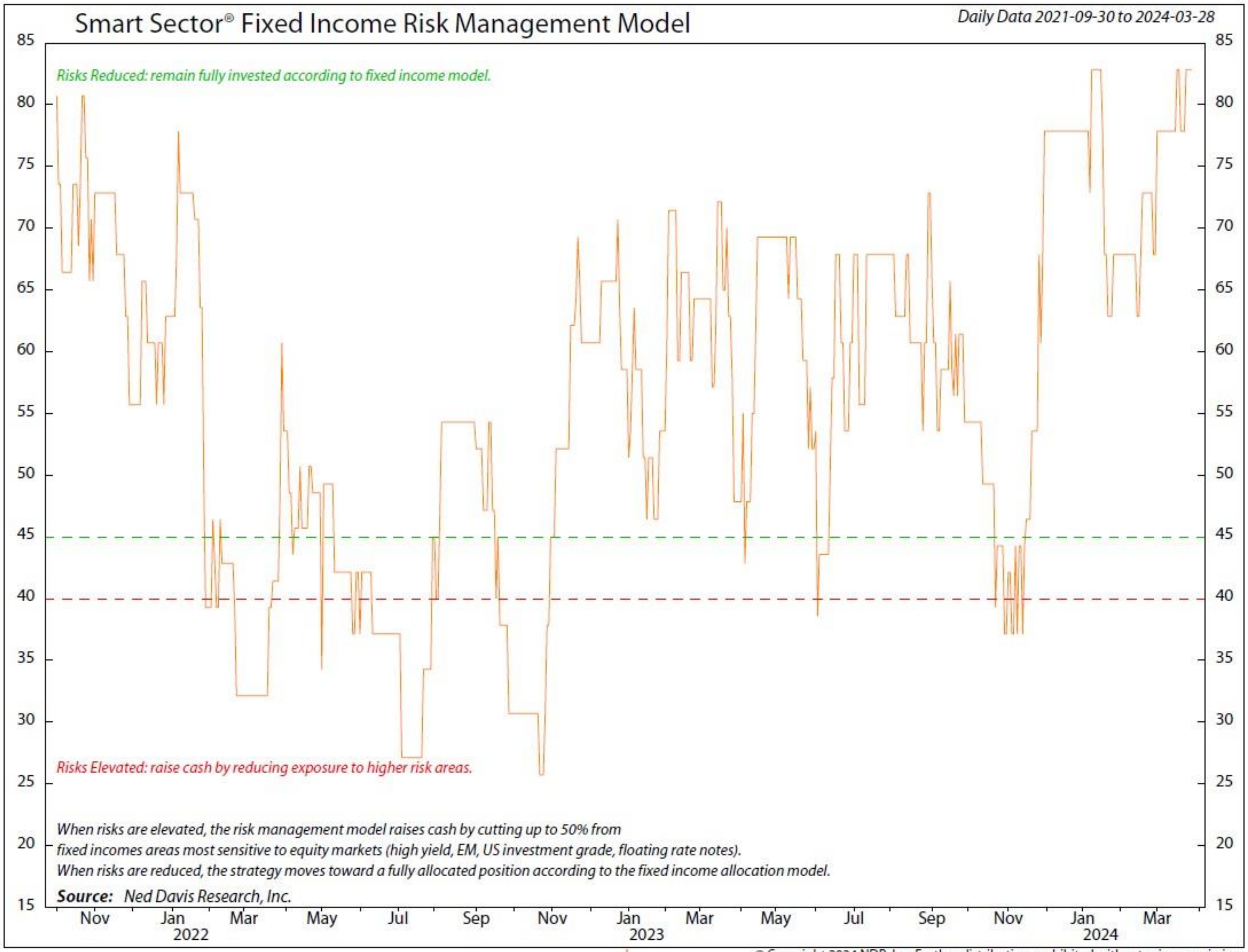
Smart Sector® Fixed Income Strategy

APRIL 2024

Risk Management Update

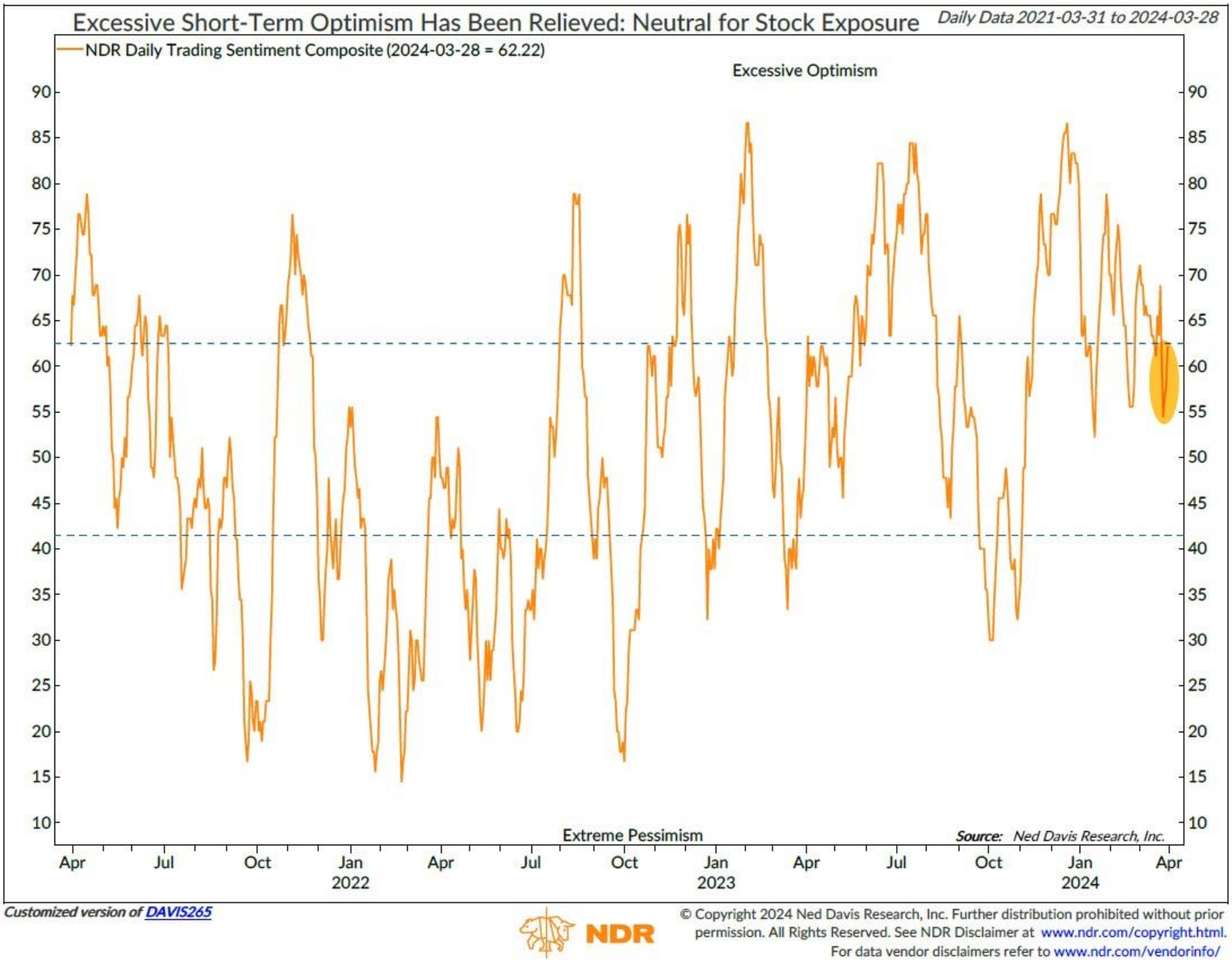
The risk management model (Figure 1) seeks to reduce exposure to fixed-income sectors most sensitive to equity drawdowns. The risk management model improved during the month and entered April, recommending full model exposure to areas most sensitive to equity markets: U.S. High Yield, Emerging Markets, U.S. Investment Grade, and Floating Rate Notes.

