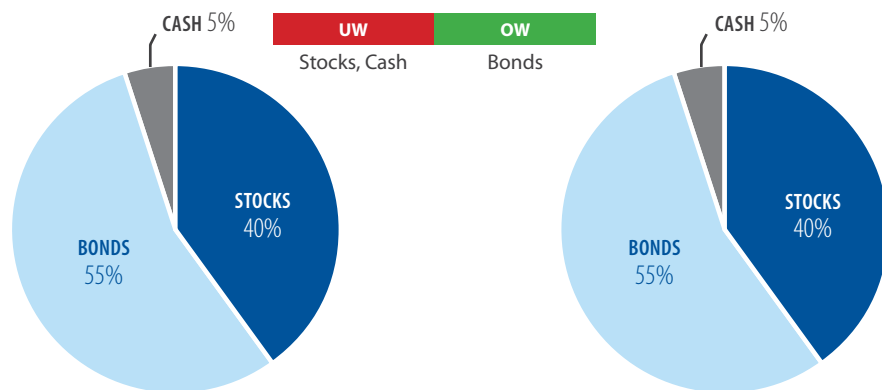


Amy Lubas, CFA Advisory Strategist
Chad Ellis Content Specialist

10 Years After the Secular Low

GLOBAL ASSET ALLOCATION

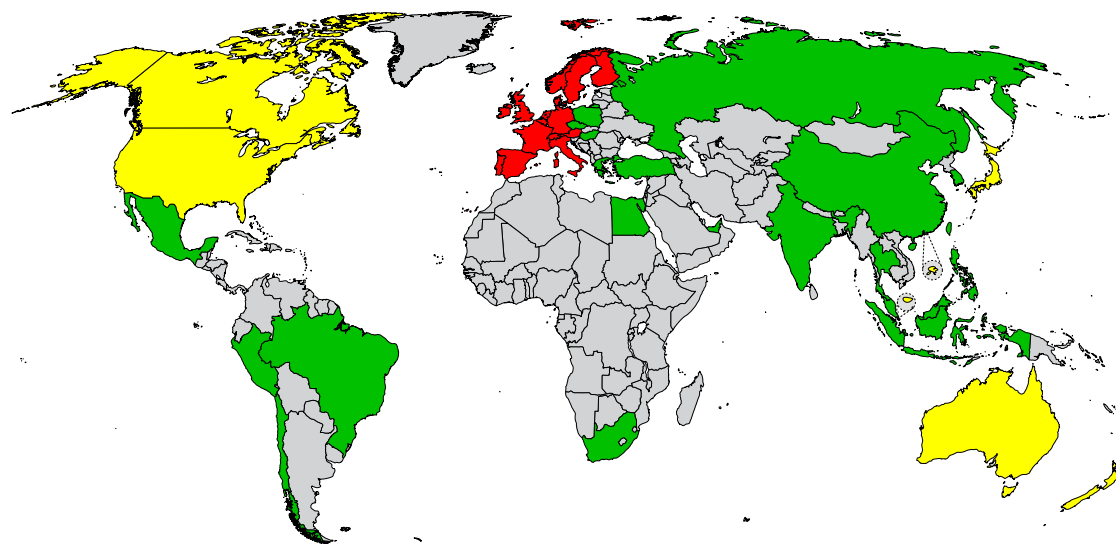
U.S. ASSET ALLOCATION



Baseline allocation is 55% Stocks, 35% Bonds, and 10% Cash. This is considered a conservative portfolio allocation for investors who are not risk-tolerant. (This should be used for illustrative purposes only.) See Glossary for more information on Asset Allocation.

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REGIONAL



	U.S.	Europe ex. U.K.	Emerging Markets	U.K.	Japan	Pacific ex. Japan	Canada
NDR Allocation:	55.0	12.0	15.0	4.0	7.0	4.0	3.0
Benchmark Weight:	54.3	14.3	11.6	5.5	7.6	3.8	3.0

ECONOMY AND BONDS

- ▶ **Global Economy:** Expect 2019 growth to moderate to 3.5% and assumes no U.S. recession.
- ▶ **U.S. Economy:** Expect 2019 growth to slow to 2.50% and CPI inflation to accelerate to 2.7%.
- ▶ **Bonds:** 100% duration.

S&P 500 Sector	Current View	Effective Date
Consumer Discretionary	Overweight	2018-02-14
Energy	Overweight	2019-03-14
Health Care	Overweight	2018-08-16
Utilities	Overweight	2018-08-16
Communication Services	Marketweight	2018-10-01
Consumer Staples	Marketweight	2019-03-14
Information Technology	Marketweight	2018-02-14
Materials	Marketweight	2019-01-03
Real Estate	Marketweight	2018-08-16
Financials	Underweight	2019-03-14
Industrials	Underweight	2018-07-05

Source: S&P Dow Jones Indices and Current View: Ned Davis Research, Inc.

GLOBAL OUTLOOK

SECULAR BULL MARKET APPEARS INTACT

The long-term secular bull market in stocks started 10 years ago, with the low on March 9, 2009. We featured the **chart below** shortly after the low explaining that the “*stock market’s recovery has been consistent with the downturns in the extremely high volatility and credit spreads and by the upturn in the relative momentum of stocks versus bonds.*”

Since then, the secular bull has taken those indicators to the opposite extremes. These extremes are not enough to conclude that the secular bull is ending, or even close to doing so. But they do suggest that as it enters its second decade, **the secular bull is aging and would thus be more vulnerable to lethal doses of inflation or deflation.**

We have previously noted the highest probability has been that inflationary pressures will be the bull’s undoing. But the current global economic contraction warrants attention, considering not only the cyclical (short-term) outlook, but the secular outlook as well. From today’s state of benign inflation, it could take many years to reach that point.

Less likely and more imminent secular risk would be a deflationary global recession including the U.S., in which case we would not expect to see a market bottom or economic recovery any time soon. Currently with the secular reflation trend in a cooling phase, a worsening economic outlook is the stock market threat, not inflation.



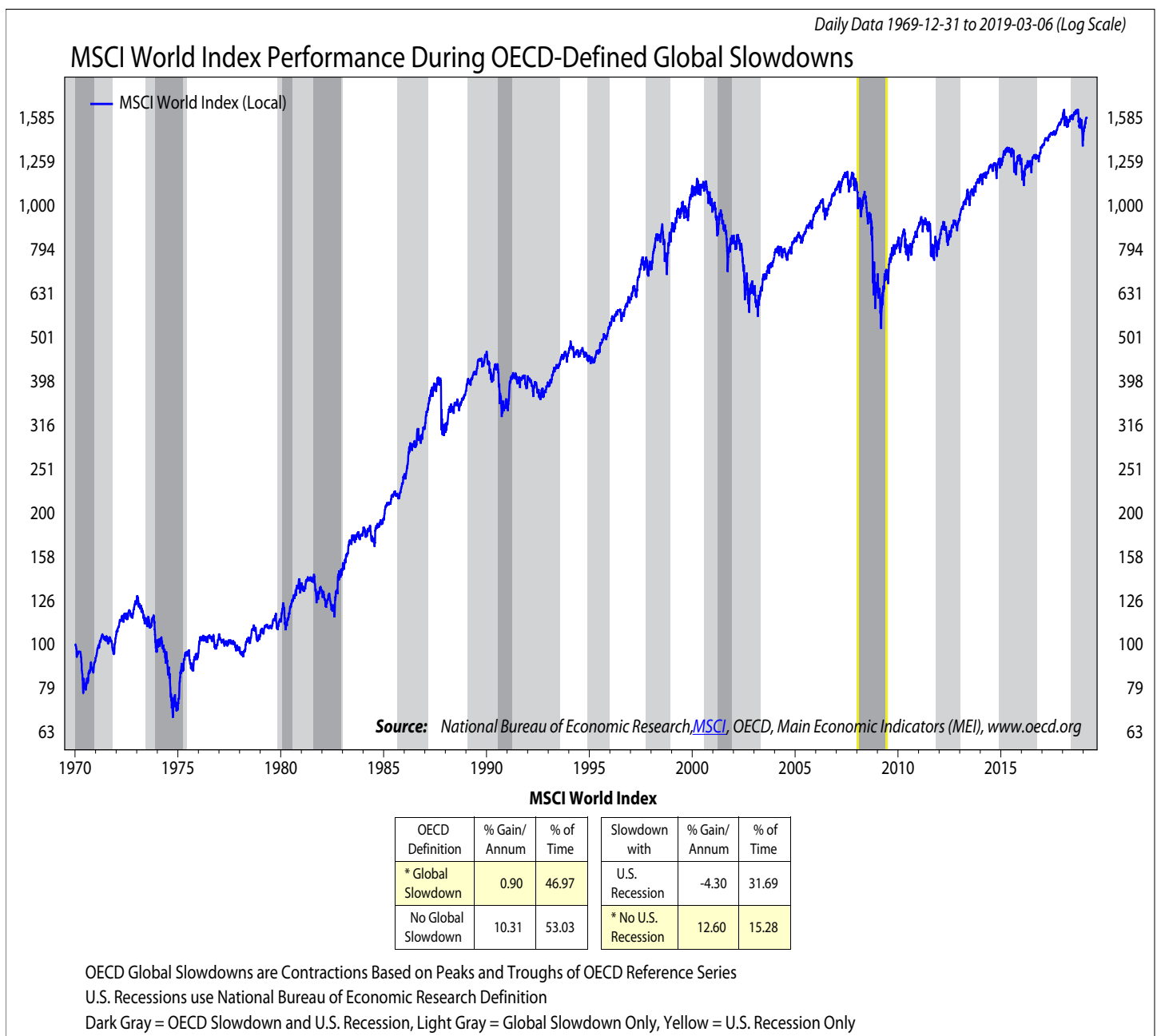
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Our current focus is on the short-term, cyclical bear market in stocks that started last year, watching to see if there's enough evidence to conclude that the bottom is in place and that a new cyclical bull market has started.

