Genesis
WEALTH ADVISORS
A Wealth of Possibilities

2nd Quarter 2022

Current Investment Strategy and Themes

- ***Sharp drops in bond and stocks prices do not signal its time to begin to take risk for the next growth cycle. Instead, the economic and interest rate cycle signals a further need to reduce to levels of total portfolio risk.***

The Markets in Review: June 2022

- The capital market returns in June were negative across the board. After early June, Energy stocks and Commodities also turned sharply negative. The near 17% drop in Energy stocks was the worst sector in the month. The one previous strong part of the market falling signified a true bear market characteristic; there are no winners. Domestic and international stock returns were marginally different.
- Capital markets arrived at a consistent set of conclusions: 1. Inflation is higher than forecast and entrenched now in both the goods and services side of the economy, 2. The economy is slowing under the strain of the unresolved supply chain issues, energy policy, and the combination of Federal Reserve tightening monetary policy and raising interest rates. These economic conditions have brought back the 1970's description of the economy Stagflation – the combination of high inflation and recessionary or no growth economic conditions.
- The 1970s economic description leads to one more 1970s reference. The S&P 500 decline of almost 20% was the worst first half of a calendar year since 1970.
- Heading into the second half of 2022, the major question the market is grappling with is when and how severe a recession lies ahead. The Fed has warned it could be painful. Politicians think it can be avoided, but then they take no responsibility for the current state of things. While there is no agreement on the timing and severity, once investors accept the fact of a recession, they begin to look for bottoms and turning points to restructure their portfolio for that rebound phase. Typically, they look to the Federal Reserve to begin to cut interest rates to restart the economy and markets. But the Fed has never had to deal with such a massive disconnect between the rate of inflation and absolutely low levels of interest rates.
- The Fed has just started the credit tightening and interest rate cycle. Even after a stock market decline of 20% and bond market decline of over 10%, we do not believe it is time to position yet for the next growth phase. The risk/return calculation for bonds remains uncompelling and against the investor to take a longer duration bet in bonds. A rising rate cycle always reveals and punishes the highly margined and weaker business plans. The current crypto crisis is just one example of the leveraged investor causing turmoil in a market.
- Equity market valuations were at the high end of their historical ranges for most of the last five years. Earnings growth and low rates supported the high valuations. The market has not even begun to calculate the downside of corporate earnings for a recession. Plus, high inflation reduces the real value of earnings. We also believe the higher risk control measures apply to equities at this stage.

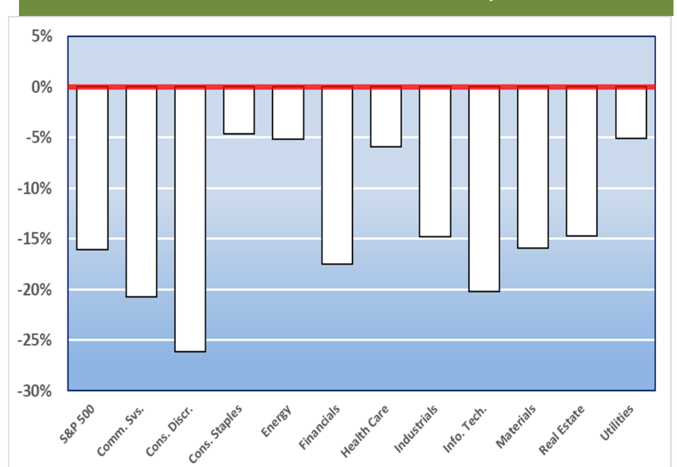
Key Market Indicators

Bullish	Favorable	Neutral	Cautious	Bearish

Equities	June 2022	2nd Quarter	Year to Date	Current View
U.S. Large Cap	-8.25%	-16.10%	-19.96%	Cautious
U.S. Small Cap	-8.22%	-17.20%	-23.43%	Cautious
International Developed	-9.28%	-14.51%	-19.57%	Cautious
Emerging Markets Equity	-6.65%	-11.45%	-17.63%	Cautious
Fixed Income				
U.S. Aggregate	-1.57%	-4.69%	-10.35%	Bearish
U.S. Government	-0.87%	-3.71%	-9.04%	Cautious
U.S. Corporate	-2.61%	-6.90%	-13.81%	Neutral
U.S. High Yield	-6.73%	-9.83%	-14.19%	Cautious
Non-U.S. Developed	-5.08%	-12.50%	-18.73%	Cautious
Emerging Market Debt	-4.25%	-8.31%	-12.96%	Bearish
Alternatives				
REITs	-7.41%	-17.00%	-20.20%	Neutral
Commodities	-7.98%	-3.73%	21.22%	Favorable
Managed Futures	0.21%	5.80%	20.12%	Favorable
Hedge Funds	-1.80%	-3.74%	-5.05%	Favorable

