

QUARTERLY MARKET GUIDE: Q1 2022

Our View of What's Most Relevant Now

January 18, 2022



NWAM, LLC dba Northwest Asset Management is an SEC Registered Investment Advisor ◆ www.NWAsset.com

Please see important disclosures at the end of this report.

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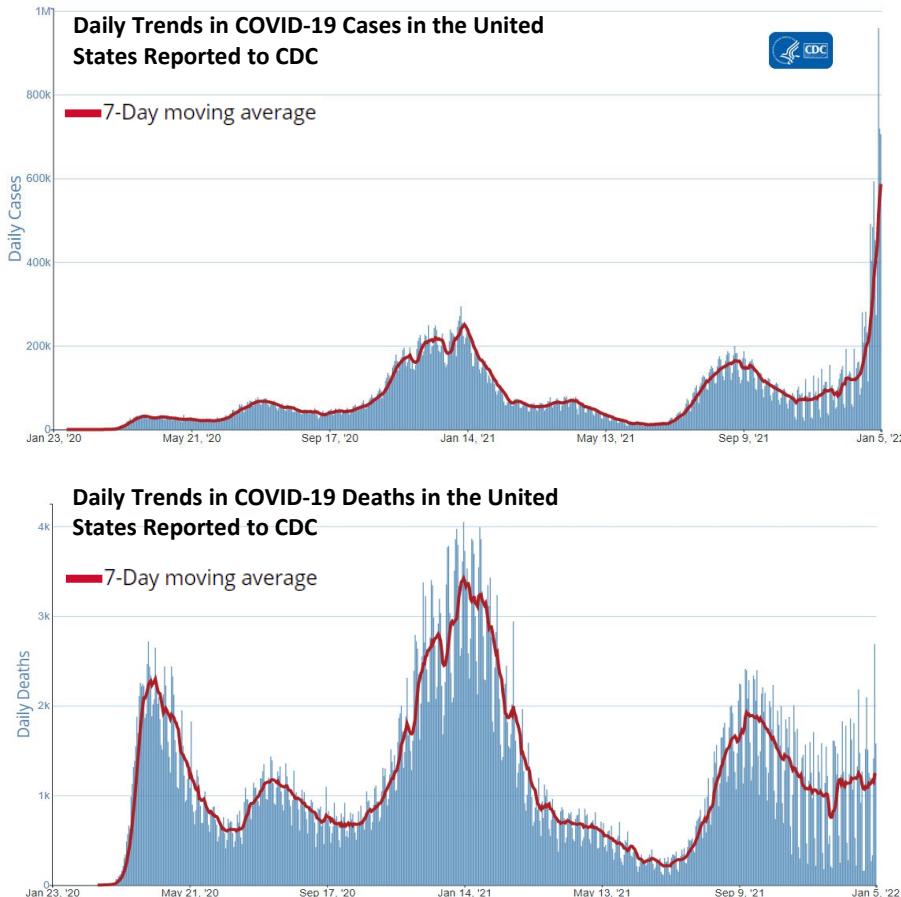
Dear Reader,

Our Quarterly publication has been recast, and this represents the inaugural issue of our new format. Our goal with these changes is to provide our readers with the most relevant data, less noise, and with succinct commentary. Overall, we hope to facilitate an efficient read.

While we seek to provide consistent content, we also do expect to make some ongoing refinements in an effort towards continuous improvement. In that regard, we welcome your feedback.

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COVID-19



Representing a meaningful challenge to potential economic growth is the ongoing pandemic, with the highly contagious omicron variant impacting the pace of economic activity across the globe. We acknowledge that the initial data indicates that the omicron variant may be less dangerous, although data shows that covid-related fatalities are increasing. We also remain wary as other variants appear likely to follow.

