# Dynamic Tactical Allocation ETF

## Macro/Market Update

The world economy remains on solid footing, according to the latest global composite (services and manufacturing) S&P Global Purchasing Managers' Index (PMI). The global composite rose in February for a fourth straight month, and it showed the strongest growth in eight months. Accelerating economic momentum, as depicted by the composite PMI, has historically been associated with equity market outperformance.

Global economic indicators have been showing increasingly more signs that global recession risk is ebbing. Global composite new orders grew at the fastest pace in eight months, while the future output index remained near its highest level since May. Perhaps most significant, trends are broadening. Both the manufacturing and services sectors expanded in tandem for the first time since May 2023.

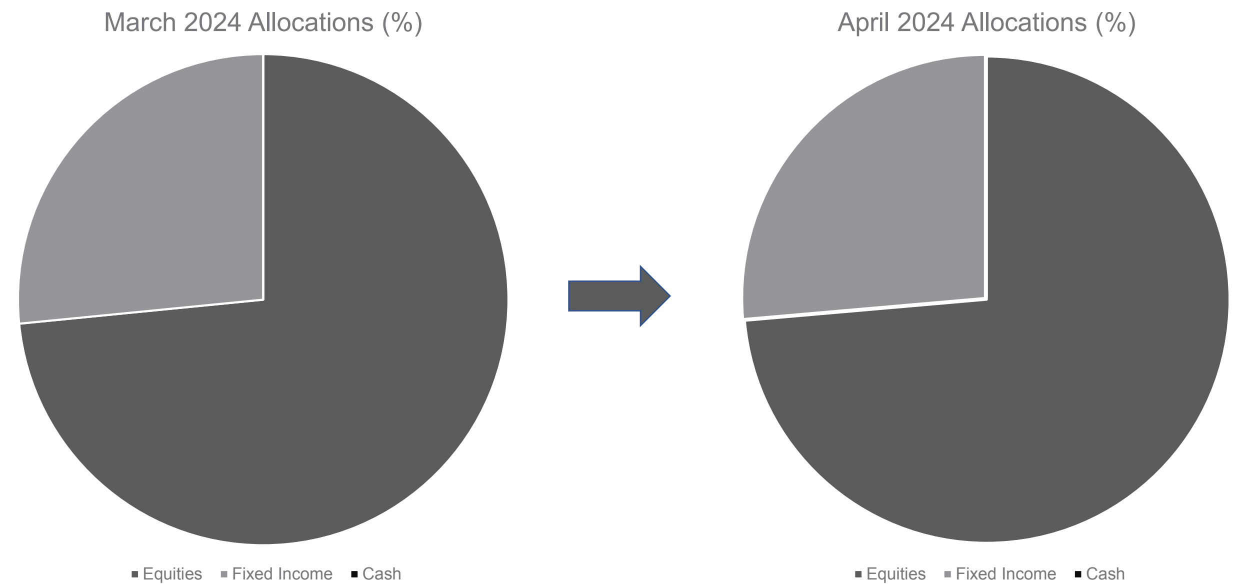
The strongest expansions are most evident in emerging markets outside of China, while the weakest have been in the eurozone. The U.S. and China, the world's largest economies, continued to grow at a steady pace.

Along with the pick-up in growth came a modest pick-up in inflation, particularly output prices. The increase was broad based among both developed and emerging economies. If sustained, this could delay the widely anticipated broad-based central bank easing in the second half of this year.

During March, the MSCI All Country World Index (ACWI) outperformed the Bloomberg Barclays Global Aggregate Bond Index by over 225 basis points (bps). Stocks have outpaced bonds for 11 of the last 15 months.

With investors still expecting central bank interest rate cuts, the equity cyclical bull should persist, though not without some volatility. With excessively optimistic sentiment, and the seasonal tailwinds fading, there is an increasing risk of a correction. However, a near-term market pullback would likely relieve the optimism and set the stage for the next move higher in the bull market.

## Asset Allocation Summary

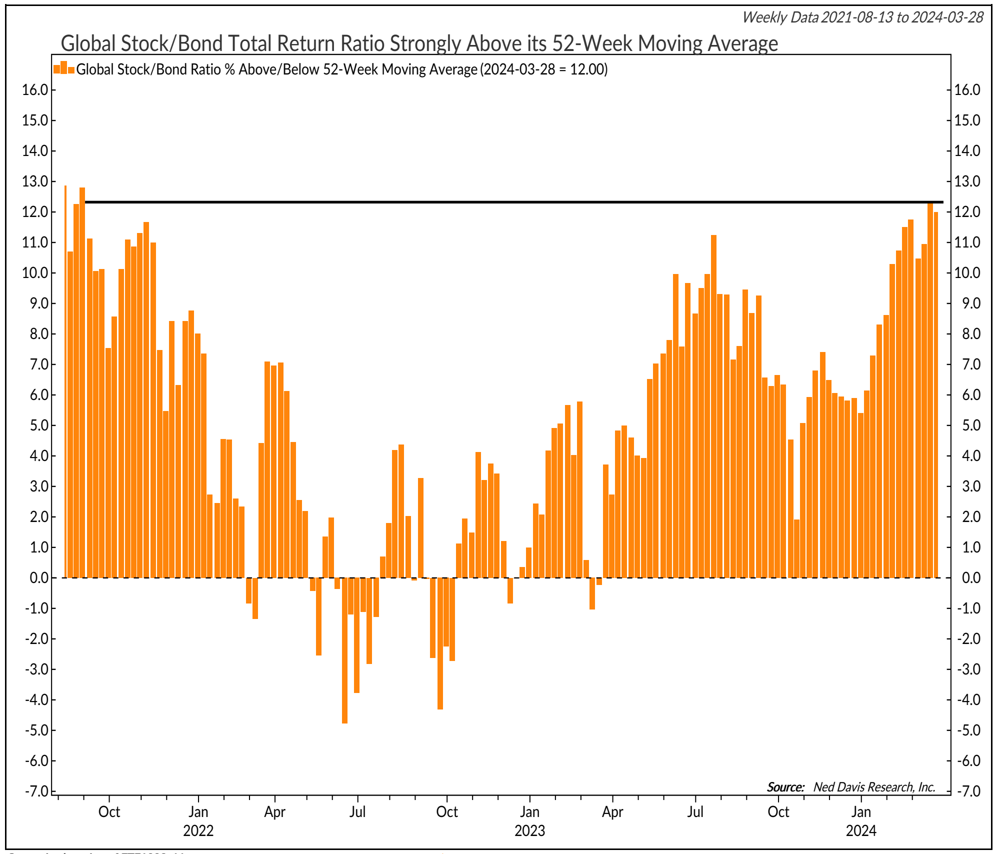



* See Equity Allocation Summary for how the equity allocation is distributed
** See Fixed Income Allocation Summary for how the fixed income allocation is distributed

The equity allocation remained above benchmark weighting, as the model did not trade this month. The model uses a turnover reduction mechanism, which reduces trading. The proposed allocations did not deviate enough from the existing weightings to warrant a model rebalance.

The stock/bond relative strength indicator, which receives the greatest weighting in the model, compares the stock/bond ratio to its 52-week moving average. The stock/bond relative strength ratio reached its largest gap versus its one-year moving average since late 2021 (chart right). This indicator has favored equities since last March.

Following the trend is important as it can help to keep you on the right side of major market moves. The trend also can reduce behavioral biases. Ned Davis has said that following the trend is important because “the degree of unprofitable anxiety in an investor’s life corresponds directly to the amount of time one spends dwelling on how an investment should be acting rather than the way it actually is acting.”

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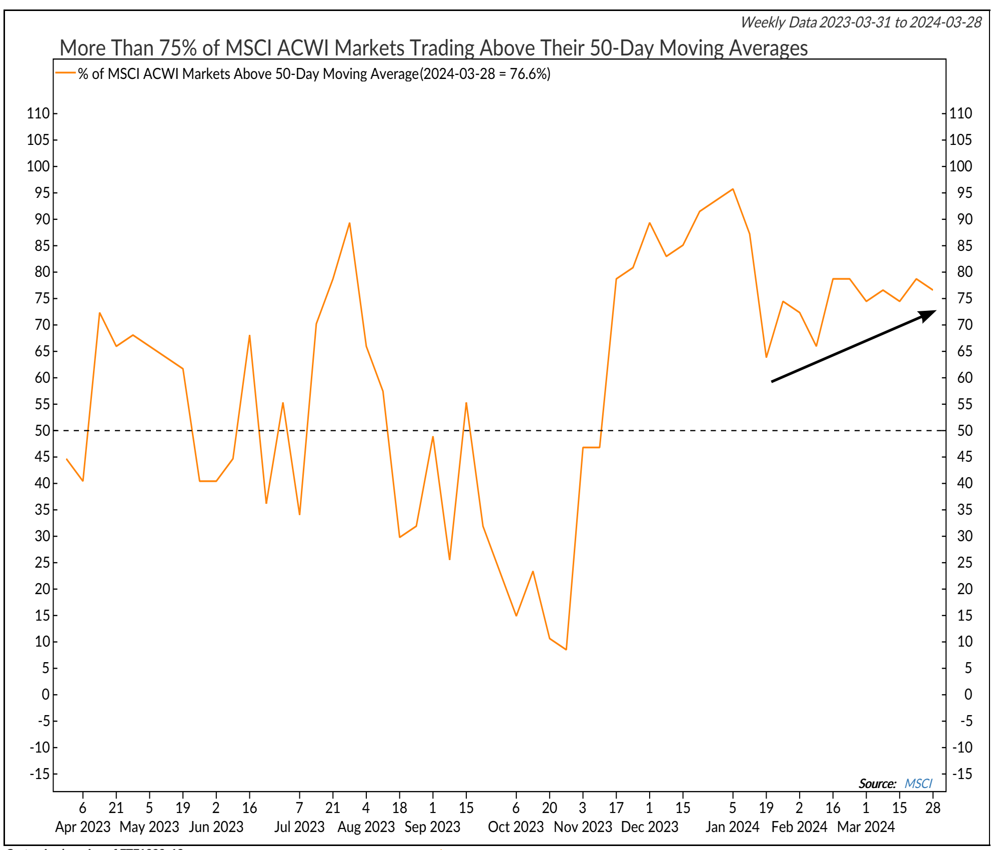


