# Redhawk Quarterly Commentary

# March 31, 2022

Each quarter, Redhawk's Investment Committee provides a Quarterly Commentary. We look at what is going on in the investment landscape and provide our perspective on a variety of topics. These are not predictions, and it represents our perspective on important market and economic information designed to help make decisions affecting your long-term financial strategy. Our goal is to help you understand what is going on in the markets so you can more clearly define investment goals, diagnose unintended risks, and utilize portfolios that can achieve a better financial outcome.

## Market Commentary

The market attempted to catch its breath as the first quarter of 2022 ended. There were many headwinds that included the Federal Reserve's (Fed) first interest rate increase since December 2018, Russia's invasion of Ukraine, and continued high inflationary pressure. These events sent the markets and investors on a roller coaster ride.

Data released during the first quarter indicated that the U.S. economy was softening. While retail sales remained firmly above the pre-pandemic trend, the month-over-month growth rate turned slightly negative during February. Also, new home sales declined for two consecutive months to start 2022. The declines occurred as the 30-year fixed rate mortgage jumped to 4.89% at the end of March 2022 from 3.27% at the end of 2021, while housing prices continued to rise[1].

The S&P 500 declined 4.6% during the first quarter and the Russell 2000 declined 7.5%. This was the first negative quarterly return for the S&P 500 since the first quarter of 2020 and the fourth worst quarterly return since the first quarter of 2013. The -4.6% return disguised the S&P 500's volatile first quarter. U.S. stocks experienced significant selling pressure during January with the S&P 500 suffering its biggest monthly selloff since March 2020. The volatility continued into February, and by early-March, the S&P 500 was down 12.5% since the end of 2021. However, performance turned around during the second half of March when the S&P 500 registered a 9% return.

Following the rally, the S&P 500 ended the first quarter only 5% below its early January record close. Energy was the top performing sector, returning 39% as oil prices soared 30%. Conversely, Communication Services, Consumer Discretionary, and Technology were the three worst performing sectors due to their large allocations to growth stocks, which experienced a sharp negative decline in the first quarter. Additionally, international stocks underperformed U.S. stocks. The MSCI EAFE Index of developed market stocks produced a -6.5% return during the first quarter, while the MSCI Emerging Market Index garnered a -7.6% return over the same period. The strength in the U.S. dollar was a headwind for international stocks as it caused currency conversion losses.

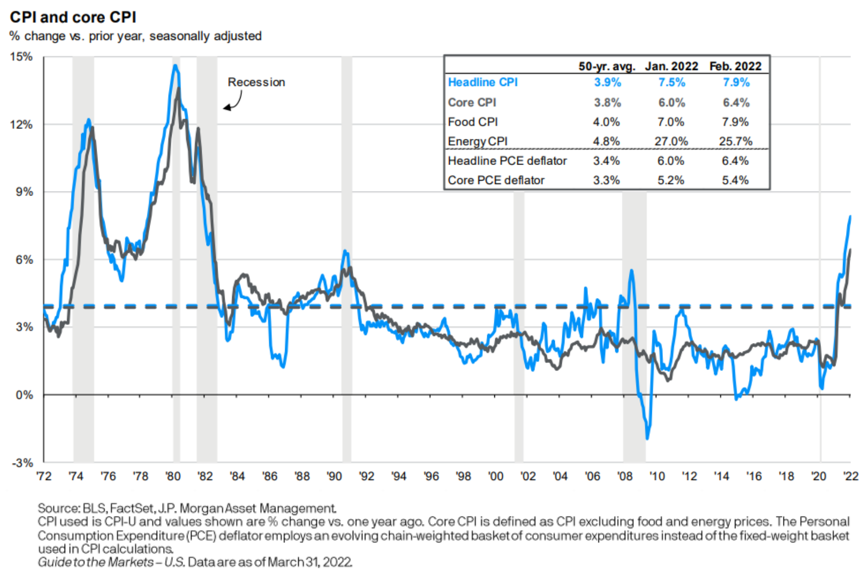
The chart below provides a summary of the returns by sector for the first quarter[2].

