HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ May 13, 2019

Bond market flashes recession warning as portion of the yield curve inverts again

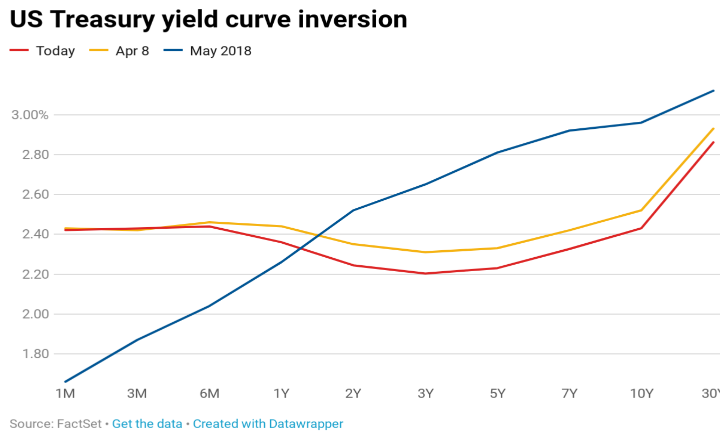
Renewed trade war fears triggered a bond market recession indicator on Thursday.

The yield on the 10-year Treasury note fell below that of the 3-month bill Thursday morning, inverting part of the yield curve. The yield curve is the plot of interest rates of bonds having equal credit quality but differing maturity dates. An inversion has been a reliable recession indicator in the past, though there is a debate over which segment of the curve is most important.

The Federal Reserve — as well as President Donald Trump's chief economic advisor Larry Kudlow — consider an inversion of the 3-month and 10-year curve as a key barometer.

By Thursday afternoon, the yield curve between the 3-month bill and 10-year note had steepened and was no longer inverted. At 4:22 p.m. ET, the yield on the benchmark 10-year Treasury note, which moves inversely to price, was lower at around 2.451%, while the yield on the 3-month Treasury bill yield hovered at 2.432%.

Click here to read more.



Fed Warns of Economic Shock

The Fed has a big new worry that is not presently on the market's radar. With all the worries about headline economic data and the trade war, very little attention has been paid to the potential shock equities and bonds may feel from climate change. The Fed, however, is very focused on the risk. The Fed says that climate change can have a jarring effect on the economy that may "affect national economic output and employment". "As such, these events may affect economic conditions, which we take into account in our assessment of the outlook for the economy", says Fed Chairman Powell.

Click here to read more.

QUOTE OF THE WEEK

"Glory is fleeting, but obscurity is forever."

- Napoleon Bonaparte

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 May 10, 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 11.22% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	25,902.29	-1.96%	-0.61%	12.17%
S&P 500 Index	2,882.09	-2.10%	-0.10%	15.77%
Nasdaq Composite Index	7,917.64	-2.96%	-0.51%	19.77%
60/40 Portfolio (BAGPX)	12.63	-0.94%	-0.71%	9.92%
US Aggregate Bond Index	2,112.58	0.31%	0.40%	3.22%
20+ Year Treasury Bond (TLT)	124.75	0.88%	0.38%	2.66%
MSCI EAFE (EFA)	65.33	-2.48%	-1.19%	11.14%
MSCI Emerging Markets (EEM)	41.98	-5.07%	-5.71%	7.48%
France CAC Index (EWQ)	29.95	-2.51%	-0.76%	15.33%
Germany DAX Index (EWG)	28.34	-2.11%	1.76%	11.79%
Italy Borsa Index (EWI)	27.35	-2.81%	-2.74%	12.97%
London FTSE (EWU)	33.00	-2.57%	-2.31%	12.44%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Gadfly

Gadfly is a colloquial term for an investor who attends the annual shareholders meeting to criticize the corporation's executives. A gadfly addresses many issues for the shareholders, often raising questions to management about specific company policies or corporate governance.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: US equities slipped during the week, after hovering near all-time highs, thanks to reports of an 11th hour reversal by China on crucial details of the trade negotiations. After gapping down in overnight futures markets, the major US indices were able to recover somewhat during normal trading hours, but still ended lower on the week. The technology sector led the way to the downside, dragging the Nasdaq Composite Index down by -3.03%, while the S&P 500 Index and the Dow Jones Industrial Average lost -1.96% and -2.10%, respectively. Emerging Market equities were particularly battered by the break-down in trade talks, as the iShares MSCI Emerging Market Index ETF (EEM) fell by -5.07%, while International Developed markets represented by the iShares MSCI EAFE Index ETF (EFA) fell -2.48% on the week.

