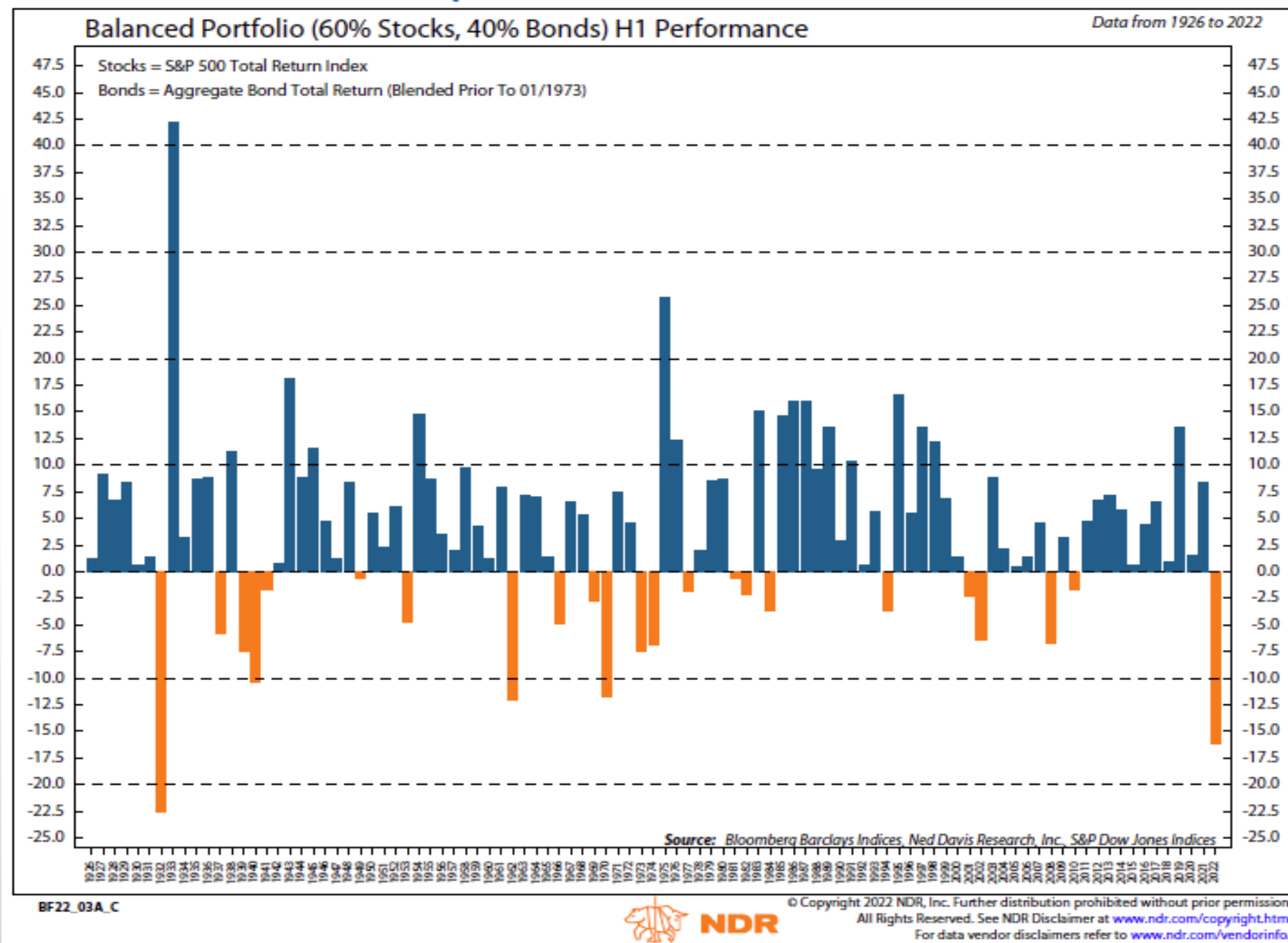


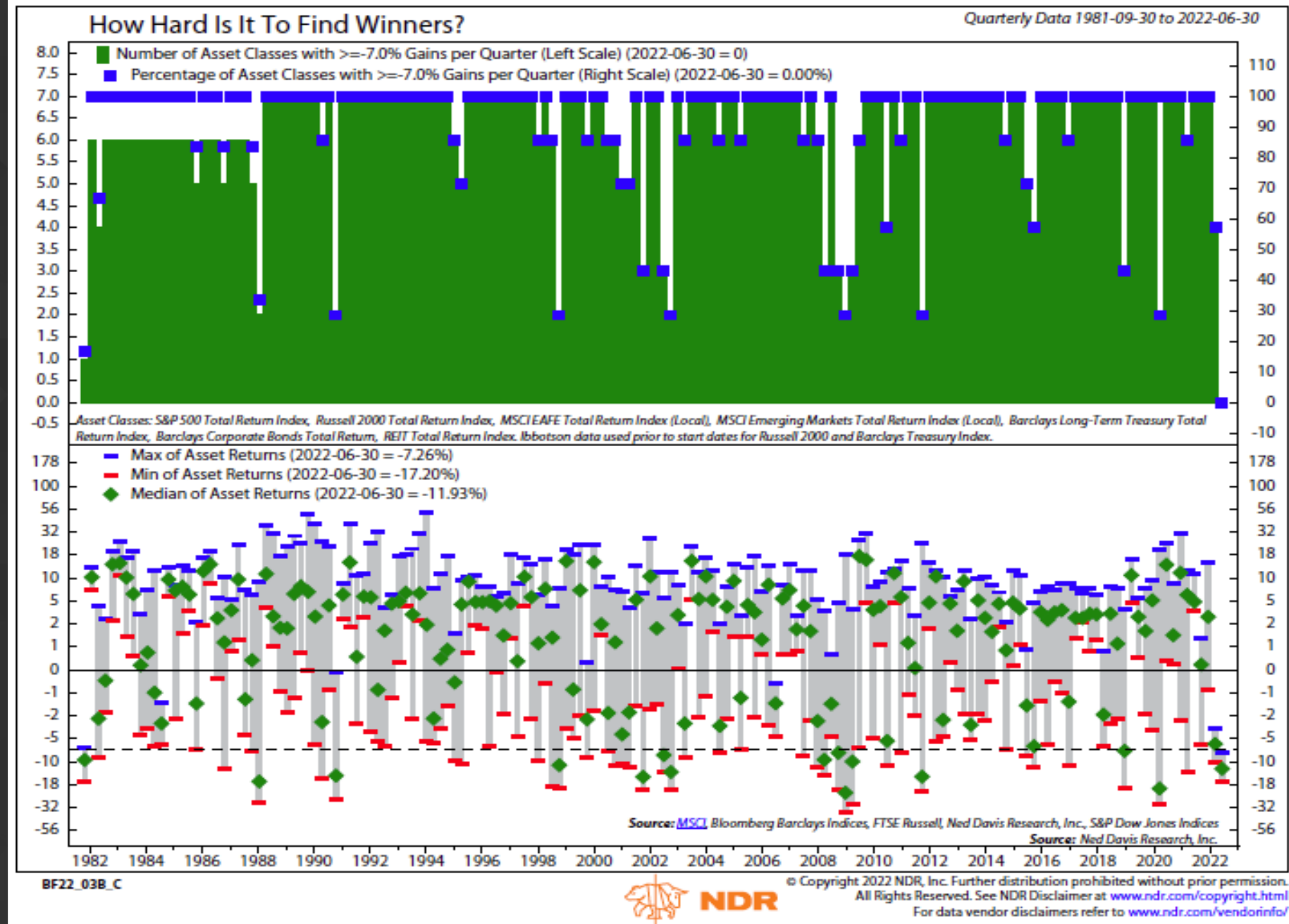


**BWM Investment Strategy
Mid Year Update
Inflation, Recession and The Fed**

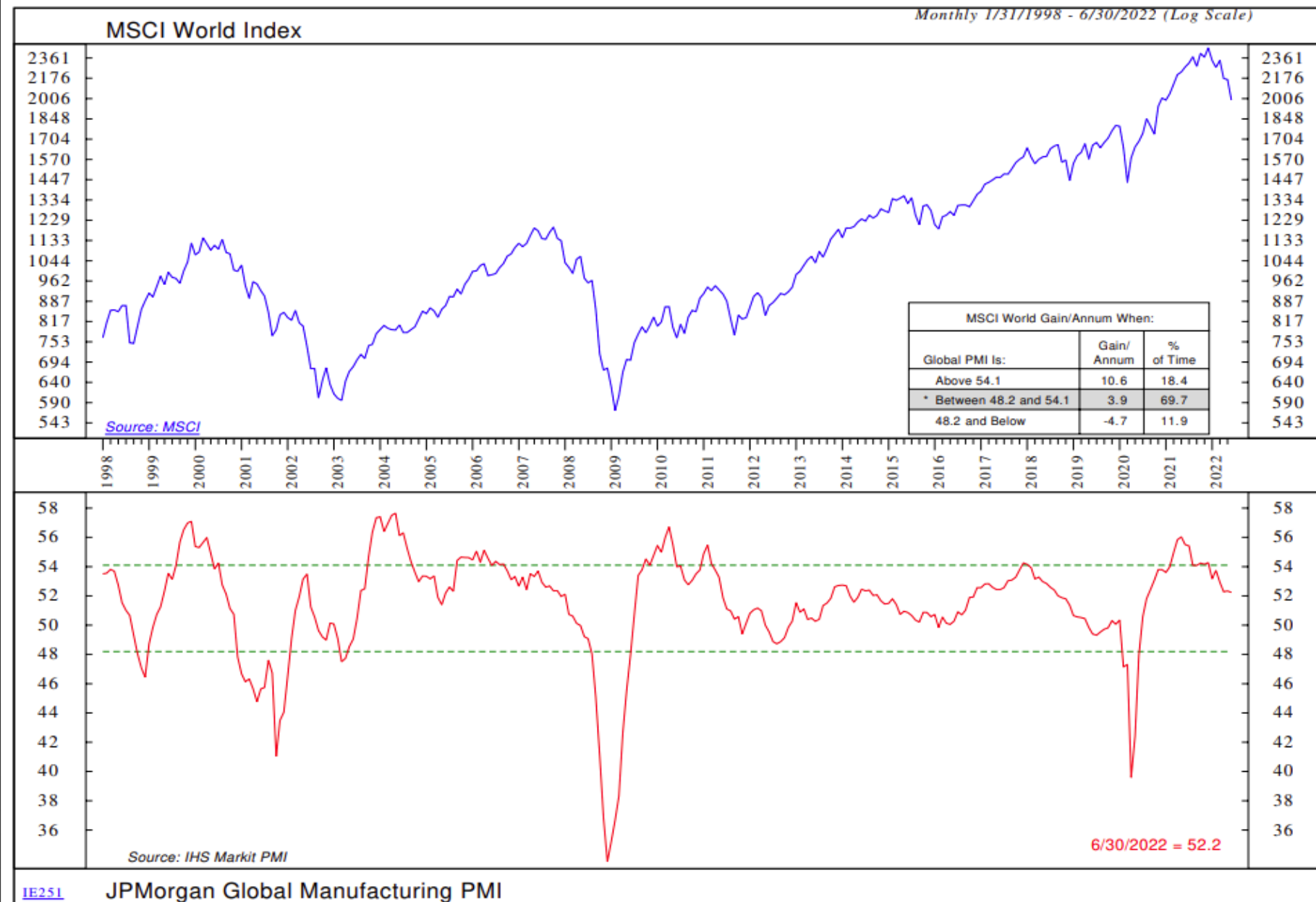
Worst Half Year Since 1932 For 60/40



No Place to Hide



Global Economy Still Growing...