| | Energy | Materials | Financials | Industrials | Cons. Disc. | Tech. | Comm. Services* | Real Estate | Health Care | Cons. Staples | Utilities | S&P 500 Index | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **S&P weight** | **3.9%** | **2.6%** | **11.1%** | **7.9%** | **12.0%** | **28.0%** | **9.4%** | **2.7%** | **13.6%** | **6.1%** | **2.7%** | **100.0%** | Weight |
| Russell Growth weight | 0.5% | 0.9% | 2.5% | 6.1% | 18.5% | 46.2% | 10.5% | 1.7% | 8.9% | 4.2% | 0.0% | 100.0% | |
| Russell Value weight | 7.1% | 4.1% | 20.8% | 11.0% | 5.0% | 9.3% | 7.1% | 4.9% | 17.9% | 7.4% | 5.4% | 100.0% | |
| Russell 2000 weight | 6.6% | 4.0% | 15.9% | 15.5% | 10.2% | 13.7% | 3.2% | 7.8% | 16.6% | 3.5% | 3.0% | 100.0% | |
| **QTD** | 39.0 | -2.4 | -1.5 | -2.4 | -9.0 | -8.4 | -11.9 | -6.2 | -2.6 | -1.0 | 4.8 | -4.6 | Return (%) |
| **YTD** | 39.0 | -2.4 | -1.5 | -2.4 | -9.0 | -8.4 | -11.9 | -6.2 | -2.6 | -1.0 | 4.8 | -4.6 | |
| **Since market peak** (February 2020) | 56.6 | 52.3 | 29.3 | 27.2 | 41.8 | 58.3 | 24.3 | 25.8 | 36.5 | 26.8 | 14.1 | 38.4 | |
| **Since market low** (March 2020) | 255.2 | 138.3 | 126.6 | 118.2 | 107.7 | 129.9 | 74.0 | 102.0 | 89.4 | 66.9 | 77.2 | 109.0 | |
| **Beta to S&P 500** | 1.3 | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0* | 0.7 | 0.8 | 0.7 | 0.4 | 1.0 | β |
| **Correl. to Treas. yields** | 0.3 | -0.1 | 0.1 | 0.0 | -0.3 | -0.3 | -0.2 | -0.2 | -0.3 | -0.2 | 0.0 | -0.2 | ρ |
| **Foreign % of sales** | 37.6 | 54.8 | 21.7 | 33.0 | 34.2 | 58.7 | 48.4 | 17.0 | 37.9 | 44.9 | 2.0 | 41.8 | % |
| NTM earnings growth | 38.9% | 5.3% | -5.9% | 30.1% | 19.4% | 12.2% | 4.9% | 8.5% | 5.5% | 6.0% | 3.1% | 9.3% | EPS |
| **20-yr avg.** | **85.5%** | **18.2%** | **21.3%** | **13.6%** | **16.7%** | **14.2%** | **10.5%*** | **6.5%** | **8.9%** | **8.0%** | **4.0%** | **11.5%** | |
| Forward P/E ratio | 11.5x | 16.0x | 14.4x | 19.9x | 27.8x | 24.4x | 18.1x | 21.9x | 16.5x | 21.2x | 21.3x | 19.5x | P/E |
| **20-yr avg.** | **14.1x** | **14.7x** | **12.4x** | **16.2x** | **19.0x** | **18.3x** | **19.7x*** | **16.4x** | **15.2x** | **17.1x** | **15.0x** | **15.5x** | |
| Buyback yield | 0.8% | 2.1% | 3.5% | 2.0% | 1.6% | 2.3% | 3.3% | -1.5% | 1.3% | 1.4% | -0.9% | 2.1% | Bbk |
| **20-yr avg.** | **1.5%** | **0.8%** | **0.2%** | **2.1%** | **2.3%** | **2.9%** | **1.4%** | **-1.3%** | **1.9%** | **1.8%** | **-1.0%** | **1.7%** | |
| Dividend yield | 3.3% | 1.9% | 1.9% | 1.6% | 0.7% | 0.9% | 0.9% | 2.7% | 1.6% | 2.6% | 2.9% | 1.5% | Div |
| **20-yr avg.** | **2.7%** | **2.5%** | **2.3%** | **2.2%** | **1.4%** | **1.1%** | **1.3%*** | **4.1%** | **1.9%** | **2.8%** | **3.9%** | **2.1%** | |

