

US economy is expected to slow, damaged by Trump's trade war: Reuters poll

[U.S.](#) economic growth will slow steadily in coming quarters after touching a four-year high in April-June, according to a Reuters poll of economists, who expect President [Donald Trump's](#) trade war to inflict damage. Boosted in part by \$1.5 trillion of tax cuts passed late last year, the U.S. economy expanded at an annualized rate of 4.1 percent in the second quarter, its strongest performance in nearly four years. But the latest poll of more than 100 economists taken Aug. 13-21 showed they expect the U.S. economy to lose momentum and to end next year growing at less than half that rate. The U.S. economy was forecast to grow 3 percent in the current quarter and 2.7 percent in the next, a slight upgrade from the previous poll. But the short-term boost to growth from tax cuts was expected to wane. Economists trimmed their growth projections across most quarters next year leaving the outlook broadly unchanged and vulnerable to the trade conflict with China. "The trade measures taken by the U.S. so far and the retaliation by foreign governments will probably slow down the economy only marginally," noted Philip Marey, senior U.S. strategist at Rabobank. "However, that could change in the case of a global trade war in which a range of foreign countries take protectionist measures

aimed at the U.S., which is after all the party that is trying to change the status quo." Nearly two-thirds of 56 economists who answered an extra question said they have considered the impact of Trump's expanding trade war in their U.S. growth predictions. That was a nearly identical proportion to a poll of economists covering the euro zone published on Wednesday. The remaining 20 said the trade dispute has had no influence on their forecasts but underscored the downside risk if trade tensions deepen. "At this time, with what we know and believe will occur, we acknowledge that risk to the outlook is to the downside with the trade disputes. That said, we have not substantially lowered our U.S. GDP growth outlook. Further deterioration and eventual performance could certainly change our outlook, however," said Sam Bullard, senior economist at Wells Fargo.

While Trump has said these trade tariffs will benefit the U.S. economy, no economist polled by Reuters shared that view.

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Pimco Warns of Looming Recession

Pimco just made the most obvious warning we have ever heard, but within it, there are some useful reminders. They warned investors that there is a 70% likelihood of a global recession within the next five years. Their reasons for thinking so, and how to handle it, are a bit different than the norm however. Their focus is on how all central banks are in tightening mode and public market assets have become very expensive. Pimco says investors can find safe haven in private markets as the recession takes hold. These include in private credit, such as in corporate loans, non-qualified US mortgages, and commercial development loans.

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Stocks are Sleeping on a Huge Risk

We don't want to say that investors are sleepwalking into it, but in many ways it seems an apt metaphor. Whether stock investors like it or not, the US trade war with China is continuing apace. The two countries' negotiations on the issue last week went nowhere, and the US is about to hit Beijing with \$200bn more in tariffs. Their response will hurt the US economy, as many of them will be on consumer goods, which could raise prices and lower demand. Industrial stocks are likely to be hit by Beijing's retaliations. 50% of all Chinese imports will soon be subject to new tariffs.

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QUOTE OF THE WEEK

"I have the simplest tastes. I am always satisfied with the best."

-Oscar Wilde

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 August 24, 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 6 indices to get a better overall picture of the market. The combined average of all 6 indices is 4.74% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
S&P 500 Index	2874.69	0.88%	2.12%	8.87%
Dow Jones Industrial Average Index	25790.35	0.51%	2.45%	5.90%
Nasdaq Composite Index	7945.98	1.67%	1.48%	15.91%
60/40 Portfolio (BAGPX)	13.39	0.45%	0.53%	2.29%
US Aggregate Bond Index	2029.13	-0.23%	0.31%	-1.33%
20+ Year Treasury Bond (TLT)	122.29	1.08%	0.60%	-3.21%

Data Source: Investors FastTrack, Yahoo Finance

Term of the Week: Net Present Value—NPV

Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflows over a period of time. NPV is used in [capital budgeting](#) to analyze the profitability of a projected investment or project.

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Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: With no new headlines out of Turkey, US equity markets were able to shrug off mounting pressure on President Trump after a conviction of his former campaign manager and plea deal struck with his former personal attorney. Trade talks with China also broke down during the week with no clear outcome or schedule to resume, as new tariffs from both parties took effect on Thursday, as scheduled. Despite all of this, the Nasdaq Composite and the S&P 500 were able to achieve new all-time highs on Friday, finishing the week up 1.5% and .84%, respectively. The Energy sector and its SPDR Select Sector ETF (XLE) led the S&P higher, up 2.75%, while defensive Utilities and Staples lagged during the week. International equities bounced back during the week, led by emerging markets and the iShares MSCI Emerging Markets Index ETF (EEM) gaining nearly 2.5%, while International Developed markets represented by the iShares MSCI EAFE Index Fund ETF (EFA) were up 1.5%.

