STRATEGAS

insight

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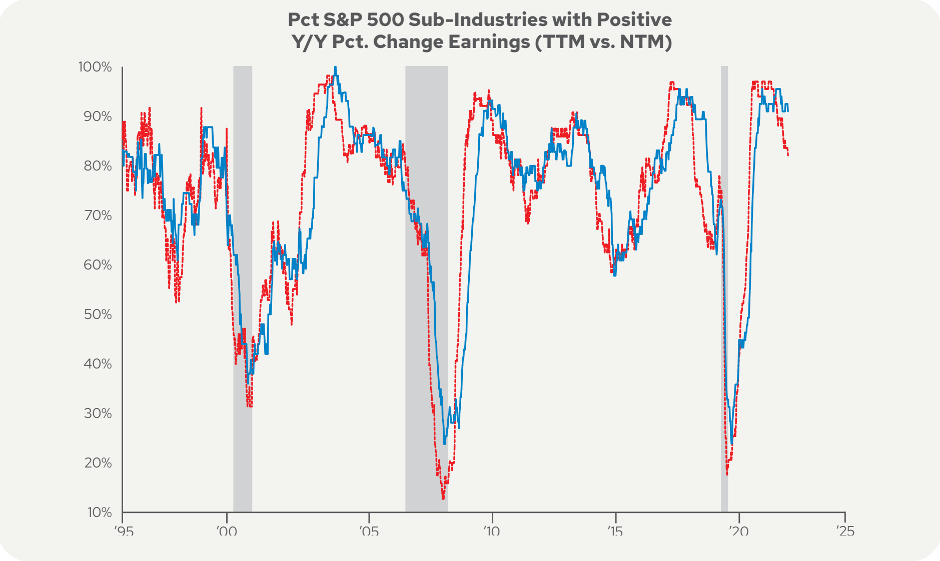
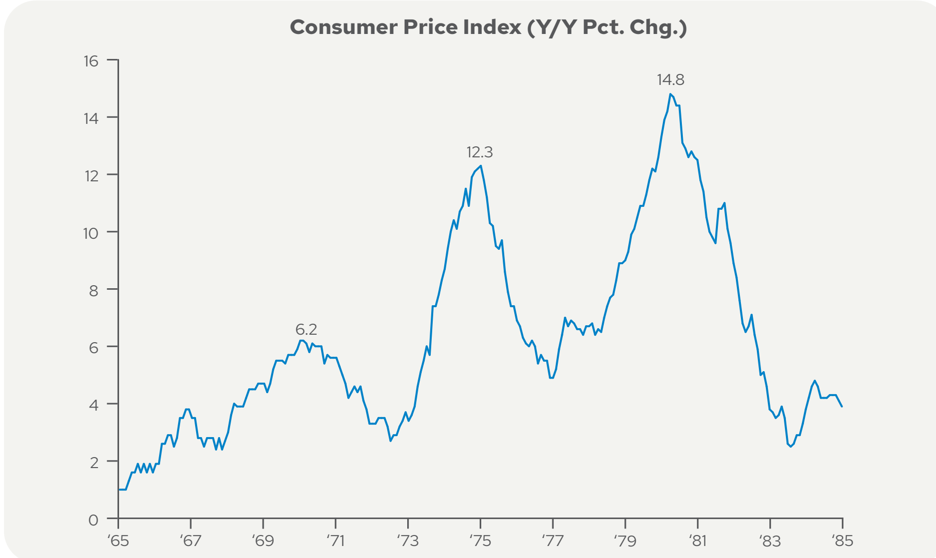
Underweight Equities

