



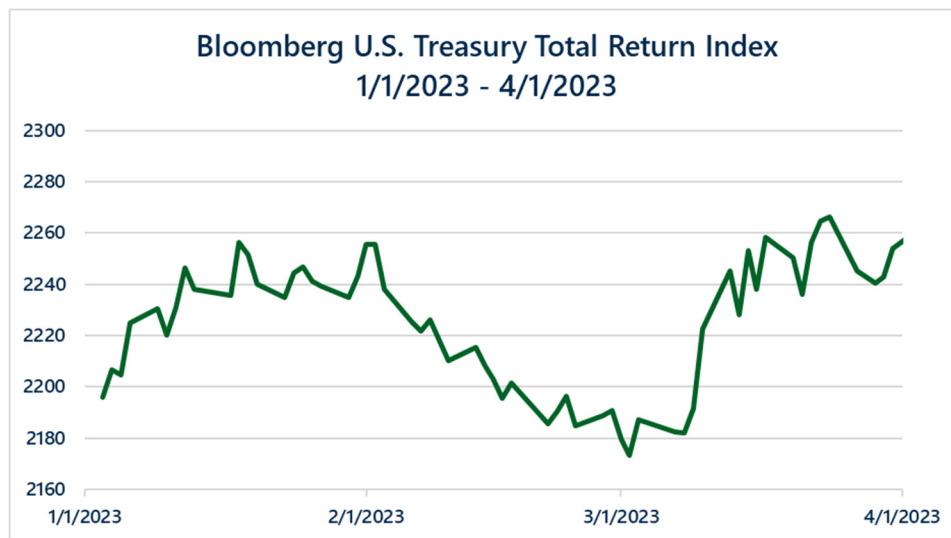
## Portfolio Managers' Quarterly

*Q1 2023: Preparing for More Volatility Ahead*

Dear Fellow Investor:

In the first quarter of 2023, risk assets performed well in January, however, continued upward pressures on inflation, coupled with cracks in the U.S. banking system resulted in significant volatility through February and March to end the quarter.

This volatility resulted in many price trend reversals and continued risk of recession. In March, BTS saw high potential for a 'flight to quality' trade, as U.S. Treasury bonds saw upward price acceleration. Over the course of the quarter, BTS pivoted from High Yield bonds to U.S. Treasuries to partake in the 'flight to quality', while hedging the bet with lower duration treasury securities in the 3-to-7-year duration range.



*Source: Bloomberg. The indices shown are for informational purposes only and are not reflective of any investment. As it is not possible to invest in the indices, the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance is no guarantee of future results.*

### **Federal Reserve Policy Needs to Remain Restrictive**

The strong March jobs report, along with other key inflation gauges in the first quarter of 2023 continue to make the Fed's job difficult in their effort to avoid recession and orchestrate a 'soft landing'. BTS has held the stance that 'soft landing' was the new 'transitory inflation' verbiage communicated in 2022, likely being further rhetoric by the Fed to calm markets during volatility.

BTS therefore continues to hold the view that the Fed is far from done in completing its job to bring down stubborn inflation and will likely need to raise rates a few more times, as well as keep them

elevated for longer than what is currently being priced into risk assets. This will most likely introduce further volatility in risk assets and increase recession risk.

We expect a mild to severe recession eventually hitting the economy due to the Fed’s restrictive policy and due to how long interest rates may need to remain elevated. We do not see the longer-term expectation of decreasing rates materializing until 2024 and see high probability of treasury strength in the next 6 to 12 months if the market begins to discount a more severe recession than was previously priced-in, and rates eventually begin to come down.

Gold should also do well in this recessionary environment, as it becomes seen more and more as a ‘flight to quality’ instrument to hedge recession risk, as well as cracks in the global banking system. It could serve as a diversification to bonds or to those holding stocks during the next 6 to 12 months as an uncorrelated return stream.

