HORTER INVESTMENT MANAGEMENT, LLC

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The Fed is 'indicating that a rate cut is coming,' says former central banker

The U.S. Federal Reserve has sent a "very strong signal" that it's ready to consider cutting interest rates, according to a former Fed governor.

Sarah Bloom Raskin, who sat on the Fed board from 2010 to 2014, offered that analysis in light of Chairman Jerome Powell's recent speech in which he said the central bank "will act as appropriate to sustain the expansion."

"I think Chairman Powell has given a message to markets that's indicating that a rate cut is coming. This is, in essence, a very strong signal that the FOMC is actually ready to talk about cutting rates," Raskin, who's now a senior fellow at Duke University, told CNBC's "Squawk Box" on Wednesday

The Federal Open Market Committee (FOMC), which is responsible for setting American monetary policy, is scheduled to next meet on June 18-19 to decide on interest rates.

Investors have been predicting that the Fed would cut interest rates, even though the central bank had earlier indicated it expected to hold monetary policy steady throughout the year. Investors calling for rate cuts argued that the ongoing trade war between Washington and Beijing is threatening to slow down the global economy, which would in turn hurt the U.S. Click here to read more.

Economists: The Fed 'isn't enough' to offset damage of tariff skirmishes with China and Mexico

A dovish Federal Reserve can use tools such as rate cuts to lessen the damage of America's tariff skirmishes with China and Mexico, but it is either limited in its effectiveness or in its motivations, two economists told CNBC on Thursday.

Instead, the U.S. has to resolve those issues at the negotiating table, Nathan Sheets, chief economist at asset manager PGIM Fixed Income, told CNBC at the IIF Spring Membership Meeting in Tokyo.

"The Fed can mitigate some of the adverse effects, but I'm not sure the Fed is inclined to move fast enough or significantly enough to entirely offset the effects of this trade war. I think ultimately the solution or resolution of this has to come at the negotiating table between President (Donald) Trump and President Xi (Jinping), and between the United States and Mexico, " he said.

"The Fed will do its best given where the economy is, but it would take a dramatic easing of monetary policy for them to fully offset these kinds of effects," Sheets added.

U.S. Federal Reserve Chairman Jerome Powell had on Tuesday signaled that the central bank was open to easing monetary policy to support the economy, amid increasing expectations for multiple Fed rate cuts this year. Click here to read more.

QUOTE OF THE WEEK

"The greater our knowledge increases the more our ignorance unfolds."

- John F. Kennedy

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 June 7, 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 11.41% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	25,996.32	4.77%	0.52%	12.67%
S&P 500 Index	2,873.08	4.46%	-0.10%	15.68%
Nasdaq Composite Index	7,741.27	3.91%	-2.63%	17.26%
60/40 Portfolio (BAGPX)	12.67	1.77%	0.00%	10.27%
US Aggregate Bond Index	2,152.48	0.36%	1.85%	5.17%
20+ Year Treasury Bond (TLT)	131.74	-0.07%	5.43%	8.42%
MSCI EAFE (EFA)	65.56	3.41%	0.75%	11.53%
MSCI Emerging Markets (EEM)	41.18	1.15%	-3.01%	5.43%
France CAC Index (EWQ)	30.31	4.52%	1.99%	16.71%
Germany DAX Index (EWG)	27.87	0.61%	-0.57%	9.94%
Italy Borsa Index (EWI)	27.18	4.78%	-0.59%	12.27%
London FTSE (EWU)	32.75	3.34%	-0.55%	11.58%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Ombudsman

An ombudsman is an official, usually appointed by government, who investigates complaints (usually lodged by private citizens) against businesses, financial institutions or government departments or other public entities, and attempts to resolve the conflicts or concerns raised. Depending on jurisdiction, an ombudsman's decision may or may not be legally binding. Even if not binding, the decision typically carries considerable weight. When appointed, the ombudsman is typically paid via levies and case fees.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Global equity indices bounced back during the week, despite deterioration in economic data, as global central banks assured markets that they stand ready to act should the need arise. US markets reacted when prepared remarks from Federal Reserve (Fed) Chair Jerome Powell expressed less "patience" and more willingness to reduce interest rates to support the economic expansion. The Dow Jones Industrial Average and the S&P 500 Index finished the week up 4.77% and 4.46%, respectively, as the Materials sector led the other major sectors. International Developed markets responded similarly to the dovish continuation in the European Central Bank announcement, as the iShares MSCI EAFE Index ETF (EFA) rose nearly 3.41%. Emerging market represented by the iShares MSCI Emerging Market Index ETF (EEM) rose only 1.15% during the week.

