HORTER
INVESTMENT MANAGEMENT, LLC

Weekly Commentary
January 3, 2023

Everyone Is Singing The Same Song

Good morning and welcome to the first day of a brand-new year. If you are like most folks in this game, you are likely relishing the idea of being done with the nightmare that was 2022 and are ready to hit the reset button.

From my seat, the question of the day is how traders are planning to position themselves for the start of the 2023 campaign. Oftentimes, the first few days of a new calendar year acts like a light switch. Whatever the focus had been at the end of the previous year is quickly forgotten and something brand new comes to the fore, in a hurry.

While I'm not sure if there will be a big change in the focus to start this year, I will note that the outlook provided by so many Wall Street analysts for the coming year is rarely so one-sided. In short, just about everybody on the planet is singing the same song right now.

The refrain goes something like this. The economy is slowing (well, the manufacturing sector, anyway). The Fed refuses to back away from their aggressive stance (I.E. Powell & Co., as well as many other global central bankers, continue to talk tough). Inflation remains too high. And as such, the Fed is about to make a "policy error" by going too far, which, history shows they almost always do. This will, as we're told, most certainly push the economy into recession.

Further, the negative Nancy's of the street contend that the market has not yet discounted such an event. As such, earnings estimates are too high and MUST come down - substantially. Joy.

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"True knowledge exists in knowing that you know nothing. -Socrates"

Taking a Comprehensive Look at The Overall Current Stock Market

In a truly diversified portfolio, the portfolio's assets are spread across several asset classes, so that the portfolio's total return is determined by the performance of all of the positions in combination – not individually based on one asset type. While diversification does not ensure a profit or guarantee against loss, it can help mitigate the risk and volatility in your portfolio.

Index		YTD
Morningstar Alternatives Fund (MSTVX)	▼	-0.10%
iShares US Agg Bond ETF (AGG)	▲	0.59%
DoubleLine Total Return Bond Fund (DBLTX)	▲	0.57%
40/60 SPY / iShares AGG	▲	0.19%
60/40 SPY / iShares AGG	▼	-0.02%
Vanguard Balanced Index Fund (VBINX)	▼	-0.05%

The chart above illustrates the performance of funds and ETF's designed to track major indices, including 2 Bond indices (DBLTX and AGG), 1 S&P500 Equity index (SPY), 1 Balanced index (VBINX), and 1 Multialternatives index (MSTVX).

The chart also illustrates the performance of 2 balanced portfolios combining both a Bond index (AGG) and an equities index (SPY) the portfolio with the lower exposure to equities (40%) and higher exposure to bonds (60%) would generally be considered more conservative than a portfolio with higher exposure to equities (60%) and lower exposure to bonds (40%).

A hypothetical portfolio consisting of an equal weighting to all of the examples shown above would be 0.11% year to date.

Chart of the Week

The Chart of the Week is a table of the S&P 500 Price Only Index going back to 1990. Over this 23-year period there were 9 negative years. The table below highlights those 9 years and the year that follows. Out of the 9 negative instances, 7 were followed by a strong up year, much higher than the average annual return since 1990 of 7.91%. 2022 has been the worst year for stocks since 2008 and the first time many young investors have experienced a large drawdown. However, over time the markets tend to move higher and long-term investors should remember there is always light at the end of the tunnel.

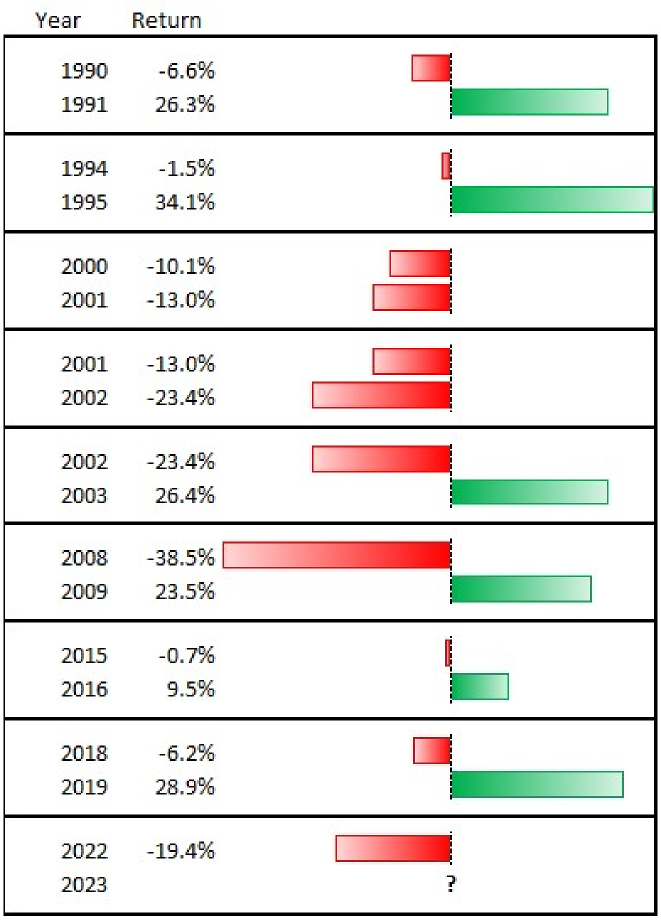

Chart and commentary by Hanlon Investment Management.

Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Softening inflation data provided markets with an early-week bounce, but the good news was short-lived after Jerome Powell and the Fed delivered coal to investors in the form of a hawkish policy statement. The S&P 500 ended the week down -2.1%, the Nasdaq slipped -2.7%, and the Dow Jones Industrial Average fell -1.7%. Developed International stocks were down -1.8% while Emerging Markets finished -1.6% for the week.

Fixed Income: 110-Year Treasury yields slipped to under 3.5% in a risk-off shift as investors are increasingly losing confidence in the Fed's ability to manage inflation without intentionally triggering a significant recession. Corporate bonds aren't yet flashing warning signs, with the iShares High Yield Bond ETF (HYG) down just -0.1%. Flows for both investment grade and high yield bond mutual funds and ETFs were relatively muted at $177 million and -$313 million, respectively.

Commodities: Oil prices rebounded slightly but remained under pressure and below $75 a barrel for US benchmark Brent Crude. Holiday travelers are getting a bit of relief with US national gas prices averaging $3.18 a gallon, with nineteen states currently averaging sub-$3 prices.

WEEKLY ECONOMIC SUMMARY

China Reopening: Three weeks ago, China ditched the "Zero-Covid" policy, now raising global concerns over the recent surge in Covid-19 cases. A Bloomberg estimate suggested as many as 37 million people contracted the virus on December 20th alone. The lack of transparent information out of China regarding Covid has caused several countries, including the United States to take precautionary measures. Beginning January 5th, travelers from China are now required to provide proof of a negative test before departure.

Tax Loss Harvesting: As the year came to a close, and a majority of securities are at lower prices than they were previously, this provided an opportunity for investors to use losses to improve the tax efficiency of their portfolio. While the broad markets were thinly traded over the shortened holiday week, this selling may have been a contributor as to why markets finished the week in the red.

Fuel for Inflationary Fire: If the Fed is looking to Congress for help in its fight against inflation, it won't find any. Days before year-end, Congress rushed to pass a 4,200-page $1.7 trillion spending bill with a 10% increase in defense spending and a 5.5% increase in non-defense spending. Government spending accounted for roughly 25% of GDP in 2022, and Congress looks ready to keep the money flowing in the new year as well.

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