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NED DAVIS RESEARCH

Fixed Income Allocation Strategy

MARCH 2021

Fixed Income Performance Update

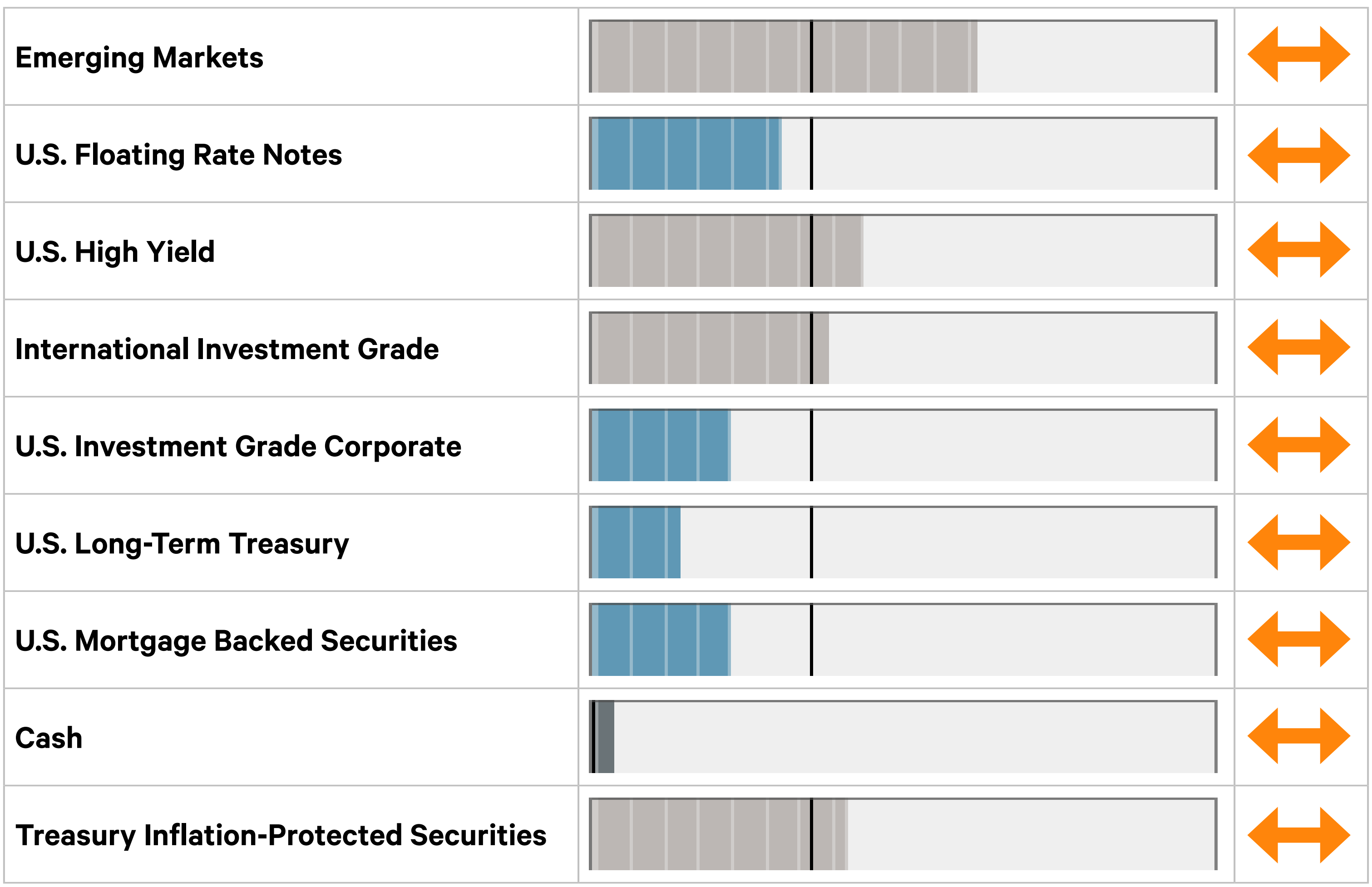
U.S. High Yield (JNK) and Floating Rate Notes (FLOT) were the only fixed income areas to rise during February, as they both increased by more than five basis points (bps). Both areas have increased for four of the last five months. FLOT has risen for 23 of the last 26 months.

U.S. Mortgage-Backed Securities (MBB) and Cash (MINT) each declined by less than 100 bps. It was MINT's worst month since March 2020. MBB has risen during 19 of the last 22 months.

International Investment Grade Bonds (BNDX) and Treasury Inflation-Protected Securities (TIP) both fell by less than 200 bps. This broke a three-month winning streak for TIP. BNDX suffered its worst month since March 2020.

