HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ December 10, 2018

Fed's Bullard becomes first on central bank to suggest delaying December rate hike

St. Louis Federal Reserve President James Bullard said Friday the central bank could consider postponing its widely anticipated December rate hike because of an inverted yield curve.

"The current level of the policy rate is about right," Bullard said in a prepared presentation to the Indiana Banker's Association, according to Reuters.

In a question and answer session later, he suggested delaying the expected rate hike until January, Reuters said.

Bullard is the first member of the Fed to speak publicly about a delay. The St. Louis Fed president — while not a voting member of the policy-setting Federal Open Market Committee this year — will be able to do so in 2019.

On Monday, the 2-year Treasury yield moved past that of 5-year Treasury notes. A negatively sloped yield curve often signals an economic recession, though the time between inversion and GDP downturn has varied widely over decades.

As of Friday afternoon, the yield on the 2-year Treasury note held lower at 2.725 percent while the rate on the 5-year note was at 2.718 percent.

Bullard, a monetary policy dove, may be trying to persuade members of the FOMC that a more cautious approach to tightening will be necessary. Market participants see a 76.6 percent chance that the Fed will increase the overnight rate when it concludes its meeting on Dec. 19, according to the CME Group.
Click here to read more.

Goldman warns a sharp US economic slowdown next year could see financial markets running 'scared'

Global equity markets could struggle to come to terms with a dramatic slowdown from the world's largest economy next year, one Goldman Sachs strategist told CNBC on Monday, with trade tensions elevating the risk of near-term volatility.

Fresh signs of slowing global growth, and emerging pockets of weakness in the U.S., rattled financial markets last week. And the sell-off continued Monday, with weaker-than-anticipated data from the U.S., China and Japan adding to mounting worries about the global economic outlook for 2019.

"Next year is going to be tough because I think one of the key changes to this year is that the U.S. is going to slowdown," Christian Mueller-Glissmann, senior multi-asset strategist at Goldman Sachs, told CNBC's "Squawk Box Europe" on Monday.

"We expect the U.S. to slow down to less than 2 percent by the end of next year and as a result of that you could see the market getting quite scared," Mueller-Glissmann said.

IMF sees no signs of a US recession

U.S. equity futures were seen down 0.3 percent Monday morning, adding to losses from last week that saw the Dow Jones Industrial Average erase its gains for the year. At one point, the Dow was up more than 8 percent for 2018. Click here to read more.

QUOTE OF THE WEEK

"There is nothing new in the world except the history you do not know."

- Harry S. Truman

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 December 7, 2018. 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 -9.27% year to date.

Index	Last Week		One Month	Year-to-Date
	Close	% Change	% Change	% Change
Dow Jones Industrial Average Index	24388.95	-4.44%	-6.41%	0.90%
S&P 500 Index	2633.08	-4.55%	-6.17%	0.32%
Nasdaq Composite Index	6969.25	-4.90%	-7.79%	1.98%
60/40 Portfolio (BAGPX)	11.98	-0.91%	-8.41%	-8.48%
US Aggregate Bond Index	2026.85	0.85%	1.56%	-0.95%
20+ Year Treasury Bond (TLT)	118.41	2.67%	5.23%	-6.28%
MSCI EAFE (EFA)	60.75	-3.22%	-5.76%	-13.60%
MSCI Emerging Markets (EEM)	39.88	-2.92%	-4.20%	-15.37%
France CAC Index (EWQ)	27.04	-3.70%	-7.37%	-13.39%
Germany DAX Index (EWG)	25.66	-4.40%	-8.46%	-22.29%
Italy Borsa Index (EWI)	24.75	-2.52%	-5.53%	-18.69%
London FTSE (EWU)	30.30	-3.60%	-7.90%	-15.41%

Data Source: Investors FastTrack, Yahoo Finance, Investopedia

Term of the Week:

Exchange-Traded Fund (ETF)

