

QUARTERLY MARKET GUIDE: Q2 2022

Our View of What's Most Relevant Now

April 13, 2022



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Please see important disclosures at the end of this report.

QUARTERLY MARKET GUIDE: Q2 2022

Content

Page

3 COVID-19

Economy

- 4 Federal Funds Rate
- 5 Inflation
- 6 Real GDP
- 7 Unemployment Rate

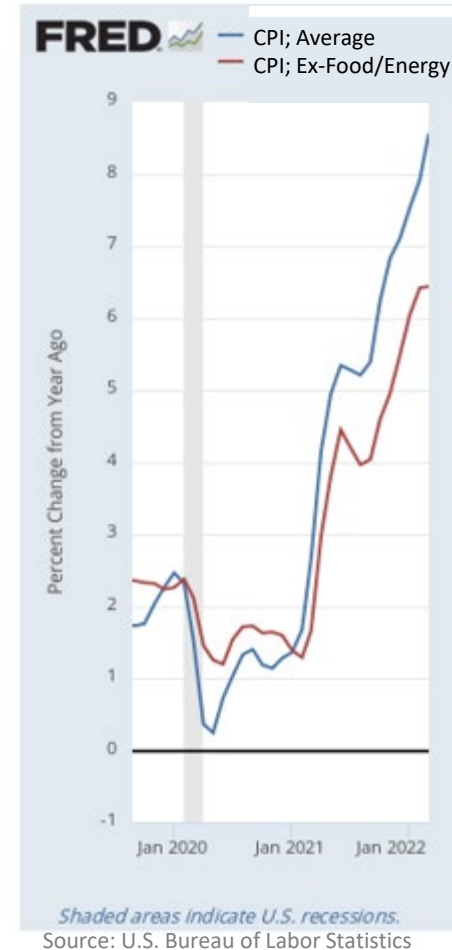
Equities

- 8 Sub-Asset Class Relative Performance
- 9 S&P 500 Annual Returns & Intra-Year Declines
- 10 S&P 500 Sectors Long-Term Risk/Reward

Fixed Income

- 11 Sub-Asset Class Relative Performance
- 12 Market Yield – U.S. Treasury 10-Year Bond
- 13 Treasury Yield Curve
- 14 Treasury Yield Spreads – 10-Year vs. 2-Year
- 15 Credit Spreads

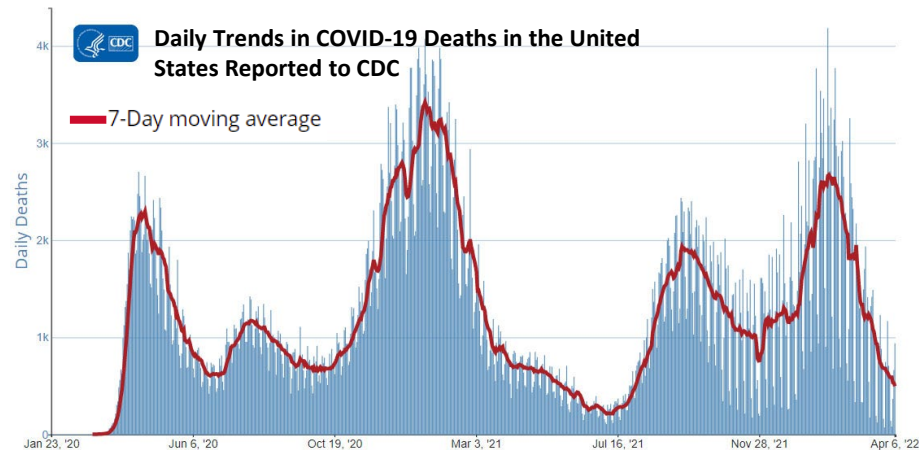
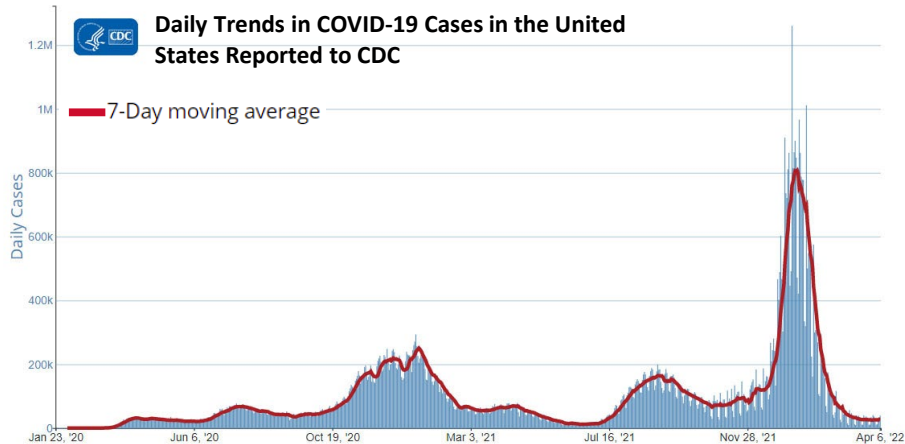
Data in Focus: Inflation



The 8.5% print for March is the highest since 1981. Consensus expectations appear to be that this will be the high, but that the decline may be gradual. (More on p.5.)

