Market Strategy
by STRATEGAS A BAIRD COMPANY

BAIRD
Private Wealth Management

Global Asset Allocation

April 24, 2024

NO CHANGE ON EQUITY SIDE; MOVING BACK INTO LONG-DURATION TREASURYS

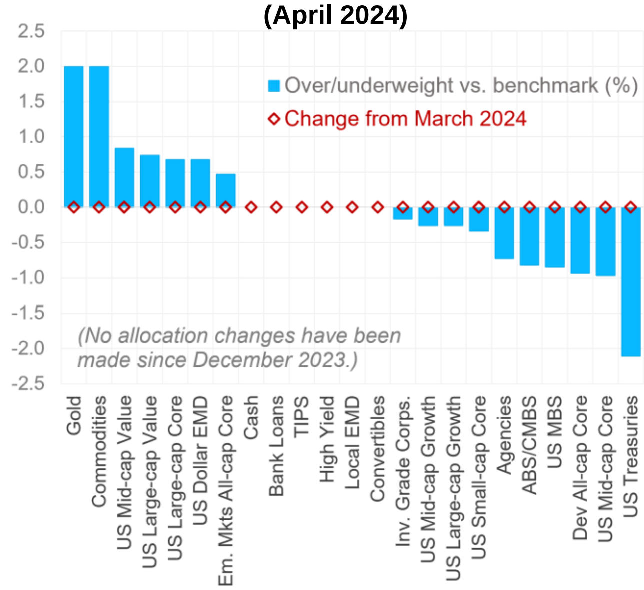
In the throes of Covid, we adopted four "prerequisites" for a broad economic recovery: 1) the virus has been cleared; 2) inflation is back to levels acceptable to policymakers and investor/consumers; 3) stock valuations have been level-set; and 4) organic drivers of growth can bring capital in from corporations and investors (making the recovery sustainable).

Since that time, the market has enjoyed a policy-induced, Tech-led advance, but inflation is still sticky and stock valuations are at the upper end of their historical range. The economy has been resilient despite these factors and now that corporations have largely digested higher interest rates, economic optimism hinges less on the Federal Reserve's policy decisions and more on the back of corporate investment. Still, macro risks abound, and the areas of strength today may not closely track with other risk-on cycles of recent memory. We recently made several changes to our U.S. Equity Sector Allocation that reflect this intact-but-rotational cyclical bull market. However, we have not made any changes to our Global Asset Allocation beyond adding duration to our recommended fixed income exposure.

With the jump in U.S. long and intermediate duration bond yields since the start of the year, we are adding a quarter of a year of duration to our recommended asset allocation. With 10-year yields now approaching 4.65% and 20-year yields just shy of 5.00%, we feel that valuations are attractive enough to justify a move back into long-duration Treasurys and reduced exposure to intermediate-duration Treasurys. When looked within our term premium model, we find that the excess yield for 10-year notes about +75 bps above fair value, which is on the lower end of the typical range over the last few decades and a far cry from the negative term premia that dominated the last decade.

Additionally, outside of the Treasury market, we're observing that mortgage-backed securities are once again growing cheaper relative to both Treasurys and corporate credit. This is in part due to the expectation that the Fed will continue mortgage-backed security runoff even if the pace of Treasury runoff slows. It's also due in part to the fact that banks are less likely to be buyers of mortgage-backed securities when rates are rising. So for now we're content to sit at a generally neutral position to this sector, but we will be interested in adding exposure if spreads widen out another 10 to 12 basis points from current levels.

