November 28, 2023

Will Santa Come Early?

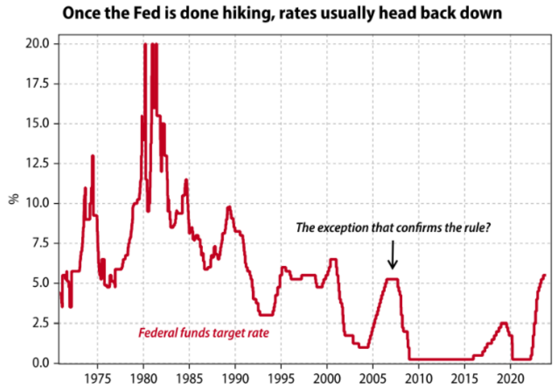


Chart 1
Gavekal Research/Macrobond

A little over a month ago, various Federal Reserve officials directed a pause and started to signal that the US central bank might have reached its terminal destination in this rate hike cycle. These statements came with the caveat that short-term rates would stay "higher for longer", but as history shows, once the Fed is done, it has usually been a matter of months before interest rates have been cut again. The one exception might just confirm the rule: it was 2006-2007, which was the lead up to the financial crisis. (Chart 1).

Theres an old metaphor attributed to Economist Milton Friedman that refers to aggressive central banks as the "fool in the shower". In the same way that it takes time for hot and cold water to work their way through home plumbing to an older showerhead, so it takes time for monetary policy changes to work their way through the economy. When the fool realizes that the water is too cold, they turn on the hot water. However, the hot water takes a while to arrive, so the fool simply turns the hot water up all the way, eventually scalding themself. In other words, the Fed usually doesn't know when its hiked enough until its hiked too much, leading to negative economic outcomes that force the central bank to pivot quickly.

Markets have already begun to pivot. Since the Fed's signaling turned dovish, important financial conditions have backed off and cleared the way for a year-end rally. The 10-yr treasury yield, the price of oil, and the US dollar are three of the most important financial conditions we monitor. After resuming strength over the summer, all three have started to loosen (Chart 2), which has provided major support for equities. Investors are turning to the past decade's big winners of excess liquidity, mega-cap tech stocks. The S&P 500 is up ~10% from its October low and has broken out of its downtrend from the summer.

Chart 2 - Source: Bespoke Investment Group

While all that seems positive, ultimately, this is all following a typical late-cycle roadmap that will inevitably lead to recession. In fact, it is very on brand for stocks to melt up into a hard landing. Typically, stocks peak within six months before the onset of a recession. (Table 1) If the recession begins in the second half of 2024, as we expect, this provides a short runway for stocks to move higher.

RECESSIONS	S&P 500 PEAK* (MONTHS)	S&P 500 TROUGH* (MONTHS)	PEAK-TO-TROUGH DECLINE (%)
DEC '69 - NOV '70	-13	+6	-36%
NOV '73 - MAR '75	-11	+10	-48%
JAN '80 - JUL '80	0	+2	-17%
JUL '81 - NOV '82	-8	+12	-27%
JUL'90 - MAR '91	-2	+3	-20%
MAR '01 - NOV '01	-7	+18	-49%
DEC '07 - JUN '09	-2	+14	-57%
AVERAGE	-6	+10	-36%

* RELATIVE TO THE START OF NBER-DESIGNATED RECESSIONS.

Table 1 – BCA Research

And It's amazing how closely this year's pattern for the S&P 500 has tracked its typical annual pattern. (Chart 3). If this were to continue, we may have a December to remember.

We have spoken in past commentaries about recession bells ringing for the second half of 2024, and our more pessimistic longer-term outlook for risk assets, but we believe this sets up a tactical opportunity. In the past month we have added to equity exposure following the October pullback, as we expect a final blow off rally before we inevitably position our portfolios more defensively.