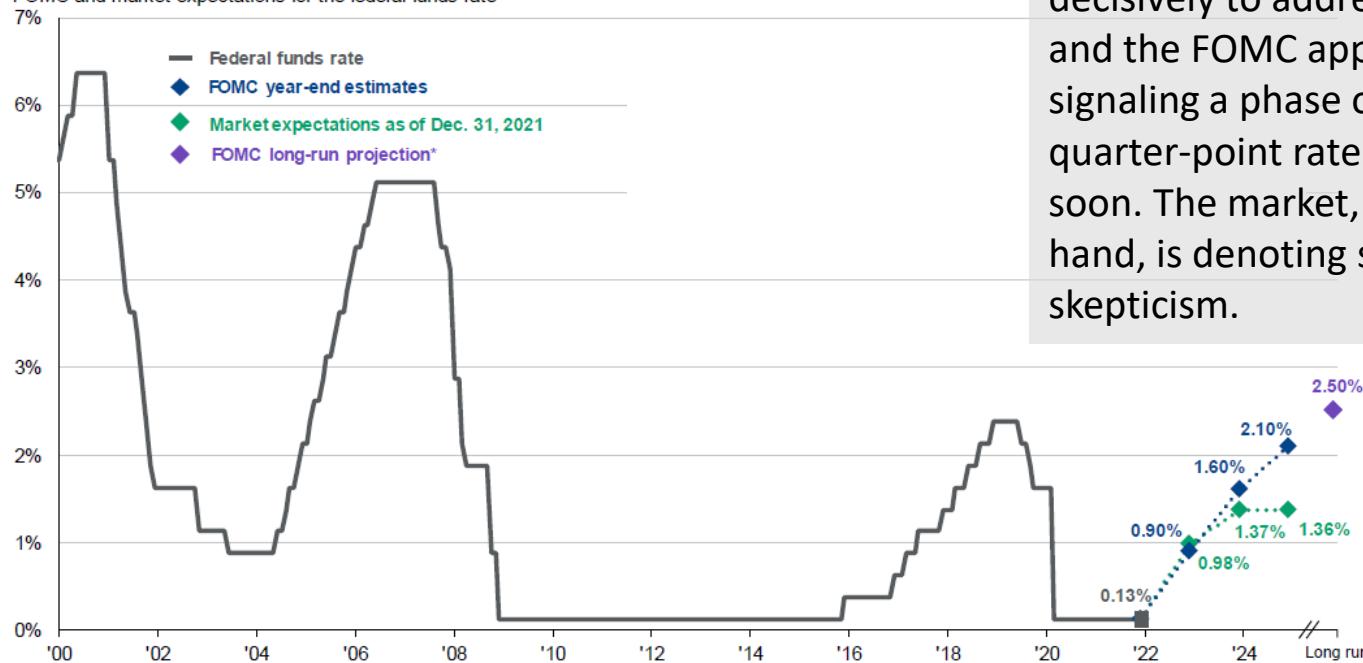
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Economy

Federal Fund Rate

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



The Fed has acknowledged the need to act sooner and more decisively to address inflation, and the FOMC appears to be signaling a phase of multiple quarter-point rate hikes to begin soon. The market, on the other hand, is denoting some skepticism.

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

Market expectations are based off of the USD Overnight Index Forward Swap rates. *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 are as of December 31, 2021.

