REDHAWK®
WEALTH ADVISORS

Redhawk Quarterly Commentary

June 30, 2021

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

Despite the upward path of the broad stock market, the second quarter looked very different than the first quarter. Not only was volatility subdued to a level not seen post-Covid, but for the first time in over a year, growth stocks took leadership and long bond yields moved lower. Real assets also continued their strong run, as real estate and commodities were two of the best performing asset classes alongside inflationary pressures.

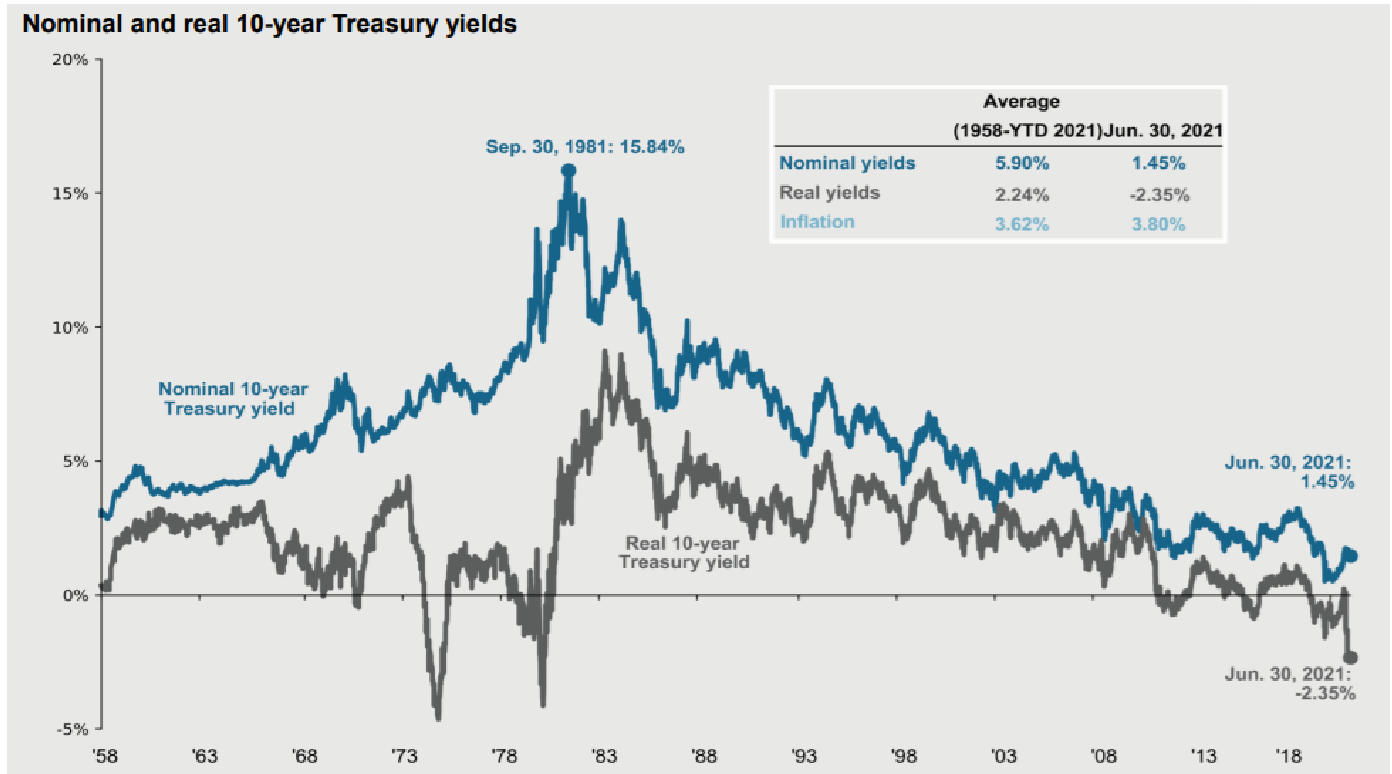
During the quarter, a sharp equity market rotation took hold as growth (+11.9%) beat out value (+5.2%). Sector performance was mixed, as real estate (+13.1%), technology (11.6%), and energy (11.3%) led the pack. International equities turned in another positive (but lagging) quarter vs. U.S. equities. The dollar's rally into quarter-end was a headwind for international assets. Falling yields, were probably the biggest story of the second quarter, as the 10-yr Treasury fell from 1.75% to as low as 1.45% despite historic near-term inflation and growth forecasts[1].