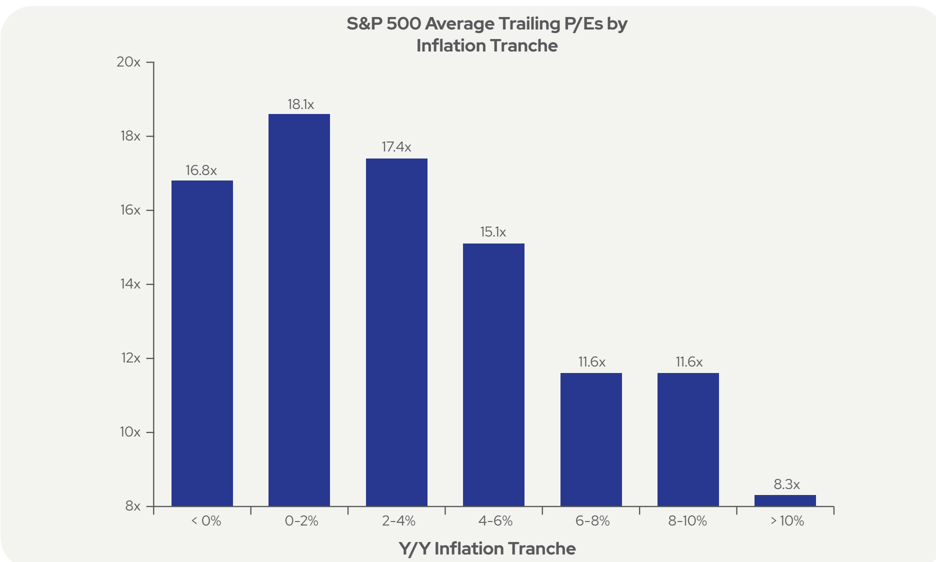
The macro landscape is messy. Many of the items on the laundry list of uncertainty have been uncertain for so long that they have been roundly discounted – both in price and in mindshare. What's more, investors generally foster hope. Hope, most recently, that the stagflationary pressures in evidence during the first half of 2022 would – perhaps because of residual strength in the labor market (or for any reason, really) – prove themselves truly "transitory." While growth appears to be trending, however, underwhelmingly above zero after two quarters below, inflation has shown only modest signs of abating. Thus, Fed Chair Powell's comments at Jackson Hole were an explicit marker of the Fed's resolve in wrestling the regressive scourge of inflation back to an acceptable level. Even if it means inflicting some economic pain. With an indication of more to come, the painful effects of increasingly tighter monetary conditions are likely still ahead of us. In turn, the August Consumer Price Index (CPI) report caught the market off guard - planting enough doubt that summer bulls have been forced to question the durability of their optimism. The gnawing tension between broadening inflationary pressures and weaker economic growth now seems to be breaking toward weaker growth. The market accepts the Fed can – with perseverance – get inflation under control but perhaps not as softly as intimated or hoped.

In our opinion, the odds of recession in 2023 continue to rise. Strategas Chief Economist, Don Rissmiller, lamps the probability of the economy contracting over the next few years at 50%. Higher costs and slower growth increasingly make the outlook for corporate profits appear less certain. Notable global operators have already put a damper on the outlook for the next twelve months. Though the impact created by the "money illusion" may keep nominal levels of corporate earnings higher than typically associated with recession-related declines in profits, the current estimates and implied multiples would not suggest prices and fundamentals are in equilibrium. With the always important forward-looking 3Q reporting season just weeks away, an uptick in c-suite caution would likely weigh heavily on the Street's corporate profit expectations. Stocks generally don't go up when earnings expectations are coming down. Investors are right to be nervous.



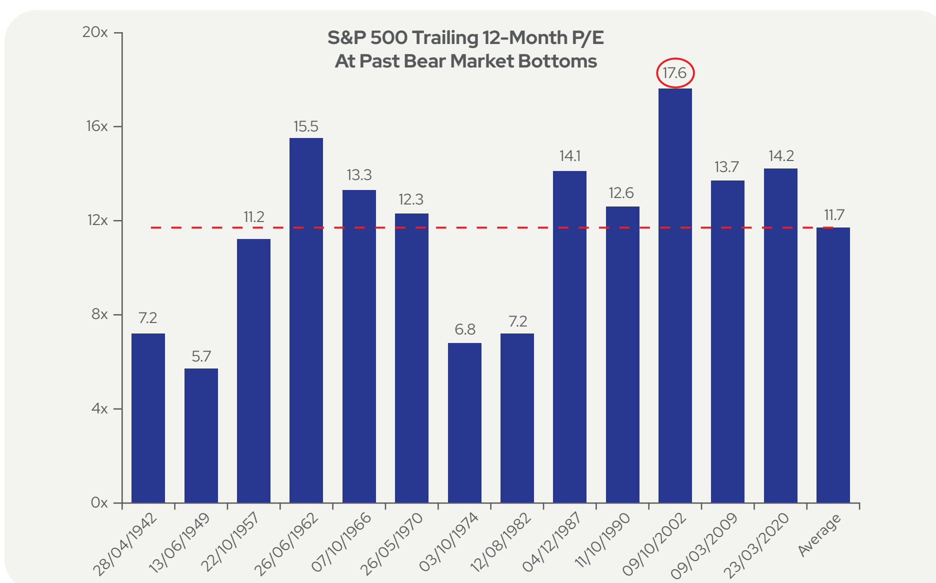
That said, our read from conversations with clients on the road, is that investors have, sufficient confidence in the Fed's ability to engineer a "soft landing." Moreover, the consensus, while perhaps less strident than it was a month ago, maintains a degree of certainty the Fed would "pivot" and retreat from its tightening campaign to stave off recession or to sooth unsteadied markets. We're less sure. Right or wrong, the Fed (and for the moment, most global central banks) seems inclined to avoid the "stop-and-go" approach to monetary policy that doomed the economy in the 1970s.





