Market Digest – February 2021

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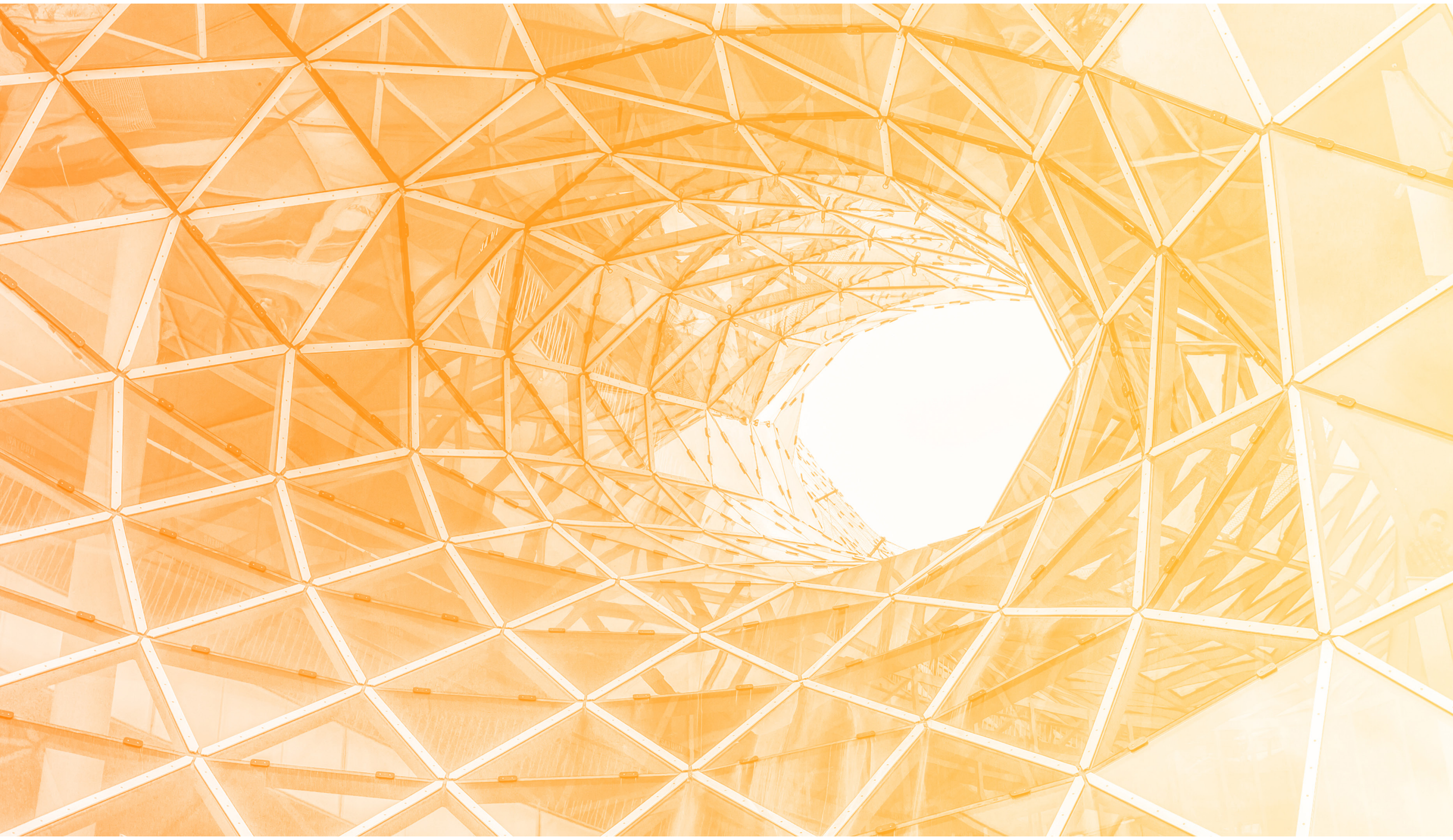

What we are watching

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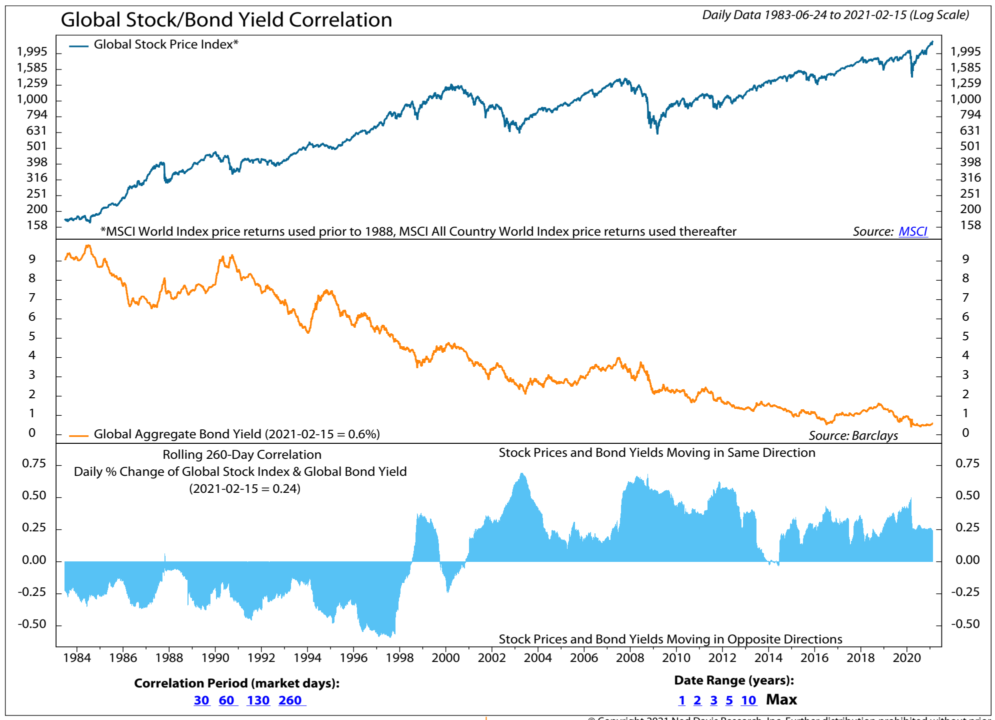
AMY LUBAS, CFA DIRECTOR, WEALTH MANAGEMENT & ADVISORY SOLUTIONS
CHAD ELLIS RESEARCH ANALYST

FEBRUARY 16, 2021

Executive Summary

Watch for changing relationship between stocks and bond yields



Expectations for ongoing monetary and fiscal stimulus have continued to push bond yields higher, sending the Barclays Global Aggregate Bond Yield to its highest levels since March. The continuation of this trend will have major implications for asset allocation if it starts to change intermarket relationships **(chart above)**. For now, correlations are positive, supporting our overweight to stocks, emerging markets, and the Financials sector.

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

Global and U.S. Economy. According to the latest PMIs, global growth slowed in January but remained robust. The manufacturing V-shaped recovery remained intact, while services continued to struggle amid localized lockdowns. The U.S. economy lost steam in Q4, but the risk is to the upside due to stimulus and vaccine rollouts. We expect global CPI and U.S. CPI to rise in 2021, but it will unlikely get out of control.

Global Asset Allocation. We remain with an overweight stock allocation and overweight Emerging Markets allocation, and a bullish position on gold. We also remain constructive on European stocks. As bond yields rise, we are watching correlations for signs of changing market relationships.

Fixed Income. A cross-asset analysis reveals broad support for the reflation trade. Assuming the current purchase rate continues, the bond market could run into trouble in Q4. During periods of inflation, 60/40 portfolio returns were suboptimal and additional asset classes should be considered.

U.S. Stock Market. While some early cycle components have outpaced historical norms, others still trail, suggesting the stock market has more room to run. While GameStop's short squeeze spooked some investors, high short interest has not been prevalent across the broad market. There were minor breadth divergences that developed in January, but most have not met thresholds that suggest a major peak is imminent.

U.S. Sectors. We maintain our cyclical bias with overweights in Financials and Industrials and underweights in Consumer Staples and Utilities.

Thematic Opportunities. We launched Bitcoin (BTC) as an overweight relative to gold on January 27. Thematic leadership may be shifting toward cannabis, 3D printing, and space.

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TIM HAYES, CMT CHIEF GLOBAL INVESTMENT STRATEGIST
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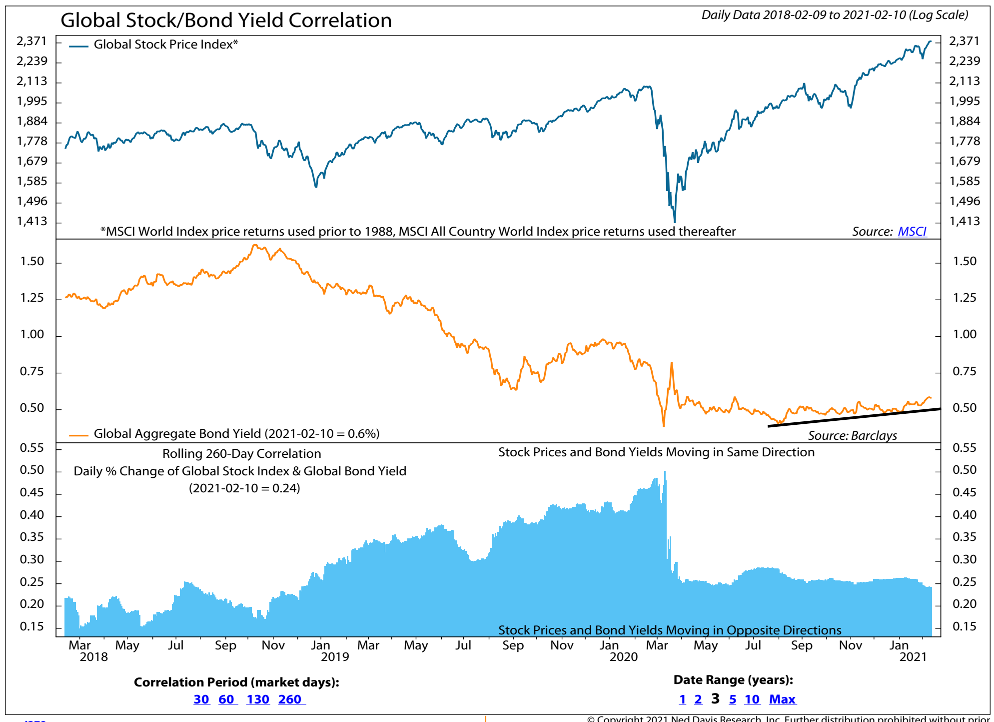
FEBRUARY 16, 2021

Rising yields and the allocation implications

Key Takeaways

- As bond yields rise, watch correlations for signs of changing market relationships.
- Focused on yield correlations with ACWI and China market, yield differentials versus the U.S. dollar.
- Also consider inflation, real yields, and potential for Financials to benefit from rising yields and steepening yield curves.

Bond yields trending higher with stocks



Expectations for ongoing monetary and fiscal stimulus have continued to push bond yields higher, sending the Barclays Global Aggregate Bond Yield to its highest levels since March. The continuation of this trend will have major implications for asset allocation if it starts to change intermarket relationships, as indicated by one-year correlations.

The bond yield uptrend is consistent with the stock market advance, with the correlation remaining stable and positive **(chart above)**. The yield advance has also weighed down our bond benchmark — the Barclays Global Bond Total Return Index — supporting our underweight bond allocation and overweight stock allocation. And with short-term rates still close to zero or negative in the major developed economies, an underweight cash allocation has continued to make sense.

With short-term rates anchored and bond yields heading higher, yield curves are likely to keep steepening. The spread between the composite global 10-year yield and global three-month yield is now at its highest level since 2018 — at levels in which the stock/bond ratio has tended to rise.

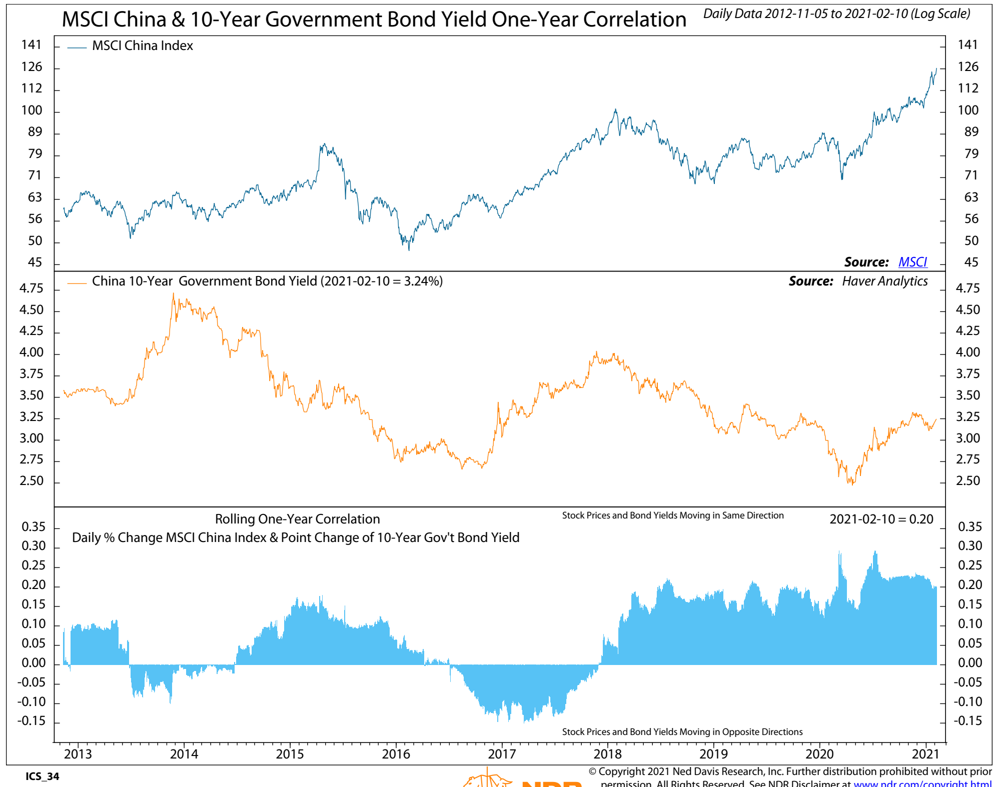
Bond yields and stock prices have been positively correlated for almost the entirety of the past 20 years — they were inversely correlated for most of the preceding period dating back 1983. Usually when yields rose, stocks would drop with bond prices, making cash the more attractive alternative.

If the correlation were to invert, it would tell us that the markets had started to view rising yields as a threat to economic growth, and in turn corporate profits. During that transition, we would watch the extent to which our Global Balanced Account Model's bond/cash composite would start to favor cash over bonds.

