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NEXPOINT

Weekly Market Deep Dive

February 6, 2023

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Commodities / Dollar

US\$ / FX:

- US\$ showing bullish 'hammer'
- Came right on COVID highs
- Euro showing bearish 'shooting star'
- BoJ intervention at 151.90 worked

Commodities & Sectors:

- BCOM testing 105-106 area
- Bullish flag in Energy patch
- Crude looks headed for SPR bid
- NatGas historically weak – Stochastic at 2
- Metals weak – gold failing at 1,950
- All sub-sectors in long-term uptrends

Bottom Line:

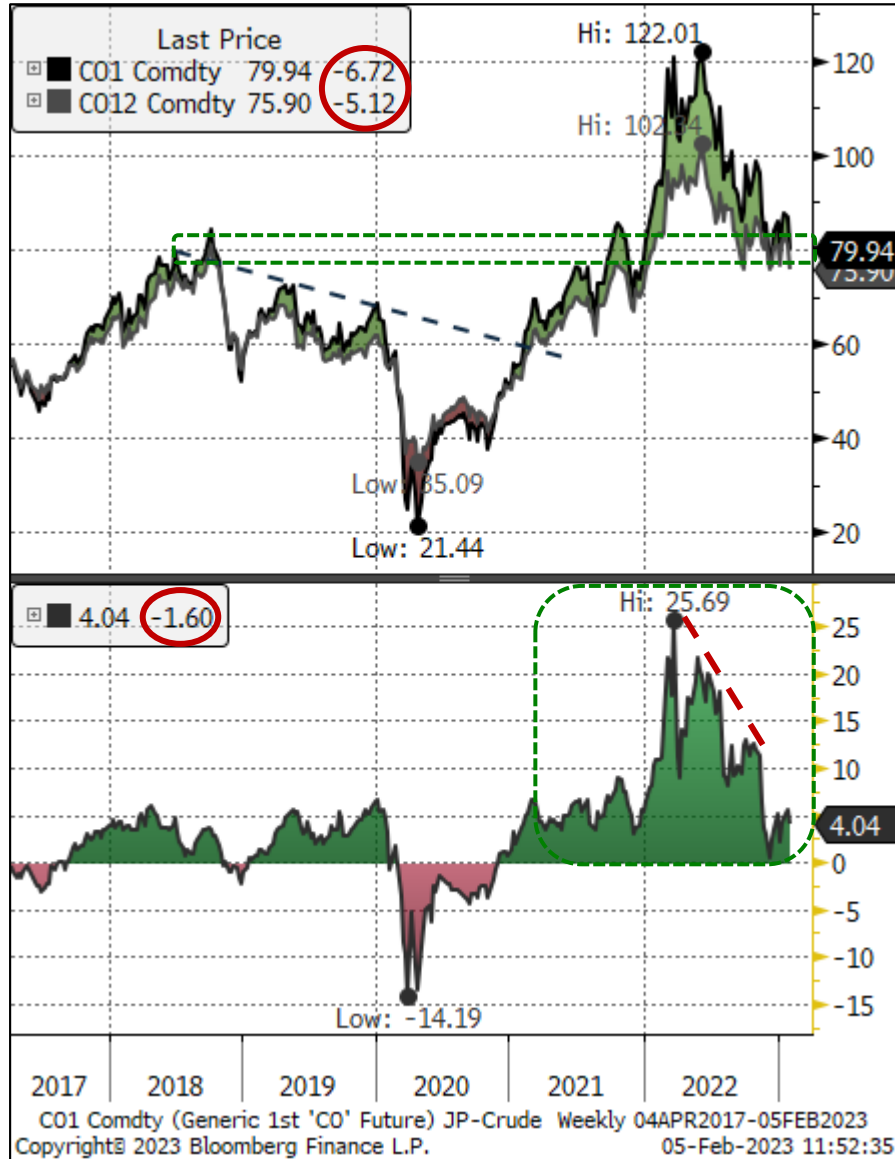
- DXY looks poised for a bounce
- BCOM testing important support
- Several key commodities are as well
- Commodities starting to look vulnerable



Oil & Gold

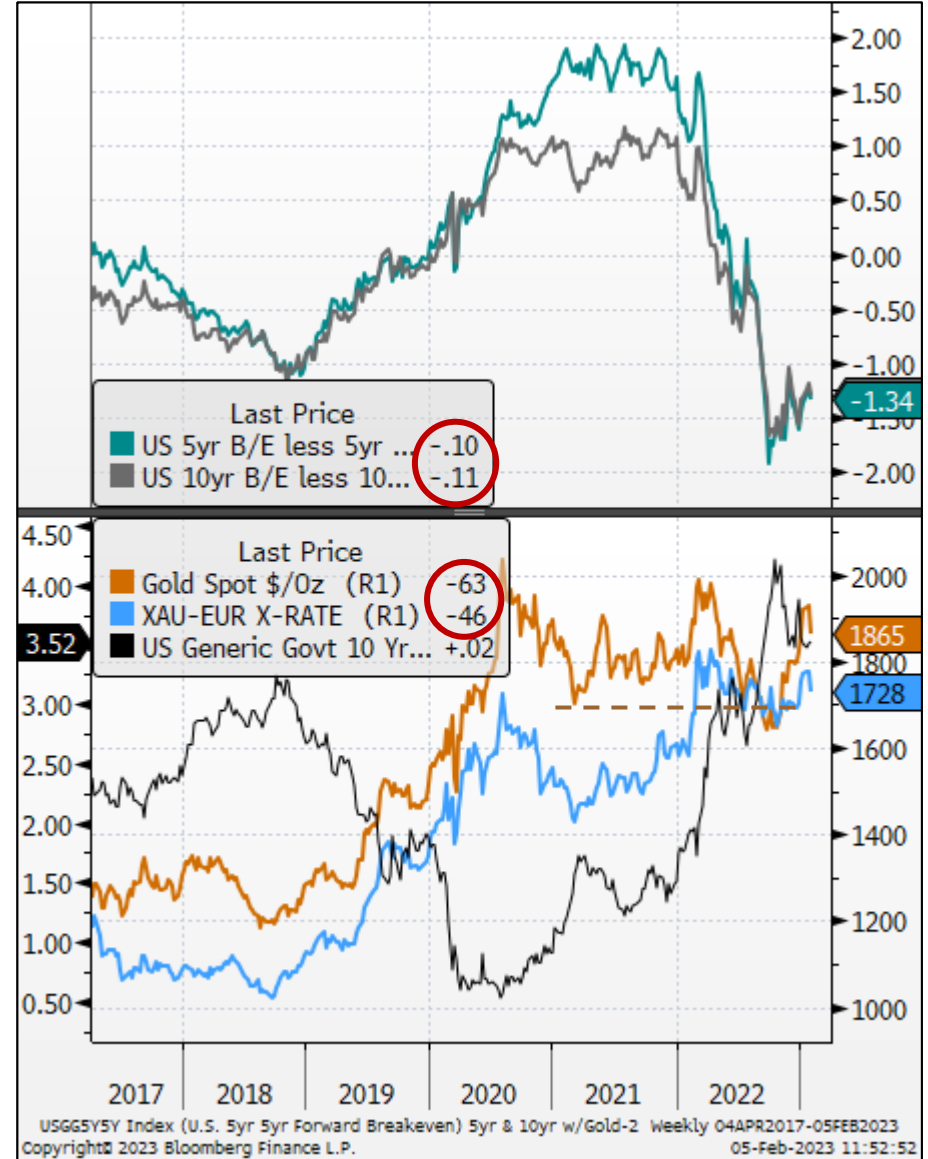
Oil:

