February 9, 2023

Quarterly Commentary

First off … thank you for 2022! We are grateful to all our Advisors, Fiduciaries, Brokers, and Partners who trust us with your business. We love being able to do this every day and look forward to the future.

The Year it's Been…

2022 was a tough year to navigate as relationships and trends that investors have come to rely on either broke down or reversed—for example, the inverse correlation between government bonds and equities. (Chart 1). The 60% equity / 40% bond portfolio had one of its worst years on record. Many investors' portfolios remain stuck in this old paradigm, and we believe won't be diversified enough over the next decade. Active, tactical, and risk managed strategies are now more important than ever in this shifting investment environment.

Bear market	Dates	Performance	
		S&P 500	UST 10Y*
Stagflation	1973-1974	-48.2%	3.8%
Volker's Bear	1980-1982	-27.1%	26.7%
Black Monday	1987	-33.5%	4.2%
Dotcom	2000-2002	-49.1%	31.7%
GFC	2007-2009	-56.8%	21.6%
Inflation	2021-2022	-25.4%	-17.2%

Source: BofA Global Investment Strategy, Global Financial Data, Bloomberg (Chart 1)

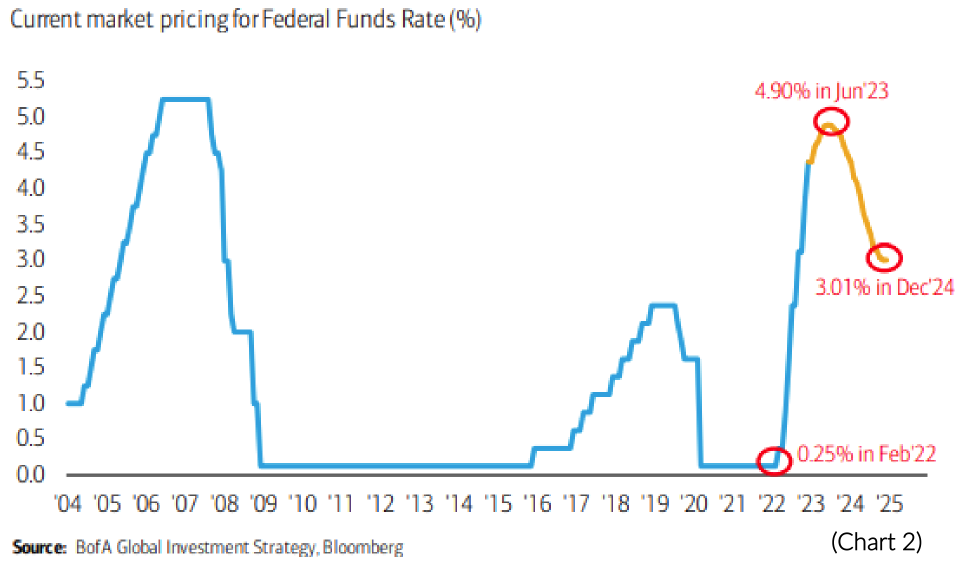
As we enter 2023, a plethora of indicators—PMIs, OECD leading indicators, inverted yield curves—point to an unfolding slowdown across the world.

So, let's review the dominant macro factors impacting global economies and markets in the coming year.

Economy & Policy

The ongoing impact of aggressive fiscal and monetary policy tightening is sowing the seeds of sharp demand destruction just as the post-pandemic normalization of supply chain nears completion. While unemployment is now historically low, given that policy impacts growth with a lag, the outlook for growth points increasingly to recession for 2023 or early 2024 as the impact of rate hikes to date continues to take effect. No longer is the Fed at risk of hiking too little, but rather the risk is a policy error by overtightening financial conditions into weaker growth.

While recent data indicates that the long-awaited reversal in relative price inflation has likely begun, the Fed is unlikely to pivot in the immediate future. While the Fed has sounded more dovish as of late, a good deal of the Fed's progress in fighting inflation is down to the tightening of financial conditions that it has engineered by signaling rate hikes. Hence, to stay credible it needed to follow through on those promises. Looking ahead, Powell does not want to undo that progress by prematurely promising a pause. Second, he wants to see "substantially" more evidence that inflation is decisively moderating. Nevertheless, after some more pain, the Fed should eventually be forced to pivot in 2023, which all things equal would be good for asset prices via liquidity support. But the market is rapidly pricing this scenario, (Chart 2) which could catch participants offsides.



