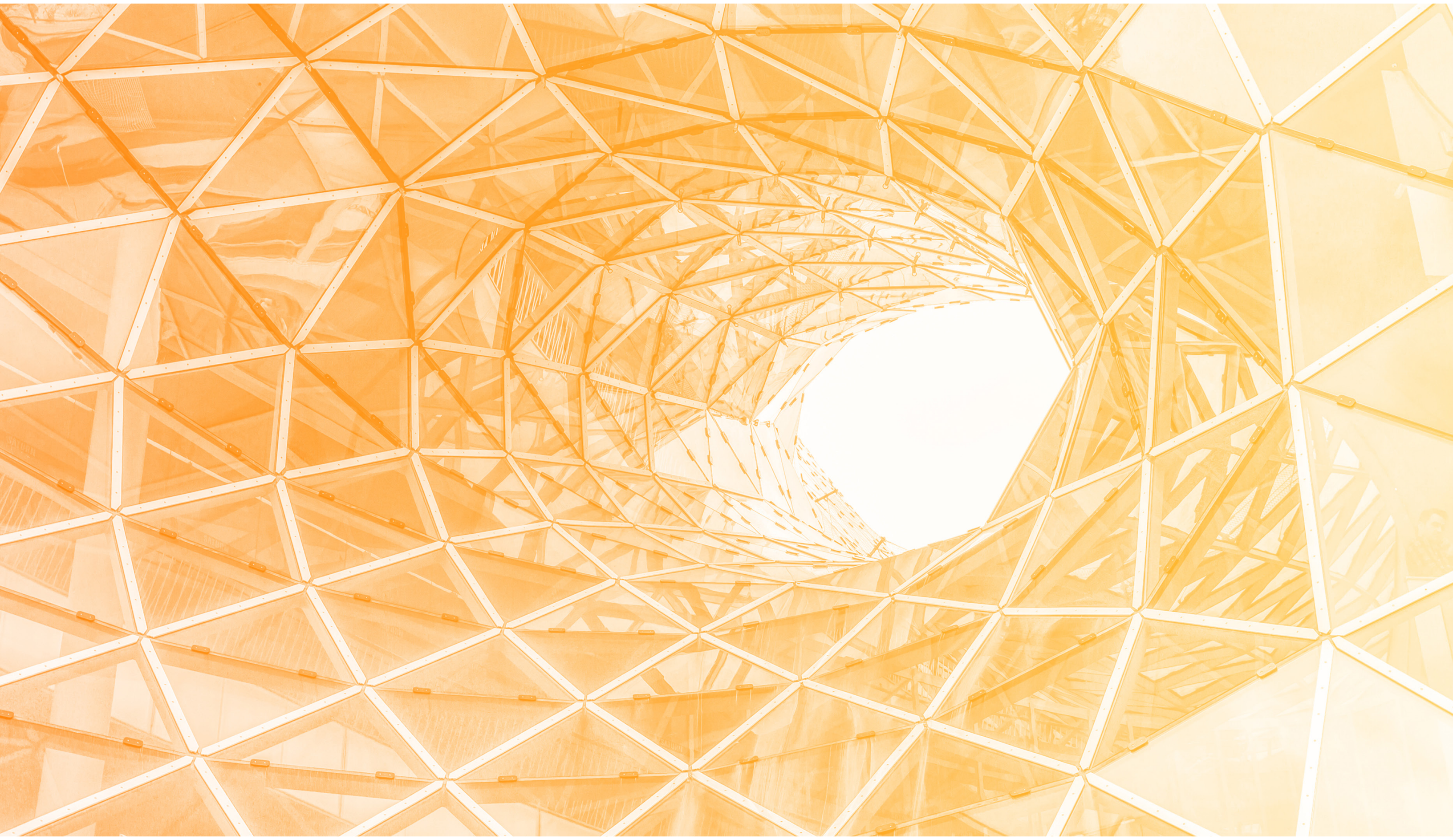
Market Digest – May 2021



Rising inflation concerns

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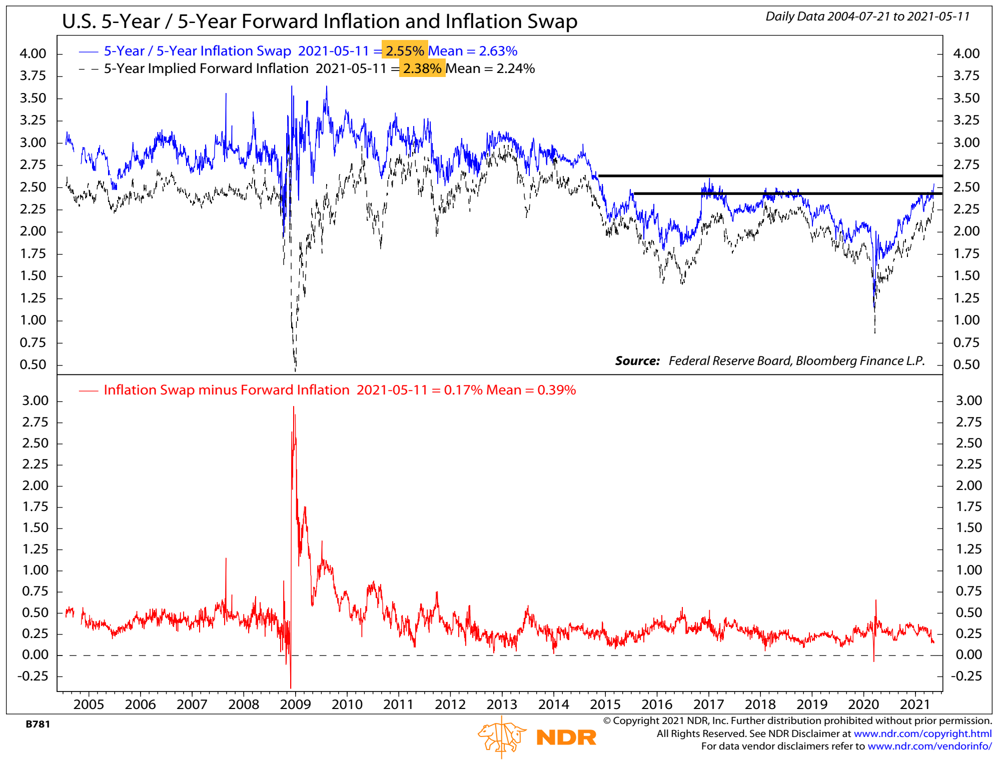
MAY 17, 2021

Executive Summary

We are watching for a breakout in long-term market-based inflation expectations. Today, those are on the cusp of breaking out, as shown on the chart to the right. The 5-year/5-year forward breakeven rate is close to our threshold of 2.4%. Investors are concerned the Fed may have to tighten its accommodative policies in order to stifle inflation. But is the latest global sell-off the start of a major decline? We don't believe so. If it was time to "sell in May and go away," then we would be seeing a lot more divergence and breadth weakness than we have seen since the decline got underway.

On cusp of breaking above prior highs



Below are our thoughts about the outlook for the economy and markets:

Global and U.S. Economy. The global economy picked up pace significantly in April, according to the latest PMIs. The vaccine rollout and massive stimulus has driven a significant rebound in the U.S. As a result, inflation measures are rising around the world, worrying investors that a tightening of monetary and fiscal policy may not be too far off. We believe inflation remains transitory, but we will be monitoring our indicators closely.

Global Asset Allocation. On April 22, we upgraded our gold outlook back to bullish from neutral. Our Daily Gold Model reached its highest levels since early January. And the bullish long-term influences have only become more decisive.

Fixed Income. Market-based measures of inflation expectations are nearing key levels. Credit is expensive on an historical basis, as fundamentals remain compelling and the economy recovers. We remain overweight high yield.

U.S. Stock Market. The economic cycle and NDR Cycle Composite turn negative for stocks in the second half. Macro and earnings indicators are quickly transitioning from bullish to bearish. Technical indicators remain bullish, but deterioration could dictate we lower our current bullish outlook.

U.S. Sectors. All sectors saw positive returns in April, but leadership became more mixed. On May 13, we downgraded Tech to underweight and upgraded Health Care to marketweight.

Thematic Opportunities. The bounce in FANMAG generated Tech Titan outperformance. Infrastructure ETFs continued to see positive money flow. We believe the Biden spending plan and COVID reopening beneficiaries will outperform most tech-related themes this year.

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TIM HAYES, CMT CHIEF GLOBAL INVESTMENT STRATEGIST
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MAY 17, 2021

Bullish on gold again

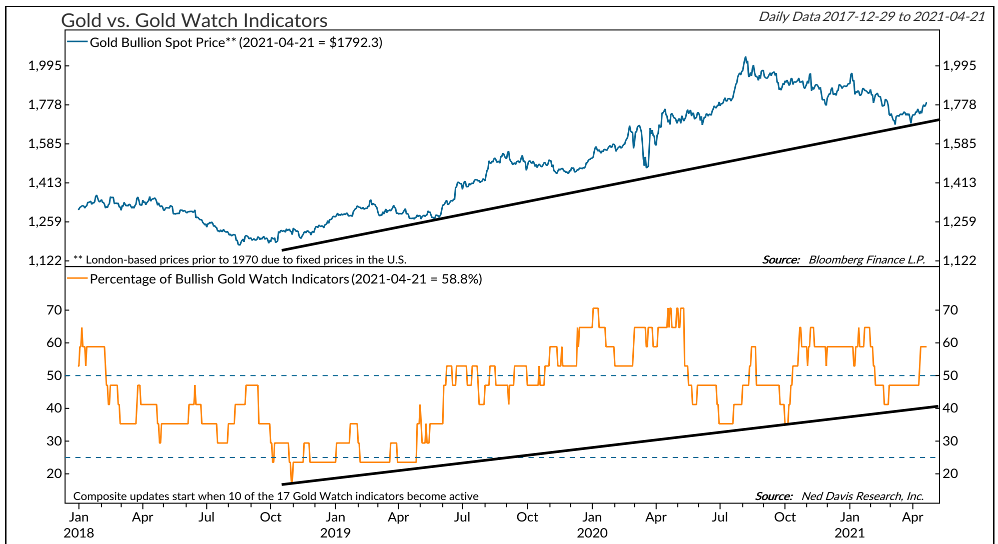
Key Takeaways

- Bullish evidence described by Gold Watch aggregate.
- U.S. dollar downtrend has resumed, with massive liquidity as a negative influence.
- Breadth deterioration from the recent sell-off has been limited.

We had downgraded gold from bullish to neutral at the beginning of March, responding to the negative influence of rising bond yields and gold's decline below its 50- and 200-day moving averages. Recognizing the persistent bullish influences, we made the downgrade in the midst of mixed messages, calling for a neutral approach but not a bearish view.

Since then, the bond yield advance has given way to yield stability and gold has been recovering, rising back above the 50-day moving average. On April 22, we upgraded our gold outlook back to bullish from neutral. Our Daily Gold Model reached its highest levels since early January. And the bullish long-term influences have only become more decisive.

Majority positive in Gold Watch report



Gold Bullion Performance
Full History: 1969-08-01 to 2021-04-21

% Bullish Indicators is	% Gain/ Annum	% of Time
Above 50.0	24.87	30.79
25.0 - 50.0	6.11	44.95
Below 25.0	-8.60	24.26

Buy/Hold = 7.54% Gain/Annum

Gold Bullion Performance
Chart View: 2017-12-29 to 2021-04-21

% Bullish Indicators is	% Gain/ Annum	% of Time
Above 50.0	13.71	36.89
25.0 - 50.0	7.95	52.27
Below 25.0	2.72*	10.84

Buy/Hold = 10.02% Gain/Annum
** Cases less than one year are not annualized*

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Most notably, liquidity has become increasingly massive in the U.S. and globally, while real interest rates have become more negative. As global liquidity has continued to surge, inflation expectations have risen sharply — a positive sign given gold's status as the ultimate inflation hedge. And as gold has rejoined the broader commodity bull market and revived its long-term uptrend, it has maintained an inverse correlation with a U.S. dollar that's in a long-term downtrend. Our Gold Watch report again describes a consistency of bullish evidence (chart above), and we are now bullish in response.

Renewed U.S. dollar weakness

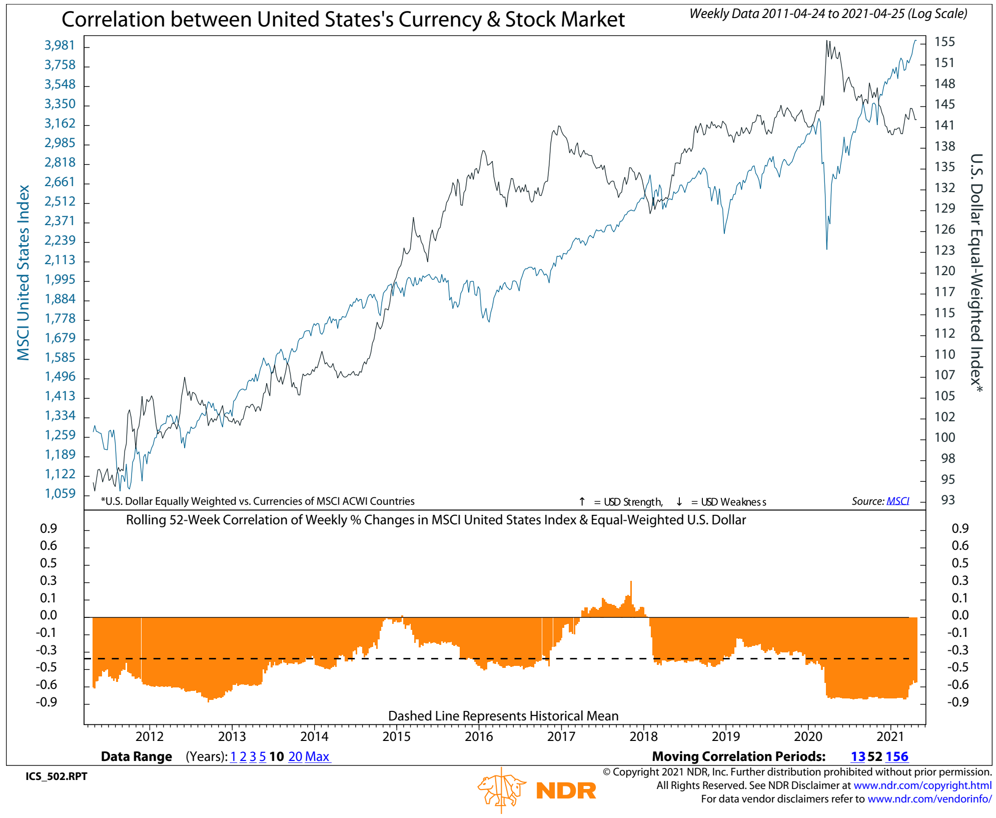
Among other considerations in upgrading gold, we have recognized a U.S. dollar downtrend that has been regaining downside momentum. Evident in their inverse correlation, gold tends to benefit from dollar weakness, and sentiment indices on gold and the dollar often move in opposite directions. Gold sentiment has been reversing higher from excessive pessimism while dollar sentiment has been reversing lower from extreme optimism, with the contrasting sentiment reversals driving gold's revival and the dollar's reassertive descent.

A continuing dollar decline would have implications not only for gold, but also for global markets. The MSCI U.S. Index and the dollar has the most inverse 52-week correlation of the All Country World Index (ACWI) component markets (chart right). As the U.S. accounts for 57% of the ACWI's market cap, the global index would likewise stand to benefit from continuing dollar weakness.

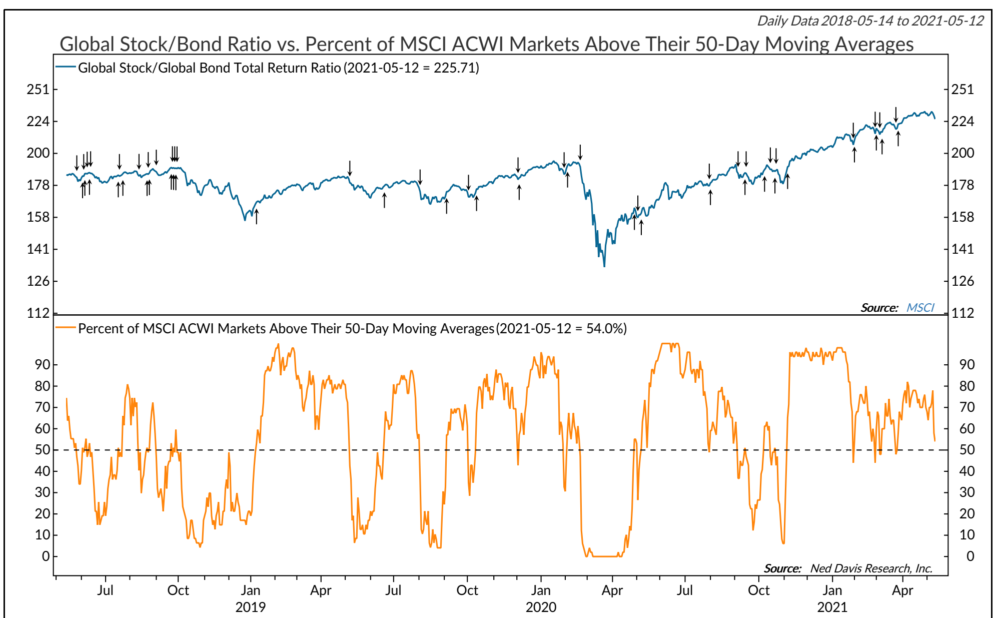
If the U.S. Dollar Index continues to trend lower, confirmed by the equal-weighted dollar, we will watch for strength in emerging market currencies, which would increase the chances for absolute and relative strength in emerging markets.

