2021 2Q
ASSET ALLOCATION OUTLOOK

Contents

CIO SUMMARY

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WHAT AND WHY?

We continuously monitor various asset classes which provide the framework for our deeper-dive quarterly analysis. We look at each asset class relative to itself and relative to other asset classes. This analysis seeks out potential tactical adjustments which may be appropriate for implementation in client portfolios.

The aim is to overweight asset classes that are perceived to be undervalued and to underweight asset classes that are perceived to be overvalued.

The result is striving to modestly enhance the return of the portfolio while simultaneously seeking to mitigate overall risk in the portfolio relative to an acceptable level of risk.

HOW?

We use two factors to drive our Asset Allocation weights: Valuation and Technicals. While we do not want to fight the trend (technicals), we also do not want to disregard valuations. Cheap can get cheaper and expensive can get more expensive.

As an example, while growth has outperformed value for a decade and has been expensive for a few years, it just keeps getting more expensive. Conversely, value just keeps getting cheaper, but has gotten so cheap that a slight overweight seems merited.

EQUITIES

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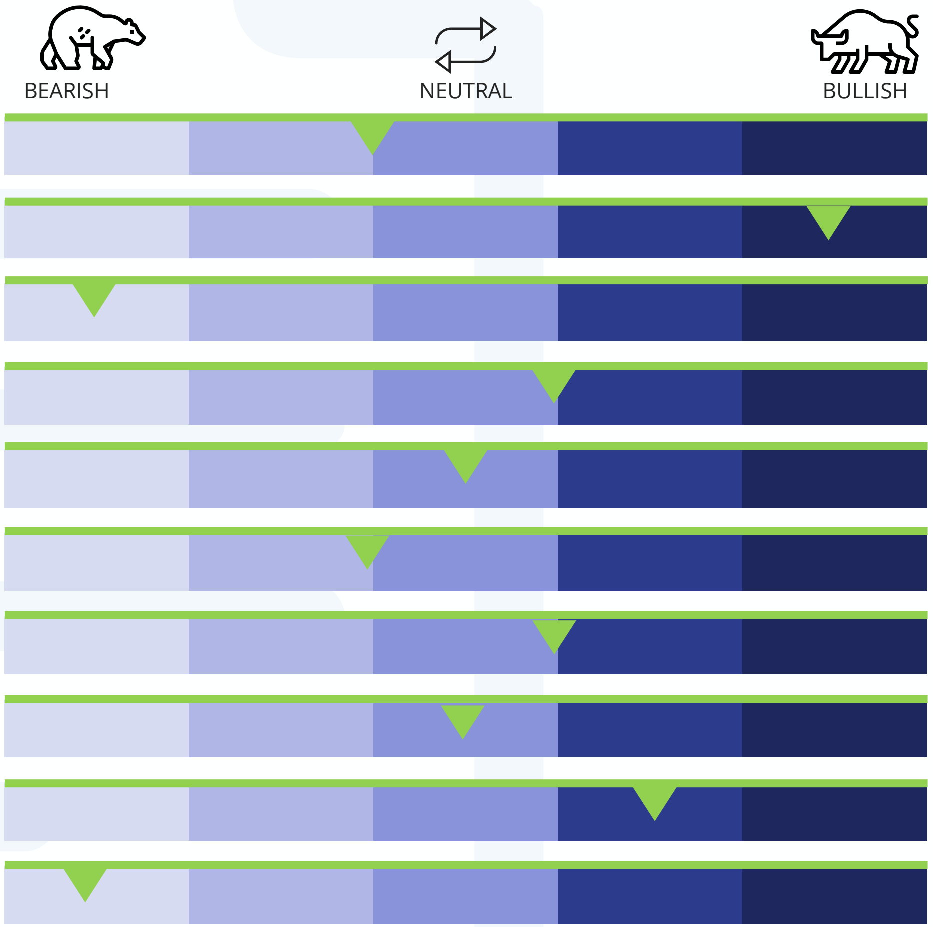
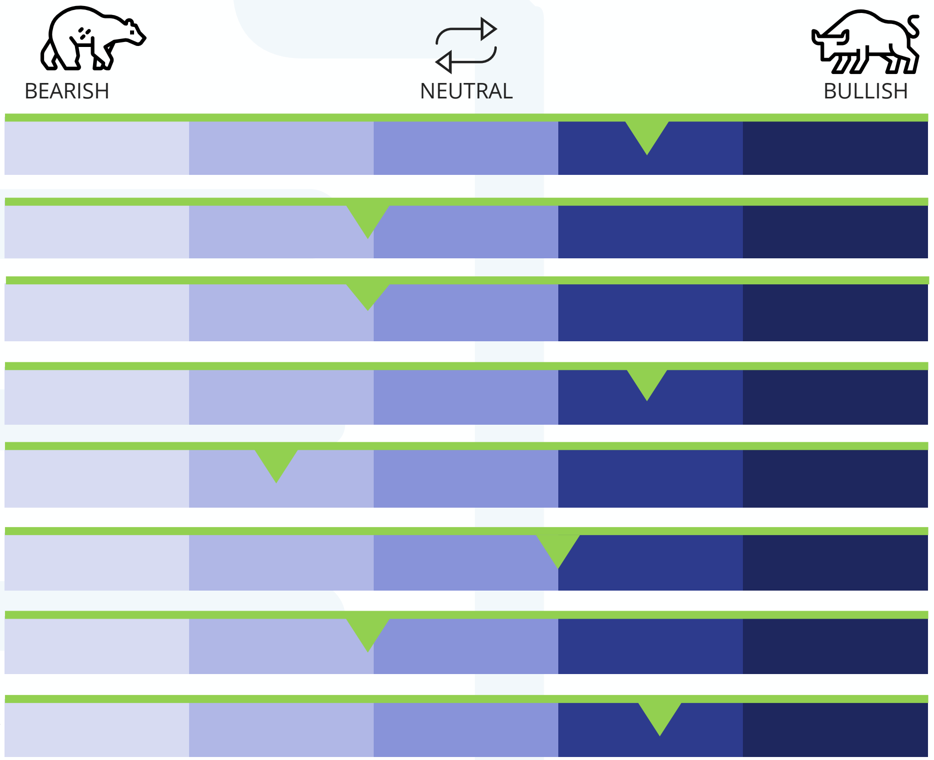
12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