(Chart 2)

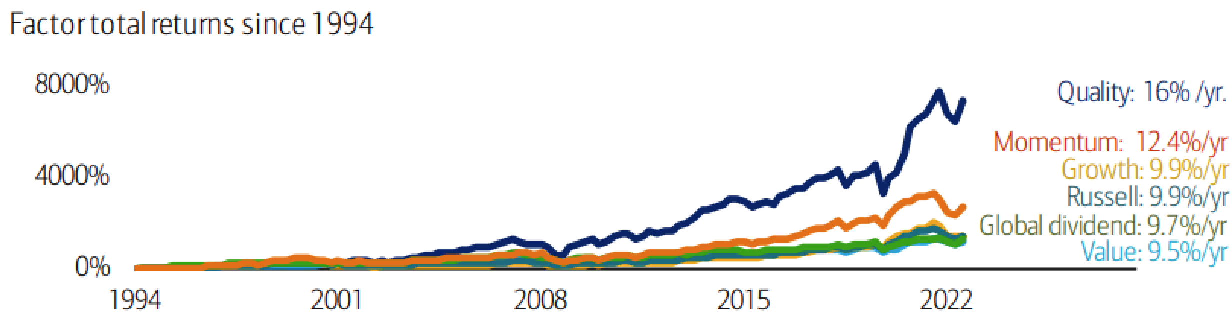
Financial Market Implications

Equities

From a technical perspective, intermediate trends for major indices are quite positive. The S&P 500 has broken its downtrend and eclipsed its 200-day moving average (Chart 3). But concentrated, over-valued markets have not been friendly to investors, and stagflation risks still loom large. Combine this with resolute fed hawkishness – it makes us cautious.

(Chart 3) Source: Bespoke Investment Group (Period: 2/3/2022 – 2/3/2023)

The structural shift from a 2% CPI to a 5% CPI world implies more risk ahead for the $70tn of tech/growth assets that proliferated over the last 20 years and new market leadership in value/free cash flow (FCF). Our current equity allocations focus on high quality companies with resilient earnings. High quality companies are more attractive during late economic cycles, and free cash flow yields (FCF) have been one of the best measures of the quality of a company. We believe that FCF will be an important factor in the shifting economic environment. Additionally, we favor dividend equities, as dividend growth tends to grow faster than prices after downturns. Our allocations prioritize higher-probability earnings and reliable payouts. And quality outperforms other factors over the last several decades. (Chart 4).

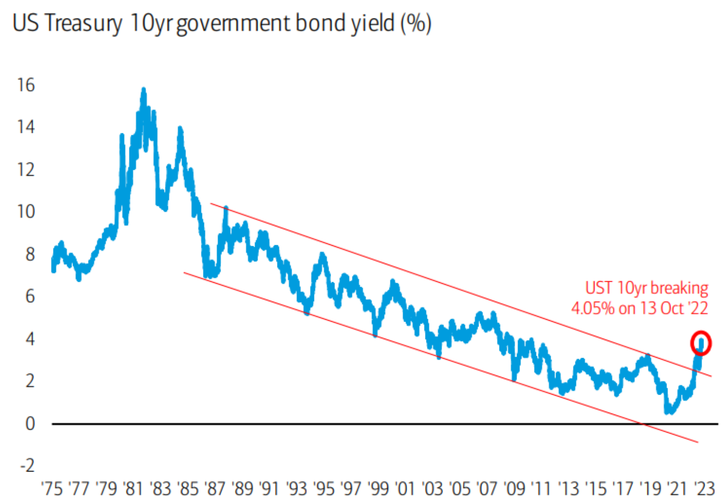


Source: BofA Research Investment Committee, Bloomberg, Global Financial Data; Quality = COWZTR Index; Value = RU10VATR Index; Growth = RU10GRTR Index, Russell 1000 = RUITR Index; Dividend = M1WDHDVD Index; Momentum = M1USMMT Index