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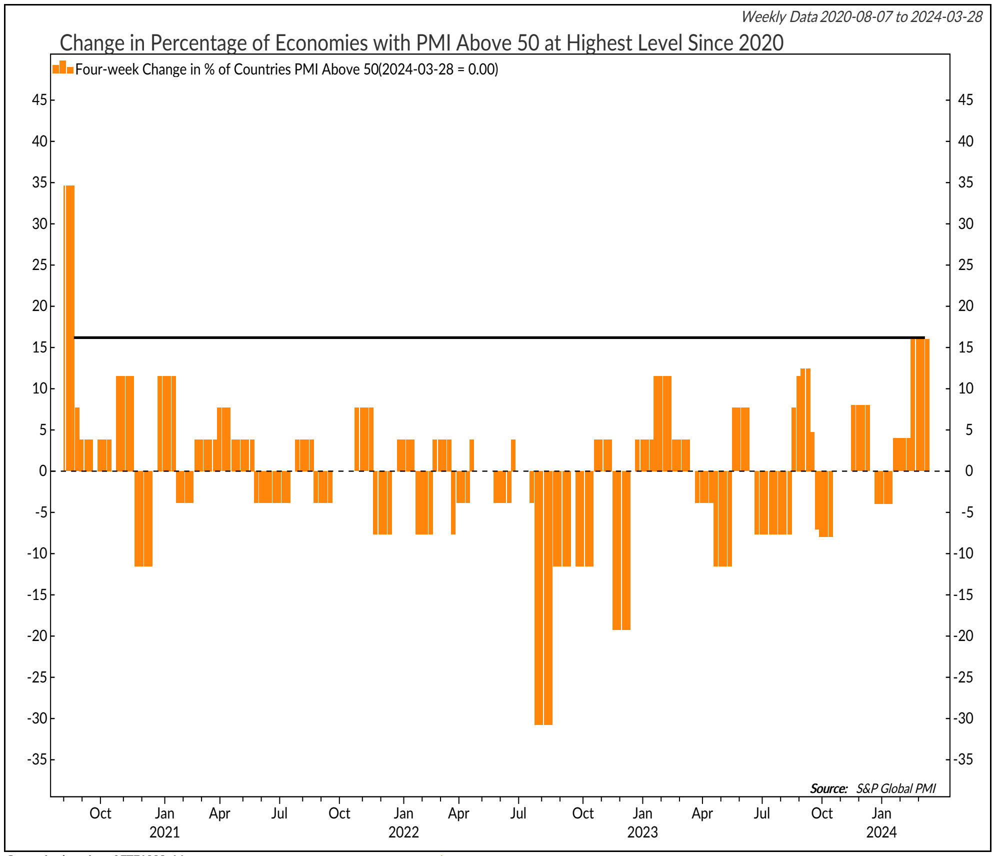
The strength in trend continues to be supported by broad breadth, as more than 75% of global equity markets are trading above their 50-day moving averages.

This indicator describes the underlying health of global equities, since it tracks the number of markets participating on the upside. Elevated breadth is important because if many stocks rally, even if a few run into trouble, enough stocks remain in uptrends that they can support the popular averages.

The Purchasing Managers' Index (PMI) breadth indicator measures the four-week point change of the percentage of economies with a PMI greater than 50 (expanding activity). The PMI is based on a survey sent to executives regarding their outlook on areas such as inventories, production, and employment.

A change greater than zero favors stocks, while a change less than zero supports bonds. Equities typically outperform fixed income when there is improvement in the economic outlook. This economic momentum breadth indicator improved to its highest level since 2020, as the PMIs for Ireland and Spain rose above 50. (chart right).

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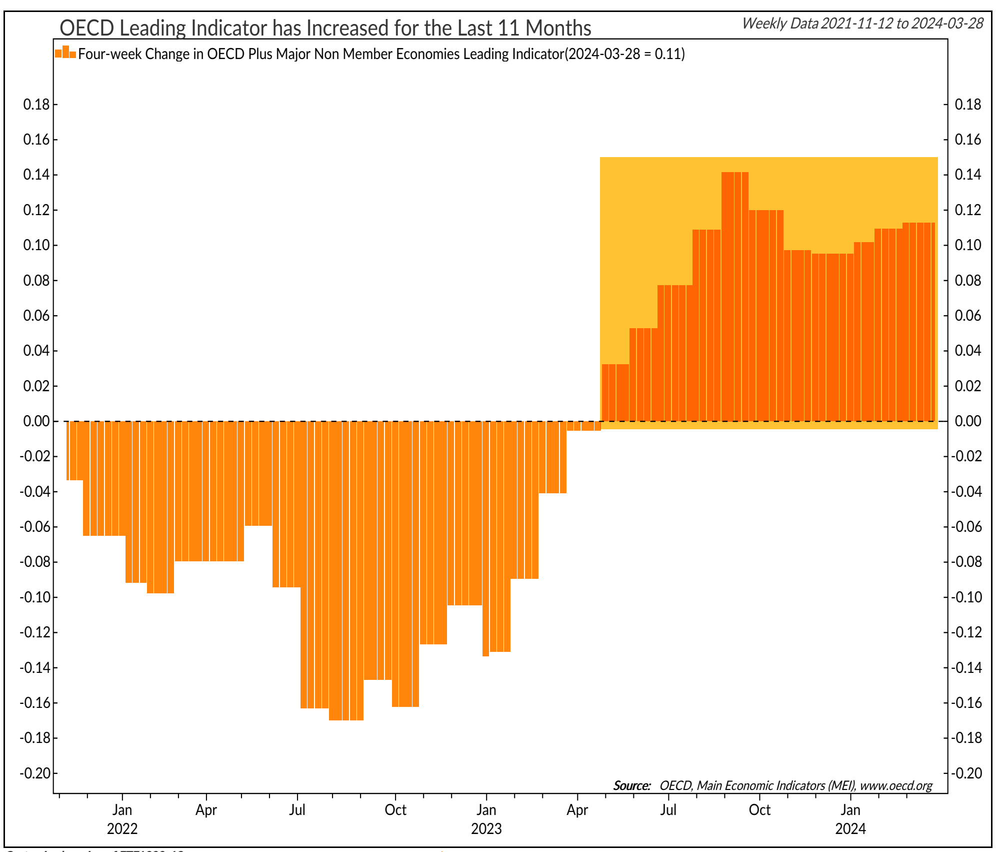


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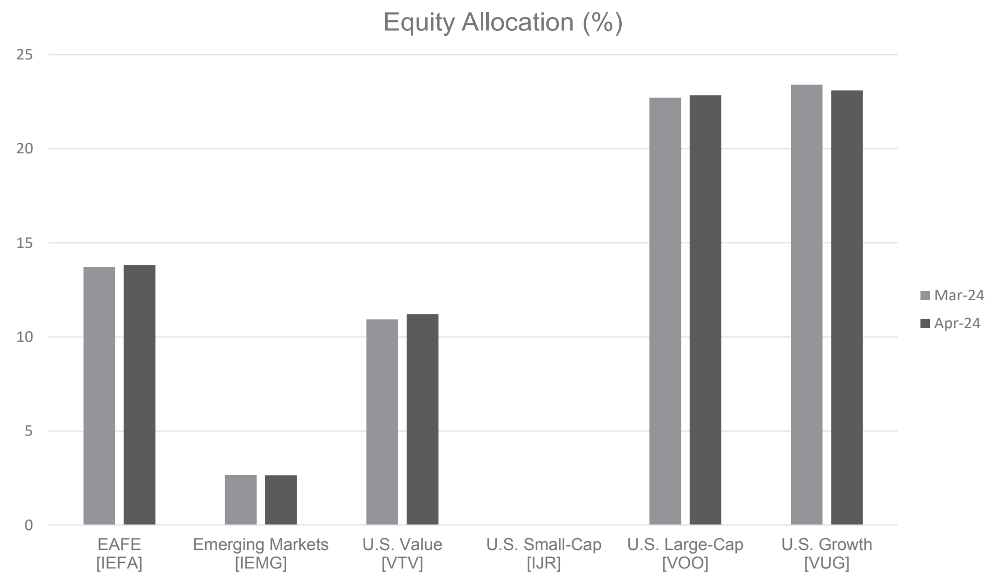
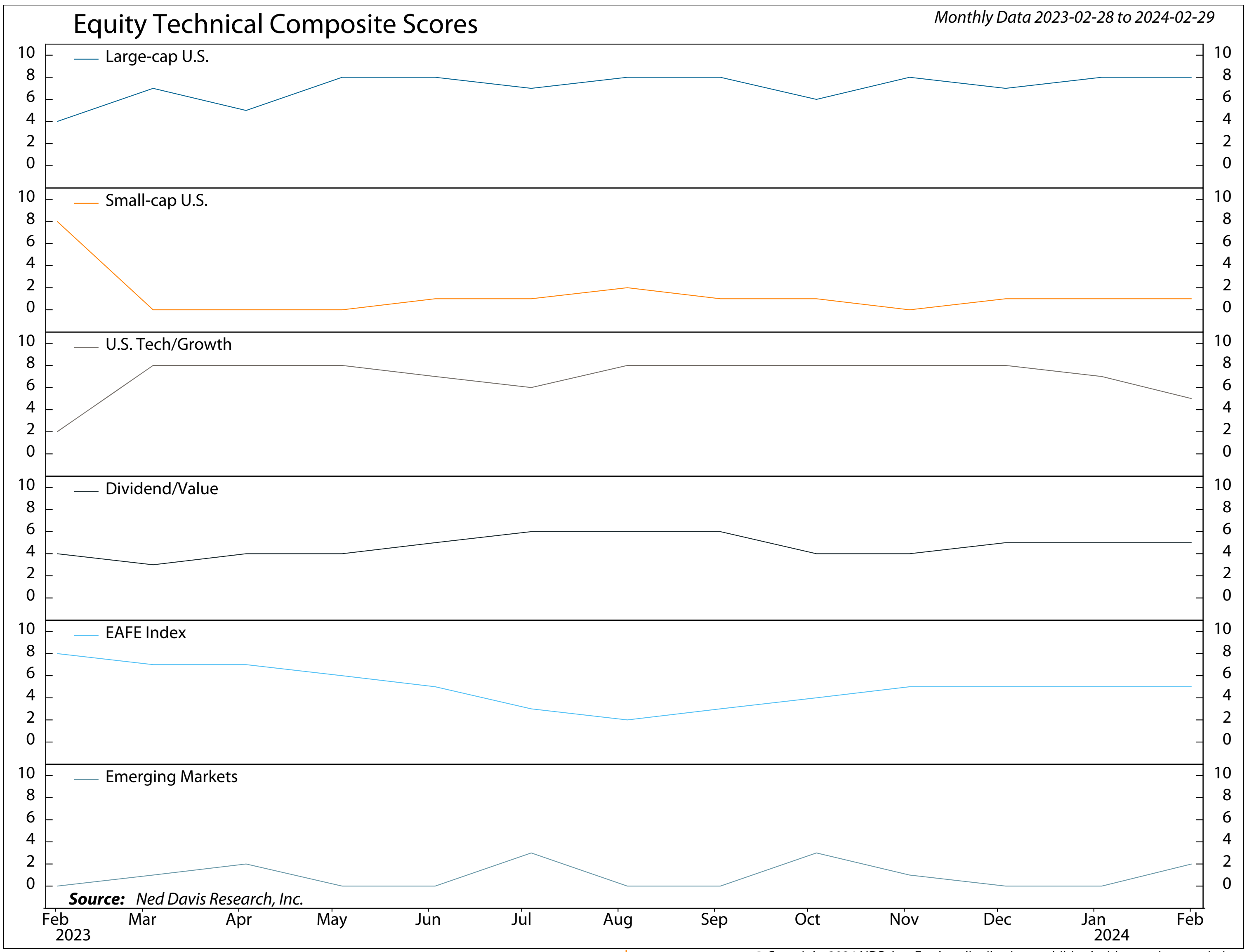
After declining for 18 consecutive months, the four-week change in the Organization for Economic Cooperation and Development (OECD) Composite Leading Indicator (CLI) has increased for the past 11 months (chart left).

