

Q3 2020 Tactical Update

July 28, 2020

Please refer to Appendix – Important Disclosures.

In this piece, we provide a series of near-term tactical calls within the context of the current message from the Weight of the Evidence and our other tactical indicators. Operating from this premise, we offer a series of tactical allocation calls, beginning with a macro call on stocks versus bonds versus cash. On the next page, these calls are further distilled. For example, we make distinctions from a size, style and sector perspective for domestic equities, and suggest tilts toward or away from the various satellite asset classes. These calls are made in light of the long-term outlook and summarize our expectations for the coming quarter.

The Weight of the Evidence (as of July 14): +1 (Bullish)

MACRO FACTORS (WHAT COULD HAPPEN):

FED POLICY



ECONOMIC FUNDAMENTALS



VALUATIONS



MARKET FACTORS (WHAT IS HAPPENING):

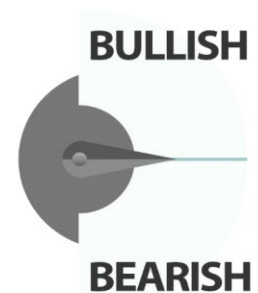
SENTIMENT



SEASONAL PATTERNS AND TRENDS



BREADTH



Tactical Investment Decision	Baird's Call ¹	Date of First Call ²	Level of Conviction ³	Rationale
Stocks vs. Bonds vs. Cash?	Tilt Toward Equities	Q3 20	Medium	<ul style="list-style-type: none"> Weight of the evidence has turned bullish, suggesting the path forward for stocks could have an upward bias. As sustainability of Q2 strength is tested, expect continued volatility.

¹ Tactical over- or under-weight relative to Baird's strategic asset allocation models. Please ask your Baird advisor for more information on the strategic model most applicable to you.

² Date when Baird first made this call.

³ Level of conviction in the tactical investment call: low, medium, high.

Gray highlight indicates a change in view versus last quarter

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Tactical Investment Decision	Baird's Call ¹	Date of First Call ²	Level of Conviction ³	Notes
Domestic Stocks: Size	Mid-Caps Over Large- and Small- Caps	Q3 20	Medium	<ul style="list-style-type: none"> Large-cap indexes are increasingly dominated by a handful of mega-cap stocks. Mid-cap and small-cap industry groups are seeing improving relative strength.
Domestic Stocks: Style	Neutral on Value Versus Growth	Q1 20	Medium	<ul style="list-style-type: none"> Long-term trend favoring Growth remains intact but is historically stretched. Near-term momentum is shifting toward Value, which may provide an opportunity for some mean-reversion.
Domestic Stocks: Sector	Health Care Materials Industrials	Q1 20 Q3 20 Q3 20	Low	<ul style="list-style-type: none"> Health Care has rejoined the relative strength leadership group and Materials has been the best performing sector over the past three months. Industrials has made a higher low versus the S&P 500.
Global Stocks: Region	Emerging Markets Europe ex UK	Q3 20 Q3 20	Medium	<ul style="list-style-type: none"> New leadership trends are emerging in the wake of the initial rally off of the March lows. Emerging Markets and Europe are gaining strength versus the rest of the world.
Global Stocks: Developed vs. Emerging Markets	Emerging Markets	Q4 18	Medium	<ul style="list-style-type: none"> Momentum is shifting in favor of Emerging Markets. Commodity market strength supports continued EM leadership.
Global Developed Stocks: Domestic vs. International	International	Q3 20	High	<ul style="list-style-type: none"> Economic recovery appears more sustainable overseas than in the US. Leadership from the US is losing momentum as trends may be reaching exhaustion.
Bonds: Treasury vs. Spread Product	Treasury	Q4 18	Low	<ul style="list-style-type: none"> Investment grade spreads are near their long-term average. Risks to the economic outlook argue against chasing yield at this point.
Bonds: Intermediate vs. Short-Term	Short-Term	Q4 18	Medium	<ul style="list-style-type: none"> Long-term yields are not likely to meaningfully surge in the near-term but could drift higher. With yields low across the curve there may be little reward from lengthening fixed income maturities at this point.
Bonds: High-Grade vs. High-Yield	High-Grade	Q4 17	High	<ul style="list-style-type: none"> With economic risks remaining elevated, we would focus on quality fixed income exposure. Corporate weakness could weigh on high-yield market.
International Real Estate	Bearish on Real Estate	Q3 20	Medium	<ul style="list-style-type: none"> Real Estate trends have deteriorated as economic challenges have become apparent. Real Estate sector has been a persistent laggard in our relative strength rankings.

Commodities	Bullish on Commodities	Q3 20	Medium	<ul style="list-style-type: none"> Broad-based commodity strength has emerged as the global economy moves toward recovery. Industrials metals, especially copper, have been notably resilient.
Currencies	Bearish on Dollar	Q3 20	Medium	<ul style="list-style-type: none"> Long-term trends in the dollar are rolling over. An ample (and expanding) supply of dollars could weigh on the price of the currency.
Gold	Bullish on Gold	Q4 19	High	<ul style="list-style-type: none"> Gold has continued to gain strength in recent months and has moved to a new high. Optimism is elevated, but price and momentum trends are tailwinds for Gold (and Silver).
Hedges	NASDAQ 100	Q2 20	Low	<ul style="list-style-type: none"> Intense mega-cap exposure has left the NASDAQ 100 out of sync with breadth measures.

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Model Portfolio	Mix: Stocks / (Bonds + Cash)	Risk Tolerance	Strategic Asset Allocation Model Summary
All Growth	100 / 0	Well above average	Emphasis on providing aggressive growth of capital with high fluctuations in the annual returns and overall market value of the portfolio.
Capital Growth	80 / 20	Above average	Emphasis on providing growth of capital with moderately high fluctuations in the annual returns and overall market value of the portfolio.
Growth with Income	60 / 40	Average	Emphasis on providing moderate growth of capital and some current income with moderate fluctuations in annual returns and overall market value of the portfolio.
Income with Growth	40 / 60	Below average	Emphasis on providing high current income and some growth of capital with moderate fluctuations in the annual returns and overall market value of the portfolio.
Conservative Income	20 / 80	Well below average	Emphasis on providing high current income with relatively small fluctuations in the annual returns and overall market value of the portfolio.
Capital Preservation	0 / 100	Well below average	Emphasis on preserving capital while generating current income with relatively small fluctuations in the annual returns and overall market value of the portfolio.

Appendix – Important Disclosures and Analyst Certification

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