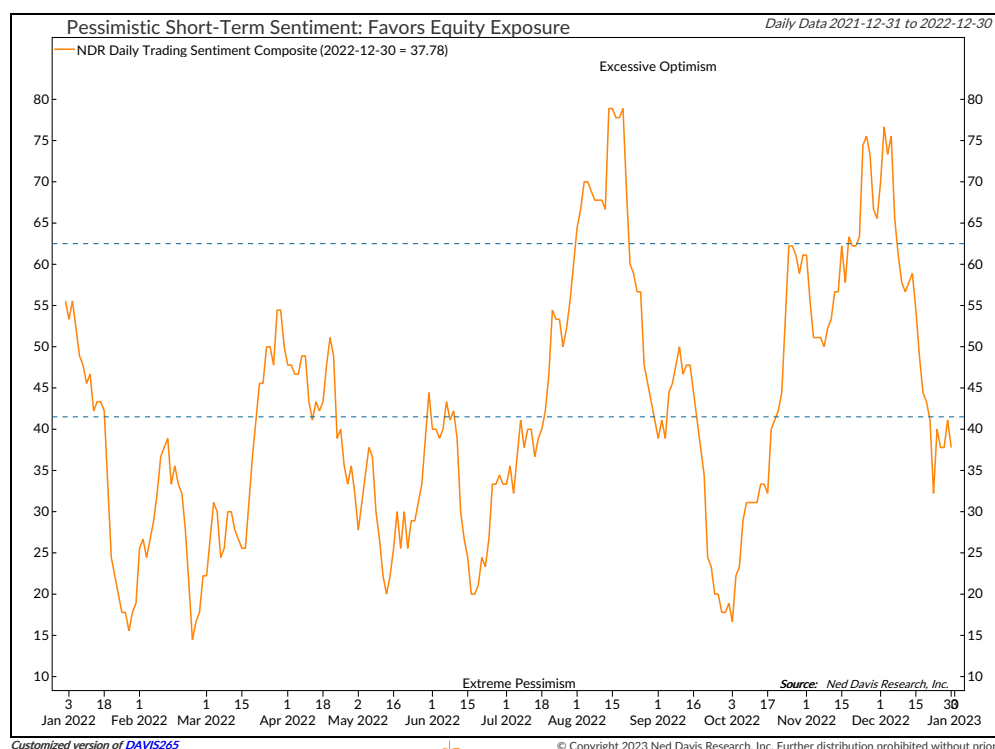
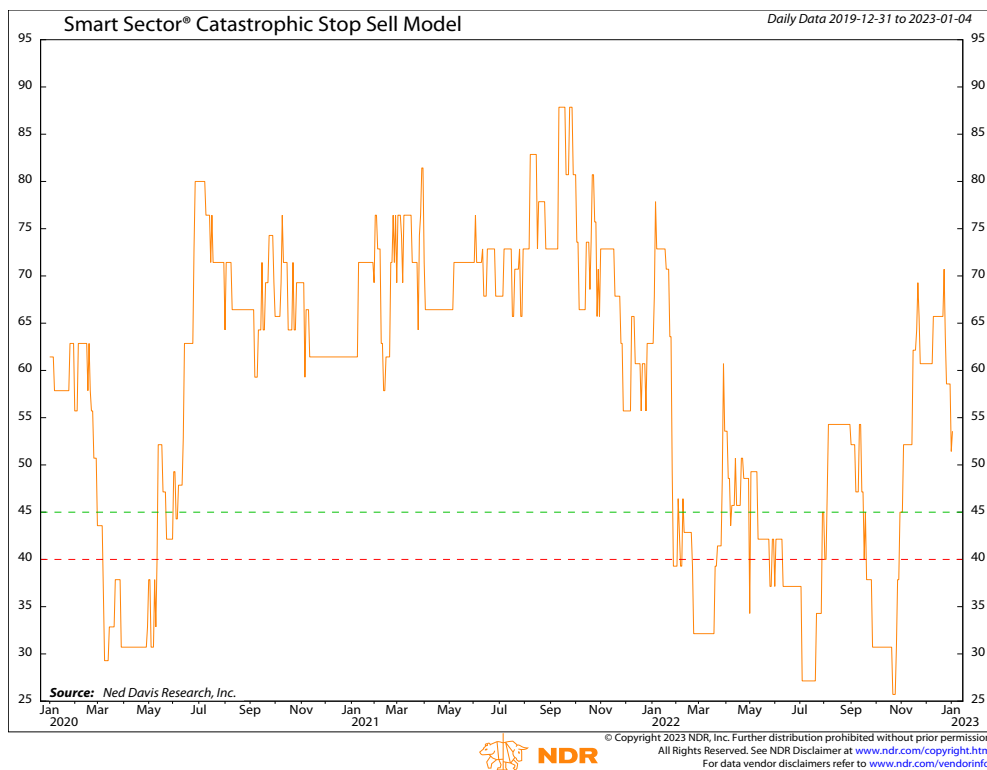