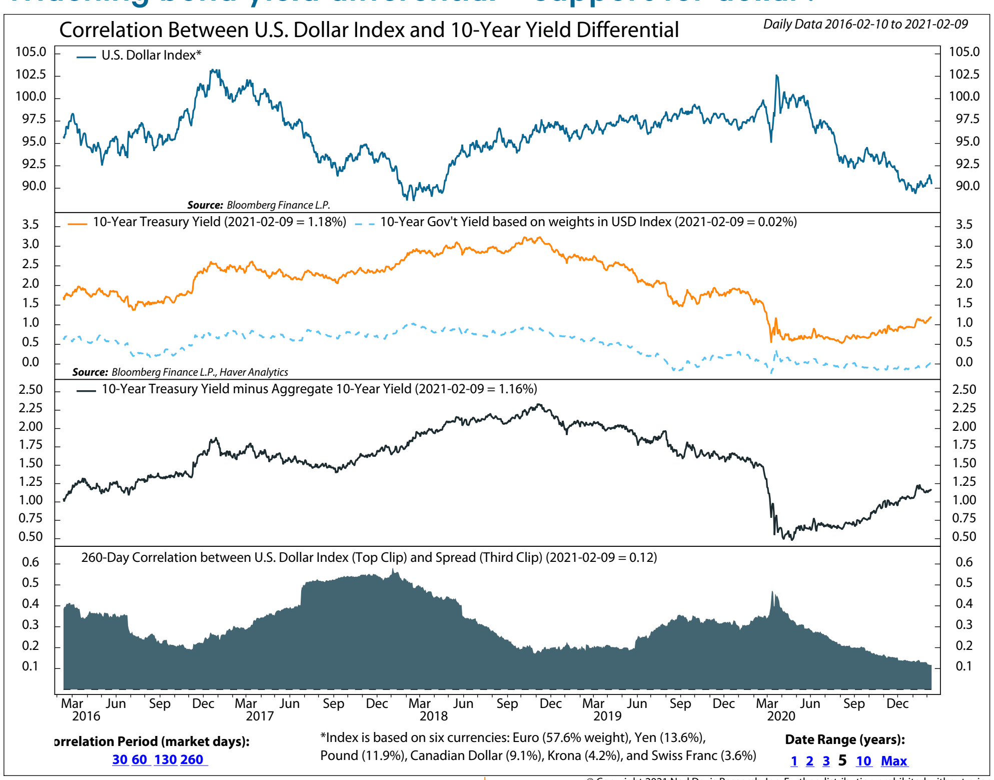
If the bond/cash composite drops below 40%, it will support the case for reallocation from bonds into cash. While our recommended allocation is currently in line with the latest monthly update of the broader model, our daily estimates show the model calling for a 6% shift in weight from bonds to cash. If the model's stock weight would also start to decline, with stocks no longer maintaining a positive correlation with yields, then a reallocation from stocks to cash would also be warranted.

The correlation between the All Country World Index (ACWI) and the aggregate yield will therefore have a bearing on future reallocation across asset classes. And we will also be watching yield trends and correlation changes when considering reallocation across regions in our seven-way framework.

China market rising with bond yields



Widening bond yield differential – support for dollar?



Our bond yield correlation report indicates the MSCI Emerging Markets Index is the only inverse correlator, based on the median yield of the 20 component countries. A notable exception has been China, which has maintained a positive correlation with a 10-year government bond yield that has trended higher **(chart above)**.

The U.S. ranks behind China with the second highest yield in our framework. Another correlation to watch is the correlation between the U.S. Dollar Index and the spread between the nominal 10-year yield in the U.S. and the weighted aggregate yield based on the U.S. Dollar Index components.

While the correlation is still positive **(chart left)**, it has been weakening as the U.S. dollar has trended lower despite the widening differential. If the U.S. dollar starts responding to the relatively high and rising

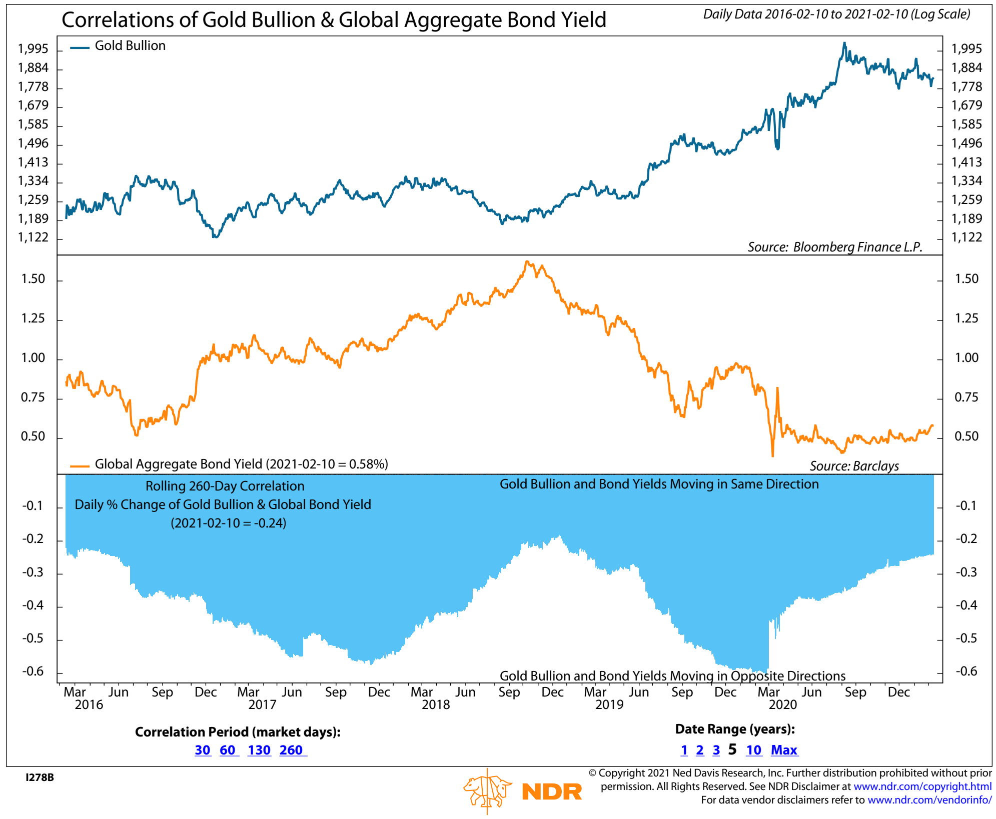
U.S. yields, the correlation can be expected to strengthen again. That development would have negative implications for the U.S. market given yet another correlation — the inverse correlation between the U.S. dollar and the U.S. market.

Influencing gold

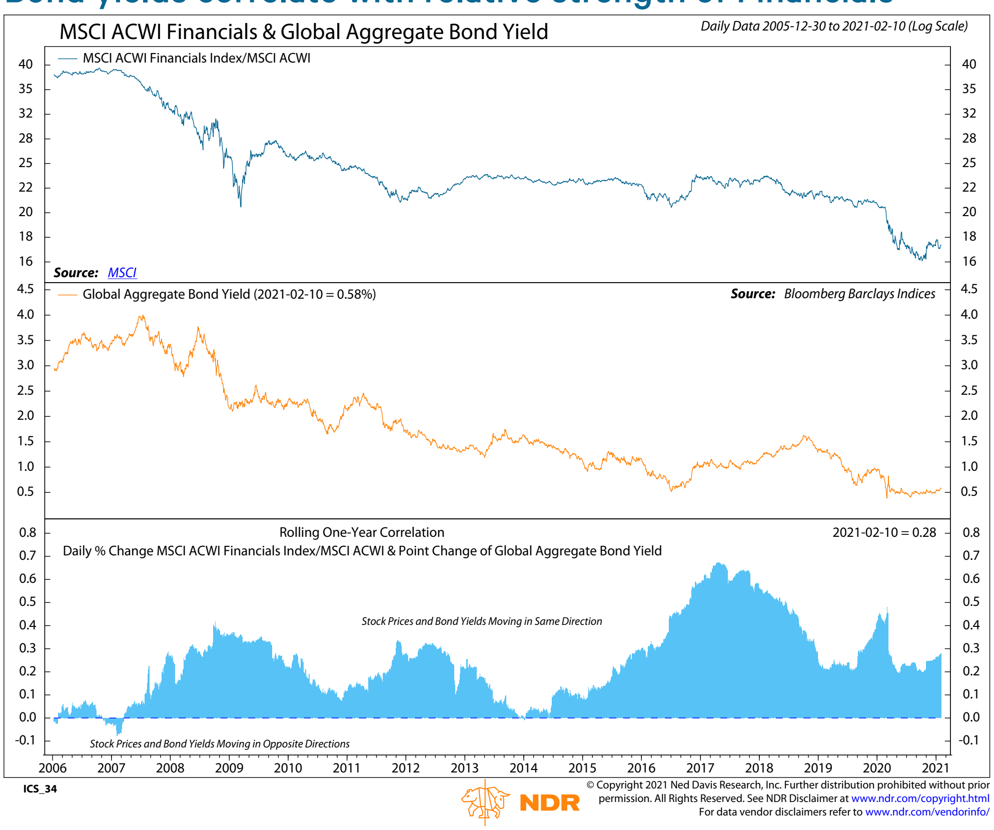
If rising U.S. bond yields widen yield differentials and help strengthen the U.S. dollar, the influence on gold would be negative, considering the inverse correlation between the U.S. dollar and gold. The yield trend itself could pose a threat, as gold is maintaining an inverse correlation with the global aggregate bond yield **(chart right)**.

We will be watching the extent to which the massive stimulus leads to inflationary pressures that keep real yields depressed as nominal yields trend higher. In that case, we would also watch for the correlation between bond yields and gold to turn positive — perhaps around the same time that bond yields start to inversely correlate with stocks. Together, cash and gold would then be allocation alternatives to stocks and bonds. Currently, we are **maintaining a bullish position on gold**, recognizing the negative real yields.

Bond yield moves opposite gold



Bond yields correlate with relative strength of Financials



Sector strength

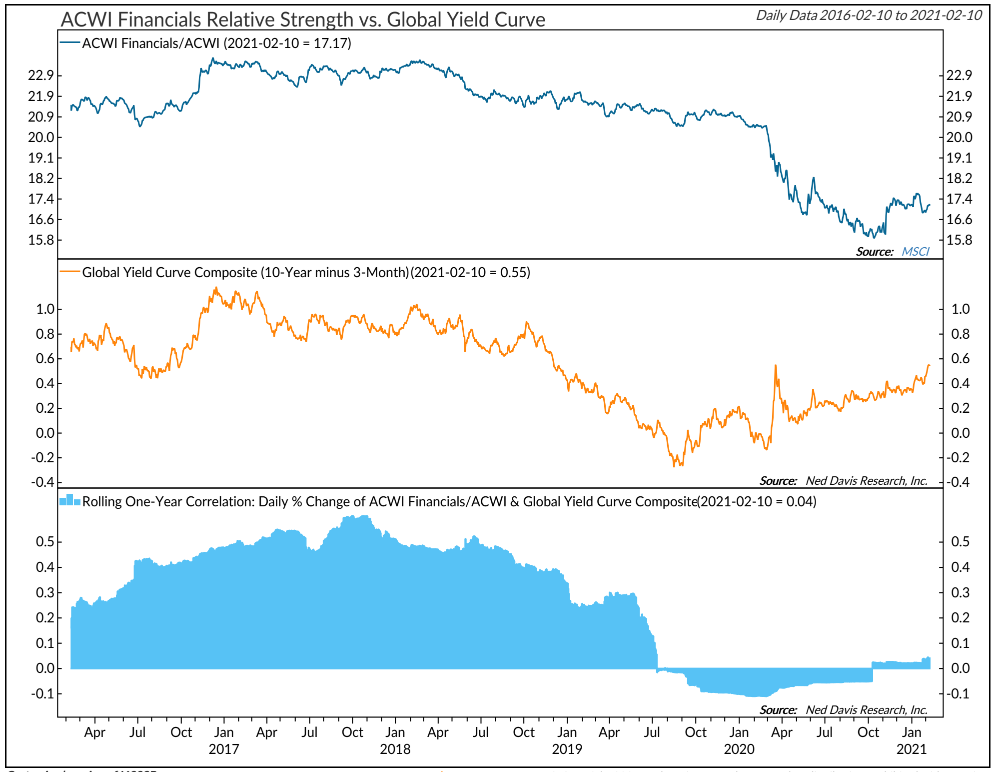
A persistent bond yield uptrend would also have implications for sector relative strength. Most notable is the positive and stable correlation between the global aggregate bond yield and relative strength of the ACWI Financials sector **(chart left)**. With a yield uptrend reflecting a global recovery in loan demand and financial activity in general, the sector can be expected to outperform as long as the correlation remains positive.

As continued widening of the yield curve would have positive implications for bank profit margins, we will also watch to see if our global yield curve composite becomes more positively correlated with Financials relative strength **(chart right)**. In that case, the rising yields and steepening curve would increase the chances for the sector to pull out of the relative strength downtrend that has persisted for the past 15 years.

We cannot predict the future so keep an eye on correlations in assessing whether market relationships are changing, with implications for relative performance across asset classes and global sectors.

Above excerpted from: "Rising yields and the allocation implications" by Tim Hayes, February 11, 2021

Rising yield curve composite



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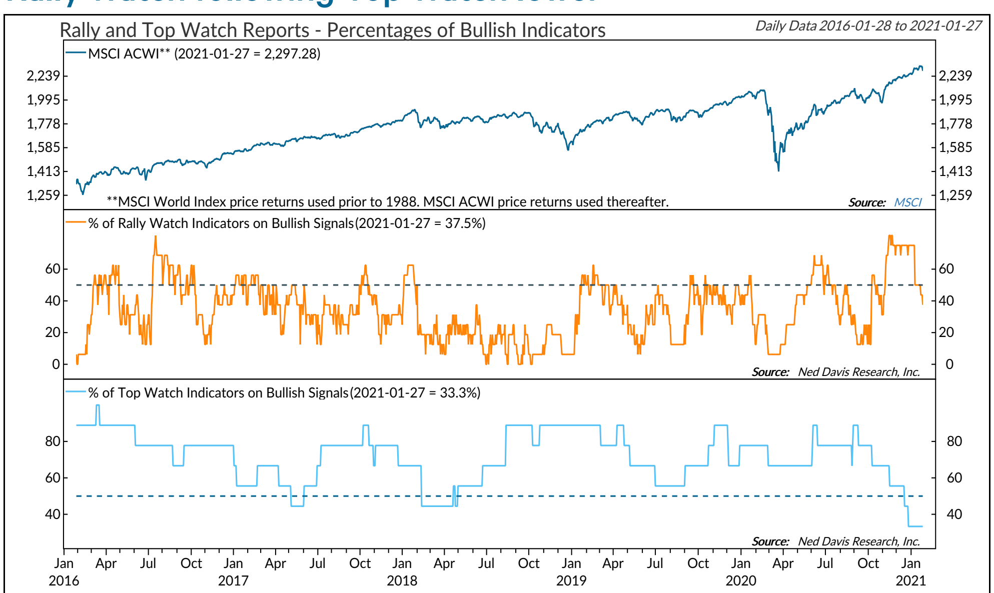
Rally Watch following Top Watch lower



Bullish mode when aggregate is 50% bullish or more

MSCI ACWI Performance
Full History: 1982-12-24 to 2021-01-27

Rally and Top Watch Reports	% Gain/ Annum	% of Time
Both Bullish	17.86	20.69
Mixed	6.99	67.77
Both Bearish	-6.60	11.54

Buy/Hold = 7.46% Gain/Annum

MSCI ACWI Performance
Chart View: 2016-01-28 to 2021-01-27

Rally and Top Watch Reports	% Gain/ Annum	% of Time
Both Bullish	16.38	25.30
Mixed	10.38	69.33
Both Bearish	1.35*	5.37

Buy/Hold = 11.58% Gain/Annum

** Cases less than one year are not annualized*

IWATCHA

Watch reports

We will be watching the extent to which continued breadth deterioration sends the Rally Watch aggregate lower. The periods when the Rally Watch aggregate has been below 50% while most Top Watch indicators have remained on their market-top signals, the ACWI has dropped at a -7% per annum rate since 1982 **(chart left)**.

