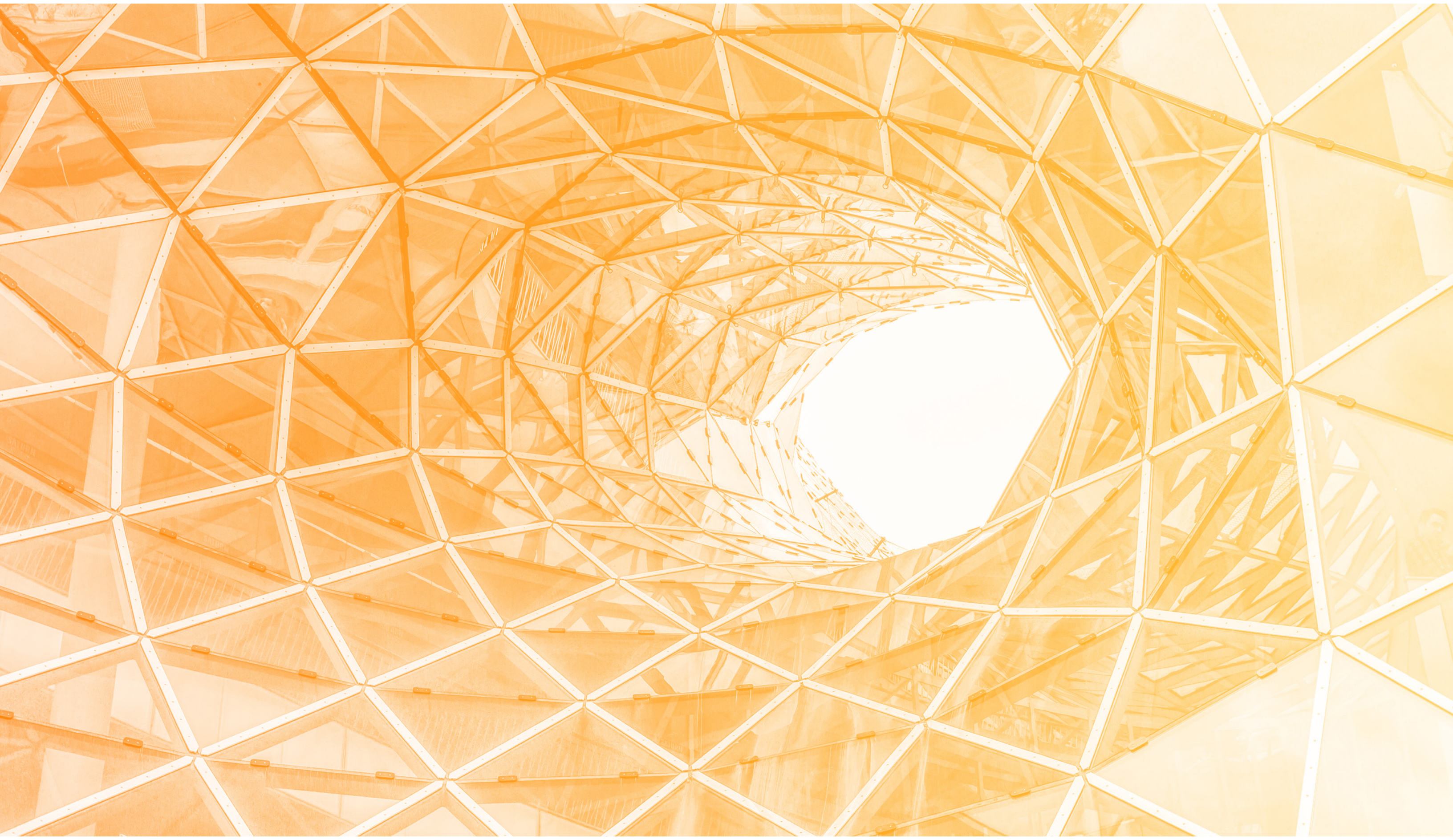
Market Digest – January 2021



Strengthening reflation theme

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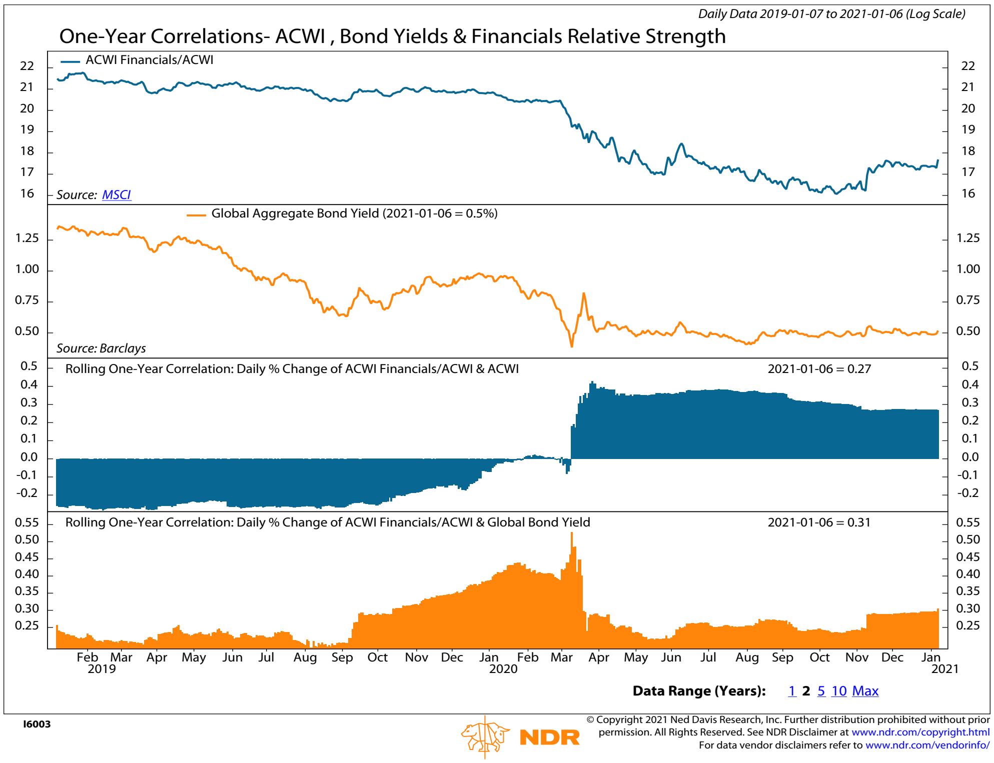
CHAD ELLIS RESEARCH ANALYST

JANUARY 15, 2021

Executive Summary

With global breadth bullish, we remain overweight global stocks and favor emerging markets. We are aligned with a strengthening global reflation theme, which is also supported by uptrends in commodities and risk-on proxies. We continue to remain bearish on the U.S. dollar — and thus remain bullish on gold. We are watching bond yields and Financials **(chart right)**, as well as our watch reports since many of our indicators are warning that the stock market rally is extended.

Financials starting to benefit from rising yields



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

- **Global and U.S. Economy**. The global economy ended 2020 on a strong note. There are large divergences among sectors and countries, especially in Europe where a double-dip recession appears inevitable. Conditions will likely worsen before they get better. We reaffirmed our expectation of 4.6% real U.S. GDP growth this year. The risk of a double-dip recession in early 2021 has increased, but so have the odds of additional fiscal stimulus.
- **Global Asset Allocation**. We remain with an overweight allocation to stocks, favoring emerging markets, and maintain our bullish view on gold. We also maintain a bearish U.S. dollar outlook and we remain aligned with the global reflation theme.
- **Fixed Income**. On January 12, we reduced our bond exposure by 5% to 90% of benchmark duration and shifted 5% from the U.S. to Japan in our global bond allocation. U.S. yields look relatively attractive on a nominal basis, but not on a real basis. We remain overweight credit, especially high yield.
- **U.S. Stock Market**. A moderately upward sloping yield curve tends to be bullish for stocks. But, the risk is if yields rise too quickly. Our reflation trade recommendations are overweight small-caps, Industrials, and Financials, while underweight Staples and Utilities.
- **U.S. Sectors.** In late December, we upgraded Financials to overweight and downgraded Consumer Staples to underweight. Construction-related, Managed Care, and Renewable Energy, among others, should benefit from Biden's agenda. But bipartisan senators could greatly impact spending plans.
- **Thematic Opportunities.** On January 6, we initiated our Electric Vehicles theme. The Biden agenda supports our bullish Infrastructure Spending theme and overhang concerns about Big Tech.

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TIM HAYES, CMT CHIEF GLOBAL INVESTMENT STRATEGIST
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JANUARY 15, 2021

Aligned with a strengthening reflation theme

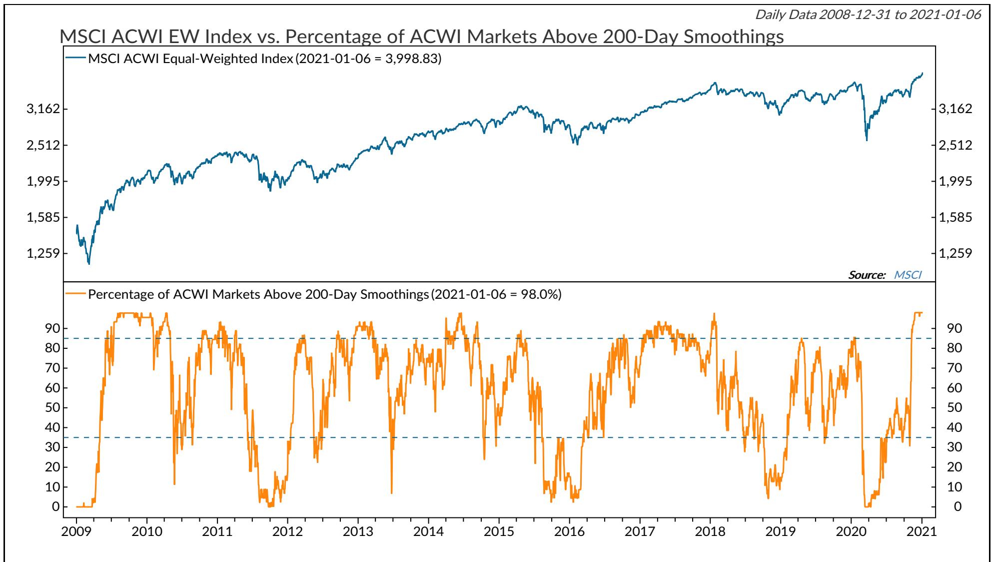
Key Takeaways

- With global breadth bullish, we remain overweight global stocks, favoring emerging markets.
- Still bearish on the U.S. dollar and bullish on gold.
- Watching bond yields, Financials, and Watch reports — Top Watch warns the rally is extended.

We remain with the **overweight stock allocation** that we established in October 2020 and increased in November, the **overweight Emerging Markets** (EM) allocation established in July 2020 and increased at the start of October, and the **bullish position on gold** that has been maintained since January 2019.

We are also maintaining a bearish U.S. dollar outlook and remaining aligned with the trends that are sending a clear message as the new year gets started. The global reflation theme is gaining strength ahead of the likely economic broadening that lies ahead. Broadcasting this message are indicators based on global stock market breadth, emerging markets, global sectors, and proxies of risk-on relative to risk-off.

Broad global advance



EW ACWI Index Performance **Full History:** 1998-12-31 to 2021-01-06		
% of Markets Above Smoothing Is:	% Gain/ Annum	% of Time
Above 85.0	19.95	27.21
35.0 - 85.0	8.29	48.11
Below 35.0	-9.60	24.68
Buy/Hold = 6.49% Gain/Annum		

EW ACWI Index Performance **Chart View:** 2008-12-31 to 2021-01-06		
% of Markets Above Smoothing Is:	% Gain/ Annum	% of Time
Above 85.0	11.85	19.25
35.0 - 85.0	9.50	59.58
Below 35.0	4.89	21.17
Buy/Hold = 8.96% Gain/Annum		

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Bullish breadth

The bullish global breadth is evident in the **chart above**. Among the All Country World Index's (ACWI) 50 component markets, nearly all have stayed above their 200-day moving averages since November — which are rising in 80% of the markets.

While the ACWI rise has been impressive, it has done even better on an equal-weighted basis. The extreme and dangerous concentration during the March to August rally — when the strength of the mega-caps propped up the rest of the market — has given way to healthy broadening. After reaching a record high 18% of ACWI market cap last August, the U.S.-dominated top 10 stocks have dwindled to 16% of market cap, as a rising number of stocks have rebounded globally.

EM outperformance

The EM relative strength is also clearly evident when comparing 50- and 200-day moving averages. Emerging markets account for nine out of the 10 most positive spreads between 50- and 200-day moving averages. The EM Index has the most positive spread among the indices in our seven-way framework.

Global sector strength

All 11 ACWI sectors have positive 50- and 200-day moving average spreads and rising most decisively for a sector that had been a chronic underperformer until October — Financials. As the relative strength of the Financials sector is positively correlated with both the ACWI and the global bond yield **(chart right)**, it will stand to benefit if the reflation theme includes an increasingly decisive global bond yield advance.

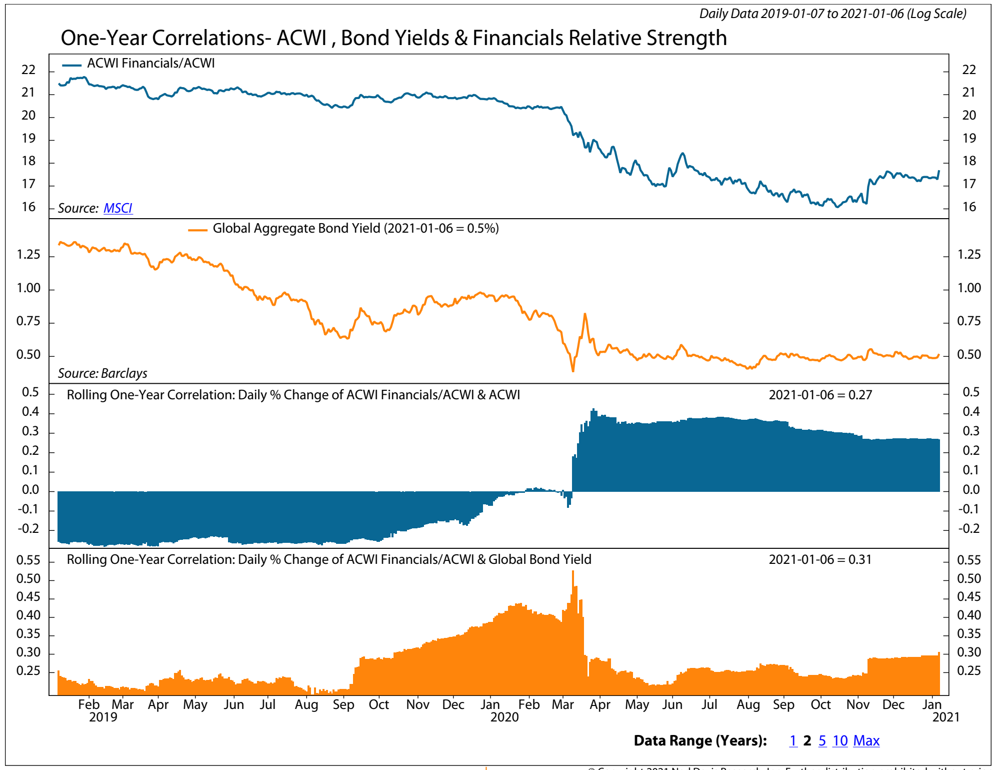
Commodity uptrend persists

The commodity uptrend should be supported, considering the CRB Index's positive correlations with both the ACWI and inflation expectations **(chart below)**.

