
Flexible Allocation: Environment and Portfolio Positioning

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Environment

- For most of August, equities were under pressure as interest rates moved higher
 - Late in the month, rates pulled back and equities rallied, recovering much of the decline
 - The broader equity market was weaker than the S&P 500:

| | |
|-----------------------|--------|
| S&P 500 | -1.59% |
| Russell 2000 (Sm Cap) | -5.01% |
| Russell 1000 Value | -2.70% |
| MSCI EAFE (Intl) | -3.82% |
 - With longer term interest rates finishing the month higher, fixed income indices posted mixed returns:

| | |
|--------------------------|--------|
| Bloomberg Aggregate | -0.64% |
| Intermediate US Treasury | +0.05% |
| High Yield | +0.28% |
 - **Economy** – likelihood of a soft landing continues to rise
 - Inflation: recent reports confirm still in a downtrend
 - Will it get to 2%? How long?
 - Federal Reserve:
 - Signaled data-dependency at Jackson Hole – likely at (or near) end of the tightening cycle
 - Low likelihood of significant cuts in the foreseeable future
 - Economic data: data generally stronger than expected
 - GDP revised lower (+2.1%) for Q2 but estimates moving higher for Q3
 - Employment still healthy but some signs of slowing
 - Corporate earnings – Q2 better than expected and estimates rising for late '23 and '24
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Portfolio Positioning

Although the recent volatility may continue over the near term, SSI is generally positive toward the markets

- **Performance¹:**

- Strategy returns outperformed the relevant Lipper Mutual Fund Category peer groups
- Performance was similar to the benchmarks

- **Equity portfolio:**

- The equity allocation in the portfolio remained steady during August and is above the benchmark
- Differentiated positions in small cap value and metals & mining trailed the S&P 500, while international (Japan) outperformed. August returns:

| | |
|----------------------------------|-------|
| S&P 500 | -1.6% |
| iShares Russell 2000 Value (IWN) | -4.7% |
| SPDR S&P Metals and Mining (XME) | -3.4% |
| WisdomTree Japan Hedged (DXJ) | +0.8% |

- **Fixed Income portfolio:**

- Held up better than the Bloomberg U.S. Aggregate Bond Index
- Portfolio has a relatively short duration and a yield in the mid-single digits

- **Alternatives portfolio:**

- Weakness in the equity markets impacted the Convertible position, which lagged the rest of the portfolio
- Buffered ETF held up better than the equity markets and the rest of the portfolio

- **Outlook:** Investment environment remains favorable

- Portfolio continues to be positioned positively
- Volatility is to be expected, as much uncertainty remains and there are significant geopolitical risks
- We continue to monitor all the key variables and are prepared to take defensive steps in the portfolio if the environment changes and risk levels rise

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1. Performance numbers for Strategy, Benchmark, and Lipper Mutual Fund category are presented in the attached Monthly Update

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