- With a positive outcome during the next few months and confirming signs of a U.S. and global economic recovery, the persistence of the reflation-driven secular bull would be supported.
- If instead the market indices descend to new lows with increasing evidence of a U.S.-inclusive global recession, the chances of a deflation trend will increase, as will the odds of a more imminent end to the secular bull (**chart below**).

But our current expectation is an outcome consistent with our 2019 Outlook, calling for a **first half market recovery ahead of improving economic performance in the year's second half**. That would present an excellent opportunity to reallocate from bonds to stocks at the onset of another cyclical bull within the secular bull that started 10 years ago.

Until we can be confident that a sustainable market recovery is underway, we will recommend underweight exposure to stocks.



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BEAR MARKET MESSAGE FROM GOLD AND BONDS

We have continued to point out that **in a cyclical bear market, bond prices can be expected to rise, and that can be said of gold as well.**

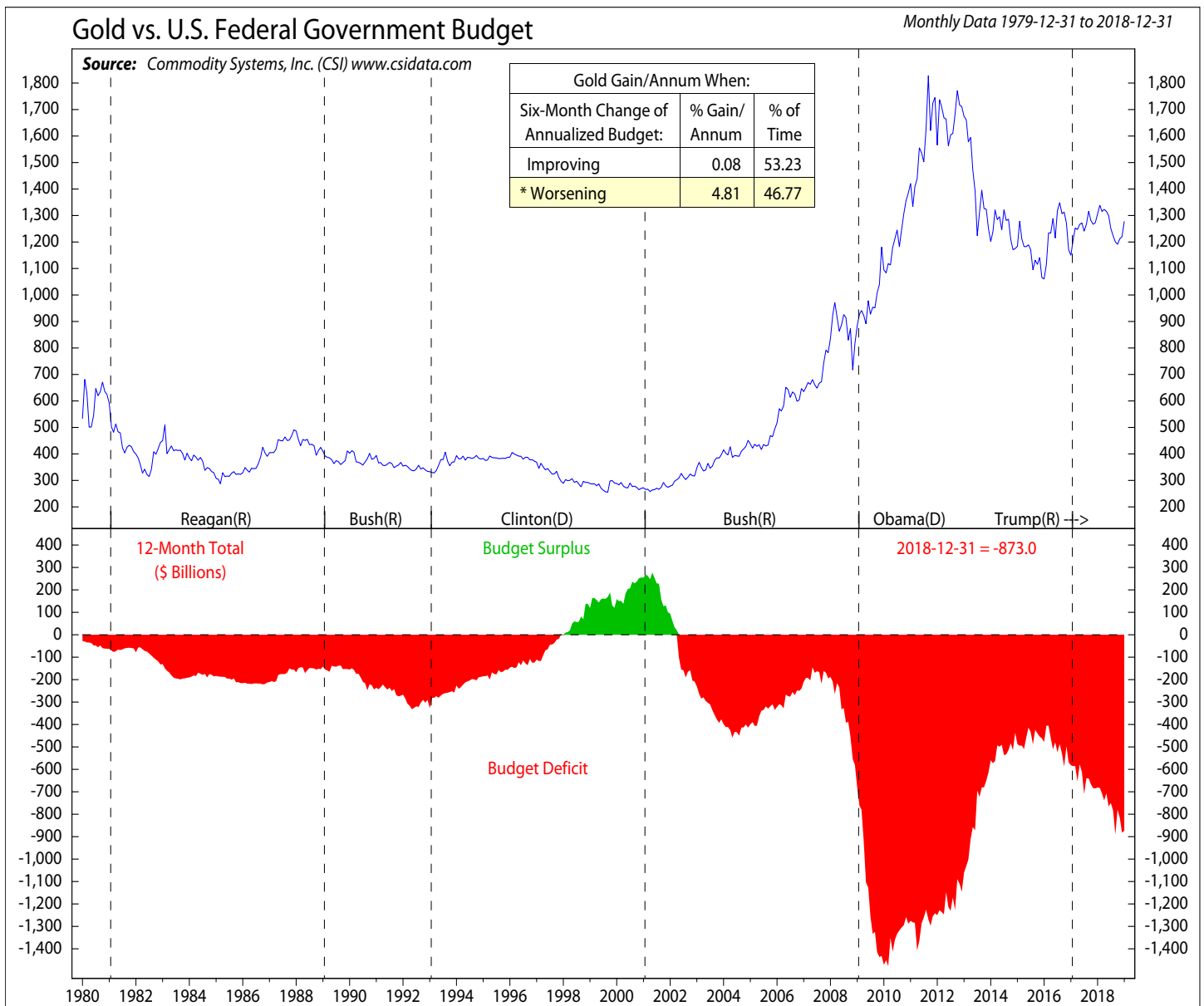
- Bond and gold prices have both risen by a median of 4% over the course of the previous eight cyclical bear markets in global stocks.
- Since the December bottom in stocks, the Barclays Global Aggregate Bond Total Return Index has gained 1% while gold has risen by 4%.

Both gains are more consistent with a continuing cyclical bear market than a new bull market, the double-digit stock market rally notwithstanding. We have remained with a bullish gold

position and decisively overweight bond allocation since the start of the year.

Gold has benefited not only from dollar weakness and trend momentum, evident in the rise of its 50-day moving average above its 200-day moving average, but also from the widening U.S. budget deficit, a consequence of the Trump tax cuts. With the dollar tending to fall as the deficit has expanded, **gold has tended to rise (chart below).**

Our Bear Watch report has also continued to warn of unfinished business, as we have yet to see anything close to the drawdown that has followed its previous bear market signals.



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U.S. MARKET

BACK TO FAVORING GROWTH

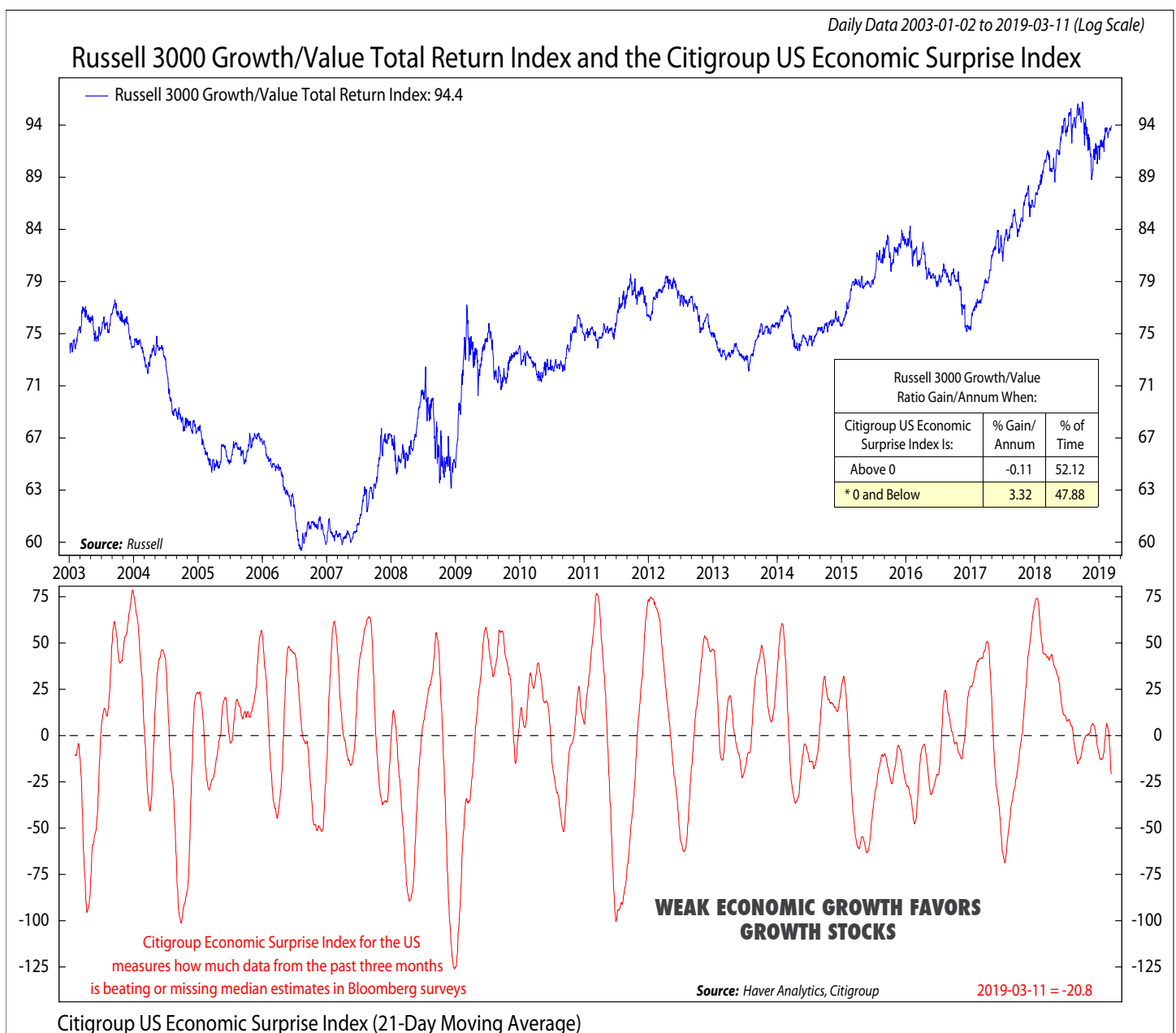
The short-term trend for Growth vs. Value has oscillated over the past six months. As a result, we have been neutral since October 2018. On March 12, our U.S. Strategy team **shifted their short-term, tactical recommendation to favoring Growth over Value** based on the following six reasons:

1. Sluggish Economic Growth. When economic growth has been scarce, investors have flocked to stocks that do not need the economy to grow to generate top-line and bottom-line growth. Almost by definition, those are Growth stocks. The **chart below** shows that the Russell 3000 Growth Index has

outperformed the Russell 3000 Value Index when the Citigroup U.S. Economic Surprise Index has been negative.