While most Rally Watch data no longer supports the prospects for continued rallying, most Bear Watch components are far from describing a developing bear market.

Above excerpted from: "A global correction — relieving the optimism?" by Tim Hayes, January 28, 2021

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MARK PHILLIPS NDR EUROPEAN EQUITY ANALYST

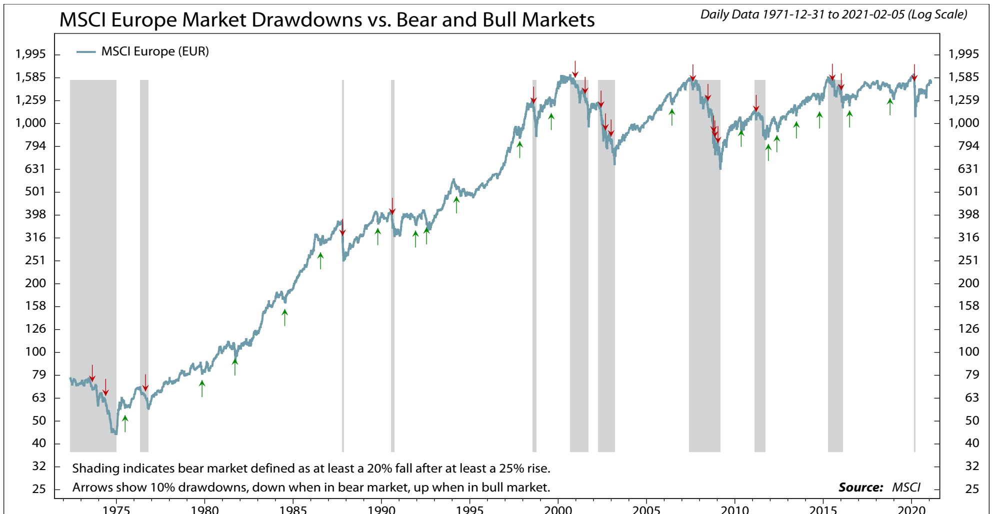
FEBRUARY 16, 2021

European drawdown presents buying opportunity

Key Takeaways

- We remain constructive on European stocks.
- Buying stocks after a drawdown is not a good strategy per se, but it can make sense when macro and technical indicators are positive.
- Presently, macro and technical indicators are positive, suggesting that any single-digit market drawdowns could be a buying opportunity.

But results depend on regime



MSCI Europe Average Price Return Following 5% Drawdown

Condition	1-Month	3-Month	6-Month
Bear market	-3.9	-6.0	-6.8
Bull market	2.5	5.6	9.0
All drawdowns	0.2	1.5	3.4
All periods	0.6	1.9	3.9

MSCI Europe Average Price Return Following 10% Drawdown

Condition	1-Month	3-Month	6-Month
Bear market	-4.5	-7.3	-8.2
Bull market	3.3	6.6	12.4
All drawdowns	-0.7	-0.6	1.8
All periods	0.6	1.9	3.9

Statistics apply appropriate lag to account for data release date.

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The second half of January saw weakness in the European stock market following a period of excessive investor optimism. The MSCI Europe Index fell 4% between January 14 and January 29 — accompanied by a sharp deterioration in market breadth.

Historically, buying after a 5% correction — and particularly a 10% correction — has not been a good strategy per se. The regime (bull market or bear market) matters **(chart above)**. Buying on a 5% or 10% correction in a bull market has resulted in outsized returns and has been a good strategy since the 2009 trough in stocks.

While we can only define bull and bear markets in hindsight, we can use technical and macro indicators to assess whether stock markets are likely to recover quickly from a drawdown or not. The long-term trend is currently supportive for European stocks, suggesting the risk of a prolonged drawdown is limited. The current yield and credit environment are also supportive.

The recent decline in European stocks can be viewed in the context of high investor optimism, but the narrative of a strong global economic recovery in 2021 remains intact. We see this supportive of European stocks on an absolute basis. In relative terms the outlook is less clear. While strong global growth should be a boost for European stocks, the relative economic outlook represents a challenge.

Above excerpted from: "European growth downgrade – implications for equities" and "European equities – when to buy the dip" by Mark Phillips, February 1 and 8, 2021, respectively (available through NDR's new Europe Strategy product)

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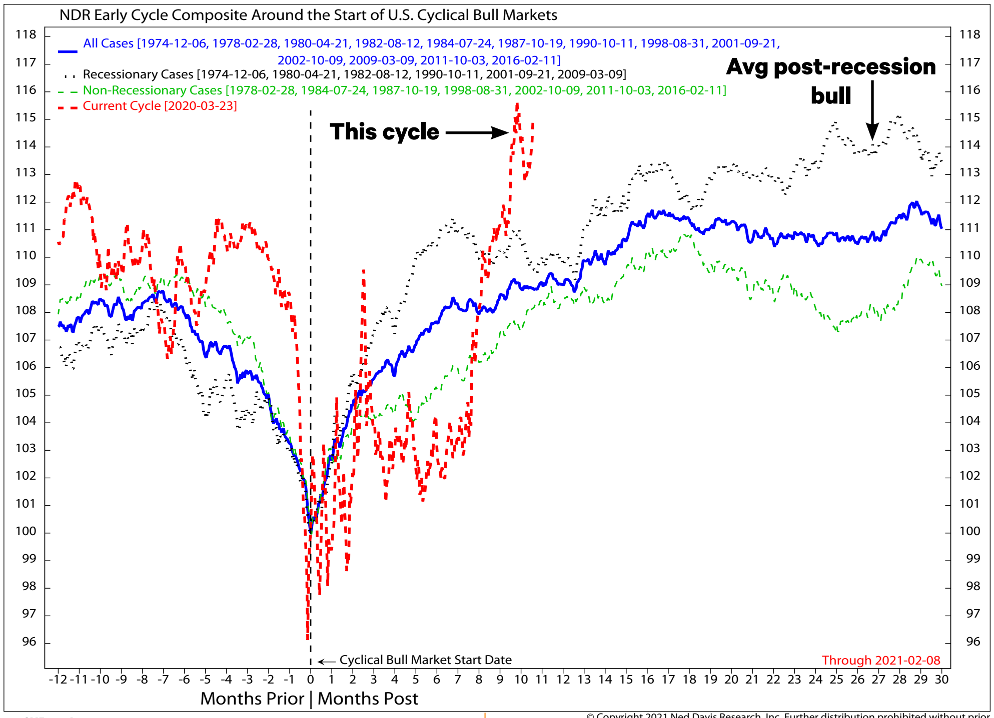
FEBRUARY 16, 2021

More room to run

Key Takeaways

- While some early cycle components have outpaced historical norms, others still trail.
- High short interest in select stocks has not been prevalent across the broad market.
- Minor breadth divergences developed in January, but most have not met thresholds that suggest a major peak is imminent.

Early Cycle Composite started to outperform in Oct



Bull market comparisons

In some ways, the bull market that began on March 23 is typical. It began when the economy was still in recession, earnings were falling, sentiment was extremely pessimistic, and stocks were deeply oversold. Breadth thrusts signaled that the worst of the decline was over. Continued fears over the economy and valuations built a wall of worry for the market to climb.

In other ways, the cyclical bull is anything but typical. The 75.0% gain in the S&P 500 and broad participation by most stocks are closer to the beginning of the 1982 and 2009 cyclical bulls that launched secular bulls than rallies that were 10 years into secular bulls. The retests that had normally followed waterfall declines never materialized. The compressed recession means that P/Es are at their highest since the dotcom bubble burst. From a stock allocation perspective, this bull market is unique in that few typical early leaders outperformed right away. We analyzed the NDR Early Cycle Composite, an index of 10 relative strength lines that typically outperform early in a bull market, to find areas that may have run their early-cycle courses, and ones that have mean reversion potential. The two with the most mean-reversion potential are Financials and low EPS growth stocks.

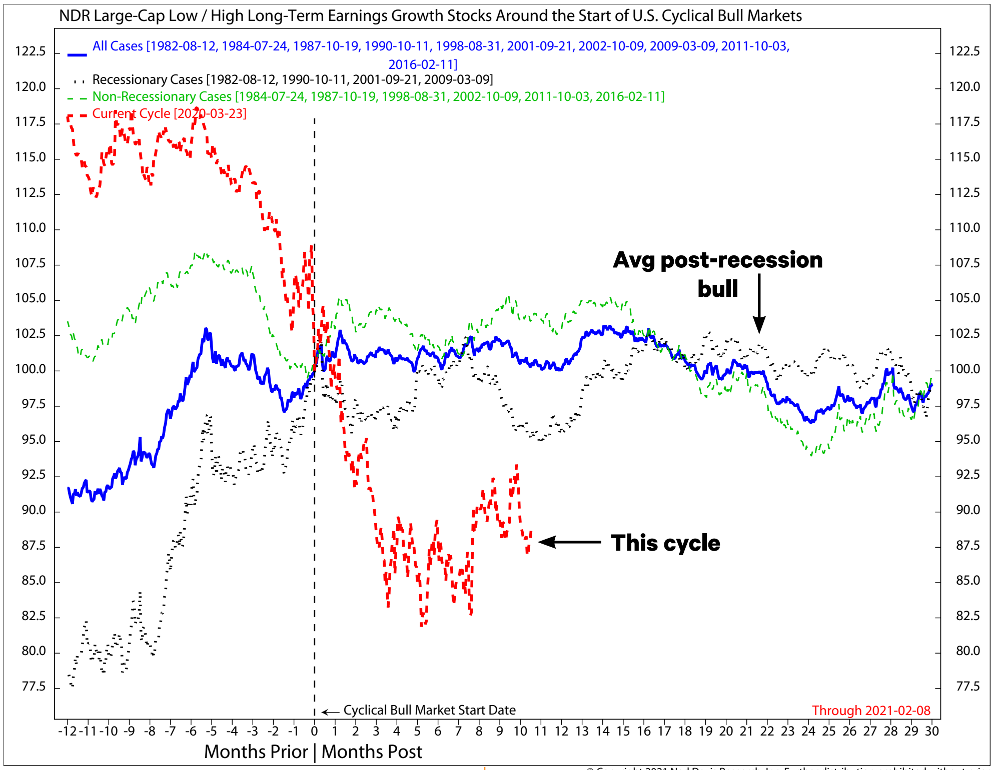
Early cycle is late

The bear market's brevity, the recession's severity, and the recovery's unevenness masked some early cycle trends. The NDR Early Cycle Composite was performing much weaker than normal into October **(chart above)**. However, some early cycle trends were working, as we discussed in August. Cyclical stocks in general, Materials in particular, outperformed early. Some were outperforming, but by less than average, such as small-caps and Low Quality stocks. Still others were making relative strength lows, like Financials and low EPS growth stocks.

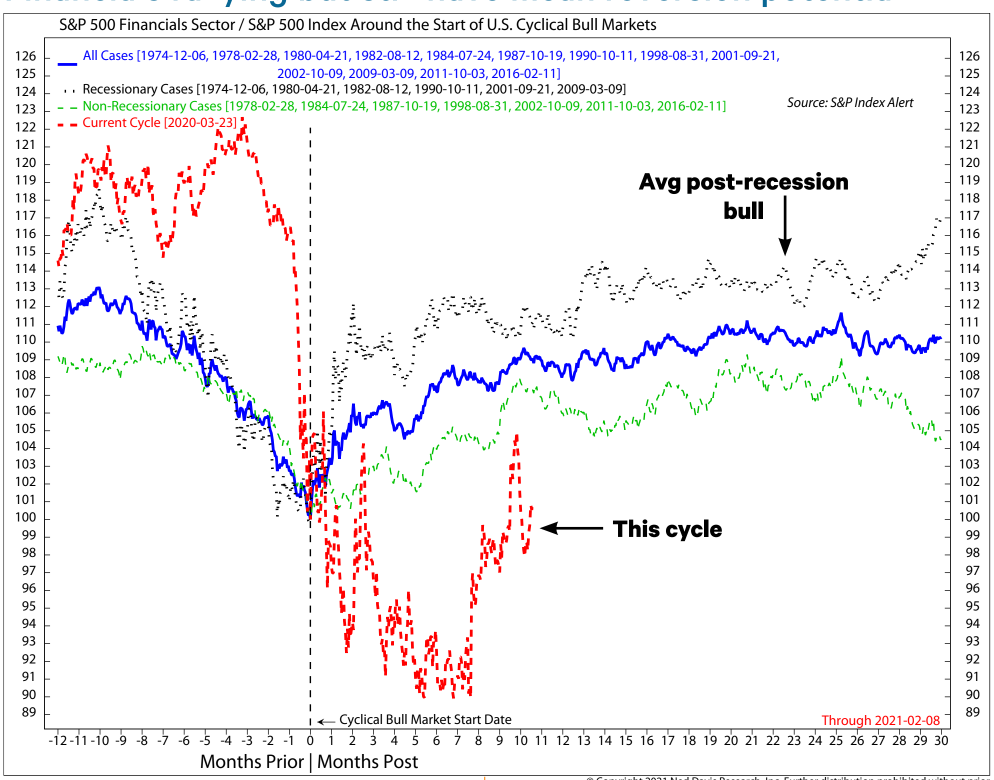
Still below trend

Over the long run, stocks with lower long-term earnings growth tend to underperform. The early stages of a bull market are one of their few times to shine. Since this cycle was compressed, low long-term EPS stocks underperformed for the first five months of the bull **(chart right)**. Since August, they have attempted to rally, but the low EPS/ high EPS relative strength line remains 21.8% below where it typically is at this point in a post-recession bull market.

Low EPS stocks trailing their typical early bull pace



Financials rallying but still have mean reversion potential



Financials has suffered under the Fed's low interest rate policies. From the March 23 low through October 14, the S&P 500 Financials sector/S&P 500 relative strength line fell 10.1% versus an average gain of 12.5% at that point in the cycle **(chart left)**. Financials has rallied but remains 11.4% below the average cycle relative to the S&P 500.

Our sector team is overweight Financials, not only for the mean reversion potential that the early cycle chart suggests, but also due to prospects for a steeper yield curve and other positive messages from our Banks scorecard.

Above excerpted from: "Opportunities exist in select early cycle themes" by Ed Clissold, February 9, 2021

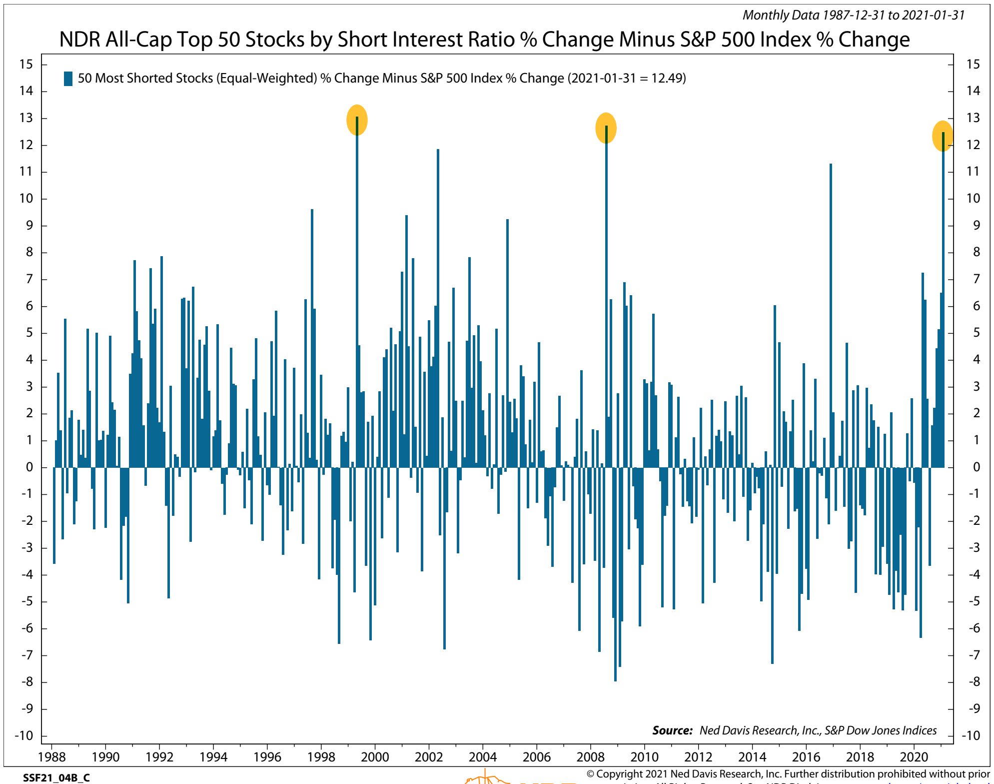
Is short interest a risk?

