EQIS

Q2 2023 EQIS Models Reallocation

Despite rising equity markets, we expect many of the recent headwinds and themes to remain for the year's second half. The banking sector fallout has tightened lending standards and may signal an end to the Fed's rate hiking cycle. Nevertheless, a pivot to cutting rates is increasingly being pushed back into 2024 by forecasters. The Fed has continued communicating its desire to keep rates higher for longer to combat sticky inflation and achieve its labor market targets.

Gross Domestic Product ("GDP") growth in the US and international economies looks to be slowing. With growth weakening and rising risks, we have maintained our neutral equity weighting relative to fixed income and increased our duration exposure. Our fixed income allocations further reflect a change in preference from high yield to holding more investment-grade credit. We are becoming more constructive in our outlook on US Treasuries as we expect the Fed to be nearing an end to rate hikes after the current pause, which should improve return expectations moving forward. Fed officials at their latest meeting on Wednesday did not hike rates as markets expected but acknowledged that further tightening may be warranted and signaled a potential terminal rate includes an increase of 50 basis points from the current range of 5.00% – 5.25%.

Our preference for value-oriented stocks remains despite the rally in mega-cap technology growth equities during the first five months of 2023. The sustainability of the recent rally is questionable as the breadth of the market remains narrow and concentrated. We believe downside risks to GDP growth, both within the US and international, will favor the higher-quality, dividend paying and value-oriented stocks over the remainder of 2023. Earnings outlooks are expected to deteriorate further, increasing downside risk to equities as headwinds pile up. Technology stocks rallied with the Fed's provision of extraordinary emergency liquidity during the banking stresses earlier this spring. The Fed is likely to reverse course now that the banking sector appears to have stabilized and return to shrinking its balance sheet, mopping up the extra liquidity that boosted growth stocks.

China presents an opportunity for emerging markets (EM) as pent-up demand continues to support reopening activity in the region. China's monetary and fiscal policy is expected to remain accommodative, with a softer stance on the property and technology sectors.

Our preference for alternatives means a downgrade in our outlook for liquid alternatives, commodities and real estate. Liquid alternatives can be substituted for fixed income, as investors can lock in meaningful yields and continue to see the higher potential for additional capital gains should and when the Fed becomes more dovish. Alternatives still have a place to limit the potential volatility of equity exposure. Still, it has become less critical as the VIX remains historically low and the current expectation of a soft landing dictates the market. While inflation remains higher although lower than recent reads, we see a downside in many commodities prices, including energy. We see slowing demand for many commodities with slower GDP growth in the US and other nations worldwide and a less coordinated central bank reaction. Although opportunities continue to be present, the general asset class does not offer the same apparent return outcomes as may fixed income. Additionally, the commodities indices are often largely represented by energy, which we expect to continue to settle and find a more reliable price floor with recent adjustments by OPEC.

Real estate faces economic uncertainty as rising rates continue to impact the sector. The commercial segment faces headwinds from a rising rate environment and lower office-space utilization. However, multifamily and industrial continue to perform well while neighborhood retail remains robust.

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In the far-right column of the table below you will find our asset class weighting changes implemented with these EQIS models allocation changes. In the other three columns of the table you will find the resulting current relative asset class weightings.

Q2 2023 Allocation Changes				
Asset Class - 2023				Change in Opinion
Asset Class	Concern	Neutral	Constructive	
Equities		0		
Bonds		0		
Equity				
Geographic Exposure				
US		0		-1
Intl Developed		0		
EM		0		1
Size				
Large			1	
Mid		0		
Small	-1			
Style				
Growth	-1			
Value			1	
Fixed Income				
Geographic Exposure				
US		0		
Intl Developed	-1			
EM	-1			
Credit Exposure				
Treasuries		0		1
IG Corporates			1	
High Yield	-1			-1
Interest Rate Exposure				
Duration		0		
Alternatives				
Liquid Alts (F)			1	-1
Commodities		0		-1
Real Estate		0		-1

Key	-2	-1	0	1	2
Relative Weighting	Very Underweight	Underweight	Neutral Weight	Overweight	Very Overweight

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In the table below you will find the specific model sleeve strategy adds and removes that were implemented in these EQIS models allocation changes. Where a model shows only strategy removal, the allocation to that strategy that was removed was reallocated to other strategies in the model.

EQIS Strategic	
Action	Manager
Add	American Beacon AHL Managed Futures Fund
Remove	Advisor Partners US Equity Small Cap Value - Fractional Share
Remove	BlackRock High Yield Bond Fund
Remove	Parametric Commodity Strategy Fund

EQIS Dynamic Strategic	
Action	Manager
Add	Toews Hedged Equity - Fractional Share
Add	Zacks All Cap Core - Fractional Share
Remove	Ativo Small Cap - Fractional Share
Remove	Parametric Commodity Strategy Fund
Remove	SignalPoint Balanced Point - Fractional Share
Remove	SignalPoint Signal 10 - Fractional Share
Remove	Swan Defined Risk Fund
Remove	Swan Defined Risk Growth Fund
Remove	Zacks Mid Cap Core - Fractional Share

EQIS Dynamic Sector	
Action	Manager
Remove	BlackRock High Yield Bond Fund
Remove	Financial Trust Flexible Income - Fractional Share
Remove	Parametric Commodity Strategy Fund

EQIS Dynamic Tactical	
Action	Manager
Remove	iSectors Post-MPT Moderate - Fractional Share
Remove	SignalPoint Signal 10 - Fractional Share
Remove	Financial Trust Flexible Income - Fractional Share

EQIS Income	
Action	Manager
Add	American Beacon AHL Managed Futures Fund
Remove	BlackRock High Yield Bond Fund
Remove	Financial Trust Flexible Income - Fractional Share
Remove	Parametric Commodity Strategy Fund

EQIS Strategic Tax-Managed	
Action	Manager
Remove	EQIS 7 Year Muni ETF Ladder

Your Freedom Advisors Consulting Team is available to discuss these model allocation changes. We look forward to continuing our work together and providing the support and information necessary to effectively manage client portfolios.

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