2022 4Q
ASSET ALLOCATION OUTLOOK

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CIO SUMMARY

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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?

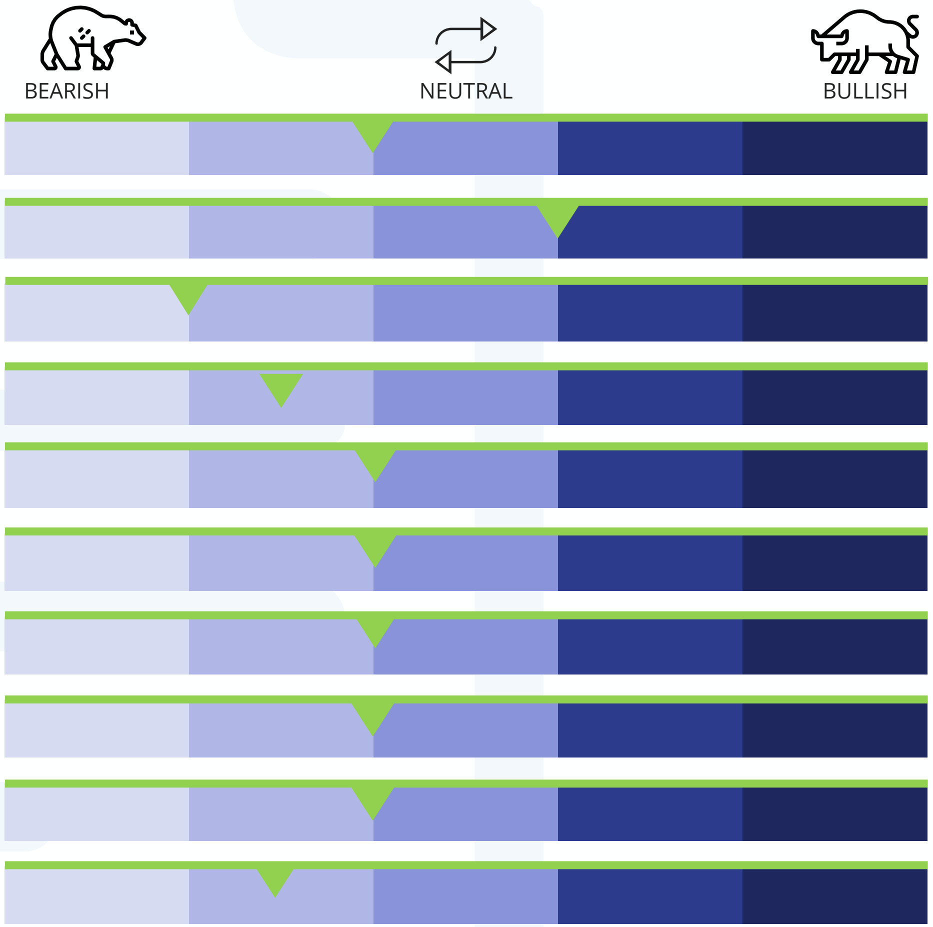
We use two factors to drive our Asset Allocation weights: Valuation and Technicals. While we do not want to fight the trend (technicals), we also do not want to disregard valuations. Cheap can get cheaper and expensive can get more expensive.

As an example, 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. And now Value continues to outperform Growth.

