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PUTTING YOUR MONEY WHERE YOUR VALUES ARE. PERIOD.

May 13, 2022

Dear Client,

At Revo Financial it is very important to us that you are well informed about what's happening in your investment accounts. Here is a brief recap of any changes to the model portfolios you have entrusted with us.

As a reminder, we utilize sophisticated quantitative techniques to manage the models. Level Elements are designed to manage your model's equity and fixed income exposure over time. This level dynamically changes as fundamental, quantitative, and economic data changes. Style Elements are designed to manage what is in those equity and fixed income exposures. The Style Elements used within your model can range from being tax-aware to opportunistically seeking excess returns through minor asset class allocations.

## Market Overview

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April was a sea of red numbers across capital markets with the combined forces of inflation, weaker than expected economic performance, and a Fed shifting into a higher gear all took their toll on markets. Not helping matters were a few higher-profile earnings misses and the first quarter results not continuing the momentum from the prior few quarters.

Bonds did not provide a safe haven either in an environment with the Fed raising rates and the economy contracting last quarter. Typically, the market can digest rate hikes more easily on the back of strong economic performance. Anxiety around the coming quarters can be seen in the US yield curve, which is effectively flat from the 2-year to the 30-year. Unsurprisingly short-term bonds outperformed in a relative basis, with the Bloomberg US Aggregate 1-3 Year index down 0.56% compared to the US aggregate down 3.79%.

First quarter GDP showed a surprise contraction to start the year. Economists surveyed by Bloomberg had expected the economy to grow at a 1.0% annualized rate, but instead contracted at a 1.4% rate. The Fed meets again in a few days and the market expects a 50-basis point hike, the first two-step hike, as the Fed tries to move faster to combat inflation.

*Source: Helios Quantitative Research, Bloomberg*

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## Level Overview

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### Trend

The Trend Element remains negative. The last two weeks have seen falling prices across most global equities, especially the last trading day of the month, which has confirmed a negative trending market. Continued fears about the magnitude of future Federal Reserve rate hikes and the unexpected negative GDP headline likely put pressure on any risky assets.

### Volatility

The Volatility Element will move to 50% exposure. The Volatility Element has gone through many adjustments since late 2021 as implied volatility shifts substantially around the Federal Reserve policy, the Ukraine conflict, the inverted yield curve, and the stability of the economy. The current state can be described as a heightened view of implied risk in the markets, so the positioning is semi-cautious by holding 50% equities and 50% bonds.

### Economic

The Economic element will reduce its signal from 60% equity to 50%. Despite the negative GDP print, this is within the normal economic score range. Keep in mind the economy is much more complex than the GDP calculation. Labor, housing, and spending look strong, while other areas, such as the trade deficit, look poor. Time will tell if we are currently in a recession, but our economic research sees the economy as normal relative to history.

### Contrarian

Contrarian will stay at 100% equities this calculation period. The research is pointing out that these lower market values, combined with another good earnings season, provide an opportunity for value-type investors. The Contrarian signal will own equities when valuations look attractive up until a point of normal to excess valuations.

## Style Overview

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### Equity

There were a few slight changes to the Active Equity Element. Economic indicators remain stronger in the United States versus the rest of the world, so the Element is still overweight US stocks. Although growth stocks have struggled year-to-date, the Element sees the long-term trend intact for now. Conversely, the short-term technical signals point to an overweight in Large Cap Value, Mid Cap Blend & Small Cap Blend.

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## Fixed Income

There was one change to the Active+ Fixed Income Element. Bank loans were added back to the Element, as one of the best performing asset classes of 2022 trended positive again at the end of April. All inflation readings remain historically high, so the Element will maintain a short duration position until inflation subsides. High yield credit spreads are widening, so the Element will hold treasuries until that relationship collapses again. Overall, the Element is in a defensive posture until the data warrants the additional risk.

## Model Changes

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### Revo Turnkey Models

These models use the Trend & Economic Level Elements and the Active Style Elements. For this series of models, we added exposure to the Fixed Income, Small & Mid Cap asset classes. We reduced exposure to the Large Cap & International asset classes.

### Revo Risk Adjusted Blend Models

These models use the Trend, Volatility, & Economic level Elements and the Active Equity and Active + Fixed Income Style Elements. For this series of models, we added exposure to the Fixed Income, Small & Mid Cap Blend asset classes. We reduced exposure to the Large Cap & International asset classes.

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