REDHAWK WEALTH ADVISORS

Redhawk Quarterly Commentary

June 30, 2017

Each quarter, Redhawk's Investment Committee provides a Quarterly Commentary. We look at what's going on in the investment landscape and provide our perspective on a variety of topics. These aren't predictions and it represents our perspective on important market and economic topics designed to help make decisions affecting your long-term financial strategy.

Market Commentary

US Market

The S&P 500 recorded a total return of 3.1% over the quarter. US equities advanced despite some mixed economic data while the Federal Reserve (Fed) reviewed disappointing inflation readings and further tightened monetary policy. At the June meeting of the Federal Open Market Committee (FOMC) the US central bank raised base rates by 0.25% and communicated the goal to reduce its balance sheet. A number of forward-looking indicators failed to build on the highs they achieved in Q1 2017, including those tracking the health of the manufacturing and consumer sectors. However, official consumer spending data remained resilient, adding to hopes the US economy would bounce back.

Political uncertainty remained an important feature in the market as President Trump dismissed the FBI director James Comey. This raised doubts over the ability of the administration to push its growth policies and also weakened the dollar. The dollar was further negatively impacted amid rising expectations that central banks in other developed economies are also preparing to tighten monetary policy. Large-cap equities outperformed small and mid-caps over the period, with the Russell 2000 recording a total return 2.5%. Healthcare, industrials, and financials were among the top performing sectors, while consumer staples, energy, and telecommunications underperformed.

International Markets

Eurozone equities gained as a result of reduced political risk, positive economic data, and improved corporate earnings. Gains were offset by worries the central bank could start to tighten policy. UK equities made positive returns amid healthy corporate earnings although it was a volatile quarter with the uncertainty over the political backdrop and the future path of monetary policy. Japan registered positive returns during the corporate earnings season and a positive assessment from the Bank of Japan on the health of the economy. Earnings momentum is on the rise in international markets and this is another piece of evidence supporting our view that the global economy is in a period of sustained and above average growth. This is more than just a one-time rebound as share buybacks and cost-cutting have improved the bottom line growth in recent years.

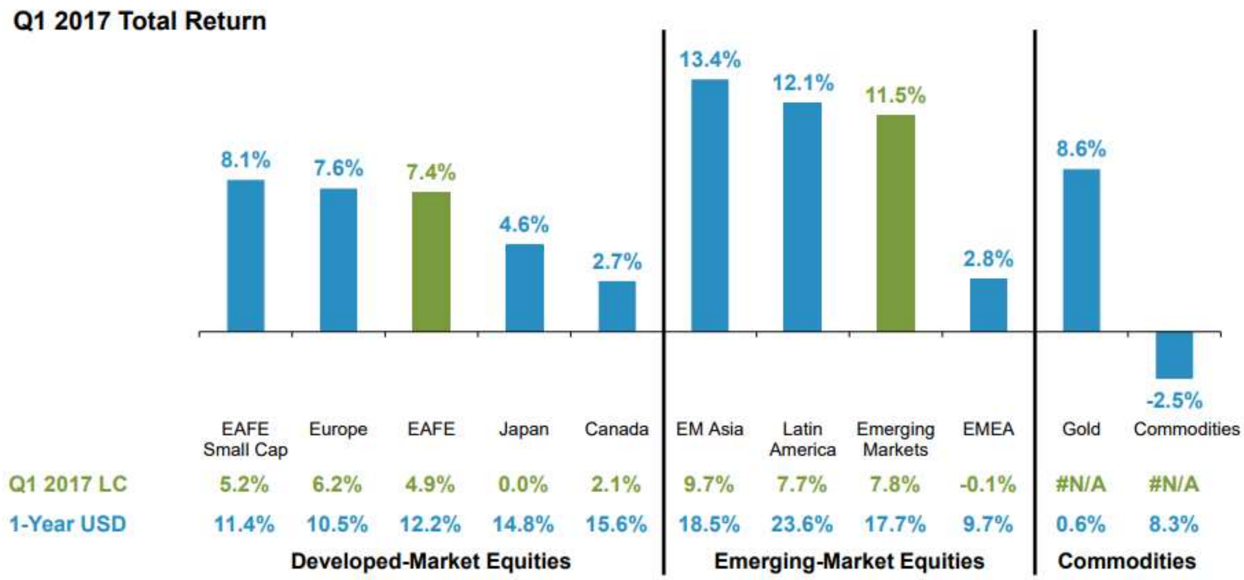
Earnings comeback
Global equities earnings revisions ratio, 2000-2017

Sources: BlackRock Investment Institute, with data from MSCI and Thomson Reuters, July 2017. Notes: The lines show the number of companies in the MSCI ACWI Index with 12-month forward earnings-per-share (EPS) estimates revised up from the previous month divided by the number of companies with downward EPS estimate revisions.

