Smart Sector® Fixed Income Strategy

APRIL 2023

Risk Management Update

The Smart Sector risk management model (chart right) seeks to reduce exposure to fixed-income sectors most sensitive to equity drawdowns. The risk management model deteriorated from last month but entered April, recommending full model exposure to areas most sensitive to equity markets: International Bond, U.S. Long-Term Treasury, TIPS, U.S. Investment Grade, and Floating Rate Notes.

Figure 1: Smart Sector® Fixed Income Risk Management Model

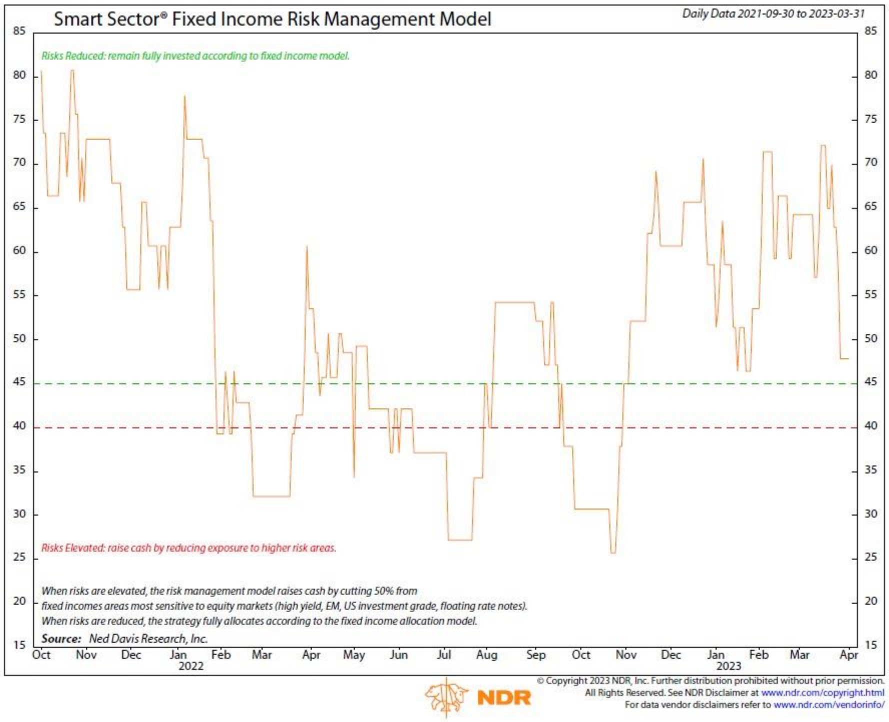
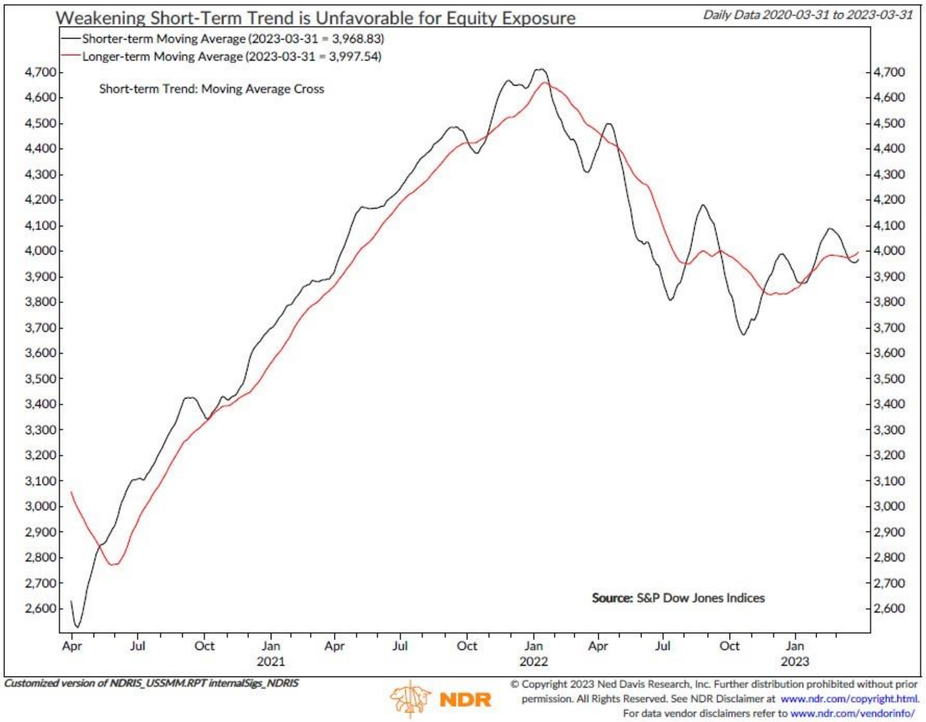


