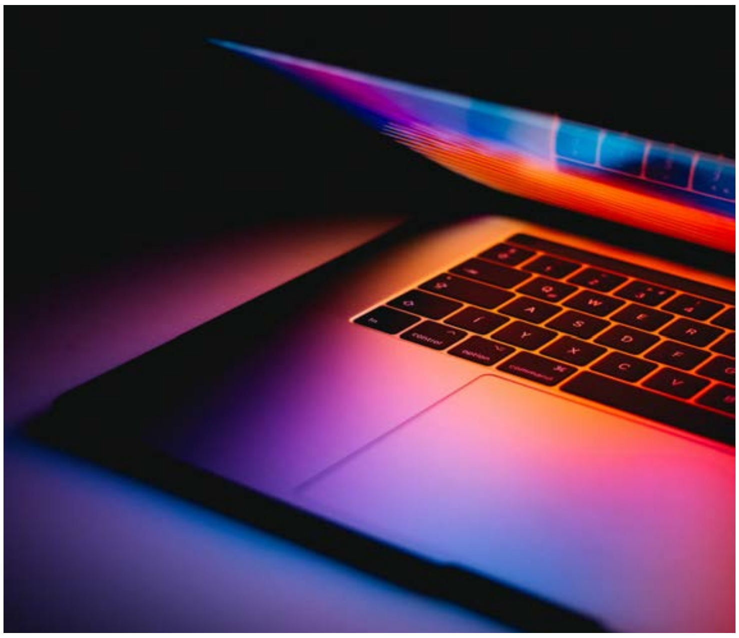
HORTER
INVESTMENT MANAGEMENT, LLC

Weekly Commentary
May 22nd, 2023

AI Gold Rush is On



I was asked recently to sum up the action in the stock market as succinctly as possible. As long-time readers are likely aware, brevity is not exactly my strong suit. But after giving it some thought, I did manage to come up with a two-word summary, which also doubles as the title of this week's market missive: "AI or Bust!"
In short, if you are investing in the big AI (artificial intelligence) names such as Nvidia (NVDA), Microsoft (MSFT), Alphabet (GOOGL), or even some of the next- tier AI themed companies such as Meta (META), Advanced Micro Devices (AMD), Synopsis (SNPS), Amazon.com (AMZN), Palantir (PLTR), Salesforce (CRM), or more recently ServiceNow (NOW), congrats, you are having a great year!

More specifically, Deutsche Bank noted this week that their basket of ten megacap tech names (MSFT, AAPL, AMZN, GOOGL, META, V, MA, NVDA, NFLX, ADBE) sported a YTD gain of +33.3% as of Wednesday's close, while the S&P 500 index was up +8.0%.

However, if you happen to believe in a little something investing professionals like to refer to as "portfolio diversification," well, my condolences, because the "rest" of the markets aren't having near as much fun. In fact, Deutsche Bank tells us that an index of the remainder of the S&P 500 (I.E. the other 490 stocks) is actually down -0.5% on the year. Value stocks (as defined by VLUE) are down -1.4% YTD as of Wednesday's close. Dividend payers (using DVY as a proxy) show a loss of -6.7%. Small Caps (IWM) are up just 1.4%. Similarly, Mid Caps (MDY) sport a gain of 1.7%. So, don't look now fans, but it looks like 2023 is shaping up as a "diworsification" year. Joy.

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People too weak to follow their own dreams will always find a way to discourage yours -Unknown

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)	▲	2.05%
DoubleLine Total Return Bond Fund (DBLTX)	▲	2.48%
40/60 SPY / iShares AGG	▲	5.21%
60/40 SPY / iShares AGG	▲	6.76%
Vanguard Balanced Index Fund (VBINX)	▲	6.19%

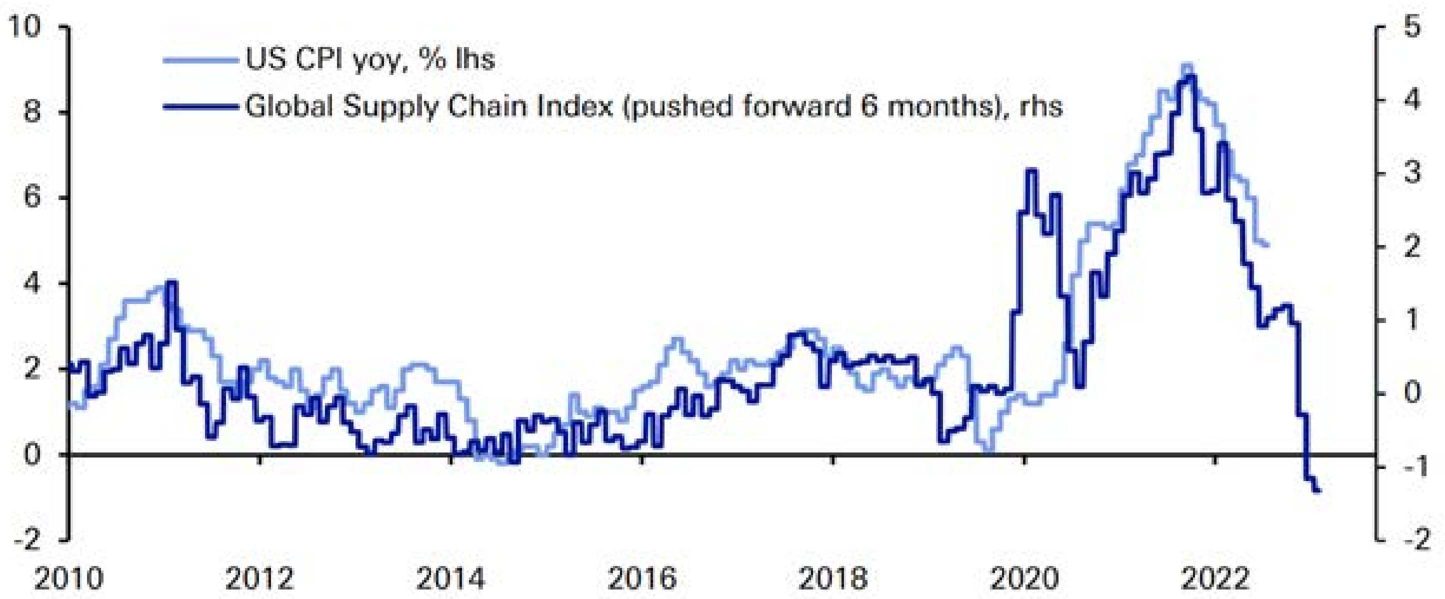
The chart above illustrates the performance of funds and ETF's designed to track major indices, including 2 Bond indices (DBLTX and AGG), 1 S&P500 Equity index (SPY), 1 Balanced index (VBINX), and 1 Multialternatives index (MSTVX).