The positive correlations will be likely to persist as long as rising inflation expectations are accompanied by rising stock prices — a sign that the positive economic implications of reflation are currently more influential than any worries about the negative impact of future inflation.

The Precious Metals Index has been the laggard, held down by the consolidating gold price. But the benchmark trends report shows gold maintaining its uptrend while most of our Gold Watch indicators are bullish, including indicators based on the weakening U.S. Dollar Index and negative real interest rates. Unless rising interest rates send real rates to positive levels and start turning the U.S. dollar trend higher, **gold can be expected to continue taking part in the commodity uptrend**.

Financials starting to benefit from rising yields



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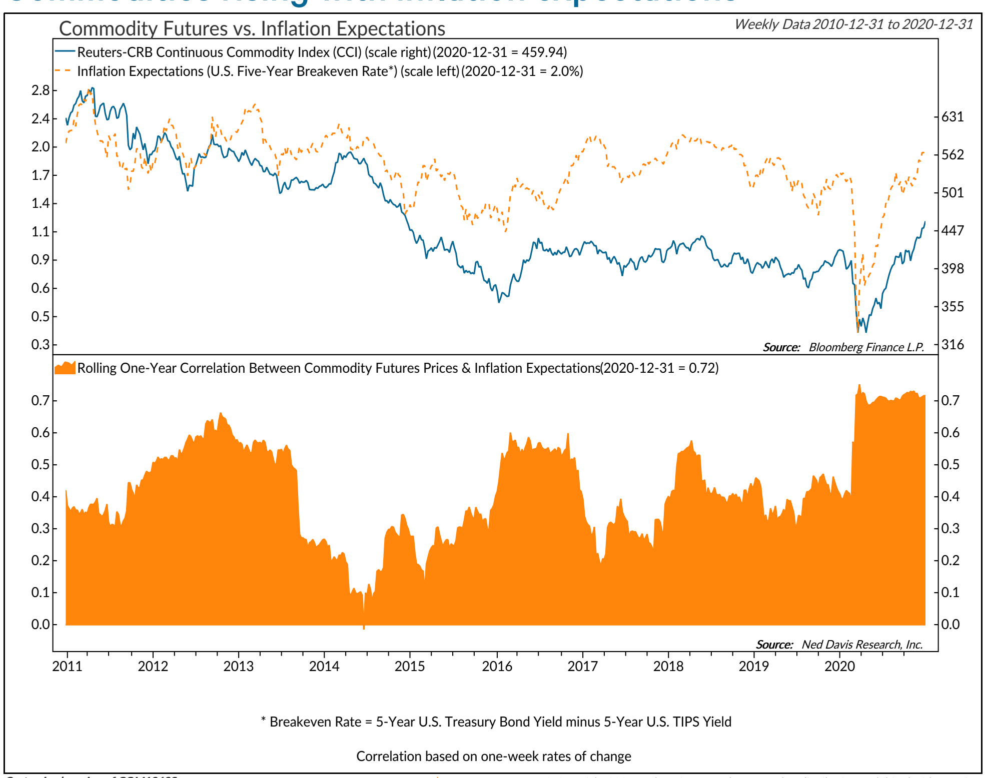
Commodities rising with inflation expectations



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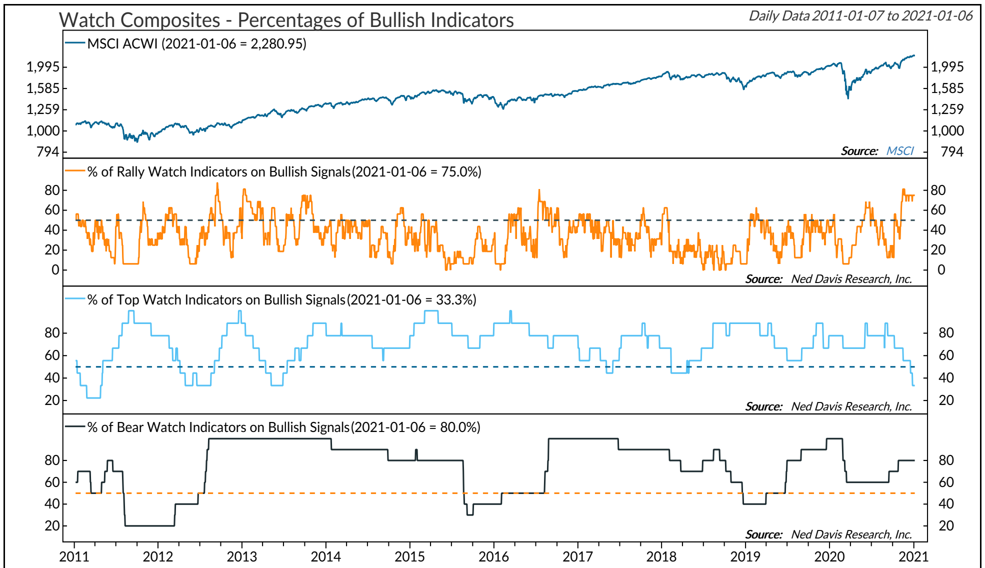
Focus on Watch reports

The bullish implications of the decisive reflation message are evident in the bullish readings on 75% of our Rally Watch components and bearish readings on only 20% of our Bear Watch indicators. However, 67% of our Top Watch indicators have detected conditions that tend to precede declines of at least 10% — such as overbought conditions, excessive optimism, and stretched valuations.

Among the three Watch reports, only the Top Watch aggregate is negative **(chart right)**. After it has warned of a top during the past 10 years, the Rally Watch percentage has declined, leaving bullish indicators in the minority. We will watch to see if the current Top Watch warning is followed by a shallow correction or consolidation phase that relieves the excesses with limited trend damage, or if instead one or both of the other Watch reports deteriorates on more pronounced market weakness.

Top Watch warns rally extended



MSCI ACWI Performance
Full History: 1985-10-07 to 2021-01-06

NDR Watch Reports	% Gain/ Annum	% of Time
All Bullish	17.95	13.23
Mixed	6.13	83.89
All Bearish	-16.61	2.88

Buy/Hold = 6.88% Gain/Annum

MSCI ACWI Performance
Chart View: 2011-01-07 to 2021-01-06

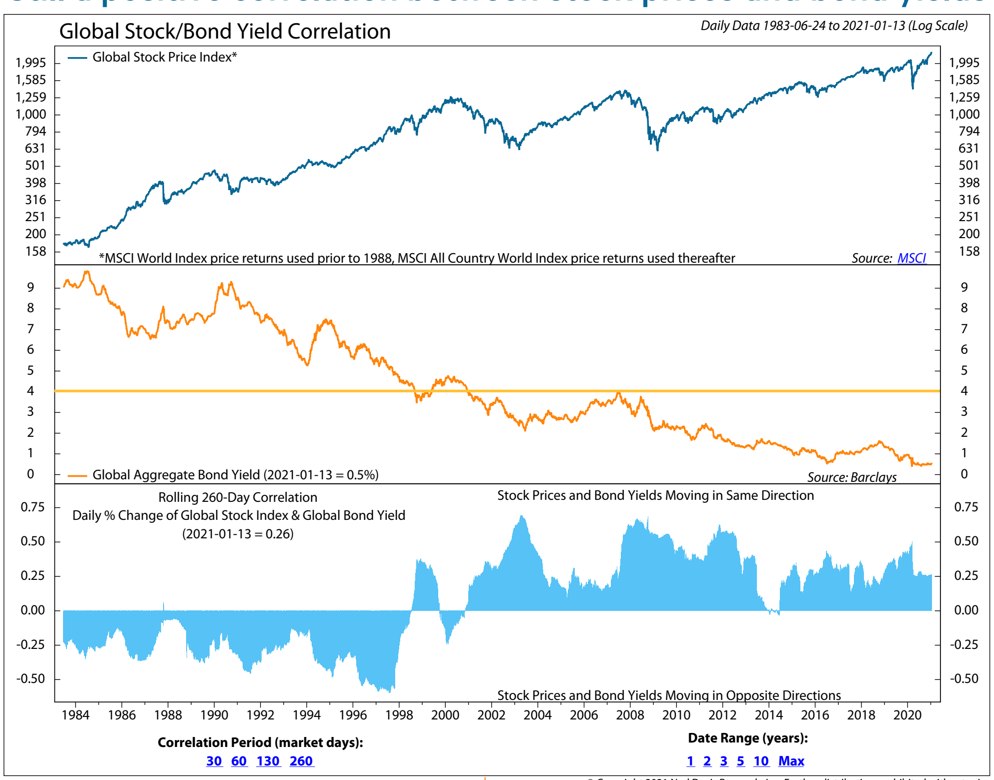
NDR Watch Reports	% Gain/ Annum	% of Time
All Bullish	10.34	14.07
Mixed	8.41	82.97
All Bearish	-5.33*	2.96

Buy/Hold = 7.83% Gain/Annum
** Cases less than one year are not annualized*

IWATCH

Above excerpted from: "Aligned with a strengthening reflation theme" by Tim Hayes, January 7, 2021

Still a positive correlation between stock prices and bond yields



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Too hot to handle?

As the reflation theme has continued to strengthen, we are seeing more signs that the markets are expecting the reflation to evolve into inflation later in the year. If investors in fact start to consider conditions too hot, then the stock/bond yield correlation will be likely to flip from positive to negative **(chart left)**.

Above excerpted from: "Too hot to handle? A question for the future" by Tim Hayes, January 14, 2021

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MARK PHILLIPS NDR EUROPEAN EQUITY ANALYST

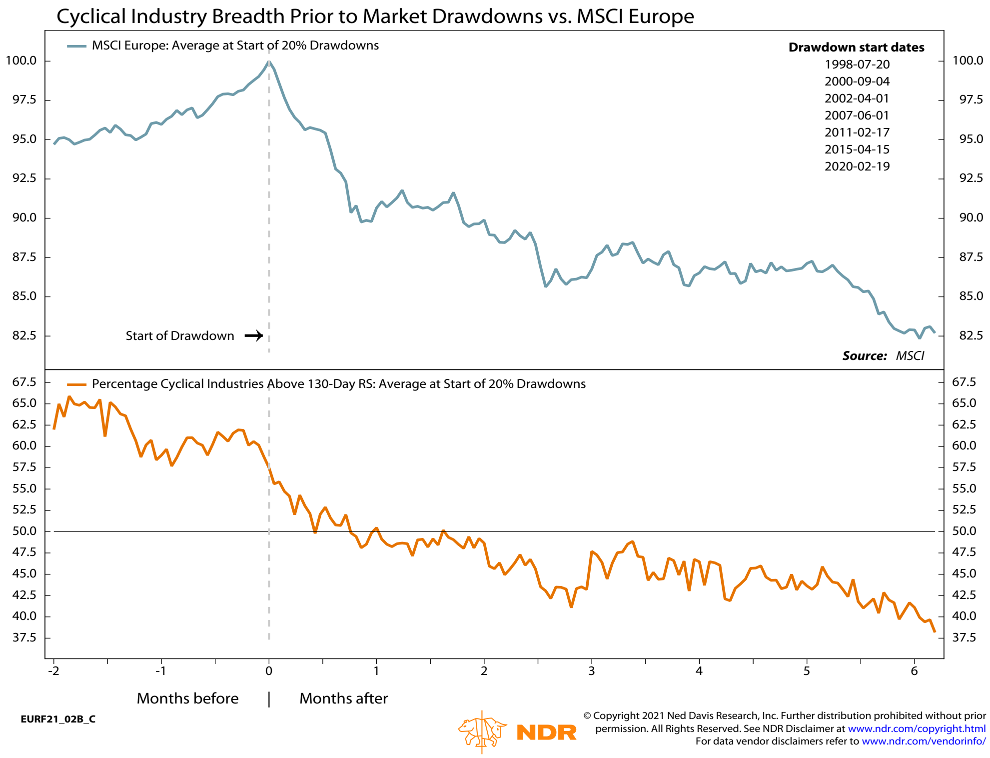
JANUARY 15, 2021

Don’t fight the tape — we remain positive

Key Takeaways

- We remain positive on European stocks.
- Bullish technical indicators trump signs of overoptimism for now.
- Watch cyclical industries to gauge stock market risk.

Watch for decline in cyclical industry leadership



European stocks continued to trend higher through December and into January following the November breakout. Short-term trend and breadth indicators show no signs of an imminent drawdown.

Implied stock market volatility remains elevated — giving some cause for concern. While it is important not to read too much into one case on one indicator, it does highlight that there is still a level of apprehension among some investors.

Sentiment looks to be overoptimistic with two components in particular providing evidence that investors have become increasingly speculative. Extremes in sentiment can signal potential market inflection points, and therefore we monitor whether investors are becoming excessively optimistic.

Strong cyclical leadership is broadly positive for European stocks. With 79% of cyclical industries outperforming the broader market, cyclical industry breadth is bullish. Watch for a decline in cyclical industry breadth, as historically, a decline in industry breadth has tended to precede the market peak prior to large drawdowns **(chart above)**.

Bullish tape favorable for stocks

Momentum, breadth, and trend indicators are strongly bullish, but there are some signs that investors may have become too optimistic. For now, we see the strong signals from the tape as trumping the cautious signal from the sentiment indicator. Rising volatility, deteriorating short-term trend and breadth, and fading cyclical leadership would warrant a more cautious outlook on stocks. **We remain positive on the European stock market**.

Above excerpted from: “European equities – rule #5 don’t fight the tape” by Mark Phillips, January 12, 2021 (available through NDR’s new Europe Strategy product offering)

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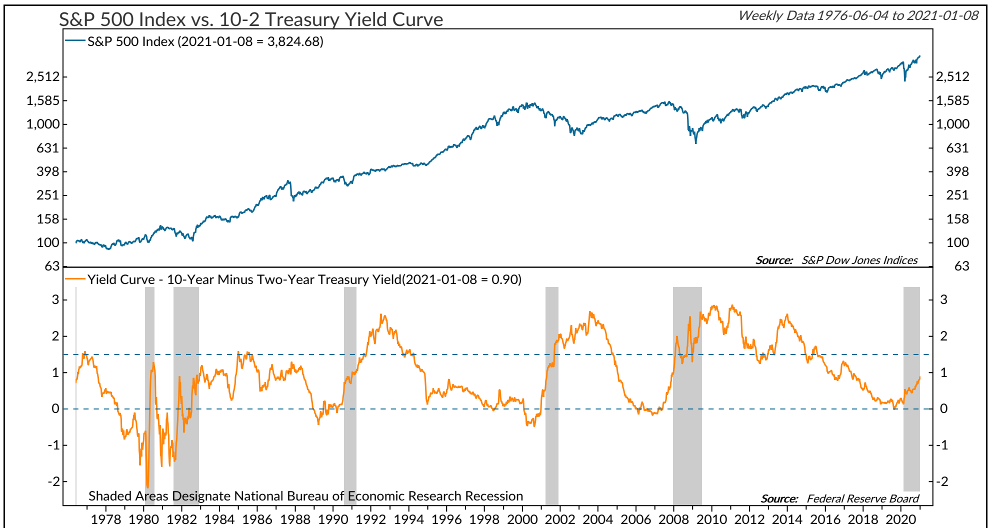
JANUARY 15, 2021

Assessing the reflation trade

Key Takeaways

- A moderately upward sloping yield curve tends to be bullish for stocks.
- The risk is if yields rise too quickly. Watch for a fast move above 1.30% on the 10-year.
- Our reflation trade recommendations are overweight small-caps, Industrials, and Financials, while underweight Staples and Utilities.

