



JUNE 2022

## Macro/Market Update

Global economic growth decelerated in April, as the global composite Purchasing Managers' Index (PMI) dipped 1.7 points to 51.0, its lowest level since June 2020. While the reading still indicates expansion, it is well below its long-term average of 53.4. Furthermore, the latest reading is historically consistent with 1.1% annual real Gross Domestic Product (GDP) growth rate, significantly lower than the nearly 6% growth in 2021.

The sharp deceleration in growth was almost entirely attributable to China, the world's second-largest economy. Its

COVID-zero policy, coupled with the highly contagious Omicron variant, led to the strictest lockdowns since the pandemic first hit in early 2020. Many companies cut back, and some have even halted, production in response to the stringency measures.

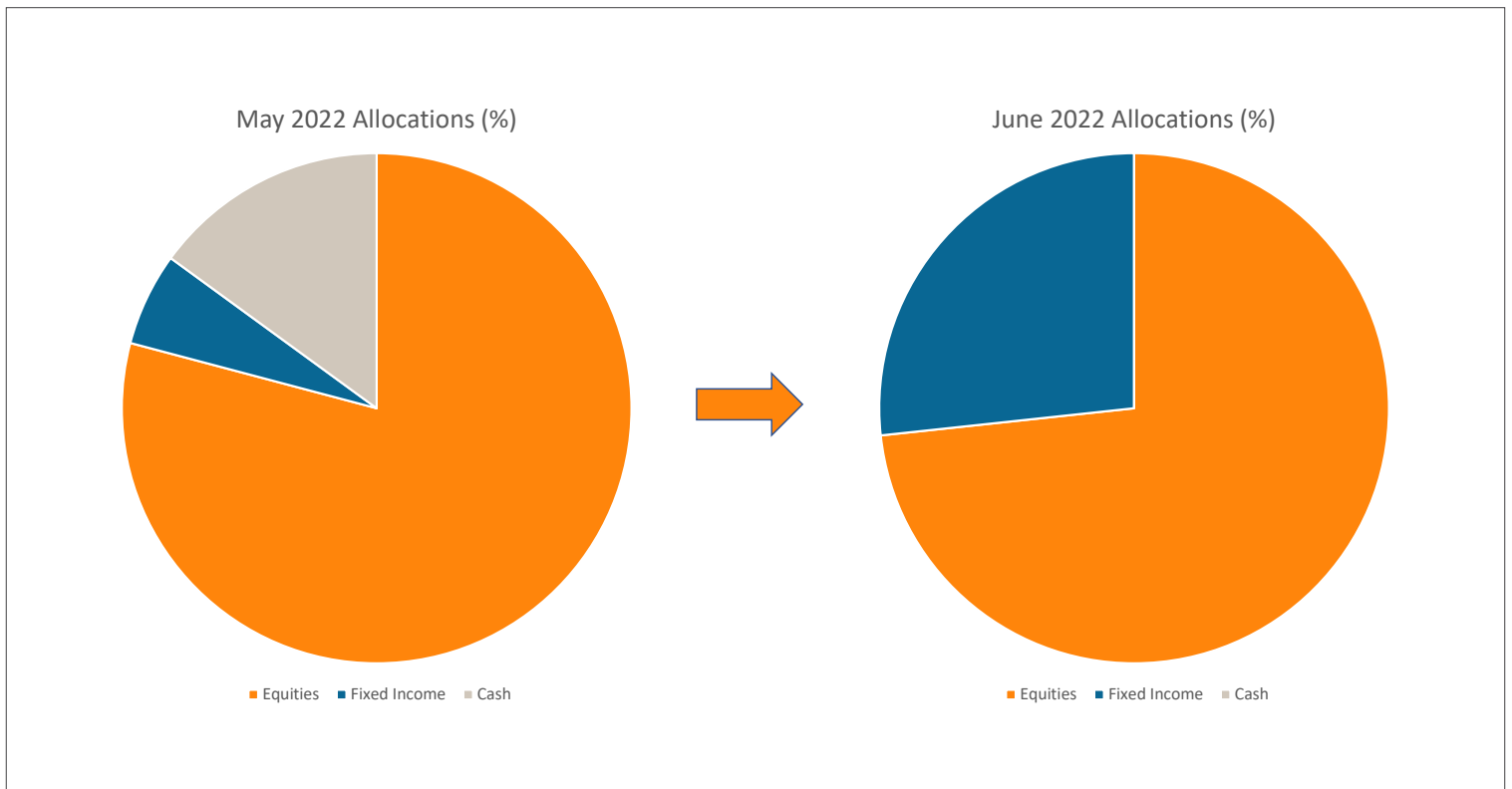
Taking China out of the equation presents a much more constructive view of the world. The global composite PMI excluding China was little changed, down 0.3 points to 55.0, a reading that is comfortably above its long-term average.

