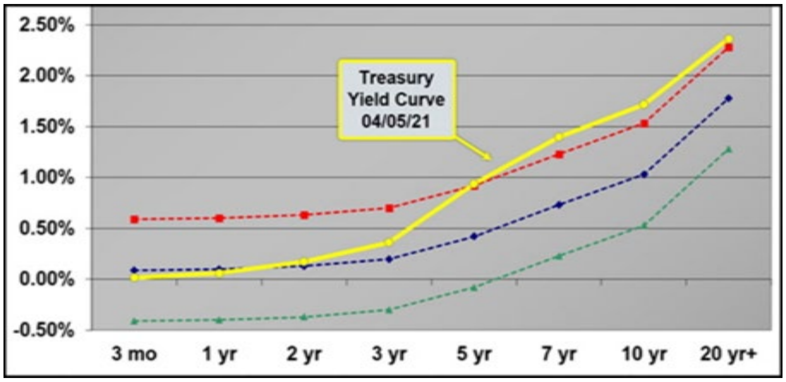
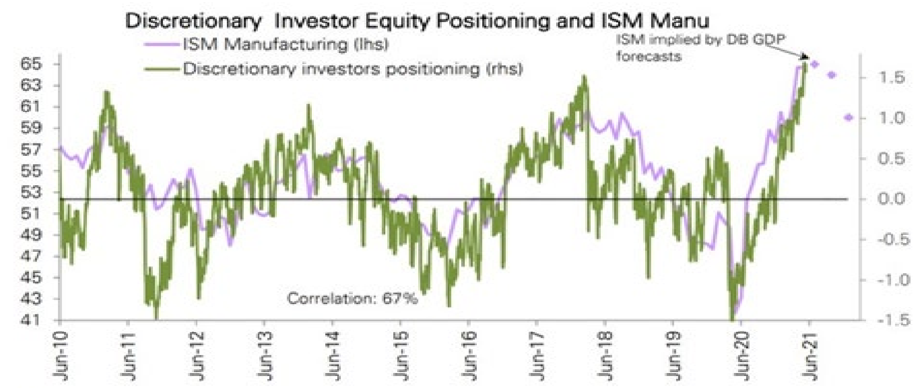
## Fixed Income – Following the Rules

Our friends at Crestmont Research developed what they call their 6/50 Rule when analyzing the yield curve and making forecasts for where rates are headed. The 'rule' suggests that rates can be expected to change by more than 0.5% (50 basis points) during any subsequent six-month period somewhere on the yield curve. The blue line represents the yield curve on January 8, 2021, with the red and green lines showing 50 basis points above and below. It took only about 90 days for the rule to be corroborated by Crestmont, as it has been in 97% of weeks over the last 53 years, at the 5-year mark of the yield curve. As we look out to October, the 30-year Treasury could be headed toward 3% or possibly back down below 2%; will the short end remain low or will the curve flatten?




## Technical – Trend Following Equity Investors

Evaluating the quality of technical indicators involves many factors including overall correlation, magnitude of highs and lows, and whether correlation is increasing or decreasing in the latest periods. The ISM survey has been a reliable indicator of economic growth in the U.S. for a very long time. The correlation between ISM and discretionary investor equity positioning has been 67% (strong) for the last 10 years, but even stronger over the last 5 years. ISM today is at a 37-year high and equity positioning is not surprisingly at an all-time. Given that forecasts for ISM show a decline over the next 3 and 6 months, it would not be surprising to see investors pull back on their equity exposure leading to a small market correction. We have already seen many large institutions and hedge funds reducing equity exposure and they tend to lead smaller investors by 3-6 months if history repeats.




*Wtd avg Z-score across indicators; weights based on explanatory power in regression w/equity perf
Source : ISM, EPFR, CFTC, Bloomberg Finance LP, Haver, Deutsche Bank Asset Allocation