HORTER INVESTMENT MANAGEMENT, LLC

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Markets are on ‘collision course for disaster,’ says Guggenheim’s Minerd

A Federal Reserve that’s raising interest rates to cool down an overheated economy already injected with trillions in fiscal stimulus could lead to a recession as soon as next year, sending markets into a tailspin.

That’s the picture painted by Scott Minerd, chief investment officer for Guggenheim Partners and one of the most-respected bond fund managers on Wall Street, in a Monday note. He warned that as the economy approaches full employment, generating wage pressures, the central bank will ratchet up interest rates, slamming debt-bloated firms that added leverage during more placid times.

In addition to interest-rate policy, there’s the fiscal situation to consider. President Trump signed off on a tax cut worth more than $1.5 trillion in December as well as a lift to spending caps by $300 billion for defense and non-defense spending over the next two years.

“The collision course is being brought about by strong fiscal stimulus in the late stage of the business cycle, when conventional economic wisdom mandates that it should be heading the other direction to create fiscal drag,” Minerd said.

That has fomented fears the Fed will spoil the party.

So far, Fed Chairman Jerome Powell and other monetary policymakers have said they are keeping an eye on the effects of the fiscal stimulus but have downplayed the possibility of the central bank hewing to a more-aggressive rate trajectory this year. Atlanta Fed President Raphael Bostic, nonetheless, said the stimulus would add “uncertainty” to the monetary policy outlook.

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Opinion: Stocks may already be in a bear market — and here’s how long it could last

The Dow Jones Industrial Average surged 670 points on Monday, but fell 345 points on Tuesday. It will hit bottom on March 4, 2019, at 18,328.27.

That’s on the assumption that a major bear market began at the Jan. 26 highs, and that the ensuing bear market will be average both in terms of length and loss.

That would mean we face 11 more months of a declining market, in which the DowDJIA, -1.22% will drop another 5,529 points (or 23.2%) from Tuesday’s close. The Dow has already slumped 2,759 points, or 10.4%, from its record close of 26,616.71 on Jan. 26.

Of course, we don’t know yet whether we’re in a major bear market. The Dow’s impressive rally on Monday surely let the bulls breathe a little more easily.

But Monday’s surge was followed by Tuesday’s drop, and the Dow Theory, the oldest stock-market timing system in widespread use today, came within a hair’s breadth of issuing a major bear market signal on both Friday and Tuesday.

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The Next Recession is About to Begin

For anyone who thinks a trade war might not hurt the US economy, or that one may be easy to win, this is an important story. Robert Shiller, famed economist, just said a trade war with China would cause quick and devastating damage to the US economy. “It’s just chaos … The immediate thing will be an economic crisis because these enterprises are built on long-term planning, they’ve developed a skilled workforce and ways of doing things”. Shiller says that even if tariffs don’t directly affect the economy, many companies will lose their confidence to plan and invest. “It’s exactly those ‘wait and see’ attitudes that cause a recession”, says Shiller.

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QUOTE OF THE WEEK

“Success is never final, failure is never fatal. It’s courage that counts.”

- John Wooden

Taking a comprehensive look at the overall current stock market

Taking a comprehensive look at the overall current stock market, you can see the chart below representing eight major indices and their returns through the week ending March 30, 2018. In a truly diversified portfolio, the portfolio's total return is determined by the performance of all of the individual positions in combination – not individually.

So, understanding the combined overall performance of the indices below, simply average the 7 indices to get a better overall picture of the market. The combined average of all 7 indices is –1.19% year to date.

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
S&P 500 Index	2640.87	52.61	2.03%	-72.96	-2.69%	-32.74	-1.22%
Dow Jones Industrial Average Index	24103.11	569.91	2.42%	-926.09	-3.70%	-616.11	-2.49%
Nasdaq Composite Index	7063.45	70.79	1.01%	-209.56	-2.88%	160.06	2.32%
60/40 Portfolio (BAGPX)	12.99	0.2	1.56%	-0.03	-0.23%	-0.1	-0.76%
US Aggregate Bond Index	2016.48	10.49	0.52%	13.21	0.66%	-29.89	-1.46%
Markit iBoxx USD Liquid High Yield Index	266.35	0.3	0.11%	-1.49	-0.56%	-2.78	-1.03%
20+ Year Treasury Bond (TLT)	121.69	1.52	1.26%	3.34	2.82%	-4.65	-3.68%

Data Source: Investors FastTrack, Yahoo Finance

Term of the Week:

Depreciation

Depreciation is an accounting method of allocating the cost of a tangible asset over its useful life. Businesses depreciate long-term assets for both tax and accounting purposes. For tax purposes, businesses can deduct the cost of the tangible assets they purchase as business expenses; however, businesses must depreciate these assets in accordance with IRS rules about how and when the deduction may be taken.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Early week headlines of cooling US-China trade war tensions helped equity markets breathe a sigh of relief, until privacy issues caused a mid-week panic in shares of large-cap tech companies that precipitated market-wide. High volatility and technical trading swings helped many appreciate the holiday-shortened week for more than the obvious reasons. A Thursday rally helped the Dow Jones Industrial Average gain 2.42% for the week, followed by the S&P 500 and the Nasdaq 100 Composite finishing the quarter-ending week up 2% and 1%, respectively. International equities fared even better with Emerging Markets represented by the iShares MSCI Emerging Markets ETF (EEM) finishing the week up 2.96% and Developed International equities represented by the iShares MSCI EAFE ETF (EFA) up 2.56%.