Global price pressures continued to surge, as both the composite input and output price indexes rose to records. Shortages

are playing a significant role, as the Global Shortages Index, while down from its 2021 peak, is still seven times more than the norm.

During May, the MSCI All Country World Index (ACWI) underperformed the Bloomberg Barclays Global Aggregate Bond Index by over 8 basis points (bps). Global stocks have trailed bonds for four of the previous five months. In a bullish scenario, the ACWI would break back above the initial high in March with breadth confirmation. In a bearish scenario, the ACWI would fail to reach a secondary high, instead breaking to new lows with worsening breadth.

## Asset Allocation Summary



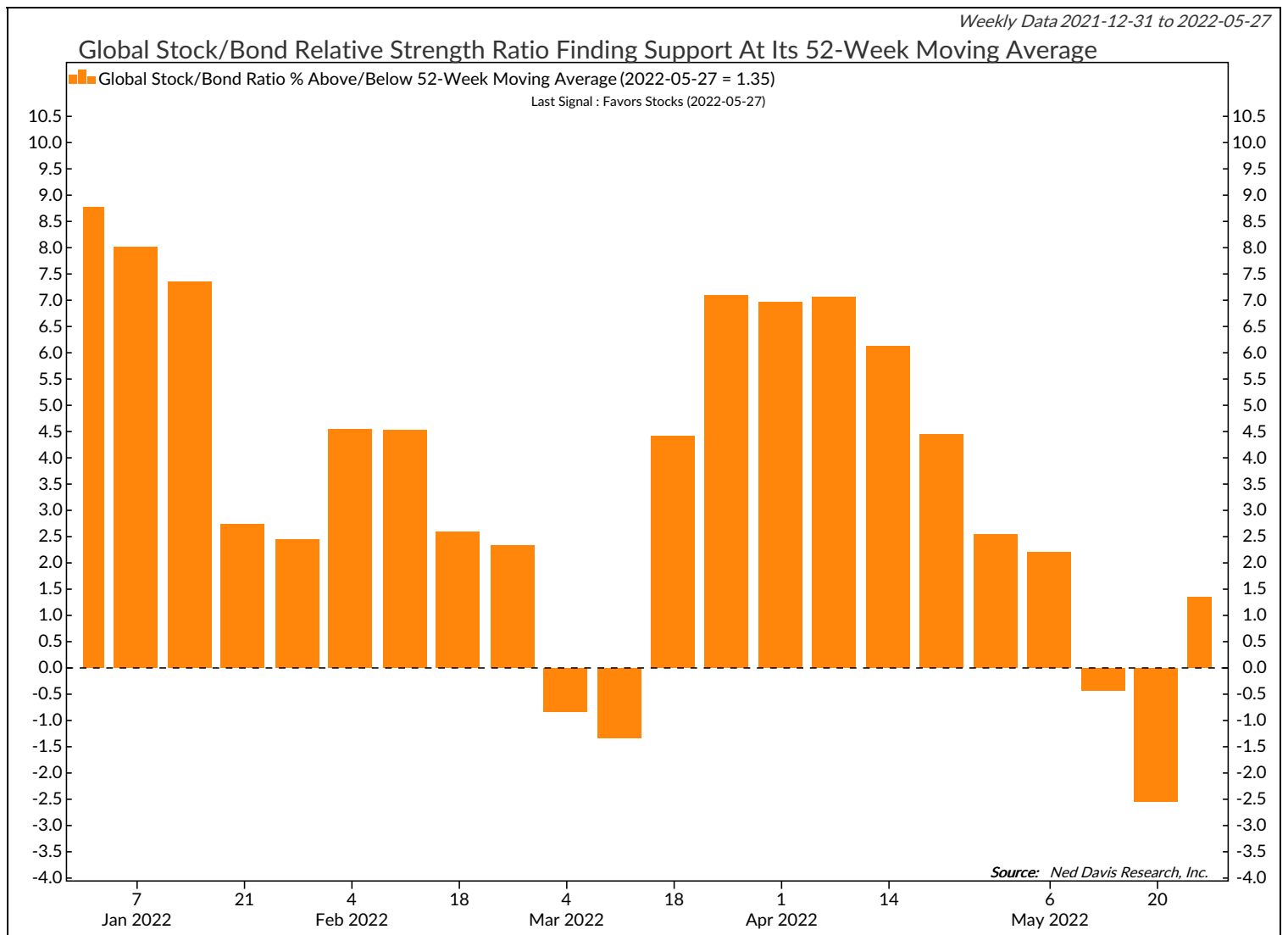
\* See Equity Allocation Summary for how the equity allocation is distributed  
 \*\* See Fixed Income Allocation Summary for how the fixed income allocation is distributed