QUARTERLY MARKET GUIDE: Q2 2022

COVID-19



Source: Centers for Disease Control and Prevention

Recent trends for U.S. COVID data have been highly encouraging. However, the CDC and infectious disease experts continue to suggest vigilance, as some international regions have recently suffered increased infections driven by the BA.2 subvariant (e.g., Germany and the U.K).

Also, China's COVID situation appears out-of-control with varying lockdowns implemented in over 20 cities, including over 26 million residents impacted in Shanghai alone. As Western vaccines are not allowed in China, the most transferrable impact from this may be to the global supply chain.

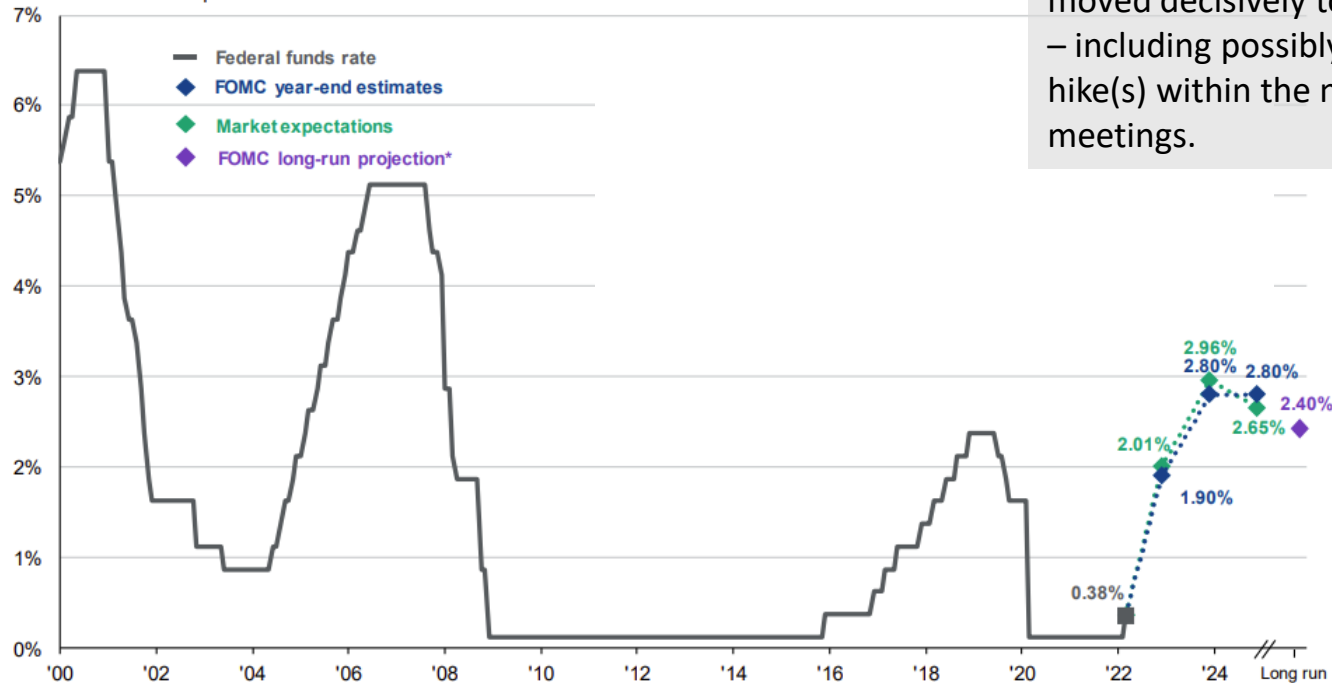
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Economy

Federal Funds Rate

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



As inflation has pressed higher, the expectations for Fed rates hikes has moved decisively to more and sooner – including possibly 50 basis point hike(s) within the next few FOMC meetings.

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.