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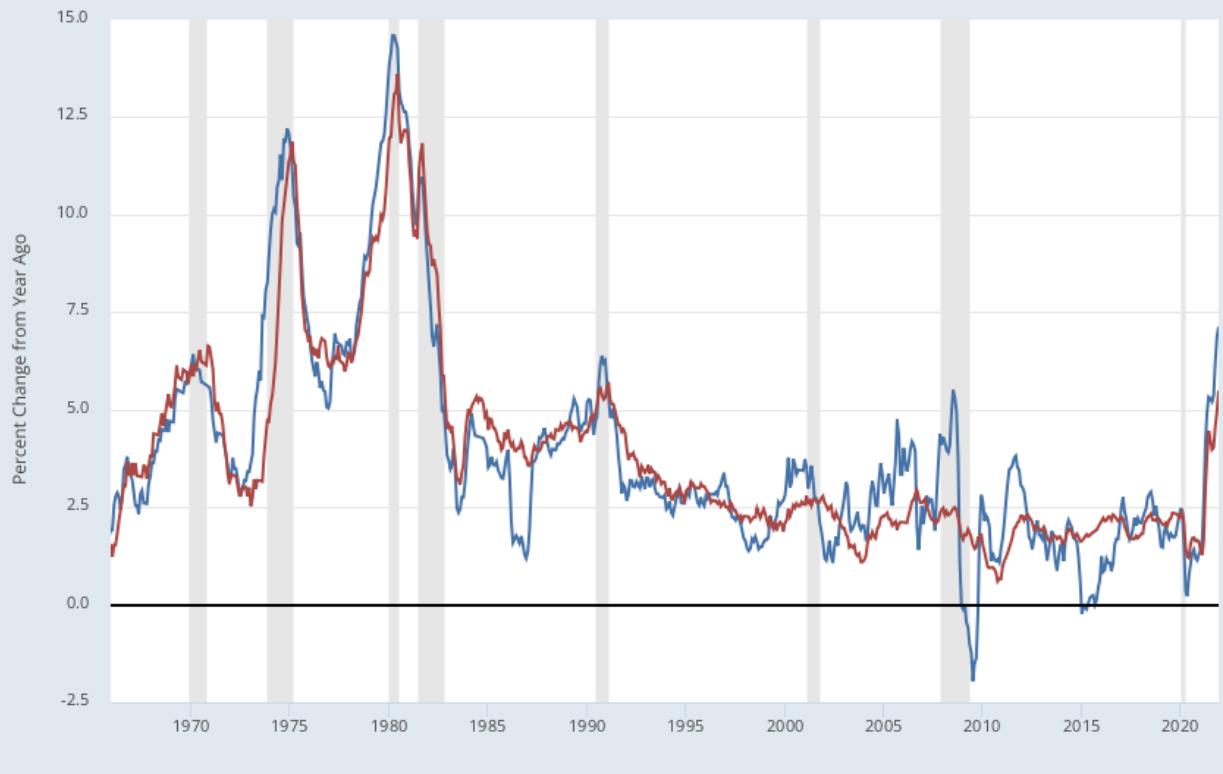
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Economy

Inflation

FRED

Consumer Price Index for All Urban Consumers: All Items in U.S. City Average
Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average

