HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ July 15, 2019

Morgan Stanley Says Recession and Correction Loom

The bearish stream of warnings from Morgan Stanley continues unabated. The bank's wealth management CIO has just made another big call for the firm, saying a correction is likely. Lisa Shallett of MS Wealth management says that the Fed is trying to fight the end of the cycle, and it will likely prove too hard to do. She believes that a recession and correction are highly likely in the next year and that stocks will drop by at least 10%. That said, she advises investors to buy further intro under-performing sectors.

Click here to read more.

US Earnings Recession Coming

Second quarter earnings season is about to begin, and nobody has much expectation for good news. Analysts across the board expect earnings to shrink, bringing back the first profit recession since 2016. Materials, technology, and consumer discretionary are set to get hit the hardest, but the majority of sectors are likely to see losses. Analysts estimate the average earnings decline for the S&P 500 will be 2.8%.

Click here to read more.

QUOTE OF THE WEEK

"We first make our habits, and then our habits make us."

- John Dryden

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 July 12, 2019. 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 12 indices to get a better overall picture of the market. The combined average of all 12 indices is 14.09% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	27,328.98	1.54%	5.24%	18.66%
S&P 500 Index	3,013.77	0.82%	4.82%	21.54%
Nasdaq Composite Index	8,244.69	1.01%	5.87%	24.96%
60/40 Portfolio (BAGPX)	13.15	-0.08%	2.90%	14.45%
US Aggregate Bond Index	2,163.87	-0.21%	0.66%	5.73%
20+ Year Treasury Bond (TLT)	130.22	-1.67%	-0.35%	7.17%
MSCI EAFE (EFA)	65.80	-0.56%	0.34%	11.94%
MSCI Emerging Markets (EEM)	42.85	-0.19%	2.93%	9.70%
France CAC Index (EWQ)	30.62	-0.13%	1.12%	17.91%
Germany DAX Index (EWG)	27.63	-1.57%	-0.97%	8.99%
Italy Borsa Index (EWI)	28.59	-0.24%	5.34%	18.09%
London FTSE (EWU)	32.26	-0.49%	-1.41%	9.91%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Callable Bond

A callable bond is a bond that the issuer may redeem before it reaches the stated maturity date. In essence, a callable bond allows the issuing company to pay off their debt early. A business may choose to call their bond if market interest rates move in a favorable direction and will allow them to borrow at a more beneficial rate. Callable bonds also benefit investors as they typically offer an attractive interest rate or coupon rate due to their callable nature. Another name for callable bonds is a redeemable bond.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: This week in markets highlighted the decoupling between the US and the rest of the world, as positive US economic data contrasted with lowered earnings expectations in Europe and poor trade data in Asia. All three major US indices closed the week at or near all-time closing highs, led by the Dow Jones Industrial Average rising 1.54%, while the Nasdaq Composite and the S&P 500 Index closed up 1.01% and 0.82%, respectively. The healthcare sector did not participate in the advance when news hit that political pressure related to drug pricing will be lessened on pharmacy benefit managers, such as CVS and United Healthcare, and be placed squarely on the drug manufacturers themselves. International markets, as mentioned, weren't feeling the love as the Developed Market-focused iShares MSCI EAFE Index ETF (EFA) fell -0.56%, while Emerging markets and the iShares MSCI Emerging Markets ETF (EEM) ended down -0.19%.

Fixed Income: The solid US economic data helped US Treasury yields climb as bonds and equities stopped rising in tandem. The yield on the 10-year US Treasury Note finished the week near 2.11% after rising near 2.15% after Friday's release of inflation data. The move caused the term spread to steepen, as shorter-term rates stayed anchored near the recent lows signaling that the data is good, but not good enough to deter the Federal Reserve (Fed, FOMC) from an "insurance" cut to the fed funds rate at the end of July. High yield bond spreads widened slightly as prices slipped, despite Lipper reports of $619 million of inflows into high yield bond funds during the week ending 7/10.

Commodities: Logistical and supply concerns due to Tropical Storm Barry moving on shore from the Gulf of Mexico have bolstered crude oil prices and overshadowed concerns of falling global demand. Sustained high tension levels with Iran in the all-important Strait of Hormuz, this time with the British military, have continued to contribute to a premium beyond usual supply and demand. Large reported inventory drawdowns helped to also boost the West Texas Intermediate (WTI) benchmark by 4.5%, to $60.25 per barrel on the week. The International Brent crude benchmark rose nearly 4%, to $66.76 per barrel. Natural gas prices also benefited from the tropical disturbance, gaining another 2%, to $2.46/MMBtu.

WEEKLY ECONOMIC SUMMARY

FOMC Minutes: The minutes from the June Fed meeting, released Wednesday, stated that several members believe that a near-term rate cut to the federal funds rate would help cushion the effects of possible future adverse shocks to the economy. It was noted that some members thought that more data needed to be gathered before moving forward with rate cuts, saying that there was not yet a strong case for cuts. Still markets are 100% expecting a rate cut at the next meeting at the end of this month according to the CME FedWatch Tool odds. Fed Chairman Jerome Powell reiterated the deterioration in economic data since the last meeting during his 2-day testimony to Congress, adding that the Fed is ready to use the tools available to continue this longest economic expansion on record.

Consumer Price Index (CPI): If there is anything that would derail the plans for the Fed easing bias, it would be an acceleration in inflation. The CPI measure is not the favorite inflation measure of the Fed, that designation goes to Personal Consumption and Expenditures (PCE), however CPI is no doubt included in the monitored data. According to the Bureau of Labor Statistics CPI has ticked .1% higher than expectations during the month of June. The Core component (less food & energy) rose slightly higher for the month as well, rising .3% month-on-month and 2.1% year-on-year. While the tick higher does not qualify as an acceleration, it does not signal a need for an immediate cut.

Jobless Claims: New jobless claims dropped to 209,000 for the week ending July 6th versus estimates of 220,000 signaling continued strength in the labor market. This, the best reading in 3 months, was enough to drop the closely monitored 4-week moving average of initial jobless claims from 222,250 to a healthy 219,250. The unemployment rate for insured workers remains unchanged at a very low 1.2%, and along with the CPI reading, are not indicative of an imminent cut in the fed funds rate.

Current Model Allocations

Data Source: Hanlon Investment Management

<u>**Other Managers**</u>

HIM #22 —	33% Money Market/ 67% fund
HIM #25 —	100% fund
HIM #8 —	100% trust
HIM #3 — (Nationwide only)	16.66% T Rowe/ 33.34% Franklin Income VIP Fund/ 16.67 % American Funds/ 33.33% Mainstay VP Mac kay Convertible

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.

Data Source: Hanlon Investment Management

CHART OF THE WEEK

The Chart of the Week shows a 1-year chart of the 10-Year US Treasury Note yield-to-maturity. The 10-year yield has come off of the 2019 low due to solid US economic data that lowered the probability of multiple .25% rate cuts when the FOMC meets in 2 weeks. We have both Tactical and Strategic exposure to long-term US Treasuries in appropriate allocations.

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