

Global Asset Allocation

November 16, 2020

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POST-ELECTION UPDATE: ASSET ALLOCATION

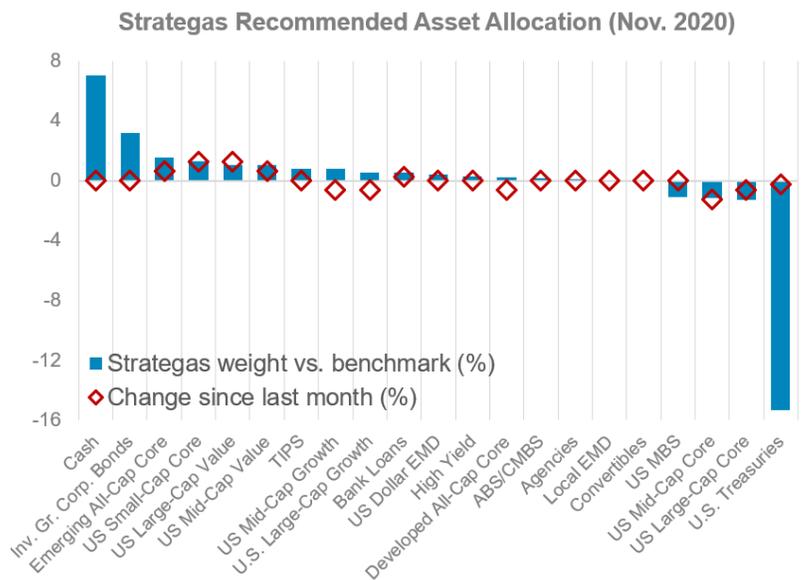
In its reaction to the election and vaccine news, the market has re-weighted political and health risks. Putting a contentious election behind us and making strides toward an effective vaccine support the likelihood of a stronger economic recovery in the intermediate-term, and recent data supports this. For instance, the Consumer Discretionary sector strengthened against Consumer Staples as people began to spend beyond household bulk-buying, copper—which has many industrial uses—saw prices rising relative to gold (a traditional safe haven asset), the yield curve steepened—a sign that investors expect stronger economic growth (and possibly higher inflation)—and high yield spreads narrowed in another sign from the bond markets that the recovery is finding a foothold.

In terms of the stock market, these signs favor a rotation into cyclical sectors that tend to outperform alongside general economic well-being. Still, given the near-term challenges ahead of us, investors should remember that this shift toward cyclicals is a process—and for us it’s a gradual one.

We maintain above-benchmark exposure to Equities (64% vs. 60%), Cash (7% vs. 2%), and Gold (2% vs. 0%) and below-benchmark exposure to Fixed Income (27% vs. 38%). We are increasing equity exposure to U.S. Large Value, U.S. Mid-Cap Value, U.S. Small-Caps, and Emerging Market.

Important catalysts for a surge of economic growth in 2021 include pent-up economic demand and a continuation of the fiscal and monetary policy tailwinds introduced this year. We will be closely watching the length of any additional economic weakness this winter and the shape of the yield curve for signs that we should add even more to our Equity position.

Everyone’s financial plan, risk tolerance, and investment horizon is different, and your Baird financial advisor can help you determine what makes the most sense for your individual needs.



See page 2 for unabbreviated asset class names, and page 3 for disclosures

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 (Nov. 2020)

Equities			Bonds		Cash & Equivalents	
Strategas		64%		27%		9%
Benchmarks	MSCI ACWI	60%	Barclays Agg	38%	Cash	2%
	Domestic	37%	Core Credit	26%	Cash	7%
	International	27%	Ext. Credit	1%	Gold	2%
		64%		27%		9%
Over-weight	US LC Value	9%	IG Corporates	13%	Cash	7%
	EM AC Core	8%			Gold	2%
	US MC Value	3%				
	US SC Core	3%				
Neutral	Dev AC Core	19%	Agencies	1%		
	US LC Growth	15%	ABS/CMBS	1%		
	US MC Growth	2%	US Dollar EMD	0%		
			TIPS	1%		
			High Yield	0%		
			Bank Loans	1%		
Under-weight	US LC Core	6%	US MBS	9%		
	US MC Core	0%	US Treasuries	1%		
Equities		64%	Bonds	27%	Cash & Eq.	9%

EQUITY				
	Strategas Equity Only	Benchmark Equity Only	Strategas Blended Allocation	Benchmark Blended Allocation
Domestic	58%	58%	37%	35%
International	42%	42%	27%	25%
	100%	100%	64%	60%
Dev AC Core	30%	32%	19%	19%
US LC Value	14%	13%	9%	8%
US LC Core	10%	13%	6%	8%
US LC Growth	23%	24%	15%	14%
US MC Value	4%	3%	3%	2%
US MC Core	0%	2%	0%	1%
US MC Growth	3%	2%	2%	1%
US SC Core	4%	2%	3%	1%
EM AC Core	12%	10%	8%	6%
	100%	100%	64%	60%

Benchmark: MSCI All-Country

FIXED INCOME				
	Strategas Fixed Only	Benchmark Fixed Only	Strategas Blended Allocation	Benchmark Blended Allocation
Core Credit	95.5%	100%	26%	38%
Extended Credit	4.5%	0%	1%	0%
	100%	100%	27%	38%
IG Corporates	49%	26%	13%	10%
Agencies	3%	2%	1%	1%
ABS/CMBS	4%	2%	1%	1%
US Dollar EMD	2%	0%	0%	0%
TIPS	3%	0%	1%	0%
Local EMD	0%	0%	0%	0%
US MBS	33%	26%	9%	10%
U.S. Treasuries	4%	43%	1%	16%
High Yield	1%	0%	0%	0%
Convertibles	0%	0%	0%	0%
Bank Loans	2%	0%	1%	0%
	100%	100%	27%	38%

Benchmark: Barclay's Aggregate

See page 3 for disclosures

BENCHMARK DEFINITIONS

The MSCI All Country World Index is a stock index designed to track broad global equity-market performance. Maintained by Morgan Stanley Capital International (MSCI), the index is composed of the stocks of about 3,000 companies from 23 developed countries and 26 emerging markets. It is not possible to invest directly in an index.

Bloomberg Barclays U.S. Aggregate Bond Index is a broad, market-capitalization-weighted bond-market index representing intermediate term, investment grade bonds trade in the U.S. Investors frequently use the index as a stand in for measuring the performance of 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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