# 2021 4Q
# ASSET ALLOCATION OUTLOOK

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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 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

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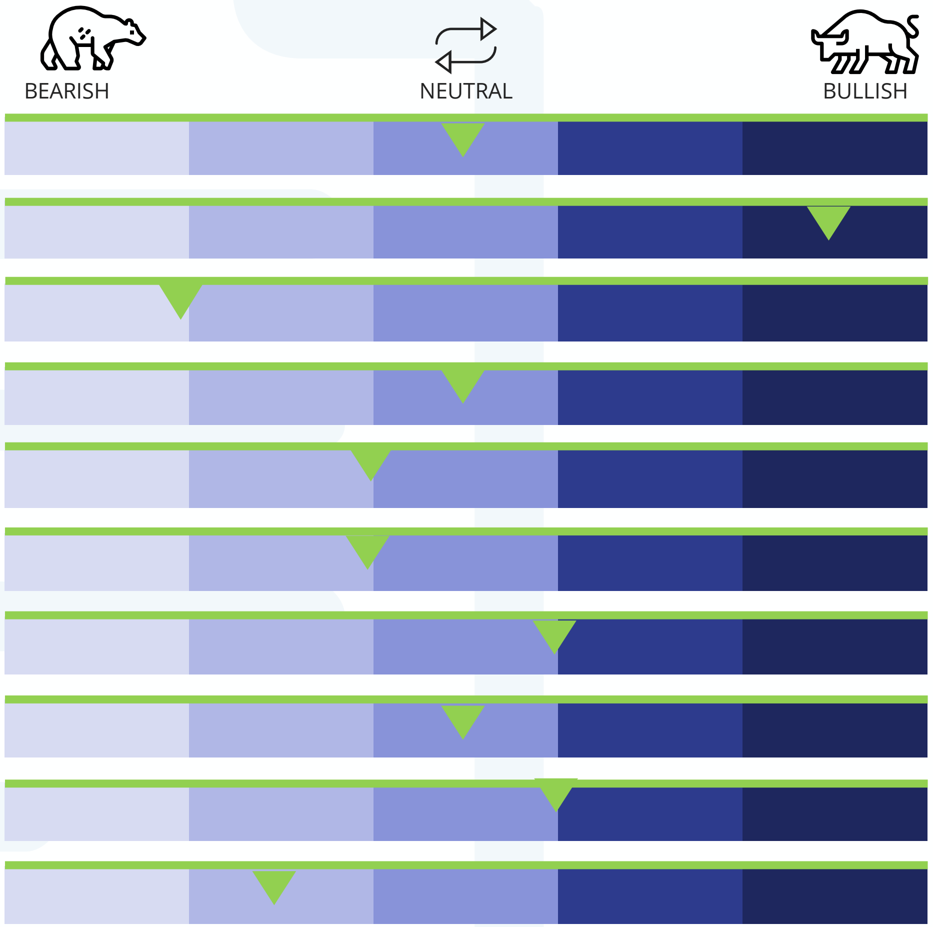
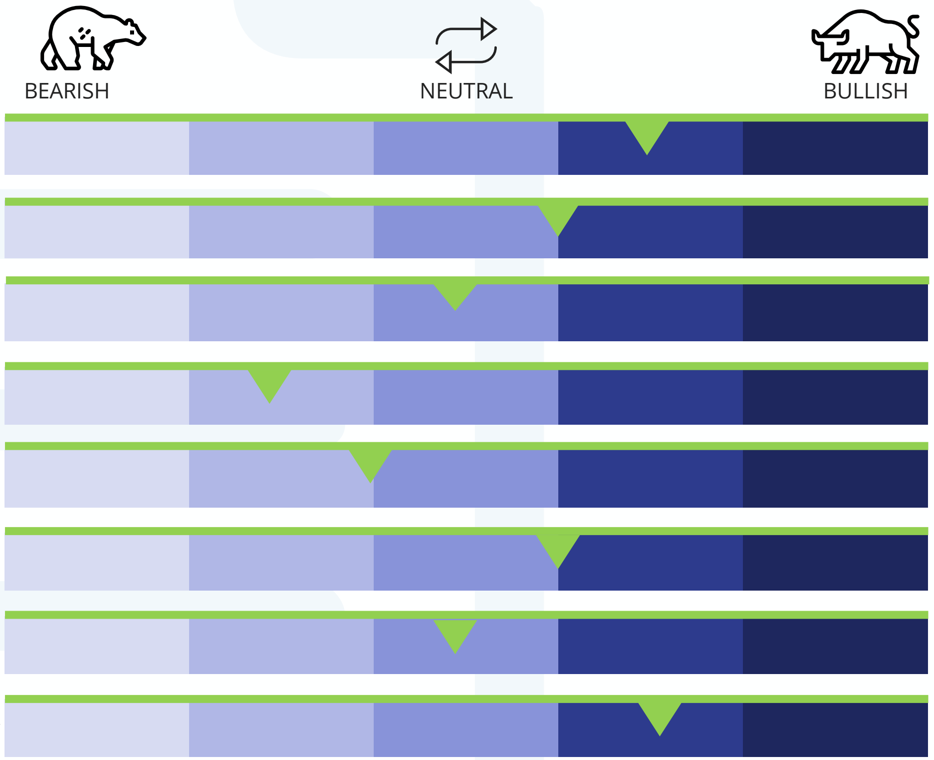
# 12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS




| | VALUATION | TECHNICALS |
|---|---|---|
| **U.S. Equities** | Very Expensive | Good |
| **U.S. Value** | Cheap | Improving |
| **U.S. Growth** | Extremely Expensive | Good |
| **U.S. Large Cap** | Very Expensive | Good |
| **U.S. Mid Cap** | Expensive | Weakening |
| **U.S. Small Cap** | Expensive | Neutral |
| **Int'l Dev Equity** | Fair Value | Neutral |
| **Emerging Mkt Equity** | Cheap | Neutral |
| **Opportunistic Equity** | Cheap | Weakening |
| **Opportunistic REIT's** | Very Expensive | Good |

# FIXED INCOME

# 12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS




| | VALUATION | TECHNICALS |
|---|---|---|
| High Quality Fixed Inc | Fair Value | Neutral |
| Long Duration | Expensive | Good |
| Intermediate Duration | Expensive | Improving |
| Short Duration | Expensive | Weakening |
| Corporate High Quality | Very Expensive | Neutral |
| Mortgage-Backed Sec. | Fair Value | Weakening |
| Low Quality Fixed Inc | Expensive | Good |
| Opportunistic Fixed Inc | Fair Value | Good |

# OUTLOOK

OUTLOOK

# 12-18 MONTH ASSET ALLOCATION OUTLOOK

## Covid and September Dip Just a Faded Memory

The covid crash of March 2020 is now just a big dip in the otherwise smooth trendline from the pre-covid days. Similarly, the September decline has been fully erased a new dip to erase has begun with the late November decline. The debate of starting to taper Quantitative Easing has shifted to how fast to taper. Inflation continued to strength and the Fed finally retired "transitory". Leading to discussion of when the Fed raises interest rates. Equities are exhibiting more volatility, but with Apple and Microsoft continuing to power higher, the indices continue to get dragged higher.

## Technicals Good for Equities and Mixed for Fixed Income

The general trend is improving, but the whipsaw volatility of both Equities and Fixed Income is evident in the charts. The noticeable sign is very negative to short term Fixed Income as the market prices in rate hikes. Conversely, Intermediate and Long-Term Fixed Income is improving to good on the argument that the Fed is going to commit a policy error hiking interest rates.

## Notable Changes

- As noted above, the big indices continue to move higher, but the riskier asset classes like U.S. Mid and Small Cap are showing potential signs of exhaustion. Though a weekly chart of the Small Caps shows little movement or gains over the past 12 months. U.S. Large Cap Growth has entered the bubble phase, does it pop tomorrow or in 10 years, I have no idea. I can probably tell you with certainty in 10 years. ☺
- The Fixed Income market bifurcated as the short end sells off with anticipation of rate hikes. The long end continues to show resilience that too much debt will once again weigh down economic growth.
- Opportunistic REIT's remains on the sidelines, though the technicals have improved, but reported valuations are so high even some growth stocks blush. It really shows the power of chasing yield when bonds don't offer much. Maybe rising Fed Fund rates will put a dent in valuations and some clarity that the WFH (Work From Home) trend won't crush the commercial real estate space will provide an opportunity to enter.

# DISCLOSURES

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