September 20, 2021

CHINA CONTAGION?

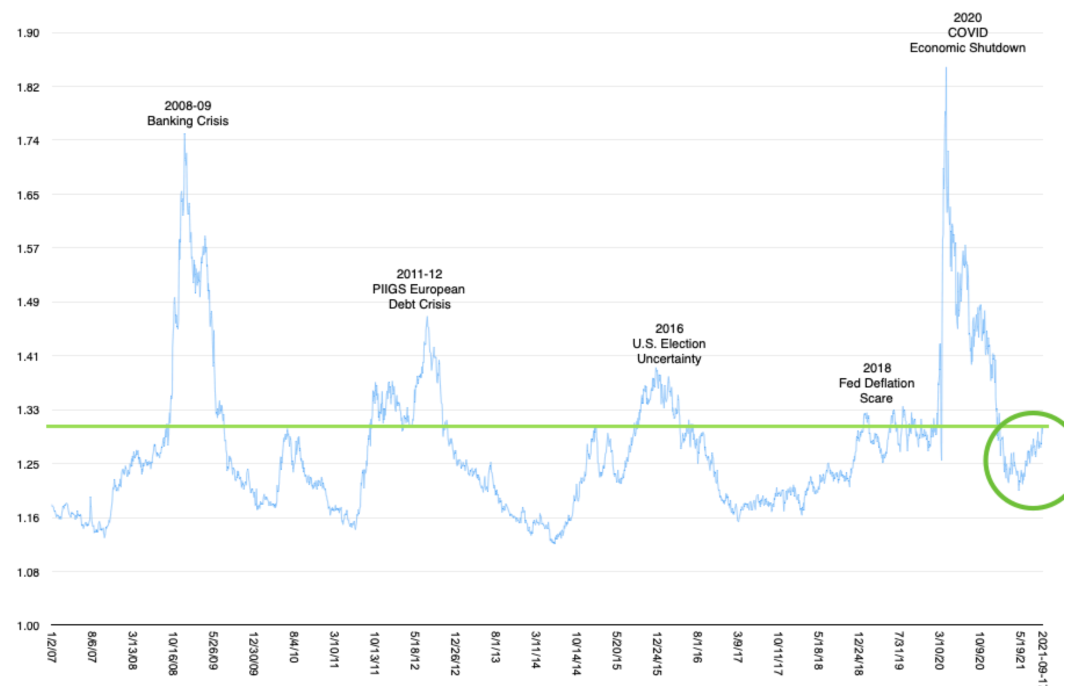
Global risk-on assets took a hit today as headlines reported the decline and fall of China's second largest property developer, Evergrande Group. The fear of financial system contagion is in the air. However, this is not really "new". Evergrande has been battling solvency issues for weeks, and the Chinese economy in general has been battling failed economic policies for years. China continues to be a dangerous place for investment capital, but these developments don't exactly guarantee a Lehman brothers "global panic" moment.

As BWR notes, "When we look at the holdings of Evergrande on Bloomberg by geographic location, less than 2% is reportedly held by institutions in the US (firms such as Blackrock and Vanguard). So by itself, Evergrande may represent very little downside to the US markets."

Market measures of systemic risk remain calm. US Credit Default Swap prices have been falling for a year, reaching a low of 11.5 basis points between mid-May and mid-August and recently rising to just 14.5 basis points.

Baa-Aaa bond spreads also remain calm. As seen in the chart, spreads have recently widened about ten basis points but remain near the longer term average and well below prior periods of extreme systemic bank stress.

The Chinese situation warrants close monitoring to ensure a bank panic doesn't result. But for now, assuming a systemic Lehman outcome is premature. Instead, this may provide an opportunity to deploy more capital to US assets while providing even more evidence that China is a dangerous destination for investments.



ALLOCATOR

Fixed Income

Bonds are an asset class that does well in a deflationary policy environment (Low Growth & Strong Currency)

We have long said the Treasury bond bubble will pop again as it did from May 2013-Jan 2014 when long term Treasury bonds fell 18%. Treasury bond prices are at risk to fall 30-50%, and we expect any moves higher in bond prices (lower in yields) to be short-lived. Since most other bonds price off of Treasury yields, fixed income in general is a risky asset class. Bonds are not automatically low risk.