U.S. Market

The overall U.S. market continued to be driven by progress on the vaccine rollout, accommodative monetary policy, fiscal stimulus, strong corporate earnings growth, and the reopening of the economy. Growth stocks performed well in the second quarter as the decline in interest rates provided a boost to share prices. Cyclical stocks also did well as the economy continued to improve.

One of the bigger surprises of the quarter was the decrease in the 10-Year Treasury yield. After reaching an all-time low of 0.51% in August 2020, the 10-Year yield increased to 1.74% at the end

of the first quarter before declining to 1.45% by the end of the second quarter (see the chart below). The drop in the 10-Year was partially due to the decreasing odds of additional major fiscal stimulus bills passing and the market coming around to the idea that inflation may have peaked.

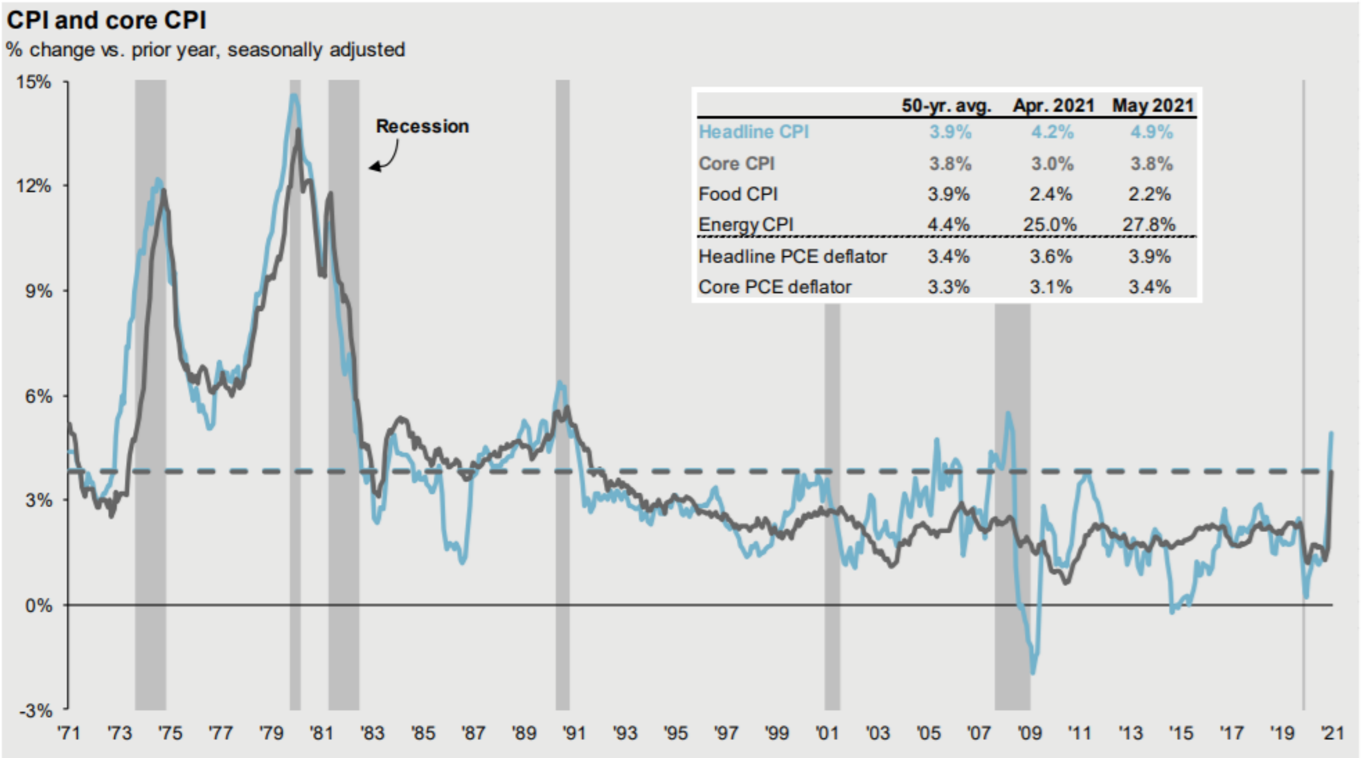


	Average (1958-YTD 2021)	Jun. 30, 2021
Nominal yields	5.90%	1.45%
Real yields	2.24%	-2.35%
Inflation	3.62%	3.80%

Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Real 10-year Treasury yields are calculated as the daily Treasury yield less year-over-year core CPI inflation for that month except for June and May 2021 where real yields are calculated by subtracting out May 2021 year-over-year core inflation.
Guide to the Markets – U.S. Data are as of June 30, 2021.

