DAY HAGAN
ASSET MANAGEMENT

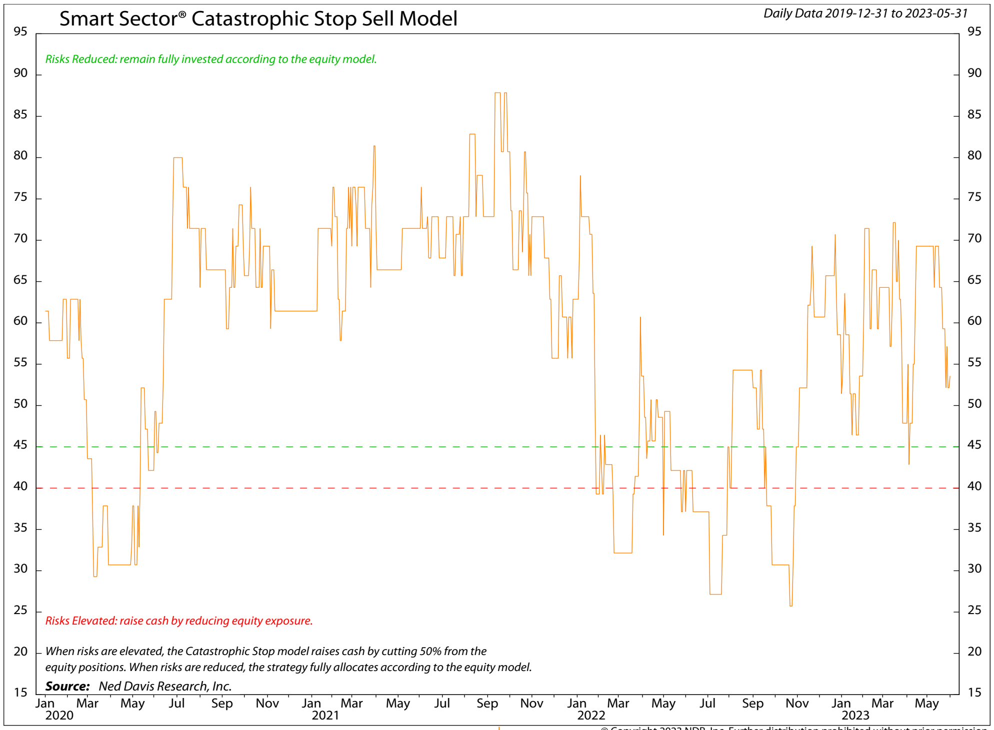
NDR
NED DAVIS RESEARCH

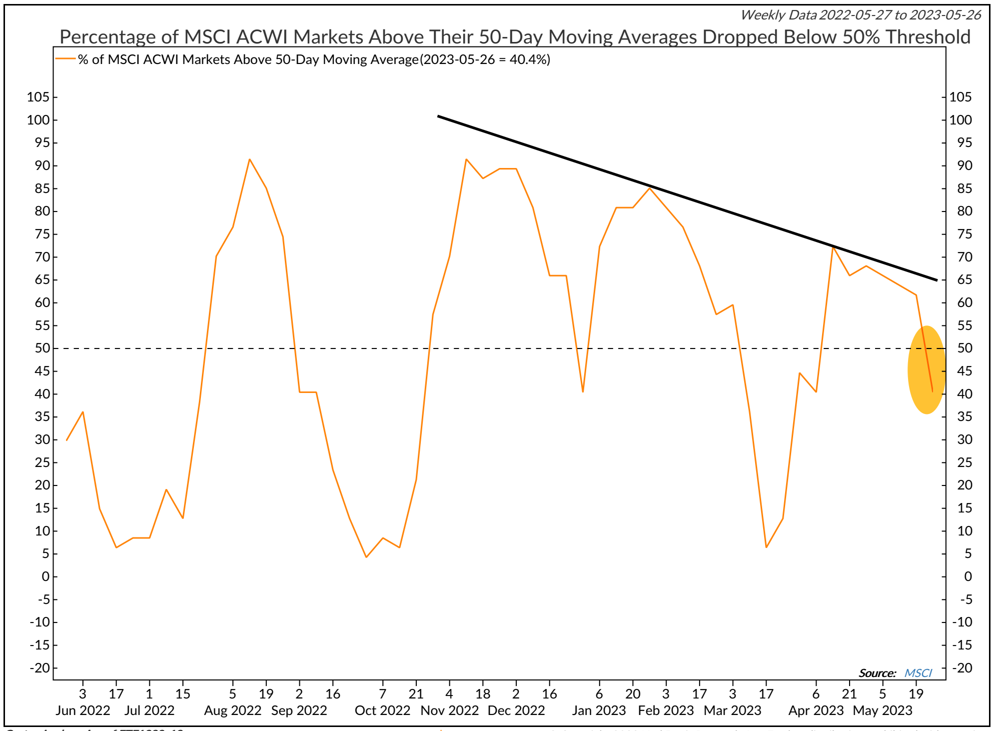
Smart Sector® International Strategy

JUNE 2023

Catastrophic Stop Update

The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify high risk periods for the equity market. The model (chart at right) deteriorated from last month but entered June with a fully invested equity allocation recommendation.





Customized version of ETF1000_12

The model deterioration was mostly driven by weaker breadth—global stock market breadth (chart at left) and breadth for High Yield and Emerging Market bonds both declined during the month. Additionally, stock volume