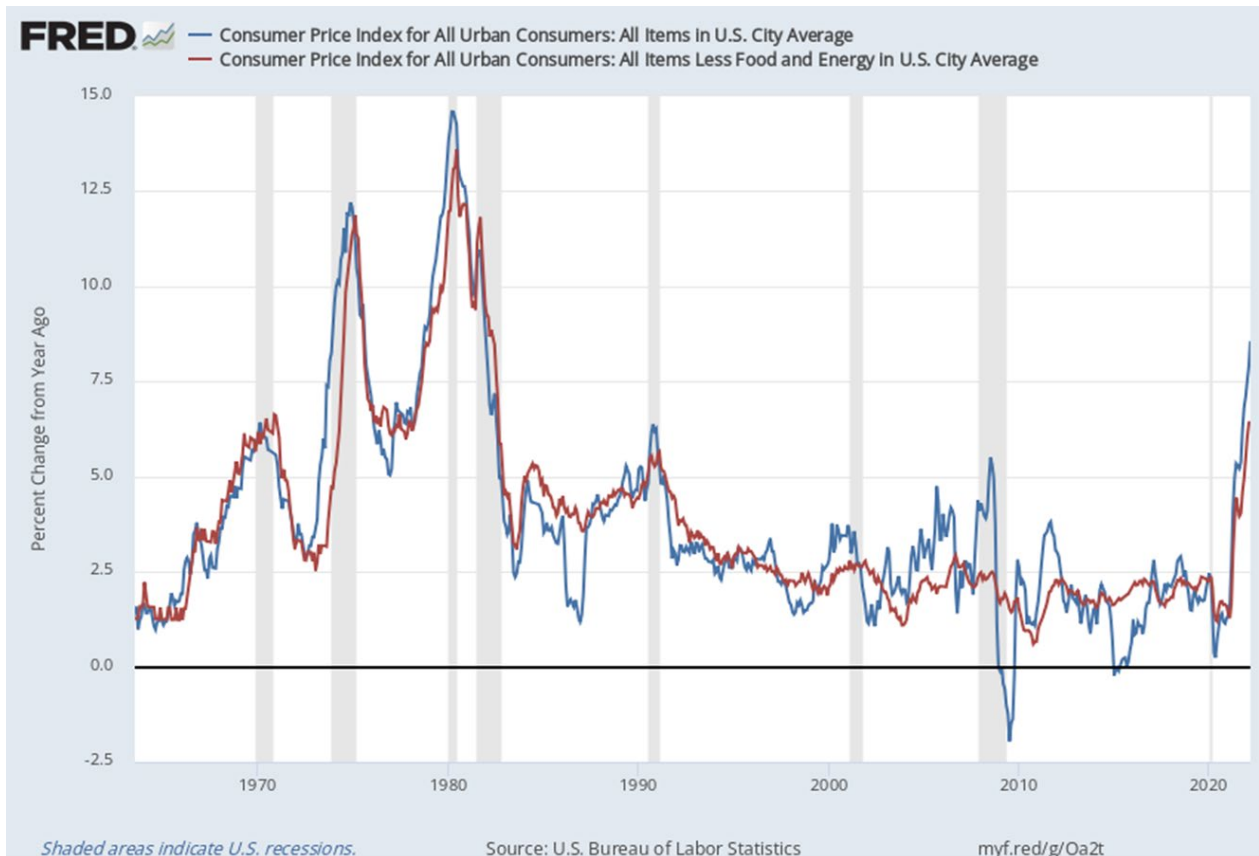
Guide to the Markets – U.S. Data as of March 31, 2022.

J.P.Morgan
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Economy

Inflation

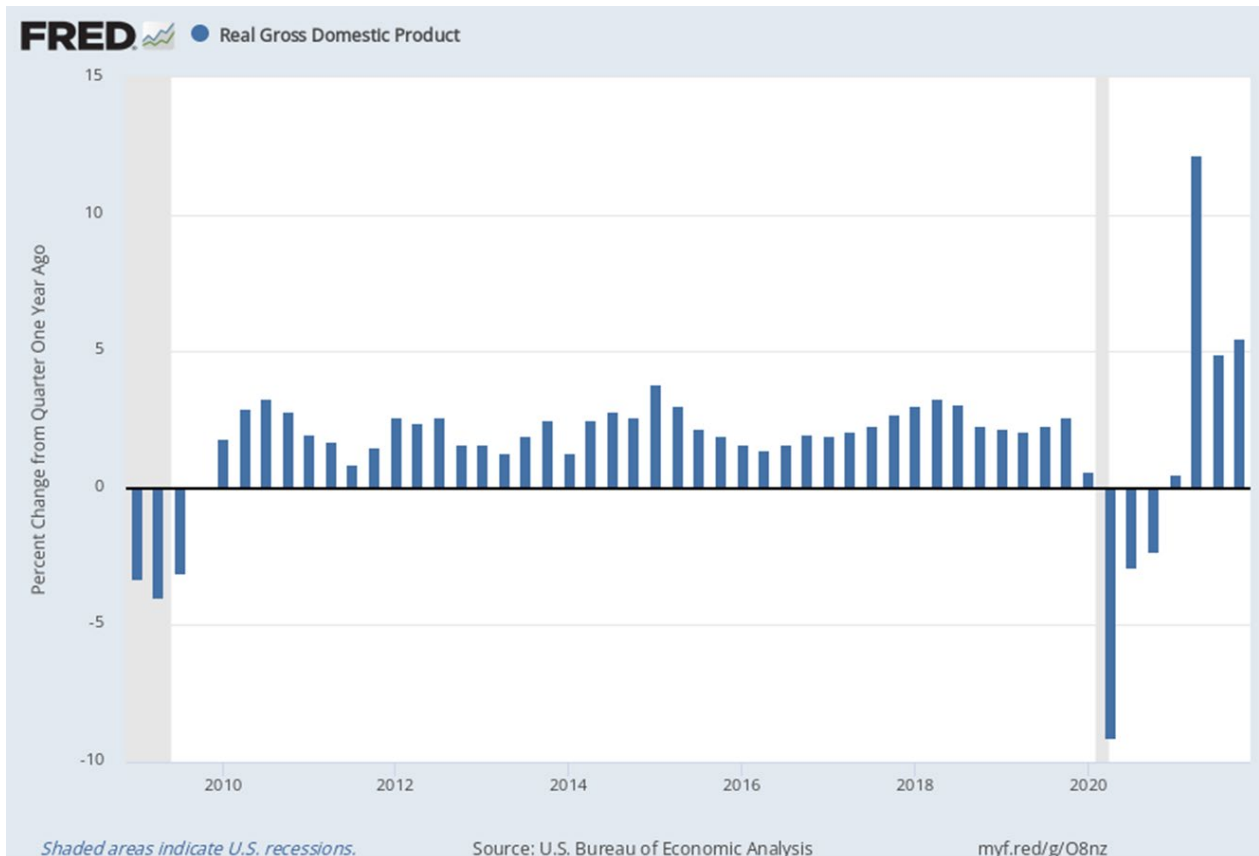


Inflation is at a 40-year high. And we can reasonably anticipate continued supply disruptions to Food and Energy attributable to Russia's invasion of Ukraine. With regard to food, one study measured that Ukraine and Russia alone supply fully 12% of the world's calories¹. Russian supplies will be curtailed due to global sanctions; Ukraine's due to the invasion and destruction suffered.