2. Earnings Deceleration. The growth premium is even more evident in earnings data. When earnings growth has been slower than a year ago, Growth stocks have tended to outperform Value stocks.

3. Fed Policy. Jerome Powell’s flip from hawkish to dovish has implications for Growth versus Value. Not only has the Fed signaled that interest rate increases are on hold, it has guided the market on the end of quantitative tightening.

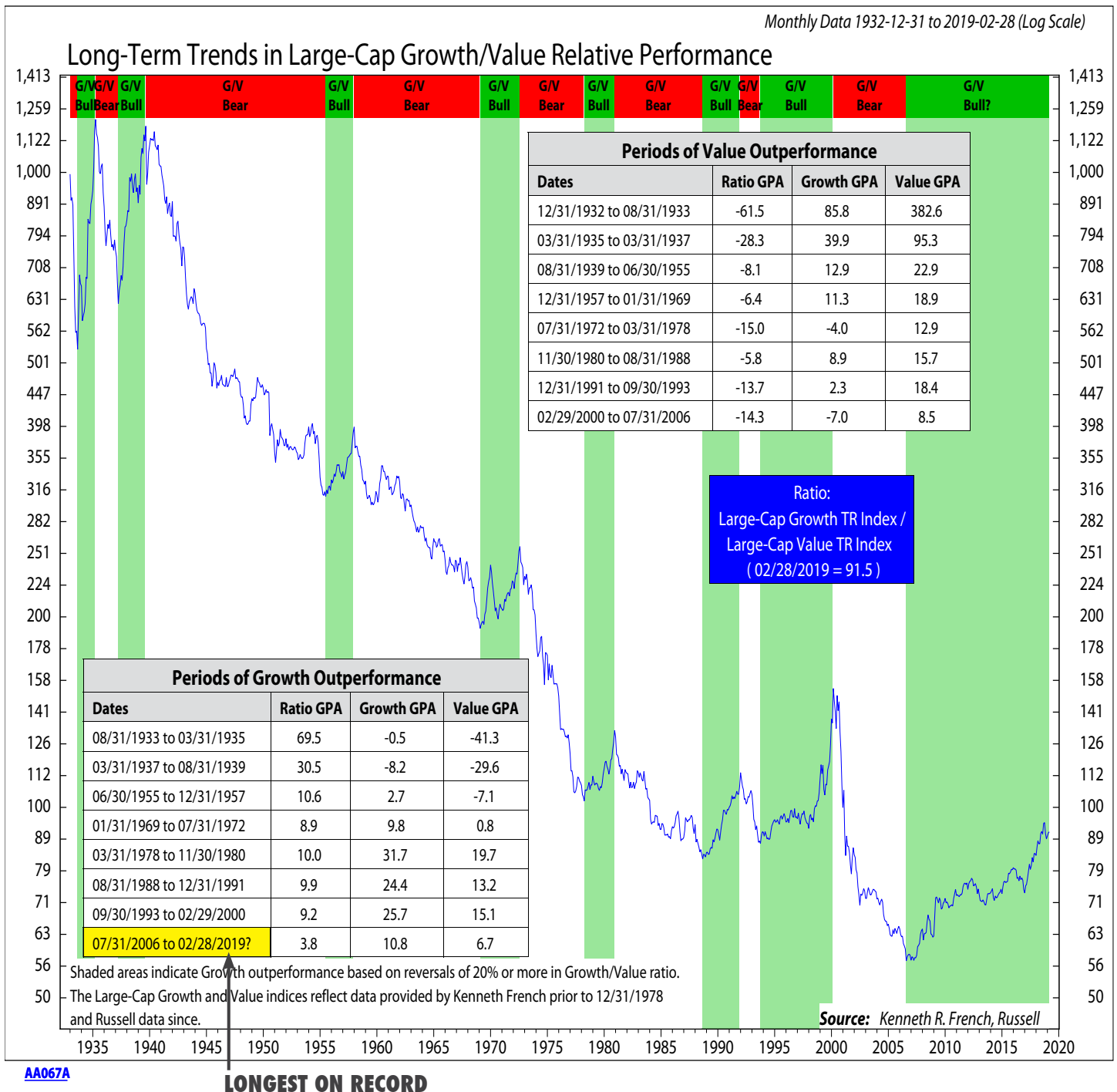


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4. Broad Market. As discussed last month, the evidence is mounting that the U.S. stock market is reestablishing its long-term uptrend, even if overbought conditions and optimism could cause pullbacks over the short term. A continuation of the rally should favor Growth over Value.

5. Model Consistency. Our tactical models are in agreement in their preference for Growth. The flagship Growth/Value Model has favored Growth since January, and in the last two weeks it has been joined by our separate intermediate-term and long-term trend models.

6. Secular Environment. As shown in the chart below, Growth has been in a long-term, secular uptrend relative to Value since 2006. That is the longest run on record, leading to the obvious question of when will the next Value secular bull begin. The problem for Value is that the conditions that have favored Growth – sluggish economic growth, a friendly Fed, and a secular bull for the broad stock market – remain in place. The secular environment means that countertrend rallies in Value should be shorter and shallower.



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10 MUSINGS FOR THE 10-YEAR STOCK MARKET LOW ANNIVERSARY

March 5th marked the 10-year anniversary of the infamous 666 intra-day low in the S&P 500 Index. On a closing basis, the S&P 500 and Dow Industrials made lows on March 9. The decennial anniversary presents an opportunity to reflect on the past 10 years, what has changed, and what hasn't. The biggest question now is what lies ahead. **Our conclusion from our analysis is that the remarkable 10-year run does not mean the secular bull market has run its course.** We reviewed 10 charts that best describe what investors have gone through:

- 1. 10-Year Rolling Returns.** Rolling returns have swung from -30% to 364%, on a monthly basis.
- 2. P/E Ratio.** With price collapsing more than earnings, the ratio hit a then-record high of 116 in February 2009 and is now 20.8, above the long-term average.
- 3. Dividend Yield and Repurchase Yield.** The S&P 500 dividend yield hit 3.9% and the repurchase yield had fallen to -1.4%. Repurchases have exploded to a record \$640 billion as of Q3 2018, and the net repurchase yield has climbed to 2.6%.
- 4. Relative Valuations.** Due to depressed earnings, the S&P 500 earnings yield minus the 10-year Treasury yield was -0.9% on 2/28/2009. As of 2/28/2019, the spread was 2.1%.
- 5. Composition of Corporate Debt.** S&P 500 corporate debt declined during the financial crisis due to deleveraging, especially in the Financials sector. Companies have releveraged, but a major change is the duration of the debt.
- 6. Length and Strength of Economic Expansion.** In February 2009, the U.S. economy was in the midst of its worst recession since the Great Depression. By June 2019, this will be the longest expansion in post-war U.S. history. But with real GDP growing at a 2.3% annualized rate, it will also be the slowest expansion.
- 7. Unemployment Rate.** The Great Recession caused the unemployment rate to skyrocket to 8.3% as of 2/28/2009, on its way to 10% in October 2009, the highest level since 1983. Thanks to steady payroll growth and a near 40-year low in the participation rate, the unemployment rate is at 4%.
- 8. Fed Policy.** The Fed's balance sheet stood at \$863 billion as of July 2008, but QE1 pushed it to \$1.9 trillion by the week of 3/6/2009. It peaked at \$4.5 trillion in February 2015, and has dropped to \$3.9 trillion. The Fed plans to leave about \$3.5 trillion on its balance sheet and use duration as a policy tool, so this is a permanent change 10 years after the crisis.
- 9. Volatility.** The VIX's record high of 80.9 was made on 11/20/2008. The fact that it was "only" at 49.7 on 3/9/2009 was the type of divergence seen at major lows. Thanks to Fed policies, the improving economic environment, and the growth in algorithmic trading, the VIX fell to a record low of 9.1 on 11/3/2017. The VIX spiked to 37.3 during the Q4 2018 plunge but has returned to the 14-16 range, in-line with its long-term average.
- 10. Investor Sentiment.** All of our sentiment charts illustrate a transition from extreme pessimism to optimism. For example, the NDR Crowd Sentiment Poll fell to a record low of 30.9 in March 2009, and swung to a record high of 78.9 in January 2018.

