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## **Flexible Allocation: Environment and Portfolio Positioning**

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### **Environment**

- November was the second consecutive strong month for equities as the S&P 500 rose 5.59%
  - Interest rates pulled back significantly - 10-Year US Treasury yield declined 37 basis points to 3.70%
  - **Economy** – slowdown occurring / mild recession most likely
    - Inflation: growing evidence of a peak, but levels remain elevated
      - Reflected in below expectations October CPI – November release on 12/13
    - Federal Reserve: less hawkish
      - Discussed moving slower and assessing impact of prior moves
      - 50 basis points most likely in December (down from 75bps the last few meetings)
      - How quickly will they stop/pivot if inflation slows further and/or economy weakens significantly?
    - Economic data generally weaker
      - GDP positive in Q3 after two consecutive quarters of negative real GDP
      - Services holding up while hard goods weaken
      - Signs of weakness in recent employment reports – helps Fed to be less hawkish
  - **Market Trend** – healthy rebound in October/November
    - Reached 200-day moving average – short term resistance
    - Longer term support levels in place
  - **Financial Conditions** – improved
    - Credit Spreads tighten / VIX lower
    - Sentiment more neutral
  - **Longer term Interest Rates** – remain volatile / declined in November
    - Bloomberg Aggregate Bond Index rose 3.68%
  - **Valuation** – attractive (especially certain segments)
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## Portfolio Positioning

- SSI's disciplined process and "constrained" approach helped Flexible Allocation portfolios participate in the gains generated by the financial markets
- As the investment environment improved, several factors became more positive
  - Equity allocation was increased and is now close to benchmarks
  - Cash being gradually redeployed as compelling opportunities are identified
- **Equity** portfolio generated returns similar to the S&P 500
  - Allocation increased
  - New position in international stocks (HEFA) established
  - Biotech (IBB) outperformed, while Energy (XLE) underperformed
- **Fixed Income** portfolio generated gains, but trailed the Bloomberg Aggregate due to the pullback in rates
  - Given the highly volatile rate environment, we continue to focus on fixed income securities with limited interest rate sensitivity
  - New position in floating rate debt (FLOT) added
- **Alternatives** generated positive returns but trailed the remainder of the portfolio
  - Convertibles offer attractive risk/reward - opportunity for upside participation combined with the potential for downside protection
- Volatility likely to continue but return expectations rising for both equity and fixed

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