Fixed Income: The yield on the 10-year US Treasury Note dropped in volatile trading even as a mid-week auction of $27B of new issuance garnered the lowest bid-to-cover in 10 years, as the yield ticked higher signaling weak demand for the maturity. The yield finally settled near 2.47% on Friday, after rising off longer-term support at 2.44%. A late-week rally salvaged what could have been a poor week for high yield bonds, as spreads increased and the iShares IBoxx High Yield Corporate Bond ETF (HYG) dropped -.39%. Lipper reported net outflows of $212 million out of high yield funds during the week ended 5/8.

Commodities: Crude oil prices were only slightly lower on the week, diverging somewhat from the recently high correlation with US equities, finding support from the 50 and 200-day moving averages. Geopolitics concerning major oil producing nations including Libya, Venezuela, and Iran continue to outweigh downward pressure stemming from rising US stockpiles and production. West Texas Intermediate closed the week down only -.27%, at $61.67 per barrel, while the International Brent crude benchmark was virtually unchanged, at $70.73 per barrel. Natural gas prices traded at the NYMEX were slightly higher, at $2.62/MMBtu.

WEEKLY ECONOMIC SUMMARY

US Inflation Data: More US inflation data was released during the week, with the April Consumer Price Index (CPI) and Producer Price Index (PPI) reinforcing the modest to moderate pace of rising prices shown in the Personal Consumption Expenditures report. Energy prices pushed up the headline reading for each measure, however both CPI and PPI were a tenth lower than consensus estimates on both the monthly and annual comparisons. Prices of apparel helped increase the Core CPI (excluding food & energy) which also came in a tenth below estimates, at .1% month-over-month (MoM) and 2.1% year-over-year (YoY). PPI less food & energy was equal to the MoM Core CPI, but came in slightly “hotter” as expected at 2.4% YoY.

Jobless Claims: Initial jobless claims came in higher than expected, at 228K versus 215K for the week ending May 4th, which may put a damper on the next employment report. This has brought the 4-week moving average of those filing for unemployment insurance to 220.25K, a significant jump from the prior average of 212.5K. Continuing claims were only slightly higher, but higher nonetheless, rising by 13K to 1.684 million people. If the short trend in initial claims continues, we may have finally seen the low in unemployment for this economic cycle.

1st Quarter Earnings: With most of the S&P 500 having already announced earnings, it was newcomer Lyft Inc.’s (LYFT) turn to report for the first time as a public company. While LYFT’s results were better than expected, analysts were disappointed with a lack of gross bookings reporting, leading to skepticism around future profitability and a near 11% drop in share price on Wednesday. LYFT shares continued to slip on Friday as ride-sharing competitor, Uber Technologies (UBER), held its initial public offering (IPO) with lukewarm reception, closing below its IPO price of $45/share. With 89% of the S&P 500 having reported Q1 earnings, 72% have beat expectations for operating earnings according to S&P Dow Jones.

Current Model Allocations

Tactical Fixed Income Model Allocations
5/10/2019

Exchange Traded Fund — 4.80%	Exchange Traded Fund — 16.50%	Exchange Traded Fund – 13.60%	Exchange Traded Fund – 4.80%
Exchange Traded Fund — 13.60%	Exchange Traded Fund — 9.60%	Exchange Traded Fund – 8.80%	Exchange Traded Fund – 4%
Exchange Traded Fund — 4%	Money Market — 12.5%	Cash –3%	Exchange Traded Fund – 4.80%

Data Source: Hanlon Investment Management

Other Managers

HIM #9 —	100% fund	HIM #8 —	50% Money Market/ 50% trust
HIM #22 —	33% Money Market/67% fund	HIM #10 —	2% into 50 holdings
HIM #25 —	50% Money Market/ 50% fund		

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 6-month chart of the iShares iBoxx High Yield Corporate Bond ETF (HYG) representing the performance of US dollar-denominated high yield bonds. Resting just above its 50-day moving average (**blue line**), the excellent move from of the late-2018 low has sputtered due to rising risks associated with a re-ramp of tariff implementation in the trade negotiations with China. This price action and the threat of a lengthening or escalating trade war with China has led to us tactically reduc-

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