The OECD creates monthly CLIs for 35 economies to capture turning points in the growth cycle. Each CLI contains a wide range of indicators such as money supply, yield curve, building permits, consumer and business sentiment, share prices, and manufacturing production. Improvement in global economic momentum supports the trend.

## Equity Allocation Summary

During March, all equity areas increased by more than 135 basis points (bps). U.S. Value was the only area to gain more than 400 bps. It was the first time that Value outpaced the other five equity areas for a month since September 2022. U.S. Large Caps, U.S. Small Caps, and International Developed all rose over 300 bps. U.S. Large-Caps, U.S. Growth, U.S. Value, and International Developed received more than 10% allocation for April (chart right).

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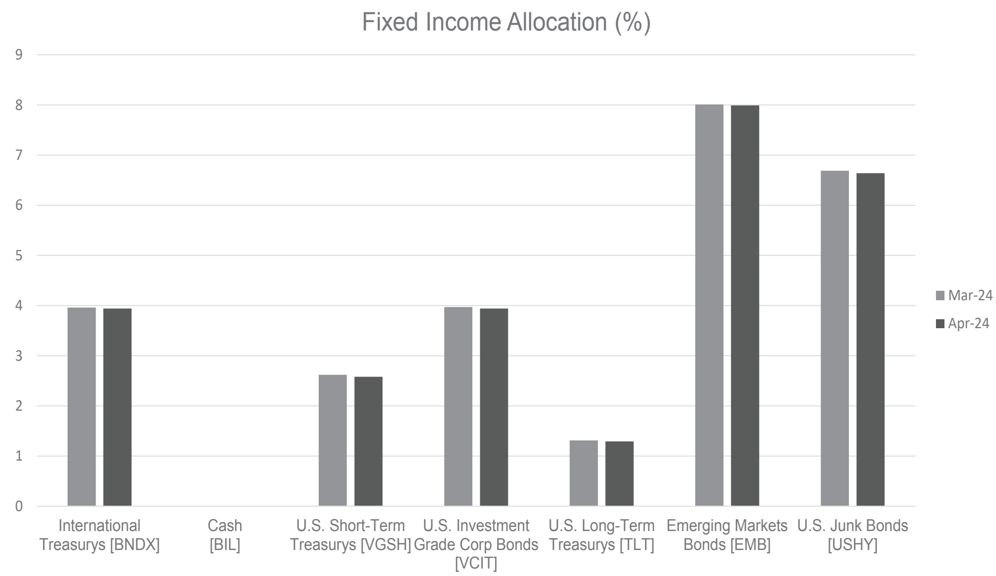
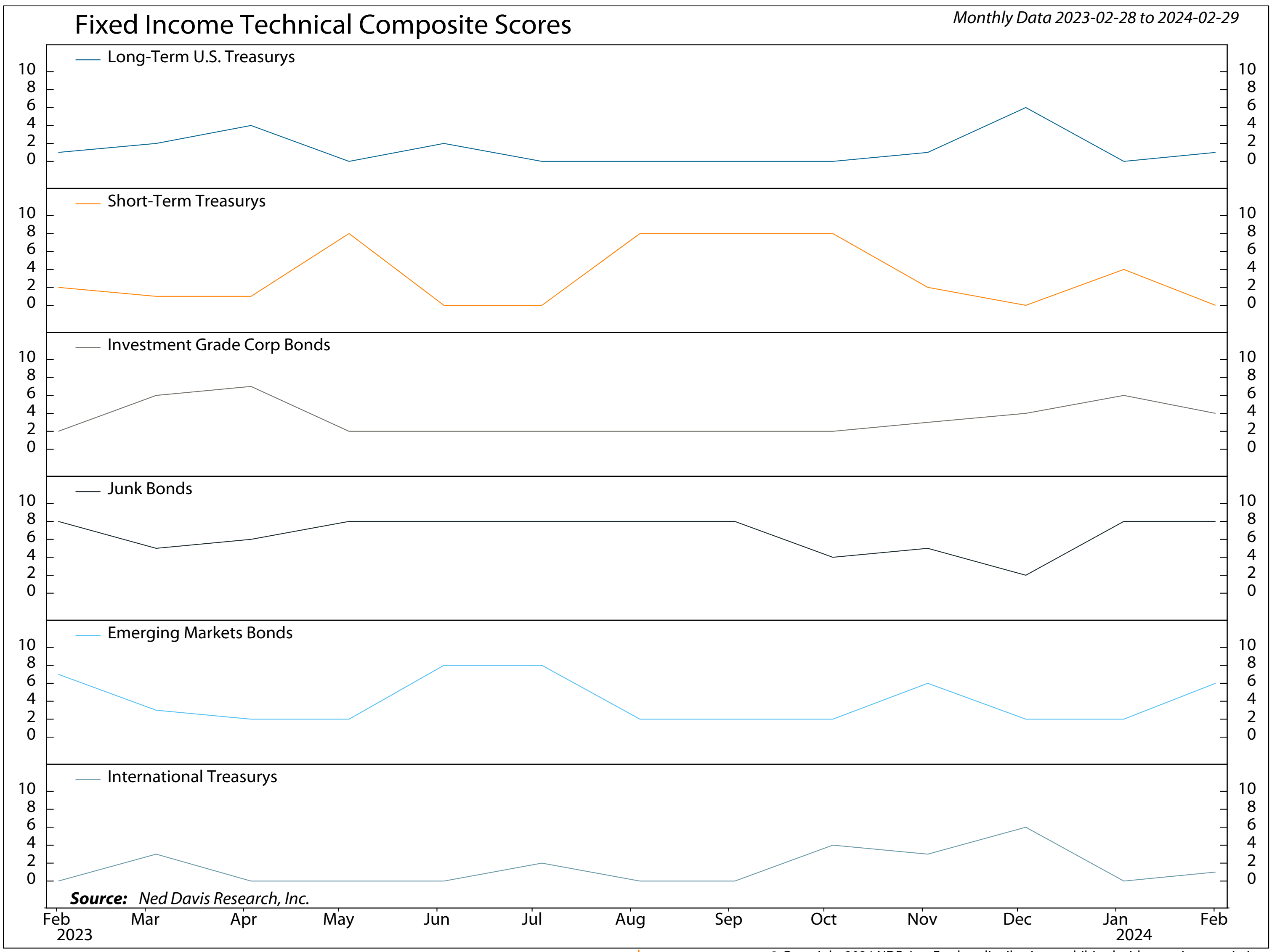
## Fixed Income Allocation Summary

All fixed income areas produced positive returns during March. Emerging Market (EM) bonds, U.S. High Yield, U.S. Investment Grade Corporates, and International Investment Grade each gained over 100 bps. EM bonds was the top performer for a second straight month. U.S. High Yield has risen for five straight months. Emerging Market bonds and U.S. High Yield were the only areas to receive more than 5% allocation for April (chart right).



