// HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ January 7, 2019

A recession is virtually unavoidable this year, Wall Street bear David Rosenberg warns

One of Wall Street's biggest bears is warning the economy is on a collision course with a recession.

Gluskin Sheff's David Rosenberg has little doubt growth will turn negative in 2019 as the stock market flounders.

"We're going into a recession," the firm's chief economist and strategist said Wednesday on CNBC's "Trading Nation." "I think it will be this coming year."

Rosenberg predicted in November on the program that the historic bull run was cracking. However, he was uncertain whether it would cause an outright recession.

With the Dow and S&P 500 plunging 14 and 16 percent, respectively, from their all-time highs, that view has changed.

"We've got more than 80 percent chance of recession just based on the fact the Fed is tightening policy," he said. "This tightening of financial conditions that we've seen in the markets is going to end up having a cascading effect on the economy for the first few quarters of this year."

Rosenberg, who has been known as a perma-bear on Wall Street for decades, is not predicting a prolonged downturn. But its effects, he contends, will be downright painful — noting risk premiums are going up across asset classes. Click here to read more.

The president of the Dallas Fed says central bank should pause rate hikes amid turmoil in markets

The Federal Reserve ought to stop raising interest rates until it gets a clearer picture of where the economy is headed, Robert Kaplan, president of the central bank's Dallas district, said in an interview Thursday.

Slowing global growth, weakness in rate-sensitive industries and tightening financial conditions that have included a sharp stock market drop have indicated to Kaplan that the Fed should hit the pause button, he said in an interview with Bloomberg.

"I think those three issues are affecting the market, but they're also affecting my thinking about monetary policy," he said. "It's gonna take some time to see the depth and breadth of those three issues."

The comments come just two weeks after the Fed approved its fourth rate hike of 2018, despite a near-bear market on Wall Street and increasing indications that the U.S. economy, like the rest of the world, is showing signs of weakening after its best year since the financial crisis.

Along with the rate hike, Fed officials collectively indicated that two more rate increases are likely this year. Markets, however, do not think that will happen and are pricing in less than a 10 percent chance of a hike before 2019 ends. Click here to read more.

QUOTE OF THE WEEK

"If you do not change direction, you may end up where you are heading."

- Lao Tzu

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 4, 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 1.41% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	23423.06	1.65%	-6.26%	0.50%
S&P 500 Index	2523.63	1.90%	-6.05%	1.03%
Nasdaq Composite Index	6738.59	2.37%	-5.76%	1.58%
60/40 Portfolio (BAGPX)	11.56	0.61%	-3.67%	0.61%
US Aggregate Bond Index	2050.97	0.46%	1.54%	0.21%
20+ Year Treasury Bond (TLT)	122.11	0.88%	3.64%	0.49%
MSCI EAFE (EFA)	59.91	1.66%	-3.29%	1.92%
MSCI Emerging Markets (EEM)	39.69	0.56%	-3.24%	1.61%
France CAC Index (EWQ)	26.61	1.10%	-3.76%	2.46%
Germany DAX Index (EWG)	25.76	1.66%	-2.72%	1.62%
Italy Borsa Index (EWI)	24.90	3.15%	-0.95%	2.85%
London FTSE (EWU)	29.96	1.97%	-3.51%	2.08%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Watchlist

A watchlist is a list of securities being monitored for potential trading or investing opportunities. An investor or trader may create a watchlist of several, dozens or even hundreds of trading instruments to make more informed and opportune investment decisions. A watchlist can help an investor track companies and stay abreast of financial or other news that could impact these instruments. Typically, the investor monitors the list, waiting for certain criteria to be met &mdash such as trading over a certain volume, breaking out of a 52-week range, or moving above its 200-day moving average —before placing trade orders.