(Period: 1994 – 2022) (Chart 4)

Fixed Income

Bond yields have broken out of a historical downtrend (Chart 5). We believe they will remain elevated as part of the shifting economic environment. However, with the huge move in rates, the asset class offers a higher risk-reward than it has in a long time, especially in credit. Because of the volatile conditions, our fixed income allocations remain in tactical products to take advantage of short and intermediate term trends. Our current exposure is focused on high yield bonds and money markets. Fed hikes have only made money markets more attractive and helped protect our portfolios from major downside. We find the risk adjusted return profile of high yield bonds attractive with yields around ~8%. But prefer to own the asset class tactically in the latter stages of this economic cycle.



Source: BofA Global Investment Strategy, Bloomberg.

(Period: 1975 – 2023) (Chart 5)

Alternatives

Diversification is not as simple as it used to be. Therefore, alternative assets have become an important part of our portfolios. We are allocated to quality real assets and believe they will be a crucial diversifier amid elevated long-term inflation. Global energy prices are now back to where they were at the start of 2022, but longer-term structural capacity constraints will keep oil from dropping much more, because Chinese demand is poised to rebound as its economy reopens, mitigating the effect of slower global economic growth.

We also expect volatility to increase, and with it, the importance of tactical asset allocation in 2023. We look forward to helping clients navigate this environment!

Donoghue Forlines Portfolios

In today's environment, the 60/40 retirement rule is stuck in the past. Advisors are challenged to rethink foundational portfolio elements of investor portfolios – which means seeking out strategies that bolster the "core" going forward. With no cheap assets, tactical and unconstrained management is now more important than ever.

We continue to focus on the need to help craft easy-to-understand, longer-term narratives for Advisors and their Clients. Panicking and abandoning diversified investment strategies during volatility and market crashes/surges is a time-tested losing proposition.

Donoghue Forlines solutions are designed to be client-centric and deliver strong risk-adjusted return streams through both our rules-based, tactical strategies as well as our global macro, fundamentally driven tactical solutions. We aim to capture the majority of the upside but more importantly to avoid the majority of the downside.

We have continued to carefully assess exposure across all our portfolios over the past quarter, as per our risk management process. Our positioning is outlined in more depth below. We have made moves to protect against downside in current markets.

We will stay vigilant with our goal of seeking strong risk-adjusted returns. Please visit our website at www.donoghueforlines.com for our latest information including Fact Sheets for the entire suite of products. We will stay vigilant with our goal of seeking strong risk-adjusted returns. Thank you for your confidence in Donoghue Forlines. Please let us know if you have any questions.

Regards,

Jeffrey R. Thompson
Chief Executive Officer
Portfolio Manager

The following reflects Donoghue Forlines' portfolios positioning as of December 31, 2022.

Donoghue Forlines Dividend Portfolio

Positioning: 100% allocated to large and mid-sized high yielding stocks with a diversified sector exposure and quality orientation.

During the quarter, we received one tactical signal. On November 22nd, we sold 50% exposure to short-term treasuries and allocated 100% to large and mid-sized high yielding stocks. On December 6th, the portfolio was reconstituted and rebalanced.

.Donoghue Forlines Momentum Portfolio

Positioning: 100% allocated to large and mid-sized stocks exhibiting strong short-term momentum with diversified sector exposure and quality orientation.

During the quarter, there were two technical signals. On October 12th, the portfolio sold all its remaining exposure to stocks and invested 100% in short-term treasuries. On November 29th, we sold 100% exposure to short term treasuries and allocated 100% to large and mid-sized stocks exhibiting strong short-term momentum. On December 6th, the portfolio was reconstituted and rebalanced.

Donoghue Forlines Treasury Portfolio

Positioning: 100% invested in intermediate-term U.S. Treasury bonds via ETF exposure.

During the quarter, the portfolio did not receive a technical trigger and remained 100% invested in intermediate-term U.S. Treasury bonds.

