Portfolio Managers' Quarterly

2024 Outlook: Rate Cuts Don't Necessarily Mean a Bull Market

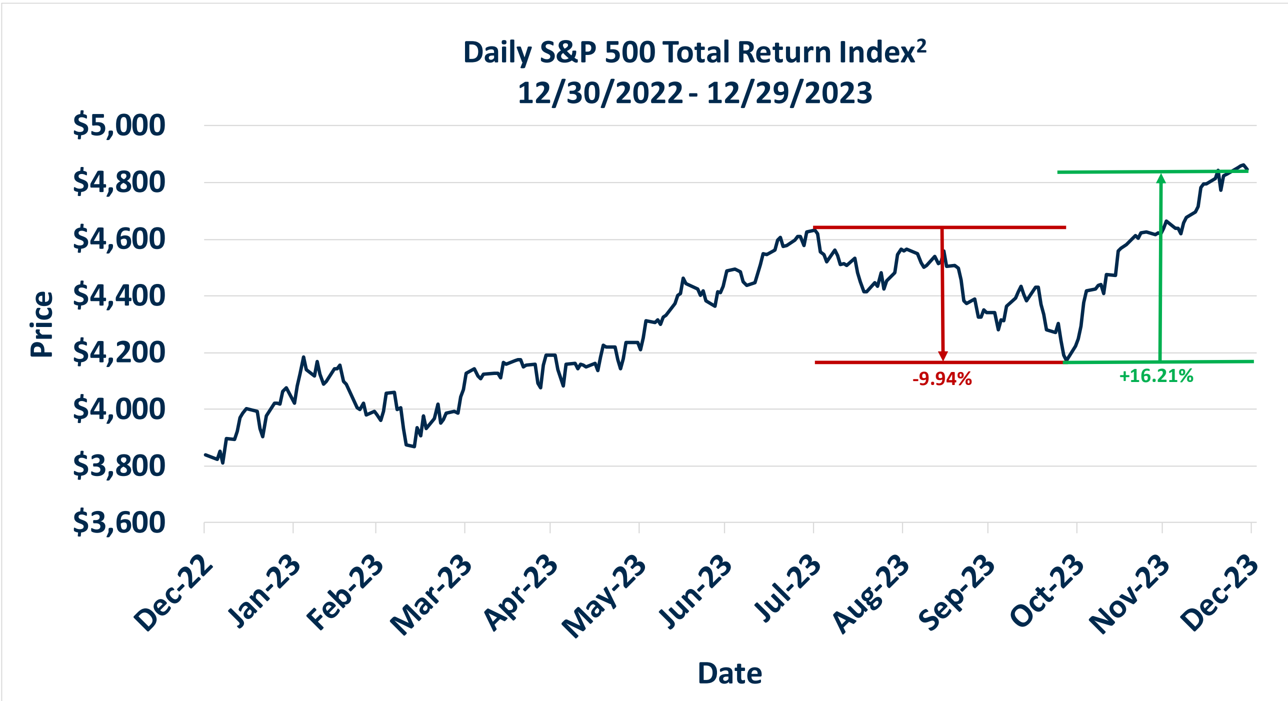
Dear Fellow Investor,

Stocks, High Yield bonds, and other risk assets had impressive returns in 2023 following a turbulent 2022. All asset classes displayed elevated levels of volatility as markets grappled with the trajectory of interest rates in the context of a possible recession and high geopolitical tensions.

Federal Reserve policy and the direction or interest rates dictated much of the narrative in 2023 with the 10-Year Note beginning the year yielding roughly 3.70% and rising to almost 5% in October 2023, the highest level since June 2007. The 10-Year yield eventually fell to below 4% into the year-end as the market began to discount a dovish shift in Fed policy.