As the potential to squeeze hedge funds hit Reddit's Wall Street Bets message boards, the most heavily shorted stocks went hyperbolic. In January, the top 50 shorted stocks outperformed the S&P 500 by 12.5%, the most since July 2008 and the third-best month in the last 33 years **(chart right)**.

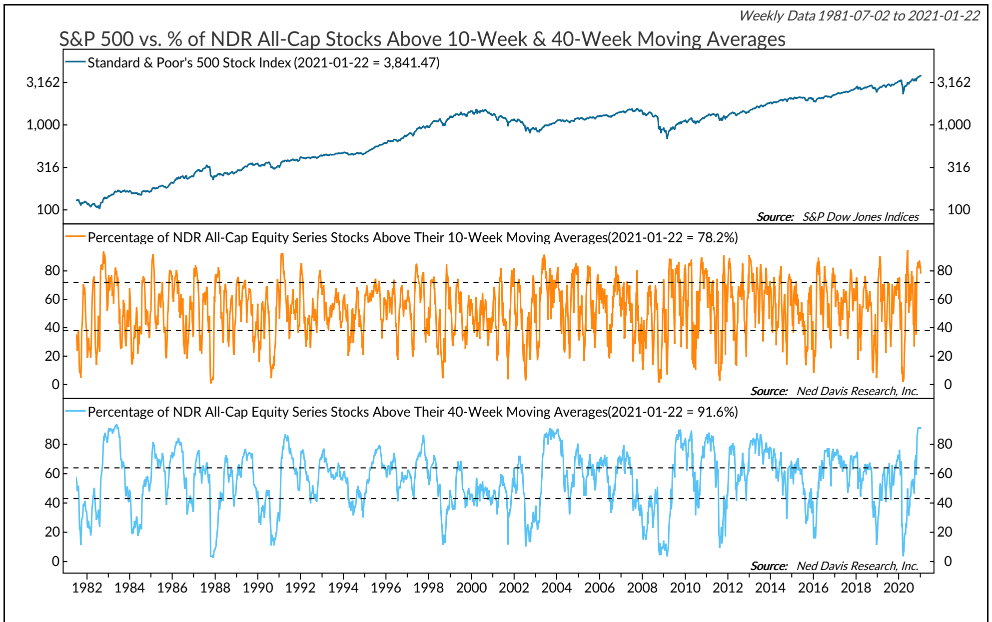
Ironically, overall short interest has been low for months. The NYSE short interest ratio and the NASDAQ short interest ratio have fallen. Equity put/call ratios suggest retail speculation remains high. The GameStop episode relieved excessive optimism, but not enough to drive overall market sentiment into excessively pessimistic territory.

Above excerpted from: "Stepping back from WSB message boards" by Ed Clissold, February 2, 2021

High SIR stocks had 3rd-best month vs SPX on record in Jan



% stocks >50-day has slipped, but still historically high



S&P 500 Index Performance
Full History: 1981-07-02 to 2021-01-22

Combined Signal is	% Gain/ Annum	% of Time
Both Indicators Bullish	14.45	58.57
Both Indicators Bearish	1.65	41.43

Buy/Hold = 8.96% Gain/Annum

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Worried about divergences?

At the end of January, we dissected technical divergences that developed and assessed how big of a threat they are to the cyclical bull market. The historically strong breadth readings in late-2020 could be signs of a market that had gotten short-term overbought. Any pullback would likely weaken breadth statistics.

For instance, the percentage of stocks above their 50-day moving averages fell from 96.6% on October 13 to 78.2% at the end of January **(chart left, middle clip)**. But since they came from such high levels, they would have to deteriorate much more from here to indicate a major top is imminent.

Above excerpted from: "How worrisome are recent divergences?" by Ed Clissold, January 26, 2021

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ROB ANDERSON, CFA INVESTMENT RESEARCH ANALYST

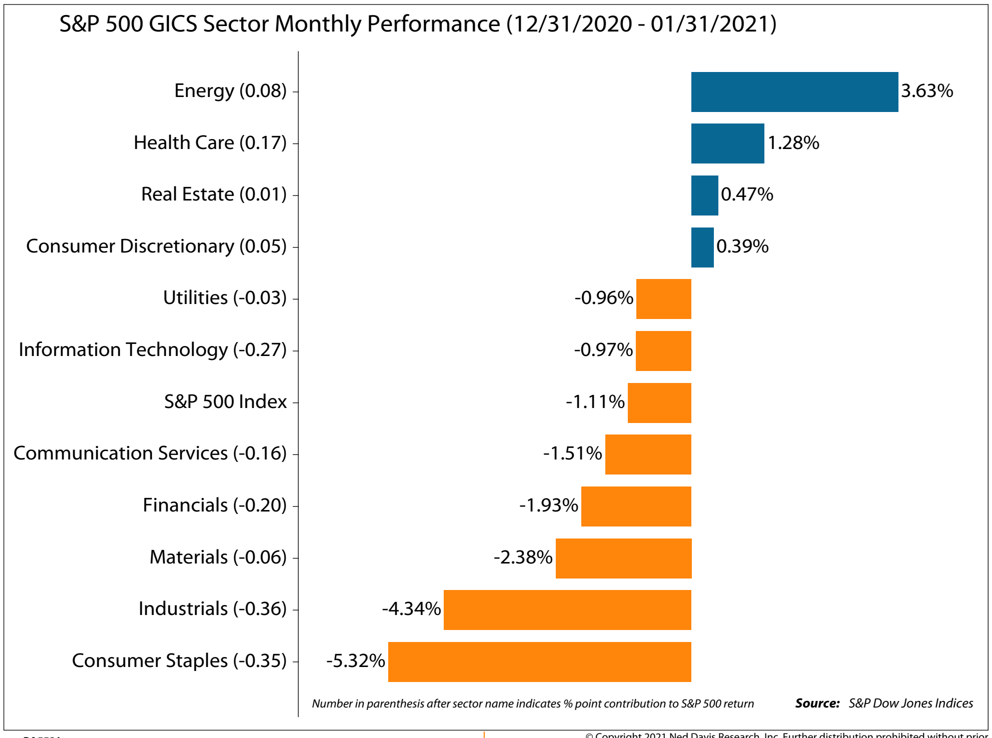
FEBRUARY 16, 2021

Watching Cyclicals vs. Defensives

Key Takeaways

- Sector leadership trends in January were largely reflationary driven.
- Majority of indicators in our Broad Cyclical vs. Defensive Sectors Watch Report favor cyclical sectors.
- Airlines could be near an inflection point with travel demand expected to rise in 2H.

Sector leadership mixed to begin 2021



From the Democrat's sweep of the Georgia Senate runoff races, to the riots at the Capitol Building, to the speculative mini bubbles perpetuated by individual investors, it has been an eventful start to 2021. The S&P 500 mostly shrugged off the news and ended January down just 1.1%. Sector leadership, which favored cyclical sectors coming into the year, was a mix of Value, Growth, defensive, and bond proxy sectors in January **(chart right)**.

Tale of two halves

Sector leadership trends were largely reflationary driven during the first half of the month. Energy, Financials, and Materials were the top three performing sectors as the Continuous Commodity Index (CCI) and interest rates moved higher. Both the CCI and the 10-year Treasury yield peaked on January 14, and Energy, Financials, and Materials were the bottom three performing sectors to finish out the month as commodity prices and interest rates moved lower. Bond proxy sectors, which have become more negatively correlated with the 10-year Treasury yield in 2021, felt the interest rate impact. Our negative rate-sensitive RUST Index underperformed the S&P 500 by 2.4% though January 14 but has outperformed by 1.5% since then.

The Biden agenda

Another important driver for sector and industry leadership going forward will be which policy issues the Biden administration prioritizes. Apart from another round of COVID-relief spending, we highlighted on January 14 that infrastructure, clean energy/climate change, health care, and technology regulation are likely to be top policy agenda items. Construction-related sub-industries should benefit from an infrastructure spending bill, while Independent Power Producers, Clean Energy, and Managed Health Care should benefit from clean energy and health care spending.

Sector model update

The sector model made two recommendation changes at the January month-end model update, with both Energy and Utilities upgraded from underweight to marketweight. The model's lone remaining underweight is Consumer Staples (matching our recommendation), with Technology the only current overweight recommendation from the model.

Above excerpted from: "Monthly sector update – February 2021" by Rob Anderson, February 4, 2021

Strong preference toward cyclical sectors

Broad Cyclical vs. Defensive Sectors Watch Report

Indicator	**Chart Link**	**Favors**
Real Monetary and Fiscal Policy Index	UIP509E	Broad Cyclical Sectors
S&P 500 Earnings Growth	UIP509G	Defensive Sectors
10-Year Treasury 252-Day ROC	UIP509I	Broad Cyclical Sectors
50- and 200-Day Breadth	UIP509M	Broad Cyclical Sectors
50- vs. 200-Day Moving Averages	UIP509N	Broad Cyclical Sectors
Sector Model	UIP509O	Broad Cyclical Sectors
Treasury Yield Curve	UIP509P	Broad Cyclical Sectors
Citigroup U.S. Economic Surprise Index	UIP509Q	Broad Cyclical Sectors
U.S. Dollar Index	UIP509R	Broad Cyclical Sectors
NDR Daily Trading Sentiment Composite	UIP509S	Defensive Sectors
Composite Score	UIP509U	**Broad Cyclical Sectors**

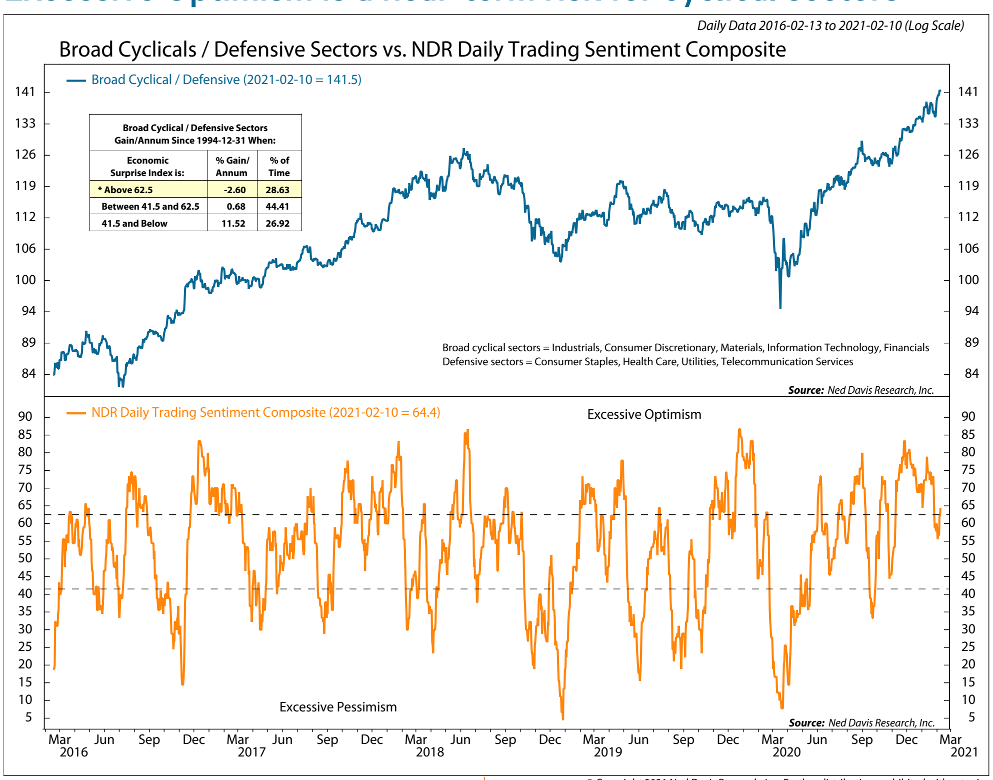
Source: Ned Davis Research, Inc.

Ned Davis Research — Excerpted from UIP509.RPT

Cyclical over defensive

This leadership is common at the beginning of bull markets, with the Broad Cyclical Index outperforming the Defensive Sectors Index 12 months after the bear low in 11 of the 13 cases since 1972 by a median 9.9%. Cyclical sectors' outperformance relative to defensive sectors has been greater this cycle — roughly 20% points higher than the average.

Excessive Optimism is a near-term risk for cyclical sectors



UIP509S

The Broad Cyclical vs. Defensive Sectors Watch Report shown in the **table above** is made up of 10 technical, macro, fundamental, and sentiment indicators. The overall composite score has a strong preference toward cyclical sectors. **We remain overweight cyclical Financials and Industrials and underweight defensive Consumer Staples and Utilities.**

Risks to cyclical leadership

The potential risks to the bullish cyclical sector outlook include the U.S. dollar, earnings, interest rates, and sentiment. Elevated sentiment readings have historically been bearish for cyclical sectors. The **chart at left** shows that when the

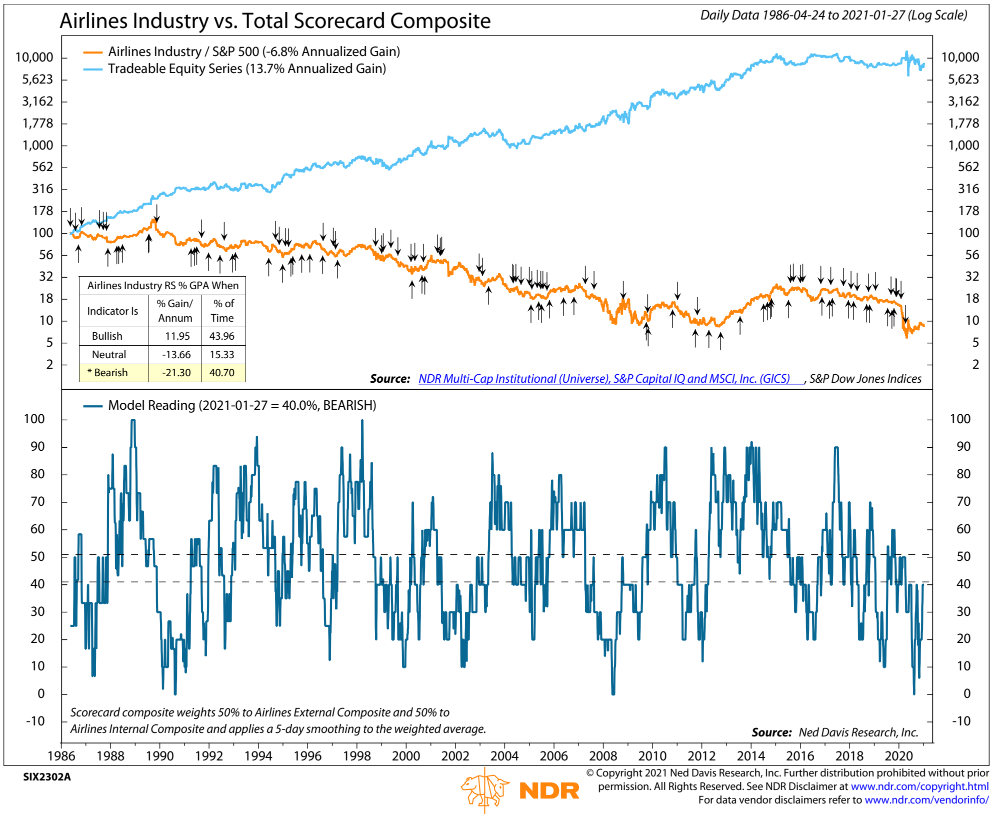
NDR Daily Trading Sentiment Composite has been in its extreme optimism zone, defensive sectors have outperformed cyclical sectors. The market's selloff at the end of January didn't relieve enough of the excessive optimism, representing a near-term risk for cyclical sectors.

