HORTER INVESTMENT MANAGEMENT, LLC

Weekly Commentary http://horterinvestment.com/ May 18h, 2020

New Data Shows the Depths of this Coming Recession

Data released today painted a very grim picture of the economy. The data was bad in its own right, but what was very disheartening is that it showed that one of the supposed bright spots of the economy is actually doing poorly. Retail sales fell a whopping 16.4% in April after also falling steeply in March, the worst tumble in American history. Car dealerships and gasoline, which comprise a big part of retail sales, were slaughtered. Even grocery sales—one of the areas that seemed to be doing well—dropped 13% (!). The only bright spot was ecommerce, which still only rose a little over 8%.

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The Jobless Rate is Going to Hit 20%

We are headed towards Great Depression like unemployment, yet the market is rallying. What gives? That is a question everyone is asking themselves. We have already far exceeded Great Recession era unemployment levels and are quickly heading higher. Over 20m Americans lost their jobs in April and more than 33m have lost jobs since the start of the pandemic. The unemployment rate is just under 15%, and most analysts think it will get north of 20%, putting it on part with the Great Depression. Mnuchin himself said we may hit 25%.

Click here to read more.

QUOTE OF THE WEEK

"If you keep playing the same song , you will keep hearing the same tune"

– Unknown

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 15th, 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 –2.75% year to date.

Index	Year-to-Date (%)
Morningstar Multi Alternative Index (MSTVX)	-2.03%
Barclay US Agg Bond Index (AGG)	3.86%
DoubleLine Total Return (DBLTX)	0.50%
BlackRock 40/60 (BIMPX)	-3.70%
BlackRock 60/40 (BAGPX)	-7.12%
40/60 S&P 500/ Barclay AGG	-2.44%
60/40 S&P 500/ Barclays AGG	-5.58%
Vanguard Balanced Index Inv (VBINX)	-5.51%

Term of the Week:

Trustee

A trustee is a person or firm that holds and administers property or assets for the benefit of a third party. A trustee may be appointed for a wide variety of purposes, such as in the case of bankruptcy, for a charity, for a trust fund, or for certain types of retirement plans or pensions. Trustees are trusted to make decisions in the beneficiary's best interests and often have a fiduciary responsibility to the trust beneficiaries.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: US equity markets finished the week lower as tensions again rose between the US and China regarding security concerns with hardware supplied by Chinese tech-giant Huawei. The major indices did, however, finish on a bright note after a large bid for beaten-down Financial sector equities reversed a significant sell-off that briefly broke support early on Thursday. The S&P 500 and the Dow Jones Industrial Average finished -2.3% and -2.7% lower on the week, respectively. Emerging Markets outperformed for the second straight week as the iShares MSCI EM ETF (EEM) only slipped -2.2%, while Developed International iShares MSCI EAFE ETF (EFA) slightly underperformed with a -3% drop.

Fixed Income: The US Federal Reserve began purchasing corporate bond ETFs with the help of BlackRock during the week, adding over $300 million worth to their now $6.9 trillion balance sheet on their inaugural ETF foray on Tuesday. US Treasury yields moved slightly lower during the week, boosting Treasury and investment grade corporate bond prices with increased duration. High yield bond prices slumped on the move in risky assets, as the iShares iBoxx US High Yield Bond ETF(HYG) dropped by -1.3% on the week despite $4.485 billion in flow into high yield funds, according to Refinitiv Lipper.

Commodities: North American crude oil production cuts signaled by falling rig counts helped oil prices reach levels not seen since March as optimism gathered steam surrounding rising Chinese demand and the opening of many US states. The price rise has provided confidence to the industry while OPEC members affirm commitments to their own production cuts in the face of the threat of a rise in new coronavirus cases. The US West Texas Intermediate benchmark ended the week 20% higher, rising close to $30 per barrel, while the International Brent crude benchmark rose to over $32 per barrel. Gold prices finished the week at $1,753 per ounce after a 2.8% weekly rise.

WEEKLY ECONOMIC SUMMARY

Record Core CPI Drop: The Consumer Price Index (CPI) dropped -0.8% during the month of April, the largest 1-month decline since 2008 according to the Bureau of Labor Statistics. A 20% decline in the gasoline index was the largest contributor, while the index for food at home rose by 3.5%. The measure for the Core reading (excluding food & energy) dropped by -0.4% during the month of April, the largest 1-month drop since the BLS started the index back in 1957, as Americans quit spending on apparel and transportation services. The Core measure was up only 1.4% since the prior year, which was the smallest increase since 2011.

Retail Sales Go Digital: The Friday release of April's Retail Sales echoed the price weakness with its own record drop, as the headline figure came in worse than expected at -16.0% for the month. The figure, which blew away March's slightly higher-revised -8.3% record-setting drop, included a -78.8% drop from clothing stores, -60.6% drop in electronics/appliances, and -58.7% drop in home furnishings. The lockdowns unsurprisingly accelerated the shift to e-commerce, as non-store sales became the only positive contributor by rising 8.4% during the month and driving another nail in the coffin of many brick-and-mortar retail stores that were struggling prior to the pandemic.

2nd Quarter Earnings: Simon Property Group (SPG), owner of roughly 200 malls nationwide, reported a -20% drop in profits from a year ago but said that they plan on re-opening 50% of those properties within the next week. The beaten down shares popped 3% on the news before fading on the week as concerns grow on the future of brick-and-mortar retail as customers and furloughed workers are lured back into stores. Other severely COVID19-affected companies, Marriott International (MAR) and Norwegian Cruise Lines (NCLH), missed already pessimistic earnings estimates and while both stocks ended the week lower, NCLH were slightly higher post-release. As earnings season winds down with 90% having reported, 67% of the S&P 500 have beat expectations while only 28% have missed.

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

Current Model Allocations

Separately Managed Accounts

HIM #3—50.00% Fund & 33.33% MM & 16.67% Fund

HIM # 8– 100% Fund

HIM #25 – 100% Fund

HIM #22 - 33% Fund & 67% MM

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 a 2-year chart of SPDR Portfolio S&P 400 Mid-Cap ETF (SPMD, navy), representing the performance of US mid-cap equities, versus the large-cap equity-focused S&P 500 Index (green). History tells us that the significant "alligator jaw" performance gap, which has opened between the two, is likely to close as the outperformance from a handful of the largest companies becomes unsustainable.

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