Above excerpted from: "Bullish on gold again" and "The influence of renewed dollar weakness" by Tim Hayes, April 22 and 29, 2021, respectively

U.S. market and dollar have strongest inverse correlation



Watch global breadth



Bullish above 50%.

Bearish below 50%.

Global Stock/Bond Ratio Performance
Full History: 1994-05-31 to 2021-05-12

MSCI ACWI Breadth Indicator is	% Gain/ Annum	% of Time
Bullish	10.85	62.19
Bearish	-10.19	37.81

Buy/Hold = 2.37% Gain/Annum

Global Stock/Bond Ratio Performance
Chart View: 2018-05-14 to 2021-05-12

MSCI ACWI Breadth Indicator is	% Gain/ Annum	% of Time
Bullish	14.45	61.79
Bearish	-4.25	38.21

Buy/Hold = 6.91% Gain/Annum

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Watching indicators in a sell-off

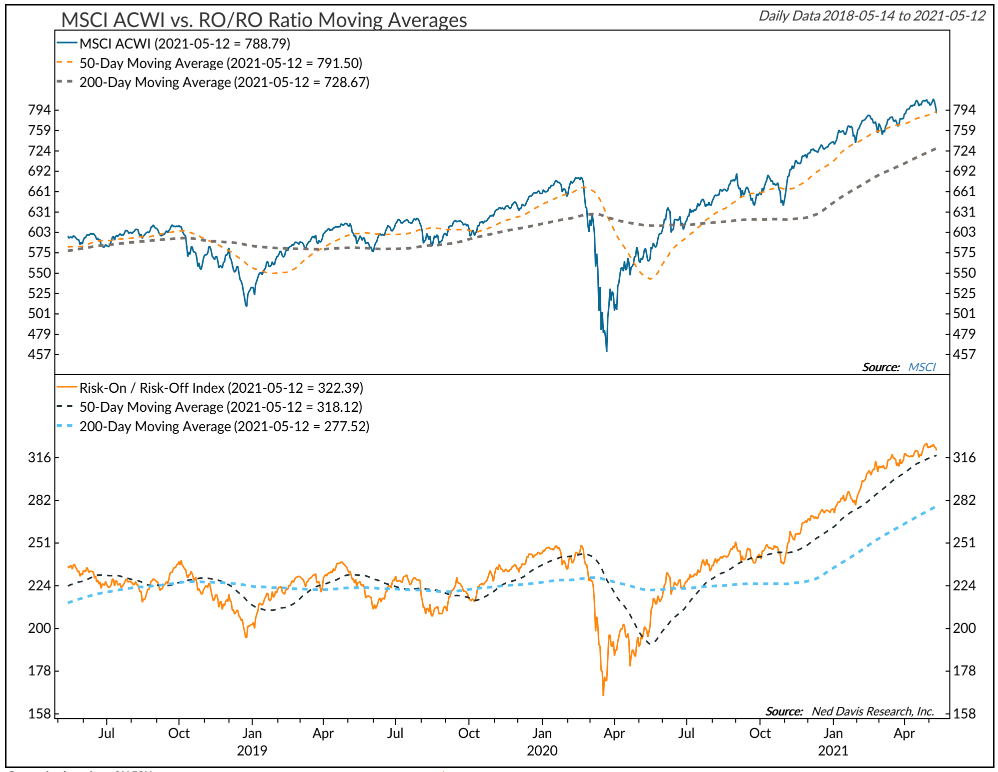
Is the latest global sell-off the start of a major decline? The answer has been "no" so far. If in fact it was time to "sell in May and go away," then we would be seeing a lot more divergence and breadth weakness than we have seen since the decline got underway.

Among the breadth gauges to watch is the percentage of markets above their 50-day moving averages (chart left). With a drop below 50%, the indicator would add a sell signal to the Stock/Bond Composite of our Global Balanced Account Model. When most stocks are trending lower, they are reflecting the worsening economic outlook that makes valuations appear unjustified, hence the broad-based selling.

As with gauges of market breadth, momentum tends to peak ahead of market tops and reach lower highs at the bull market extreme. The momentum gauge reached a record high of 69% at the anniversary of the market low last March and has since receded to 40%.

Like the uptrends in the stock and commodity benchmarks, our rising Risk-On/Risk-Off Ratio has reflected a global economic outlook that has continued to improve. The ratio has maintained a positive one-year correlation with the ACWI (currently 0.76). Both are maintaining strong uptrends despite the sell-off (chart right). With the exception of the relative strength of the ACWI Information Technology sector, all of the risk-on proxies are currently in line with or above their 50- and 200-day moving averages.

RO/RO trending higher with ACWI



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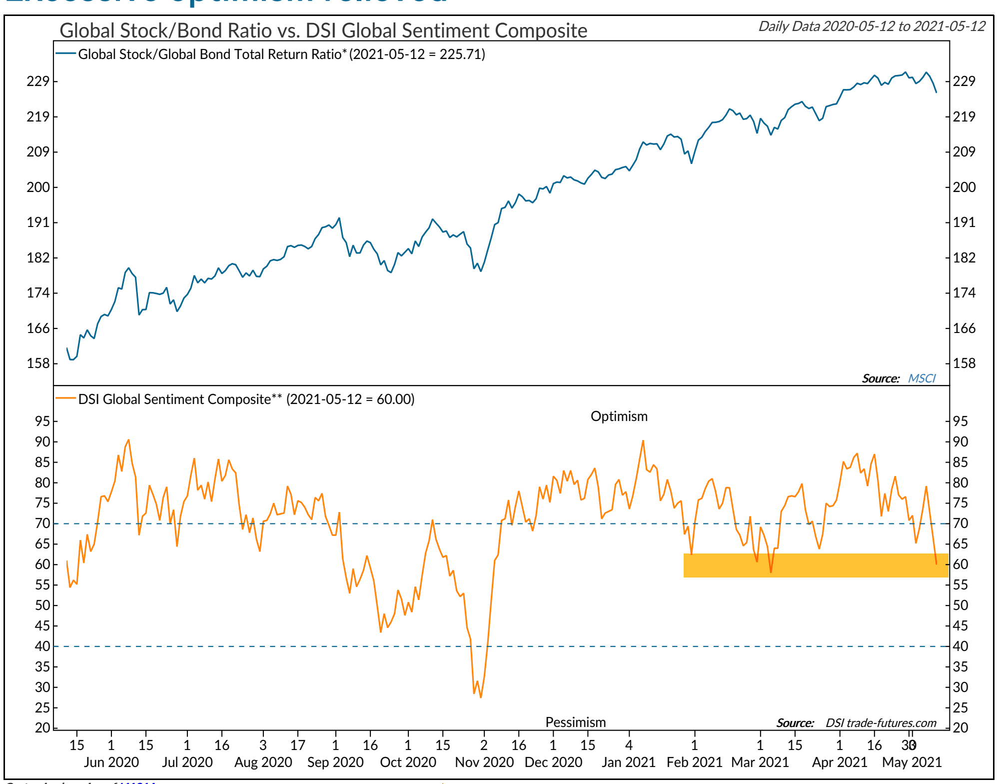
Excessive optimism relieved



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With measures of breadth, momentum, and RO/RO indicating that the cyclical uptrend is still well intact, the sell-off has corrected excessive optimism and produced an oversold condition. The declines sent the DSI Sentiment Composite from excessive optimism readings to lows in the range of 58 to 64 (chart left).

As long as liquidity remains abundant and the outlook for economic and earnings growth continues to improve, another bear market will be a low probability. The latest decline has provided another buying opportunity within a bull market that's likely to remain intact as 2021 progresses.

Above excerpted from: "Watching indicators in a sell-off" by Tim Hayes, May 13, 2021

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MARK PHILLIPS NDR EUROPEAN EQUITY ANALYST

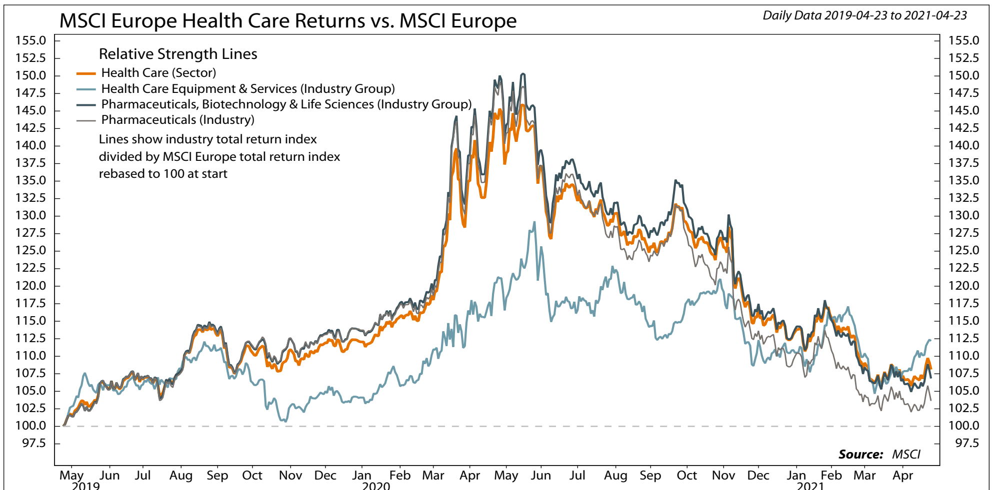
MAY 17, 2021

A look at European Health Care

Key Takeaways

- Tactical indicators suggest underweight in European Health Care.
- But key global trends and a history of profitability provide a secular case for owning Health Care stocks.
- Relative valuations also look attractive.

The rise and fall of Health Care



Index Total Returns in Euro

Index	Last 2 Years	Last Year	Previous Year
Health Care	25.9	0.2	25.6
Health Care Equipment & Services	30.6	23.2	6.0
Pharmaceuticals, Biotechnology & Life Sciences	24.4	-4.0	29.5
Pharmaceuticals	20.6	-6.2	28.6
MSCI Europe	16.4	33.3	-12.6

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After a strong second half in 2019, Health Care stocks hugely outperformed in the first half of 2020 with the onset of the coronavirus pandemic, only to see them give back most of their outperformance in the last year (chart above). The Health Care sector underperformed the market by 33%, as investors switched from defensive stocks into those set to benefit from the economic recovery. The Health Care sector also provides exposure to major global secular trends. Global health care spending is projected to increase at an annual rate of 4.2% from 2019 to 2024. Beyond that, demand is likely to continue increasing due to a globally aging population, an increasing middle class in emerging countries, and the increased prevalence of chronic disease.

However, Health Care sales also face pressure from price regulation as governments will also seek to control Health Care expenditure and pay attention to the regulation of drug prices.

Our new European Health Care report provides a list of indicators to watch in order to gauge when to become more bullish on the sector. Nine out of 10 technical indicators are on a sell signal, suggesting a tactical underweight. External indicators, macro and sentiment, are also signaling an underweight, with two thirds of indicators on a sell signal. Valuations look attractive, especially on a dividend yield basis.

However, the weight of the evidence still favors a tactical underweight in European Health Care. We view the long-term outlook for the Health Care sector as broadly positive relative to the European market.

Above excerpted from: "European Health Care – what to watch" by Mark Phillips, April 27, 2021 (available through NDR's new Europe Strategy product)

 

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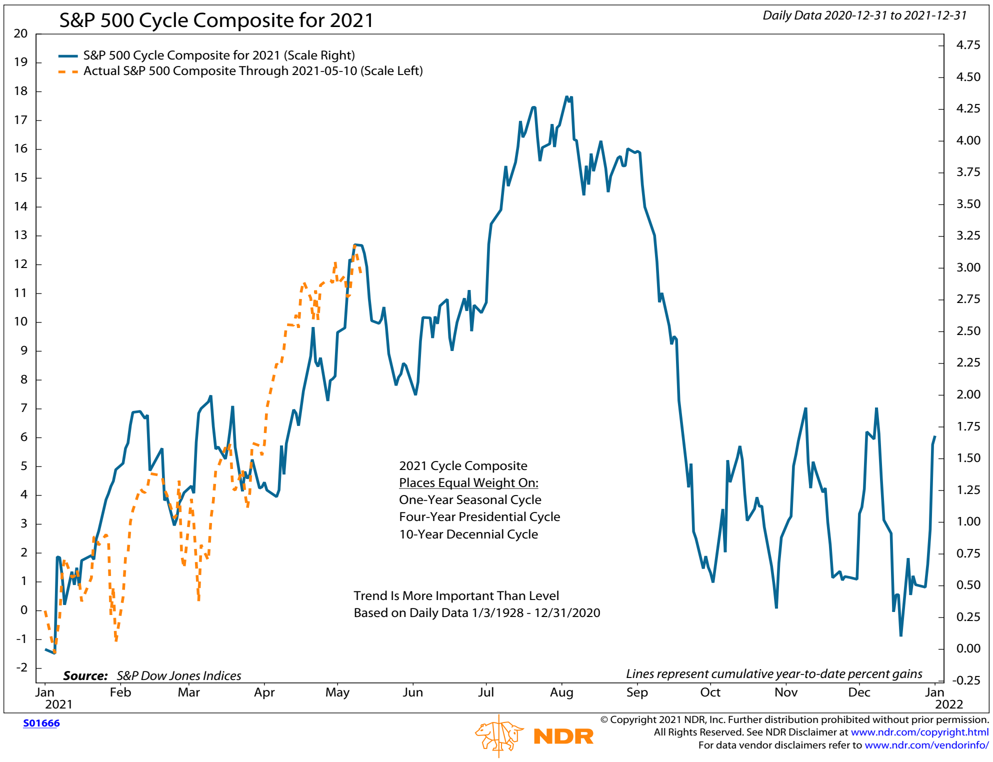
MAY 17, 2021

Second half risks

Key Takeaways

- The economic cycle and NDR Cycle Composite turn negative for stocks in the second half.
- Macro and earnings indicators are quickly transitioning from bullish to bearish. Technical indicators remain bullish, but deterioration could dictate we lower our current bullish outlook.
- We compare the few historical cases of major tax reform.

S&P 500 Cycle Composite: strong 1H, weak 2H



Building the bear case

In our 2021 outlook, we outlined a thesis of a strong first half followed by a weak second half. Five months into the year, several indicators are lining up. The S&P 500 is up 11.5% year-to-date, so the first half has been playing out as expected.

Meanwhile, several macro and earnings indicators are in the process of transitioning from their most bullish readings in years to bearish in the coming months. Some, notably sentiment, are already there.

Technicals are a major exception. They remain bullish. If breadth were to deteriorate, the market would have few legs to stand on. Before diving into specific indicators, we should mention that the potential shift in the weight of the evidence is lining up with two independently derived historical cycles.

History's view of 2021

First, the NDR S&P 500 Cycle Composite traces a pattern of a choppy uptrend into July/August, an autumn decline, and a weak year-end rally (chart above). The composite is an average of the one-year cycle, four-year cycle (post-election years), and decennial cycle (years ending in 1). Think of it as history's view of how 2021 could unfold.

Some years, like 2010, the market tracks the Cycle Composite closely. In others, like 2009, outside forces overwhelm historical norms. Year-to-date, the market has been tracking the Composite quite well, but in order to downgrade our bullish intermediate-term outlook on U.S. equities, we will need hard indicator evidence.

