HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ May 20, 2019

The End of the Bull Market Looms

Yesterday was an ugly reminder of the fourth quarter. The Nasdaq fell 3.4%, its worst decline since December 4th. The S&P 500 wasn't much better. The big falls came on the announcement that Trump was considering raising tariffs on a further $300 bn of Chinese imports following the failure of negotiations last week. Investors are anxious that the trade war may continue to escalate and impact the global economy. One economist summarized the situation this way, saying "The confrontation has now escalated to a battle of testosterone between two leaders who believe they have much to prove to their constituents. But the longer this exhibition of chest-beating lasts, the greater the odds of a US, if not global, recession".

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US recession risk rises as US-China trade tensions heat up: Reuters poll

Over the last month the U.S.-China trade war has boosted the risk of a U.S. recession, say a strong majority of economists polled by Reuters, who now put the chances of that happening in the next two years at 40%.

That is up from a median 35% in last month's poll, the first time it had dipped slightly from where it held since December last year, before a crushing sell-off on Wall Street as 2018 came to a close, in part because of those worries.

U.S. President Donald Trump has dismissed the ongoing trade war with China as a "little squabble," but there are clear signs of the conflict already having an impact on the economy, and the stock market has become jittery again.

"I have a hard time thinking of a scenario in which a further escalation of the trade tension we currently have would not make recession risk higher," said Michael Hanson, head of global macro strategy at TD Securities.

Click here to read more.

QUOTE OF THE WEEK

"There is no influence like the influence of habit."

- Gilbert parker

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 17, 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 10.32% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	245,787.50	-0.61%	-2.33%	11.49%
S&P 500 Index	2,859.14	-0.69%	-1.22%	14.98%
Nasdaq Composite Index	7,815.42	-1.22%	-2.12%	18.31%
60/40 Portfolio (BAGPX)	12.61	-0.16%	-0.79%	9.75%
US Aggregate Bond Index	2,112.58	0.31%	0.40%	3.22%
20+ Year Treasury Bond (TLT)	125.99	0.99%	3.05%	3.69%
MSCI EAFE (EFA)	64.77	-0.86%	-2.91%	10.19%
MSCI Emerging Markets (EEM)	40.29	-4.03%	-9.64%	3.15%
France CAC Index (EWQ)	29.91	-0.13%	-3.08%	15.17%
Germany DAX Index (EWG)	28.05	-1.02%	-1.99%	10.65%
Italy Borsa Index (EWI)	27.10	-0.91%	-5.18%	11.94%
London FTSE (EWU)	32.68	-0.97%	-3.68%	11.35%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Day Order

A day order is a direction to a broker to execute a trade at a specific price that expires at the end of the trading day if it is not completed. A day order can be an order to buy or sell, but its duration is limited to the trading day.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: US equity indices spent the week working their way back from a Monday morning gap lower on news of tariff retaliation from China. The S&P 500 and the Dow Jones Industrial Average indices looked poised to close that gap until a last hour fade on Friday left the pair coming up short, losing -.69% and .61% on the week, respectively. The Nasdaq Composite lagged, down -1.27%, with only the traditionally defensive sectors including Utilities, Real Estate, and Consumer Staples ending the week in positive territory. International Developed markets represented by the iShares MSCI EAFE Index ETF (EFA) mirrored US equities, losing -.86% on the week, while emerging market equities continued to face the brunt of the trade spat, with the iShares MSCI Emerging Market Index ETF (EEM) losing -4.03%.

Fixed Income: US Treasury yields traded lower on the week after safe-havens were bid on the early week equity move lower. The yield on the 10-year US Treasury Note finished the week off its lows of 2.36%, but did not recover to the extent of equities, finishing a hair under 2.4%. The interest rate differential may have attracted more foreign capital into US Treasuries as the US Dollar Index may have finally broke above resistance near $97.50. High yield bond spreads widened slightly during the week, as $2.572 billion flowed out of high yield funds during the week ended 5/15, per Lipper.

Commodities: Crude oil prices were back on the rise, after a couple of dull weeks, thanks to rising political tensions with Iran and attacks on Saudi oil assets. Global demand would be expected to take a hit thanks to the rising trade tensions, however, geopolitical turmoil has taken center stage while Bakers Hughes reported that US oil rigs are now at their lowest level since March of 2018. West Texas Intermediate gained slightly over $1 during the week, near $62.70 per barrel, while the International Brent crude benchmark gained 2%, closing the week near $72.10 per barrel. Natural gas prices traded at the NYMEX were slightly higher on the week, at $2.63/MMBtu.

WEEKLY ECONOMIC SUMMARY

Retail Sales: The latest retail sales data released by the US Census Bureau came in softer than expected, at a -.2% month-over-month decrease for the month of April. The figure was expected to be soft, with the consensus estimate range from -.1% to .6%, but continued declines in the electronic & appliance categories combined with a drop in building materials and flatlining furniture sales to surprise even lower. Auto sales were down -1.1%, but bright spots included department store and restaurant sales, while purchases of gasoline were also on the rise.

Consumer Sentiment: The preliminary University of Michigan Consumer Confidence survey for May adds some optimism for the future of the retail sales report. The survey result jumped to a 15-year high of 102.4 versus the expected 97.5 and the prior reading of 97.2. The expectations component jumped despite the implementation of new tariffs on China, while the current conditions ticked up slightly. The inflation expectations component, closely watched by the Federal Reserve when forming policy, rose significantly for both the 3 and 5-year expectations to 2.8% and 2.3%, respectively.

1st Quarter Earnings: With earnings season winding down, two household retail names, Walmart Inc. (WMT) and Macy's Inc. (M) reported during the week. Despite weaker sales growth, both traditional retail chains surprised analysts with better than expected progress with their online shopping growth while re-affirming full year guidance. Both stocks faded after initial jumps but finished the week near the pre-release price with softness in broader equity markets. With 91% 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
5/17/2019

Exchange Traded Fund — 4.80%	Exchange Traded Fund — 26.10%	Exchange Traded Fund — 4.00%	Exchange Traded Fund — 9.60%
Exchange Traded Fund —13.60%	Exchange Traded Fund — 4.80%	Exchange Traded Fund — 4.00%	
Exchange Traded Fund – 13.60%	Money Market — 16.50%	Cash — 3%	

Data Source: Hanlon Investment Management

Other Managers

HIM #9 —	100% fund	**HIM #10 —**	2% into 50 holdings
HIM #22—	33% Money Market/67% fund	**HIM #3 —**	16.66% Fidelity VIP/ 33.34% Franklin Income/ 16.67% Pro funds RR/ 33.33% Mainstay VP
HIM #25 —	100% Money Market	**HIM #20 —**	22% Cash/ 15% ultra short bond / 15% ultra short bond / 24% high yield bond/ 24% high yield corporate bond
HIM #8 —	50% Money Market/ 50% trust		

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 20+ Year Treasury Bond ETF (TLT), which shows the performance of long dated Treasuries since the Federal Reserve pivoted to a more patient interest rate policy stance. TLT has been technically supported by its 50-day moving average (blue line) as US interest rates moved lower due, most recently, to a breakdown of trade talks with China. We currently have tactical exposure to TLT in appropriate Hanlon models.

National Headquarters | 11726 Seven Gables Road | Symmes Township | Cincinnati | OH | 45249

P: (513) 984-9933 | F: (513) 984-5219