Redhawk's Weekly Update June 24th, 2019 Vol. 3 No. 25

REDHAWK
WEALTH ADVISORS

WEEKLY UPDATE

PERSPECTIVE for BETTER FINANCIAL OUTCOMES

New Feature!

Below is a recording of our Redhawk Live Update to help our clients better understand what we are doing with our portfolios. We hope to send these out every week moving forward. Click the button below below to listen!

Redhawk Live!

Market Commentary

Last week U.S. stocks finished higher for the third straight week, with the S&P 500 and the Dow closing at record highs. The main catalyst for the rally in both bonds and stocks was the Federal Reserve (Fed) signaling its openness to cut rates this year. The committee removed a previous statement about being “patient” in setting rates, which implied holding rates steady for some time, and added that it will act as appropriate to sustain the economic expansion. Other central banks are also shifting toward easier monetary policy, which has resulted in lower bond yields globally and increased risk appetite. Following the financial crisis in 2008, the U.S. stock market first achieved a new record high in early 2013. Since then, it has set 225 all-time highs (an impressive 14% of all trading days), indicating that new highs aren't a sign of exhaustion.

This bull market is nearing the end of its 10th year. How can it be both well enough to keep growing and yet so vulnerable that it could require Fed intervention to continue? That was the question facing the Fed when it met last week to set the level of short-term interest rates. Though it kept rates unchanged for now, the Fed signaled that it would cut rates this year in response to slower growth prospects. Markets reacted favorably to the Fed's shift towards a rate cut, as stock prices rallied to a record high. Historically, the biggest risk to a bull market has been that the Fed makes a policy mistake. Markets get concerned when the Fed is behind the curve as market and financial conditions weaken. By opening the door to a rate cut this year, the Fed provided assurance to markets that it was willing to prolong the expansion.

We are in the latter stages of this economic cycle and inflation is the key to further expansion. Too much inflation indicates that the economy is overheating, and rising wages could induce firms to cut costs by slowing hiring and triggering higher unemployment. Too little inflation signals that demand for goods and services is decreasing and could lead to sluggish wage growth, reduced lending, and weaker economic activity. The Fed believes that its 2% inflation target is consistent with healthy economic growth. Yet recent data shows that price levels are heading below that target, leading the Fed to drop its forecast for inflation from 1.8% to 1.5%. If inflation continues to drift lower, the Fed signaled it would cut short-term interest rates to boost demand and reset price levels closer to the target.

Last week the U.S. 10-year Treasury yields dropped to 2.0%, the lowest levels since 2017, before rebounding to 2.06%. Because U.S. rates are still higher than most developed countries, foreign demand for U.S. Treasuries will likely keep long-term rates low and help prolong the bull market by providing inexpensive credit to businesses and consumers.

The economy grew at a robust 3.1% in the first quarter but showed signs of weakness as consumer spending slumped to half its average rate. A lackluster jobs report and slowing wage gains also added to slowdown fears. More recently, a slew of good economic data has alleviated the Fed's concern of weakness in the consumer sector. First, a bounce back in retail sales data suggested a pickup in consumer spending. Additionally, benefit claims by unemployed workers, a leading indicator of recession, have fallen recently to well below the 10-year average for the economic expansion. Finally, interest-rate-sensitive sectors of the economy have strengthened from earlier this year. For example, existing home sales in May increased for the first time in two months as lower mortgage rates boosted homebuyer demand.

The Fed highlighted two uncertainties to its otherwise optimistic view of the economy:

1. Elevated trade tensions.
2. Slower global growth.

These two uncertainties are interrelated as trade drives almost 60% of worldwide GDP growth. Data out Friday showed that the trade-sensitive manufacturing sectors in the eurozone and Japan continue to slow. Also, a gauge of U.S. manufacturing dipped to the lowest levels since 2009. So, a lot is riding on the resumption of trade talks between the U.S. and China at the G20 meeting this week. A quick deal is highly unlikely, yet progress towards an agreement would be a positive development for the markets and the prospects for continued global expansion. Additionally, a more stimulus monetary policy from the central banks in other countries should help stabilize global growth over time. Recently, both the European Central Bank (ECB) and the Bank of Japan have (BoJ) signaled their intent to ease already accommodative monetary policy to boost growth.

Though it has shifted in the direction of a rate cut, the Fed is watching incoming data from the labor market as well as geopolitical news for signs of weakening economic conditions before making a move. Meanwhile, market participants have already priced in three rate cuts this year. The upshot is that by year-end the market expects benchmark rates to fall much more sharply than the Fed does. The disconnect between the Fed’s intention and the markets expectation will likely lead to periodic bouts of volatility.