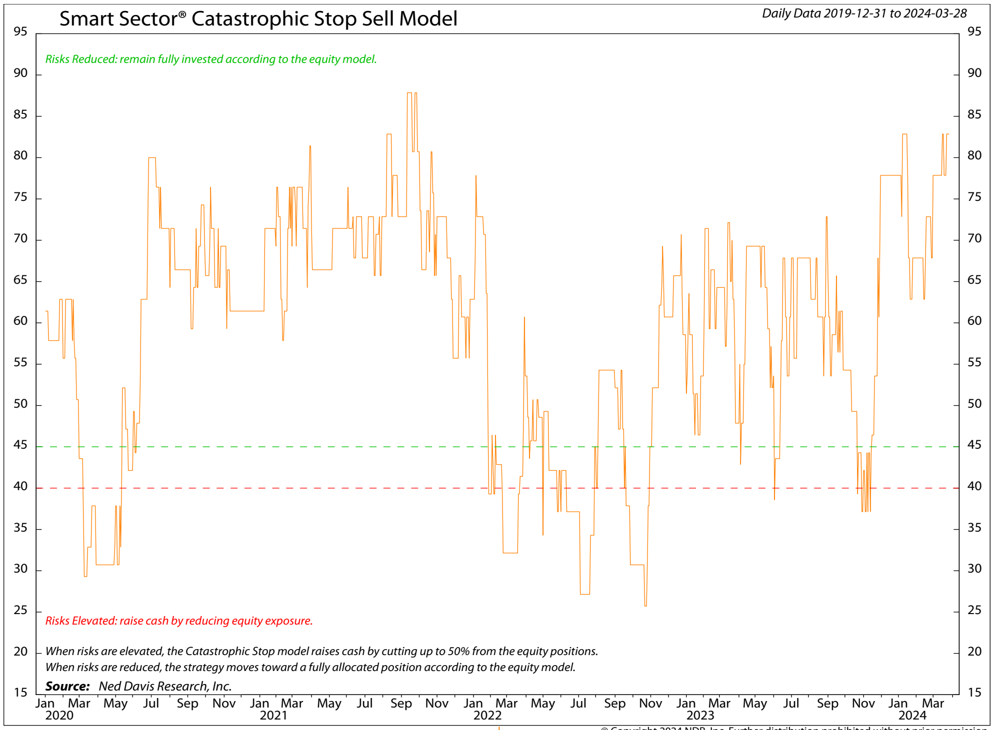

ETF1000_M_NDRIS

NDR

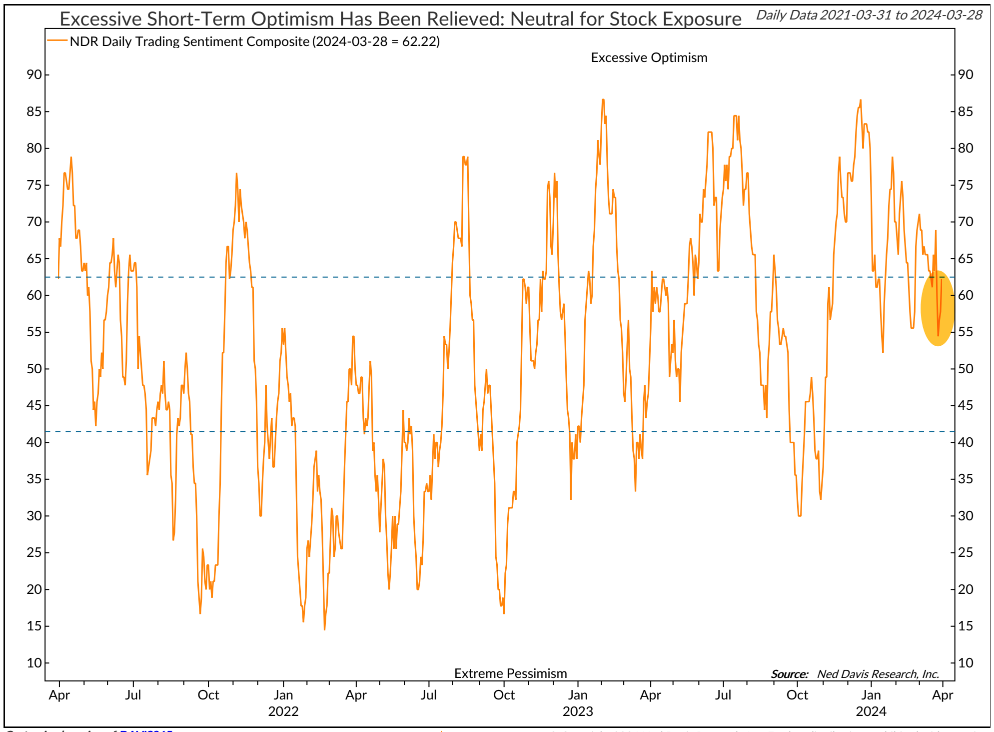
# Dynamic Tactical U.S. Sector Equity ETF w/ Stop Loss

## Catastrophic Stop Update

The NDR Catastrophic Stop Sell model combines time-tested, objective indicators designed to identify high risk periods for the equity market. The model (chart right) improved during the month and entered April with a fully invested equity allocation recommendation.



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

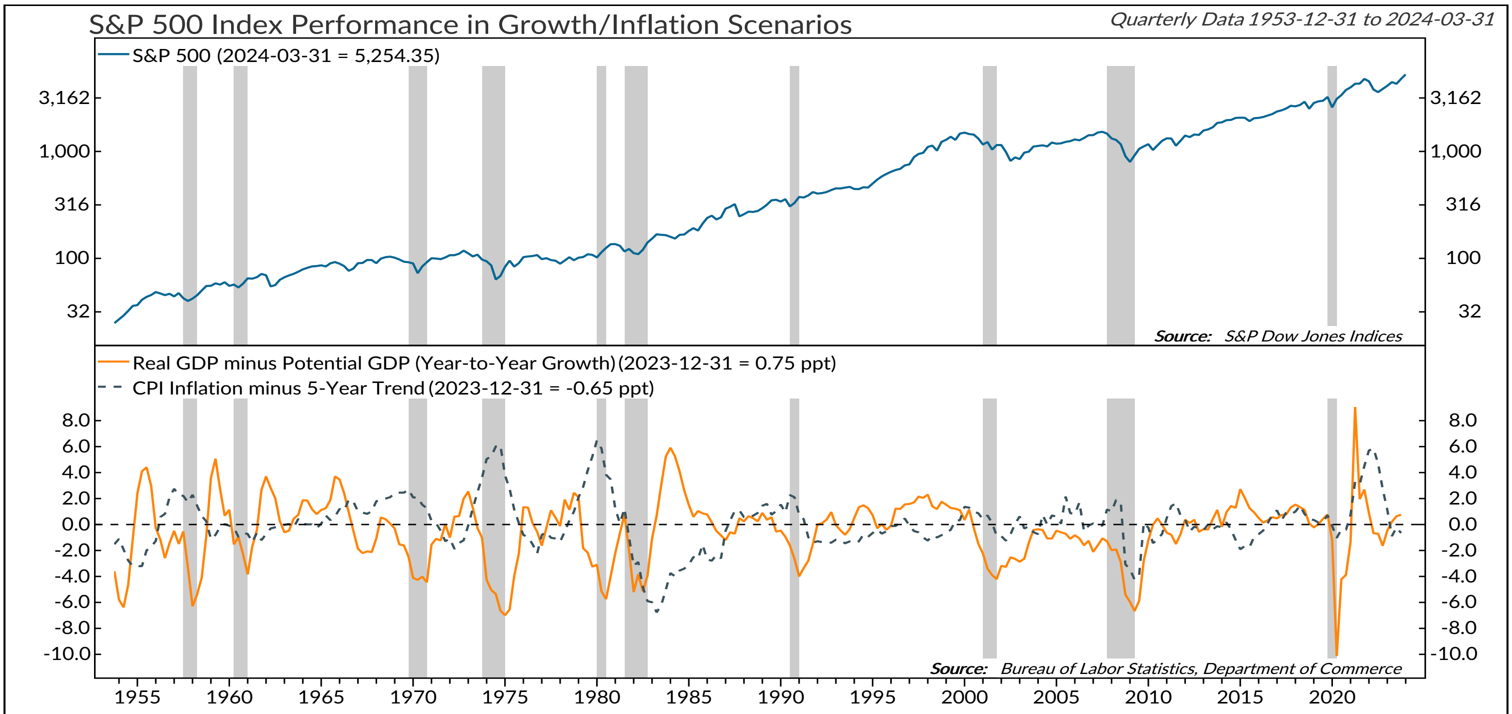
# U.S. Market Update

The S&P 500 Total Return Index continued its positive momentum into March with a gain of about 3.2%. Breadth remains bullish—10 of the 11 S&P 500 sectors posted positive price gains for the month. Energy was the standout with a double-digit gain, while Consumer Discretionary was basically flat.

The U.S. economy has been experiencing strong growth and low inflation, a goldilocks environment that has historically been the most bullish scenario for the S&P 500 (chart below). The environment favors large-caps over small-caps and Growth over Value. With the S&P 500 Total Return Index up 10.6% in Q1, the market has priced in this scenario.

The Fed is openly trying to engineer a soft landing, which could put the economy in the slow growth/low inflation scenario. If they ease too much, Fed officials risk overheating the economy, but if they stay too tight, they could trigger a recession like in 2001 and 2007. For the S&P 500, a downshift to slower growth but still low inflation (a soft landing in Fed-speak) has historically coincided with slightly above-average returns. Gains have been smaller in an overheating scenario, with growth and inflation above trend. Stagflation, or high inflation and low growth, has been the worst backdrop for stocks.

The sector model recommended mixed leadership this month. Entering April, Financials, Information Technology, Consumer Discretionary, and Utilities are overweight. Real Estate, Communication Services, Energy, Materials, Industrials, and Consumer Staples are underweight.




Shading indicates NBER-defined recessions.

Non-Recessionary Scenarios:
Overheating = GDP above trend, Inflation more than 1 ppt above trend
Strong Growth/Low Inflation = GDP above trend, Inflation less than 1ppt above trend
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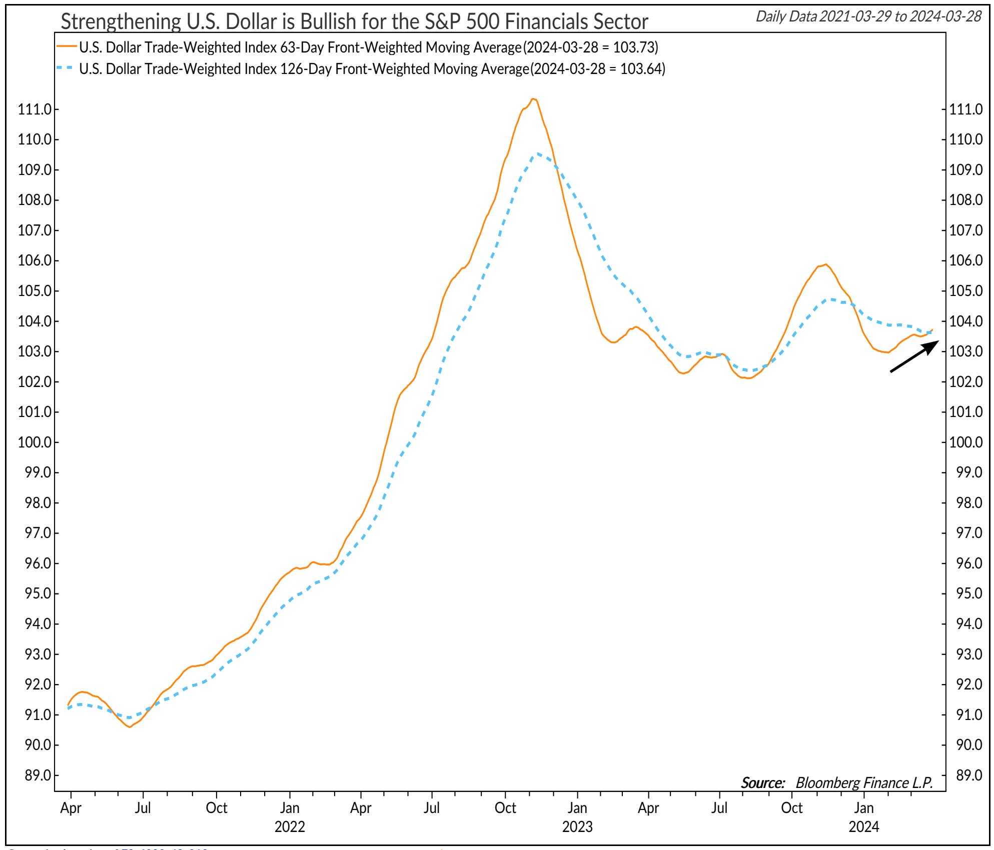
S&P 500 Performance
**Full History:** 1953-12-31 to 2023-12-31

| Economic Scenario | % Gain/ Annum | % of Time |
|---|---|---|
| Overheating | 3.31 | 7.15 |
| Strong Growth/Low Inflation | 10.85 | 37.88 |
| Slow Growth/Low Inflation | 8.70 | 27.49 |
| Stagflation | -4.24 | 10.36 |
| Recession | 9.35 | 17.12 |

*Buy/Hold = 7.80% Gain/Annum*

E100E

Financials' allocation remained at overweight. On a fundamental basis, a strengthening U.S. Dollar Index (chart right) joined bullish readings from economic surprises, business credit conditions, and Financials' investment grade option-adjusted spreads. However, bank loan growth and the 10-2 yield curve remained bearish. Technicals are confirming with four of the six measures on bullish signals including sector momentum, trend, volatility, and relative drawdown.

