HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ January 14, 2019

Probability of a recession rises to the highest in 7 years: WSJ Survey

The odds of a recession have grown to the highest level in seven years, according to a monthly poll by The Wall Street Journal.

Economists surveyed by the Journal are seeing on average a 25 percent chance of a recession within the next 12 months, the highest level since October 2011 and up from just 13 percent last year.

The heightened probability came from a slew of worries including the ongoing trade dispute with China, rising interest rates and the massive equity sell-off in December that led to stocks' worst year since the financial crisis, the survey revealed.

The outlook for 2020 is even dimmer with 56.6 percent of the economists foreseeing a downturn to start in the presidential election year. The Journal surveyed 73 economists from Jan. 4 to Jan. 8.

About 84 percent of the forecasters see a worsening U.S. economy, which is about the same level in December but higher that only 53 percent in October. The survey showed the economists are concerned about a shocking factor like an intensified trade war that would "trip up stock markets, prompt businesses and consumers to shy from spending and cause financial conditions to tighten, driving the economy down."

The recent economic data has been mixed. While December'sstronger-than-expected jobs report shows the labor market remains solid, the U.S. manufacturing PMI (Purchasing Managers Index) hit a 15-month low in the same month. Manufacturers' confidence in business also slipped to the lowest level in nearly two years. Click here to read more.

Trump is probably going to get his way with the Federal Reserve this year

As President Donald Trump jawbones the Federal Reserve, the likelihood that he's going get what he wants this year from the central bank continues to grow.

Markets expect the Fed to hold off on rate hikes and are even anticipating the possibility of a cut during the next year or two, playing into the low-rate environment the president has espoused.

That in turn would decrease the chances that Trump might try to fire Fed Chairman Jerome Powell, a move universally regarded as difficult to achieve and likely disruptive if not disastrous for the market.

"Replacing Powell might prompt initial disruptions in markets. Reduced US central bank independence could lead to longer-term damage to the US economy," Dana Peterson, North American economist for Citigroup, said in a note that called the threat of Powell getting ousted "deep within the realm of tail risks."

That chance may have declined even more in recent days as market conditions improved and Powell in a public forum Friday provided assurance that the Fed will be "patient" in how it normalizes monetary policy, attentive to what the market is signaling, and flexible in how it proceeds with interest rates and its balance sheet reduction.

Click here to read more.

QUOTE OF THE WEEK

"Facts are stubborn, but statistics are more pliable."

- Mark Twain

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 January 11, 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 3.20% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	23,995.95	2.42%	-1.46%	2.93%
S&P 500 Index	2,596.26	2.58%	-1.37%	3.63%
Nasdaq Composite Index	6,971.48	3.45%	-0.77%	5.09%
60/40 Portfolio (BAGPX)	11.77	1.82%	0.26%	2.61%
US Aggregate Bond Index	2,050.23	-0.04%	1.09%	0.18%
20+ Year Treasury Bond (TLT)	120.93	-0.97%	2.31%	-0.48%
MSCI EAFE (EFA)	61.03	1.87%	2.04%	3.83%
MSCI Emerging Markets (EEM)	40.73	2.62%	3.80%	4.28%
France CAC Index (EWQ)	27.02	1.54%	0.63%	4.04%
Germany DAX Index (EWG)	26.12	1.40%	2.11%	3.04%
Italy Borsa Index (EWI)	25.44	2.17%	3.46%	5.08%
London FTSE (EWU)	30.57	2.04%	3.66%	4.16%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Gamma Pricing Model

The gamma pricing model is an equation for determining the fair market value of a European-style options contract when the price movement on the underlying asset does not follow a normal distribution. The model is intended to price options where the underlying asset has a distribution that is either long-tailed or skewed such as the log-normal distribution, where dramatic market moves to the downside occur with greater frequency than would be predicted by a normal distribution of returns. The gamma model is but one alternatives for pricing options. Others include binomial tree and trinomial tree models, for example.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: A meeting between the US and China on trade that went longer than expected, and without any bad news, helped equity markets overcome uncertainty surrounding the extended US government shut-down and an impasse in Brexit negotiations. All three major US equity indices continued the new year rebound with the Nasdaq Composite continuing to lead, up 3.43% on the week. The S&P 500 Index and the Dow Jones Industrial Average had solid gains of 2.51% and 2.38%, respectively. Industrials and the Select Sector Industrial SPDR ETF (XLI) led the major S&P sectors, rising 4.19% on the week. International equities finished the week higher despite softening European economic data, with the International Developed iShares MSCI EAFE Index ETF (EFA) up 1.87% and Emerging Market equities represented by the iShares MSCI Emerging Market Index ETF (EEM) gaining 2.62%.