The latest Core PCE inflation reading for May increased by +3.4% year-over-year, which was the highest level since 1992 (see the chart on the next page). The Core PCE price index is defined as personal consumption expenditures ("PCE") prices excluding food and energy prices. The Core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends.

While the Fed admitted that recent inflation data had been higher than expected, they still believed that the latest increases are transitory. The Fed estimated that inflation will level out to around 2% by 2022. Now that the economy is on the path to recovery and inflation pressures are rising, the Fed must decide when to tighten monetary policy by first tapering the purchase of Treasuries and next by raising interest rates. The Fed's timeline has accelerated in the last few months as both economic growth and inflation have been higher than previously forecast[2].



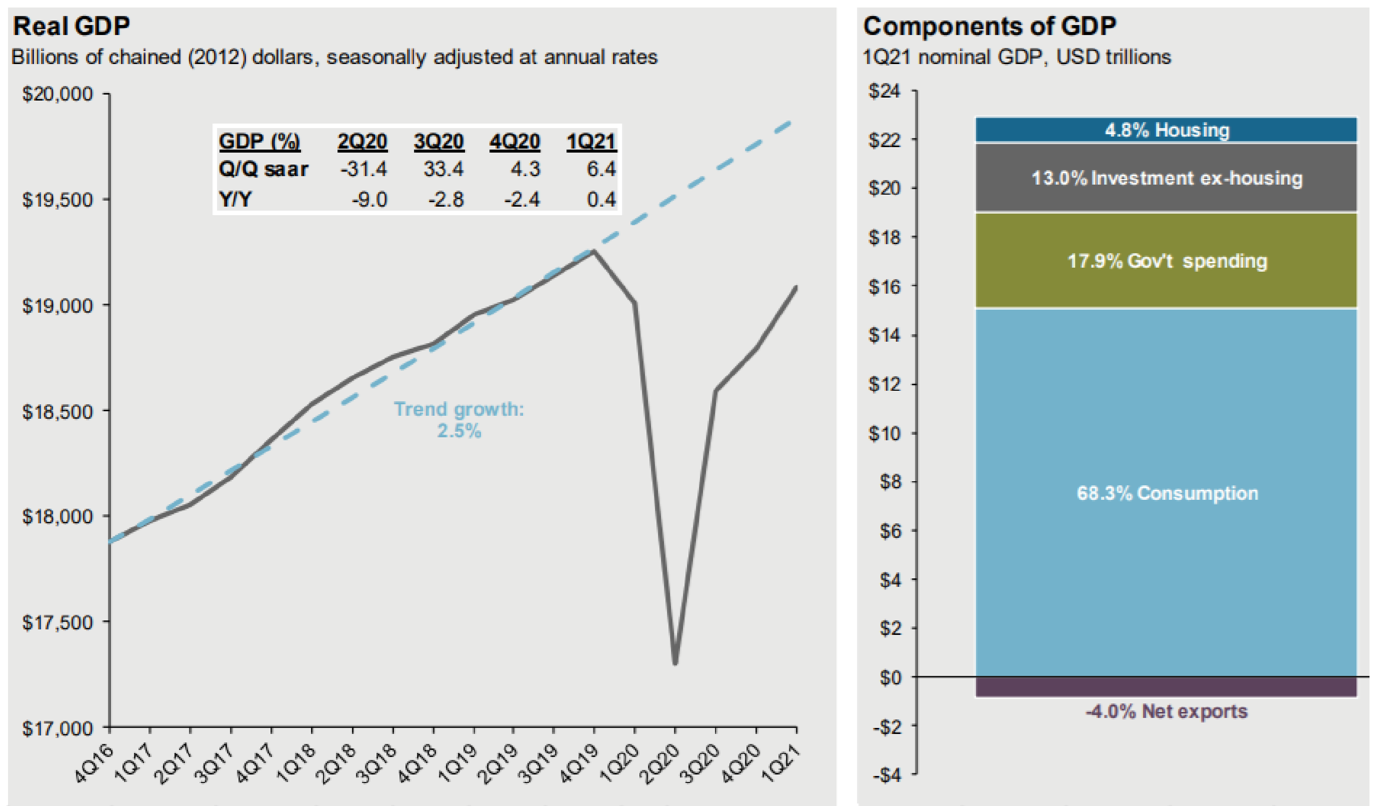
	50-yr. avg.	Apr. 2021	May 2021
Headline CPI	3.9%	4.2%	4.9%
Core CPI	3.8%	3.0%	3.8%
Food CPI	3.9%	2.4%	2.2%
Energy CPI	4.4%	25.0%	27.8%
Headline PCE deflator	3.4%	3.6%	3.9%
Core PCE deflator	3.3%	3.1%	3.4%

Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of June 30, 2021.

Additionally, in late June, President Joe Biden also secured a deal on an infrastructure package worth about $1 trillion to upgrade roads, bridges, and broadband networks over the next eight years. The agreement fell short of the $2.3 trillion infrastructure spending plan announced in March and did not address the social safety-net spending proposed in April.

Overall, the economic picture remained rosy as first quarter gross domestic product ("GDP") grew at 6.4% annualized (see the chart on the next page), which was modestly lower than the

consensus of 6.7%. Growth in consumption was especially strong as industrial activity as measured by U.S. composite purchasing managers' index ("PMI") moved from 59.7 in March, to a composite reading of 63.9 in June. The PMI indices are based on survey data from companies in the manufacturing and services sectors and a reading above 50 signals expansion. Economic growth is estimated to materially increase due to the amount of fiscal and monetary stimulus combined with the vaccine rollout and subsequent reopening. After declining by -3.5% in 2020, Real GDP is expected to increase by +7.0% in 2021 and +3.3% in 2022. GDP is heavily dependent on the consumer, which consumption by the consumer makes up 68.3% of GDP (see the chart below).



Source: BEA, FactSet, J.P. Morgan Asset Management. Values may not sum to 100% due to rounding. Forecasts are not a reliable indicator of future performance.
Guide to the Markets – U.S. Data are as of June 30, 2021.

REDHAWK®
WEALTH ADVISORS

The S&P 500 increased by +8.6% in the second quarter bringing the market higher by +15.2% for the year. The market ended the quarter at another new all-time high when the S&P 500 closed at 4,298. After declining by nearly -34% during the pandemic selloff last year (2/19/20 to 3/23/20), the S&P 500 is up by over +96% from the low (see chart to the right circled in blue).

Since market low (March 2020)

	Value	Blend	Growth
Large	92.2%	96.1%	109.0%
Mid	117.9%	119.5%	117.7%
Small	138.1%	134.0%	126.9%