supply continues to outpace demand, option-adjusted spreads remain wide, sentiment shows excessive optimism, and the Baltic Dry Index reflects weakening economic activity. Some of these indicators will need to improve if the stock market rally is going to continue deep into the second-half of the year.

Global Market Update

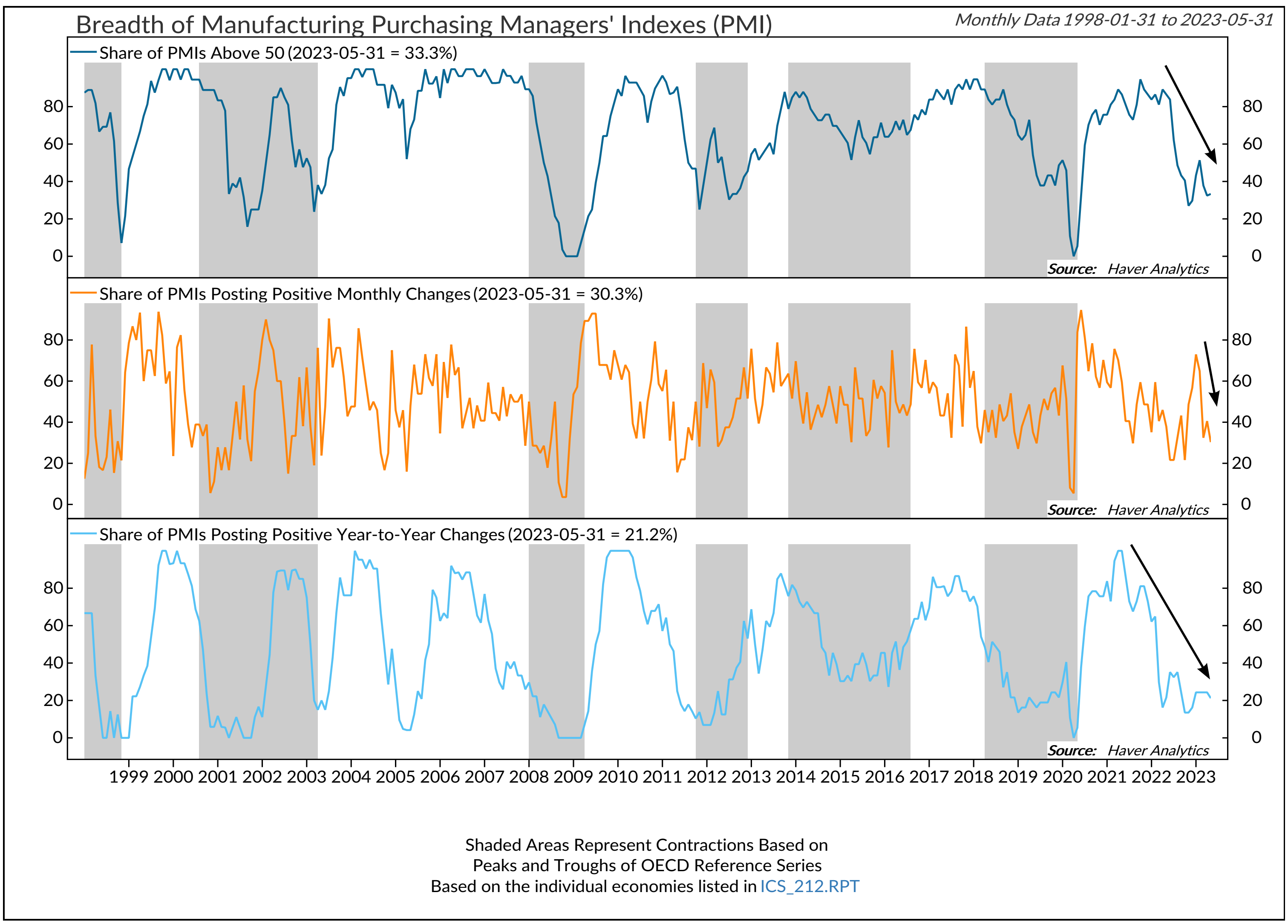
The ACWI ex. U.S. Total Return Index declined over 350 basis points in May. It was the index's largest monthly drop since September. Among the strongest performing markets were Greece, Taiwan, Hungary, Turkey, and Japan, while the largest underperformers included Colombia, Hong Kong, Czech Republic, Belgium, and China.

