DEGLOBALIZATION, VOLATILITY, AND THE EVOLUTION OF THE 60/40 PORTFOLIO

The war between Israel and Hamas reminds us, once again, of the fraying of long-held global operating conventions. In the last several years, questions about deglobalization have encircled everything from trade relations and natural resource procurement to defense alliances and technology and IP sharing. Regardless of whether deglobalization is viewed as a positive or a negative, changes on this order of magnitude are unlikely to result in less volatility at a macroeconomic and geopolitical level and, by extension, in the capital markets. Yet the consensus in the U.S. remains centered on a “soft landing” as the most likely economic outcome from here.

Despite the robust performance of a handful of mega-cap stocks, several factors contribute to our skepticism for the economy’s health in the intermediate term: stickier-than-hoped-for inflation, tighter financial conditions, upward pressure in the labor market and the absence of a clear organic driver of economic growth. Recent signs of consumer fatigue and the outsized (in our view) expectations for corporate profits also leave us less bullish than the consensus.

As a result, we have steadily reduced exposure to Equities (against a 60/40 stock/bond benchmark) from 67% in August 2021 to 56% in March 2023. Meanwhile, our Fixed Income exposure now sits at 36% excluding Cash & Equivalents, up from 34% last month as we’ve begun modestly adding to longer-term bonds. Though interest rates may continue to push higher in the near-term (thereby weighing on bond performance), we believe the risk-adjusted return opportunity is greater in longer-term bonds vs. cash and short-duration debt.

A step further, we think that many of the trends detailed above are pushing the classic 60% stock/40% bond portfolio model to evolve. Although “60/40” will probably linger as the common lexicon, wealth managers are likely to continue to increase exposures to non-traditional assets as institutional investors have for years. While the investment options generally classified as “Alternatives” are numerous and varied in construction, we have included an allocation to Gold (ranging from 2% to 4% of our “Cash & Equivalents” sleeve) since May 2020 and an allocation to Diversified Commodities (sitting at 2% within our “Alternative Investment” sleeve) since April 2022. With stock and bond returns increasingly correlated and a rising number of access points to the world of “Alts,” we believe this trend is likely to persist.
Global Asset Allocation  October 20, 2023

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

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Strategas Recommended Asset Allocation (October 2023)

<table>
<thead>
<tr>
<th></th>
<th>Equities</th>
<th>Bonds</th>
<th>Cash &amp; Equivalents</th>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategas Benchmarks</td>
<td>MSCI ACWI 60%</td>
<td>Barclays Agg 38%</td>
<td>Cash 6%</td>
<td>--- 2%</td>
</tr>
<tr>
<td>Domestic</td>
<td>31%</td>
<td>Core Credit 35%</td>
<td>Cash 4%</td>
<td>Commodities 2%</td>
</tr>
<tr>
<td>International</td>
<td>25%</td>
<td>Ext. Credit 1%</td>
<td>Gold 2%</td>
<td>--- 8%</td>
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</tbody>
</table>

- IG Corporates consists of 24% Long-Term Corporates and 5% Short-Term Corporates. Strategas currently has a 6% allocation to Cash (including 2% in Gold), compared to a benchmark weight of 2%.

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Due to rounding, percentages on this page may not add up to 100.
Index definitions (it is not possible to invest directly in an index):

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.

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