than 250 bps. TIP has also increased for four straight months.

U.S. Investment Grade (LQD) and International Investment Grade Bonds (BNDX) both increased over 100 bps. BNDX had its best month in more than one year. LQD has produced positive returns for four consecutive months.

Emerging Market bonds (EMB) and U.S. Mortgage-Backed Securities (MBB) both gained more than 50 bps. MBB has been higher for only two of the last six months. EMB has risen for each of the last four months, but at a decreasing rate.

U.S. High Yield (JNK) and Cash (MINT) each rose during July. JNK has been higher

Fixed Income Allocation Summary

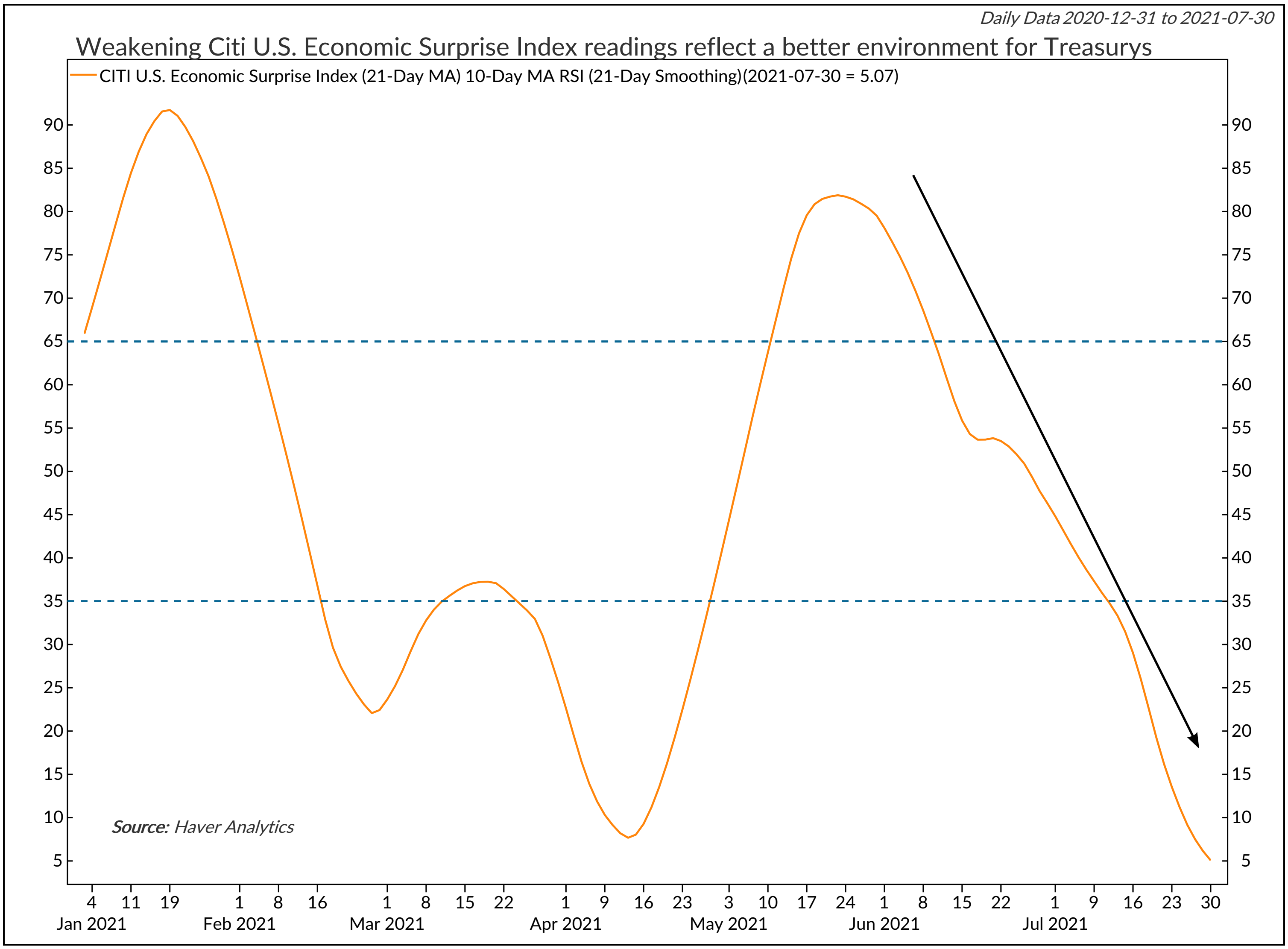


The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

for six consecutive months.

Floating Rate Notes (FLOT) was the only area to decline last month. FLOT has fallen for three of the last five months.

