

2026 1Q
ASSET ALLOCATION
OUTLOOK



Contents

CIO Summary	<u>PG. 3</u>
Equity Weightings	<u>PG. 5</u>
Fixed Income Weightings	<u>PG. 7</u>
Outlook	<u>PG. 9</u>
Disclosures	<u>PG. 11</u>



CIO SUMMARY

Kevin M. Churchill CFA®, CFP®
Chief Investment Officer



WHAT AND WHY?

We continuously monitor various asset classes which provides 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. However, all things are cyclical and now Growth has reasserted dominance and we are adjusting to that reality.



EQUITIES

↓
EQUITIES

12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



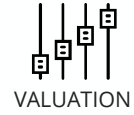
BEARISH



NEUTRAL



BULLISH



VALUATION



TECHNICALS

U.S. Equities



Expensive

Consolidating

U.S. Value



Fair Value

Positive

U.S. Growth



Expensive

Consolidating

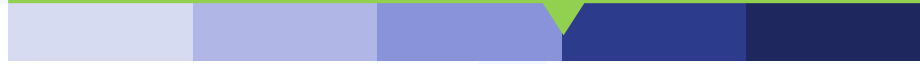
U.S. Large Cap



Expensive

Consolidating

U.S. Mid Cap



Fair Value

Positive

U.S. Small Cap



Fair Value

Positive

Int'l Dev Equity



Fair Value

Very Positive

Emerging Mkt Equity



Cheap

Positive

Opportunistic Equity



Cheap

Positive

Opportunistic REIT's



Expensive?

Improving

A decorative graphic on a purple background. A thick, light purple diagonal line runs from the bottom-left towards the top-right. Two large, light purple circles are positioned on the line: one in the upper-left quadrant and one in the lower-right quadrant. The text 'FIXED INCOME' is centered horizontally and partially overlaid by the diagonal line.

FIXED INCOME



12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



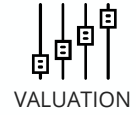
BEARISH



NEUTRAL



BULLISH



VALUATION



TECHNICALS

High Quality Fixed Inc



Fair Value

Positive

Long Duration



Fair Value

Consolidating

Intermediate Duration



Fair Value

Positive

Short Duration



Fair Value

Very Positive

Corporate High Quality



Modestly Expensive

Consolidating

Mortgage-Backed Sec.



Fair Value

Positive

Low Quality Fixed Inc



Expensive

Very Positive

Opportunistic Fixed Inc



Fair Value

Very Positive

Defensive Fixed Inc



Fair Value

Very Positive



OUTLOOK

12-18 MONTH ASSET ALLOCATION OUTLOOK

The market continued chopping higher for most of the quarter, but the Iran conflict/war at the end of February abruptly changed many of the prevalent trends as oil prices and uncertainty spiked. The challenge for this rebalance, is this a short-term disruption of the pre-conflict/war trends or are we starting new trends? The only previous example was the “mini” bank crisis 3 years ago in 2023. That ended up being a blip mitigated by the Fed. Clearly the Fed can’t mitigate this event, which leaves us in a quandary.

Pre-conflict/war the economic data was good, inflation was resilient, but relatively stable and unemployment was holding steady. Now, at a minimum, we have a spike in inflation as gas prices have already had a significant jump. The market has now removed rate cuts from the Fed for at least the first half of the year.

After many days of thought, reflection and further review of the charts, status quo is the current posture. There were likely to be additional shifts in the allocations as we did last quarter. However, now the daily trends have been disrupted but the weekly trends, while not nearly as strong, don’t merit a quick shift.

Notable Observations

- International Developed Markets have been outperforming Emerging Markets since early November.
- High Quality Corporate bonds started meaningfully underperforming Mortgage bonds at the end of November and have really lagged in March; we are allocated to Mortgage Bonds.
- Opportunistic Strategies shift from Floating Rate Bank loans to Emerging Market Debt was working out great pre-conflict/war as the Private Credit debt anxieties really hit Floating Rate Bank loans. The head starker is the outperformance of Floating Rate Bank loans vs. Emerging Market Debt, isn’t that it is going down less, rather Floating Rate Bank loans are up over 1% for the month after peaking in mid-January and falling almost 4%. The decision to hold onto U.S. Real Estate was a good one as prices rallied over 10% year to date before the recent selloff.



WATERROCK
GLOBAL ASSET MANAGEMENT LLC

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.

A large, light blue graphic in the background consists of a line chart on the left and a pie chart on the right, both rendered in a simplified, stylized manner. The line chart shows a horizontal line that then slopes downward. The pie chart is divided into several segments. The entire graphic is set against a solid blue background.

2026 1Q ASSET ALLOCATION OUTLOOK