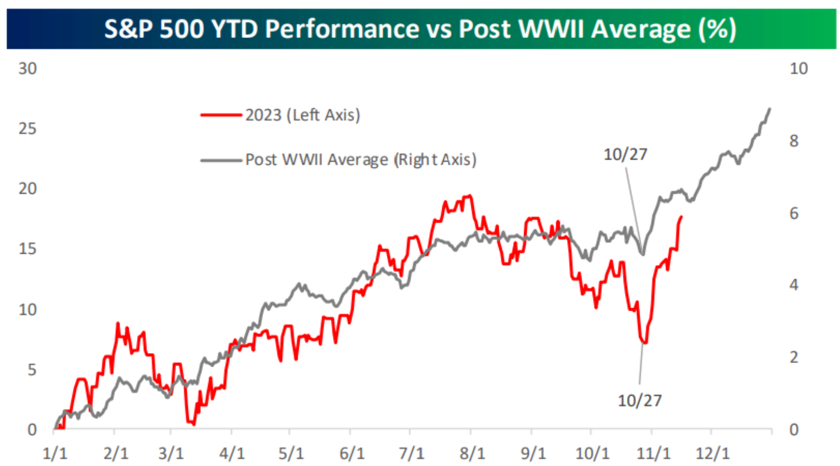


Chart 3 - Source: Bespoke Investment Group

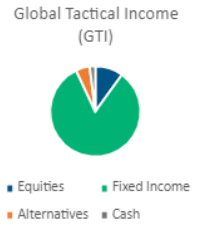
Bottom Line

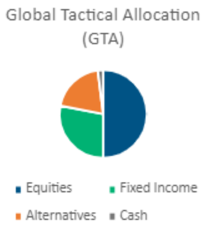
We do not believe this time is different, but this time is longer. A recession can be deferred (and has) but won't be denied. A decline in bond yields, oil, and the USD from their recent highs should fuel a blow off risk rally into the end of the year, but risk assets should weaken in 2024.

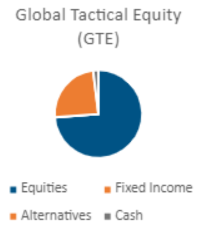
Overall, our top-down asset allocation is overweight risk on a tactical timeline to take advantage of what we believe could be a year-end rally.

We will continue to monitor our portfolios as the facts change and will remain tactical as the situation evolves. We believe markets are at a point of inflection and will manage assets accordingly.