Figure 1: Smart Sector® Fixed Income Risk Management Model



The bullish reading from the model is driven by strong internals. Five of the seven price-based measures—including relative strength, trend, and breadth—remain bullish. External measures such as option-adjusted spreads, global trade, and high-yield and emerging market breadth remained bullish. Short-term sentiment—as measured by the NDR Daily Trading Sentiment Composite—moved back to neutral during the month (Figure 2). For now, the weight of the evidence recommends a fully invested allocation to fixed-income sectors according to the model.

Figure 2: Excessive Short-Term Optimism Has Been Relieved: Neutral for Stock Exposure



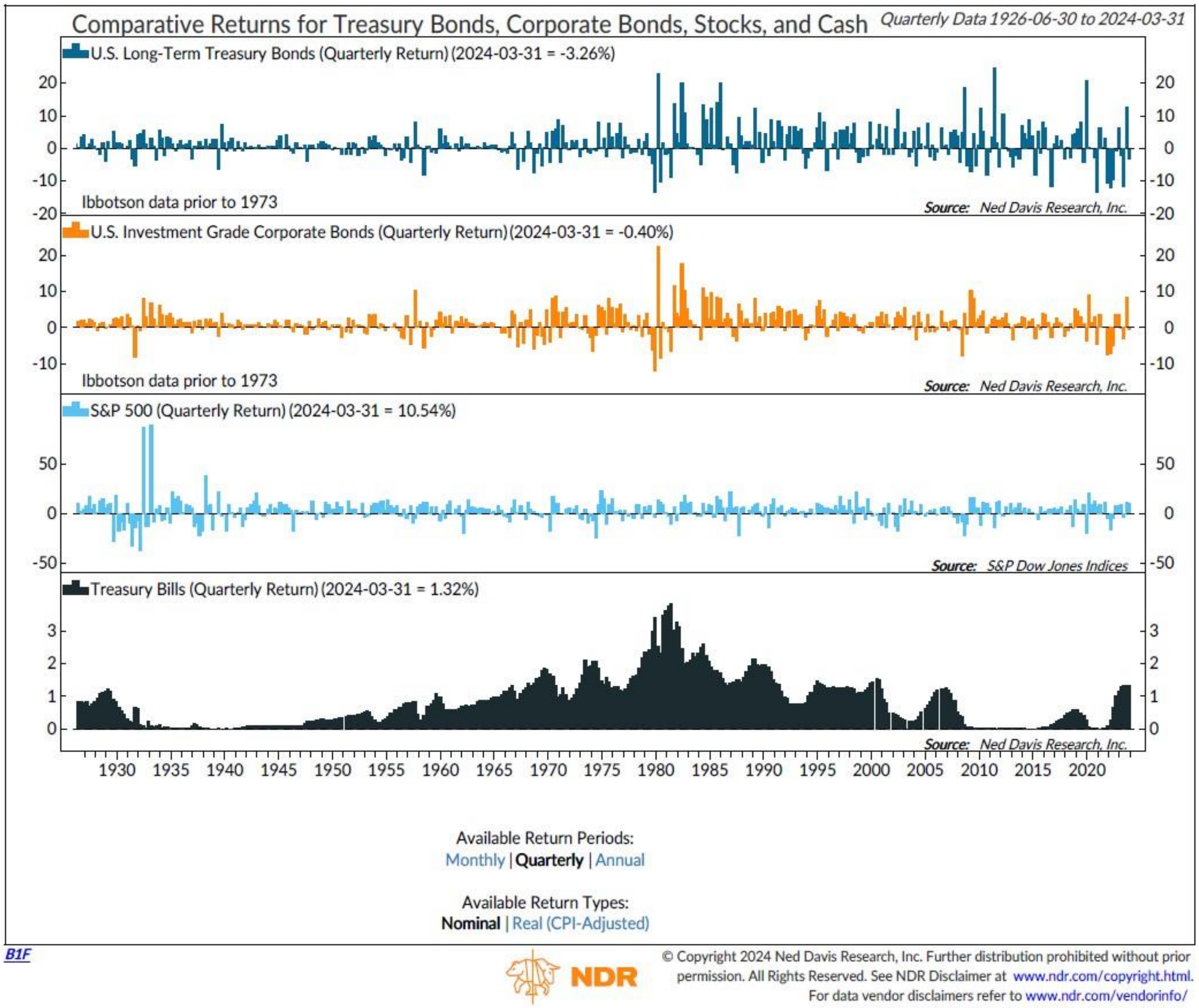
Fixed Income Market Update

After a weak February, the Bloomberg Barclays U.S. Aggregate Bond Total Return Index rebounded in March, gaining just under 1%. Breadth improved sharply—all nine fixed-income sectors we track posted positive returns for the month.