Figure 2: Weakening Short-Term is Unfavorable for Equity Exposure



The model deterioration was mostly driven by weaker technicals—stock/bond relative strength, global stock market breadth, and stock market short-term trend (chart left) all declined to bearish levels during the month. In terms of external influences, improvement in the Baltic Dry Index and breadth for High Yield and Emerging Market bonds was offset by widening high-yield option-adjusted spreads.

For now, the weight of the evidence recommends a fully invested allocation to fixed income sectors according to the model.

Fixed Income Market Update

After about a 2.5% drop in February, the Bloomberg Barclays U.S. Aggregate Bond Total Return Index gained over 2.5% in March. The index has been positive for six of the past 12 months. Of the nine fixed-income sectors we track, all of them except Floating Rate Notes had positive returns in March.

After last month's liquidity backstop by the Swiss National Bank for Credit Suisse and the $30 billion capital injection into First Republic by a consortium of U.S. banks, it looks like authorities have successfully ringfenced the banking problems.

Following the anticipated 25 basis point rate hike in March, the Fed provided an update to their economic outlook. The Fed is effectively forecasting a recession this year. We can't have 3.2% GDP growth in Q1 and end up at 0.4% for the year without having negative quarters. Unemployment is projected to rise to 4.5% from 3.6%. As a result, market participants are starting to price in a reversal of the tightening cycle.

The decline in rates across the curve impacted fixed-income sector leadership, as well as the trend in the U.S. Dollar (chart below).

Entering April, the fixed income allocation strategy is overweight International Bond, U.S. Long-Term Treasury, TIPS, U.S. Investment Grade, and Floating Rate Notes. The U.S. Corporate, U.S. High Yield, and Emerging Market Bond sectors are underweight.

Figure 3: U.S. Dollar Index Weakening

The International Investment Grade model improved this month. Equity volatility and international investment-grade bond price trends are bullish for the sector. Narrowing global option-adjusted spreads improved to neutral this past month (chart right).

Figure 4: Narrowing Spreads for International Investment Grade is Neutral for the Sector