INDEX	CLOSE	WEEK	YTD
Dow Jones Industrial Average	26,719	2.4%	14.5%
S&P 500 Index	2,950	2.2%	17.7%
NASDAQ	8,032	3.0%	21.0%
MSCI EAFE*	1,911.18	2.2%	11.1%
10-yr Treasury Yield	2.06%	-0.02%	-0.63%
Oil ($/bbl)	$57.66	9.8%	27.0%
Bonds	$111.12	0.5%	5.6%

Source: Bloomberg, 06/21/19. Bonds represented by the iShares Core U.S. Aggregate Bond ETF. Past performance does not guarantee future results.

Victoria Capital's Strategy Update

Last week, the S&P 500 reached a closing high of 2,954.18 while the Dow Jones Industrial Average, NASDAQ Composite and the Russell 2000 indices also rose. Both oil and gold climbed as well. The S&P is having the best June since 1955 and it could be the best month for the Dow in 80 years! As you know, we have been continually bullish about the U.S. stock market since the Trump election and the gain year-to-date has confirmed our optimism. There are a variety of factors contributing to our belief that the rally in stocks will continue. The lack of euphoria around the market's current rise coupled with the record cash sitting on the sidelines as Mr. Market keeps climbing higher is one. Another is that naysayers fear a slowing economy and even mention the "R" word. Although some economic statistics have weakened, we expect that as summer rolls on we will see that the economy is not slipping into recession. There are plenty of positives to consider: corporate tax rates have been cut boosting incentives for investment, the federal funds rate is below GDP growth and the Fed still has $1.4 trillion in excess reserves in the banking system—a very big net. The federal government continues to reduce regulations, households have both low debts relative to assets and banks have strong balance sheets. On and on…

Back in the information technology boom of the late 90s, everyone was touting stocks—even our barber was telling us which stocks to buy! That isn't the case today. Look at the article published last week by Bloomberg entitled: "Investors Haven't Been This Bearish Since 2008 Financial Crisis." The source of this article was a Bank of America Merrill Lynch survey of money managers with $528 billion under management among them. The poll showed that equity allocations saw the second-biggest drop on record, while cash holdings jumped by the most since the 2011 debt-ceiling crisis. Individual investors have also missed out on stock market gains since Trump was elected, as many stayed on the sidelines. In fact, according to the latest AAII Sentiment Survey, optimism among individual investors about the short-term direction of stock prices rebounded slightly but remains below 30% for the sixth consecutive week. Remember that to make a market for every buyer there must be a seller. We will continue to be buyers until economic and market metrics tell us otherwise.

Here's a fun factoid: Last week, Arthur Laffer, the father of supply-side economics received the Medal of Freedom from President Trump. Tom worked with Dr. Laffer during the early years of supply-side economics (1981-1984) and wrote numerous economic papers for his firm, Laffer Associates. We even have one of Art's famous "curves" on a signed napkin hanging in our office!!

Last week we deployed cash in the Growth Equity model by initiating positions in two new opportunities while selling one of our Quality Healthcare stocks. No changes were made to the Target Return models.

Redhawk's Strategy Update

U.S. stock indexes climbed more than 2%, with the S&P 500 eclipsing a record high that it had set in late April and the Dow just shy of its historic peak. The latest weekly results extended the market's strong run in June, which has seen stocks post a V-shaped recovery in the wake of May's steep decline. Expectations for slower global growth and more accommodative monetary policies briefly sent the yield of the 10-year U.S. Treasury bond below 2% on Thursday, the lowest since late 2016. The story was similar for government debt in Europe, with yields in Germany and France approaching all-time lows, reflecting a rise in bond prices. The U.S. Federal Reserve Board kept interest rates unchanged, but comments from Fed Chairman Jerome Powell lifted market expectations that a potential rate cut could come as soon as July 31, when the Fed concludes its next policy meeting. Powell said, "The case for somewhat more accommodative policy has strengthened."

Crude oil prices surged nearly 9%, recovering some of the ground lost in a recent decline, as tensions rose between Iran and the United States in the Persian Gulf, a key transport route for oil. The rally helped lift energy stocks and gained further momentum on Friday after a fire broke out at a refinery in Philadelphia. A monthly gauge of U.S. business growth dropped more than expected as activity in both the manufacturing and services sectors softened. U.S. manufacturing purchasing managers' index fell to the lowest reading since September 2009, while its services index dropped to the lowest since March 2016. The value of the euro currency tumbled after the president of the European Central Bank said that any economic deterioration in the eurozone would trigger additional economic stimulus. Mario Draghi said the central bank could cut interest rates again or provide further asset purchases.