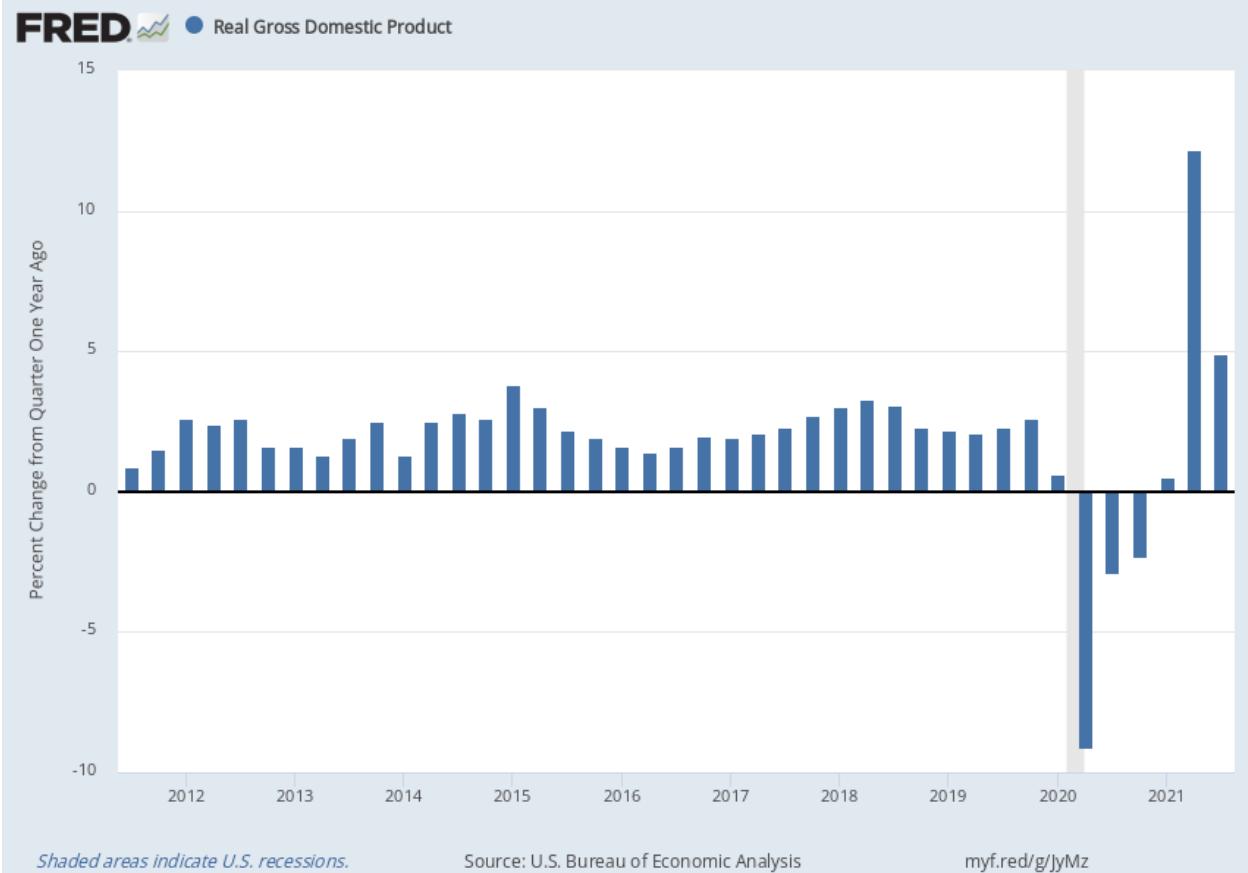


Inflation metrics have continued to increase and now reflects multi-decade highs...

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Economy

Real GDP



The past two quarters of data have reflected a significant recovery, although the latest data point was for Q3 2021, i.e., pre-omicron...

