June 15th, 2022

ECONOMIC OUTLOOK & MARKET UPDATE

The U.S. Equities Market has continued its decline on Friday after a handful of attempts over recent weeks to rebound and recover losses from the worst start of the year since 1939. To this point, we have been optimistic that the volatility we've seen in the first half of the year would stabilize and overall economic data points such as jobs growth, corporate earnings growth and a Fed plan to combat rising inflation had been encouraging. Our outlook was that the dip into bear market territory would be short-lived, and 2022 would close with overall positive returns for the year for U.S. Equities.

Both Alpha & Omega turned negative in January and remain negative, and we have since only been invested in 50% of the maximum equity weightings in our Dynamic Allocations. Additionally, in anticipation of the steady rate hikes proposed by the Fed, we repositioned our Diversified Fixed Income model out of various bond markets and into short-term TIPS and cash proxy. However, as noted above, we were optimistic that the volatility would subside and the downward trend would revert, with an optimism that Alpha & Omega would turn positive once again in the latter half of the year.

Our outlook has changed substantially as we near the half-way mark for the year. The Fed's plan to combat rising inflation rates has been unsuccessful thus far. Further rate hikes to try and curb rising prices, and the economic recession that looked to be 12 to 18 months or more on the horizon may be upon us sooner than anticipated. Further, the technical data indicators have continued to trend more and more similar to recent market crashes of 2008, 2018, and 2020. A thorough detail of the technical is included in the below webinar:

https://www.asmarterwaytoinvest.com/2022-q2-global-market-update/

This technical data provides compelling evidence that the previously projected brief dip into bear market territory may not be so brief. Historically, the average bear market lasts approximately 12 months and are accompanied by a drop on equity P/E Ratios dropping nearly 50% or more. However, an economic recession could compound that time period and create even further downward pressure on stock prices.

BLACK SWAN SIGNAL HAS BEEN TRIGGERED

Taking into consideration the continued volatility, the Fed's lack of ability to combat inflation as was hoped, and the overwhelming evidence of technical indicators pointing to the likelihood that we are at a comparable point in the market cycle as was the case just prior to the three most recent crashes, the Smarter Way portfolio management team has concluded to trigger our Black Swan indicator and move substantially to alternative non-correlated assets, cash, or cash equivalents in our Dynamic Growth Allocations, by reducing our equity exposure by at least half of the current equity weightings in each risk category. This will result in remaining equity exposure ranging from approximately 20% in our Ultra Allocation to 0% in our Defensive Allocation. Individual equity models and income allocations will remain unchanged. We will continue to monitor the market environment and will be paying close attention to Alpha & Omega for an indicators of the market environment turning positive, however we will be treading lightly considering the false rebounds that characterized each of the 3 major market pull backs.

SMARTER WAY TAKEAWAYS

Dynamic Growth Allocations

Both Alpha and Omega remain negative, resulting in only 50% of the maximum equity exposure in our Dynamic Growth Allocations. However, due to the Black Swan trigger, we will be reducing the equity weighting further, by approximately half of the current equity weighting. We are targeting the following remaining equity weightings: ***Ultra*** *– 20% equity,* ***Enhanced*** *– 15% equity,* ***Moderate*** *– 10% equity,* ***Conservative*** *– 5 % equity,* ***Defensive*** *– 0% equity.*

Dynamic Blend Allocations

As a blend of the Dynamic Growth and Active Income Allocations, the portion of the allocations designed to produce consistent yield (and thus do not follow the Alpha & Omega or Black Swan market signals) will remain fully invested, however all remaining equity exposure will be replaced with non-correlated assets, cash, or cash alternatives. Remaining equity exposure targets are as follows: ***Ultra*** *– 55% equity,* ***Enhanced*** *– 43% equity,* ***Moderate*** *– 32% equity,* ***Conservative*** *– 21 % equity,* ***Defensive*** *– 9% equity.*

Active Income Allocations

Our Active Income Allocations are designed to produce consistent yield and therefore do not follow the Alpha & Omega or Black Swan market signals. The Active Income Allocations will remain fully invested in their designated equity exposure.

Models

Individual Models will not be affected by the Black Swan signal.

~Diligently Yours,

Your Smarter Way Portfolio Management Team

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