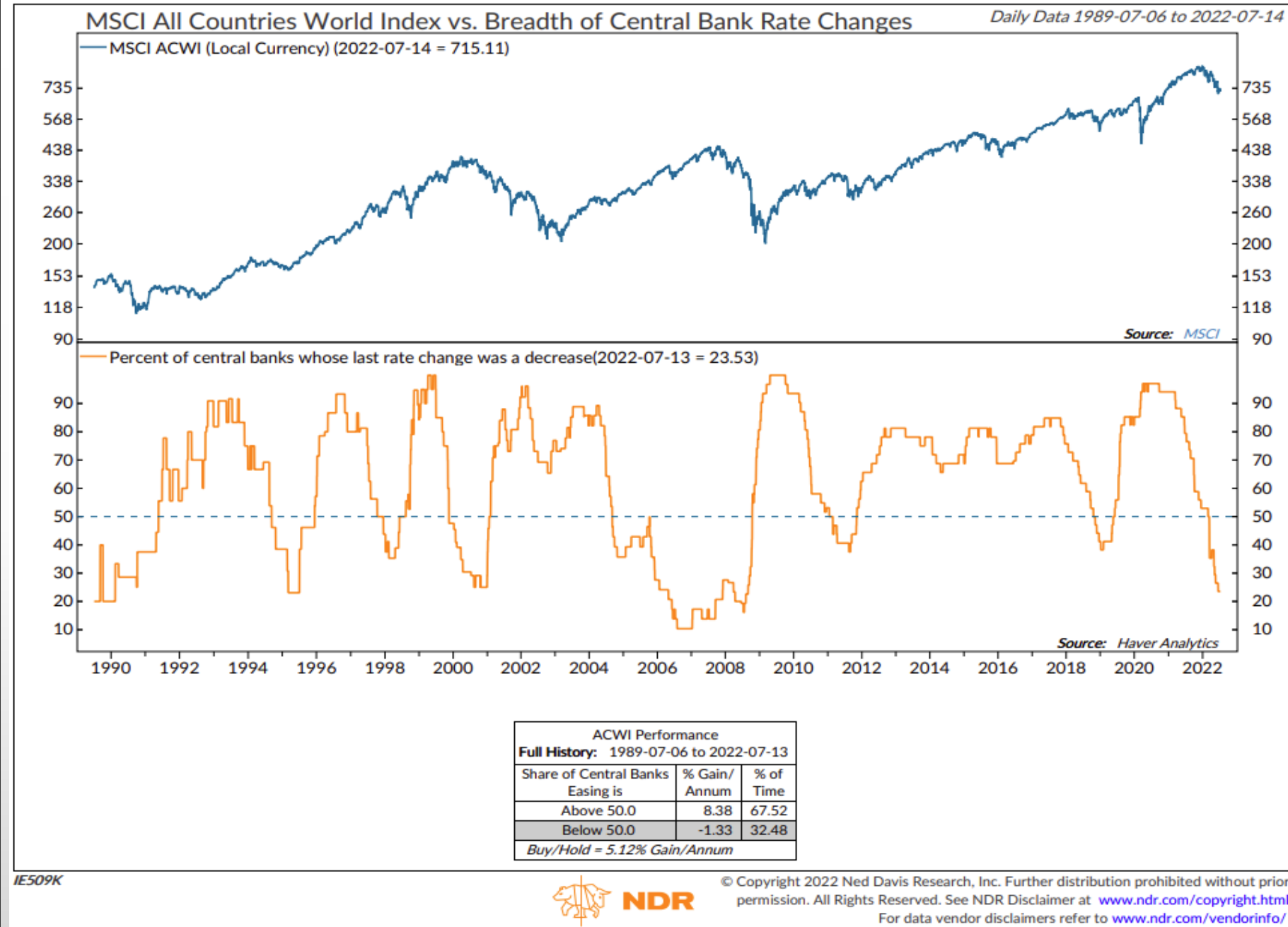


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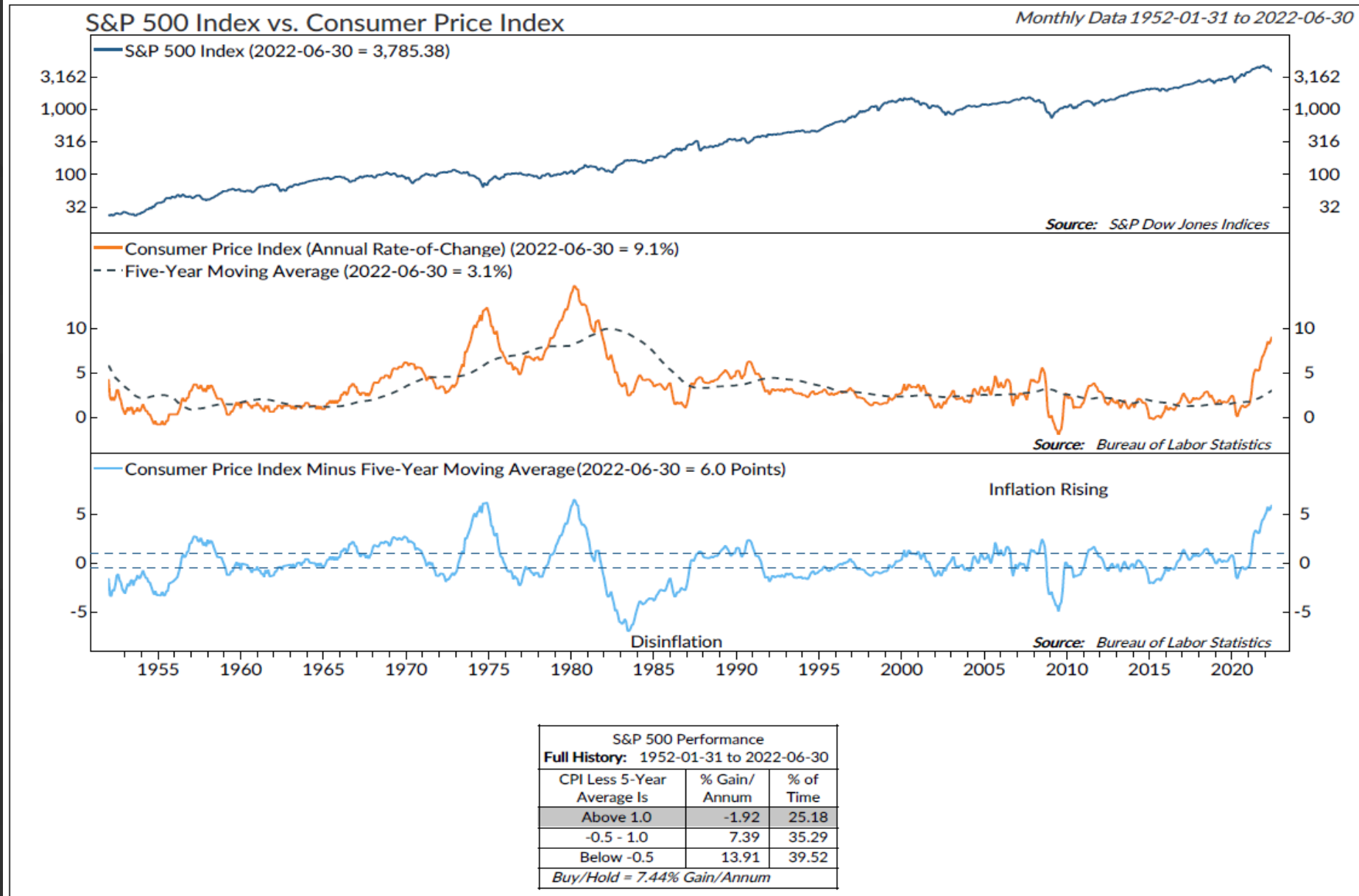
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...But Risks Rising as Central Banks Tighten



