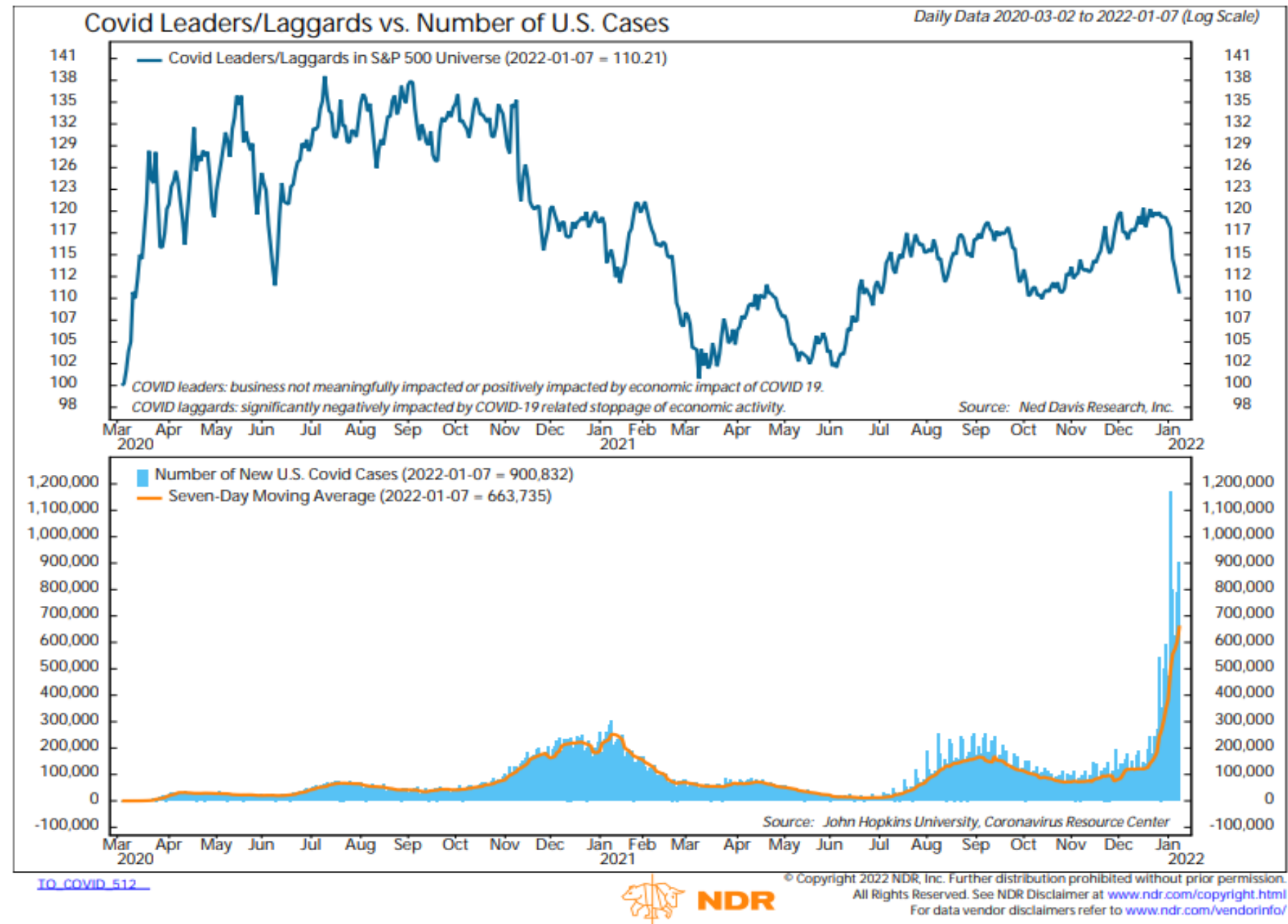




BWM Investment Strategy
Market Outlook 2022: The Year of Reversals?

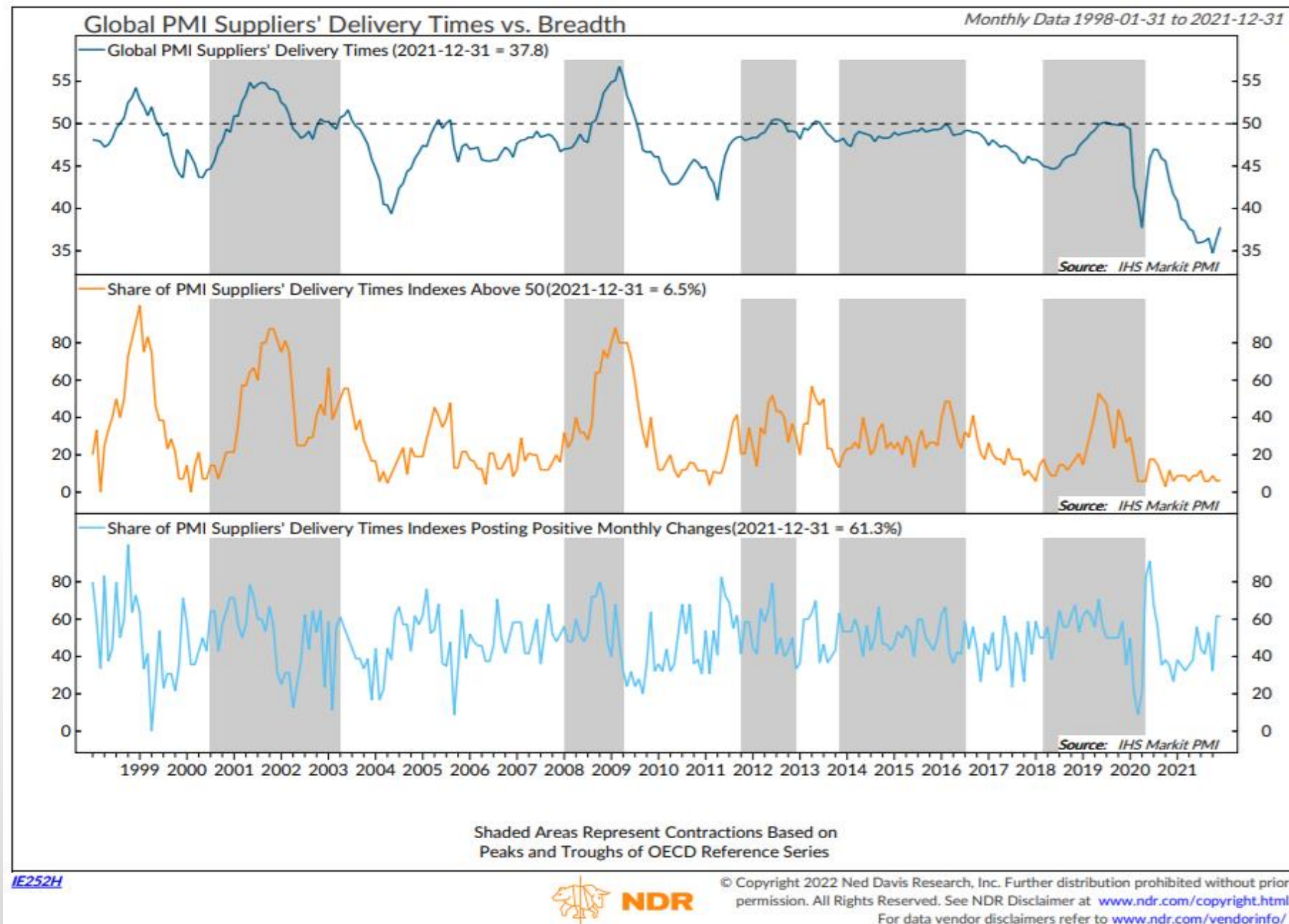
COVID spike reversal...what's next?