An ETF, or exchange-traded fund, is a marketable security that tracks a stock index, a commodity, bonds, or a basket of assets. Although similar in many ways, ETFs differ from mutual funds because shares trade like common stock on an exchange. The price of an ETF's shares will change throughout the day as they are bought and sold. The largest ETFs typically have higher average daily volume and lower fees than mutual fund shares which makes them an attractive alternative for individual investors.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: An extremely volatile week for equity markets started with an optimistic tone surrounding the suspension of increasing tariffs and a willingness to make a trade deal when leaders gathered during a G20 meeting in Argentina. The optimism faded rather quickly thanks to further headlines surrounding trade, Brexit, and OPEC, during the shortened trading week to honor late President George H.W. Bush. All three major US equity indices were able to hold above prior 2018 closing lows; however, they were all down over -4%. The Nasdaq Composite led the way lower, losing -4.7% on the week, followed by the S&P 500 and the Dow Jones Industrial Average, down -4.6% and -4.5%, respectively. Financials were particularly slammed thanks to a collapsing yield curve, as the Select Sector Financial SPDR ETF (XLF) led all major sectors to the downside, losing -6.86% on the week. International equities relatively outperformed their US counterparts, as International Developed equities and the iShares MSCI EAFE Index ETF (EFA) lost -3.17%, while Emerging Market equities represented by the iShares MSCI Emerging Market Index ETF fell -3.02% on the week.

Fixed Income: A flight to safety and a likely short-squeeze in Treasury Bonds saw the yield on the 10-Year US Treasury collapse near 2.85%. Yields on shorter maturity Treasuries did not see the same compression, however, and forced a tightening in the term premium (10-Year vs. 2 Year) spread from over .2% late last week, to under .12%, before rebounding near .14% to close out the week. This is the move that put financial stocks under pressure as the tightening spread disincentivizes banks to increase their lending. High yield bond spreads over equivalent Treasury securities increased to highs not seen since 2016, as credit is becoming a riskier proposition.

Commodities: Oil prices were whipsawed during the week on contrasting headlines from the week's OPEC meeting. Crude prices have seemingly stopped the bleeding with non-OPEC Russia and, eventually, Iran agreeing to an aggregate production cut of 1.2 million barrels per day. The American West Texas Intermediate (WTI) benchmark closed the week higher, near $52.30 per barrel, while the International Brent crude benchmark rose to $61.45 per barrel. The spread between the two benchmarks increased, thanks in-part to the US (for now) becoming a net exporter of the black stuff.

WEEKLY ECONOMIC SUMMARY

US Services Purchasing Managers' Index: The diffusion index released by Markit indicated a slightly better than expected 54.7 reading for November, indicating steady growth in the services sector. A reading of 54.4 was expected versus a 54.8 reading for October. The report indicated strong readings for exports that offset sluggish readings for domestic orders and hiring, which contrasted the Employment Situation Report for the sector. Input costs are still on the rise thanks to increasing labor costs that are reportedly being passed on to customers.

Employment Situation: An increase of 155,000 non-farm payrolls reported by the Bureau of Labor Statistics Employment Situation came in at the low end of the consensus range for the month of November. Manufacturing jobs continued to rise during the month, as did transportation jobs, which will hopefully ease the capacity stress in the sector. A lower revision to the October report combined with the new report to keep the unemployment rate unchanged at a very low 3.7%. The report also shows that wage pressures continue at a moderate pace, as the monthly and annual increases were slightly below consensus estimates at .2% and 3.1%, respectively.

Federal Reserve Beige Book: This report of economic activity for the upcoming December Federal Reserve Open Market Committee (Fed) meeting continued with the modest-to-moderate theme of prior Beige Book releases, but with more emphasis on modest. Of the 12 Fed districts, Philadelphia and Dallas noted slower growth while St. Louis and Kansas City reported slight growth. Consumer spending is still a bright spot, while new home construction and existing home sales are areas of weakness. The market has lowered the probability of a rate hike after the Fed meeting in two weeks, however, a rate hike is still expected.

Current Model Allocations

Tactical Fixed Income Model Allocations
12/07/2018

Cash—5%	Energy Limited Partnership—5%	Exchange Trade Fund —5%	Exchange Trade Fund —5%
Treasury Bond—5%	Exchange Trade Fund —5%	Exchange Trade Fund —10%	Exchange Trade Fund —5%
Exchange Trade Fund —5%		Money Market—50%	

Other Managers

HIM #12—	66% fund/ 34% CASH
HIM #9—	100% fund
HIM #1—	85% fund/5% high yield fund/ 5% high yield fund/ 5% high yield fund
HIM #19—	50% real estate mutual fund/ 50% fund
HIM #22—	100% fund
HIM #23—	33.33% fund/ 33.33% fund/ 33.34% fund
HIM #25—	50% Money Market/ 50% fund
HIM #8—	100% trust
HIM #26 —	50% Money Market/ 25% VP Bull/ 25% NASDAQ 100

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.