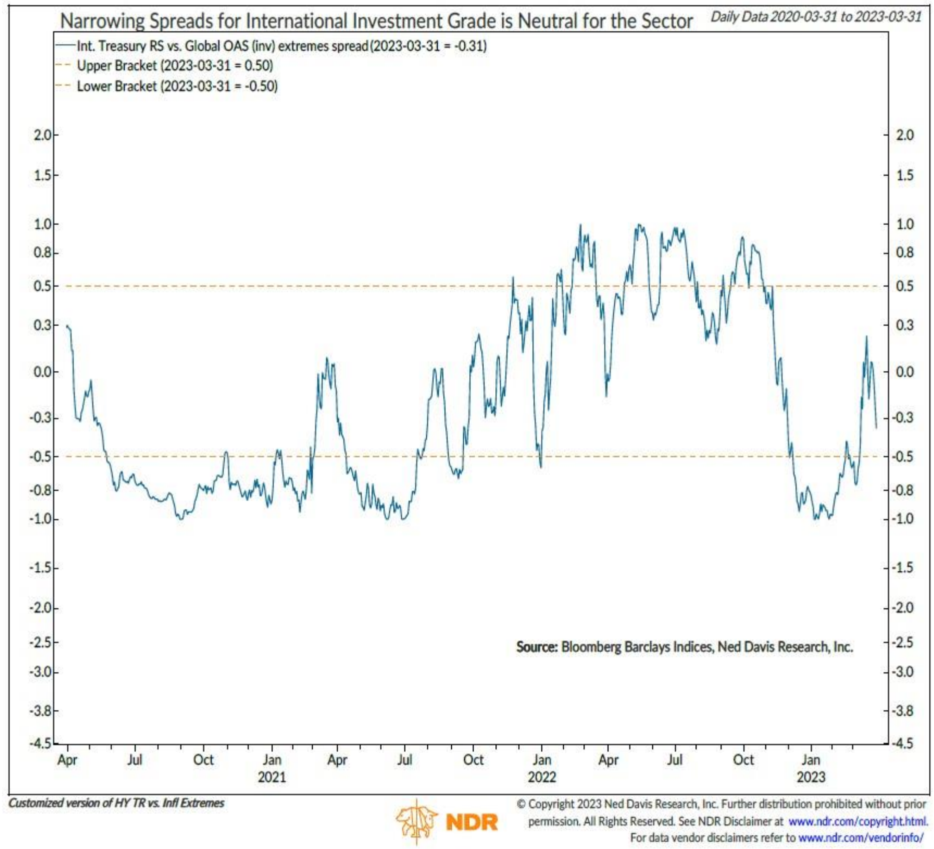
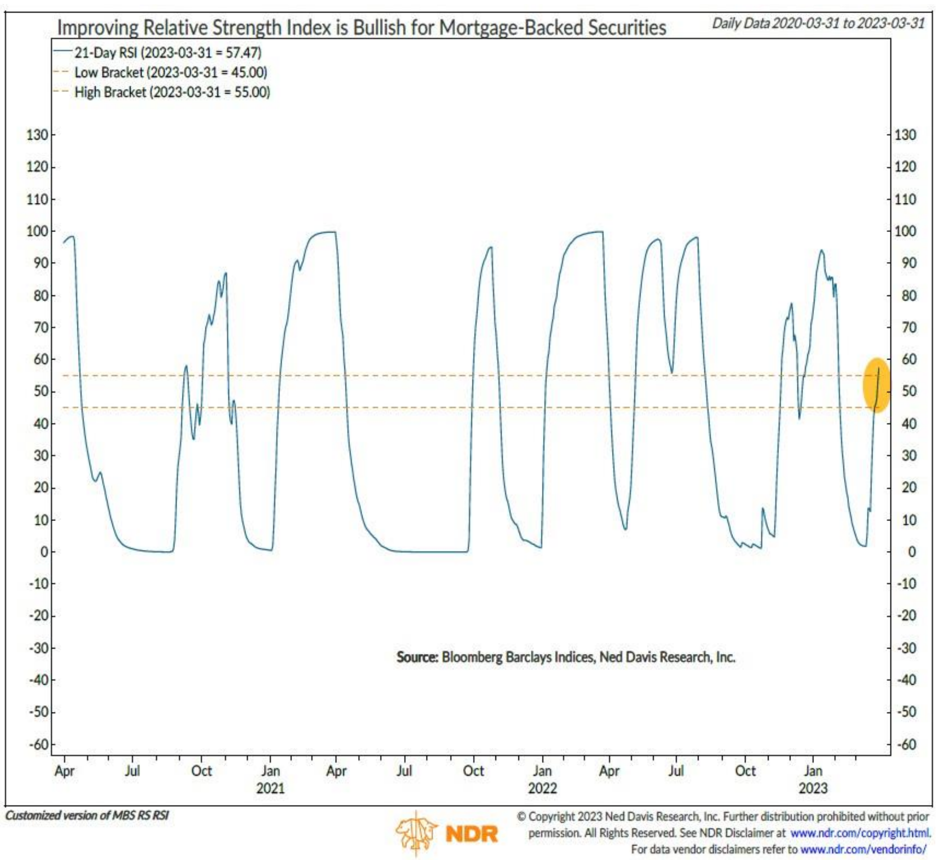


Figure 5: Improving Relative Strength Index is Bullish for Mortgage-Backed Securities



Mortgage-Backed Securities (MBS) allocation increased to overweight. With mortgage rates falling during March, two of the six indicators flipped bullish for MBS—the sector's relative strength index (chart left) and narrowing high-yield option-adjusted spreads.

Treasury Inflation-Protected Securities (TIPS) allocation increased sharply, moving it from an underweight to an overweight position in April. On a fundamental basis, narrowing high-yield option-adjusted spreads is bullish for the sector. Technicals also improved—the relative strength index (chart right) moved bullish during the month.

