2022 2Q
ASSET ALLOCATION OUTLOOK

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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, growth had outperformed value for a decade and had been expensive for a few years, but it just kept getting more expensive. Conversely, value just kept getting cheaper, but got so cheap that an overweight position seemed merited. And now Value is outperforming Growth.

EQUITIES

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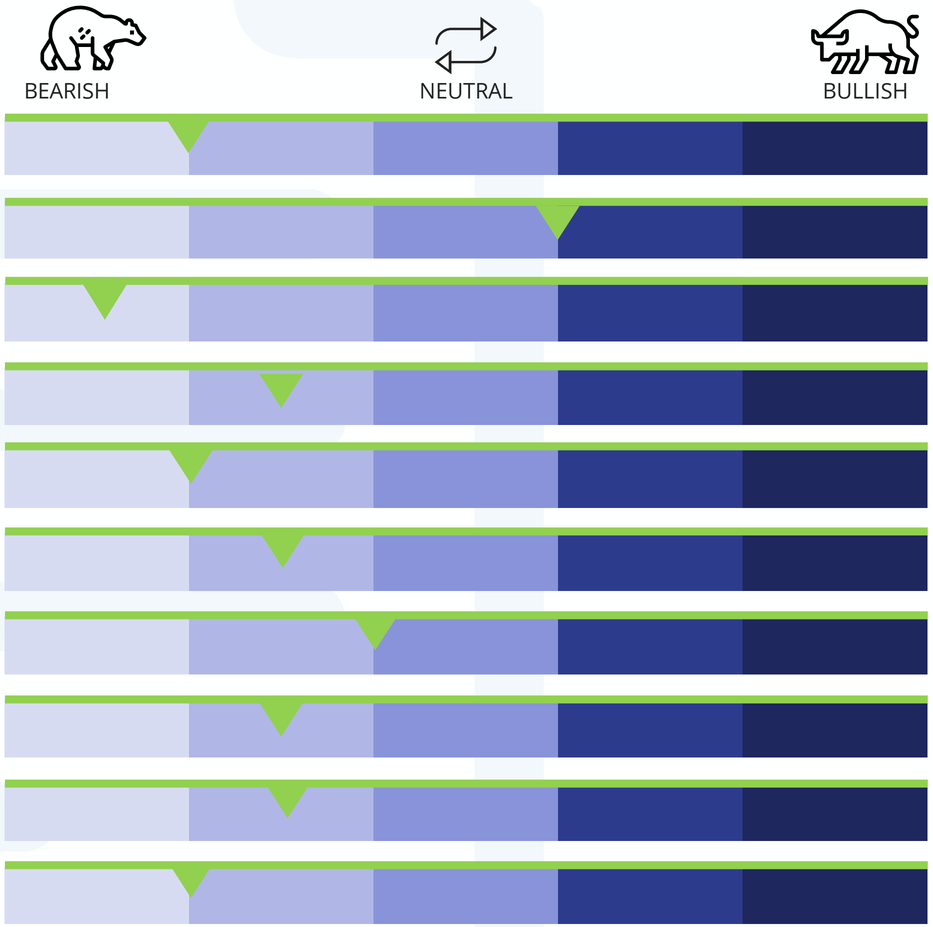
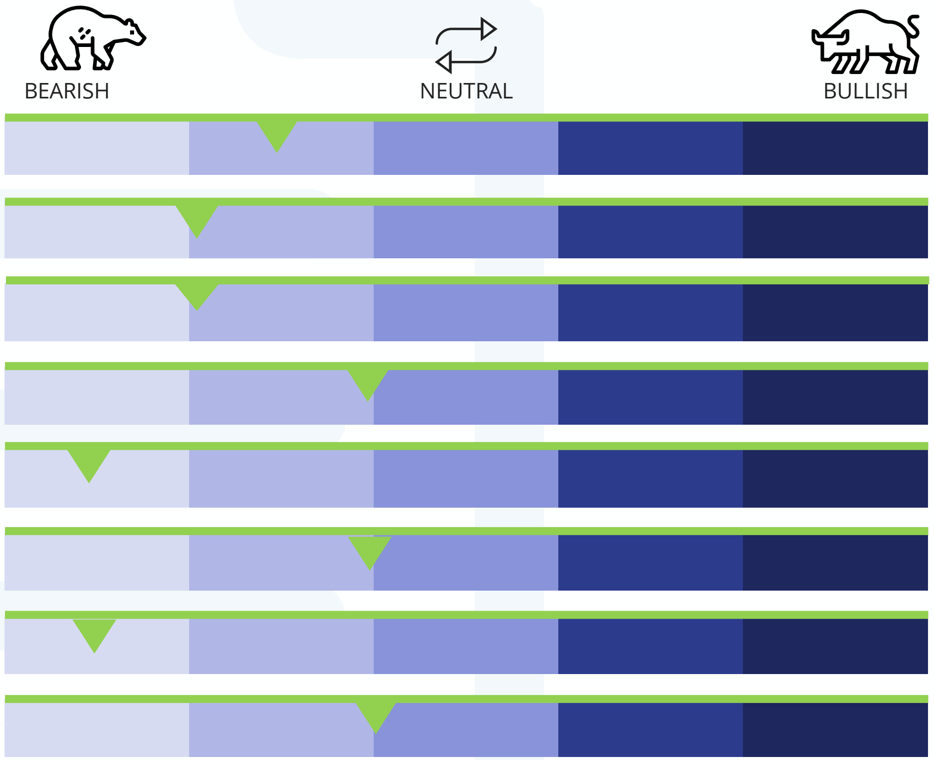
12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