Redhawk Live Update - Click Here

Redhawk Model Signals

Time Period:				6/24/2019	6/17/2019
Redhawk S&P 500 and Dynamic Portfolios (RSPC, RSPM, RSPA, RDA, RDC, RDA)	Symbol		Action	Redhawk Score	Redhawk Score
India Equity	INDY	iShares India 50 ETF	EWZ		
Equity Precious Metals	GDX	VanEck Vectors Gold Mioners ETF		138.91	112.46
Real Estate	XLRE	Real Estate Select Sector SPDR ETF		128.53	118.45
Latin America Stocks	EWZ	iShares MSCI Brazil Capped ETF		124.68	
Utilities	VPU	Vanguard Utilities ETF		121.23	108.02
Short-term Bond	SLQD	iShares 0-5 Year Invmt Grade Corp Bd ETF		104.17	103.15
Corporate Bond	VCIT	Vanguard Interm-Term Corp Bd ETF		97.43	93.60
Intermediate Government	SCHR	Schwab Intermediate-Term US Trs ETF		96.76	95.22
Natural Resources	XLB	Materials Select Sector SPDR ETF		88.70	73.31
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		88.68	88.50
Short-term Bond	SPSB	SPDR® Portfolio Short Term Corp Bd ETF		88.41	87.39
High Yield	HYLB	Xtrackers USD High Yield Corp Bd ETF		84.64	82.31
Multisector Bond	DIAL	Columbia Diversified Fixed Inc Allc ETF		80.64	78.17
Commodities Presious Metals	IAU	iShares Gold Trust		78.36	64.58
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		77.08	76.90

Redhawk Environmental, Social, and Governance Portfolio (RESG)	Symbol		Action	Redhawk Score	Redhawk Score
Mid-Cap Growth	AVEGX	Ave Maria Growth		120.34	106.03
Large Growth	CEYIX	Calvert Equity I		117.47	104.36
Large Blend	VFTAX	Vanguard FTSE Social Index Admiral		111.72	101.04
Global Real Estate	IHSIX	Hartford Small Company I		110.08	87.21
Global Real Estate	CSSPX	Cohen & Steers Global Realty I		107.88	102.25
Corporate Bond	CBFSX	JPMorgan Corporate Bond I		106.89	103.06

Redhawk Income Portfolios				Redhawk	Redhawk

Redhawk Income Portfolios (RBI, RHY, RTHI)	Symbol		Action	Redhawk Score	Redhawk Score
High Yield	FIHBX	Federated Instl High Yield Bond Instl	ELD		
Corporate Bond	BSCP	Invesco BulletShares 2025 Corp Bd ETF		107.17	107.17
Emerging Market Bond	EMB	iShares JP Morgan USD Em Mkts Bd ETF		105.98	105.98
Emerging Market Bond	VWOB	Vanguard Emerging Mkts Govt Bd ETF		99.19	99.19
High Yield	HYG	iShares iBoxx $ High Yield Corp Bd ETF		94.58	94.58
Preferred Stock	PSK	SPDR® Wells Fargo Preferred Stock ETF		88.66	88.66
Corporate Bond	IGIB	iShares Intermediate-Term Corp Bd ETF		86.90	86.90
Multisector Bond	DIAL	Columbia Diversified Fixed Inc Allc ETF		77.00	77.00
Emerging-Markets Local-Currency Bond	ELD	WisdomTree Emerging Markets Lcl Dbt ETF		74.06	99.19

Redhawk Liquid Income Portfolios (LINCC, LINCM, LINCA, LINCB)	Symbol		Action	Redhawk Score	Redhawk Score
High Yield Muni	NHMRX	Nuveen High Yield Municipal Bond I		120.27	120.27
Corporate Bond	BSCP	Invesco BulletShares 2025 Corp Bd ETF		114.22	115.12
Short-term Bond	SLQD	iShares 0-5 Year Invmt Grade Corp Bd ETF		106.81	106.69
High Yield	HYLB	Xtrackers USD High Yield Corp Bd ETF		103.15	109.81
Muni National Long	VWAHX	Vanguard High-Yield Tax-Exempt		99.80	99.80
Ultrashort-Term Bond	GSY	Guggenheim Ultra Short Duration ETF		92.36	92.36
Short-term Bond	SPSB	SPDR® Portfolio Short Term Corp Bd ETF		90.33	90.15
Corporate Bond	VCIT	Vanguard Interm-Term Corp Bd ETF		89.30	89.36
Muni National Long	FTABX	Fidelity® Tax-Free Bond		84.21	84.21
Ultrashort-Term Bond	ICSH	iShares Ultra Short-Term Bond ETF		82.02	81.84
Multisector Bond	DIAL	Columbia Diversified Fixed Inc Allc ETF		80.66	80.72
Muni National Interm	VWIUX	Vanguard Interm-Term Tx-Ex Adm		78.20	78.20
Muni National Interm	AXBIX	American Century IntermTrm Tx-Fr Bd I		72.43	72.37

