2023 4Q
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 a clients' 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 continues to outperform Growth.

EQUITIES

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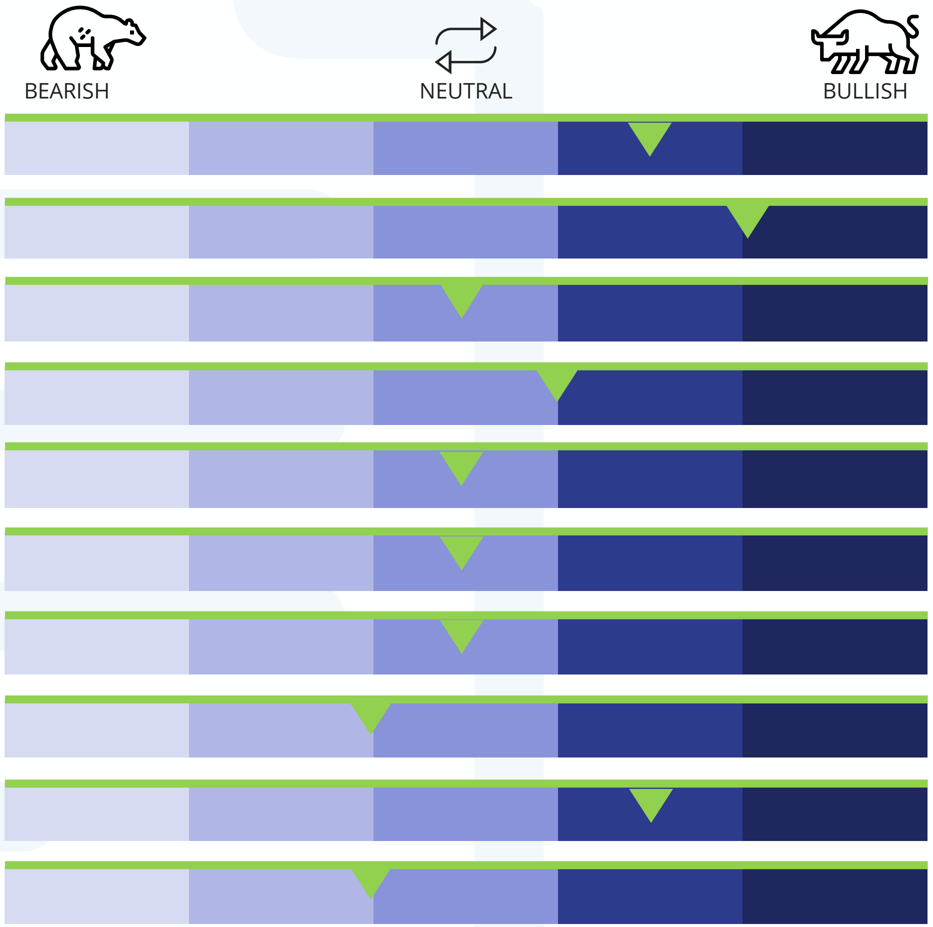
12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



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

FIXED INCOME

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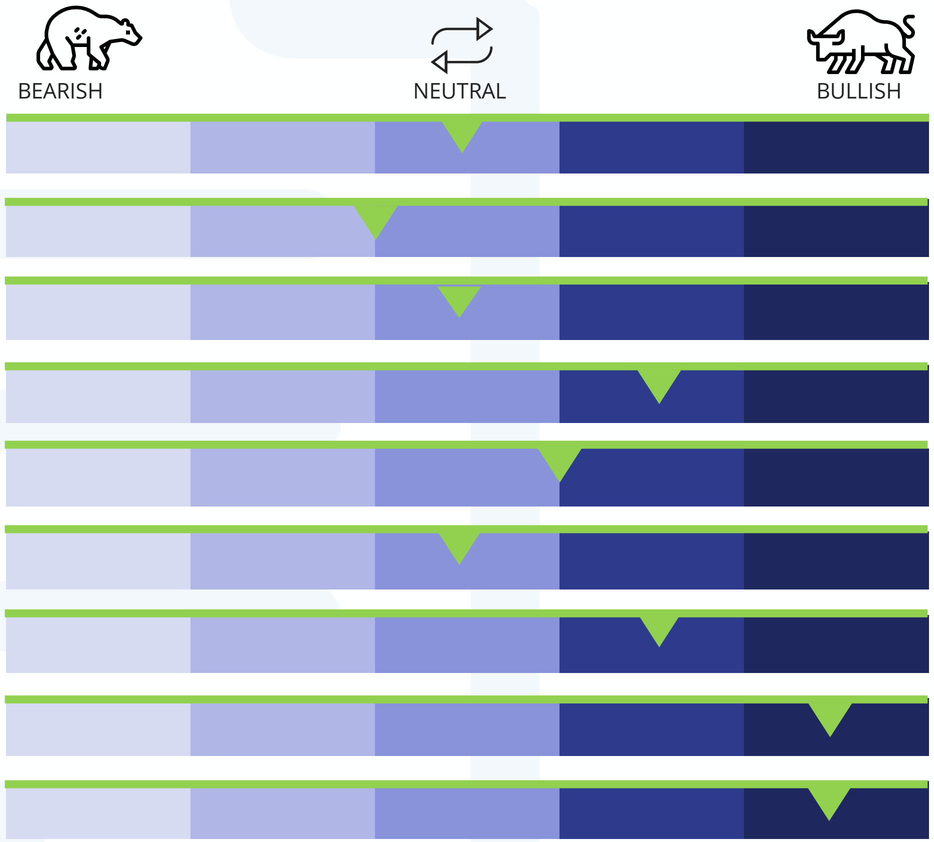
12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



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

OUTLOOK

12-18 MONTH ASSET ALLOCATION OUTLOOK

The equity weakness seen at the end of the last period, continued into late October on fears of higher for longer interest rates, with Fixed Income following suit.

The economic resilience continues, but moderating inflation has ignited the rate cut animal spirits and an almost everything rally of historic proportions ensued. By example, the Russell 2000 Small cap index went from a 52-week low to new 52-week high in a new speed record of just 48 calendar days. Investors are now pricing in almost 7 rate cuts for 2024 from near 0 at the end of October.

Technicals pretty much across the board, equity and fixed income, improved significantly with the "V" shaped recovery the last 6 weeks. The bet is that inflation abates, and the economic data holds firm.

The "V" shaped rally from late-October has been impressive for several categories in equites, but some areas have lagged. However, within Fixed Income it was one jaw dropping rally after another across all categories. Can the Fed deliver the rate cuts the market is banking on? Can inflation continue to diminish if the Fed starts another aggressive rate cutting cycle? Does a stable growing economy allow the Fed to cut as aggressively as the market is pricing in? Does the economy need to dip into a recession to support the number of rate cuts the market is pricing in? If so, what impact does that have on risk assets?

Notable Changes

- Large cap equities moved up a notch to Positive, with "risker" categories lagging, but moving to Improving or holding Neutral.
- The Fixed Income markets were upgraded on better technicals, from generally Negative and Deteriorating to Improving and Positive. The defensive Fixed Income category continues to maintain a very Bullish posture and continues to be the best-looking asset class of any segment.
- Opportunistic Strategies maintained risk-on for Fixed Income, with Floating Rate Senior Bank Loans, loving higher rates and a stable economy. Equity, remains allocated to Emerging Market Small Caps. Real Estate is showing signs of improvement in the "V" shaped rally, but fundamentals remain a concern, thus maintaining a defensive position.

DISCLOSURES

WATERROCK
GLOBAL ASSET MANAGEMENT LLC

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