Fixed Income: The expectation of rising yields due to record-breaking new issuance of US Treasury securities was undone by a flight to safety from equity market turbulence. Even a weak auction of 7-year notes could not derail the government bond rally as nervous investors were seeking shelter. Corresponding short covering may have also helped the rally which saw the yield on the 10-year Treasury note close the week at 2.74%, the lowest mark since early February. High-yield debt fared well with spreads barely changed from the prior week and the iShares iBoxx US High Yield Corporate Bond ETF (ticker HYG) ending the week up .85%.

Commodities: A somewhat quiet week for oil markets saw the International Brent Crude little changed from the prior week to $70.27 per barrel, and the US benchmark West Texas Intermediate down slightly to $64.94 per barrel. The American Petroleum Institute (API) and the Energy Information Administration (EIA) both independently reported growing crude oil inventories during the week which helped slow the recent oil price climb. The EIA has also reported that US crude oil production had reached 10.38 million barrels per day (BPD); a 1.2 million BPD increase over a year ago, and a whopping 5 million BPD more than 2006.

WEEKLY ECONOMIC SUMMARY

Chicago PMI: The March Chicago Business Barometer fell from the prior month and fell well below the consensus range. At 57.4, the reading is still significantly above the break-even of 50, but is the lowest recorded in exactly a year. The report signals a moderation in the growth of operations for the businesses surveyed, with only the Employment and Supplier Deliveries components expanding. Supply chain issues and higher prices for input materials are being reported and are likely to be passed on to consumers.

GDP: The third estimate for 4th quarter GDP was revised upward to 2.9% from the prior 2.5% annualized rate. Replacement of hurricane damaged automobiles helped boost spending on durable goods which is included in consumer spending that reportedly contributed 2.8% of the 2.9% GDP growth. Consumer spending has become a big question mark for the upcoming release of 1st quarter GDP estimates, as retail sales reports have been disappointing despite high consumer and business optimism. It appears that many Americans have decided to forgo additional consumption in favor of increased savings.

Investor Confidence Index: The State Street Investor Confidence Index showed a rebound in confidence for March after the downwardly revised February reading. The Global measure, determined directly by assessing changes in institutional investors' holdings, showed renewed appetite for investment in equities as the index increased to 111.9 from the prior 107.1. The confidence by the North American component led both the European and Asian regions, though all showed increased strength compared to February.

Current Model Allocations

Last Week's Manager Moves—

HIM #3 —Sold Fund and bought Fund on 3/26; Sold Fund and bought Fund on 3/27

Low Risk

HIM #2	25% municipal bonds/75% municipal bond mutual fund
HIM #1	15% high yield/85% high-yield Mutual fund
HIM #3	43% convertibles /15% dividend equities/14% NASDAQ 100/14% long treasury/ 14% CASH
HIM #20	15% floating rate bond/15% ultra short bond/70% CASH
HIM #19	50% MBS/50% real estate mutual fund
HIM #23	100% intermediate government treasury

Moderate Risk

HIM #2	100% mid-cap
HIM #9	20% long S&P /80% alternative equity mutual fund
HIM #8	100% CASH
HIM #22	100% S&P 500
HIM #10	98% invested, 2% cash
HIM #15	100% invested
HIM #11	60% (12) stocks/40% cash
HIM #21	25% CASH/75% real estate mutual fund

Summary

In utilizing an approach that seeks to limit volatility, it is important to keep perspective of the activity in multiple asset classes. We seek to achieve superior risk-adjusted returns over a full market cycle to a traditional 60% equities / 40% bonds asset allocation. We do this by implementing global mandates of several tactical managers within different risk buckets. For those investors who are unwilling to stomach anything more than minimal downside risk, our goal is to provide a satisfying return over a full market cycle compared to the Barclays Aggregate Bond Index. At Horter Investment Management we realize how confusing the financial markets can be. It is important to keep our clients up to date on what it all means, especially with how it relates to our private wealth managers and their models. We are now in year nine of the most recent bull market, one of the longest bull markets in U.S. history. At this late stage of the market cycle, it is extremely common for hedged managers to underperform, as they are seeking to limit risk. While none of us know when a market correction will come, even though the movement and volatility sure are starting to act like a correction, our managers have been hired based on our belief that they can accomplish a satisfying return over a full market cycle, -- while limiting risk in comparison to a traditional asset allocation approach. At Horter we continue to monitor all of the markets and how our managers are actively managing their portfolios. We remind you there are opportunities to consider with all of our managers. Hopefully this recent market commentary is helpful and thanks for your continued trust and loyalty.