Figure 6: Improving Relative Strength Index is Bullish for TIPS

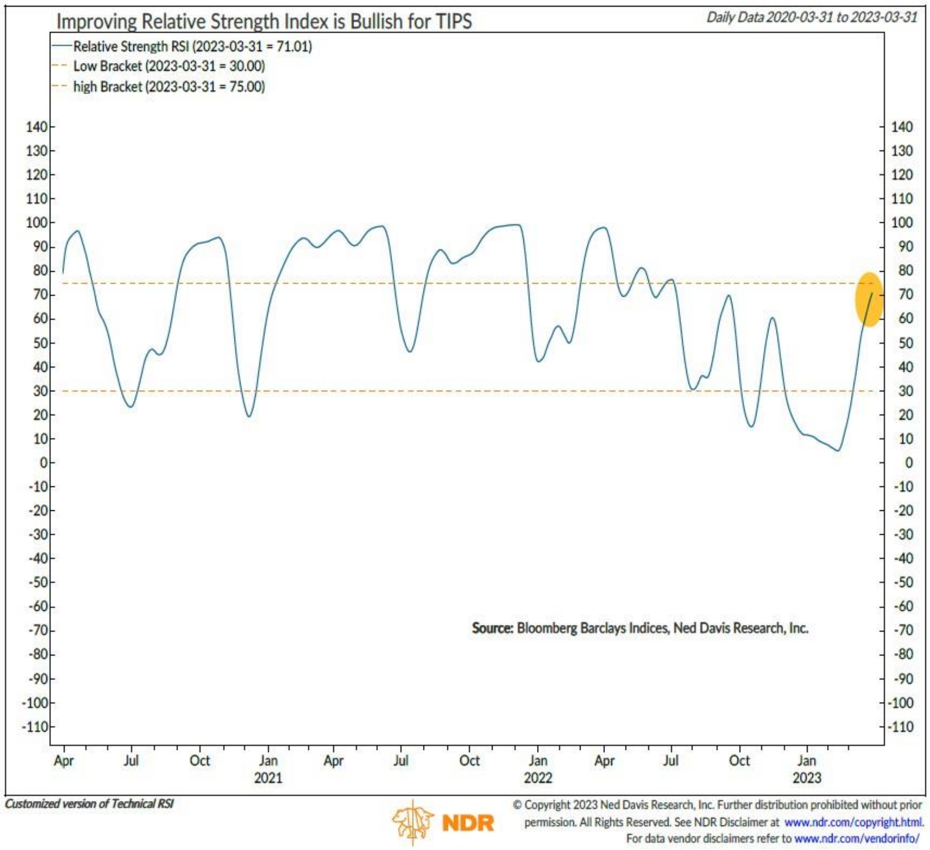
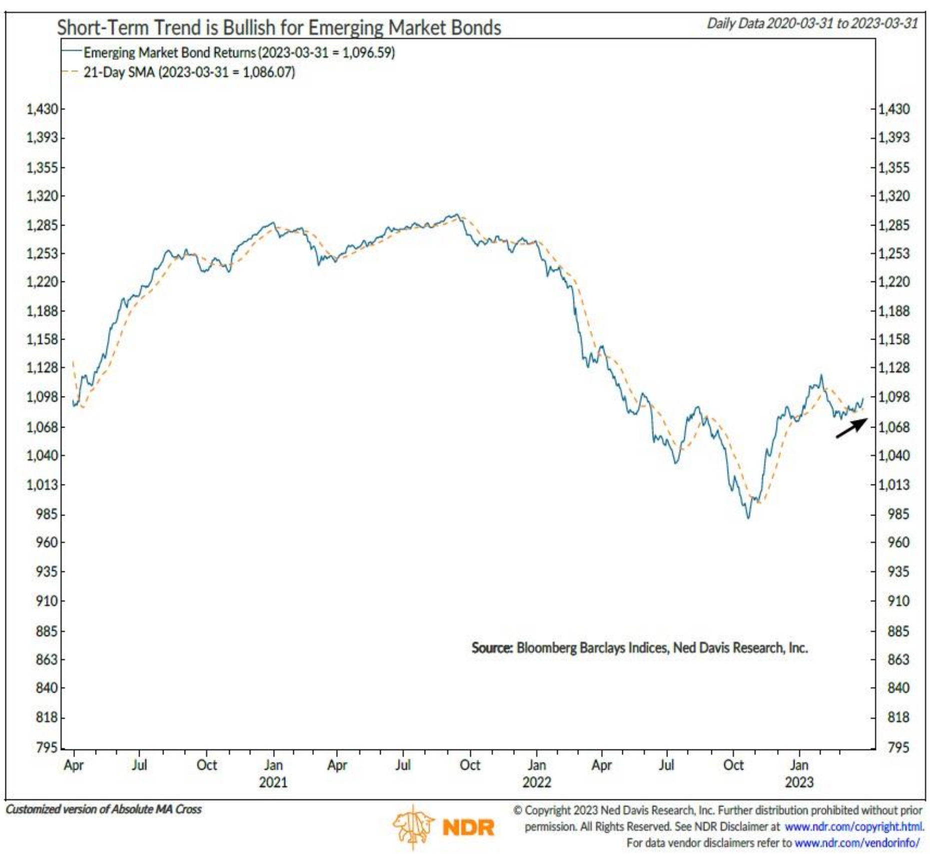


