HORTER
INVESTMENT MANAGEMENT, LLC

Weekly Commentary
February 13th, 2023

Of Inflation and Lines In The Sand...

Good morning and Happy Monday. It is safe to say that most investors are anxiously awaiting the arrival of the monthly update to the Consumer Price Index. Scheduled to be released tomorrow morning, the CPI will provide members of both teams a glimpse into the state of inflation.

Although the month-over-month headline number is expected to rise by about 0.5%, which represents a pretty hefty increase over December's 0.1% monthly gain, the key to the report will be the year-over-year comparisons. The consensus expectations among analysts is for the annual gain in prices to fall from December's 6.5% to 6.2%. In short, the thinking is this would indicate that inflation is continuing to trend in the right direction.

However, one of the biggest worries in the market here is that inflation will remain "sticky" due to all those jobs the economy keeps creating. Which, in turn, provides all but the low-end consumer with the ability to pay for the stuff they want regardless of whether it costs a little more or not.

The thinking is that if inflation doesn't start to trend lower in the near term, the Fed, in its quest to remain "data dependent" will continue to hike rates - and wind up "overdoing it" in the process. And this, dear readers, puts the concept of a "hard landing" (i.e., a severe recession) in play.

Why is this important, you ask? It's simple, really. If the economy can avoid a meaningful recession and the Fed can step aside, then stocks can look ahead to better days - via higher prices, of course. However, if the Fed is forced to keep raising rates, then it is a safe bet that earnings are going to be impacted over time. And not in a good way.
Those seeing the market's glass as at least half empty contend that stocks would have to decline - perhaps a lot - to "price in" such a scenario. And this is what all those calls for the S&P to fall into the low 3,000's is based on.

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Regardless of the color on the screens, try embracing an "attitude of gratitude" today...

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)	▲	1.23%
iShares US Agg Bond ETF (AGG)	▲	1.72%
DoubleLine Total Return Bond Fund (DBLTX)	▲	2.37%
40/60 SPY / iShares AGG	▲	3.71%
60/40 SPY / iShares AGG	▲	4.70%
Vanguard Balanced Index Fund (VBINX)	▲	4.94%

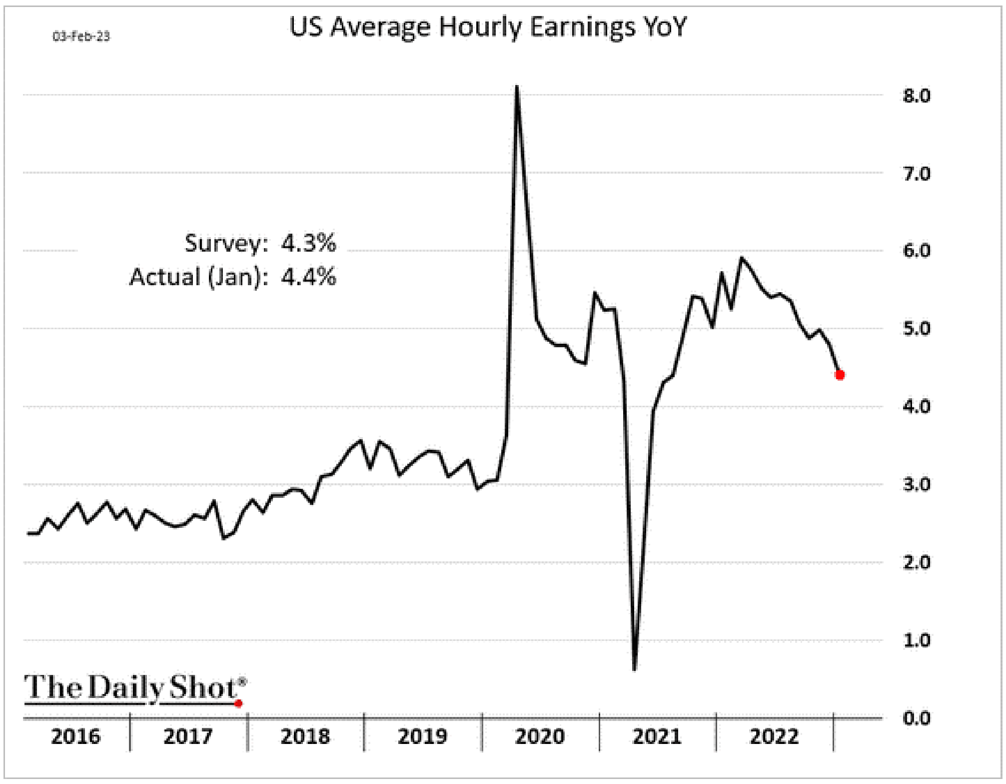
The chart above illustrates the performance of funds and ETF's designed to track major indices, including 2 Bond indices (DBLTX and AGG), 1 S&P500 Equity index (SPY), 1 Balanced index (VBINX), and 1 Multialternatives index (MSTVX).

