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 March, 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

- The near-term economic outlook is cloudy given the ongoing Russia-Ukraine war. Prior to March, the global economy, particularly the Euro area, was accelerating. Given the volatility across many commodities, investing in Emerging Market economies has become more nuanced and selective.
- An easing in geopolitical tensions would reduce anxiety about the economic prospects, although it could spur more aggressive interest rate hikes given the worsening inflation picture.

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 disruptions, and fiscal stimulus have combined to push inflation higher globally. Upside risks persist in 2022, especially from stubborn food and energy prices.

FIXED INCOME UNDERWEIGHT

The risk of another "taper tantrum", sustained economic growth, and a more hawkish Fed tone argue for higher yields in 2022. Conversely, a downshift in economic activity from higher commodity prices makes the case for low yields. 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 earnings and economic backdrops remain favorable for equities, but we expect volatility to stay high for the remainder of 2022 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, especially given the regional impact of the (ongoing) invasion of Ukraine.

EMERGING MARKETS UNDERWEIGHT

While EM equities trade at a discount to global benchmarks, the events in Ukraine give us pause. The financial and commodity repercussions have the potential to create another wave of political instability in Emerging and Frontier economies. We will revisit our tactical allocation in 6-12 months.

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.

COMMODITIES & CRYPTOCURRENCY NEUTRAL

Key pro-cyclical commodities are overbought in the near-term, given physical supply concerns from Ukraine and Russia. Global economic growth should continue to support long-term demand for commodities. Research on crypto strategies continues, given the opportunities in blockchain, but regulatory risks remain.

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 the coming years, which should create dislocations/opportunities for active long/short managers.

Note: Positioning versus Strategic allocation.

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