Source: Morningstar, data as of 6/30/2022

S&P 500 Sector Returns 2Q2022



Source: Morningstar

Risk Examination – June 2022

A quarterly update on our views of the complex risk factors in global markets

Valuation	Earnings	Macro	Liabilities	Technical
Cautious	Bearish	Cautious	Bearish	Bearish

Key

Bullish	Favorable	Neutral	Cautious	Bearish

Valuation

- Valuations are still a bit high, despite strong earnings growth over the last several quarters. However, we believe that valuations remain elevated due to declining earnings. Valuations have also improved for overseas equities, but there are few catalysts present that could improve growth conditions hence higher earnings growth.

Earnings

- We believe the market will be entering an earnings recession this year as real economic growth slows. The other negative for earnings growth is that consensus forecasts are too optimistic. When this is the case, the market tends to punish those stocks that deliver negative earnings surprises.

Macroeconomic

- Economic growth rates have moved lower as the effects of higher inflation and expectation of much higher interest rates slows demand. Supply constraints are still present across many sectors due to the continued Covid lockdown in China and war in Ukraine. We believe this momentum will continue throughout the rest of the year suggesting that the US economy is much closer to a recession that previously forecasted.

Liabilities

- Liabilities have exploded on government and corporate balance sheets over the last cycle. Household borrowing rates are not far behind. The shift now should be on balance sheet repair and debt repayment and not on earnings growth and increased individual spending. This will likely place additional pressure on growth and governments to provide extra stimulus programs to re-start the global economy.

Technical/Sentiment

- The biggest driver of security price swings since COVID-19 has been investor psychology and sentiment, rather than investment or macroeconomic fundamentals. The radical uncertainty from the effects of the global virus pandemic, the crisis in Ukraine, rapidly rising headline inflation and the appropriate policy response has resulted in highly volatile equity and credit markets.
- In our view, many market participants do not really understand market risk as many have never experienced a 25%-40% drawdown in stock prices.

2022-2023 Economic and Investment Scenarios

Our assessment of potential macro scenarios

	Recession Relapse	**K – Shaped Recovery**	**Return to New Normal**	**Robust Recovery**
Economy / Geopolitical	▪ Negative growth precipitated by extended effects of pandemic ▪ Civil unrest ▪ Labor market strain	▪ Weakness in consumer discretionary ▪ Strength in E-commerce/innovation ▪ Fed rate hikes & no room for fiscal stimulus	▪ Gradual recovery with radically different labor market ▪ Inward focus ▪ Steady growth/low inflation	▪ Inflation reverts to Fed target ▪ Job growth/higher consumption ▪ Infrastructure spend
Markets	▪ Prolonged sell-off in risky assets ▪ Rush to safe-haven assets such as the U.S. dollar, gold and cash	▪ Negative effect from inflation ▪ Volatility dominates ▪ Highly valued & concentrated markets ▪ Focus on risk	▪ Extended recovery puts focus on value, small cap & higher inflation ▪ Pressure on Big Tech	▪ Negative real rates, a flood of new money = continued asset inflation ▪ Alternative assets & equities prosper
Focus	▪ Flight to quality: Short duration U.S. Treasuries, U.S. Dollar, & Gold benefit	▪ Premium on asset diversification = liquid alts ▪ Commodities & non-directional investments	▪ Focus shifts from sentiment driven markets to fundamentals	▪ Fully invested, but highly diversified
Probability	**40%**	**30%**	**20%**	**10%**

< < < Downside < < < | > > > Upside > > >

Risks

Downside:

- Pandemic variant emerges – more lockdowns
- Sustained high rates of inflation
- Civil unrest, supply chain disruptions and food shortages
- Runaway debt growth on pace to equal Japan
- Higher rates of poverty and social displacement
- Further job displacement – weak demand

Upside:

- Effective use of fiscal stimulus spurs economic growth
- Globalization returns
- Labor market returns with shift in focus and higher productivity
- Strong real economic growth and productive use of credit
- Raises the wealth effect across multiple sectors
- Lower rates of inflation, above trend real growth