Figure 7: Short-Term Trend is Bullish for Emerging Market Bonds



Emerging Market (EM) bonds' allocation remained slightly underweight April. Due to the inverse relationship with Emerging Markets, the weakening of the U.S. Dollar relative to EM currencies became a bullish condition for both emerging market equities and bonds. As a result, the short-term trend turned bullish for the sector (chart left).

The allocation to U.S. Investment Grade Corporate bonds held steady in April, keeping the sector at a below-neutral exposure. Most of the fundamental and technical indicators are bearish for the sector. Over the last month, the reversal in the U.S. Dollar Index was bearish for the sector (chart right).

Figure 8: Weakening U.S. Dollar is Bearish for U.S. Investment Grade Corporate

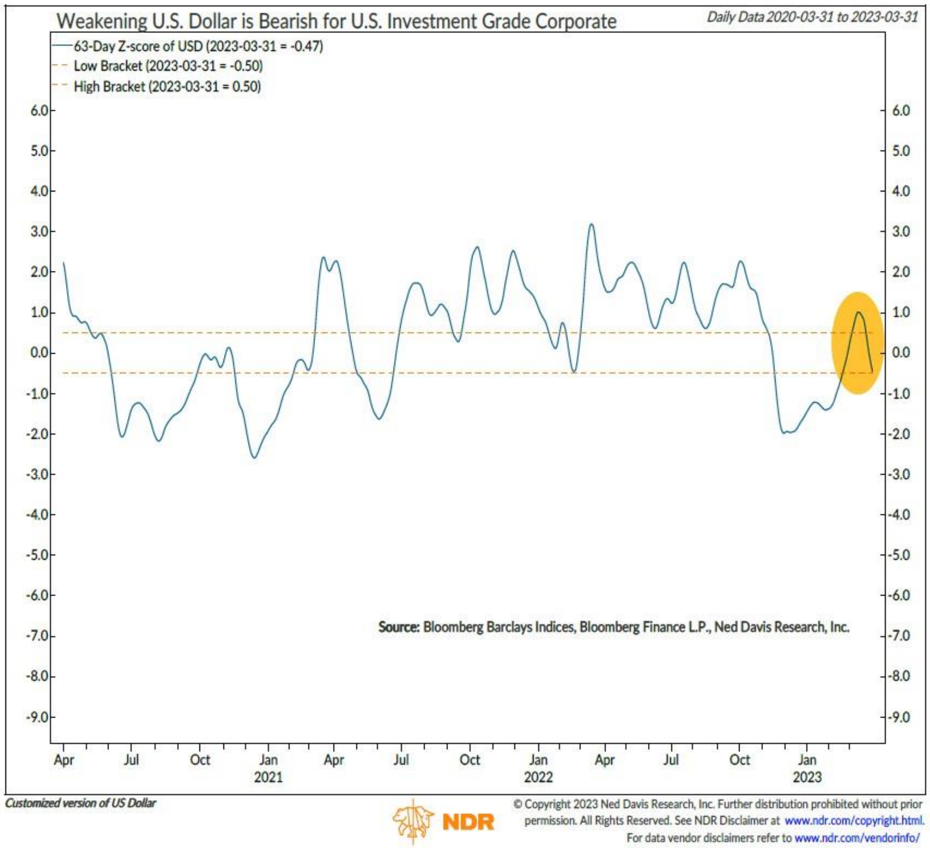
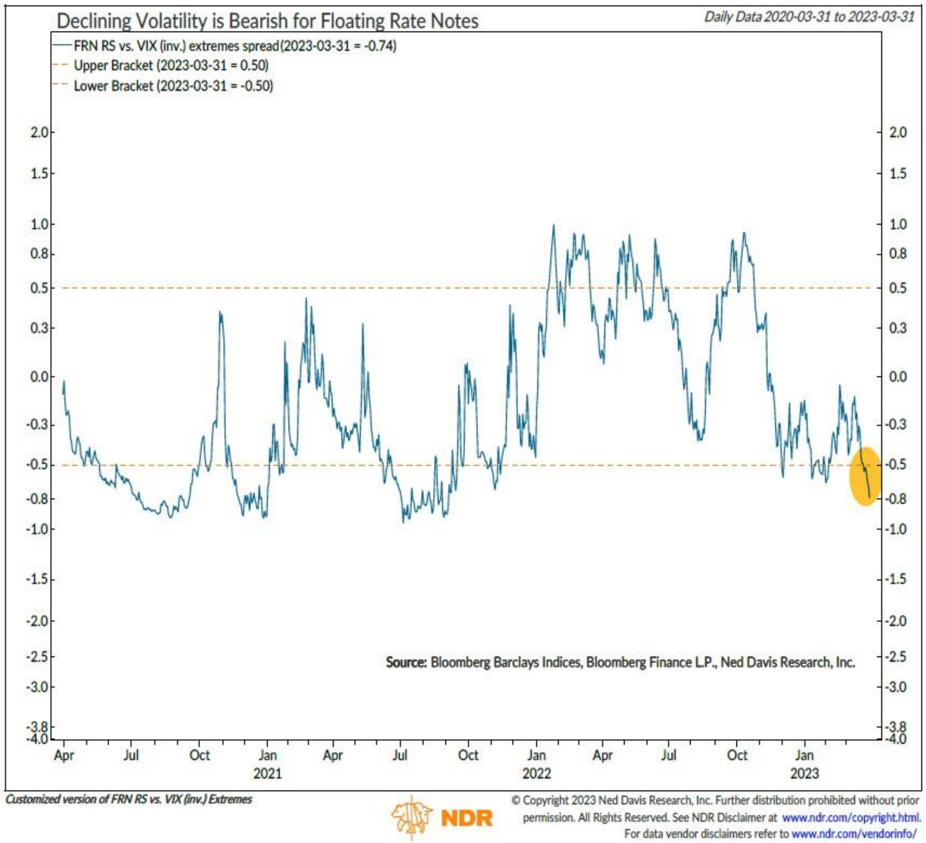