Global economic growth continued to accelerate in April, according to the S&P Global Purchasing Managers' Index (PMI) readings. The global composite (services and manufacturing) PMI climbed 0.8 points to 54.2, the highest level in 16 months and nearly a point above its long-term average. It was the fifth straight gain in the composite, the longest winning streak since October 2020. Historically, this may successive increases in the composite PMI almost always have been in the early stages of a global economic recovery.

The global services sector continued to power ahead strongly in April, as the PMI rose 1.0 point to 55.4, its fourth straight month of growth and the highest level since November 2021. Forward-looking indicators such new orders and the future output index also ticked up, suggesting continued upside in the global economy over the near-term.

Despite these constructive signs, the expansion may be short-lived. Growth remains uneven, as the strength in the PMI composite has almost entirely been driven by the services component. Manufacturing is declining among most economies. The share of PMIs in expansion territory slipped to just 34%, a four-month low and just shy of the one-third threshold historically associated with severe global recession. Moreover, fewer than half of the world's economies reported either monthly or year-to-year gains in their PMIs. Furthermore, given the strength in services, inflation in the sector continues to run high, suggesting a central bank pivot to easing is less likely in the near-term.

Entering June, the non-U.S. equity Core model was neutral on our core holdings, including Japan, China, U.K., Canada, France, Germany, Switzerland, and Australia. The Explore model favors Mexico, Spain, New Zealand, South Korea, Italy, and Poland.