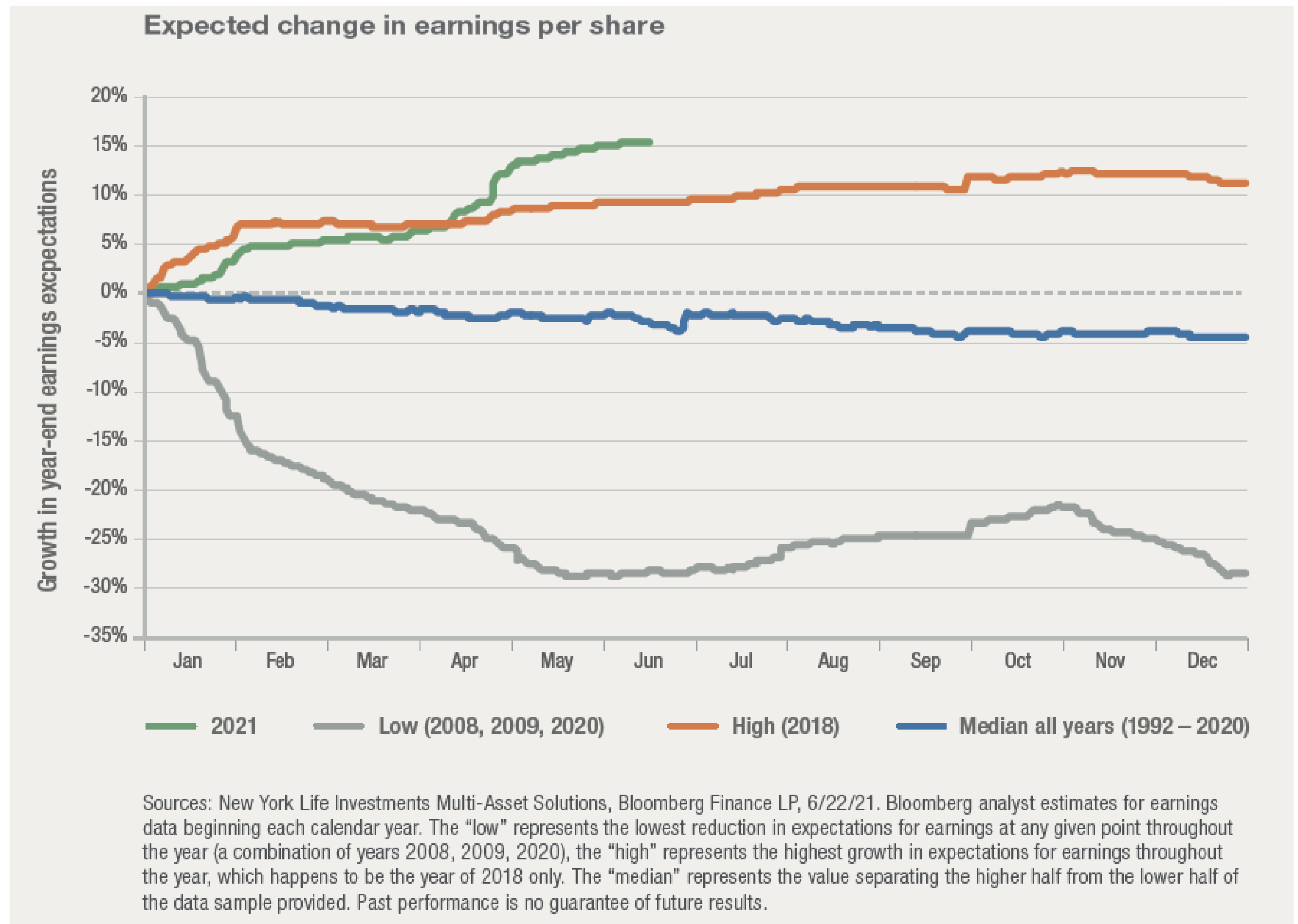
Source: FactSet, Russell Investment Group, Standard & Poor's, J.P. Morgan Asset Management. All calculations are cumulative total return, including dividends reinvested for the stated period.

Tech giants like Apple, Alphabet, and Microsoft made strong gains over the quarter. By sector, energy, technology, communication services, and real estate were among the strongest areas of the market (see chart below circled in red), while utilities and consumer staples lagged.

		Energy	Materials	Financials	Industrials	Cons. Discr.	Technology	Comm. Services*	Real Estate	Health Care	Cons. Staples	Utilities	S&P 500 Index
Weight	S&P weight	2.9%	2.6%	11.3%	8.5%	12.3%	27.4%	11.1%	2.6%	13.0%	5.9%	2.5%	100.0%
	Russell Growth weight	0.3%	1.0%	2.3%	6.4%	18.5%	44.1%	12.6%	1.7%	9.1%	3.9%	0.0%	100.0%
	Russell Value weight	5.1%	3.8%	20.8%	12.0%	5.7%	10.2%	8.5%	4.5%	17.3%	7.2%	4.8%	100.0%
Return (%)	QTD	11.3	5.0	8.4	4.5	6.9	11.6	10.7	13.1	8.4	3.8	-0.4	8.5
	YTD	45.6	14.5	25.7	16.4	10.3	13.8	19.7	23.3	11.9	5.0	2.4	15.3
	Since market peak (February 2020)	6.1	40.3	22.2	25.2	38.2	46.1	38.9	13.1	24.3	13.4	-5.3	29.9
	Since market low (March 2020)	140.6	119.6	114.1	114.7	102.4	112.1	94.5	81.7	72.4	49.3	47.2	96.1

Source: FactSet, 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 6/30/21. Since market low represents period from 3/23/20 to 6/30/21.