Goldilocks yield curve for stocks



S&P 500 Index Performance **Full History:** 1976-06-04 to 2021-01-08		
Yield Curve - 10-Year Minus Two-Year Treasury Yield	% Gain/ Annum	% of Time
Above 1.5	5.81	26.55
0.0 - 1.5	11.11	59.74
Below 0.0	2.90	13.71
Buy/Hold = 8.53% Gain/Annum		

S894

Georgia surprise

While the polls showed two close Georgia Senate races, markets appeared to have gotten comfortable with the idea of a split government. The Democratic sweep, giving them control of the White House and both chambers of Congress, proved to be a mild surprise to Mr. Market.

Over the long run, real returns have been lower under Democratic governments than Democratic presidents with a Republican Congress. Over the short term, the market interpreted last Tuesday's results to mean additional stimulus is more likely.

The immediate reaction was to price in a reflation trade: higher bond yields, a steeper yield curve, broad market gains, and relative strength by economically-sensitive stocks. Yet, some reflation losers failed to underperform, likely due to uncertainty surrounding COVID vaccines.

The message of the reflation trade for U.S. stocks is bullish (for now), especially for small-caps and cyclical Value sectors. The broader Growth/Value call is mixed, so we remain tactically neutral.

Bond yield bump

The most consequential reaction came in the bond market. The 10-year Treasury yield jumped to 1.15%, up 22 basis points (0.22%) from January 4 on expectations that additional stimulus will boost economic growth. Since the Fed has been keeping short-term interest rates near 0%, the jump in T-note yields led to a corresponding widening along most of the yield curve.

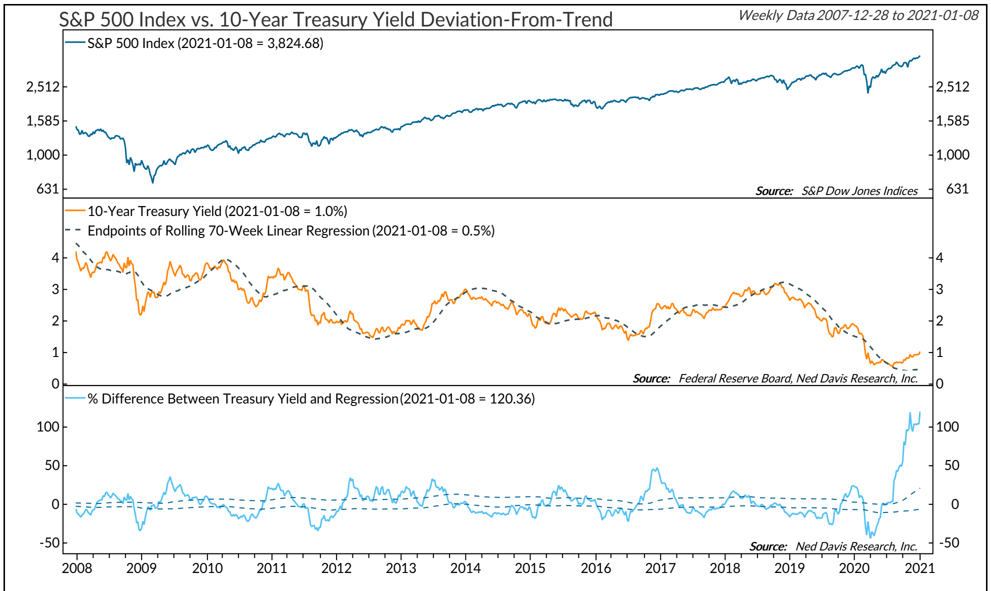
Historically, a moderately upward sloping yield curve has been the most bullish scenario for stocks **(chart above)**. The S&P 500 has risen at a 11.1% annualized rate when the 10-2 yield curve has been between 0% and 1.5%.

Stocks vs. bonds

A moderately upward sloping yield curve has been more bullish for stocks than for bonds. An extremely steep yield curve has implied that economic growth should moderate, which has been less positive for stocks but bullish for bonds. The challenge with historical yield curve comparisons is that zero interest rate policies and quantitative easing have forced interest rates below previous levels.

Since the financial crisis, quick spikes in bond yields have thumped stocks. The **chart at right** compares the 10-year Treasury yield to the past 70 weeks. The back-up in yields since August has not derailed the stock market rally yet, but a fast move above the 1.25-1.30% range could change the narrative from one of an economic recovery to a need for less accommodative monetary policy.

Yield spikes have stalled stock rallies since financial crisis



S&P 500 Gain/Annum Performance Full History: 1969-04-25 to 2021-01-08		
Ind. In Bottom Clip	% Gain/ Annum	% of Time
Above Upper Bracket	-1.60	33.42
Between Brackets	4.85	29.56
Lower Bracket and Below	18.07	37.02
Buy/Hold = 7.26% Gain/Annum		

S&P 500 Gain/Annum Performance Chart View: 2007-12-28 to 2021-01-08		
Ind. In Bottom Clip	% Gain/ Annum	% of Time
Above Upper Bracket	0.14	36.93
Between Brackets	8.19	21.62
Lower Bracket and Below	14.29	41.45
Buy/Hold = 7.56% Gain/Annum		

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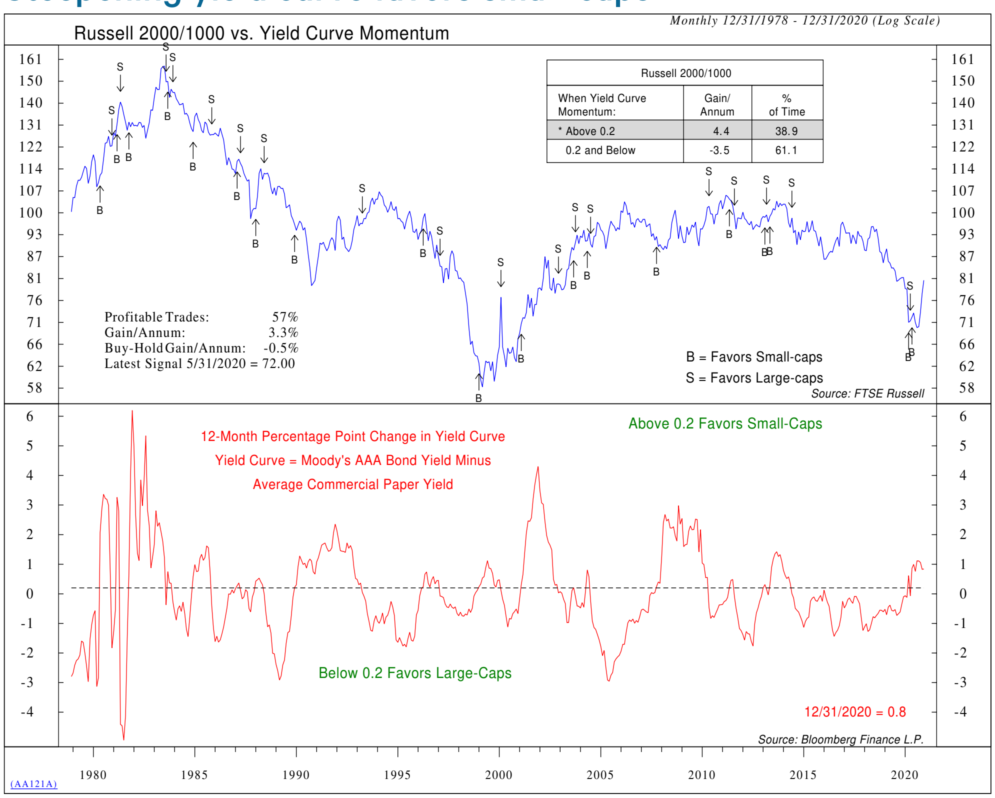
Steepening yield curve favors small-caps



Russell 2000/1000		
When Yield Curve Momentum:	Gain/ Annum	% of Time
* Above 0.2	4.4	38.9
0.2 and Below	-3.5	61.1

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Small-caps clear winners

Following their best quarter since at least 1979, small-caps have continued to outperform large-caps in 2021. The prospects for additional stimulus have reinforced their status as winners during the early phases of an economic recovery.

The stronger economic message from a steepening yield curve tends to favor small-caps over large-caps **(chart left)**. As with the broad market, the risk is if the yield curve steepens too much, signaling an upcoming economic slowdown. Historically, small-caps have not underperformed until the yield curve has begun to flatten.

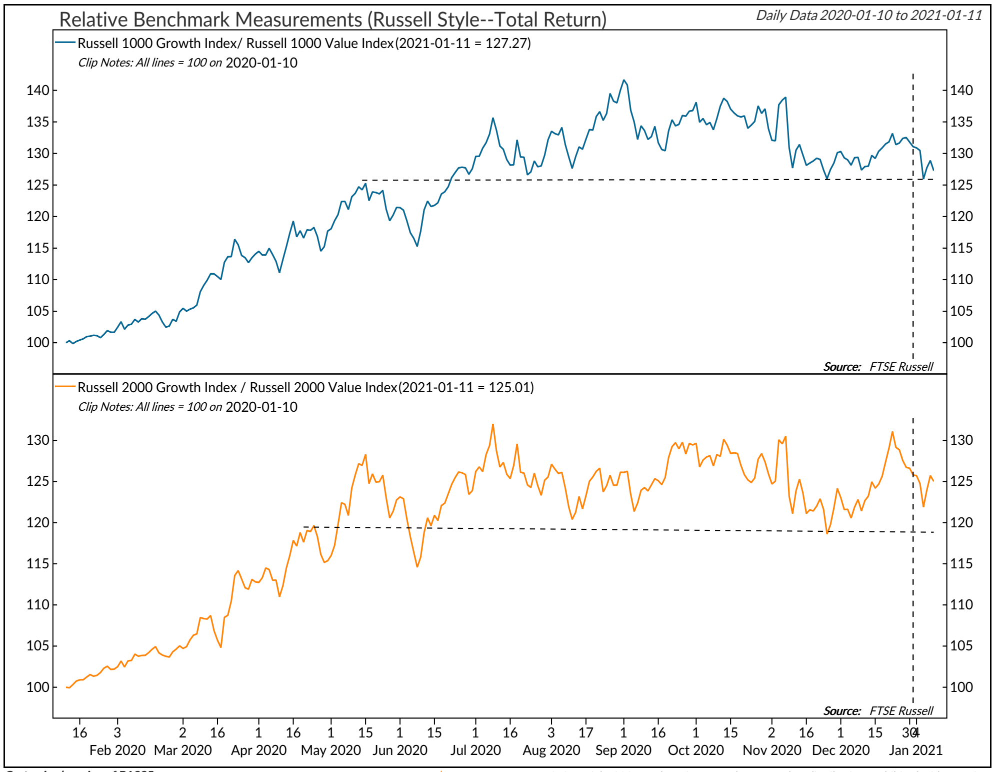
Growth vs. Value: it's complicated

The relationship between the yield curve and the relative performance of Growth stocks to Value stocks is more complex. The best condition for Growth has been a moderately upward sloping yield curve, reflecting weak, but positive, economic growth.

The Growth/Value ratio sits near the support level we outlined in December **(chart right)**. Our Growth/Value models remain mixed. Until our models align or support levels are breached, we will remain neutral on Growth versus Value, and prefer to play the reflation trade via small-caps and our sector team's overweights to Industrials and Financials and underweights to Consumer Staples and Utilities.

Above excerpted from: "Assessing the reflation trade" by Ed Clissold, January 12, 2021

Growth/Value ratios near support



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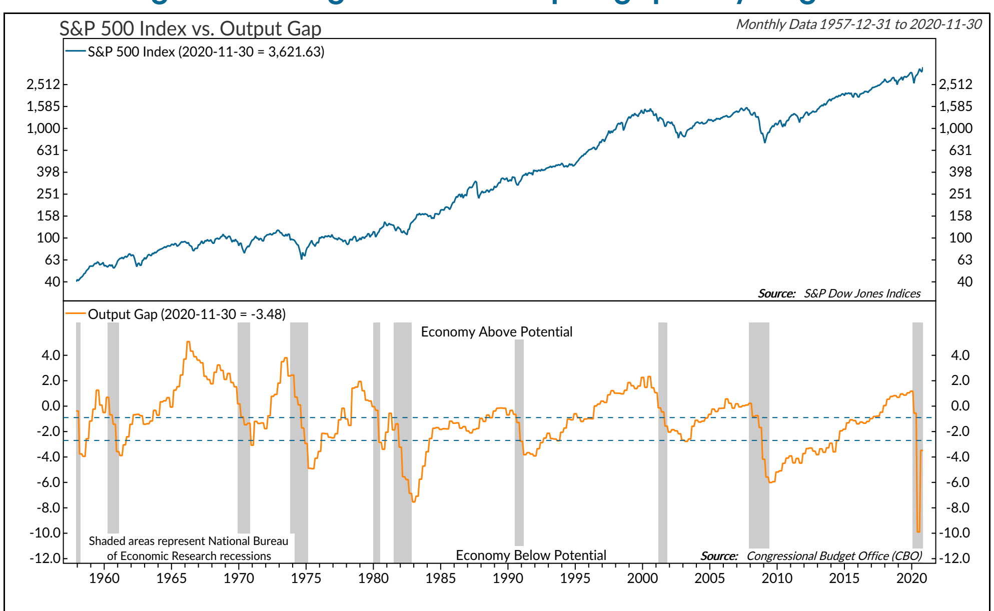
S&P 500 gains strongest when output gap very negative



S&P 500 Index Performance		
Full History: 1957-12-31 to 2020-11-30		
Output Gap is	% Gain/ Annum	% of Time
Above -0.9	1.36	45.69
-2.7 - -0.9	7.97	32.20
Below -2.7	20.21	22.11
Buy/Hold = 7.42% Gain/Annum		

S1007

Economic sweet spot

When reviewing our broad market indicators, what stood out was that the vast majority of economic indicators are bullish. They are based on the concept that the best part of the economic cycle for the stock market is during the early phases of the expansion — when potential growth **(chart left)**, excess capacity, and liquidity are high.

A key question for 2021 is whether the cycle transitions from the bounce off the recession lows to slower growth, which is when echo bears are likely.