Market vs. economic cycle

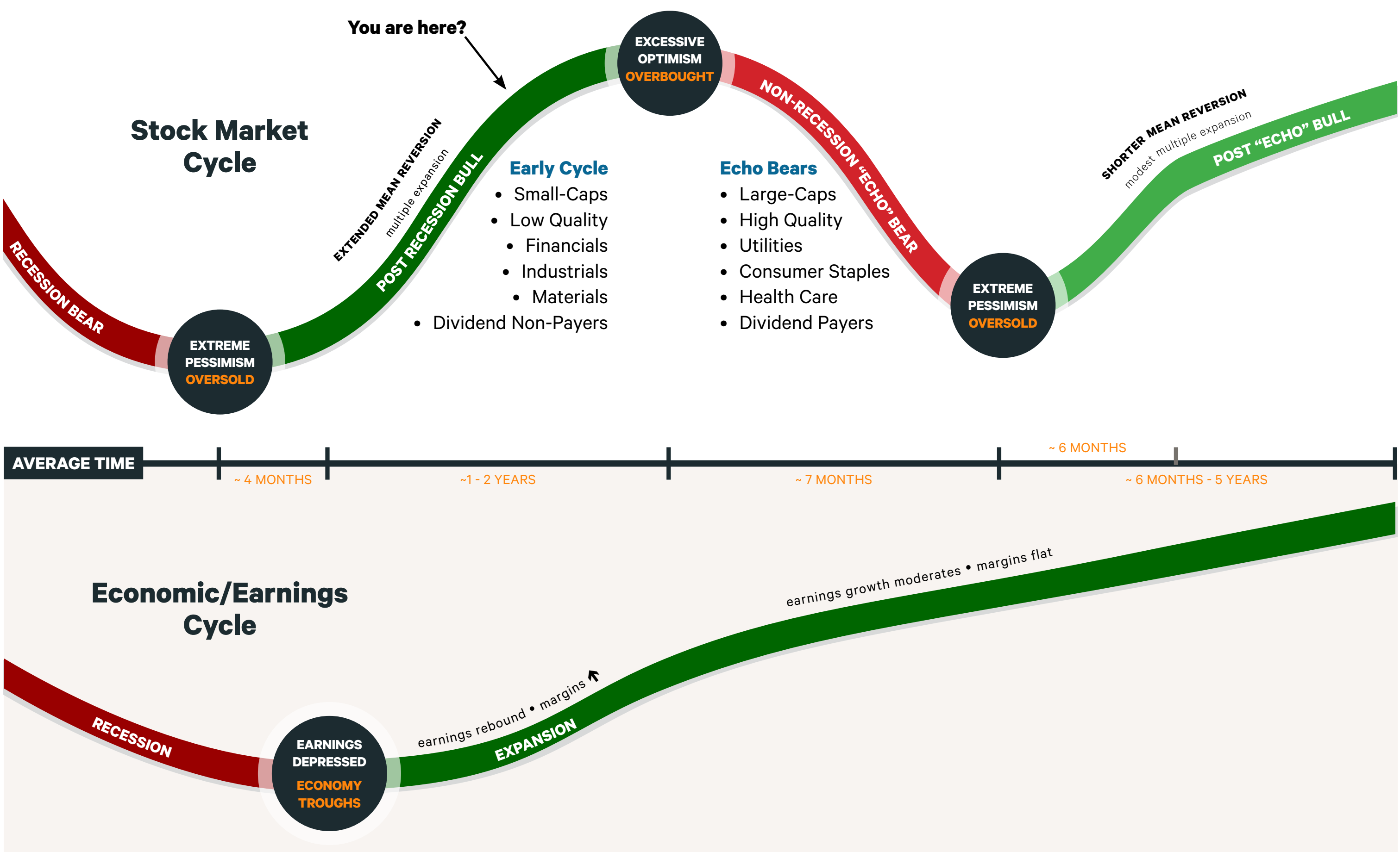
The economic/earnings cycle is nearing a phase when the stock market endures bigger corrections or shallow cyclical bear markets (chart below).

The pattern is as follows:

- **Recession bear**. The worst bear markets are associated with recessions because growth is below potential, and earnings are depressed.
- **Post-recession bull**. Eventually, all of the weak holders sell, stocks hit oversold extremes, and the market begins to rally. On average, the stock market bottoms four months before the end of the recession. **The difference between the 2020-present case and the average cycle is compressed time and amplified magnitude, not the pattern**.
- **Echo bear**. As the expansion moves deeper into its second year, investors shift their focus to the inevitable slowdown in growth. Fear of a double-dip recession is part of the psychology of the decline.
- **Post-echo bull**. As investors realize a double-dip recession is not unfolding, the market enters a longer, but slower-paced post-echo bull. They can range from 1-5 years, with a median GPA of 27.5%. **Applying the median to the current cycle, the market is at risk of an echo bear early in the second half of 2021**.

2 stock market cycles for every economic cycle, on average

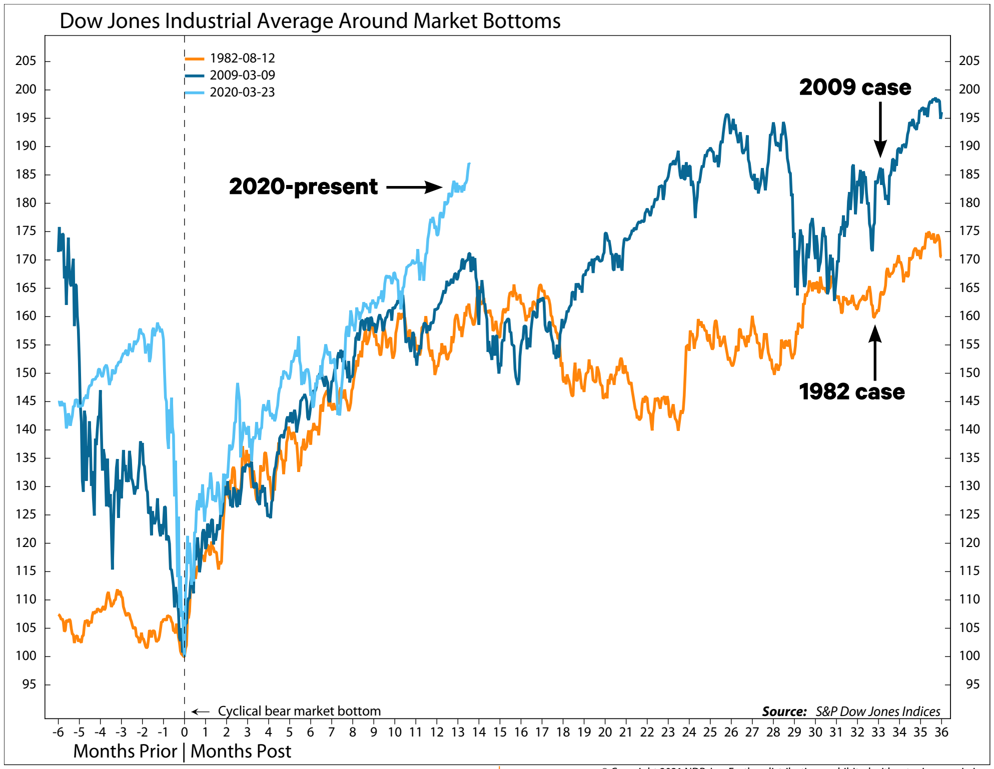
Stock Market and Economic Cycles



Two analogs: 1982 and 2009

The March 2020-present rally is approaching the point in the 1982 and 2009 analogs when double-digit, multi-month corrections occurred (chart right). Over 15 months after the 1982 low, the market entered a 7.8-month cyclical bear. The market endured a big correction in 2010 that failed to meet the bear criteria, but the 4/29/2011 - 10/3/2011 did.

Market approaching when 2009 and 1982 rallies corrected



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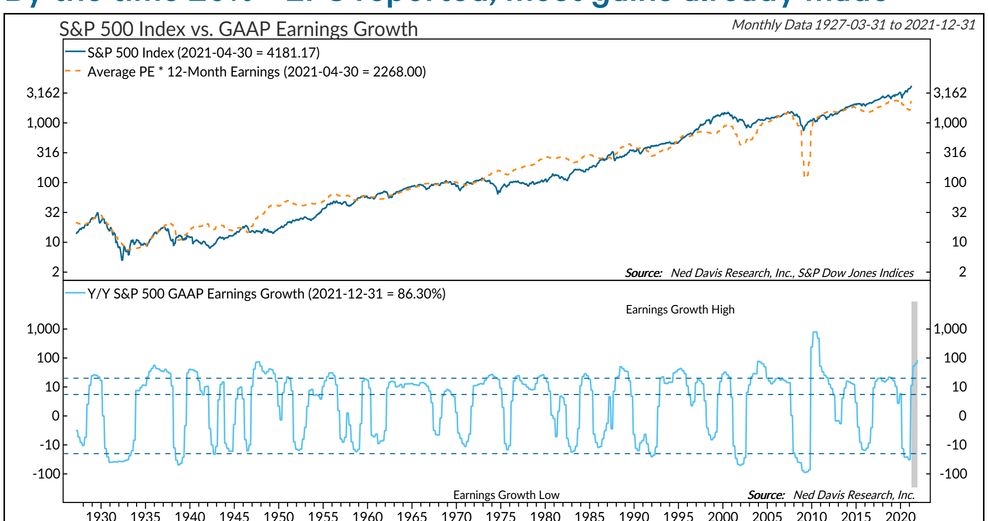
By the time 20%+ EPS reported, most gains already made



Date	4Q EPS (3rd Clip)	Y/Y % Change (2nd Clip)
12/31/2020 (A)	$94.13	-32.5
03/31/2021 (E)	$129.60	11.4
06/30/2021 (E)	$151.61	52.8
09/30/2021 (E)	$161.71	64.6
12/31/2021 (E)	$175.36	86.3

S&P 500 Index Performance
Full History: 1927-03-31 to 2021-04-30

Y/Y Earnings Growth (Latest Actual):	% Gain/ Annum	% of Time
Above 20	2.44	22.87
Between 5 and 20	6.44	31.16
Between -20 and 5	12.74	37.20
-20 and Below	-9.76	8.77

Buy/Hold = 6.25% Gain/Annum

Average P/E at Earnings Peaks (Down Arrows) = 13.88
Average P/E at Earnings Troughs (Up Arrows) = 25.68
Based on Earnings Reversals of 10%

Customized version of S663

Earnings: good news almost priced in

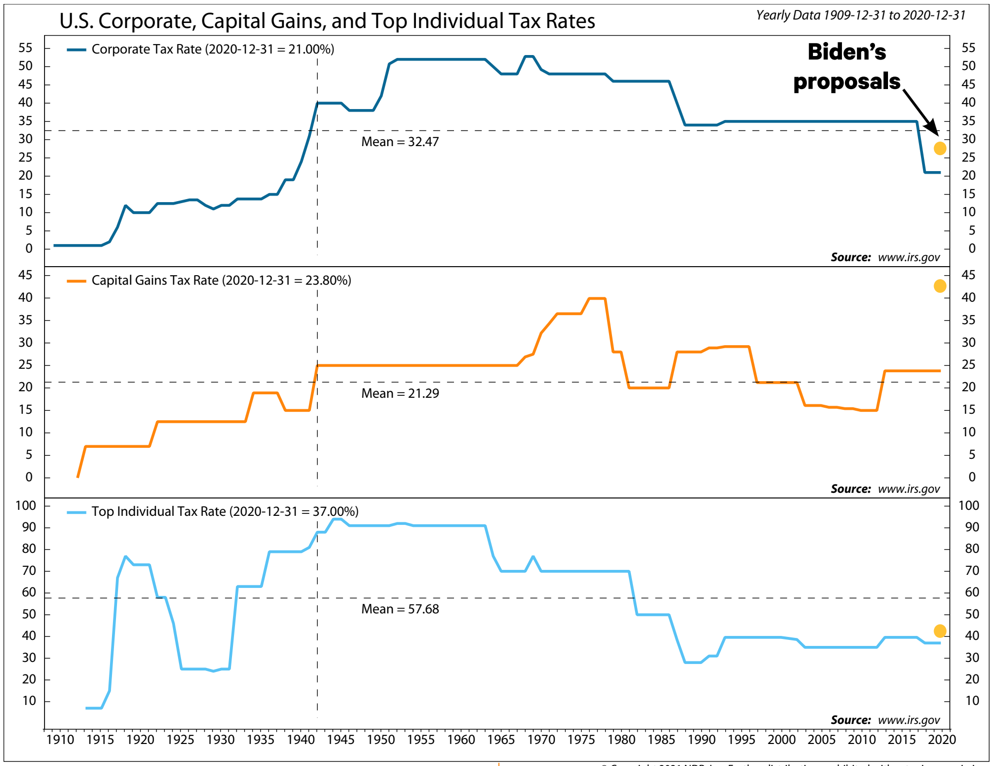
In the long run, the stock market tracks earnings growth. Over the intermediate term, the market anticipates changes in the growth rate that result in counterintuitive indicators. Stock market gains have tended to be weaker when year-over-year earnings growth has been higher than 20% (chart left). **If consensus estimates are anywhere close to correct, third quarter earnings growth will be at a level where the S&P 500 has historically risen at a paltry 2.4% annualized rate**.

Above excerpted from: "All signs point to weaker second half, except..." by Ed Clissold, May 11, 2021

Taxes — triple threat?

President Biden laid out an ambitious agenda during his first 100 days in office. After signing the American Rescue Plan, he has proposed the American Jobs Plan and American Family Plan to boost infrastructure spending and social spending. Unlike the COVID relief bills, the latest two proposals are accompanied by tax increases. Specifically, they include higher corporate, capital gains, and personal income tax rates. Tax increases are rare: base tax rates have been trending down for the past half century as politicians and voters have grown accustomed to deficit spending. Raising all three simultaneously is even rarer. The only meaningful hike was in 19421 (chart right).

Concurrent corp, capital gains, and individual hikes rare



Corporate taxes

The Biden administration is asking corporations to pay for much of the infrastructure spending, with the rationale being that they will benefit from better transportation and communication networks. The headline is an increase in the corporate tax rate from 21% to 28%, reversing half of President Trump's 2018 cut.

The table at left walks through the math for what a 28% tax rate could mean for S&P 500 earnings. The impact ranges from 4.2% to 12.7%. At a 25% corporate tax rate, a more palatable option proposed by Senator Joe Manchin, would reduce S&P 500 earnings by 2.5% to 9.0%, all else being equal. A perhaps more significant aspect of the proposal is to double the minimum tax on foreign earnings from 10.5% to 21%. Minimizing tax strategies that park profits overseas could be an overlooked aspect of the tax proposals that would hit multinationals especially hard.

28% corp tax rate could lower aftertax profits by 4-13%

Biden's Proposed 28% Corporate Tax Rate Impact on S&P 500 Aftertax Income

	Tax Rate		
Line Item	**17.7% Effective (As of 12/31/2019)**	**28% Stated (Biden)**	**21.0% Effective (reverse 50% of 2018 effective cut)**
Pretax Income per Share ($)	174.73	174.73	174.73
Income Taxes per Share (S)	30.67	48.92	36.69
Effective Tax Rate (%)	17.7	28.0	21.0
Change in Taxes per Share ($)	0.00	18.25	6.02
Aftertax Income per Share ($)	144.06	125.81	138.04
Change in Aftertax Income (%)	0.0	-12.7	-4.2

Source: S&P Capital IQ Compustat.

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Capital gains taxes

To fund the multitude of social programs in the American Family Plan, Biden is turning to the wealthiest Americans. One pillar is to increase the top capital gains tax rate from 23.8% to 43.4%. The table at right, first published in October 2020, summarizes the last four significant capital gains tax hikes.

The stock market's reaction was mixed. The macro backdrop enabled stocks to overcome higher taxes in 2013 and 1987. Higher taxes could accelerate the ongoing shift from traditional mutual funds to ETFs, since they often have lower tax liabilities.

The estate transfer rebase would be repealed as well, altering the incentives of what to leave to heirs, donate to charity, or spend in the short term.

Capital gains tax hikes have not occurred in a vacuum

Summary of Four Most Recent Long-term Capital Gains Tax Hikes

Year	Previous Cap. Gains %	New Cap. Gains %	Other Provisions	Stocks Market Impact
2013	15.0	23.8	• Part of Affordable Care Act • Signed in 2010, but didn't go into effect until 2013	• S&P 500 +29.6% in 2013 and 12.8% in 2010 • 16.0% drop after ACA signed, amid euro crisis
1987	20.0	28.0	• Ordinary income taxes lowered • Real estate loss provisions eliminated	• October 1987 crash generally not attributed to capital gains taxes • Ongoing secular bull market
1976	36.5	39.9	• Increased holding period for long-term from six months to one year	• S&P 500 entered 17-month, 19.4% decline shortly before bill signed
1969	27.5	36.5	• Capital gains rate increased annually until 1972 • Alternative minimum tax created	• Cyclical bear market for year before bill signed; bottomed five months later • Series of short cyclical bulls and bears over next two years

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Stock returns mixed after last four individual tax hikes

Summary of Four Most Recent Top Marginal Income Tax Hikes

Year	Previous Top Individual Rate %	New Top Individual Rate %	Other Provisions	Stocks Market Impact
2013	35.0	39.6	• Part of Affordable Care Act • Enacted in 2010, but didn't go into effect until 2013	• S&P 500 +29.6% in 2013 and 12.8% in 2010 • 16.0% drop after ACA signed, amid euro crisis
1993	31.0	39.6	• Raised corp rate 1% pt and effective cap gain rate 0.3% pts • Raised fuel taxes	• S&P 500 up 7.1% in 1993 • 8.9% drop Feb-Apr 1994 amid rate hikes
1991	28.0	31.0	• AMT 21% to 24% • Capital gains capped at 28%	• Shallow bear market July - Oct 1990; bill signed 11/5/1990 • Followed by 8-year cyclical bull market
1969	70.0	77.0	• Temporary income tax surcharge; max rate back to 70% in 1970 • Alternative minimum tax created	• Cyclical bear market for year before bill signed; bottomed five months later • Series of short cyclical bulls and bears over next two years

Ned Davis Research T_SSF21_17.3

Individual income taxes

The second pillar to the American Family Plan is to increase the tax rate for those making over $400,000 from 37% to 39.6%, as well as eliminate the carried interest provision. Similar to capital gains hikes, stock market returns were mixed around the last four individual income tax hikes (table left).