Sticky inflation, strong economic growth, and the repricing of when and how many times the Fed is going to cut rates soured investors on bonds. In Q1 2024, stocks beat bonds by 11.3% on a total return basis, the most in Q1 since 2012 (Figure 3). History's message for the rest of 2024 is positive for stocks on an absolute basis and relative to bonds, albeit at a slower rate than Q1's torrid pace.

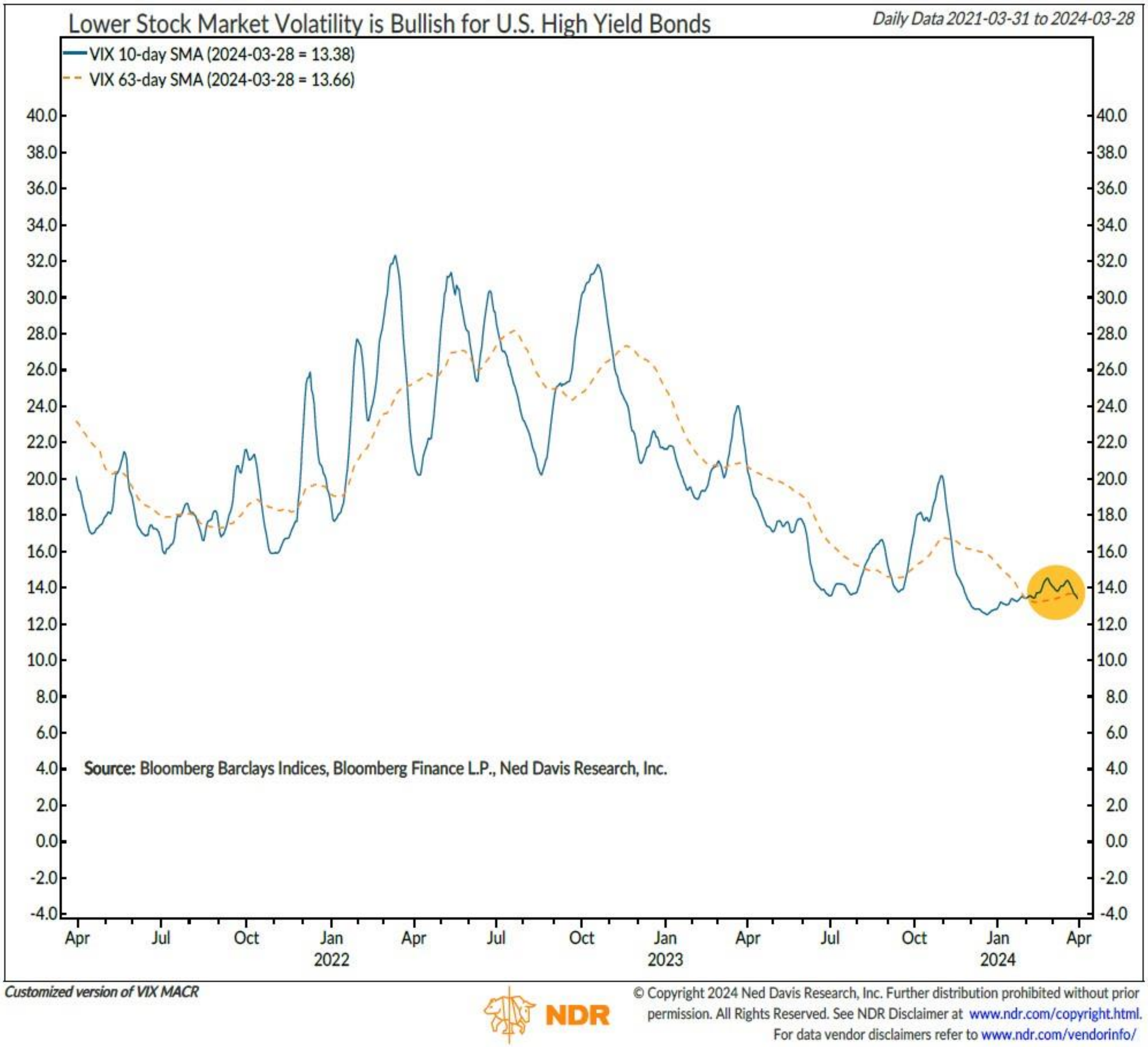
Entering April, the fixed income allocation strategy continued to favor risk-on leadership but did not rebalance. The model remains overweight (versus the AGG benchmark), U.S. Treasuries (allocated across short-, intermediate-, and long-duration), High Yield, and Emerging Market Bonds. The portfolio is marketweight TIPS and Mortgage-Backed Securities and underweight U.S. Floating Rate Notes, U.S. Investment Grade, International Investment Grade, and International Bonds.