Above excerpted from: "The sweet part of the economic cycle" by Ed Clissold, December 29, 2020

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ROB ANDERSON, CFA INVESTMENT RESEARCH ANALYST

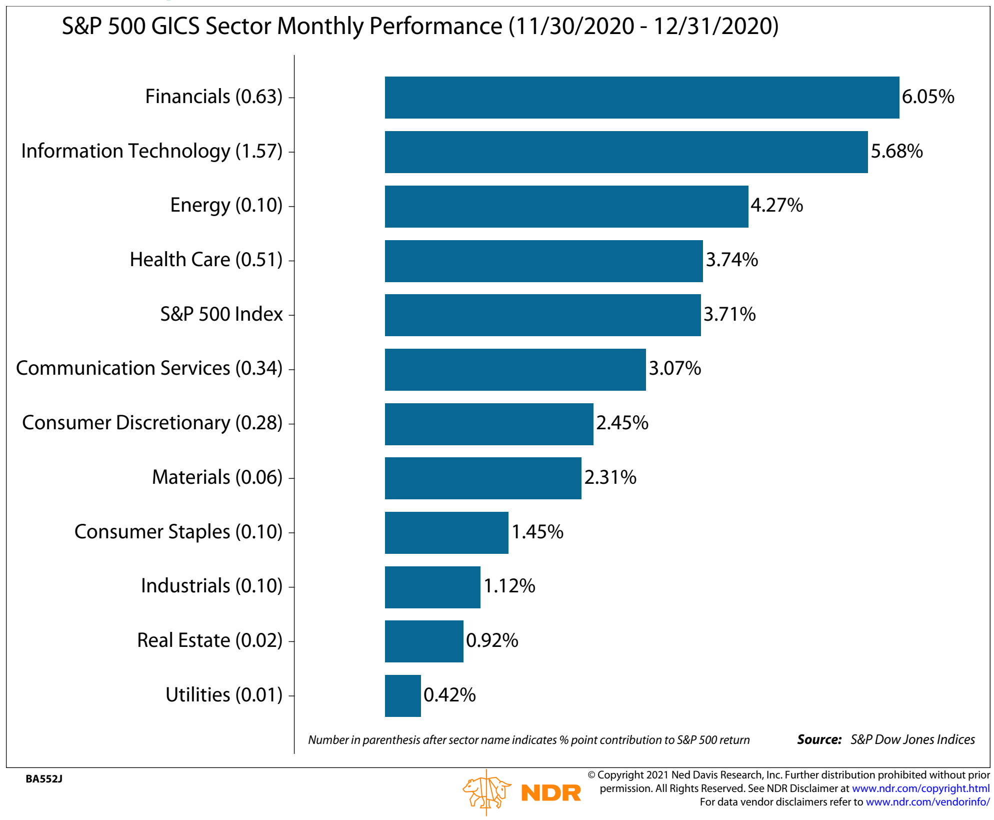
JANUARY 15, 2021

Sector shifts and the Democrat agenda

Key Takeaways

- In mid-December, we upgraded Financials to overweight and downgraded Staples to underweight. We have Industrials on downgrade watch.
- Construction-related, Managed Care, and Renewable Energy, among others, should benefit from Biden's agenda.
- Bipartisan senators could greatly impact spending plans.

Leadership mixed between Growth and Value



Risk-on to finish 2020

Sector leadership during the last two months of 2020 reflect investors' optimism for a normalization of the economy and earnings in 2021. While November sector leadership was marked by cyclical Value sectors, December saw more mixed leadership **(chart above)**.

Recommendation changes

In response to the shift in sector leadership and indicator developments, we upgraded Financials to overweight and downgraded Consumer Staples to underweight on December 17. The recommendation changes were preceded by an improving composite model score for Financials, as well as our Banks Industry Scorecard turning bullish on November 27 for the first time since January.

Expectations for higher rates and a steeper yield curve, as mentioned in our 2021 U.S. Outlook, and Joe Kalish's December 9 moves to lower bond exposure and implement a curve steepener trade, were additional factors for our upgrade of Financials. The Consumer Staples downgrade came after the sector's composite model score fell to its lowest level since November 2017. Consumer Staples saw its percent of total S&P 500 earnings rise to a 2020 high of 9.9% in December, but the sector underperformed in anticipation of broader earnings growth in 2021.

Sector model update

Our sector model made three recommendation changes at the December month-end model update: Health Care was upgraded to marketweight, Materials was downgraded to marketweight, and Consumer Staples was downgraded to underweight. The model also got more bearish on Industrials during the month, and we have the sector on downgrade watch.

Above excerpted from: "Monthly sector update — January 2021" by Rob Anderson, January 6, 2021

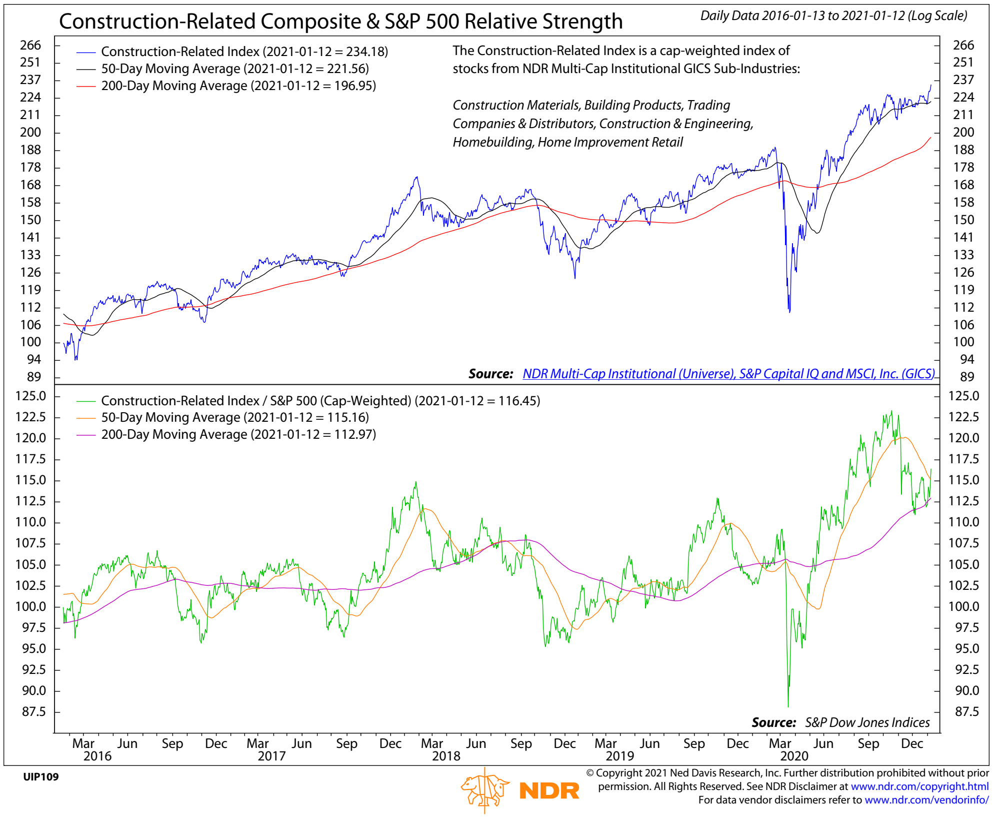
Free money but for how long

The COVID era has created a window of issuing free money (large fiscal stimulus without tax hikes), but that window could be closing if vaccines create herd immunity. Democrats need to “make hay” while the window is open and choose their first spending target(s) carefully and quickly. Bipartisan senators could greatly impact spending plans. We see four key agenda items, listed below and on the next page in expected order of importance.

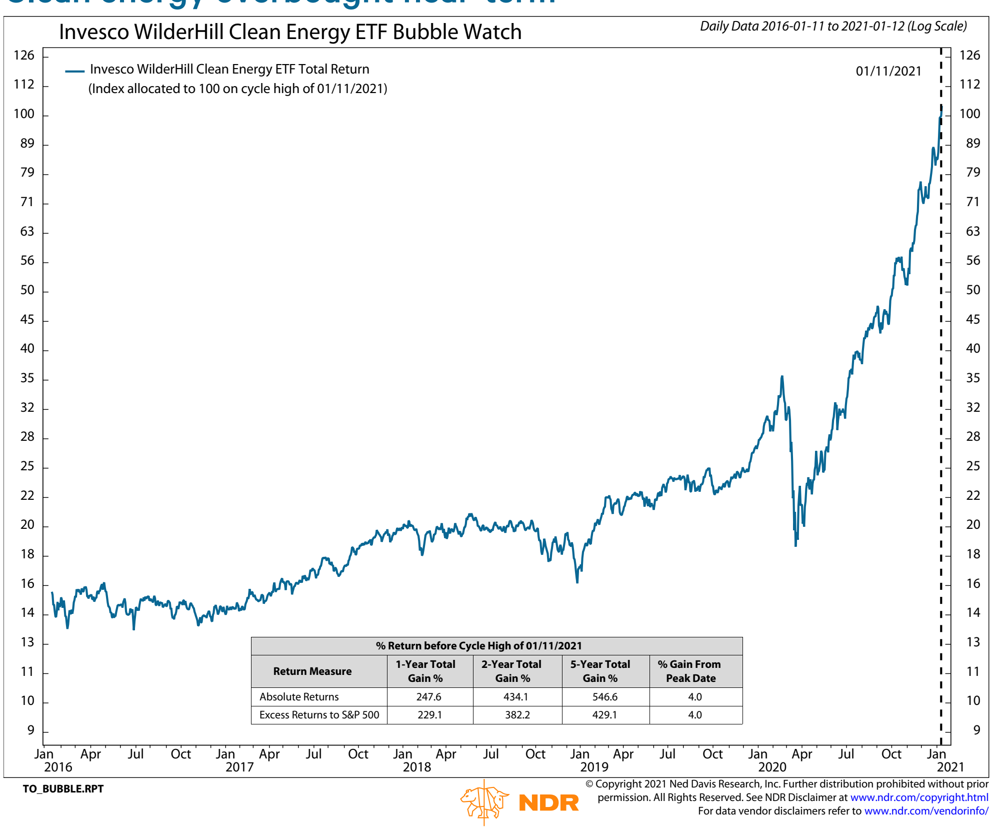
Infrastructure Spending

Infrastructure spending is likely a top priority (after COVID funding) for two reasons: 1) it is a more politically desirable to have fiscal stimulus aimed at “Main Street” than “Wall Street” and 2) Biden’s main campaign theme was to “build back better.” We favor owning construction-related industries **(chart right)**, especially those that will also benefit from a strong residential construction market.

Construction-related stands to benefit



Clean energy overbought near-term



% Return before Cycle High of 01/11/2021

Return Measure	1-Year Total Gain %	2-Year Total Gain %	5-Year Total Gain %	% Gain From Peak Date
Absolute Returns	247.6	434.1	546.6	4.0
Excess Returns to S&P 500	229.1	382.2	429.1	4.0

Clean Energy

Any major stimulus bill should placate Democrats clamoring for action on climate control. An increase in electric vehicle (EV) charging stations and/or tax credits for purchasing EVs would certainly be welcomed. Providing incentives for wind and solar energy could also be a priority. There may be too much excitement around Clean Energy, evidenced by PBW, the largest clean energy ETF, being up nearly 250% the past year **(chart left)**.

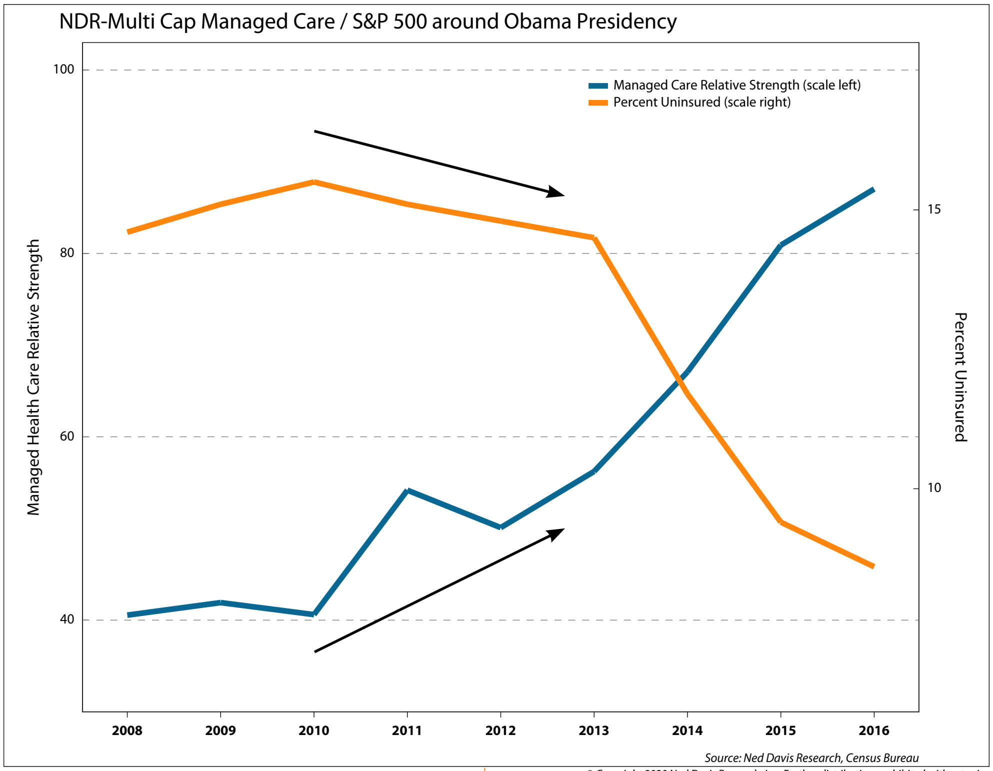
Any clean energy plan should also include fossil fuel and pollution reduction. This would benefit Independent Power Producers, Renewable Energy, and Pollution Control industries.

Affordable Care Act

Biden, a big proponent of the original Affordable Care Act (ACA), will undoubtedly do everything in his power to defend this act. In addition, the Supreme Court looks poised to once again uphold the constitutionality of the ACA. Our multi-cap Managed Care sub-industry outperformed the S&P 500 by 7.8% annualized from 2012 to 2016, when the uninsured rate was dropping quickly **(chart right)**.

Managed Care's relative trailing P/E is more than two standard deviations below average, over-pricing in risk, in our view.

Managed Care outperformed as uninsured fell



Technology Regulation

While we do not see Democrats going full out anti-trust assault to blow up the largest Tech companies, we expect a barrage of lawsuits to create an overhang for some time. Facebook already has had such an anti-trust suit that seeks to unwind its Instagram and WhatsApp acquisitions.

Google has also been hit with a lawsuit by a group of Attorney Generals and the DOJ, alleging it has unlawfully manipulated search results. We remain marketweight Technology (and Big Tech) and may be for some time, as the litigation overhang continues.

The **table at left** is a summary of current Democratic agenda industry beneficiaries, which we will continue to adjust if/when further stimulus spending is passed.

Democrat agenda most impacted industries

Theme Summary	**Sub-industries benefitting / (hurt) by Democrat Agenda**	
Infrastructure Spending	• Construction Materials • Construction Machinery	• Trading Companies & Distributors • Building Products
Clean Energy	• Independent Power Producers • Renewable Electricity	• Integrated Oil & Gas • (Oil and Gas Equipment & Services)
Affordable Care Act	• Managed Care	• Health Care Facilities
Technology Regulation	• (Hardware) • (Interactive Media)	• (Internet Retail)
Other	• Inflation - Large Banks, Gold miners • Inc. Tax Revenue - Marijuana, Sports Betting	

Ned Davis Research T_IF21_02.2

Above excerpted from: "The Democrat agenda and industry beneficiaries" by Pat Tschosik, January 14, 2021

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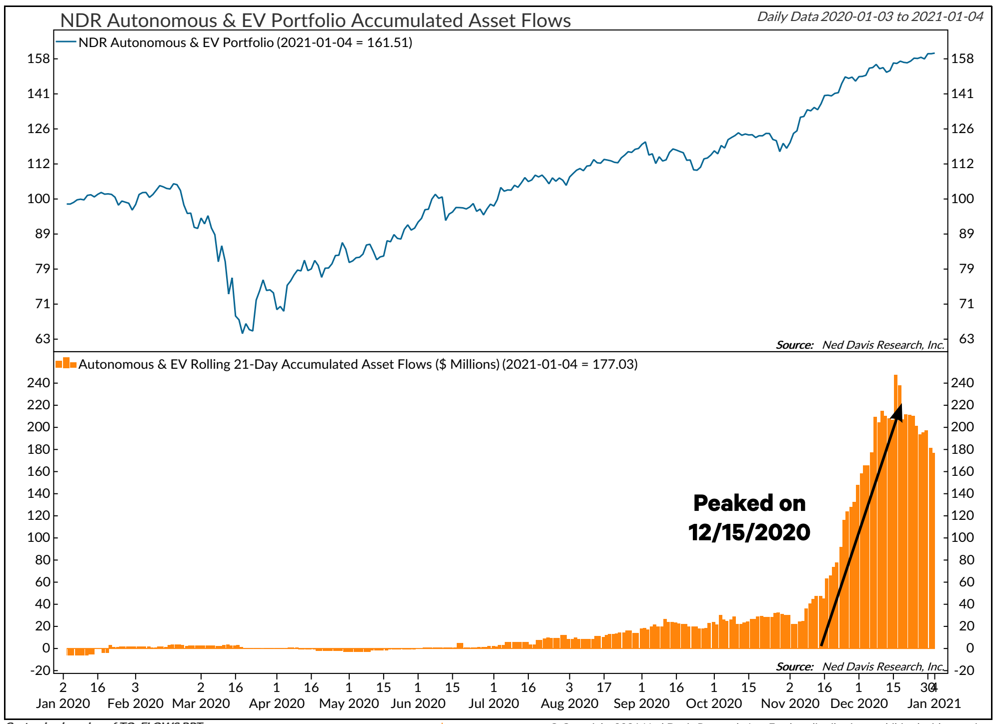
JANUARY 15, 2021

Electric Vehicles and Biden Agenda

Key Takeaways

- We initiated our Electric Vehicles theme, as the transition to electric vehicles by the automobile industry is now inevitable.
- With Infrastructure Spending expected to be a top priority, we expect a boost to construction-related industries, and favor those that also benefit from strong residential construction.
- In the near-to-medium-term, lawsuits (or the threat of) should remain an overhang for Big Tech.