- Brent again pressing \$80 area
- Spread lower on week, back down to \$4
- Luskin called 'peak oil' (Saudi deal & US prod.)



Gold:

- Both spreads lower last week - 10 & 11 bp
- Gold lower as well; US 10-yr. yield up slightly
- Gold in both US\$ & Euros in wide, sloppy, range



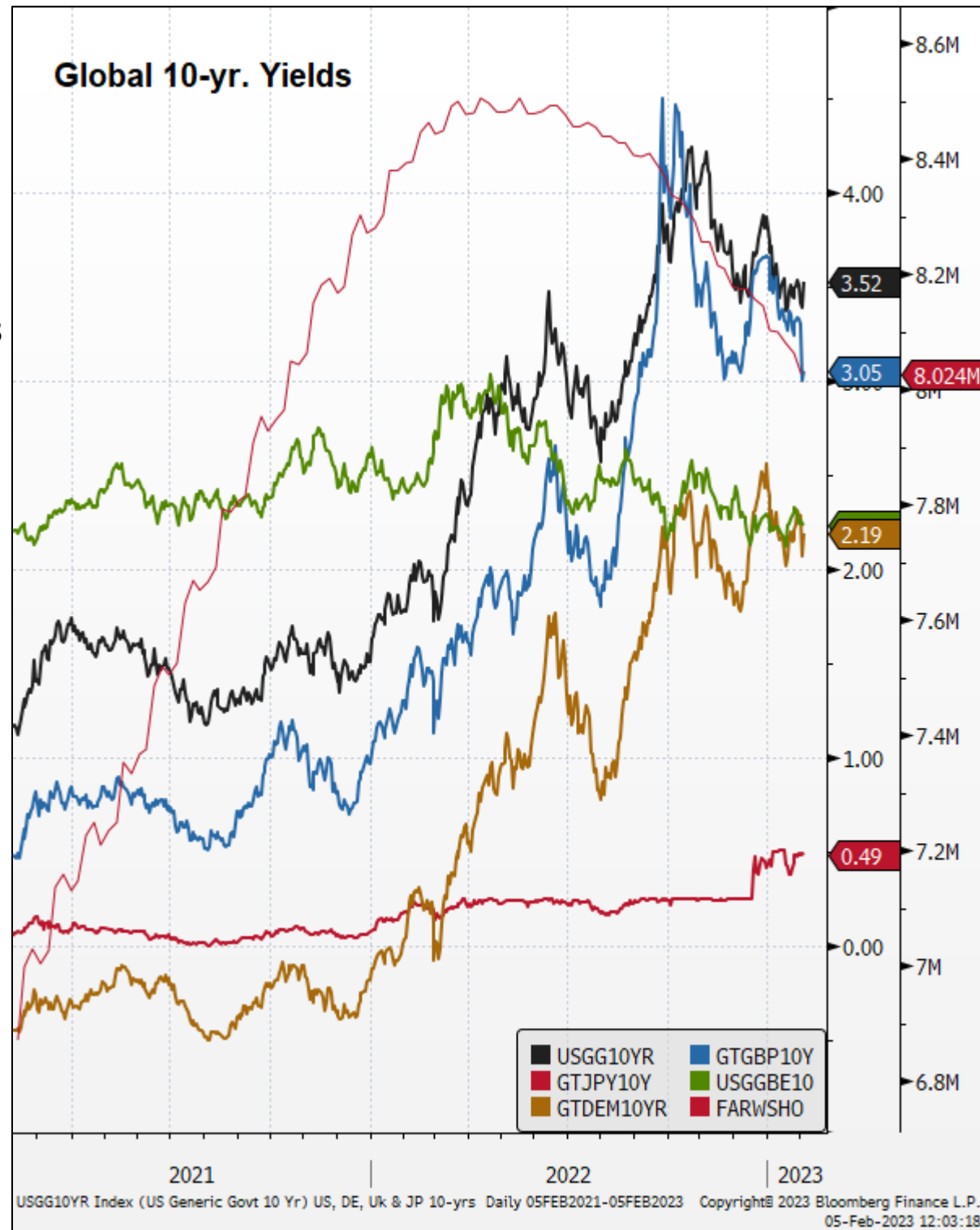
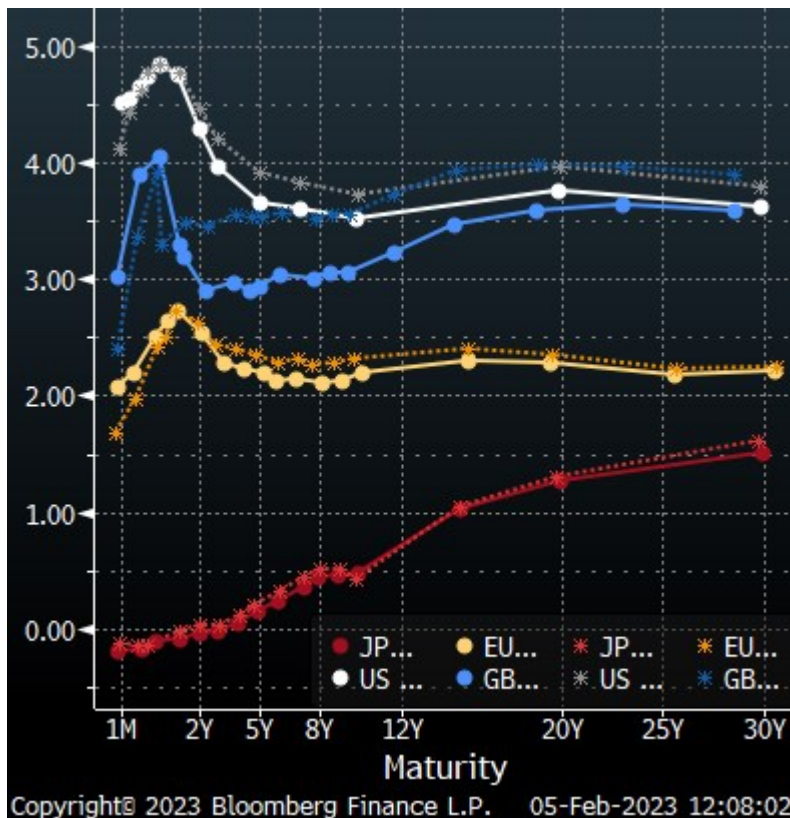
Global Yields