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Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: The holiday-shortened week was highlighted by extreme volatility during the first few days of 2019. Disappointing data from the manufacturing sector and the unexpected lowering of 4th quarter guidance from index heavyweight Apple, Inc. (AAPL) threatened to derail the late-2018 equity bounce off the lows. However, trade optimism, a glowing employment report, and a televised roundtable with current Fed Chairman Powell and former Chairs Yellen and Bernanke led to what some have called panic buying on Friday. All three major US equity indices ended the week higher, with the Nasdaq Composite leading the comeback, gaining 2.34% on the week. The S&P 500 Index and the Dow Jones Industrial Average gained 1.86% and 1.61%, respectively. The Energy sector and its Select Sector Energy SPDR ETF (XLE) led the major S&P sectors, rising 4.94%, while the Real Estate sector lagged. International equities finished the week with decent gains of 2.1% for the International Developed iShares MSCI EAFE Index ETF (EFA) and 1.15% for Emerging Market equities represented by the iShares MSCI Emerging Market Index ETF (EEM).

Fixed Income: Bond markets, too, felt intense market volatility as the 10-year US Treasury Note yield finished the week near 2.66%, after having fallen to a low of 2.55% from the prior week's finish of 2.71%. High yield bond spreads over equivalent Treasury securities ended the week slightly lower, while the iShares IBoxx High Yield Corporate Bond ETF's (HYG) weekly gain of 1.64% came entirely from Friday's action. It appears that nervous investors were bolstered by the advancing US oil stocks after Lipper reported the largest ever high yield fund outflows of $11B during the last six weeks of 2018.

Commodities: Oil prices enjoyed their first weekly gain in a month thanks mostly to data displaying follow-through on the OPEC production cuts that saw the largest monthly decline in two years. Saudi Arabia, alone, removed 400,000 barrels per day from supply. Renewed optimism surrounding trade talks and strong employment data also boosted the battered commodity, leading to American West Texas Intermediate (WTI) and International Brent crude benchmarks gaining 6.57% and 9.88%, respectively, during the week. Natural gas prices slumped -8.2% during the week, closing near $3.03/MMBtu.

WEEKLY ECONOMIC SUMMARY

ISM Manufacturing Survey: The Institute for Supply Management (ISM) reported significant deterioration of growth in the manufacturing sector, with the headline index reading of 54.1 coming in well below the prior reading of 59.3 and the consensus for December of 57.9. Slowing growth in domestic new orders, production, and employment dragged the index down to its lowest level since late 2016. Improving supplier deliveries and cost pressures were evident and are consistent with the reported slowing growth that had been unsustainably high in prior readings of the ISM Manufacturing Index.

MBA Mortgage Applications: The lowest average interest rate in over 3 months of 4.84% for 30-year fixed rate conforming mortgages failed to attract home buyers and owners looking to refinance during the week ended December 28th, according to the Mortgage Bankers Association (MBA). The Purchase Index dropped a seasonally adjusted -8% week-on-week, and -6% on a year-on-year comparison. The Refinancing Index fell 12% week-on-week, with refinancing's share of mortgage activity dropping nearly 1%, to 42.7%. The continued slowdown in the housing sector is certainly concerning, and particularly so, now that mortgage rates have come down some.

Employment Situation: The Bureau of Labor Statistics released its Employment Situation report on Friday, headlined by a blowout 312,000 increase in nonfarm payrolls for the month of December. The figure was well above the consensus estimate of 180,000 and among the highest increases during this cycle. Manufacturing, transportation, construction, and business services jobs were all on the rise even as the unemployment rate ticked up to 3.9% thanks to an increase in the participation rate. The report also shows that wage pressures ticked up, rising .4% for the month, along with the average work week from 34.4 to 34.5 hours. This report contrasts with the weakness from other economic data and should make the next Federal Reserve interest rate decision a difficult one. .

Current Model Allocations

Tactical Fixed Income Model Allocations

1/4/2019

Cash—5%	Exchange Trade Fund —5%	Exchange Trade Fund —10%	Exchange Trade Fund —10 %
Exchange Trade Fund —5%	Exchange Trade Fund —5%	Exchange Trade Fund —5%	Exchange Trade Fund —10%
Treasury Bond —5%		Money Market—40%	

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% Money Market

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.