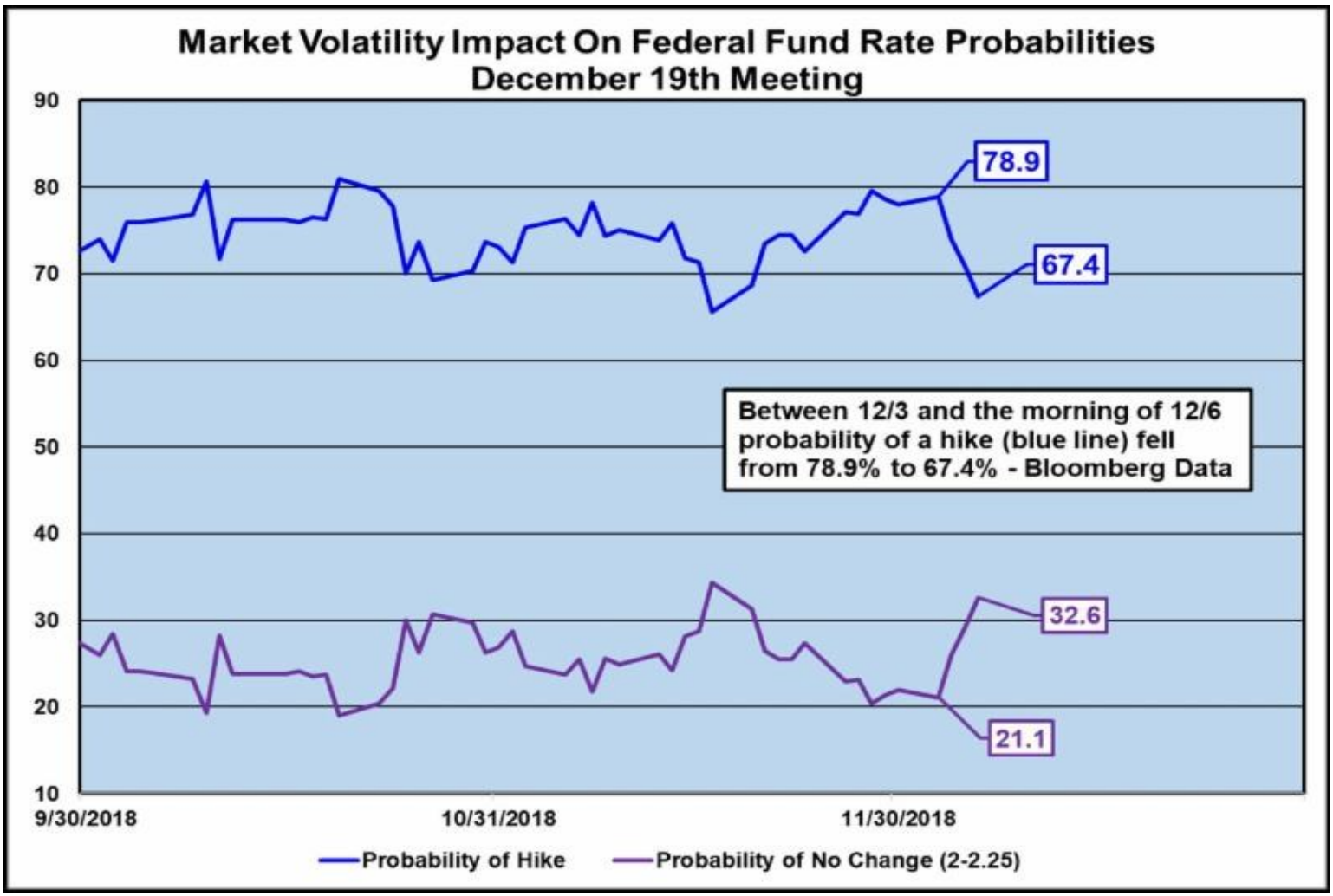

Chart of the Week:
The Chart of the Week shows the impact of recent market volatility on the probabilities for a Federal Funds rate hike for the December 19th Federal Open Market Committee meeting. What had seemed a foregone conclusion of a definite ¼% rate hike at the December 19th FOMC meeting apparently is now being called into doubt.

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