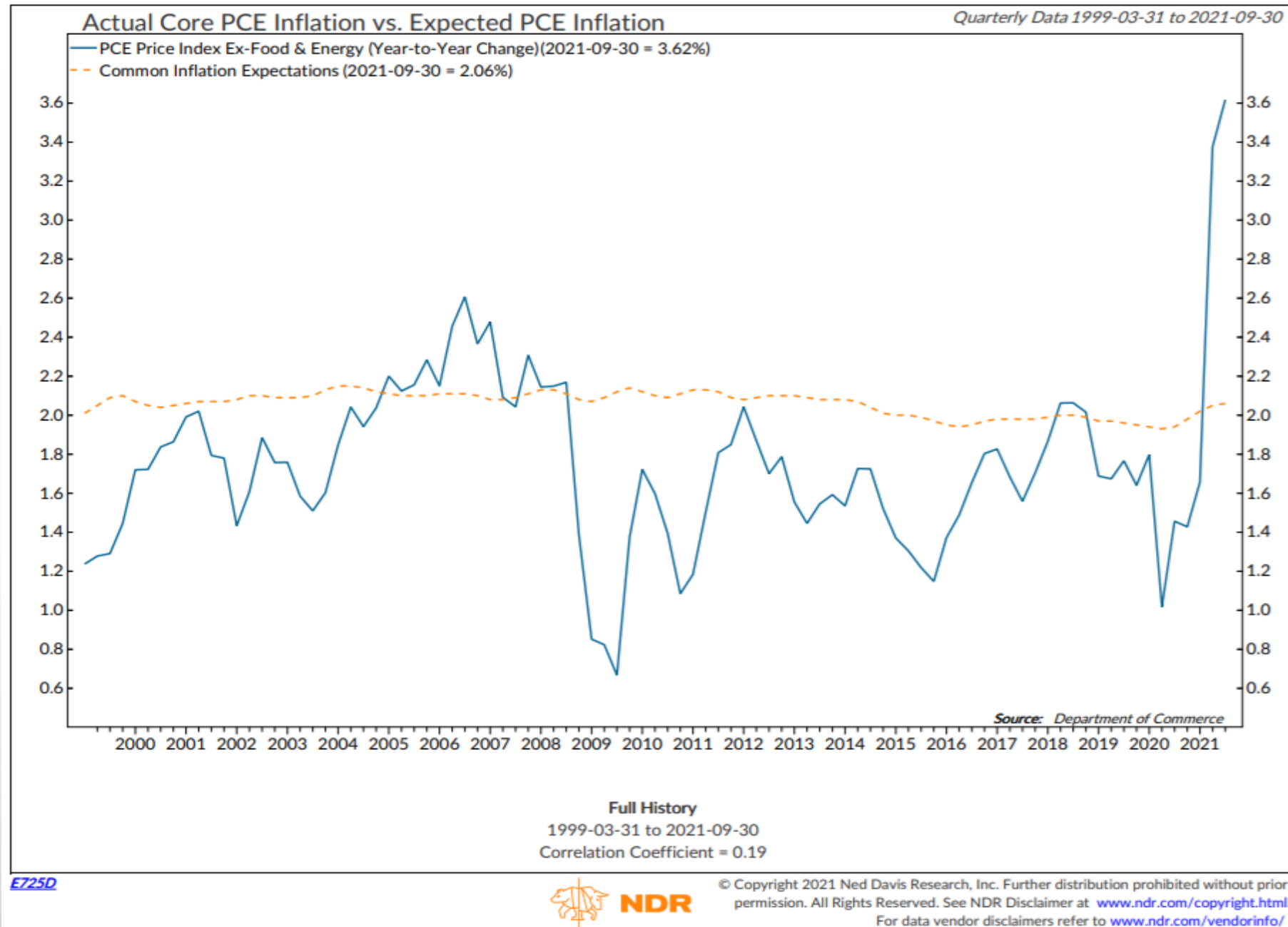
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Supply chain constraints reversing



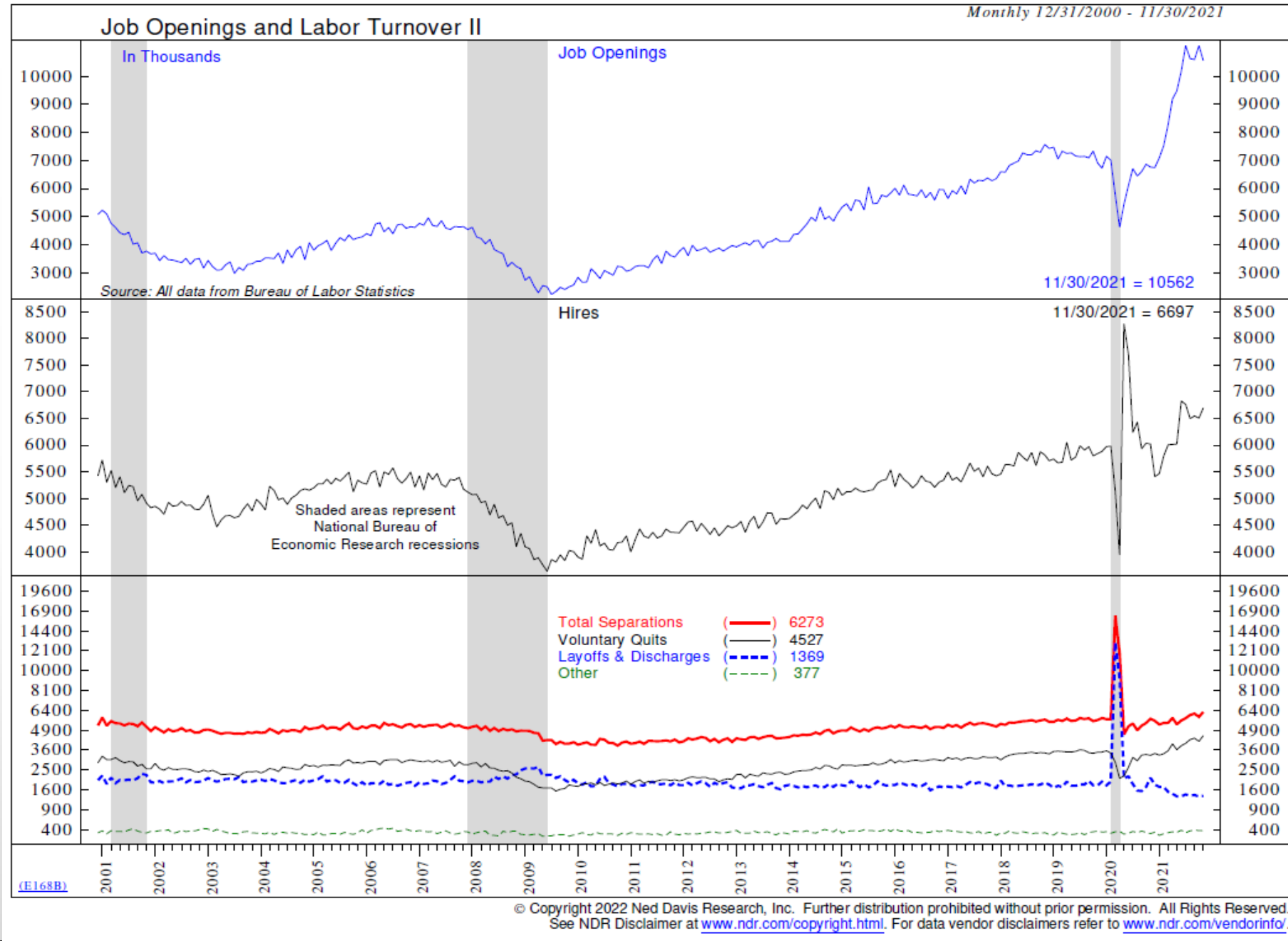
Inflation: Spike or just the beginning?