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Economy

Unemployment Rate

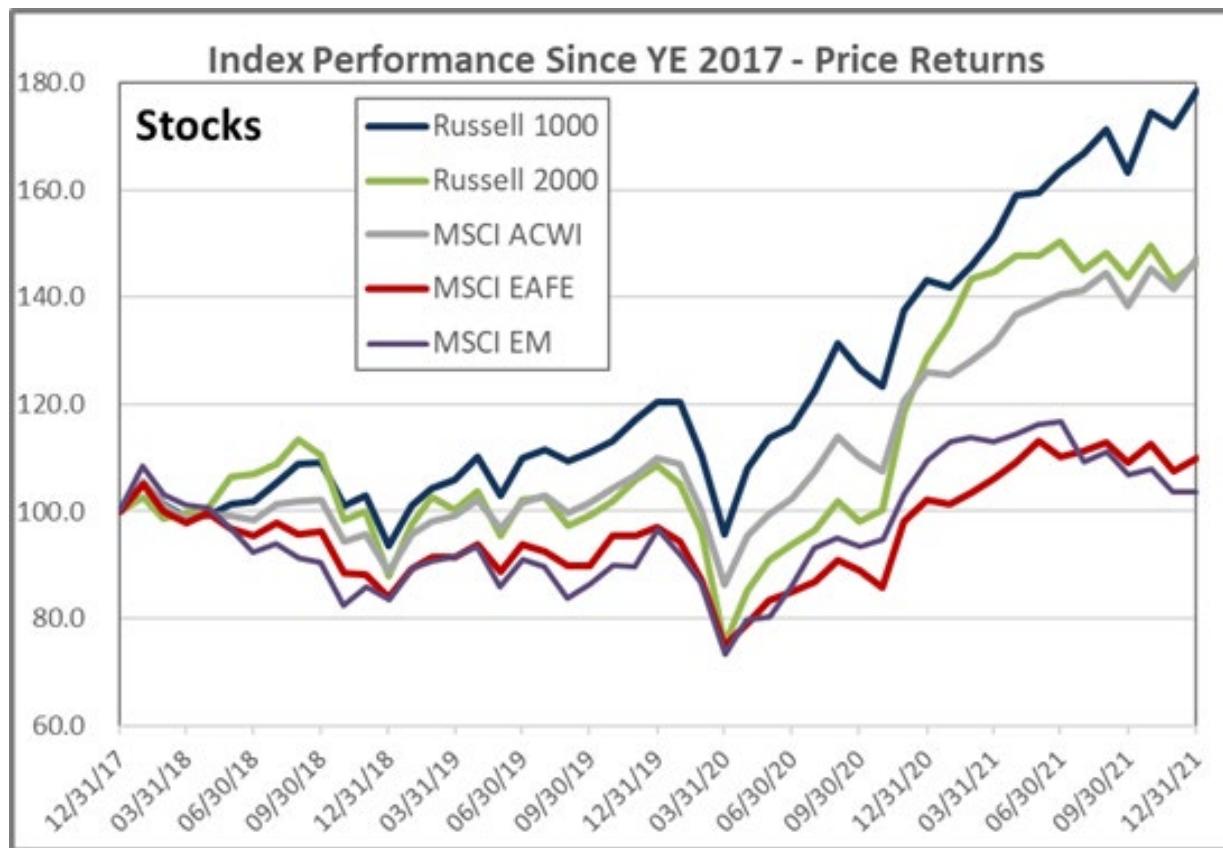


The improvement in the rate of Unemployment has been remarkable, although the “Big Quit” presents a major caveat...

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Equities

Sub-Asset Class Relative Performance



Equity leadership in 2021 was solidly U.S. Large Caps...

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

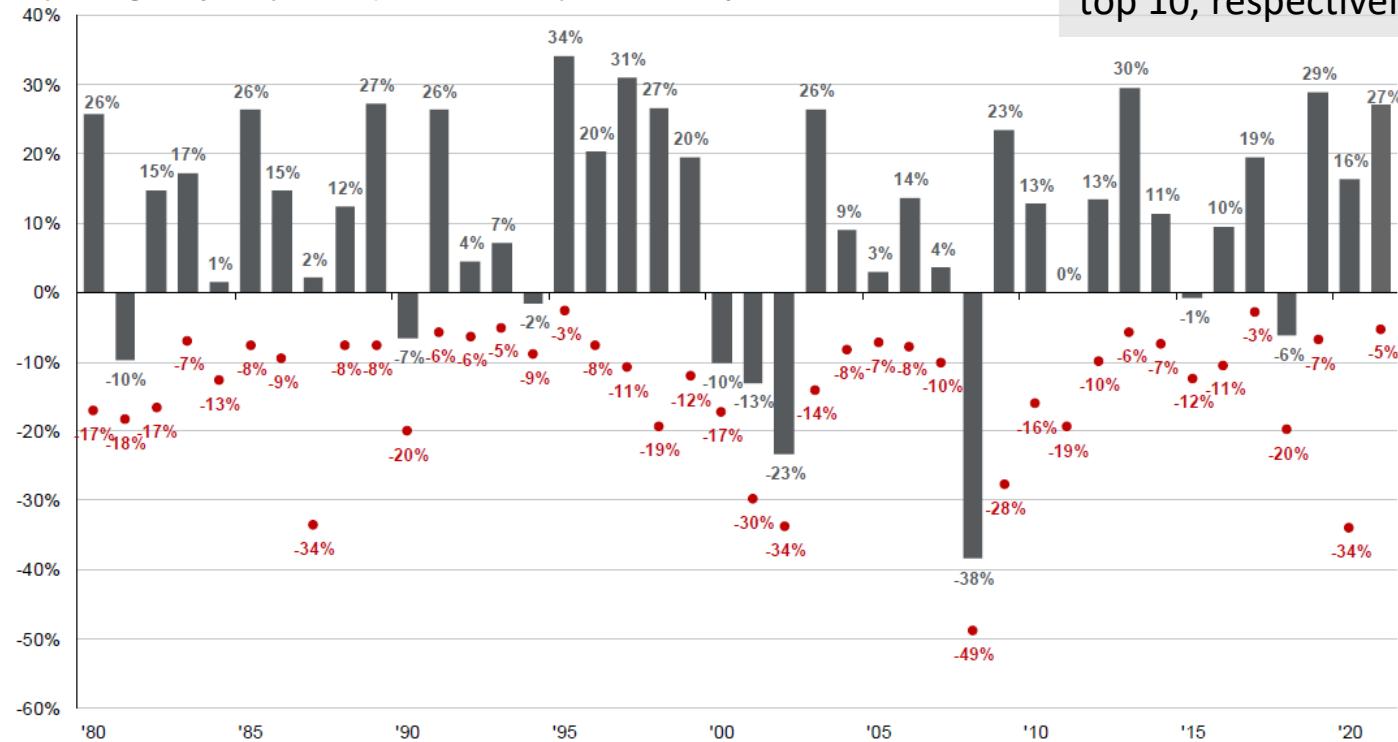
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Equities