- The model shifted allocation from cash into fixed income this month.
- The equity allocation is slightly above 70%, while the fixed income allocation is greater than 25%.
- Cash has no allocation this month.
- Had the month ended last week, there likely would have been a significant reduction in the equity allocation. The stock/bond relative strength indicator (chart, below) traded below its 52-week moving average for the prior two weeks.
- However, due to the recent stock rally, the relative strength measure returned to its bullish zone this week.
- Two-thirds of the top-level indicators favor equities over fixed income (table, below).

### Top Level Factors

| Indicator  | Current Signal<br>(Red = New Signal) | Comment  |
|--|--------------------------------------|--|
| Equities/Fixed Income Relative Strength (indicator receives a heavier weighting) | Favors Equities                      | The relative strength ratio is hovering near its one-year moving average, as it is less than 2% above its long-term trend.   |
| Global Equity Market Breadth   | Favors Fixed Income                  | Although less than half of global equity markets are trading above their 50-day moving averages, this breadth indicator has been rising off its recent lows.         |
| OECD Leading Indicator   | Favors Fixed Income                  | The four-week change in the OECD Composite Leading Indicator (CLI) declined for a seventh straight month, but the pace of the decline decelerated.                   |
| PMI Breadth Factor   | Favors Equities                      | The four-week change in economies with expanding manufacturing industries did not change this month.   |
| Baltic Exchange Dry Index  | Favors Equities                      | During May, the Baltic Dry index (BDI) got as high as 33% above its intermediate-term trend. However, now the BDI is less than 10% above its 13-week moving average. |
| Central Bank Policy  | Favors Equities                      | To favor fixed income, this indicator requires a significant drop in global short-term rates.  |