JANUARY 2023

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 at right) deteriorated in December but remains with a fully invested equity allocation recommendation.



Weaker price-based measures were to blame, moving the internal composite reading to its lowest level since October 2022. The stock/bond relative strength ratio rolled over and only 40% of global equity markets traded above their intermediate-term trends. In terms of external influences, high yield and Emerging Market bond breadth weakened, which was partly offset by short-term pessimistic stock market sentiment (chart at left).

If the near-term market weakness continues, additional technical indicators should roll over and trigger another bearish signal. Conversely, if volume demand outpaces supply and global shipping rates improve, then it could indicate a new rally might transpire in early 2023.

U.S. Market Update

After a 2-month rally, the S&P 500 Total Return Index fell by more than 500 basis points in December, finishing the year down about 18%. Equities struggled in 2022, due to higher interest rates, a weakening outlook for corporate earnings, and fears of recession. All 11 S&P 500 sectors registered negative returns in the month of December. For the year, nine out of 11 sectors had negative performance. The stand-out sector was Energy—on a total return basis, it was up over 65% in 2022.

While the 50 basis point rate hike by the Fed in mid-December was widely expected, the estimates of the fed funds rate in the future were shifted higher. The pace of rate hikes may slow, but the terminal rate and the date of the final hike may be more restrictive than previously expected.