SECTORS AND INDUSTRIES

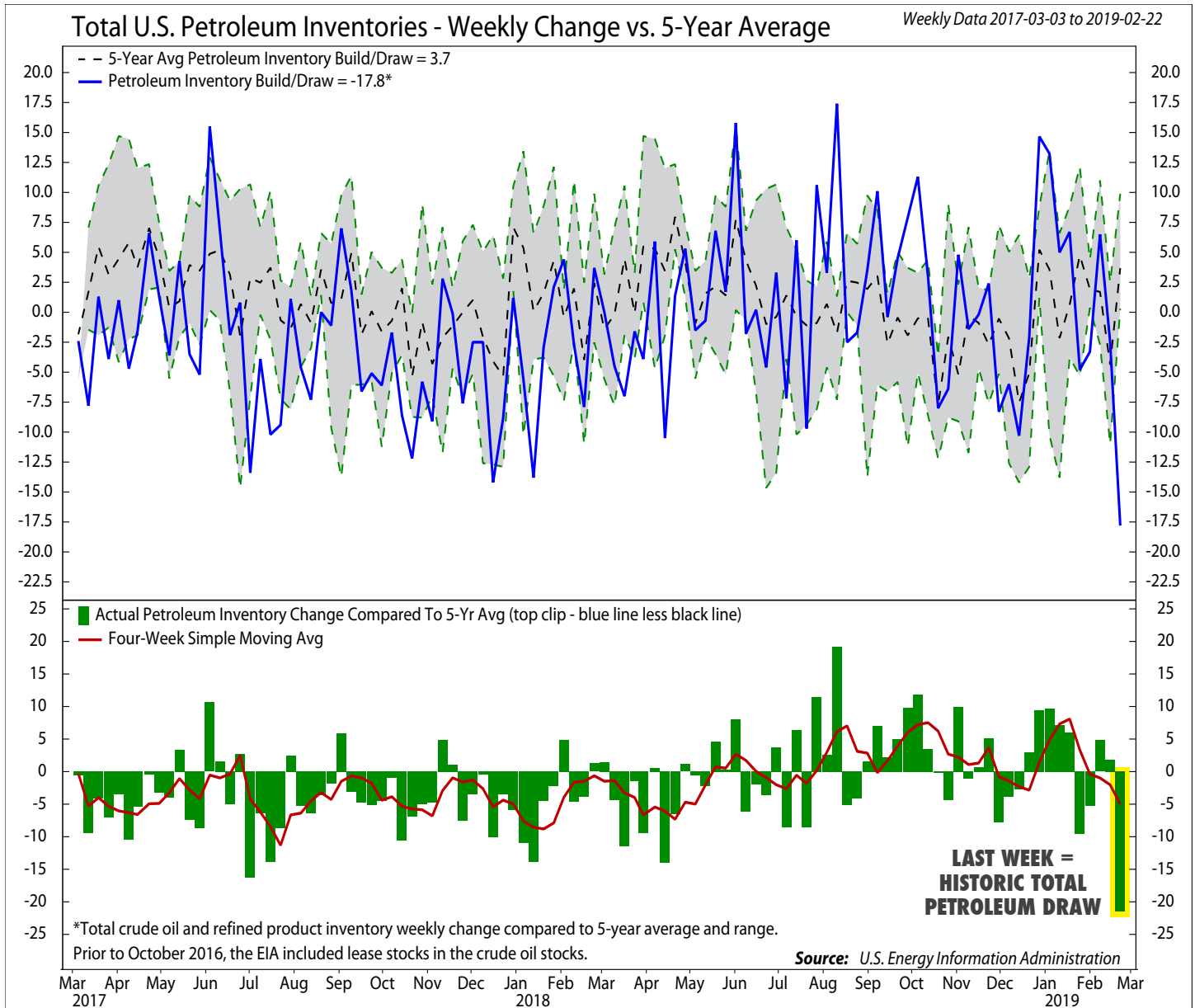
NOW BULLISH ON OIL

Earlier this month, the weekly oil inventory reading was the first ever +20 million barrel bullish divergence (**chart below**). Historically, oil is higher by almost 18%, on average, six months after such a massive total petroleum divergence. Now, with our Total Petroleum Inventory Model firmly on a buy, sentiment reversing from a pessimistic extreme, and technicals improving, we **upgraded our official crude oil stance from neutral to bullish** on March 4.

To review, we downgraded oil in August 2018 when Brent crude traded in \$70s. After plunging into the \$40s late last year and stabilizing, we believe the odds of a run back to \$80/bbl are

good. We recently highlighted three pieces of bullish evidence: 1) A rare volatility buy signal (based on oil's 14-day Average True Range), 2) Brent term structure/leadership, and 3) Saudi Arabia's (KSA) desperation. Oil imported into the U.S. from KSA has fallen to the lowest level since 1987. Due to its ambitious 2019 budget, KSA has plenty of motivation to push prices higher through the end of the year.

Energy equities usually enjoy a boost following positive inventory reports as well. On average, the Energy Sector is higher by 11% six months later.



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Our U.S. Sector Strategist followed Energy Strategist Warren Pies' upgrade of oil to bullish by **lifting the Energy sector to overweight** on March 14. WTI oil looks to have completed a nearly 45% plunge into December 24, 2018 and is heading higher. Seen in the **chart below**, the Energy sector tends to show strong outperformance the five months after oil declines of 30% or more when the U.S. is not in a recession, as we believe is the case now.

The increase in allocation brought our recommended weighting in line with our Sector Model and was funded by reducing allocation to Consumer Staples (marketweight) and Financials (underweight).

It is disturbing to us that the stock market can rise nearly 20% from the December 24 low, yet the 10-year/6-month yield curve can flatten further. **The 10-6 yield curve is now only 8 basis points (0.08%) away from inversion** adding conviction to our Financials underweight.

We maintain a balanced cyclical/defensive mix by having both defensive sectors (Health Care and Utilities) and cyclical sectors (Consumer Discretionary and Energy) at overweight.

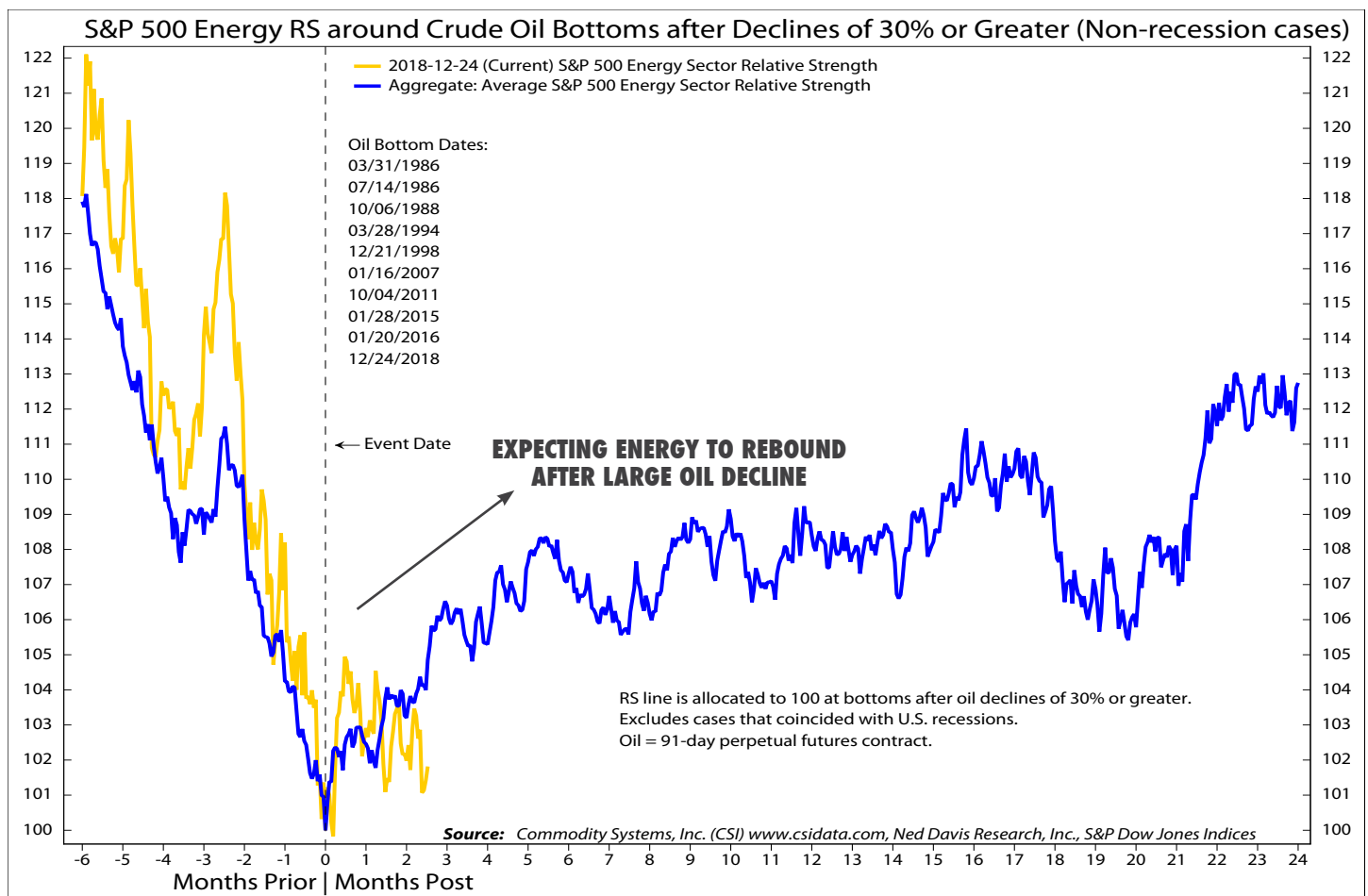
This mixed approach parallels the mixed signals we are seeing at NDR. While there has been enough positive evidence in the

U.S. to upgrade the U.S. outlook to neutral, international markets have been weak enough for NDR to maintain stocks at underweight in our global and U.S. asset allocation. Hang in there; we expect clarity on the direction of the market before the end of Q2.

We made a wish list of items that would contribute to sustained outperformance for Energy.

- First things first, we would like to see rising oil prices. Warren noted in his upgrade that Brent oil had already broken above its 2015 high (\$66.3 spot) and believes it will challenge 2018 highs in the mid-80s.
- Next, we would like to see S&P 500 Energy sector relative strength break above its March 15, 2018 low.
- Lastly, we would like to see a more favorable macro environment. Commodity sectors tend to outperform consumer sectors when macro conditions are positive for commodities. The only factor deemed favorable right now is gold outperforming bonds.

The bottom line is that without a more favorable commodity macro outlook, upgrades for commodity sectors tend to be short lived.