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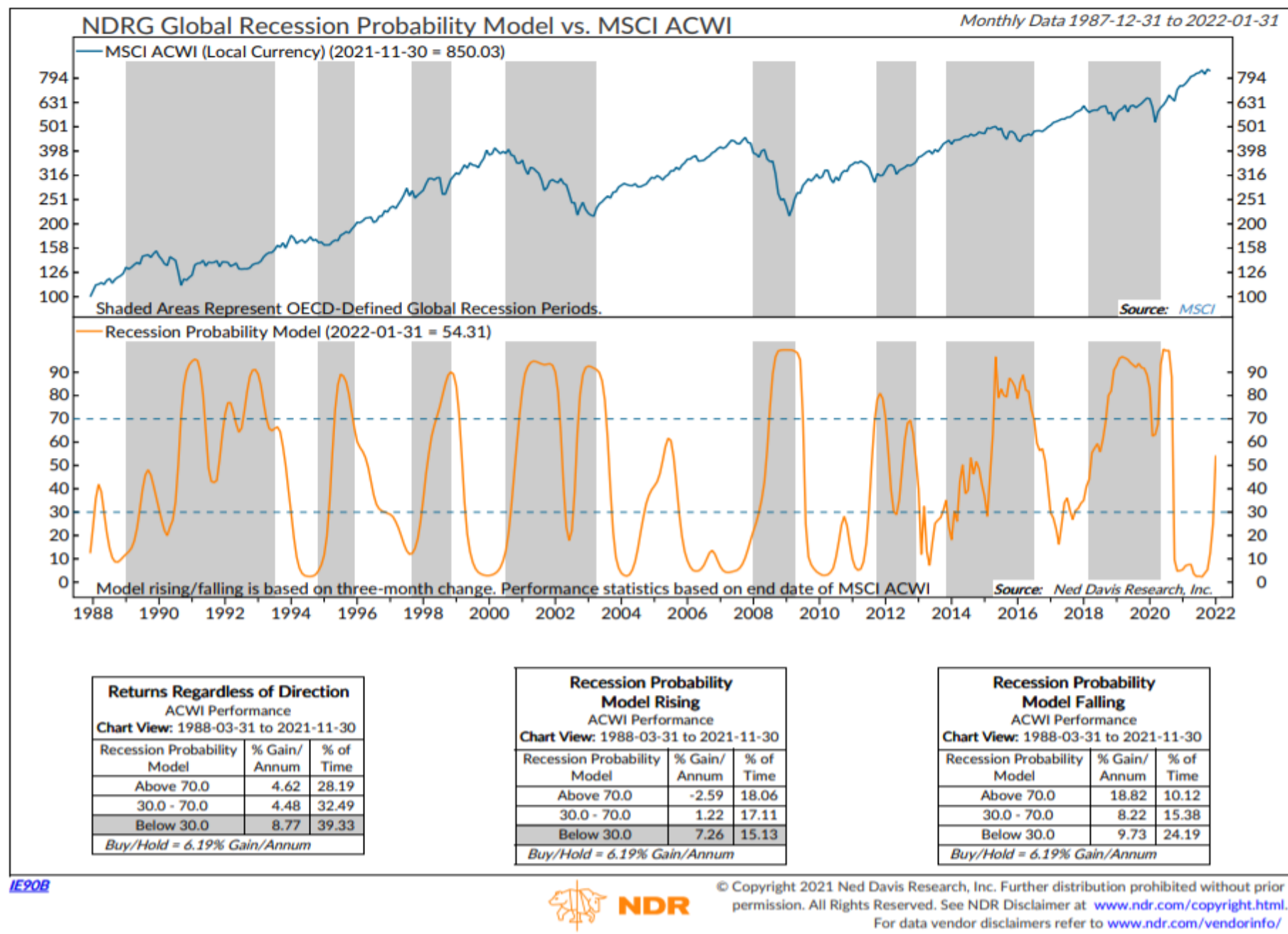
Record job
openings rolling
over?



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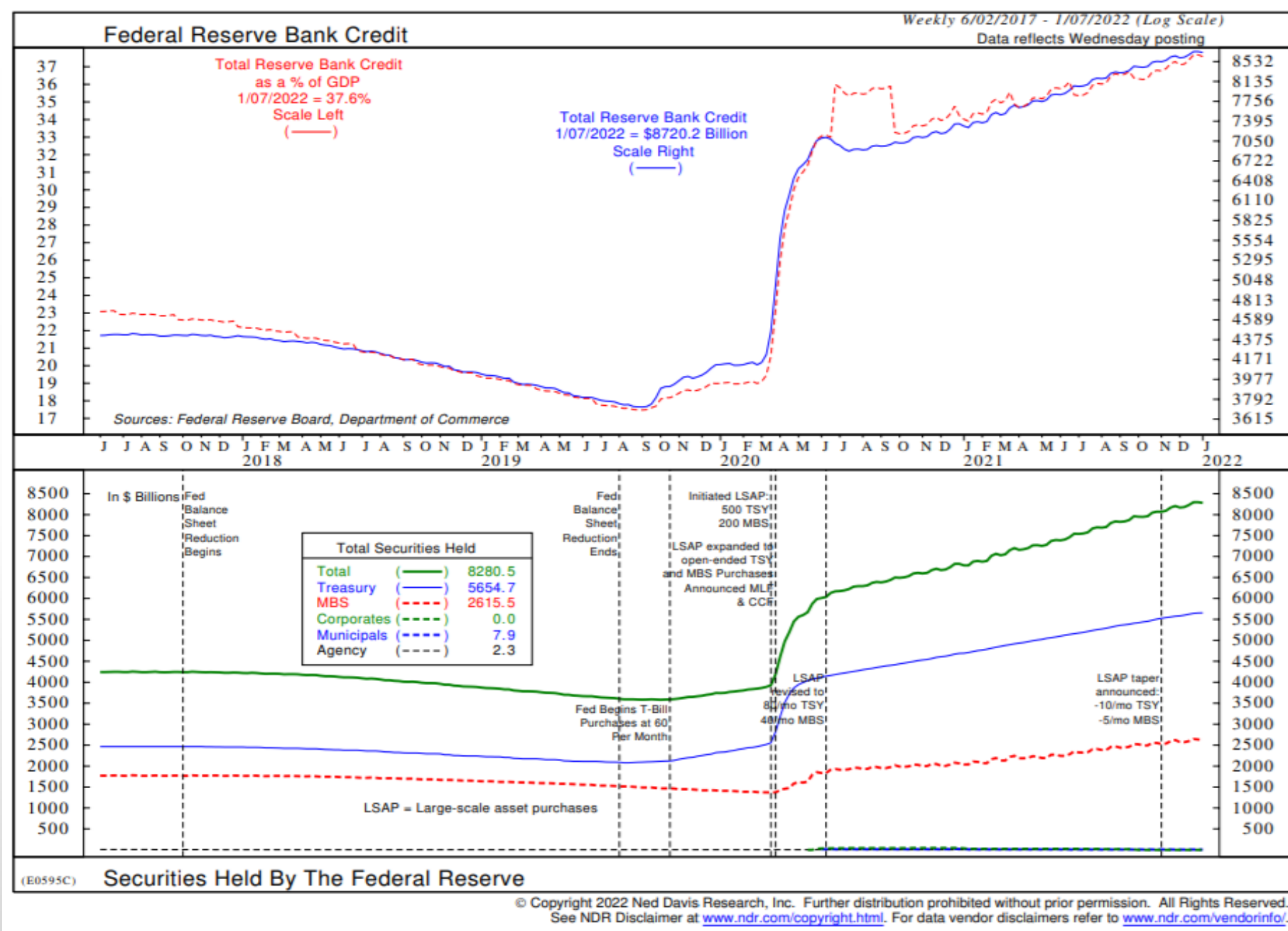
Global economic boom fading?