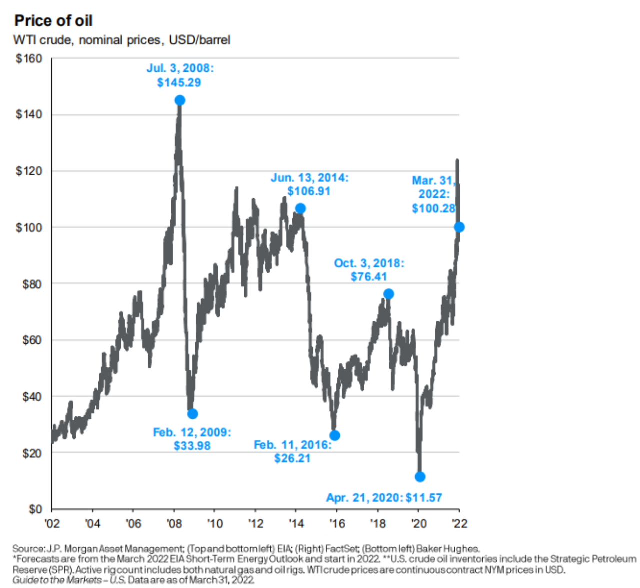
Source: FactSet, Refinitiv Datastream, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, not annualized, including dividends for the stated period. Since market peak represents period from 2/19/20 to 3/31/22. Since market low represents period from 3/23/20 to 3/31/22. Correlation to Treasury yields are trailing 2-year monthly correlations between S&P 500 sector price returns and 10-year Treasury yield movements. Next 12 months (NTM) earnings growth is the percent change in next 12-months earnings estimates compared to last 12-months earnings provided by brokers. Forward P/E ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates and J.P. Morgan Asset Management. Buyback yield is net of share issuance and is calculated as last 12-months net buybacks divided by market cap. Dividend yield is calculated as the next 12-months consensus dividend divided by most recent price. Beta calculations are based on 10-years of monthly price returns for the S&P 500 and its sub-indices. *Communication Services (formerly Telecom) averages and beta are based on 5-years of backtested data by JPMAM. Past performance is not indicative of future returns.
*Guide to the Markets – U.S.* Data are as of March 31, 2022.

## U.S. Market

The first quarter of 2022 started the same way 2021 ended, with inflation accelerating at the fastest pace in four decades. The Consumer Price Index (CPI), a universally used inflation measure, rose 7.9% year-over-year during February 2022. It was the fastest pace since January 1982 and an increase from the 7.1% annual change in 2021. Inflation pressures remained broad with the price of energy, food, vehicles, and rent all increasing significantly over the past 12 months (see the chart below)[2].