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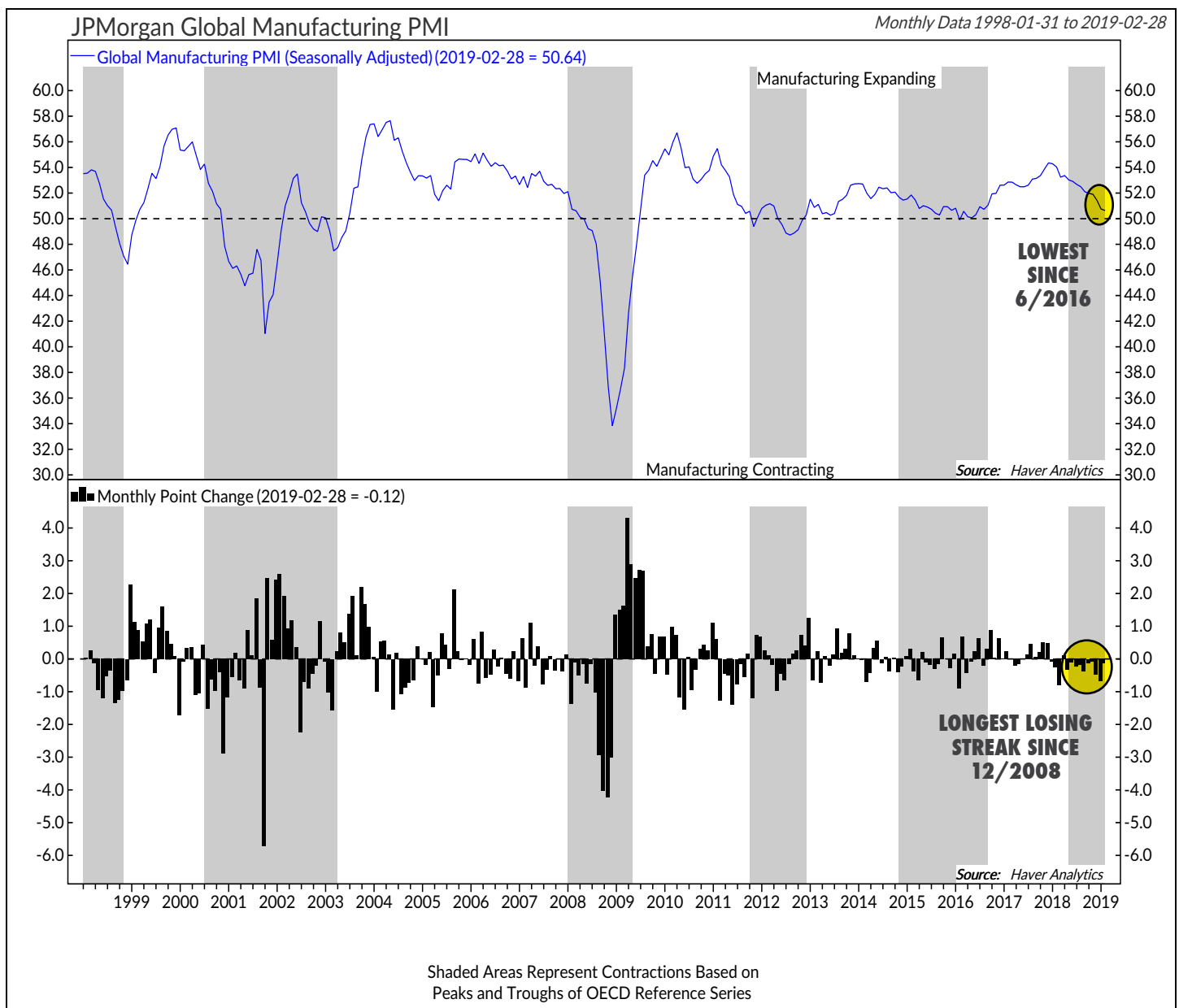
GLOBAL ECONOMY

GLOBAL MANUFACTURING NEAR A STANDSTILL, BUT SOME POSITIVE SURPRISES FROM EMERGING MARKETS

The global manufacturing Purchasing Managers' Index (PMI) edged down 0.2 points to 50.6 in February, indicating the slowest global manufacturing growth since June 2016 (**chart below**). The PMI has fallen for the past 10 consecutive months, the longest losing streak since December 2008.

While not quite at our recessionary threshold of 50.0, the manufacturing PMI is getting close. Even so, more than half of the indicators in our Global Recession Watch Report are giving negative signals, giving us high confirmation that the **global economy remains in a sustained slowdown**. We wouldn't be surprised if the PMI were to confirm in the coming months.

Most component and individual indexes deteriorated. The output index edged down to 50.7, indicating the slowest production in 32 months, while the employment index held steady at 51.1, at the lower end of its recent range. **Conditions aren't likely to improve in the near-term**. The new orders index held at a near-stagnant 50.1, its lowest point since September 2012. Overseas demand continued to provide significant downside, as export orders contracted for a sixth straight month and at its fastest pace since May 2016.



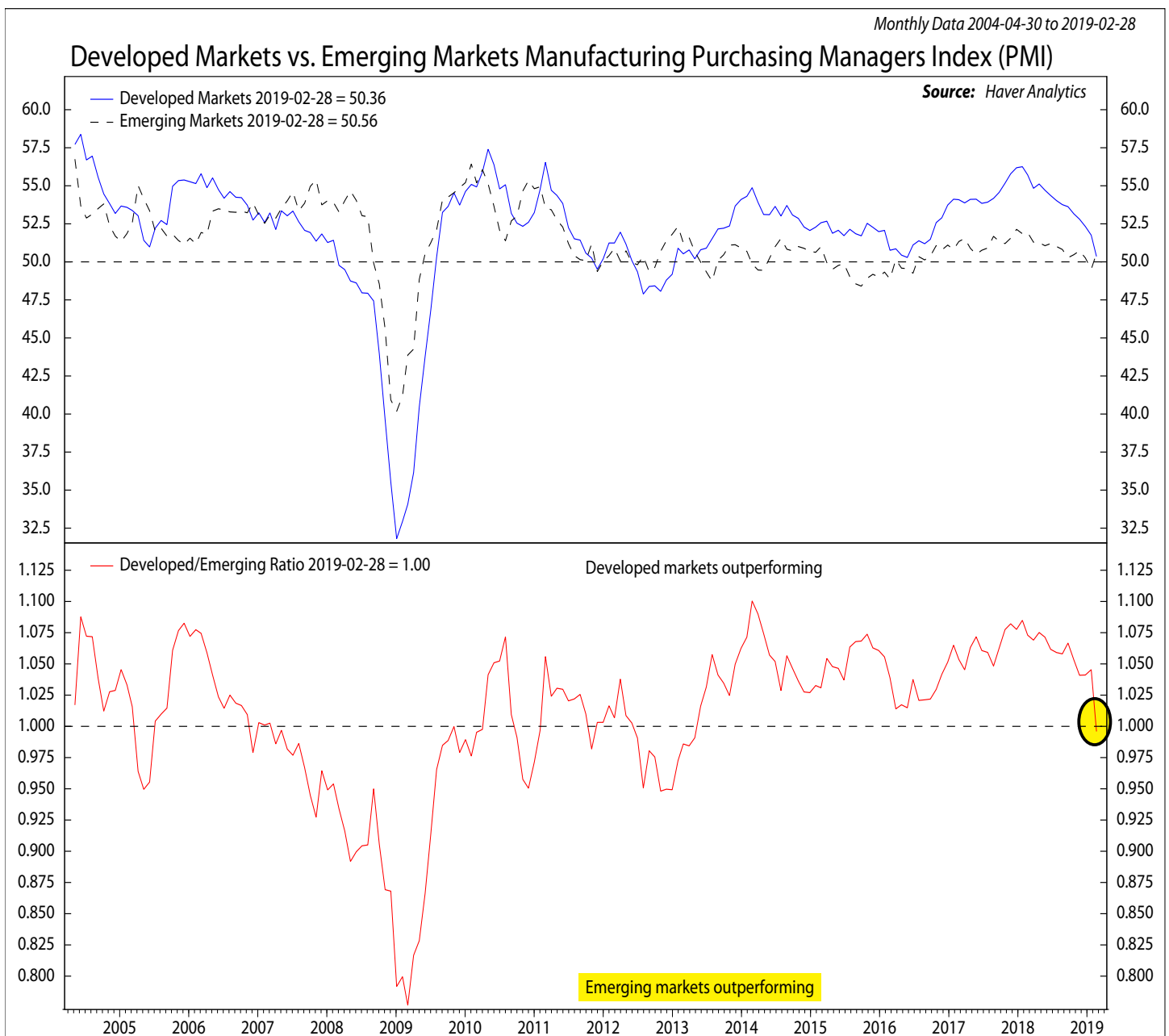
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More and more countries continued to succumb to the global weakness. Just 63% of individual country PMIs reported expanding manufacturing activity in February. This was the smallest share since September 2015 and down from a near-perfect 97% reported a year ago.

But for the first time since April 2013, emerging markets reported a higher PMI than developed markets, ending a nearly six-year winning streak (chart below). Our analysis shows that when this has happened in the past, **emerging market stocks have tended to outperform their long-term norm**. This study supports our current overweight position in emerging market stocks. A few large emerging markets have reasserted themselves in recent months.

- India’s PMI, up for five of the past six months, climbed to 54.3, its highest point since December 2017.
- Political optimism may also be fueling demand in Brazil and Mexico, which each saw their PMIs climb to their highest points since early 2018.

A spot previously reserved for just emerging markets, the **eu-rozone’s manufacturing industry slipped into negative territory in February for the first time since June 2013**. The downside was led by Germany, whose index fell to a 74-month low.



IE258

U.S. ECONOMY AND FIXED INCOME

BONDS DURING FED PAUSES

We ran some studies looking at asset performance around Fed pauses. We defined a pause as a break of at least five months between rate hikes (i.e., a pause within a tightening cycle). We identified six cases since 1962, as shown in the **table below**. A resumption of the tightening cycle is by no means certain. In fact, the Fed is unsure as to “what adjustments to the target range for the federal funds rate may be appropriate later this year.” But with scheduled tariffs being delayed and a trade agreement with China looking more likely, the Fed may feel more confident in resuming rate hikes later this year.

If they do, here’s what we can learn from history regarding bonds:

- 10-year Treasury yields rose in all six cases by a median 0.28%, which would take us to 3.05%.
- Investment grade credit spreads narrowed in five of the six cases by a median 23 bp (0.23%), or by another 18 bp (0.18%).
- The term premium steepened in five of the six cases by a median 0.12%.
- The yield curve was mixed using the spread between the 10-year and 3-year Treasury yield.