The ongoing vaccine rollout combined with substantial monetary and fiscal policy support has pushed consumer demand to record highs. Global estimates of corporate and economic growth have accelerated where analysts' expectations have been consistently revised higher since the start of the year. Now markets expect 7% real U.S. GDP growth and 63% profits growth in 2021, which are the strongest expectations in roughly three decades[3] (see the green line in the chart below).

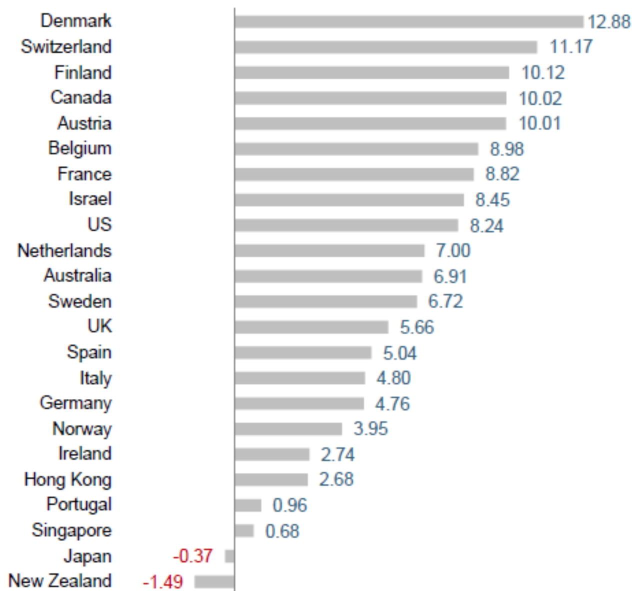


Sources: New York Life Investments Multi-Asset Solutions, Bloomberg Finance LP, 6/22/21. Bloomberg analyst estimates for earnings data beginning each calendar year. The "low" represents the lowest reduction in expectations for earnings at any given point throughout the year (a combination of years 2008, 2009, 2020), the "high" represents the highest growth in expectations for earnings throughout the year, which happens to be the year of 2018 only. The "median" represents the value separating the higher half from the lower half of the data sample provided. Past performance is no guarantee of future results.

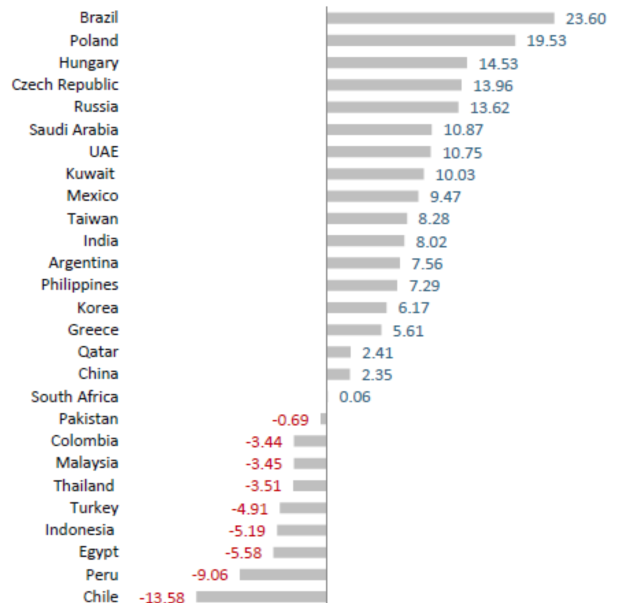
International Markets

Developed markets outside the U.S. posted positive returns for the quarter, underperformed U.S. equities, but outperformed emerging markets. Additionally, value underperformed growth and small caps underperformed large caps. In U.S. dollar terms, Denmark and Switzerland recorded the highest country performance in developed markets, while New Zealand and Japan posted the lowest returns for the quarter. In emerging markets, Brazil and Poland recorded the highest country performance, while Chile and Peru posted the lowest performance[4] (see the chart below).

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
MSCI Index returns are in USD net of dividend withholding taxes. Country returns are the country component indices of the MSCI All Country World ex USA IMI for all countries except the United States, where the Russell 3000 index is used instead. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Global growth is likely to run at historically high levels throughout 2021 (and into 2022), and monetary and fiscal policy will continue to be extraordinarily accommodative. In absolute terms, most global macro indicators appear very strong, but these supportive factors will begin to diminish on a relative basis going forward and the road ahead could be bumpy[5].

