
Flexible Allocation: Environment and Portfolio Positioning

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Market Environment

- The rapid rise in long term interest rates has led to elevated volatility
- Equity and Fixed Income markets continued to pullback in October:

Equity Markets

Russell 2000 (Sm Cap)	-6.82%
MSCI EAFE (Intnl)	-4.05%
Russell 1000 Value	-3.53%
S&P 500 (Large Cap)	-2.10%
Russell 1000 Growth	-1.42%

Fixed Income Markets

Bloomberg Long UST	-4.93%
Bloomberg 10-year UST	-2.22%
Bloomberg Aggregate	-1.58%
Bloomberg High Yield	-1.16%
Bloomberg Int UST	-0.34%

- October Performance¹:
 - Flexible Allocation Portfolios performed as expected given the adverse environment
 - Strategy returns trailed the benchmarks but were similar to the relevant Lipper Mutual Fund Category peer groups

Macro-Economic Backdrop

Economic data:

- Economic growth accelerated: Q3 Real GDP = 4.9% (advance estimate)
- Employment reports still healthy but some signs of a possible slowdown in the coming months
- Corporate earnings – Q3 reports generally better with positive year over year growth

Federal Reserve: Further rate hikes unlikely but appear committed to a “Higher for Longer” stance

Inflation: Recent reports somewhat choppy but downtrend remains in place

Geopolitical: War in the Middle East adds to already volatile environment (Russia/Ukraine war and China)

Portfolio Review/Positioning

- **SSI is generally positive toward equity markets:**
 - Quantitative model is positive
 - Uptrend remains in place and most market indices are near important support levels
 - November/December is historically a strong seasonal period and sentiment is extreme (positive indicator)
 - **Asset Allocation** adjusted:
 - Portfolio (event) risk was reduced by increasing allocation to Alternatives (oil and other commodities)
 - Provides diversification and potential offset if geopolitical environment deteriorates further
 - **Equity** portfolio:
 - Technology was purchased after sector pulled back, offering reasonable valuations to go along with positive business trends
 - Metals & mining was sold, due to mixed business trends and reversal of recent outperformance
 - During October, technology and international (Japan) outperformed, while small cap value and metals & mining underperformed:

WisdomTree Japan Hedged (DXJ)	-0.6%
iShares US Technology (IYW)	-1.1%
S&P 500	-2.1%
SPDR S&P Metals and Mining (XME)	-5.8%
iShares Russell 2000 Value (IWN)	-6.0%
 - **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:
 - Commodities (FTGC) and oil (DBO) were purchased – provide diversification and a geopolitical offset
 - The Convertible position underperformed while the Buffered ETF held up better than the S&P 500
 - **Outlook:**
 - Equity market uptrend remains in place and many negatives are priced in
 - Portfolio is slightly overweight equities and maintains a relatively short duration
 - Geopolitical risk has risen – steps taken in portfolio (Alternatives increased)
 - Recent volatility has given rise to potentially exploitable investment opportunities
 - We continue to monitor all the key variables and are prepared to take additional defensive steps in the portfolio if the environment deteriorates further 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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