Its All About Inflation

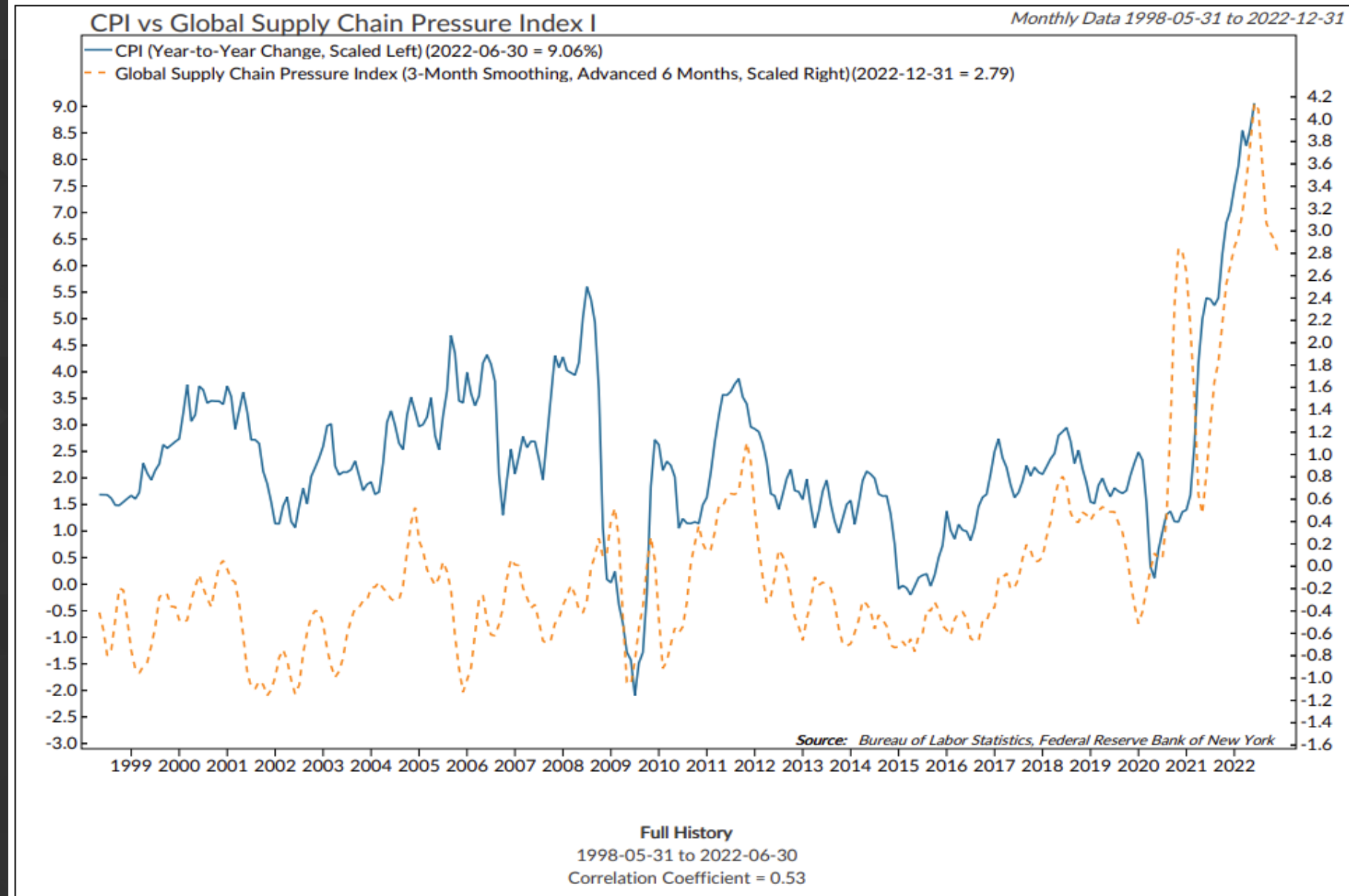


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Supply Chain Issues Easing



E755D



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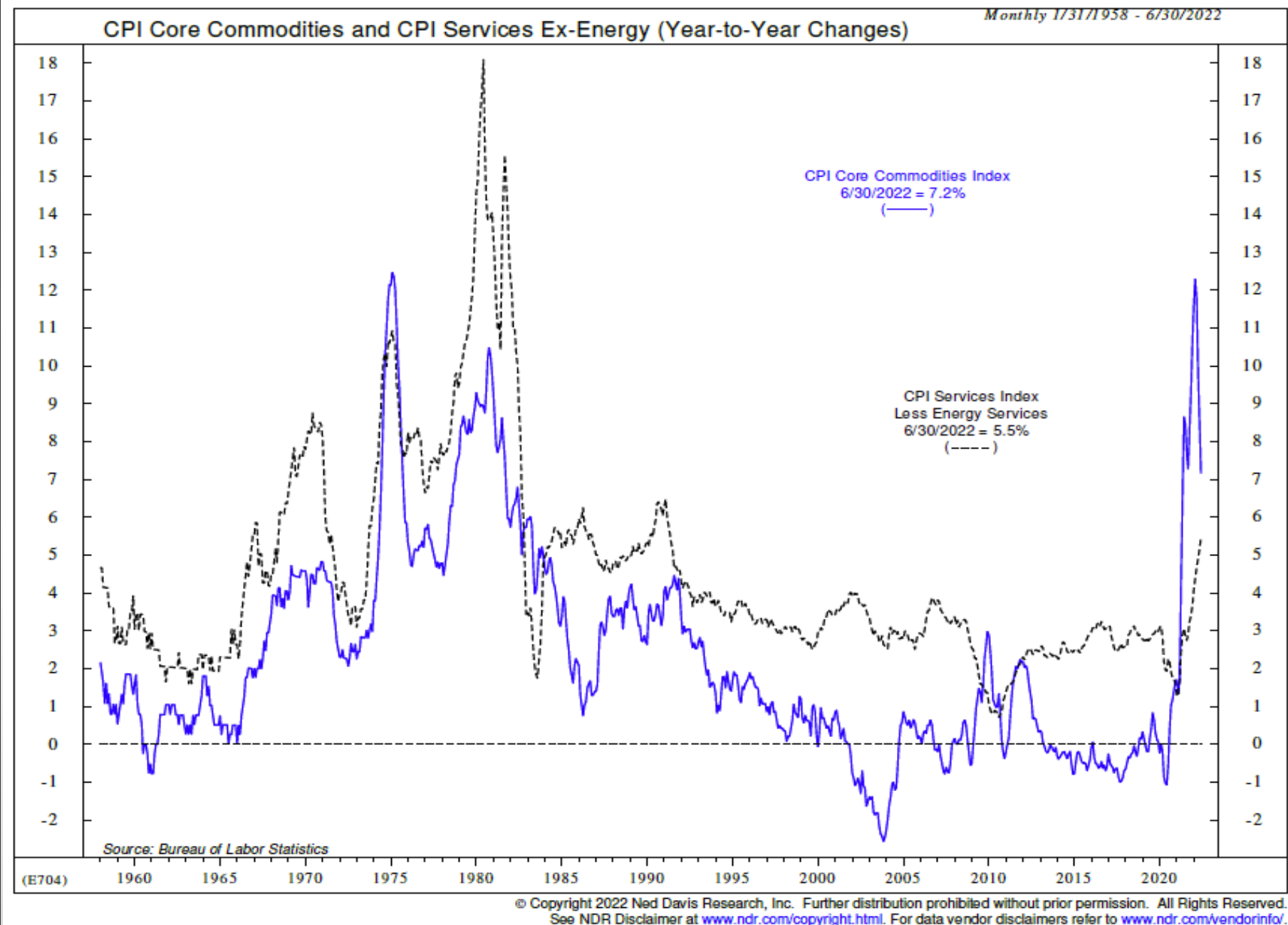
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Commodity CPI Falling, Services Rising

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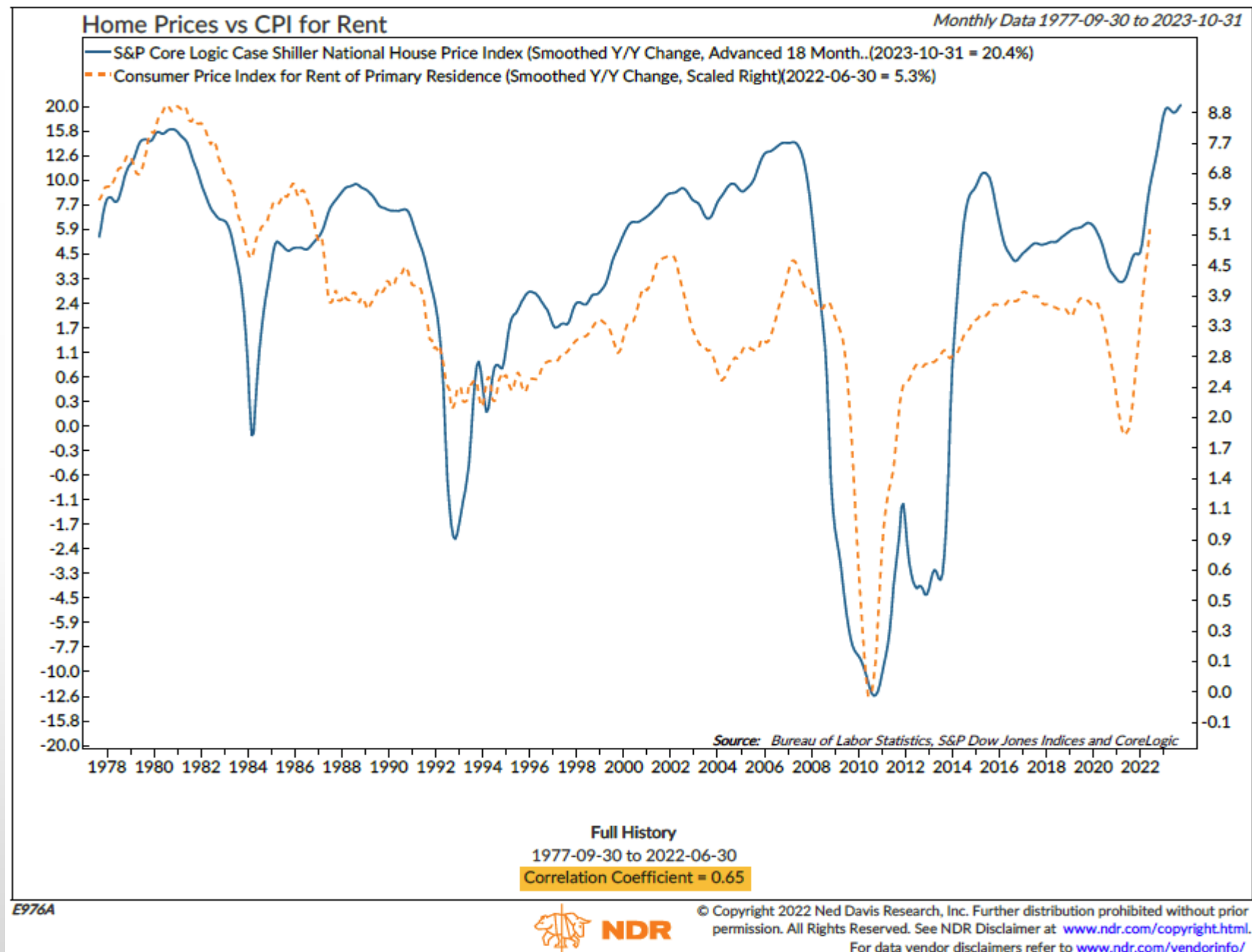


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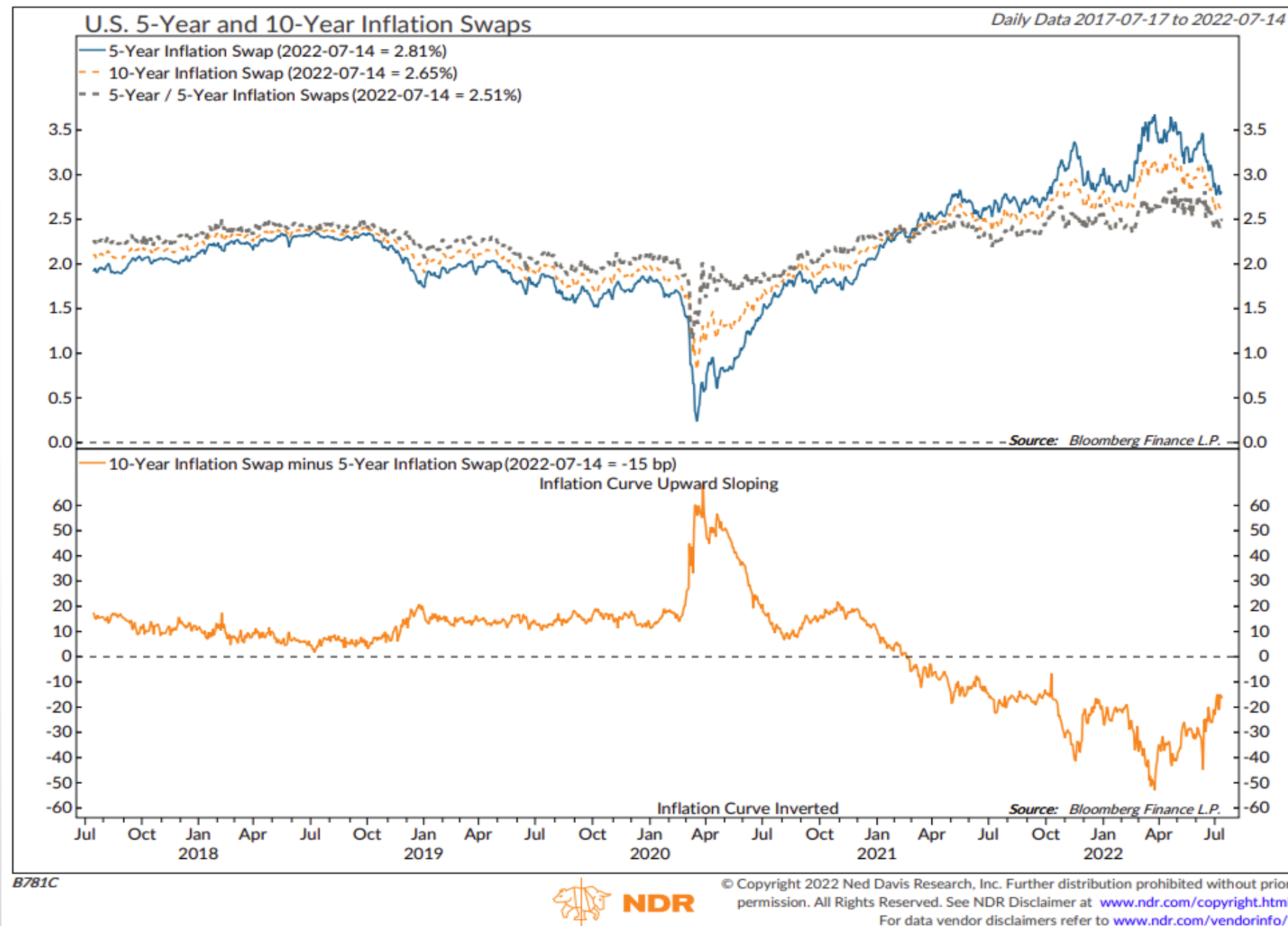
CPI for Rent Continues to Increase