Figure 9: Declining Volatility is Bearish for Floating Rate Notes



Floating Rate Notes' allocation also held steady in April, maintaining an overweight exposure. Floating rate notes typically outperform during a rising rate environment. All fundamental and technical indicators are now bearish. A decline in volatility, as measured by the VIX (chart left), turned bearish for the sector in March.

U.S. High Yield bonds' allocation declined sharply in April, moving it from overweight to underweight. Indicators are mixed. Improving breadth was offset by a weaker small-cap equity trend (chart right) and lower volatility.

Figure 10: Weak U.S. Small Cap Equity Trend is Bearish for High Yield Bonds

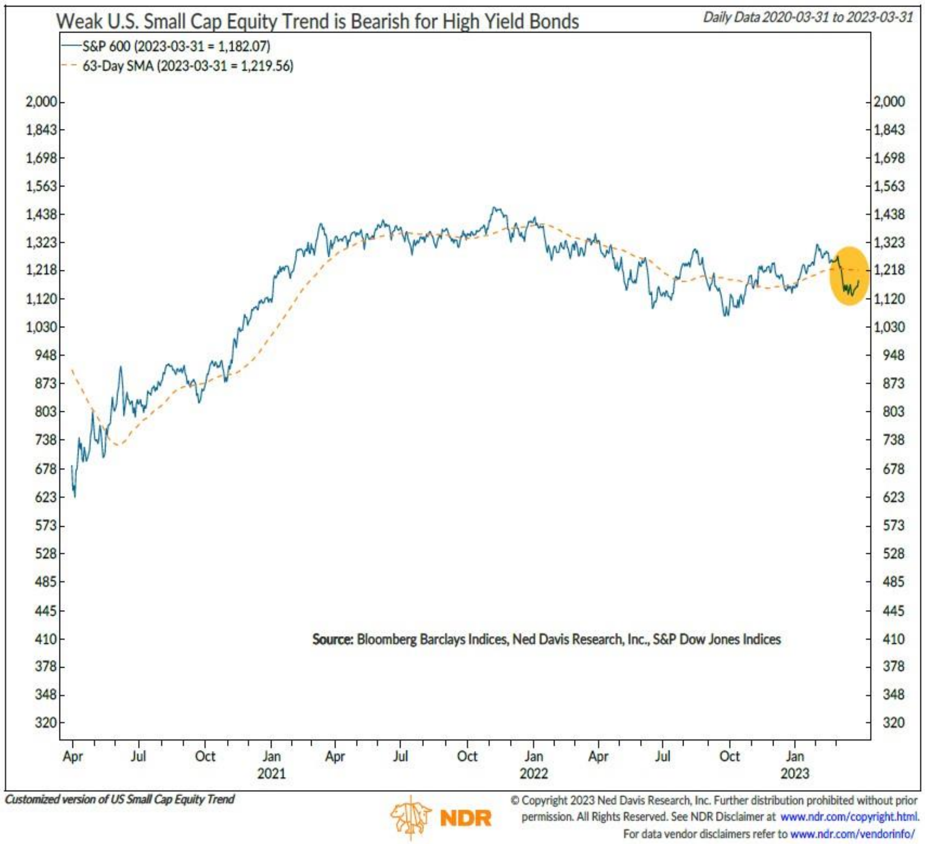
