Market Strategy
by STRATEGAS A BAIRD COMPANY

BAIRD
Private Wealth Management

# Global Asset Allocation

June 22, 2021

**Strategas – a Baird Company** provides market strategy and perspective to help you better understand what is happening in the world today and how it impacts your portfolio and plans. Strategas materials are designed to complement the work of your Baird financial advisor. **It's important to consult with your advisor when making asset allocation decisions for your own portfolio.**

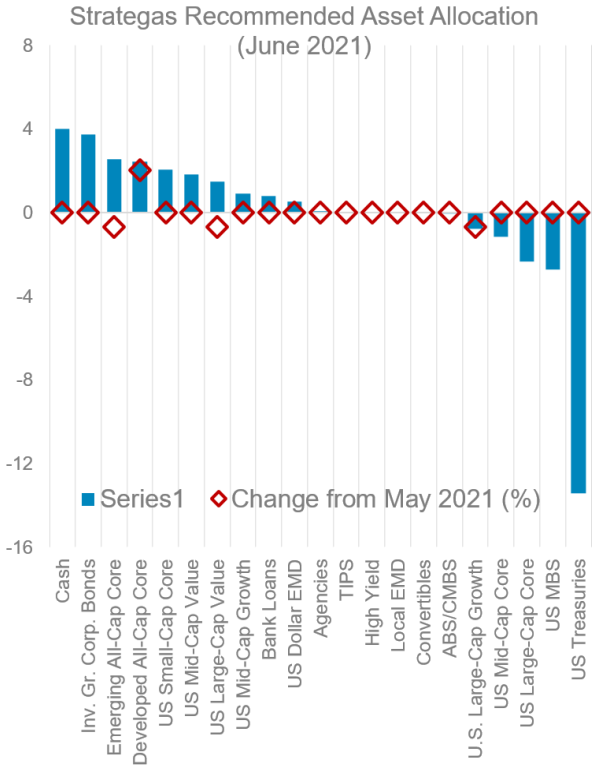
## SHIFTING NON-U.S. EXPOSURE BACK TO DEVELOPED FROM EMERGING

Market action over the last month has highlighted tension between optimism for economic improvement (nobody wants to sell stocks) and concern over inflation, government spending, and the potential for higher taxes (nobody wants to buy bonds). At its last meeting, the Federal Reserve seemed to acknowledge that inflation may not be transitory by indicating modestly advanced timing for policy normalization (such as raising interest rates or ceasing to buy bonds). Fed chair Jay Powell seemed to counter with a more dovish tone when he suggested that the standard that would allow for such policy normalization had not yet been met.

We also continue to wonder if inflation is truly transitory or if it may be more structural than the market has assumed. We have modestly increased exposure to Gold. Last year we introduced a modest allocation to the yellow metal within an elevated-to-benchmark (6% vs. 2%) allocation to Cash.

At a certain point, the Fed will likely have to taper its bond-buying program which would likely result in higher real yields and could mitigate inflation. We do not believe that shift in policy is imminent, and if crude oil continues to move toward $100, we likely won't be out of the woods on ratcheting inflation expectations.

**Stepping back from this, we continue to see an economy in the early stages of cyclical recovery.** We remain overweight to Equities in our tactical allocation portfolio (67% vs. a 60% benchmark). Within Equities, we are pulling back on our Domestic allocation and increasing exposure to non-U.S. shares, specifically Developed Markets. In addition, we recommend shifting capital from Emerging Markets into International Developed.




***See page 3 for disclosures and an important note on risk***

### 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 (June 2021)**

| | Equities | | Bonds | | Cash & Equivalents | |
|---|---|---|---|---|---|---|
| **Strategas** | | **67%** | | **27%** | | **6%** |
| Benchmarks | MSCI ACWI | 60% | Barclays Agg | 38% | Cash | 2% |
| | Domestic | 37% | Core Credit | 26% | Cash | 2% |
| | International | 30% | Ext. Credit | 1% | Gold | 4% |
| | | **67%** | | **27%** | | **6%** |
| **Over-weight** | Dev AC Core | 21% | IG Corporates | 14% | Gold | 4% |
| | US LC Value | 9% | | | | |
| | EM AC Core | 9% | | | | |
| | US MC Value | 3% | | | | |
| | US SC Core | 3% | | | | |
| **Neutral** | US LC Growth | 13% | ABS/CMBS | 1% | Cash | 2% |
| | US MC Growth | 2% | Agencies | 1% | | |
| | | | TIPS | 0% | | |
| | | | Bank Loans | 1% | | |
| | | | US Dollar EMD | 1% | | |
| **Under-weight** | US LC Core | 5% | US MBS | 7% | | |
| | US MC Core | 0% | US Treasurys | 3% | | |
| | **Equities** | **67%** | **Bonds** | **27%** | **Cash & Eq.** | **6%** |

*Due to rounding, percentages on this page may not add up to 100*

## EQUITY

| | Strategas Equity Only | Benchmark Equity Only | Strategas Blended Allocation | Benchmark Blended Allocation |
|---|---|---|---|---|
| Domestic | 55% | 58% | 37% | 35% |
| International | 45% | 42% | 30% | 25% |
| | **100%** | **100%** | **67%** | **60%** |
| Dev AC Core | 32% | 32% | 21% | 19% |
| US LC Value | 14% | 13% | 9% | 8% |
| US LC Core | 8% | 13% | 5% | 8% |
| US LC Growth | 20% | 24% | 13% | 14% |
| US MC Value | 5% | 3% | 3% | 2% |
| US MC Core | 0% | 2% | 0% | 1% |
| US MC Growth | 3% | 2% | 2% | 1% |
| US SC Core | 5% | 2% | 3% | 1% |
| EM AC Core | 13% | 10% | 9% | 6% |
| | **100%** | **100%** | **67%** | **60%** |

*Benchmark: MSCI All-Country*

## FIXED INCOME

| | Strategas Fixed Only | Benchmark Fixed Only | Strategas Blended Allocation | Benchmark Blended Allocation |
|---|---|---|---|---|
| Core Credit | 95% | 100% | 26% | 38% |
| Extended Credit | 5% | 0% | 1% | 0% |
| | **100%** | **100%** | **27%** | **38%** |
| IG Corporates | 51% | 26% | 14% | 10% |
| Agencies | 3% | 2% | 1% | 1% |
| ABS/CMBS | 3% | 2% | 1% | 1% |
| US Dollar EMD | 2% | 0% | 1% | 0% |
| TIPS | 0% | 0% | 0% | 0% |
| Local EMD | 0% | 0% | 0% | 0% |
| US MBS | 27% | 26% | 7% | 10% |
| U.S. Treasuries | 11% | 43% | 3% | 16% |
| High Yield | 0% | 0% | 0% | 0% |
| Convertibles | 0% | 0% | 0% | 0% |
| Bank Loans | 3% | 0% | 1% | 0% |
| | **100%** | **100%** | **27%** | **38%** |

*Benchmark: Barclay's Aggregate*

**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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