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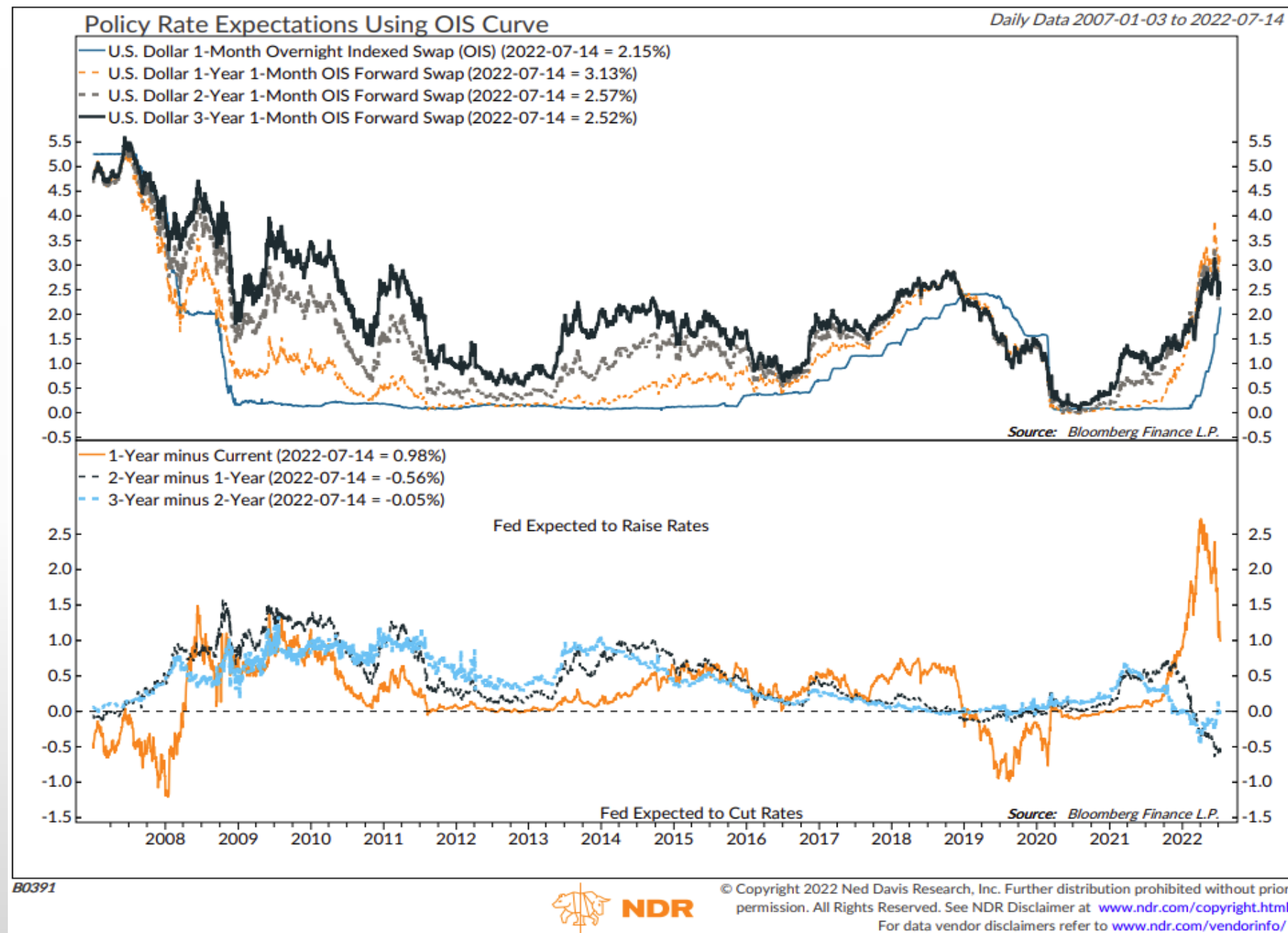


5 Year Inflation Expectations Coming Down

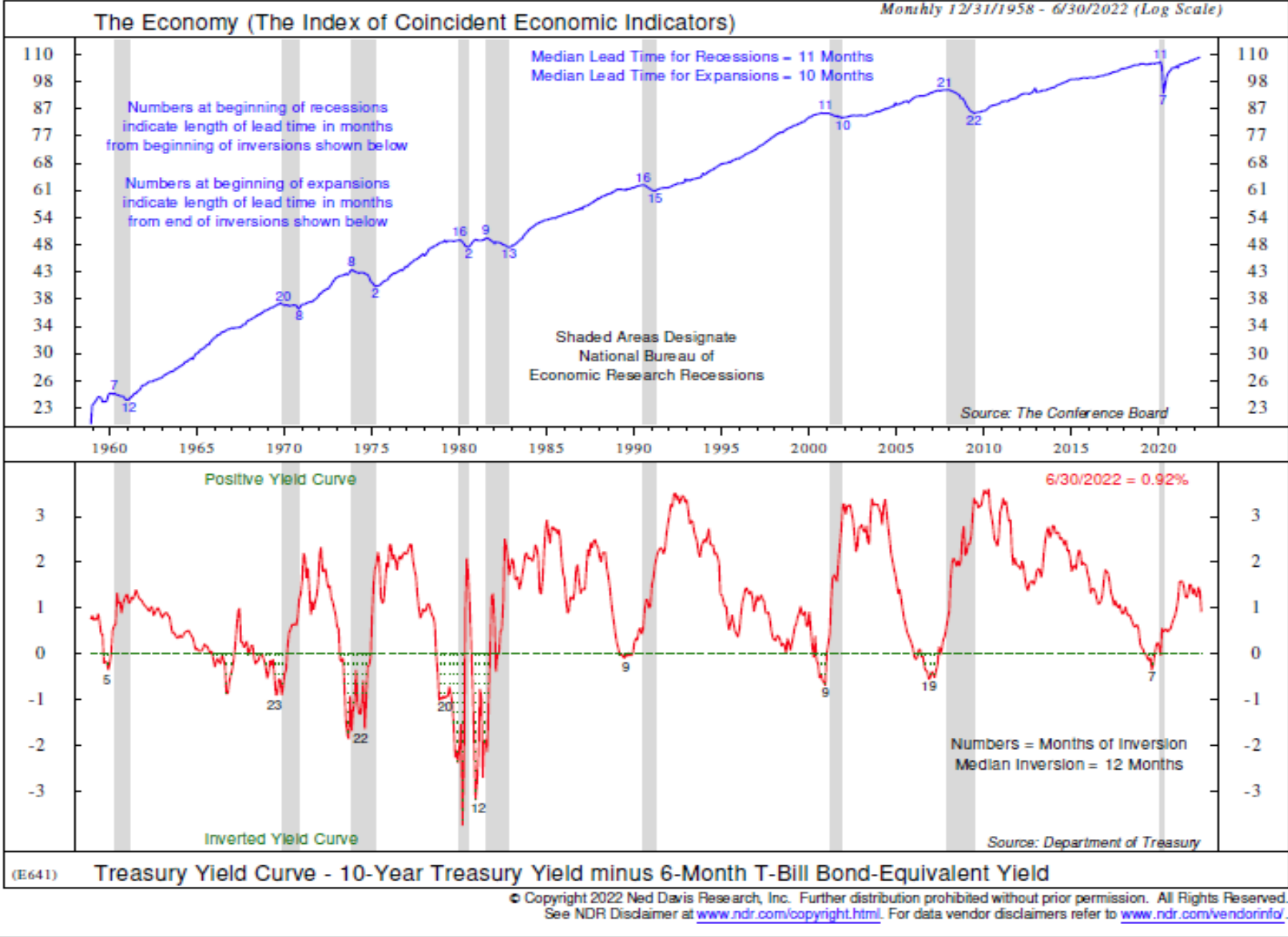
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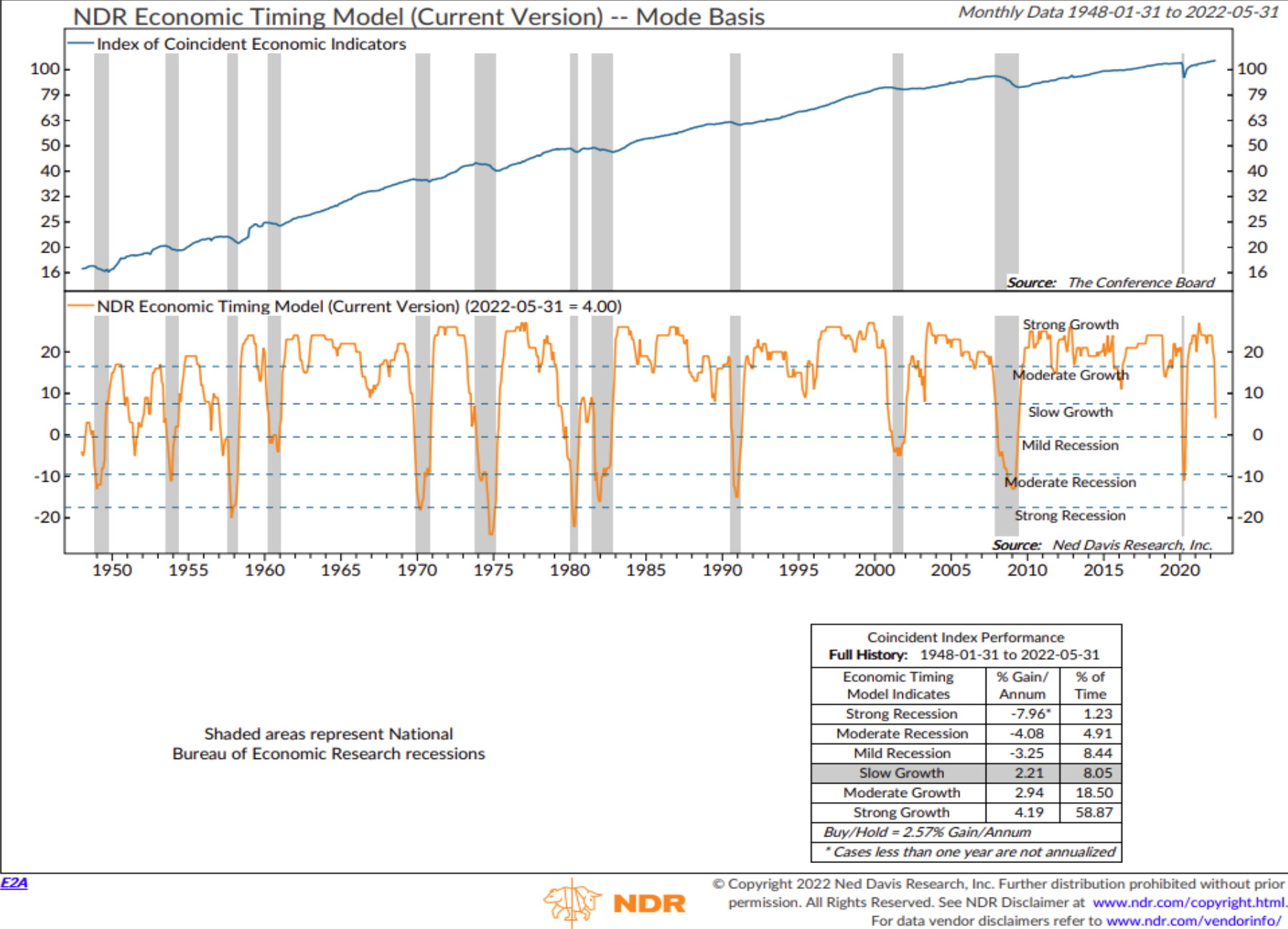
A Friendlier Fed?