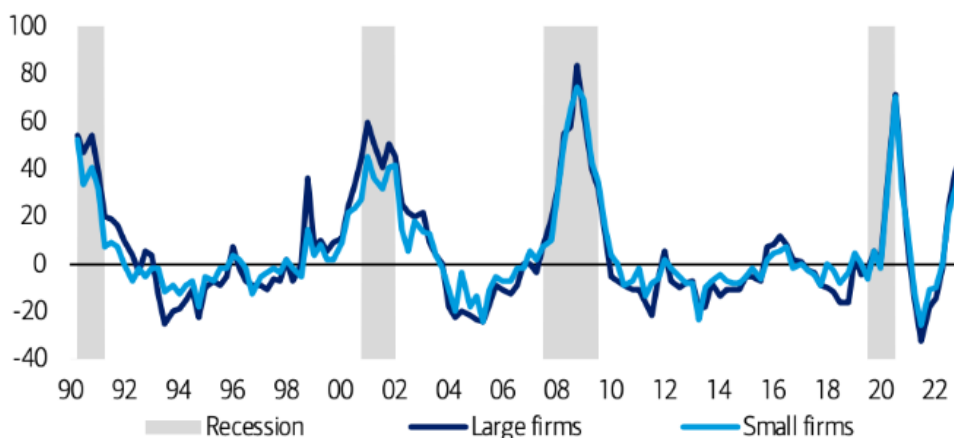
### Possibility of the Banking Crisis as a Deflationary Force

Another popular investment thesis is the possibility that the U.S. banking crisis will act as a deflationary force that could naturally tighten the money supply and bring down prices as tighter lending regulations are enacted. Although we agree in part, due to the nature of the crisis at the regional level, and the strength of larger banks, we believe this will not be enough of a deflationary force to completely solve the inflation problem.

More likely, is that we will see the effects of the Banking Crisis trickle and be felt for “years to come”, as is the view of JPMorgan CEO [Jamie Dimon](#). One likely outcome of this trickle effect is starting to show up in lending standards for Construction and Industrial (C&I) loans, a \$2.8 trillion business for banks around the country that provides a large portion of the funding for small business operations. The chart below shows a stark increase in these standards over the last few months, and a slowdown in C&I activity will likely present stresses across the economy.

**Exhibit 1: Net percent of banks reporting tighter standards for C&I loans (%)**

Banks have tightened standards on C&I loans to firms of all sizes



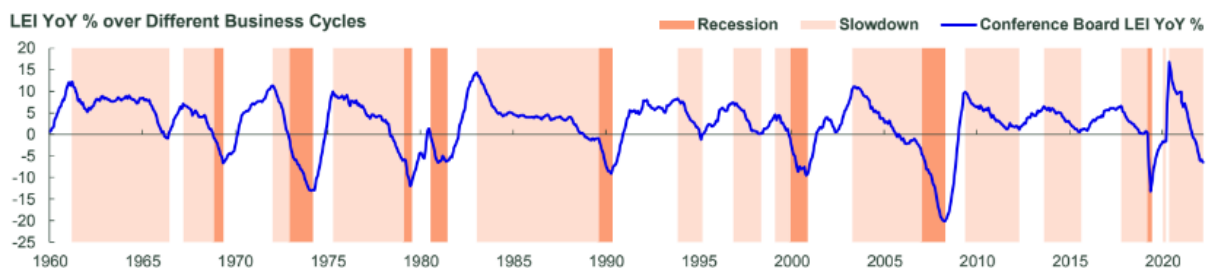
Source: Federal Reserve, Haver Analytics, BofA Global Research

BofA GLOBAL RESEARCH

This is just one such example, but it illustrates the type of fallout from the banking crisis that we believe is likely to increase volatility in the next 6 to 12 months, as markets grapple with inflation and recession expectations in the context of an unstable banking system.