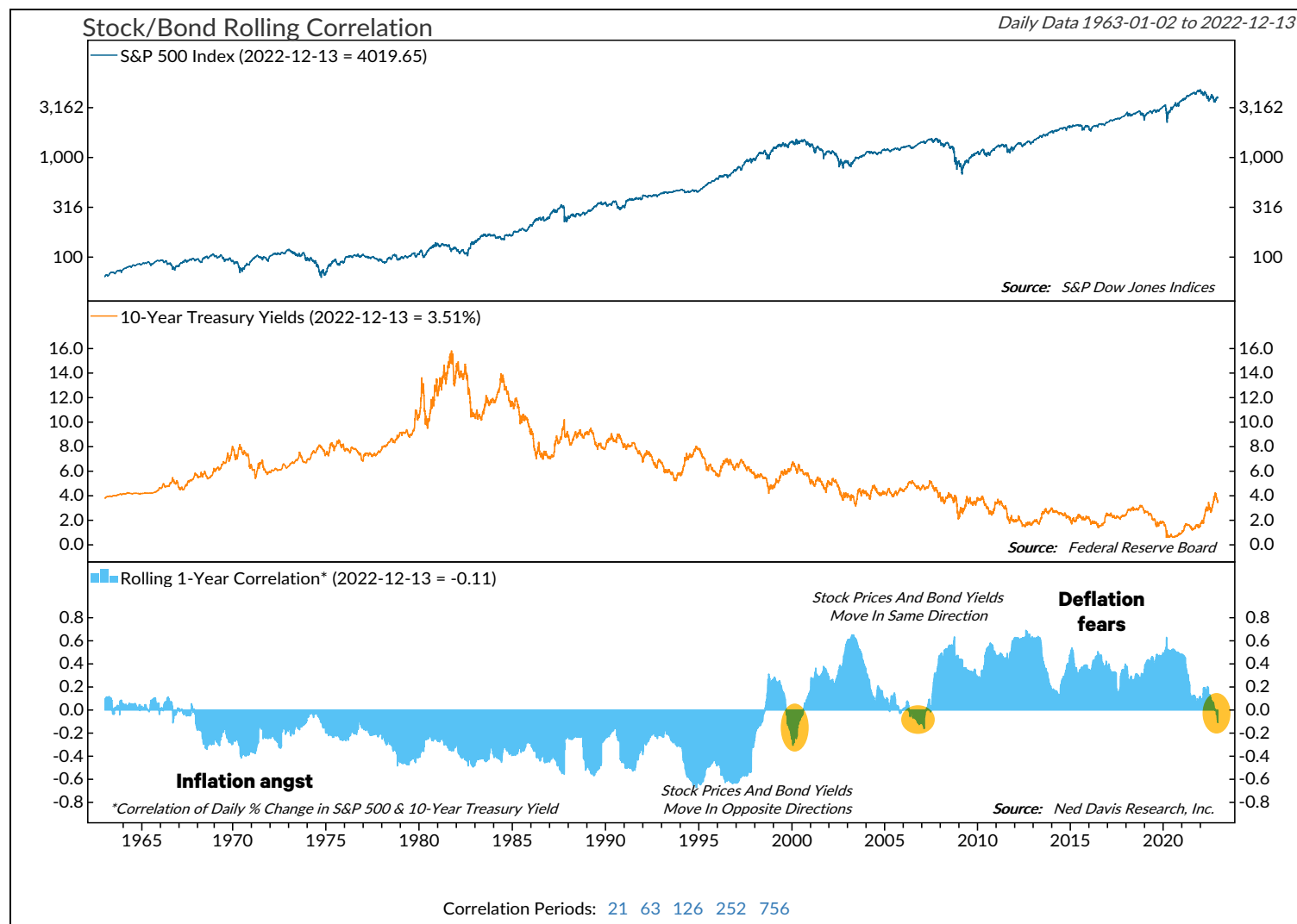
The relationship between stock prices and bond yields became decisively negative in December (chart below). In looking at history, there are two possible explanations:

1. Inflation is regaining the upper hand, so the Fed is forced to raise rates to bring inflation under control. This occurred from October 1967 to July 1998 when inflation was a bigger fear than deflation.
2. The Fed is going to make a policy mistake. While the Fed may not be restrictive currently, the market thinks the Fed will tighten too much and push the economy into recession. Since 1998, the negative relationship with stocks and bonds occurred two times—from September 1999 to August 2000 and April 2006 to July 2007—both

periods were toward the end of a Fed tightening cycle.

The market is likely taking the Fed's threat to push the economy into recession seriously, so for now, the policy mistake scenario is in play. Ironically, a Fed-induced recession may be what is required to prevent a return to the 1967-1998 regime.

Entering January, the sector model continued to overweight Value areas such as Energy, Materials, and Financials, as well as defensive sectors such as Utilities and Health Care. Industrials, Real Estate, and Communication Services entered the month below benchmark allocation. Consumer Discretionary remains significantly below benchmark weighting.