Massive inflows to EV ETFs



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Auto transition to EV

On January 6, we initiated our Electric Vehicles (EV) theme. The transition from internal combustion engines (ICE) to battery electric vehicles (BEVs) is obvious and inevitable. Autonomous and EV ETFs topped $240 million in the middle of last month as investors chased ETFs in the space **(chart above)**. Tesla's 700% plus return in 2020 and a bevy of recently public, developmental-stage, manufacturers has made investor optimism for the theme clear.

Per Bloomberg New Energy Finance (BNEF), passenger EV sales are expected to be about 1.7 million vehicles in 2020. That's down about 400,000 from 2019, but sales are expected to rise the next four years hitting 8.5 million vehicles by 2025 — an annual growth rate close to 50%. The majority of EV sales are expected to be in China until 2030.

EV adoption has four primary drivers:

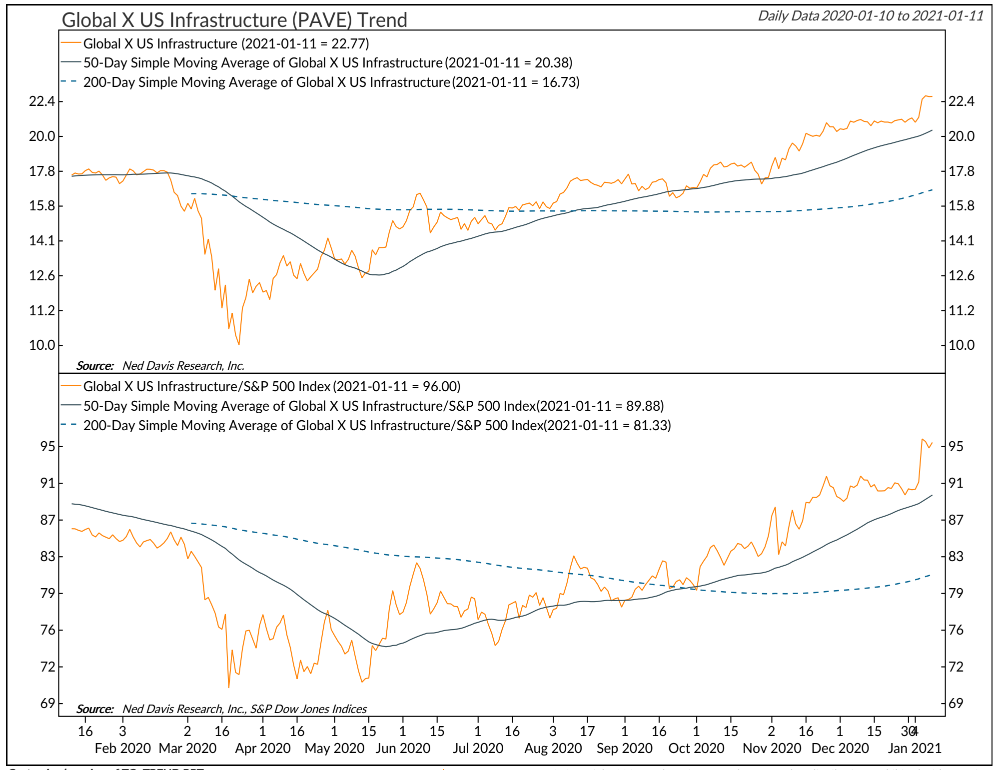
1. **Regulatory** – increased fuel economy standards and ICE prohibitions on engines are gaining momentum. BNEF records 13 countries and 31 cities have announced plans to eliminate ICE.
2. **Subsidies** – tax incentives, for both producers and consumers.
3. **Consumer preference and convenience** – brand loyalty, age, and availability of charging infrastructure contribute to adoption.
4. **Economics** – falling battery costs, increasing efficiency (reduced charging time and increased distance per charge), and EV/ICE parity (expected mid-decade as ICE costs increase due to fuel economy standards and reduced emissions requirements).

Above excerpted from: "Theme Initiation: Electric Vehicles" by Matt Bauer and Pat Tschosik, January 6, 2021 (available through NDR's new Thematic Opportunities product offering)

Infrastructure spending a priority

While campaigning, Biden indicated infrastructure spending will be a top priority. We expect a boost to construction-related industries, and favor those that also benefit from strong residential construction. After the November election, we expressed concern PAVE could not continue its relative-strength rally without Democratic control of the Senate. Now with a slim Senate majority, a politically palatable "Main Street" over "Wall Street" fiscal stimulus plan should be a top priority and provide continued support for PAVE **(chart right)**.

Infrastructure spending



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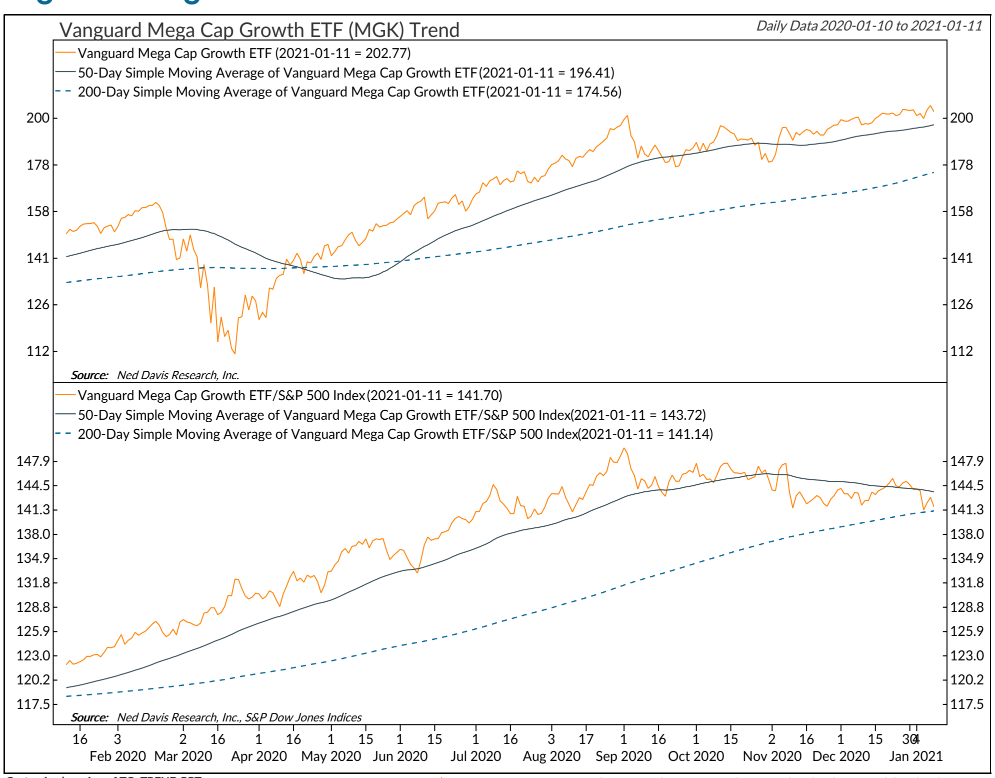
NDR

Big-Tech regulation



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NDR

Big-Tech regulation

Both parties have been vocal with their displeasure of Big Tech and antitrust lawsuits have been initiated against Facebook and Google. The GA election and expulsion of Trump from major social media platforms may be the catalysts needed to push action to the next level. In the near-to-medium-term, lawsuits (or the threat of) should remain an overhang for Big Tech **(chart left)**.

Please contact your NDR-BCA sales representative for a complimentary trial to NDR Thematic Opportunities.

Above excerpted from: "Biden Agenda" by Matt Bauer and Pat Tschosik, January 13, 2021 (available through NDR's new Thematic Opportunities product offering)

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ALEJANDRA GRINDAL SENIOR INTERNATIONAL ECONOMIST
PATRICK AYERS INTERNATIONAL ECONOMIC ANALYST

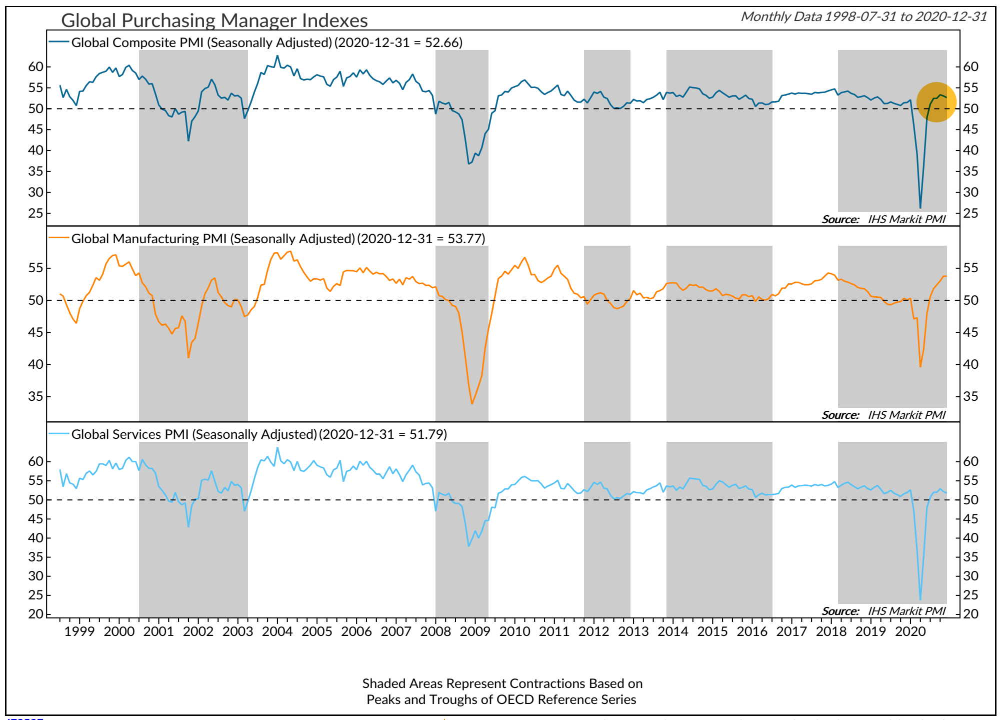
JANUARY 15, 2021

Global economic growth remains solid

Key Takeaways

- The global economy ended 2020 on a strong note, only mildly impacted by COVID, according to the latest PMIs.
- The aggregate, however, masks large divergences among sectors and countries.
- We continue to maintain our view that conditions will worsen before they get better.

Global growth slightly impacted by COVID



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The global economy continued to grow at a firm pace at the end of 2020, as rising COVID cases and renewed lockdowns in many parts of world have so far inflicted only limited damage on the global economy. The global composite Purchasing Managers' Index (PMI) edged down in December. It was its second straight decline and a three-month low **(chart above)**. Even so, the latest reading is historically consistent with 2.6% annual global real GDP growth — indicating that the recovery remains firmly intact. However, the resiliency of the aggregate masks divergences among sectors and countries.

Manufacturing powers ahead

Manufacturing remained the global juggernaut. The PMI held at 53.8 in December — the highest level since February 2018. This supports our long-held view of a V-shaped recovery in the sector. Most component and additional indexes remained at historically elevated levels — indicating that conditions are broadly favorable. But, nearly all showed slightly slower growth compared to the prior month.

The only component that added to the monthly change in the global manufacturing aggregate was supplier deliveries, which slowed at the fastest pace since April 2020. While usually indicative of stronger economic growth, slower delivery times during the COVID crisis have been largely attributable to supply chain disruptions associated with the pandemic.

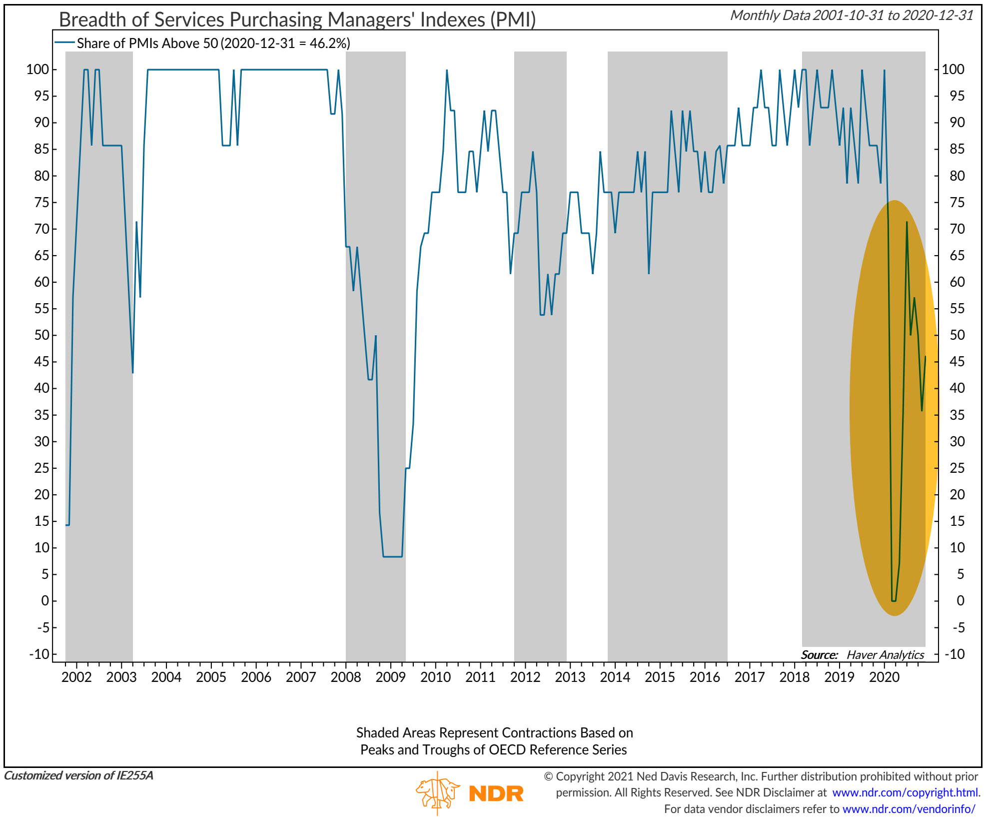
Our breadth measures of the manufacturing PMIs, which measure how broad-based the recovery is among countries, all improved. The share of economies with expanding manufacturing sectors climbed to 79%, the highest since October 2018. Over three quarters of economies saw momentum increase compared to the prior month. Nearly 80% of economies, the most in over three years, ended 2020 with PMIs above their pre-COVID levels from a year ago.

