2022 3Q
ASSET ALLOCATION
OUTLOOK

Contents

WATERROCK
GLOBAL ASSET MANAGEMENT LLC

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.

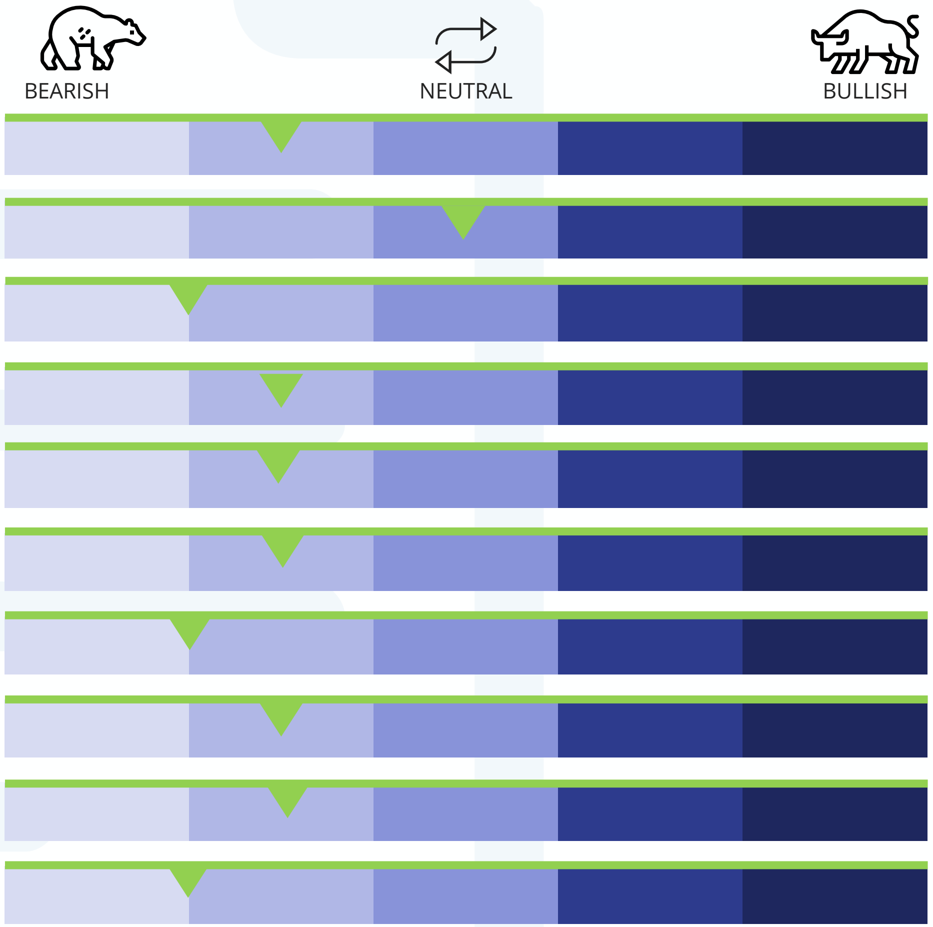
As an example, growth had outperformed value for a decade and had been expensive for a few years, but it just kept getting more expensive. Conversely, value just kept getting cheaper, but got so cheap that an overweight position seemed merited. And now Value is outperforming Growth.