The bullish argument (or, at least, the less bearish one) tends to start with one of two refrains. The first being, - "look how much they've tightened already" and conversely "look how much stocks have sold off already" No disagreement, a fair amount of work has been done, but the preconditions for the market to stop going down would seem to include an anchoring of inflation expectations and the sustained reversal in the year-over-year rate of change in consumer prices. The preconditions for the market to start going up would need to include the level setting of multiples and self-sustaining organic drivers of growth. Despite the normalization of policy, from most angles, inflation still seems a question mark and for as much as shares have fallen in the aggregate, prevailing valuations remain far higher than levels seen a previous bear market bottoms.

My partner Jason Trennert and I have been doing asset allocation work together for more than twenty years.



Strategas Recommended Asset Allocation Sep'22		
	Equities	Bonds
Overweight	US LC Value US MC Value US SC Core	IG Corporates
Neutral	EM AC Core US MC Growth	Agencies ABS/CMBS US Dollar EMD* TIPS
Underweight	Dev AC Core US LC Growth US LC Core US MC Core	US MBS U.S. Treasuries Bank Loans

Like many in the business we are generally predisposed to optimism; and we are not blind to this bias. But it is tough to fashion an overly optimistic narrative given our outlook. With this writing we are reducing exposure to Equities in our tactical allocation strategies to underweight (58% vs. our 60/40 benchmark). Specifically, given prevailing headwinds we are further reducing exposure to Developed and Emerging international markets to underweight while holding U.S. domestic exposure neutral. With the proceeds we are, for the time being, increasing portfolio Cash. Within Cash we are reducing our allocation to Gold; the move in real yields and concomitant decline in bullion prices coupled with persistent Dollar strength make it less pressing to carry larger allocations to Gold in the intermediate term. On the Fixed Income side of the portfolio, we have moved to neutral duration by further reducing exposure to short duration corporates while adding to longer duration corporates and Treasuries.

Investors may not need to wait long to find some answers. We'll be watching: 1) corporate guidance in the upcoming 3Q'22 reporting; 2) the mid-term election outcome; and 3) the resolve of the Federal Reserve. All three are likely to influence the yield curve in such a way as to influence the equity market... for better or for worse.

**Emerging market debt (EMD) is a term used to encompass bonds issued by Less Developed Countries.*

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

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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.

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Alternative Investments may have complex terms and features that are not easily understood and are not suitable for all investors. You should conduct your own due diligence to ensure you understand the features of the product before investing. Alternative investment strategies may employ a variety of hedging techniques and non-traditional instruments such as inverse and leveraged products. Certain hedging techniques include matched combinations that neutralize or offset individual risks such as merger arbitrage, long/short equity, convertible bond arbitrage and fixed-income arbitrage. Leveraged products are those that employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. Inverse products utilize short selling, derivatives trading, and other leveraged investment techniques, such as futures trading to achieve their objectives, mainly to track the inverse of their benchmarks. As with all investments, there is no assurance that any investment strategies will achieve their objectives or protect against losses.

Index Performance is presented for illustrative purposes only and does not represent the performance of any specific investment product or portfolio. An investment cannot be made directly into an index.

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