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Investment Grade	LQD	9/9/2016	$119.00	$135.36	13.7%	
Aggregate Bond	AGG	9/9/2016	$109.00	$115.87	6.3%	
Municipal	MUB	9/9/2016	$111.00	$116.86	5.3%	
TIPS	TIP	9/9/2016	$114.00	$128.70	12.9%	
Extended Duration	EDV	9/9/2016	$128.00	$141.83	10.8%	
US Treasury 3-7 yr	IEI	9/9/2016	$124.00	$130.79	5.5%	
US Treasury 7-10 yr	IEF	9/9/2016	$109.00	$116.49	6.9%	
US Treasury 20+ yr	TLT	9/9/2016	$133.00	$149.17	12.2%	
International Total Bond	BNDX	9/9/2016	$54.40	$57.34	5.4%	
High Yield	HYG	4/12/2016	$77.00	$88.00	14.3%	Act more like equities than bonds, benefit from improving growth

ALLOCATOR

Commodities

A change in the price of gold is a change in the value of the currency. When gold rises, the currency's value falls and vice versa. Commodities are an asset class that does well when the currency is weak. If growth is slowing while the currency weakens, there is stagflation - own precious metals. If growth is accelerating while the currency weakens, there is an inflationary expansion - own agriculture, industrial and energy commodities.

Gold's 2020 rise has been driven by a general "risk-off" stance caused in large part by fear about coronavirus' impact on economic shutdowns coupled with rising odds that an anti-growth policy mandate would result from Election 2020. We expect these fears to be transitory as the economy continues to "open." Progress on coronavirus treatments and vaccines suggest decreased odds of further economy wide shutdowns. With the Senate runoff complete, Democrats have a policy mandate for at least the next two years.

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Silver	SLV	2/22/2021	$25.26	$20.74	-17.9%	
Gold	GLD	9/21/2020	$179.52	$163.77	-8.8%	
Energy	DBE	8/13/2014	$28.97	$16.11	-44.4%	
Oil	USO	7/30/2014	$37.00	$50.32	36.0%	
Agriculture	DBA	9/13/2011	$32.50	$18.60	-42.8%	
Broad Comm. Index	GSG	8/5/2011	$33.00	$16.29	-50.6%	
Base Metals	DBB	6/17/2011	$23.00	$21.10	-8.3%	

ALLOCATOR

Real Estate

Real Estate is an asset class that performs well when growth is accelerating. When rising growth is coupled with a strong currency, own real estate tied to business activity (like commercial REITS). When rising growth is coupled with a weak currency, own real estate tied to commodities (farmland).

Commercial RE will be helped by improving real economic growth and continued movement to an "open" economy after broad shutdowns in the first half of 2020. RE properties leveraged to businesses & economic growth are preferred under pro-growth US policies.

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/ Loss	Policy Notes
REIT	VNQ	7/19/2021	$103.39	$106.40	2.9%	
Residential	REZ	12/21/2016	$61.00	$88.13	44.5%	
Building/Construction	ITB	12/21/2016	$28.00	$70.54	151.9%	
Mortgage REIT	REM	4/1/2016	$35.00	$36.46	4.2%	

ALLOCATOR

US Equity

An 1980s/90s type of policy driven equity bull market is the ultimate goal. The 2014 midterm House/Senate/gubernatorial shifts put us on that path, as pro-growth candidates propelled the GOP to majorities. It was a repudiation of anti-growth economic policies and a big step toward a Reagan/Clinton type of equity bull market. Despite the voters' growth signal, Obama doubled down on his tax/spend/regulatory (EPA) agendas in 2015 causing stocks to be range bound and volatile. As 2016 began, policy uncertainty ahead of November's elections became the biggest threat to equities. The ebb and flow of the presidential political season moved markets in both directions as investors waited to learn which policy theme would prevail that November – growth vs. redistribution. Voters decisively made their choice. Growth won Election 2020, unleashing a U.S. equity bull market. Trump's pro-growth policy agenda beat Hillary's anti-growth policy agenda in landslide fashion. Republicans retained control of the Senate, House and increased their control of governorships by three. Election 2020 halted pro-growth policies. It remains to be seen how far Biden, with Party control of the House and Senate, will push a dramatic tax and spend policy agenda.

US Equity - Cap Size

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Micro	IWC	7/11/2016	$72.00	$145.36	101.9%	
Total Market	IWV	5/19/2016	$117.00	$262.63	124.5%	
Large	IWB	5/19/2016	$111.00	$249.59	124.9%	
Small Cap	IJR	5/19/2016	$54.00	$109.42	102.6%	
Mid Cap	IWR	4/6/2016	$38.57	$80.66	109.1%	

POLICY BASED INVESTING

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US Equity - Style

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Large Growth	IWF	7/11/2016	$101.00	$286.42	183.6%	
Small Growth	IWO	7/11/2016	$140.00	$302.60	116.1%	
Small Value	IWN	5/19/2016	$99.08	$160.30	61.8%	
Mid Growth	IWP	5/9/2016	$90.00	$117.23	30.3%	
Large Value	IWD	4/6/2016	$95.00	$159.55	67.9%	
Mid Value	IWS	4/6/2016	$68.00	$115.19	69.4%	