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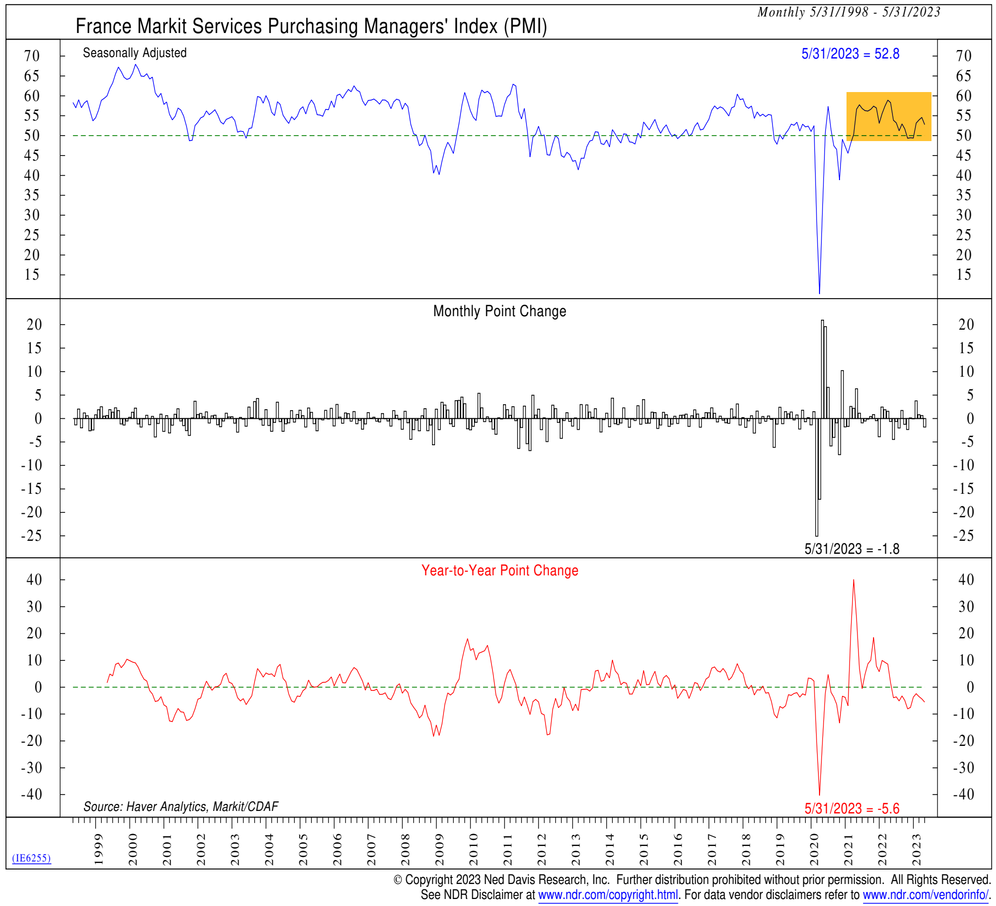
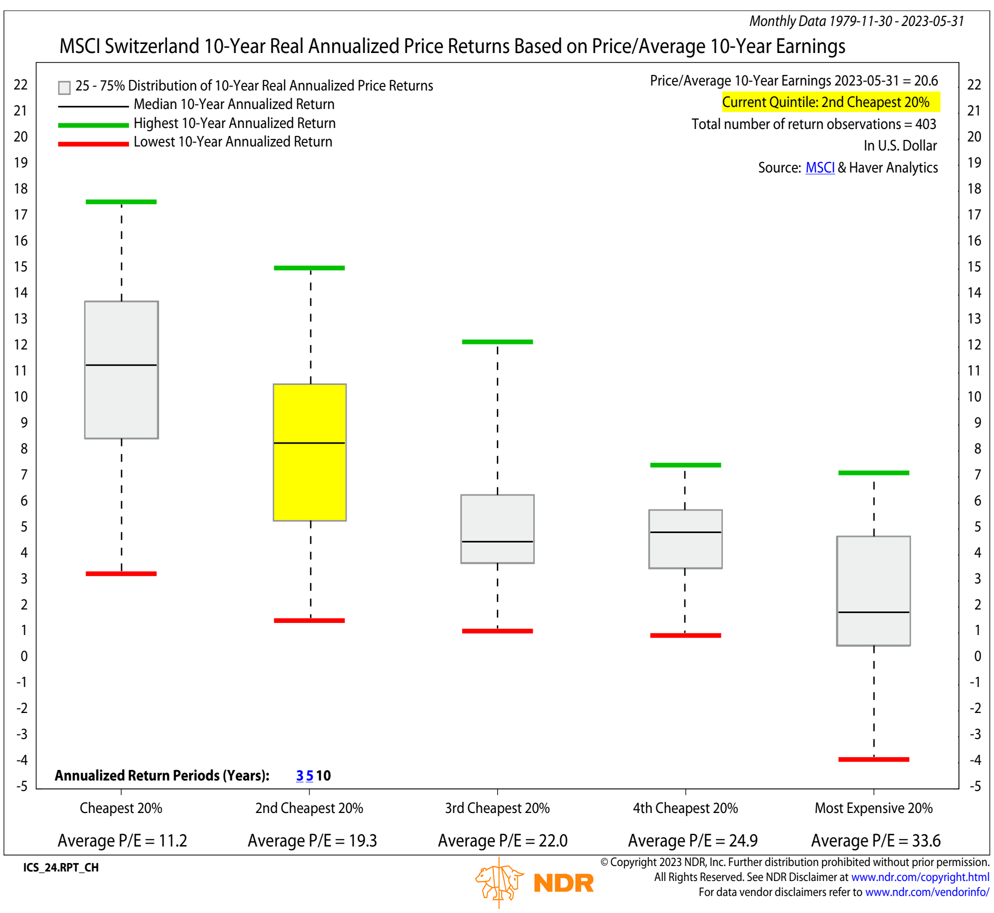
Core Allocations

France's allocation was reduced to neutral in June. The market generated a new all-time high toward the end of April, but it has pulled back due to some indicator deterioration. The percentage of stocks with rising trends weakened, internal measures softened, and ETF asset levels declined.