Global 10-yr. yields mixed

- Curves below show change over 1 month
- US: ▲ 2 bp – 10-yr still lowest on curve
- UK: ▼ 27 bp – biggest drop on long end
- Germany: ▼ 5 bp – pivoting around Nov'23
- Japan: ▲ 1 bp – back to nearly 1/2%

Fed BS: ▼\$39B; ▼\$481B in total

- Planned reduction from Sep: \$95B/mo.
- Peak: \$8.505 on 4/13/22



Bonds / Rates

Daily Charts:

- 10-yr. finding support in $3\frac{1}{4}$ - $\frac{1}{2}$ % area
- RSI holding 40 level
- 3-mo. - 10-yr. inversion holding 1% area

Weekly Charts:

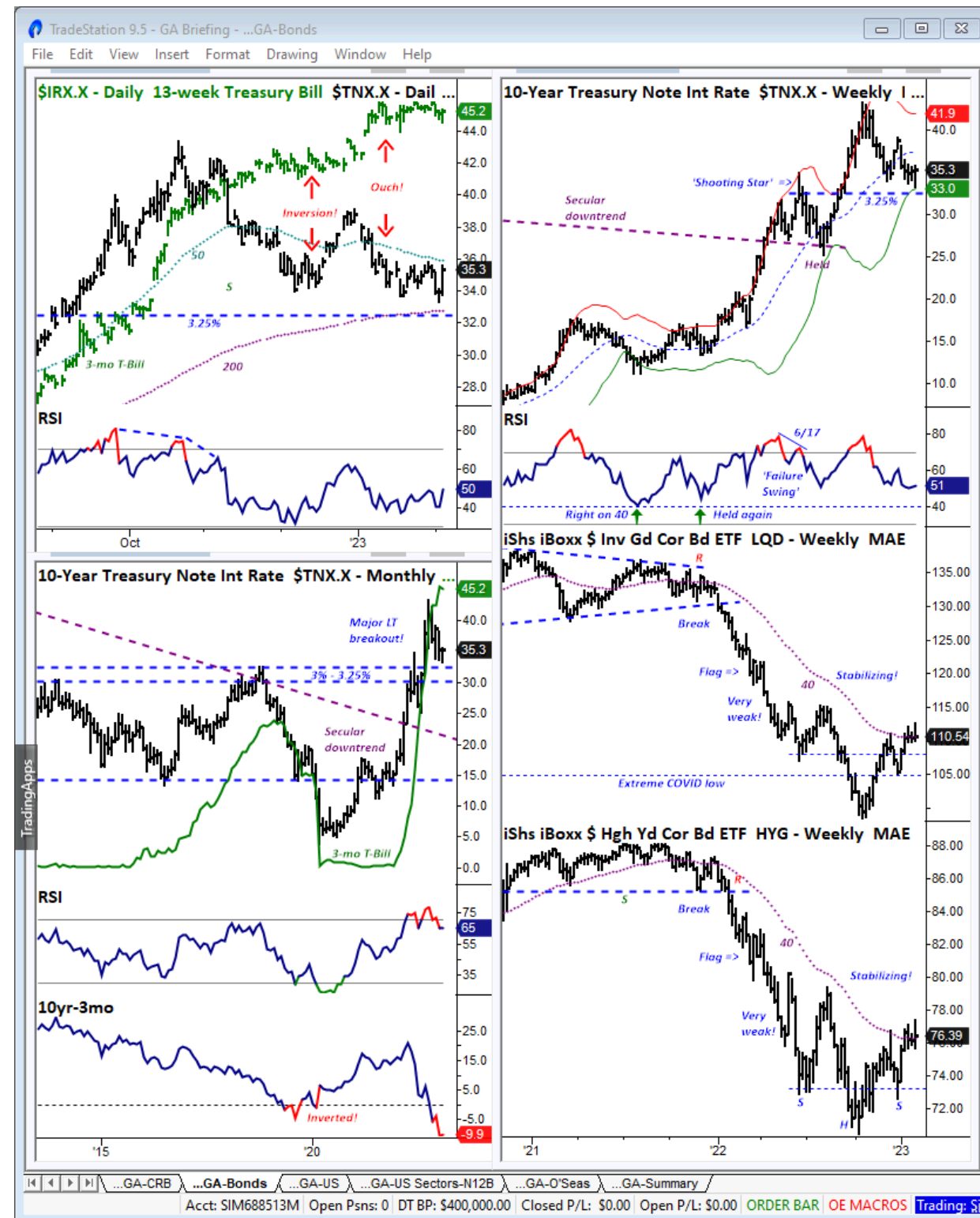
- Lower Bollinger Band back to $3\frac{1}{2}$ %
- RSI holding 50 level
- LQD & HYG finding resistance at 40-wks
- Not seeing price rejection

Monthly Charts:

- TNX has broken secular downtrend
- Biggest inversion since '81 (15.1% & 13.5%)
- New high in RSI (a bullish thing, longer term)

Bottom Line:

- Important LT breakout in US 10-yr.
- 3-mo. / 10-yr. most inverted since 1981
- 10-yr. finding support in $3\frac{1}{2}$ % area
- LQD & HYG stabilizing / improving



