

February 14, 2023

A New Bull Market?

Don't Fight the Tape.

Animal spirits are alive and well as financial conditions have eased considerably the past few months – lower dollar, lower yields, lower volatility. Add reduced inflationary pressure and a more dovish Federal Reserve -- that equals a significant rally in global equities. Major indices have broken long-term downtrends and market technicals are positive (Chart 1)

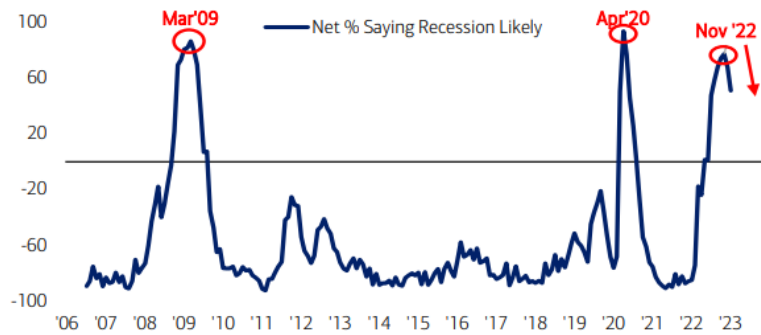


An interesting backdrop considering most investors expect a recession in the next 12 months ... ironically (or perhaps not), the last time investors were this confident of recession it would have been great opportunities to buy risk assets (Chart 2).



(Chart 1)

Net % saying recession likely next 12m



Source: BofA Global Fund Manager Survey.

(Chart 2)

And at this stage, anyone playing “recession bingo” at home would stand up and yell “bingo”. After all, we now have an inverted yield curve, falling leading indicators, ISM surveys below 50, rising defaults on auto loans, and weaker real estate markets across the US. So, are asset prices getting ahead of themselves? Or have we entered a new bull market? Maybe there not mutually exclusive.

Don't Fight the Fed.

Powell has showed some renewed flexibility towards monetary policy and the risk of open-ended tightening is largely off the table. While the Fed raised rates by 25 basis points and indicated that more hikes are possible, Powell also acknowledged the obvious: disinflation has begun.

When pressed on what the Fed would do if inflation fell faster and more sharply than expected, Powell was open to the idea of an early end to the tightening cycle, ergo, Fed policy has become data dependent.

After the Fed's initial big mistake on inflation, Powell has felt the pressure to reestablish the Fed's inflation-fighting credibility by staying hawkish. But the acknowledgement of progress on inflation represents a major shift and lays the groundwork for an eventual pivot.

Don't Fight Chinese Stimulus.

Global growth scares over the last 20 years have been overcome by China stimulating its economy (Chart 3). Today, China's reopening from Covid is well underway and there's plenty of evidence of a global demand boost. For example, the price of copper, a reliable leading indicator of global economic health, is up over 24% in the last three months. China's repudiation of zero-Covid may end up being the most important macro development of the year and help engineer a softer landing to global growth.

Short-Term Conditions.

While there are significant market tailwinds shaping up, there are some substantial headwinds on a tactical basis that we believe merit caution. While we believe we're in the early stages of a new bull market, a bear market rally cannot be ruled out yet and we're likely to see fits and starts, which will present opportunities.

Market Overbought

After a powerful rally, the market is at overbought levels. And internals show speculative risk taking in growth areas (ex. TSLA up 80% YTD, Bitcoin up 31% YTD) similar to 2021 melt up. Extended markets don't provide ideal entry points for new exposure and a period of consolidation would be healthy for the market.

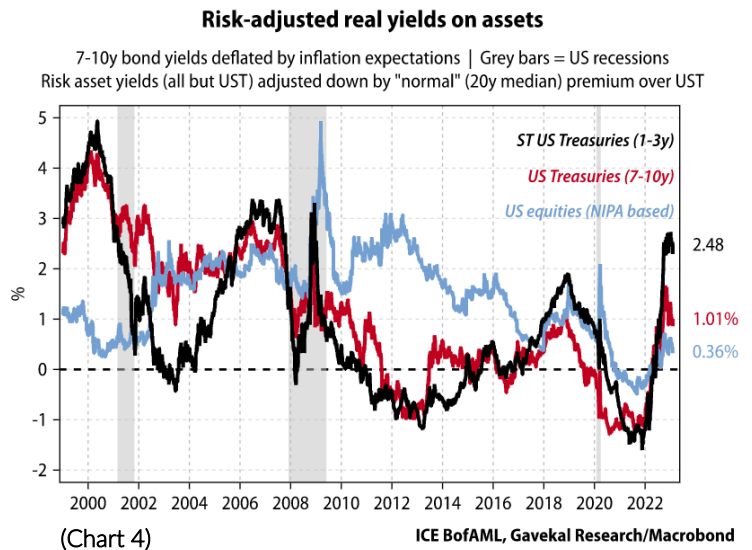
Earnings Contraction Not Over

While earnings have held up well thus far, we expect to see profits contract this year as analyst's rush to downgrade EPS. Even with a more dovish Fed, worsening readings from the Conference Board's survey of chief executive officers' confidence levels and the ISM manufacturing new-orders-to-inventories differential both suggest that earnings expectations must fall further. If this plays out, it could spook markets that have looked past earnings to discount better times ahead.