	VALUATION	TECHNICALS
U.S. Equities	Expensive	Neutral
U.S. Value	Cheap	Weakening
U.S. Growth	Very Expensive	Improving
U.S. Large Cap	Expensive	Good
U.S. Mid Cap	Expensive	Good
U.S. Small Cap	Expensive	Neutral
Int'l Dev Equity	Fair Value	Improving
Emerging Mkt Equity	Cheap	Neutral
Opportunistic Equity	Cheap	Good
Opportunistic REIT's	Expensive?	Improving

FIXED INCOME

12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



	VALUATION	TECHNICALS
High Quality Fixed Inc	Fair Value	Neutral
Long Duration	Expensive	Neutral
Intermediate Duration	Expensive	Neutral
Short Duration	Expensive	Neutral
Corporate High Quality	Very Expensive	Improving
Mortgage-Backed Sec.	Fair Value	Weakening
Low Quality Fixed Inc	Expensive	Improving
Opportunistic Fixed Inc	Fair Value	Good

OUTLOOK

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12-18 MONTH ASSET ALLOCATION OUTLOOK

What a Difference Three Days Makes

While the focus is still on a quarterly review, the Fed announcement on Wednesday 6/16 has the market really confused on the future direction. The Fed is suggesting that inflation may not be transitory and that rate hikes in 2023 might be necessary, granted that is still nearly 2 years in the future. This has disrupted some of the trends we had seen over the past 6 months, especially the rotation from Value to Growth and broad interest rates moving higher. Interestingly, long term bonds had some of the largest rallies, decline in yields, in a long time, which is counter intuitive given that the Fed might be thinking about raising rates sooner.

Technicals Get Jumbled Up with Digestion of Fed Statement

Again, 3 days doesn't make a long enough trend to merit shifts in allocation, but it did cause some quick shifts in many markets that will need to be monitored over the coming quarter. There is a battle between higher rates and a potential policy error, from the Fed, that will stunt the strength of economic growth.

Notable Changes

- Most of the changes have been at the margin. The improvement in technicals for Growth vs. the weakening for Value has been noted. Additionally, Small Cap was relatively weak and made little headway during the past quarter versus other U.S. Equity markets.
- The Fixed Income markets are seeing resilience and even strength in the longer maturities, which warranted an improvement in their technical ratings. Conversely, the shorter maturities saw selling pressure with the potential prospect of higher Fed Funds interest rates than the market expected.
- Opportunistic REIT's remains on the sidelines. The technical have improved, but the apparent secular trend of WFH (Work From Home) seems to still be in force. Thus, the risk/reward opportunity does not seem favorable.

DISCLOSURES

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