EQUITIES

Asset Allocation Outlook

EQUITIES

12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



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

FIXED INCOME

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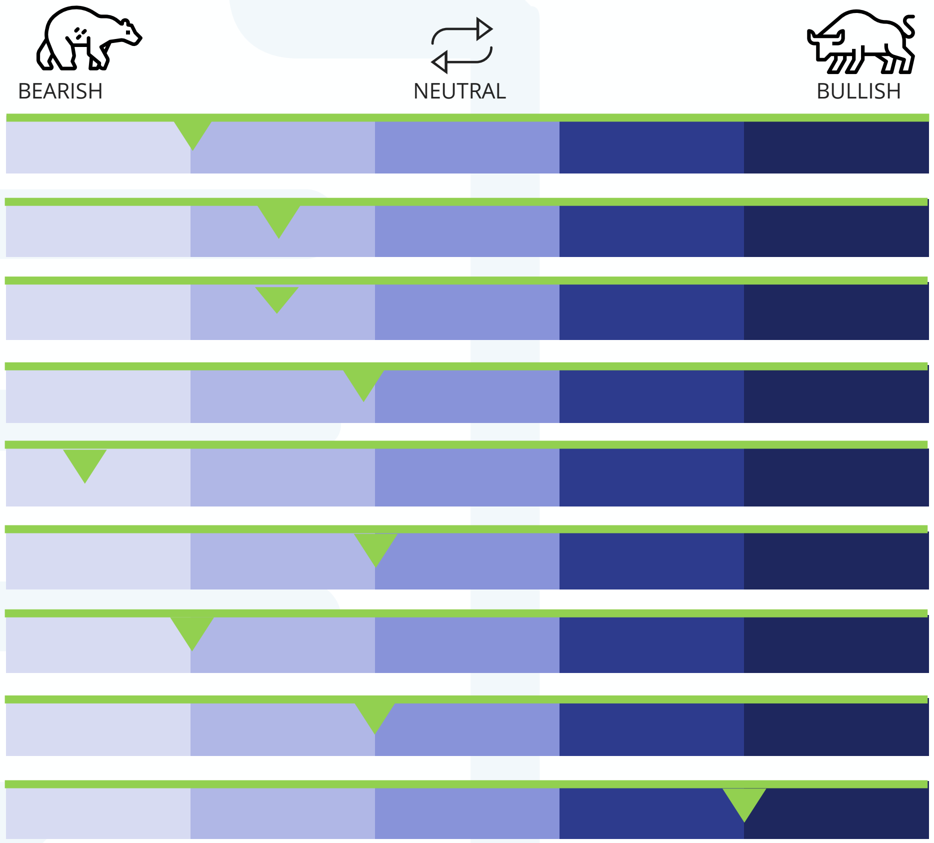
12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



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

OUTLOOK

12-18 MONTH ASSET ALLOCATION OUTLOOK

The markets do not look good, deviated mid-quarter only to resume being true.

The economy continues to show signs of softening and recession talk is increasing. Inflation continues stubbornly higher, which The Fed is growing increasingly concerned about and has now hiked the Fed Funds rate 75 bps 3 times in a row. The July hike and removal of defined rate hikes, led the equity markets to believe the Fed had pivoted. Subsequent price action shows the Fed may have pivoted, but more hawkish rather than potentially dovish. Once again, during the quarterly review, most asset classes are at or near year-to-date lows. The Fixed Income markets, globally, have been significantly repriced to the point that some arguments could be made that we are at or near fair value. The equity markets are certainly less expensive, but that is measured against record earnings. The big question is, what does dollar strength and continued rate hikes do to earnings in the coming quarters? If the earnings don't hold up, then the less expensive argument losses a lot of weight

Technicals Build into Negative Postures Across the Board for Equities and Fixed Income

The negative trend, that was abating by mid-August resumed through the following month. 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 which were weakening across all asset classes have turned outright negative. The International story, especially regarding Europe is looking "dark" as they head into winter. Unfortunately, a pun and reality in one word. In hindsight, this outlook is not dissimilar to June, but no action was taken. As a result, the overweight from International Markets is removed and shifted another step to being underweight. The U.S. has its' problems, but Europe looks worse.
- The Fixed Income market sold off further driving interest rates even higher. Maybe even high enough to suggest that, at least, Treasury yields may be at or approaching Fair Value. A change strategically has been made to reduce the "max" exposure that can be taken in High Yield within the Fixed Income allocation and a new category defensive Fixed Income has been added, which is a Floating Rate Treasury Note position.
- Opportunistic Strategies – remain in defensive positions. A strategic change in the holding asset has been made as referenced in Fixed Income. The Short Term Corporate High-Quality position is being replaced with a Floating Rate Treasury Note position.

DISCLOSURES

WaterRock Global Asset Management, LLC. (“WaterRock Global”) is a Registered Investment Advisory Firm regulated by the State of Washington and the Securities Exchange Commission under the Investment Advisors' Act of 1940 and in accordance and compliance with applicable securities laws and regulations. Investing in the stock market involves risk, including the risk of principal loss. Information in this newsletter is in no way intended as personalized investment advice and should not be interpreted as such. Past performance is not necessarily indicative of future results.

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