And There is an Alternative

A year ago, the Fed Funds rate was 0.25%... now its at 4.75%. A higher risk-free rate (Chart 4) has cascading effects on all investments and valuations. Investors are not getting paid to take duration risk in bonds or equities. Cash and near cash investments provide the more attractive risk adjust yields. This environment is much different than the past decade of historically low rates.



Long-Term: Structural Inflationary Pressures to Persist.

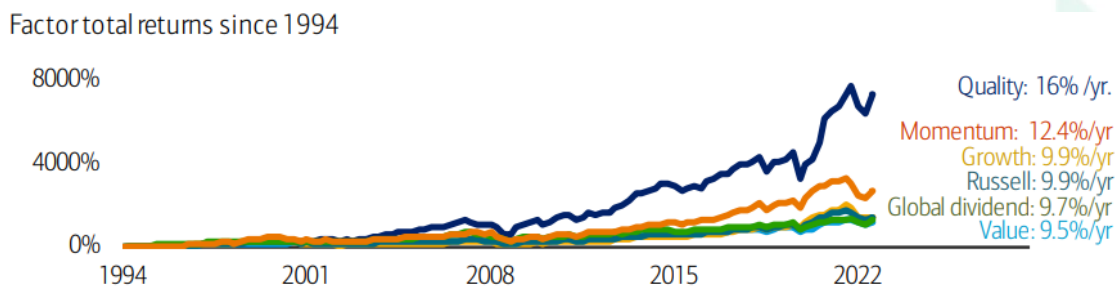
While disinflation will capture headlines this year, we believe secular inflation will be an investment theme for the next decade. Structural shifts in the global economy from Covid, other geopolitical events, and demographics point to the end of the deflationary era that's dominated markets over the last two decades. A "second surge" of inflation akin to the 1970s is still a large risk and this bout has closely tracked that path thus far (Chart 5).

Therefore, old ways of diversifying don't work as well today. Structural macro reversals have spelled the end of 60/40 and turned stock/bond correlations positive, in line with 20th century averages.



2023: A Flight to "Quality" Equities.

Quality as factor can be defined in a number of ways. We believe free cash flow is the best expression (Chart 6) and is a staple of our portfolios. Quality is uncorrelated to other factors and outperforms in late cycle/recessionary environments. In fact, it outperforms in a number of environments and on a risk adjusted basis. We believe high quality stocks are likely to lead the next bull market and through the next decade of investing.



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

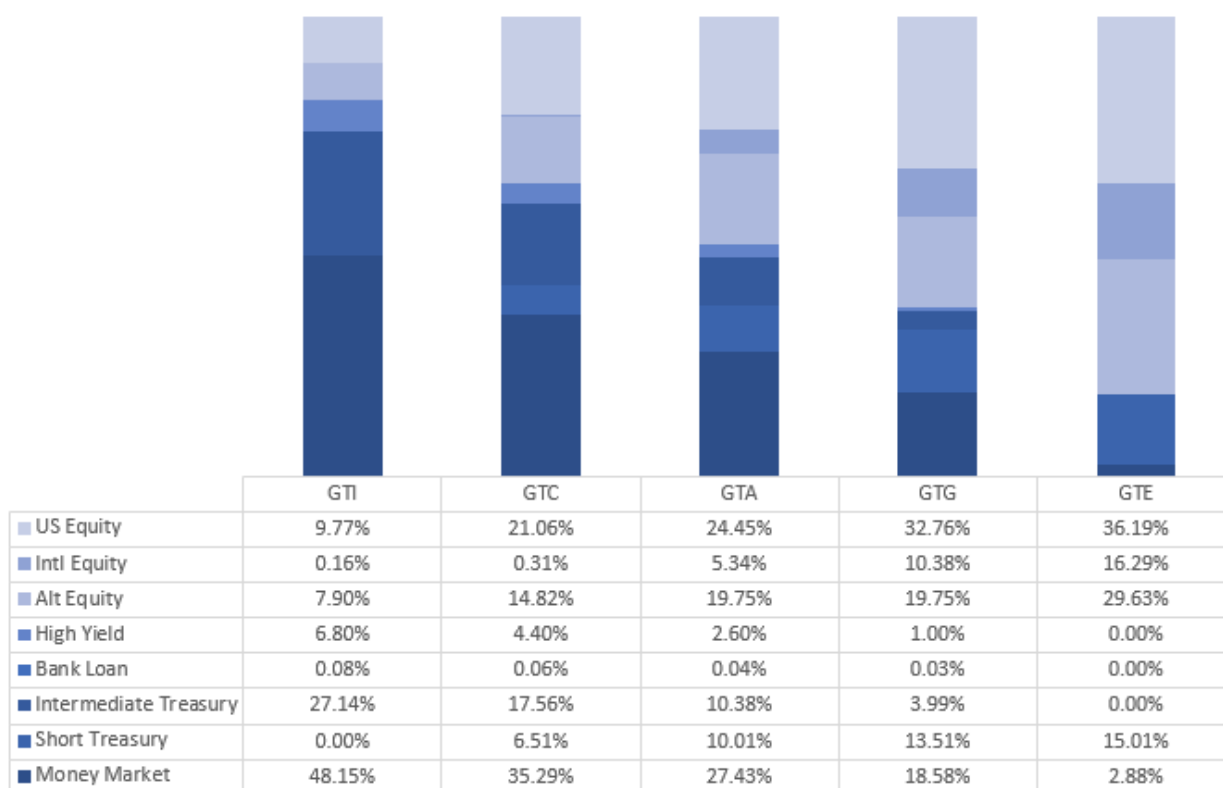
(Chart 6)