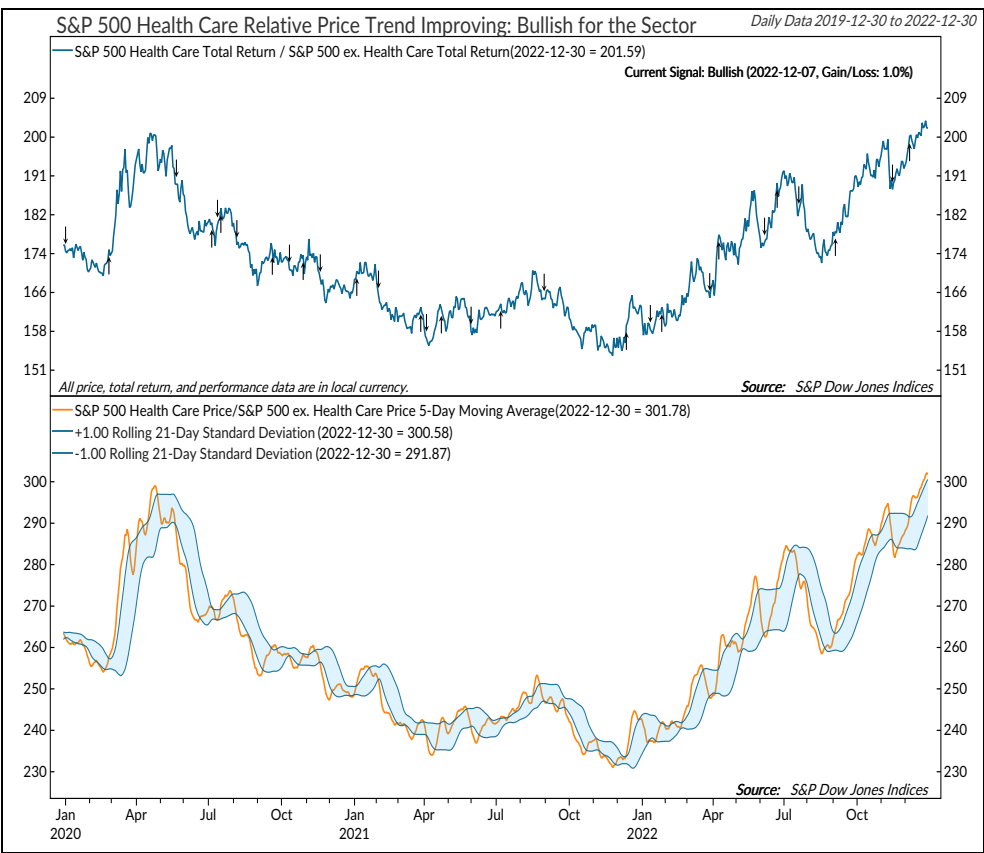
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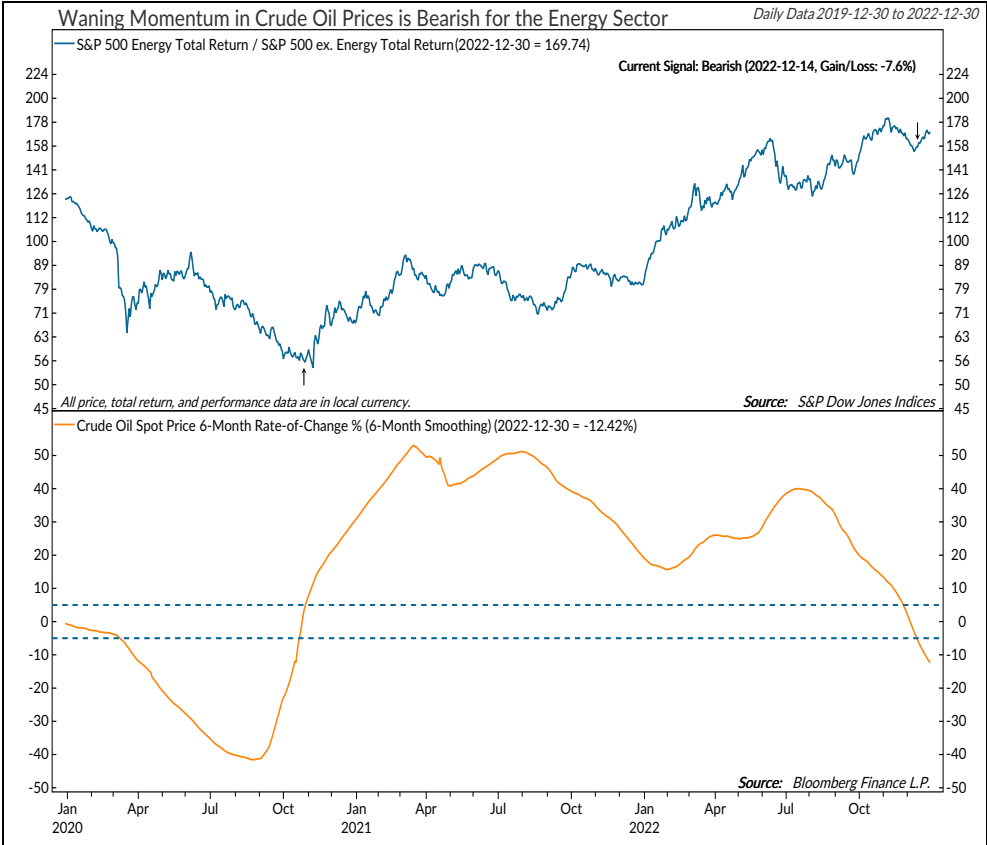
NDR

