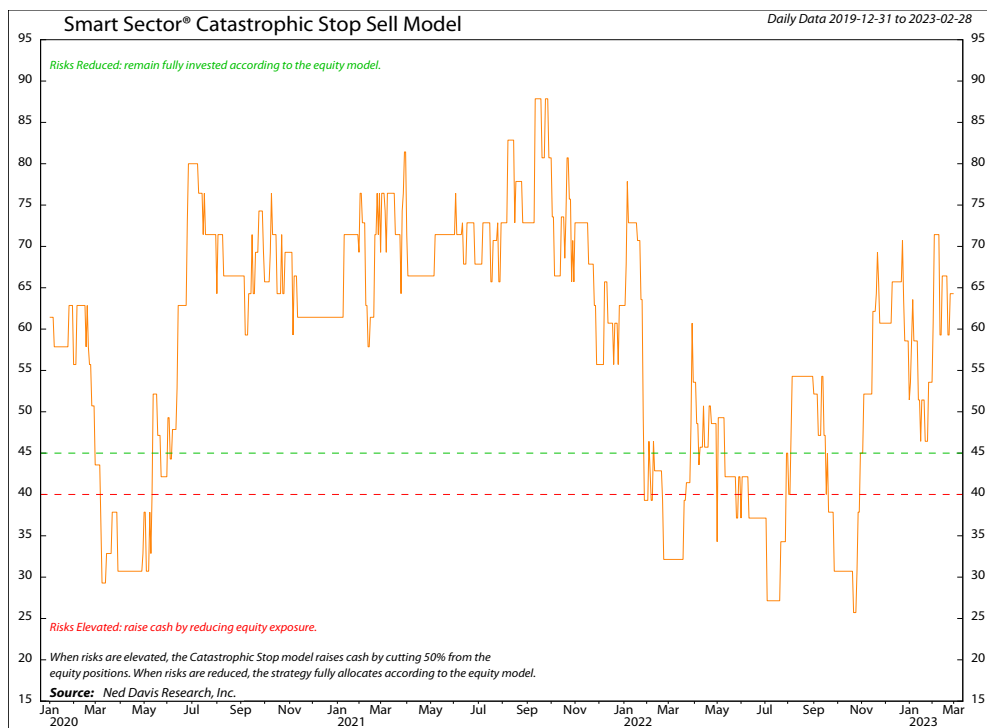


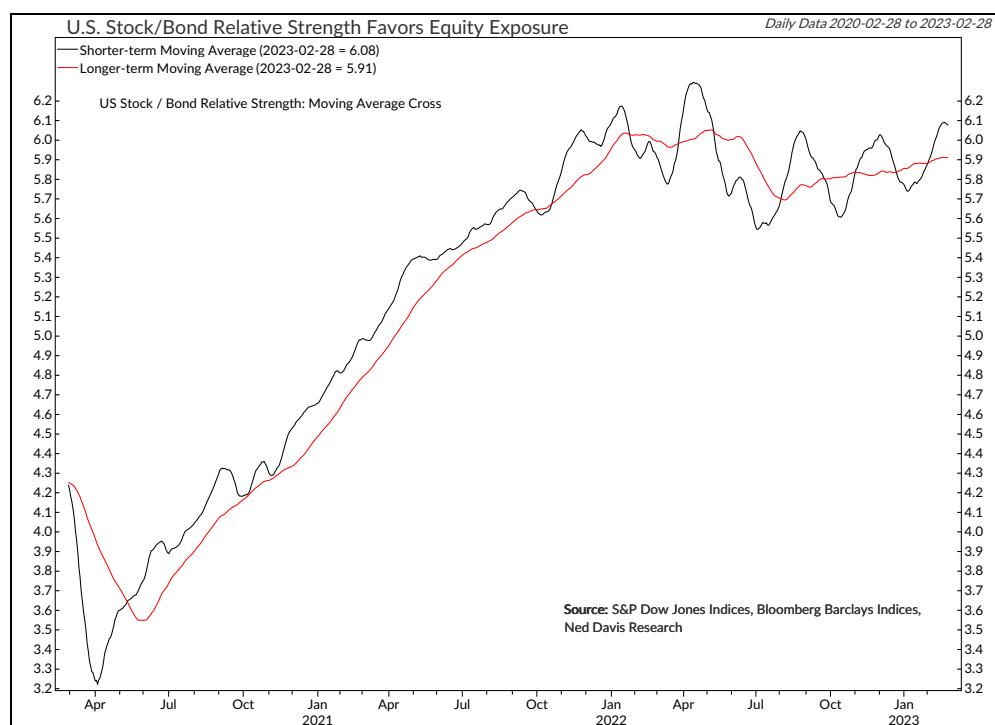
MARCH 2023

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 right) improved in March and remained with a fully invested equity allocation recommendation.