Emerging Markets

Emerging markets (EM) benefited from a supportive global improvement in the second quarter and a weakness in the US dollar. The MSCI Emerging Markets index registered a strong gain and outperformed the MSCI World index. Further signs of improvement in global growth were positive for markets including Poland, Korea and Taiwan. Additionally, equities in Turkey rebounded strongly with the weakness in the US dollar and a brighter outlook for exports to Europe. China also recorded a strong gain as economic data remained steady, despite measures to gradually withdraw liquidity.

Greece was the strongest index market as the country reached agreement with creditors. In contrast, Russian equities lost value because of a sharp decline in Brent crude. Brazilian equities also lost value as political risk increased following corruption allegations.

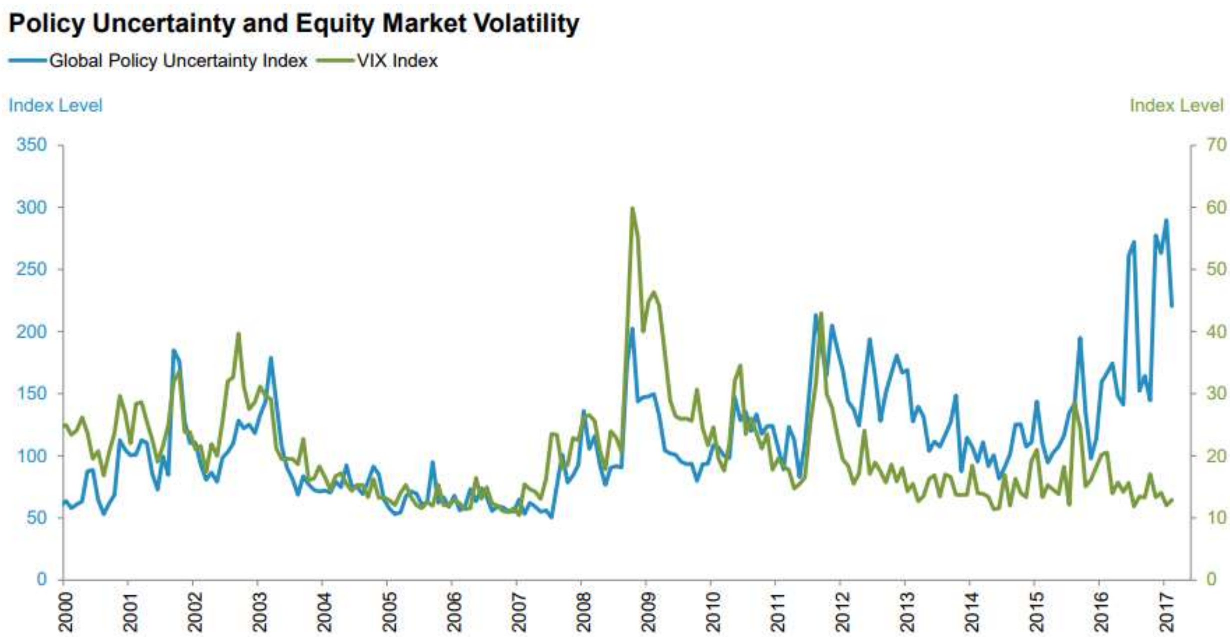


EM: emerging markets. LC: local currency. All returns are gross in U.S. dollars unless otherwise noted. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Index returns represented by: Canada – MSCI Canada Index; Commodities – S&P GSCI Commodities Index; EAFE – MSCI Europe, Australasia, Far East Index; EAFE Small Cap – MSCI EAFE Small Cap Index; EM Asia – MSCI Emerging Markets Asia Index; EMEA (Europe, Middle East, and Africa) – MSCI EM EMEA Index; Emerging Markets (EM) – MSCI EM Index; Europe – MSCI Europe Index; Gold – Gold Bullion Price, LBMA PM Fix; Japan – MSCI Japan Index; Latin America – MSCI EM Latin America Index. Sources: FactSet, Fidelity Investments (AART), as of 3/31/17.

Expect More Volatility in the Markets

The VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is a widely used measure of market risk.

As shown in the chart below, the VIX has been extremely calm since April, 2016 even with increased geopolitical uncertainty. The historical link between equity volatility and global policy uncertainty (GPU) suggests that the equity market today is somewhat ignoring many policy uncertainties. In our view, this uncertainty is likely to impact the US equity market sometime in the next 6-12 months. We believe a solid risk management approach is the key as long-run investment success depends on avoiding catastrophic drawdowns.



Sources: Bloomberg Finance L.P., Fidelity Investments (AART), as of 3/31/17.

Economic Outlook

The unexpected victory of Donald Trump and his pro-growth platform in late 2016 inspired a shift in investor sentiment and sparked a sharp rally across the US equity market. However, it's clear that any anticipated policy enhancements will take time to develop and that economic growth is likely to remain unchanged in 2017 as a result. On the positive side, the steady, but moderate growth over the past eight years may have helped to prevent excess enthusiasm in the U.S. economy and markets, mitigating a negative impact on the domestic business cycle and thus setting the stage for a global recovery.