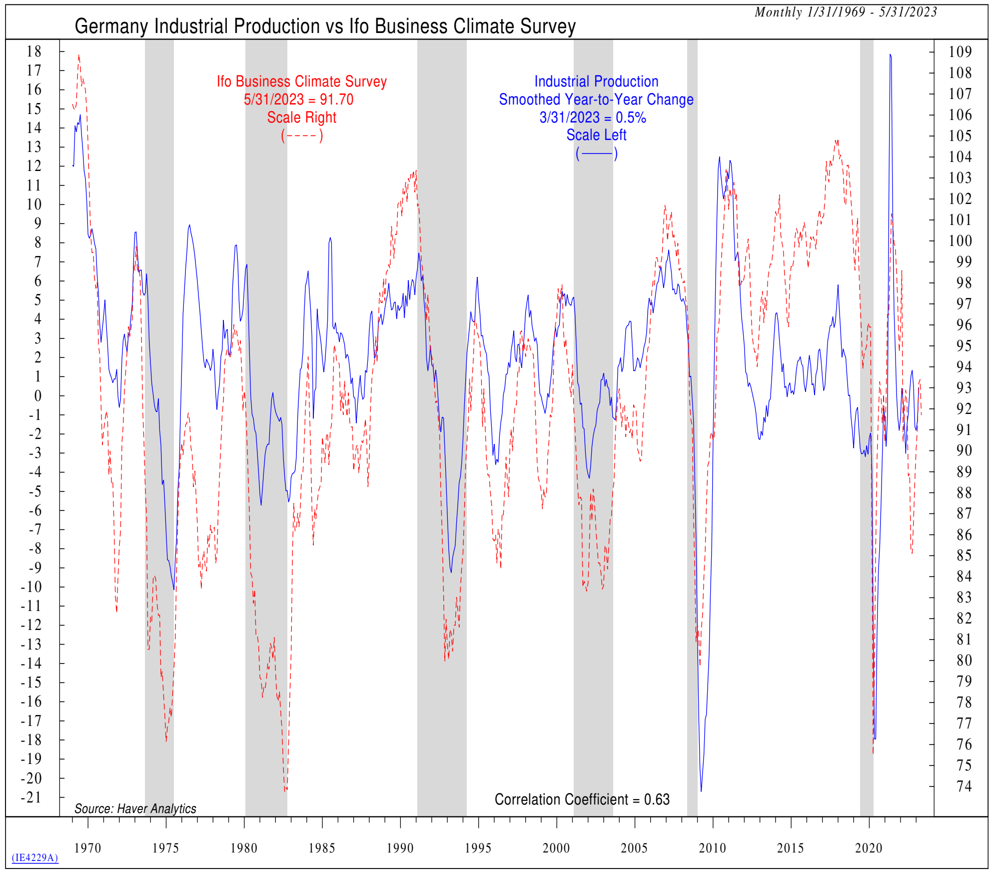
However, near-term trend measures still reside above their intermediate- and long-term counterparts. France's services PMI remains in expansionary territory (chart at right). Earnings growth continues to be positive on a year-over-year basis and earnings revisions have been rising.