Recession Watch: Yield Curve

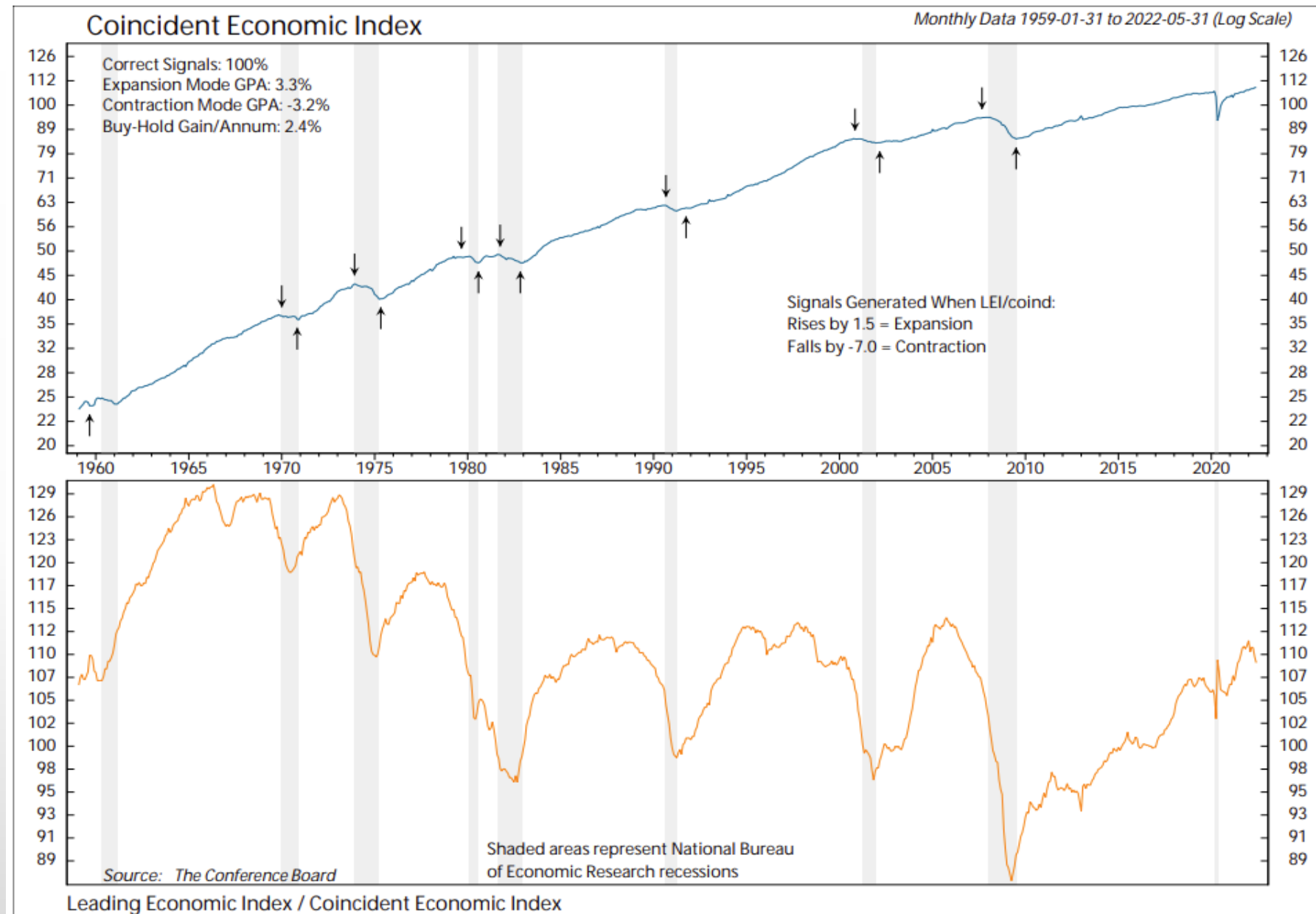


Recession Watch: Economy Slowing, but Still Growing



Recession Watch: Leading Indicators Sill in Expansion

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DAVIS273

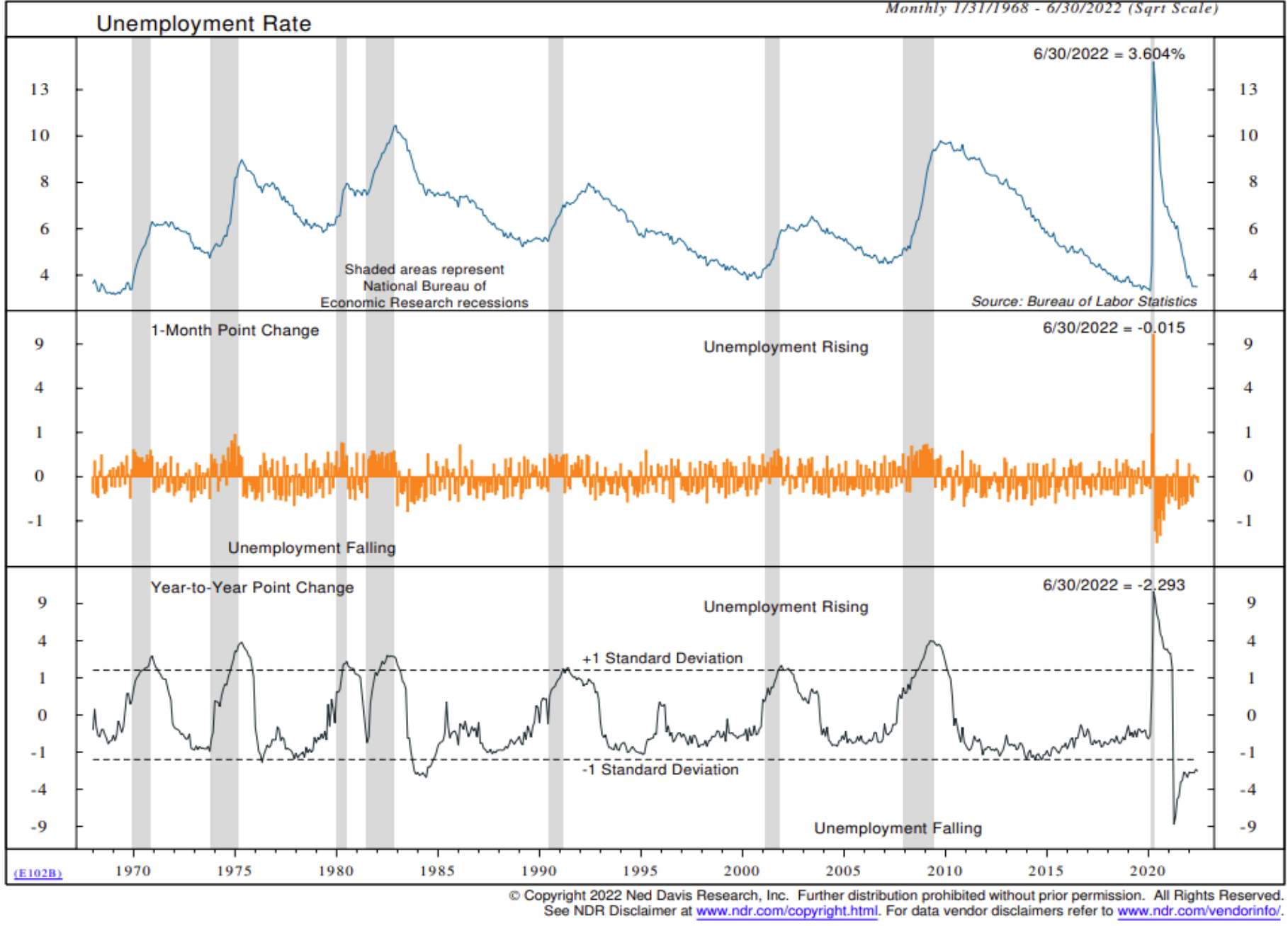


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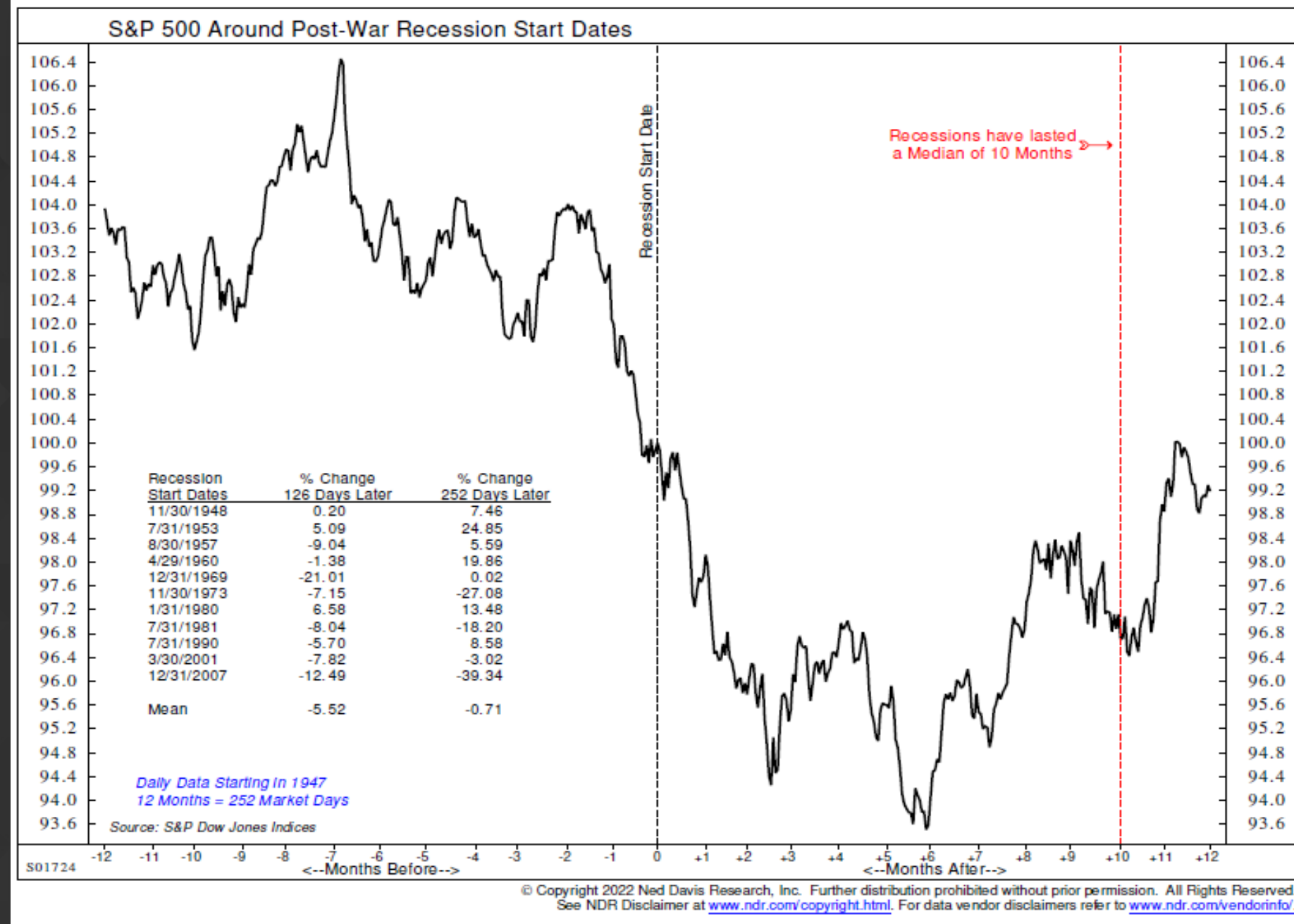
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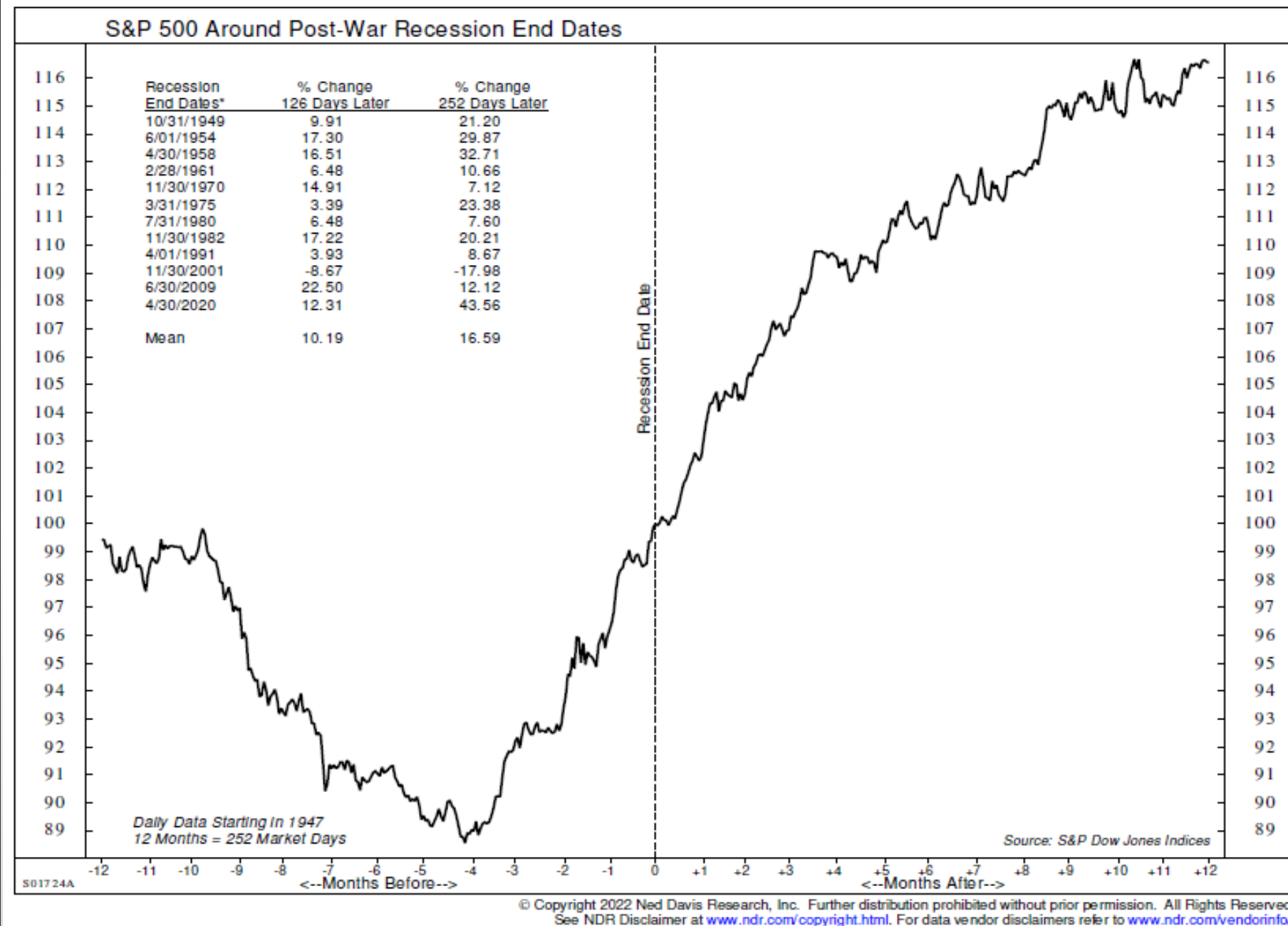
Recession Watch:
Employment
Strong



Market Falls Prior to Start of Recession...