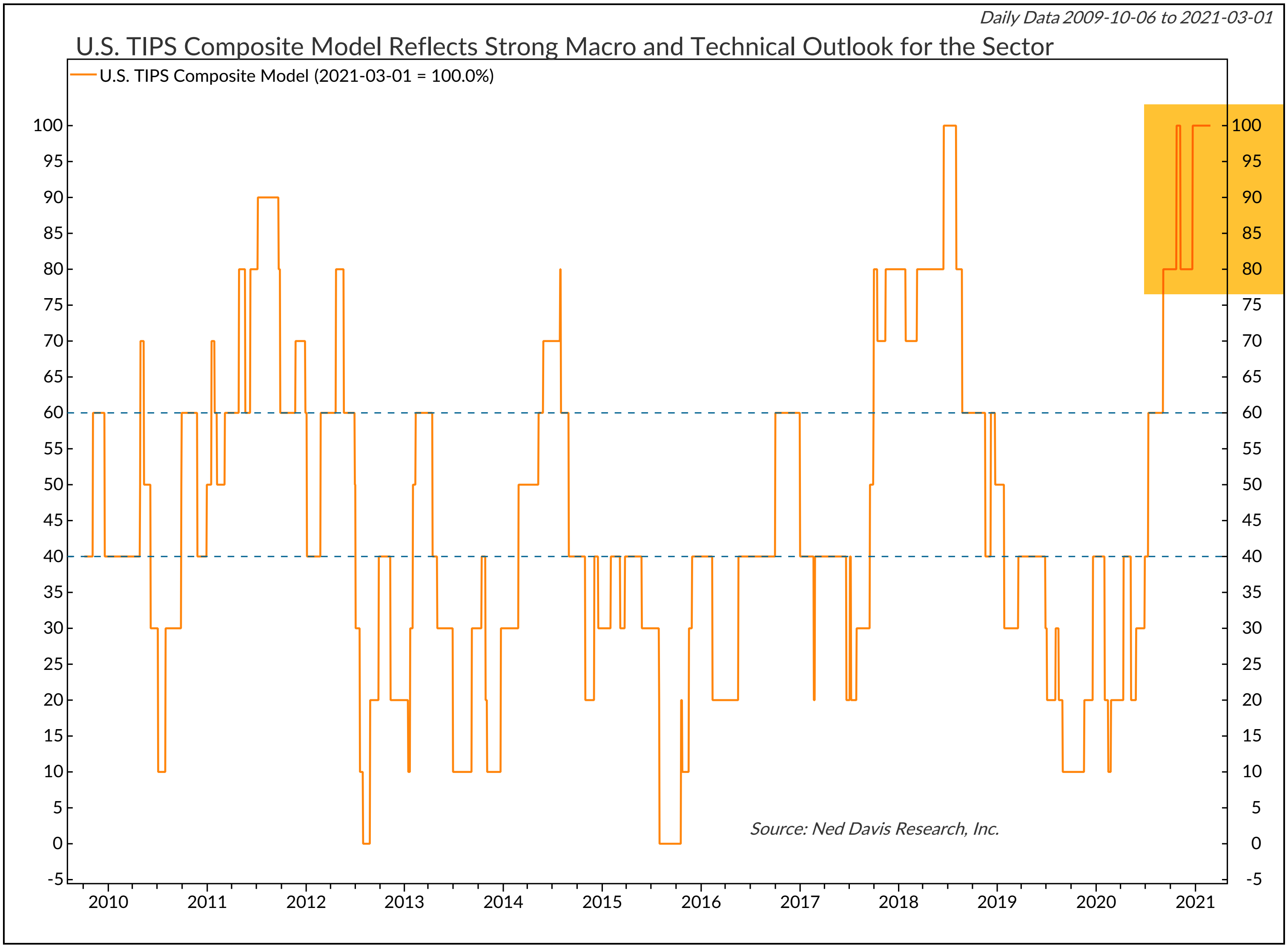
Emerging Market bonds (EMB), U.S. Investment Grade (LQD), and U.S. Long-Term Treasurys (TLT) all dropped by over 225 bps. All three areas have fallen by more than 175 bps for two consecutive months. EMB and LQD have declined for four of the last six months. It was the worst month for TLT since November 2016. TLT has been the weakest sector in four of the last five months.