Above excerpted from: "Can stocks handle so many tax hikes?" by Ed Clissold, May 6, 2021

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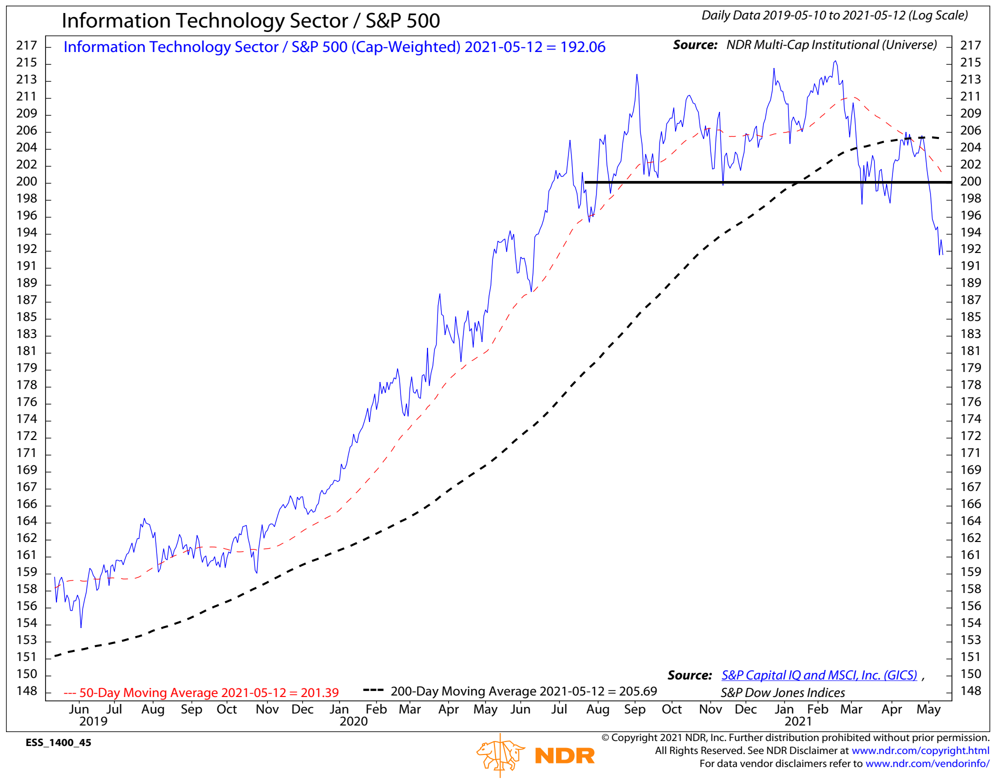
MAY 17, 2021

Downgraded Tech, upgraded Health Care

Key Takeaways

- We downgraded Technology to underweight and upgraded Health Care to marketweight.
- Tech downgrade follows technical breakdown and sector model downgrade of the sector.
- All 11 sectors saw positive returns during the month of April.

Relative breakdown for Tech



While our recommended allocation to Technology was already 2% points below benchmark, on May 13, we reduced exposure by an additional 1% to make Technology an official underweight recommendation. At that time, we added the 1% to Health Care which upgraded the sector to marketweight.

We made the position change for three main reasons:

1. **Sector model**. The repositioning got us more in line with the sector model's April downgrade of Technology to underweight and March upgrade of Health Care to marketweight.
2. **Value vs. Growth**. Value sectors should continue to benefit relative to Growth sectors as the economic recovery progresses and the rotation from COVID leaders to COVID laggards continues.
3. **Market cycle**. An anticipated weaker second half of the year should benefit defensive sectors. The Health Care upgrade follows our April 15 upgrade of Utilities.

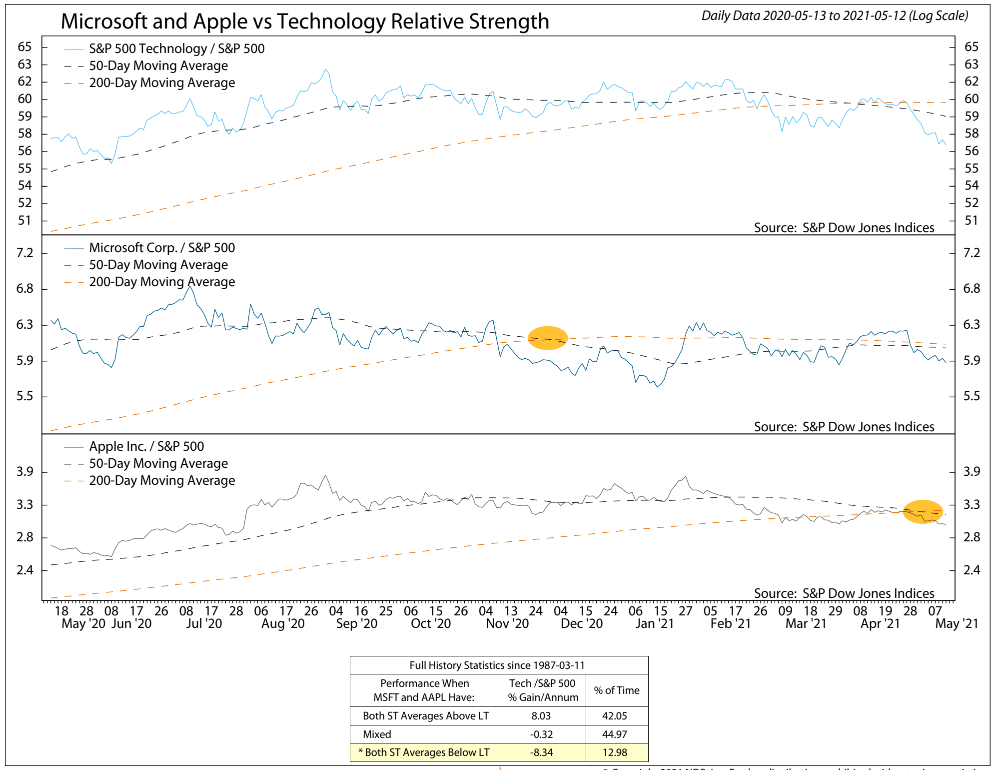
Technical breakdown

We have noted Technology's deteriorating breadth in the last several Monthly Sector Update publications. The sector's short-term 50-Day Net New Highs indicator flipped to bearish on February 25 and was confirmed by the long-term 200-Day Breadth indicator on March 22. Weak breadth can leave a sector vulnerable to a price breakdown as fewer issues are in position to keep the sector moving higher. After trading mostly sideways since last summer, Technology went on a relative death cross (50-day moving average fell below 200-day) in April and broke below support in May (chart above). **A lack of technical support leaves Technology vulnerable to more relative underperformance and presents a favorable risk/reward opportunity at underweight.**

Mega headwinds

The unique nature of the COVID recession led to a surge in the technology mega-cap FANMAG group during the initial phases of the recovery. The companies' strong balance sheets and ability to grow earnings despite the pandemic helped the group rise by over 50% in 2020. The rotation away from COVID leaders has been a negative for the tech mega-caps in 2021. Apple and Microsoft, which are combined 42.0% of Technology's market cap, have both underperformed year-to-date. Microsoft went on a relative death cross on December 2, and Apple followed suit on May 3 (chart right). Since 1987, both companies have simultaneously been on death cross signals 13% of the time, making it a somewhat rare occurrence. The sector has historically not performed well in those cases.

Tech weak when Apple and Microsoft underperform



Full History Statistics since 1987-03-11

Performance When MSFT and AAPL Have:	Tech /S&P 500 % Gain/Annum	% of Time
Both ST Averages Above LT	8.03	42.05
Mixed	-0.32	44.97
* Both ST Averages Below LT	-8.34	12.98

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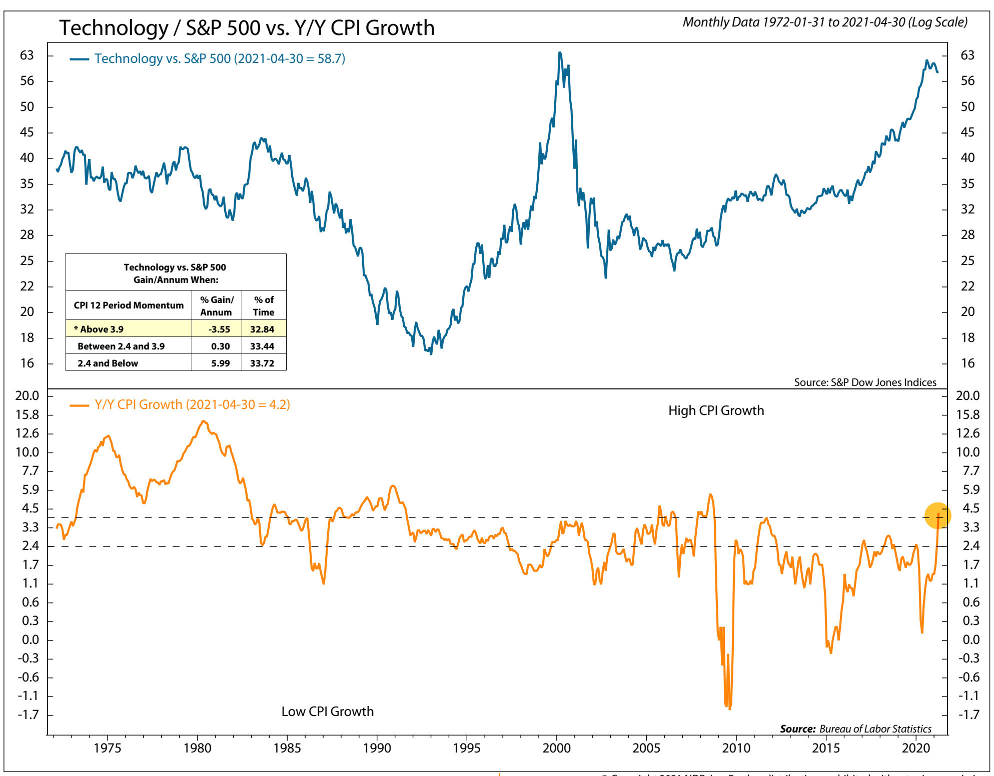
Inflation is a headwind for Tech



Technology vs. S&P 500 Gain/Annum When:

CPI 12 Period Momentum	% Gain/ Annum	% of Time
* Above 3.9	-3.55	32.84
Between 2.4 and 3.9	0.30	33.44
2.4 and Below	5.99	33.72

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Inflation headwind

Whether or not massive fiscal spending leads to problematic levels of inflation for the stock market and the economy has been frequently debated. Our macro team has highlighted strong structural forces that are both inflationary and disinflationary and expects only a moderate pickup of CPI inflation in 2021.

High levels of inflation have historically been a negative for Growth sectors. As seen in the chart at left, Technology has been particularly weak when inflation has been high. Partially due to base effects, Y/Y CPI growth surged to 4.2% in April, its highest level since 2008 and at a level consistent with Technology underperformance.

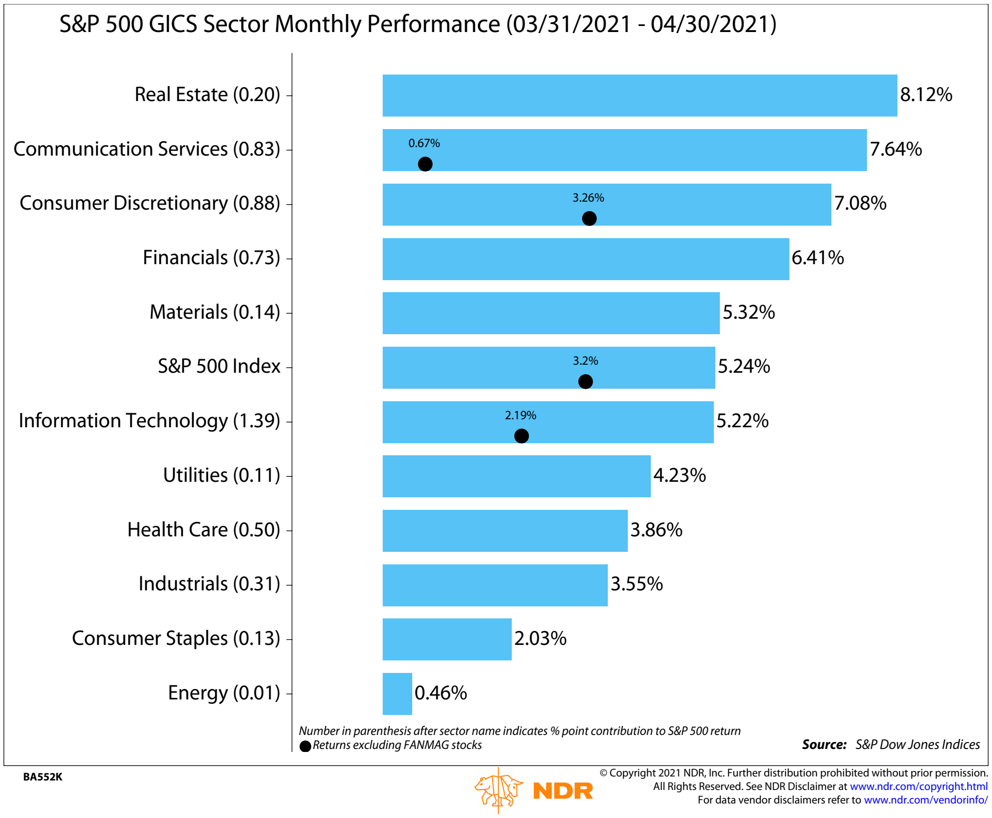
Above excerpted from: "Downgrading Technology, upgrading Health Care" by Rob Anderson, May 13, 2021

April sector performance

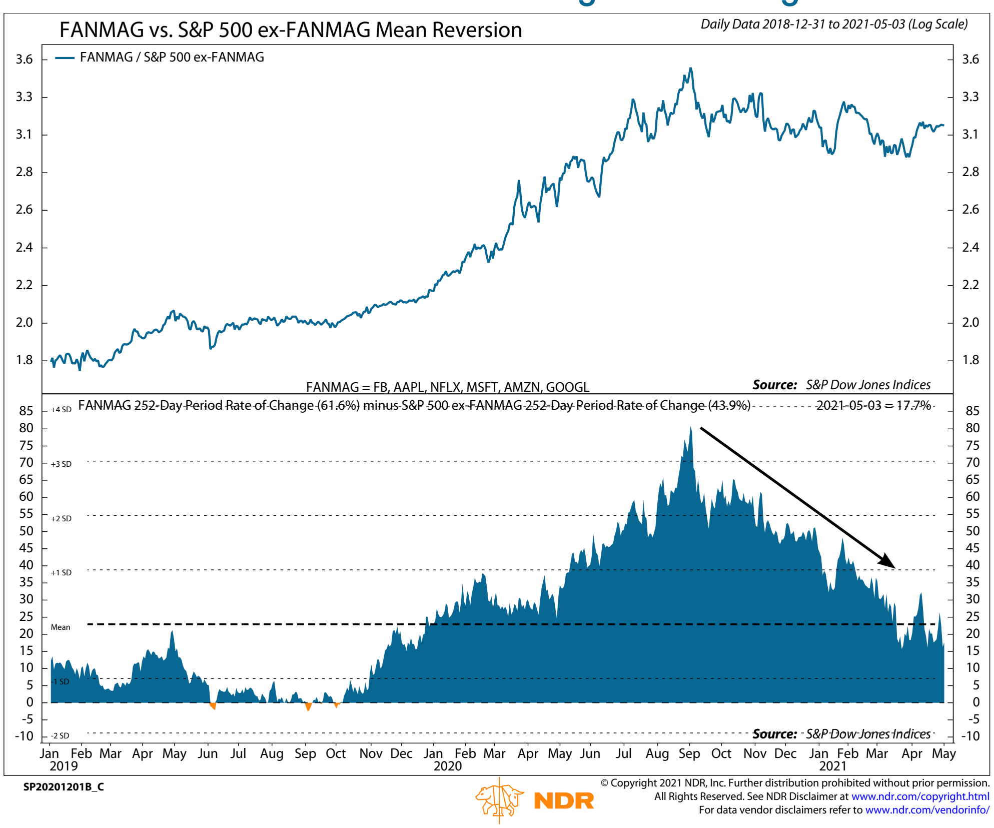
The S&P 500 gained 5.2% in April, with all 11 sectors seeing positive returns during the month (chart right). Sector leadership was largely risk-on, with Real Estate finishing as the top performing sector, and all three defensive sectors underperforming the S&P 500 during the month. Energy, the best performing sector in Q1, has been the worst performing sector to begin Q2.

It is not too surprising that Energy underperformed in April given that recent outperformance has left the sector over 3.0 standard deviations overbought relative to the S&P 500 on a six-month basis. However, years of underperformance leave the sector over 2.0 standard deviations oversold on a relative five-year basis, and we maintain our overweight position for now.

Mixed Value and Growth leadership in April



Relative returns back in line with long-term average



FANMAG breakout

The FANMAG group broke out to new highs in April, as all members other than Netflix outperformed the S&P 500. FANMAG, which had gotten over 3.0 standard deviations overbought relative to the S&P 500 (252-day basis) in 2020, has seen its relative return fall back to its long-term average after underperforming since early September (chart left). FANMAG contributed over 2% points of the S&P 500's 5.2% return in April.

