# Trade Rationale

JULY 2022

# Market Overview

## 1 THE MONTH AT A GLANCE

| | JUN |
|---|---|
| S&P 500 | -8.26% |
| MSCI EAFE | -9.28% |
| MSCI Emerging Markets | -6.65% |
| Bloomberg US Aggregate | -1.57% |

All returns are total returns as of the month end of the report unless otherwise noted.

Indices are unmanaged and cannot be invested into directly. The returns do not reflect fees, sales charges, or expenses. The results don't reflect any particular investment. Past performance is not indicative of future results.

## INFLATION KICKS BACK UP PUSHING FED TO HIKE 75 BPS AND ASSETS TO REPRICE

May's Consumer Price Index (CPI) reversed April's softening, showing prices rose 8.6% over the prior year, versus 8.3% in April and 8.5% in March[1]. The acceleration in prices prompted the Fed to react more aggressively, hiking rates by 75 basis points when expectations just a few weeks prior were solidly on a 50 basis point hike. The more aggressive action by the Fed quickly reset expectations for the remainder of the year and, in doing so, inserted a fresh bout of volatility across capital markets. Over the month, the S&P 500 fell by 8.26% and the Bloomberg US Aggregate fell by 1.57%.

Globally equity markets largely moved together with the MSCI EAFE falling 9.28% and the MSCI Emerging Markets Index falling 6.65%. Under the hood of the US market, mid cap was the relative underperformer, but when we're talking high single-digit losses for the month, that's not saying much. However, consumer staples and health care did outperform the S&P 500 by nearly 600 basis points, losing 2.50% and 2.66% respectively.

The US yield curve rose in reaction to inflation and the Fed, with the short-end of the curve rising faster than other sections. Despite the short-end moving up, there is not an inversion at critical points of the yield curve, despite the 10-year yield is now below the 5- and 7-year yields. Rising yields always spell price reductions in bond markets, prompting a sea of red across all major bond categories, with short duration (1-3 year) and agencies relatively outperforming.