Figure 3: Comparative Returns for Treasury Bonds, Corporate Bonds, Stocks, and Cash



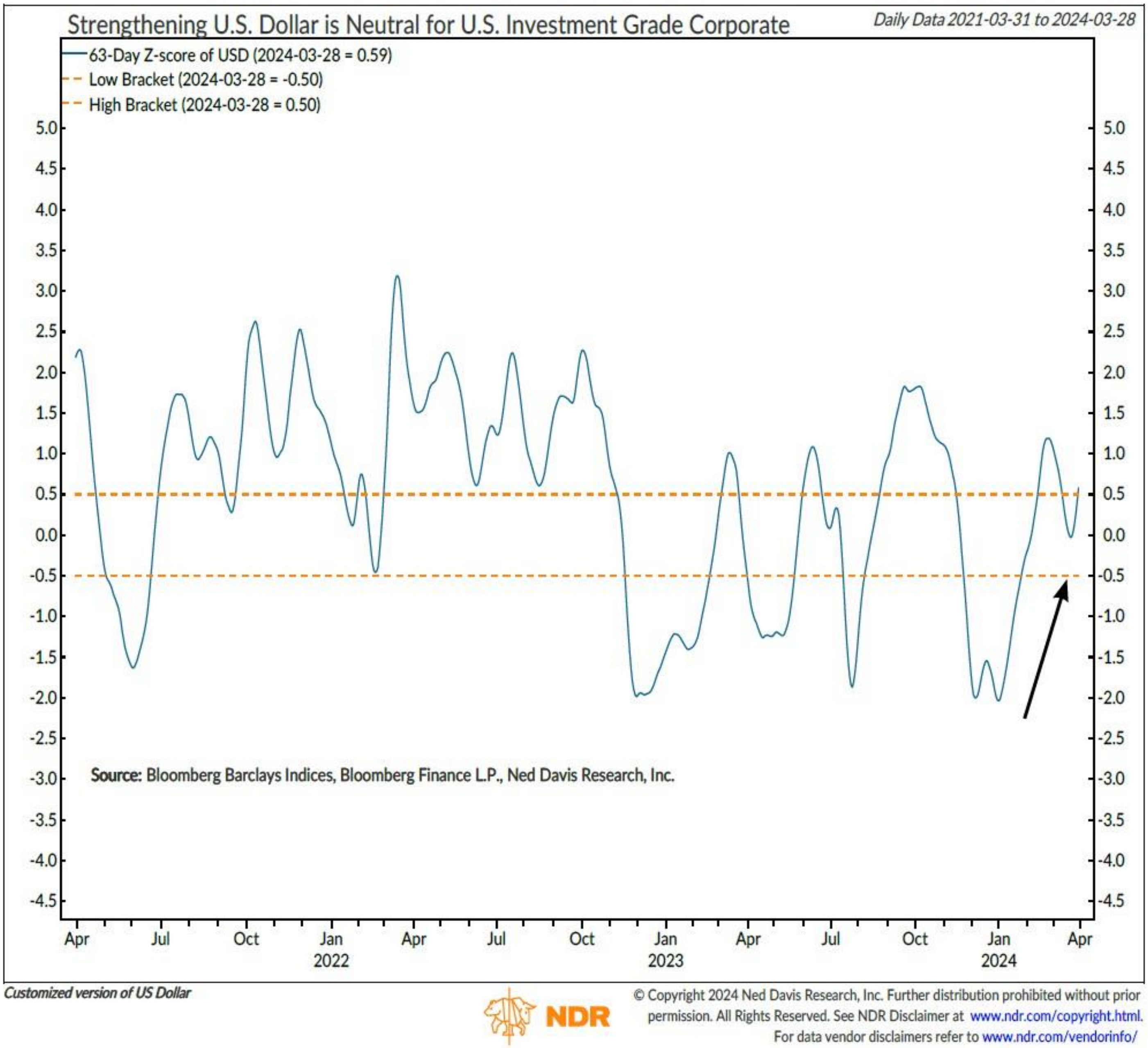
U.S. High-Yield bonds' allocation remained overweight. All six indicators are bullish for the sector. During the month, market volatility (as measured by the VIX) moved bullish for high-yield bonds (Figure 4).