Above excerpted from: "Monthly sector update – May 2021" by Rob Anderson, May 5, 2021

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PAT TSCHOSIK, CFA, CMT, SENIOR PORTFOLIO STRATEGIST
MATT BAUER, CFA, SENIOR RESEARCH ANALYST

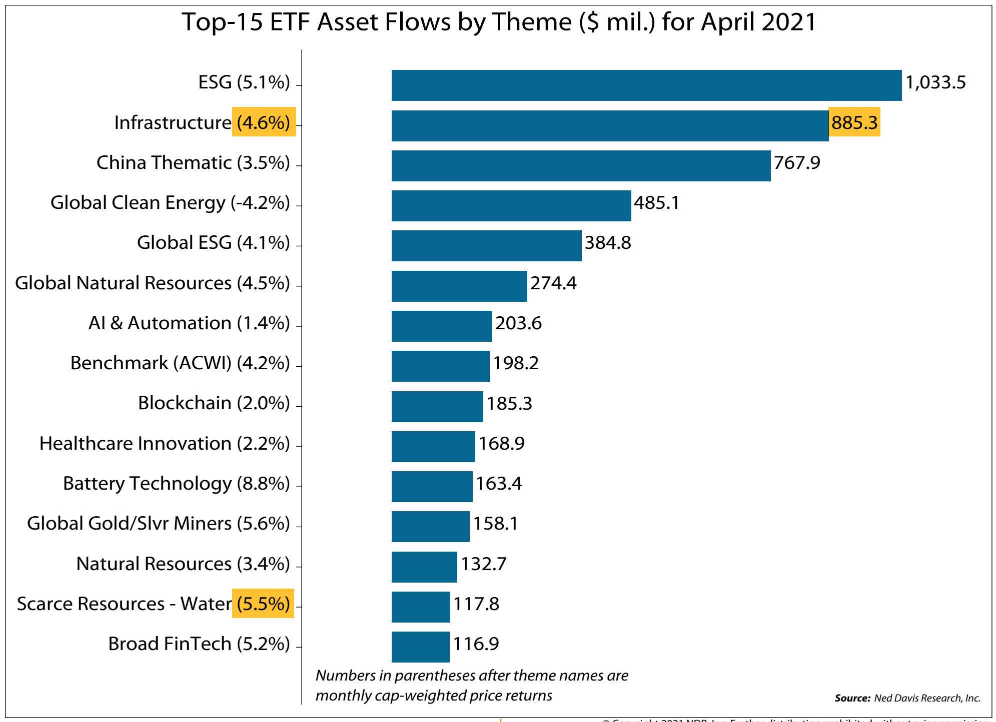
MAY 17, 2021

Tech Titans benefited from FANMAG bounce

Key Takeaways

- The bounce in FANMAG generated Tech Titan outperformance.
- Infrastructure ETFs continued to see positive money flow.
- We believe Biden spending plan and COVID reopening beneficiaries will outperform most tech-related themes this year.

Infrastructure and commodities stood out



TO_FLOWS_MTH

The S&P 500 returned a very strong 5.2% in April but breadth was not great. We estimate the S&P 500 return in April would have only been 3.2% excluding FANMAG stocks. Accordingly, many themes that did not have Tech Titan exposure underperformed.

Technical damage

It was actually startling to see just how many thematic ETF portfolios experienced a relative strength (vs S&P 500) "death cross," where the 50-day moving average fell below the 200-day. Equal-weighted themes within Technology (5G & IOT, AI & Automation, E-commerce, Internet, Video Games), FinTech (Broad FinTech, Mobile Payments), and Demographics (Millennials, Pet Care), all experienced a death cross in April. The common thread across most of the weakness is these themes did very well into the peak of the pandemic. As stated previously, we believe Technology and "COVID winners" should lag the market as the reopening trade takes center stage.

Infrastructure solid

The cap-weighted Infrastructure ETF portfolio nearly outperformed — returning 4.6%. More impressive was to see nearly $900 million flow into Infrastructure ETFs. All four infrastructure ETFs we track are now up more than 20% year-to-date. The Water theme — another expected beneficiary of Biden's infrastructure spending plan — did outperform, returning 5.5%.

Clean Energy weak

After Cannabis (-7.0%), the Clean Energy (-6.5%) and Global Clean Energy (-4.2%) cap-weighted ETF portfolios were the worst performers in April. Clean Energy continues to decline like a bubble that has burst. We like Clean Energy as a secular theme but will be patient in looking for an entry point.

Above excerpted from: "Thematic update May 2021" by Pat Tschosik and Matt Bauer, May 5, 2021 (available through NDR's new Thematic Opportunities product offering)

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ALEJANDRA GRINDAL SENIOR INTERNATIONAL ECONOMIST
PATRICK AYERS INTERNATIONAL ECONOMIC ANALYST

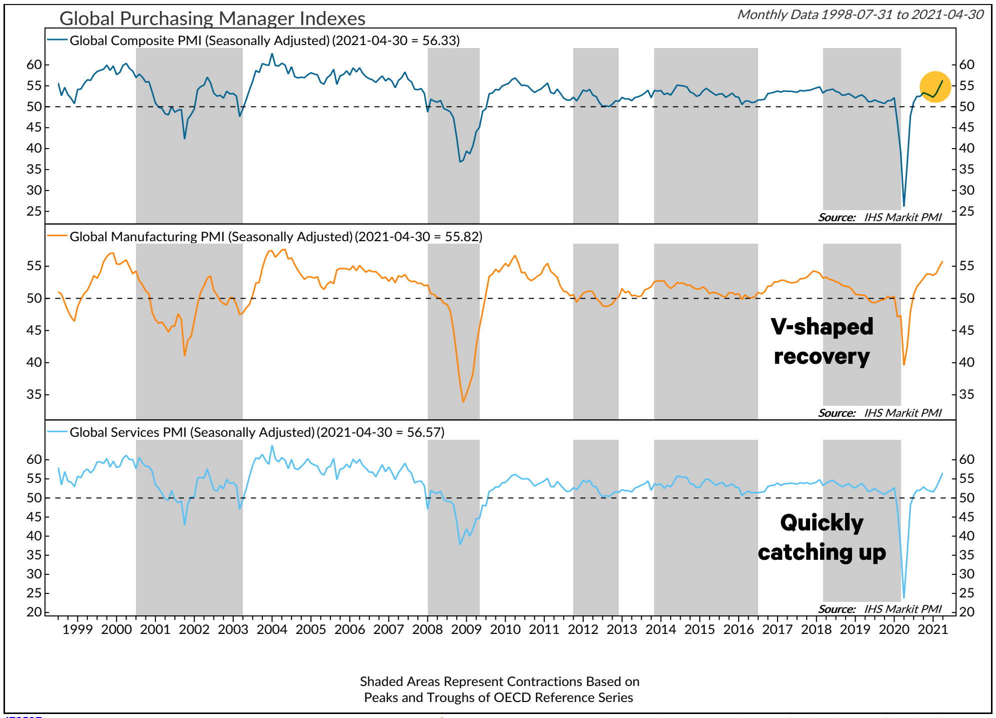
MAY 17, 2021

Global economic growth continues to surge

Key Takeaways

- The global economy grew at its fastest pace in over a decade.
- Amid the vaccine rollouts, for the first time in eight months the services sector outpaced manufacturing.
- Demographics help explain the long-term disinflationary trends the developed world has experienced in recent decades.

Global composite PMI at highest level in 11 years!



IE250E

According to the latest global Purchasing Managers' Indexes (PMI) data — which provides one of the timeliest reads on the world economy — the global economy grew at its fastest pace in over a decade (chart above). A pick up in vaccine rollouts which has allowed for the reopening of economies, ongoing monetary and fiscal stimulus, and human resiliency and adaptability in the face of the virus have allowed the global economy to power ahead — despite the fact that the COVID pandemic is not yet behind us.

The global composite PMI — which includes both the services and manufacturing sectors — rose for a third straight month in April to its highest level in 11 years. The latest reading is historically consistent with 5.0% annual global GDP growth.

As the recovery picks up over the course of this year due to a broadening of the vaccine rollout — allowing pent-up demand to be unleashed — our 6.1% global growth forecast for the year appears highly achievable.

Manufacturing soars

Global manufacturing continued its path of a strong V-shaped recovery. The global manufacturing PMI also rose to its highest level in 11 years (middle clip, chart above). The global manufacturing PMI has risen in 11 of the past 12 months.

More and more countries joined the manufacturing boom, as nearly 90% of the world's economies reported manufacturing expansion, the largest share since February 2018 (top chart, next page).

Manufacturing growth was strongest in Europe, led by northern European countries — Sweden, Germany, and the Netherlands. Manufacturing contracted only in Myanmar, the Philippines, and Mexico.

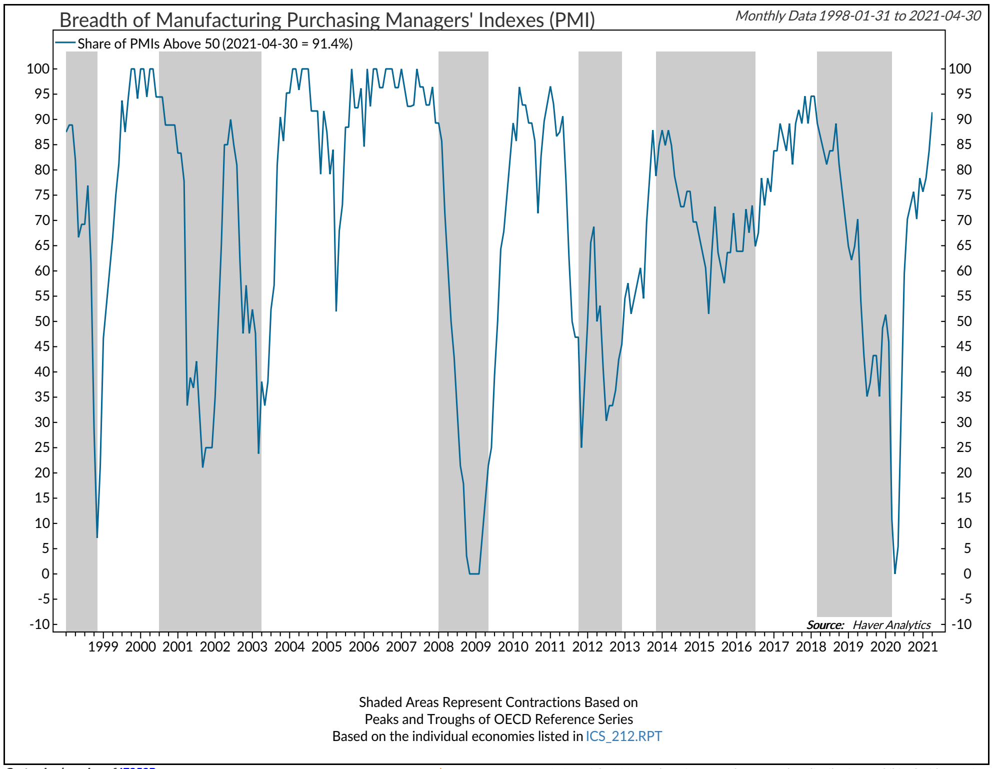
Services soars too!

Services rebounded robustly as the reopening of some economies and the anticipation of easing restrictions in the coming months boosted the sector. The services PMI jumped to its highest level since July 2007. Moreover, the services PMI reported a higher reading than the manufacturing sector for the first time in eight months.

But unlike the broad recovery in manufacturing, the rebound in services has been a bit narrower. The share of economies with expanding services sectors was little changed at 63% in April, and only half of countries saw their PMIs increase from the prior month.

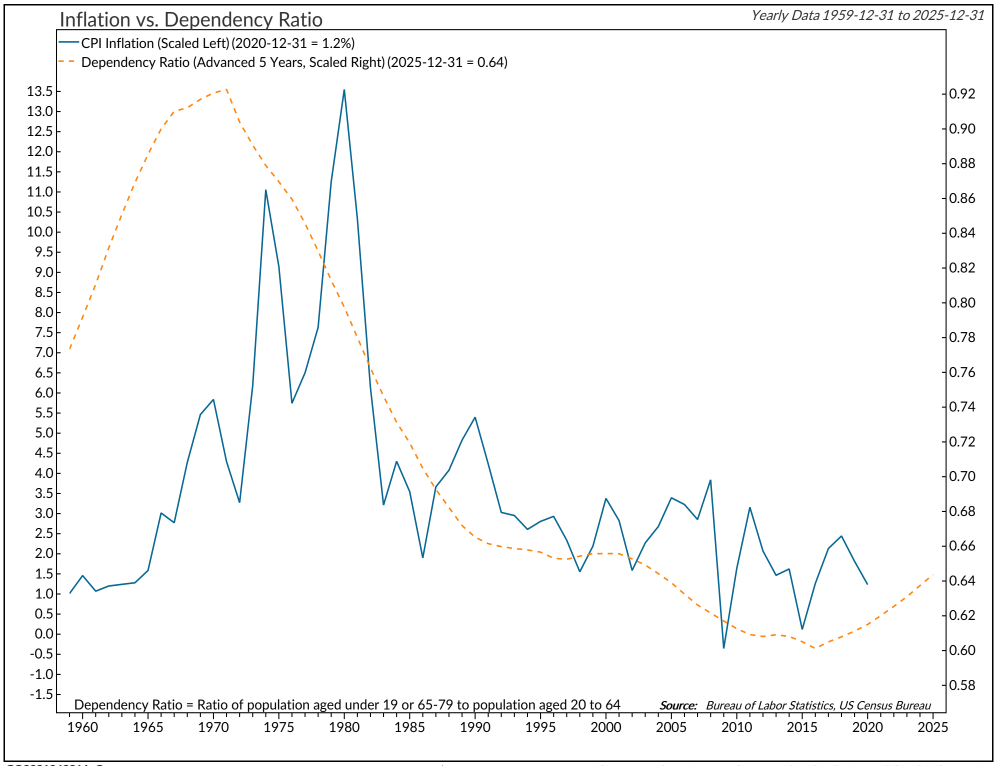
Above excerpted from: "Global growth surges amid vaccine rollouts" by Alejandra Grindal, May 6, 2021

Strongest breadth since February 2018



Customized version of IE250B

Long-term relationship between dependency ratio and inflation



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Demographics and inflation

The chart at left shows the historical track record of inflation trends and the dependency ratio in the U.S. You can observe that the inflationary pressures associated with the 1960s and 1970s coincided with a rising dependency ratio due to a large portion of young dependents (i.e. Baby Boomers) at the time. But as the Baby Boomers reached adulthood and joined the labor force, we've seen both the dependency ratio and inflation trends fall.

Numerous economists have recently conducted analysis that, when holding all else constant, has found the impact of demographics on inflation is quite robust. The premise is that when an economy has a large working age population relative to the rest of its population (i.e., a low dependency ratio), long-term inflation pressures tend to be lower. Conversely, when dependency ratios are high, inflation pressures tend to be greater.

There are a couple of reasons for this. The first is just simply scarcity. When there is a small labor market relative to dependents, there are greater instances of worker shortages. This bids up the price of labor, and coupled with more employee bargaining power, we see a subsequent pickup in wages. These higher wages then ultimately feed into final inflation.

Second, larger dependency ratios typically imply less saving since dependents, almost by definition, aren't accruing income to save. This, in turn, could eventually drive up the natural interest rate. If central banks keep nominal rates low, this could also fuel inflation. Interestingly, the research finds dependents ages 80 and over tend to have a disinflationary effect due to hoarding of savings.

Aging populations are also likely to see increased demand for healthcare and nursing home spending. These are usually less productive industries, consequently lowering the bar for potential growth and leading to higher inflation pressures.

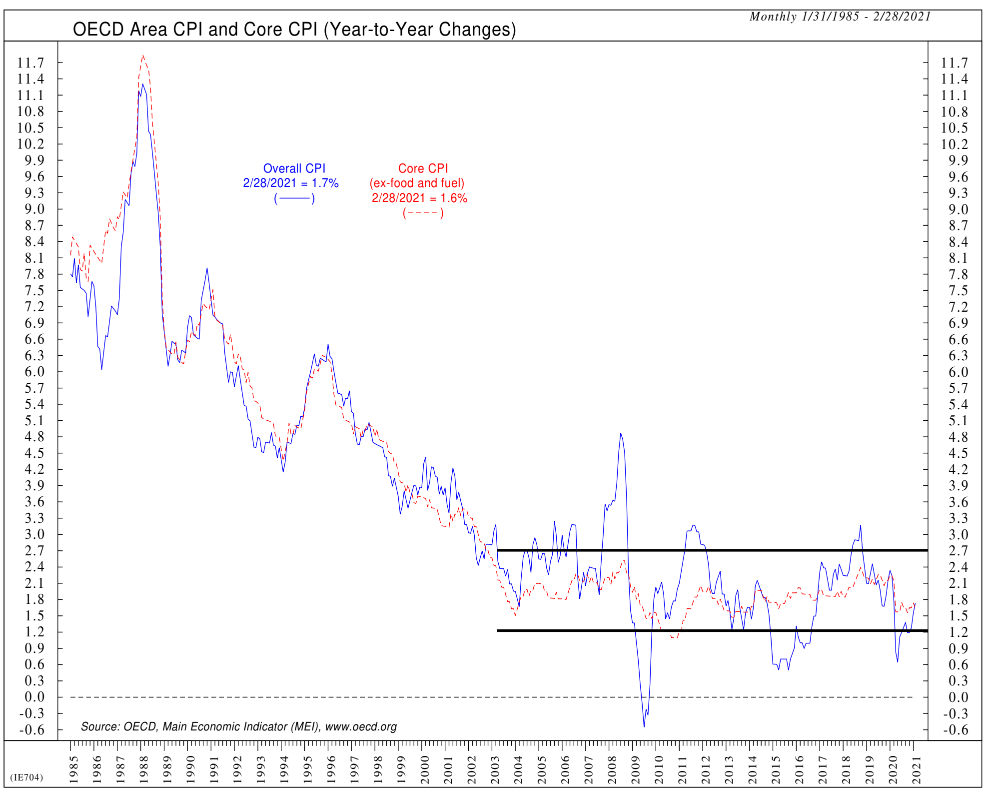
When looking at the dependency ratio for G7 economies, the outlook could presumably become inflationary in the next two decades. This is because dependency ratios will rise as those of the post-war baby boom (which was observed throughout the developed world) retire. The U.S., U.K., and Canada are projected to see a slightly milder rise due to higher fertility rates, which resulted in a larger pipeline of working-age population.