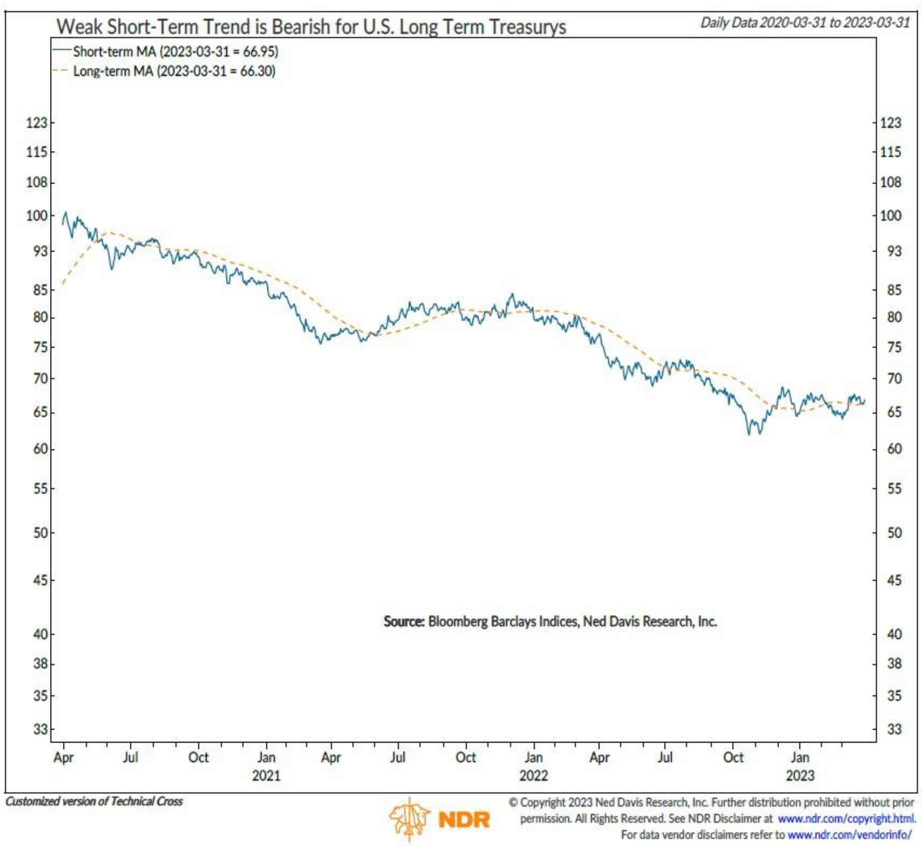


Figure 11: Weak Short-Term Trend is Bearish for U.S. Long Term Treasurys



Allocation to U.S. Long-Term Treasurys held at overweight. Improving price momentum, now bullish, was offset by a deteriorating short-term trend (chart left). Investors now expect the Fed to end the rate hike cycle on May 2, potentially unleashing lower interest rates.

Summary

With yields across the board declining in March, fixed-income sectors rallied. Entering April, the fixed income allocation strategy is overweight International Bond, U.S. Long-Term Treasury, TIPS, U.S. Investment Grade, and Floating Rate Notes. The U.S. Corporate, U.S. High Yield, and Emerging Market Bond sectors are underweight.