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 3.81% year to date.

Chart of the Week

Figure 1: Fed Global Supply Chain Index (6 month lead) and US YoY CPI



Source: Bloomberg Finance LP, Deutsche Bank. Note: The index is normalized such that zero indicates that the measure is at its average value, with positive values representing how many standard deviations it is above average.

WEEKLY MARKET SUMMARY

Global Equities: While lawmakers continued their debt-ceiling drama, markets took another leg up, led once again by the Nasdaq Composite, which surged to a 3.0% weekly gain. The S&P 500 finished the week with a 1.7% return while the Dow Jones Industrial Average was also positive at 0.5%. Developed Market international stocks also posted weekly gains, up 0.7% while Emerging Markets were up 1.1%.

Fixed Income: Ten-year Treasury yields closed the week slightly higher at 3.67%. Mutual Fund flows continued to show fixed income investors strongly favoring the short-term safety of Money Market funds, which attracted $10.5 billion in weekly inflows. Meanwhile, high yield bond fund flows were negative at -$1.15 billion in weekly outflows. High yield bond prices were -0.3% lower during the week, reflecting concerns over the debt ceiling and looming recession risk.

Commodities: Oil prices posted modest weekly gains to finish around $71.50 for West Texas Intermediate crude. International benchmark Brent crude is on pace for its fifth consecutive monthly decline, which would be the worst performance for Brent since 2017. While concerns over a US default and a China slowdown are limiting near-term upside, the International Energy Agency (IEA) released a forecast for the second half of the year with a 2 million barrel-per-day deficit based on their projections for supply and demand.

WEEKLY ECONOMIC SUMMARY

Debt Ceiling Drama: As expected, lawmakers are engaging in their regular debt ceiling performance and will likely continue to drag out negotiations until the eleventh hour. President Biden will re-engage with Speaker McCarthy on Monday following his return from the G-7 summit. Both sides accuse the other of extremism but will likely agree to raise the debt ceiling with modest concessions, as the alternative would be a default which Treasury Secretary Janet Yellen predicted would be worse than the Great Recession. Given that the debt ceiling itself is a completely arbitrary value and concept, not present in the original Constitution and created by Congress, it would be inconceivable for lawmakers to trigger an economic collapse over the largely symbolic borrowing limit.

Retail Sales Tapering? The American consumer has been carrying the economy, with the post-covid spending boom outpacing economists' forecasts and keeping US GDP positive thus far in 2023. The consumer may be getting closer to tapped out, however, as exhaustion over persistent inflation is beginning to show. April retail sales were up just 0.4%, half of the forecasted 0.8% increase. Online spending is one area of strength and has been able to maintain gains made during the pandemic. Online shopping now accounts for 15% of retail sales.

Earnings Season: Earnings for Q1 are just about finished, with 466 out of the 503 S&P 500 companies having reported. The beat rate of 76.6% is the best since Q1 of 2022. Looking at forward guidance for Q2, 58 companies issued negative guidance and 41 issued positive guidance. While recession risk is still looming, companies were less concerned on their earnings calls, according to a FactSet analysis. 107 companies mentioned "recession" on their calls this quarter, compared to 147 in Q4 of 2022 and 238 in Q2 of 2022.

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Stock Market Score Card
May 22nd, 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	Buy	Positive	NA
Intermediate-Term Trend	Buy	Positive	NA
Long-Term Trend Signal	Buy	Positive	9.4%
Momentum Analysis			
Short-Term Momentum Model	Buy	Positive	24.7%
Int-Term Momentum Model	Buy	Positive	11.5%
Long-Term Momentum Model	Buy	Positive	15.1%
Fundamental Analysis			
Economic Model	Hold	Neutral	4.4%
Earnings Model	Sell	Negative	-15.2%
Monetary Model	Buy	Neutral	13.5%
Inflation Model	Buy	Positive	13.0%
Valuation Model	Sell	Neutral	-0.5%
Overbought/Oversold Analysis			
Short-Term Signal	Hold	Neutral	NA
Int-Term Signal	Hold	Neutral	10.4%
Long-Term Signal	Sell	Neutral	NA
Investor Sentiment Analysis			
Short-Term Sentiment Model	Sell	Negative	-6.9%
Int-Term Sentiment Model	Sell	Negative	-12.3%
Long-Term Sentiment Model	Buy	Positive	10.2%
		Current Scores Average Gain/Annum:	5.94%
		S&P 500 average gain/annum from 12/28/1979*:	8.80%

*(*Source: Ned Davis Research)*