Services struggles

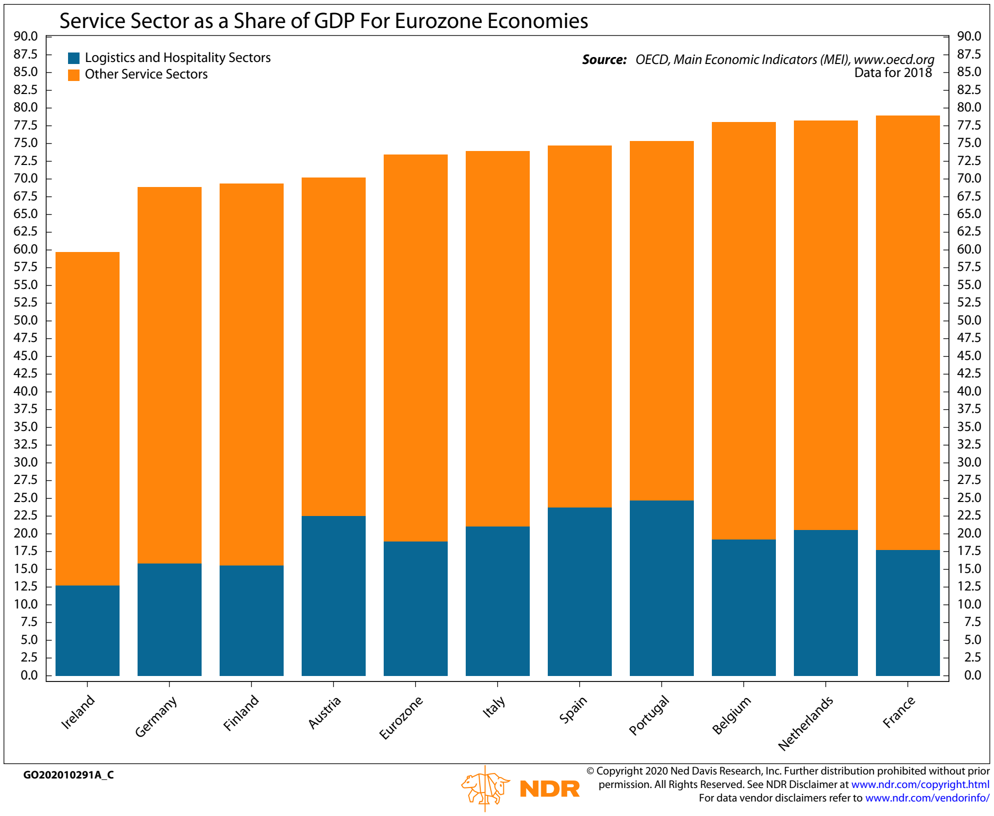
The resiliency in manufacturing was offset by deteriorating conditions in the larger global services sector. The global services PMI fell in December. It was its second straight decline and a five-month low. The near-term outlook remains weak, but optimism over the vaccine kept 12-month expectations elevated, in line with our view that conditions will get worse before they get better. Our breadth measure of global services demonstrates the marked divergences among countries. Fewer than half of the world's economies reported expanding services output **(chart right)**.

Above excerpted from: "Global growth solid, despite rising COVID cases" by Alejandra Grindal, January 7, 2021

Services breadth remains in the doldrums



Eurozone countries economies depend most on services



Will Europe drag the world down with it?

The eurozone economy has been acutely vulnerable to the pandemic since most economies in the region disproportionately rely on services for economic growth **(chart left)**. Despite the inevitability of recession in the eurozone, the region's demise is unlikely to drag the U.S., China, or the rest of the world down with it. Even as Europe remains one of the world's weakest links, the region is poised for a robust rebound in the second half of the year — however, this outlook is still riddled with downside risks.

Above excerpted from: "Eurozone double-dip recession inevitable" by Alejandra Grindal, January 14, 2021

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

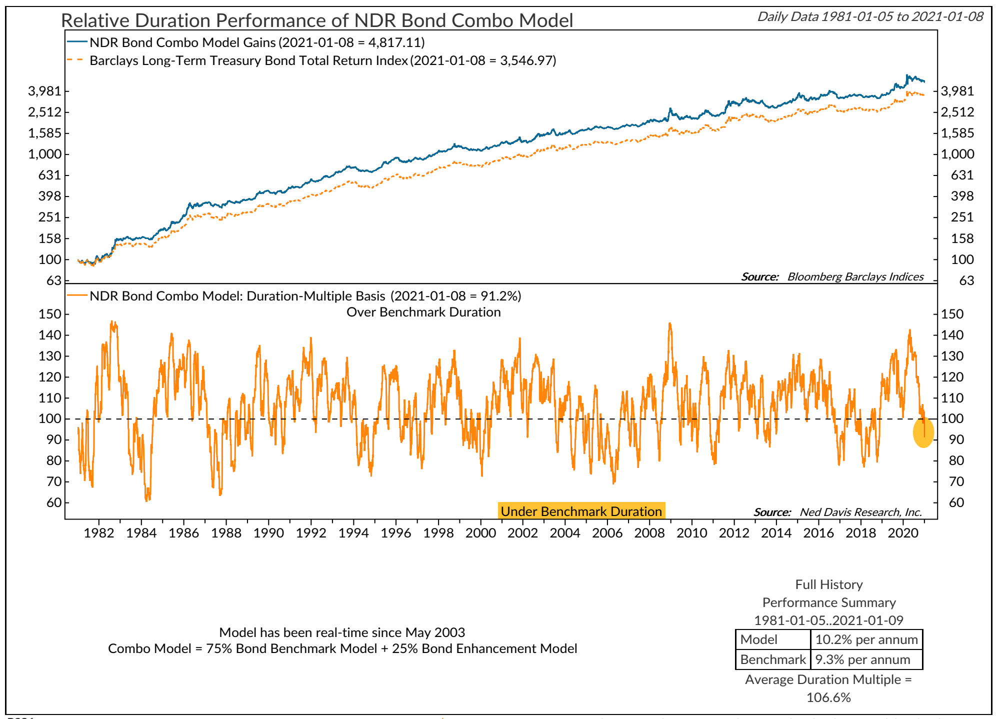
JANUARY 15, 2021

Reduced duration, downgraded U.S. bonds

Key Takeaways

- Reduced bond exposure by 5% to 90% of benchmark duration and shifted 5% from the U.S. to Japan in our global bond allocation due to fundamentals, technicals, and our model.
- U.S. yields looks relatively attractive on a nominal basis, but not on a real basis.
- We list seven reasons to remain overweight credit, especially high yield.

Lowest reading since November 2018



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Last month, we discussed why we expected a modest rise in yields (and a steeper curve) this year. Since the beginning of the year, conditions have been quickly evolving.

Reduced duration again

On January 12, we further reduced our bond exposure to 90% of benchmark duration from 95%. That's our lowest recommended exposure since November 2018. Likewise, our Bond Combo Model has fallen to 91.2%, also its lowest reading since November 2018 **(chart above)**.

The Bond Benchmark Model, which comprises 75% of the Bond Combo Model has dropped to its duration equivalent reading of 90.6%, its worst level since November 2018.

The Bond Enhancement Model, which makes up 25% of the Bond Combo Model, gave a repeat sell signal last Friday. Fundamental and technical factors contributed to the downgrade.

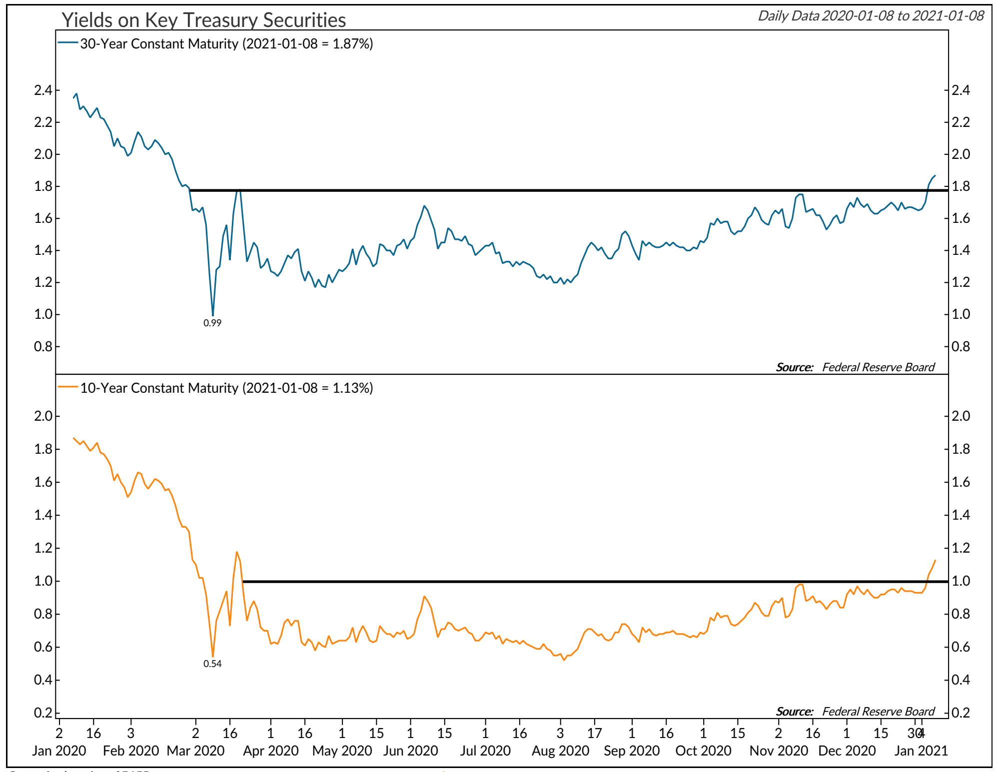
The prospects for additional fiscal aid boosted growth and inflation expectations, amid a weak dollar and rising commodity prices. On the technical side, yields broke out of their prior ranges.

Lowered U.S., raised Japan

We also reduced the U.S. in our global fixed income allocation to a neutral 50% from 55% and increased Japan to 15% from 10%, although it remains slightly underweight. Europe remains at 30% and the U.K. at 5% — both at marketweight.

The chance for additional fiscal support, higher inflation, and increased supply have led to U.S. underperformance recently. Japan, however, remains steady and becomes a defensive play in a rising rate environment.

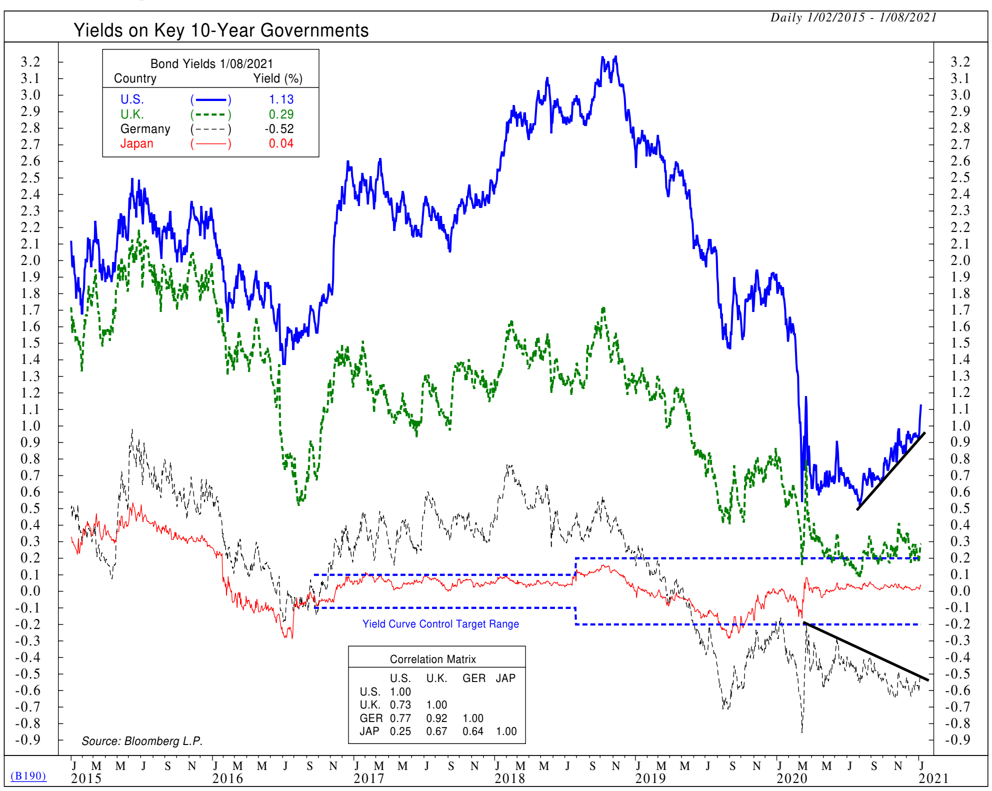
Breakouts across the yield curve



Customized version of B155

Rising inflation expectations and better global growth caused yields to break out of their recent trading ranges **(chart right)**.

German yields remain in a downtrend



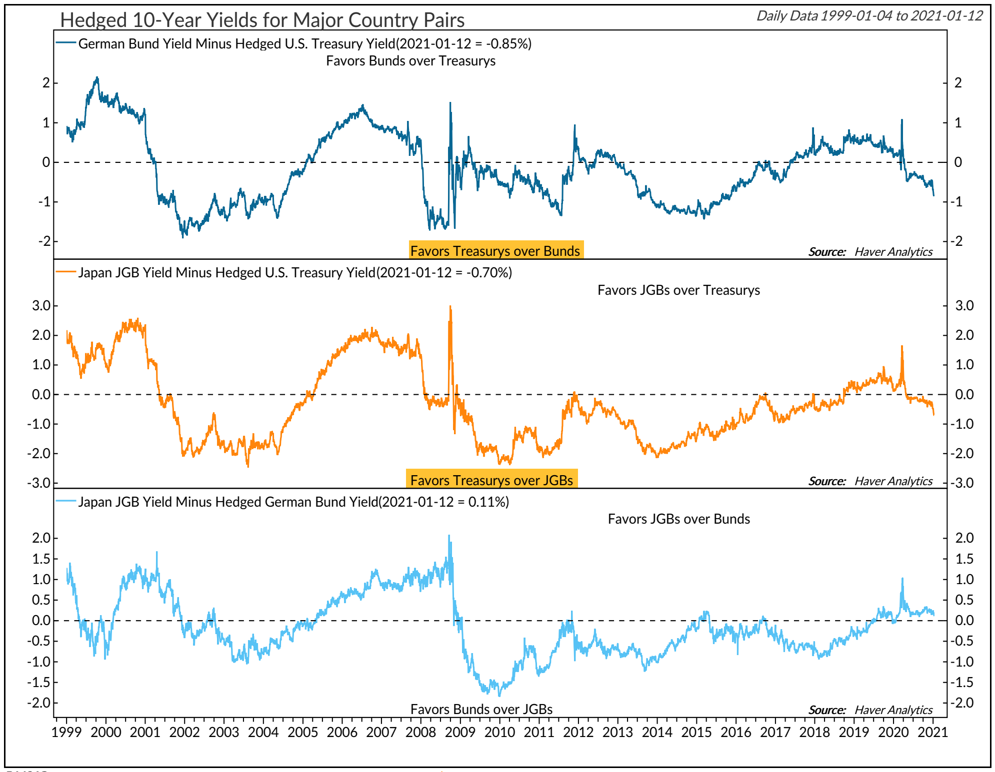
Global yields, however, did not confirm the move in the U.S. **(chart left)**. This is not a sustainable condition. Eventually we expect foreign yields to join the U.S. uptrend.