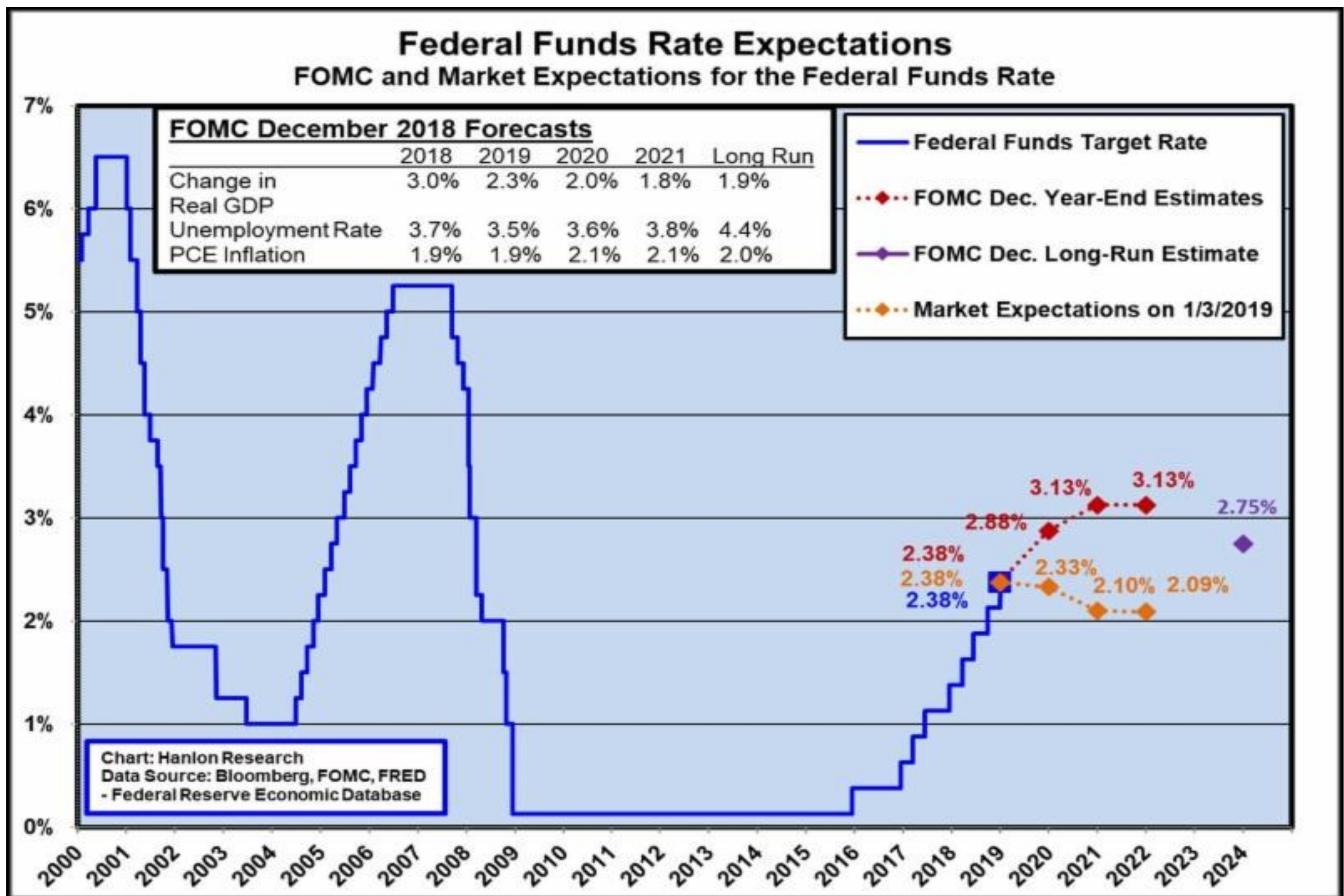

Chart of the Week:

The Chart of the Week shows how the Federal Open Market Committee (FOMC) is off the mark with Fed Fund rate expectations. While the FOMC has lowered its estimates from the September meeting to the December meeting, trying get more in-line with the markets, it is still lagging. The FOMC estimates (maroon line) are still anticipating rate increases while the market (orange line) is expecting rate cuts.

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