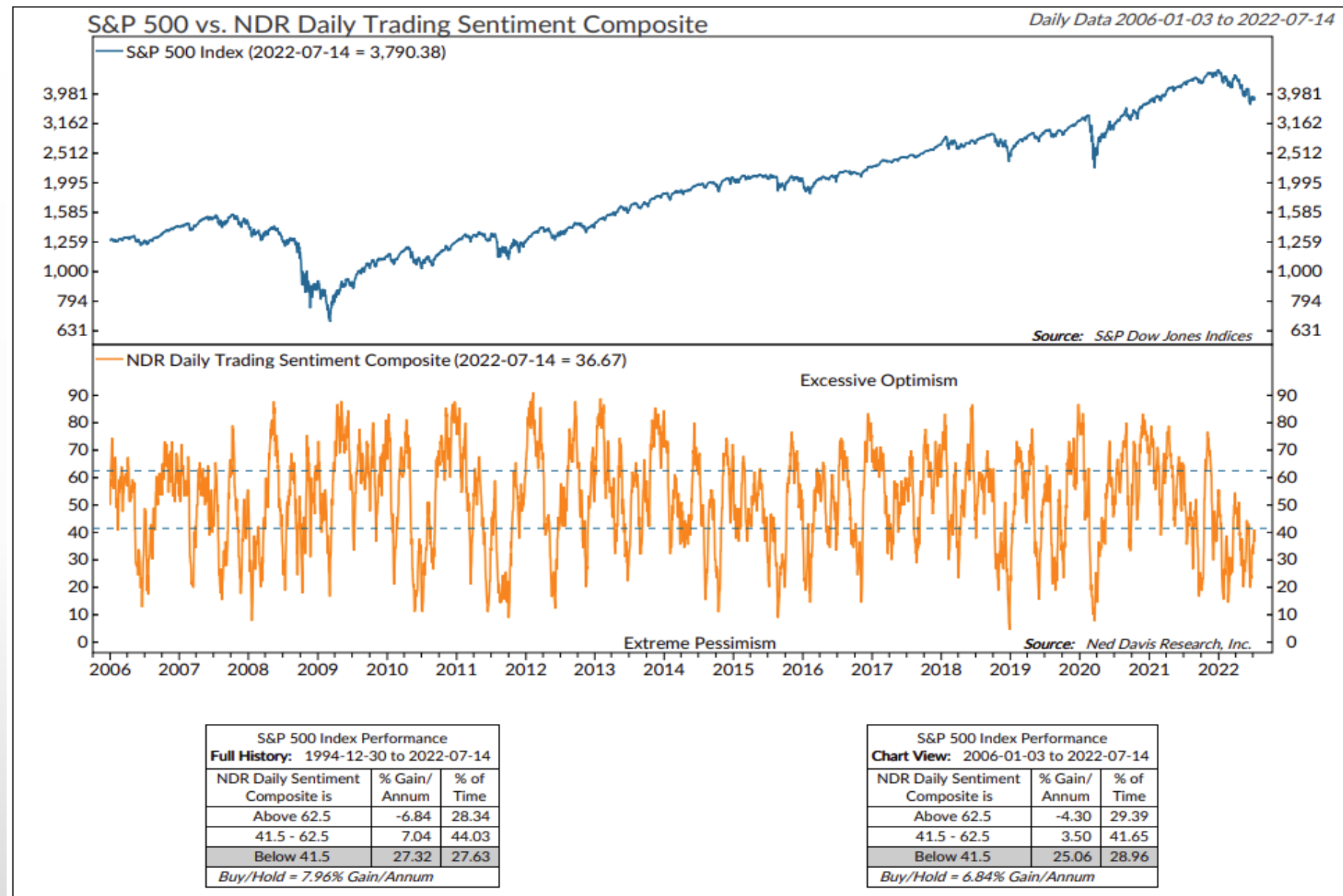


...And Moves
Higher Well
Before End of
Recession

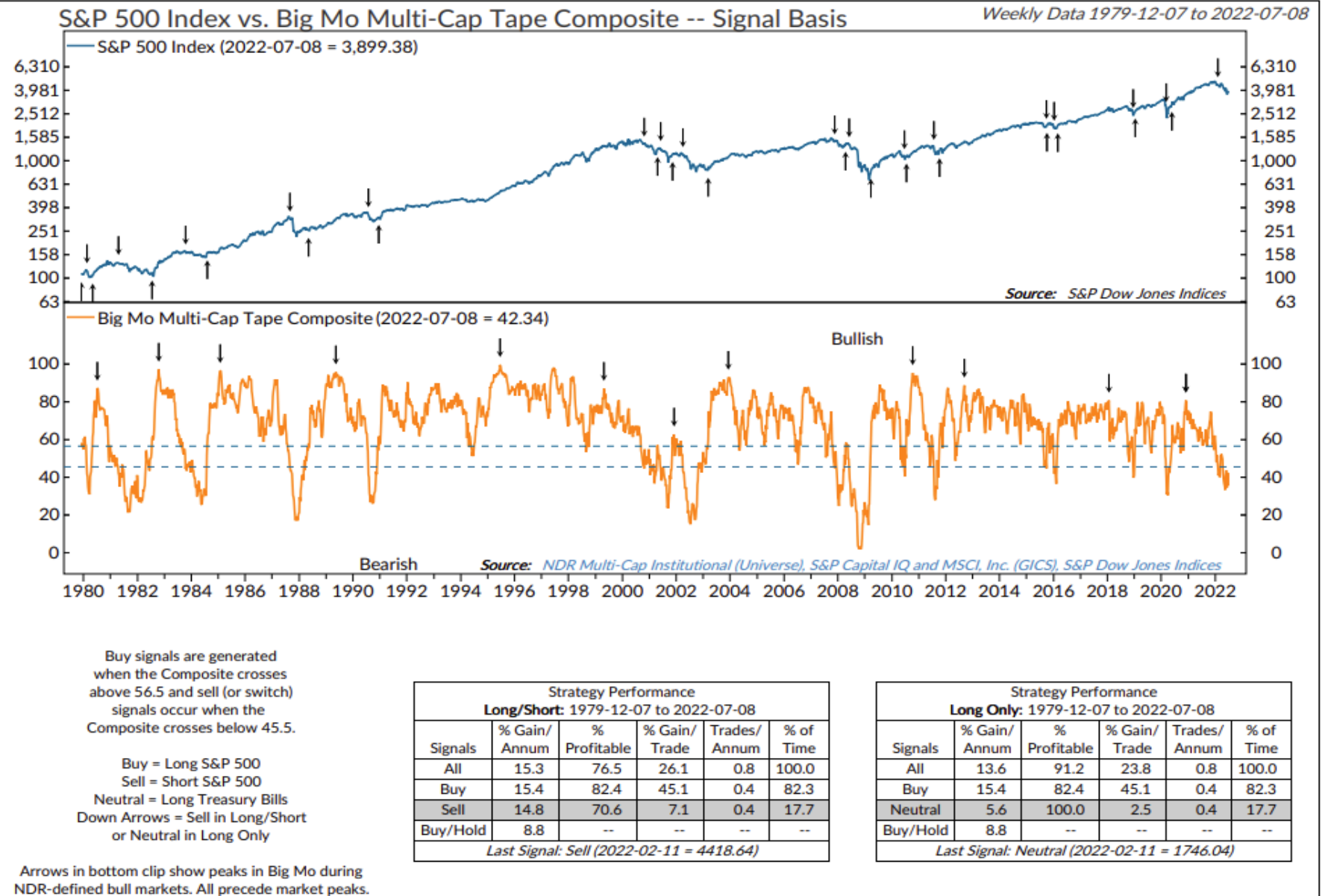


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Sentiment Bullish



Momentum Bearish



DAVIS250A

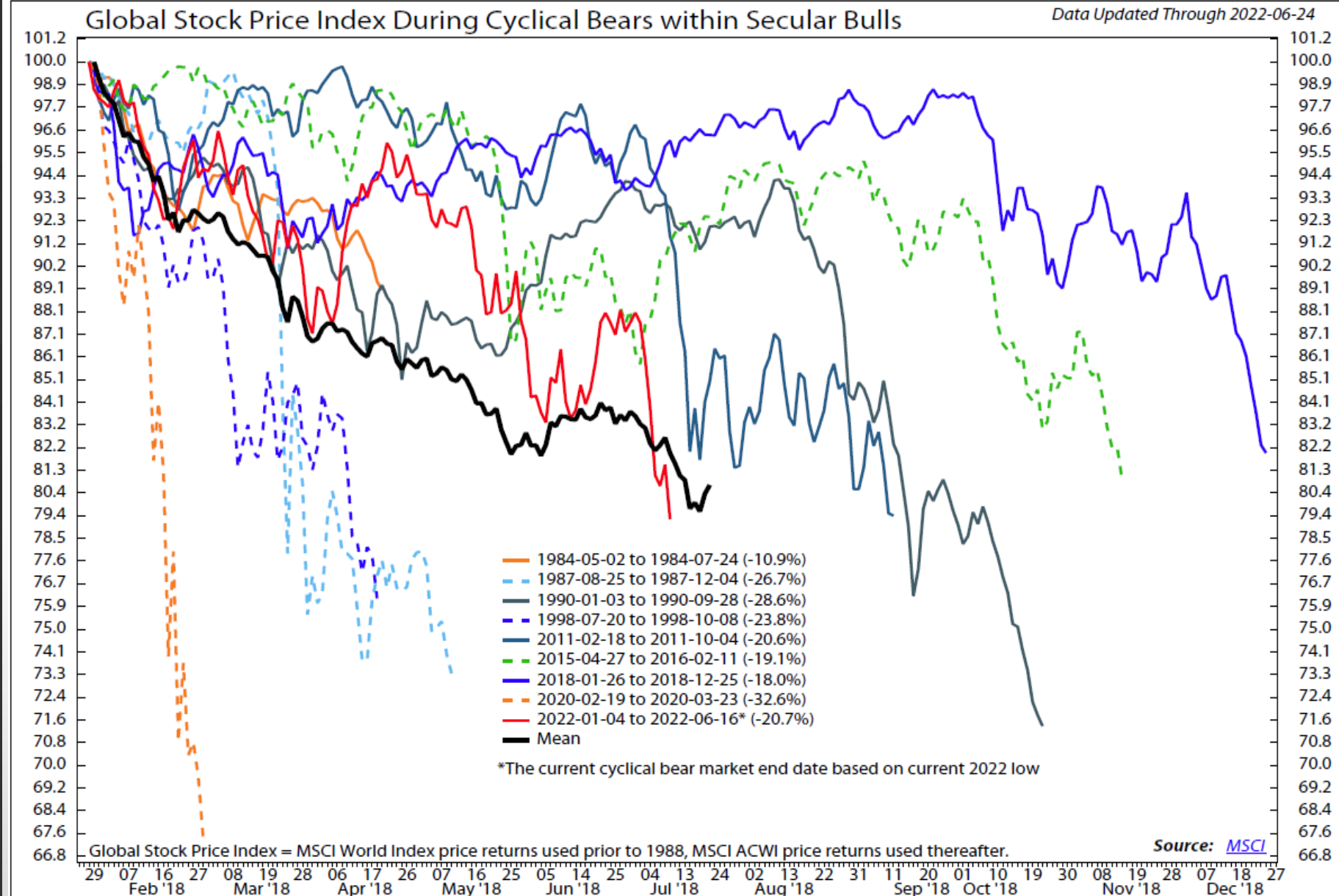


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Getting Close?



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After a 15% Decline in S&P in a Quarter, It Has Tended to Rebound

S&P 500 Performance After >15% Single Quarter Drops						
Date	Previous Quarter % Change	Next 1Q % Change	Next 2Q % Change	Next 3Q % Change	Next 4Q % Change	Next 8Q % Change
12/31/29	-28.9	17.2	-4.6	-13.3	-28.5	-62.1
6/30/30	-18.6	-9.1	-25.0	-18.4	-27.5	-78.4
12/31/30	-17.5	8.8	-3.3	-36.7	-47.1	-55.1
9/30/31	-34.5	-16.4	-24.7	-54.4	-16.8	1.2
12/31/31	-16.4	-10.0	-45.4	-0.5	-15.2	24.4
6/30/32	-39.4	82.4	55.5	32.1	146.3	121.4
3/31/33	-15.1	86.5	68.0	72.7	83.8	44.8
12/31/37	-23.3	-19.4	9.6	16.0	25.2	18.4
3/31/38	-19.4	36.0	44.0	55.4	29.2	44.1
3/31/39	-16.9	-1.1	18.6	13.8	11.6	-9.3
6/30/40	-18.5	6.8	6.0	-0.2	-1.3	-16.8
9/30/46	-18.8	2.3	1.4	1.7	1.0	3.5
6/30/62	-21.3	2.8	15.3	21.6	26.7	49.2
6/30/70	-18.9	15.8	26.7	37.9	37.1	47.3
9/30/74	-26.1	7.9	31.2	49.8	32.0	65.6
12/31/87	-23.2	4.8	10.7	10.1	12.4	43.0
9/30/02	-17.6	7.9	4.0	19.5	22.2	36.7
12/31/08	-22.6	-11.7	1.8	17.0	23.5	39.2
3/31/20	-20.0	20.0	30.1	45.3	53.7	75.3
6/30/22	-16.5	??	??	??	??	??
All Cases						
Mean	-22.0	12.2	11.6	14.2	19.4	20.7
Median	-19.4	6.8	9.6	16.0	22.2	36.7
% Positive	0.0	68.4	73.7	68.4	68.4	73.7
Post WWII						
Mean	-21.1	6.2	15.1	25.4	26.1	45.0
Median	-20.6	6.3	13.0	20.6	25.1	45.2
% Positive	0.0	87.5	100.0	100.0	100.0	100.0
All Periods Mean	2.0	2.0	3.9	5.9	8.1	16.0