This strategy utilizes measures of price, valuation, economic trends, monetary liquidity, and market sentiment to make **objective, unemotional, rational decisions about how much capital to place at risk, as well as where to place that capital.**

NDR Strategists contributing to this publication: Brian Sanborn, CFA, Ed Clissold, CFA, Rob Anderson, CFA, Thanh Nguyen, CFA, Tim Hayes, CMT, Joe Kalish

Smart Sector® Fixed Income Strategy

Strategy Description

- The Smart Sector® Fixed Income strategy combines two Ned Davis Research quantitative investment strategies: The NDR Fixed Income Allocation and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

- The fund begins by overweighting and underweighting fixed income sectors based on Ned Davis Research's proprietary fixed income models..

- Each of the models utilize sector-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each area's probability of outperforming the other categories.

- Sectors are weighted accordingly relative to an equal-weighted benchmark.

When market risks become extraordinarily high — reduce your portfolio risk

- The model remains fully invested unless the Ned Davis Research Catastrophic Sell Stop (CSS) model is triggered, whereupon the areas which underperform during periods of market stress (high yield, Emerging Markets, U.S. Investment Grade, and Floating Rate Notes) are trimmed by 50%.

- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the broad financial markets. The model uses price-based, breadth, deviation from trend, fundamental, economic, interest rate, behavioral and volatility-based indicator composites.

When market risks return to normal — put your money back to work

- When the NDR CSS model moves back to bullish levels, indicating lower risk, the strategy immediately moves back to fully invested.

For more information, please contact us at:

Day Hagan Asset Management

1000 S. Tamiami Trl

Sarasota, FL 34236

Toll Free: (800) 594-7930

Office Phone: (941) 330-1702

Website: https://dayhagan.com/ or https://dhfunds.com/

Ned Davis Research Disclaimer:

The data and analysis contained within are provided "as is" and without warranty of any kind, either express or implied. The information is based on data believed to be reliable, but it is not guaranteed. NDR DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. All performance measures do not reflect tax consequences, execution, commissions, and other trading costs, and as such investors should consult their tax advisors before making investment decisions, as well as realize that the past performance and results of the model are not a guarantee of future results. The Smart Sector® Strategy is not intended to be the primary basis for investment decisions and the usage of the model does not address the suitability of any particular in Fixed Income vestment for any particular investor.

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.

DISCLOSURES

Past performance does not guarantee future results. No current or prospective client should assume future performance of any specific investment or strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Changes in investment strategies, contributions or withdrawals and economic conditions may materially alter the performance of your portfolio. Different types of investments involve varying degrees of risk, and there can be no assurance that any specific investment or strategy will be suitable or profitable for a client's portfolio. Historical performance results for investment indexes and/or categories generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. There can be no assurances that a portfolio will match or outperform any particular benchmark.

Day Hagan Asset Management is registered as an investment adviser with the United States Securities and Exchange Commission. SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the adviser has attained a particular level of skill or ability.

References to "NDR" throughout refer to Ned Davis Research, Inc. Clients engaging in this strategy will be advised by Day Hagan and will not have a contractual relationship with NDR. Day Hagan purchases signals from NDR, and Day Hagan is responsible for executing transactions on behalf of its clients and has discretion in how to implement the strategy.

NDR is a registered as an investment adviser with the Securities and Exchange Commission (SEC). NDR serves as the Signal Provider in connection with this strategy. The information provided here has not been approved or verified by the SEC or by any state or other authority. Additional information about NDR also is available on the SEC's website at https://www.adviserinfo.sec.gov/. This material is provided for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security or other financial instrument or to participate in any trading strategy. NDR's strategies, including the model discussed in this publication, are intended to be used only by sophisticated investment professionals.

There may be a potential tax implication with a rebalancing strategy. Re-balancing involves selling some positions and buying others, and this activity results in realized gains and losses for the positions that are sold. The performance calculations do not reflect the impact that paying taxes would have, and for taxable accounts, any taxable gains would reduce the performance on an after-tax basis. This reduction could be material to the overall performance of an actual trading account. NDR does not provide legal, tax or accounting advice. Please consult your tax advisor in connection with this material, before implementing such a strategy, and prior to any withdrawals that you make from your portfolio.

There is no guarantee that any investment strategy will achieve its objectives, generate dividends or avoid losses.