May 6, 2021

The Macro is Strong

In a stark parallel to this time last year, the good news keeps on coming! The successful launch of the US vaccination campaign has allowed state governments to begin dismantling lockdown measures (chart 1). This should spur the re-opening of depressed areas of the economy and a return to pre-pandemic activity levels. Additionally, with the policy "genie" out of the bottle, we expect fiscal and monetary policy will continue to be accommodative. We expect the growth rebound to boom over the remainder of the year.

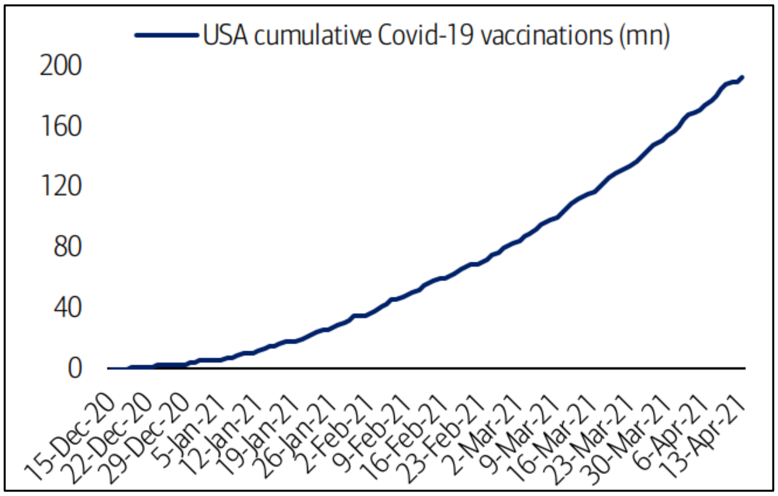

Chart 1: Bank of America. CDC.

Financial Market Implications

Bond yields have jumped sharply in recent weeks. But this isn't so surprising ... in our last market commentary, we felt 2020 marked a secular low point for rates and urged clients to re-think how bonds fit in their asset allocation. The clear catalyst for this move has been widespread optimism around reopening the economy, which could potentially lead to higher inflation and earlier Fed tightening. With the vaccination rollout in full gear and plenty of fiscal support in the pipeline, investors have swung from worrying the economy will grow too slowly to worrying the economy will grow too fast.

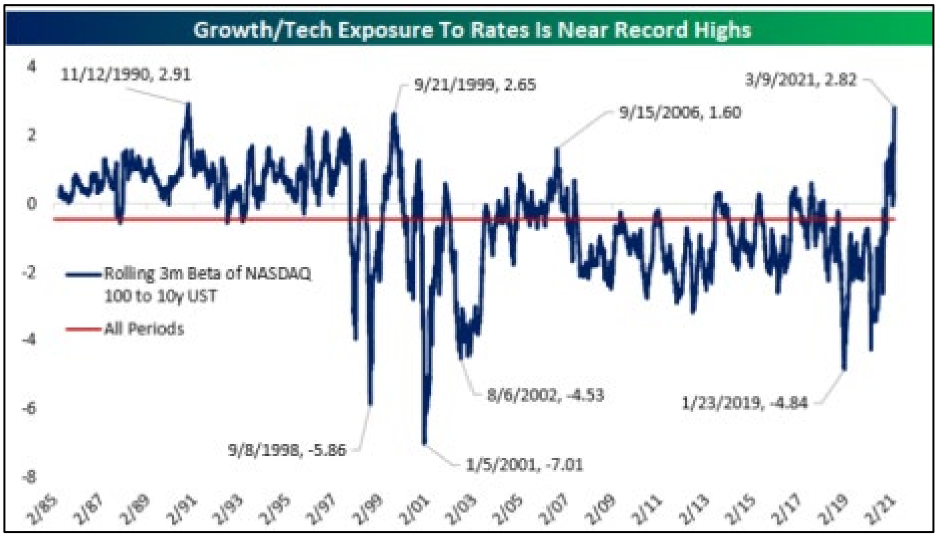

Chart 2: Bespoke Investment Group

Even though the underlying force behind bond market moves is an improving economic outlook, higher rates are raising fears that the equity rally could fizzle. The recent volatility has been concentrated in growth/technology stocks that are seen as vulnerable to higher discount rates. In fact, the beta of the Nasdaq 100 to treasuries has neared record levels. (Chart 2)

So, is good macro news bad news for risk assets? No, we believe good news really is good news.

