



**SARATOGA CAPITAL MANAGEMENT, LLC  
ADJUSTS SUGGESTED MODEL ALLOCATIONS  
EFFECTIVE FEBRUARY 26, 2021**

Saratoga's research indicates that economic conditions have changed enough to warrant adjustments in our suggested asset allocations. We study numerous macroeconomic statistics to determine which economic sectors are currently leading the economy. When the leadership of macroeconomic sectors changes or the overall composition of the economy changes, these changes typically suggest that a new stage of economic activity could be starting.

We believe that the US economy is entering an early expansionary stage of economic growth. The early expansion economic stage often sees the producer-side of the economy lead the consumer-side, and is indicated in part by the following conditions:

- Corporate profits are expanding.
- Liquidity is ample. Among other statistics, MZM (a measure of the liquid money supply within an economy) continues to grow rapidly. Federal Reserve (Fed) posture is accommodative.
- Employment data is improving. The unemployment rate is well off its high, and certain additional measures of employment have materially improved.
- The yield curve (10-year T-Note minus 1-year T-Bill) is advancing from a recessionary low.
- Industrial production, and specifically industrial production of durable consumer goods, is up from recent lows and developing positive trends.

In addition, we believe that the US stock market in general is currently fairly valued. To create a range of equity market outcomes, we use a valuation tool which we refer to as our Proper PE Valuation™ tool. Our valuation work is largely driven by earnings, GDP, inflation, and interest rates. Among other

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things, this analysis provides us with a set of ranges above and below which we consider the US stock market overvalued or undervalued, respectively. The current levels and trends for this data indicate that we are likely to stay in fair-value range for the near-term.

Generally, Saratoga's asset allocation optimization process indicates that the following should be considered in Saratoga's models, as appropriate:

1. Reducing the overall ratio of equities to fixed income and cash equivalents:
  - a. Overweighting Large Capitalization Value versus Large Capitalization Growth
  - b. Increasing Mid Capitalization and Small Capitalization relative to overall equity exposure
  - c. Maintaining a similar exposure to International Equity relative to overall equity exposure versus our last suggested allocations
  - d. Weighting sectors in order of largest to smallest weightings as follows: Health & Biotechnology, Technology & Communications, Financial Services, and Energy & Basic Materials
2. Increasing the overall ratio of fixed income to equities and cash equivalents:
  - a. Increasing Short-Term Bonds relative to Long-Term Bonds and cash equivalents

The foregoing observations are **general** observations; please review the Saratoga models for specific suggestions.

As always, we will continue to monitor economic conditions in order to determine when subsequent asset allocation changes may be appropriate.

Sincerely,

Stephen Ventimiglia

Vice Chairman, Chief Economist  
& Chief Investment Officer

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