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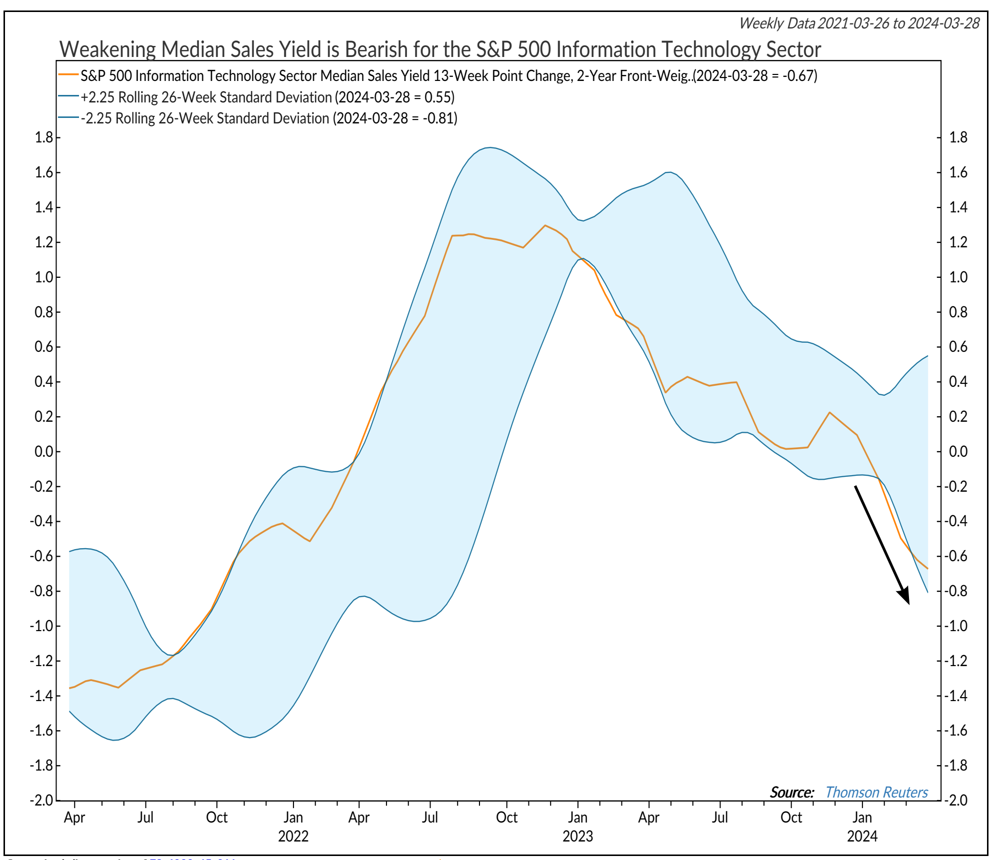


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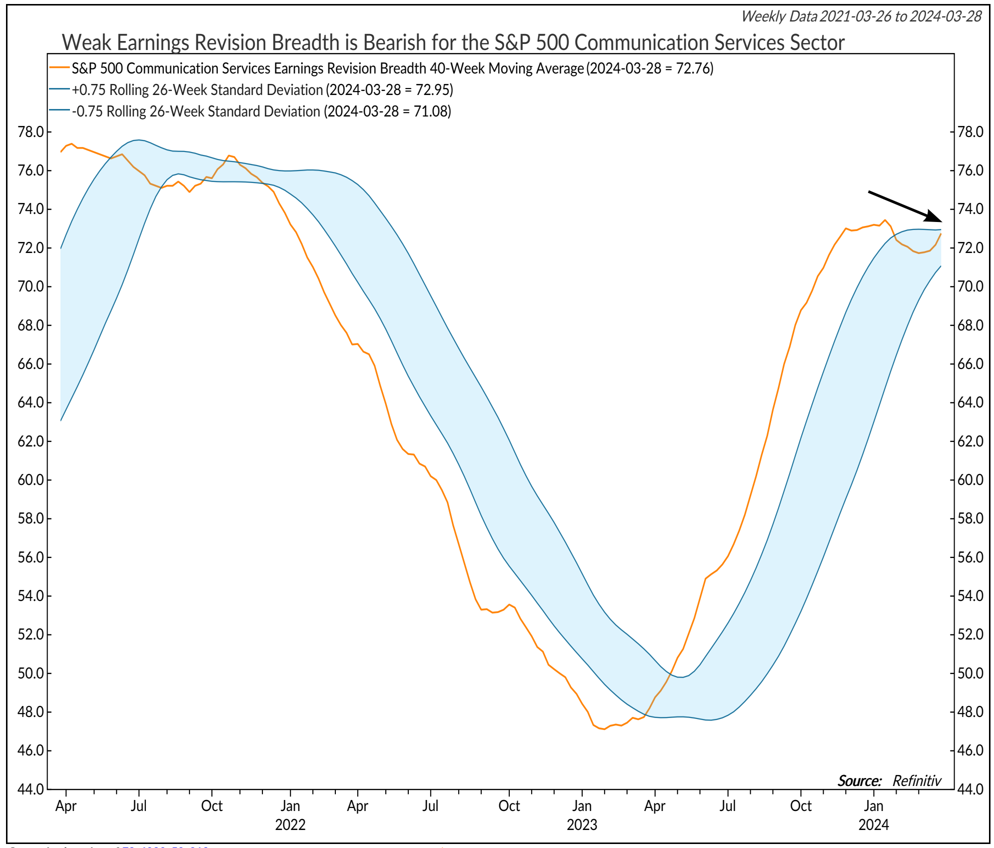
The Information Technology sector's allocation remained at overweight. On a fundamental basis, indicators deteriorated—valuation and inflation expectations moved bearish during the month (chart left), joining relative short interest. While the majority of internal measures remain bullish, the 50-day net new highs indicator continued its bearish reading.

Communication Services' allocation remained at a significant underweight. On a fundamental basis, the 10-2 yield curve and sales growth trends remained bullish. However, earnings revision breadth (chart right), relative valuation, option-adjusted spreads, and internet vs. retail sales trends remain bearish. Technicals remained weak—four of the six measures are bearish for the sector.

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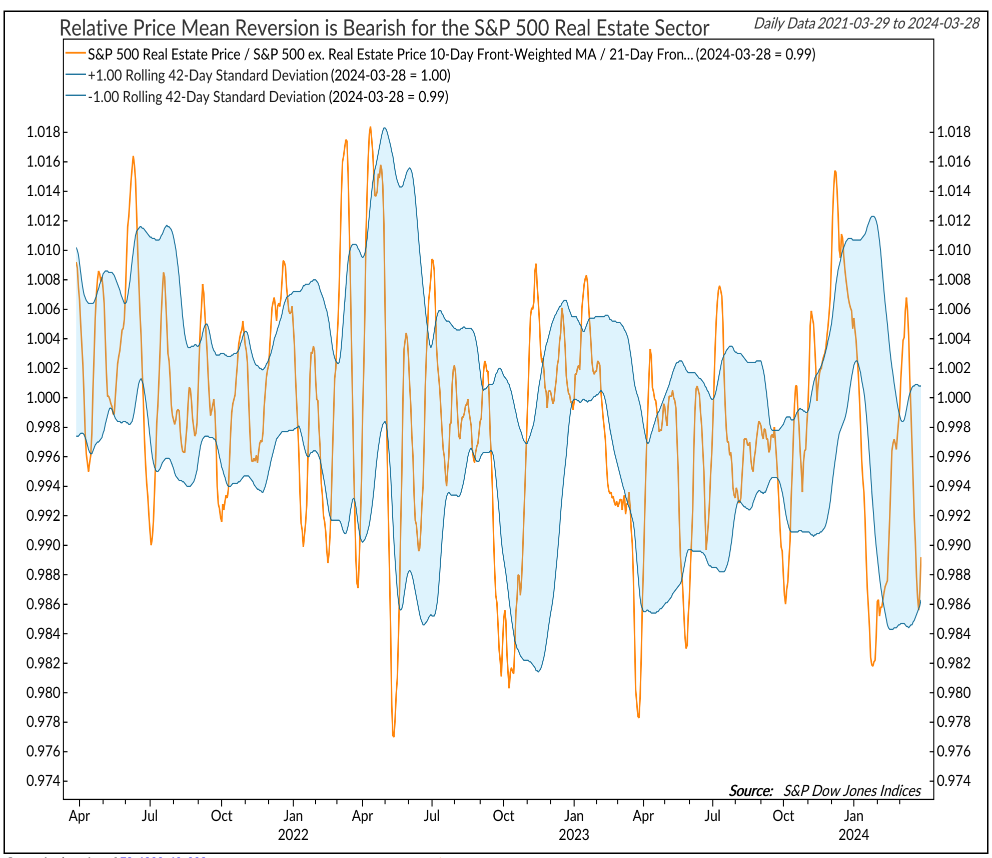
The Real Estate sector's allocation remained at underweight. On a fundamental basis, indicators improved slightly—the MBA Purchase Index joined the Homebuilders price index, business credit conditions, and economic surprises at a bullish reading during the month. However, unemployment, the 30-year yield, and industrial production of construction supplies remain headwinds for the sector. Furthermore, technicals weakened—all five measures are now negative for the sector—a short-term relative price mean reversion indicator moved bearish during the month (chart left).

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## Summary

The message from the sector model was a bit more mixed this month. Entering April, Financials, Technology, and Health Care are overweight. Real Estate, Communication Services, Materials, and Consumer Staples are underweight. The sector model uses sector-specific indicators to determine opportunities and identify risks in an objective, weight-of-the-evidence approach.