Source: Federal Reserve Bank of St. Louis[1]

The market sentiment regarding the direction of interest rates experiences significant shifts throughout 2023, leading to heightened volatility in the stock market because of this uncertainty surrounding interest rate trends. The S&P 500 experienced an almost 10% decline before the market priced in a dovish pivot by the Fed, rallying more than 16% in the last few months of the year. The exact timeline of when the Fed will cut interest rates is still uncertain, along with how the economy will hold up with higher rates in 2024. Future Fed policy is still contingent on how new economic data releases, which, depending on how inflation and economic growth fare in 2024, could create further disruptions to the timeline and similar volatility as in 2023.

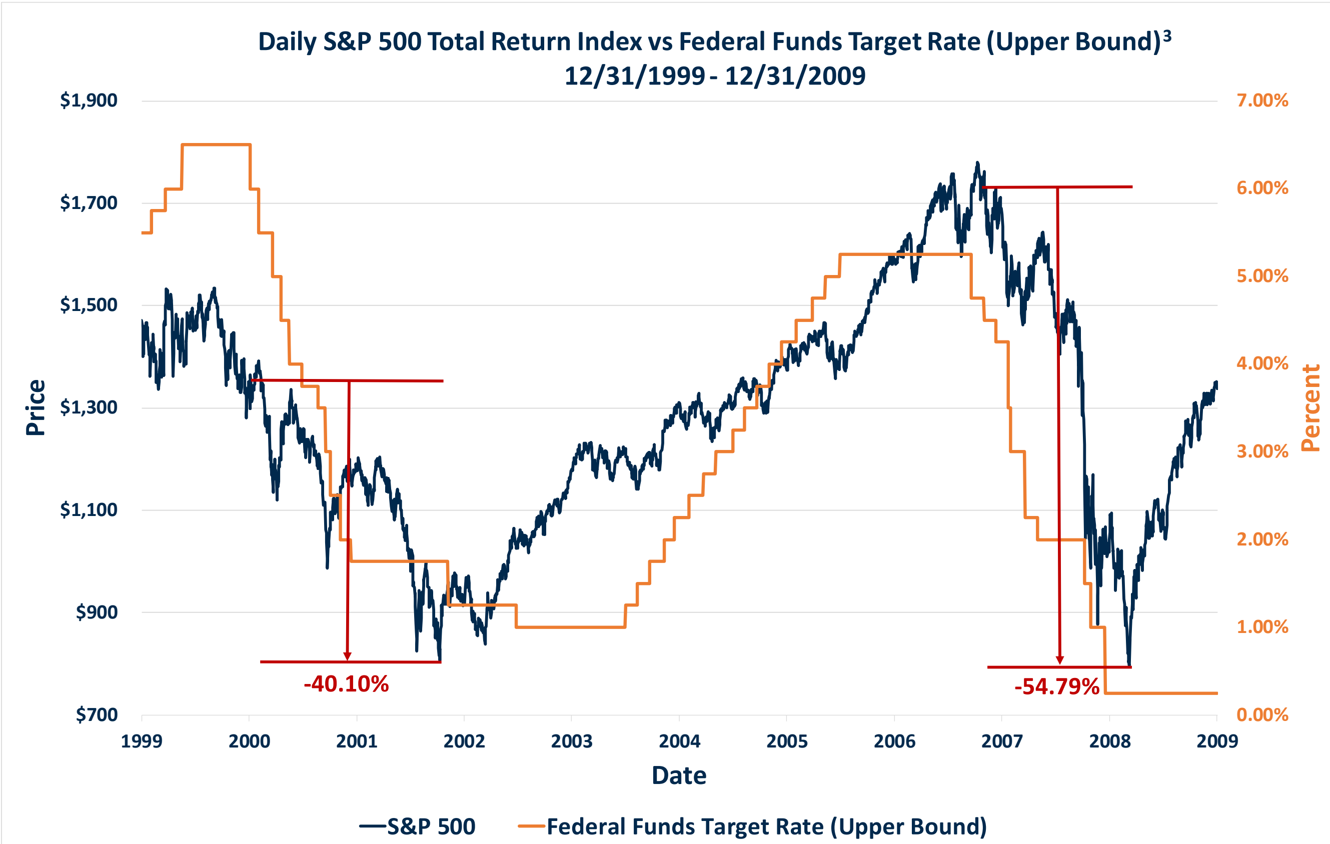


Source: Federal Reserve Bank of St. Louis[2]