Credit Spreads

Spreads:

- Spreads significantly tighter on week
- Continues to look like a potential top

CCC Trends:

- ▼ 45 bp; (to 8.40%)
- Back below 9%
- Cycle high: 11.24%

HY Trends:

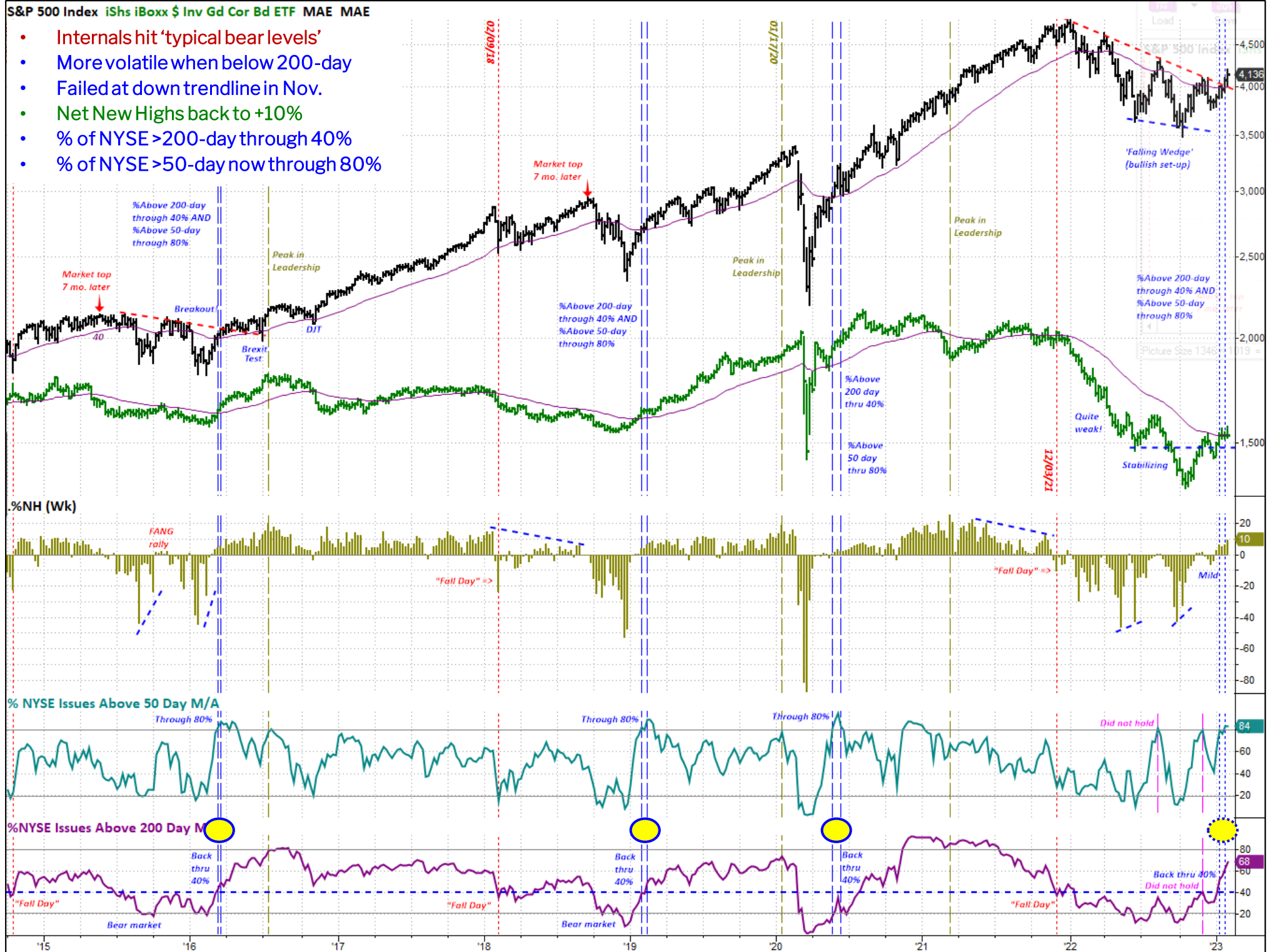
- ▼ 27 bp; (to 4.15%)
- Back below 5%
- Cycle high: 6.03%
- Has broken up trendline

IG Trends:

- ▼ 6 bp; (to 1.64%)
- Cycle high: 2.27%
- Broke Parabolic – Nov 4th
- Flashed DMI ‘Sell’ – Nov 18th
- Last ‘Buy’: 10/29/21



- Internals hit 'typical bear levels'
- More volatile when below 200-day
- Failed at down trendline in Nov.
- Net New Highs back to +10%
- % of NYSE >200-day through 40%
- % of NYSE >50-day now through 80%



Stocks

Daily Charts:

