

2025 4Q ASSET ALLOCATION OUTLOOK



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WATERROCK
GLOBAL ASSET MANAGEMENT LLC



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 (technical), 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



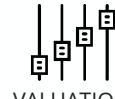
BEARISH



NEUTRAL



BULLISH

U.S. Equities**U.S. Value****U.S. Growth****U.S. Large Cap****U.S. Mid Cap****U.S. Small Cap****Int'l Dev Equity****Emerging Mkt Equity****Opportunistic Equity****Opportunistic REIT's**

VALUATION



TECHNICALS

Expensive

Consolidating

Fair Value

Positive

Expensive

Consolidating

Expensive

Consolidating

Fair Value

Positive

Fair Value

Positive

Fair Value

Very Positive

Cheap

Positive

Cheap

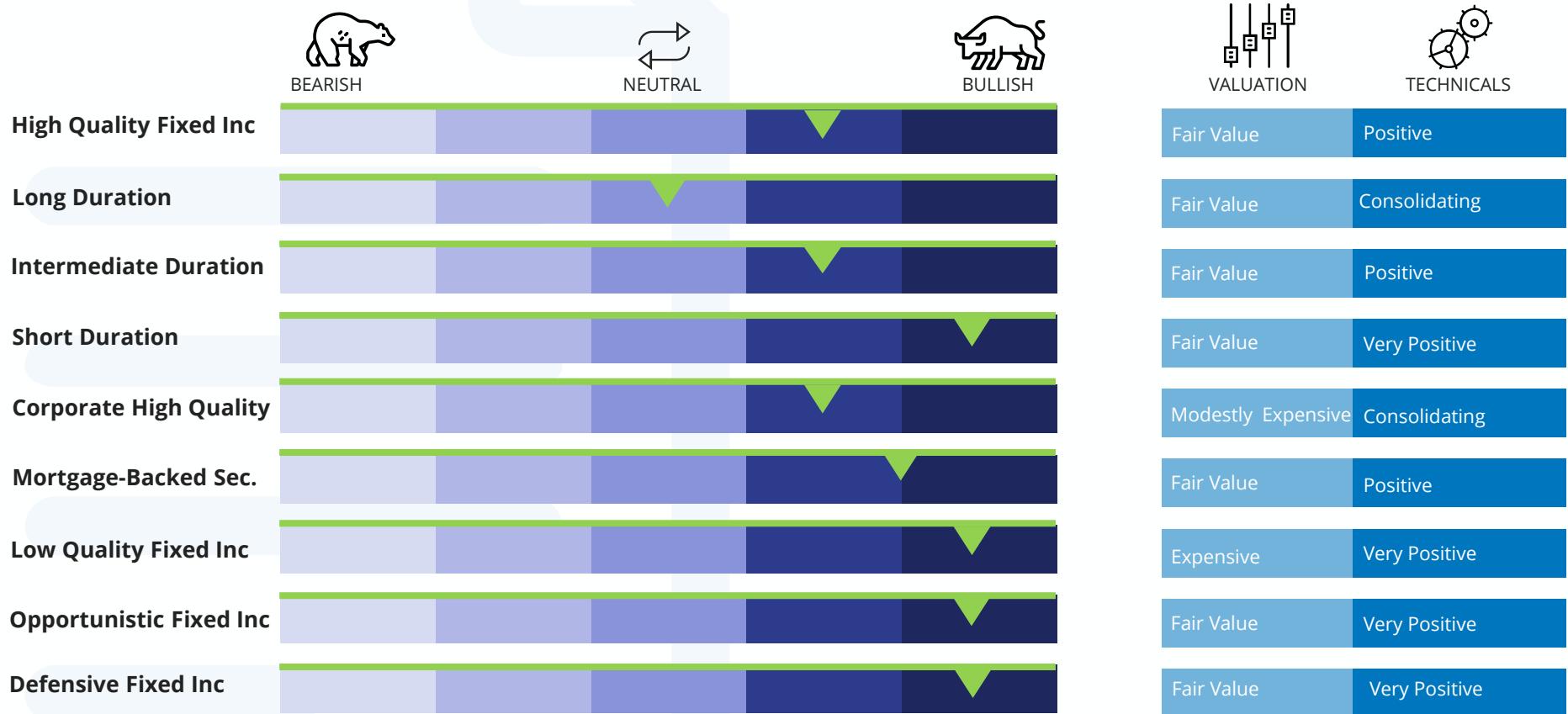
Positive

Expensive?

Improving

FIXED INCOME

12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS





OUTLOOK

12-18 MONTH ASSET ALLOCATION OUTLOOK

The market continued moving higher, but with a lot more volatility, and late October marking the last new all-time high of substance, as reflected in the S&P 500. Late October was when the Fed brought uncertainty on the path of rate cuts. Fixed Income markets shifted focus to future growth and/or inflation.

The economy is believed to still be resilient; though the lack of data from the government shutdown has left the picture cloudier than the markets would prefer. The latest Fed rate cut brought the Fed to an incoming data focus versus autopilot.

Equity technicals moved toward moderately positive as previous highfliers, Growth, shifted down, and perennial laggards, Mid and Small cap, moved up a little in equity markets. Fixed Income jogged and shuffled but the ratings were little changed. It feels like markets are shifting from lower for longer, which helped Growth and Tech, to more normal.

Notable Changes

- Equity, broadly entered a consolidating phase, though Value, Mid and Small showed improvement. The result was removing one step of the Growth overweight and reducing the Value underweight.
- International continued to have strong performance, though Emerging Markets started consolidating.
- Fixed Income had a lot of headline noise, but the charts didn't show nearly as much fuss and remained by in large unchanged. The extension of duration looked good until the month of December. It seems that some uncertainty about the policies of the soon to be announced new Fed Chair has the longer end of the yield curve a little concerned.
- Opportunistic Strategies maintained risk-on for Fixed Income, though shifting from Floating Rate Bank loans to Emerging Market Debt. Equity continues to look good, though US Microcap has pushed higher again and we reallocated out of Emerging Market Small Caps. Real Estate continues to be the weakest of the risk-on allocations, though International is making its' case for a reallocation. The case isn't yet strong enough to make a shift and we remain allocated to U.S. Real Estate.

↓ DISCLOSURES



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