Recent Portfolio Changes



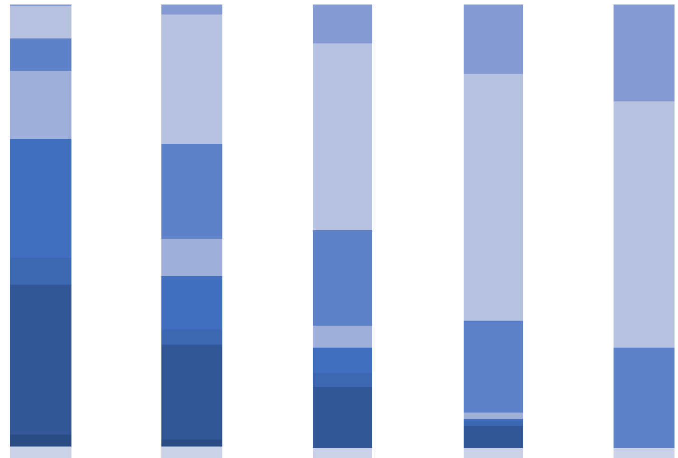




Changes to Holdings 11/07/2023

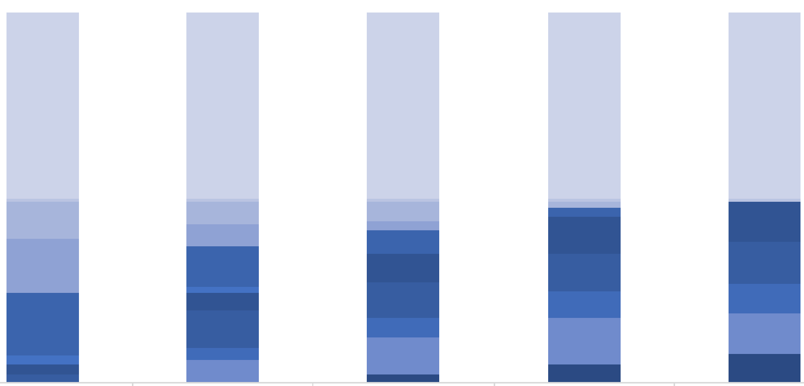
		GTI	Change (%)	GTC	Change (%)	GTA	Change (%)	GTG	Change (%)	GTE	Change (%)
Equities		**10%**		**32%**		**50%**		**70%**		**76%**	
DFNV	Donoghue Forlines Risk Managed Innovation ETF	0%	0%	13%	5%	20%	5%	25%	5%	22%	0%
TTAC	FCF US Quality ETF	5%	0%	10%	0%	15%	0%	20%	0%	22%	0%
TTAI	FCF International Quality ETF	0%	0%	0%	0%	5%	0%	10%	0%	16%	0%
PWDIX	Donoghue Forlines Dividend Fund	5%	0%	3%	0%	0%	0%	0%	0%	0%	0%
CLIA	Veridien Climate Action ETF	0%	0%	6%	0%	10%	0%	15%	0%	16%	0%
Fixed Income		**83%**		**46%**		**28%**		**8%**		**0%**	
FLOTX	Donoghue Forlines Risk Managed Income Fund	29%	0%	12%	0%	5%	0%	0%	0%	0%	0%
DFHY	Donoghue Forlines Tactical High Yield ETF	34%	0%	22%	0%	13%	0%	5%	0%	0%	0%
PWRIX	Donoghue Forlines Tactical Income Fund	20%	0%	12%	-5%	10%	-5%	3%	-5%	0%	0%
Alternatives		**5%**		**20%**		**20%**		**20%**		**22%**	
DFRA	Donoghue Forlines Yield Enhanced Real Asset ETF	5%	0%	20%	0%	20%	0%	20%	0%	22%	0%
Cash		**2%**		**2%**		**2%**		**2%**		**2%**	
CASH-USD		2%	0%	2%	0%	2%	0%	2%	0%	2%	0%

Global Tactical Model Exposures as of 11/21/2023



	GTI	GTC	GTA	GTG	GTE
Intl Equity	0.13%	2.22%	8.53%	15.03%	21.16%
US Equity	7.33%	28.12%	41.15%	54.48%	54.26%
Alt Equity	6.91%	21.02%	20.83%	20.15%	21.84%
High Yield	14.96%	8.31%	4.96%	1.43%	0.00%
Bank Loan	26.13%	11.36%	5.47%	0.44%	0.00%
Aggregate Bond	5.89%	3.54%	2.95%	0.88%	0.00%
Long Treasury	0.00%	0.00%	0.00%	0.00%	0.00%
Intermediate Treasury	33.07%	21.12%	13.34%	4.88%	0.00%
Short Treasury	2.44%	1.46%	0.00%	0.00%	0.00%
Money Market	3.13%	2.84%	2.78%	2.70%	2.74%

Global Tactical Model Allocations as of 11/21/2023



	GTI	GTC	GTA	GTG	GTE
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Cash	2.00%	2.00%	2.00%	2.00%	2.00%
PWRIX	20.00%	12.00%	10.00%	3.00%	0.00%
FLOTX	29.00%	12.00%	5.00%	0.00%	0.00%
DFHY	34.00%	22.00%	13.00%	5.00%	0.00%
PWDIX	5.00%	3.00%	0.00%	0.00%	0.00%
TTAC	5.00%	10.00%	15.00%	20.00%	22.00%
DFRA	5.00%	20.00%	20.00%	20.00%	22.00%
CLIA	0.00%	6.00%	10.00%	15.00%	16.00%
DFNV	0.00%	13.00%	20.00%	25.00%	22.00%
TTAI	0.00%	0.00%	5.00%	10.00%	16.00%

See important disclosures on the final page.

You can get more information by calling (800) 642-4276 or by emailing AdvisorRelations@donoghueforlines.com.

