



2021 1Q

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 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.

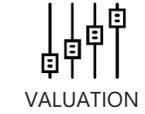
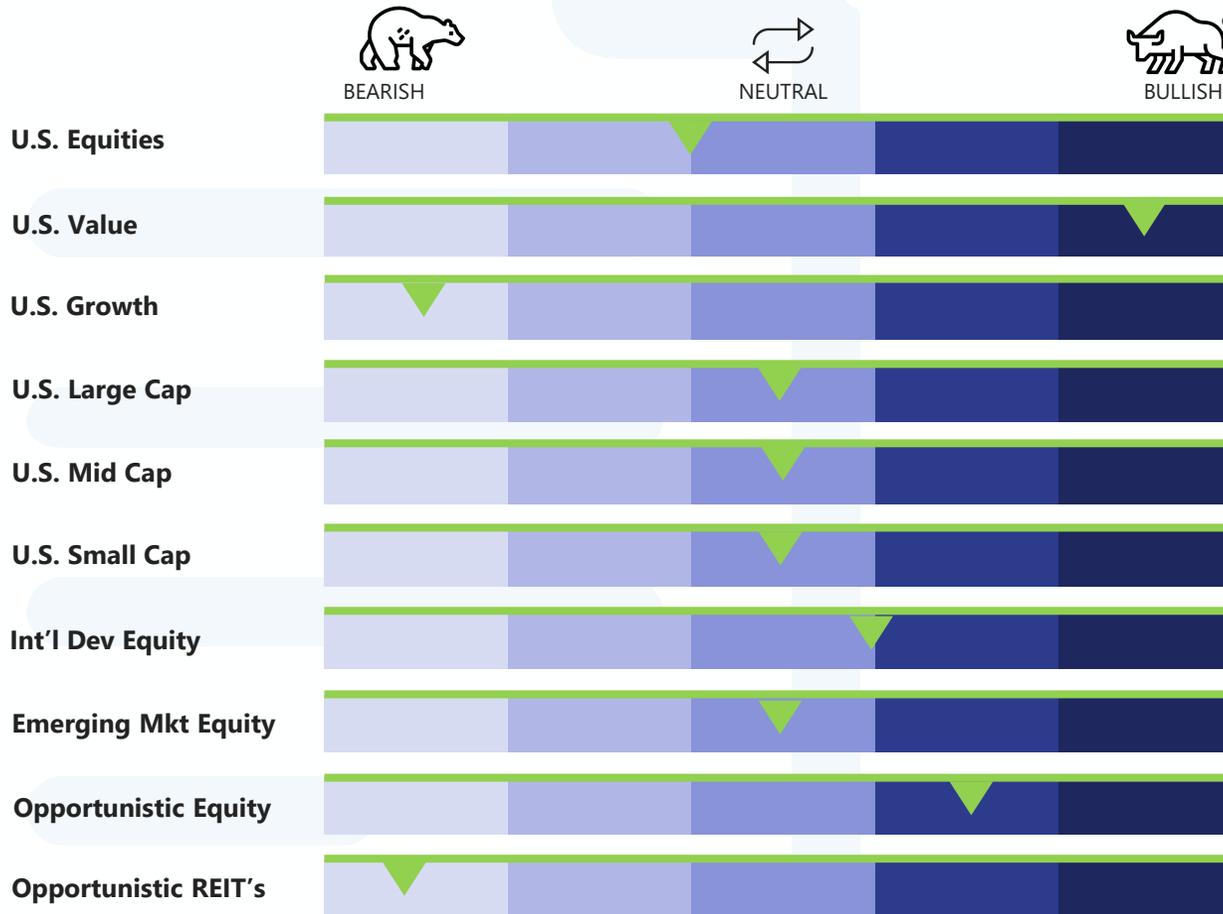
As an example, while growth has outperformed value for a decade and has been expensive for a few years, it just keeps getting more expensive. Conversely, value just keeps getting cheaper, but has gotten so cheap that a slight overweight seems merited.



EQUITIES

EQUITIES

12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



Expensive



Neutral

Cheap

Good

Very Expensive

Weakening

Expensive

Good

Expensive

Good

Expensive

Very Strong

Fair Value

Improving

Cheap

Weakening

Cheap

Good

Expensive?

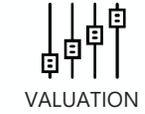
Improving



FIXED
INCOME

FIXED INCOME

12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



Fair Value



Weakening

Valuation	Technicals
Expensive	Weak
Expensive	Neutral
Expensive	Good
Expensive	Weakening
Fair Value	Good
Expensive	Neutral
Fair Value	Good



OUTLOOK

12-18 MONTH ASSET ALLOCATION OUTLOOK

What a Difference Three More Months Makes

The benefit of a quarterly review is that it gives trends time to show if they seem to be for real. The markets and economy seem to be moving into a full recovery phase as seen in higher interest rates and higher commodity prices. The shift could have long lasting rotations that take years to reverse some of the past decade relative performance divergences.

Technicals Continue to Repair 1-Year After the Crash

The longer-term charts still show the big dip in March, but as more data is added, the pandemic looks more like a crash that is being put in the rearview mirror. The shorter-term trends have continued developing into the intermediate term and suggest some shifts are warranted.

Notable Changes

- We made a slight overweight move to Value nearly 3 years ago, we figured it was early, but had no idea how early it would prove to be. Between the valuation gap of Growth and the performance gap, Value seems to be finally making some real headway against Growth. Maybe this time the long-awaited resurgence of Value is here, which merits an increase to an overweight position.
- The U.S. markets are still relatively expensive to the rest of the world and like Growth, seemingly long in the tooth. As such, the improvement in International markets coupled with a longer path for recovery from the corona virus we are going to a slight overweight to International Large Cap from U.S. and at the same time moderating the exposure to Emerging Markets.
- Fixed Income markets are struggling with the increase in yields. Given the continued strength in commodities we will error on the side of caution and reduce our intermediate weight with a slight shift to short term bonds.

↓ DISCLOSURES



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