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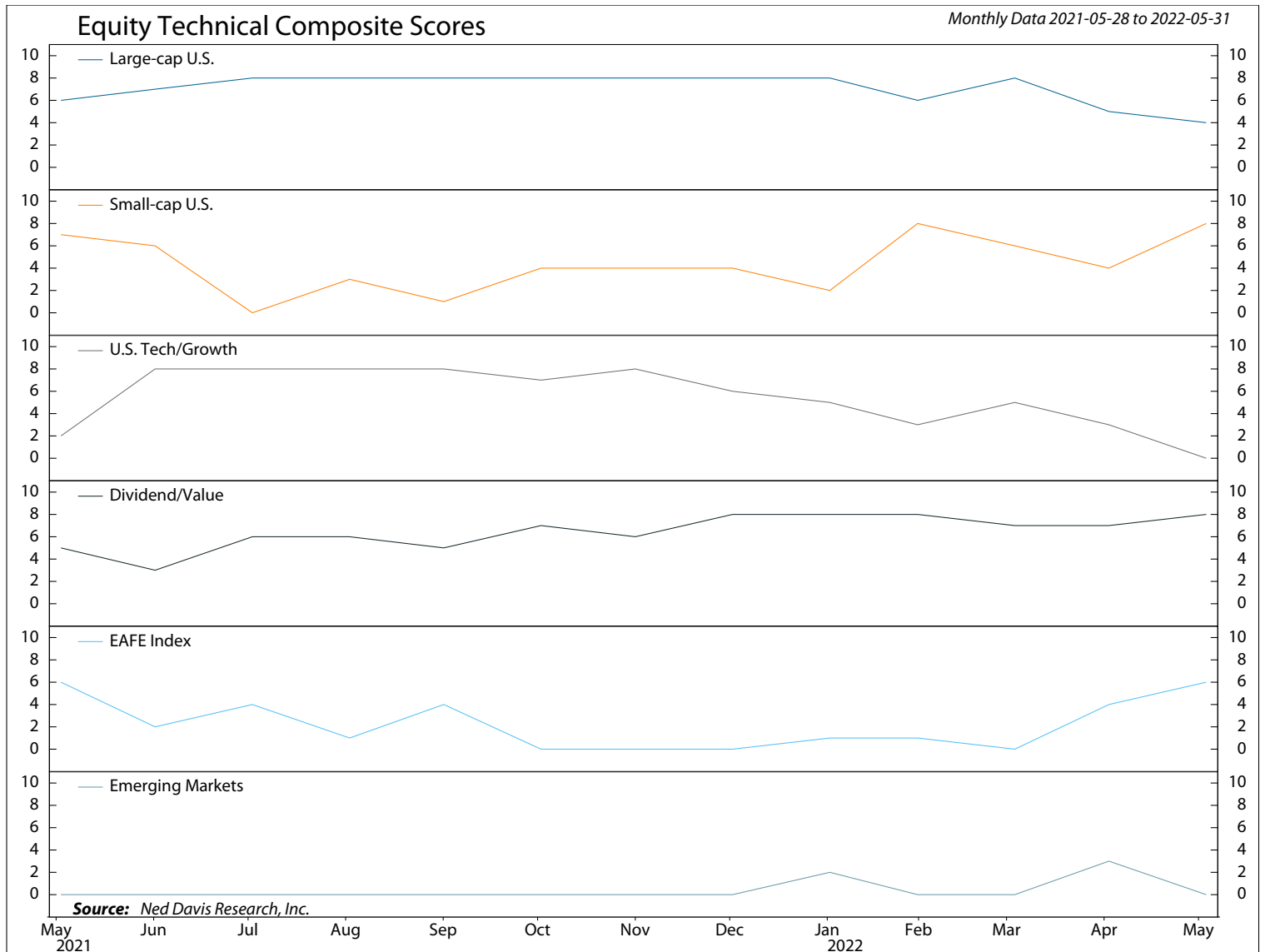
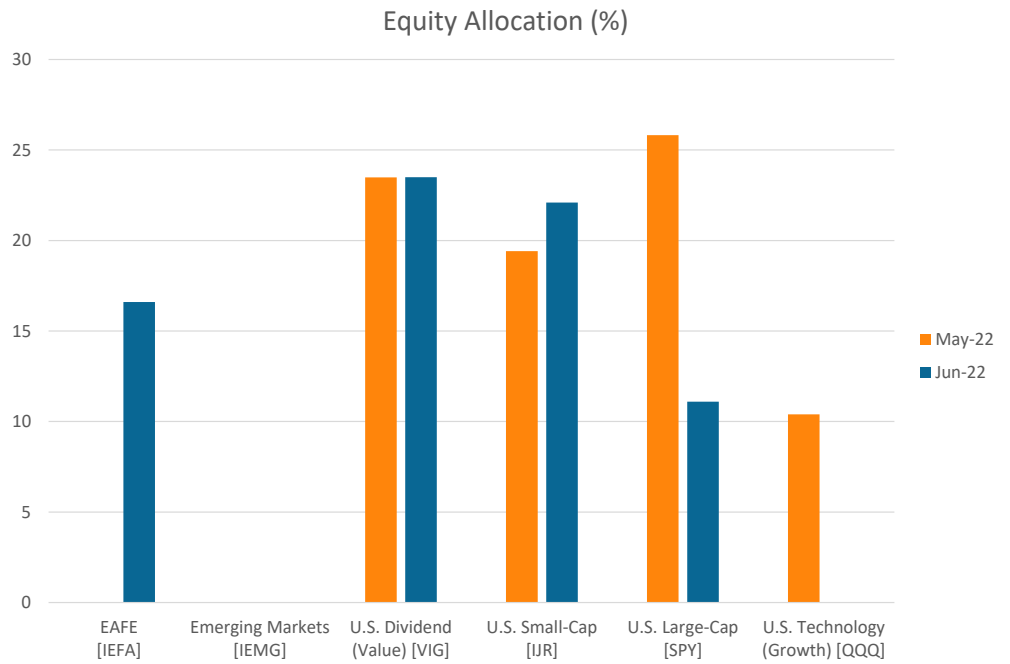
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## Equity Allocation Summary