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 3.11% year to date.

Chart of the Week

- Wage growth has been moderating but remains elevated.



Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Equity markets posted their worst weekly returns since December in a relatively light week of economic data ahead of the February 14th CPI inflation reading. The S&P 500 was down -1.1%, the Dow Jones Industrial Average slipped -0.1%, and the Nasdaq lagged with a -2.4% weekly return. Developed International stocks were down -1.1% while Emerging Markets shed -1.7%.

Fixed Income: 10-Year Treasury yields inched higher, reaching 3.7% for the first time since early January. Global bond yields saw a similar move up in response to rumors that Kazuo Ueda, considered to lean hawkish on interest rates, will take over as next governor of the Bank of Japan. Domestic high yield bonds fell alongside equities, losing -2.1% during the week.

Commodities: A 500,000 barrel-per-day reduction in Russian oil output, commencing in March, put upwards pressure on crude prices. US benchmark West Texas Intermediate rose to over $79 per barrel. Conversely, Natural Gas prices have seen immense downward pressure amidst unseasonably warm weather, with the spot price down -45% so far this year and down nearly -75% from its peak back in August.

WEEKLY ECONOMIC SUMMARY

Powell Speech: Fed Chair Jerome Powell held a relatively casual discussion at the Economic Club of Washington, reiterating some of his recent talking points on inflation and the Fed's likely path for further rate hikes. Markets bounced around on his comments, ultimately ending the day higher. Powell cautioned that the Fed's task "will be a process that takes a significant period of time", stated that the disinflationary process won't be smooth, and reiterated that further rate increases (plural) are likely.

Consumer Sentiment: The University of Michigan Consumer Sentiment survey hit its highest mark in 13 months, signaling some cautious optimism. The 66.4 reading is still far below the pre-pandemic high of 101 as well as the post-Covid peak of 88.3. Survey respondents projected inflation coming down to a low of 2.9%, suggesting more pessimism than the Fed, which believes it can bring inflation down to its 2% target.

Earnings Season: After struggling to integrate its streaming business in recent quarters, Disney (DIS) finally delivered a solid earnings report under the leadership of returning CEO Bob Iger. Overall, it was a solid week for earnings, with PepsiCo (PEP), Kellogg Company (K), PayPal (PYPL), and Toyota (TM) all beating estimates. Around 68% of S&P 500 companies have reported their 4th quarter earnings, with 68% beating estimates, which is roughly in line with the third quarter.

Stock Market Score Card
February 13th, 2023

The Stock Market Scorecard is designed to provide a succinct summary of the "state of the market." The scoreboard includes indicators covering trend, momentum, mean-reversion, sentiment, and fundamental factors over the short-, intermediate-, and long-term time frames.

Indicator / Model	Current Signal	Indicator Rating	S&P 500 Historical Return*
Primary Cycle Analysis			
Secular Market Cycle		Bull Market	31.2%
Cyclical Market Cycle		Bear Market	-22.8%
Price Trend Analysis			
Short-Term Trend	Sell	Negative	NA
Intermediate-Term Trend	Buy	Positive	NA
Long-Term Trend Signal	Buy	Positive	9.4%
Momentum Analysis			
Short-Term Momentum Model	Hold	Neutral	14.4%
Int-Term Momentum Model	Hold	Positive	11.9%
Long-Term Momentum Model	Buy	Positive	15.2%
Fundamental Analysis			
Economic Model	Hold	Neutral	-0.5%
Earnings Model	Hold	Neutral	11.9%
Monetary Model	Sell	Neutral	-12.6%
Inflation Model	Buy	Positive	13.0%
Valuation Model	Sell	Neutral	-1.9%
Overbought/Oversold Analysis			
Short-Term Signal	Sell	Negative	NA
Int-Term Signal	Hold	Neutral	10.4%
Long-Term Signal	Sell	Negative	NA
Investor Sentiment Analysis			
Short-Term Sentiment Model	Sell	Negative	-6.7%
Int-Term Sentiment Model	Sell	Negative	-12.2%
Long-Term Sentiment Model	Hold	Neutral	20.6%
		Current Scores Average Gain/Annum:	5.60%
		S&P 500 average gain/annum from 12/28/1979*:	8.79%

*(*Source: Ned Davis Research)*

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