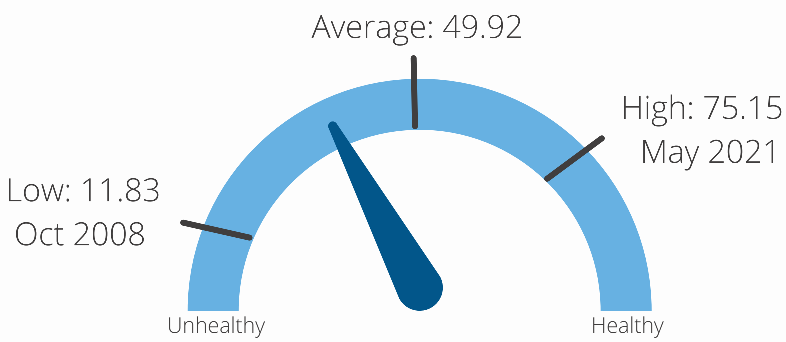
May 2023

Monthly Recap

Market Health Indicator*

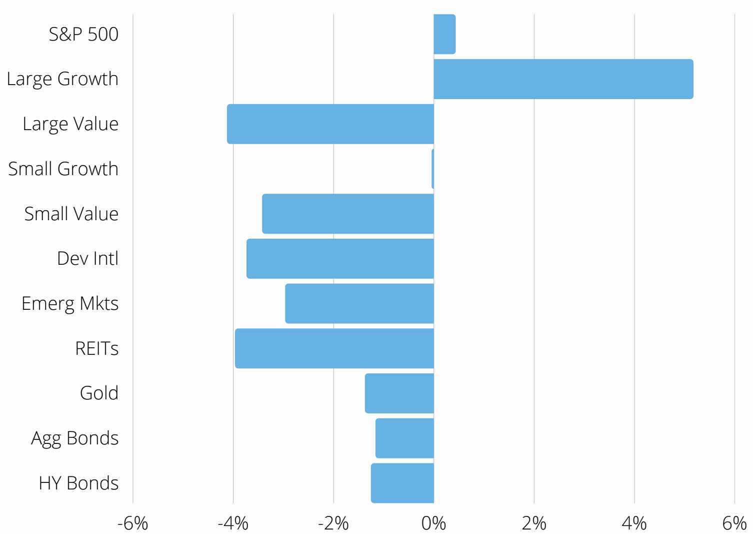


Current Score: 35.81

Down from 37.25 last month, still indicating areas of caution and uncertainty in the markets and economy

Market Data

Monthly Index Performance



Data from Morningstar

Talking Points

Inflation dropped slightly, from 5% to 4.9%, to the lowest level since April 2021, marking 10 consecutive monthly declines

The labor market remains a bright spot as the US economy added 253,000 jobs and unemployment fell from 3.5% to 3.4%

Consumer sentiment fell to its lowest level in six months, remaining near multi-decade lows amid economic worries

The 10-year Treasury yield jumped from 3.44% to 3.64% as markets raised expectations for a potential June rate hike

The Case-Shiller 20-city home price index fell 1.1% annually, the first decline since 2012, pulled lower by West Coast markets

*The Market Health Indicator is a monthly indicator created in September 2021 that is designed to measure market health on a scale of 0 - 100, analyzing various market segments such as economics, technicals, and volatility using data back to January of 2000. Higher scores indicate healthier market conditions.

Model Updates

Dynamic Growth	Increased exposure to Nasdaq, growth-stocks, and developed international, while reducing exposure to large-value. Removed small/mid-value stocks and REITs as these market segments have fallen out of favor. This results in a skew toward growth, though the model maintains a position in equal-weight S&P 500 as a placeholder with 4/10 asset classes being excluded for now.
Dynamic Growth PLUS	The model remained fully invested throughout the month. Despite an increase in volatility and some mixed market data in May, there was never enough pressure to result in a hedge. Its holdings are inline with the Dynamic Growth model weights while it continues to monitor market conditions on a daily basis.
Tactical Growth	There was a small increase to the bond hedge (from 25.50% to 28.38%) as market conditions slightly deteriorated. The model increased its exposure to the Nasdaq while reducing its gold and developed international stock holdings. Including gold, the model is approximately 43% hedged, compared to 44% last month.
Tactical Growth PLUS	The model remained fully invested inline with the Tactical Growth model (small increase to bonds, increasing Nasdaq and trimming gold and international stocks). On the equity side, these shifts result in an increase in growth exposure. The model continues to monitor markets daily, and can act quickly if conditions change.
Dividend Focus	Added NetApp and removed Verizon Communications as it fell below the ranking threshold. The model remains invested in large-cap blue-chip companies with a focus on quality and stability. The current estimated dividend yield is 3.65% compared to 1.49% for the S&P 500.
Growth Focus	Added Deckers Outdoor and Pure Storage, and removed DXC Technology and Neurocrine Biosciences as they fell below the ranking threshold. The model remains overweight in technology, consumer cyclical, and health care for sector exposure. For market cap exposures, the model is somewhat evenly blended among smaller and larger companies.

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Model **Updates**

Sector Rotation	Added industrials and removed real estate, while maintaining exposure to technology, health care, and financials. This results in a slight reduction to business cycle sensitivity, while maintaining a relatively consistent risk profile. The model holds a somewhat varied risk profile with a blend of growth/value and cyclical/defensive sectors, indicating mixed signals from markets.
All Weather	Slightly increased exposure to treasuries, short-term bonds, and gold while reducing exposure to energy stocks. Results in a small decrease to risk as the shifts reduce market exposure. Overall, the model is approximately 43% equity / 13% gold / 44% fixed-income, displaying a somewhat moderate-conservative risk profile.
Dynamic Income	Very slightly increased exposure to higher-yielding, convertible, and corporate investment-grade bonds while trimming treasuries and short-term bonds. Also added a small position to international bonds. These shifts result in a slight increase in credit risk. The model continues to move toward a healthy blend of varying credit quality and duration as bond markets look to stabilize.
Tactical Income	Reduced exposure to aggregate US bonds while increasing exposure to hybrid holdings (preferred stocks and convertible bonds). This results in an increase to credit risk, though the model still holds a modest amount of more traditional bonds. The model maintains a healthy exposure to short-term bonds for stability as well.
Dynamic Short-Term Income	Increased exposure to short-term high-yield and floating rate bonds while reducing ultra short-term bonds and removing the small position in high dividend stocks. This shift slightly increases the expected yield, though the model is still overweight ultra short-term bonds to insulate against other potential fixed-income risks. The current estimated yield is 5.86%.
Income Focus	Increased exposure to S&P 500 covered calls and high dividend financial stocks, and reduced exposure to gold covered calls and emerging market dividend stocks. These updates create a slightly more risk-on stance. The model remains overweight covered-call holdings overall. Estimated yield is 10.98%.

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Model **Updates**

Defensive Buffer	Added March and May while removing April and December holdings. Maintained exposure to February and August. These shifts result in more favorable spreads between the caps and remaining downside buffers (new blended average cap of 11.49% and downside buffer of 24.54% compared to a blended cap of 11.06% and buffer of 24.19% for previous holdings).
Aggressive Buffer	Added May and removed February holding. Maintained exposure to April, August, and November. This shift results in a slightly more favorable spread between the caps and remaining downside buffers (new blended average cap of 16.41% and downside buffer of 8.94% compared to a blended cap of 16.01% and buffer of 8.87% for previous holdings).