Fixed Income: Rising stock prices didn't come at the detriment of bond prices, with safe-havens bid and yields falling further. The yield on the 10-year US Treasury Note finished slightly off its intra-week low, ending the week near 2.08%, which looks quite favorable versus locking in a record -.25% for a German 10-year bond. High yield bonds also bounced back during the week, as the iShares IBoxx High Yield Corporate Bond ETF (HYG) rose 1.4%, as high yield spreads over Treasuries narrowed. Lipper reported large net outflows of $3.217 billion from high yield funds during the week ended 6/5.

Commodities: Rising confidence in OPEC extending and adhering to their self-implemented production cuts contributed to West Texas Intermediate (WTI) crude oil halting its precipitous decline in recent weeks, at least for now. A late week push higher was needed to make that happen, with prices flat-to-lower for most of the week, even as US production output reached a new record high of 12.4 million barrels per day. The International Brent crude benchmark, however, was still lower on the week, slipping 2% to $63.27 per barrel, while WTI rose 1.2%, to $54 per barrel. Natural gas prices dropped nearly 5%, to $2.34/MMBtu.

WEEKLY ECONOMIC SUMMARY

Employment Situation: The month-on-month increase in non-farm payrolls of 75,000 for May was certainly a disappointment compared to estimates for an increase of 180,000. The report, released by the Bureau of Labor Statistics, also revised the April number down significantly from 263,000 to 224,000, while leaving the unemployment level unchanged at 3.6%. Professional business services jobs posted a strong 33,000 increase, while construction job growth slowed significantly from recent strength, and retail jobs continued to contract. The growth in average hourly earnings was slightly lower than had been anticipated, rising 3.1% from the prior year versus an estimate of 3.2%. The report was interpreted by markets as being one that supported accommodative action floated this week in speeches by Fed board members.

ISM Surveys: The Institute for Supply Management (ISM) released its monthly survey results, with the May Non-Manufacturing Index rising higher than expectations of 55.8, to 56.9, thanks to strong contributions from hiring. This contrasted with the weakest Manufacturing Index result since late 2016, of 52.1, as backlogs showed an unexpected contraction. Six of the eighteen tracked sectors are in contraction, with tariffs being a repeated concern and prices expected to rise. This softness may be expected to contribute unfavorable to next month's Employment Situation report.

International Trade: April was, perhaps predictably, a very poor month for international trade, as both imports and exports decreased by 2.2% each. The total trade deficit stands at -$50.8 billion for the month, while the trade deficit with China broke from the recent narrowing trend, and widened to $26.9 billion versus the $20.7 billion in the previous month. Exports of foods rose slightly, as most other exports fell, including a large drop in civilian aircraft. Vehicle and consumer imports declined, while imports of oil were higher.

Current Model Allocations

Tactical Fixed Income Model Allocations

6/07/2019

Exchange Traded Fund — 38.6%	Exchange Traded Fund — 13.6%	Exchange Traded Fund — 13.6%	Exchange Traded Fund — 9.6%
Exchange Traded Fund — 4.8%	Exchange Traded Fund — 4.8%	Cash— 3%	Money Market— 12%

Data Source: Hanlon Investment Management

Other Managers

HIM #9 —	100% fund
HIM #1 —	100% fund
HIM #29 –	100% fund
HIM #22 —	33% Rydex Nova/ 67% Money Market
HIM #25 —	100% fund
HIM #8 —	50% QQQ /50% Money Market
HIM #10 —	2% into 50 holdings
HIM #3 —	16.66% Invesco Money Market/ 33.34% Franklin Income VIP Fund/ 16.67 Profunds Rising Rates/ 33.33% Mainstay VP Mac kay Convertible
HIM #20 —	22% Cash/ 15% ultra short bond/ 15% ultra short bond/ 24% high yield bond/ 24% high yield corporate bond
HIM #12 —	100% treasury 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 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 Invesco S&P 500 Low Volatility ETF (SPLV – **blue line**) significantly outperforming the S&P 500 Index (**black line**) year-to-date. The outperformance since early May highlights investors' preference for stocks characterized as having lower volatility than the broader index. We strategically hold SPLV in certain Hanlon Strategic and All-Weather models.

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