

2021 3Q  
ASSET ALLOCATION  
OUTLOOK



# Contents

CIO Summary PG. 3

Equity Weightings PG. 5

Fixed Income Weightings PG. 7

Outlook PG. 9

Disclosures PG. 11

WATERROCK

GLOBAL ASSET MANAGEMENT LLC



# CIO SUMMARY

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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 an overweight position seems merited.



EQUITIES

↓  
EQUITIES

# 12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



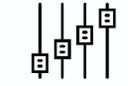
BEARISH



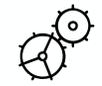
NEUTRAL



BULLISH



VALUATION



TECHNICALS

**U.S. Equities**



Very Expensive

Good

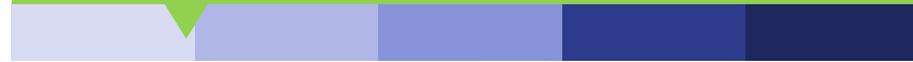
**U.S. Value**



Cheap

Neutral

**U.S. Growth**



Extremely Expensive

Good

**U.S. Large Cap**



Very Expensive

Good

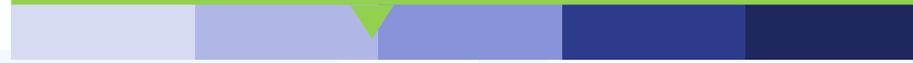
**U.S. Mid Cap**



Expensive

Good

**U.S. Small Cap**



Expensive

Neutral

**Int'l Dev Equity**



Fair Value

Neutral

**Emerging Mkt Equity**



Cheap

Neutral

**Opportunistic Equity**



Cheap

Good

**Opportunistic REIT's**



Expensive?

Neutral

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

FIXED INCOME



## 12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



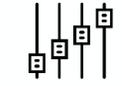
BEARISH



NEUTRAL



BULLISH



VALUATION



TECHNICALS

High Quality Fixed Inc



Fair Value

Neutral

Long Duration



Expensive

Neutral

Intermediate Duration



Expensive

Neutral

Short Duration



Expensive

Neutral

Corporate High Quality



Very Expensive

Neutral

Mortgage-Backed Sec.



Fair Value

Neutral

Low Quality Fixed Inc



Expensive

Good

Opportunistic Fixed Inc



Fair Value

Good



OUTLOOK

## 12-18 MONTH ASSET ALLOCATION OUTLOOK

### A Resumption of Prevailing Trends

The 3-day decline referenced last quarter was once again a dip to buy as occurred again in July and August. Currently the S&P 500 is working on a 2 week pause, will this be a repeat of the last 3 months? Only time will tell. The continuing debate of when to start tapering Quantitative Easing and whether continued strength in the Inflation headlines will be transitory or not rage on. Equities generally shook of the early summer weakening and Fixed Income generally continued to stabilize at lower yields after the strong early summer rally.

### Technicals Clear up as Good for Equities and Neutral for Fixed Income

The weakening trend of the early summer in Equities transpired into a resumption of buy the dip, specifically for the Large Cap sector. However, the riskier categories of Small Cap and Emerging Markets continue to just tread water. Fixed Income has largely shaken off the early year weakness and has been consolidating near the year highs in price

### Notable Changes

- Most of the changes again have been at the margin. The main adjustment is moving U.S. Equity to Very Expensive and Growth to Extremely Expensive as we have surpassed many measures of valuation record's set for expensive from the Dot-Com era of the early 2000's.
- The Fixed Income markets continued their resilience during the quarter, holding steady with the gains generated earlier in the summer. The Fixed Income markets continue to be comfortable that once the Fed starts to taper that the inflation pressures will ease.
- Opportunistic REIT's remains on the sidelines, though the technicals continue to improve. If commercial real estate, i.e. REIT's remains resilient into the winter, REIT's may come off the sidelines. The wildcard is not only the WFH (Work From Home) trend, but if the world makes it through without renewed lockdowns from a corona virus outbreak.



**WATERROCK**  
GLOBAL ASSET MANAGEMENT LLC

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