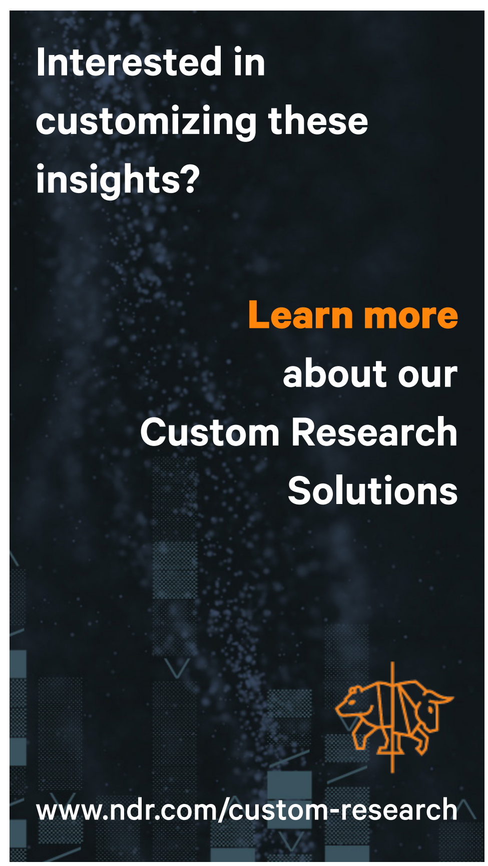
It's also important to note that even if demographic factors do indeed end up being inflationary, they could still be offset by other disinflationary forces. As shown in the chart below, inflation at the core level in the developed world has remained subdued for several decades.

Other disinflationary forces include negative output gaps, globalization, technology, high private debt, and anchored inflation expectations. With this in mind, **we continue to maintain our view that long-term inflation trends in the developed world will likely remain anchored**.

Above excerpted from: "Understanding the link between demographics and inflation" by Alejandra Grindal, April 23, 2021

Developed market CPI has been subdued for several decades

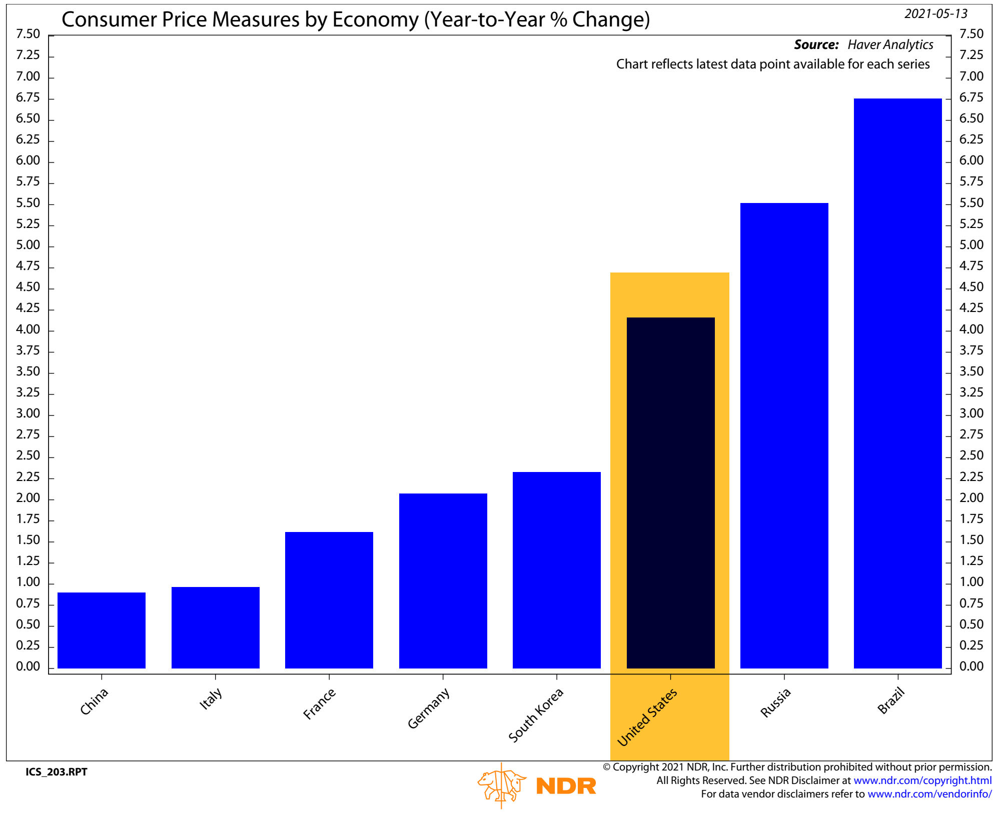




U.S. inflation stands out

Several developed and emerging markets have begun reporting April 2021 CPI data. Nearly all saw prices pop up, but none as markedly as the U.S. As shown in the chart at right, U.S. annual CPI growth surged 4.2%, the most since 2008, while the core rate accelerated to the greatest since 1996. The inflation rate also picked up among several eurozone countries, but only to their highest levels since before COVID. Conversely, China's inflation has been relatively subdued. This puts the U.S. inflation rate not far from that of emerging markets such as Brazil and Russia, whose central banks have had to raise rates in recent months to counter inflation pressures.

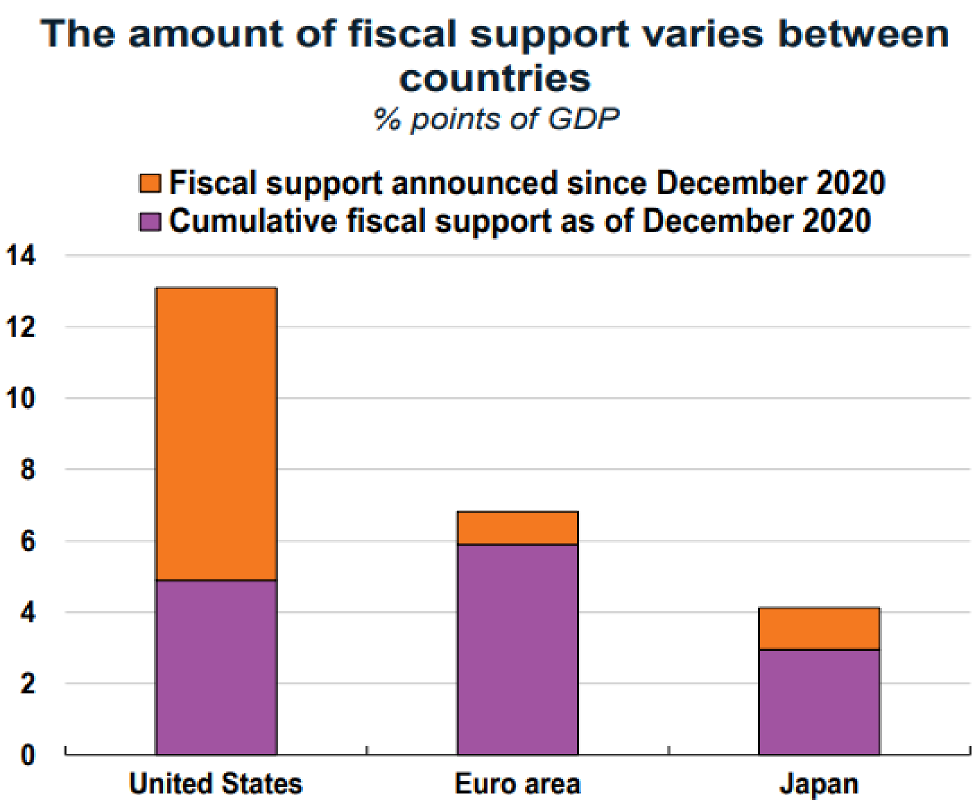
U.S. CPI surged more than many other economies



Stimulus leader

The U.S. is in a unique position because of its faster growth, due in part to the successful vaccine rollout, but also because of its outsized fiscal stimulus. COVID fiscal support stacked up similarly among developed economies in 2020, as seen in the chart at left. But the American Rescue Plan now puts the U.S. significantly ahead of the rest of the world, making the U.S. the leader in global growth. The greater stimulus suggests larger demand pressures and may also be contributing to labor supply shortages. This, however, will likely be temporary given the one-off nature of the support.

U.S. is taking the fiscal lead in 2021



As discussed in the U.S. Fixed Income section of this report, we'll continue to watch inflation expectations and wage developments closely for signs if this will become an entrenched issue.

Above excerpted from: "Why U.S. inflation stands out compared to the rest of the world" by Alejandra Grindal, May 13, 2021

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JOSEPH F. KALISH CHIEF GLOBAL MACRO STRATEGIST
VENETA DIMITROVA SENIOR U.S. ECONOMIST

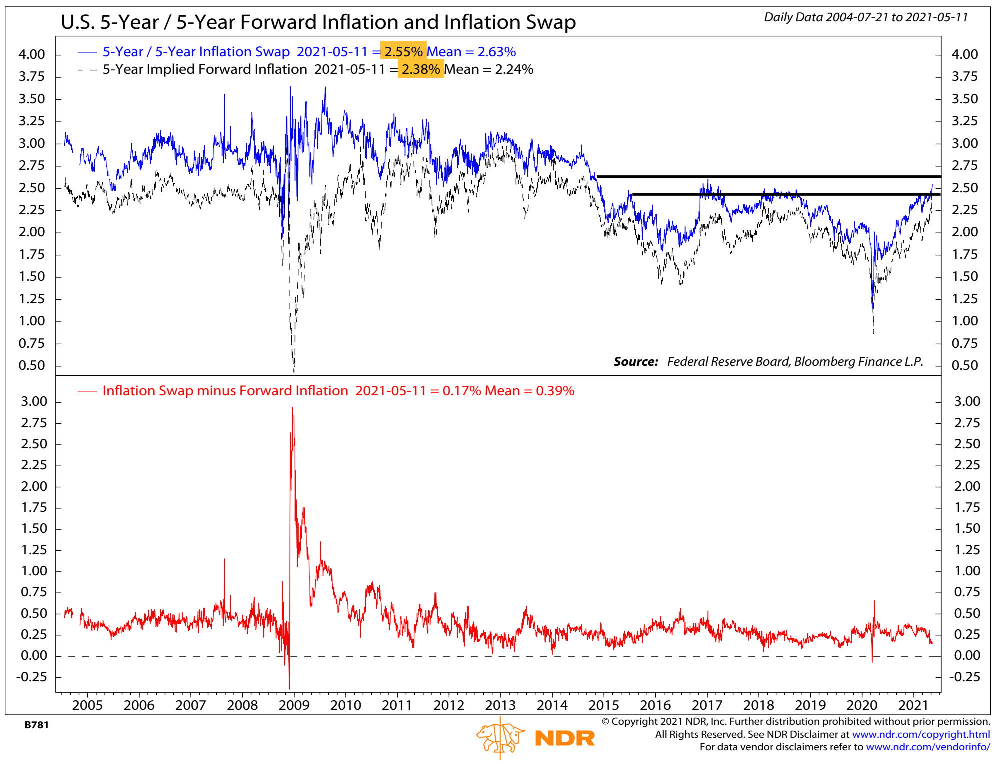
MAY 17, 2021

Inflation expectations nearing a breakout

Key Takeaways

- Market-based measures of inflation expectations are nearing key levels.
- Credit is expensive on an historical basis, as fundamentals remain compelling and the economy recovers.
- Credit quality has deteriorated within investment grade (IG) but has improved for high yield (HY). We continue to favor HY over IG.

On cusp of breaking above prior highs



The first quarter of 2021 was the worst quarter for the Bloomberg Barclays U.S. Aggregate Index since Q3 1981. The yield on the 10-year Treasury soared from under 1.00% at the start of the year to as much as 1.765% near the end of the quarter. Optimism about the vaccine rollout pushed up expectations for growth and inflation as the economy reopened. At the same time, massive fiscal and generous monetary support boosted yields. After such a large run-up, it's not unusual for a market to take a breather.

Inflation expectations are critical for bonds. We have identified three indicators we are watching to see if the inflation spike will be more than transitory. Currently, we are watching for a breakout in long-term market-based inflation expectations. Today, those are on the cusp of breaking out, as shown on the chart above. The 5-year/5-year forward breakeven rate is close to our threshold of 2.4%. Similarly, the 5-year/5-year inflation swap rate is just under our 2.6% level. We are also watching the 5-year/5-year euro swap rate, which moved out to a new cycle high, indicating rising inflation expectations in the Eurozone.

On an intermediate-term basis, we are watching the shelter component of inflation. Led by a record monthly gain in lodging last month, shelter has turned up.

Longer-term, we need to see broad-based compensation gains. So far, worker shortages and strong demand (as seen in record job openings) have not materially affected compensation.

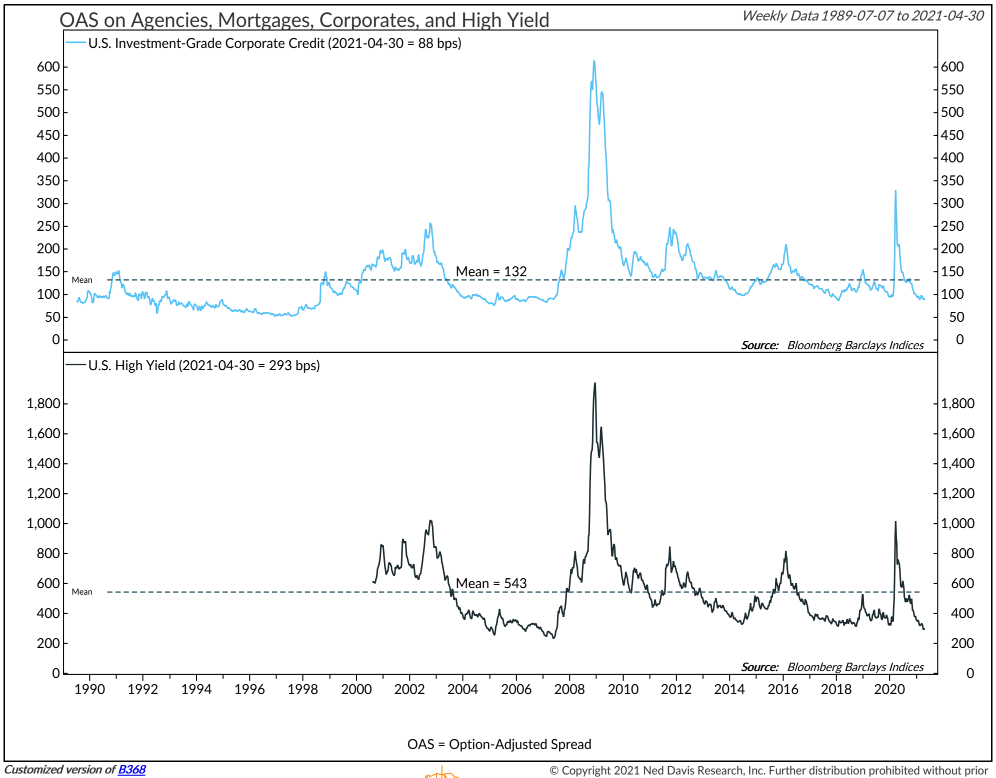
Above excerpted from: "Bond market taking a breather" and "Inflation expectations on the cusp of breakout" by Joe Kalish on April 20, 2021 and May 13, 2021, respectively

Corporate credit is expensive

Investment grade and high yield corporate **credit have been on a tear** over the past 12 months. Investment grade has returned 4.5%, while high yield has soared 19.7%, compared with a loss of 0.3% for the Bloomberg Barclays U.S. Aggregate Float Adjusted Index.

Spreads have collapsed over that time (chart right). Investment grade has narrowed by 114 basis points (1.14%) to 88 basis points (0.88%). High yield has compressed by 453 basis points to 291 basis points. As a result, excess returns remain positive but have started to fade.