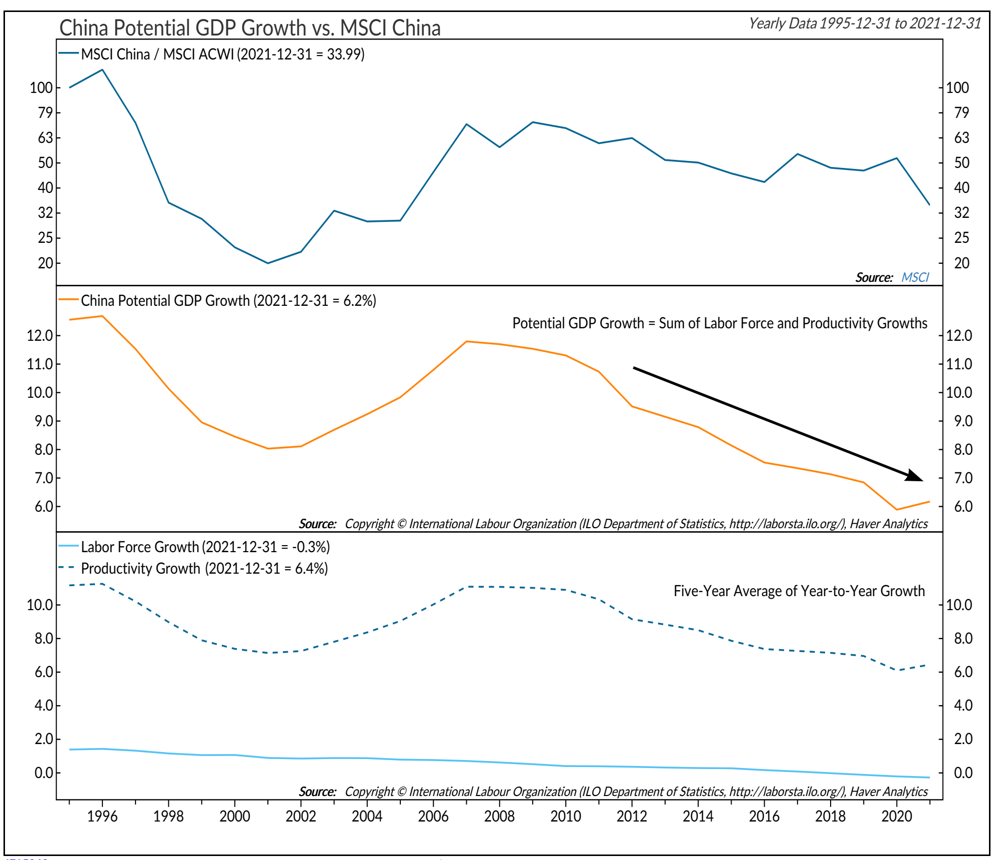




Switzerland's allocation continues to be near the benchmark weighting. The trend reflects improving one-year forward earnings estimates. Economy activity is improving as both industrial production and the Switzerland Manpower Employment Outlook Survey rise. Valuations remain attractive as the cyclically adjusted price-to-earnings ratio resides in favorable territory (chart at left).

Germany dropped to an neutral position for June. Multiple indicators turned bearish on the market. Weakening trend and breadth have been driven by declining ETF asset levels and falling economic sentiment. The Ifo index (chart at right), which measures sentiment among the businesses, fell in May for the first time in seven months and is dangerously close to levels associated with German recession.





China is also now a benchmark allocation as the economic recovery is losing steam. While the consumer continues to fuel growth, momentum is easing somewhat as pent-up demand is satisfied. Meanwhile the modest rebound in the industrial sector seems to have been short-lived. High frequency data has also softened, as evidenced by the Yicai high frequency economic activity index, which includes measures of traffic, housing activity, industrial activity, and even bankruptcies. The long-term trajectory for China is to the downside. Potential growth in China has been in a downtrend for over a decade due to a waning working age population and easing productivity growth (chart at left).

Explore Opportunities

Among the top ranked Explore markets are Mexico, Spain, New Zealand, South Korea, Italy, and Poland:

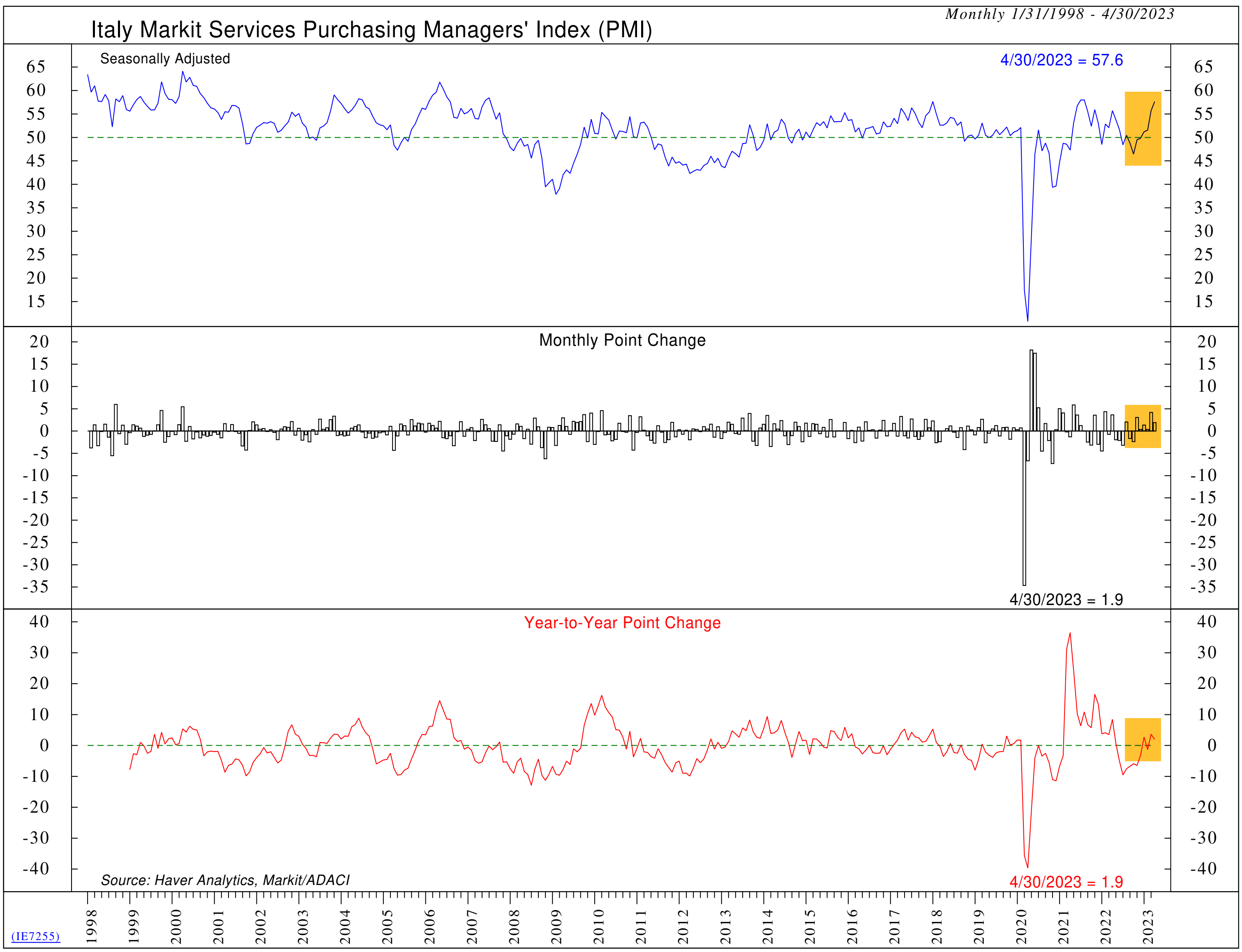
- Italy, New Zealand, Mexico, Poland, and Spain have favorable price trends as their 50-day and 200-day moving averages continue to rise.
- Over the last 5 days, Mexico is more than one standard deviation oversold, which historically has provided a near-term bounce opportunity.
- Poland and Mexico have low market capitalization-to-GDP ratios, which typically indicates a favorable valuation.
- Mexico's manufacturing PMI is in the expansionary zone.
- Spain and Italy possess two of the highest services PMI readings.
- New Zealand is supported by double-digit one-year forward earnings growth estimates.
- New Zealand and Mexico both have over 80% of stocks with positive earnings revisions from analysts.

Summary

The Catastrophic Stop model has deteriorated, but continues to recommend a fully invested allocation.

Entering June, the non-U.S. equity Core model was neutral on our core holdings, including Japan, China, U.K., Canada, France, Germany, Switzerland, and Australia. The Explore model favors Mexico, Spain, New Zealand, South Korea, Italy, and Poland.

The models combine macro, fundamental, technical, and sentiment indicators to determine opportunities and identify risks in an objective, weight-of-the-evidence approach.



DAY HAGAN ASSET MANAGEMENT

NDR NED DAVIS RESEARCH

Smart Sector® International Strategy

Strategy description

- The Smart Sector® International strategy combines three Ned Davis Research quantitative investment strategies: The Core International, Explore International, and the NDR Catastrophic Stop.

The process is based on the weight of the evidence

Core Allocation

- The fund begins by overweighting and underweighting the largest non-U.S. equity markets based on Ned Davis Research's proprietary models.
- Each of the models utilize market-specific, weight-of-the-evidence composites of fundamental, economic, technical, and behavioral indicators to determine each area's probability of outperforming the ACWI ex. U.S. Markets are weighted accordingly relative to benchmark weightings.

Explore Allocation

- To select smaller markets, the fund uses a multi-factor technical ranking system to choose the top markets. The markets with the highest rankings split the non-Core model allocation equally.

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 equity-invested position is trimmed to 50%.
- The NDR Catastrophic Sell Stop model combines time-tested, objective indicators designed to identify periods of high risk for the global equity market. 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:

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/

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