There has been much to do about the "Trump Rally" being over. We feel that rosy expectations have instead been replaced by realistic outlooks. The current rally continues intact due to a positive change in the trajectory of the global economy. Meanwhile, markets have been pricing in that increasing regulation and raising taxes are a thing of the past. It is not a matter of "if" but "when" tax cuts are instituted. This not only will be positive for corporations but for small business and consumers as well. It also will be positive for markets.

The U.S. dollar also weakened despite multiple Fed rate increases. This certainly has increased expectations on exports but also has contributed to a robust Institute of Supply Management (ISM) manufacturing and services reading in June.

The Need for Diversification

The performance of different asset classes has fluctuated widely from year to year, and the magnitude of returns can vary significantly among asset classes in any given year. This is even true for asset classes that are moving in the same direction. The chart below shows the differences in asset class performance over the last 10 years. Less volatile asset classes generally had lower returns, but not always, and performance can change greatly over time. That's why we recommend diversifying among asset classes in appropriate proportions. Combining a wider variety of asset classes can help reduce portfolio volatility, helping to better navigate uncertain markets, and stay on track toward financial goals.

Asset class returns

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 YTD
US Treasury 6.67%	Crude Oil 78.00%	Gold 29.67%	Gold 10.23%	REIT 16.47%	Wilshire 33.06%	REIT 28.24%	S&P 500 1.40%	Crude Oil 44.80%	Gold 8.60%
Gold 5.53%	Wilshire 28.29%	REIT 26.97%	Crude Oil 8.15%	Wilshire 16.05%	S&P 500 32.39%	S&P 500 13.69%	REIT 1.30%	Wilshire 13.40%	Wilshire 6.20%
FI Credit 0.30%	S&P 500 26.46%	Wilshire 17.18%	REIT 7.48%	S&P 500 16.00%	Crude Oil 7.32%	Wilshire 12.70%	FI Credit 0.85%	S&P 500 12.00%	S&P 500 6.10%
S&P 500 -37.00%	REIT 26.27%	Crude Oil 15.10%	S&P 500 2.11%	Gold 6.96%	FI Credit 1.45%	FI Credit 1.12%	Wilshire 0.70%	Gold 8.60%	REIT 0.70%
Wilshire -37.23%	Gold 23.96%	S&P 500 15.06%	FI Credit 1.75%	FI Credit 3.69%	REIT 1.26%	US Treasury 0.63%	US Treasury 0.56%	REIT 7.10%	FI Credit 0.70%
REIT -39.05%	FI Credit 11.59%	FI Credit 4.15%	US Treasury 1.55%	US Treasury 0.43%	US Treasury 0.36%	Gold -1.51%	Gold -10.50%	FI Credit 2.38%	US Treasury 0.26%
Crude Oil -53.52%	US Treasury 0.80%	US Treasury 2.40%	Wilshire 0.98%	Crude Oil -7.08%	Gold -28.26%	Crude Oil -45.76%	Crude Oil -30.50%	US Treasury 0.89%	Crude Oil -6.00%

All returns above are on Total Return basis. 2017 returns are on a periodic basis up to 3/31/17. FI Credit refers to BofA/ML US Corporate Bonds 1-3 year Index; Treasury refers to BofA/ML US Treasuries 1-3 year Index; Gold refers to S&P GSCI Gold Spot; Crude Oil refers to Spot West Texas Intermediate Crude Oil; Wilshire refers to Wilshire 5000 Total Market Index; REIT refers to MSCI US REIT Index; S&P 500 refers to S&P 500 Index. Source: Thomson Reuters, Barclays Live, BofA Merrill Lynch and SVB Asset Management.

Summary

The current bull market, already one of the longest on record, has further to go. Many investors remain cautious and this has been one of the most unenthusiastic bull markets in memory. Yet, the fact that this market has been steady and moderate helps to explain its remarkable longevity. Bull markets end only after the last buyers are flushed out, but there is abundant cash on the side-lines. We are not seeing the "fear of missing out" behavior evident in previous market tops. Market progress is being propped up by better earnings growth. We see three key themes for the third quarter of 2017.

1. The bull market is still running, but nervousness over when and how it might end is stressing investors. The ninety-nine (99) months since March, 2009 mark the second-longest bull market since the Second World War. Many of the issues holding back equities have been addressed and markets have risen considerably. While we are not yet at the top, investors should start preparing for it to happen over the next 6-12 months.

2. Earnings growth is supporting equity markets. We are not seeing valuations detaching from earnings as in previous market tops. Europe is benefiting from a catch-up effect in both economic and earnings growth now that political worries have subsided. European earnings have turned positive and revenue estimates are now outpacing the US.

3. US inflation has been unusually weak for three consecutive months, but it didn't stop the Fed from hiking rates at their June meeting. The Fed believes the weakness in inflation will be short lived. Continued weakness would raise questions about the state of the US economy, so US growth and inflation data will be watched closely.

It's not enough to own a portfolio personalized for your situation, based on your comfort with risk and long-term financial goals. You have to be patient and disciplined, too. With our risk management process, our investment committee is reviewing the market conditions and underlying investments on a weekly basis. Please contact your Redhawk advisor to learn more.