Above excerpted from: "What could derail cyclical sector leadership?" by Rob Anderson, February 11, 2021

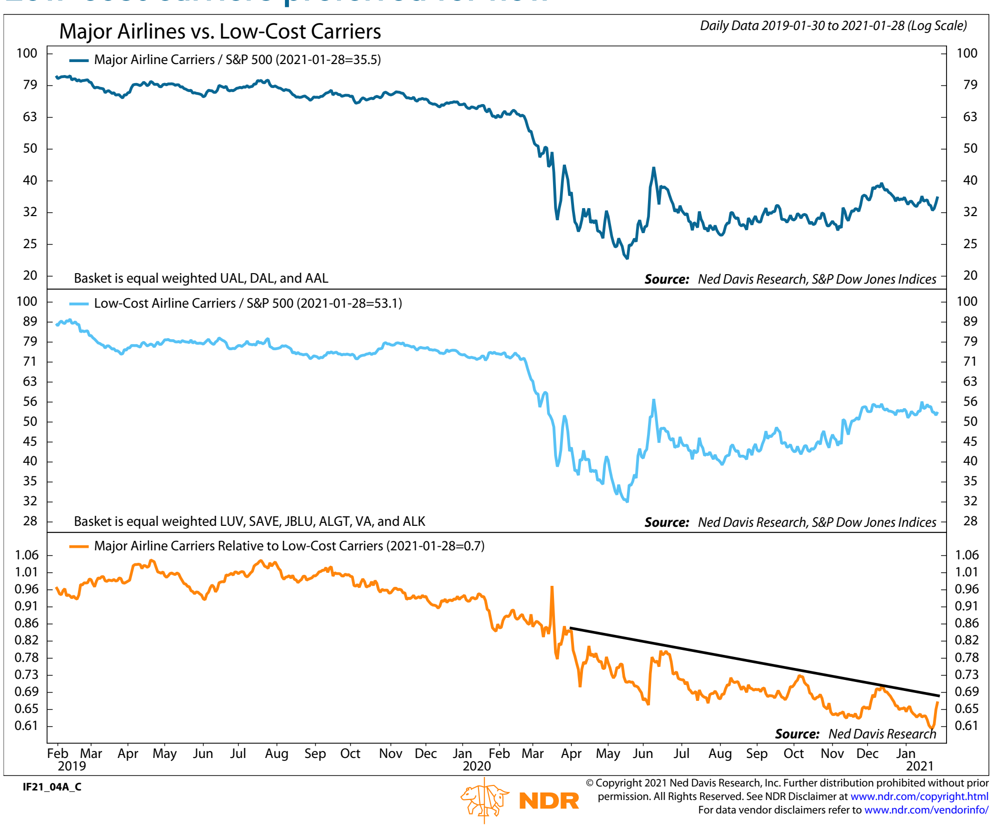
Still too early for Airlines

Airlines has been among the most negatively impacted industries from the COVID-19 outbreak. While vaccinations and the reopening of the economy should be bullish for COVID-impacted industries like Airlines, our Airlines Industry Scorecard is still in its bearish mode, historically consistent with industry underperformance **(chart right)**. Only two out of five internal indicators (and similarly two out of five external indicators) are bullish.

Total Scorecard Composite bearish for Airlines



Low-cost carriers preferred for now



Low-cost carriers preferred

Forecasting when flyers will return en masse is among the industry's biggest challenges in 2021. Companies with more international and business-travel exposure may continue to lag if demand is slower to return to those areas. The **chart at left** shows that the more internationally-exposed major airlines have underperformed low-cost carriers for most of 2020 and to begin the new year (bottom clip). The weight of the evidence suggests it is still too soon to turn bullish.

Above excerpted from: "Airlines: waiting for takeoff" by Rob Anderson, January 28, 2021

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FEBRUARY 16, 2021

Bitcoin gets a boost

Key Takeaways

- We initiated our Bitcoin theme as Bitcoin's adoption by institutions continues.
- Thematic leadership may be shifting as the cannabis group posts the best performance and 3D Printing and Space themes lead asset percentage growth.
- We're carefully monitoring supply chain developments in the EV group and price-action of the datacenter group for opportunities.

Merchants accepting Bitcoin

Merchant	Partner/App
Microsoft (X-box Store)	Bakkt
Overstock	Coinbase
Home Depot	Gemini/Flexa
Starbucks	Bakkt
Whole Foods	Gemini/Flexa
NewEgg (Hardware)	BitPay
Expedia.com	Coinbase
AT&T	BitPay
Nordstrom	Spedn/Flexa
Dallas Mavericks	BitPay
Miami Dolphins	Aliant Payments
Bitrefill Gift Cards	Multiple
eGifter Gift Cards	Multiple

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Bitcoin theme initiated

We launched Bitcoin (BTC) as an overweight relative to gold on January 27, 2021. Bitcoin's continued adoption by institutions as a store-of-value asset is central to our investment thesis. In 2020 we saw announcements of planned and actual Bitcoin/BTC futures purchases by several large corporations, high-profile investors, and Bitcoin funds.

Bitcoin's adoption as a currency would be "icing on the cake" since being able to use it for purchases would give retail investors another reason to own it. We see PayPal's announcement that it will allow the use of cryptocurrency for payment as a potential game-changer event. In the **table above** we highlight a sampling of merchants (and partners) accepting Bitcoin payments. Investors need to be aware of the significant risks involved with Bitcoin, including extreme volatility, potentially debilitating regulation, and failure of adoption. Bitcoin is not suitable for risk-averse portfolios.

Above excerpted from: "Theme Initiation: Bitcoin" by Matt Bauer and Pat Tschosik, January 27, 2021 (available through NDR's new Thematic Opportunities product offering)

Thematic landscape

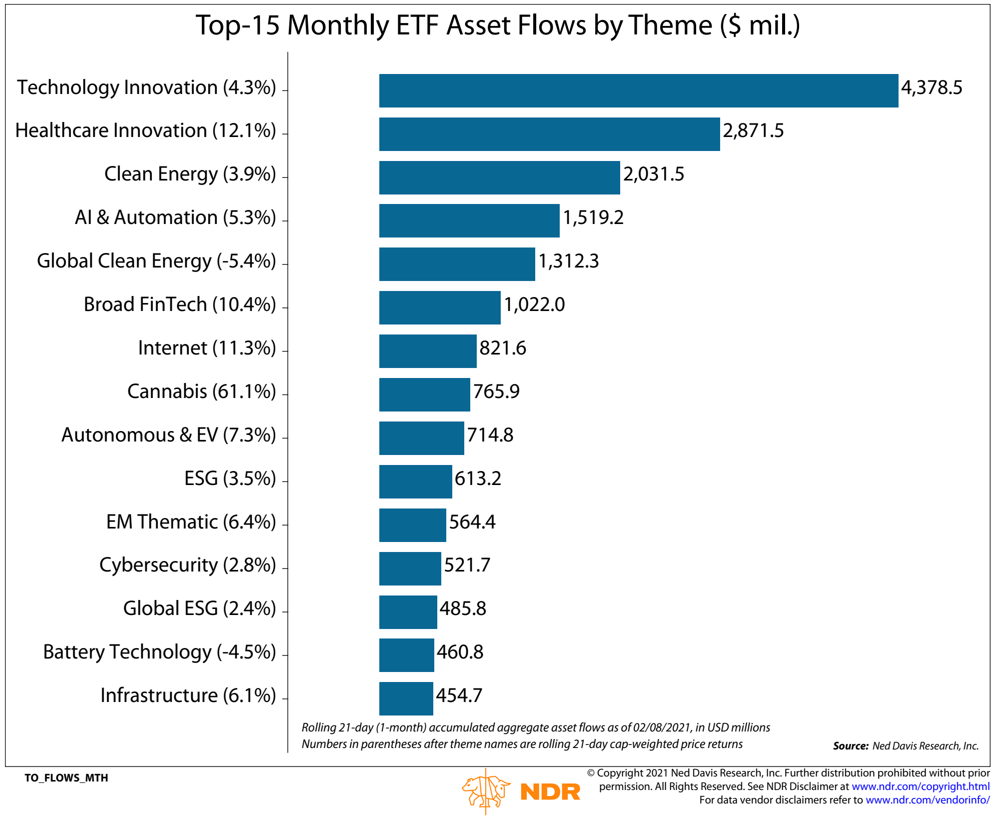
Despite the theatrics in small-cap, high short-interest, low-float names, thematic investors' focus remained on familiar themes: cannabis, 3D printing, clean energy, and electric vehicles.

Cannabis was the best performing theme group over the past month **(top chart, next page)** and nearly double 3D Printing, the second best performing theme. Cannabis ETFs brought in over three-quarters of a billion dollars, pushing total assets for the theme to $3.6 billion. 3D Printing assets increased over 50% to $542 million.

Clean energy cooling

Clean Energy and Global Clean Energy saw asset percentage growth in the low to mid-teens. However, the Global Clean Energy group index was down 5.42% while the Clean Energy index gained almost 4%.

Innovation and green themes still lead



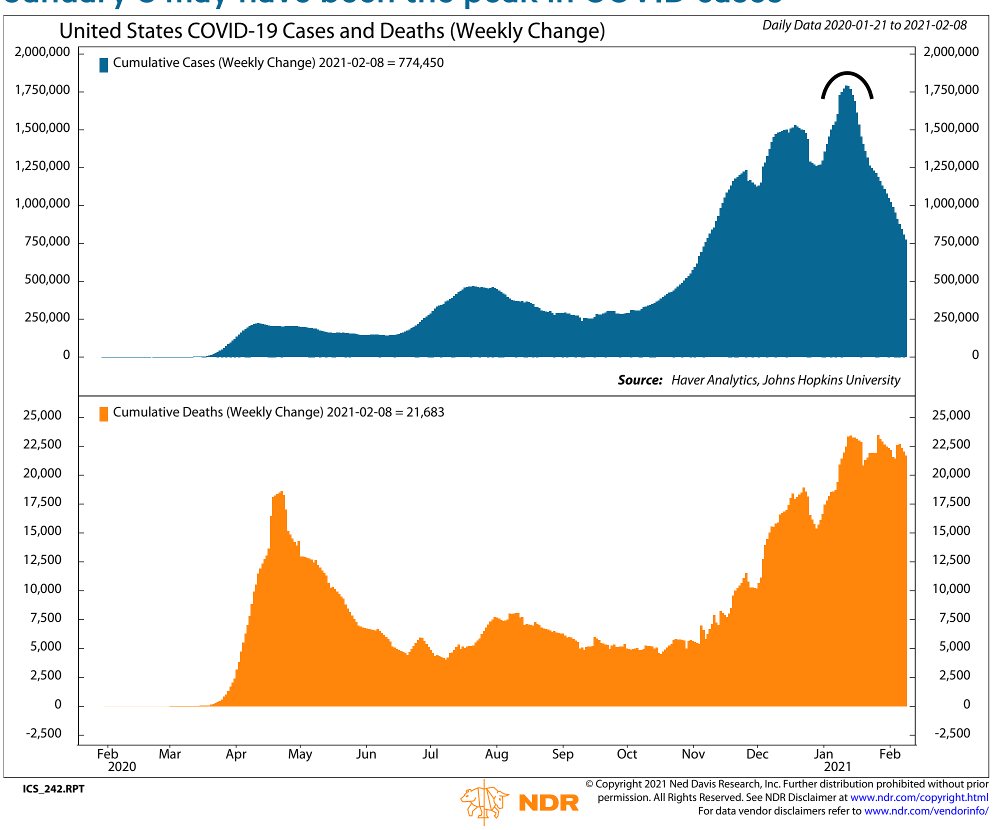
Coverage update

Of the themes we're covering, Autonomous and Electric Vehicles grew assets by the most over the past month. GM's headline grabbing commitment to EV production (and the Will Ferrell Super Bowl commercial) may be overshadowed in the near-term by production delays caused by chip shortages.

The weakness in the 5G infrastructure group (datacenter REITs) has turned sentiment from optimism to pessimism. We could upgrade the group on a breakout.

Our COVID-impacted Travel/Leisure group should regain momentum with the vaccine rolling out and the weekly number of new cases slowing **(chart left)** — as it did when vaccine news first emerged in Q3 of last year.

January 8 may have been the peak in COVID cases



Our Bitcoin over gold trade received a nice boost from the news Tesla has purchased $1.5 billion of Bitcoin and is our best performing trade, up 45% relative to gold.

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

Above excerpted from: "Thematic update February 2021" by Matt Bauer and Pat Tschosik, February 10, 2021 (available through NDR's new Thematic Opportunities product offering)

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ALEJANDRA GRINDAL SENIOR INTERNATIONAL ECONOMIST
PATRICK AYERS INTERNATIONAL ECONOMIC ANALYST

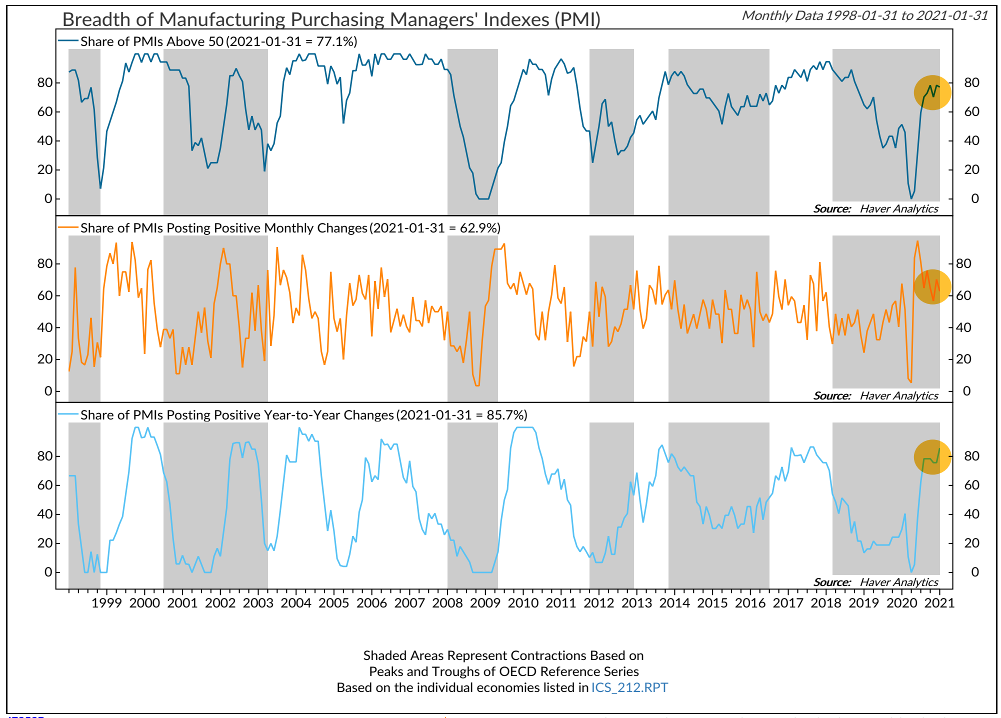
FEBRUARY 16, 2021

Global economic growth remains upbeat

Key Takeaways

- According to the latest PMIs, global growth slowed in January but remained robust.
- Manufacturing V-shaped recovery intact, while services continued to struggle amid localized lockdowns.
- Global CPI is likely to rise in 2021, but unlikely to get out of control.

