2023 3Q
ASSET ALLOCATION
OUTLOOK

Contents

WATERROCK GLOBAL ASSET MANAGEMENT LLC

CIO SUMMARY

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 a clients' acceptable level of risk.

HOW?

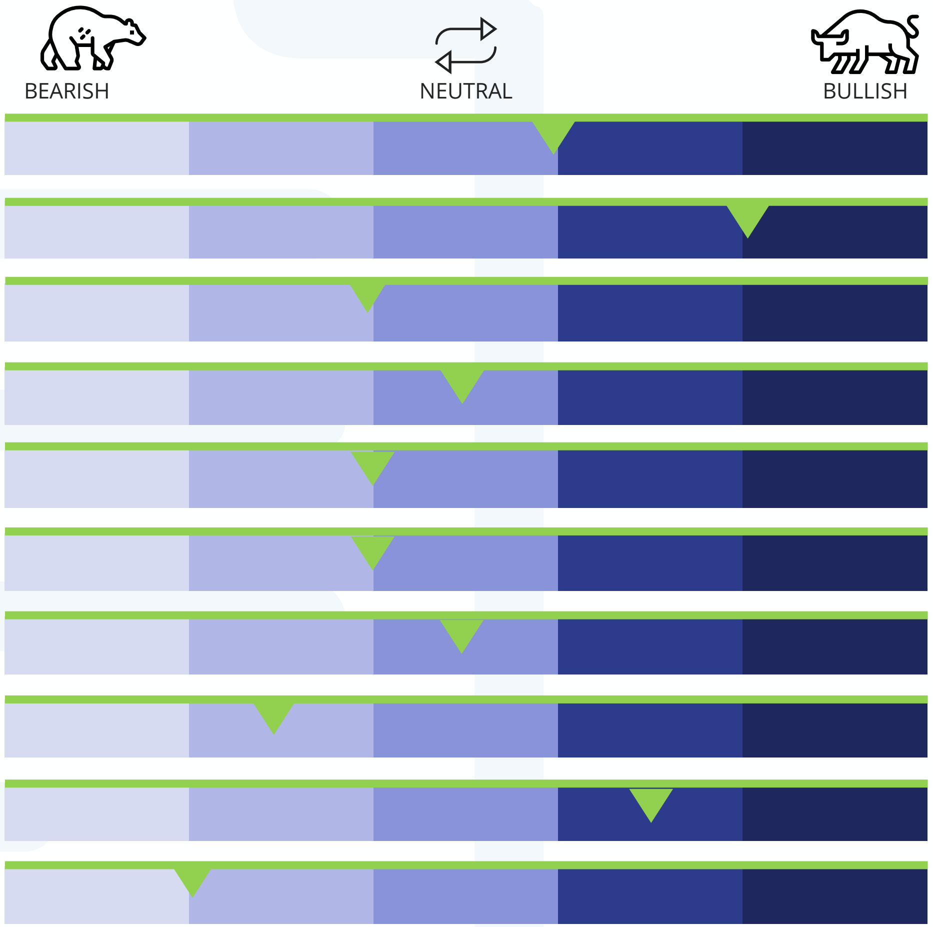
We use two factors to drive our Asset Allocation weights: Valuation and Technicals. While we do not want to fight the trend (technicals), we also do not want to disregard valuations. Cheap can get cheaper and expensive can get more expensive.