US Equity - Sector

Asset	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
Metals/Mining	XME	3/26/2021	$43.25	$42.34	-2.1%	
Energy	XLE	3/22/2021	$49.00	$49.32	0.7%	
Staples	XLP	6/5/2017	$57.00	$71.36	25.2%	
Utilities	XLU	6/5/2017	$54.00	$66.40	23.0%	
Healthcare	XLV	2/8/2017	$71.00	$133.00	87.3%	
Discretionary	XLY	11/14/2016	$79.00	$184.11	133.1%	
Financial	XLF	7/18/2016	$19.00	$37.58	97.8%	
Materials	XLB	4/6/2016	$44.00	$81.33	84.8%	
Industrial	XLI	3/14/2016	$52.00	$100.33	92.9%	
Technology	XLK	3/7/2016	$41.00	$155.48	279.2%	

Foreign Equity

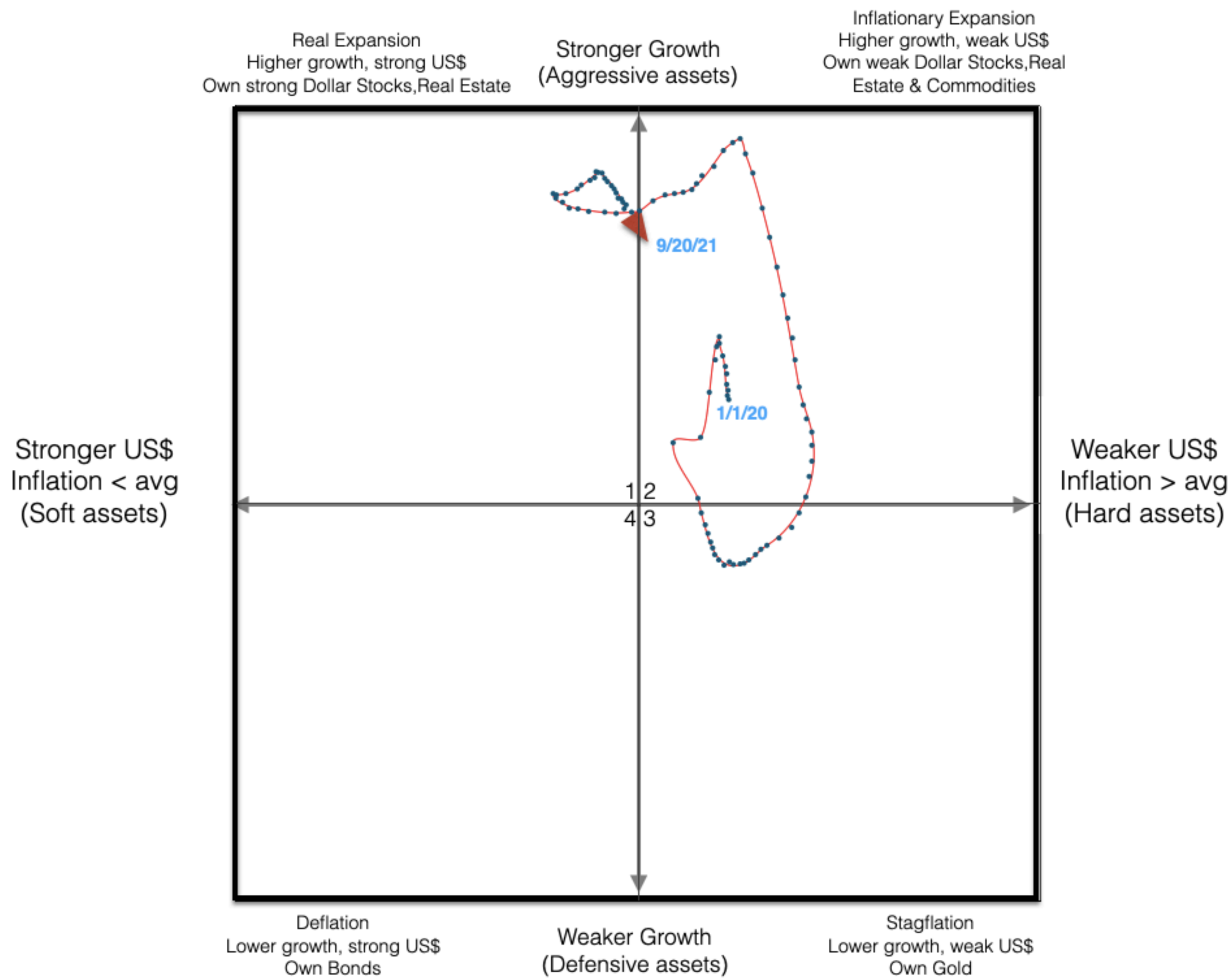
Country	ETF	Action Date Red Sell/Green Buy		Current Price	% Gain/Loss	Policy Notes
World Ex US	VEU	11/15/2016	$51.71	$63.00	21.83%	
Canada	EWC	10/1/2018	$27.21	$36.76	35.10%	
Mexico	EWW	10/1/2018	$32.69	$49.70	52.03%	
China	FXI	8/5/2019	$39.86	$39.92	0.15%	
Hong Kong	EWH	7/6/2016	$24.08	$24.46	1.58%	
Denmark	EDEN	7/2/2018	$63.89	$113.33	77.38%	
Switzerland	EWL	7/2/2018	$32.58	$48.40	48.56%	
Netherlands	EWN	7/2/2018	$30.51	$52.65	72.57%	
Sweden	EWD	7/2/2018	$30.51	$47.02	54.11%	
Eurozone	EZU	7/2/2018	$41.01	$49.78	21.39%	
Spain	EWP	7/2/2018	$30.35	$27.35	-9.88%	
Poland	EPOL	7/2/2018	$21.78	$22.63	3.90%	
France	EWQ	7/2/2018	$30.52	$37.99	24.48%	
Germany	EWG	7/2/2018	$29.98	$34.04	13.54%	
Italy	EWI	7/2/2018	$28.89	$32.19	11.42%	
Austria	EWO	7/2/2018	$22.65	$25.07	10.68%	
Israel	EIS	2/26/2018	$52.41	$72.61	38.54%	
Vietnam	VNM	10/9/2017	$14.99	$19.84	32.35%	
Indonesia	EIDO	7/24/2017	$26.78	$21.26	-20.61%	
Ireland	EIRL	1/26/2017	$39.00	$61.88	58.67%	
Singapore	EWS	1/11/2017	$21.00	$23.21	10.52%	
Norway	ENOR	8/20/2016	$20.00	$28.69	43.45%	
UK	EWU	8/4/2016	$30.50	$32.36	6.10%	