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Stronger breadth and relative strength drove the model improvement. On February 2, a breadth thrust signal (10-day advances vs. 10-day declines) flashed bullish and the stock/bond relative strength's short-term moving average rose above its long-term moving average (chart left). In terms of external influences, improvement in short-term stock market sentiment was offset by deterioration in high yield and Emerging Market bond breadth.

If 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 6% rally in the S&P 500 Total Return Index in January, the market declined in February, losing 2.5% for the month. The correction was mostly attributed to higher interest rates as Treasury yields rose across the curve, but it was also in line with a normal correction from excessive investor optimism levels. Additionally, some longer-term breadth measures never confirmed the short-term breadth thrust signals that flashed bullish earlier in the month.

As a result, ten of the 11 S&P 500 sectors registered negative returns in the month of February. Only Technology eked out a

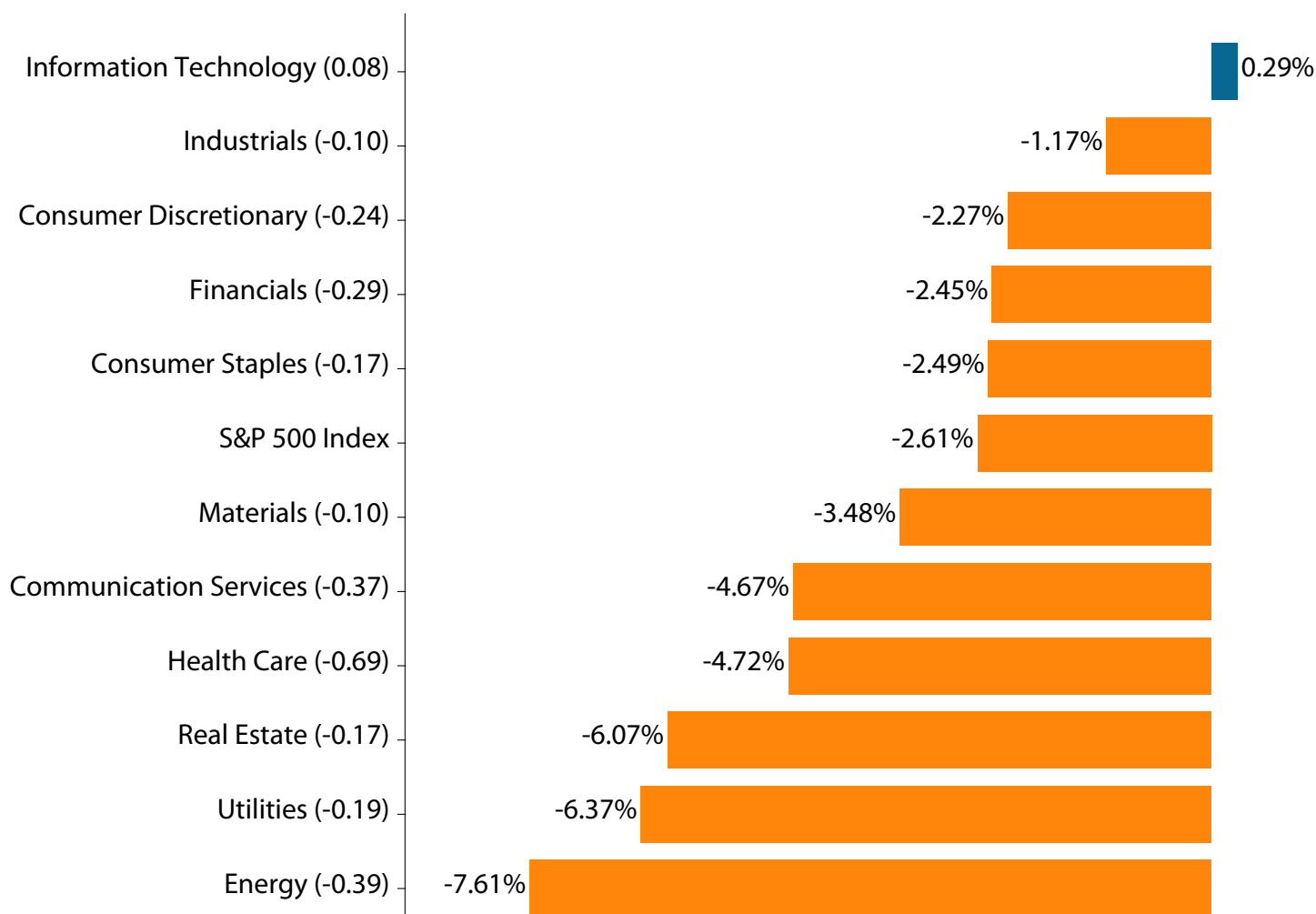
modest gain. Rate-sensitive sectors like Communications Services, Real Estate, and Utilities had some of the weakest returns during the month (chart below).