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Economy

Real GDP



Just as we began to settle into some comfortable GDP growth metrics, the risks of another recession on the horizon appear to be creeping higher. Can the Fed navigate a soft landing?

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Economy

Unemployment Rate

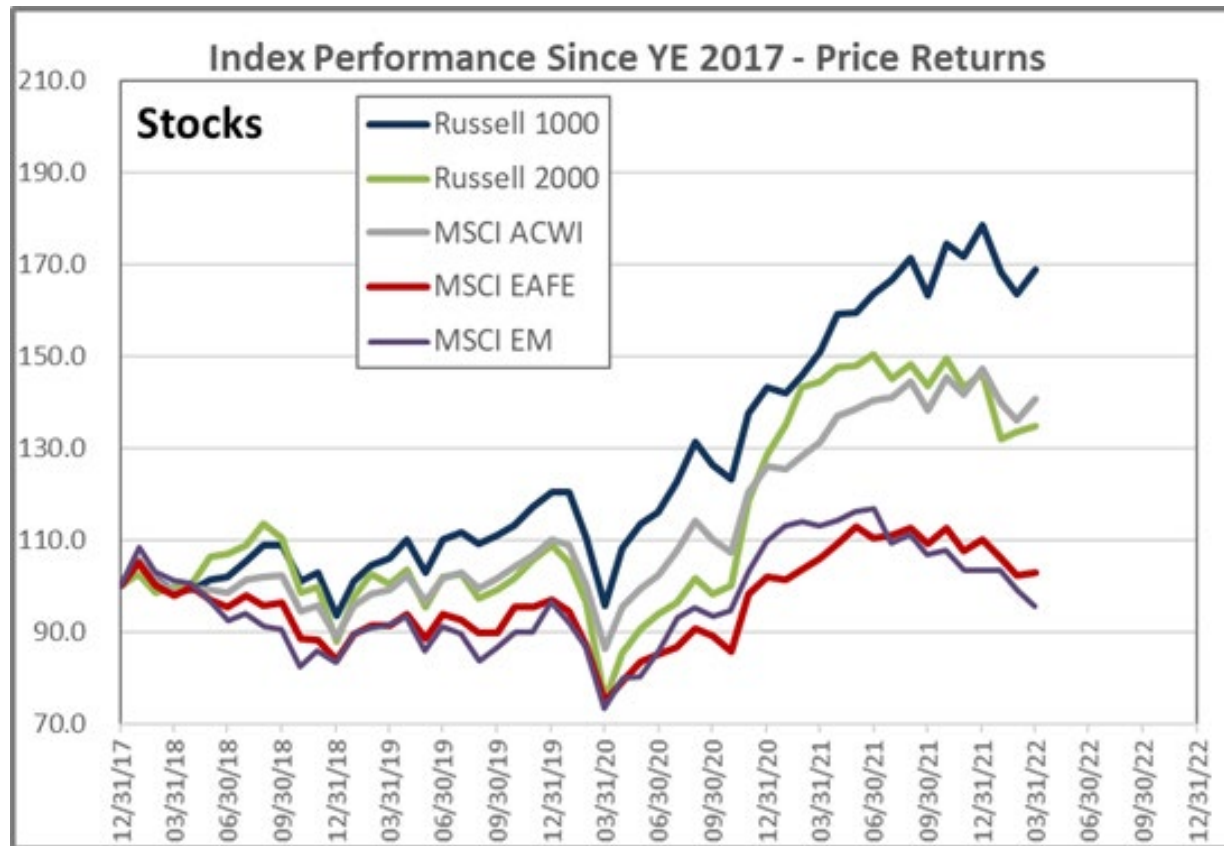


The U.S. unemployment rate has remained a solid attribute to our economic condition.

QUARTERLY MARKET GUIDE: Q2 2022

Equities

Sub-Asset Class Relative Performance



U.S. Large Caps remained the performance leaders in Q1, and further widened the spread built up over the last few years.

Source: Bloomberg and Yahoo Finance monthly index data, with analysis by Villagran Investments LLC