In our view, the surge in bond yields is reflective, not constraining. In other words, the level of yields remains accommodative considering the economic environment. Historically, rising yields have only hurt stocks in response to hawkish central bank rhetoric. This is clearly not the case today. Chair Powell via the Fed's new framework has downplayed inflation risks, stressing that the US economy is "a long way" from their goals. Policymakers have both the means and the motive to keep bond yields low. The motivations are the need to limit debt servicing costs, to keep the economy growing and to avoid financial instability. And inflationary hopes have so often disappointed because of secular deflationary trends that are not done playing out. After an initial surge of leisure and services spending, we think consumption reverts to trend as structural forces themselves. Therefore, there will be a short-term pickup in inflation because of base effects from 2020, but we believe these risks are already priced into markets. (Chart 3) Given a broad economic rebound and well-contained inflation, we continue to overweight equity exposure and remain convicted in our positions. The bond selloff is exhausted (for now), but when rates do move higher again, we expect the unusual correlation to stocks to subside.

Chart 3: Bank of America

The primary short-term risk to the market is euphoric investor sentiment. Price action has become increasingly speculative (Special Purpose Acquisition Companies, or "SPACs", Initial Public Offerings or "IPOs", call option buying, cryptos) and conditions suggest the market is overbought. But for good reason: the vaccine rollout paves the way for a rapid rebound in economic activity and strong earnings growth in the second half of 2021. As the most recent Bank of America Fund Manager survey puts it, "the only reason to be bearish is…there is no reason to be bearish". We'll be watching yields closely for clues to liquidity, but maintain our view that rates won't rise too far too fast. We could see equity prices trade sideways or down in the next couple weeks due to mean reversion but not by enough in time or price that would de-risk our portfolios meaningfully. We don't see this risk as systemic unless fiscal & monetary policy mistakes derail the post-Virus recovery.

In today's interest rate 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, we believe that 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. See below for current portfolio positioning.

We have continued to carefully assess exposures across all of our portfolios over the past quarter, as per our risk management process. Certain portfolios reflect defensive/conservative positioning amid historic volatility in asset markets, while others are more aggressively positioned. In our fundamental strategies, we have deployed cash in high yielding credit and equities. Our positioning is outlined in more depth below. We remain cautiously optimistic to the continuation of the recovery but recognize the possibility of some pain ahead in the near-term due to several risks outlined above.

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. Thank you for your confidence in Donoghue Forlines. Please let us know if you have any questions.

Strategy Updates

To better serve our clients, we enhanced the indexes of both the Donoghue Forlines Dividend portfolio and the Donoghue Forlines Momentum portfolio. The firm has recently migrated away from its prior strategic index provider, S-Networks Global Indices, Inc., to a new strategic partner TrimTabs Asset Management. Donoghue Forlines has collaborated with TrimTabs due to our conviction in their free cashflow index research. We will continue to strive to make further enhancements and or improvements and evolve our investment strategies where appropriate. Please see below for more details.

Additionally, we discontinued the Donoghue Forlines Mid-Cap portfolio and the Donoghue Forlines International portfolio to consolidate our portfolio suite.

Regards,

Jeffrey R. Thompson
Chief Executive Officer
Portfolio Manager

The following reflects Donoghue Forlines' portfolios positioning as of March 31, 2021.

Donoghue Forlines Dividend Portfolio

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

The principal goal of our strategy is to capture most of the upside and limit participation on the downside following our belief that "It's not what you make, it's what you keep." As you know, the Donoghue Forlines Dividend strategy uses a set of technical and fundamental indicators to determine if it should be invested in equities or be in a defensive position. During the quarter, we made changes to the underlying index. The strategy will now track the TrimTabs Donoghue Forlines Risk Managed Free Cash Flow Dividend Sector Neutral 50 Index. The major impact (as the underlying index name implies) to the portfolio is that sector allocations will be neutral to the benchmark. This will reduce active share and help the portfolio participate through rapidly changing sectoral trends. Additionally, we changed the tactical overlay triggers. Previously the strategy utilized two tactical overlay triggers including one being a fundamental indicator. Moving forward the strategy will offer 2 tactical overlay triggers on the overall security basket of stocks. Both triggers will be utilizing intermediate to longer term trend indicators to determine when we will be invested or in a defensive position. The strategy will sell 50% of the portfolio to short term treasuries for each sell trigger. Hence, when both triggers are in a defensive position the portfolio will be 100% positioned in short term treasury ETFs. It should be noted that the longer term second sell trigger will trade less frequently and keep us more fully invested with half of the assets. Further, we will utilize the shorter term of the two indicators to buy back in with 100% of the assets. The portfolio began the first quarter 100% allocated to high dividend Large/Mid-Cap Stocks and remained that way throughout the quarter. Our focus continues to be risk-adjusted returns over a full market cycle. We believe that DF Dividend is well positioned as the market demographics are shifting from a position of accumulation to seeking income-producing investments. In addition, as we enter a new market cycle, we see dividend-paying stocks potentially benefiting from shifting market conditions.