From the March 2009 secular low to the January 2022 high, the stock market gained 609%. When short-term rates were near 0% and long-term rates were averaging 2.3%, investors had to look to the stock market for returns. However, with today's T-bill yields at 4.9% and 10-year Treasury yields at 3.9%, there are now alternatives. As a result, the stock market P/E should likely be 20x earnings—currently, the trailing P/E is 21.3,

implying the S&P 500 is 3% overvalued. Earnings in 2023 will need to carry the market higher.

Entering March, the sector model continued to overweight Value areas such as Energy, Materials, and Financials, and added more Growth-oriented Consumer Discretionary to its overweights. Interest-rate sensitive sectors such as Consumer Staples, Real Estate, Communication Services, and Utilities were recommended underweights, as well as cyclically-oriented Industrials and defensive Health Care.

S&P 500 GICS Sector Monthly Performance (01/31/2023 - 02/28/2023)



Number in parenthesis after sector name indicates % point contribution to S&P 500 return

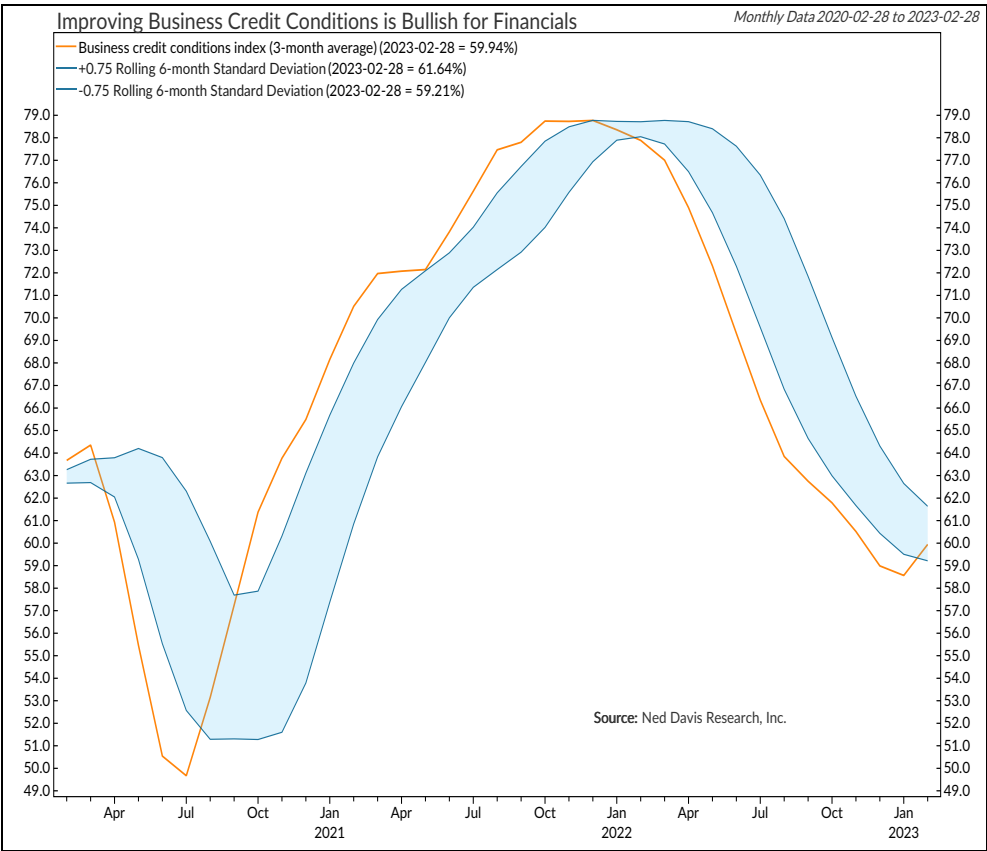
Source: S&P Dow Jones Indices

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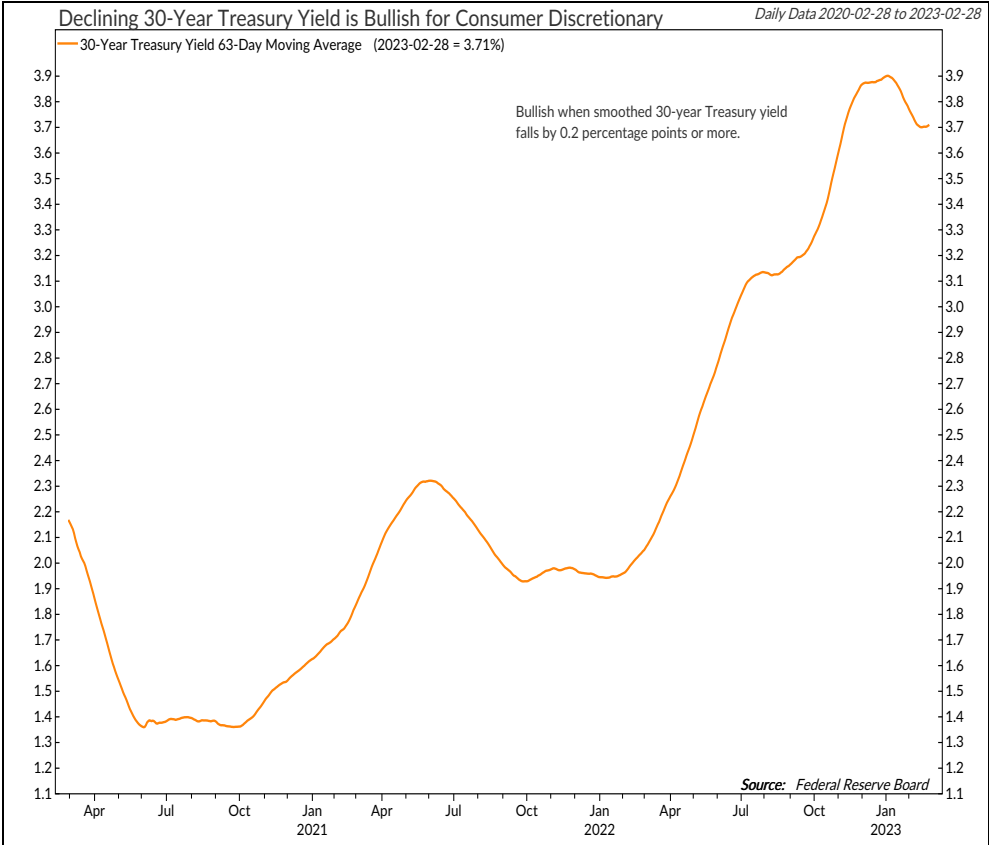
The Financials sector saw steady improvement in our model from August to February. In March, the allocation declined modestly, but it remains significantly overweight, as investors continue to anticipate the end of the tightening cycle. Economic surprises, bank loan growth, and an attractive valuation have all supported strong technicals. This past month, a deterioration in the 10-2 yield curve was offset by improving business credit conditions (chart right).



