WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

Market Commentary

U.S. large-cap stocks advanced for the second week in a row, reaching new highs. Rising interest rates and trade tensions were the main topics but did not weigh on the markets last week. Nevertheless, we think the bull market will continue with the backdrop of strong earnings and economic growth.

The U.S. stock market ascended to a new high last week, bringing its total return to 11% for this year and an impressive 429% since this bull market began in early 2009. It's also worth noting that the S&P 500 has now risen 15% from its low earlier this year when stocks experienced their first correction in two years. Keep in mind that even with favorable economic and earnings backdrop, volatility can still occur, but it does make pullbacks attractive buying opportunities. The market's ability to rise amid these factors signals two things:

1. **While rising rates and trade tensions will cause market volatility, we do not believe they are at levels that signal a recession**. 10-year rates rose to 3.06% last week, their highest level since May. In addition, the Fed is raising short-term interest rates, including another likely rate hike this week, which will bring the Federal Funds rate to 2.25% (the highest since April 2008) and has pushed two-year rates to 2.81%, a level not seen since June 2008. A solid economic base, with sub-4% unemployment, elevated consumer confidence, rising wages, and inflation expectations will keep the Fed on a path of gradual rate hikes.

Worries over escalating trade disputes, most notably between the U.S. and China, remain front and center, particularly with last week's latest announcements of tariffs on an additional $200 billion in Chinese goods and the speculation of additional retaliation from Chinese policymakers. We maintain our view that the ultimate outcome will not be a full-blown global trade war, and the announcement that the new U.S. tariffs start at 10% with the potential to escalate to 25% next year suggests to us that U.S. officials would still prefer to use the threat of larger tariffs as a negotiating tool instead of jumping straight to the most aggressive levels. The escalating tariff figures are sizable, and the direct and indirect effects of trade disruptions would not be immaterial to U.S. and global economic activity. However, perspective is warranted as the total value of U.S. goods traded with China last year was a little more than $600 billion.

2. **The market is growing accustomed to rising rates and tariff tensions**. It's worth observing the market's reactions to news around rising rates and tariff tensions. After years of 0% short-term rates following the crisis, the Fed's discussion of reducing its bond purchases in 2013 led to the so-called "taper tantrum" (referring to the tapering of stimulus), with the S&P 500 dropping by 6% in response. In August of 2015, as the Fed approached its well-telegraphed rate hike, Chinese policymakers reacted by devaluing their currency, and stocks pulled back by 12%. Earlier this year when 10-year rates approached 3% (ultimately reaching the mark for the first time since 2013), stocks corrected under the premise that the 3% threshold was too high too fast. Flash forward to today, with two rate hikes in the books in 2018, widespread expectations for a third in the coming week, and 10-year rates above 3%, stocks have handled the prospects of Fed policy tightening with a bit more grace.

Victoria Capital's Strategy Update

Three factors dominated markets this week: trade negotiations, the Supreme Court hearings and the approval of the use of recreational cannabis in Canada (or marijuana as it is commonly known). Trade negotiations continue to have the potential for a long-lasting effect on the economy and financial markets. Meanwhile, a sexual assault accusation has taken the wind out of Judge Kavanaugh's Supreme Court pursuit and the cannabis story is breathing life into many "plant growers" in Canada. Another near-term phenomenon is the cleanup of hurricane Florence, as her devastation will likely contribute to economic activity in certain sectors in coming quarters.

The announcement that a current 10% tariff on certain Chinese goods will rise to 25% on January 1, 2019 will impact the U.S. economy. We view tariffs as a tax increase. So, what happens to economic activity when there is a future event that will negatively affect prices? Economic activity will accelerate during the time before the tariff is implemented, followed by a slowdown once the price increases are in place. Imagine what would happen at a car dealership if management announced a big sale starting a week from today. If people are aware of the sale, they won't be buying any cars over the next seven days. If management isn't aware of this effect, they will think that they are going out of business because there was a seven-day collapse in sales! The opposite happens when there is an expected future price increase.
The bottom line is that economic activity will accelerate into the fourth quarter of this year. We may already be seeing that effect from tariffs implemented earlier this year. The surge in second and third quarter GDP may be getting a lift from those tariffs as we approach the increase in January. Don't be surprised to see a 5% or greater GDP growth rate for the fourth quarter of 2018 and then a drop off in the first quarter of next year. Watch as economic and market prognosticators come up with an array of explanations as to why things continue to expand into the New Year and infer that the surge will continue. If our analysis is correct and the tariffs aren't turned into truces, economic metrics will be erratic for some time.