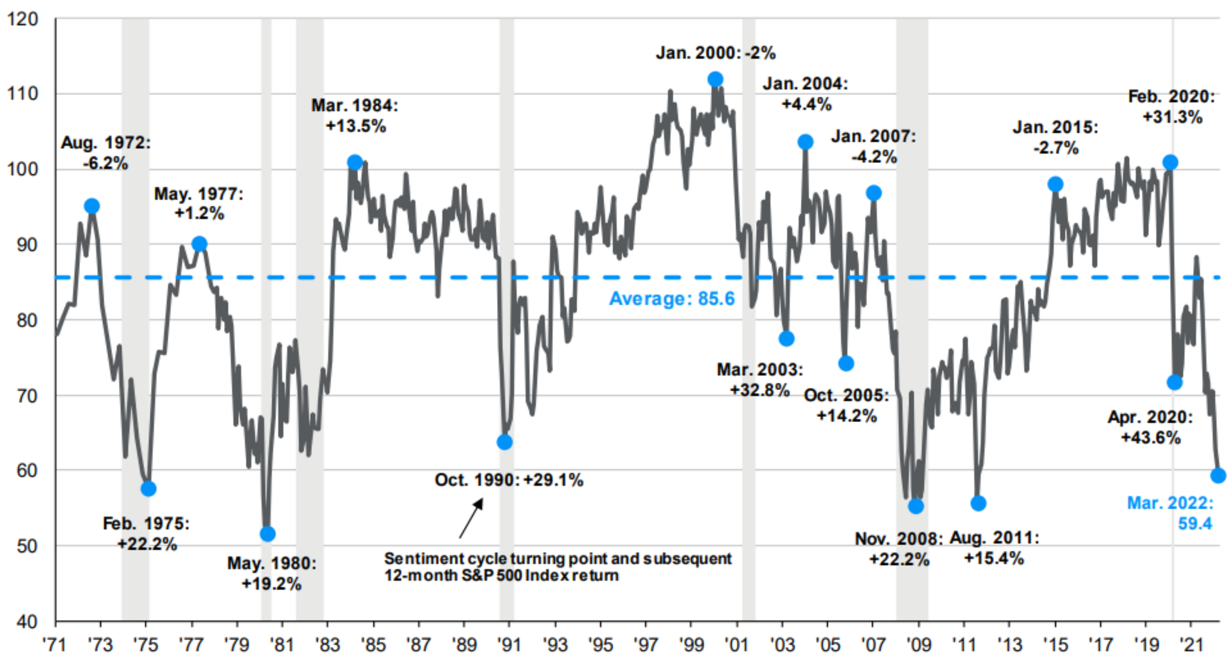



Increasing geopolitical tension in eastern Europe only added to the inflationary pressure after Russia invaded Ukraine in February. Russia is a significant exporter of many commodities, including energy, aluminum, and wheat, and Russian sanctions increased the risk of supply shortages and higher prices for these commodities. As a result, West Texas Intermediate Crude Oil (WTI) traded over $120 per barrel in early March, the highest level since 2008 (see the chart to the right)[2], while aluminum and wheat prices also reached record highs. The Bloomberg Commodity Index, which tracks a broad basket of energy, agriculture, and metal prices, was up approximately 27% for the quarter[2].



Data released during the first quarter indicated that consumers are starting to feel the effect of higher gas and food prices. As a result, the University of Michigan's consumer sentiment index dropped below sixty (60) in March (see the chart below). The March consumer sentiment reading is extremely negative compared to historical measures and the 85.6 average. Prior readings under sixty (60) occurred around the high inflation period of 1980, the 2008 fiscal crisis, and the 2011 U.S. credit rating downgrade[2]. What was most concerning is that sentiment is not typically that low when the labor market is strong.

**Consumer Sentiment Index and subsequent 12-month S&P 500 returns**




Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.
*Guide to the Markets – U.S.* Data are as of March 31, 2022.

Rising inflation caused the Fed to raise interest rates by 0.25% for the first time since December 2018. The market widely anticipated the increase and moved rapidly to price in aggressive Fed tightening. As a result, yields rose across the Treasury curve as markets prepared for more restrictive monetary policy and higher interest rates.

The Treasury yield movements provided insight into the forward-looking expectations of the market. During the first quarter, the spread between long-term yields, such as the 10-year Treasury, and short-term yields, such as the 2-year Treasury, narrowed. The sharp move higher in short-term Treasury yields indicated that the market expected the Fed to continue raising interest rates throughout 2022. This spread narrowing is important because the spread between long-term and short-term borrowing rates is an indication of the prospects for economic growth. A tighter spread is less positive on the forward outlook of the economy because there is an acceptance of a lower rate of return for a longer period. Conversely, a wider spread is more positive on the economy because there is a higher yield for the opportunity cost of lending money for a longer time. Based on the 0.11% spread during March, investors were concerned about the U.S. economic outlook.

**Fixed Income Markets**

The increase in Treasury yields caused bonds to underperform equities during the first quarter. In fact, bonds had their worst quarter in 20 years. Corporate investment grade bonds produced a total negative return of 8.4% for the quarter. High yield bonds also experienced negative returns for the quarter, declining by 4.7%. Core treasury bonds fell by 5.5% and short-term bonds declined 3.62%. These returns indicated that investors were more concerned about interest rate risk than credit risk.

