

Where We Stand on Asset Allocation – Spring 2023

EQUITIES

U.S Equities: We are currently overweight U.S. equities versus international equities relative to our global benchmark*.

U.S. Large Cap: We are overweight U.S. large cap equities (52% allocation vs benchmark weight of 50%). We have a 15% weight in a dividend growth fund and a 7% weight in a high dividend fund. These funds provide some protection against downside market risk while producing a strong yield and retaining exposure to positive market performance.

Mid/Small Cap: We are overweight midcaps by 2% and are roughly neutral to smallcaps relative to their benchmark weights. We expect mid and small cap stocks to reverse their recent underperformance vs large cap given their attractive relative valuations, though with more volatility. We are overweight value in midcap as they trade at an unusually large discount to growth stocks.

Developed International: We have a modest underweight to developed international (20% allocation vs benchmark weight of 22%). We do expect performance to improve over time due to attractive relative valuations.

Emerging Markets: We are currently underweight EM (6% allocation vs benchmark weight of 8%). While many emerging market companies have more attractive valuations than US companies, we expect heightened volatility in the asset class due to the strong dollar and continued geopolitical uncertainty.

** Our benchmark reflects global equity markets. It is composed of 50% US Large cap, 14% US Mid cap, 6% US Small cap, 22% International Developed equities and 8% Emerging Market equities.*

FIXED INCOME

U.S. Investment Grade Bonds: We are currently overweight corporate credits versus governments, focused on investment grade quality. We are slightly shorter duration relative to our benchmarks based on our interest rate outlook.

Municipal Bonds: We use municipal bonds for tax-sensitive client situations. We focus on higher quality general obligation, revenue and essential service bonds. We focus on the intermediate maturity range of the municipal bond yield curve and maintain a slightly shorter duration than our benchmarks based on our outlook for interest rates.

High Yield Bonds: We recently increased our weight to high yield to be in line with the benchmark. Our focus is on the higher quality segments of the high yield market, with some emphasis on the BB sector of the credit markets for upside opportunity. High yield spreads have widened to near historical averages, making them an attractive way to gain yield at shorter durations. Defaults should remain manageable due to an improving economy.

Emerging Market Debt: We are slightly underweight EM debt. EM debt provides an opportunity for higher yields and diversification for our fixed income and total portfolios but with higher volatility. Our focus is on both local and U.S. currency bonds, with a tilt toward sovereign credits.

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ALTERNATIVES/REAL ASSETS:

Real Estate: We currently do not have a dedicated allocation to real estate. We gain exposure to the sector through investment in stocks of companies engaged in the real estate industry.

Gold: We do not have a dedicated allocation to gold. Gold does not provide a yield for our portfolios and is used primarily as a hedge against inflation and market uncertainty. Any exposure to the gold and precious metals sector would come through investment in stocks of companies engaged in these industries.

Commodities: We do not have a dedicated allocation to commodities. Any exposure to the sector would come through investment in stocks of companies engaged in the commodities industries.

Infrastructure: We currently do not have a dedicated allocation to infrastructure. Any exposure to the sector is gained through investment in stocks of companies engaged in infrastructure spending. We believe there are challenges to investing in this space through marketable securities, and that private investments are the best alternative in this category.

Cryptocurrencies: We do not currently invest directly in cryptocurrencies due to their volatile and speculative nature. Any exposure to these assets would come through our investment in stocks of companies engaged in cryptocurrencies.

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