Finland	EFNL	7/26/2016	$33.00	$49.11	48.82%	
Japan	EWJ	7/15/2016	$47.00	$73.43	56.23%	
South Korea	EWY	7/13/2016	$52.00	$83.08	59.77%	
Hong Kong	EWH	7/6/2016	$19.00	$24.46	28.74%	
Peru	EPU	6/29/2016	$30.50	$26.80	-12.13%	
South Africa	EZA	6/29/2016	$51.00	$46.15	-9.51%	
India	EPI	6/27/2016	$19.00	$37.37	96.68%	
Taiwan	EWT	6/21/2016	$27.00	$64.29	138.11%	
Thailand	THD	5/20/2016	$64.00	$76.53	19.58%	
Belgium	EWK	3/16/2016	$16.50	$21.49	30.24%	
New Zealand	ENZL	3/5/2016	$36.00	$63.31	75.86%	
Philippines	EPHE	8/5/2015	$37.00	$30.45	-17.70%	
Qatar	QAT	12/1/2014	$24.00	$19.74	-17.75%	
Malysia	EWM	10/3/2014	$41.00	$25.63	-37.49%	
Australia	EWA	9/16/2014	$22.50	$25.44	13.07%	
Greece	GREK	7/14/2014	$20.00	$28.42	42.10%	
Portugal	PGAL	6/4/2014	$15.00	$11.15	-25.67%	
Columbia	ICOL	6/27/2013	$21.00	$10.04	-52.19%	
Turkey	TUR	6/1/2013	$58.00	$22.25	-61.64%	
UAE	UAE	5/20/2013	$23.00	$15.13	-34.23%	
Russia	RSX	8/7/2011	$30.00	$19.97	-33.43%	
Brazil	EWZ	7/14/2011	$60.00	$33.30	-44.50%	
Chile	ECH	3/1/2011	$61.00	$27.27	-55.30%	
Egypt	EGPT	2/23/2004	$64.00	$26.63	-58.39%	

POLICY MAP

Growth DEcreased versus last week (4.51 to 4.45) : Growth expectations are at risk from the Democrat sweep in Election 2020. With control of the House and Senate, Democrat policymakers are likely to attempt and achieve higher taxes on work, savings and investment. The Fed continues providing unlimited liquidity to prevent a solvency crisis after the first intentional recession in history.