PAUSES IN FED TIGHTENING CYCLES SINCE 1962					
10-Year Treasury Yield (%)					
Start	End	Start Value	End Value	Change	
07/17/1963	11/24/1964	4.03	4.18	0.15	
11/24/1964	12/06/1965	4.18	4.61	0.43	
08/14/1973	04/25/1974	7.46	7.63	0.17	
11/01/1978	07/20/1979	8.66	8.98	0.32	
12/05/1980	05/05/1981	12.85	14.69	1.84	
12/16/2015	12/14/2016	2.30	2.54	0.24	
Median					TREASURY YIELDS RISE 0.28
10-3 Treasury Yield Spread (in bp)					
Start	End	Start Value	End Value	Change	
07/17/1963	11/24/1964	23	7	-16	
11/24/1964	12/06/1965	7	-8	-15	
08/14/1973	04/25/1974	-66	-49	17	
11/01/1978	07/20/1979	-38	-3	35	
12/05/1980	05/05/1981	-104	-100	4	
12/16/2015	12/14/2016	95	97	2	
Median					3
Baa/Aaa Corporate Credit Spread (in bp)					
Start	End	Start Value	End Value	Change	
07/17/1963	11/24/1964	72	48	-24	
11/24/1964	12/06/1965	48	41	-7	
08/14/1973	04/25/1974	78	56	-22	
11/01/1978	07/20/1979	75	115	40	
12/05/1980	05/05/1981	206	133	-73	
12/16/2015	12/14/2016	123	51	-72	
Median					CREDIT OUTPERFORMS -23
10-Year Treasury Term Premium (in bp)					
Start	End	Start Value	End Value	Change	
07/17/1963	11/24/1964	7.1	-4.8	-11.9	
11/24/1964	12/06/1965	-4.8	8.0	12.8	
08/14/1973	04/25/1974	50.0	108.5	58.5	
11/01/1978	07/20/1979	150.4	160.7	10.3	
12/05/1980	05/05/1981	235.9	364.3	128.4	
12/16/2015	12/14/2016	7.4	17.9	10.5	
Median					11.6

SENIOR LOANS NOT YET A PROBLEM

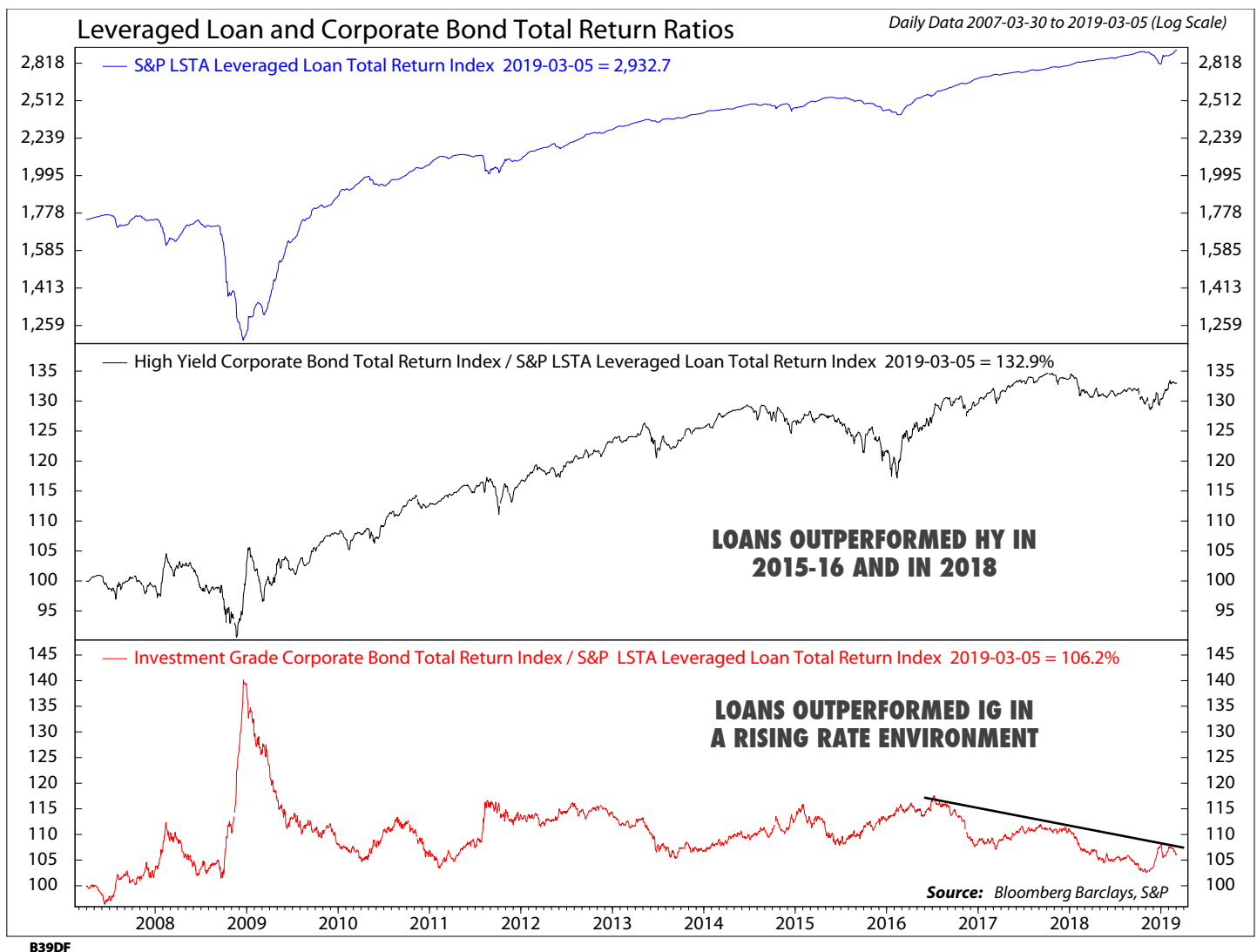
Our Chief Global Macro Strategist also provided some thoughts around leveraged loans, which became overvalued in December but are showing stability versus high yield at this time. We introduced several new charts to help navigate the tricky world of leveraged loans:

- 1. The S&P/LSTA Leveraged Loan Total Return Index.** When returns begin to slow and turn negative, investors should consider reducing their exposure to loans. Two examples were in 2007-08 and in 2015.
- 2. ETF flows.** These can sometimes be helpful, but are subject to false signals such as those seen in 2017.
- 3. Loan spreads.** We would be wary of loans when loan spreads start widening relative to Libor.
- 4. Correlations.** When correlations start to break down and high yield outperforms loans, we would switch from loans to bonds.

5. Relative strength. We can track the relative performance between corporate bonds and loans daily (**chart below**). Bonds are favored when these ratios are in uptrends.

6. Yield spread. Bonds normally yield more than loans due to higher interest rate risk and greater credit risk. In December, the spread got to the upper end of the range it had been in for the past two years, indicating high yield was relatively attractive.

7. Issuance. In 2018, high yield issuance was \$173 billion, the lowest since 2009. The lack of issuance in high yield compared to loans helped create a better supply/demand balance once the demand for floating rate product subsided when the Fed went on hold.



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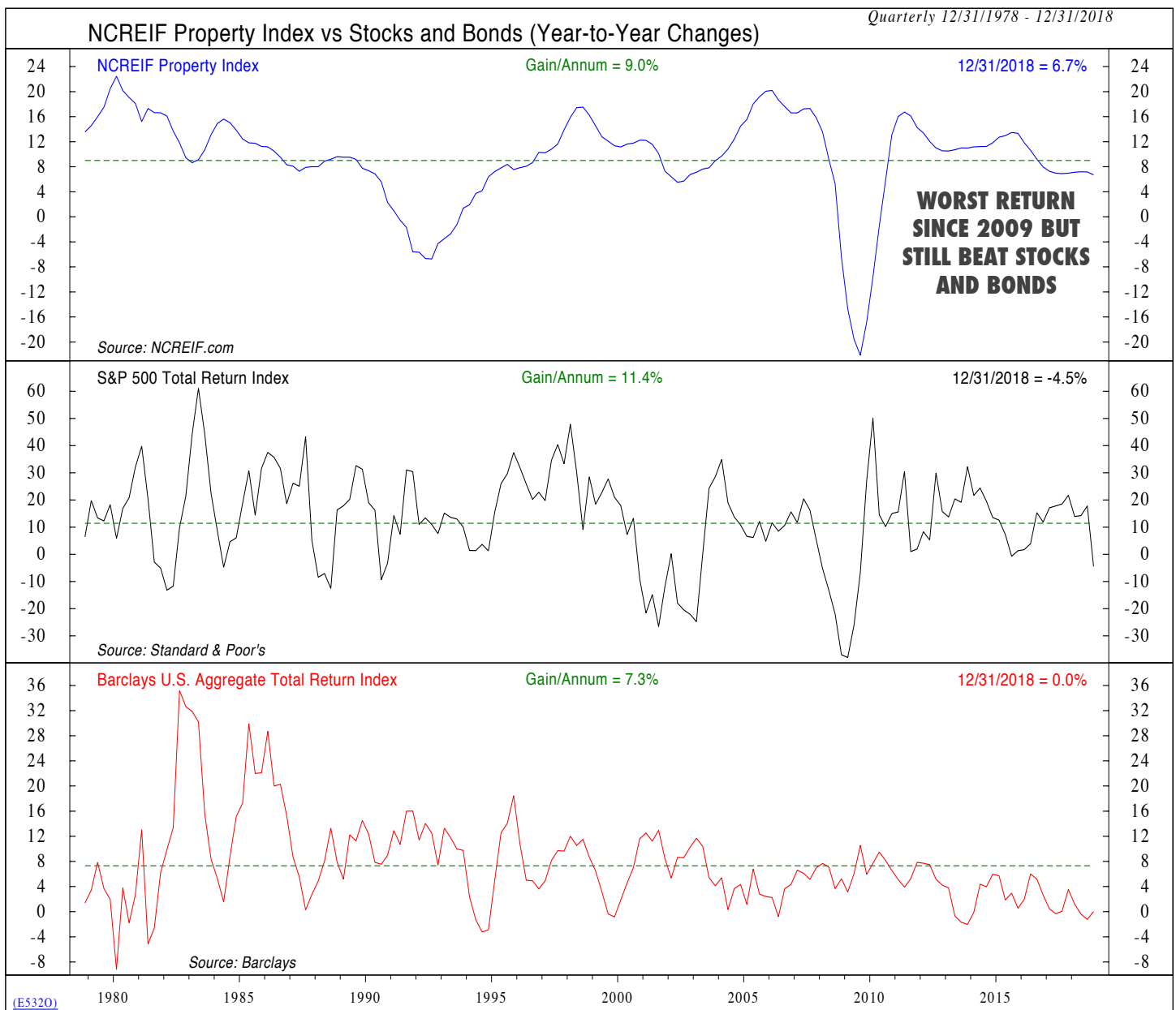
CRE SHOULD MODERATE IN 2019

Last year, investment grade commercial real estate (CRE) returned 6.7%, down from 2017's pace of 7.0%, but above our projection of roughly 5%. One-third of the return came from capital appreciation, according to NCREIF. Although it was the worst yearly return since 2009, the NCREIF Property Index still beat stocks and bonds (**chart below**). We expect little change in appreciation and a total return of less than 5% in 2019.

