

All Signs Point to Recession

We might have just reached an inflection point in the market- economy mechanism. For the first time since 2008, short-term Treasury yields have just reached the same level as equity dividend yields. It is not even the two-year Treasury we are talking about, but rather the three-month, whose yield is now about 1.9%, the same as equities'. The convergence of a number of different yield rates is a strong warning sign of a pending recession. JP Morgan comments that "What has been surprising this year has been the degree to which cross-asset performance has behaved as if the late cycle had already arrived, despite little material change in the growth outlook" [click here to read more](#)



Why 3% Yields Change Everything

Yields on the ten-year Treasury note crossed the 3% threshold this week and seem set to stay there for some time, sparking a big change in bond markets. Bloomberg argues that yields at this level change everything for all asset classes. The reason why is that a jump in yields to above 3% starts to

cause a shake out amongst highly indebted companies, boosts the Dollar, and in turn, makes emerging markets less attractive.

FINSUM : *To be honest, our biggest concern was not even discussed by Bloomberg, which is how higher yields affect the arithmetic for whether to put money in richly valued stocks, or into bonds that are starting to offer acceptable returns. 3%+ yields really could put an end to this bull market.* [click here to read more](#)



QUOTE OF THE WEEK

"Rough diamonds may sometimes be mistaken for worthless pebbles."

-Thomas Browne

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 May 18, 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 -0.27% year to date.

<u>Index</u>	<u>Last Week</u>			<u>One Month</u>		<u>Year-to-Date</u>	
	<u>Close</u>	<u>Net Change</u>	<u>% Change</u>	<u>Net Change</u>	<u>% Change</u>	<u>Net Change</u>	<u>% Change</u>
S&P 500 Index	2712.97	-14.75	-0.54%	4.33	0.16%	39.36	1.47%
Dow Jones Industrial Average Index	24715.09	-116.08	-0.47%	-32.98	-0.13%	-4.13	-0.02%
Nasdaq Composite Index	7354.34	-48.54	-0.66%	59.11	0.81%	450.95	6.53%
60/40 Portfolio (BAGPX)	13.13	-0.07	-0.53%	0.06	0.46%	0.04	0.31%
US Aggregate Bond Index	1990.49	-9.2	-0.46%	-6.92	-0.34%	-55.88	-2.73%
Markit iBoxx USD Liquid High Yield Index	268.62	-0.6	-0.22%	-2.32	-0.86%	-0.51	-0.19%
20+ Year Treasury Bond (TLT)	117.21	-2.02	-1.69%	-0.99	-0.84%	-9.13	-7.23%

Data Source: Investors FastTrack, Yahoo Finance

Term of the Week: Limit Order

A limit order is a take-profit order placed with a bank or brokerage to buy or sell a set amount of a financial instrument at a specified price or better; because a limit order is not a market order, it may not be executed if the price set by the investor cannot be met during the period of time in which the order is left open. Limit orders also allow an investor to limit the length of time an order can be outstanding before being canceled.

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Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Spiking interest rates put a damper on equity prices during weekly trading despite the stellar corporate earnings results, thus far. All three major US indices were slightly in the red for the week, with the Nasdaq Composite down the most, losing around .6%. The interest rate sensitive Real-Estate and Utilities sectors lagged during the week, as their corresponding SPDR ETF's XLRE and XLU were down around 3%. The Energy sector continued its outperformance despite a Friday slump, with its Select Sector SPDR Fund (ticker XLE) leading all other S&P sectors up nearly 1.75%. Small-cap equities displayed excellent relative outperformance with the iShares Russell 2000 Index Fund ETF (IWM) up around 1.4%, while higher rates and US dollar hit Emerging Market equities relatively hard as the iShares MSCI Emerging Markets Index ETF (EEM) lost around 2.75%.

Fixed Income: The yield on the US 10-Year Treasury Note was finally able to break solidly above the psychological 3% barrier and major technical resistance of 3.05% to a 7-year high during the week. While the rapid pace of the increase hit emerging markets especially hard, it was surprisingly not as detrimental to US equity prices. Treasury term-premium yield spreads, the extra yield paid for longer dated bonds, widened during the week, with the spread between the 10-year and the 2-year widening back to .33%. High-yield debt funds recorded outflows as their corresponding spreads over risk-free securities were relatively unchanged for the week.

Commodities: With geo-political tensions not assuaged and problems mounting in Venezuela, supply concerns are contributing to continued rising world oil prices. Meanwhile, US corporations have steadily increased their production and are exporting what would have been, in the past, increasing inventory. Brent Crude ended the week near \$78.60 per barrel, after rising above \$80 mid-week; while the American West Texas Intermediate price increased to around \$71.30 per barrel. Natural Gas prices ended the week higher, at \$2.84/MMBtu.

Current Model Allocations

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/14% NASDAQ 100/29% dividend equities/14% CASH
HIM #20	15% floating rate bond/15% ultrashort bond/70% CASH
HIM #19	50% CASH/50% real estate mutual fund
HIM #23	100% short term bond funds

WEEKLY ECONOMIC SUMMARY

Leading Economic Indicators (LEI): The Conference Board Leading Economic Index (LEI) has continued its rise, up .4% for the month of April. The LEI, which uses weighted data inputs generally thought of as "leading" to try to signal peaks and troughs in the business cycle, is indicating continued strength. Labor market components that hurt the index in March showed improvement, while stock prices and building permits were the only negatives out of the ten total contributors for April. The LEI grew 3.3% for the 6-month period ended in April, faster than the prior 6 months' gain of 3%.

Jobless Claims: Initial jobless claims of 222,000 for the week ended May 12th exceeded the consensus estimate of 215,000. This report decreased the 4-week average, however, which is at its lowest level since 1969. Continuing claims from people already collecting unemployment fell to 1.71 million. High numbers of job openings and unemployment under 4% looks to continue this tight labor market at least into the second half of 2018.

Housing Market Index: Home builder confidence increased in May according to the National Association of Home Builders/Wells Fargo housing market index. The level came in at 70, higher than consensus estimates and significant when any reading above 50 means that more builders view conditions as favorable. Low unemployment, low inventory, and low but rising mortgage rates are contributing positively to consumer demand for single-family homes. There are concerns, however, of rising input costs squeezing margins and pricing would-be first-time home buyers out of the market.

Last Week's Manager Moves—

HIM #23 – Bought 41% fund and 30% fund on 5/17; Bought 29% fund on 5/18
HIM #3 – Bought 14% fund on 5/15; Sold 14% fund and bought 14% fund on 5/17; Sold 14% fund to CASH on 5/18
HIM #20 – Sold 24% high yield bond on 5/15; Sold 17% high yield, 15% short term high yield on 5/16; Bought 15% floating rate bond on 5/17

Moderate Risk

HIM #2	100% mid-cap
HIM #9	20% long S&P /80% alternative equity mutual fund
HIM #8	100% trust
HIM #22	100% S&P 500
HIM #10	90% Short Term Treasury/10% CASH
HIM #15	100% invested
HIM #11	90% (18) stocks/10% 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 of the Week:

The Chart of the Week shows combined actual and forecast reported earnings for the S&P 500, along with their associated PEs. Now that over 80% of the earnings have been reported for the 1st quarter, it seems like a good time to look at past actual earnings and future forecast of earnings on the S&P 500. As we can see the effects of the tax cut legislation have had time to percolate through the economy boosting the projected growth in earnings dramatically. Expected earnings look like they will be very strong and bode well for the future.