Credit spreads historically tight



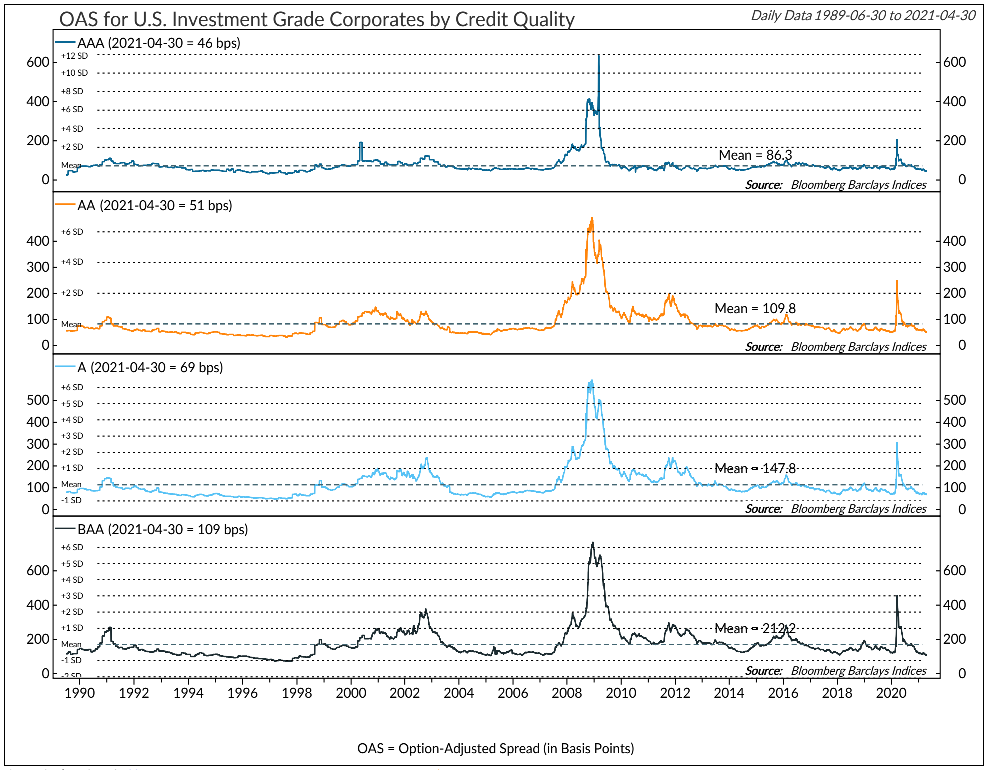
Credit Rating	Change in Share
Aaa	-2.9
Aa	-14.6
A	1.0
Baa	16.6
Ba	18.5
B	-13.9
Caa	-4.1
Ca/D	-0.3

The moves make sense. **Fundamentals remain compelling**. The financial markets are awash in liquidity. Credit indexes, such as the one from the NACM, are improving, as the economy recovers. Many companies have taken the opportunity to refinance their debt at lower rates and longer maturities, thereby reducing default risk. Furthermore, as business improves, more companies should be upgraded.

But market structure also plays a role. The last time both monthly spreads were this low was in February 2007. Since then credit quality has deteriorated within investment grade while it has improved for high yield (table left).

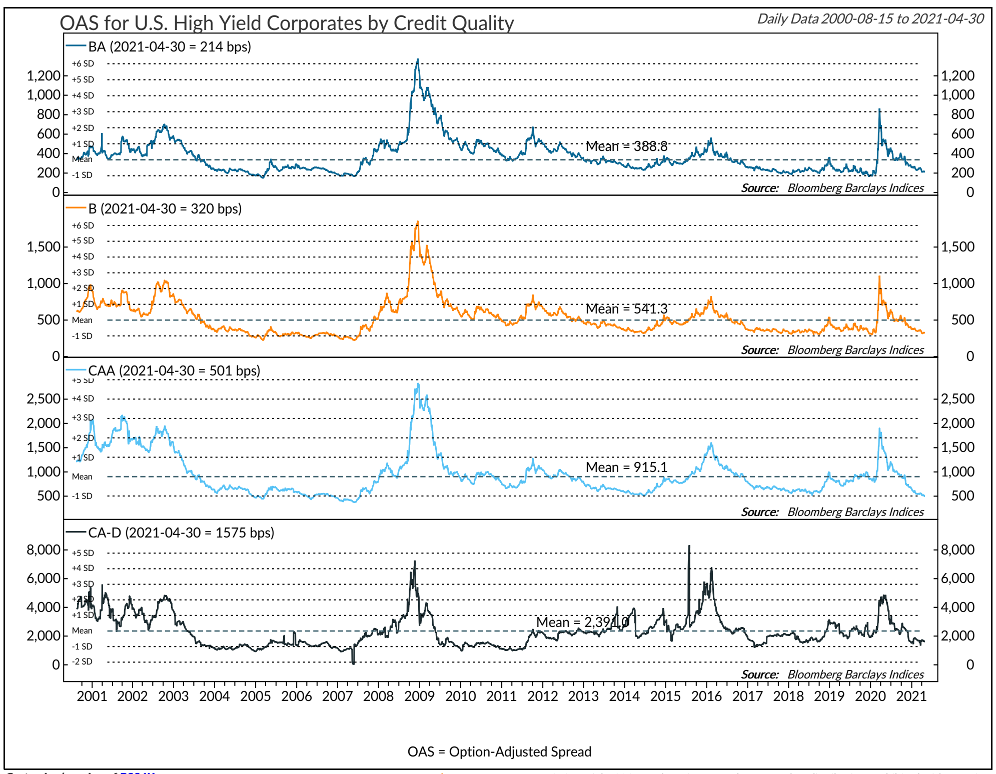
Spreads by credit quality have behaved similarly over time. Using aggregate spreads for investment grade and high yield can be misleading due to compositional shifts.

IG now weighted more toward Baa



Customized version of B384J

HY now weighted more toward Ba



Customized version of B384K

Over 50% of high yield is comprised of Ba, the top tier in that segment, while over half of investment grade is Baa. Yet the difference in OAS between Ba and Baa is currently 105 bp. In February 2007 it was 78 bp. At the same time, the Baa duration is 1.75 years longer, while the Ba duration is similar. As a result, the spread/duration is smaller for Baa and larger for Ba compared to 2007, making Ba the better relative value. We continue to favor HY over IG.

Above excerpted from: "Is corporate credit really expensive?" by Joe Kalish, May 4, 2021


VENETA DIMITROVA SENIOR U.S. ECONOMIST
JOSEPH F. KALISH CHIEF GLOBAL MACRO STRATEGIST

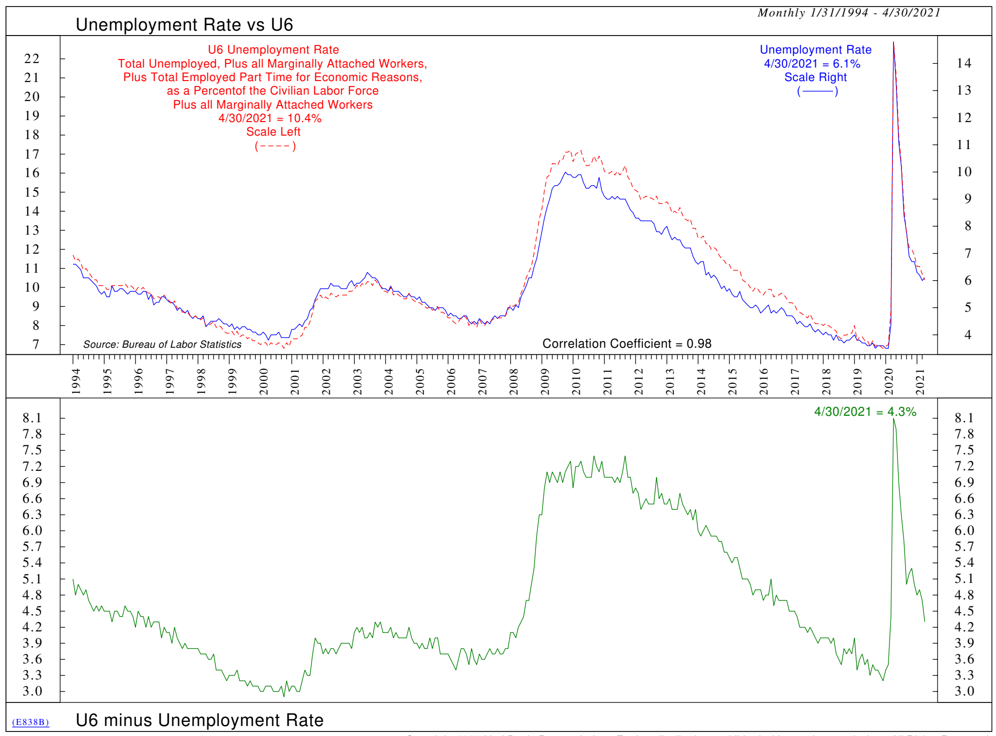
MAY 17, 2021

Employment shortfall, inflation fears

Key Takeaways

- With a big shortfall in the latest employment report, a Fed taper might not occur until next year.
- CPI inflation surges, but productivity gains cap ULC growth.
- CRE returns have stabilized but vary by property type.

Unemployment rates making progress



When will the Fed taper?

After the horrendous miss on the April employment report, economists have proffered several reasons including the following:

1. As more businesses opened back up, fewer pandemic workers were needed.
2. Chip shortages and supply chain disruptions helped explain the 18,000 decline in manufacturing,
3. Childcare kept women from returning to work, as some schools remained closed.
4. More people retiring early. With stocks and housing prices at record highs, the increase in wealth means a greater number of older people can afford to retire early.
5. Mismatches between jobs and unemployed due to skills, geography, and demography.
6. Strong seasonal adjustments. We don't agree with this one.
7. Cautious response. Business owners may be taking a wait-and-see approach on how well demand returns.
8. Continued fear over getting COVID-19. With vaccination rates slowing, the U.S. may not achieve herd immunity, causing some potential workers to stay away.

All of these factors could weigh on monetary policy. The Fed has been very clear about what it needs to see to raise interest rates, but have been deliberately vague about what it needs to taper its asset purchases and defining "substantial further progress."

Our base case is that the Fed will announce its taper between the Jackson Hole Symposium and the November 2-3 FOMC meeting. The taper will begin in January 2022.

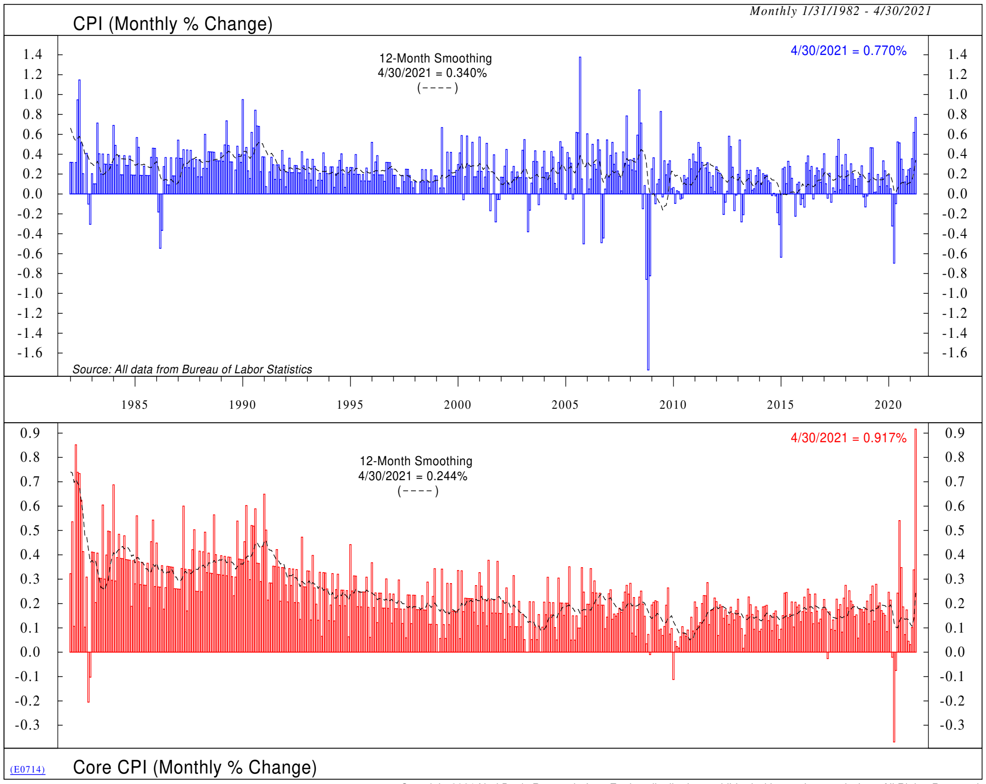
Above excerpted from: "Will the Fed announce its tapering next year?" by Joe Kalish and Veneta Dimitrova, May 11, 2021

Consumer price inflation surges

While the directional change in consumer prices in April was broadly expected by economists, the magnitude of the increase was well above expectations. A confluence of goods shortages and bottlenecks related to COVID supply chain issues and a demand surge from the reopening of the economy drove the Consumer Price Index (CPI) up 0.8% (chart right), the biggest gain since June 2009, and far above the consensus of 0.2%.

Above excerpted from: "Big surge in consumer price inflation" by Veneta Dimitrova, May 12, 2021

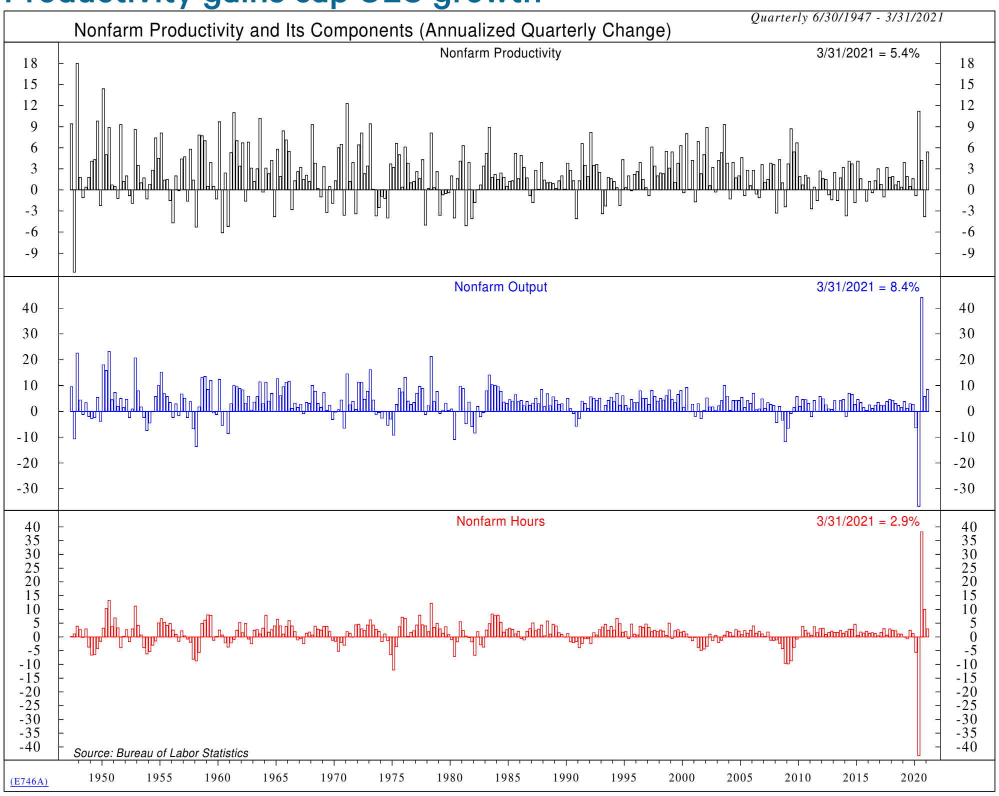
1/3 of the surge driven by higher vehicle prices



Productivity vs. labor costs

Stronger productivity gains cap unit labor costs (ULC) growth, which should hold down inflation pressures. Nonfarm productivity rebounded at a 5.4% annual rate in Q1 (chart left), above the consensus of 4.4%. It was the biggest gain in productivity since Q4 2009, excluding the surge in Q2 2020 after the pandemic lockdown.

Productivity gains cap ULC growth



ULC fell at a 0.3% annual rate, as the productivity gain for the quarter exceeded hourly compensation growth.

An increase in infrastructure investment, as proposed by the Biden administration, could lift productivity growth and potential output growth, effectively creating a longer runway for the economy to expand without excessive inflation pressures.

Above excerpted from: "Productivity growth up, unit labor costs down" by Veneta Dimitrova, May 6, 2021

Q1 GDP growth accelerated

The economic recovery accelerated in Q1, amid a successful vaccine rollout, easing of COVID restrictions, and more fiscal support.

Both manufacturing and services activity strengthened. Housing and auto sales boomed. Layoffs eased but labor market slack is still very large.

Positives

- Large fiscal stimulus and accommodative Fed continue to support the economy.
- Falling COVID case counts drive services. Manufacturing strength drives capex.
- Stimulus checks and low interest rates boost consumer demand. High saving rate should fuel future spending.

