ENVESTNET PMC

AUGUST 2023

STRATEGAS

insight

Brought to you by Envestnet

Cyclically cautious

We have been struck by the performance profile of equities over the past several months relative to the broader economic and fundamental data behind it. The powerful (albeit narrow) charge of growth stocks off the lows last October was largely accompanied by a mixed—and we would posit, muted —bag of data. Economic activity surprised above recession expectations, made bulls out of bears, but by no means could be described as "gangbusters." Corporate profits and margins continued to erode off the 3Q'22 cycle high, and although there were clear pockets of fundamental strength (Consumer, Industrials), others have been decidedly mixed (Financials) and others downright weak (Energy). Consensus estimates have perked up across the NTM earnings curve, albeit decidedly front-loaded into 2H'23 vs. 1H'24; the consensus expects earnings to bottom in 3Q'23. As Strategas' Chief Economist, Don Rissmiller, has highlighted, there exists a strong historical relationship between S&P earnings and manufacturing PMIs. PMIs remain soft, but as regional Fed activity data can provide a timelier indication, there are signposts of improvement. Layering this on top of the consumer could help to prolong the current "strong patch." The resiliency of labor and concomitant strength in consumption have been an— if not the— important cornerstone of the current "strong patch", but we continue to focus on the supply/demand imbalance in labor (167 million workers for 171 million jobs) and the stubbornly high level of core inflation metrics. Despite broad expectation that the Fed is done hiking it is more likely, in our view, that both the labor imbalance and sticky core inflation are likely to invite continued vigilance from the committee. Even if they are moved to pause and assess the impact of their handiwork, institutional soreness over the adjudication of monetary policy in the '70s is likely to delay rate cuts in the near-term.

Nearly the whole of the U.S. Treasury curve has sold off in the last month, with the 10-year yield right at new cycle highs. Though these moves, as Tom Tzitzouris notes, can be tied back to technicalities, e.g., the Fitch downgrade, the post-debt ceiling increase in Treasuries supply, and the BOJ's adjustment to YCC policy, we believe that a second wave of inflation is building and that we have entered a structurally higher rate environment. This creates a cyclical and secular foundation for even higher yields, where only a recession in the near-term has the potential to push yields lower. With an economy that remains imbalanced and seemingly devoid of durable organic drivers of growth, we remain "cyclically cautious" on the U.S. market. We maintain our below benchmark exposure to Equities in general and U.S. shares in particular. We continue to favor Value over Growth, but have made moves in recent months to increase exposure to Industrials and the emerging AI sector (albeit with very tight stops), along with overweights in Energy and Health Care. We continue to watch Gold closely and wonder whether we are approaching the point where we should reduce cash in favor of yield parity and the opportunity of capital appreciation at the long end of the curve. August does not seem to be the time to make these moves.

Strategas Recommended Asset Allocation Aug'23		
	Equities	Bonds
Overweight	Dev AC Core US LC Value US MC Value	
Neutral	EM AC Core US MC Growth US SC Core	IG Corporates US MBS US Dollar EMD
Underweight	US LC Core US LC Growth	U.S. Treasuries ABS/CMBS

About Strategas

Strategas is a global institutional brokerage and advisory firm. The Firm provides macro research, capital market and corporate advisory services, and investment management solutions to institutional investors and corporate executives in more than twenty countries around the world.

Founded in 2006 by Jason DeSena Trennert, Nicholas Bohnsack, and Don Rissmiller, the Firm was acquired by Baird Financial Group in 2018. Strategas operates independently as a wholly-owned subsidiary of Baird and offers institutional securities services through Strategas Securities, LLC, a broker-dealer, and investment management solutions, including this commentary, through Strategas Asset Management, LLC, a registered investment advisor.

About Envestnet

Envestnet refers to the family of operating subsidiaries of the public holding company, Envestnet, Inc. (NYSE: ENV). Envestnet is Fully Vested™ in empowering advisors and financial service providers with innovative technology, solutions, and intelligence to help make financial wellness a reality for their clients through an intelligently connected financial life. More than 106,000 advisors and over 6,900 companies including: 16 of the 20 largest U.S. banks, 47 of the 50 largest wealth management and brokerage firms, over 500 of the largest RIAs and hundreds of FinTech companies, leverage Envestnet technology and services that help drive better outcomes for enterprises, advisors and their clients.

For more information, please visit www.envestnet.com, subscribe to our blog, and follow us on Twitter (@ENVintel) and LinkedIn.

Index Overview & Key Definitions

Fed, The Fed or FED refers to the Federal Reserve System, the central bank of the United States. Fed Funds Rate, the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. The Gross Domestic Product (GDP) rate is a measurement of the output of goods and services produced by labor and property located in the United States. Real Gross Domestic Product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year. Nominal Gross Domestic Product is gross domestic product (GDP) evaluated at current market prices. The S&P 500 Index is an unmanaged index comprised of 500 widely held securities considered to be representative of the stock market in general. The Russell 1000 Index is a market capitalization weighted benchmark index made up of the 1000 largest U.S. companies in the Russell 3000 Index. The Russell 2000 Index is an unmanaged index considered representative of small-cap stocks. The PCE (Personal Consumption Expenditure) Index of Prices is a US-wide indicator of the average increase in prices for all domestic personal consumption. Using a variety of data including U.S. Consumer Price Index and Producer Price Index prices, it is derived from personal consumption expenditures; essentially a measure of goods and services targeted towards individuals and consumed by individuals. The Producer Price Index (PPI) program measures the average change over time in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services. FAANG is an acronym for the five of the market's most popular tech stocks, namely Facebook, Apple, Amazon, Netflix and Alphabet's Google. The North American Free Trade Agreement (NAFTA) is an agreement signed by Canada, Mexico, and the United States, creating a trilateral trade bloc in North America. The Seasonally Adjusted Annual Rate (SAAR) is a rate that is adjusted to take into account typical seasonal fluctuations in data and is expressed as an annual total. SAARs are used for data affected by seasonality, when it could be misleading to directly compare different times of the year. The Atlanta Fed GDPNow forecasting model provides a "nowcast" of the official estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis. GDPNow is not an official forecast of the Atlanta Fed. Rather, it is best viewed as a running estimate of real GDP growth based on available data for the current measured quarter.

Disclosures

This communication was jointly prepared by Envestnet, Inc. and Strategas Asset Management, LLC ("we" or "us" or "our"). This communication represents our views as of 8/30/2023, which are subject to change. The information contained herein has been obtained from sources we believe to be reliable, but no guarantee of accuracy can be made. This communication is provided for informational purposes only and should not be construed as an offer, recommendation, nor solicitation to buy or sell any specific security, strategy, or investment product. 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. 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. 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. Past performance does not guarantee future results. All investments carry some level of risk, including loss of principal.

Strategas Asset Management, LLC and Envestnet, Inc. are separate and unaffiliated firms. This material should not be construed as a recommendation or endorsement of any particular product, service, or firm.

Strategas Asset Management, LLC is an SEC Registered Investment Adviser affiliated with Strategas Securities, LLC, a broker-dealer and FINRA member firm, and an SEC Registered Investment Adviser. Both Strategas Asset Management, LLC and Strategas Securities, LLC are affiliated with Robert W. Baird & Co. Incorporated ("Baird"), a broker-dealer and FINRA member firm, and an SEC Registered Investment Adviser, although the firms conduct separate and distinct businesses.

ENV-STRA-0823