Above excerpted from: "Further reducing duration, downgrading U.S." by Joe Kalish, January 12, 2021

On a currency-hedged basis, the U.S. enjoys higher nominal yields **(chart right)**. For example, the spread between U.S. and German 10-year yields favored the U.S. by 85 basis points (0.85%) after hedging, the most since November 2015.

The spread between the U.S. and Japanese 10-year yields favored the U.S. by 70 basis points (0.70%), the most since May 2017.

U.S. yields look attractive on a nominal basis



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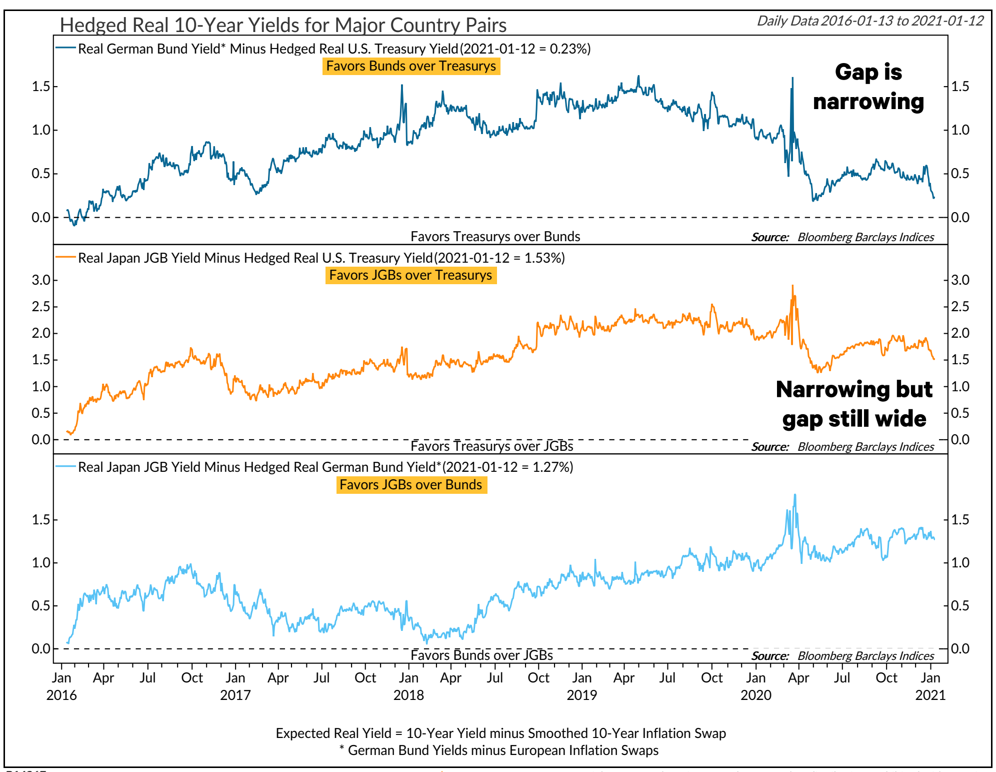
U.S. yields look unattractive on a real basis



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But, comparing nominal yields doesn't account for the differences in inflation expectations among economies. U.S. yields are higher than foreign yields because of higher inflation expectations and a higher policy rate.

On a real basis, the U.S. is at a disadvantage **(chart left)**. To make the U.S. more competitive, yields would need to rise and spreads widen.

Above excerpted from: "Can U.S. yields and spreads keep rising?" by Joe Kalish, January 14, 2021

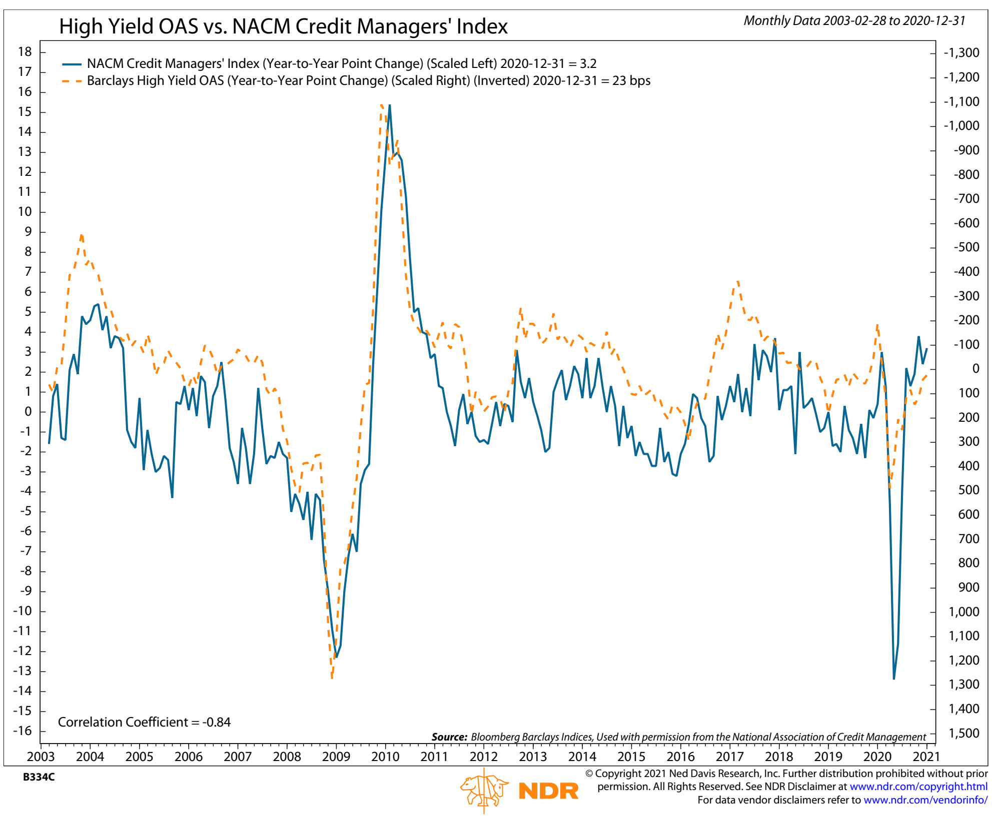
Remain overweight credit

We remain overweight credit and particularly favor high yield in part due to its lower duration. Below we highlight seven fundamental, technical, and intermarket reasons to remain overweight credit, especially high yield:

1. **Credit conditions**. The first reason shows a new chart **(below)** featuring the close correlation between the year-to-year basis point change in high yield credit spreads and the year-to-year point change in the NACM Credit Managers' Index (CMI), one of our favorite gauges of real economy credit conditions. Although the overall index was little changed at 57.8 in December, the index of favorable factors improved 1.3 points, led by a 3.7 point jump in sales to 70.2. The index of unfavorable factors slipped one point to 52.5, led by a 4.6 point drop in accounts placed for collection, indicating ongoing problems with cash flow. The future is bright, which should keep credit spreads tight. We achieved similar results with our Credit Conditions Index, which measures the cost and availability of credit to households and businesses.
2. **Liquidity**. Banking liquidity remains strongly conducive to high yield outperformance.
3. **Relative strength vs. Treasurys.** The high yield/intermediate-term Treasurys ratio has made a new high.
4. **Relative strength vs. Investment Grade.** High yield has also broken a long-term downtrend line relative to investment grade corporates.
5. **Lower quality outperforming.** Within investment grade, Baa has been outperforming Aa, with the ratio hitting a new high. Within high yield, Caa has been outperforming Ba. Troughs in this ratio have coincided with the start of cyclical recoveries. When both ratios have been rising, high yield has strongly outperformed.
6. **Breadth and momentum**. It has been impressive for both investment grade and high yield on an intermediate and long-term basis.
7. **Intermarket reasons**. Our U.S. Equity Small/Mid/Large Model now favors small-caps, confirming our overweight recommendation for the past seven months. Historically, small-caps and high yield are very correlated, as both benefit from an improving economic outlook. The economic recovery is also evident globally, as the Aussie/Yen ratio broke a six-year downtrend line.

Above excerpted from: "Seven reasons to remain overweight credit" by Joe Kalish, January 7, 2021

A rising CMI should help high yield outperform



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

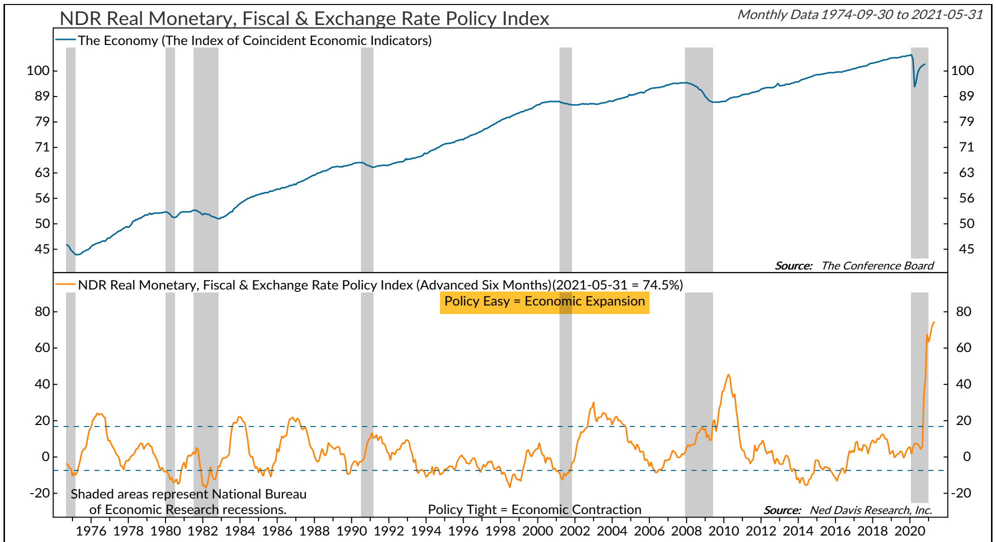
JANUARY 15, 2021

Reaffirming our 2021 U.S. growth outlook

Key Takeaways

- We reaffirm our expectation of 4.6% real GDP growth this year.
- The risk of a double-dip recession in early 2021 has increased. But, so have the odds of additional fiscal stimulus, bolstered by a Democratic majority in Congress.
- Jobs and employment trends were weak, which will likely lead to additional stimulus.

Large stimulus supports 2021 growth outlook



The Real Monetary, Fiscal & Exchange Rate Policy Index Is
Real M2 Money Supply Year-to-Year Change
Plus Real Federal Expenditures (12 Month Total) Year-to-Year Change
Less Real Federal Receipts (12 Month Total) Year-to-Year Change
Less Real Broad Index of the Foreign Exchange Value of the Dollar
Year-to-Year Change.

Economic Performance Full History: 1974-09-30 to 2020-11-30		
Real MF&ER Policy Index	% Gain/ Annum	% of Time
Above 16.8	3.03	12.47
-7.4 - 16.8	1.74	70.40
Below -7.4	1.05	17.13
Buy/Hold = 1.78% Gain/Annum		

E990

Weak start to 2021

The high-frequency economic data at the start of 2021 is not encouraging for the near-term outlook. Despite the approval of COVID vaccines, rollout will take several months, and herd immunity will take even longer than that. In the meantime, the spike of COVID cases since the fall of 2020 has led to a decline in mobility and economic engagement, which is now at its lowest level since last June. This has translated into lower consumer sentiment, less spending on restaurant meals and accommodations, less travel, fewer job postings, and more layoffs — all of which can be tracked in our High-Frequency U.S. Economic Indicators Report.

Additionally, the first decline in seven months in nonfarm payrolls in December, although concentrated in leisure and hospitality and private education services, raises the risk of a double-dip recession in early 2021. On top of that, the political upheaval and Capitol attack on January 6th introduced a layer of political uncertainty that may add to the downside risk to near-term growth.

Growth outlook still positive

Most of these negative developments were incorporated in our 2021 U.S. economic outlook, released on November 18, 2020. Therefore, we reaffirm our projection of 4.6% real GDP growth in 2021, with weaker growth in the first half of the year, but stronger growth later on.

The outlook is bolstered by the latest $900 billion COVID relief bill, signed into law on December 27. With it, total COVID-related fiscal and monetary support is near 40% of GDP at yearend, although some of the Fed's funding facilities will not be available in 2021. Our Real Monetary, Fiscal, and Exchange Rate Policy Index, which is already at a record high level, corresponds to above-trend growth six months down the road **(chart above)**.

Biden stimulus

Biden campaigned on a plan to increase government spending by $5.4 trillion over ten years, mostly on infrastructure, clean energy, manufacturing investment, education, and health care. A Democratic majority in Congress increases the odds that more of his agenda will get a hearing and potentially be passed into law. The cost will be partially offset by a $3.4 trillion increase in revenue over 10 years from proposed higher taxes on corporations and high-income earners **(table right)**.

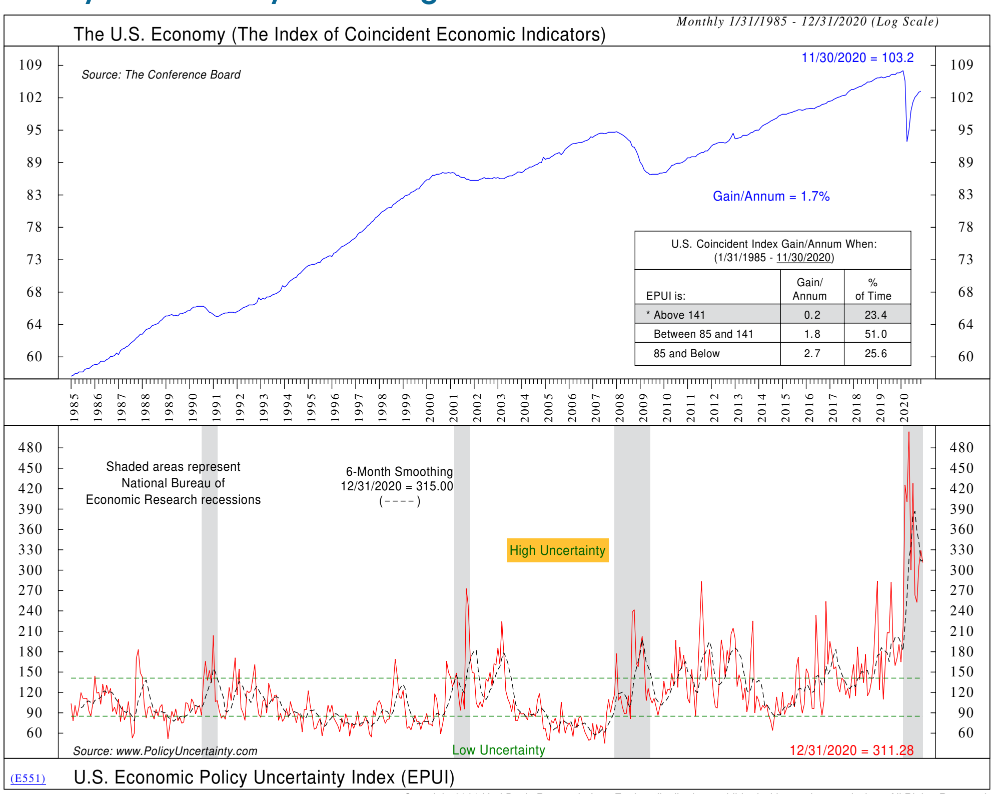
The coming Biden stimulus?