Global central banks have directly or indirectly indicated that they remain extremely accommodative, which is broadly supportive for risk, but Fed Chair Jerome Powell has hinted that the time to taper the central bank's asset purchasing program is approaching. The Bank of Canada ("BoC") began tapering in April, the Bank of England ("BoE") has firmed up its rate

forecast, and its quantitative easing ("QE") is scheduled to be done by year end, and the European Central Bank ("ECB") has upgraded the balance of risks to growth from tilting to the downside to neutral. Even the Bank of Japan ("BoJ") continues to entertain the prospect of widening the 10-year yield's target band, while the People's Bank of China ("PBoC") has begun tightening monetary conditions. It's fair to say that monetary accommodation has reached a tipping point[6].

Fixed Income Markets

The broad U.S. bond market, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index returned 1.5% (see the chart to the right circled in green), a welcome rebound from the negative returns experienced last quarter. Other areas of the fixed income market also produced solid results, including, corporate bonds (+2.04%) and municipal bonds (+1.00%).

	Yield		Return			
U.S. Treasuries	6/30/2021	12/31/2020	2021 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	0.25%	0.13%	-0.13%	2 years	0.67	-0.40
5-Year	0.87%	0.36%	-1.78%	5	0.92	-0.36
TIPS	-0.87%	-1.06%	1.73%	10	0.57	0.19
10-Year	1.45%	0.93%	-4.17%	10	1.00	-0.33
30-Year	2.06%	1.65%	-9.25%	30	0.93	-0.32
Sector						
IG corps	2.04%	1.74%	-1.27%	12.2	0.42	0.39
U.S. Aggregate	1.50%	1.12%	-1.60%	8.5	0.85	0.02
Convertibles	4.44%	4.91%	7.16%	-	-0.28	0.88
U.S. HY	3.75%	4.18%	3.62%	6.6	-0.25	0.73
Municipals	1.00%	1.07%	1.06%	13.0	0.37	0.10
MBS	1.77%	1.25%	-0.77%	5.5	0.81	-0.15
ABS	1.88%	2.87%	1.18%	2.1	-0.08	0.08
Floating rate	0.35%	0.54%	0.45%	2.0	-0.21	0.44

Source: Barclays, Bloomberg, FactSet, SIFMA, Standard & Poor's, U.S. Treasury, J.P. Morgan Asset Management.

The inflation back-drop was front and center during the quarter and tested the Fed's commitment to its "Flexible Average Inflation Targeting" framework adopted last August. The 10-Year yield ended the second quarter at 1.45%, dropping 0.29% and the yield curve also flattened. The question on fixed income through the latter half of the year will be whether inflationary pressures are transitory or permanent.

The U.S. Treasury market's reversal spilled over to high yield bonds which led to a 3.75% return (see the chart to the right circled in blue). Further, stimulus measures have helped propel a material rebound in corporate earnings, as S&P 500 companies are expected to post earnings per share ("EPS") growth of 60%+ in the second quarter.

Interest rates in the U.S. are being held down by low global bond yields (10-Year government bond yields in Germany are still negative while Japan is only slightly positive) and the Fed's

quantitative easing program (at the time of this writing, the Fed was still purchasing $80 billion in Treasuries per month). The current consensus estimate for the 10-Year yield at the end of 2021 is 1.88%.

Economic Outlook

Economic growth is estimated to materially increase due to the amount of fiscal and monetary stimulus combined with the vaccine rollout and subsequent reopening. After declining by -3.5% in 2020, Real GDP is expected to increase by +7.0% in 2021 and +3.3% in 2022. While certain parts of the economy are doing exceptionally well, the labor market has been a bit weaker than expected over the last few months, mainly due to supply issues as workers are hesitant to accept positions due to covid concerns, childcare issues, and supplemental unemployment benefits.

There are three key data points to measure the health of the economy[2].

1. Consumer Spending: According to Goldman Sachs, high frequency data suggests that consumer spending reached 102% of the pre-virus level in June, up from a low of 80% in April 2020. The U.S. Census Bureau's measure of retail sales increased by +28.1% year-over-year in May, up from last April's reading of -19.9%. As we mentioned earlier, consumer spending is critical as it drives about 70% of GDP.