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The model increased the Health Care sector's allocation in January, moving it from an underweight to an overweight position. While new construction deteriorated, personal consumption expenditures for Health Care improved from bearish to neutral. Investors continue to move into this defensive sector, leading to bullish momentum and trend (chart right).



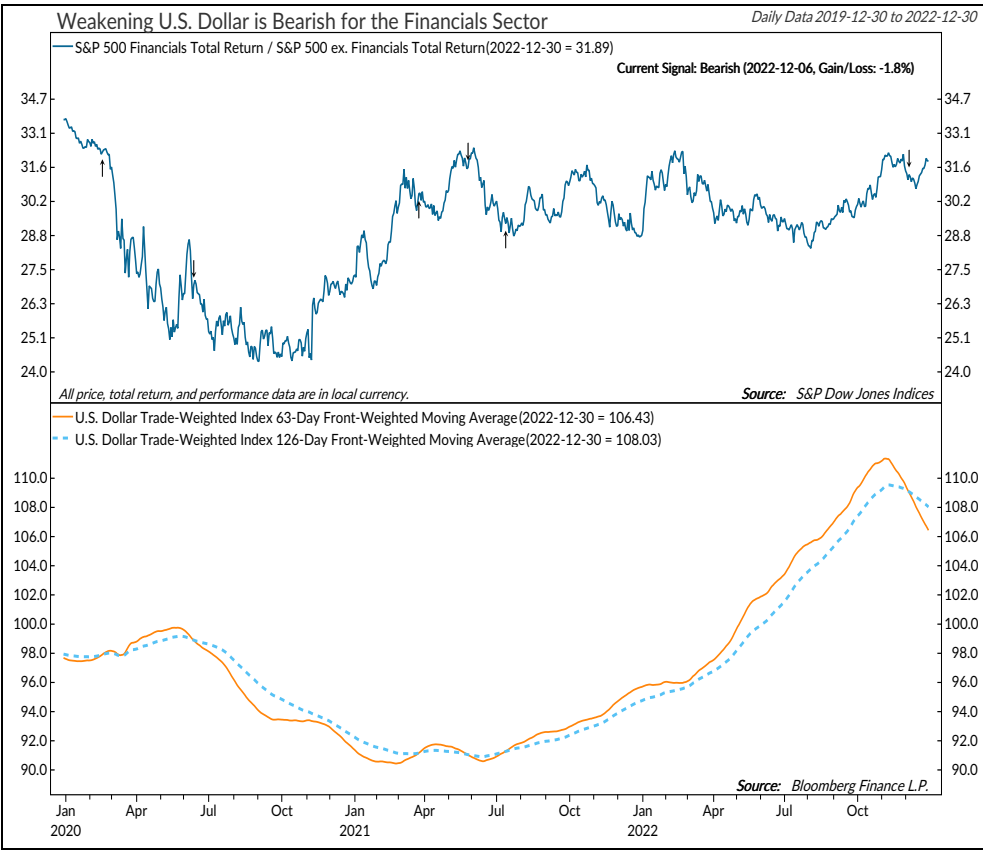
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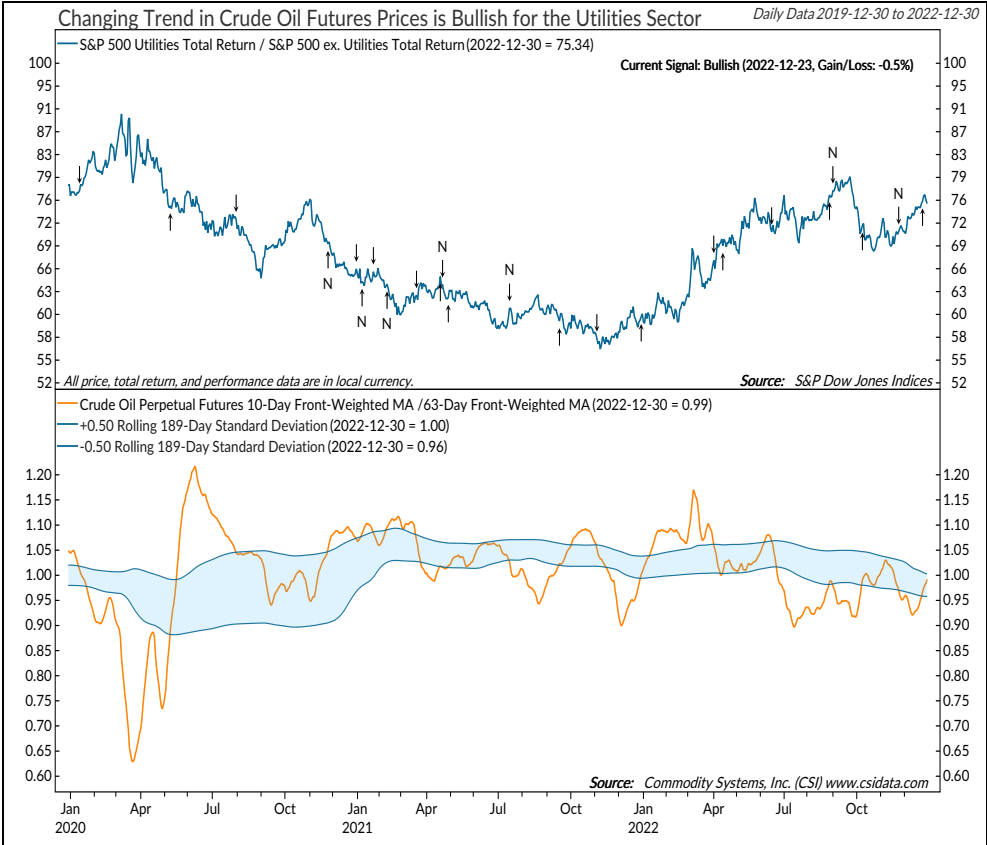
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The Energy Sector's total return was about 65% in 2022, the highest return since 1980. While the Energy sector had positive returns eight out of 12 months last year, it gave back some of its gains in December and was down about 300 bps. The model modestly reduced allocation to Energy in January, but the sector continues to be overweight. A weakening U.S. dollar and favorable cash flow yield are tailwinds for the Energy sector, which are confirming the strong technical readings. Oil supply has improved and is now bullish for the sector. However, oil price momentum has waned and is now bearish for the sector (chart left).

