TENACITY ADVISORY GROUP

TAG Model Update Q1 2023

Subject: Changes to TAG Models

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Summary & Rationale:

The TAG Managed Money Team recently held its quarterly review to update asset allocations of TAG models. The 4th quarter again continued to prove difficult for market bulls. U.S. equity markets rebounded to start the quarter, but a potential year-end rally fizzled out with the S&P finishing the year down -19.44%. Looking into 2023, the committee takes the Fed at its word that it will not cut rates, and two 25 bps increases are likely before pausing.

On the fixed income side, the 2-10 Treasury spread remains widely negative and the yield curve remains inverted, continuing to signal a possible recession. Consumer balance sheets remain strong but are beginning to show signs of weakness, with household debt-to-income levels rising slightly as pandemic era stimulus abates and household savings rates continue to decrease. Consumer sentiment has rebounded from all-time lows but remains substantially depressed. The labor market remains strong with 3.5% unemployment and week jobless claims are now below 200,000.

Internationally, the war in Ukraine slogs into another year, and energy costs remain historically high across the Eurozone. Meanwhile, the ECB and Bank of England have raised rates to curb inflation and attempt to stave off additional dollar strength. These factors led the committee to confirm an underweight allocation in Developed European Equity, but as China begins to abandon its 'Zero COVID' policy, Emerging Markets look attractive.

Overall, in equities we reiterate a slight U.S. bias with an eye on Emerging Markets and have maintained allocations relative to cap size.

As rate hikes begin to level off, opportunities have begun to present themselves in Fixed Income. We continue to maintain a positive view on High Yield debt in the short to medium terms, and are increasing core bond allocations, while maintaining short average duration across portfolios.

Given this backdrop, and based upon the team's research and methodology, we have made the following adjustments:

> Domestic: Domestic volatility continued throughout the remainder of 2022, and while we still feel strongly on the overall U.S. Economy relative to other developed nations, we expect some turbulence throughout 2023. Our overall allocations remain fairly consistent, with some slight shifts towards value and core positions in the G&I and Balanced portfolios. Additionally, we have trimmed some Small-Cap and Mid-Cap positions in favor of Large-Cap holdings. Overall equity positions have been trimmed slightly and allocated to fixed income.

International: With the World Index ex-US down 15% in 2022 we believe that 2023 looks brighter. Inflation and the war in Ukraine created many detractors abroad, however, 2022 earnings held up because of resilient demand and higher prices. Early in 2023 we expect earnings expectations to be lower, but as international economies rebound, and currencies strengthen vs the dollar, investors will continue to gain more confidence that the worst is behind us. From a valuation standpoint, international equities relative to US markets continue to trade at a 30% discount on a forward P/E basis.

Although concerns around international growth remain elevated, we believe further downside risk is limited. As the dollar descends from peak strength, emerging markets, especially Chinese equities, have the potential to be the first areas to rebound. We have even seen the Chinese markets rally in recent times with the easing of the "zero COVID" policy and the implementation of housing reforms. If tensions between the Western world remain at bay, investors will benefit from having exposure to not only China but broader EM.

Changes: slight trims across multiple positions to are removing AmFunds Global Insights (**AGVGX**) due to high overlap with AmFunds New Perspective (**ANWFX**)

Fixed Income:

- Dropping out of hedged equity positions (JPMorgan Hedged Equity and First Trust Deep Buffer) after originally getting into the positions in Sept of 2021. The Hedged positions provided an overall net positive return compared to the positions sold to buy JP and First Trust. Net positive returns were in the range of 2 to 45 percent (the larger coming from Large Growth positions sold). We now feel that the relative value of true bond positions outweighs the value of a hedged equity positions, especially if we do see further pressure on stocks.

- Adding a High Yield solution (Brandywine) in cases where we are trimming equities. To offset credit risk, the committee will be maintaining a shorter duration than the index by allocating further into short duration positions. Yields remains attractive on the short end of the curve, and volatility remains further out.

- Fed remarks continue to be hawkish, and rate hikes are still priced in for the immediate future. Although the market seems to be pricing in rate cuts by year-end 2023, we have taken the stance to not fight the Fed and will wait for further remarks before making a trade into longer duration positions. The duration trade is far more attractive than in years past, but we believe (especially after the tumultuous year in 2022) that a defensive position is the prudent decision at this today.

Sectors: the U.S. continues to move through the late stages of the business cycle. We reiterate our defensive sector positioning in Healthcare, Utilities, and Consumer Staples. No changes.

Actions: As of the afternoon of January 20th, all TAG models and sleeves have been updated on WMP for viewing and proposals. Trades will be generated January 20th and sent to affected advisors individually. Please respond to your individual email if you wish to have trades excluded. Trades will execute on Tuesday, January 24th.