- U.S. Long-Term Treasurys' remains significantly above benchmark. No indicators changed signal this month. None of the sector's indicators are bearish. Economic data are not as strong (chart, below) and Treasurys' price trend is positive, which both favor the area.
- The U.S. Investment Grade Corporate bond sector's allocation continues to be overweight. However, the indicators are weakening. The sector is reversing from an overbought condition, volatility is rising, and credit default swaps (CDS) widened from compressed levels.
- Emerging Markets (EM) remains overweight, but it is near benchmark allocation. Trend, overbought/oversold, and EM equity momentum indicators all flashed new bearish signals on the sector.
- Treasury Inflation-Protected Securities (TIPS) continues to receive higher than benchmark allocation. An overbought/oversold indicator exited its bearish signal. The remainder of the sector's indicators (trend, inflation expectations, U.S. Dollar, and commodity prices) are bullish.
- Cash has no allocation this month.



Customized version of ISBM1_USLT_CITI_RSI

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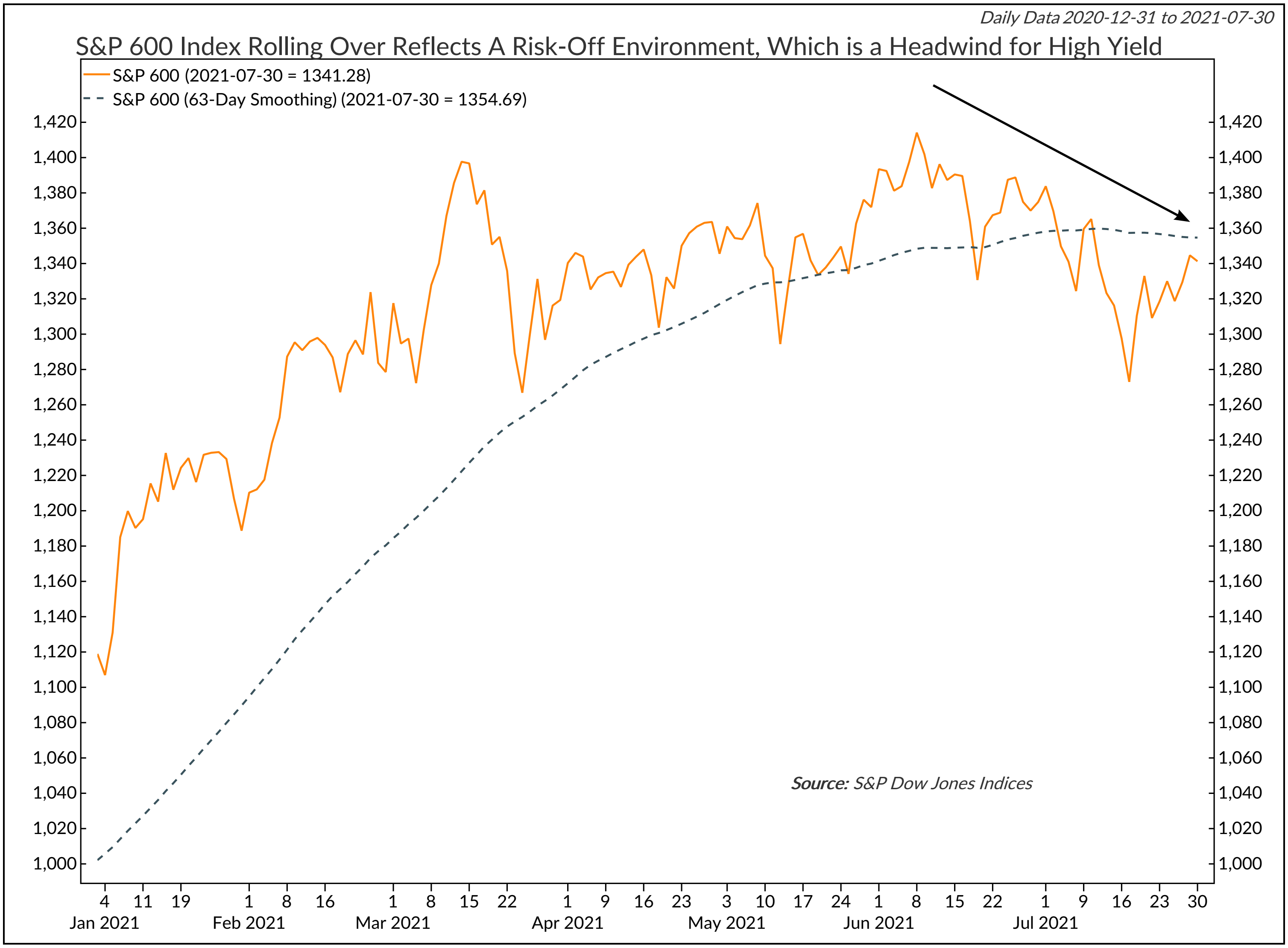
- U.S. High Yield is slightly below benchmark allocation. U.S. small-cap equity trend rolled over (chart, below), no longer reflecting a favorable environment for this sector. However, high yield ETF flows improved and now indicate a bullish outlook.
- Floating Rate Notes remains underweight. All but one of the sector's indicators are bearish. A ten-year yield trend indicator turned lower, which is bearish for this sector.
- International Investment Grade bonds is underweight. Equity market volatility recently has risen, which is a tailwind for the flight to safety trade.
- U.S. Mortgage Backed Securities' (MBS) continues to be underweight. No indicators changed signals this month. Two-thirds of the sector's indicators are bearish.



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