QUARTERLY MARKET GUIDE: Q2 2022

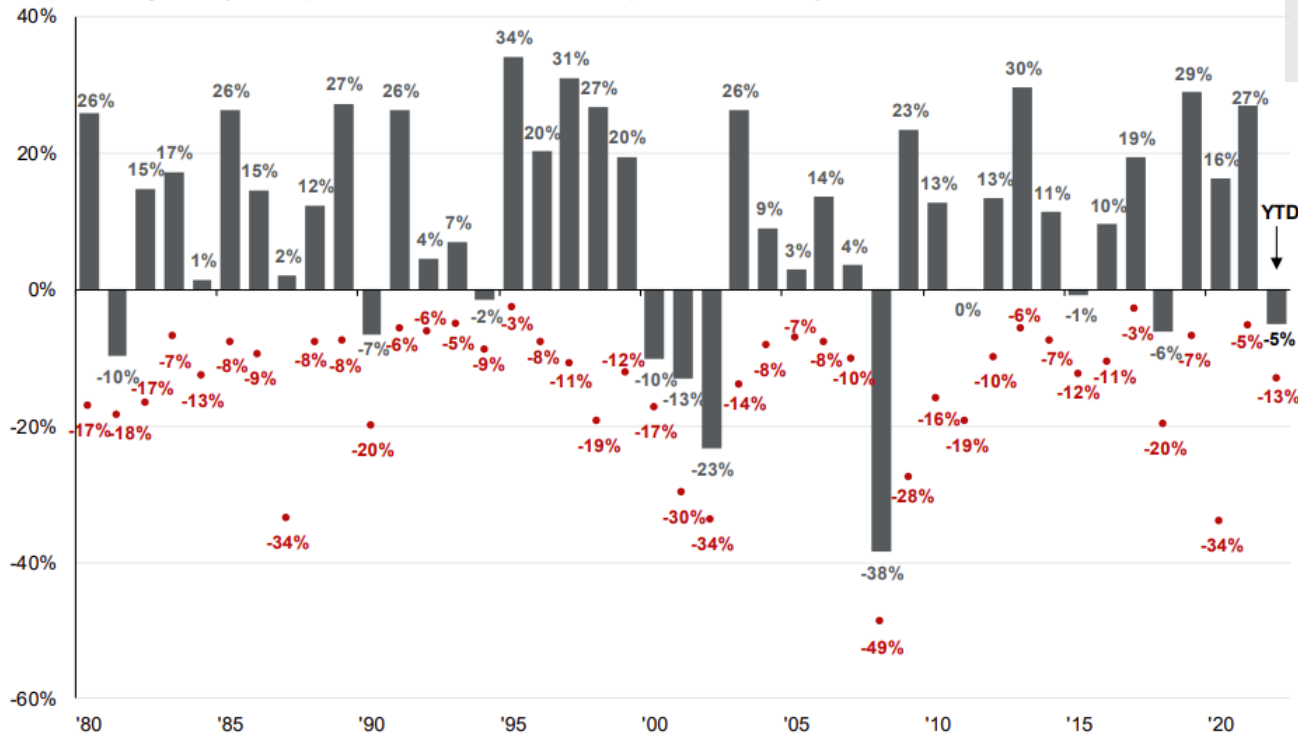
Equities

S&P 500 Annual Returns & Intra-Year Declines

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.0%, annual returns were positive in 32 of 42 years

S&P 500's Q1/YTD intra-year drawdown is unremarkable so far.



Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2021, over which time period the average annual return was 9.4%.

Guide to the Markets - U.S. Data are as of March 31, 2022.

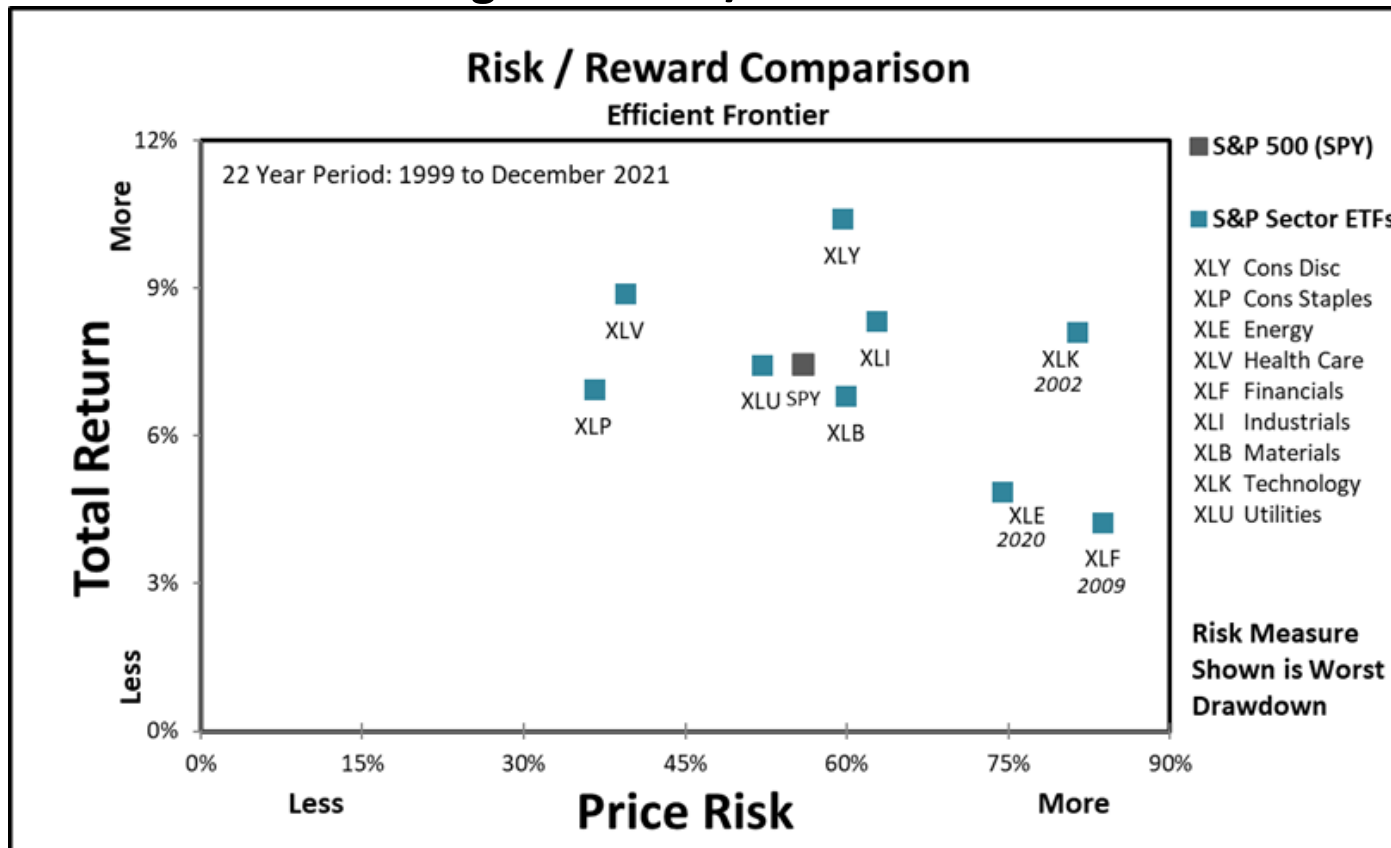
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Equities