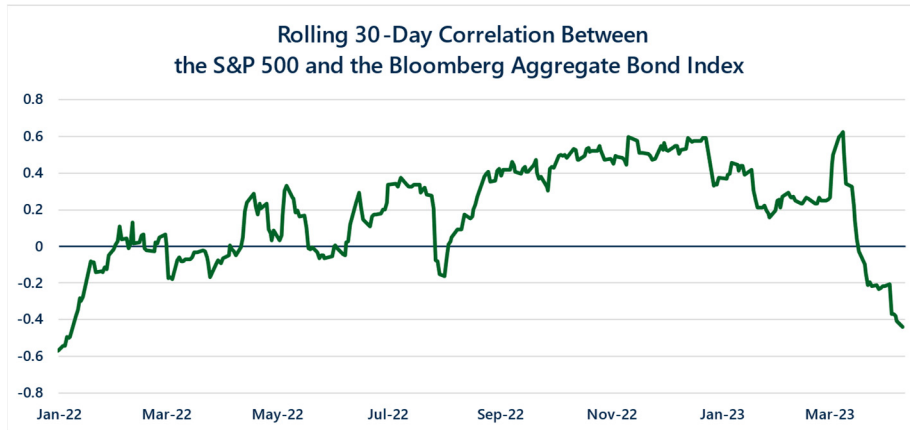
### **Economic Weakness Paired with Decoupling of Stocks and Bonds**

Although certain economic measures remain resilient, it's helpful to look at aggregations of the most important leading indicators to get a clearer picture of what may lie ahead. As we've cited in the past, the Conference Board Leading Economic Indicator Index, made up of 10 of the most important leading indicators, is constructed to identify turning points in the economy in a clearer and more convincing manner than any individual component. When the year-over-year change of this index remains below zero for an extended period of time, as it has for the last 8 months, it has always previously led to a recession.



*Source: State Street Global Advisors Chart Pack – April 2023; Bloomberg Finance L.P., as of March 31, 2023. Past performance does not guarantee future results.*

While this warning signal seems to pose clear threats to economic growth, and thus risk assets, we believe current conditions are setting up attractive opportunities in the treasury space. With yields elevated, especially on the front end of the curve, and the potential for falling rates at some point in the near future, we are finally starting to see some appetite for the safety of treasuries that was largely absent in 2022. The relationship between stock and bond returns is one of the most important factors in asset allocation, and since the early 2000's this correlation has been consistently negative, allowing investors to rely on their bond holdings for protection when equities sold off. But in 2022, this relationship flipped, and we saw stocks and bonds moving in tandem for most of the year. Spurred in part by the recent banking crisis, recent weeks have shown a normalization in this ever-important dynamic, which may foretell a sustained flight-to-safety opportunity if leading indicator warning signs come to fruition in the equity markets.



*Source: Bloomberg. The indices shown are for informational purposes only and are not reflective of any investment. As it is not possible to invest in the indices, the data shown does not reflect or compare features of an actual investment, such as its objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, or tax features. Past performance is no guarantee of future results.*

### **BTS Managed Income Allocations: Reallocations to Quality Credit**

In our Managed Income portfolio, we see many of the same credit opportunities discussed above and have made shifts in the portfolio to position for these conditions. Roughly 30% of the portfolio consists of our Tactical Fixed Income portfolio, which may provide crucial protection for the portfolio in a hard landing scenario with the ability to move 100% to treasuries. In the more static, diversified portion of the portfolio, our aim is to take some risk off the table by leaning more towards high-quality, short-term debt including treasuries, agency bonds, and municipals. However, we maintain our belief in looking beyond the Bloomberg Aggregate Bond Index to uncover fixed income opportunities. Some examples currently in the portfolio include: 1) covered call strategies, which should provide a strong yield boost to the portfolio and potentially outperform in volatile markets; 2) dividend aristocrat equities, defined as companies that have consistently increased their dividend for 25+ years, which tend to have strong balance sheets and a history of weathering market turbulence; and 3) hybrid securities such as convertibles that exhibit qualities of both equity and debt and can be used to position for a downturn without necessarily timing it. As always, we monitor the entirety of the portfolio on a daily basis and will make subsequent shifts as prevailing economic and market environments dictate.

