Redhawk's Weekly Update December 3, 2018 Vol. 2 No. 46

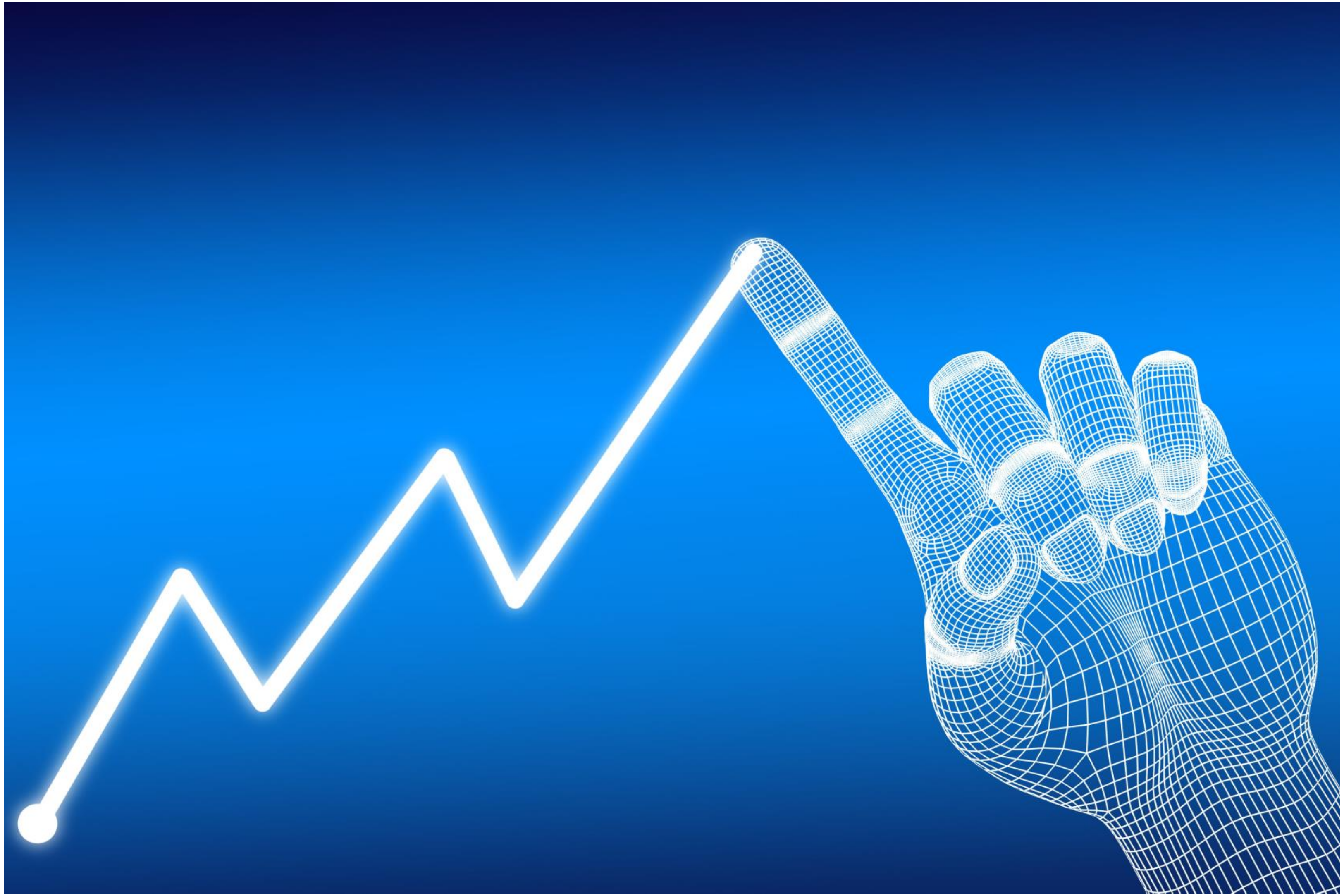
REDHAWK WEALTH ADVISORS

WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

Market Commentary

U.S. stocks rebounded sharply last week, making it the largest weekly gain for 2018. Markets started the week on a strong footing on signs of robust U.S. consumer spending during Black Friday and Cyber Monday. However, the main catalyst for the move higher was Federal Reserve Chairman Powell's comments that rates are close to neutral, which contrasted with his prior statement in early October that rates are a long way from neutral. The softening in tone was interpreted as dovish from investors and resulted in bonds rallying, the U.S. 10-year Treasury yield falling back down near 3% (the lowest level in more than 10 weeks), and the U.S. dollar weakening. Oil finished the week marginally higher but had the worst monthly decline since October 2008.



Last week, markets reacted sharply to reassuring comments from Federal Reserve Chairman Powell as well as possible signals about lessening trade tensions. The positive tones to the commentary were good news, nudging investors back toward a more optimistic outlook, more in line with our expectations that the economy continues to grow modestly. The sentiment is also reflecting changing conditions, and expectations for slowly rising interest rates and renegotiated trade policies are likely to keep prompting short-term volatility.

Fed aiming for neutral – Interest rates always matter for investors, because they're a source of income and affect the outlook for the economy and stocks. Although rates are historically low, short-term rates have been increasing for almost three years. As a result, there are a few early signs of slower credit growth, prompting worries that the Fed could overshoot and keep raising rates too much, slowing the economy. But the Fed is also trying to avoid keeping rates too low for too long and prompting inflation.

When Fed Chairman Powell said that current rates were "just below" the neutral rate and the minutes from early November's meeting reflected concerns about global growth and trade tensions, investors were relieved, stocks rallied, and long-term interest rates edged lower. The Fed clearly indicated that future interest rate increases depend on the data. It plans to continue slowly hiking short-term interest rates if the economy grows moderately, and inflation remains near its 2% target, probably pausing sometime in 2019.