Estimated effect of President-elect Biden's Economic Plan, 2021-2030

		Multiplier range (min-max)	Mid-point	Average Annual GDP Impact ($ Billion)
Total Spending ($ Billion)	**5,370**	0.4-2.2	1.3	698
Infrastructure and R&D	1,601			
Education	1,930			
Housing	650			
Health care, Social Security benefits, and other	1,190			
Total Tax ($ Billion)	**3,375**	0.1-0.6	0.35	-118
Corporate	1,439			
Payroll	993			
Individual Income	944			
Net average annual GDP impact				580
Nominal GDP in Q3 2020				21,158
Estimated increase in nominal GDP from stimulus				**2.7%**
Source: Penn Wharton Budget Model, NDR estimates				
Ned Davis Research				T_BEC_O202011181.2

Our rough estimate is that the Biden economic plan would boost nominal output by an average of 2.7% per year over a decade. With a slim Democratic majority, the more progressive economic plan items, such as clean energy and health care reform, as well as tax increases, may not pass. But items with bipartisan support, such as infrastructure spending, could pass and have a longer-lasting positive impact on growth and productivity.

Policy uncertainty is still high



Policy uncertainty

Economic policy uncertainty remains high, marred by a tumultuous 2020 and a number of unprecedented policy steps the government had to take to support the economy through the pandemic. High policy uncertainty has historically been associated with slower economic growth **(chart left)**. But, if Biden and a Democratic majority in Congress bring about more policy predictability and stability, that should bode well for economic growth in 2021 and beyond.

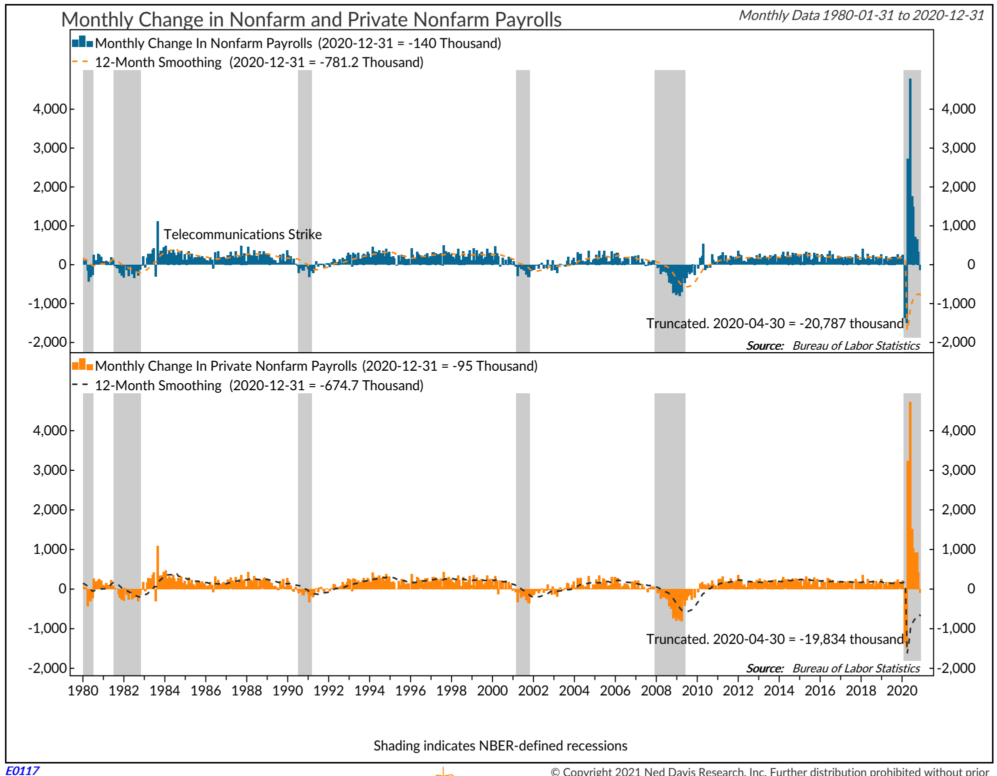
Above excerpted from: "Reaffirming our 2021 U.S. growth outlook" by Veneta Dimitrova, January 13, 2021

Employment setback

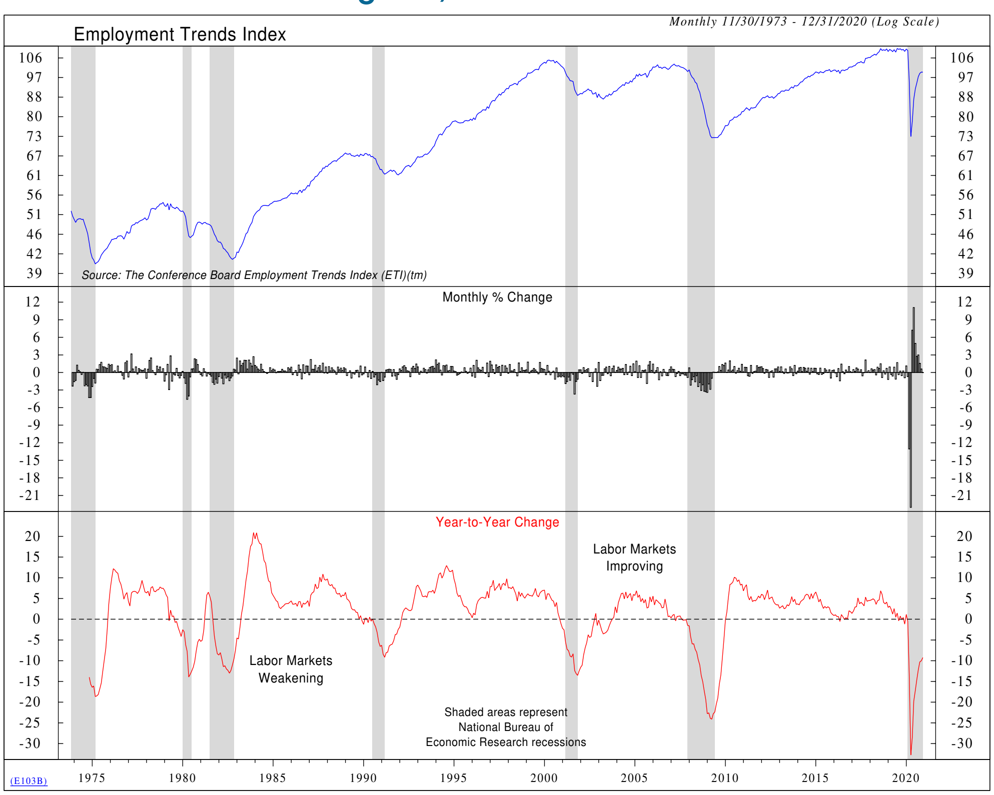
Nonfarm payrolls contracted by 140,000 in December, well below the consensus of a 50,000 gain, but above our estimate for a bigger decline of 250,000 **(chart right)**. Additionally, the average workweek shortened to 34.7 hours from 34.8. The unemployment rate remained at 6.7%, matching our projection, which was below the consensus of 6.8%. Partial lockdowns contributed to last month's job loss. But, the setback could also provide greater momentum for additional fiscal support once the Biden administration takes office.

Above excerpted from: "Employment setback" by Veneta Dimitrova, January 8, 2021

Drop in payrolls could lead to more fiscal support



After seven months of gains, trends stall



Employment trends stall

The Employment Trends Index (ETI) was practically unchanged in December, following seven consecutive gains, as the improvement in labor market conditions stalled at yearend. Three of its eight components made negative contributions, led by more initial jobless claims **(chart left)**.

The surge in COVID cases weighed heavily on the leisure and hospitality industry. This raises the risk of a double-dip recession in early 2021, but also increases the odds of more fiscal stimulus from the incoming Biden Administration.

Above excerpted from: "Employment trends stall" by Veneta Dimitrova, January 11, 2021

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NED DAVIS SENIOR INVESTMENT STRATEGIST

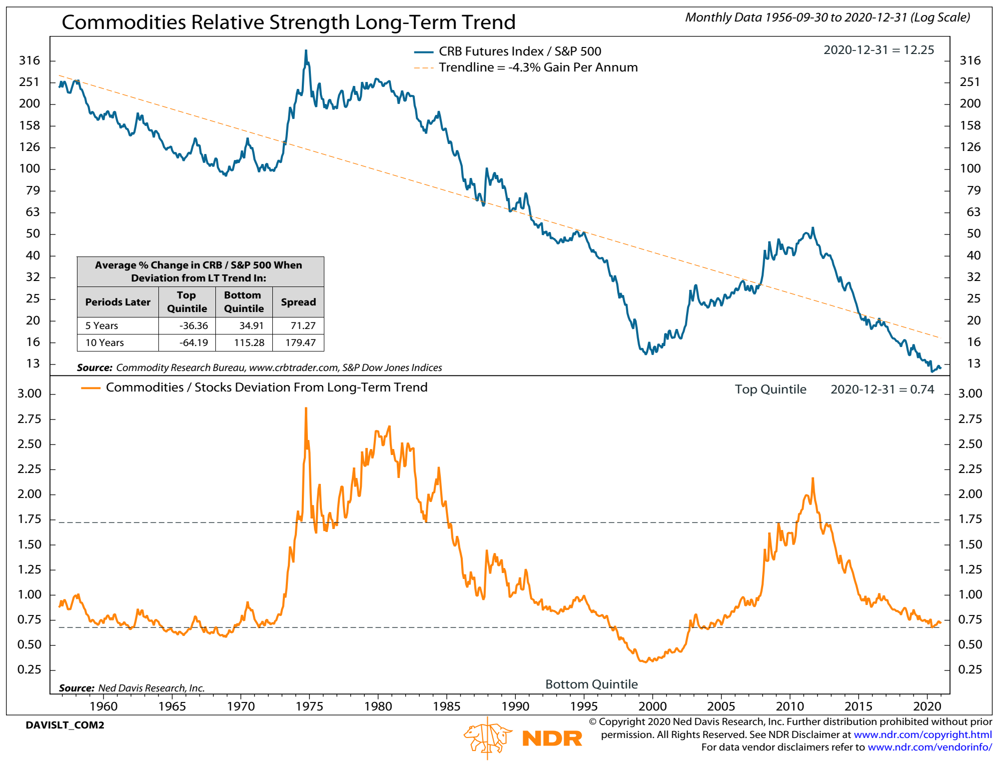
JANUARY 15, 2021

Update on commodity trends

Key Takeaways

- Commodities look very stretched on the downside versus stocks — even as the long-term trend is down.
- Yet, the NDR Commodity Model is on a buy signal.
- There are other signs of commodity/price pressures.

Commodities look oversold on a long-term basis



Because measures like CPI inflation are heavily weighted by services and rent, commodity inflation is not usually of much concern. Yet, it can cause serious problems, so NDR likes to try to update clients on the investment implications when we feel there is a big shift in commodity trends.

Commodities look oversold

The **chart above** shows that commodities, which pay no dividends, are usually in a long-term downtrend versus stocks. However, commodities recently got oversold, on a relative basis, and they have started to lift. They look to have substantial upside once the global economy is back on its feet due to the vaccines.

Commodities may be in a new bull market.

The NDR Commodity Model is on a buy signal and looks to have a bullish reversal after a 12-year bear market and three legs down.

Upward price pressures

From the monthly ISM data, we can see that a high number of commodities are currently in short supply, and 35 are up in price — the most since May of 2011. The ISM Price Index is also signaling strong inflationary pressures. In this case, there appears to be enough price pressures to lead to higher CPI and PPI inflation prices. All of this so far is longer-term on these charts.

On a 10-year basis, trends are also positive. In particular, I am impressed by "Dr. Copper," the metal with an alleged Ph.D. in economics, whose price is at its highest level since 2013. In conclusion, in my opinion, there is now enough stimulus in the economy that — despite other deflationary concerns like debt and demographics — there can be a bull market in commodities and a rise in CPI inflation.

Above excerpted from: "Update on commodity trends" by Ned Davis, January 11, 2021 (Ned's Insights is available through NDR's Advisory add-on product offerings)

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.

NED DAVIS RESEARCH

NDR HOUSE VIEWS (Updated January 12, 2021)

NDR recommends overweight allocation to equities and underweight allocations to bonds and cash. If global economic activity gains upside momentum, stock prices will be likely to trend higher with rising bond yields. We are positioned for continued rallying.

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 are neutral on Growth versus Value.

INTERNATIONAL | We are overweight Emerging Markets, underweight Japan, 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 as of Q2, it has begun to show signs of recovery. Even so, a V-shaped recovery is unlikely as spending behaviors will remain subdued until the virus subsides.

FIXED INCOME | We are 90% of benchmark duration. We are positioned for a steeper yield curve. We are overweight IG and HY corporates, EM, and TIPS. We are underweight Treasurys.

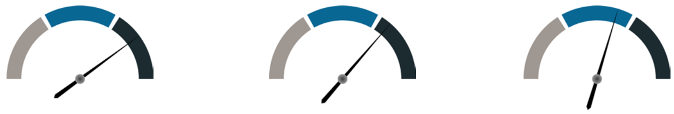
GOLD | Long-term uptrend intact. We are bullish.

DOLLAR | Composite models indicate downtrend. We are bearish.

Economic Summary

January 11, 2021

Near term activity: ● Accelerating ● Neutral ● Decelerating



Global Economy (5.8%) | U.S. Economy (4.6%) | 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 (65%)
- ● Bonds (30%) | Cash (5%)

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

Equities — Regional Relative Allocation

- ● Emerging Markets (17%)
- ● U.S. (57%) | Europe ex. U.K. (15%) | Canada (3%)
- ● Japan (4%) | U.K. (2%) | Pacific ex. Japan (2%)

Benchmark – U.S. (57.4%), Europe ex. U.K. (13.2%), Emerging Markets (12.1%), Japan (7.1%), U.K. (4.1%), Pacific ex. Japan (3.2%), Canada (2.8%)

Global Bond Allocation

- ● U.S. (50%) | Europe (30%) | U.K. (5%)
- ● Japan (15%)

Benchmark: U.S. (49%), Europe (29%), Japan (16%), U.K. (6%)

U.S. Allocation

- ● Stocks (65%) | Small-Cap
- ● Mid-Cap | Growth | Value
- ● Bonds (30%) | Cash (5%) | Large-Cap

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

Sectors

- ● Financials (15%) | Industrials (12%)
- ● Consumer Staples (5%) | Utilities (1%)

Benchmark: Technology (26.0%), Health Care (14.1%), Financials (10.3%), Communication Services (11.0%), Consumer Discretionary (11.2%), Consumer Staples (7.8%), Industrials (8.4%), Energy (2.8%), Utilities (3.1%), Real Estate (2.7%), Materials (2.5%)

U.S. Bonds — 90% of Benchmark Duration

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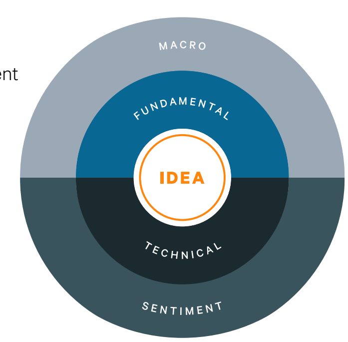

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