	VALUATION	TECHNICALS
U.S. Equities	Less Expensive	Weak
U.S. Value	Cheap	Weakening
U.S. Growth	Expensive	Negative
U.S. Large Cap	Less Expensive	Weak
U.S. Mid Cap	Less Expensive	Negative
U.S. Small Cap	Less Expensive	Weak
Int’l Dev Equity	Fair Value	Weak
Emerging Mkt Equity	Cheap	Negative
Opportunistic Equity	Cheap	Negative
Opportunistic REIT’s	Very Expensive	Weak

FIXED INCOME

12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



	VALUATION	TECHNICALS
High Quality Fixed Inc	Fair Value	Weak
Long Duration	Less Expensive	Negative
Intermediate Duration	Less Expensive	Weak
Short Duration	Fair Value	Weak
Corporate High Quality	Less Expensive	Negative
Mortgage-Backed Sec.	Fair Value	Weak
Low Quality Fixed Inc	Expensive	Negative
Opportunistic Fixed Inc	Fair Value	Weak

OUTLOOK

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12-18 MONTH ASSET ALLOCATION OUTLOOK

The markets do not look good.

The economy is softening, potentially even in a recession. Inflation is high, maybe nearing out of control, The Fed is back peddling fast and the market keeps pushing. Almost certainly we will have another 50 bps increase in the Fed Funds rate, if not more given Friday's high, hot, inflation print. The broad equity market's, particularly the U.S., had very high valuations. The Fixed Income markets, globally, had interest rates that were too low. Now assets are actively repricing the end of easy money. The question is, does the end of easy money also mean a recession or merrily a return to "normal" valuations and slower growth. That is the question everyone wishes they had the answer to.

Technicals Continue to Weaken Across the Board for Equities and Fixed Income

The negative trend and increased volatility has continued to build the last 3 months. The charts for both Equities and Fixed Income, look bad and potentially poised for more downside. The current tactical positioning remains nearly fully defensively positioned as the fundamentals remain in question and the technicals continue to be poor.

Notable Changes

- Equities saw additional weakening across all asset classes, with some outright negative. The "relative" bright side is that the Value overweight to Growth continues to pay dividends. Value is declining less rapidly than Growth.
- The Fixed Income market weakened further with the shortest end selling off the most as many more rate hikes are expected. The long end is pricing in higher levels of inflation, but the occasional flight to safety has held back longer-term yields. Credit markets are showing more signs of stress leading the Opportunistic weighting to Floating Rate Notes to move to Short-Term High-Quality bonds.
- Opportunistic REIT's remains on the sidelines along with Opportunistic Equity. REIT's is one market I misread coming out of the pandemic, while I still believe longer term secular pressures will weigh on REIT's; the short term was not impacted as much. The short term was driven by longer-term leases that couldn't be broken along with the PPP money from the government that enabled continued payments of lease obligations.

DISCLOSURES

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