Donoghue Forlines Momentum Portfolio

Positioning: 100% invested in large and mid-sized stocks exhibiting strong short-term momentum with a diversified sector exposure.

During the quarter, we made changes to the underlying index. The strategy will now track the TrimTabs Donoghue Forlines Risk Managed Free Cash Flow Momentum Sector Neutral 50 Index. The major impact to the portfolio is that sector allocations similar to our dividend strategy will be neutral to the benchmark. This will reduce active share and help the portfolio participate through rapidly changing sectoral trends. Additionally, we changed the tactical overlay triggers. Previously the strategy utilized ten tactical overlay triggers at the sector level. Moving forward the strategy will offer 2 tactical overlay triggers on the overall security basket of stocks. Both triggers will be similar to the dividend portfolio where we will be utilizing intermediate to longer term trend indicators to determine when we will be invested or in a defensive position. The strategy will sell 50% of the portfolio to short term treasuries for each sell trigger. Hence, when both triggers are in a defensive position the portfolio will be 100% positioned in short term treasury ETFs. It should be noted that the longer term second sell trigger will trade less frequently and keep us more fully invested with half of the assets. Further, we will utilize the shorter term of the two indicators to buy back in with 100% of the assets. The portfolio began the first quarter 100% invested across ten sectors. On February 26, the DF Momentum Portfolio received a sell signal out of the Utilities sector. On March 9th the index change went into effect, bringing the portfolio to 100% invested.

Donoghue Forlines Treasury Portfolio

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

The Donoghue Forlines Treasury Portfolio began the first quarter bullishly invested in intermediate-term US Treasuries. In early-March the portfolio's technical signals triggered a shift into long-term US Treasuries. The DF Treasury Portfolio was our best performing strategy in 2020. The strategy was awarded a PSN Top Guns distinction by Informa Financial Intelligence's PSN manager database, North America's longest running database of investment managers. The award is a 3 Star Top Gun rating for our Donoghue Forlines Treasury SMA, meaning the Treasury SMA had one of the top ten returns for the three-year period in its respective universe.

We continue to suggest that this strategy should not be utilized as a standalone solution, but rather should be blended with other solutions to provide a potential hedge in risk-off market environments.

Donoghue Forlines Dividend Mid-Cap Portfolio

The Donoghue Forlines Dividend Mid-Cap Portfolio is being discontinued in May. Please consult with a regional Managing Director for alternative solutions.

Donoghue Forlines Dividend International Portfolio

The Donoghue Forlines Dividend International Portfolio is being discontinued in May. Please consult with a regional Managing Director for alternative solutions.

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 Donoghue Forlines' Income Portfolio's allocations at quarter end are as follows: 4% in cash, 74% in fixed income, 10% in equities, and 12% in alternatives.

Target Allocations: 55% in Donoghue Forlines Income Fund, 31% in Donoghue Forlines Risk Managed Income Fund, 12% in Trim Tabs Donoghue Forlines Tactical High Yield ETF, and 2% Cash.

Donoghue Forlines Dividend & Yield Portfolio

The Donoghue Forlines Dividend & Yield Portfolio's allocations at quarter end are as follows: 4% in cash, 43% in fixed income, 44% in equities, 9% in alternatives.

Target Allocations: Donoghue Forlines Income Fund (34%); Donoghue Forlines Tactical Allocation Fund (34%); Donoghue Forlines Risk Managed Income (15%); Donoghue Forlines Dividend Fund (12%); Donoghue Forlines Momentum Fund (3%); and 2% Cash.

Donoghue Forlines Growth & Income Portfolio

The Donoghue Forlines Growth & Income Portfolio's allocations at quarter end are as follows: 4% in cash, 23% in fixed income, 69% in equities, and 4% in alternatives.

Target Allocations: Donoghue Forlines Tactical Allocation Fund (48%); Donoghue Forlines Momentum Fund (21%); Donoghue Forlines Floating Rate Fund (5%); Donoghue Forlines Income Fund (10%); Donoghue Forlines Dividend Fund (15%); and 2% Cash.

IMPORTANT RISK INFORMATION