SENDERO® | WEALTH MANAGEMENT

as of June 30, 2019

Tactical Asset Allocation

This report reflects the current opinions of the Sendero Investment Committee on various asset classes used or considered for client portfolios versus their strategic allocation. The comments reflect opinions as of the specific date listed above and can change quickly based on market conditions.

Stability

ASSET CLASS	OVERWEIGHT	NEUTRAL	UNDERWEIGHT
CASH	○		
FIXED INCOME		○	
ALTERNATIVE STRATEGIES	○		

Growth

ASSET CLASS	OVERWEIGHT	NEUTRAL	UNDERWEIGHT
U.S. MARKETS		○	
DEVELOPED MARKETS			○
EMERGING MARKETS	○		
REAL ESTATE/REITs			○
PRIVATE EQUITY			○
ENERGY		○	

Diversifier

ASSET CLASS	OVERWEIGHT	NEUTRAL	UNDERWEIGHT
HEDGED STRATEGIES	○		

Market Highlights

- Global growth momentum continues to slow and the U.S. economy is in the late-cycle phase but with low risk of recession in the near-term.
- Modest inflation, mixed economic growth expectations, and the Fed's dovish shirt has supported bond prices. Rising stock prices have moved U.S. equity valuations above their long-term historical averages while international developed and emerging markets remain below.
- With the start of 2Q earnings season, investors will focus on business outlook updates and profit guidance for the remainder of 2019.

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CASH
OVERWEIGHT

We have a higher allocation to cash awaiting deployment when opportunities arise. We are wary of higher volatility in the near-term amid political and economic uncertainties globally.

FIXED INCOME
NEUTRAL

We are moving to a Neutral allocation to Fixed Income as the bond market and yield curve have provided the ammunition for a Fed cut and a switch further into easing mode. The Fed pivoted, for the foreseeable future, to a dovish policy rate forecast for 2019 and 2020. Low inflation readings and continued concerns over the impact of tariffs on global growth will keep the Fed dovish for the rest of the year. We still prefer short-duration exposure and favor TIPs as an inflation hedge as well as managers that have the ability to capture both the long and short side of the fixed income opportunity set.

ALTERNATIVE STRATEGIES
OVERWEIGHT

We are maintaining our overweight Alternative Strategies allocation. Equity long/short strategies continue to benefit from robust performance this year. Managers have largely maintained conviction in their positions and considered the sharp market moves at the end of the year to be an overreaction. The result of this has been that many managers have experienced a material rebound in their alpha generation to begin the year. Within the alternative space, returns have and should continue to be generated for skilled managers navigating an increasingly complex backdrop. We except this path to continue to follow a jagged line.

U.S. MARKETS
NEUTRAL

We are maintaining our neutral allocation to Domestic Equities. We base our market outlook on the view that while the business cycle will not end in 2019, we see a slowdown in global growth and corporate earnings, with the U.S. economy entering a late-cycle phase. Underlying fundamentals are healthy, and growth should continue to be above potential, albeit after a weak first quarter owing to the government shutdown among other factors. While valuations are still reasonable, we remain cautious on the overall equity markets due to the potential for higher volatility from continued uncertainties over the stronger dollar, trade and tariff policies, and concerns over earnings sustainability in the next few quarters. In such an environment, we see an opportunity for active managers to continue to take advantage of dispersion between company and industry winners and losers.

DEVELOPED MARKETS
UNDERWEIGHT

We are maintaining our underweight Developed Markets allocation on the back of relatively muted earnings growth, weak economic momentum and political risks. We continue to maintain an emphasis on active management not exposed to benchmark sectors, but quality companies. While valuations are attractive relative to U.S. equities, we remain cautious on Europe as economic growth and profit momentum have continued to disappoint relative to other regions. Japan offers better risk/reward after the global selloff, as monetary and fiscal policy remains supportive and valuations remain attractive.

EMERGING MARKETS
OVERWEIGHT

We are maintaining our overweight Emerging Markets allocation. We believe that EM economies and markets have turned the corner and that receding EM risks and attractive valuations will lead to outperformance for the rest of the year. Country selection remains key, especially as trade and currency risks evolve in 2019. Active managers should benefit in that dislocations will likely provide attractive entry points for quality companies in a higher volatility environment.

REAL ESTATE/REITs

○ UNDERWEIGHT

We are maintaining our Underweight allocation to REITs and CRE due to elevated valuation and lower AFFO expectations amid heightened short-term sensitivity to higher interest rates within a late cycle environment.

PRIVATE EQUITY

○ UNDERWEIGHT

Within the broad private equity universe, we currently favor special situation strategies that can benefit from pockets of stress and offer important diversification benefits due in part to their counter-cyclicality.

ENERGY

○ NEUTRAL

We are removing our tactical overweight allocation to Energy. A more tepid economic growth outlook, growing shale supply, a large tail of long-cycle new projects slated to come online later this year, and the diminishing prospect for large new disruptions all combine to a weak outlook for energy equities. While the geopolitical backdrop is bullish, we expect the recent extension of OPEC+ cuts to be modestly supportive to prices as rolling production cuts will prove to be more difficult amongst the backdrop of increased global drilling.

HEDGED STRATEGIES

○ OVERWEIGHT

We are also maintaining a tactical Overweight allocation to Hedged Strategies to diversify overall risk and long only beta exposure. We believe the environment for active management remains favorable and recommend allocations to equity long/short and uncorrelated strategies. If recent trends persist, performance will likely be manager-specific in 2019. The main risk to our recommendation is the market continues on a straight up trend from here. In this scenario, funds with lower net exposure will likely keep underperforming on a relative basis.

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