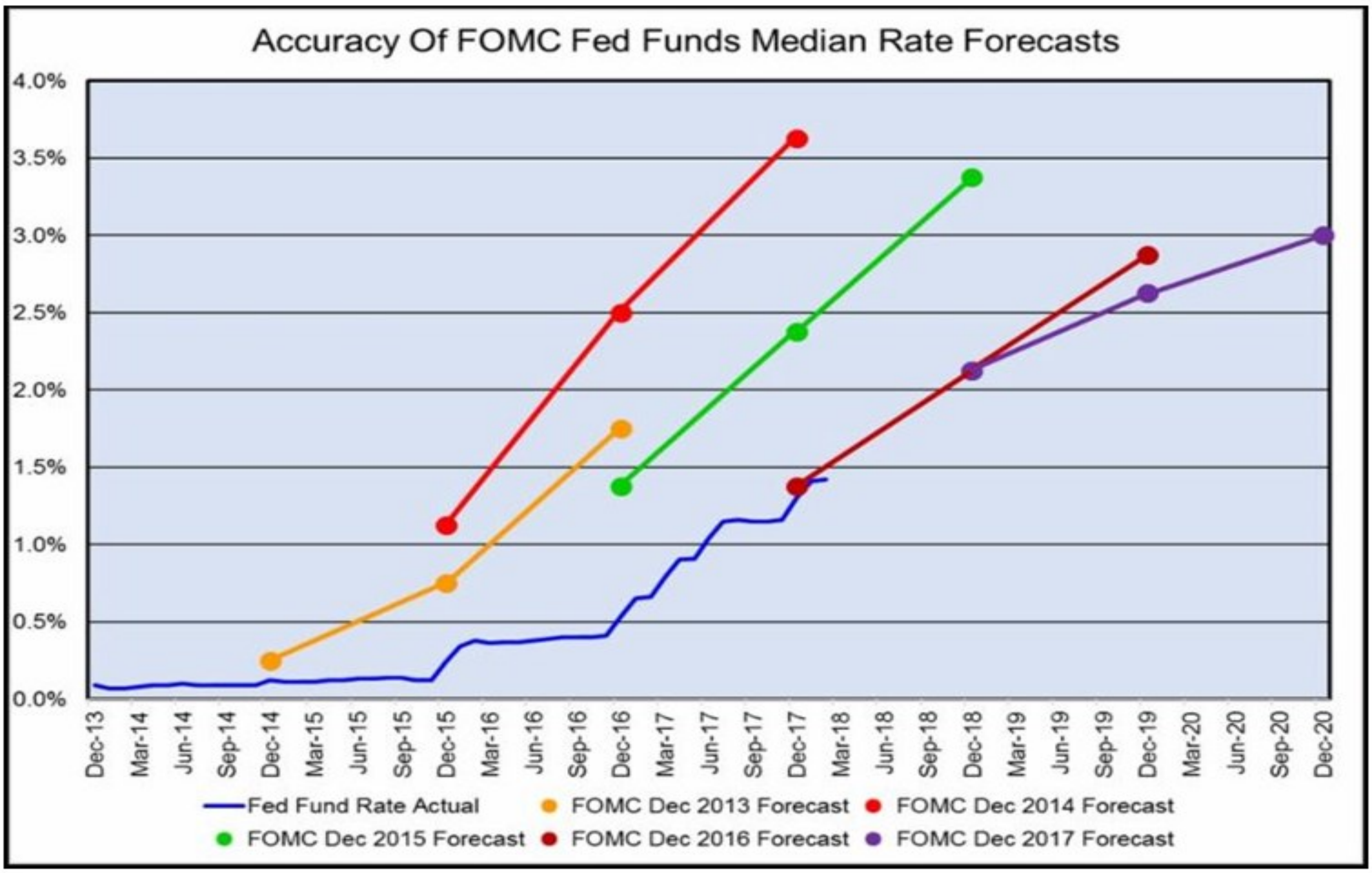

Chart data from the Federal Reserve. Commentary and opinions are those of Hanlon Investment Management.

Chart of the Week:

The chart below shows the historical Federal Reserve Open Market Committee (FOMC) December Median 3-year rate forecasts as compared to the actual Federal Funds rate. The FOMC has a history of overshooting the real rate in its forecast and this suggests that the Fed's forecasts for much higher rates may not come to pass given the FOMC's past accuracy.

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