Weekly Market Commentary
September 19, 2016

HORTER
Investment Management, LLC

The Dow Jones Industrial Average gained 38 points to close the week up 0.2% at 18,124. The S&P 500 Index gained 11 points, up 0.5% to end the week at 2,139.

The Nasdaq Composite was up 2.3% to end the week at 5,245. The S&P MidCap 400 Index closed the week at 1,521 for a -0.5% loss. The Russell 2000 gained 0.5%, ending the week at 1,225.

The ETF "EFA", the proxy for developed international equity markets, fell -1.8%. Emerging markets, as represented by the ETF "EEM", ended the week with a loss of -0.5%.

Domestic high yield corporate bonds were down -0.6% week, as measured by the Bank of America Merrill Lynch US High Yield Master II Index.

Following a relatively quiet summer, volatility has returned to US stocks as indices traded near two-month lows. After stocks plunged the prior Friday, markets rebounded Monday, only to sell off again Tuesday. During Tuesday trading, a record 110 million shares of the iPath S&P 500 VIX Short Term Futures ETN (symbol VXX) traded hands, more volume than any company in the S&P 500 Index. The yield on the benchmark 10-Year US Treasury Note ticked up to 1.70%. Oil prices fluctuated in a wide trading range, ending the week with losses. US benchmark West Texas Intermediate fell to $43.06 and Brent Crude declined to $45.81. Oil fell after an International Energy Agency report advised that the global oil market will likely remain oversupplied through at least the first half of 2017. US oil inventories declined slightly during the week, down 0.6 million barrels.

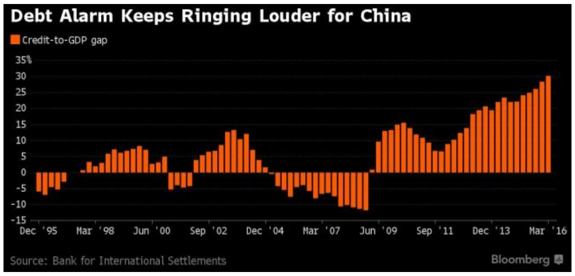
Domestic high yield bond spreads widened, pushing the Option-Adjusted Spread (OAS) over Treasuries up from under 5% last week to 5.26%. High yield defaults in September, at $3.8 billion, have already exceeded August's total of $1.7 billion. The majority of high yield default activity this year has been concentrated in the Energy sector, which should experience default rates in the range of 16-18%, according to Fitch Ratings. As of August, the trailing twelve-month default rate for Energy bonds stood at 15.8%. High yield bond mutual funds and ETFs experienced a surge in outflows, with $2.45 billion withdrawn during the weekly period ended September 14th.

In US economic news, despite hawkish commentary in the prior week, lackluster economic data has investors wagering that the Fed will be forced to once again pause during next week's rate policy meeting. August data showed a -0.4% decline in industrial production and retail sales data declined -0.3%, at the low end of economists' forecasts. Inflation data was mixed, with producer prices unchanged month-to-month while consumer prices increased 0.2%. Weekly initial jobless claims remained low at 260,000. The probability of a September rate hike, as implied by Fed Fund futures prices, stands at 15%.

In international economic news, 10-Year German Bund yields crept back into positive territory after the prior week's European Central Bank (ECB) decision not to extend quantitative easing (QE) beyond March 2017. While the ECB debates unwinding its QE measures, the Bank of England (BOE) is preparing to get more aggressive in the wake of the Brexit vote. The BOE held steady on interest rates but firmly indicated that a November cut could be in the cards. In Asian market news, Chinese economic data for August showed signs of improvement, with a 6.3% rise in industrial output and a 10.6% increase in retail sales.

In corporate news, the US Department of Justice recommended a $14 billion settlement from Germany's Deutsche Bank (DB) to settle claims related to the bank's sale of mortgage-backed securities leading up to the US housing bust. Shares of DB plunged nearly 10%, while the bank stated it anticipates the final settlement will be for a significantly lesser amount. In merger news, agrichemical firm Monsanto (MON) agreed to be acquired by German drug maker Bayer (BAYRY:OTC) in a deal valued at $66 billion after months of negotiations. The proposed deal will be subject to regulatory approval.