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 2021 return & intra-year drawdowns both ranked in top 10, respectively, since 1980.

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 December 31, 2021.

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Equities

Correlations Across Asset Classes

With the interest rate cycle possibly turning, we note that public REITs are best recognized as an “S&P Sector” rather than an uncorrelated “Alternative”

	U.S. Large Cap	EAFFE	EME	Bonds	Corp. HY	Munis	Currecy.	EMD	Cmdty.	REITs	Hedge funds	Private equity	Gold	Ann. Volatility
U.S. Large Cap	1.00	0.86	0.75	-0.10	0.82	0.16	-0.34	0.61	0.59	0.72	0.86	0.82	0.04	14%
EAFFE		1.00	0.89	-0.09	0.83	0.17	-0.51	0.69	0.62	0.53	0.91	0.86	0.15	14%
EME			1.00	0.05	0.81	0.28	-0.65	0.79	0.63	0.44	0.80	0.83	0.38	17%
Bonds				1.00	0.12	0.77	-0.18	0.44	-0.06	0.18	-0.13	-0.31	0.68	3%
Corp. HY					1.00	0.33	-0.43	0.85	0.72	0.65	0.82	0.75	0.24	8%
Munis						1.00	-0.24	0.62	0.13	0.49	0.12	-0.05	0.57	3%
Currencies							1.00	-0.54	-0.50	-0.05	-0.32	-0.59	-0.53	6%
EMD								1.00	0.57	0.54	0.63	0.56	0.56	7%
Commodities									1.00	0.42	0.66	0.76	0.30	15%
REITs										1.00	0.54	0.58	0.10	15%
Hedge funds											1.00	0.87	0.02	5%
Private equity												1.00	0.00	8%
Gold													1.00	15%