<u>Lower Rates Don’t Necessarily Mean a Continuation of the Bullish Trend</u>

Markets were volatile during the ‘Fed-Pivot’ in late 2018 and early 2019, wherein the Fed changed direction on monetary policy within a very short period. The Covid-19 Pandemic during 2020 created massive price swings and double-digit drawdown, but markets eventually rallied as rates were cut back to near 0%. During monetary tightening in 2022, the Fed moved policy rates higher to levels like those before the Great Recession to fight inflation, which caused a Bear Market and double-digit losses in stocks and bonds.

Over the last 5 years, the market has had conviction on the idea that lower rates necessarily equate to gains in risk assets. However, the definitive verdict on whether the Fed can successfully orchestrate a soft-landing is yet to be seen. Additionally, markets have been accustomed to lower rates for the better part of the last 15 years, which is also contributing to recency bias. In 2001 and 2007, in the backdrop of a weakening economy, high valuations, and high interest rates, rate cuts resulted in double digit declines before new bull trends emerged.

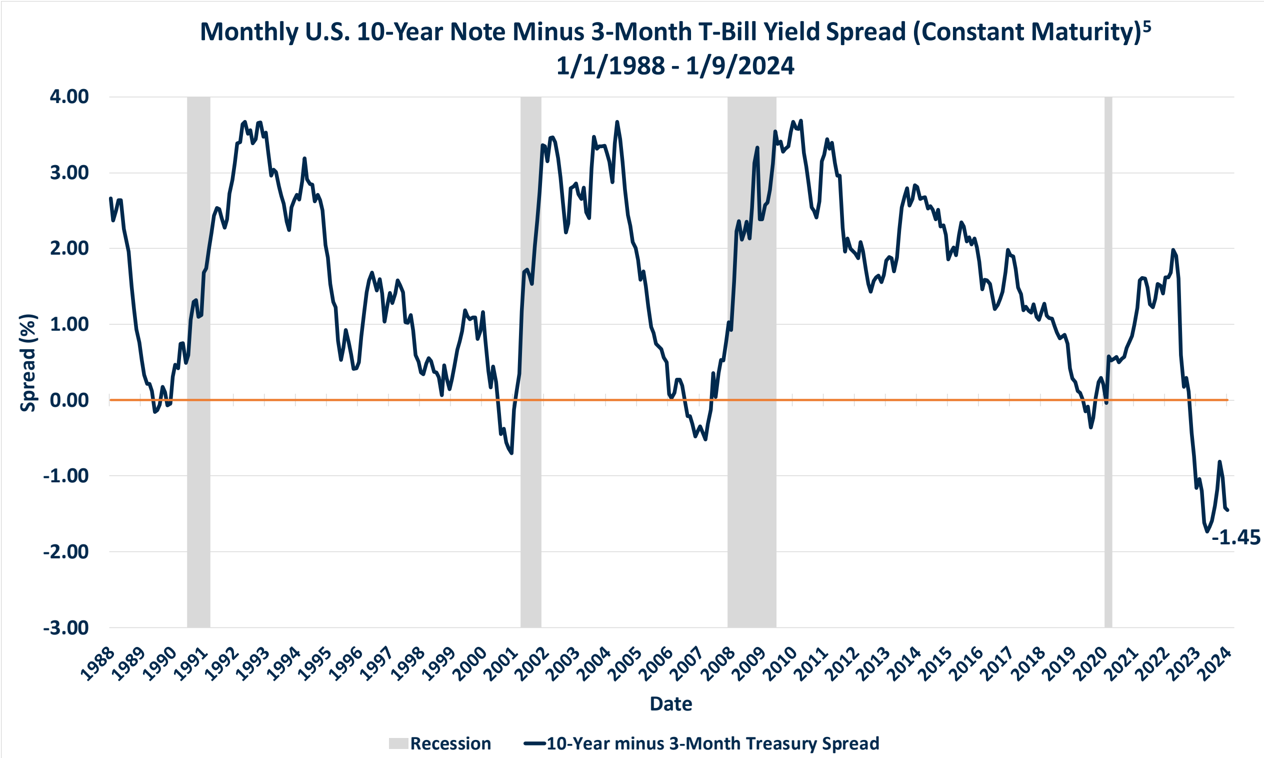


Drawdowns Highlighted are from 1/17/2001 to 10/9/2002 and 10/31/2007 to 3/9/2009.
Source: Federal Reserve Bank of St. Louis [3]

Therefore, although a dovish Fed is generally supportive of stocks and bonds, the risk remains that the economy weakens enough to cause another severe drawdown episode. Incoming economic data will be crucial in dictating the Fed's tone and any further policy shifts in 2024.

2024 Outlook

Looking to 2024, BTS will continue to use price-driven technical indicators to make tactical allocations. Analysts are not forecasting double-digit returns for 2024, with some projecting that the S&P 500 will rise about 6%.[4] BTS expects some sort of recession due to the inversion of the yield curve, which has been sustained. Inversion is one of the most reliable indicators for forecasting recessions, particularly the spread between the 10-Year Note yield and the 3-Month T-Bill yield. A longer time lag before a recession materializes is still a risk and could materialize in 2024. As of 1/9/2024, 10-Year to 3-Month treasury spread remained negative at -1.45%.



Note: Shaded regions indicate U.S. recessions *Source: Federal Reserve Bank of St. Louis*[5]

