Global Asset Allocation

January 20, 2022

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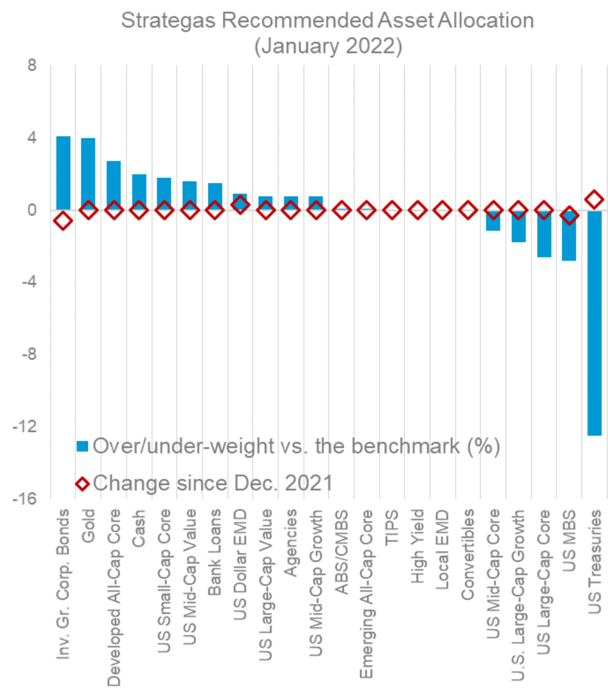
CONSUMER WEAKNESS IN FOCUS I VOLATILITY EXPECTED THROUGH Q1

Though the economy continues to have some wind at its back—the Federal Reserve Bank of Atlanta's GDPNow is still holding at +5.0% for the fourth quarter (Q/Q SAAR) —and the Fed is only just now gearing up to begin tightening monetary policy, the latest Covid wave appears to have dimmed many investors' hopes that the cyclical recovery can transition into a self-reinforcing expansion. This suggests equity returns will be increasingly correlated with long-term bonds as investors adjust to the shift in policy. We expect that an uptick in volatility will add to near-term discomfort.

Economically, we are at a crossroads. There is enough uncertainty about the recovery to wonder whether (or when) the market might price in a late-2022 or early-2023 midcycle slowdown. We're also skeptical as to how long Consumer stocks can live in harmony with Energy and Materials names—outside of the Housing and Auto subsectors, there has been little to love recently. And while we believe market dynamics could limit long-term rates from breaking too far above 2.0%, when rates go, they tend to go. Any sustained increase from current levels is likely to have an impact on all consumer segments, Housing and Autos included.

We remain comfortable with the neutral, pro-cyclical positioning we established in our allocation portfolios back in September 2021—reducing exposure to equities broadly and to Tech and Communications specifically appears to have been the right choice. We maintain equity exposure at 62%, still above the benchmark in our baseline portfolio (though down from 67% in September). We continue to favor international shares to domestic and we are generally positive on emerging markets—particularly the commodity-exporting countries—though we have held back allocations given the outsized share of Chinese equities in the space.

Growth names may have called forward a fair amount of demand during the pandemic, so Value may actually be where the growth is going forward. Ultimately, if global health concerns ebb and supply chain issues ease, the cyclical recovery could still find a way to transition into a self-reinforcing expansion (even if it's one less robust than most hoped for).



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 (January 2022)

	Equities		Bonds		Cash & Equivalents	
Strategas		**62%**		**30%**		**8%**
Benchmarks	MSCI ACWI	60%	Barclays Agg	38%	Cash	2%
	Domestic	34%	Core Credit	28%	Cash	4%
	International	28%	Ext. Credit	2%	Gold	4%
		62%		**30%**		**8%**
Over-weight	Dev AC Core	22%	IG Corporates	15%	Gold	4%
	US LC Value	9%	Bank Loans	2%	Cash	4%
	US MC Value	3%				
	US SC Core	3%				
Neutral	US LC Growth	12%	Agencies	2%	***Due to rounding, percentages on this page may not add up to 100***	
	EM AC Core	6%	US Dollar EMD	1%		
	US MC Growth	2%	ABS/CMBS	1%		
			TIPS	0%		
Under-weight	US LC Core	5%	US MBS	7%		
	US MC Core	0%	US Treasurys	4%		
	Equities	**62%**	**Bonds**	**30%**	**Cash & Eq.**	**8%**

EQUITY

	Strategas Equity Only	Benchmark Equity Only	Strategas Blended Allocation	Benchmark Blended Allocation
Domestic	55%	58%	34%	35%
International	45%	42%	28%	25%
	100%	**100%**	**62%**	**60%**
Dev AC Core	35%	32%	22%	19%
US LC Growth	20%	24%	12%	14%
US LC Value	14%	13%	9%	8%
EM AC Core	10%	10%	6%	6%
US LC Core	8%	13%	5%	8%
US MC Value	5%	3%	3%	2%
US SC Core	5%	2%	2%	1%
US MC Growth	3%	2%	2%	1%
US MC Core	0%	2%	0%	1%
	100%	**100%**	**62%**	**60%**

Benchmark: MSCI All-Country

FIXED INCOME

	Strategas Fixed Only	Benchmark Fixed Only	Strategas Blended Allocation	Benchmark Blended Allocation
Core Credit	92%	100%	28%	38%
Extended Credit	8%	0%	2%	0%
	100%	**100%**	**30%**	**38%**
IG Corporates	47%	26%	14%	10%
US MBS	24%	26%	7%	10%
U.S. Treasuries	13%	43%	4%	16%
Bank Loans	5%	0%	2%	0%
Agencies	5%	2%	2%	1%
ABS/CMBS	3%	2%	1%	1%
US Dollar EMD	3%	0%	1%	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%**	**30%**	**38%**

Benchmark: Barclay's Aggregate

IG Corporates consists of 22% Long-Term Corporates & 27% Short-Term Corporates. Strategas currently has an 8% allocation to Cash, inclusive of 4% in Gold, compared to a benchmark weight of 2%.

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.

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. It is not possible to invest directly in an index.

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