Strategas Recommended Asset Allocation (April 2024)



Equities

- Developed All-Cap Core
- Emerging Market All-Cap Core
- U.S. Large-Cap Core
- U.S. Large-Cap Growth
- U.S. Large-Cap Value
- U.S. Mid-Cap Core
- U.S. Mid-Cap Growth
- U.S. Mid-Cap Value
- U.S. Small-Cap Core
- U.S. Small-Cap Growth
- U.S. Small-Cap Value

Fixed Income

- Extended Credit
- Core Credit
- Investment Grade Corporates
- High Yield
- U.S. Mortgage-Backed Securities
- Asset-Backed Securities (ABS)
- Commercial Mortgage-Backed Securities (CMBS)
- U.S. Treasuries
- Treasury Inflation-Protected Securities (TIPS)
- Bank Loans
- U.S. Dollar Emerging Market Debt (EMD)
- Convertibles

Strategas Recommended Asset Allocation (April 2024)

	Equities		Bonds		Cash & Equivalents		Alternatives	
Strategas		**60%**		**34%**		**4%**		**2%**
Benchmarks	MSCI ACWI	60%	Barclays Agg	38%	Cash	2%	---	--
	Domestic	36%	Core Credit	33%	Cash	2%	Commodities	**2%**
	International	24%	Ext. Credit	1%	Gold	2%		
		60%		**34%**		**4%**		
Over-weight	US LC Value	12%			Gold	2%	Commodities	**2%**
	US LC Core	10%						
Neutral	US LC Growth	11%	IG Corporates	10%	Cash	2%		
	EM AC Core	7%	US MBS	9%				
	US MC Value	2%	US EMD	1%				
	US MC Growth	1%						
Under-weight	US SC Core	1%	US Treasurys	14%				
	Dev AC Core	17%	Bank Loans	0%				
			TIPS	0%				
			Agencies	0%				
			ABS / CMBS	0%				
	Equities	**60%**	**Bonds**	**34%**	**Cash & Equiv.**	**4%**	**Commodities**	**2%**

Due to rounding, percentages on this page may not add up to 100

EQUITY

	Strategas Equity Only	Benchmark Equity Only	Strategas Blended Allocation	Benchmark Blended Allocation
Domestic	60%	59%	36%	36%
International	40%	41%	24%	24%
	100%	**100%**	**60%**	**60%**
Dev AC Core	28%	30%	17%	18%
US LC Value	20%	19%	12%	11%
US LC Core	16%	15%	10%	9%
US LC Growth	18%	18%	11%	11%
EM AC Core	12%	11%	7%	7%
US MC Value	4%	3%	2%	2%
US SC Core	1%	1%	1%	1%
US MC Growth	1%	1%	1%	1%
US MC Core	0%	2%	0%	1%
	100%	**100%**	**60%**	**60%**

Benchmark: MSCI All-Country

FIXED INCOME

	Strategas Fixed Only	Benchmark Fixed Only	Strategas Blended Allocation	Benchmark Blended Allocation
Core Credit	98%	100%	33%	38%
Extended Credit	2%	0%	1%	0%
	100%	**100%**	**34%**	**38%**
US Treasuries	42%	43%	14%	16%
IG Corporates	29%	26%	10%	10%
US MBS	27%	26%	9%	10%
ABS/CMBS	0%	2%	0%	1%
US Dollar EMD	2%	0%	1%	0%
Agencies	0%	2%	0%	1%
Bank Loans	0%	0%	0%	0%
TIPS	0%	0%	0%	0%
Local EMD	0%	0%	0%	0%
High Yield	0%	0%	0%	0%
Convertibles	0%	0%	0%	0%
	100%	**100%**	**34%**	**38%**

Benchmark: Barclay's Aggregate

IG Corporates consists of 24% Long-Term Corporates and 5% Short-Term Corporates. Strategas currently has a 4% allocation to Cash (including 2% in Gold), compared to a benchmark weight of 2%.

Index definitions:

The MSCI All Country World Index tracks broad global equity-market performance. Maintained by Morgan Stanley Capital International, the index is composed of the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad, market-capitalization-weighted index representing intermediate term, investment grade bonds trade in the U.S. Investors frequently use it as a stand-in for the U.S. bond market. In order to be included in the index, bonds must be of investment grade or higher, have an outstanding par value of at least $100 million and have at least one year until maturity. The index is maintained by Bloomberg LP.

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