We expect the **Industrial sector to outperform** but by a smaller margin. Industrial was the clear standout last year, gaining 14.3%, led by continuing demand for warehouse space. Retail, which generated its first quarterly loss since Q4 2009, gained just 2.2% on the year. We would continue to **underweight Retail**.

Unlike last year where we favored smaller and non-prime markets, this year we would **move up in quality**. Tighter lending standards and waning demand have weighed on new development. Banks are expected to further restrict credit this year.

Sentiment has turned cautious. The Real Estate Roundtable's Sentiment Index fell five points in Q1 to 45, the most pessimism since Q2 2009. Respondents viewed pricing in most markets as around their peaks, and the greatest number of respondents since 2008 expect prices to fall in 2019. Cap rates remain low, indicating rich valuations, as investors hunt for yield. With the economy expected to slow but avoid recession, CRE returns will be subdued but competitive with other asset classes. CRE continues to deserve a place in large, diversified portfolios.



MIXED EMPLOYMENT REPORT

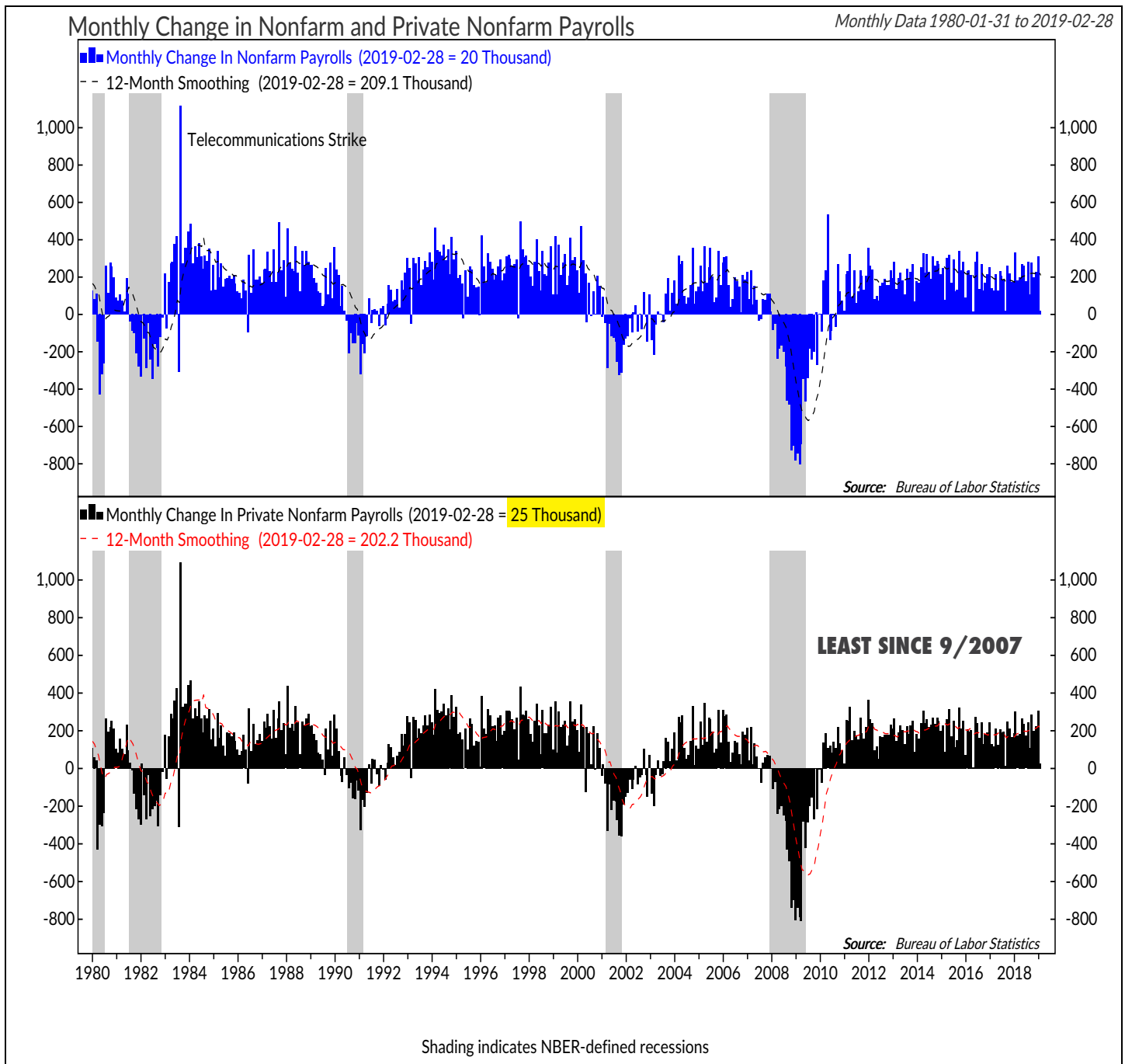
Our Senior U.S. Economist reviewed the latest U.S. employment report. Her takeaways on the very mixed report:

- Job creation fell woefully short of expectations, increasing by just 20,000 (**chart below**) compared to a consensus of 180,000.
- The unemployment rate fell back to 3.8% from 4.0%.
- Average hourly earnings jumped 0.4%, bringing the year/

year change to 3.4%, the highest since April 2009.

- The broadest measure of unemployment (U6), plunged a record 0.8 percentage points to 7.3%, the least since March 2001.

Reports like these argue for continued Fed patience until the underlying economic trends become clearer. It could indicate an extremely tight labor market and an inability of employers to find qualified workers, leading to slower job creation.



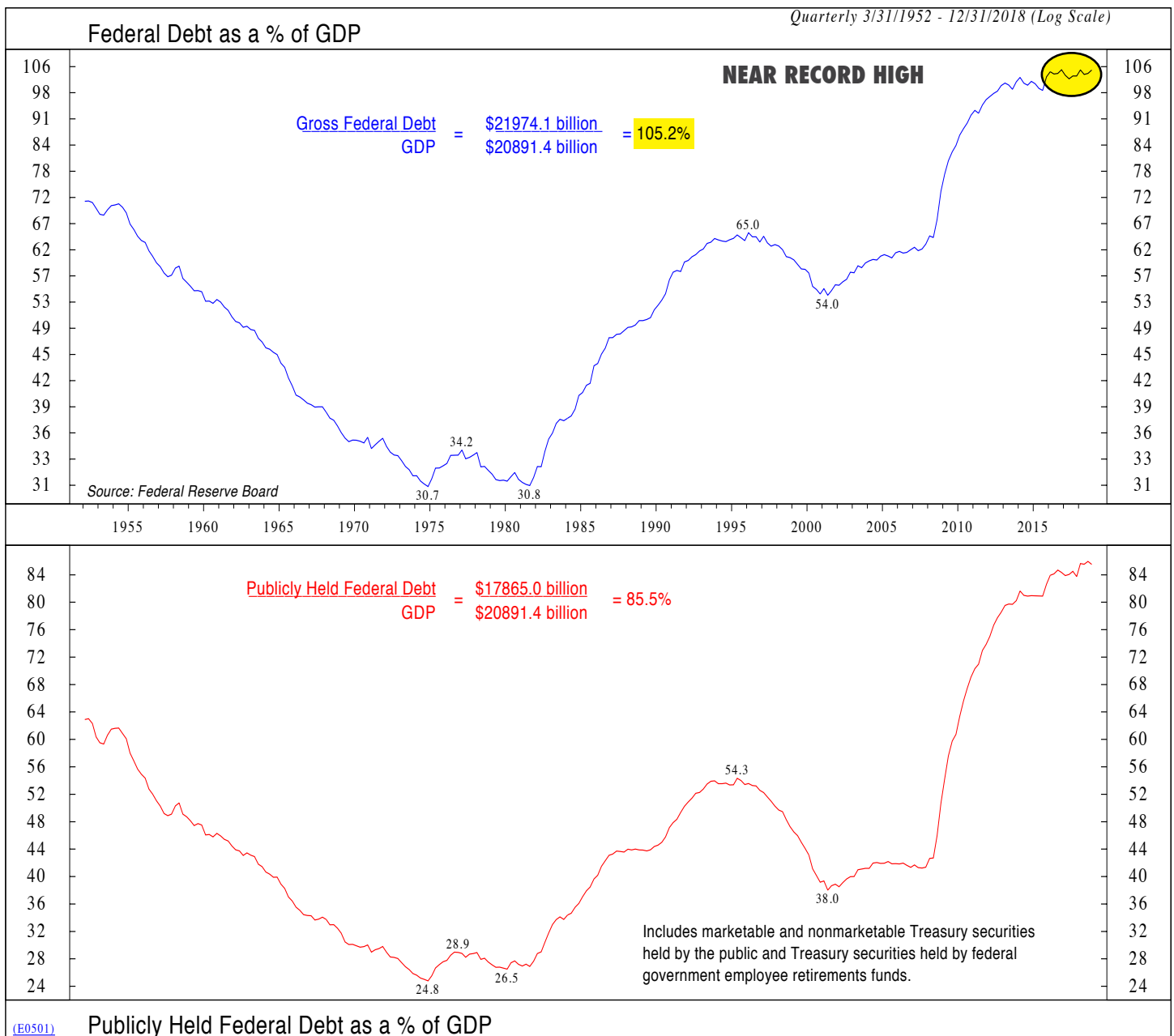
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U.S. DEBT IS RISING

Our Senior U.S. Economist provided some thoughts about the overall U.S. debt situation, which has been rising this cycle. Regarding the corporate debt market, she noted there's no evidence of gross financial imbalances at the moment that could trigger a financial crisis or a recession. We expect modestly tighter financial conditions this year compared to earlier in the cycle, which supports our outlook for slower economic growth. While the corporate debt level is high (a near-record 46.4% of GDP in Q3 2018), so is the interest coverage ratio. We do not see systemic risk from leveraged loans at this time.