Value of US$ DEcreased versus last week (-0.18 to -0.17): U.S. Dollar weakness could result from Democrats taking control of all three policy making levers, but for now a flight to Dollar safety remains the dominant capital flow.



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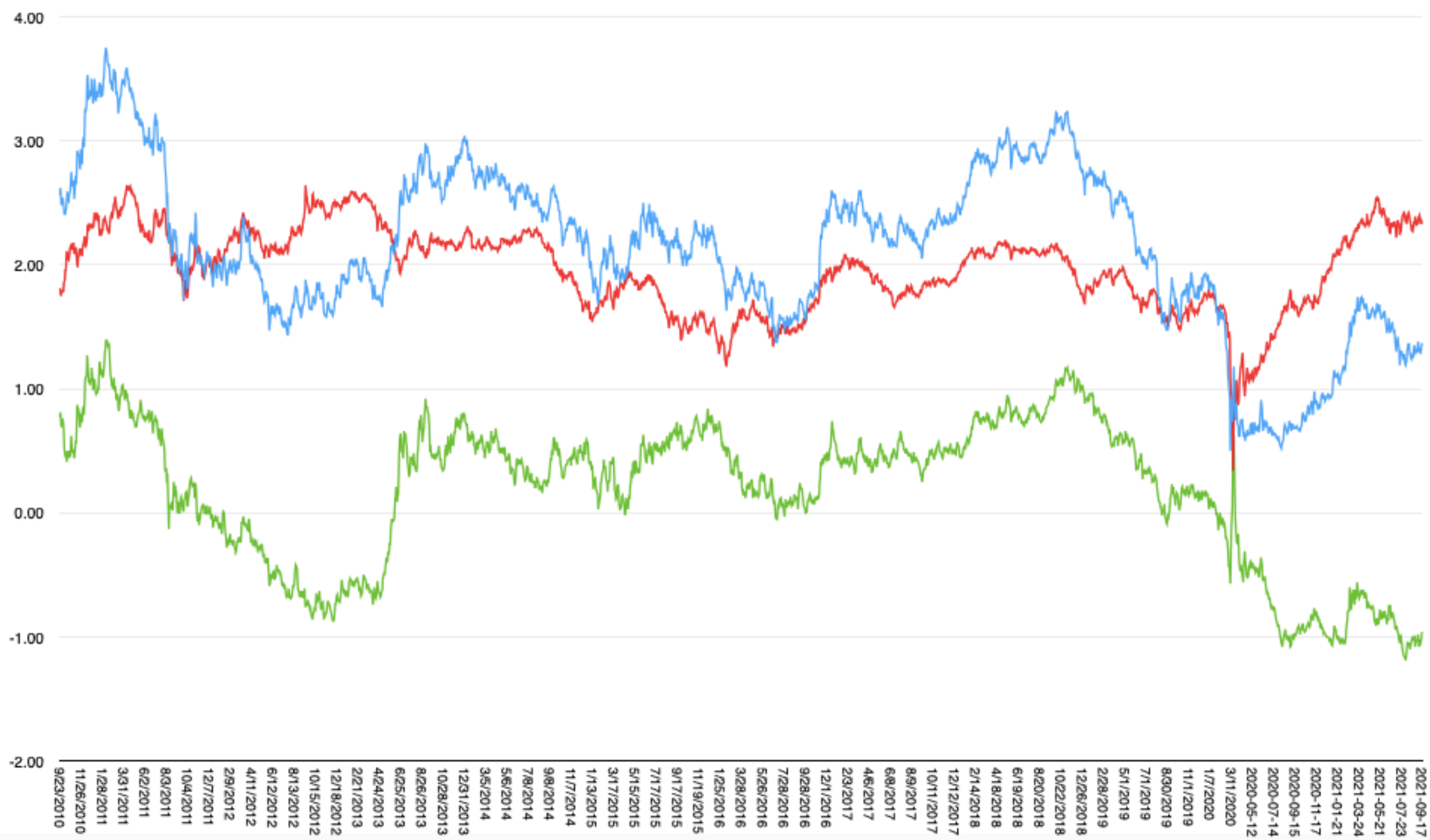
BOND YIELD COMPONENT ANALYSIS

Nominal Yield: 1.37% (+7%) **Inflation Expectation Component: 2.33%** (0%) **Real Growth Component: -0.96%** (+9%)

The ideal bond component pattern is flat or falling inflation expectations coupled with rising real growth expectations. The opposite has been happening since 2019. Inflation expectations continue to rise while real growth is once again falling.



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