During May, U.S. Small Caps (IJR) and Europe, Australasia, and the Far East [EAFE] (IEFA) rose by more than 100 basis points. U.S. Large Caps (SPY) and Emerging Markets (IEMG) increased by less than 100 bps. U.S. Growth [Technology] (QQQ) and U.S. Value [Dividends] (VIG) declined. VIG, SPY, IEFA, and IJR each received more than 10% allocation (chart, right) for June due to their technical composite scores (image at bottom).



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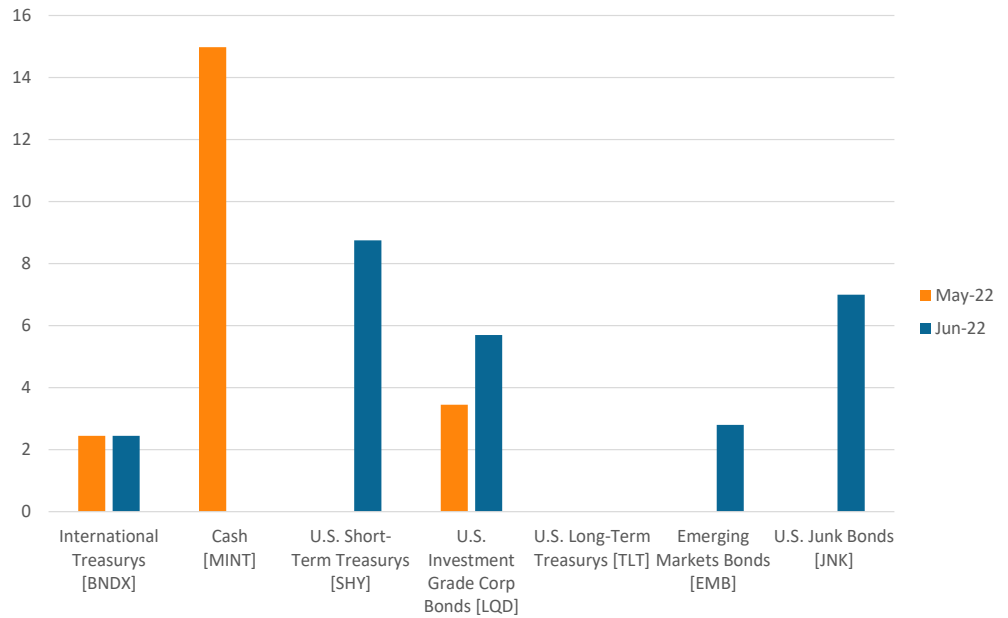


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## Fixed Income Allocation Summary