Federal debt keeps accumulating. It was the only major sector to post annual debt growth above its historical average. A lot

of the recent increase has to do with the 2017 tax law, where the broadening of the tax base has been insufficient to pay for the tax cuts so far. Gross federal debt as a share of GDP rose to a near-record matching 105.2% in Q4 (**chart below**). Marketable debt is less, but is also on a steady upward trajectory. The Congressional Budget Office (CBO) projects that debt held by the public will increase from 77.8% in 2018 to 92.7% in 2029, the highest in post-WWII history. The risk to the near-term economic growth outlook is limited, as long as demand for Treasuries remains strong. Longer-term risks are higher, as interest payments take up a growing share of GDP.



NED'S CORNER

Ned Davis, Senior Investment Strategist



LONG-TERM SENTIMENT SUGGESTS LIMITED UPSIDE

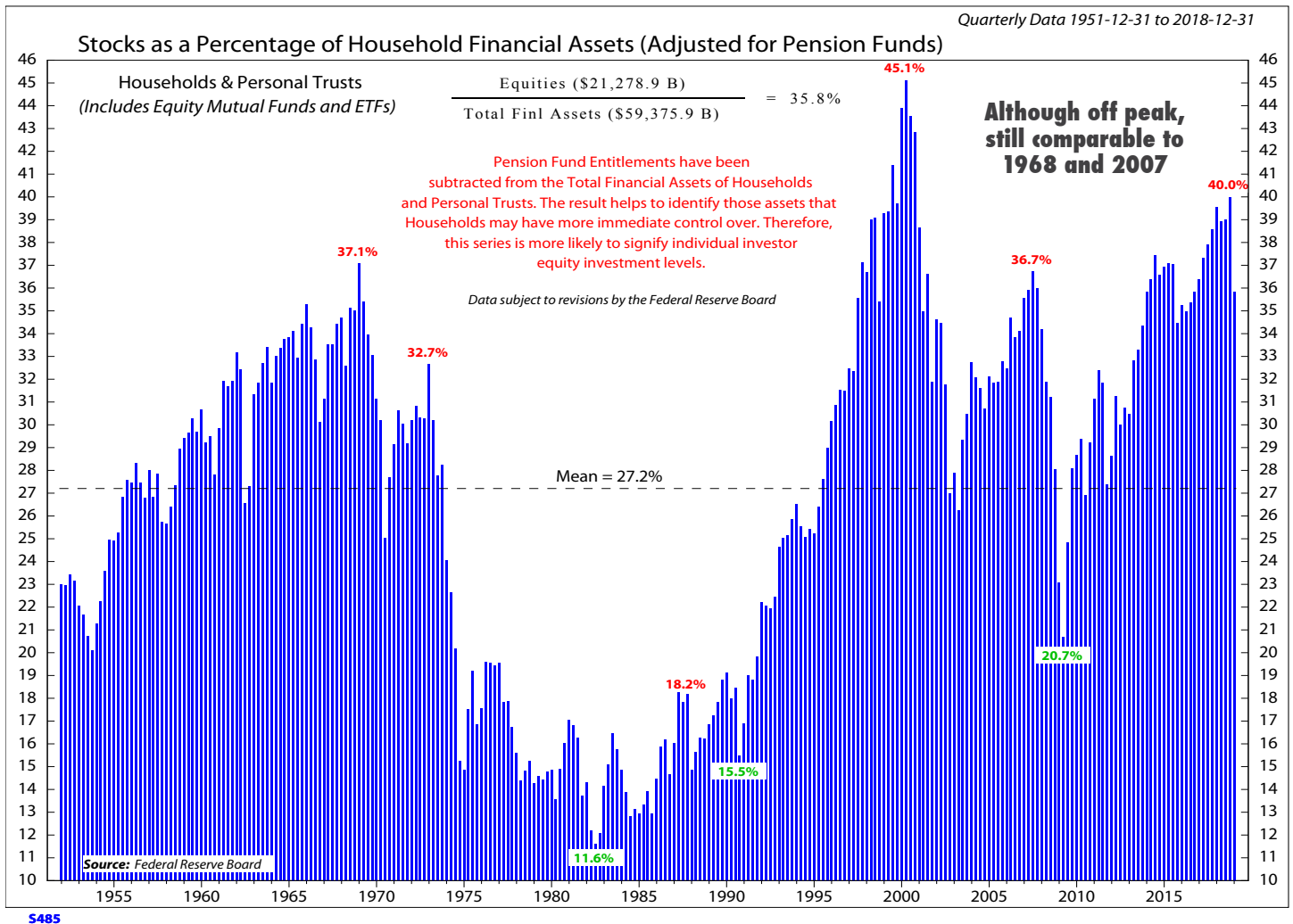
Recent data from the Fed's Financial Accounts report suggests households, foreigners, and institutions are overweight stocks. This supports the argument that this bull market is in the mature phase.

Households, the largest holder of stocks, have \$21.3 trillion of equity holdings. That is 35.8% of total household financial assets, and although off its peak of 40% in September, is still comparable to the 1968 and 2007 peaks (chart below). This suggests that stocks are overweight in their portfolio. When investors are pretty fully invested in stocks, the returns looking out 10 years are generally poor.

Large institutions, the second-largest holder of stocks, are also overweight (overbought) stocks. Over the last year, I felt as if there could still be some upside potential from

foreigners. Foreign flows have been erratic and somewhat below what we saw in 2000 and 2007 in terms of dollar flows. However, in terms of assets, foreigners appear to be more than moderately overweight in U.S. stocks. We can also look at foreign-held equities as a percentage of total U.S. equities. Given this, I consider foreign allocations to be fairly neutral.

The main reason stocks have done so well this cycle—and could still have further upside potential even though they're overweight by both the public and institutions—is that **corporations continue to be huge buyers**. Non-financial corporate liquidity (excluding equities) is some \$2.3 trillion, meaning corporations have great potential to continue to buy back stocks, or spend on capital improvements.



S485

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.

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

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

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

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

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

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

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

NDR Global Equity Allocation Model: The model is dynamic, using panel regression to rank six regional and country indices. The weight of the evidence is assessed based on external and internal factors, with 60% of the weight on the externals (non-price-based) and 40% on the internals (price-based). A factor used for one index is also used for the other five, with data unique to that region or country.

NDR-Weighted Foreign Market Indexes: These are capitalization-weighted indexes constructed by Ned Davis Research, Inc. to reflect the overall trend in a global market sector or region.

Optimistic: A sentiment term, investors are said to be optimistic if they think the market will rise. We find that it is best to go with the flow of sentiment until it reaches an extreme and reverses, at which point we take a contrary position.

Overvaluation: A stock is said to be overvalued when its current price is not justified by its earnings outlook or price/earnings (P/E) ratio and, therefore, is expected to drop in price.

P/E: Is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share.

Personal Consumption Expenditures (PCE): A measure of price changes in consumer goods and services.

Pessimistic: A sentiment term, investors are said to be pessimistic if they think the market will fall. We find that it is best to go with the flow of sentiment until it reaches an extreme and reverses, at which point we take a contrary position.

Quantitative Easing: A government monetary policy occasionally used to increase the money supply by buying government

securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity.

Relative Strength: Is the ratio of a stock price to a market average.

S&P 500 Index Equally Weighted Geometric Index: An index constructed of the 500 stocks in the S&P 500 index on an equally weighted geometric average basis (see geometric average).

Secular Bear: Secular moves in the market can last from several years to decades, and are designed to call overriding trends through several cyclical cycles. A secular bear is a downward-trending secular move in the market.

Secular Bull: Secular moves in the market can last from several years to decades, and are designed to call overriding trends through several cyclical cycles. A secular bull is an upward-trending secular move in the market.

Sovereign Debt: Is money (or credit) owed by a central government.

Spread Product: Favoring not only investment-grade corporate debt, but also asset-backed and commercial mortgage-backed securities, as well as senior secured loans, sectors over Treasury securities.

Standard and Poor's 500 Sectors: Stocks in the S&P 500 index are classified into one of 10 sectors/industries using the Standard and Poor's Global Index Classification System (GICS).

Standard and Poor's 500 Stock Index: An index of 500 stocks chosen for market size, liquidity, and industry grouping, among

other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large-cap universe.

Treasury Inflation-Protected Securities (or TIPS): Are the inflation-indexed bonds issued by the U.S. Treasury. The principal is adjusted to the Consumer Price Index, the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal, thus protecting the holder against inflation.

Value: A stock that tends to trade at a lower price relative to its fundamentals (i.e., dividends, earnings, sales, etc.) and thus considered undervalued.

VIX Index: A popular measure of the implied volatility of S&P 500 index options. Often referred to as the fear index or the fear gauge, it represents one measure of the market's expectation of stock market volatility over the next 30-day period.

Volatility: A statistical measure of the dispersion of returns for a given security or market index. Commonly, the higher the volatility, the riskier the security.

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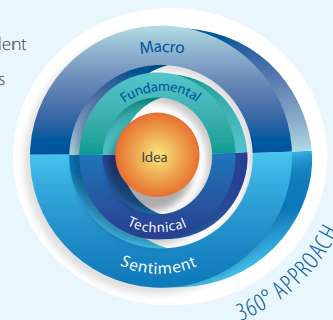
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