<u>BTS Enhanced Equity Income</u>

Stocks with consistent earnings, increasing dividend payouts, strong balance sheets, and large cash holdings offer strong value propositions against growth stocks during the next period of volatility. Using principles of risk management and capital preservation, BTS has spent the last few years developing an equity strategy focused on stability and income using rule-based fundamental analysis. BTS Enhanced Equity Income consists of 40% of **Dividend Aristocrats**, 30% of **Equity Fortress**, 20% **Highest Yielding Equity**, and 10% **Covered Call ETFs.**

Dividend Aristocrats are stocks that have increased their dividend for many consecutive years, potentially offering stable income during the next recession. **Equity Fortress** stocks are those with strong internal growth rates with an ability to finance growth without taking on excess debt, a crucial advantage when cash flows are squeezed by declining consumer spending in recessionary environments. **Highest Yielding Equity** are those stocks with the highest dividend yields. Although you need to be careful about 'falling knives' or those stocks with an artificially inflated yield due to price declines, these stocks can boost income or total returns through dividend reinvestment. **Covered Call ETFs** offer supplemental monthly income by writing calls on S&P 500 and NASDAQ 100 strategies.

BTS 'enhances' these concepts by running quarterly rules-based fundamental analysis with value overlays. BTS expands the universe of securities to the S&P 1500 and considers stocks from all the 11 GICS Sectors, overweighting sectors with the strongest outperformance against their historical averages. Even if rates decline and stocks continue to do well, the market is well placed to reward stocks with better relative valuations than growth stocks that saw massive price increases in 2023.

Conclusion

In 2023, BTS Tactical Fixed Income (BTFIX) returned 2.38% and BTS Managed Income returned 5.65% (BTSIX). The Bloomberg U.S. Aggregate Bond Index returned 5.53%.

In the backdrop of recession fears and a hawkish Fed, BTS Tactical Fixed Income's moves to safety resulted in underperformance but reduced volatility through 2023, as BTFIX had a monthly standard deviation of 1.85% vs the Aggregate Index's 2.45%.

