Market Strategy
by STRATEGAS A BAIRD COMPANY

BAIRD
Private Wealth Management

Global Asset Allocation

September 16, 2021

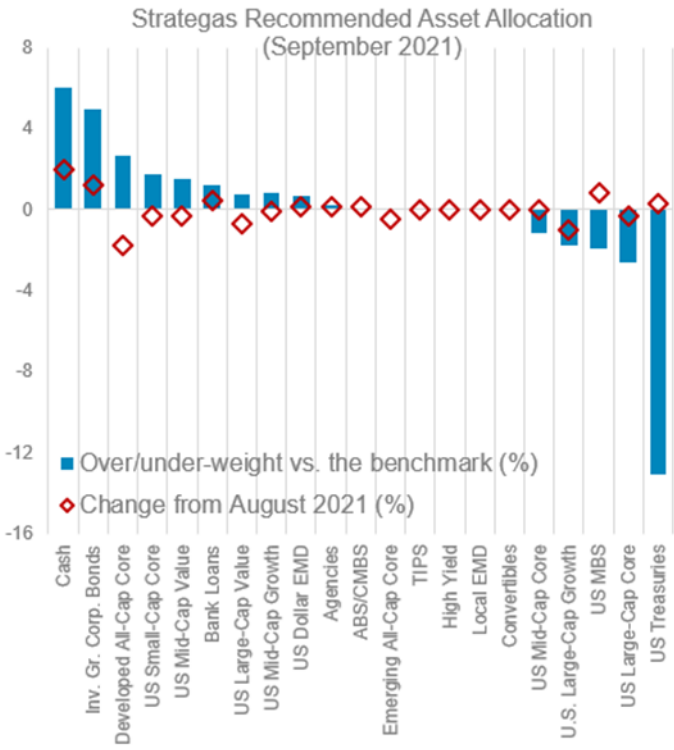
Strategas – a Baird Company provides market strategy and perspective to help you better understand what is happening in the world today and how it impacts your portfolio and plans. Strategas materials are designed to complement the work of your Baird financial advisor. **It's important to consult with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

TACTICALLY REDUCING EQUITY EXPOSURE | UNCERTAINTIES MOUNTING

While the fundamentals of a lasting economic recovery appear intact, the growing number of uncertainties on the horizon – Covid-19, persistent inflation pressures, softening economic growth, growing policy uncertainty (both monetary and fiscal), etc. – are enough to warrant caution. We remain optimistic on the course of global growth but must acknowledge that our optimism for a smoother advance needs to be checked in the near term. And to be fair, the average stock already reflected some weakness this summer, though the retreat didn't extend to the index level.

As such, we are reducing overall exposure to Equities within our global allocation portfolios to 62% from 67%. Conversely, we are increasing Cash to 8% from 6% (inclusive of our 4% allocation to Gold). We're also raising our Fixed Income allocation to 30% from 27% (with a focus on reducing duration versus the benchmark).

Why reduce equity exposure now? For one, the softening of recent economic data, including the drop in nonfarm payroll gains and overall activity (as noted in the Fed's September Beige Book). Elsewhere, supply chain woes are likely to persist, and longer supplier delivery times ostensibly make price shocks less "transitory." The knock-on effect for equity investors is added pressure on, arguably, already elevated multiples and a further nudge for the Fed to begin tapering its bond purchases (starting the unofficial countdown clock toward a tightening cycle, despite Fed Chair Powell's protest).



Past the difficult position of the Fed, the emerging policy debate in Washington also adds a growing level of uncertainty. Combine polarized policy ideologies, razor-thin majorities in both Chambers, and a multi-trillion dollar price tag, and, **as our head of policy research Dan Clifton put it: "Washington is going to be a problem."** With a debate on the debt ceiling also looming, the policy outlook is at best unsettled, and at worst inauspicious.

Though the economy can still shift into organic and durable expansion, we think the burden of proof has increased. We're comfortable reducing Equity exposure for now, mindful that we have cash to deploy when the time comes.