Economic activity is strong and record stock market highs this week indicate a continuation of a broad-based market advance. The rally has had a favorable impact on both our Target Return portfolios and the individual Growth Equity portfolio. Finally, don't fear the Fed's threat of raising interest rates. Remember that the intended purpose of raising interest rates is to slow the economy by curtailing loan demand. However, rising interest rates also impact rates throughout the economy including savings deposits and money market instruments. As those deposit rates increase savers and income investors will have more wealth. Given the growing wealth of both consumers and businesses, we are likely to see a continued healthy economy.

Stay tuned!

Redhawk's Strategy Update

Further signs of positive economic momentum helped send most stocks to solid gains for the second week in a row, although growth stocks and small caps lagged. The S&P 500 topped its record set in late August, while the Dow's weekly gain of more than 2% sent that index above a record established in late January. However, the NASDAQ slipped.

As of Monday, September 24, the telecommunication services sector is no more; it's been replaced by a new sector called communication services, which is home to stocks such as Facebook, Netflix, and Google parent Alphabet. The move by index providers Standard & Poor's and MSCI recategorizes companies to better reflect today's economy and market composition.

The yield of the 10-year U.S. Treasury Bond climbed to the highest level in four months, peaking at around 3.08% on Wednesday as bond prices fell for the fifth daily trading session in a row. If the yield stabilizes above 3.00%, it would mark the first sustained stretch above that threshold since 2011.

The strong weekly performance for stocks extended to key international markets, with a Chinese index surging more than 4% to record its strongest weekly gain in more than two years. Indexes in Europe also climbed.

Redhawk Model Signals

Redhawk Wealth Advisors, Inc.
Weekly Update
9/24/2018

Time Period:				9/24/2018	9/17/2018
Redhawk S&P 500 Portfolios (RSPC, RSPM, RSPA)	Symbol		Action	Redhawk Score	Redhawk Score
Large Growth	QQQ	Powershares QQQ Trust 1		127.39	124.73
Health	PSCH	PowerShares S&P SCH Cre ETF		126.72	128.92
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		108.64	107.47
World Large Stock	IOO	iShares Global 100 ETF		108.51	97.07
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		106.00	104.83
Bank Loan	RSFYX	RS Floating Rate Y		105.47	104.30
High Yield Bond	MSYIX	Morgan Stanley Inst High Yield I		103.38	102.22
Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		103.00	103.09
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		102.36	101.19
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		102.01	102.10
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		92.68	92.77

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Cash					
Large Blend	VFTSX	Vanguard FTSE Soc Inv		122.32	119.03
Large Growth	BAFWX	Brown Advisory Sustainable Growth I		112.43	109.77
Large Value	FWMIX	American Funds Washington Mutual F-3		109.93	105.94
Large Growth	GGEZX	GuideStone Funds Growth Equity Inv		106.39	103.73
World Large Stock	GGESX	Nationwide Global Equity IS		94.11	94.11

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
Real Estate (REIT)	SRET	Global X Super Dividend REIT ETF	MCNVX		
Real Estate (REIT)	MORT	VanEck Vectors Mtg REIT Inc ETF	PHCIX		
Options Based	QYLD	Horizons NASDAQ 100 Covered Call ETF		122.87	123.26
High Yield Bond	MSYIX	Morgan Stanley Inst High Yield I		116.17	116.23
Bank Loan	LSFYX	Loomis Sayles Sr Flt Rate I		114.61	113.20
Bank Loan	EIFAX	Eaton Vance FR Av I		114.04	112.81
Bank Loan	RSFYX	RS Floating Rate Y		113.32	111.94
High Yield Bond	PHCIX	Virtus Newfleet High Yield Fund Class I		106.30	116.23
Convertibles	MCNVX	MainStay MacKay Convertible I		98.49	91.66
Convertibles	ICVT	iShares Convertible Bond ETF		92.86	91.66

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	Symbol		Action	Redhawk Score	Redhawk Score
Bank Loan	EIFAX	Eaton Vance Floating-Rate Advantage I		118.90	118.90
Bank Loan	RSFYX	RS Floating Rate Y		117.35	117.35
Bank Loan	LSFYX	Cohen&Steers Pref S&I I		117.17	117.70
High Yield Bond	MSYIX	Morgan Stanley High Yielkd I		115.96	116.02
Muni National Long	VWAHX	Vanguard High-Yield Tax-Exempt I		111.39	111.39
Muni California Long	BCHIX	American Century CA High Yield Muni I		109.80	109.80