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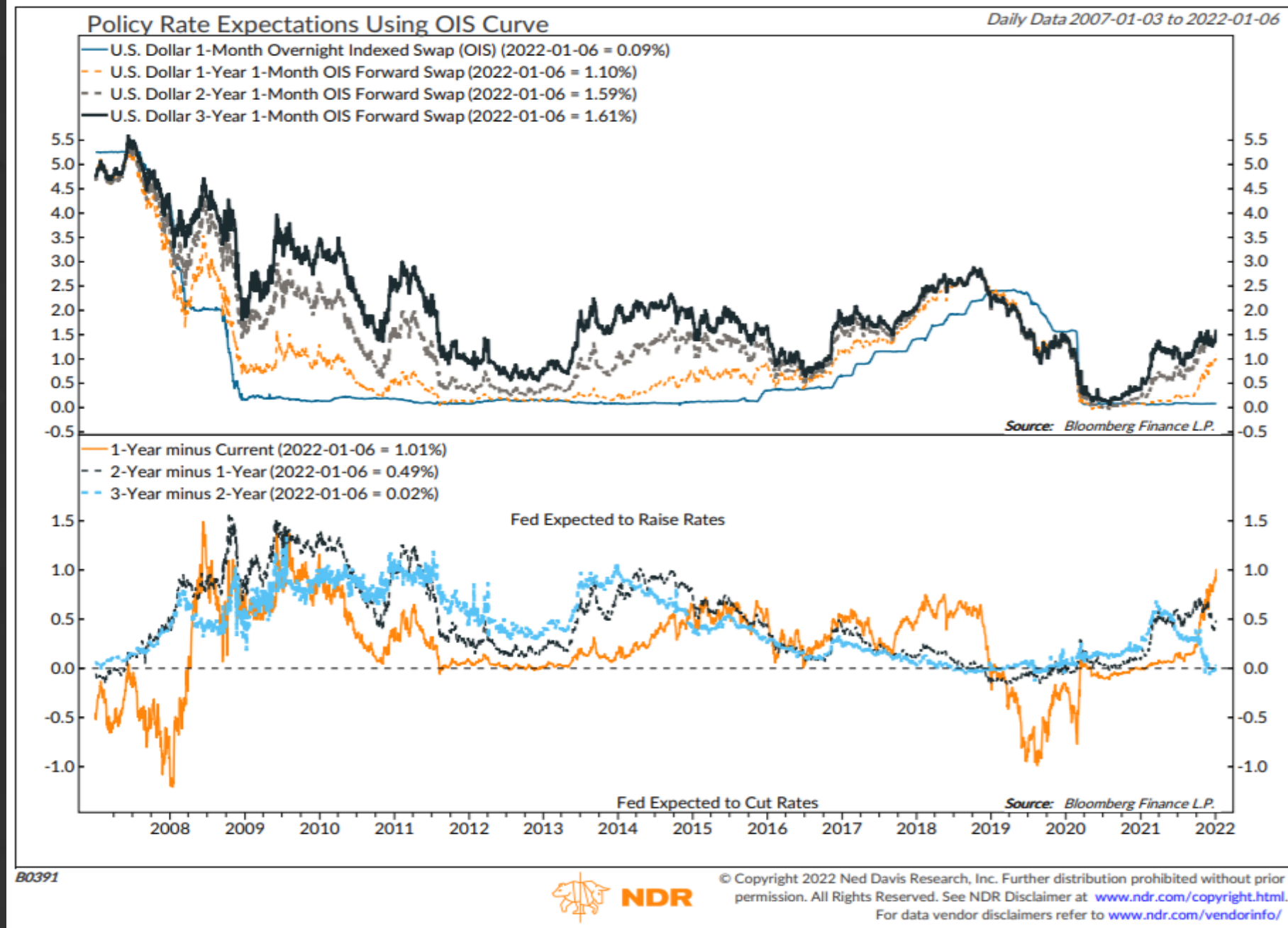
Record Fed
balance sheet
expected to peak
soon



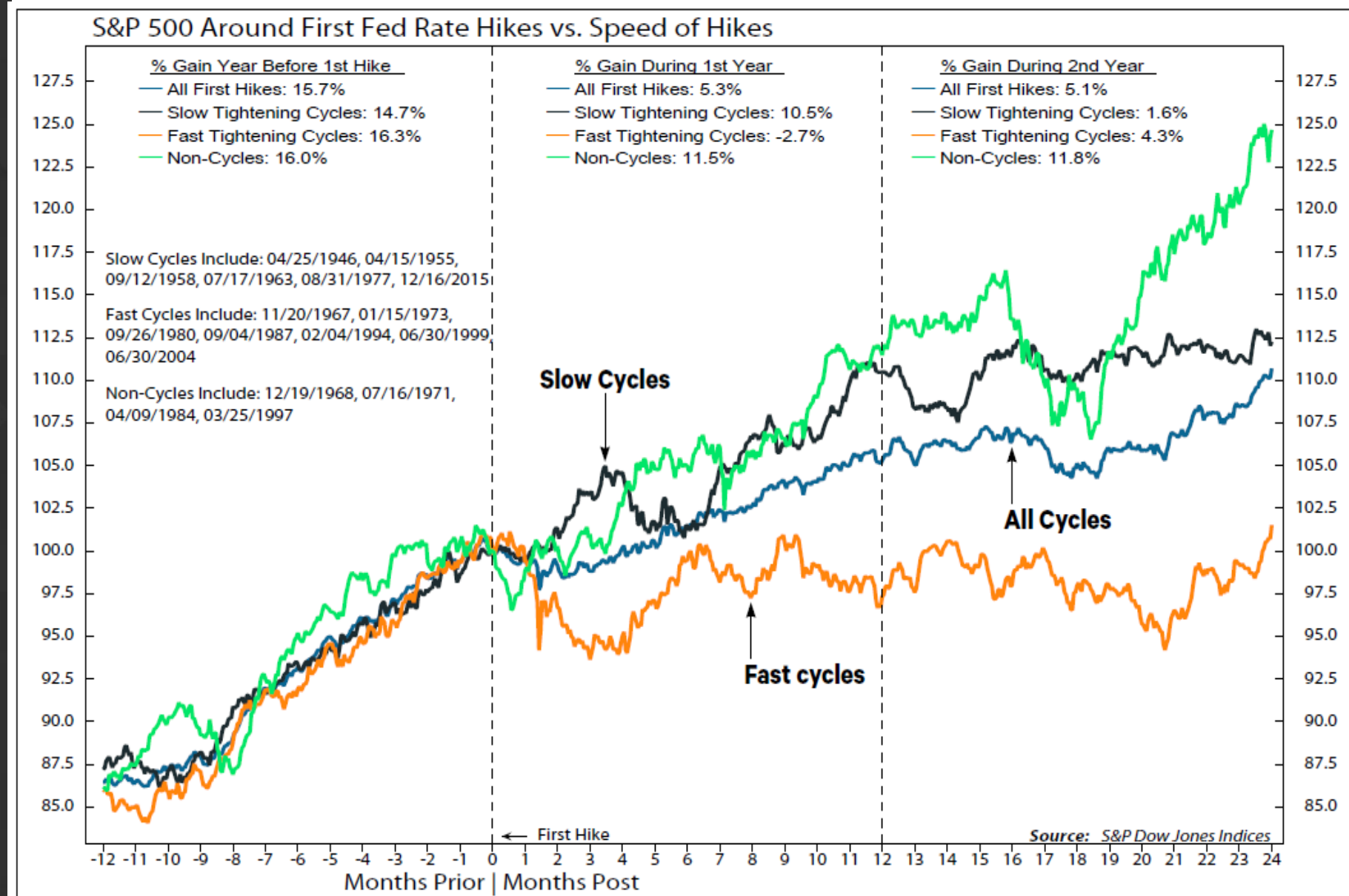
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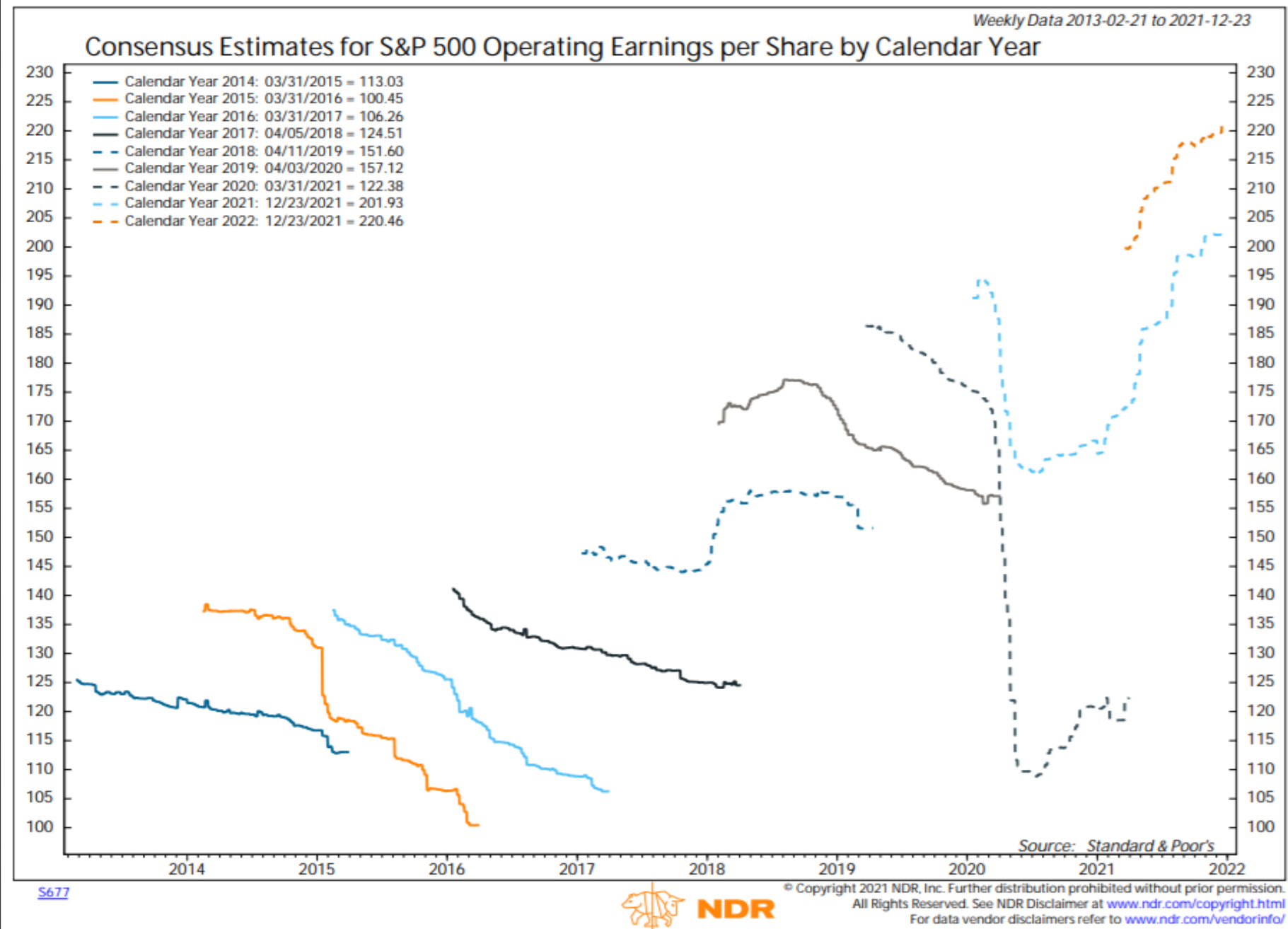
Rates can only go higher