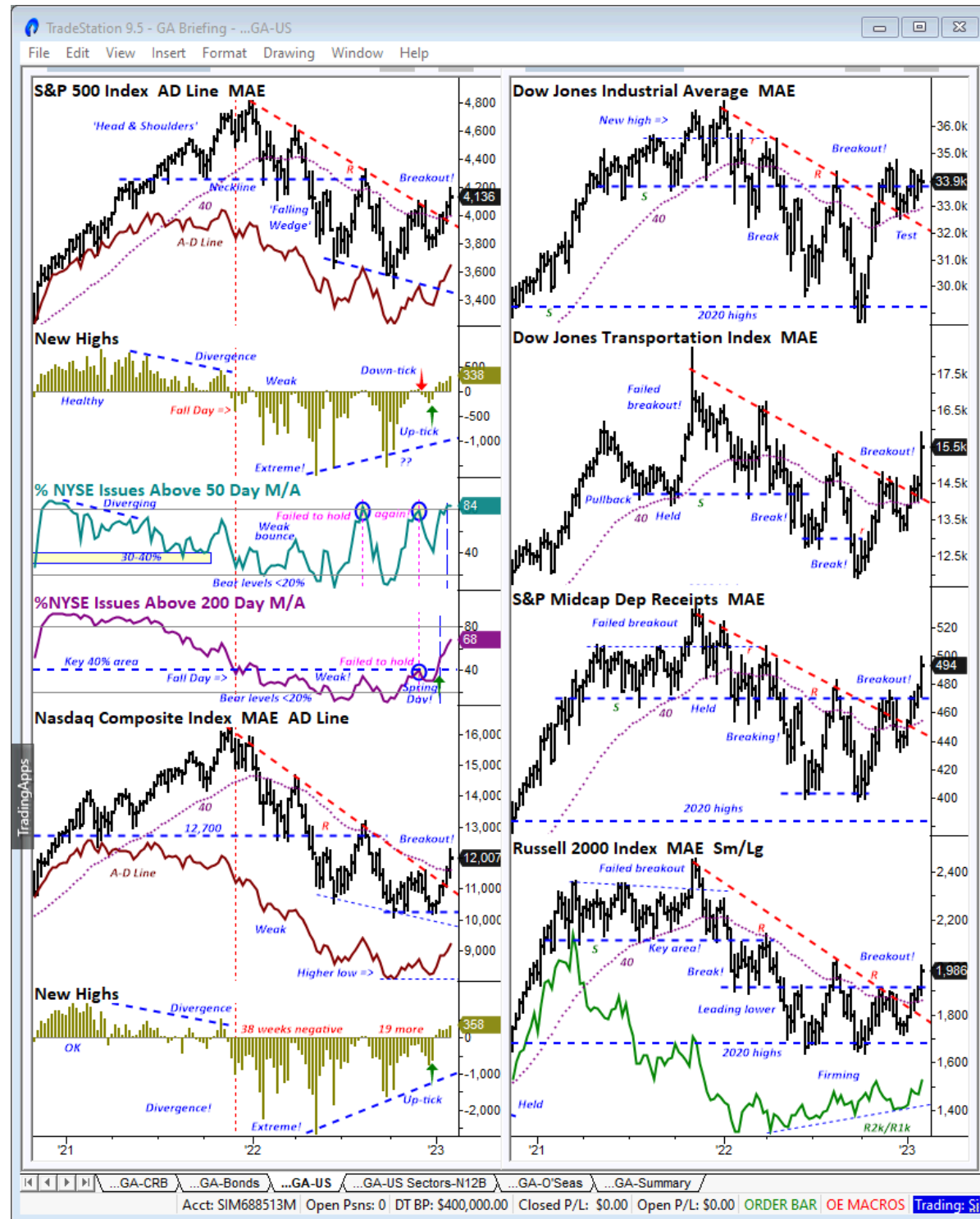
- Another good week for stocks
- IBD: 'Confirmed Rally'
- Bottoming usually a 4-step process
 - ✓ Set initial low
 - ✓ Bounce & test that low
 - ✓ Follow through to the upside
 - ☐ Test the breakout

Weekly Charts:

- Showing 'Falling Wedge' patterns (bullish)
- Clear breakouts in S&P and NASDAQ
- 'Spring Day' in %Above 50 & 200-day's
- Leadership strongest levels since 'Fall Day'
- DJIA leading the way higher
- Strong breakouts in DJTA, mid-caps & R2k

Bottom Line:

- Bulls 'have the ball' – now moving it forward
- Have now checked 'Step 3' of process
- Internals & indices confirming breakouts



Stocks

GS:

- Clear market leader
- Has tested trend break successfully
- Despite bad news on earnings

CLH:

- Leading stock in leading group
- Breaking to an all-time high
- Good example of what's working

NVDA:

- Suffered 65% bear decline
- Has broken down trendline
- Has also tested it successfully

PTON:

- Poster child for COVID bull / bear cycle
- Now emerging from H&S bottom

Builder ETF's:

- Both look to be emerging from bases
- Stocks clearly more optimistic than FT

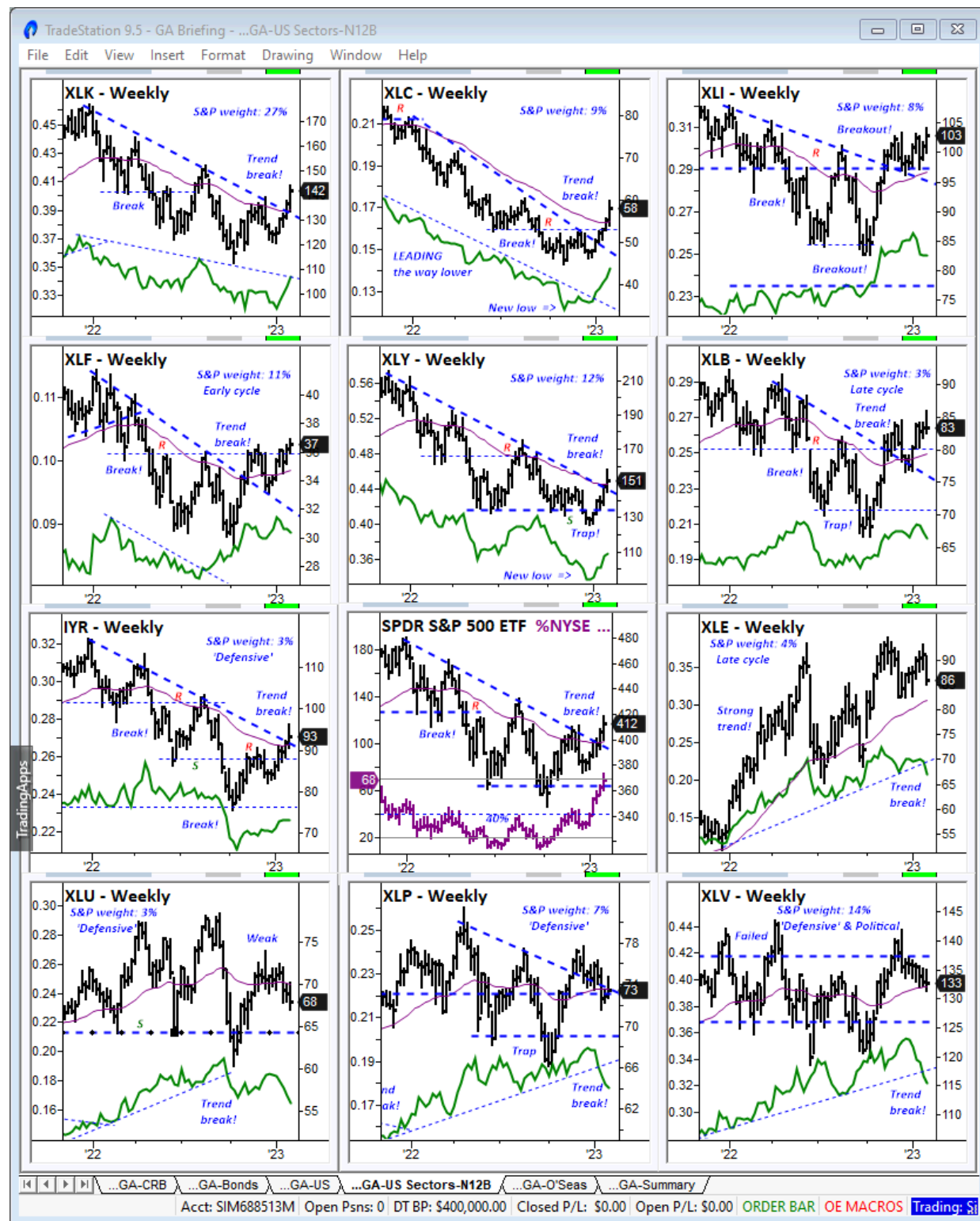


Market Sectors

Symbol	%Wk	%Wk...	%Wk...	%Yr	PrY...	POL	MOL	W...
XLC	5.3%	4.1%	1.4%	21%	-38%	27%	30%	13
XLK	3.7%	4.1%	0.7%	14%	-28%	18%	20%	13
XLV	2.3%	6.4%	-0.5%	17%	-37%	20%	25%	13
XLI	1.7%	2.2%	-3.4%	5%	-7%	8%	10%	13
IYR	1.5%	2.7%	-0.6%	11%	-28%	14%	17%	13
SPY	1.4%	2.5%	-0.7%	8%	-19%	10%	12%	13
XLF	0.9%	2.5%	-2.1%	7%	-12%	10%	11%	13
XLP	0.7%	0.3%	-2.8%	-2%	-3%	3%	8%	13
XLB	0.0%	0.7%	-1.2%	7%	-14%	11%	14%	13
XLV	-0.1%	-0.8%	-1.1%	-2%	-4%	2%	9%	13
XLU	-1.4%	-0.5%	-2.9%	-4%	-2%	5%	14%	13
XLE	-5.8%	0.8%	0.6%	-2%	58%	4%	15%	13
\$RUT	3.9%	2.4%	-1.0%	13%	-22%	15%	17%	13
MDY	3.4%	2.5%	-0.9%	12%	-14%	14%	15%	13
\$COMPX	3.3%	4.3%	0.6%	15%	-33%	18%	20%	13
\$SPX.X	1.6%	2.5%	-0.7%	8%	-19%	10%	12%	13
\$INDU	-0.2%	1.8%	-2.7%	2%	-9%	5%	7%	13
HYG	0.3%	0.0%	-0.6%	4%	-15%	6%	8%	13
TLT	0.1%	0.5%	-0.5%	7%	-33%	14%	18%	13
LQD	0.0%	0.0%	0.1%	5%	-20%	10%	12%	13
IWN	4.2%	2.3%	-1.1%	13%	-16%	15%	16%	13
IWO	3.6%	2.5%	-1.0%	13%	-27%	16%	18%	13
IWF	2.7%	3.5%	0.3%	11%	-30%	14%	16%	13
IWD	0.9%	1.8%	-1.5%	6%	-10%	8%	10%	13

Key Points:

- Mixed week – most sectors higher
- 'Risk-on' sectors again led the way
- XLU & XLV down last 3 weeks
- Relative strength in U, P & V weakening
- RS of XLE also breaking



Ari Wald: 'Sector Culprits' & Short Covering (2/4)

Sector Culprits:

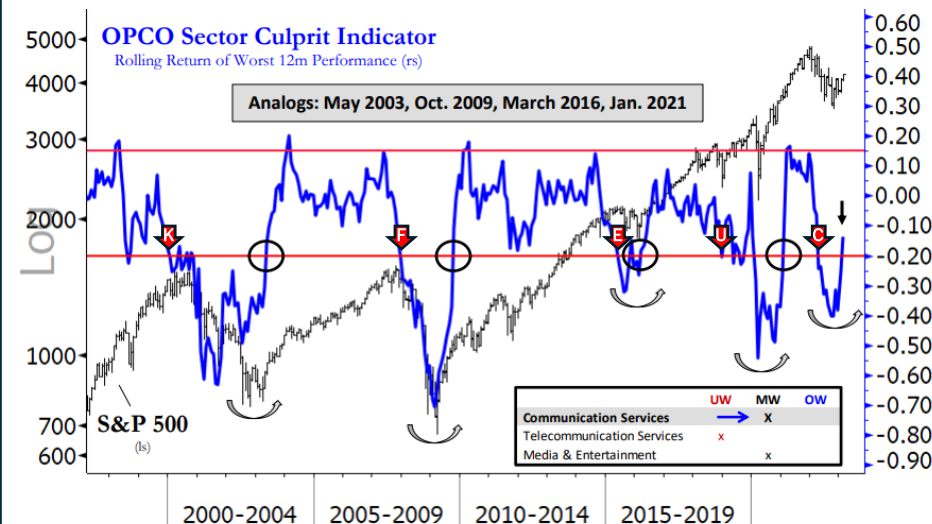
- Cyclical tops typically led by see a 'sector culprit'
- Defined by a single sector down over 20% ↓
- Indicator turning back above 20% is a 'Buy'
- Currently suggesting a new bull market

(Low) Momentum:

- Initial rallies off lows often fueled by short covering
- Can see in High-Low Momentum indicator
- Often corresponds to 'sector culprit' buy signal
- Are again occurring together

Sector Culprit Inflection Point . . .

