HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary   http://horterinvestment.com/   April 13th, 2020

Gundlach: April Will Be Worse

(Invest Record) Jeffrey Gundlach said in a webcast with investors on Tuesday that the market was acting "somewhat dysfunctionally" and that banks' projections of a quick US economic recovery were highly optimistic, Reuters reported.

The S&P 500 index collapsed into a bear market this quarter, losing 12.5% in March in an environment of unprecedented economic uncertainty due to the coronavirus pandemic. Previously, its biggest monthly decline was a 16.9% slide in October 2008.

Click here to read more.

Recession Tracker At 100%: The Downturn Is Here

(Bloomberg) The novel coronavirus has spurred what will likely be the worst recession in generations as the U.S. economy grinds to a halt and millions lose their jobs.

Bloomberg Economics created a model last year to determine America's recession odds. The chance of a recession now stands at 100%, confirming an end to the nation's longest-running expansion.

While much of the economic data that feed into the model continues to lag, filings for unemployment benefits

Click here to read more.

QUOTE OF THE WEEK

"Set your goals high, and don't stop till you get there."

– Bo Jackson

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 April 10th, 2020. 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 8 indices to get a better overall picture of the market. The combined average of all 8 indices is –4.20% year to date.

Index	Year-to-Date (%)
Morningstar Multi Alternative Index (MSTVX)	-3.86%
Barclay US Agg Bond Index (AGG)	4.06%
DoubleLine Total Return (DBLTX)	-1.22%
BlackRock 40/60 (BIMPX)	-5.43%
BlackRock 60/40 (BAGPX)	-9.27%
40/60 S&P 500/ Barclay AGG	-3.31%
60/40 S&P 500/ Barclays AGG	-6.99%
Vanguard Balanced Index Inv (VBINX)	-7.60%

Term of the Week:

FICO Score

A number used by banks and other financial institutions to measure a borrower's creditworthiness. FICO is an acronym for the Fair Isaac Corporation, a company that came up with the methodology for calculating a credit score based on several factors, including payment history, length of credit history and total amount owed. FICO scores range from 300 to 850, and the higher the score, the better the terms you may receive on your next loan or credit card. People with scores below 650 may have a harder time securing credit at a favorable interest rate.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: US equities ended the week lower as hopes fade for a quick resumption to a pre-COVID19 world. A wide variance among returns for the different sectors was highlighted by an over -6% drop in Financials, Utilities, and Real Estate, while the beaten-down Energy sector jumped over 5% to lead the runner up Consumer Staples' 3.4% rise. The Dow Jones Industrial Average led the major indices to the downside, falling -2.7% on the week, while the S&P 500 Index fell -2.0%. Developed international markets underperformed again this week, with the iShares MSCI EAFE ETF (EFA) falling -3.7% as the European Union struggles to collectively agree to a plan to combat COVID19-related economic woes. Emerging Markets outperformed despite a second coronavirus flare up in China, as the iShares MSCI EM ETF (EEM) dropped just -0.7%.

Fixed Income: The yield on the 10-year US Treasury dropped around -0.1% in relatively benign fashion when compared to recent volatility, closing the week near 0.6%. Another large jump in Federal Reserve (Fed) liquidity injections allowed the second-straight week of record investment grade corporate debt issuance, with $110.5 billion hitting markets as companies beef-up cash hoards to deal with the slowdown. Sub-investment grade or high yield debt wasn't so lucky, falling more than US large cap equities despite energy credits finding a bid, as the iShares iBoxx US High Yield Corporate Debt ETF (HYG) dropped more than -4% during the week.

Commodities: News that a US oil official has been invited to an emergency OPEC+ video meeting sent prices rocketing higher on hopes of a potential production cut that may include several other non-OPEC countries. President Trump mentioned a possible cut of 10 million barrels per day, with the potential for more to help curb the supply imbalance that threatens US shale oil producers. US energy stocks found some relief as the West Texas Intermediate oil benchmark ended the week up a whopping 33.8%, near $28.80 per barrel, as the International Brent crude benchmark rallied over 39%, to $34.68 per barrel.

WEEKLY ECONOMIC SUMMARY

Unemployment Spike: The Bureau of Labor Statistics' Employment report showed that total non-farm payroll decreased for the first time in a decade, falling by -701k versus expectations for -150k decline. This paints a disturbing picture, as the BLS compiled this information in early March, before the broad shutdown of US businesses. This caused the official unemployment rate to jump from the 50-year low of 3.5% to 4.4%, with the worst of the data still to come. Average hourly earnings rose .4% during the month, slightly higher than expected and skewed higher due to the dynamic of lower-wage workers being laid off first.

PMI Weaker Than Headline: The IHS Markit Manufacturing Purchasing Managers Index fell into contraction territory, to 48.5, though the headline number masks the severity of the deterioration from the underlying components. A large increase in supplier delays, which usually signals strengthening demand, helped the headline number that would otherwise be in the low-to-mid 40s thanks to the steepest declines of output and new orders since the '08-'09 financial crisis. The gauges for employment and prices fell steeply, as well, with the COVID19 pandemic rightly taking the blame.