Did you know ..... China Banking Stress Climbs to Record



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Current Model Allocations

Low Risk

HIM model #7	100% short and intermediate-term bonds
HIM model #2	25% municipal bonds/75% ATMSX
HIM model #1	100% invested (15% core high yield/85% ATCSX)
HIM model #6	100% high yield
HIM model #3	15% alternative bond strategies/14% European Small 14% long treasuries /29% dividend equities/14% Cash 14% emerging market bonds
HIM model #20	47% high yield/53% cash
HIM model #19	50% MBS/50% ARESX

Moderate Risk

HIM model #12	100% intermediate–term treasuries
HIM model #9	20% long S&P /80% ATESX
HIM model #8	100% long NASDAQ
HIM model #22	100% cash
HIM model #14	50% short treasuries/50% cash
HIM model #10	100% invested
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HIM model #11	70% invested (14 stocks)/30% cash
HIM model #21	25% long real estate/75% ARESX

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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 September 9, 2016. 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 8 indices (excluding the BofA Merrill Lynch US High Yield Master II Index) to get a better overall picture of the market. The combined average of all 8 indices is 5.57% year to date.

Market Perspectives (through 9/16/2016)

60/40 Allocation: 4.87% YTD
(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: 4.66% YTD **Barclays Agg:** 5.18% YTD

Weekly Update for the Week Ending September 16, 2016

Index	Last Week			One Month		Year-to-Date	
	Close	Net Change	% Change	Net Change	% Change	Net Change	% Change
Dow Jones Global Index	317.88	-3.03	-0.94%	-6.72	-2.07%	9.91	3.22%
Dow Jones Industrial Average	18123.80	38.35	0.21%	-428.22	-2.31%	698.77	4.01%
S&P 500 Index	2139.16	11.35	0.53%	-38.99	-1.79%	95.22	4.66%
Nasdaq Composite Index	5244.57	118.66	2.31%	17.46	0.33%	237.16	4.74%
S&P MidCap 400 Index	1520.96	-7.35	-0.48%	-32.83	-2.11%	122.38	8.75%
Russell 2000 Index	1224.78	5.57	0.46%	-6.35	-0.52%	88.89	7.83%
MSCI EAFE Index (EFA)	57.49	-1.04	-1.78%	-1.46	-2.48%	-1.23	-2.09%
MSCI Emerging Markets Index (EEM)	36.51	-0.20	-0.54%	-1.19	-3.16%	4.32	13.42%
BAML US High Yield Master II Index	1137.61	-7.32	-0.64%	-1.88	-0.16%	138.09	13.82%

Above returns exclude dividends.
Data Source: Investors FastTrack

For a complete report on all the indices, we recommend that you go to www.HanlonInvest.com and click on the Financial Professionals tab, then click on Index Performance Report on the left-hand side under the Resources section.

QUOTE OF THE WEEK

"Sometimes it's the smallest decisions that can change your life forever."
-Keri Russell

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Summary

In utilizing an approach that seeks to limit volatility, it is important to keep perspective of the activity in multiple asset classes. At Horter Investment Management we seek to achieve lower risk with higher returns. More specifically, 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 eight 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 the S&P 500 index ($SPX). In the bottom panel we see that the S&P 500's June high, which had been resistance **(red line and arrow)**, is now a support level **(green line and arrow)** and we can see the index has tested that level a few times. In the top panel we see the Relative Strength Indicator (RSI) for the S&P 500 showing the index has reached that same oversold level **(black arrows)** as we did during the Brexit selloff.

Charts courtesy of Stockcharts.com. Commentary and opinions are those of Hanlon Investment Management.