Recent Portfolio Changes

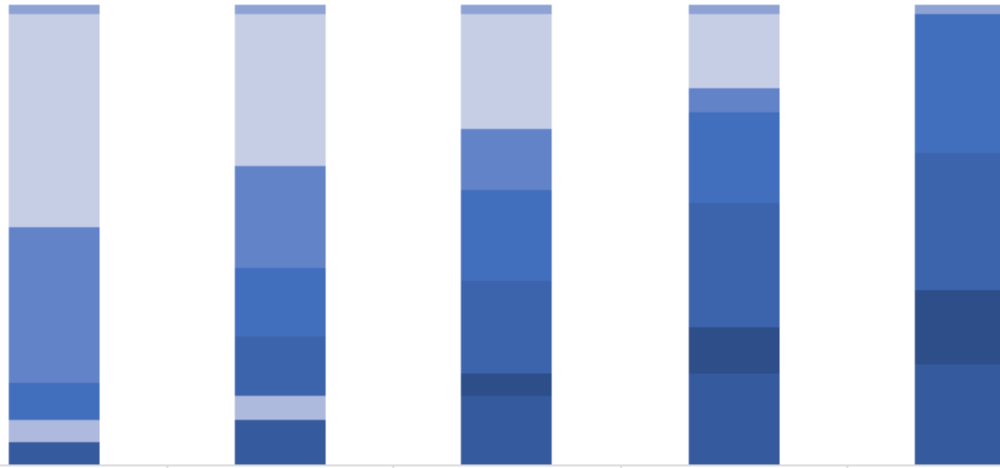
We recently reduced exposure to Innovation and International equities to add to Real Assets. We expect current trends to gather strength in 2023. We want to reduce our equity exposure in riskier areas of the market and concentrate on a portfolio diversifier with fundamental tailwinds.

In our Conservative and Income portfolios, we reduced/exited out of Innovation equities and added to Dividend equities. Dividend equities potentially could outperform in new market leadership and stable income is important to these portfolios' risk objectives. Our dividend fund is a rules-based solution that has defensive risk mitigation triggers to shift to short term treasuries should we see market deterioration.

Global Tactical Model Exposures as of 02/15/2023



Global Tactical Model Allocations as of 02/15/2023



	GTI	GTC	GTA	GTG	GTE
■ Cash	2.00%	2.00%	2.00%	2.00%	2.00%
■ FLOTX	46.00%	33.00%	25.00%	16.00%	0.00%
■ DFHY	34.00%	22.00%	13.00%	5.00%	0.00%
■ DFRA	8.00%	15.00%	20.00%	20.00%	30.00%
■ DFNV	0.00%	13.00%	20.00%	27.00%	30.00%
■ PWDIX	5.00%	5.00%	0.00%	0.00%	0.00%
■ TTAI	0.00%	0.00%	5.00%	10.00%	16.00%
■ TTAC	5.00%	10.00%	15.00%	20.00%	22.00%

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.

Regarding GTA, net returns are presented net of actual management fees and include the reinvestment of all income. Actual investment advisory fees incurred by clients may vary.

Beginning January 1, 2022, the 1% model fee was no longer assessed within the performance calculation as Donoghue Forlines no longer charges a model management fee on the portfolios listed below. The portfolios includes holdings on which Donoghue Forlines may receive management fees as the adviser and/or subadvisor or from separate revenue sharing agreements. Please see the prospectuses for additional disclosure.

Regarding GTI, GTC, GTG, and GTE, 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 Barclays 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 Barclays 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 Barclays 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.

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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