HORTER

INVESTMENT MANAGEMENT, LLC

Weekly Commentary
January 23rd, 2023

Recession? It's all About the Timing

With the exceptions of an ugly day/afternoon here and there, the tenor of the market appears to have improved so far in calendar year 2023. And with both the "Santa Claus/Year-End" and the "First Five Days" indicators positive, investors can't be blamed for looking on the bright side these days.

In reality though, you can probably dispose of all the . historical analogs, analyst outlooks, and group-think predictions into the nearest round file as the next major trend - in either direction - is likely to be driven by the outlook/expectation for the state of the economy.

From my seat, this will likely wind up being a matter of timing. As in, will the economy hold up long enough for the Fed to recognize that inflationary pressures are falling so that they can "pivot" away from their antagonistic mode? Or will John and Jane Q Public decide to put their collective heads in the sand and stop spending in anticipation of the most predicted economic recession in history?
To be sure, monetary policy works with a significant lag, (the thinking is approximately 9-12 months). In short, this is why most every analyst on the street is calling for a recession in the second half of 2023. The Fed started tightening aggressively last spring and then hiked hard for the next 2 quarters, so naturally everybody assumes that the negative impacts on the economy will show up sometime in late summer/early fall. Makes sense.

However, so far at least, consumers aren't buying the doom-and-gloom inflationary/pain scenario the Fed is selling. Let's face it; with gasoline prices back at reasonable levels, home values up nicely, and plenty of cash on hand - thanks in no small part to the government pumping $10 trillion or so into peoples' checking accounts - the John Q Public family hasn't really changed any of their spending behavior.

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"The difference between the impossible and the possible lies in a man's determination." -Tommy Lasorda

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)	▲	0.93%
iShares US Agg Bond ETF (AGG)	▲	3.20%
DoubleLine Total Return Bond Fund (DBLTX)	▲	3.31%
40/60 SPY / iShares AGG	▲	3.33%
60/40 SPY / iShares AGG	▲	3.39%
Vanguard Balanced Index Fund (VBINX)	▲	3.56%

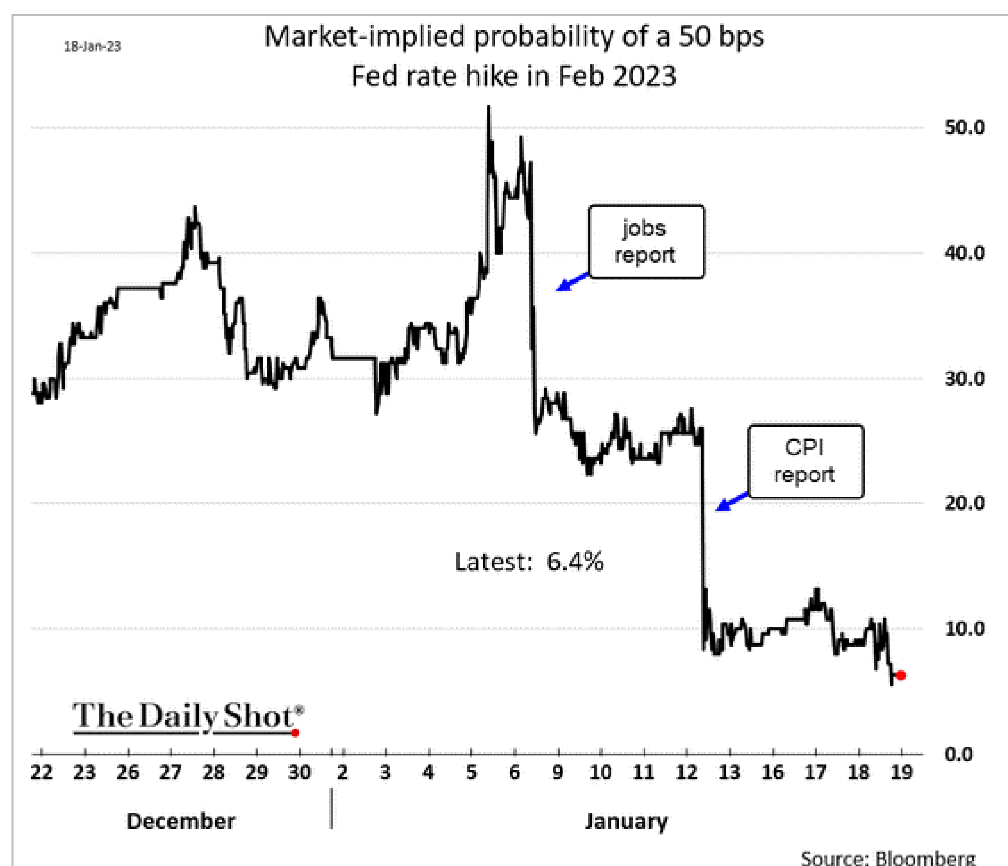
The chart above illustrates the performance of funds and ETF's designed to track major indices, including 2 Bond indices (DBLTX and AGG), 1 S&P500 Equity index (SPY), 1 Balanced index (VBINX), and 1 Multialternatives index (MSTVX).