The chart below shows the returns for the fixed income market[2].

| | | | | | | | | | | | | | | | | 2007-2021 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | YTD | Ann. | Vol. |
| EMD LCL. 18.1% | Treas. 13.7% | High Yield 58.2% | EMD LCL. 15.7% | TIPS 13.6% | EMD USD 17.4% | High Yield 7.4% | Muni 9.1% | Muni 3.3% | High Yield 17.1% | EMD LCL. 15.2% | ABS 2.7% | EMD USD 15.0% | TIPS 11.0% | TIPS 6.0% | ABS -2.1% | High Yield 7.4% | EMD LCL. 11.8% |
| TIPS 11.6% | MBS 8.3% | EMD USD 29.8% | High Yield 15.1% | Muni 10.7% | EMD LCL. 16.8% | ABS -0.3% | Corp. 7.5% | MBS 1.5% | EMD USD 10.2% | EMD USD 10.3% | Muni 1.3% | Corp. 14.5% | Corp. 9.9% | High Yield 5.3% | TIPS -3.0% | EMD USD 6.1% | High Yield 11.2% |
| Treas. 9.0% | Barclays Agg 5.2% | ABS 24.7% | EMD USD 12.2% | Treas. 9.8% | High Yield 15.8% | MBS -1.4% | EMD USD 7.4% | EMD USD 1.2% | EMD LCL. 9.9% | High Yield 7.5% | MBS 1.0% | High Yield 14.3% | Treas. 8.0% | Muni 1.5% | High Yield -4.8% | Asset Alloc. 5.5% | EMD USD 8.7% |
| Barclays Agg 7.0% | Asset Alloc. -1.9% | EMD LCL. 22.0% | Corp. 9.0% | Corp. 8.1% | Corp. 9.8% | Corp. -1.5% | MBS 6.1% | Treas. 0.8% | Corp. 6.1% | Corp. 6.4% | Treas. 0.9% | EMD LCL. 13.5% | Barclays Agg 7.5% | ABS 1.1% | MBS -5.0% | Corp. 5.5% | Corp. 6.1% |
| MBS 6.9% | TIPS -2.4% | Corp. 18.7% | Asset Alloc. 7.6% | Barclays Agg 7.8% | Asset Alloc. 7.6% | Asset Alloc. -1.8% | Barclays Agg 6.0% | Barclays Agg 0.5% | Asset Alloc. 4.8% | Muni 5.4% | Barclays Agg 0.0% | Asset Alloc. 9.8% | High Yield 7.1% | Asset Alloc. -0.2% | Treas. -5.6% | Muni 4.3% | Treas. 5.0% |
| Asset Alloc. 6.2% | Muni -2.5% | Asset Alloc. 16.5% | Barclays Agg 6.5% | Asset Alloc. 7.7% | TIPS 7.0% | Barclays Agg -2.0% | Asset Alloc. 5.4% | ABS 0.2% | TIPS 4.7% | Asset Alloc. 5.3% | Asset Alloc. -0.6% | Barclays Agg 8.7% | Asset Alloc. 6.6% | Corp. -1.0% | Asset Alloc. -5.9% | TIPS 4.2% | TIPS 4.8% |
| EMD USD 6.2% | Corp. -4.9% | Muni 12.9% | TIPS 6.3% | EMD USD 7.3% | Muni 6.8% | Muni -2.6% | Treas. 5.1% | Asset Alloc. -0.4% | Barclays Agg 2.6% | Barclays Agg 3.5% | TIPS -1.3% | TIPS 8.4% | EMD USD 5.3% | MBS -1.0% | Barclays Agg -5.9% | Barclays Agg 3.9% | ABS 4.2% |
| Corp. 4.6% | EMD LCL. -5.2% | TIPS 11.4% | Treas. 5.9% | MBS 6.2% | Barclays Agg 4.2% | Treas. -2.7% | TIPS 3.6% | Corp. -0.7% | ABS 2.0% | TIPS 3.0% | High Yield -2.1% | Muni 7.5% | Muni 5.2% | Barclays Agg -1.5% | Muni -6.2% | MBS 3.5% | Asset Alloc. 3.8% |
| Muni 3.4% | EMD USD -12.0% | Barclays Agg 5.9% | ABS 5.9% | ABS 5.1% | ABS 3.7% | EMD USD -5.3% | High Yield 2.5% | TIPS -1.4% | MBS 1.7% | ABS 3.0% | Corp. -2.5% | Treas. 6.9% | MBS 3.9% | EMD USD -1.8% | EMD LCL. -6.5% | Treas. 3.3% | Muni 3.7% |
| ABS 2.2% | ABS -12.7% | MBS 5.9% | MBS 5.4% | High Yield 5.0% | MBS 2.6% | TIPS -8.6% | ABS 1.9% | High Yield -4.5% | Treas. 1.0% | MBS 2.5% | EMD USD -4.3% | MBS 6.4% | ABS 3.4% | Treas. -2.3% | Corp. -7.7% | ABS 2.9% | Barclays Agg 3.3% |
| High Yield 1.9% | High Yield -26.2% | Treas. -3.6% | Muni 2.4% | EMD LCL. -1.8% | Treas. 2.0% | EMD LCL. -9.0% | EMD LCL. -5.7% | EMD LCL. -14.9% | Muni 0.2% | Treas. 2.3% | EMD LCL. -6.2% | ABS 3.8% | EMD LCL. 2.7% | EMD LCL. -8.7% | EMD USD -10.0% | EMD LCL. 2.5% | MBS 2.5% |

