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 and can change quickly based on market conditions.

SENDERO
WEALTH MANAGEMENT

As of January, 2022

STABILITY

ASSET CLASS	OVERWEIGHT	NEUTRAL	UNDERWEIGHT
CASH		○	
ULTRA SHORT BONDS	○		
TIPS	○		
FIXED INCOME			○

GROWTH

ASSET CLASS	OVERWEIGHT	NEUTRAL	UNDERWEIGHT
U. S. EQUITIES		○	
DEVELOPED MARKETS		○	
EMERGING MARKETS		○	

DIVERSIFIER

ASSET CLASS	OVERWEIGHT	NEUTRAL	UNDERWEIGHT
HEDGE FUNDS	○		
COMMODITIES & CRYPTOCURRENCIES		○	
REAL ESTATE		○	
CREDIT	○		

Market Highlights

- In 2022, we expect global growth to normalize, remaining above its long-term trend but decelerating to a more sustainable rate as fiscal stimulus is gradually removed. We anticipate that inflation will peak in mid-2022 and then start to slowly moderate, backing down toward target rates by the end of 2023 as supply chain issues resolve, vaccination levels increase, and more employees return to the workforce.
- We expect a grind-it-out market environment in which valuations could remain flat or slightly decline but with profit growth. Rotation toward cyclicals and more value-oriented areas including small-caps is preferred, and the long-duration, high-growth, little-to-no-profit areas come under continued pressure. The curve may shift upward and steeper between federal funds and the 10-year Treasury. We favor credit overall and prefer municipal bonds relative to treasuries, but we would maintain a shorter-duration stance.

CASH NEUTRAL

We believe cash should be held for near-term liquidity needs and to take advantage of market volatility.

ULTRA SHORT BONDS OVERWEIGHT

Available options offer above money market rates while retaining liquidity waiting to be redeployed.

TIPS OVERWEIGHT

Base effects, supply-chain disruption and fiscal stimulus have combined to push inflation higher globally. We expect inflation to downshift in the near-term but upside risks to persist going into 2022.

FIXED INCOME UNDERWEIGHT

Risk of another taper tantrum, sustained economic growth and a more hawkish Fed tone argue for higher yields in 2022. Prefer low/intermediate duration spread products and higher quality munis.

U.S. EQUITIES NEUTRAL

While the value factor remains attractive relative to growth, we are inclined to focus on earnings quality and secular growth themes. The macro backdrop remains favorable for equities, but valuations are rich and earnings expectations have already recovered strongly. We expect volatility to rise as financial conditions tighten (Fed begins tapering and interest rates rise). Active managers should be rewarded for stock selection as the economy continues to reopen.

DEVELOPED MARKETS NEUTRAL

Despite underperforming in 2021 (and for the last 10 years), international equities should benefit from a continuation of the global recovery along with below-average valuations. We prefer active exposure within international managers.

EMERGING MARKETS NEUTRAL

EM equities were challenged in 2021 due to weaker fiscal support, uneven vaccination rollouts, and a moderation in the growth outlook for China (as well as regulatory changes). We continue to expect a wide return dispersion between individual EM countries and regions.

HEDGE FUNDS OVERWEIGHT

We favor equity long/short strategies for differentiated sources of return due to anticipated equity dispersion and increased volatility. Global macro and managed futures strategies, currently seeing a wide opportunity set, may help investors seeking to diversify equity and fixed income allocations.

COMMODITES & CRYPOCURRENCY NEUTRAL

We favor equity long/short strategies for differentiated sources of return due to anticipated equity dispersion and increased volatility. Global macro and managed futures strategies, currently seeing a wide opportunity set, may help investors seeking to diversify equity and fixed income allocations.

REAL ESTATE NEUTRAL

The pandemic has accelerated already-present underlying real estate trends. We continue to place emphasis on direct investments in well-located properties in strong regions that exhibit attractive rent-roll and cash-flow characteristics. This allocation has the potential to provide some income as well as a long-term hedge against rising inflation.

CREDIT OVERWEIGHT

We expect default rates to rise and recoveries to suffer in coming years which should create dislocations/opportunities for active managers.

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Account information entitled "Total Net of Fees" reflects the deduction of fees and expenses, while account information entitled "Total Fund" is "gross of fees". The deduction of such fees will reduce your returns, and since fees are deducted monthly or quarterly, the compounding effect will be to increase the impact of fees by an amount directly related to the gross account performance.

Benchmarks

Benchmarks are provided for illustrative purposes only. The indices depicted herein have been selected based upon our subjective determination by Sendero of the appropriate benchmark for the applicable account based upon our understanding of the style of investment being pursued by yourself or the manager of your account(s). Comparisons to other benchmarks may reflect poorly on the performance of your account(s) in that the performance of your account(s) may lag the performance of such other benchmarks. Comparisons to benchmarks have limitations because benchmarks have volatility and other material characteristics that may differ from the investments depicted herein. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

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