BLENDED SOLUTIONS

The blended solutions combine the best ideas from our rules-based and global macro solutions into long-term investment solutions.

Donoghue Forlines Income Portfolio

The DF Income Portfolio's asset allocation at the quarter end is as follows: 62% in cash, 29% in fixed income, 5% in equities, and 4% in alternatives.

Target Allocations: *(50%) in Donoghue Forlines Tactical Income Fund; (36%) in Donoghue Forlines Risk Managed Allocation Fund; (12%) in Donoghue Forlines Tactical High Yield ETF; and 2% Cash.

Donoghue Forlines Dividend & Yield Portfolio

The DF Dividend and Yield Portfolio's allocations at quarter end are as follows: 46% in cash, 21% in fixed income, 25% in equities, 8% in alternatives.

Target Allocations: Donoghue Forlines Tactical Income Fund (49%); Donoghue Forlines Tactical Allocation Fund (19%); Donoghue Forlines Risk Managed Income Fund (15%); Donoghue Forlines Dividend Fund (12%); Donoghue Forlines Momentum Fund (3%); and 2% Cash.

Donoghue Forlines Growth & Income Portfolio

The DF Growth and Income Portfolio's allocations at quarter end are as follows: 27% in cash, 16% in fixed income, 48% in equities, and 9% in alternatives.

Target Allocations: Donoghue Forlines Tactical Allocation Fund (38%); Donoghue Forlines Momentum Fund (20%); Donoghue Forlines Risk Managed Income Fund (5%); Donoghue Forlines Tactical Income Fund (20%); Donoghue Forlines Dividend Fund (15%); and 2% Cash.

IMPORTANT RISK INFORMATION

The views expressed are current as of the date of publication and are subject to change without notice. There can be no assurance that markets, sectors or regions will perform as expected. These views are not intended as investment, legal or tax advice. Investment advice should be customize3d to individual investors objectives and circumstances. Legal and tax advice should be sought from qualified attorneys and tax advisers as appropriate.

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The investment descriptions and other information contained in this Markets in Motion are based on data calculated by Donoghue Forlines LLC (Donoghue Forlines) and other sources including Morningstar Direct. This summary does not constitute an offer to sell or a solicitation of an offer to buy any securities and may not be relied upon in connection with any offer or sale of securities. This report should be read in conjunction with Donoghue Forlines' Form ADV Part 2A and Client Service Agreement, all of which should be requested and carefully reviewed prior to investing.

There can be no assurance that the purchase of the securities in this portfolio will be profitable, either individually or in the aggregate, or that such purchases will be more profitable than alternative investments. Investment in any Portfolio, or any other investment or investment strategy involves risk, including the loss of principal; and there is no guarantee that investment in Donoghue Forlines' Portfolios or any other investment strategy will be profitable for a client's or prospective client's portfolio. Investments in Donoghue Forlines' Portfolios, or any other investment or investment strategy, are not deposits of a bank, savings, and loan or credit union; are not issued by, guaranteed by, or obligations of a bank, savings, and loan, or credit union; and are not insured or guaranteed by the FDIC, SIPC, NCUSIF or any other agency. The composite strategy provides diversified exposure to various asset classes such as equities, fixed income, and alternatives utilizing liquid exchange-traded products. Diversification does not guarantee a profit or protect against a loss.

Investors cannot invest directly in an index. Indexes are unmanaged. Index returns assume the reinvestment of distributions, but do not reflect the deduction of a management fee, transaction and custodial charges, or other expenses; the incurrence of which would reduce the indicated historical performance results. Economic factors, market conditions and investment strategies will affect the performance of any portfolio, and therefore there are no assurances that any portfolio will match or outperform any particular benchmark.

The Nasdaq Composite Index is the market capitalization-weighted index of over 3,000 common equities listed on the Nasdaq stock exchange.

The Russell 2000 Index refers is a stock market index that measures the performance of the 2,000 smaller companies included in the Russell 3000 Index. The Russell 2000 is widely regarded as a bellwether of the U.S. economy because of its focus on smaller companies that focus on the U.S. market.

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