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 2.95% year to date.

Chart of the Week

The Market has almost completely discounted the possibility of a 50 bps rate hike next week.



WEEKLY MARKET SUMMARY

Global Equities: Equity markets took a breather from what has been a solid beginning to 2023, with the S&P 500 down -0.7% in weekly trading. The Nasdaq showed relative outperformance with a positive 0.6% return and the Dow Jones Industrial Average lagged at -2.7% for the week. Developed International market stocks were slightly positive at 0.7% while Emerging Markets led once again with a 1.0% return.

Fixed Income: 10-Year Treasury yields have been pinned around 3.5% and ended the week at that level after briefly slipping below 3.4% Thursday. High yield bonds traded lower during the week, down -0.6%. High yield bond mutual funds and ETFs posted slight inflows of $230 million during the weekly period ended January 18th.

Commodities: Oil prices hovered around the $80 mark for US benchmark West Texas Intermediate, reaching $81.50 as of Friday afternoon. Active US rigs decreased by 4, to 771, according to the latest Baker Hughes rig count. Prices were bolstered by optimism as China reopens its economy, reflected in a report from the International Energy Agency projecting a record 101.7 million barrel-per-day demand in 2023.

WEEKLY ECONOMIC SUMMARY

Inflation Eases Again: The latest Producer Price Index (PPI) report followed last week's Consumer Price data with another sign of easing inflation. PPI for December came in lower than forecasted at 6.2% year-on-year compared to an estimated 6.8%. The monthly reading was -0.5%, also lighter than the expected -0.1%. The Core reading, ex-food and energy, was 5.5% year-on-year and 0.1% for the month. The data trend is clearly encouraging, with the annualized three-month pace now at 0.4% for headline PPI and 2.4% ex-food and energy.

Tough Talk from the Fed: The Fed professes to be data-driven, but so far, the data isn't swaying its resolve to persist in hiking rates. Various Fed members publicly commented on inflation and rate hikes, with St. Louis Fed President James Bullard and Cleveland Fed President Loretta Mester representing the hawkish contingent and insisting rates need to be hiked well above 5%. Neither Bullard nor Mester vote on policy in 2023. The market is anticipating a downshift to a 25-basis point hike in February, sentiment that was supported by Philadelphia Fed President Patrick Harker and Dallas Fed President Lorrie Logan, both voting members in 2023. Still, no Fed member expects rate cuts in 2023, in contrast to market expectations that the Fed will be forced to pivot before year end.

Earnings Season: It was a relatively uneventful week for corporate earnings reports, with Goldman Sachs (GS) and Morgan Stanley (MS) wrapping up big bank earnings early in the week. Goldman shares fell sharply after missing on both top and bottom lines. Morgan Stanley, however, beat estimates and shares were up despite sharply lower revenue compared to the prior year. The other major report came from Netflix (NFLX), which reported revenue in line with expectations but missed badly on earnings per share. Netflix shares were up sharply, however, thanks to better-than-expected growth in subscribers.

Stock Market Score Card
January 23rd, 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	Sell	Negative	-4.6%
Momentum Analysis			
Short-Term Momentum Model	Buy	Positive	24.8%
Int-Term Momentum Model	Hold	Positive	11.6%
Long-Term Momentum Model	Buy	Positive	15.1%
Fundamental Analysis			
Economic Model	Hold	Neutral	-4.2%
Earnings Model	Hold	Neutral	11.9%
Monetary Model	Sell	Neutral	-13.2%
Inflation Model	Buy	Positive	13.2%
Valuation Model	Sell	Neutral	-2.0%
Overbought/Oversold Analysis			
Short-Term Signal	Hold	Neutral	NA
Int-Term Signal	Sell	Negative	-2.7%
Long-Term Signal	Sell	Negative	NA
Investor Sentiment Analysis			
Short-Term Sentiment Model	Hold	Neutral	7.5%
Int-Term Sentiment Model	Hold	Neutral	12.4%
Long-Term Sentiment Model	Buy	Positive	9.8%
		Current Scores Average Gain/Annum:	6.12%
		S&P 500 average gain/annum from 12/28/1979*:	8.73%

*(*Source: Ned Davis Research)*

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