Source: Bloomberg, FactSet, J.P. Morgan Global Economic Research, J.P. Morgan Asset Management.
Past performance is not indicative of future returns. Fixed income sectors shown above are provided by Bloomberg unless otherwise noted and are represented by Broad Market: U.S. Aggregate Index; MBS: US Aggregate Securitized - MBS Index; ABS: J.P. Morgan ABS Index; Corporate: U.S. Aggregate Credit - Corporates - Investment Grade; Municipals: Municipal Bond Index; High Yield: U.S. Aggregate Credit - Corporate - High Yield Index; Treasuries: Global U.S. Treasury; TIPS: U.S. Treasury Inflation-Protected Notes Index; Emerging Debt USD: J.P. Morgan EMBIG Diversified Index; Emerging Debt LCL: J.P. Morgan EM Global Index. The "Asset Allocation" portfolio assumes the following weights: 20% in MBS, 5% in ABS, 20% in Corporate, 15% in Municipals, 5% in Emerging Debt USD, 5% in Emerging Debt LCL, 10% in High Yield, 15% in Treasuries, 5% in TIPS. Asset allocation portfolio assumes annual rebalancing.
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## International Markets

Global equity markets had a volatile first quarter and were negative, as March was not enough to make up for the negative returns from January and February.

The first quarter 2022 performance around the world was negative as thirty-five (35) of the thirty-six (36) developed markets tracked by the MSCI were negative, with only the United Kingdom and Brazil advancing. Additionally, the forty (40) developing markets tracked by the MSCI had twenty-six (26) in negative territory, with many experiencing significant losses, including China which was down 14.2%[3] (see the chart to the right).

| Returns | 2022 YTD | | 2021 | | 15-years | |
|---|---|---|---|---|---|---|
| | Local | USD | Local | USD | Ann. | Beta |
| **Regions** | | | | | | |
| U.S. (S&P 500) | - | -4.6 | - | 28.7 | 10.7 | 0.90 |
| AC World ex-U.S. | -3.8 | -5.3 | 13.5 | 8.3 | 4.2 | 1.07 |
| EAFE | -3.6 | -5.8 | 19.2 | 11.8 | 4.1 | 1.04 |
| Europe ex-UK | -8.1 | -9.8 | 24.4 | 16.5 | 4.8 | 1.18 |
| Emerging markets | -6.1 | -6.9 | 0.1 | -2.2 | 4.8 | 1.18 |
| **Selected Countries** | | | | | | |
| United Kingdom | 4.8 | 1.8 | 19.6 | 18.5 | 2.3 | 1.02 |
| France | -6.6 | -8.6 | 29.7 | 20.6 | 4.7 | 1.22 |
| Germany | -10.9 | -12.8 | 13.9 | 5.9 | 4.7 | 1.31 |
| Japan | -1.4 | -6.4 | 13.8 | 2.0 | 3.4 | 0.72 |
| China | -13.9 | -14.2 | -21.6 | -21.6 | 5.8 | 1.10 |
| India | 0.1 | -1.8 | 28.9 | 26.7 | 6.7 | 1.26 |
| Brazil | 16.0 | 36.0 | -11.2 | -17.2 | 0.9 | 1.50 |
| Russia | - | - | 21.6 | 20.0 | 0.9 | 1.49 |

Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management. All return values are MSCI Gross Index data. 15-year history based on USD returns. 15-year return and beta figures are calculated for the time period 12/31/2006 to 12/31/2021. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. EM North Asia includes China, Taiwan and South Korea. EM South Asia includes India, Indonesia, Malaysia, Pakistan, Philippines, Taiwan and Thailand.
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Eurozone - The invasion of Ukraine severely dampened the outlook for the eurozone, which was on track for stronger economic growth than the U.S. market. Inflation pressures were lower than in the U.S., COVID-19 lockdowns were easing, and the outlook for corporate earnings growth was supportive for equity-market returns. The main risk came from energy prices, given the dependency on Russian natural gas and oil. A decision by Russia to shut down energy exports to Europe, or by European governments to boycott Russian energy, could trigger a recession. However, this seems unlikely given Russia's need for oil and gas revenues and Europe's reliance on Russian energy.

United Kingdom - The UK economy began the year with strong momentum but slowed due to the Bank of England (BoE) tightening, high energy prices from Russia's invasion of Ukraine, and a planned tax hike. It is possible the government will loosen fiscal policy or delay the tax hike because of the energy price headwinds, but this is unlikely to prevent the economy from slowing.

Japan - The Japanese economy disappointed relative to expectations in the first quarter of 2022. While many economists still expected above trend growth, the conflict in Ukraine and the zero-tolerance lockdowns in China have added to the headwinds. Japan is an importer of energy products and food and is exposed to higher prices from the conflict. China follows only the U.S. as Japan's second-largest export market. Any disruption to Chinese activity will have a negative effect to the Japanese economy. The Bank of Japan will not have to raise interest rates like most countries because the inflation rate in Japan is currently less than 1%.

China - The Chinese government recently announced a 5.5% Gross Domestic Product (GDP) growth rate for 2022. However, COVID-19 still posed a challenge to the Chinese economy with the government's zero-tolerance approach. A recent outbreak has seen lockdowns in Shenzhen and parts of Shanghai, both of which are economically important. These will cause short-term challenges to the electronics supply chain since Shenzhen is a large producer of iPhones. The property sector is still challenged, with lower sales and credit weaknesses.

## Economic Outlook

The remainder of 2022 will continue to see volatility in the markets. The markets have already experienced a major downturn followed by an impressive rally and with all the headwinds, volatility is likely to remain elevated. The war in Ukraine has captured headlines and added more uncertainty, but the Fed's tightening cycle and balance sheet reduction will be the primary driving factors of the economy and the markets. Economic growth is slowing and the risk of a recession has been elevated.

Given the magnitude of current inflationary pressures and the risk of persistent inflation, many economists expect that more interest rate increases will take place during the remainder of the year. The Fed's next meeting is May 3-4, and the market expects the central bank to raise interest rates for a second consecutive meeting by 0.50% or double the 0.25% increase seen at the March meeting. While the difference may seem small, the market impact could be significant.

There are many moving parts to consider in the coming months. Economists will be monitoring economic data releases, corporate earnings, and geopolitical issues in eastern Europe for clues about the market's next move. This year's U.S. midterm elections will add another dimension as campaign season swings into gear over the coming months. In times like these, it is important that you remain focused on your long-term investment goals and that your holdings are compatible with your personal level of risk tolerance.

We will continue to apply our time-tested investment process based on risk management, asset allocation, and investment selection to manage your portfolios.

## Acknowledgements


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