The Financials sector has been seeing steady improvement in our model since August. In January, allocation increased again, and it remains overweight, as investors likely anticipate the end of the tightening cycle sometime in Q1 2023. Bank loan growth, an attractive valuation, and a slight improvement in the yield curve has supported strong technicals. However, a weakening U.S. dollar is now bearish for the sector (chart right).



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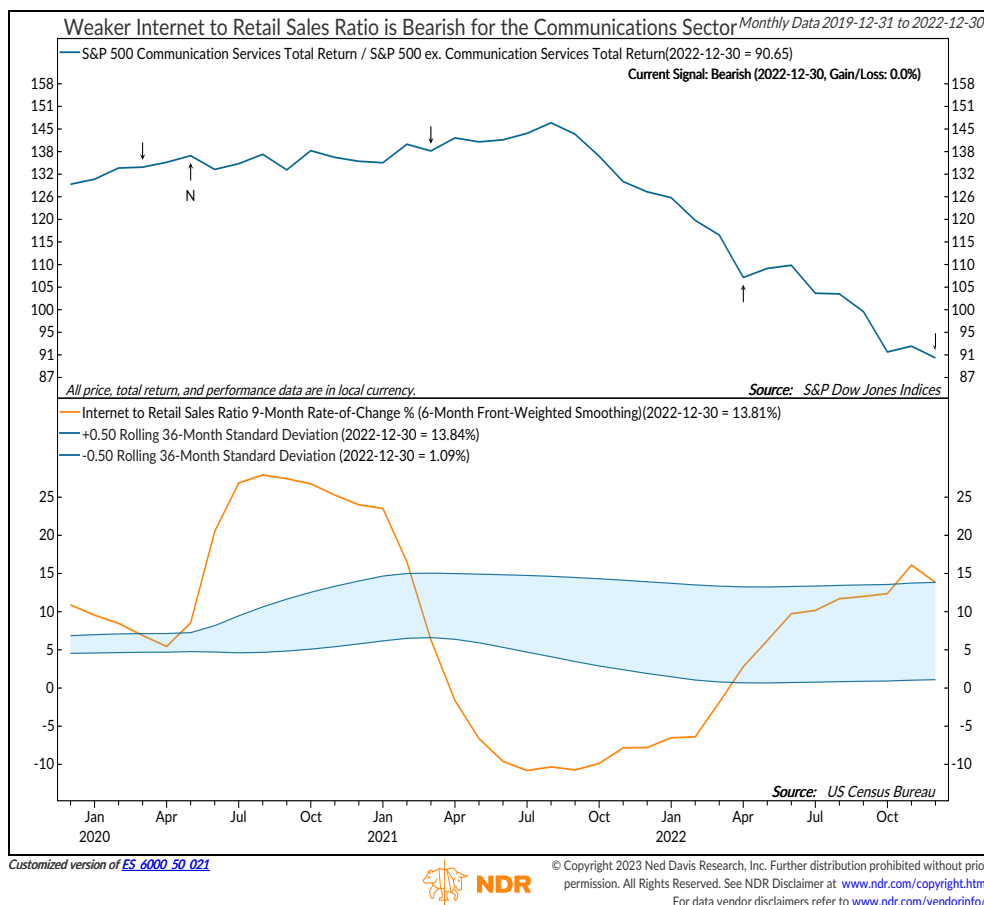