Speed of Fed hikes matters



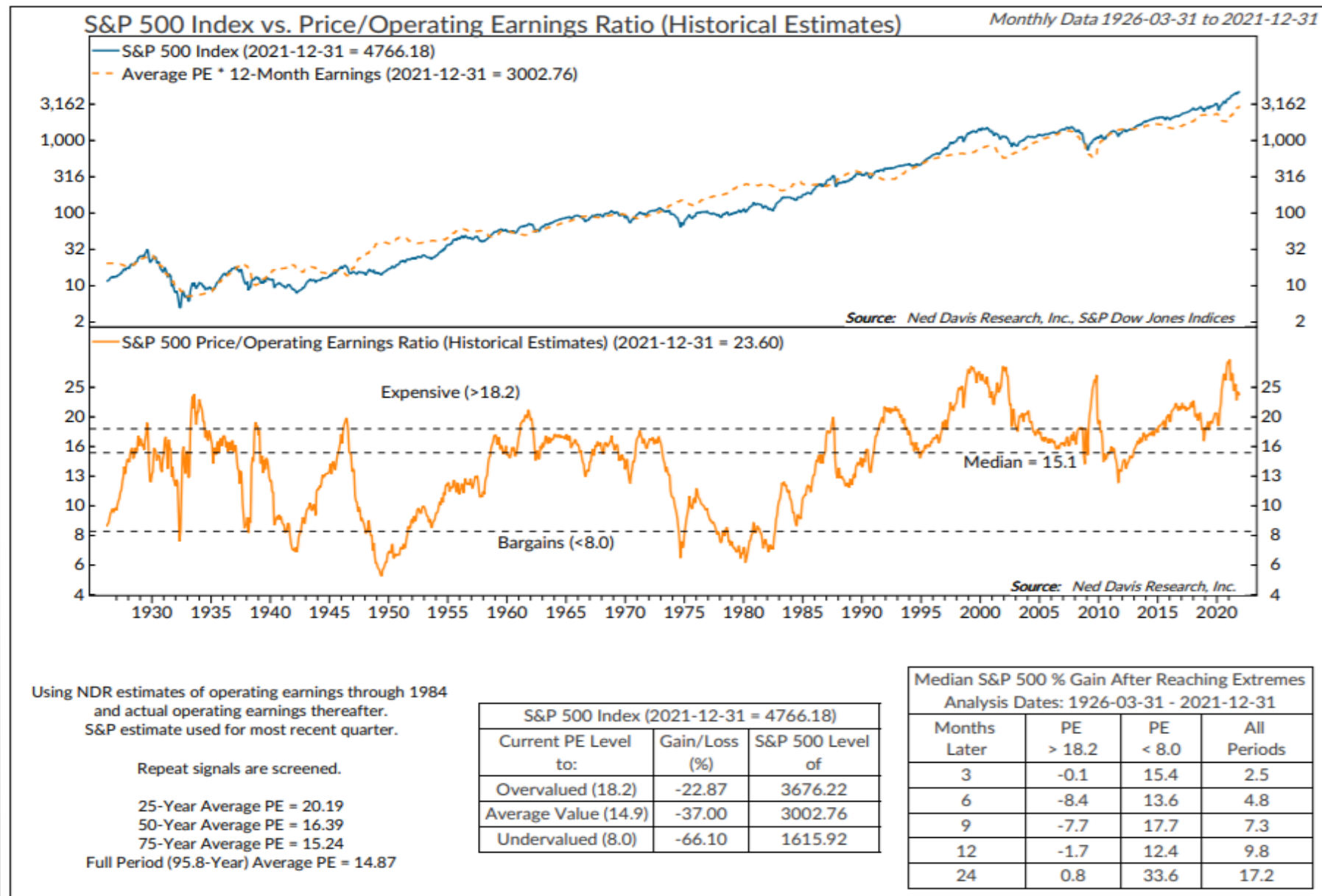
Will record earnings growth continue?