FCMS Freedom Capital Management Strategies®

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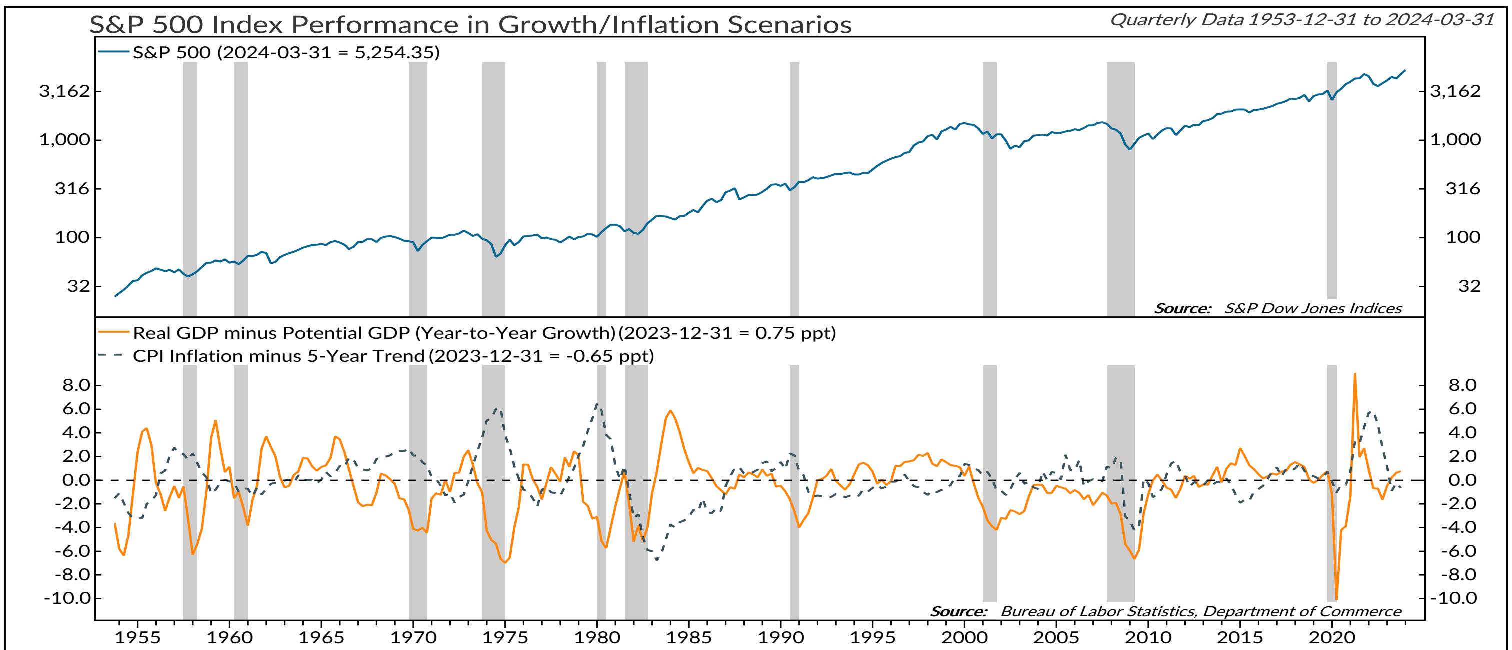


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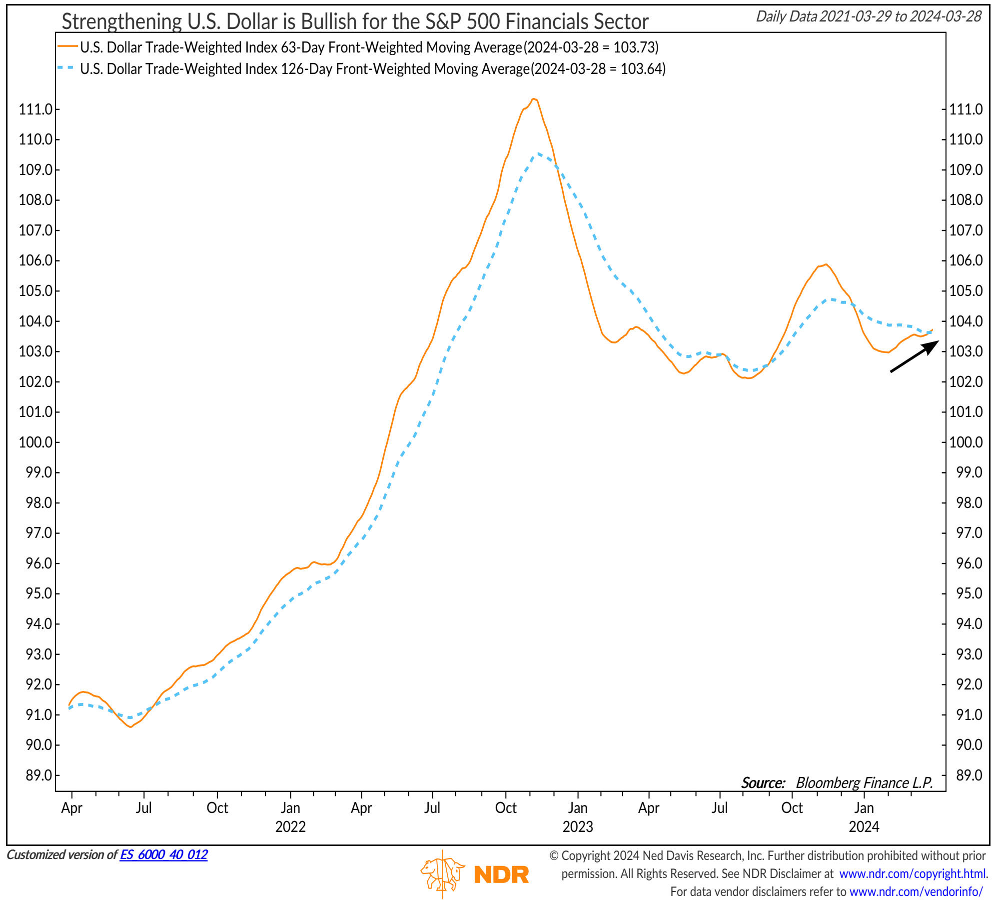


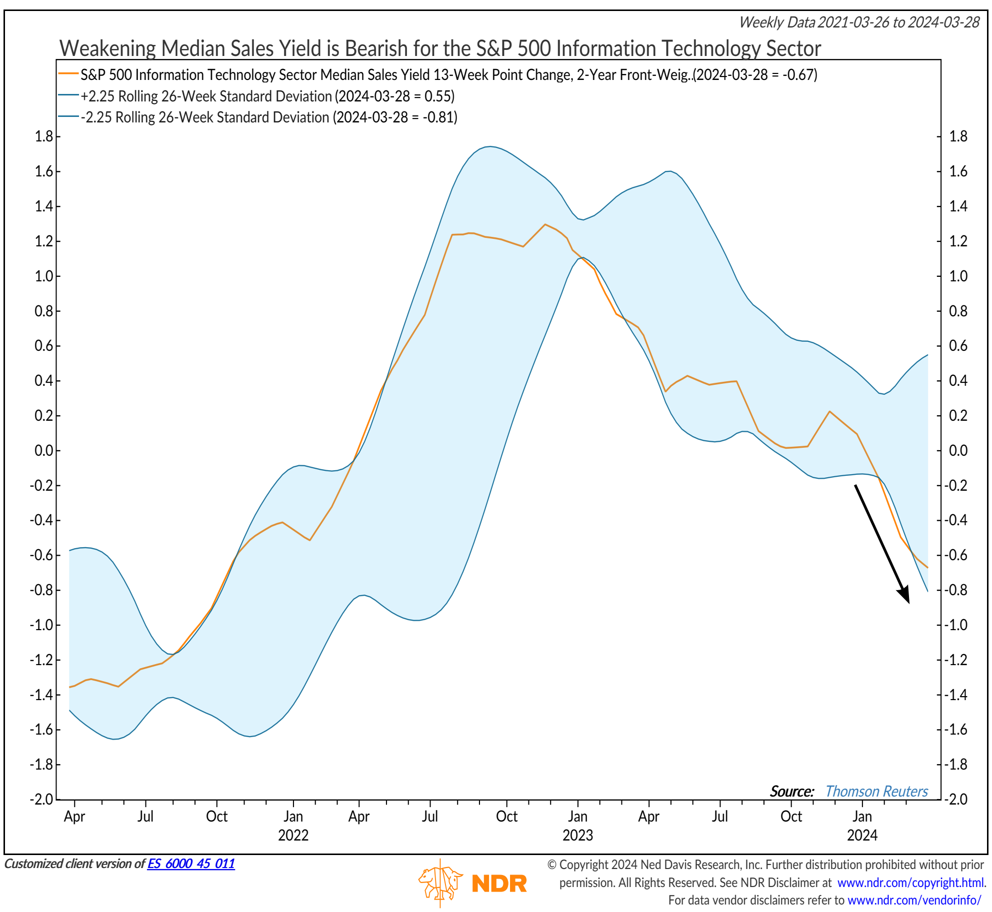


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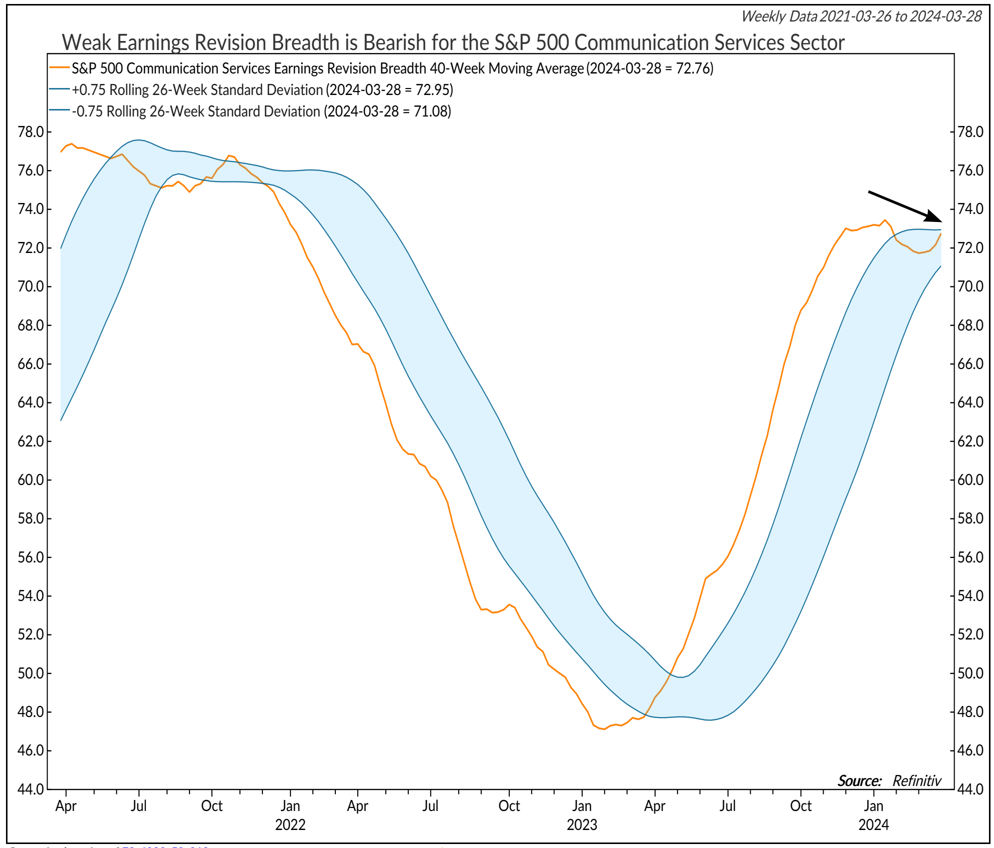