Victoria Capital Management Target Return Portfolios (TRCI, TRMI, TRAI, TRCE, TRCM, TRAE, TRIP)	Symbol		Action	Redhawk Score	Redhawk Score
Large Blend	SPLG	SPDR Portfolio Large Cap ETF		110.14	99.46
Large Value	DGRO	iShares Core Div Growth ETF		107.30	97.49
Large Blend	IVV	iShares Core S&P 500 ETF		106.94	96.26
Large Blend	IWB	iShares Russell 1000		106.42	95.74
Short-Term Bond	VCSH	Vanguard ST Corp Bd ETF		106.41	105.39
Mid-Cap Blend	SCHM	Schwab DJ Mid Cap Core		101.56	86.77
Diversified Emerging Markets	SPEM	SPDR Portfolio Emerging Markets ETF		101.53	80.05
Corporate Bond	VCIT	Vanguard Int Crp Bd ETF		97.43	93.60
Small Growth	VBK	Vanguard SC Gr Idx ETF		96.01	73.14
Small Blend	VB	Vanguard Small-Cap ETF		95.73	75.23
Large Value	VTV	Vanguard Value Idx ETF		93.27	83.46
High Yield Bond	HYG	iShares iBoxx $HY Corp ETF		89.42	87.09
Large Value	VYM	Vanguard High Dividend Yield ETF		86.72	76.91
Small Value	VBR	Vanguard SC Val Idx ETF		84.41	63.53

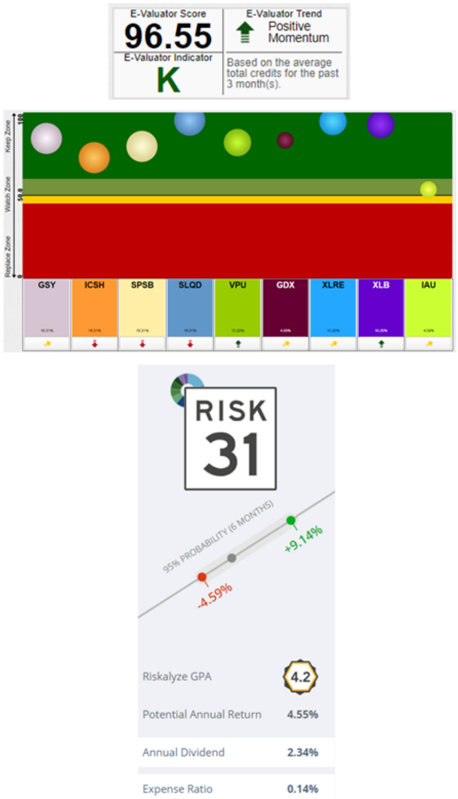
Small Value	IWN	iShares Russell 2000 Value		70.68	49.80
Foreign Large Blend	SCHF	Schwab International Developed Equity		68.39	62.33
Mid-Cap Value	MDYV	SPDR S&P 400 Mid Cap Val ETF		66.15	51.51
High Yield Bond	SHYG	iShares 0-5 HY Corp Bd ETF		61.15	58.82
Small Blend	IJR	iShares S&P Small Cap Core		45.35	24.85
Mid-Cap Growth	MDYG	SPDR S&P 400 Mid Cap Gro ETF		29.19	14.88

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

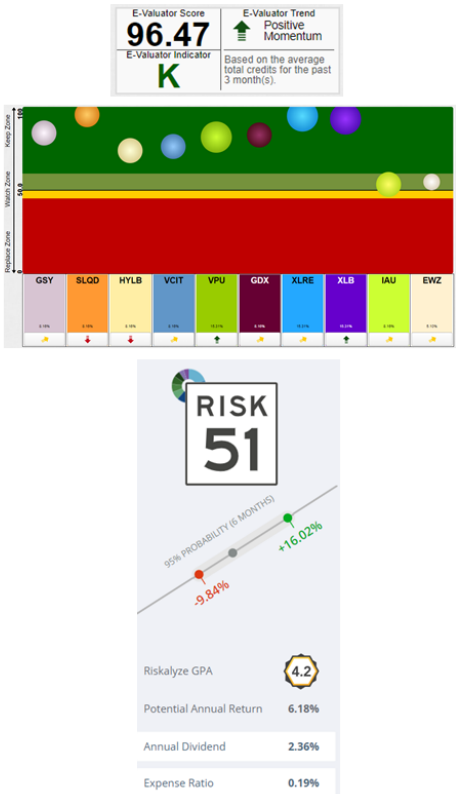
S&P and Dynamic Portfolios: Replaced the India Equity sub-category (INDY) with the Latin America Stocks sub-category (EWZ) due to underperformance.