EQUITIES

EQUITIES

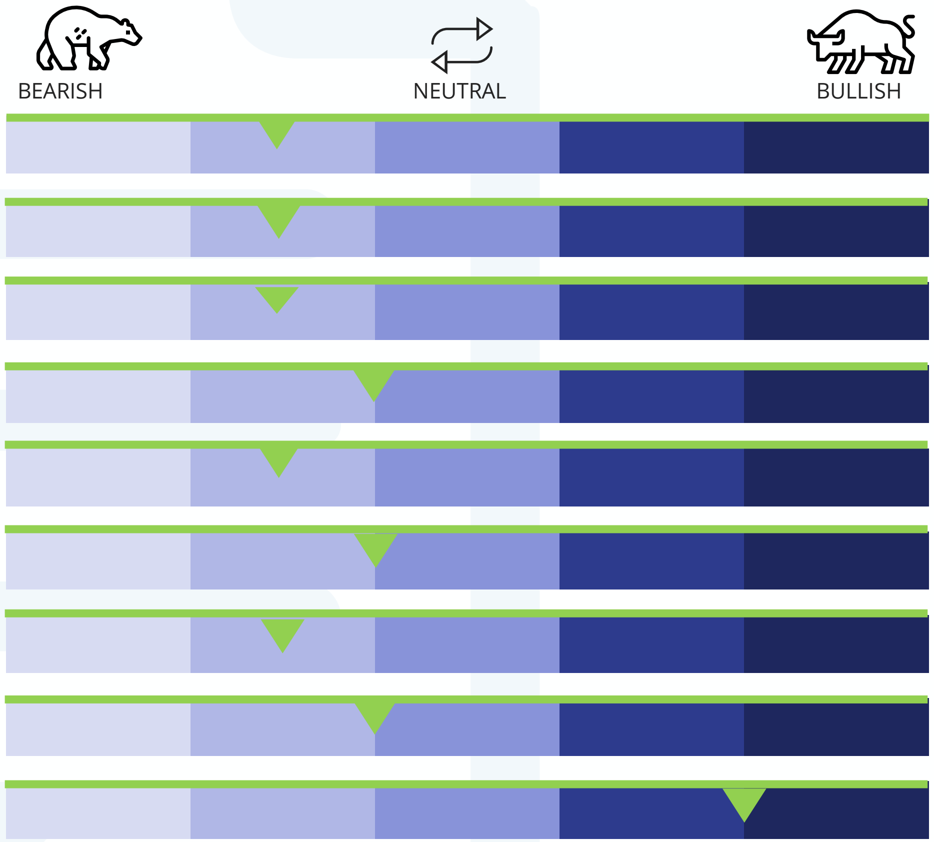
12-18 MONTH EQUITY ASSET ALLOCATION WEIGHTINGS



	VALUATION	TECHNICALS
U.S. Equities	Less Expensive	Improving
U.S. Value	Cheap	Neutral
U.S. Growth	Expensive	Improving
U.S. Large Cap	Less Expensive	Improving
U.S. Mid Cap	Less Expensive	Neutral
U.S. Small Cap	Less Expensive	Neutral
Int’l Dev Equity	Fair Value ?	Neutral
Emerging Mkt Equity	Cheap	Improving
Opportunistic Equity	Cheap	Improving
Opportunistic REIT’s	Expensive	Improving

FIXED INCOME

12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



	VALUATION	TECHNICALS
High Quality Fixed Inc	Fair Value	Improving
Long Duration	Fair Value	Improving
Intermediate Duration	Fair Value	Improving
Short Duration	Cheap	Improving
Corporate High Quality	Less Expensive	Improving
Mortgage-Backed Sec.	Fair Value	Improving
Low Quality Fixed Inc	Less Expensive	Improving
Opportunistic Fixed Inc	Fair Value	Improving
Defensive Fixed Inc	Fair Value	Positive

OUTLOOK

OUTLOOK

12-18 MONTH ASSET ALLOCATION OUTLOOK

The markets have improved dramatically in the last 2 months and are now at an important inflection point.

The economy is strengthening in the second half of the year, but now the “talking heads” are “very” confident that the U.S. will see a recession in 2023. Inflation is showing signs of peaking and The Fed is talking about slowing the pace of rate hikes, maybe starting tomorrow, December 14. The markets continue to battle; will the Fed actually do what they say, or will they fall back to old habits and cave if/when the economy rolls over. The equity markets staged a large rally and now the question is, can earnings estimates for 2023 hold? The dollar weakened on the upcoming Fed “pivot”, which can help internationally derived earnings.

Technicals Generally moved to Improving or Neutral for Equities and Fixed Income

The negative trend ended in mid to late October for Equity and Fixed Income, respectively. As the headline notes; both Equities and Fixed Income are at an important inflection point, with most asset classes near the middle of their range from the last few quarters and a few asset classes are at or above their 200-day moving average, i.e., nearing bull market territory. Is the current rally marking the start of a new bull market or is it a bear market rally from a deeply oversold condition. This week has the potential to answer the question, though we will quickly enter the holiday lull with low volume, which likely means the really answer won’t be known until early January.

Notable Changes

- Equities improved meaningful during the quarter, with U.S. Large Cap Value almost positive. The International developed markets, which looked dreadful last quarter, now look almost as good as U.S. Large Cap Value. I guess heat in the winter and energy for industrial output is overrated. ☺
- The Fixed Income markets took a week longer than equity to rally but rally they have done. Treasury yields dropped meaningfully across the board and credit spreads also compressed. The new defensive Fixed Income category continues to be the most positive looking asset class.
- Opportunistic Strategies improved but remain in defensive positions.

DISCLOSURES

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GLOBAL ASSET MANAGEMENT LLC

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