Ultrashort-Term Bond	FLRN	SPDR® Blmbg Barclays Inv Grd Flt Rt ETF		108.23	108.23
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		106.64	106.64
High Yield Muni	PHMIX	PIMCO High Yield Muni Bond I		105.96	111.26
High Yield Muni	HIMYX	Pioneer High Income Muni Y		100.30	100.30
Bank Loan	TRBUX	T. Rowe Price Ultra Short-Term Bond		100.14	100.14
Muni New York Long	RMUYX	Oppenheimer Rochester Municipals Y		96.88	116.38
Ultrashort-Term Bond	MINT	PIMCO Enhanced Short Maturity Active ETF		95.45	95.45

Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	Symbol		Action	Redhawk Score	Redhawk Score
Large Blend	IVV	iShares Core S&P 500 ETF		112.63	109.34
Small Blend	IJR	iShares S&P Small Cap Core		110.75	117.35
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		110.52	107.23
Large Blend	IWB	iShares Russell 1000		110.01	106.72
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		109.59	110.16
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		100.24	99.06
Small Value	IWN	iShares Russell 2000 Value		95.94	99.52
Large Value	VTV	Vanguard Value Idx ETF		90.81	86.82
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		89.02	88.87
High Yield Bond	HYG	iShares iBoxx $HY Corp ETF		84.67	84.52
Foreign Large Blend	SCHF	Schwab International Developed Equity		78.65	56.85
Large Blend	DGRO	iShares Core Div Growth ETF		71.51	68.22
Small Value	VBR	Vanguard SC Val Idx ETF		53.17	56.75
Small Growth	VBK	Vanguard SC Gr Idx ETF		49.78	61.31
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		49.77	54.08
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		37.09	37.56
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		31.98	35.36

Keep	Keep.	
Watch	Watch.	
Replace with another fund.	Replace with another fund.	FUND
Replace with cash.	Replace with cash.	

We made a couple of changes to the taxable high-income model rotating out of REITs and into convertible bonds and high yield bonds to generate more income with less volatility. We didn't make any changes to the S&P models but continue to watch the international equity category as markets improve in certain countries. We are keeping the models 100% invested and will continue to monitor the markets closely.

S&P Portfolios: Placed the World Large Stock sub-category (IOO) back on the watch list due to improving performance from other international sub-categories. Took the Health sub-category (PSCH) off the watch list due to improved performance.

Environmental, Social, and Governance Portfolio: Kept the Large Value sub-category (FWMIX) on the watch list due to lagging performance. Kept the Large Blend sub-category (VFTSX) on the watch list due to performance.

Growth Stock Portfolio: Replaced Pioneer Natural Resources Co (PXD) with Royal Dutch Shell PLC Class A (RDSA). Replaced Sasol Ltd ADR (SSL) with Apple Inc (AAPL). Replaced Suncor Energy Inc (SU) with Microsoft Corp (MSFT). Replaced Copart Inc. (CPRT) with Novartis AG ADR (NVS).

High Income Portfolios:

- For RTHI: Replaced the REIT sub-category (SRET) with the Convertibles sub-category (MCNVX) due to performance. Replaced the REIT sub-category (MORT) with the High Yield sub-category (PHCIX) due to performance.

Liquid Income Portfolios: No changes.

Economic Data for this Week

Monday:

1. No major reports scheduled.

Tuesday:

1. U.S. Federal Reserve Board opens two-day policy meeting.
2. S&P/Case-Shiller 20-City Composite Home Price Index.
3. Consumer Confidence Index, The Conference Board.

Wednesday:

1. U.S. Federal Reserve Board concludes two-day policy meeting, Chairman Jerome Powell holds press conference.
2. New home sales, U.S. Census Bureau.

Thursday:

1. Second-quarter GDP, third estimate, U.S. Bureau of Economic Analysis.
2. Second-quarter corporate profits, revised estimate, U.S. Bureau of Economic Analysis.
3. Durable goods orders, U.S. Census Bureau.

Friday:

1. University of Michigan Index of Consumer Sentiment.
2. Personal income and consumer spending, U.S. Bureau of Economic Analysis.

Portfolio Managers

VICTORIA Capital Management, Inc.

The Target Return (TR) portfolios consist of a blend of exchange-traded funds (ETFs) to provide a range of risk and return characteristics that should meet the needs of investors saving for retirement. Each of these portfolios is designed to achieve a long-term target rate of return. By utilizing low cost ETFs and by keeping portfolio turnover low, the ability to produce targeted rates of return is dramatically increased. For investors seeking current income, the TR Income Portfolio (TRIP) has been structured to focus on producing both high current income and growing dividend income. The goal of the Victoria Capital Growth (VCG) portfolio is to provide long-term growth through a diversified portfolio of individual equities. A theme-based investment strategy concentrates investments in common stocks of companies that are expected to grow faster than the overall economy. Owning individual stocks gives greater flexibility to make changes on a stock by stock basis for each client. By applying a bottom-up defensive tactical trading discipline, substantial portfolio reserves can be generated.