Fixed Income: The yield on the 10 Year US Treasury did not recover, and even dropped further from the prior week's flight to safety, closing the week down near 2.82%. This is likely due to short-covering from a record short bond (long yields) positioning revealed during the prior week's Commitment of Traders report. It was likely that any dovish sentiment from the Federal Reserve minutes or the annual retreat at Jackson Hole, Wyoming would have further increased the pain from falling yields. The 10-year minus 2-year spread has continued to tighten, and significantly so, down under .21%. Lipper reported net inflows into corporate investment grade and high yield funds of \$2.678 billion and \$344 million, respectively, for the week ended August 22nd.

Commodities: A large drawdown in crude oil inventories reported by the Energy Information Agency (EIA) reversed the large build from the prior week and saw crude oil prices ramp up on Wednesday and follow through to close out the week higher. The American oil benchmark, West Texas Intermediate (WTI)

gained over 4% during the week, to \$68.62 per barrel, while falling oil shipments out of Iran helped the International Brent crude rise over 5.4%, to \$75.72. Natural gas prices fell during the week to \$2.92/MMBtu.

WEEKLY ECONOMIC SUMMARY

Durable Goods Orders: At first glance, the headline number for July's Durable Goods Orders of -1.7% month-on-month (MoM) looks like a dud in terms of prospects for continued strong economic growth, but this measure of business investment was masked by the volatile figures from aircraft sales. The core component (excluding transportation equipment) surprised well above the consensus estimate of .5%, growing at 1.4% MoM, signaling continued strength for business investment in computer, electronic, and machinery equipment. The report shows that the 3rd quarter was off to a strong start and should contribute positively to maintaining GDP growth.

Federal Reserve (Fed): The minutes from the last Fed meeting were released on Wednesday with no real surprises. Participants noted that it is still appropriate to continue raising rates, citing momentum in household and business spending. They did note, however, that they expect GDP growth in the second half of 2018 to slow, yet remain above long-term potential, and that an escalating and prolonged trade dispute was a source of uncertainty risk and held potentially consequential downside for the US economy. Fed Chair Jerome Powell, during a Friday speech at the annual retreat in Jackson Hole, acknowledged weakness in emerging markets, saying "there are risk factors abroad and at home that, in time, could demand a different policy response", while adding later that if inflation expectations become unanchored in either direction, that the Fed would "do whatever it takes" to control the problem. The comments helped lift equity markets to close out the week.

Q2 Earnings Season: With Q2 earnings season winding down, many familiar retail names reported results during the week. Kohl's (KSS), Target (TGT), and TJX Companies (TJX) all impressed the street by beating analyst expectations and are succeeding with bucking the "death of retail" trend by attracting younger shoppers. All three stocks have had impressive runs this year and were rewarded after their earnings announcements. On the other hand, The Gap Inc. (GPS) and L Brands (LB) disappointed investors with the latter reducing its full year guidance, as its Pink brand by Victoria Secret is failing to appeal to the new generation. Stocks for GPS and LB were down around 10% and 15%, respectively, from their earnings releases to the close on Friday.

Current Model Allocations

Tactical Fixed Income Model Allocations

8/17/2018

Cash—42.12%	Merging Market Bonds—15%	Treasury Bond—8.88%
Preferred Stock— 4.00%	Convertible Bonds—20%	Long Term Bond—10%

Other Managers

HIM #12 —100% treasury bond

HIM #9 —100% alternative equity mutual fund

HIM #1 —85% fund 5% high yield fund 5% high yield 5% high yield fund

HIM #21 —100% real estate mutual fund

HIM #19 —50% Cash 50% real estate mutual fund

HIM #10 —.16% Cash 99.84% Equities (48 equities)

HIM #20 —2% Cash 10% short term high yield 10% high yield 14% high yield corporate bond 15% ultra short bond 15% floating rate bond 17% high yield bond 17% high yield corporate bond

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

Chart of the Week:

The Chart of the Week is the S&P 500 Index which on Wednesday (August 22nd) became the longest Bull Market in History, as the Bull turned 3,453 days old since its birth at the bottom on March 9th, 2009. We expect this Bull Market to continue for at least another 12 months.

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