Negatives

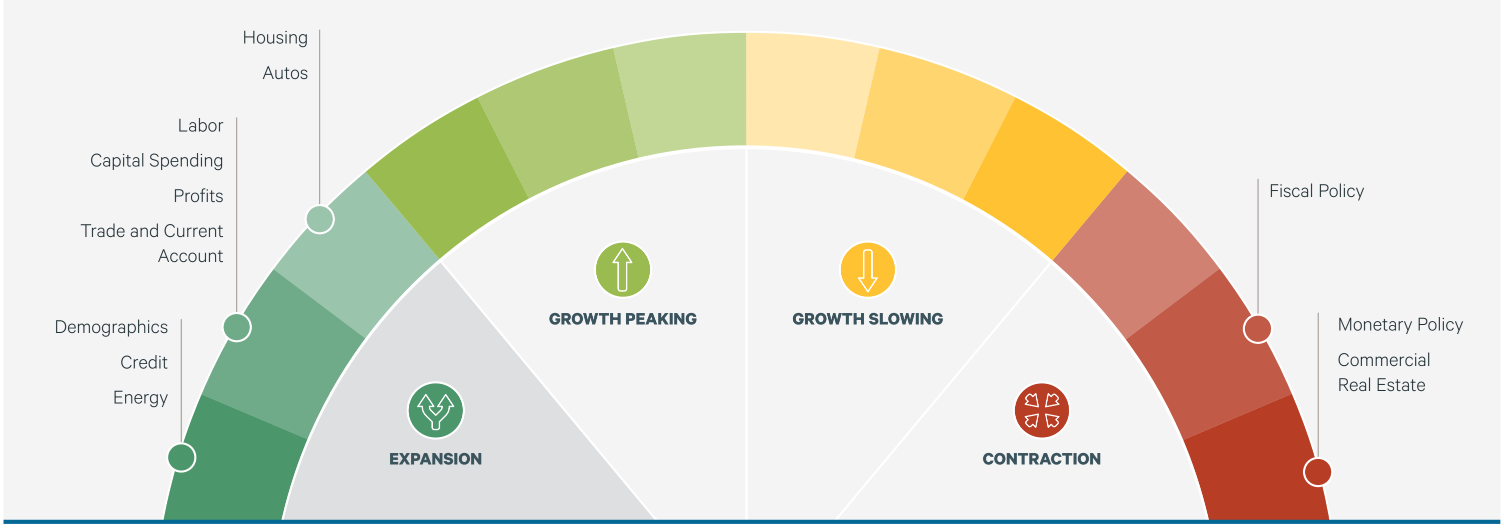
- Supply chain issues leading to shortages and production bottlenecks.
- COVID resurgence in other parts of the world limiting travel and trade.
- Labor force participation and employment/population ratio still very low.

Above excerpted from: “Where the U.S. economy stands in Q1 2021” by Veneta Dimitrova, May 4, 2021

Where the U.S. economy stands in Q1 2021

The four phases of the economic cycle

and the current status of 12 economic sub-cycles



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Commercial real estate stabilizes

With the economy continuing to recover from COVID-19 and its related shutdowns, several positive signs are emerging in the outlook for commercial real estate — transactions, confidence, and new construction are all rebounding from the pandemic lows. And financing conditions are expected to improve. **We believe the worst is over for the sector**.

The NCREIF Property Index (NPI) gained 1.7% in Q1, an improvement over Q4's 1.2% increase and the third consecutive gain, as shown on the chart below. Income accounted for 60% of the return. Returns weren't as good as stocks but were much better than bonds.

CoStar reported its composite price indexes were flat to down. The value-weighted index, which reflects the larger asset sales in core markets and is closest to the NCREIF data, fell 1.2% in Q1. Nevertheless, the index remains well above its pre-pandemic levels and is up 5.9% from a year ago. The equal-weighted index and its components were little changed.

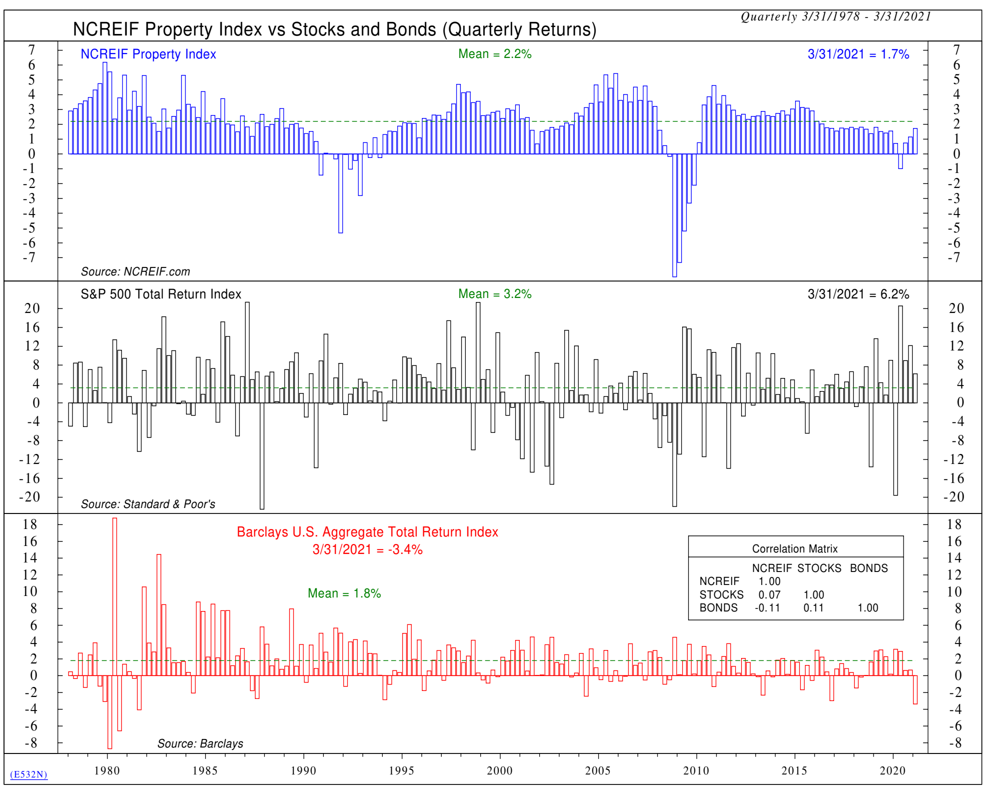
Returns varied by property type. Industrial continued to lead the way, gaining 4.7%, according to NCREIF. Apartments performed nicely, gaining 1.7%, amid a severe shortage of housing units. Office generated a positive return of 1.0%. But structurally challenged Retail and Hotel continued to lose ground, albeit at slower rates.

CoStar also reported gains for Industrial and Multifamily, but recorded gains for their Retail and Land indexes too in Q1. Retail advanced 2.3% and Land surged by 3.3%. Office and Hospitality declined 0.7% and 4.9%, respectively. CoStar noted that compared to a year ago, Hospitality was the only sector to show a loss, down 10%. Multifamily led the way with an increase of 10.2%.

We remain overweight Industrial and underweight Retail.

Above excerpted from: "Is the worst over for CRE?" by Joe Kalish and Veneta Dimitrova, May 5, 2021

Commercial real estate continues its recovery



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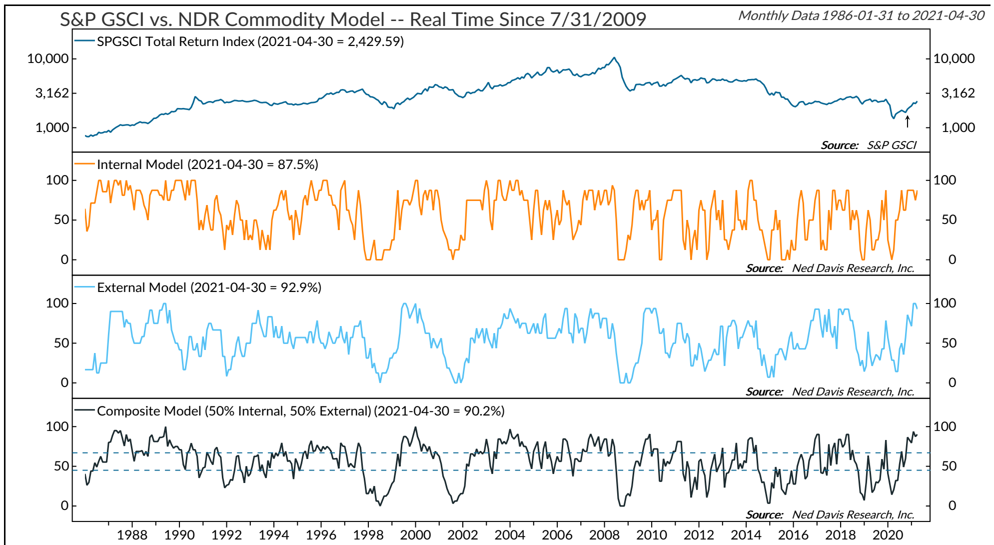
MAY 17, 2021

Commodity bull market

Key Takeaways

- The NDR Commodity Model remains bullish.
- Commodity model is confirmed by solid breadth, ISM manufacturing commodity survey, and economic surprises.
- Global stocks remain mostly bullish, but with a slight loss of momentum — what that can mean for the U.S.

Commodity model bullish



S&P GSCI Performance
Full History: 1986-01-31 to 2021-04-30

NDR Commodity Composite Model:	% Gain/ Annum	% of Time
Above 67.0	22.99	38.51
45.0 - 67.0	7.17	33.83
Below 45.0	-22.50	27.66
Buy/Hold = 3.31% Gain/Annum		

AA800

Commodity model bullish

The NDR Commodity Model remains on a buy signal from last November for commodity prices (chart above). Both the internal and external indicators in the model are solidly bullish, producing an overall 90.2% bullish reading.

Because everyone wants to know if these bullish commodity moves will lead to overall sustained inflation, I am checking a lot of indicators on commodities to see if they confirm our model or not. So far, I am in the transitory inflation camp, but these indicators look pretty solid for now.

Confirmed by solid breadth

To measure commodity breadth, we can look at 17 different commodities daily. When above 50% bullish, the indicator has clear bullish tendencies since 2004. The commodity bull market has good breadth.

Positive economic surprises

For an external indicator, I am watching global economic surprises. High commodity prices often bring lower prices as miners, drillers, farmers, etc., jump to produce more at the higher prices, so secular moves up are rare, but they can happen. In any case, the cyclical bull market looks to continue for now, thanks to the Fed and central banks globally.

Global stocks remain bullish

Global stock trends are obviously important if you invest globally, but they are also good to confirm trends in the U.S. Looking at 50 global markets on an intermediate-term basis and our Global Big Mo Tape Composite, trends remain bullish — but momentum is weakening. I would need to see more weakness to get concerned.

Above excerpted from: "Update on commodity bull market trends and global stock momentum" by Ned Davis, May 10, 2021 (available through the NDR Hotline product offering)

Glossary of terms

Asset Allocation: Ned Davis Research, Inc. constrains the recommended equity weighting (which can theoretically range from zero to 100%) to be limited to a minimum of 40% stocks and a maximum of 70% stocks. Due to the constraint on equity weighting, the combination of bonds and cash can be weighted no greater than 60% and no less than 30% in NDR's recommendations. The benchmark for bond allocation is 35% and for cash is 10%.

Benchmark Duration: The most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio should be to changes in interest rates. Point of reference for a measurement.

Beta: A number describing the relation of an investment return with that of the financial market as a whole. Numbers greater than one suggest an investment will increase more than the broad market when it is rising, and have greater declines when the market is falling.

Breadth: A technical term used to demonstrate how broadly a market is moving.

Capital Market: Is a market for securities (debt or equity), where business enterprises (companies) and governments can raise long-term funds.

Commercial Mortgage-Backed Securities (CMBS): A type of mortgage-backed security backed by commercial mortgages rather than residential mortgages. When compared to a residential mortgage-backed security, a CMBS provides a lower degree of prepayment risk because commercial mortgages are most often set for a fixed term.

Core Inflation: Is a measure of inflation which excludes certain items that face volatile price movements, notably: food and energy.

Cyclical Bear: Cyclical swings in the market can last from several months to a few years, and are designed to be in line with the primary trend. A cyclical bear market is a cyclical swing when the market is in a downtrend.

Cyclical Bull: Cyclical swings in the market can last from several months to a few years, and are designed to be in line with the primary trend. A cyclical bull market is a cyclical swing when the market is in an uptrend.

Deflation: Is a slight decrease in the general price level of goods and services. Deflation occurs when the annual inflation rate falls but stays above 0%.

Demographics: Studies of population based on factors such as age, race, sex, economic status, level of education, income level, and employment.

Echo Bull/Bear: An echo bear market is a shallower correction which occurs in the equity market that does not coincide with an economic recession. An echo bull market is one that follows and echo bear market.

European Central Bank (ECB): Is the institution of the European Union (EU) which administers the monetary policy of the EU Eurozone member states. It is thus one of the world's most important central banks. The bank was established by the Treaty of Amsterdam in 1998, and is headquartered in Frankfurt, Germany.

Eurozone/European Union: Is an economic and monetary union (EMU) of the European Union (EU) member states which have adopted the euro currency as their sole legal tender. It currently consists of Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

Glossary of terms

Federal Open Market Committee (FOMC): A component of the Federal Reserve System, is charged under United States law with overseeing the nation's open market operations. It is the Federal Reserve committee that makes key decisions about interest rates and the growth of the United States money supply.

Gross Domestic Product (GDP): The total output of goods and services produced in a given country during a given period.

Lagging Indicator: An economic factor that changes after the economy has already begun to follow a particular pattern or trend; used to confirm long-term trends.

Leading Indicator: An economic factor that changes before the economy starts to follow a particular pattern or trend; used to predict changes in the economy.

Median P/E: Numeric value separating the higher half of a sample, a population, or a probability distribution, from the lower half. This is the middle price-to-earnings ratio of a series.

Mortgage-Backed Securities (MBS): A type of asset-backed security that is secured by a mortgage or collection of mortgages. These securities must also be grouped in one of the top two ratings as determined by an accredited credit rating agency.

MSCI Emerging Market Index: An index developed by Morgan Stanley Capital International, Inc. (MSCI) as an equity benchmark for emerging market stock performance. It is a capitalization-weighted index that aims to capture 85% of publicly available total market capitalization. Component companies are adjusted for available float.

NDR
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NDR HOUSE VIEWS (Updated May 13 , 2021)

NDR recommends maximum overweight allocation to equities, underweight allocation to bonds and marketweight allocation to cash. It is likely that we have seen a reset of the secular bull market that started in 2009.

Equity Allocation

U.S. | We are marketweight the U.S. relative to other regions but are bullish on an absolute basis. The rally from the March 23 low has met the NDR criteria for a cyclical bull market, and we are shifting to risk-on assets as models confirm. We favor small-caps over large-caps and Value over Growth.

INTERNATIONAL | We are overweight Europe ex. U.K. and Japan, underweight U.K. and Pacific ex. Japan, and neutral on all other regions within our seven-way regional allocation framework.

Macro

ECONOMY | The global economy fell into its deepest recession in the postwar era due to COVID-19, but pent-up demand and robust stimulus is setting the stage for a strong rebound in growth in 2021. Inflation will jump in the short-term, but long-term trends are anchored.

FIXED INCOME | We are 85% of benchmark duration. We are positioned for a steeper yield curve. We are overweight MBS, ABS, HY corporates, EM, and TIPS. We are underweight Treasurys.

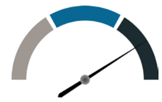
GOLD | Long-term uptrend intact. We are bullish.

DOLLAR | Our long-term technical composite is negative. We are bearish.

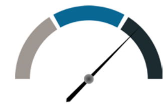
Economic Summary

May 10, 2021

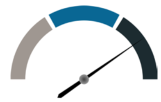
Near term activity: ● Accelerating ● Neutral ● Decelerating



Global Economy
(6.1%)



U.S. Economy
(6.5%-7.0%)



U.S. Inflation
(2.2%)

Economic gauges reflect changes in near-term economic activity. Numbers in parenthesis refer to NDR 2021 forecasts.

Global Asset Allocation

● Overweight ● Marketweight ● Underweight

- ● Stocks (70%)
- ● Cash (10%)
- ● Bonds (20%)

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

Equities — Regional Relative Allocation

- ● Europe ex. U.K. (15%) | Japan (8%)
- ● U.S. (57%) | Emerging Markets (13%) | Canada (3%)
- ● U.K. (2%) | Pacific ex. Japan (2%)

Benchmark – U.S. (57.9%), Europe ex. U.K. (13%), Emerging Markets (12.7%), Japan (6.8%), U.K. (3.8%), Pacific ex. Japan (3.1%), Canada (2.7%)

Global Bond Allocation

- ● Europe (33%)
- ● Japan (17%) | U.K. (5%)
- ● U.S. (45%)

Benchmark: U.S. (50%), Europe (28%), Japan (16%), U.K. (6%)

U.S. Allocation

- ● Stocks (70%) | Small-Cap | Value
- ● Mid-Cap | Cash (10%)
- ● Bonds (20%) | Large-Cap | Growth

Benchmark: Stocks (55%), Bonds (35%), Cash (10%)

Sectors

- ● Financials (13%) | Industrials (12%) | Energy (4%)
- ● Technology (24%) | Consumer Staples (5%)

Benchmark: Technology (27.0%), Health Care (13.5%), Financials (10.0%), Communication Services (11.1%), Consumer Discretionary (12.5%), Consumer Staples (7.3%), Industrials (8.3%), Energy (2.4%), Utilities (2.8%), Real Estate (2.5%), Materials (2.6%)

U.S. Bonds — 85% of Benchmark Duration

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See the signals. Avoid mistakes.

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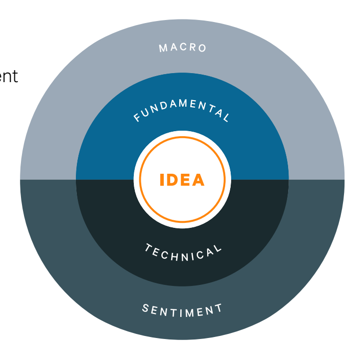

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