Manufacturing breadth remains robust



Shaded Areas Represent Contractions Based on Peaks and Troughs of OECD Reference Series
Based on the individual economies listed in ICS_212.RPT

IE250B

Global growth slowed for a third straight month in January, according to the latest global PMIs. The composite PMI — a timely proxy for global economic activity — fell to a six-month low. Despite the slowdown, the composite PMI is still double its recession low from April 2020 and even a bit higher than its level from a year ago.

Weekly global COVID case growth tapered throughout the month of January among most of the world's major economies, with many of them still on lockdown. Even so, the weekly momentum is still well above levels observed over the summer and fall. The fact that economic activity has not deteriorated more speaks to the resiliency and adaptability of humans. But we're not out of the woods yet as the strength in the global aggregate continues to mask marked divergences among sectors and countries.

Global manufacturing growth continued to steady, but at elevated levels, indicating that the V-shaped recovery in the sector remains intact. Overall manufacturing breadth remained strong in January, indicating that the recovery is on solid footing **(chart above)**. The strongest manufacturing growth was recorded in Sweden, Taiwan, Switzerland, and the U.S. But there are a few areas of concern — supplier delivery times were still slow and export orders nearly ground to a halt in January.

The weakness in the services sector continued and spread to a larger share of economies in January. The percentage of countries with expanding services industries shrank to 39%, down significantly from 71% in July 2020, after most economies re-opened following the initial lockdowns, and down from 100% right before the pandemic. The weakest trends were observed in Europe, where restrictions remain, while the strongest were in the U.S. and Australia.

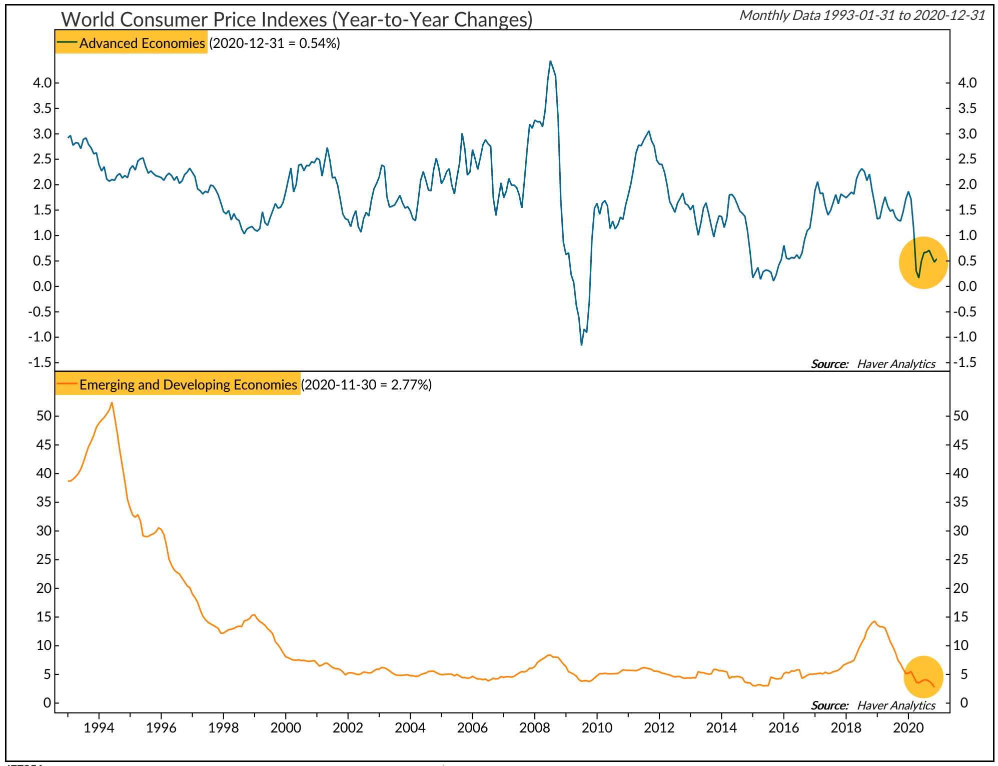
Above excerpted from: "Global growth slows, but remains upbeat" by Alejandra Grindal, February 4, 2021

Global CPI at extremes

2020 was a year of extremes when it came to the global economy. These extremes were also evident in consumer inflation. Measures of global CPI sank in 2020 along with the slump in aggregate demand caused by the COVID crisis **(chart right)**. But a rebound in annual consumer price growth is highly likely this year as the outlook brightens due to the distribution of vaccines, a low base from the prior year, and rising commodity prices.

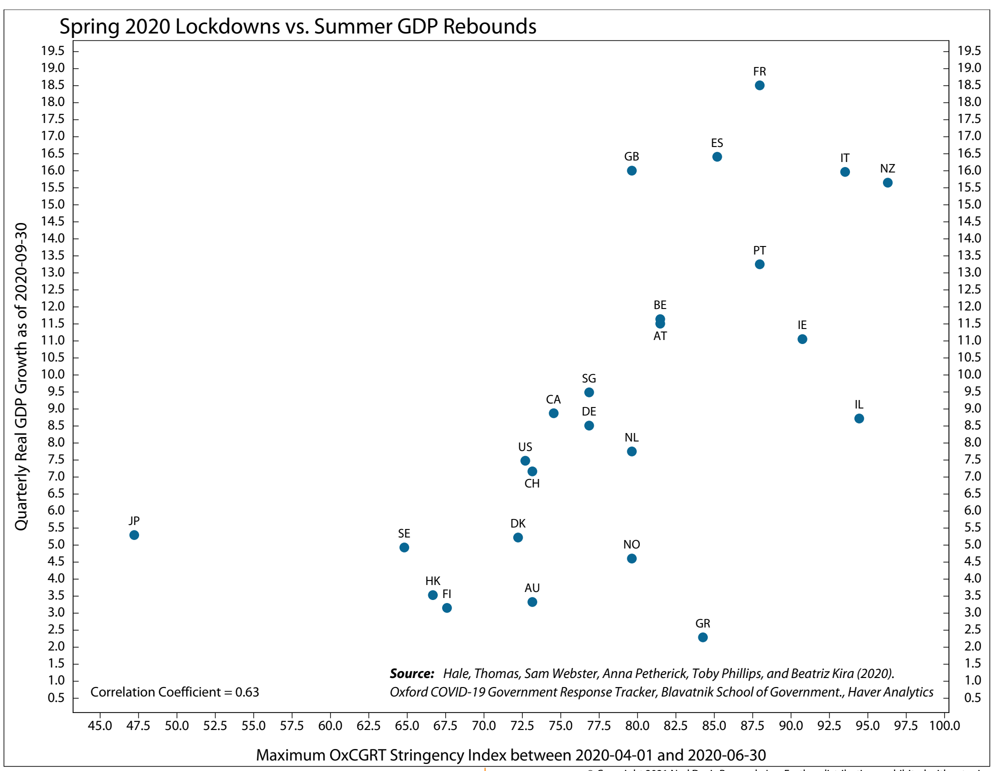
Above excerpted from: "Will global inflation become a problem?" by Alejandra Grindal, January 28, 2021

Consumer price growth fell to new lows in 2020



IE705A

The greater the stringency, the stronger the rebound



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Strongest rebound potential

The **chart at left** shows the severity of stay-at-home orders, as measured by Oxford's Stringency Index, versus Q3 2020 real GDP growth, when most of the world's economies reopened. The countries with the higher levels of stringency, which were mainly in Europe and New Zealand, saw stronger rebounds in Q3 GDP growth. Greater pent-up demand and composition of economies suggest that the eurozone and U.K. may see the strongest 2H 2021 rebound.

Above excerpted from: "Which countries are poised for the strongest consumer rebound?" by Alejandra Grindal, February 11, 2021

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

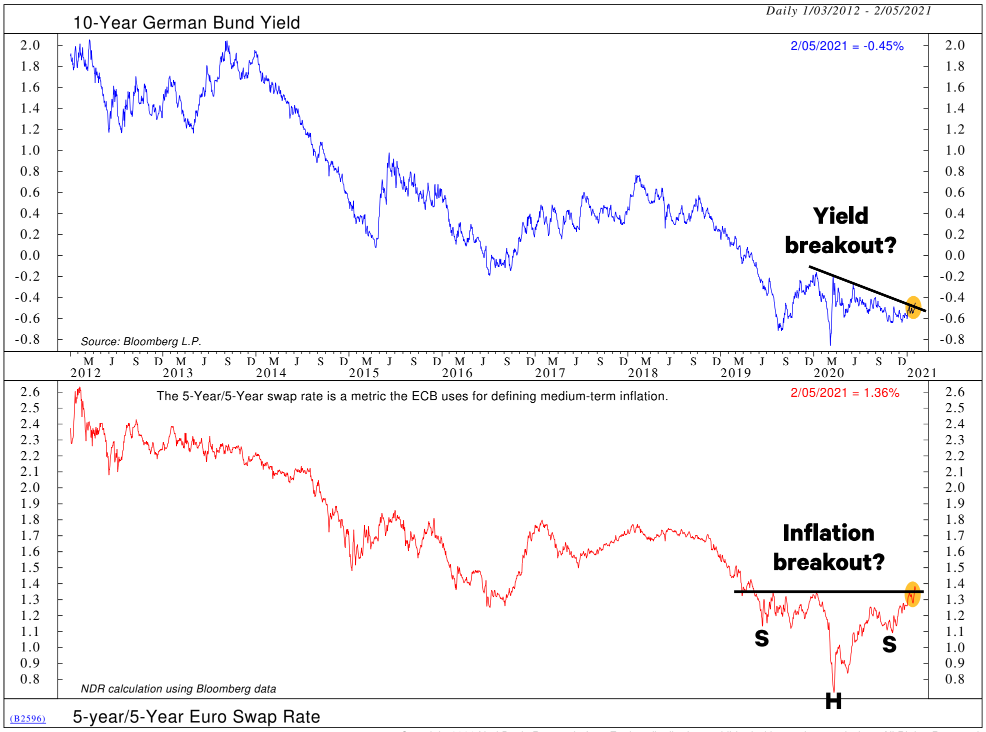
FEBRUARY 16, 2021

Reflation trade gaining traction

Key Takeaways

- A cross-asset analysis reveals broad support for the reflation trade.
- Assuming the current purchase rate continues, the bond market could run into trouble in Q4.
- During periods of inflation, 60/40 portfolio returns were suboptimal and additional asset classes should be considered.

Inflation breakout in Europe?



Another expected shot of U.S. fiscal aid likely totaling around $1.9 trillion, on top of the massive monetary and fiscal support already provided, has energized the reflation trade.

Reflation trade beneficiaries

Here's a short summary of recent market developments:
1. Inflation expectations have risen
2. Bond yields have increased
3. The yield curve has steepened
4. Banks and other cyclical sectors have outperformed
5. Commodity prices have risen
6. Emerging market stocks have outperformed global stocks
7. Emerging market bonds have outperformed the U.S. Aggregate
8. Emerging market currencies have rallied

Most of this is being driven by the U.S. with the Democrats shepherding the bill through budget reconciliation. But the economic recovery in China, as well as Asia more broadly, have also contributed.

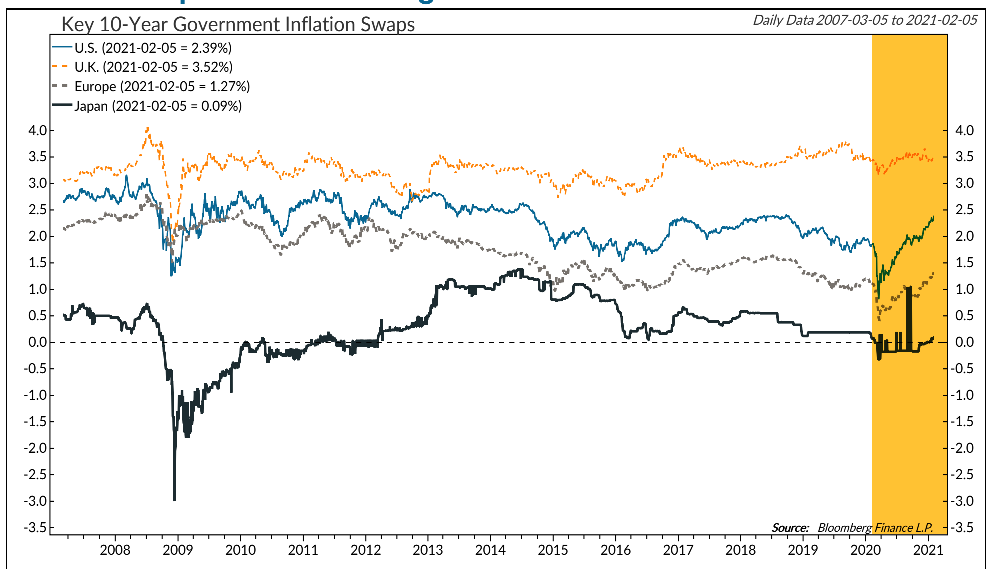
Focus on Europe

But, what's really gotten my attention recently is the potential breakout of European inflation expectations. The 5-year/5-year Euro swap rate is one of the measures the ECB uses to gauge inflation expectations, as shown on the **chart above**.

Although we don't do a lot of chart reading, there appears to be an inverted head-and-shoulders bottom formation. If fulfilled, this could take the Eurozone inflation rate back to the ECB's target of close to, but just under 2%, which hasn't been seen since 2014. If that happens, German and European bond yields, which have been diverging from the U.S. and other markets, would confirm to the upside and likely drive U.S. yields even higher! That could create a positive feedback loop for the reflation trade.

U.S. and European inflation expectations have been rising steadily since last Spring. Japan is nudging back above zero. The U.K. is holding steady **(chart right)**.

