

Model Update

January 18, 2022

This latest update to our investment models includes the following themes:

- Across all models we have sought to lower the duration “cap” incorporated into our fixed income allocations while maintaining the flexibility to access additional yield through exposure to credit
- Within the equity component of our models, as a consequence of more recent differentials in relative performance, we updated target exposures to maintain our desired U.S. bias relative to international markets and our exposure to international developed markets, versus emerging markets

Capping Duration

Given expectations for more-persistent-than-expected inflation, set against a backdrop of still strong macroeconomic growth, the U.S. Federal Reserve is likely to commence a reduction in the monetary accommodation that was implemented in reaction to the COVID-19 pandemic. Investor positioning in advance of a shift in the broader rate environment has seen shorter-term yields rise relative to those available from longer-maturity bonds. As a result of these and other trends, we believe the relative total return opportunity in longer-dated bonds has weakened.

Considering the above, the Investment Team has decided to lower the duration cap we have been maintaining across the fixed income allocations of our models by shifting exposures to funds that maintain lower average target maturities at the portfolio level. Though credit spreads are historically tight, we believe the broader macroeconomic environment should continue to favor enhanced, spread-dependent flexibility with regard to investment grade exposures. The Investment Team otherwise left alone the inflation protection within those models where we had maintained it.

Maintaining U.S. Bias

Across regional equity markets, we have seen the outperformance of the U.S. equity market marginally expand the relative weight of domestic stocks relative to international markets. As such, our domestic bias, relative to the passive weight of U.S. stocks in global indexes, saw a slight reduction. Where appropriate, we adjusted the models to be consistent with desired regional equity market biases.

Exposure Details Available

For those desiring deeper details with regard to the model changes and the exposures now maintained within each model, additional materials are available for review. Please reach out to info@statera-am.com for that expanded discussion.

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Publication: 01.18.22

2022-SRCM-11