S&P 500 Sectors Long-Term Risk/Reward

Just a reminder to our readers that sector leadership has often proven to be a two-edged sword.



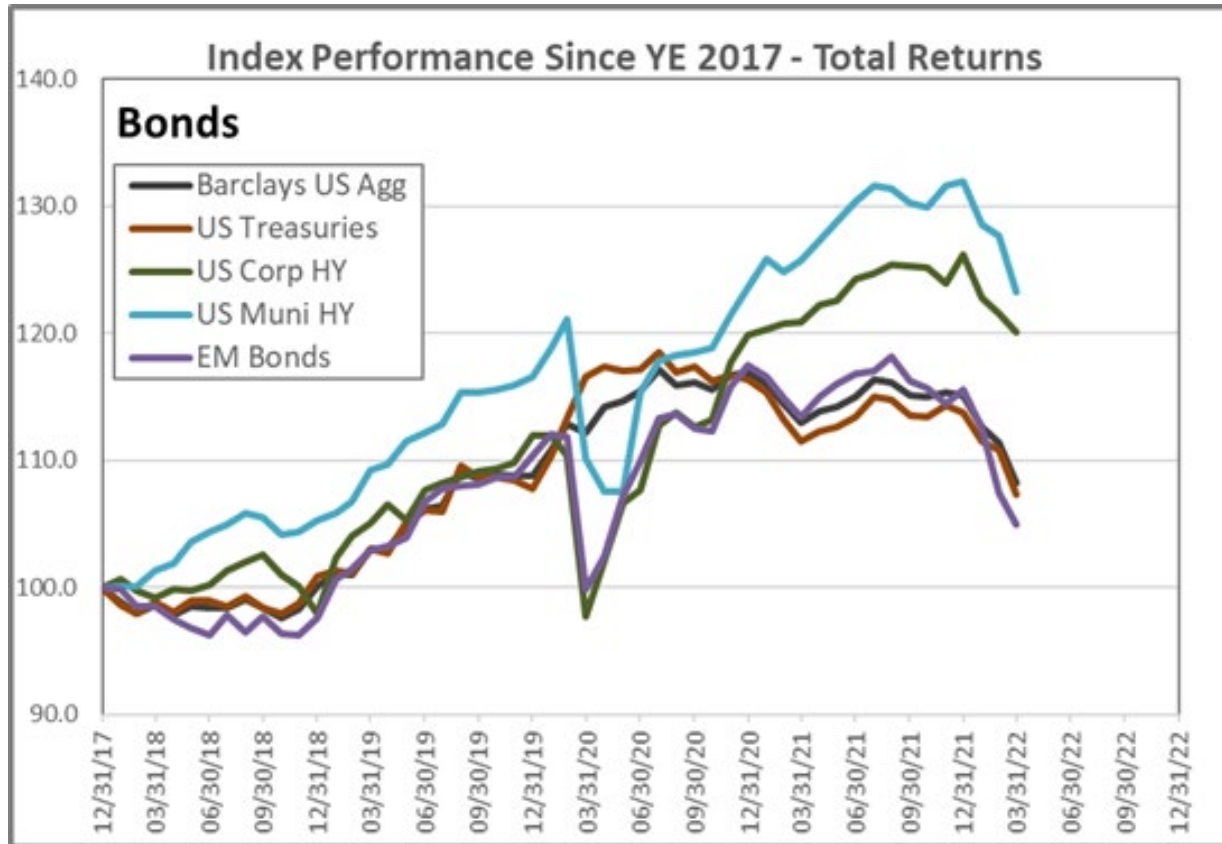
Equities chart on this page will rotate thru the year.

Source: Bloomberg and Yahoo Finance monthly index data, with analysis by Villagran Investments LLC

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Fixed Income

Sub-Asset Class Relative Performance



Source: Bloomberg monthly index data, with analysis by Villagran Investments LLC

Q1 was the worst quarter for bond returns since 1980. In our view, the key question is – Are bond prices just in a hurry to adjust to the new normal based on expected rate hikes, or do we need to really rethink the 60/40 portfolio? For now, we're leaning towards the former.