Best regards,

John A. Forlines III

Chief Investment Officer

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The Donoghue Forlines Global Tactical Allocation Portfolio composite was created July 1, 2009. The Donoghue Forlines Global Tactical Income Portfolio composite was created August 1, 2014. The Donoghue Forlines Global Tactical Growth Portfolio composite was created April 1, 2016. The Donoghue Forlines Global Tactical Conservative Portfolio composite was created January 1, 2018. The Donoghue Forlines Global Tactical Equity Portfolio composite was created January 1, 2018.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Individual portfolio returns are calculated monthly in U.S. dollars. These returns represent investors domiciled primarily in the United States. Past performance is not indicative of future results. Performance reflects the re-investment of dividends and other earnings.

Net 3% Returns
For all portfolios, net 3% returns are presented net of a hypothetical maximum fee of three percent (3%). Actual fees applicable to an individual investor's account will wary and no individual investor may incur a fee as high as 3%. Please consult your financial advisor for fees applicable to your account.

Fee Schedule
The investment management fee schedule for all portfolios is: Client Assets = All Assets; Annual Fee % = 0.00%. Actual investment advisory fees incurred may vary and should be confirmed with your financial advisor.

Each portfolio includes holdings on which Donoghue Forlines may receive management fees as the advisor and/or subadvisor or from separate revenue sharing agreements. Please see the prospectuses for additional disclosures.

The investment management fee schedule for the composites is: Client Assets = All Assets; Annual Fee % = 0.00%. Actual investment advisory fees incurred may vary and should be confirmed with your financial advisor.

The Donoghue Forlines Global Tactical Allocation Benchmark is the HFRU Hedge Fund Composite. The Blended Benchmark Conservative is a benchmark comprised of 80% HFRU Hedge Fund Composite and 20% Bloomberg Global Aggregate, rebalanced monthly. The Blended Benchmark Growth is a benchmark comprised of 80% HFRU Hedge Fund Composite and 20% MSCI ACWI, rebalanced monthly. The Blended Benchmark Income is a benchmark comprised of 60% HFRU Hedge Fund Composite and 40% Bloomberg Global Aggregate, rebalanced monthly. The Blended Benchmark Equity is a benchmark comprised of 60% HFRU Hedge Fund Composite and 40% MSCI ACWI.

The MSCI ACWI Index is a free float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The HFRU Hedge Fund Composite USD Index is designed to be representative of the overall composition of the UCITS-Compliant hedge fund universe. It is comprised of all eligible hedge fund strategies; including, but not limited to equity hedge, event driven, macro, and relative value arbitrage. The underlying constituents are equally weighted. The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The DJ Moderately Conservative index measures the performance of returns on its total portfolios with a target risk level of Moderately Conservative-investor will take 40% of all stock portfolio risk. Its portfolios include three major asset classes: stocks, bonds and cash. The weightings are rebalanced monthly to maintain the target level. The index is subset of the global series of Dow Jones Relative Risk Indices. The DJ Conservative index measures the performance of returns on its total portfolios with a target risk level of Conservative-investor will take 20% of all stock portfolio risk. Its portfolios include three major asset classes: stocks, bonds and cash. The weightings are rebalanced monthly to maintain the target level. The index is subset of the global series of Dow Jones Relative Risk Indices. The DJ Moderate index measures the performance of returns on its total portfolios with a target risk level of Moderate investor will to take 60% of all stock portfolio risk. Its portfolios include three major asset classes: stocks, bonds and cash. The weightings are rebalanced monthly to maintain the target level. The index is subset of the global series of Dow Jones Relative Risk Indices.

Index performance results are unmanaged, do not reflect the deduction of transaction and custodial charges or a management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. You cannot invest directly in an Index. Economic factors, market conditions and investment strategies will affect the performance of any portfolio, and there are no assurances that it will match or outperform any particular benchmark.

Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. For a compliant presentation and/or the firm's list of composite descriptions, please contact 800-642-4276 or info@donoghueforlines.com.

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