Figure 4: Lower Stock Market Volatility is Bullish for U.S. High Yield Bonds



The allocation of U.S. Investment-Grade Corporate bonds remained underweight. Indicators are now mixed. On a fundamental basis, bond volatility is bullish but offset by bearish option-adjusted spreads and credit default swaps. Furthermore, a strengthening U.S. dollar moved neutral for the sector during the month (Figure 5). Technicals are also mixed—a bullish mean reversion indicator is offset by a bearish short-term trend measure.

Figure 5: Strengthening U.S. Dollar is Neutral for U.S. Investment Grade Corporate

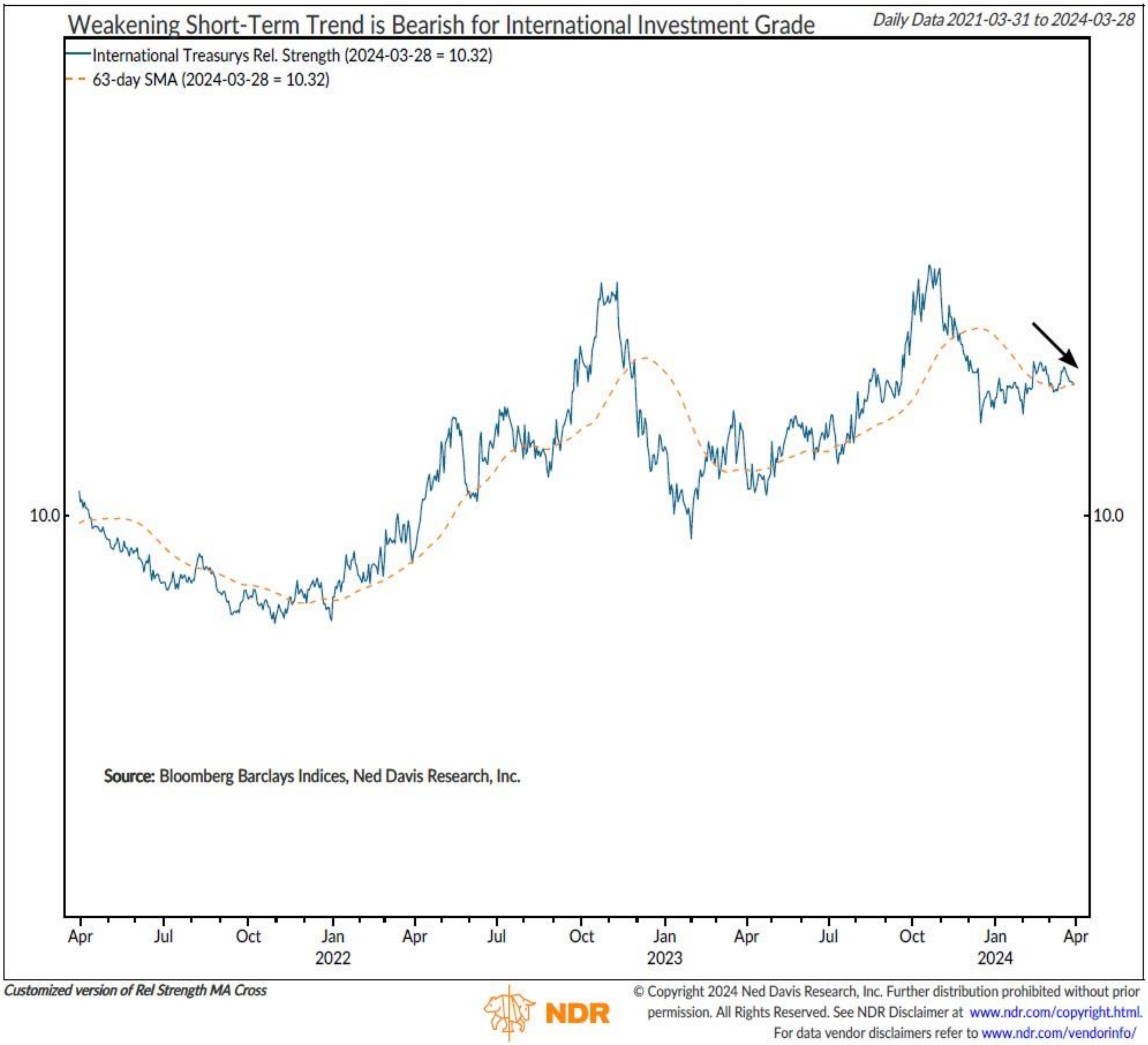


The U.S. Treasury Inflation-Protected Securities' (TIPS) allocation remained the largest underweight. Commodity price trends and high-yield option-adjusted spreads remain headwinds for TIPS. These bearish measures are confirmed by TIPS' weak technicals, including the relative strength index, the slope of its relative strength, and the short-term trend (Figure 6).

Figure 6: Weakening Short-Term Trend is Bearish for U.S. TIPS

International Investment-Grade bonds' allocation remained underweight. Stock market volatility joined inflation expectations as bearish indicators for the sector. Price-based measures are now mixed—rising relative strength is offset by a short-term trend that weakened during the month—the index's relative strength is sitting just below its 63-day moving average (Figure 7).

Figure 7: Weakening Short-Term Trend is Bearish for International Investment Grade



Summary

Entering April, the fixed income allocation strategy continued to favor risk-on leadership but did not rebalance. The model remains overweight (versus the AGG benchmark), U.S. Treasuries (allocated across short-, intermediate-, and long-duration), High Yield, and Emerging Market Bonds. The portfolio is marketweight TIPS and Mortgage-Backed Securities and underweight U.S. Floating Rate Notes, U.S. Investment Grade, International Investment Grade, and International Bonds.

This strategy utilizes measures of price, valuation, economic trends, monetary liquidity, and market sentiment to make **objective, unemotional, rational decisions about how much capital to place at risk, as well as where to place that capital.**

Strategy Description

- The Smart Sector® Fixed Income strategy combines two Ned Davis Research quantitative investment strategies: The NDR Fixed Income Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting fixed income sectors based on Ned Davis Research's proprietary fixed income models..
- Each of the models utilize sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each area's probability of outperforming the other categories.
- Sectors are weighted accordingly relative to an equal-weighted benchmark.

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 areas which underperform during periods of market stress (high yield, Emerging Markets, U.S. Investment Grade, and Floating Rate Notes) may be trimmed by up to 50%.
- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad financial markets. 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 will reverse toward being fully invested.

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