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Fixed Income

Market Yield - U.S. Treasury 10-Year Bond

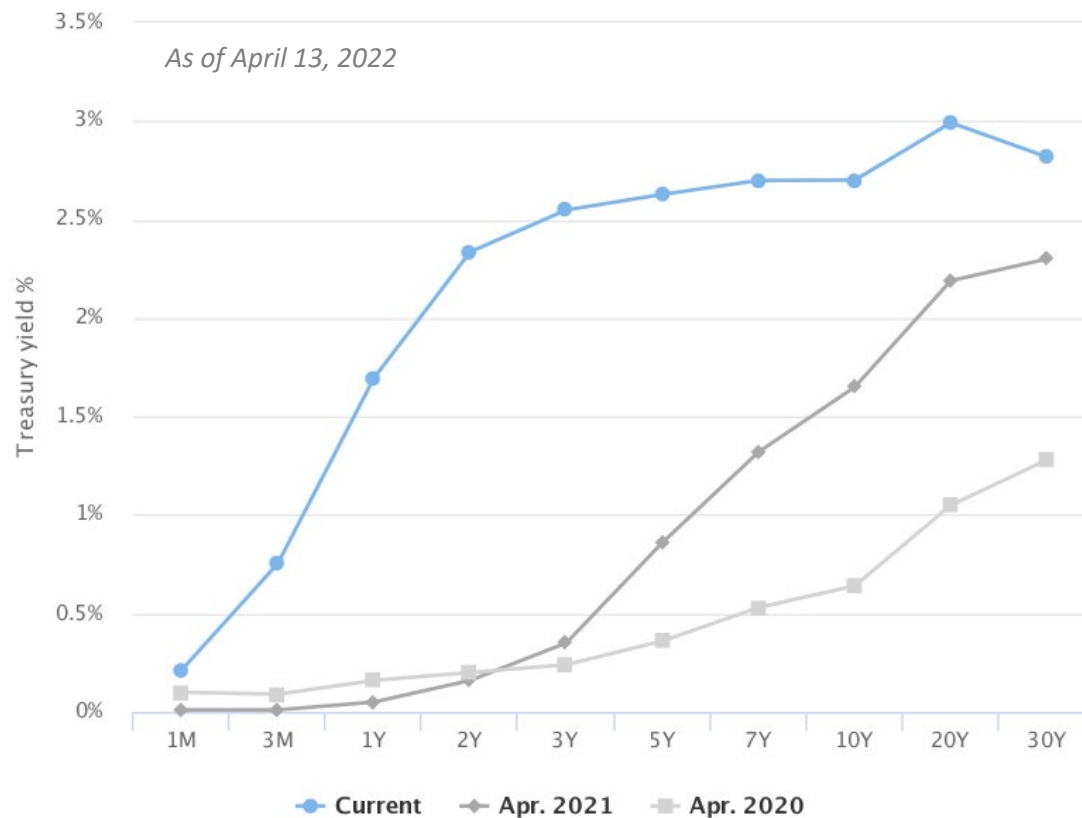


The potential breakout in market Treasury rates that we noted in our last Quarterly has come to pass...

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Economy

Treasury Yield Curve



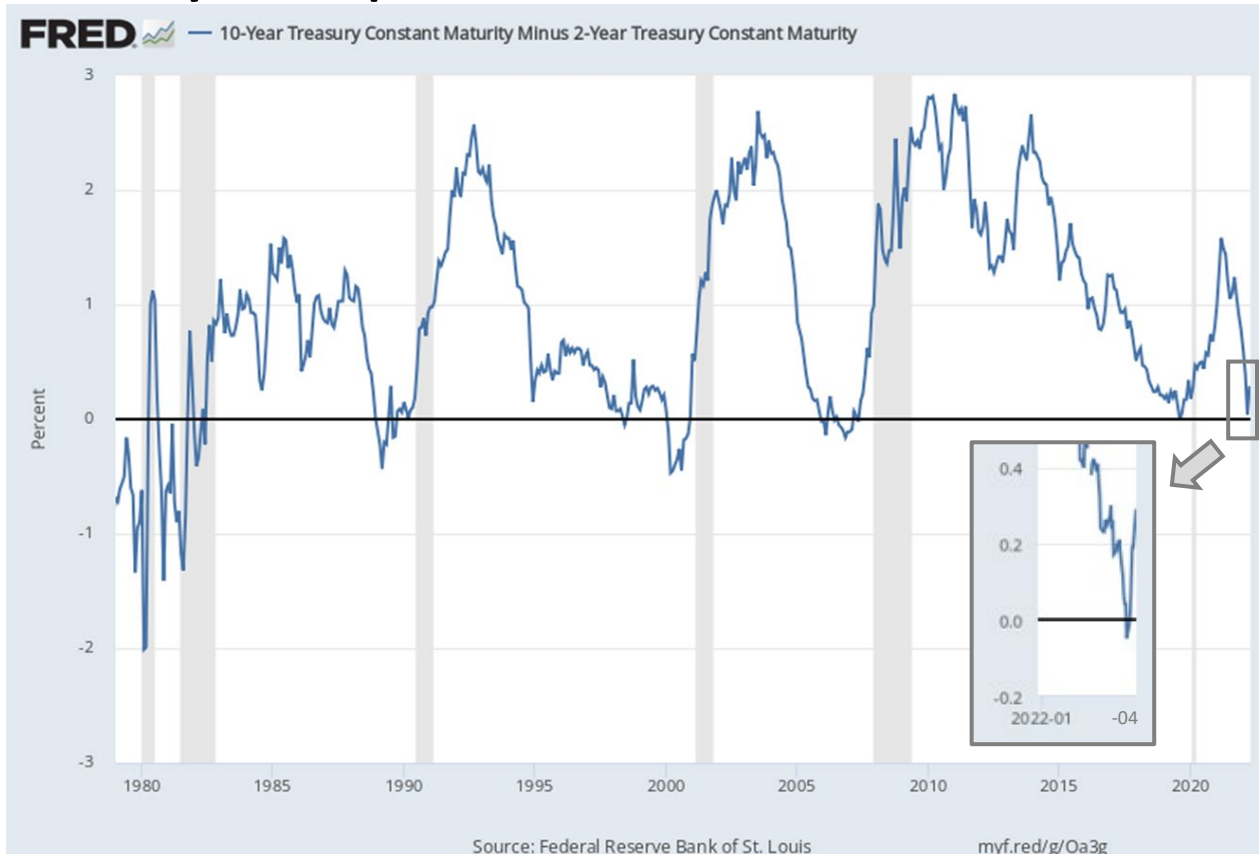
The curve is now relatively flat from the 2-year to the 10-year. As such, the risk of inversion remains high.