Fixed Income Allocation Summary



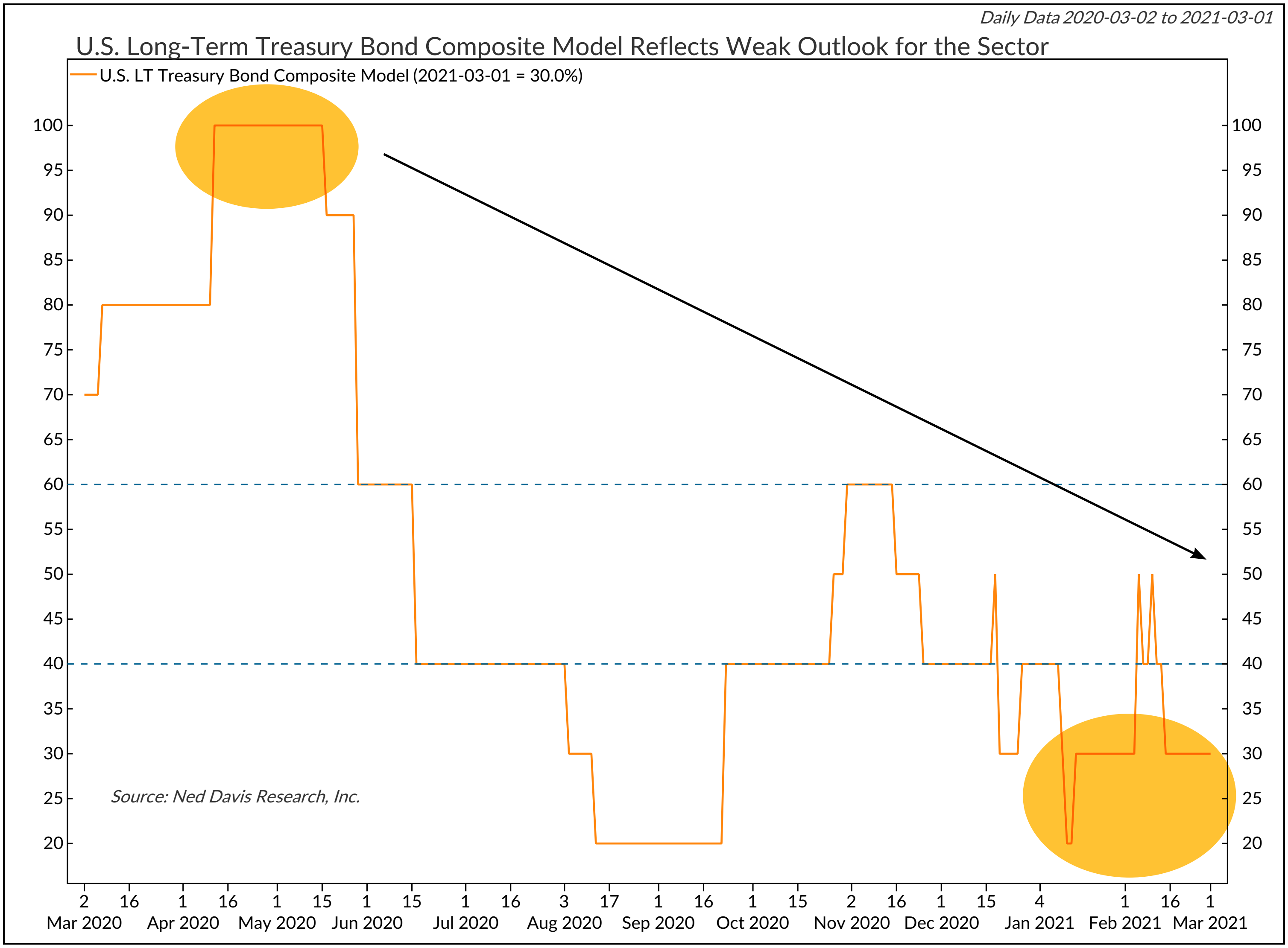
The vertical, black line represents the benchmark weight. The dark shading represents the sector's allocation. Shading significantly to the right (left) of the benchmark line represents an overweight (underweight) position. The direction of the arrow indicates whether the allocation increased, decreased,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

- Emerging Markets (EM) remains more than 1,000 bps overweight. EM currencies (relative to the U.S. Dollar) have weakened, reflecting headwinds for the region. However, this is the only bearish indicator for the sector.
- U.S. High Yield is greater than 300 bps overweight. Industry upside participation (breadth) within high yield deteriorated, indicating a weaker technical outlook.
- International Investment Grade bonds' allocation is more than 150 bps above benchmark. U.S. equity volatility has reversed lower, which typically does not reflect an environment conducive to outperformance for this sector.
- Treasury Inflation-Protected Securities is greater than 200 bps overweight. No indicators changed signals this month. All of the sector's indicators are bullish (**chart at bottom**).
- Cash has over 50 bps in allocation this month.



Customized version of ISBM1_TIPS_COMP

- Floating Rate Notes continues to be more than 100 bps underweight. A price trend indicator flipped from bearish to bullish on the sector.
- The U.S. Investment Grade Corporate bonds sector's allocation is greater than 400 bps below benchmark. The U.S. Dollar is reversing higher from an oversold extreme, which is bullish for the sector. Two-thirds of the sector's measures are bearish.
- U.S. Mortgage Backed Securities' (MBS) is more than 450 bps underweight. A price trend indicator flipped from bearish to bullish on the sector.
- U.S. Long-Term Treasurys' allocation is greater than 700 bps below benchmark. A near-term reversal lower in the Citi Economic Surprise Index historically has led to higher relative returns for the sector. However, a yield curve indicator exited its bullish reading. Only one of the sector's indicators possesses a bullish reading (**chart at bottom**).



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