S&P and Dynamic Portfolio Bubble Reports as of 5/31/2019

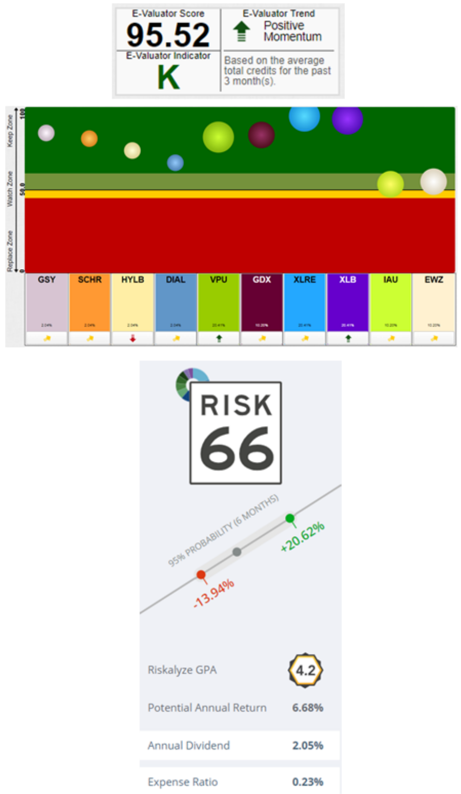
RSPC



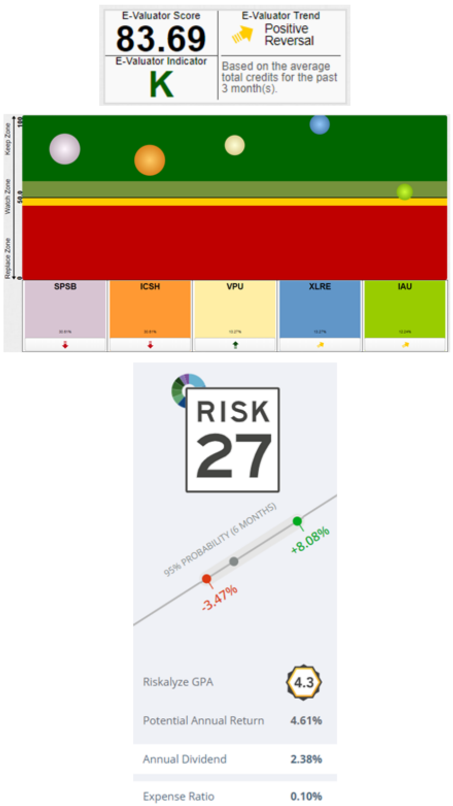
RSPM



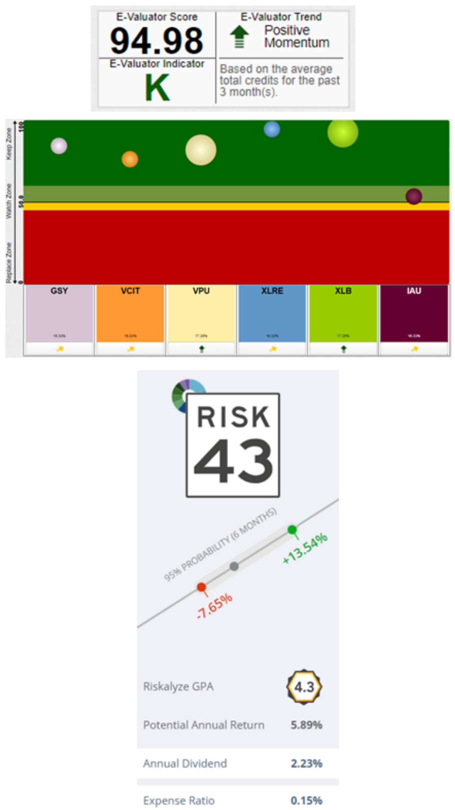
RSPA



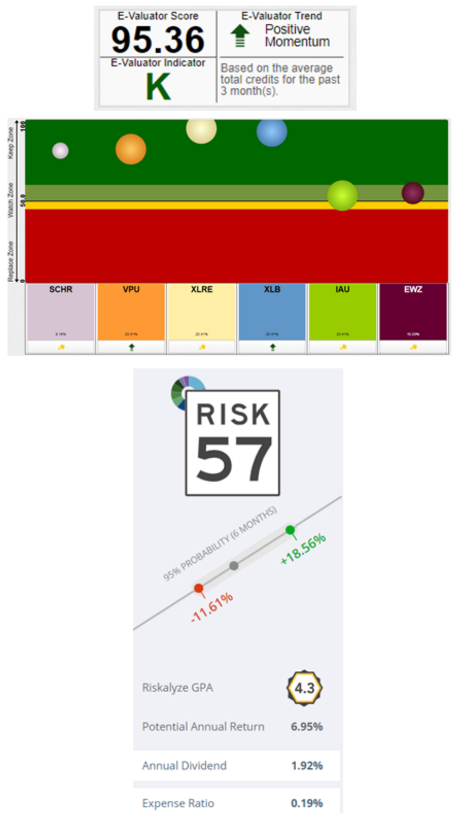
RDC



RDM



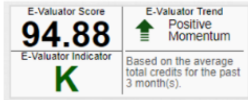
RDA

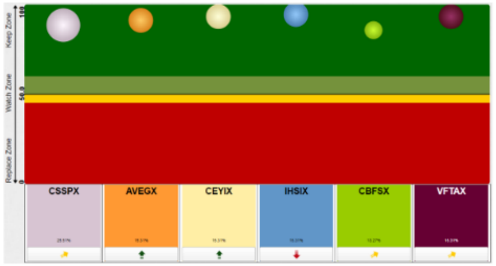


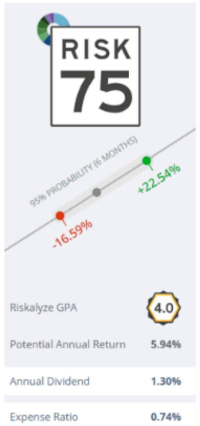
Environmental, Social, and Governance Portfolio: Removed the Small Growth sub-category (IHSIX) from the watch list due to improved performance.