Inflation expectations rising

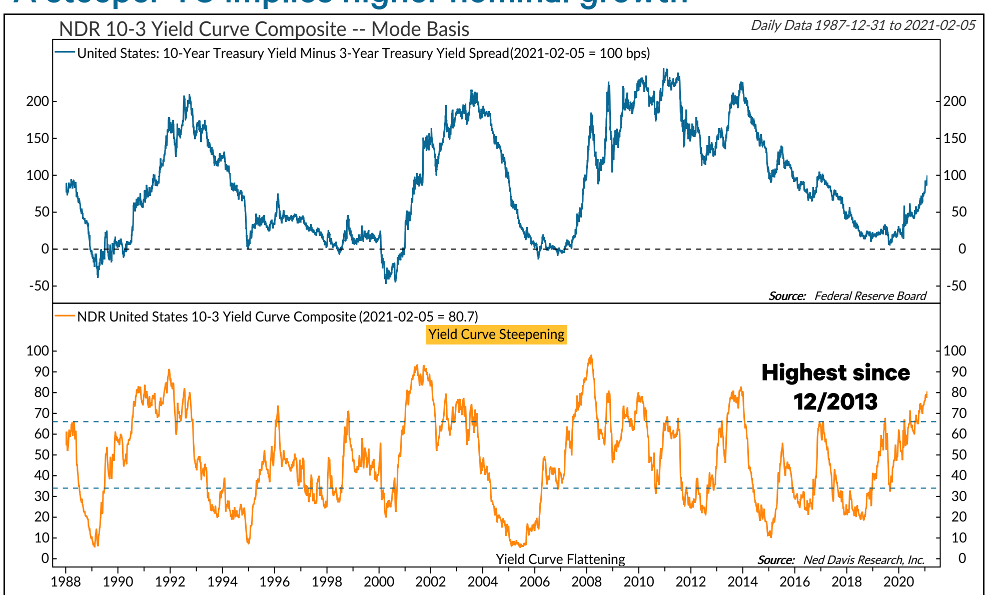


Full History
Correlation Matrix
2007-03-05 to 2021-02-05

Assets	US	UK	EU	JP
US	1.00			
UK	0.17	1.00		
EU	0.84	-0.01	1.00	
JP	0.18	0.04	-0.17	1.00

B1781

A steeper YC implies higher nominal growth



Yield Curve Performance
Full History: 1987-12-31 to 2021-02-05

Composite is	Points/ Annum	% of Time
Above 66.0	32.13	23.30
34.0 - 66.0	7.71	45.03
Below 34.0	-32.60	31.67

Buy/Hold = 0.63 Points/Annum

B875

The majority of our U.S. yield curve models are in the steepening zone. The 10-3 model is the only one above 80% **(chart left)**.

Above excerpted from: "Reflation trade gaining traction" by Joe Kalish, February 9, 2021

Steady securities purchases

The five major central banks have been purchasing roughly $250 billion a month of securities:

1. The Fed has been buying $80 billion a month of Treasury securities and $40 billion a month of agency mortgage-backed securities.
2. The ECB has been buying about €70 billion a month (about $85 billion), including €20 billion a month for the asset purchase program and the remainder under the pandemic emergency When will central bank bond buying stop supporting markets? purchase program (PEPP).
3. The Bank of England has been averaging less than £18 billion a month (about $25 billion).
4. The Bank of Canada has been averaging less than C$15 billion a month (about $12 billion).
5. The BOJ has had minimal change recently.

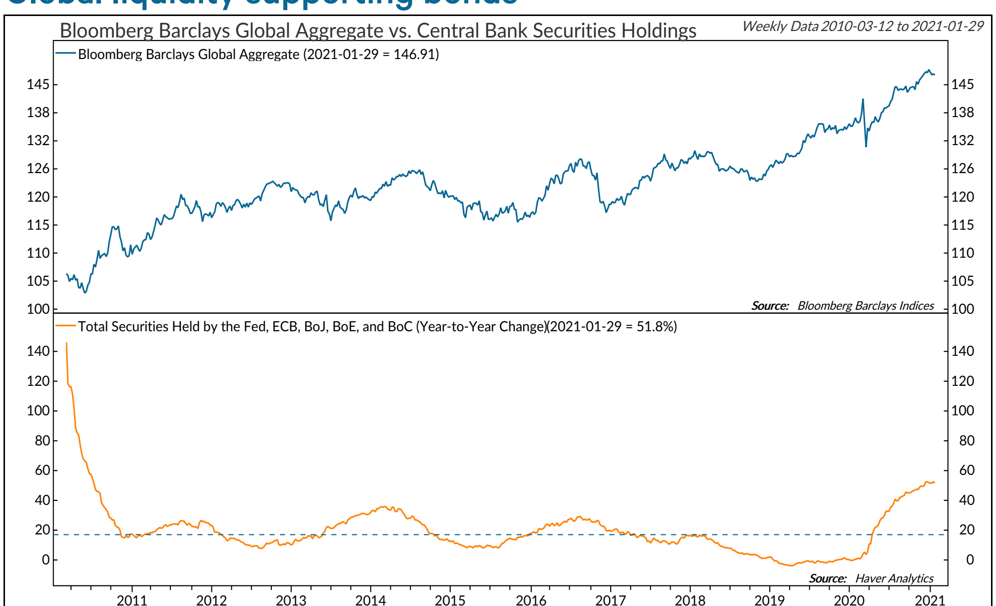
Impact on stocks and bonds

Since the Global Financial Crisis, these purchases have helped support financial assets. We have found that when the year-to-year change of the securities holdings has risen above 9%, the MSCI All-Country World Index has risen at a 12.6% annual rate. Conversely, when the growth has slowed below 9%, global stock markets have retreated at a 9.3% annual pace.

For the bond market, represented by the Bloomberg Barclays Global Aggregate, we found that when securities growth has exceeded 17%, bonds have gained over 5.2% per annum. Below that level, the index has gained just 1.1% per annum **(chart below)**. Assuming the current rate of securities purchases continues, the growth rate should fall below the 17% threshold for bonds sometime in Q4.

Above excerpted from: "When will central bank bond buying stop supporting markets?" by Joe Kalish, February 11, 2021

Global liquidity supporting bonds



Global Agg Performance
Full History: 2010-03-12 to 2021-01-29

CB Securities Growth	% Gain/ Annum	% of Time
Above 17.0	5.24	47.74
Below 17.0	1.07	52.26

Buy/Hold = 3.04% Gain/Annum

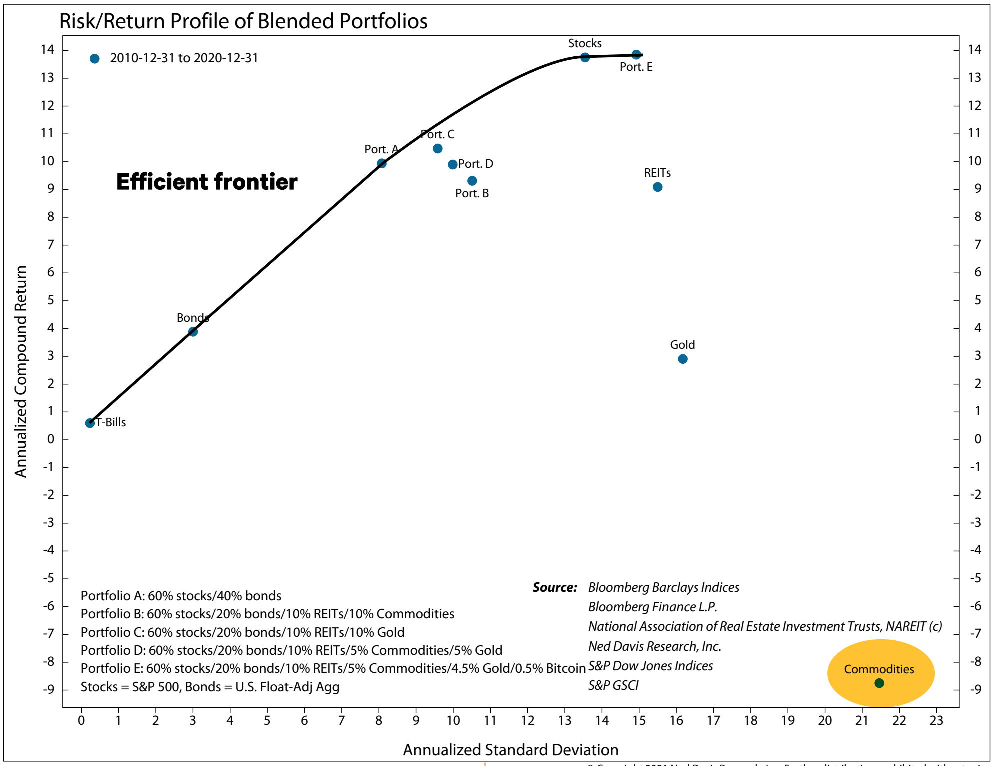
B1556

Replacing 60/40 with blended portfolios

Many conservative investors do not want to give up the hedge that bonds can provide, but recognize that with yields at low levels, their hedging efficacy has been reduced. As a result, some advisors have recommended cutting the bond allocation in half and putting the other half into alternatives, especially liquid alternatives, or a 60/20/20 allocation.

Therefore, we constructed four blended portfolios to compare the risk/return profiles over the past ten years with the benchmark 60/40 stock/bond mix (**chart right)**. The 60/40 blend performed quite well. Portfolio C also performed well and was better than Portfolios D and B, as commodities performed terribly over the past decade. Adding a small amount of Bitcoin to the mix increased returns and risk.

Financial assets outperformed over the past decade



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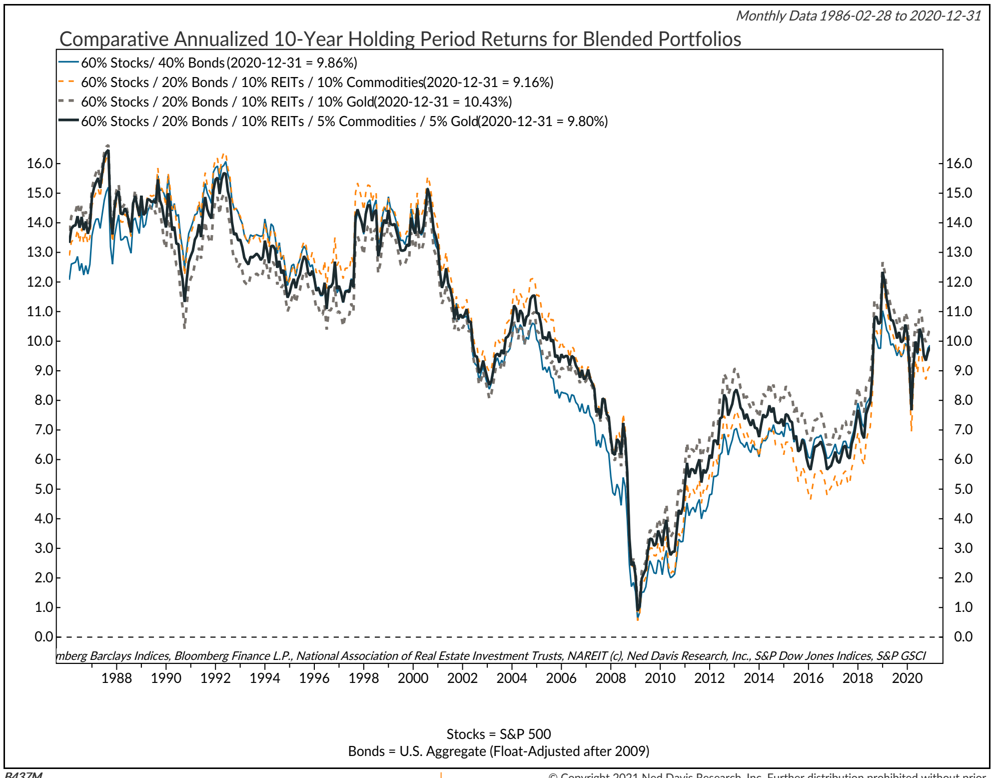
Stocks dominate portfolio returns



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On a rolling 10-year basis, stocks continued to dominate the performance of blended portfolios **(chart left)**. What really matters is the expected performance of these assets over your projected time horizon and whether realized returns meet your expectations.

We are skeptical that REITs will continue to perform well due to structural challenges facing the Retail and Office sectors. Inflation expectations have picked up recently, which could support commodities. And Bitcoin continues to garner institutional interest, which could argue for a small allocation to it or cryptocurrencies in general.

Above excerpted from: "Replacing 60/40 with blended portfolios" by Joe Kalish, February 2, 2021

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

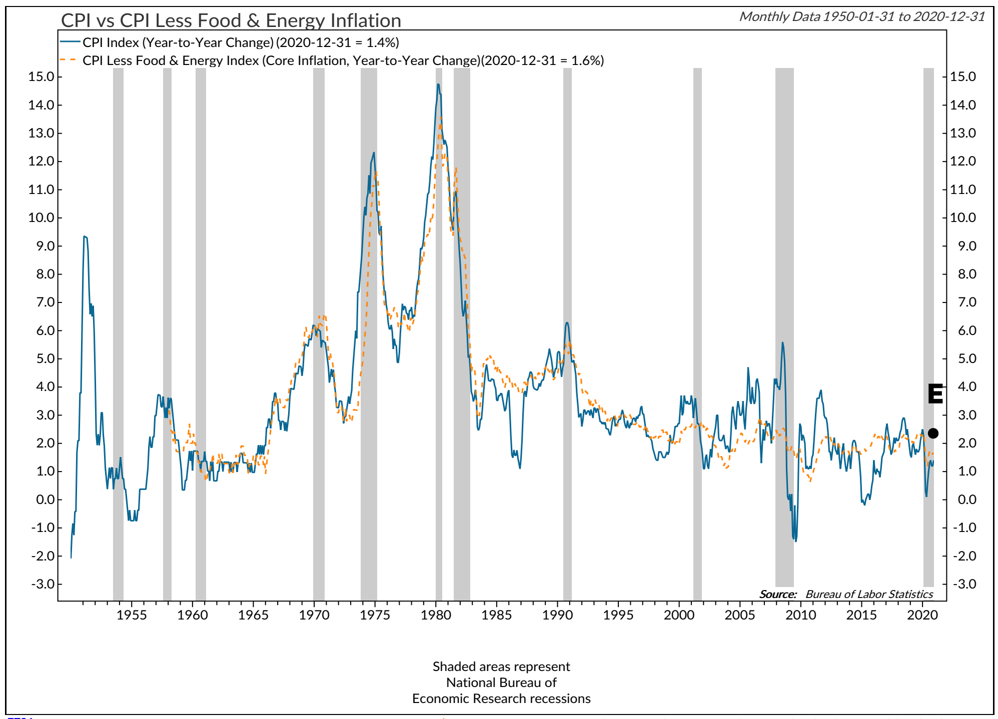
FEBRUARY 16, 2021

Should we worry about inflation?

Key Takeaways

- Led by the cyclical recovery, we project a moderate pickup in CPI inflation of 2.2% in 2021.
- Average workweek extended; jobs report likely won't change monetary or fiscal support.
- The U.S. economy lost steam in Q4, but the risk is to the upside due to stimulus and vaccine rollouts.

Expect a moderate pickup in CPI inflation in 2021



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Cyclical uptick

With the economy clearly recovering amid massive fiscal and monetary stimulus, we expect price pressures to firm in 2021, with the Consumer Price Index (CPI) gaining 2.2% by yearend **(chart above)**.

The key macro drivers include:
- Firmer aggregate demand
- Broad-based rebound in commodity prices
- Product shortages as a result of supply chain disruptions
- Rising shipping costs
- Weaker U.S. dollar

At the same time, the economy is unlikely to close either its output or unemployment gaps, both of which tend to be disinflationary. Additionally, despite record money supply growth, credit creation remains relatively soft, which historically has been associated with slower price growth. This point is related to the concept of money velocity which has been declining steadily for the past two decades. It has recently regained popularity as a potential source of inflation, although we doubt that story. Inflation expectations remain well-anchored near 2.0%.