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

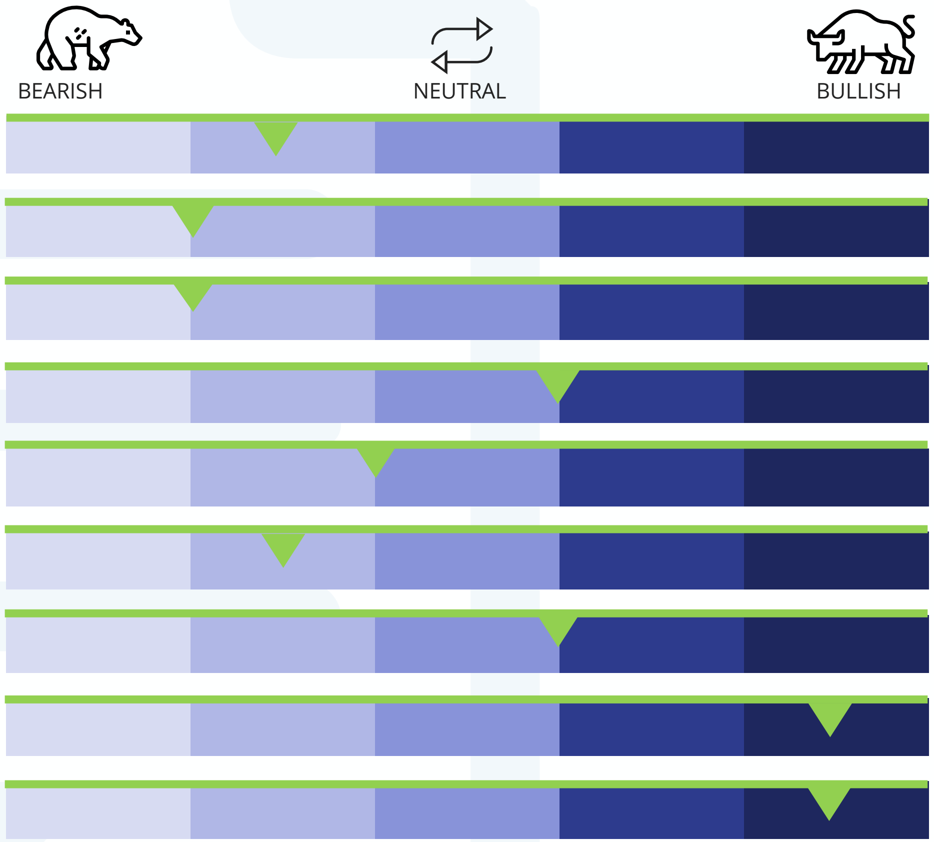


	VALUATION	TECHNICALS
U.S. Equities	Expensive	Consolidating
U.S. Value	Fair Value	Consolidating
U.S. Growth	Expensive	Positive
U.S. Large Cap	Expensive	Consolidating
U.S. Mid Cap	Less Expensive	Neutral
U.S. Small Cap	Less Expensive	Neutral
Int'l Dev Equity	Fair Value ?	Neutral
Emerging Mkt Equity	Cheap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

FIXED INCOME

FIXED INCOME

12-18 MONTH FIXED INCOME ASSET ALLOCATION WEIGHTINGS



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

OUTLOOK

OUTLOOK

12-18 MONTH ASSET ALLOCATION OUTLOOK

The equity strength seen at the end of the last period, continued into July, but recently is in a period of consolidation. Fixed Income continues to weaken on the back of higher interest rates.

The economic resilience continues, and equities rallied on hopes for no more rate hikes. Inflation and economic resilience continues to hurt longer duration bonds on fears the Fed either holds for longer or worse continues to hike rates. Investors in vehicles helped by higher rates are enjoying nice gains. The Fed meets Wednesday and the interest rate futures, as well as the equity markets have priced in a September pause.

Technicals for larger equities slide to Consolidating with the recent 6 weeks of modestly negative returns. Most of the other equities continue to lag and moved to Neutral. Fixed Income was generally downgraded, apart from floating rate, which is super positive.

The rally from the mid-March bank failures lows was exceedingly beneficial for Large Cap U.S. equites. The relative weakness since August 1st has broadly spread across more equity markets and really weighed on longer duration Fixed Income. Equities continue to bet on goldilocks, but Fixed Income is singing a different tune. How much longer can equities rally if interest rates, i.e., cost of capital, continue higher?

Notable Changes

- Equities generally moved down a notch to Consolidating, with "risker" categories losing the positive and moving to neutral or deteriorating.
- The Fixed Income markets were generally downgraded on weaker technicals. The defensive Fixed Income category maintained a very Bullish posture and continues to be the best-looking asset class of any segment.
- Opportunistic Strategies maintained risk-on for Fixed Income, with Floating Rate Senior Bank Loans, loving higher rates and a stable economy. Equity, remained allocated but swapped from International Small Cap to Emerging Market Small Caps. Real Estate continues to drift lower and remains in a defensive position.

DISCLOSURES

WaterRock Global Asset Management, LLC. (“WaterRock Global”) is a Registered Investment Advisory Firm regulated by the State of Washington and the Securities Exchange Commission under the Investment Advisors' Act of 1940 and in accordance and compliance with applicable securities laws and regulations. Investing in the stock market involves risk, including the risk of principal loss. Information in this newsletter is in no way intended as personalized investment advice and should not be interpreted as such. Past performance is not necessarily indicative of future results.

2023 3Q
ASSET ALLOCATION OUTLOOK