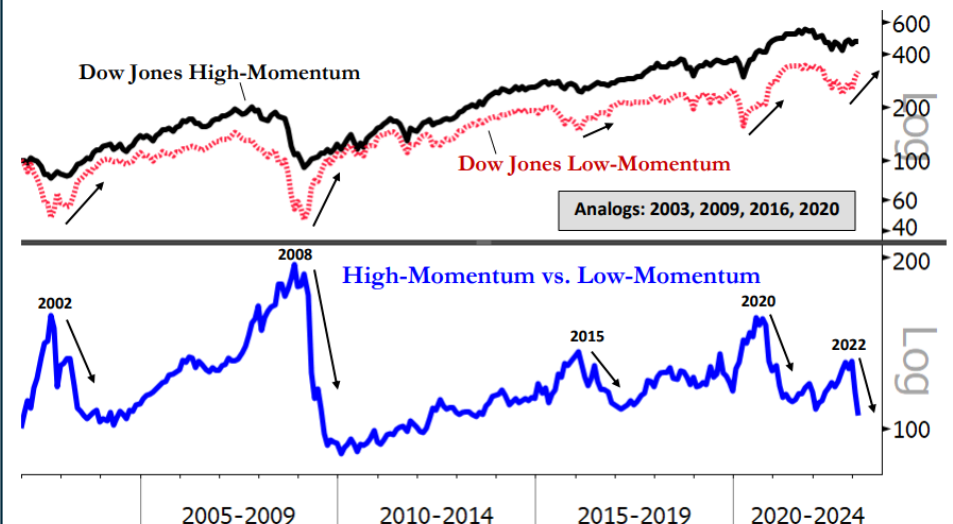
We utilize our *Sector Culprit* indicator to show that along with the typical tendency for participation to narrow into a market top, **weakness is often concentrated too**. Specifically, we've found a "culprit" sector is often down 20% y/y ahead of below-average market returns. **Communications Services was the culprit for most of 2022**. As an indication of both broadening internal breadth and the turn towards low-momentum stocks, we see the inflection in the sector's y/y performance as another market positive. **Similar turns back above -20% in our culprit indicator occurred coming off major lows in May 2003, Oct. 2009, March 2016, and Jan. 2021**. The turn also raises the **Communication Services' rating to Market Weight** from *Underweight* in our ranks.



SPX Index (S&P 500 INDEX) Sector Culprit Monthly Monthly 01JAN1990-02FEB2023 Copyrights 2023 Bloomberg Finance L.P. 02-Feb-2023 10:45:05
Source: Oppenheimer & Co. and Bloomberg. Note: These results cannot and should not be viewed as an indicator of future performance. Return data excludes applicable costs including commissions and interest.

. . . Corresponding to Low-Momentum's Turn

Not surprisingly, **collapses in market-neutral momentum occurred simultaneously with Sector Culprit inflection points off major low points in 2003, 2009, 2016, and 2020**. As advocates for momentum investing, we're acutely aware this market-neutral factor typically faces the most difficulty at the start of a new bull market when investors embrace beaten-up stocks. We've found **low-momentum outperformance is most significant during the first three months of a new advance** (study reproduced later in the report). Our top portfolio theme therefore remains *Offense over Defense*, and, for now, we'll continue to sprinkle some lower-momentum ideas onto our *Buy* lists too.



DJTMLO Index (Dow Jones U.S. Thematic Long Momentum Index) Dow Jones High vs Low Monthly 22MAR2000-02FEB2023 Copyrights 2023 Bloomberg Finance L.P. 02-Feb-2023 10:49:32
Source: Oppenheimer & Co. and Bloomberg.

Overseas Markets

Indices:

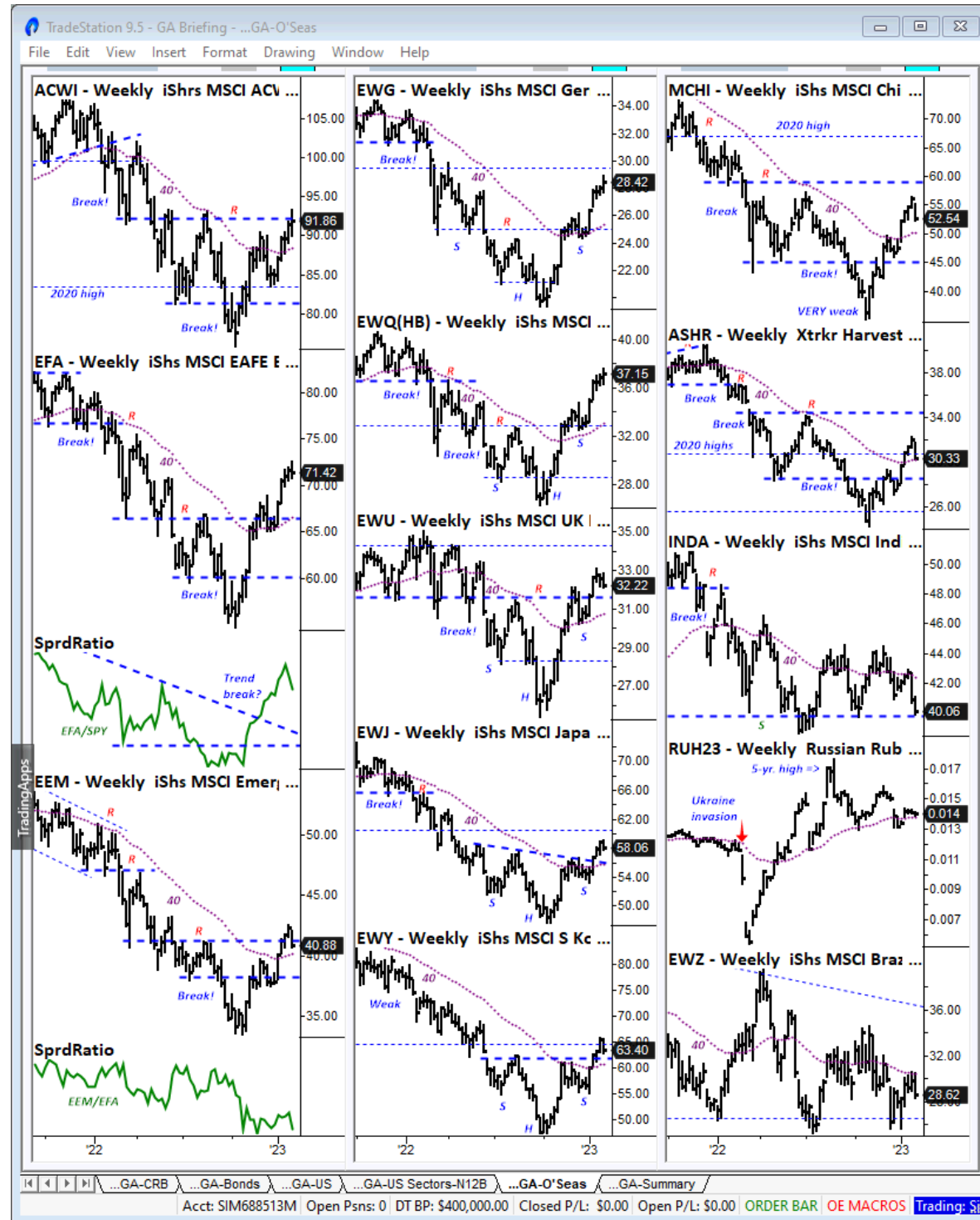
- Most overseas markets little changed
- EM weaker than DM on the week
- RS of EFA breaking very long downtrend