At BTS, we remain ready to adapt to the next ever-changing market conditions. Thank you for the opportunity to manage your assets.

Sincerely,

Vilis Pastis  
 Matthew Pastis, CMT  
 Isaac Braley  
 Co-Portfolio Managers

The material provided herein has been provided by BTS Asset Management and is for informational purposes only. BTS Asset Management serves as investment advisor to one or more mutual funds distributed through Northern Lights Distributors, LLC member FINRA/SIPC. Northern Lights Distributors, LLC and BTS Asset Management are not affiliated entities.

**Investors should carefully consider the investment objectives, risks, charges, and expenses of the BTS Tactical Fixed Income Fund and the BTS Managed Income Fund before investing. This and other information about the Fund is contained in the prospectus and should be read carefully before investing. The prospectus can be obtained on our web site, [www.btsfunds.com](http://www.btsfunds.com), by calling toll free 1-877-287-9820 (1-877-BTS-9820), or by calling your financial representative. The BTS Tactical Fixed Income Fund is distributed by Northern Lights Distributors, LLC, Member FINRA/SIPC. BTS Asset Management, Inc. is not affiliated with Northern Lights Distributors, LLC.**

#### IMPORTANT RISK INFORMATION

Investing, including investing in mutual funds, involves risk, including possible loss of principal. There is no assurance that any strategy will achieve its investment objective. The value of fixed income securities will fluctuate with changes in interest rates. Defaults by fixed income issuers could also harm performance. Lower quality bonds known as “high yield” or “junk” bonds, present greater risk than bonds of higher quality, including an increased risk of default. An economic downturn or period of rising interest rates could adversely affect the market for these bonds and reduce the Portfolio Manager’s ability to sell its bonds. The use of leverage within a strategy will indirectly cause additional expenses and could potentially magnify the gains or losses.

The S&P 500 includes 500 leading companies in leading industries of the US economy and is a proxy for the total stock market.

Bloomberg Aggregate Bond Index - An index used by bond funds as a benchmark to measure their relative performance. The index includes government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.

ICE BofAML US High Yield tracks the performance of US dollar-denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody’s, S&P and Fitch), at least 18 months to final maturity at the time of issuance, at least one-year remaining term to final maturity as of the rebalancing date, a fixed coupon schedule and a minimum amount outstanding of \$100 million. Also, qualifying securities must have risk exposure to countries that are members of the FX-G10, Western Europe, or territories of the US and Western Europe. The FX-G10 includes all Euro members, the US, Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway, and Sweden.

The Bloomberg US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index. STRIPS are excluded from the index because their inclusion would result in double-counting.

The Composite Index of Leading Indicators, otherwise known as the Leading Economic Index (LEI), is an index published monthly by The Conference Board. It is used to predict the

direction of global economic movements in future months. The index is composed of 10 economic components whose changes tend to precede changes in the overall economy. Businesses and investors can use the index to help plan their activities around the expected performance of the economy and protect themselves from economic downturns.

*\*Index returns are for illustrative purposes only and should not be construed as BTS model performance or performance achieved by any BTS client. More specifically, any reference to index returns during isolated or defined periods in time is for reference only and is not meant to imply index returns are indicative of actual returns achieved in client portfolios. Investors cannot invest directly in an index, and index returns do not reflect management fees, custodial fees or brokerage commissions, which vary depending upon the custodian chosen.*

*Source: Bloomberg (for index returns)*

BTS Asset Management is affiliated with BTS Securities Corporation, member FINRA/SIPC. Securities are offered through BTS Securities Corporation and other FINRA member firms. Advisory services are offered through BTS Asset Management, Inc.

**PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.**

**5352-NLD-04/13/2023**