Portfolio Bubble Reports as of 05/31/2019

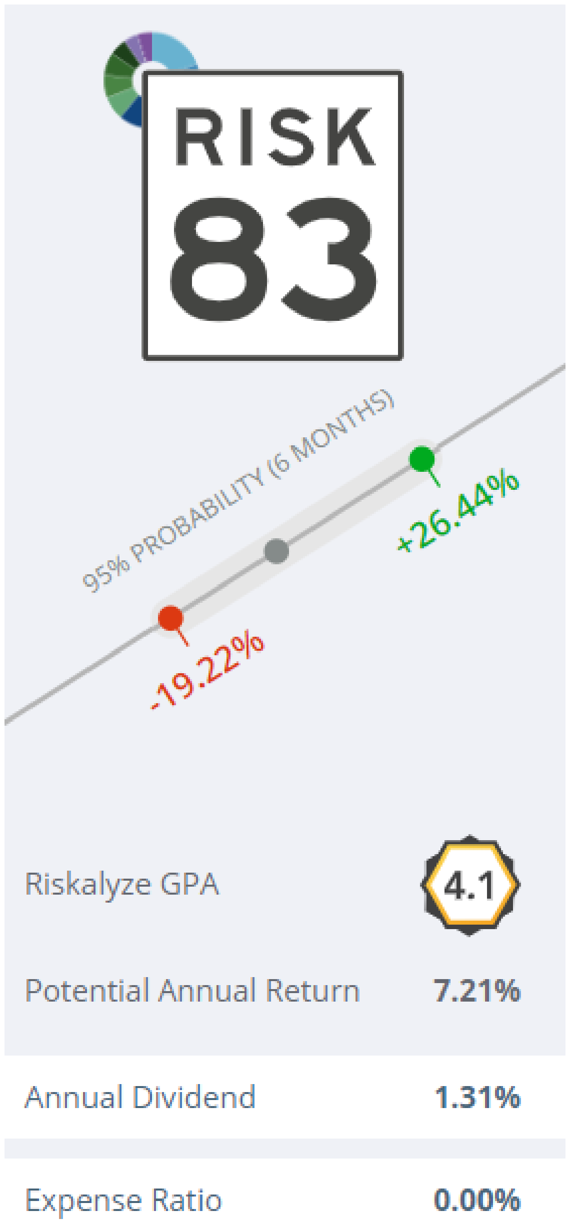
RESG



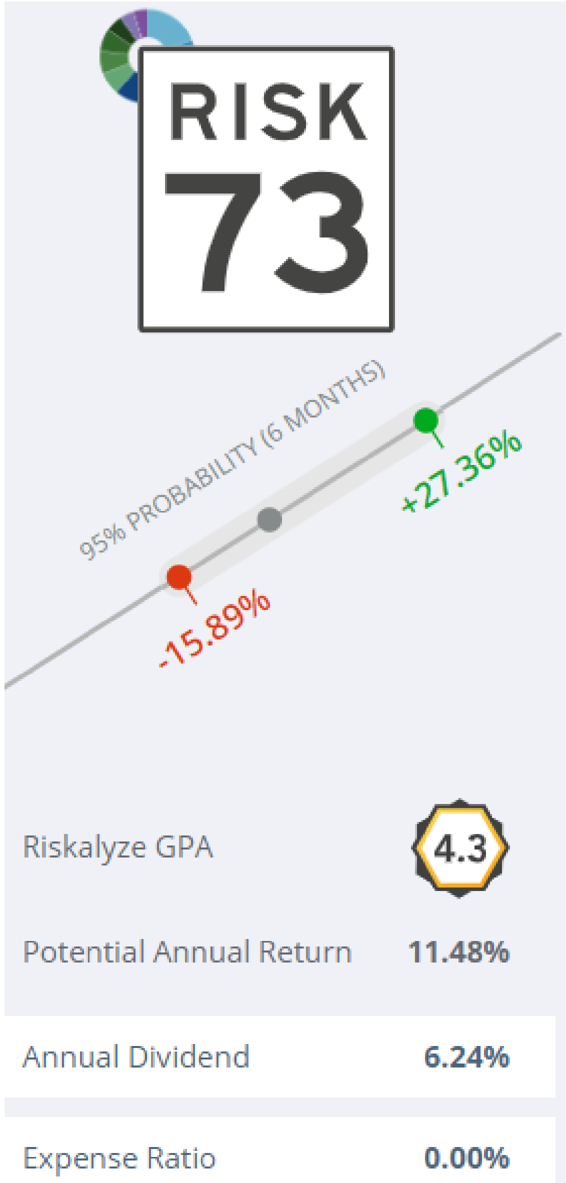




Growth Stock Portfolio: No changes.