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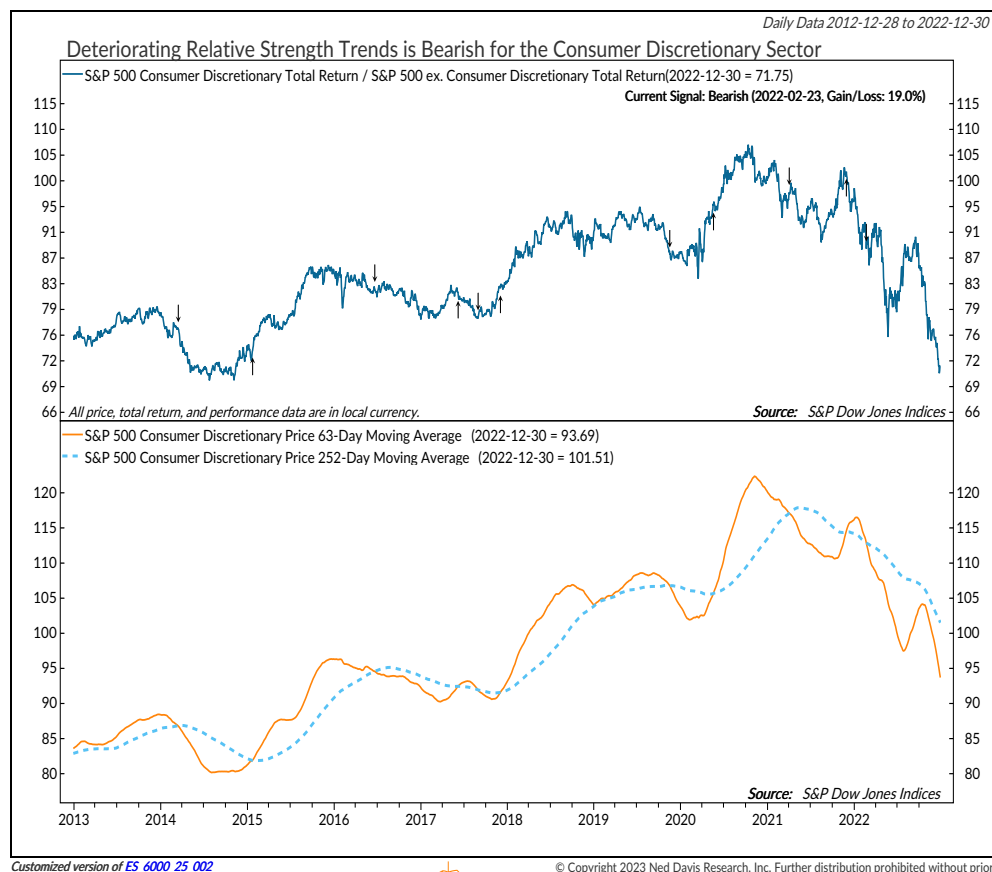
The model increased its overweight allocation to Utilities in January. The defensive nature of the sector has attracted investors. As a result, all technical indicators are now bullish. On a fundamental basis, capacity utilization, manufacturing activity, and valuation are bullish for the sector. The changing trend in crude oil futures prices is now bullish for the sector (chart left).

Communication Services' allocation declined further in January and remains well below benchmark weighting. While Meta eked out a small positive gain, Alphabet and Walt Disney's stock prices continued to struggle in December, and were down -12.5% and -11.2%, respectively. In general, cyclical Growth sectors have had a tough year. Antitrust suits continue to provide a cloud of uncertainty and subscriber growth for streaming services is becoming more difficult as competition rises. Widening spreads, weak earnings revisions, and weak sales growth trends are headwinds for a sector with rising volatility and declining price trends. Bullish relative valuation was offset by weaker internet vs. retail sales trends (chart right).

The Consumer Discretionary sector's allocation deteriorated further in January and remains the most underweight sector. While some consumer services areas continue to recover from their COVID lows, durable goods sales remain under pressure from higher interest rates. Amazon and Tesla, which together make



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up about 40% of the sector, had double digit negative returns in December. Weak consumer credit conditions, discretionary consumer spending trends, earnings surprises, and housing starts are all headwinds for the sector. As a result, the sector was down over 11% for the month, driving relative strength back to 2014 levels (chart left).

Summary

The sector allocation strategy continues to be influenced by the rising rate environment which will likely lead to an economic recession, resulting in more Value and defensive sector leadership. Energy, Materials, Financials, Utilities, and Health Care are overweight, while Communication Services, Consumer Discretionary, Real Estate, and Industrials are underweight. 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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