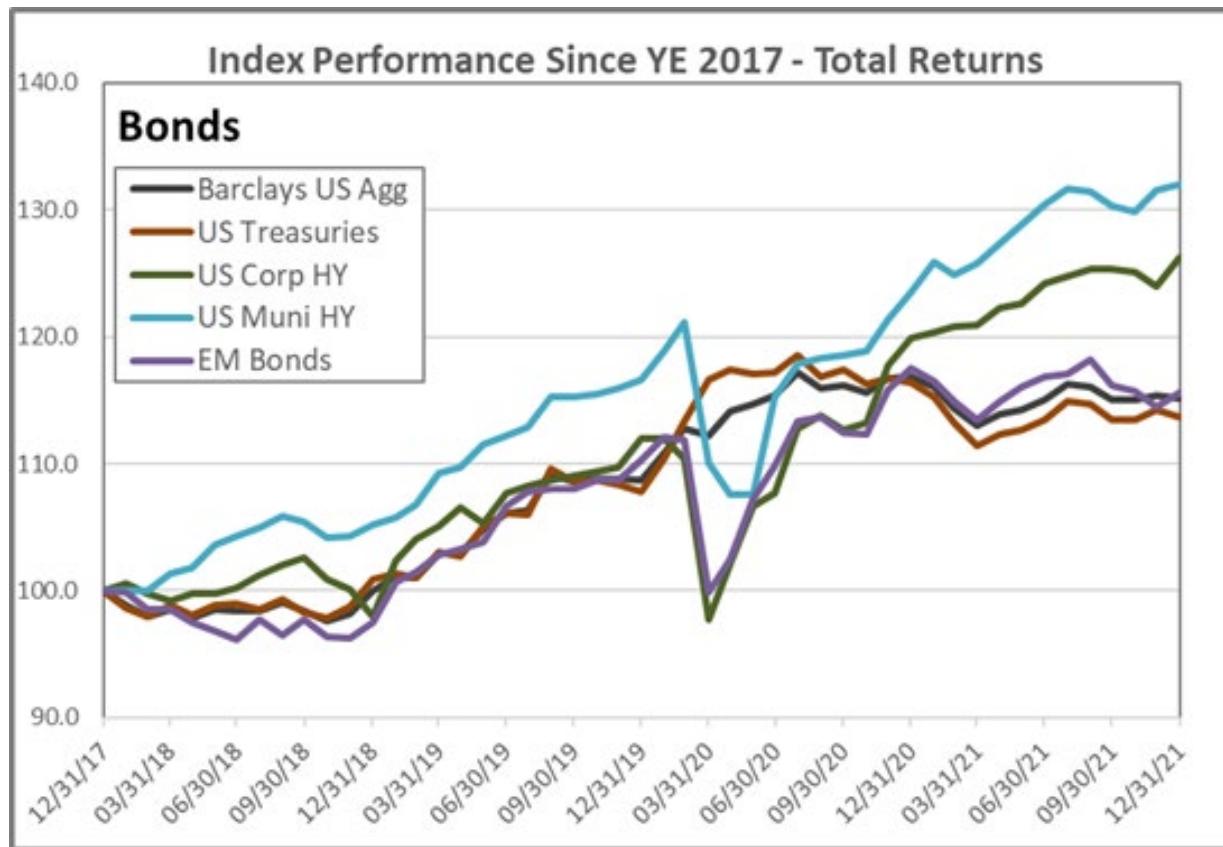
Source: Bloomberg, Burgiss, Credit Suisse/Tremont, FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management. Indices used – Large Cap: S&P 500 Index; Currencies: Federal Reserve Trade-Weighted Dollar; EAFE: MSCI EAFE; EME: MSCI Emerging Markets; Bonds: Bloomberg Aggregate; Corp HY: Bloomberg Corporate High Yield; EMD: Bloomberg Emerging Market; Cmdty.: Bloomberg Commodity Index; REITs: NAREIT All Equity Index; Hedge funds: CS/Tremont Hedge Fund Index; Private equity: time weighted returns from Burgiss; Gold: Gold continuous contract (\$/oz). Private equity data are reported on a one- to two-quarter lag. All correlation coefficients and annualized volatility are calculated based on quarterly total return data for period from 12/31/2011 to 12/31/2021, except for Private equity, which is based on the period from 6/30/2011 to 6/30/2021. This chart is for illustrative purposes only. Guide to the Markets – U.S. Data are as of December 31, 2021.