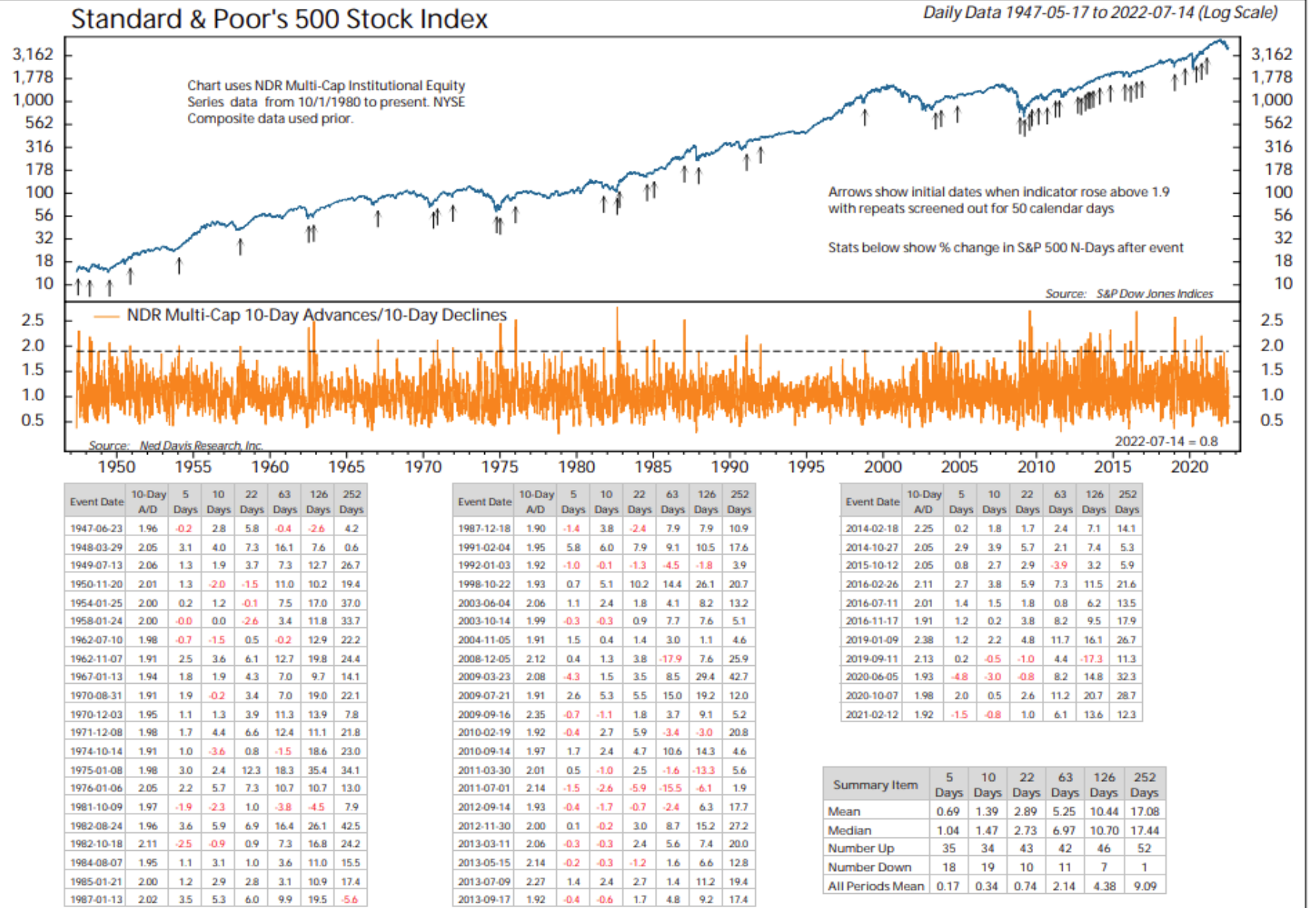
Source: S&P Dow Jones Indices

Ned Davis Research

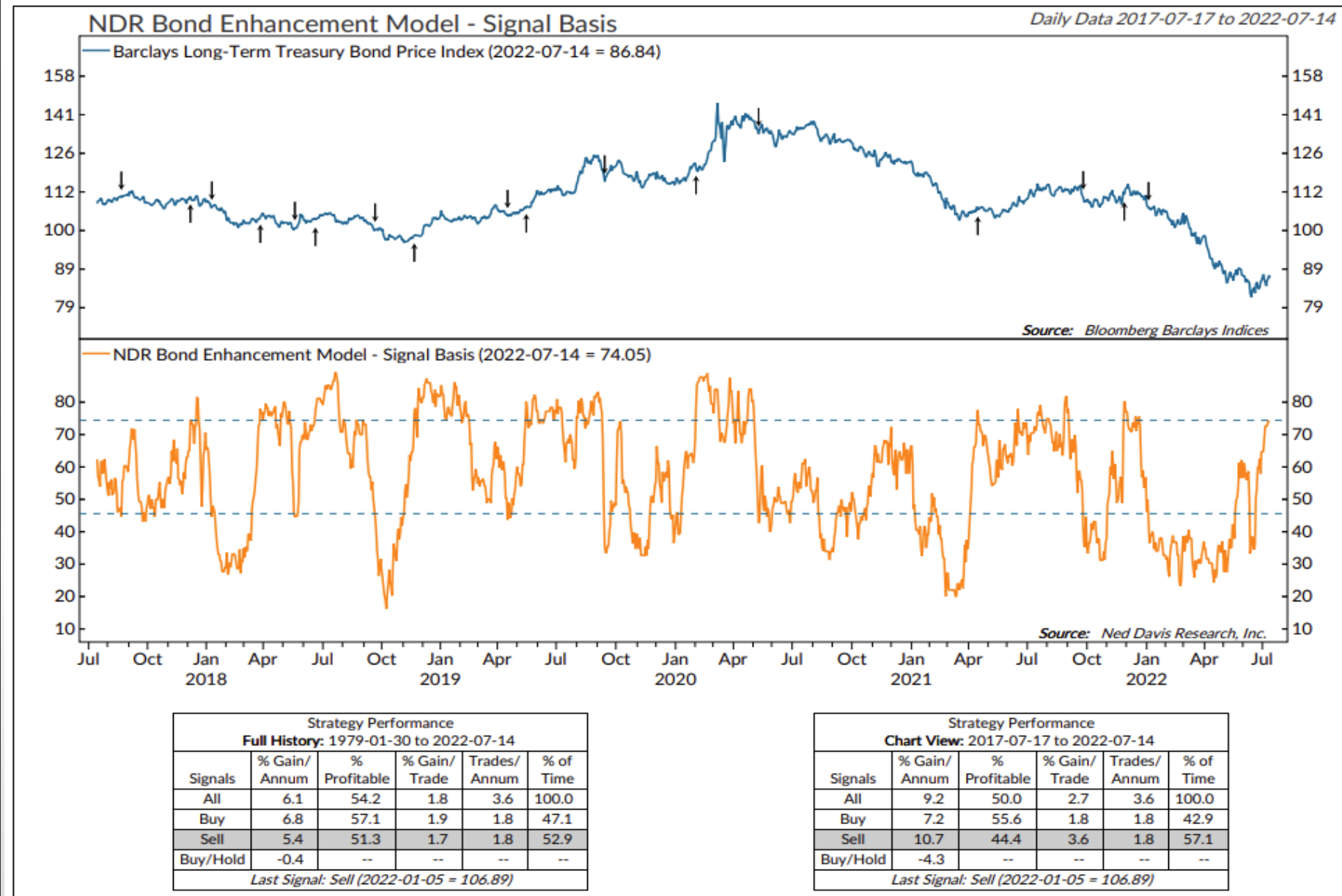
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Waiting for Breadth Thrust



Back to Bonds?



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COMPOUND

@CharlieBilello

BWM Tactical Positioning



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

No strategy assures success or protects against loss.

Bottom Line

- Worst start to year for 60/40 Since 1932 being driven by global inflation concerns and central bank tightening
- Inflation signals are mixed and likely to remain elevated for some time
- Inflation *expectations* are moderating due to tough talk from the Fed.
- Fed hike expectations have dropped dramatically in recent weeks
- A recession is always possible, but US economy still showing growth with solid employment
- Worst could be over if no recession materializes in 2022
- BWM is neutral to slightly underweight equities and bonds, with excess cash awaiting the opportunity to deploy



Please see important disclosures, chart explanations, summary and commentary at the end of this report.

Executive Summary



Please see important disclosures, chart explanations, summary and commentary at the end of this report.

- Slide 2 – this chart shows the total return of a portfolio consisting of 60% S&P 500 and 40% Bloomberg Barclays Aggregate Bond over the first six months of each year from 1926 to 2022. 2022 represents the worst first-half performance since 1932.
- Slide 3 – this chart represents the returns of seven asset classes: U.S. large-caps, U.S. small-caps, developed international, emerging markets, U.S. Treasuries, U.S. corporates, and REITs. The top clip shows the number (left axis) and percentage (right axis) of the asset classes that returned at least -7.0% per quarter in each year going back to 1981. The bottom clip shows the minimum, maximum, and median returns of the seven asset classes.
- Slide 4 – This chart attempts to gauge the underlying business conditions of the global economy. The top clip plots the MSCI world Index. The bottom clip plots J.P. Morgan's Global Manufacturing Purchasing Managers' Index (PMI). PMIs are diffusion indexes designed to help monitor underlying business conditions. PMIs are based on monthly surveys which track changes in production, new orders, inventories, employment, and prices.
- Slide 5 – This chart compares the MSCI All Country World Index (ACWI) to central bank interest rates changes. The top clip in this chart plots the MSCI ACWI in local currency. The bottom clip plots the percentage of central banks whose last rate change was a decrease in interest rates. As can be seen, global equities tend to underperform when more than half of the world's central banks are tightening policy.
- Slide 6 – This chart shows the S&P 500 Stock Index in the top clip, the year-to-year change in the Consumer Price Index (CPI) relative to its five-year moving average in the middle clip, and the year-to-year change in the CPI less its five-year moving average in the bottom clip. In the bottom clip, when CPI less its five-year average rises above the upper dashed line, inflation is accelerating. In contrast, when CPI less its five-year average is below the lower dashed line, the economy is experiencing disinflation.
- Slide 7 - This chart displays the Consumer Price Index (CPI) against the 3-Month Smoothed Global Supply Chain Pressure Index (GSCPI). The GSCPI is advanced by 6 months as it tends to lead CPI. The two indices are positively correlated with a correlation coefficient of 0.53 since 1998.
- Slide 8 – this chart plots the year-to-year change in Core Commodities CPI and Service CPI (Ex-Energy). As can be seen, Commodities CPI has fallen from recent highs while Services CPI has risen.
- Slide 9 - This chart plots the S&P CoreLogic Case Shiller National House Price Index relative to the Consumer Price Index for Rent of Primary Residence. The House Price Index has been advanced 18 months because house prices tend to be reflected into rents after about a year and a half. These indices are positively correlated, suggesting that rents will continue to rise.
- Slide 10 - The top clip of this chart plots 5-year, 10-year, and 5-year/5-year inflation swaps. These swaps can be used to indicate market-based inflation expectations over various time periods. The bottom clip plots the difference between the 10-year and 5-year swaps. The expectation for 5-year inflation has fallen from highs earlier this year.
- Slide 11 – This chart uses overnight index 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. Expectations for rate hikes in the next year have fallen sharply.
- Slide 12 – This chart compares the Index of Coincident Economic Indicators (top clip) to the 10-year/6-month yield curve (the difference in 10-year and 6-month treasury yields) (bottom clip). The numbers at the beginning of recessions (shaded areas) in the top clip represent the lead time in number of months from the beginning of a yield curve inversion to a recession. The numbers at the end of the shaded areas represent the number of months from the end of a yield curve inversion to expansion. The median lead time before a recession following yield curve inversion is 11 months. The median yield curve inversion lasts 12 months.