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Articles of Interest

Confusion Reigns Supreme for Investors

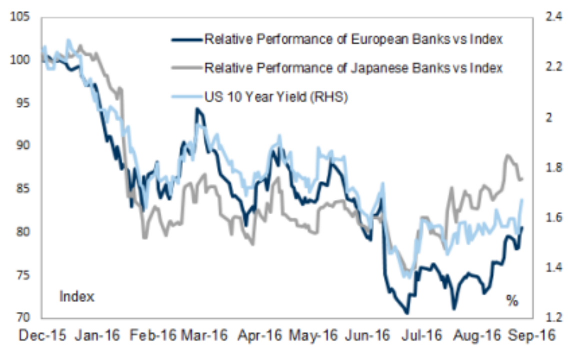
The past few weeks have been somewhat of a rude awakening as investors, lulled into a sense of complacency by persistent low volatility, were shaken from their slumber only to find themselves disoriented and grasping for bearing in the dark. Diverging rhetoric from global policy makers and conflicting signals from markets are becoming a source of increasing uncertainty, casting shadows of doubt on prevailing economic narratives and challenging the status quo of conventional wisdom.

On Monday, all eyes and ears were on Federal Reserve Governor Lael Brainard as she delivered the final Fed communiqué before a week-long "quiet period" leading up to the September policy meeting. Click here to read more

Goldman: The Bond Sell-Off Will Continue

Goldman Sachs has some of the most bearish views on Wall Street about bond yields. The bank expects the US 10-year Treasury yield to reach 2% by the beginning of 2017, 25 to 35 bps above the forwards over this horizon. The corresponding numbers for German yields and JGBs are 0.3% and 0.1%, respectively – both above the forwards.
Click here to read more

Exhibit 1: An Increase in Yields is Helping Financials Performance Against the Broader Index
Relative Performance of European & Japanese Banks vs. their Broader Indices Plotted Against 10-Year US Treasury Yield

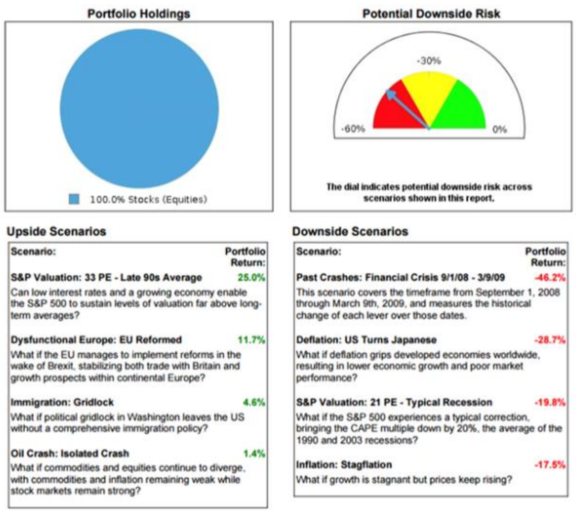


Source: Datastream, Goldman Sachs Global Investment Research

Potential Stress for The Market Means Decision Time for Investors

The financial crisis still impacts consumers and investor sentiment heavily. This could be part of the reason that "low volatility" stocks have done so well this year. Investors want to have one foot in the party, but the other straddling the exit door. With money easily supplied to banks from governments, but much of that not working its way into the economy, and so much of the bad debt of the last decade remaining in place, we should not be surprised if at some point, we see a second coming of the market "events" of 2007-2009. Click here to read more

Projected Impact on the S&P 500 Index



Yield Curve Continues to Steepen

Bearish price action across global bond markets may be signaling that the long-accepted paradigm of central bank omnipotence is shifting. Uncertainty is manifesting itself in the form of steeper yield curves, as investors wrestle with the possibility that the efficacy of loose monetary policy is approaching its limits. Long-duration sovereign bonds have been pummeled of late. Rumors the Bank of Japan would adjust its strategy by sending short term rates further into negative territory while concurrently paring back purchases of long-term bonds (i.e. targeting a steeper curve) sent yields surging around the world. Click here to read more

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