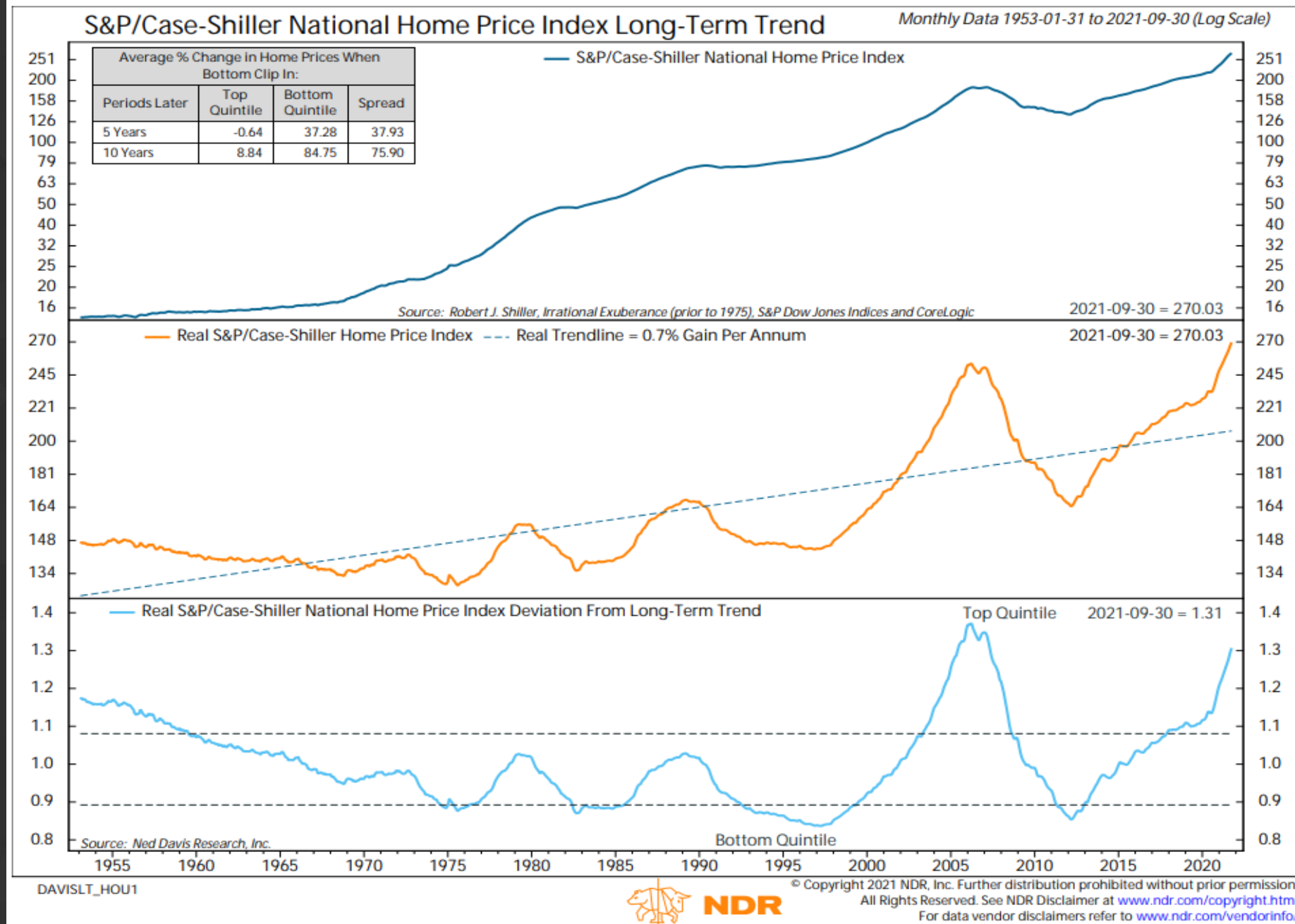
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Continued reversal on S&P valuations?



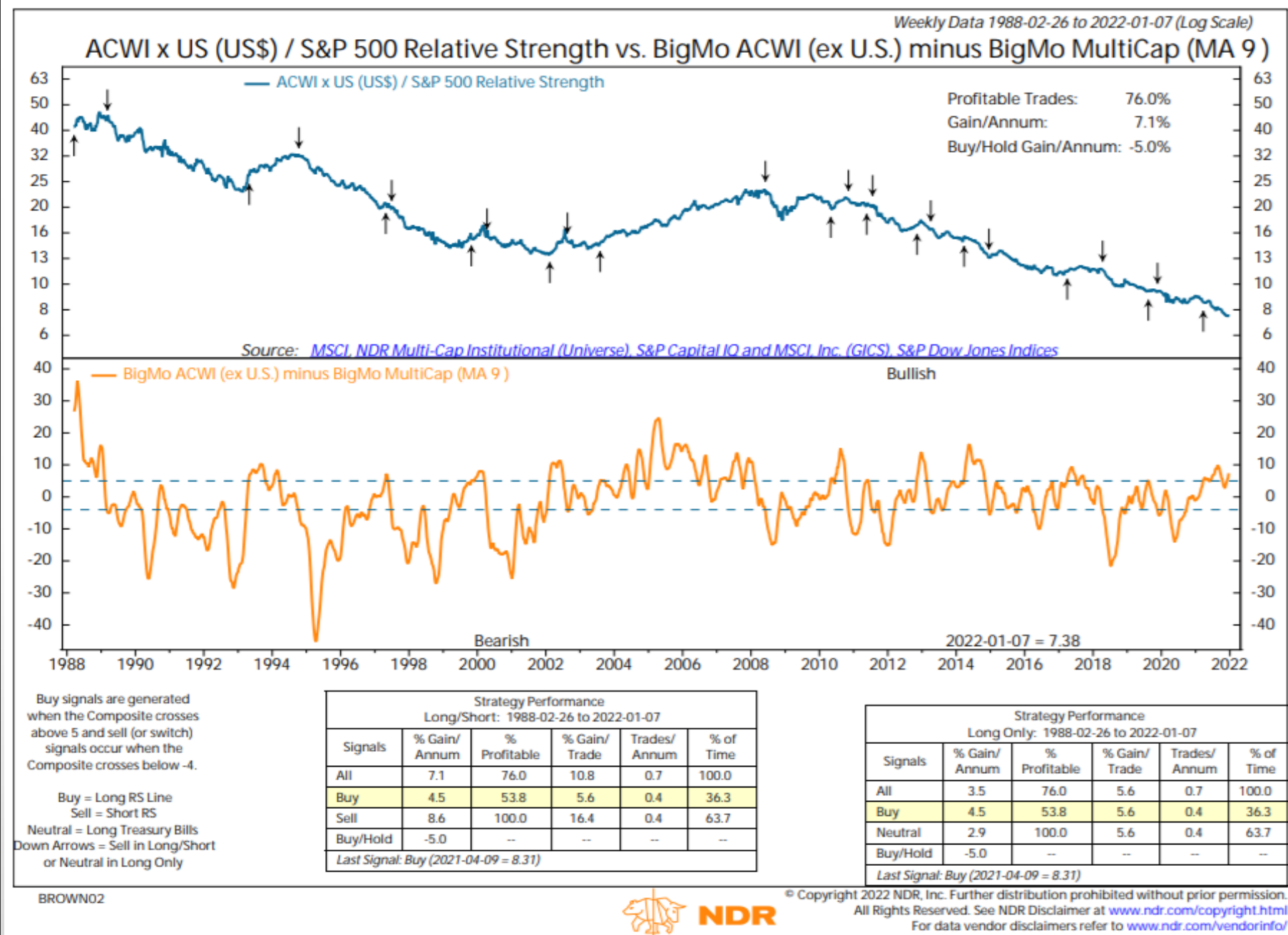
Housing looks extended..maybe not a reversal but a stall?