Long-term push and pull

In the intermediate to longer-term, there are powerful structural forces that exert both inflationary and disinflationary pressures. On the one hand, reverse globalization trends that have emerged in the past several years, massive government budget deficits and debt, and a likely precautionary inventory build are inflationary. On the other hand, aging demographics, ubiquitous technology in all things production and communication related, still high level of global integration, and a large private sector debt load are disinflationary. The simultaneous push and pull on inflation from these forces suggests that longer-term price trends should remain contained and it will be the cyclical factors that mainly influence investment decisions.

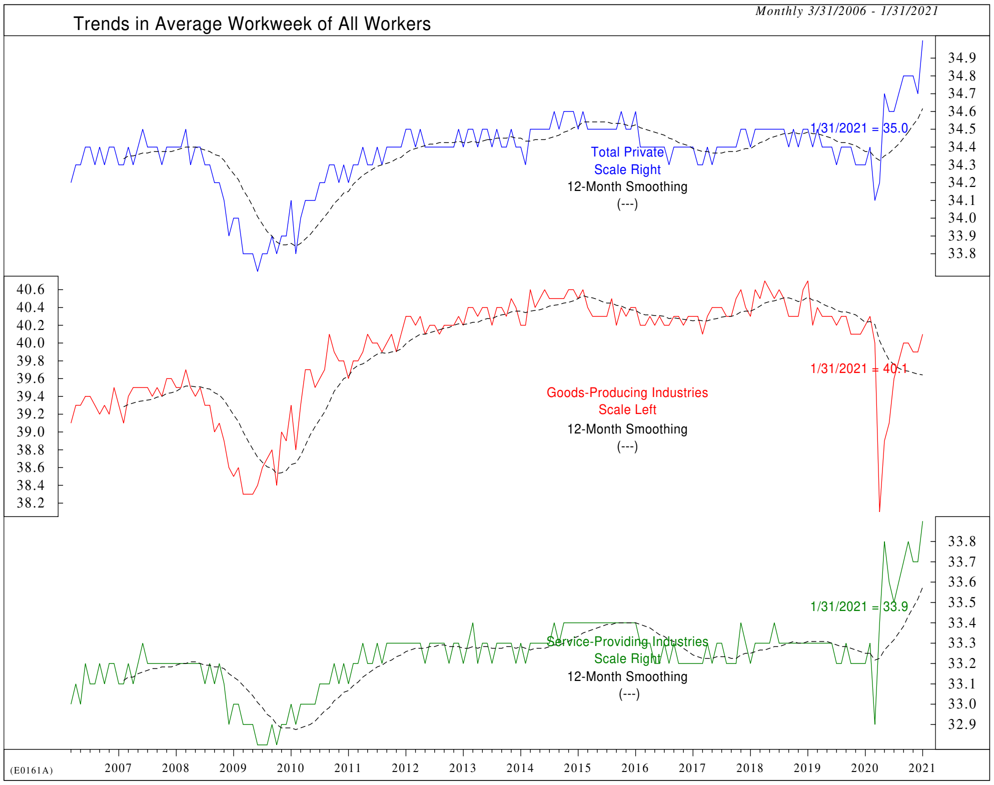
Cautious strength in the jobs report

Nonfarm payrolls increased by 49,000 in January. Additionally, the prior two months were revised down by 159,000. Rather than hiring more people, employers worked their existing employees harder, driving the average workweek up by 0.3 hours to 35.0 hours **(chart right)**. The longer workweek is equivalent to adding over a million jobs to private payrolls!

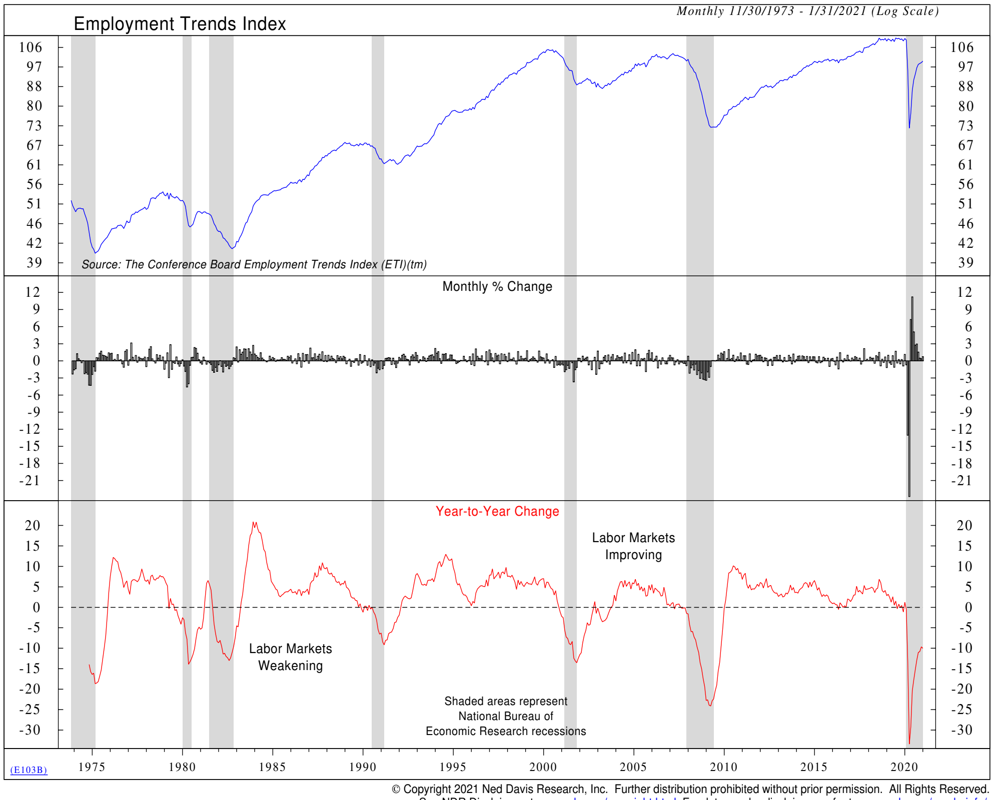
The unemployment rate tumbled to 6.3% from 6.7%. The recovery remains on track, and this report should not alter the near-term path of monetary policy. It should have no impact on the passage of any fiscal support.

Above excerpted from: "Headline hides cautious strength in jobs report" by Veneta Dimitrova, February 5, 2021

Average workweek was extended



Trends up for the ninth consecutive month



Employment trends look up

The Conference Board's Employment Trends Index (ETI) ticked up 0.7% in January, up for the ninth consecutive month, but still 10.0% below its year-ago level **(chart left)**. The positive contribution from increased temporary help hiring suggests that firms do have staffing needs but are trying to hold down their labor costs in the face of some uncertainty.

Above excerpted from: "Employment trends look up" by Veneta Dimitrova, February 8, 2021

Recovery lost steam in Q4

Real GDP increased at a 4.0% annualized rate in Q4, below the consensus of 4.3%.

It followed a 33.4% surge in the previous quarter, which reflected the reopening of the economy and massive fiscal and monetary stimulus, delivered at warp speed.

But the economic recovery lost momentum at yearend. While the recession may have ended as early as Q2, real GDP is still 2.5% short of its pre-recession peak. The **graphic below** provides further analysis on where the economy stood at the end of Q4. The risk for growth is to the upside due to additional fiscal support, the continued monetary accommodation, and the COVID vaccine rollout.

We expect these measures to support the economy in early 2021 and to fuel faster growth in the second half the year. **We currently project real GDP will increase 4.6% in 2021.**

Above excerpted from: "Economic recovery losing steam in Q4" by Veneta Dimitrova, January 28, 2021

Where the U.S. economy stands in Q4 2020

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OVERALL CYCLE

Early expansion

The economic recovery moderated in Q4, amid another COVID wave. The softness was concentrated in services. But growth was helped by continued monetary accommodation and additional fiscal stimulus. Output and employment have yet to recover to pre-COVID levels.

POSITIVES

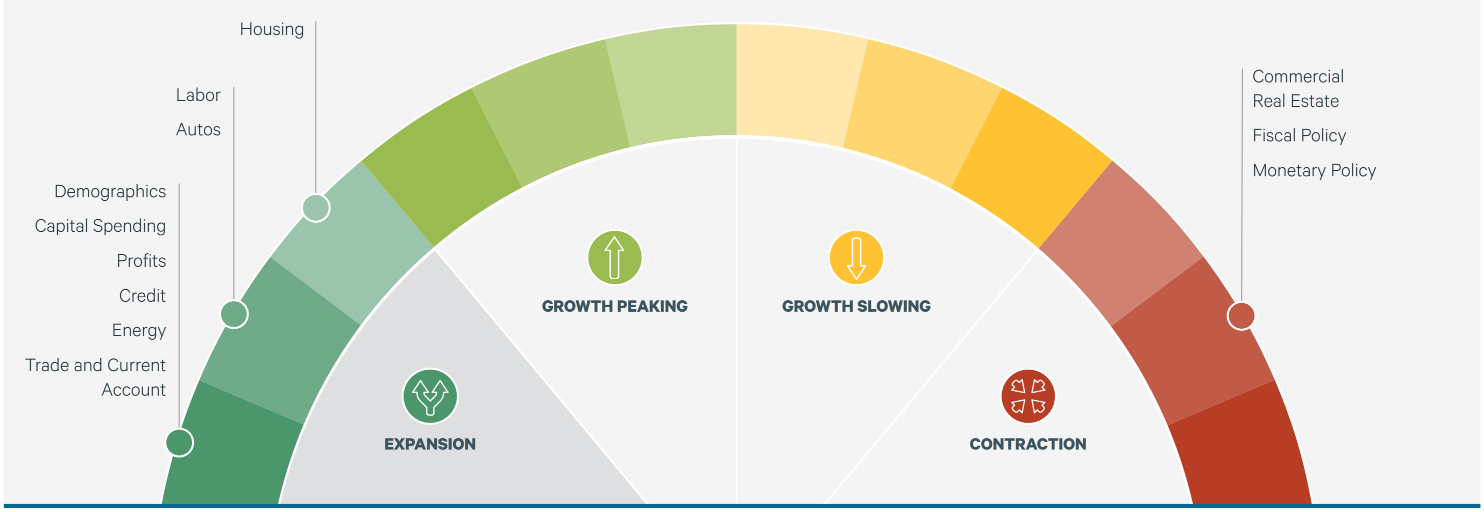
- Fiscal and monetary stimulus continues to support the economy.
- Record low interest rates boost demand for homes, autos, and other durables. High saving rate should fuel future spending.
- Manufacturing rebound drives capex growth.

NEGATIVES

- COVID resurgence limiting growth.
- Plenty of labor market slack. Jobless claims still several times higher than pre-recession.
- Under budget pressures, state and local governments cut spending and payrolls.

The four phases of the economic cycle

and the current status of 12 economic sub-cycles



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Page 2 – Latest Trends

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NED DAVIS SENIOR INVESTMENT STRATEGIST

FEBRUARY 16, 2021

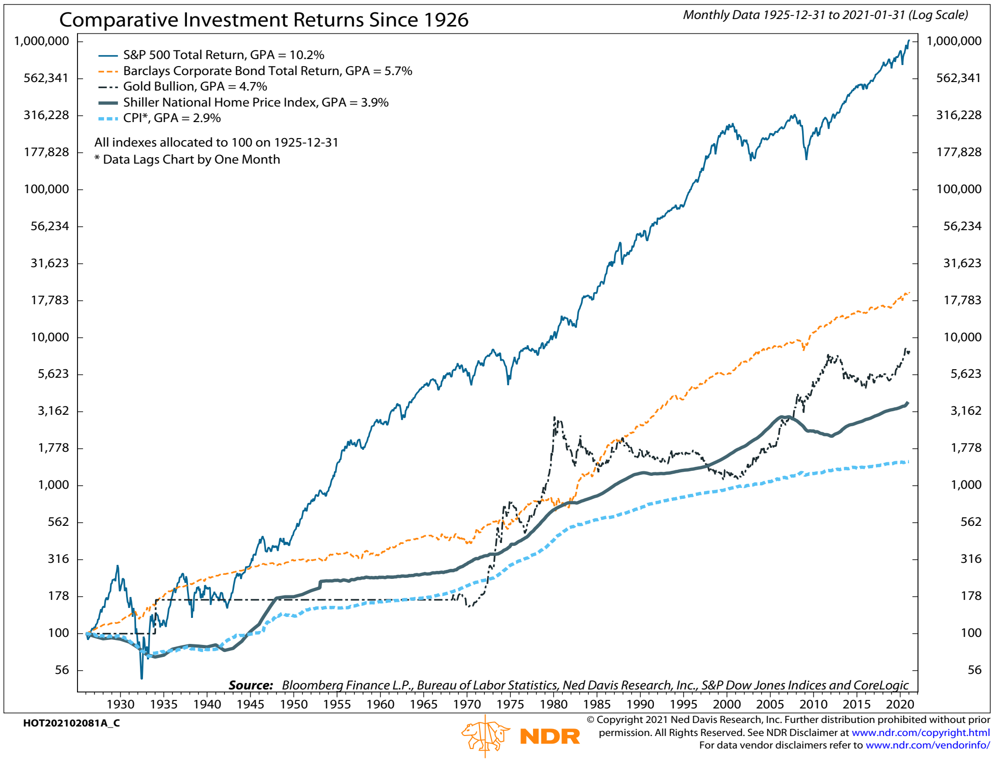
Why I'm in the stock business

Key Takeaways

- Long-term, stocks may be getting extended. But historically stocks have outperformed almost everything.
- Currently, demand volume for stocks is above supply volume.
- Those who invest early in stocks can do the best.

I have now been in the stock business for some 53 years. One of the reasons I was attracted to this business was that I did not want to be bored, and stocks seemed to be influenced by so many different things that it would be a constant thrilling learning experience. For example, in 2020, I learned that by attacking those who are holding long futures in crude oil, they could be forced to sell by a mob of traders using derivatives, and that crude oil could be driven down to -$40 dollars a barrel. I wanted to fill my swimming pool with oil. I also had to study the history of worldwide pandemics. This year I have had to learn about GameStop and relearn about short squeezes, like with VW or the Hunt Brothers trying to corner silver in 1980. It is always something or something else!

Historically, stocks have outperformed other assets



Stocks have outperformed

I also went into this business because I felt stocks were the best choice to make money over the long run. That was the story I read and learned about in the 1960s. Of course, the market got extended in the late 1960s as I got into the business. So, it was not easy to make money until around 1982. But, the **chart above** shows that stocks have indeed been the right business to be in over the long run, gaining 10.2% per annum. Due to the power of compounding, those who can invest early in stocks can achieve higher rewards.

Demand higher than supply

I think stocks are getting extended again, but right now our work shows that demand is much stronger than supply. By looking at prices as well as volume, one can see who is more dominant.

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

Above excerpted from: "Why I'm in the stock business" by Ned Davis, February 8, 2021 (available through NDR's new 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.

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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.

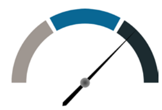
GOLD | Long-term uptrend intact. We are bullish.

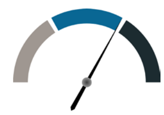
DOLLAR | Composite models indicate downtrend. We are bearish.

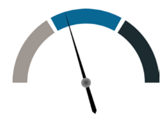
Economic Summary

February 16, 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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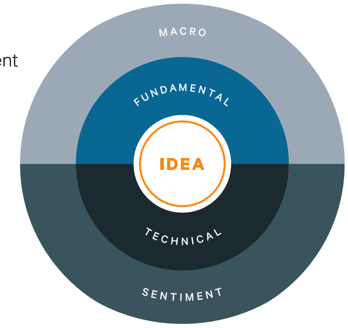

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