Fed Balance Sheet Swells: Federal Reserve balance sheet assets rose by over 10% in a week, to $5.81 trillion, as the monetary authority continues to ease financial stress in a variety of ways. The Fed also announced on Wednesday that it would be easing the leverage rules placed on large banks to help provide needed credit to businesses and households affected by the pandemic shutdown. However, there are still operational issues with getting funds available to those in need, as giants such as JP Morgan and Wells Fargo struggle with a lack of detailed guidelines for providing the assistance outlined in the most recent coronavirus relief bill.

https://www.hanlon.com/weekly-update/

Current Model Allocations

Separately Managed Accounts

HIM #3 – 100% Cash

HIM #8 – 100% Cash

HIM #25– 100% Fund

HIM #22 – 100% Cash

HIM #12 – 100% 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. With the market turmoil of the past week, on March 11th we entered a bear market for the first time since the financial crisis of 2008. A bear market is defined as a decline of 20% or more from recent highs. This bear market officially ends one of the longest bull markets in U.S. history, at 11 years. Keep in mind we are in a much different environment than 2008. In 2008 we had a housing bubble fueled by incredibly risky lending practices. In other words, we had major systemic problems in our economy and markets. Today we are in a much different, but still challenging environment as the markets attempt to quantify the impact of the coronavirus on the global economy. We have discussed the possibility of a Black Swan event impacting markets, and the coronavirus appears to be that event.

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 the domestic markets and how our managers are actively managing their portfolios on a daily basis in response to the coronavirus concerns. We remind you there are opportunities to consider with all of our managers and our tactical models. Hopefully this recent market commentary is helpful and thanks for your continued trust and loyalty.

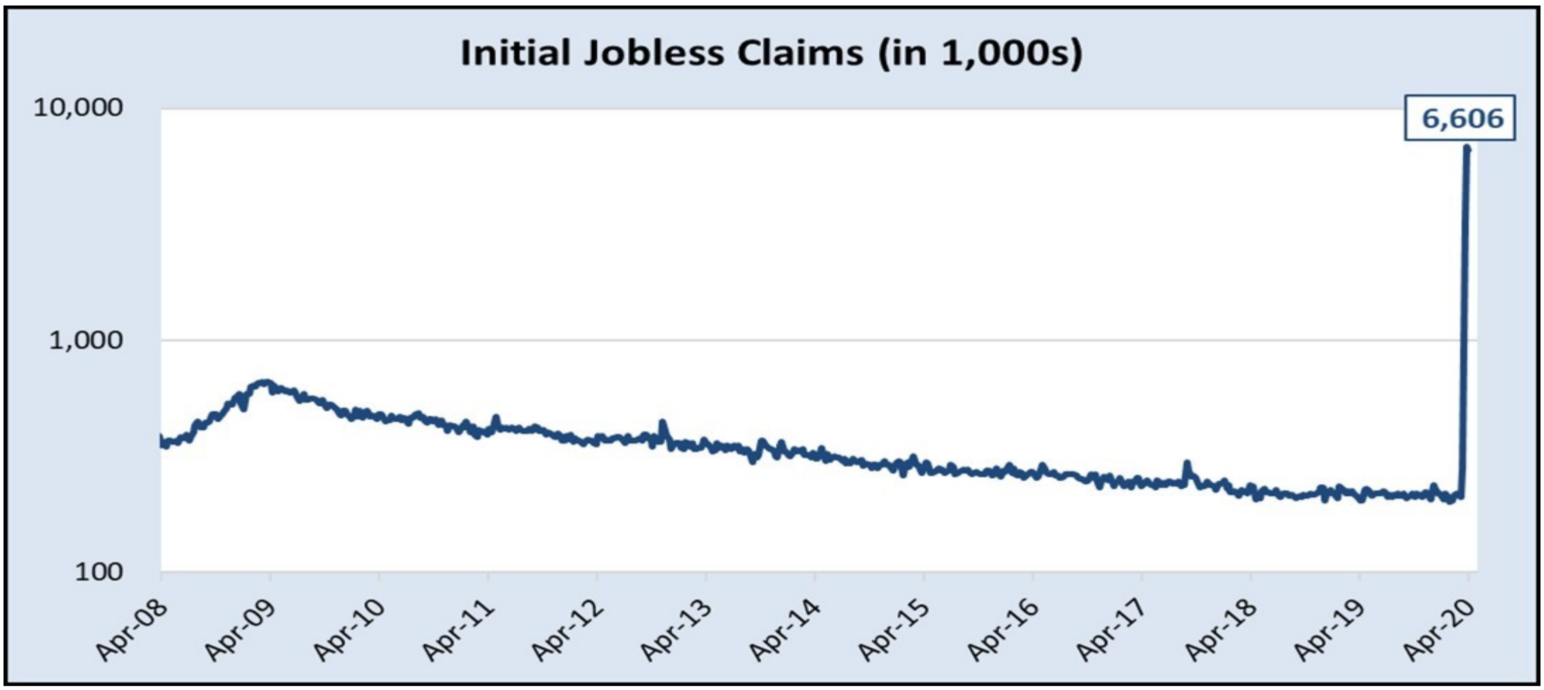

CHART OF THE WEEK

The Chart of the Week is 12-year chart of US Initial Jobless Claims, or those filing for unemployment benefits for the first time. Over 17 million Americans have lost their jobs since the beginning of March and with over 6.6 million filing for unemployment in the last week alone, the still-uncertain end of the economic shutdown will signal the beginning of a rebuilding process for many still awaiting financial relief.

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