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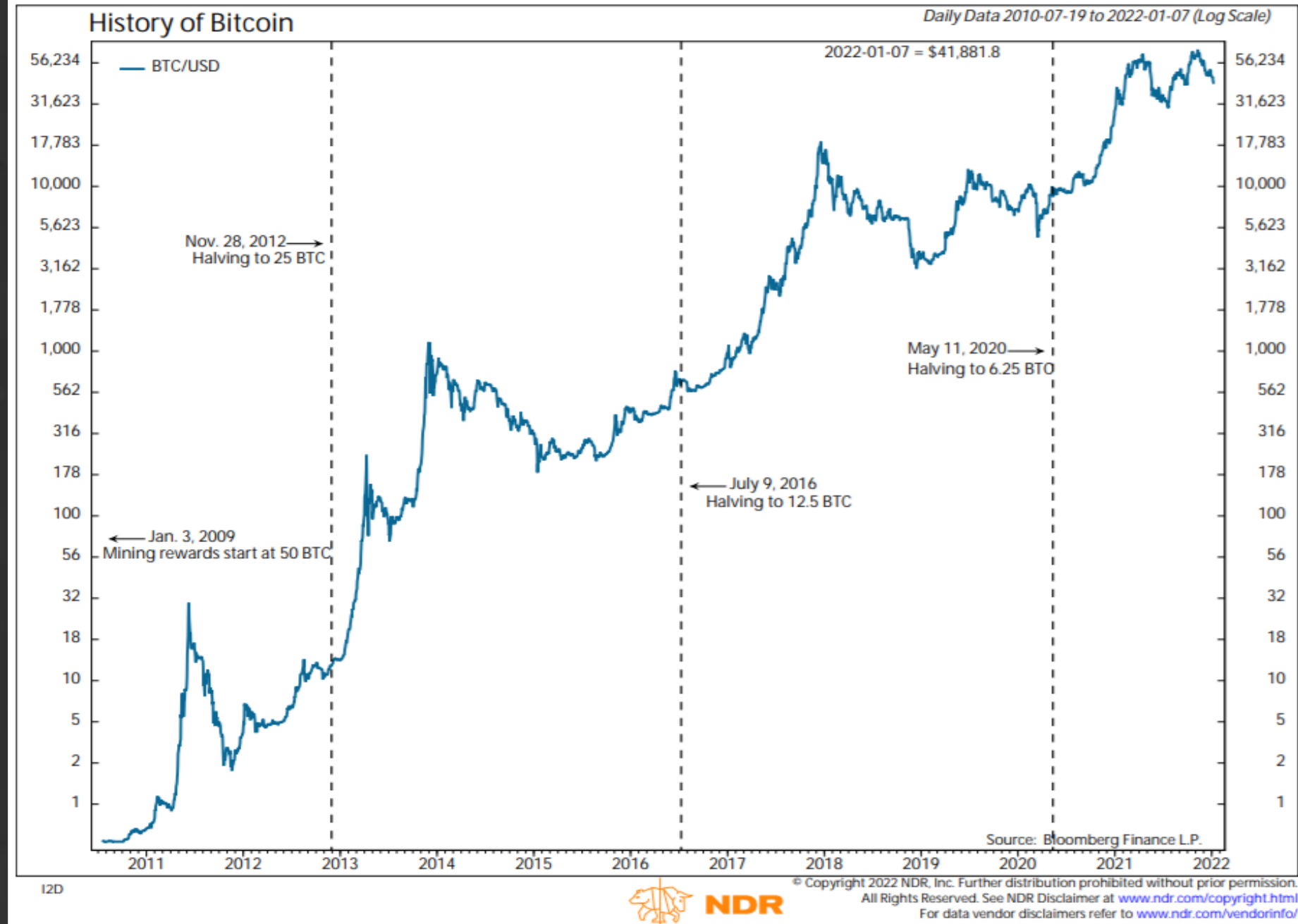
S&P vs International: A reversal in the making?



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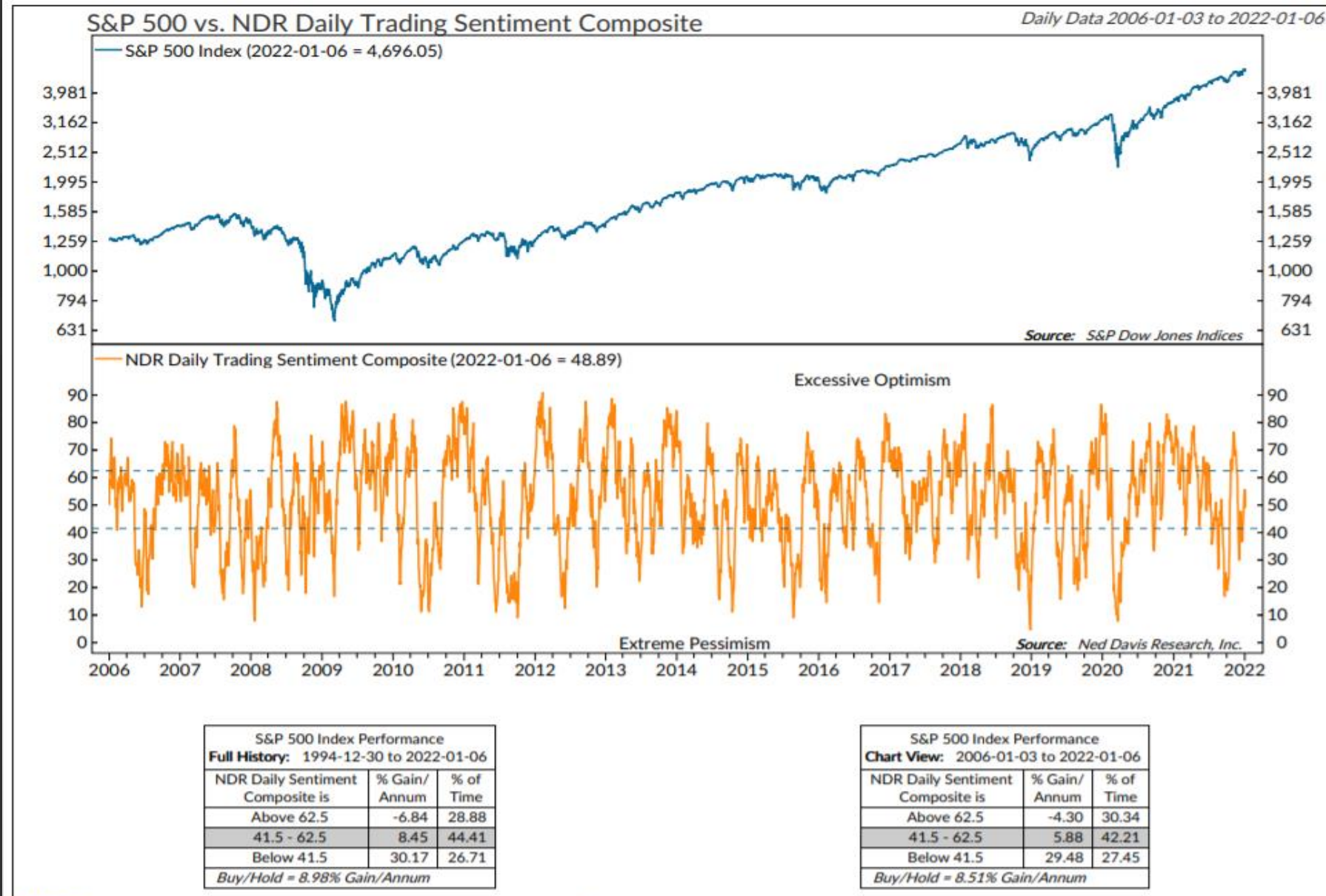
Crypto and Digital Assets



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Sentiment: Neutral



DAVIS265



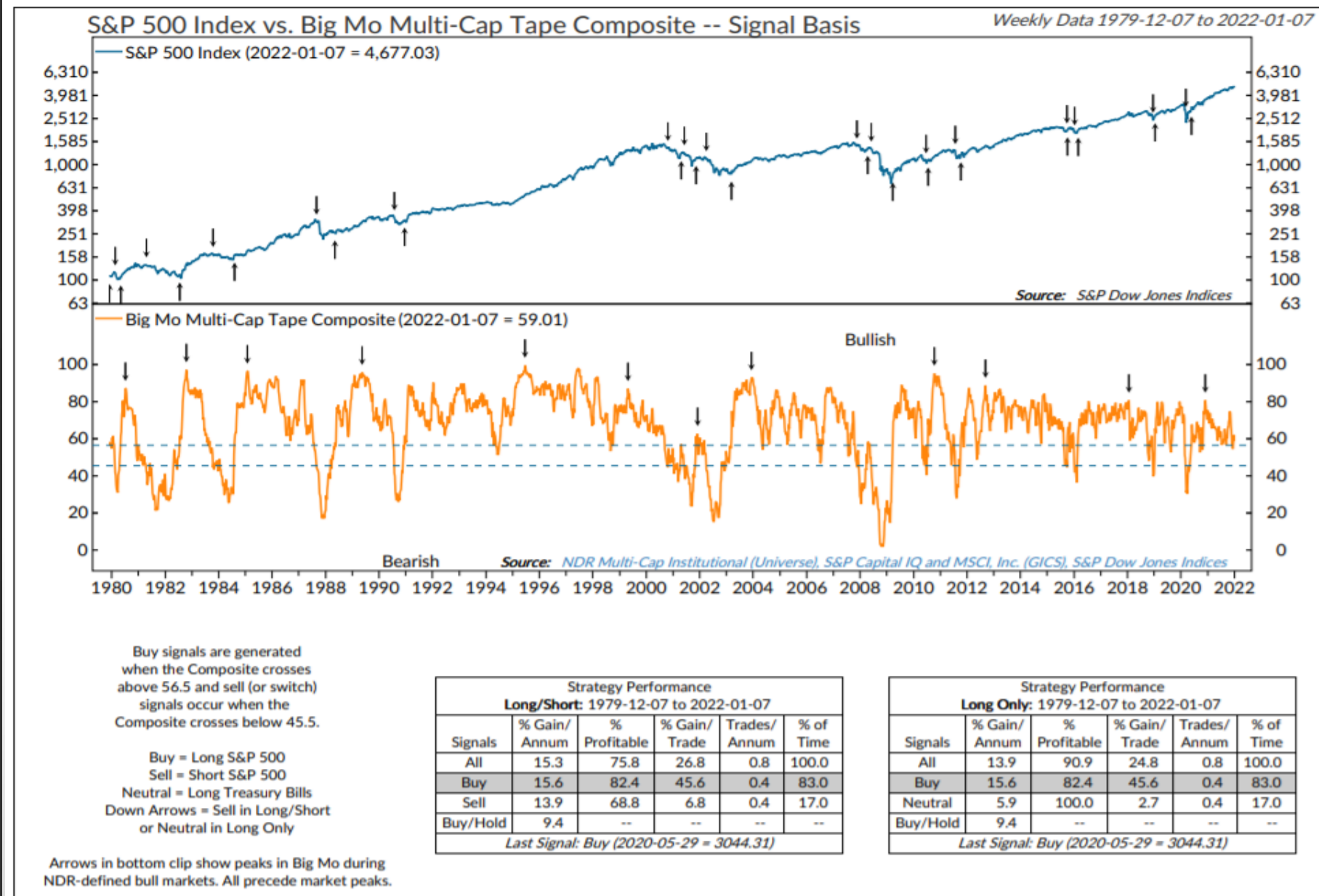
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**Trend:
Deteriorating
from highs but
still positive**