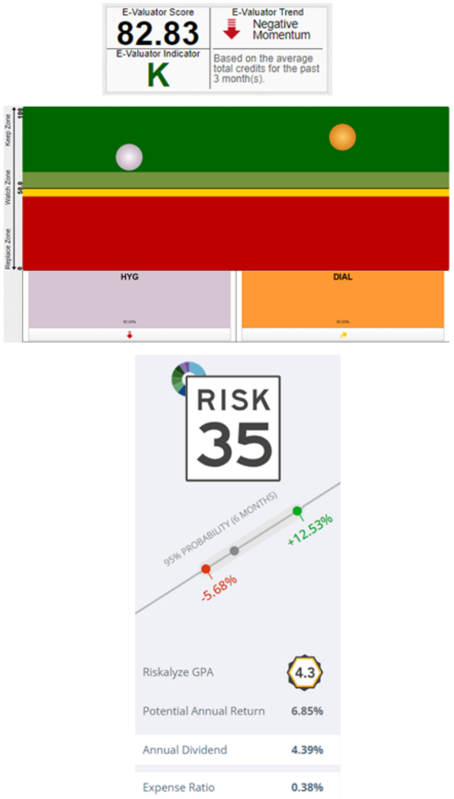
High Dividend Stock Portfolio: No changes.



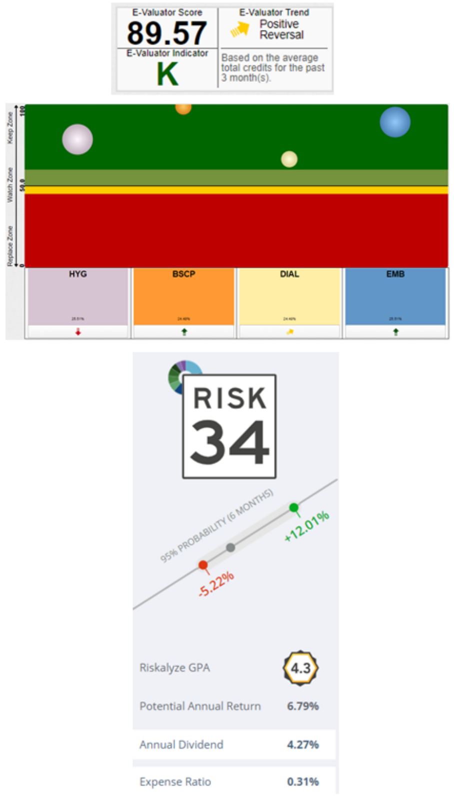
High Income Portfolios: Replaced the High Yield sub-category (FIHBX) with the Emerging-Markets Local-Currencies Bond sub-category (ELD) due to underperformance.