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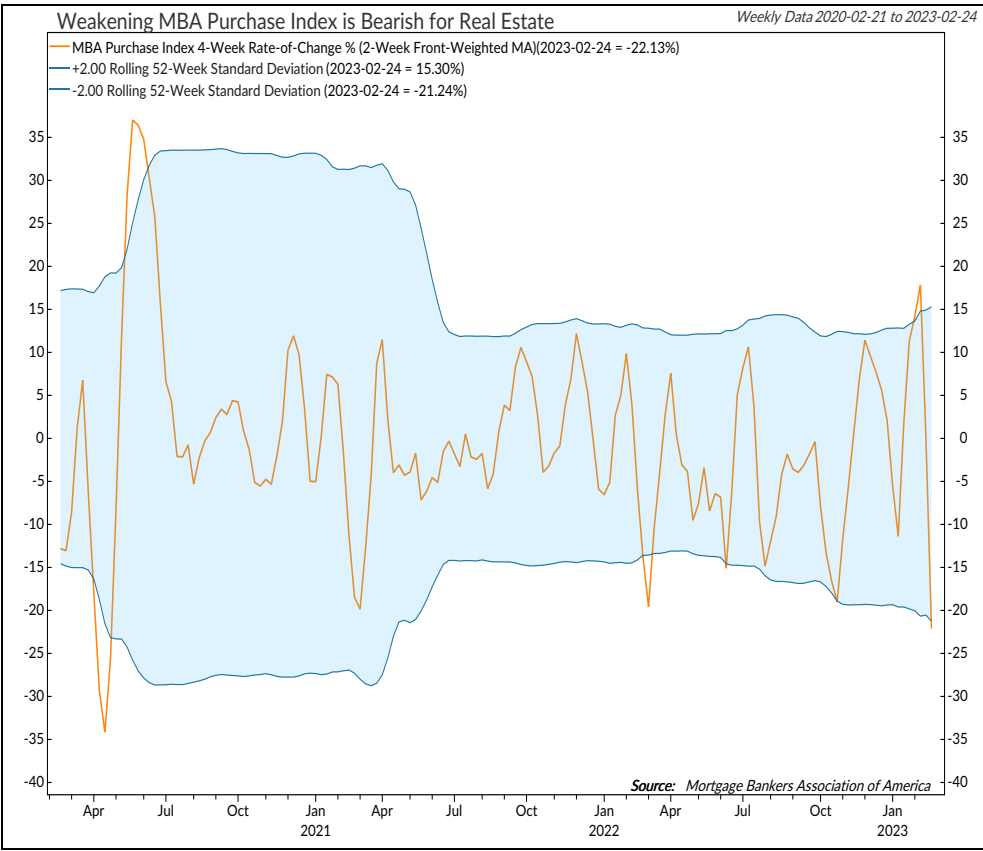
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Consumer Discretionary's allocation rose in March to a slight overweight. The majority of price-based measures remained bullish. While consumer credit conditions, housing starts, consumer spending, and earnings surprises remained negative for the sector, there was one bullish development—the 30-year Treasury yield declined (chart left).

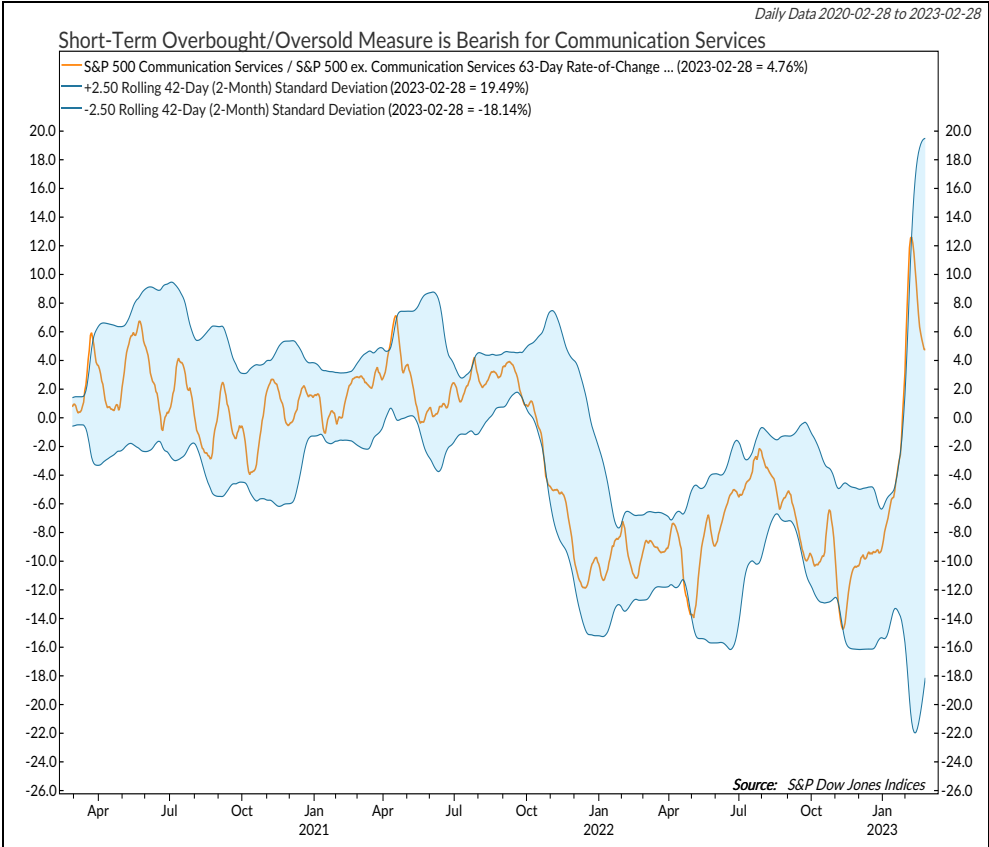
Real Estate's allocation was cut by more than half in March, moving the sector from a slight overweight to an underweight. On a fundamental basis, improving business credit conditions and economic surprises were offset by higher mortgage rates which dampened home purchases (chart right). As a result, technicals weakened and now the majority of the sector's price-based indicators are bearish.