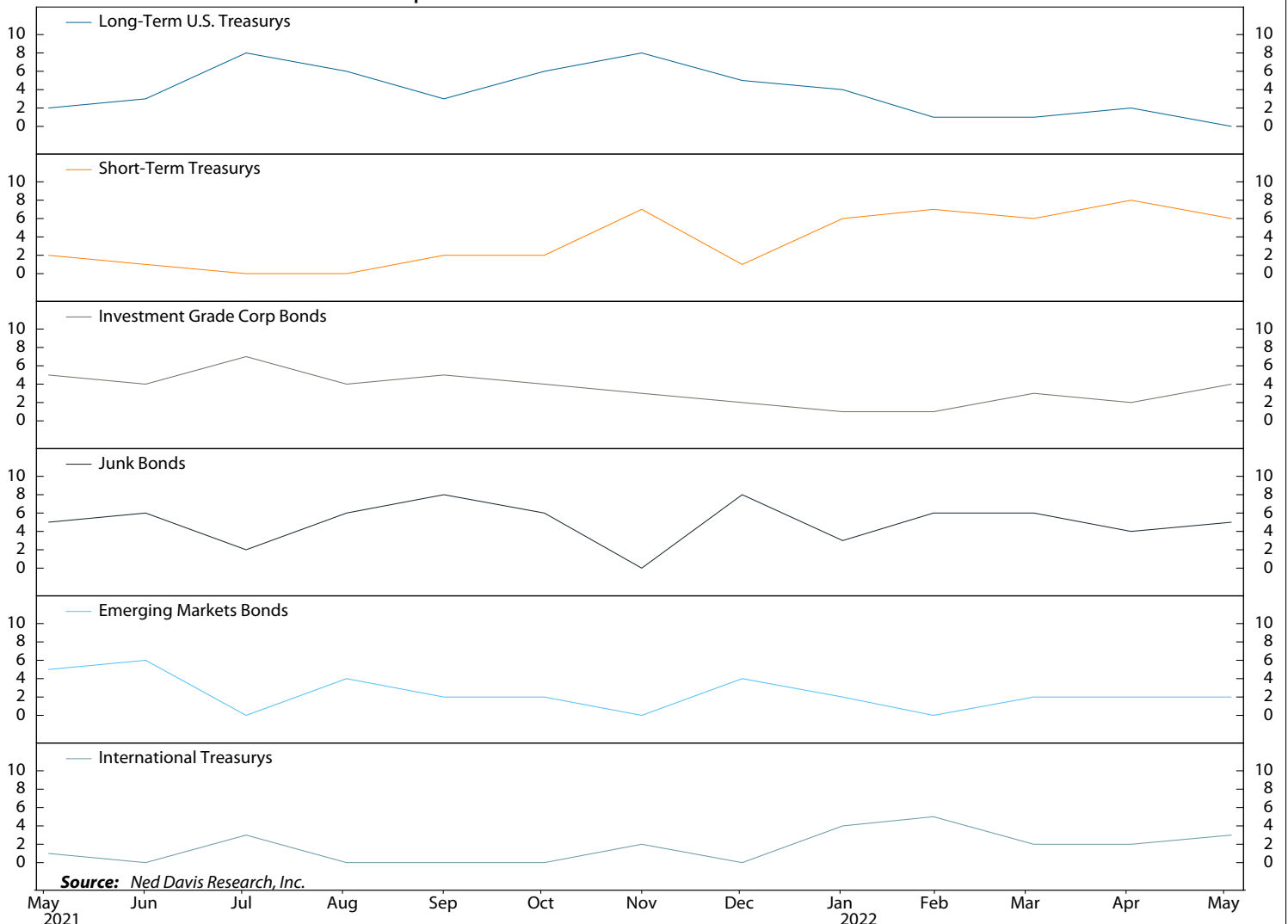
After declining for four consecutive months, many fixed income areas rebounded in May. U.S. High Yield (JNK) and U.S. Investment Grade (LQD) jumped by more than 100 bps. U.S. Short-Term Treasurys (SHY) and Emerging Market bonds (EMB) increased by less than 100 bps. U.S. Long-Term Treasurys (TLT) and International Investment Grade (BNDX) declined over this period. SHY, LQD, and JNK each received more than 5% allocation (chart, right) for June due to their technical composite scores (image at bottom).

Fixed Income Allocation (%)



Fixed Income Technical Composite Scores

Monthly Data 2021-05-28 to 2022-05-31



Source: Ned Davis Research, Inc.

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## Dynamic Allocation Strategy

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