1. Bureau of Labor Statistics
Source: Helios Quantitative Research, Bloomberg

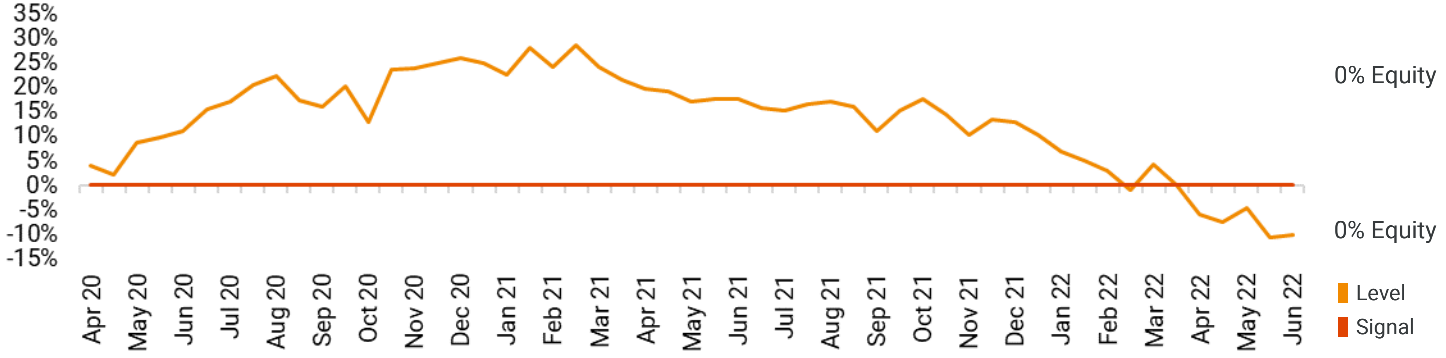
# Trend Level Element

TRADE RATIONALE

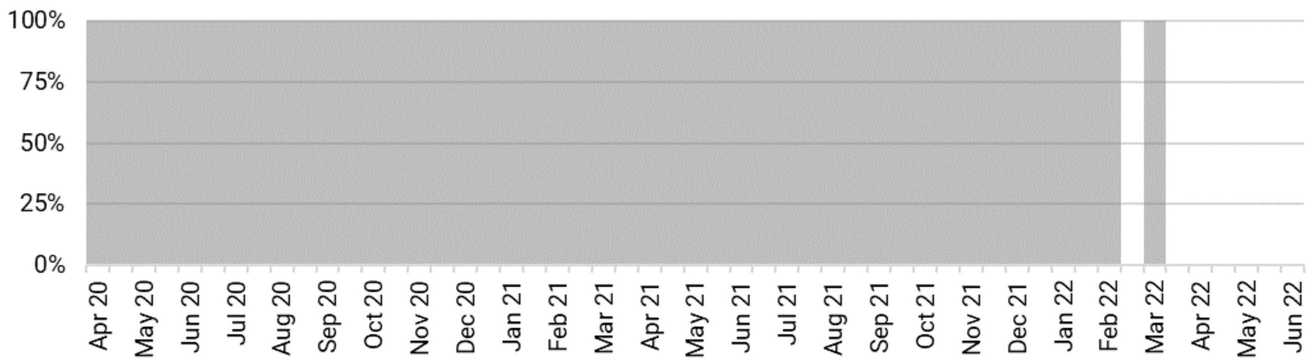
Trend maintains a negative view of equities. The S&P 500 Index fell considerably in June which ended the worst first half of a year since 1962. The equity markets need a decisive turnaround from the current level to have a positive view of equities. The Trend Element has the potential to remain defensive for several months if the market volatility and economic uncertainty continue to weigh on equity markets.

Tr
Trend

## SIGNAL




## HISTORICAL EXPOSURE




Source: Helios Quantitative Research, Bloomberg

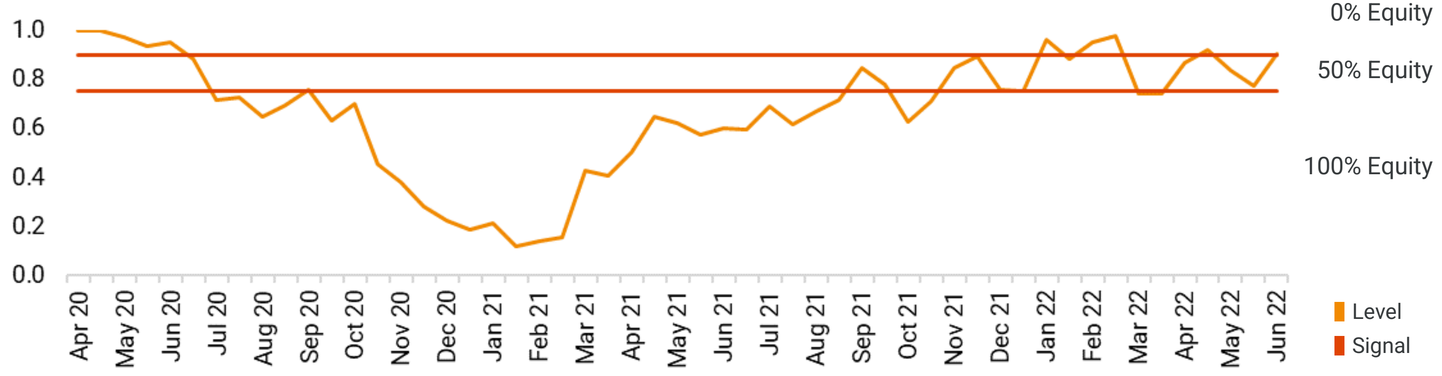
# Volatility Level Element

TRADE RATIONALE

Volatility moved to a negative view of equities. Credit spreads continued to widen over the course of June, effectively saying there may be more risk in corporate balance sheets than before. Markets continue to quickly react to changing expectations around the Fed, inflation, and the economic environment. Together, this paints a difficult environment for the market to price in expected volatility.

Vol
Volatility

## SIGNAL

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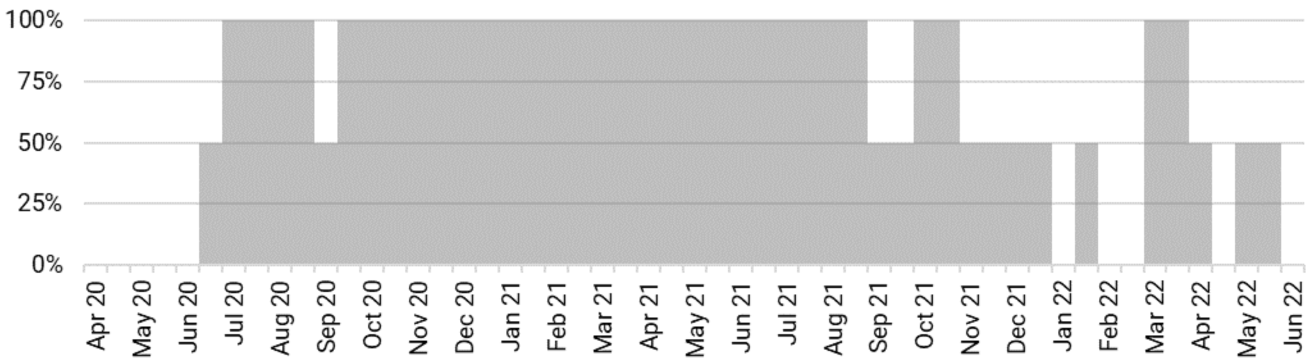