Source: GuruFocus.com

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Economy

Treasury Yield Spreads – 10-Year vs. 2-Year



Yield curve inversions have consistently foretold recessions. While briefly, it most recently inverted in early April 2022. It is different this time?

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Economy

Credit Spreads – U.S. Corp High Yield vs U.S. Treasuries



High yield spreads have remained at multi-year lows, as the recent moves in Corp High Yield valuations have been commensurate with the move in Treasuries.

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Rafael A. Villagran, the author of this report, is a Portfolio Manager, Head of the Asset Management Department, and investment advisor representative of NWAM, LLC dba Northwest Asset Management and RIA Innovations, an SEC registered investment advisor. This publication is in no way a solicitation or offer to sell securities or investment advisory services. Statistical information, quotes, charts, references to articles or quoted statement or statements regarding market or other financial information is obtained from sources which we believe reliable, but we do not warrant or guarantee the timeliness or accuracy of this information.

Reference(s):

- 1) Implications to World's Food Supply from Russia's War on Ukraine, NPR article dated March 6, 2022:
<https://www.npr.org/sections/goatsandsoda/2022/03/06/1083769798/russias-war-on-ukraine-is-dire-for-world-hunger-but-there-are-solutions>

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GuruFocus.com LLC, U.S. Treasury Yield Curve Data & Charts -- https://www.gurufocus.com/yield_curve.php

JP Morgan, Quarterly Guide to the Markets -- <https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/guide-to-the-markets/>

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IMPORTANT DISCLOSURES

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Reference to market index information is included for illustrative purposes only, as it is not possible to directly invest in an index. Indexes are unmanaged, hypothetical vehicles that serve as market indicators. Index total return performance data reflects the assumptions of the reinvestment of interest and dividends but does not include the deduction of fees or transaction costs which otherwise reduce performance of an actual portfolio. Any blended indexes are shown for informational purposes only and are not representative of any particular investment or plan.

Definitions of Indexes Referenced

Russell 3000 – Index comprised of 3,000 largest U.S. stocks by market capitalization.

Russell 1000 – Index comprised of 1,000 largest U.S. stocks by market capitalization.

Russell 2000 – Index comprised of 2,000 smaller U.S. stocks by market capitalization within the Russell 3000.

S&P 500 – Compilation of 500 major U.S. stocks meeting certain criteria; market capitalization and float-weighted.

MSCI All Country World (ACWI) – Global equity index across market capitalizations with about 2,800 constituents, representing about 85% of the free float-adjusted market capitalization across 23 developed and 27 emerging markets.

MSCI All Country World ex USA – Global equity index across market capitalizations, which excludes the U.S., with about 2,300 constituents which represents free float-adjusted market capitalization across 22 developed and 27 emerging markets.

MSCI Europe, Asia & Far East (EAFE) – International equity index across market capitalizations, which excludes North America, with about 840 constituents which represents free float-adjusted market capitalization across 21 developed markets.

MSCI Emerging Markets (EM) – International equity index across market capitalizations with about 1,400 constituents which represents free float-adjusted market capitalization across 27 emerging markets.

Bloomberg Barclays U.S. Aggregate Bond – Widely followed bond benchmark comprised of investment grade, U.S. dollar denominated, fixed rate taxable bonds including Treasuries, government-related, corporate, mortgage-backed, and agency.

QUARTERLY MARKET GUIDE: Q2 2022

IMPORTANT DISCLOSURES (Continued)

Definitions of Indexes Referenced (Continued)

Bloomberg Barclays U.S. Treasuries – U.S. bond index comprised of U.S. dollar denominated, fixed rate nominal bonds issued by the U.S. Treasury, and excludes T-Bills and STRIPS.

Bloomberg Barclays U.S. Corporate High Yield Bond – Fixed rate U.S. dollar denominated index of corporate bonds rated BB+ or below by Fitch and S&P.

S&P Municipal High Yield Bond – U.S. index of municipal bonds that are either not rated or rated below investment grade.

Bloomberg Barclays Emerging Market Bond – International bond index comprised of U.S. dollar denominated bonds hard currency debt from sovereign, quasi-sovereign and corporate issuers in Emerging Markets.

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