BTS Managed Income's thematic investing, along with its 30% tactical hedge beat the Aggregate Index with less volatility, as BTSIX's monthly standard deviation was 2.04% compared to the Aggregate Index's 2.45%.[6]

	YTD	1 Year	3 Year	5 Year	10 Year	Since BTFIX Inception (5/27/15)
BTFIX	2.38%	2.38%	-4.26%	-1.37%	N/A	-0.15%
Bloomberg US Aggregate Index	5.53%	5.53%	-3.31%	1.10%	N/A	1.33%

Total BTFIX Expense Ratios: Class A: 1.90%; Class C: 2.65%; Class I: 1.65%; Class R: 2.15%

	YTD	1 Year	3 Year	5 Year	10 Year	Since BTSIX Inception (12/31/18)
BTSIX	5.65%	5.65%	-2.89%	0.69%	N/A	0.69%
Bloomberg US Aggregate Index	5.53%	5.53%	-3.31%	1.10%	N/A	1.10%

Total BTSIX Annual Operating Expense:
Class A: 2.43%; Class C: 3.18%; Class I: 2.18%; Class R: 2.68%
Total BTSIX Annual Operating Expenses After Fee Waiver and/or Expense Reimbursement:
Class A: 2.11%; Class C: 2.86%; Class I: 1.86%; Class R: 2.36%
The Advisor has contractually agreed to waive fees and to make payments to limit fund expenses, until at least April 30th 2024, so that the total annual operating expenses (exclusive of certain fees or expenses do not exceed 1.75%, 2.50%, 1.50%, and 2.00% of average daily net assets attributable to Class A, Class C, Class I, and Class R shares respectively.

The Performance data quoted here represents past performance. Current performance may be lower or higher than the performance quoted above. Investment return and principal value will fluctuate, so that the shares, when redeemed may be worth more or less than their origial cost. Past performance is no gurantee of future results. A Fund's performance, especially for very short periods of time, should not be the sole factor in making your investment decisions. For performance information current to the most recent month-end, please call toll-free 1-877-287-9820.

In 2024, BTS expects more opportunities to add value against the Bloomberg U.S. Aggregate Bond Index in the paradigm of higher volatility from economic uncertainty. BTS believes a strong reliance on tactical asset allocation built on the principle of capital preservation will be best suited to manage client's assets as the next economic cycle develops. Adding equity exposure should be done thoughtfully with value-oriented strategies, such as those described above in BTS's Enhanced Equity Income portfolio.

We at BTS remain committed to adapting to ever-changing market and economic conditions in order to best serve our clients.

We thank you for the opportunity to manage your assets and wish you a prosperous year in 2024.

Sincerely,

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

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It should not be assumed that investment decisions made in the future will be profitable or guard against losses, as no strategy can guarantee future results or entirely protect against loss of principal. There is no guarantee that the strategies discussed herein will succeed in all market conditions or are appropriate for every investor.

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, 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.

CITATIONS

[1] Board of Governors of the Federal Reserve System (US), Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Quoted on an Investment Basis [DGS10], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DGS10.

[2] S&P Dow Jones Indices LLC, S&P 500 [SP500], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SP500.

[3] Federal Reserve Bank of St. Louis, 10-Year Treasury Constant Maturity Minus 3-Month Treasury Constant Maturity [T10Y3M], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/T10Y3M.

[4] https://www.goldmansachs.com/intelligence/pages/the-sp-500-index-is-forecast-to-return-six-percent.html

[5] Source for Returns: Bloomberg

[6] Source for Returns: Bloomberg, Standard Deviation Calculated using Monthly Returns from 12/31/2022 to 12/31/2023.

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 US Aggregate Bond Index (Bloomberg Agg Bond) - 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.