High Income Portfolio Bubble Reports as of 05/31/2019

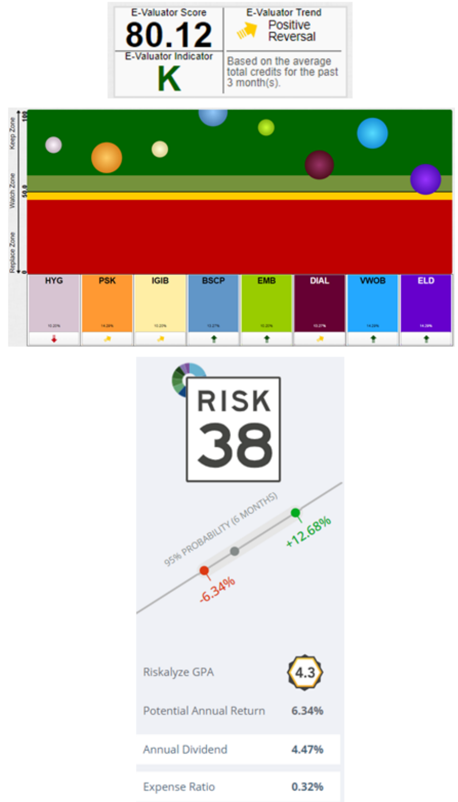
RBI



RHY



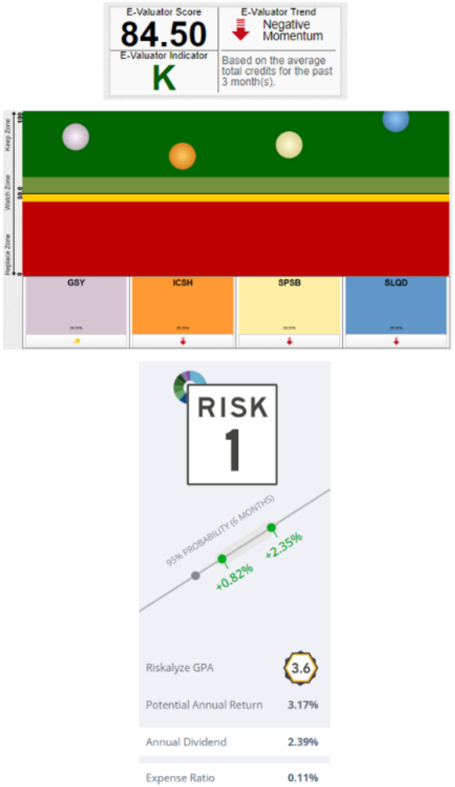
RTHI



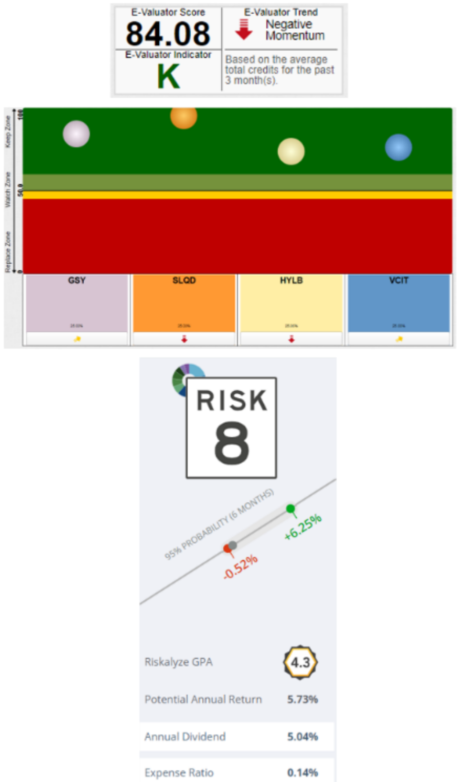
Liquid Income Portfolios: No changes.

Liquid Income Portfolio Bubble Reports as of 05/31/2019

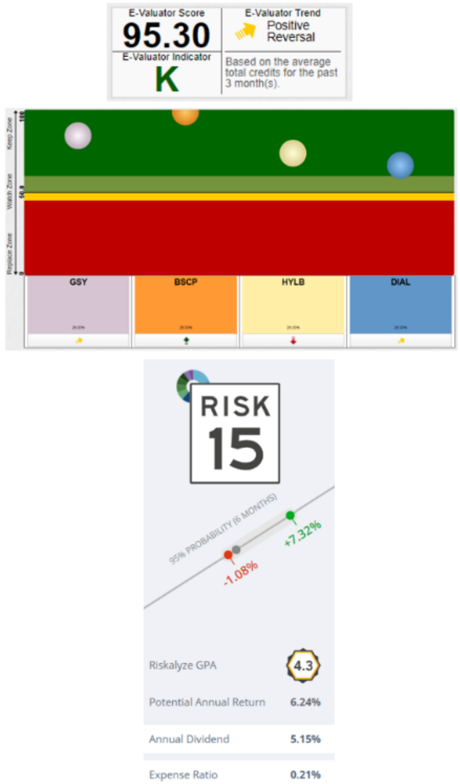
LINCC



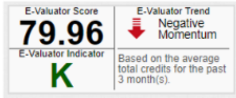
LINCM

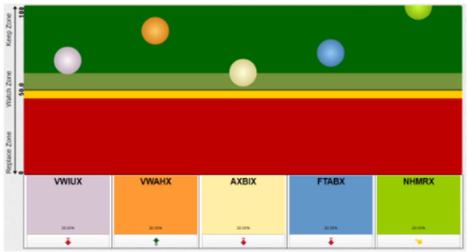


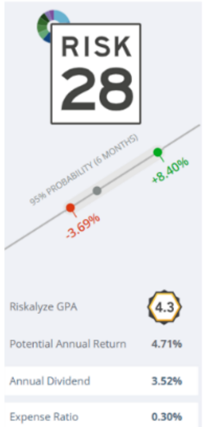
LINCA



LINCB







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Economic Data for this Week

Monday:

1. No major reports scheduled.

Tuesday:

1. S&P/Case-Shiller 20-City Composite Home Price Index.
2. Consumer Confidence Index, The Conference Board.

Wednesday:

1. Durable goods orders, U.S. Census Bureau.

Thursday:

1. First-quarter GDP, third estimate, U.S. Bureau of Economic Analysis.
2. Pending home sales, National Association of Realtors.

Friday:

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

On 5/7, our "risk off" VIX algorithm tripped and we moved to the "Risk Watch" zone. We will continue to watch this daily and communicate to you if we make any changes (see below).

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.