HORTER INVESTMENT MANAGEMENT, LLC

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The biggest question for the market entering the second quarter: Recession or just a soft patch?

Hearing the superlatives applied to Wall Street's fast start — the S&P 500 up 13 percent, its best first quarter in 21 years — might leave the impression the bulls have routed the doubters decisively.

But it's closer to the truth to say that for two months, bulls rebounded from the devastating loss suffered at the end of 2018 by building up a nice 12 percent lead, and then for the past few weeks the defense has held off the bears to preserve it.

The first couple of months were a supercharged "January effect," in which the smallest, riskiest, most aggressive stocks sped higher as the fourth-quarter growth panic, fund liquidations and tax-loss selling abated. Then in March a turn toward more stable, less cyclical, yield-and-cash-flow plays stepped up and small caps sank, as bond yields rushed lower and global growth remained wobbly.

Those observers who defer strictly to the "message of the market" argue this defensive turn — combined with a furious bond rally and sudden outcry for a Federal Reserve rate cut — is a stark warning about heightened risk of recession and a downturn in corporate profits.

But what about the idea that inherently strong markets find a way to support themselves even when the data soften up and risk appetites waver? Maybe the fact that the S&P 500 in March underwent only a couple of fairly benign 2 to 3 percent pullbacks despite plenty of decent excuses to buckle further is the relevant feature of this market's character. Click here to read more.

No need for the Fed to enter 'panic mode' and cut rates now, says Moody's

Economic data in the U.S. don't justify an interest rate cut by the Federal Reserve — despite recent calls for the American central bank to do so, said Mark Zandi, the chief economist at Moody's Analytics.

Top White House economic advisor Larry Kudlow said last week that the U.S. central bank should "immediately" cut interest rates by 50 basis points. His comment followed a similar stance by Heritage Foundation fellow Stephen Moore, whom U.S. President Donald Trump has said he intends to nominate for a position on the Fed.

Their comments came after the Fed's latest decision to hold rates steady as it cut the central bank's forecasts for U.S. economic expansion and inflation. The central bank also warned of slowing growth in Europe and China.

While the U.S. is indeed growing at a slower pace, economic data don't suggest the need to cut interest rates, Zandi told CNBC's "Squawk Box" on Tuesday.

"I'm not sure why the Fed needs to go into panic mode here," he said. He pointed to the latest data that showed the U.S. economy was still healthy: Unemployment rate was close to a 50-year low, wage growth was strong, inflation inched closer to the Fed's target of 2 percent and the stock market looked like it could hit record levels again. Click here to read more.

QUOTE OF THE WEEK

"One way to get the most out of life is to look upon it as an adventure."

- William Feather

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 April 5, 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 12.51% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	26,217.25	1.95%	2.56%	14.00%
S&P 500 Index	2,892.68	2.09%	3.87%	16.02%
Nasdaq Composite Index	7,938.81	2.73%	4.89%	20.00%
60/40 Portfolio (BAGPX)	12.69	1.60%	2.59%	10.72%
US Aggregate Bond Index	2,098.59	-0.34%	1.53%	2.54%
20+ Year Treasury Bond (TLT)	124.03	-1.91%	3.71%	4.06%
MSCI EAFE (EFA)	66.08	1.91%	2.64%	12.42%
MSCI Emerging Markets (EEM)	44.06	2.58%	3.55%	12.80%
France CAC Index (EWQ)	30.18	2.41%	2.27%	16.21%
Germany DAX Index (EWG)	27.91	3.68%	1.97%	10.10%
Italy Borsa Index (EWI)	28.18	1.43%	3.95%	16.40%
London FTSE (EWU)	33.72	2.15%	3.59%	14.89%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Tainted Alpha

Tainted alpha refers to the portion of alpha return that cannot be attributed solely to the money manager due to consequential beta exposure. Tainted alpha is seen when money managers invest in individual equities, instead of using market neutral strategies such as arbitrage and hedging.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Continued optimism surrounding a potential trade deal with China has powered global equities higher for another week. “Goldilocks” employment data also helped US markets continue higher above resistance from prior peaks on the S&P 500 and the Dow Jones Industrial Average. The Nasdaq Composite Index led the way higher on the week, gaining 2.7%, while the aforementioned S&P and Dow Jones rose around 2% each. The relatively small Materials sector outperformed the other major sectors, as the SPDR Select Sector Materials ETF (XLB) gained over 4.1%. While Developed International stocks represented by the iShares MSCI EAFE Index Fund ETF (EFA) performed in line with US equity indices, Emerging Markets represented by the iShares MSCI Emerging Market Index ETF (EEM) rallied 3.4%, propelled by Chinese equities’ response to trade news.