Country Tour:

- Germany: 'H&S' bottom in place
- France: 'H&S' bottom in place
- UK: 'H&S' bottom in place
- Japan: 'H&S' bottom in place
- Korea: 'H&S' bottom in place
- China: MCHI back through 40-wk.
- India: Strong chart, however rough week
- Russia: Ruble starting to weaken off highs
- Brazil: Holding bottom of LT range

Bottom Line:

- Continued outperformance in EFA
- RS of EFA breaking very long downtrend
- Numerous 'head & shoulders' on DMs



Summary

Commodities / US\$:

- US\$ showing bullish hammer
- BCOM testing important support
- Commodities starting to look vulnerable

Yields / Credit:

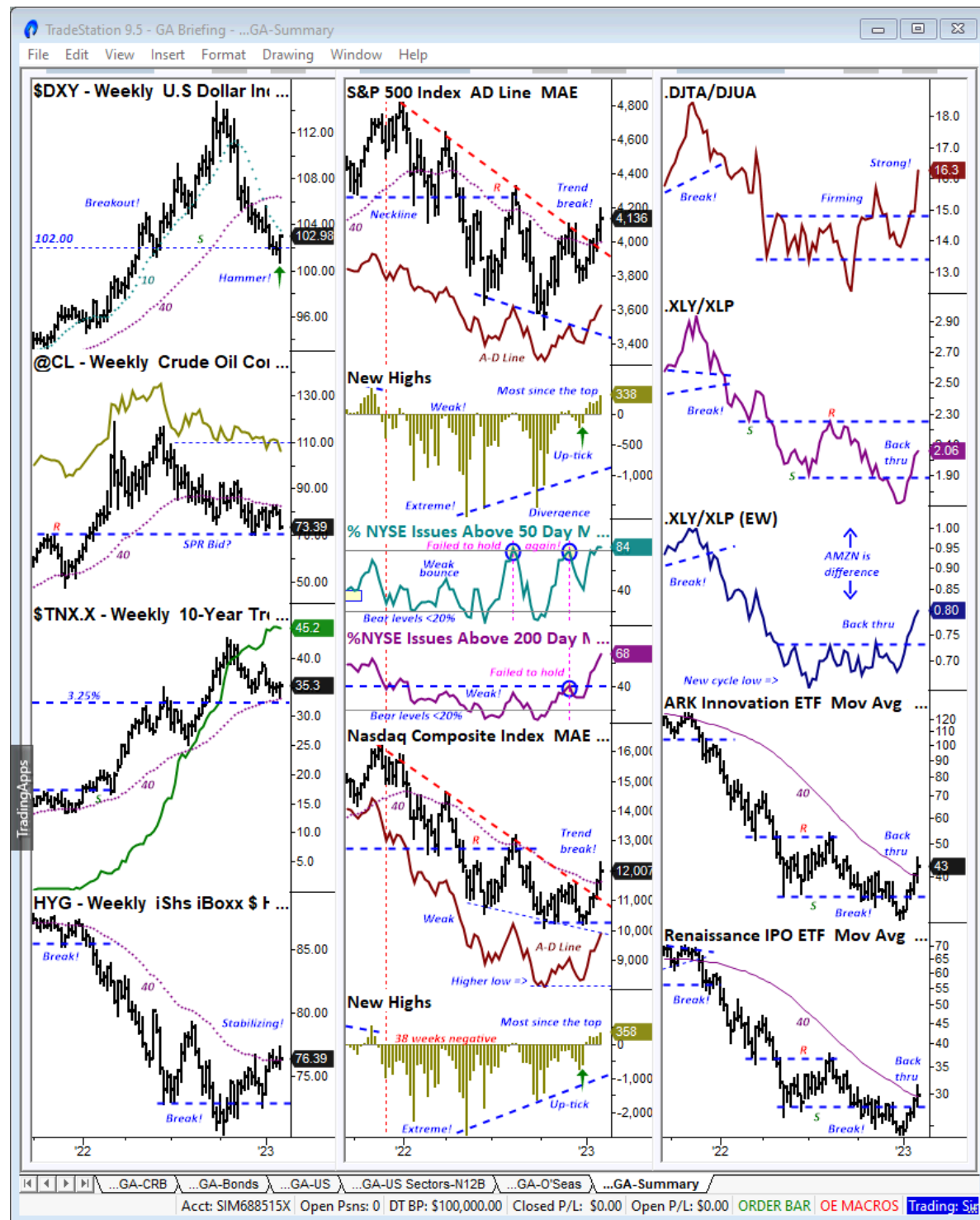
- 10-yr. finding support in 3½% area
- Biggest inversion since '81 (15.1% & 13.5%)
- Credit spreads continue to improve

Stocks:

- Another good week for stock
- Clear breakouts in S&P and NASDAQ
- 'Spring Day' in %Above 50 & 200-day's
- Have now checked 'Step 3' of process
- 'Risk-on' sectors again led the way

Overseas:

- Most overseas markets little changed
- RS of EFA breaking very long downtrend
- Numerous 'head & shoulders' on DMs





About Mike

Mike Hurley, CMT serves as Chief Market Strategist and Portfolio Manager for NexPoint Advisors, L.P.

Prior to joining NexPoint he launched 2 of the first 100 'alternative mutual funds', including the Fusion Global Long/Short Fund (FGLSX) which posted a positive return in 2008 and won the Lipper Performance Achievement Award in the Long/Short category for the one-year period ending December 31, 2008 (ranked #1 of 90).

Mike also served as Chief Technical Strategist for several boutique research firms, including: SoundView Technology Group and E*Offering (The Investment Bank of E*TRADE).

He proudly served in the United States Navy, where he flew over 50 combat missions during Operation Desert Storm, earning two Air Medals.

Mike is a graduate of UC Santa Barbara, where he received BA degrees in both Business Economics and Chemistry. He is Series 7, 63 & 65 licensed and is a Chartered Market Technician (CMT).

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Charts as of: February 3, 2023, courtesy of TradeStation or Bloomberg, unless otherwise noted.