Executive Summary



Please see important disclosures, chart explanations, summary and commentary at the end of this report.

- Slide 13 – this chart shows the performance of the economy (measured by the Index of Coincident Economic Indicators, top clip) and the latest version of NDR's Economic Timing Model (bottom clip), along with its hypothetical performance. The NDR Economic Timing Model consists of 27 different economic indicators. Each indicator in the monitors a different sector of the economy and rates that sector's monthly performance with a positive or a negative signal. The individual signals are tabulated to give us the current monthly readings, which range from a maximum favorable reading of +27 to a maximum unfavorable reading of -27. When the model drops from positive to negative, it indicates that a recession may be imminent. Currently the model indicates slow economic growth.
- Slide 14 - This chart shows the Coincident Economic Index in the top clip and a ratio of the Conference Board Leading Economic Index over the Coincident Economic Index in the bottom clip. A decline in the ratio by seven points has signaled a contraction, while a subsequent rise by 1.5 points has signaled an expansion.
- Slide 15 - This chart shows the unemployment rate (top clip), the month-to-month change (middle clip) and the year-to-year change (bottom clip).The chart currently indicates falling unemployment.
- Slide 16 – This chart plots S&P 500 performance 12 months before and after the start of a recession. The chart indicates that, on average, the market falls in the months leading into a recession and continues to fall for about 6 months before bottoming. The median recession has lasted 10 months and the average performance 12 months after the start of the recession has been -0.71%.
- Slide 17 - This chart plots S&P 500 performance 12 months before and after the end of a recession. The chart indicates that, on average, the market begins to rise 4 months before the end of a recession. The average performance 12 months after the end of the recession has been 16.59%.
- Slide 18 – This chart is designed to highlight short-term swings in investor psychology. It combines several individual indicators 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 pessimistic. Historically, returns have been poor when there is excessive optimism and strong when there is excessive pessimism.
- Slide 19 - 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. The indicator is currently bearish.
- Slide 20 – this chart plots MSCI World performance during each of the cyclical bear markets within secular bull markets. The chart shows that the current 2022 bear (red line) has been close to the mean percent decline (black line) and number of days.
- Slide 21 – this table shows S&P 500 performance following 15% single-quarter declines. The median return after a 15% single-quarter decline has been 25.1% after four quarters and the market has been positive in 100% of cases.
- Slide 22 – This chart is an indicator based on market breadth, which can be used to determine upside "thrust" signals for the stock market. The chart's top clip plots the S&P 500 Index daily closing values. The bottom clip plots the ratio of the 10-day total of the number of advancing issues to the 10-day total of the number of declining issues. The horizontal dashed line in the bottom clip is the threshold level found to generate reliable thrust signals which have generally been followed by above-average gains in the S&P 500 for periods of up to one year after the signal. To generate a signal, the 10-day advance/decline ratio must rise above the dashed line. When advancing issues outnumber declining issues by a wide margin over a 10-day period, it generally indicates a significant shift in market momentum and tends to be followed by further gains.
- Slide 23 – this chart plots the Barclays Long-Term Treasury Bond Price Index in the top clip and NDR's Bond Enhancement Model in the bottom clip. The Bond Enhancement Model consists of three clusters that measure Trend, Sentiment, and Fundamentals. Each cluster consists of eight or ten data series with each data series consisting of 40 to 50 indicators. The model is currently approaching a buy signal.
- Slide 24 – this chart shows the total return of the Wilshire 5000 index over the 20 worst six-month periods since 1971 and the subsequent returns following the end of the six-month period. Chart used with permission from Charlie Bilello, Compound Advisors.
- Slide 25 – We are currently benchmark weight for stocks, underweight bonds, overweight cash, and overweight gold. Within the equity allocation, we are marketweight US, Large Cap and mid/small cap. We are market weight International in retirement accounts and underweight in taxable accounts. Within fixed income, we are overweight credit and have a focus on owning bonds with shorter duration.

Investment advice offered through Stratos Wealth Partners, Ltd., a Registered Investment Advisor DBA BWM Financial.

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