The 10-Year Treasury yield is the annualized rate of return an investor would earn on a 10-Year Treasury note issued by the U.S. government if they held the note to maturity.

The 10-Year Note is debt issued by the U.S. government with a duration of 10 years.

The 3-Month T-Bill Treasury yield is the annualized rate of return an investor would earn on a 3-Month Treasury Bill issued by the U.S. government if they held the bill to maturity.

The 3-Month T-Bill is debt issued by the U.S. government with a duration of 3 months.

Federal Funds Target Rate (Upper Bound) is the highest interest rate at which depository institutions trade federal funds (balances held at Federal Reserve Banks) with each other overnight. (1) The rate that the borrowing institution pays to the lending institution is determined between the two banks (2) The effective federal funds rate is essentially determined by the market but is influenced by the Federal Reserve through open market operations to reach the federal funds rate target, no higher than the upper bound rate set by the Federal Reserve.

Drawdown is a peak to trough percentage over the specified period using the specified time-period of data over that period.

The Monthly U.S. 10-Year Note Minus 3-Month T-Bill Yield Spread (Constant Maturity) is the difference between the yield of the 10-Year Note and the 3-Month T-Bill. This is often referred to as a 'spread'.

The Global Industry Classification Standard (GICS) is an industry taxonomy developed in 1999 by MSCI and Standard & Poor's (S&P) for use by the global financial community. The primary 11 GICS Sectors are Energy, Materials, Industrials, Utilities, Health Care, Financials, Consumer Discretionary, Consumer Staples, Information Technology, Communication Services, and Real Estate.

BTS Enhanced Equity Income is BTS strategy current available at Axos Advisor Services and various UMA/SMA platforms. It consists of 4 strategies, Dividend Aristocrats, Equity Fortress, Highest Yielding Equity, and Covered Calls.

Dividend Aristocrats is a BTS strategy that breaks the S&P 1500 into its 11 GICS Sectors and then filters all securities that have 10-15 years of increasing dividends, based on which sector it is in. BTS may consider a security with less than 10 years of increasing dividends if there are less than 2 securities in any given sector with less than 10 years of increasing dividends. These securities are then run through a proprietary securities selection algorithm that is rule-based in nature and does not change. The top security is then compared against similar historical Dividend Aristocrats in its sector and a historical outperformance is calculated. The top sector is overweighted, and the bottom 2 sectors are eliminated.

Equity Fortress is a BTS strategy that breaks the S&P 1500 into its 11 GICS Sectors and then filters the top 5-10 securities in each sector based on a proprietary Equity Fortress Model that considers how well the security can finance internal revenue and asset growth without taking on excess debt. These securities are then run through a proprietary securities selection algorithm that is rule-based in nature and does not change. The top security is then compared against similar historical Equity Fortress securities in its sector and a historical outperformance is calculated. The top sector is overweighted, and the bottom 2 sectors are eliminated.

Highest Yielding Equity is a BTS strategy that breaks the S&P 1500 into its 11 GICS Sectors and then filters the top 5-10 securities in each sector based on highest Dividend Yield. These securities are then run through a proprietary securities selection algorithm that is rule-based in nature and does not change. The top security is then compared against similar historical Highest Yielding Equity securities in its sector and a historical outperformance is calculated. The top sector is overweighted, and the bottom 2 sectors are eliminated.

Covered Call refers to a financial transaction in which the investor selling call options owns an equivalent amount of the underlying security. To execute this, an investor who holds a long position in an asset then writes (sells) call options on the same asset to generate an income stream. The investor's long position in the asset is the cover because it means the seller can deliver the shares if the buyer of the call option chooses to exercise.

Covered Call ETFs refers to exchange-traded funds that deploy Covered Call strategies. BTS uses ETFs that follow S&P 500 and NASDAQ 100 Covered Call strategies in the BTS Enhanced Equity Income portfolio.

**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: ***Morningstar and Bloomberg (for index returns)***

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PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

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