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 (September 2021)

	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	1%	Cash	4%
		US MC Value	3%				
		US SC Core	3%				
Neutral		US LC Growth	12%	ABS/CMBS	1%		
		EM AC Core	6%	Agencies	1%		
		US MC Growth	2%	US Dollar EMD	1%		
				TIPS	0%		
Under-weight		US LC Core	5%	US MBS	8%		
		US MC Core	0%	US Treasurys	3%		
		Equities	**62%**	**Bonds**	**30%**	**Cash & Eq.**	**8%**

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%	34%	35%
International	45%	42%	28%	25%
	100%	**100%**	**62%**	**60%**
Dev AC Core	35%	32%	22%	19%
US LC Value	14%	13%	9%	8%
US LC Core	8%	13%	5%	8%
US LC Growth	20%	24%	12%	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	10%	10%	6%	6%
	100%	**100%**	**62%**	**60%**

Benchmark: MSCI All-Country

FIXED INCOME

	Strategas Fixed Only	Benchmark Fixed Only	Strategas Blended Allocation	Benchmark Blended Allocation
Core Credit	94%	100%	28%	38%
Extended Credit	6%	0%	2%	0%
	100%	**100%**	**30%**	**38%**
IG Corporates	50%	26%	15%	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%	8%	10%
U.S. Treasuries	11%	43%	3%	16%
High Yield	0%	0%	0%	0%
Convertibles	0%	0%	0%	0%
Bank Loans	4%	0%	1%	0%
	100%	**100%**	**30%**	**38%**

Benchmark: Barclay's Aggregate

IG corporates consist of 26% long-term corporates and 24% short-term corporates.
Strategas currently has an 8% allocation to cash 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.

IMPORTANT DISCLOSURES

This is not a complete analysis of every material fact regarding any company, industry, or security. Additional analysis would be required to make an investment decision. Strategas uses this recommended asset allocation as a reference point for portfolio strategies that take into account factors that aren't addressed in this report. There are risks associated with any investment, and these risks can potentially be compounded if a reader of this recommended asset allocation makes inferences beyond what is explicitly stated (i.e. "Strategas must have high conviction in the overweight sectors, so I'll only invest in those"). This communication is not based on the investment objectives, strategies, goals, financial circumstances, needs or risk tolerance of any particular client and is not presented as suitable to any other particular client; therefore, this communication should be treated as impersonal investment advice. The intended recipients of this communication are presumed to be capable of conducting their own analysis, risk evaluation, and decision-making regarding their investments. An integral part of this decision-making process should be a conversation with a Baird financial advisor that is familiar with your plan, situation, and risk-tolerance.

This communication was prepared by Strategas Securities, LLC ("we" or "us"). Recipients of this communication may not distribute it to others without our express prior consent. This communication is provided for informational purposes only and is not an offer, recommendation, or solicitation to buy or sell any security. This communication does not constitute, nor should it be regarded as, investment research or a research report or securities recommendation and it does not provide information reasonably sufficient upon which to base an investment decision.

For investors subject to MiFID II (European Directive 2014/65/EU and related Delegated Directives): We classify the intended recipients of this communication as "professional clients" or "eligible counterparties" with the meaning of MiFID II and the rules of the UK Financial Conduct Authority. The contents of this report are not provided on an independent basis and are not "investment advice" or "personal recommendations" within the meaning of MiFID II and the rules of the UK Financial Conduct Authority.

The information in this communication has been obtained from sources we consider to be reliable, but we cannot guarantee its accuracy. The information is current only as of the date of this communication and we do not undertake to update or revise such information following such date. To the extent that any securities or their issuers are included in this communication, we do not undertake to provide any information about such securities or their issuers in the future. We do not follow, cover or provide any fundamental or technical analyses, investment ratings, price targets, financial models or other guidance on any particular securities or companies. Further, to the extent that any securities or their issuers are included in this communication, each person responsible for the content included in this communication certifies that any views expressed with respect to such securities or their issuers accurately reflect his or her personal views about the same and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this communication. This communication is provided on a "where is, as is" basis, and we expressly disclaim any liability for any losses or other consequences of any person's use of or reliance on the information contained in this communication.

Strategas Securities, LLC is a registered broker-dealer and FINRA member firm, as well as an SEC-registered investment adviser. It is affiliated with Strategas Asset Management, LLC, an SEC-registered investment adviser. Strategas Securities, LLC is also affiliated with and wholly owned by Robert W. Baird & Co. Incorporated ("Baird"), a broker-dealer and FINRA member firm, although the two firms conduct separate and distinct businesses.

A complete listing of all applicable disclosures pertaining to Baird with respect to any individual companies mentioned in this communication can be accessed at http://www.rwbaird.com/research-insights/research/coverage/thirdpartyresearch-disclosures.aspx. You can also call 1-800-792-2473 or write: Robert W. Baird & Co., PWM Research & Analytics, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.