Trade tensions ease – The high-profile G20 meeting over the weekend produced a first step in reducing the trade tensions between the U.S. and China. Suggestions of softening trade tensions between the U.S. and China helped spur the advance in the market this morning. Trump and Xi struck a deal on Saturday at the G20 in Argentina wherein the White House agreed to hold off on bumping up the 10% rate of tariffs on $200 billion worth for the next 90 days. Trump had previously planned to boost the levies to 25% at the start of next year. Trade matters for global growth, and higher tariffs and a worsening trade disputes negatively impacts growth.

Staying in Tune - The recent global stock market pullback dropped faster than expectations for earnings and economic growth, making U.S. and global stocks more attractively priced. If you were nervous over the past few weeks, we suggest you check to be sure you are in the right portfolio based on your risk tolerance. If you are unsure, please contact your advisors and go through Riskalyze to determine your comfort with risk.

Victoria Capital's Strategy Update

Thanksgiving came to the rescue by providing us with a month end rally after a dismal November for the stock market. OPEC triggered the prospect of stable oil prices with talks to cut production; which temporarily buoyed oil prices and equity markets bounced. Fed chairman Jerome Powell’s commentary indicating less aggressive Fed monetary policy also gave a lift to the market with a 618-point rally in the Dow Jones Industrial Average on the final trading day of the month. To top it off, pre-tax corporate profits rose 3.4% in the third quarter - the fastest quarterly growth rate since the second quarter of 2014, bringing the gain to 10.3% in the past year, the largest four quarter increase since mid-2012.

December is starting off with a “Santa Claus Rally” after a preliminary agreement between President Xi of China and President Trump to postpone tariff increases for 90 days. The 10% tariff imposed in September on Chinese goods has already introduced distortions to economic growth; and, the additional 15% tariff introduces further questions about growth potential. Giving the two largest economies another 90 days to work out trade negotiations has provided the market with temporary hope that a deal can be reached. Economic data for the fourth quarter will be distorted as a result of the 10% tariff already imposed; as is the outlook for the first quarter of 2019. In other words, by imposing a tariff that begins at a future time, market participants will accelerate their purchases into the current period. For the U.S., this increase in imports is depressing economic growth only to be reversed in the second quarter of next year when tariffs may be higher. The bottom line is that GDP is weaker now due to these tariffs and will be stronger next year when imports decline.

Another important element of investing in financial markets is always volatility. The past few months have seen relatively high choppiness in the stock market. However, when analyzing this volatility across other asset classes it may not be as extreme as it seems. Oil prices dropped more than 30% last month while natural gas exploded to near- record highs. And then consider bitcoin. The story was once that a “digital currency” was the currency of the future! Let’s remember that the basic definition of a currency is something that offers a store of value and a medium of exchange. Can we say the same about bitcoin and its digital brothers and sisters? We don’t think so. After skyrocketing to a price of over $20,000 late last year, according to the Wall Street Journal, the “currency” has collapsed to $3,650 last Monday -- a decline of almost 80%! From an estimated total value of $800 billion last year for the bitcoin market, that value has fallen to $130 billion, a paper loss of some $670 billion. Some store of value. And if you accept bitcoins in payment for liabilities, you better unload it fast before it falls further. The basic problem is that bitcoin and its brethren are a form of a digital commodity not currency, so their value will depend on a balance between supply and demand. By investing in a diversified portfolio of asset classes, investors will usually be rewarded by less volatility than by investing in a single asset that drops in price and never returns to prior valuations.

We have not made any changes in the Growth Equity portfolio as we have been nearly fully invested given our expectations for a favorable resolution to the tariff debate and a year-end rally. The same story goes for the Target Return portfolios that are positioned for a better market environment.

Redhawk's Strategy Update

On the heels of the worst October result in a decade, the major indexes endured another rough ride in November but ended up slightly higher overall. The S&P 500 added around 2%, although there was a big gap of nearly 7% between the index's peak on November 7 and its low point on November 23. A single sentence in a speech by the chairman of the U.S. Federal Reserve was cited as the chief catalyst that sent the major indexes soaring between 2% to 3% on Wednesday. Jerome Powell eased fears of a more aggressive pace of interest rate increases when he said that rates are currently just below estimates of a neutral level, which is one that neither stimulates nor suppresses economic growth.

A nearly two monthlong slide in crude oil prices eased, but not before the price of U.S. crude briefly fell below $50 per barrel on Thursday for the first time in nearly 14 months. Prices recovered late in the week in response to reports that Russia might reduce its oil output in tandem with a major consortium of oil producing nations. The yield of the 10-year U.S. Treasury bond briefly fell below the 3.00% threshold on Thursday for the first time in more than two months, marking the 11^{the} time in 13 days of trading that the yield has declined. As recently as November 8, the yield was as high as 3.24%.

Economic Data for this Week

Monday:

1. Institute for Supply Management's manufacturing index.
2. Construction spending, U.S. Census Bureau.

Tuesday:

1. Vehicle sales, U.S. Department of Commerce.

Wednesday:

1. ADP National Employment Report, ADP.
2. Labor productivity and costs, U.S. Bureau of Labor Statistics.
3. Institute for Supply Management's nonmanufacturing index.

Thursday:

1. Trade balance, U.S. Census Bureau.
2. Factory orders, U.S. Census Bureau.

Friday:

1. Jobs and unemployment, U.S. Bureau of Labor Statistics.
2. Wholesale inventories, U.S. Census Bureau.
3. Consumer credit, U.S. Federal Reserve.

Our signals remain with the "risk on" reading and we will continue to monitor the markets closely as we anticipate sustained volatility.

Portfolio Managers

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.

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