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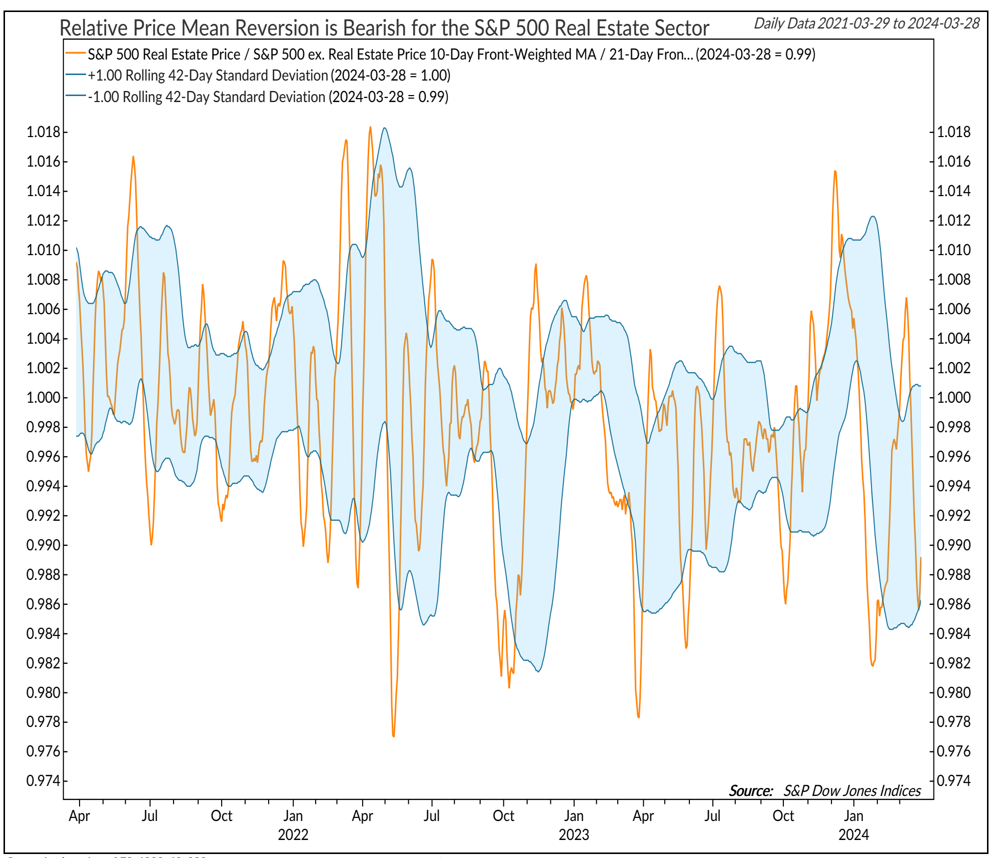


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## Summary

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# Dynamic Tactical Fixed Income ETF

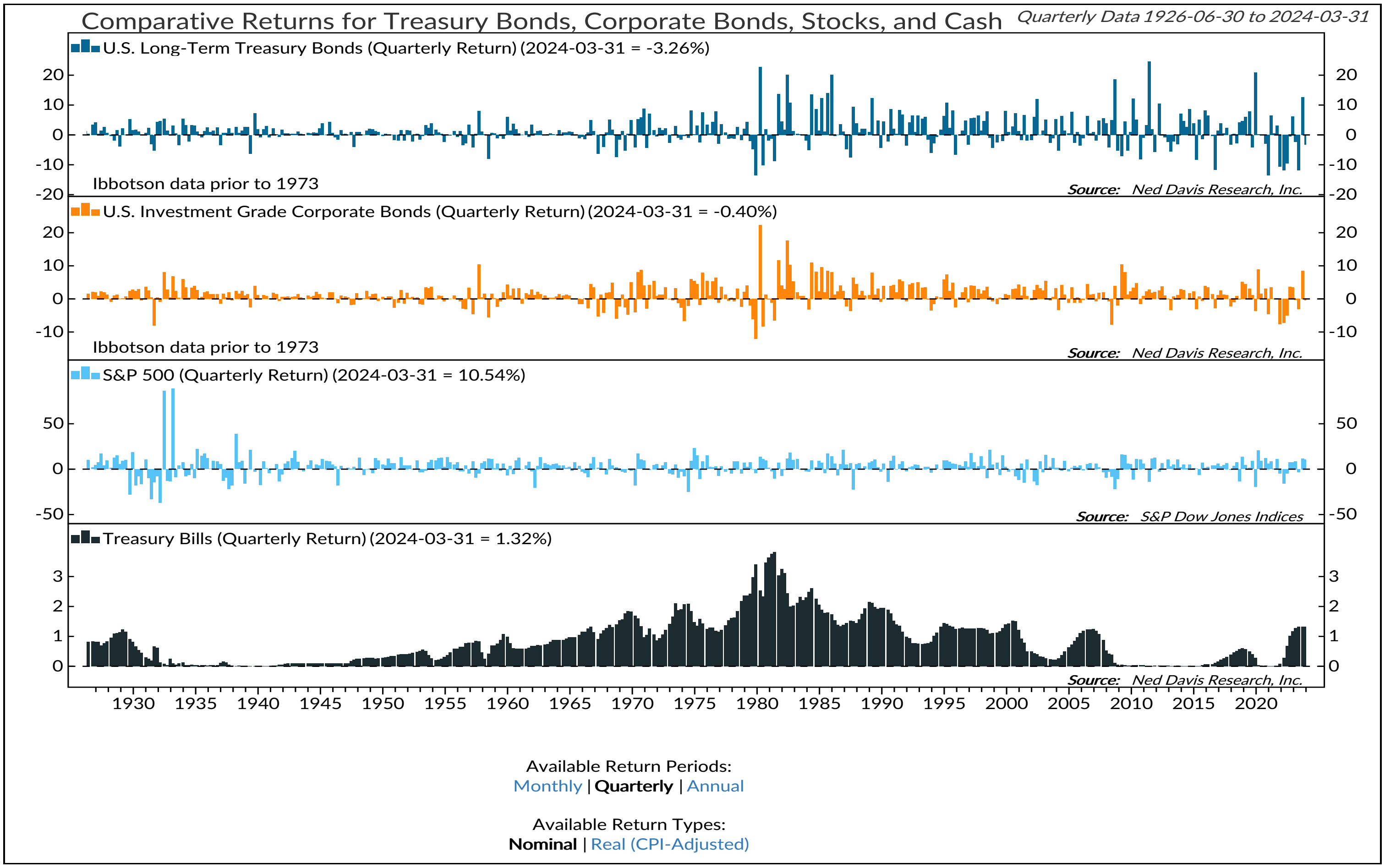
## Fixed Income Market Update

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

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

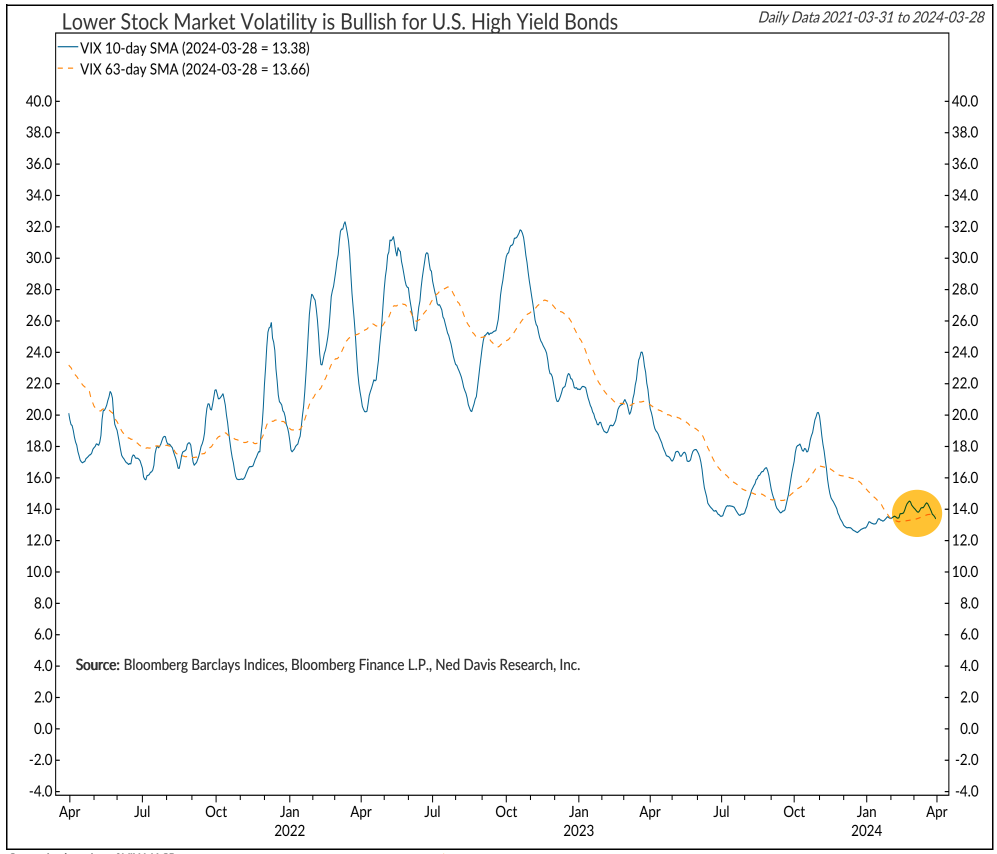
Since the Bloomberg Aggregate Index began in 1976, when stocks have beaten bonds by at least 10% points in Q1, stocks have outperformed 66% of the time in Q2-Q4 by a median of 3.4%.