2. Labor Market: The last two employment reports (April and May) came in far weaker than expected. Although the economy added 837,000 jobs over those two months, each report was well-below estimates. The next several employment reports will be critical to determine if the recent disappointments were temporary or a sign that the economic recovery is not as strong as people think. While the unemployment rate now stands at 5.8%, the economy has lost about 7.6 million jobs since the pandemic started.

3. Manufacturing: The Institute for Supply Management ("ISM") Manufacturing Purchasing Managers' Index ("PMI") reading for June came in at a strong 63.9, which was one of the highest readings in the last 35 years. According to ISM, the past relationship between the PMI and the overall economy corresponds to a +5.2% increase in annualized real GDP. The ISM Manufacturing PMI reading dates back to 1948 and is a widely followed indicator for the health of the manufacturing sector and overall economy.

In closing, financial markets will begin to transition as peak levels of corporate earnings growth, economic growth, fiscal stimulus, and monetary stimulus have been reached. In contrast to last year, the stock market will face headwinds caused by the economic recovery, including, higher interest rates and inflation, the possibility that the Fed may tighten earlier than expected, and

REDHAWK®
WEALTH ADVISORS

the potential for higher taxes. There remains signs of froth and investor complacency as the market has essentially moved higher in a straight line over the past fifteen months. History has repeatedly shown that stocks do not move in a straight line forever and volatility is inevitable.

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

Acknowledgements

1. "Q2 2021 Review and Commentary," Baird Private Wealth Management, July 15, 2021. http://www.bairdfinancialadvisor.com/thepfmgroup/mediahandler/media/395395/2Q21%20Market%20Update.pdf
2. "Q2 2021 Market Review and Outlook," Winthrop Wealth. https://www.winthropwealth.com/assets/Q2-2021-Market-Review-and-Outlook.pdf
3. "Market Outlook, 2021 Midyear Economic and Market Insights," New York Life Investments. https://app.go.newyorklifeinvestments.com/e/er?elq_cpid=emc_772&elq_mid=4894&elq_cid=413169&u=&s=2108552627&lid=4343&elqTrackId=8216542B5D4BFD6EA2B3BB679EAFEBA4&elq=610b3f666b9f42ea97c315fb0712b4d9&elqaid=4894&elqat=1
4. "Q2, Quarterly Market Review," Plum Street Advisors. https://plumstreetadvisors.com/q2-2021-market-commentary/
5. "Q3 2021, Global Macro Outlook," Manulife Investment Management. https://www.manulifeim.com/institutional/global/en/resources/documents/global-macro-outlook-q3-2021-last-innings-reopening-trade
6. "Fed's Taper Timing Moves Into Focus After Dot-Plot Surprise," Bloomberg, June 18, 2021. Bank of Canada, April 21, 2021. Bank of England, May 6, 2021. European Central Bank, June 2021. https://www.bloomberg.com/news/articles/2021-06-18/oh-yeah-taper-fed-s-stronger-liftoff-signal-causes-confusion

It is not enough to own a portfolio personalized for your situation, based on your comfort with risk and long-term financial goals. You must 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 financial advisor to learn more.

The views expressed represent the opinion of Redhawk Wealth Advisors, Inc. The views are subject to change and are not intended as a forecast or guarantee of future results. This material is for informational purposes only. It does not constitute investment advice and is not intended as an endorsement of any specific investment. Stated information is derived from proprietary and nonproprietary sources that have not been independently verified for accuracy or completeness. While Redhawk Wealth Advisors, Inc. believes the information to be accurate and reliable, we do not claim or have responsibility for its completeness, accuracy, or reliability. Statements of future expectations, estimates, projections, and other forward-looking statements are based on available information and the Redhawk Wealth Advisors, Inc.'s view as of the time of these statements. Accordingly, such statements are inherently speculative as they are based on assumptions that may involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such statements. Investing in equity securities involves risks, including the potential loss of principal. While equities may offer the potential for greater long-term growth than most debt securities, they generally have higher volatility. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles, or from economic or political instability in other nations. Past performance is not indicative of future results.

Redhawk Wealth Advisors, Inc. is an SEC registered investment advisor ("RIA") that provides comprehensive retirement plan and financial planning tools and critical back-office support for financial advisors nationwide. Redhawk's focus is to enable financial advisors to create, grow, and manage wealth through a broad range of financial products and services that promotes the economic well-being of our select group of clients and financial advisors.

For more information, please contact Redhawk at either research@redhawkwa.com or (952) 835-4295.