[DAVIS250A](#)












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BWM Tactical Positioning



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	OVERWEIGHT	MARKETWEIGHT	UNDERWEIGHT
Stocks			
Bonds			
Cash			
U.S.			
Large Cap			
Mid/Small Cap			
International			
Credit			
Duration			

No strategy assures success or protects against loss.

Bottom Line

- Potential reversals that would be positive for markets include a change in the COVID landscape, supply chain moderation and a slowing in the rate of inflation
- Potential reversals that could be negative are a slowing economic and earnings growth, a more restrictive Fed and valuation adjustments
- BWM believes the Fed holds the key to 2022
- Future asset price appreciation is likely to be lower than previous years, especially in assets that have outperformed
- BWM is still overweight equities vs bonds and cash



Executive Summary

- Slide 2 – This chart plots the relative performance of COVID leaders to laggards in the top clip and the number of new COVID cases in the U.S. as well as its seven-day moving average in the bottom clip. COVID leaders are businesses not meaningfully impacted or positively impacted by COVID 19. COVID laggards are significantly negatively impacted by COVID-19 related to stoppage of economic activity.
- Slide 3 – The top clip shows the global composite manufacturing PMI (Purchasing Managers' Index) for suppliers' delivery times, based on respondents' answer to the question "Are your suppliers' delivery times slower, faster or unchanged on average than one month ago?". An index value greater than 50 indicates faster deliveries. The middle clip shows the percentage of individual economies where the suppliers' delivery times index is above 50. The bottom clip shows the percentage of individual economies where the index has increased, compared to the prior month.
- Slide 4 – This chart shows the PCE Price Index Ex-Food & Energy versus the Federal Reserve's Index of Common Inflation Expectations, which combines 21 market and survey-based measures of expected inflation. The chart currently shows actual inflation is higher than market expectations.
- Slide 5 – This chart plots Job Openings in the top clip, Hires in the middle clip, and total Separations in the bottom clip based on the Job Openings and Labor Turnover Survey, a monthly survey of private nonfarm establishments and local government entities.
- Slide 6 – The chart compares Ned Davis' Global probability model to the MSCI ACWI. The top clip plots the MSCI ACWI (all country world index). The bottom clip plots NDR's Global Recession Probability Model which is based on Amplitude-Adjusted Composite Leading Indicators (CLIs) for 35 countries. Each "CLI" contains a wide range of economic indicators such as money supply, yield curve, building permits, consumer and business sentiment, share prices, and manufacturing production. There are usually five to ten indicators, which vary by type and weight, depending on the country, and are selected based on economic significance, cyclical behavior, and quality. A score above 70 indicates high recession risks while a score below 30 means low risks.
- Slide 7 – This chart plots the holdings of the US Federal Reserve. The top clip plots the total value in dollars and as a % of GDP. The bottom clip plots total securities held by the Fed, further broken down by the type of security.
- Slide 8 – This chart uses overnight interest rate swaps to gauge the market's expectation of Federal Reserve policy rates. The top clip plots the 1 month OIS with the 1, 2, and 3 year forward swap rates. The bottom clip plots the difference between OIS 1-year and current swaps, 2-year and 1-year swaps, and 3-year and 2-year swaps, with positive values indicating expectations the Fed will raise rates and negative values indicating expectations the Fed will cut rates.
- Slide 9 – This chart gives perspective on how the stock market's returns have corresponded to the Federal Reserve's interest rate policy. The chart shows S&P 500 Index performance around the start of Fed tightening cycles. A fast cycle is one in which the Fed raises rates at almost every meeting, on average. A slow cycle is one in which the Fed waits at least one meeting in between hikes, on average. A non-cycle is two or fewer hikes before a rate cut. Historically, stocks have digested the first year of slow rate tightening cycles well but fallen during the first year of fast tightening cycles, on average.
- Slide 10 – The chart shows analysts' consensus projections for S&P 500 earnings per share for calendar years 2013 through 2021. This chart highlights the difficulty of forecasting earnings, and that the consensus of "experts" can change dramatically over time. The chart currently indicates high earnings expectations.



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Executive Summary

- Slide 11 – The top clip plots the S&P 500 against its 12-month earnings multiplied by the average historical price to adjusted earnings ratio. The resulting dashed line represents the level of the S&P 500 if it were trading at historical valuations. The bottom clip shows the adjusted S&P 500 P/E ratio, the median, and parameters that indicate extremes (expensive vs bargains). The chart currently indicates that stocks are relatively overvalued compared to their history.
- Slide 12 – This chart plots the S&P/Case Shiller National Home Price Index (top clip), the Real S&P/Case Shiller National Home Price Index and trendline (middle clip), and the deviation of the Real S&P/Case Shiller National Home Price Index from the long term trendline (bottom clip). The table at the top right indicates average % change in home prices 5 and 10 years later based on the level of the bottom clip.
- Slide 13 – The top clip of this chart plots the relative performance of international stocks, measured by ACWI ex US, to US stocks, measured by S&P 500. The bottom clip plots the technical health of international vs US stocks, using ACWI ex US and S&P 500 respectively. Technical health is determined using the NDR Big Mo Composite Model for each index, a composite of over 100 component technical indicators.
- Slide 14 – This chart plots the price of Bitcoin, in USD, since 2011. “Halving” events, where the reward for processing bitcoin transactions is decreased by one half, are indicated by vertical lines.
- Slide 15 – This chart is designed to highlight short-term swings in investor psychology. It combines a number of individual indicators in order to represent the psychology of a broad array of investors to identify trading extremes that may be used for contra or hedging trades. The data currently indicates that sentiment is excessively optimistic. Historically, returns have been poor when there is excessive optimism.
- Slide 16 – The top clip plots the S&P 500 index and the bottom clip plots the NDR Big Mo Multi-Cap Tape Composite Model, an aggregate of over 100 component indicators that generates a reading between 0% and 100%, reflecting the percentage of the component indicators which are currently giving bullish signals for the S&P 500 Index.
- Slide 17 - We are overweight the benchmark weighting for stocks, underweight bonds, and benchmark weight for cash. Within the equity allocation, we are overweight US and Large Cap, and market weight International and Mid/Small Cap. Within fixed income, we are overweight credit and have a focus on owning bonds with shorter duration.



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