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Fixed Income

Sub-Asset Class Relative Performance



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

The Bond total return leadership in 2021 was solidly high yield, reflecting its correlation to Equities.

Regarding the U.S. Muni High Yield relative returns, we note that the chart reflects data before considering any tax-equivalent boost.

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Fixed Income

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

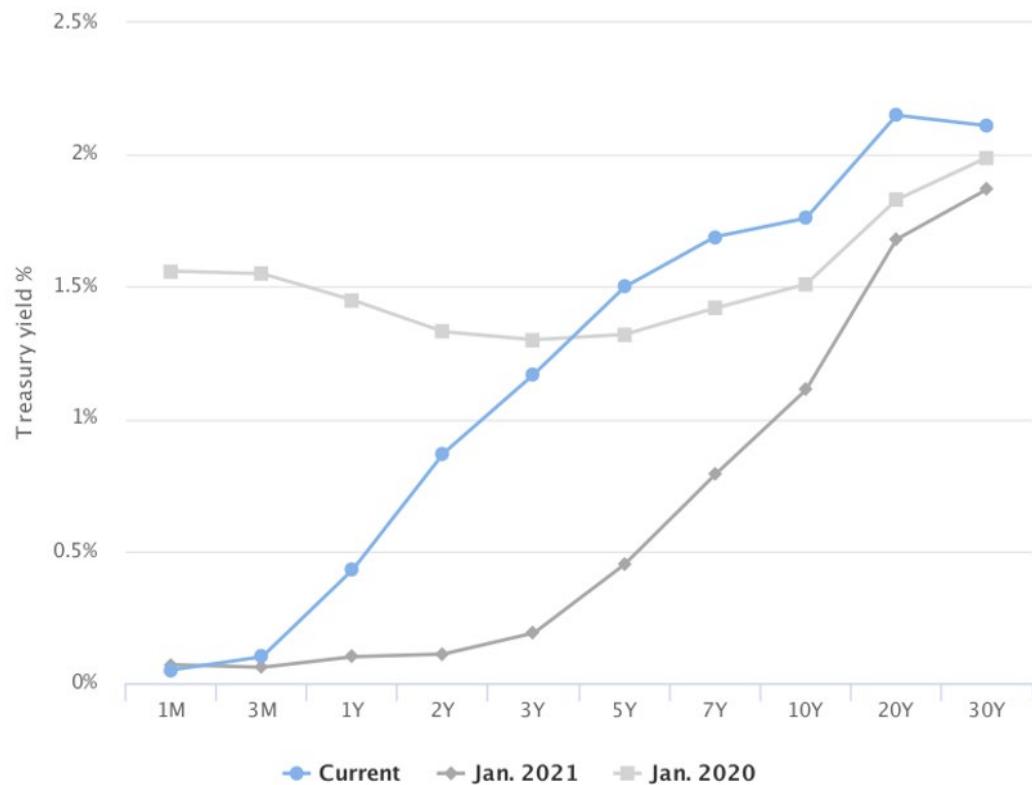


Market yields have popped in the New Year, in response to the Fed rate hike indications. The key question, in our view, remains whether yields breakout of the upper band that has prevailed over the past year.

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Economy

Treasury Yield Curve



Interesting that the ends of the yield curve haven't budged much in the past year, whereas the shift in the middle has been fairly pronounced...

Source: GuruFocus.com

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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, reflecting a chase for yield. We caution, however, that any *squeak* about a potential recession could be personified here first.

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IMPORTANT DISCLOSURES

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.

Sources Include:

Centers for Disease Control and Prevention – COVID-19 Data Tracker <https://www.cdc.gov/coronavirus/2019-ncov/covid-data/covidview/index.html>

Federal Reserve Bank of St. Louis Economic Research -- <https://fred.stlouisfed.org/>

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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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.

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IMPORTANT DISCLOSURES (Continued)

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.

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.