Fixed Income: The 10-year US Treasury Note yield finished barely changed, near 2.7%, after kissing 2.75% twice during the week and pulling back both times as investors reconcile contrasting economic data points and the next move by the Federal Reserve. High yield bond spreads dropped rather dramatically as the iShares IBoxx High Yield Corporate Bond ETF (HYG) gained 1.83% during the week. Lipper reported renewed interest in the form of inflows of $1.048B into high yield bond funds for the week ended 1/9.

Commodities: Oil prices have entered a bull market after rising over 20% off the December lows thanks to confidence in OPEC and Russia of keeping their promises of production cuts. Trading on Friday ended a streak of 9 consecutive days of gains, the longest such streak since 2010. Continued volatility is likely as concerns of widespread supply and issues surrounding global growth ebb and flow with the news cycle, however, the West Texas Intermediate (WTI) benchmark gained a whopping 7.8% while the International Brent crude benchmark gained 6.19% during the week, to close at $51.70 and $60.59 per barrel, respectively. Natural gas prices rebounded over 4% to $3.16/MMBtu.

WEEKLY ECONOMIC SUMMARY

Consumer Price Index (CPI): The headline CPI measure dropped -.1% during the month of December thanks to plunging prices for gasoline. This Bureau of Labor Statistics compiled inflation reading was in line with consensus estimates, at 1.9% for the year-on-year change. Rising during the month were the indices for shelter (.3%), recreation (.6%), hospital services (.5%), household furnishings (.3%), and education (.2%). Airline fares (-1.5%), used cars (-.2%), and motor vehicle insurance (-.2%) joined energy in declines during the month. The Core CPI, which removes changes for food and energy, was also in line with consensus estimates increasing .2% month-on-month and 2.2% year-on-year.

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 December. The reading of 57.6 was below the consensus estimate of 58.4 and November's reading of 60.7 but is still at a level consistent with annualized GDP growth near 3% according to Capital Economics. Slowing growth in business activity and improving delivery times overshadowed a strong reading for the new orders index. The new orders index was boosted by rising foreign demand for US services, a positive sign amongst the weakening data.

Federal Reserve Minutes: The Federal Reserve Open Market Committee (FOMC, Fed) released the minutes from its December meeting in which they hiked the benchmark Federal Funds interest rate, while also signaling that fewer hikes may be necessary. The minutes from the meeting were consistent with the Fed's more dovish tone, stating that "a relatively limited amount of additional tightening likely would be appropriate". The market is now expecting the Fed to completely discontinue further hikes due to modest levels of inflation and deteriorating economic data, causing a disconnect between the market's expectations and the Fed's projected path of interest rates for an economy still chugging along near full employment.

Current Model Allocations

Tactical Fixed Income Model Allocations
1/11/2019

Cash—5%	Exchange Trade Fund —5%	Exchange Trade Fund —5%	Exchange Trade Fund —10 %
Treasury Bond—5%	Exchange Trade Fund —5%	Exchange Trade Fund —10%	Exchange Trade Fund —10%

Money Market—45%

Other Managers

HIM #12 - 100% Fund

HIM #9 - 100% fund

HIM #1 - 85% Fund /5% High yield fund/5% High yield fund//5% High yield fund/

HIM #29 - 50% real estate mutual fund/ 25% Fund/ 25% Fund

HIM #22 - 100% fund

HIM #23 - 33.33% Fund/ 33.33% Fund/ 33.34% MINT

HIM #25 - 50% Money Market/ 50% Fund

HIM #8 - 50% QQQ/ 50% Money Market

HIM #26 - 50% NASDAQ 100/ 25% VP Bull/ 25% S&P

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.

Chart of the Week:
The Chart of the Week shows the iShare iBoxx High Yield Corporate Bond ETF (HYG) being sold off sharply, as the markets were throwing the baby out with the bathwater, before bouncing strongly. The chart suggests that an oversold bottom may have been reached.

National Headquarters | 11726 Seven Gables Road | Symmes Township | Cincinnati | OH | 45249
P: (513) 984-9933 | F: (513) 984-5219