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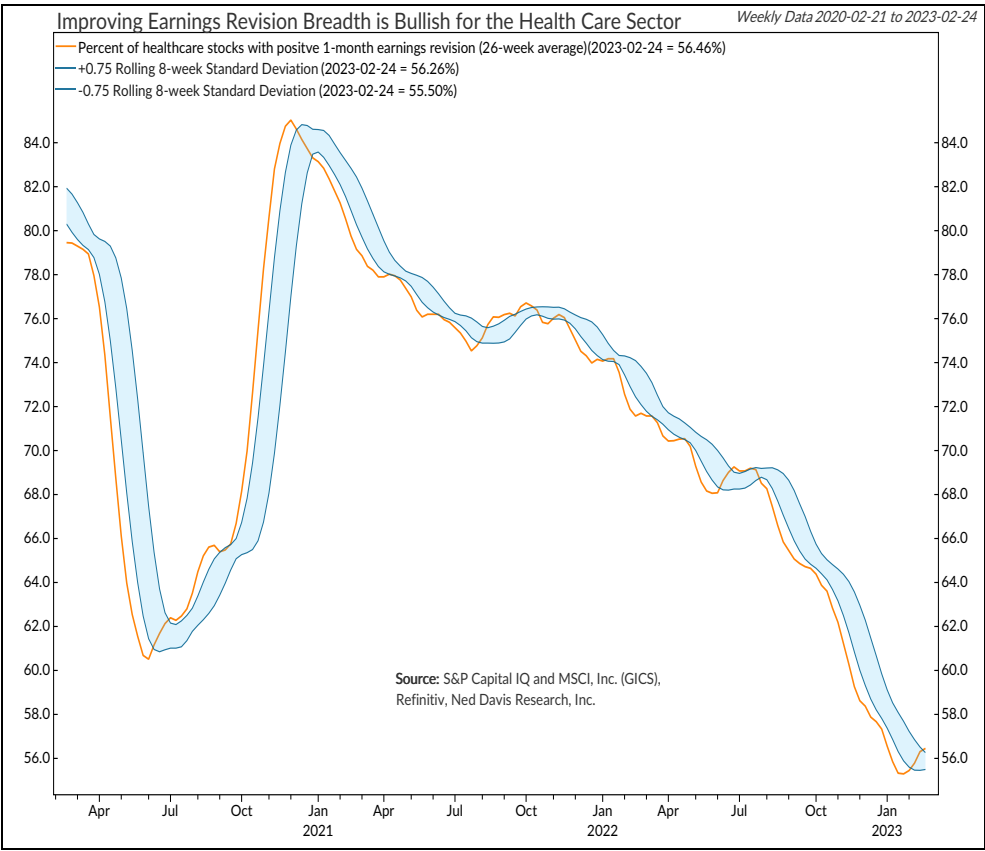
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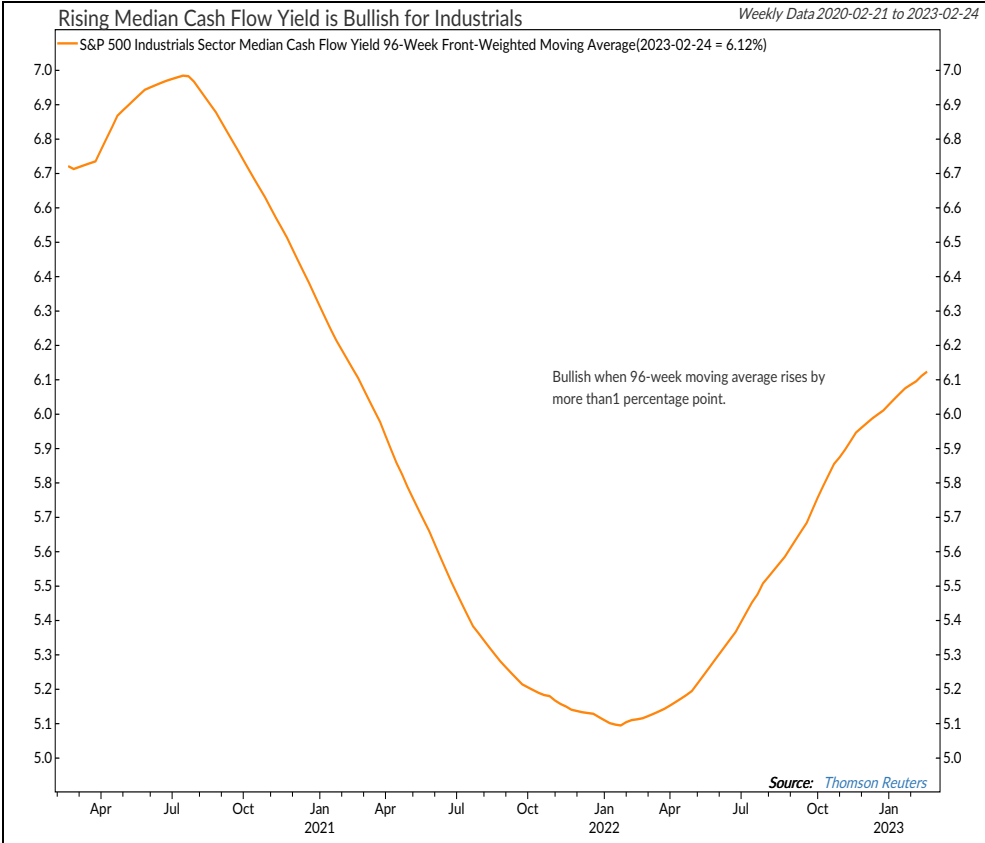
Allocation to the Communication Services sector declined in March, moving it to a slight underweight. The sector was down over 450 basis points in February, primarily driven by about a 9% drop in Alphabet. On a fundamental basis, the 10-2 yield curve, earnings revision breadth, sales growth trend, and internet vs. retail sales remain bearish for the sector. Technicals are mixed but a short-term overbought/oversold measure turned bearish for the sector in February (chart left).

Health Care's allocation rose significantly in March but remained underweight. On a fundamental basis, health care new construction, personal expenditures, and earnings revision breadth (chart right) all moved bullish for the sector. Technicals remain mostly bearish—improving relative price momentum was offset by weakening 100-day breadth.



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Industrials' allocation improved in March and is now a slight underweight. On a fundamental basis, the message is mixed. However, valuations improved with the median cash flow yield moving bullish (chart left). Price-based measures are also mixed, but a short-term relative price momentum indicator moved bullish in February.

Summary

The sector allocation strategy continues to be positioned in early cycle areas of the market. Value sectors like Energy, Materials, and Financials remain overweight, and Consumer Discretionary rose to a slight overweight allocation. Interest-rate sensitive sectors such as Consumer Staples, Real Estate, Communications Services and Utilities are underweight, along with cyclically-oriented Industrials and defensive Health Care. The sector model uses sector-specific indicators to determine opportunities and identify risks in an objective, weight-of-the-evidence approach.

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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