Fixed Income: The 10-year US Treasury Note yield rose to 2.5% during the week, with most of the rise coming outside normal trading hours. Some would argue that the move in bonds is not in sync with the move from equity markets, however, rates are likely to be “sticky” on the downside without a substantial rise in expected inflation that would force the Federal Reserve to act. The interest rate spread of high yield bonds over equivalent Treasury securities tightened with the strength in equities, while Lipper reported large net inflows of $2 billion into high yield funds during the week ended 4/3.

Commodities: Oil prices booked their longest weekly winning streak since 2017, remaining highly correlated with equities as supply concerns remain due to situations in Venezuela and Libya. Adherence to self-imposed supply reductions by OPEC+ seem set to continue, while speculation surrounding US waiver extensions to countries trading with Iran may be adding to the rally. The price of West Texas Intermediate crude rose 5% during the week, to $63.30 per barrel, while the International Brent crude benchmark rose 3%, to $70.46 per barrel. Natural gas prices were unchanged during the week, at $2.67/MMBtu.

WEEKLY ECONOMIC SUMMARY

Employment Situation: According to the Bureau of Labor Statistics, Nonfarm Payrolls bounced back from February’s weak print to increase by 196,000 in March. February’s increase of 20,000 payrolls was revised slightly higher, to 33,000, while the unemployment rate remained unchanged, at a very low 3.8%. A lower than expected .1% month-on-month (MoM) increase in average hourly earnings capped off a very favorable, or “Goldilocks”, report for financial markets showing continued strength without signs of accelerating inflation.

Durable Goods Orders: Orders for durable goods dropped by a less than expected -1.6% MoM, in February. This leading economic indicator of goods expected to last 3+ years was expected to do be weak due to the volatile aircraft orders component. However, core capital goods (non-defense, non-aircraft), missed expectations for a slight increase by slipping -.1%, due in part by falling orders for machinery, computers, and other electronics. This report is concerning due to the lack of business investment and its implications on future growth.

ISM Non-Manufacturing Survey: The Institute for Supply Management (ISM) released the results of its monthly survey based on respondents from the non-manufacturing sector for the month of March. The reading of 56.1 was surprisingly soft, with an expected moderation to 58 from the strong 59.7 reading for February. New orders and business activity were the two weakening factors, while employment was consistent with the strength in other employment reports. March was the 110th consecutive month of growth in the services sector, despite the cooling, with respondents mostly optimistic about overall business conditions and the economy.

Current Model Allocations

Tactical Fixed Income Model Allocations

4/02/2019

Exchange Traded Fund —4.8%	Exchange Traded Fund – 33.8%	Exchange Traded Fund – 8.8%	Exchange Traded Fund —14%
Exchange Traded Fund —8.8%	Exchange Traded Fund – 4.8%	Exchange Traded Fund – 8.8%	Exchange Traded Fund — 4.8%
Exchange Traded Fund —4%	Exchange Traded Fund – 4.8%	Cash –3%	Exchange Traded Fund — 4%

Data Source: Hanlon Investment Management

Other Managers

HIM #9 —	100% fund
HIM #22 —	100% Rydex Nova Fund
HIM #25 —	50% Money Market/ 50% fund
HIM #8 —	100% trust
HIM #10 —	2% into 50 holdings

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 the 1-year performance of the Shanghai Stock Exchange Composite Index, which contains all of the stocks that trade on this major Chinese exchange. The index has reversed course from the low at the beginning of 2019, to make a fresh 52-week high in just three months. Chinese equities make up a large portion of emerging market investments, currently overweight where appropriate, in Hanlon Strategic, All-Weather, and Tactical Models.

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