Entering April, the fixed income allocation strategy continued to favor risk-on leadership but did not rebalance. The model remained overweight Emerging Market bonds, U.S. High Yield, U.S. Investment Grade Corporate, and U.S. Mortgage-Backed Securities. U.S. Long-Term Treasurys is marketweight. The model remained underweight U.S. Floating Rate Notes, U.S. Treasury Inflation-Protected Securities, and International Investment Grade.

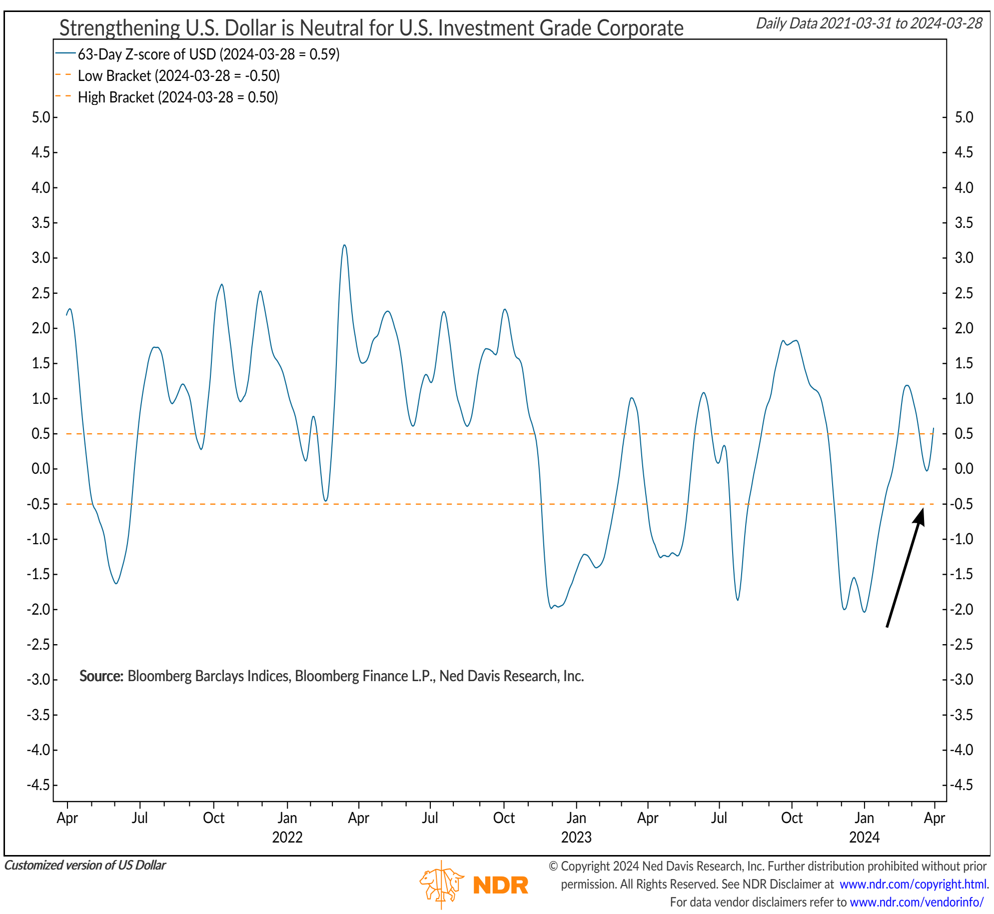



B1F

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



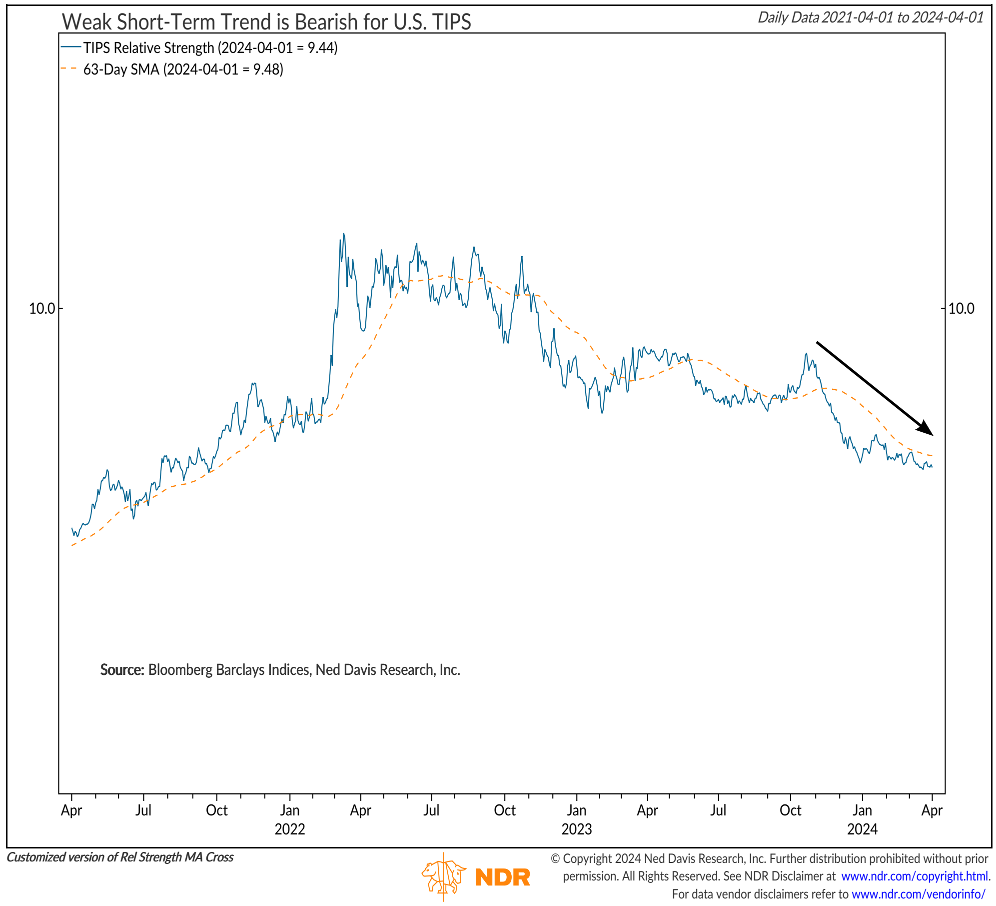


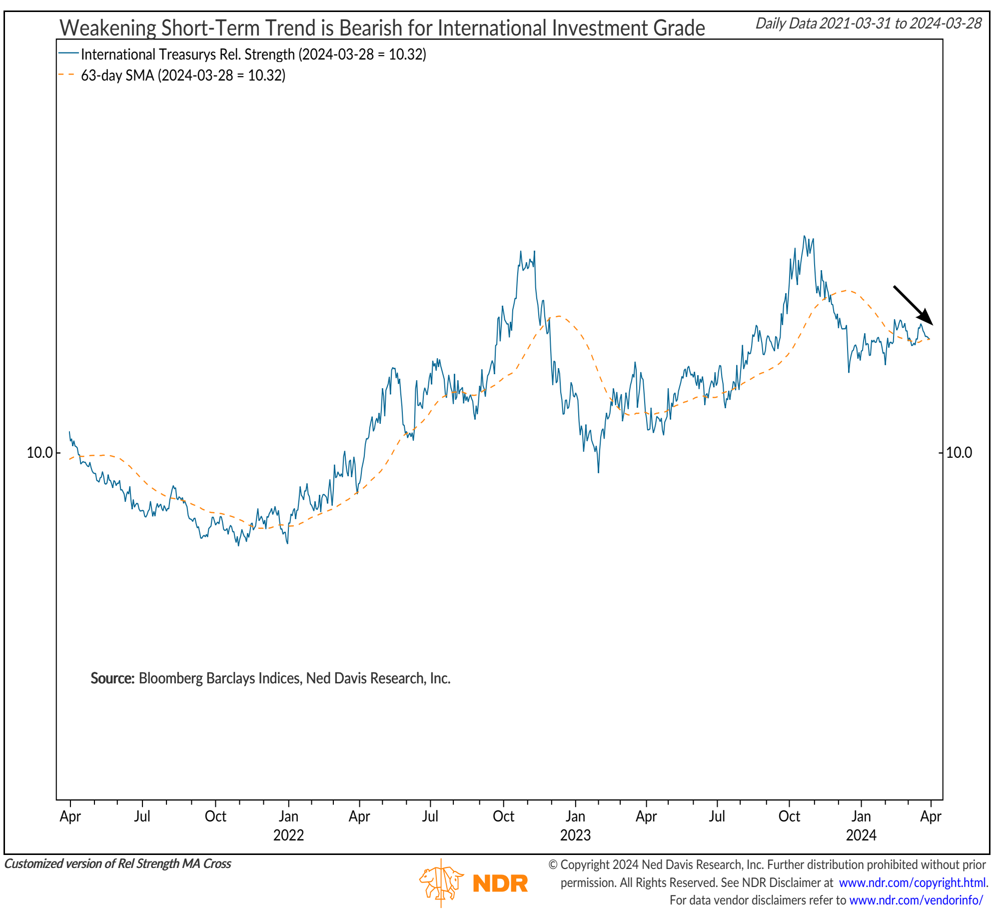



U.S. Investment Grade Corporate bonds' allocation remained at overweight. Indicators are now mixed. On a fundamental basis, bond volatility is bullish, but is offset by bearish option-adjusted spreads and credit default swaps. Furthermore, a strengthening U.S. dollar moved neutral for the sector during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

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








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

## Summary

Entering April, the fixed income allocation strategy continued to favor risk-on leadership. The model remained overweight Emerging Market bonds, U.S. High Yield, U.S. Investment Grade Corporate, and U.S. Mortgage-Backed Securities. U.S. Long-Term Treasurys is marketweight. The model remained underweight U.S. Floating Rate Notes, U.S. Treasury Inflation-Protected Securities, and International Investment Grade.

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Past performance results are no indication of future returns, and all investments may result in loss of principle. There may be economic times when investments are unfavorable and depreciate in value.

The Stop Loss overlay seeks to mitigate the effects of major market declines. The strategy remains fully invested unless Stop Loss is triggered, whereupon the equity-invested position is reduced to 50% and the remaining 50% is held in cash. When the Stop Loss signal moves back to bullish, the strategy returns to being fully invested.

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Using any graph, chart, formula, model, or other device to assist in deciding which securities to trade or when to trade them presents many difficulties and their effectiveness has significant limitations, including that prior patterns may not repeat themselves continuously or on any particular occasion. In addition, market participants using such devices can impact the market in a way that changes the effectiveness of such devices. NDR believes no individual graph, chart, formula, model, or other device should be used as the sole basis for any investment decision and suggests that all market participants consider differing viewpoints and use a weight of the evidence approach that fits their investment needs.