Portfolio Asset Class Positioning

PORTFOLIO SEGMENT / SEGMENT OBJECTIVE	SEGMENT CONSTITUENTS	SEGMENT COMMENTS
Equity *Diversified Exposure with premium on quality and lower volatility*	▪ Global exposure to high quality companies and innovators in their field ▪ Diversified across size, high quality, low volatility and rising dividend payers across global markets	▪ Higher exposure to U.S. large-cap, mid-cap, small cap via equal-weighted index ▪ Emphasis on high dividend payers, low volatility and high quality across developed markets ▪ Continued exposure to an actively managed bask of innovation stocks
Fixed Income *Seek to Preserve Capital, and Diversify Equity Exposure*	▪ Overweight low duration and high quality ▪ Reduced exposure to fallen angels ▪ Not a time to "reach for yield" ▪ Exposure to asset-backed & asset-backed, and senior loans	▪ Bias toward short duration ▪ Favor high quality credit over rates ▪ Issuer selection critical ▪ Inflation protected bonds/ notes
Opportunistic *Highest Conviction Ideas Based on 12-24 Month Proprietary Forecasts*	▪ Continued emphasis (but paired back) on disruptive innovation themes ranging from Cyber technologies to immunotherapies ▪ Active core innovation portfolio with systematic over-weight exposures to E-commerce, medical instruments, cloud computing & cybersecurity	▪ Reflects shorter-term model (value and momentum) ▪ Seeking participation in select themes with attractive return potential based on innovative technologies such as 3D printing, gene therapies, digital wallets, renewable energy and AI
Alternative *Anticipated Risk Mitigation with Alpha Opportunities*	▪ Hedged Equity ▪ Merger Arbitrage ▪ Global Macro – Credit ▪ Carbon Credits ▪ Commodity Dynamic Roll Strategy ▪ Systematic L/S Managed Futures	▪ Lower than average return and higher risk expectations for equities and bonds presents the challenge of providing uncorrelated sources of risk and return. ▪ We favor exposure to risk-managed approaches to investing in liquid alternatives with an emphasis on M&A, Carbon Credits, Commodities, Absolute Return, Hedged Equity, & Managed Futures

All investments are subject to risk, including the loss of principal. For additional information about the Palladiem Investment Portfolios, please refer to the Disclosures at the end of this report.

Important Disclosures

The statements contained herein are based upon the opinions of Genesis Wealth Advisors (Genesis), its investment research provider, Palladiem LLC, (Palladiem), and the data available at the time of publication and are subject to change at any time without notice. This communication does not constitute investment advice and is for informational purposes only, is not intended to meet the objectives or suitability requirements of any specific individual or account, and does not provide a guarantee that the investment objective of any model will be met. An investor should assess his/her own investment needs based on his/her own financial circumstances and investment objectives. Neither the information nor any opinions expressed herein should be construed as a solicitation or a recommendation by Palladiem or its affiliates to buy or sell any securities or investments or hire any specific manager.

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It is important to remember that there are risks inherent in any investment and that there is no assurance that any investment, asset class, style or index will provide positive performance over time. Diversification and strategic asset allocation do not guarantee a profit or protect against a loss in a declining markets. Past performance is not a guarantee of future results. All investments are subject to risk, including the loss of principal. Portfolio positions referenced are subject to change at any time, your portfolio may not reflect the information referenced.

Genesis and Palladiem have discretion to change allocations to styles and vehicles at any time.

Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.
“U.S. Small Cap” represented by the Russell 2000 Index.
“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.
“Emerging” represented by the MSCI Emerging Markets Net Return Index.
“U.S. Aggregate” represented by the Bloomberg Barclays U.S. Aggregate Bond Index.
“U.S. Government” represented by the Bloomberg Barclays U.S. Government Bond Index.
“U.S. Corporate” represented by the Bloomberg Barclays U.S. Credit Bond Index.
“U.S. High Yield” represented by the Bloomberg Barclays U.S. Corporate High Yield Index.
“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.
“Emerging Market Debt” represented by the JP Morgan GBI-EM Global Core Index
“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.
“Commodities” represented by the Dow Jones Commodity Index .
“Managed Futures” represented by the Credit Suisse Managed Futures Index.
“Global Macro” represented by the Credit Suisse Global Macro Index

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