ASSET ALLOCATION UPDATE

November 2022

Turning Point?

Investment Strategy Update

As communicated last month, FSA Investment Group adopted a more cautious stance in client portfolios in the beginning of the fourth quarter this year. Five of the six indicators we monitor as part of our Highland Diffusion Index ("HDI")– economic, yield curve, monetary policy, credit spread, and momentum – are all signaling Risk-Off. Market-based indicators like credit spreads and momentum turned negative earlier in the year as spreads on investment grade and high yield bonds increased and equity markets waned. In recent months, the HDI's economic, yield curve, and monetary policy indicators have shifted negative as portions of the yield curve have inverted and the Federal Reserve continues to adopt a more restrictive strategy. Employment remains a bright spot.

We rebalanced portfolios in October to have a neutral allocation to equities and shortened duration in bonds. With yields rising since the start of the year, bonds are now priced to deliver returns in line with long-term av-erages. Moreover, higher yields help compensate investors who prefer to play defense in this period of uncertainty and higher volatility. We also continue to maintain an overweight to U.S. equities and alternative, non-directional fixed income strategies, which have both been accretive to portfolios year-to-date.

U.S Equity Market Update

After underperforming every major market from 2000 to 2008, U.S. stocks have outperformed the rest of the world by a wide margin. During a majority of this time, we have been overweight to U.S. equity markets in client accounts. These allocations have served our clients well. However, the question we are asking ourselves today is how long can this long peri-od of U.S. equity market outperformance continue? Our current position-ing of overweight U.S. equities and underweight international equities remains attractive as a safe haven over the near-term, but we continue to watch for potential catalysts that would provide an opportunity to rotate into other markets.

- Investment Services
- Reporting Services
- Consulting Services

ABOUT OUR FIRM

We are dedicated to providing investment management and strategic wealth planning to Indian tribes and high net worth individuals. Simply put, we strive to be our client's trusted advisor. As a financial advisory firm, our primary focus is to provide unbiased opinions that are designed to achieve long term investment results.

FSA Investment Group does this with the highest levels of trust, integrity and respect while always collaborating using a team approach. We are dedicated to professionally supporting, educating, and providing informed direction to each and every client.

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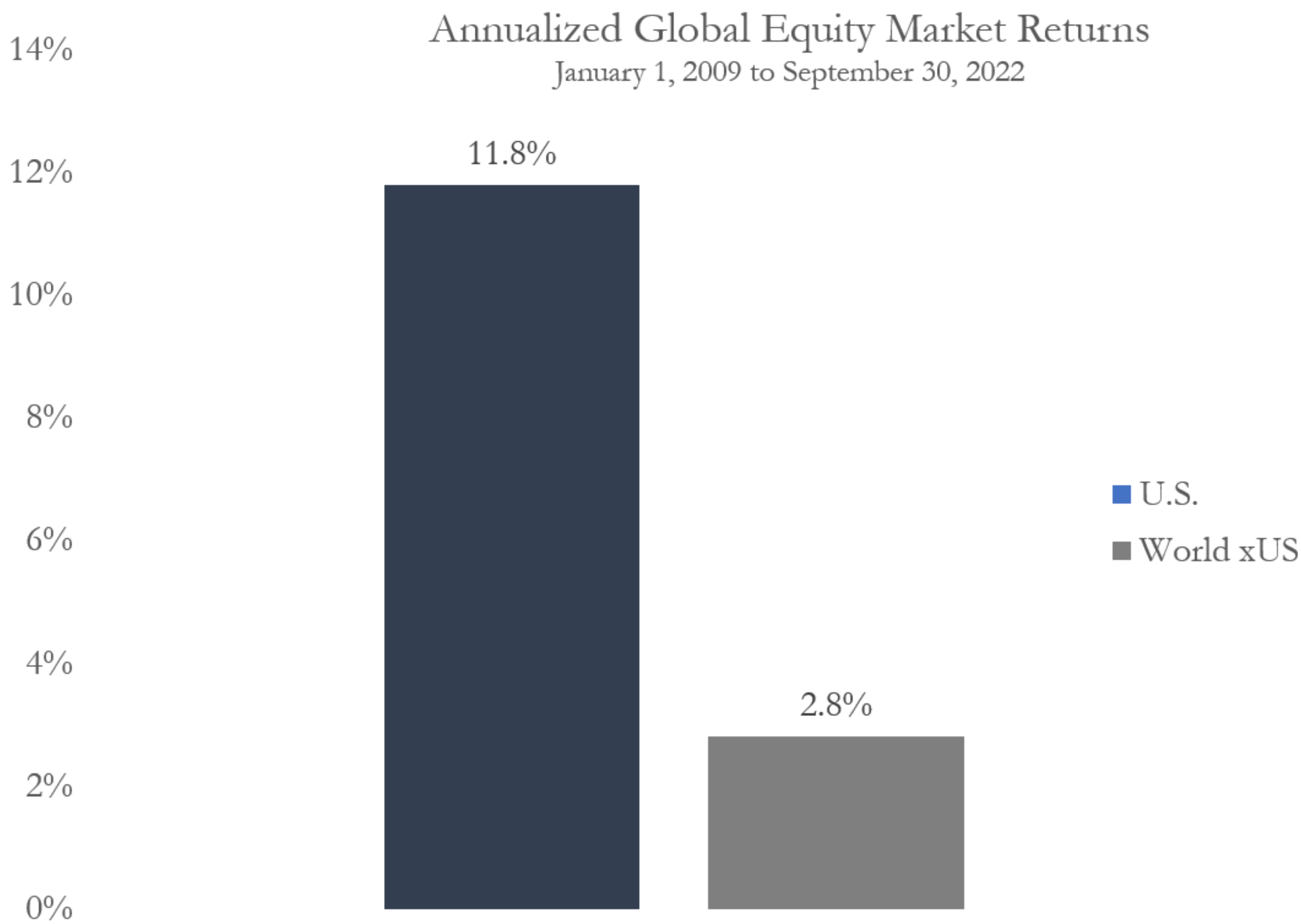

Source: eVestment. Past performance is not an indication of future results.

BCA, a leading provider of global investment research, points out that a surge in U.S. sales has been the biggest driver of U.S. outperformance during this period, followed by profit margins and then P/E expansion. Regarding sales and profit margins, BCA makes the case that they are both on shakier ground today than in the recent past. First, sales are closely linked to nominal GDP, and the IMF forecasts stronger growth outside the U.S. going forward, especially in emerging countries. Second, historically any region's profit margins are unable to remain above the global average longer than 15 years. This makes sense, as economic theory purports that when profitability is excessive in one market, increased competition will come in and exert downward pressure on margins. U.S. profit margins have now been above global levels for almost 13 years, which would imply we are in the later innings of U.S. dominance in this area.

Another catalyst we continue to monitor is the price of the dollar relative to other major global market currencies. When the dollar is rising, this can be a tailwind for U.S. equity market returns versus the rest of the world, and vice versa. Today the dollar is high. In nominal returns, the dollar exchange rate is the highest it's been since 2002. In real terms, after adjusting for higher U.S. inflation, this is the highest exchange rate since mid-1980s. When the Federal Reserve pauses its current rate-hike campaign, we expect the dollar to fall as the gap between U.S. rates and international rates narrows. Moreover, the dollar tends to strengthen when global growth wanes and weaken when global growth is rising, as the U.S. remains the preferred safe haven. If and when global growth improves, we would also expect to see the dollar fall and make international markets more attractive.

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