Source: Helios Quantitative Research, Bloomberg

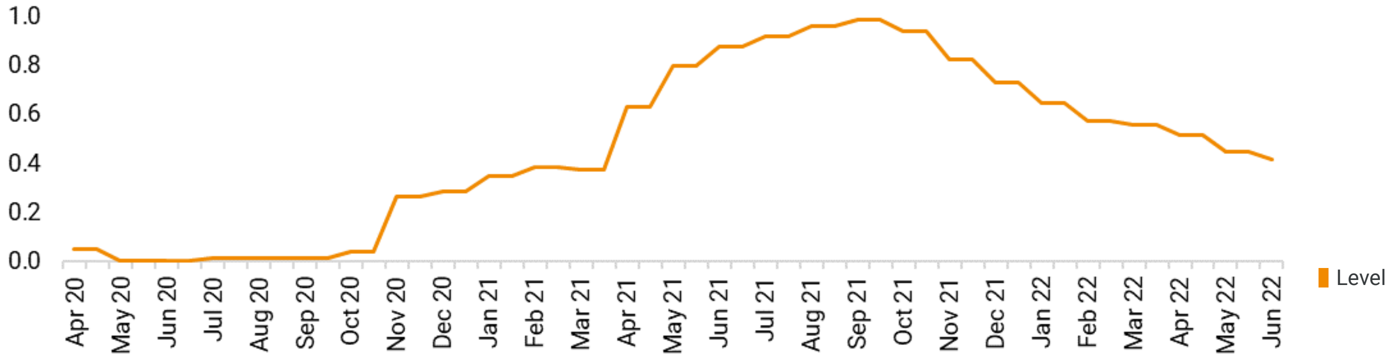
# Economic Level Element

TRADE RATIONALE

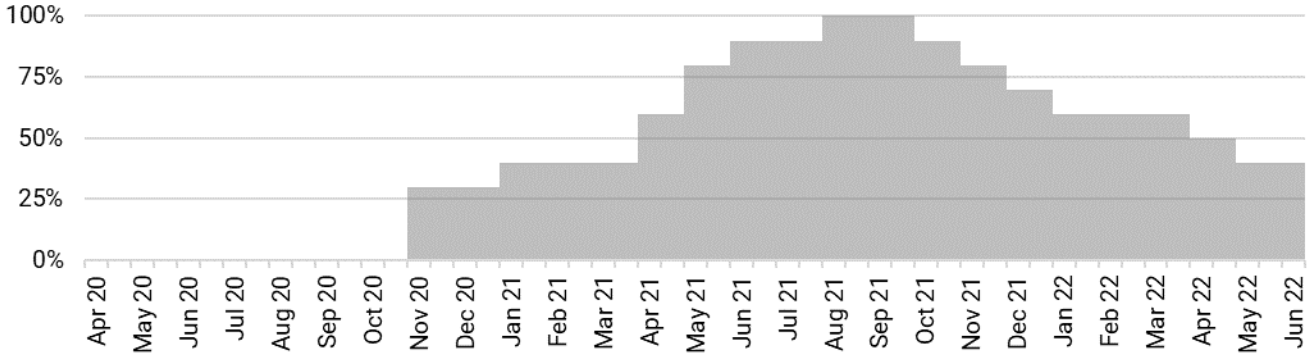
The Economic view remains slightly underweight equities with the overall economic score continuing to be slightly below average. As with last month, the financial state of households remains strong, but optimism is waning, and sentiment has plunged recently. The focus continues to be on the Federal Reserve and if it can navigate a "soft landing" for the economy. Prospects of a recession are growing and despite the Fed's best intentions, a recession may be inevitable.

Eco
Economic

SIGNAL




HISTORICAL EXPOSURE




Source: Helios Quantitative Research, Bloomberg

# Model Changes

## Revo Turnkey

No changes

## Revo Blend

These models use the Trend, Volatility & Economic Level Elements, and the Active Equity & Active Plus Fixed Income Style Elements. For this series of models, we added exposure to the Short Duration & U. S. Treasury Fixed Income asset classes. We reduced exposure to the Large Cap Blend, Large Cap Value, Mid-Cap Blend & International Blend asset classes.

Source: Helios Quantitative Research, Bloomberg

# Definitions & Disclosures

METHODS, DEFINITIONS, AND MORE

# Definitions & Disclosures

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