HORTER

INVESTMENT MANAGEMENT, LLC

Weekly Commentary
January 30th, 2023

Are The Bulls Back?

In last week's meandering market missive, I opined that, "the next major trend - in either direction - is likely to be driven by the outlook/expectation for the state of the economy". While I will admit that this isn't exactly groundbreaking analysis, I continue to believe this is the key to understanding the current big-picture market environment.

So far at least, the stock market appears to be looking ahead to better days. To a time when the Fed isn't the enemy. To when the inflation bogeyman has slunk back into the shadows. And to a time when recession is not the widely expected outcome for the U.S. economy.

How else do you explain the impressive gains seen in the major indices in 2023? Doing some quick math, I find that the S&P 500 (using SPY as a proxy) is up +6.1% year-to-date, Small caps (IWM) have advanced +8.7%, Mid caps are up +7.8%, and the much maligned NASDAQ 100 (QQQ) sports an eye-popping return of +11.3% so far in the new year. Not too shabby, eh?

Our furry friends in the bear camp are quick to pooh-pooh the notion that stocks are looking ahead and suggest that the current market rally is merely another in what is already a long string of oversold reactions - aka a bear market bounce.

Those seeing the market's glass as at least half empty tell us that just about every indicator on the planet is SCREAMING that the good 'ol USofA is either in, or about to enter, a recession. And lest we forget, those donning their bear costumes remind us the stock market returns during bear markets which are accompanied by a recession have been much worse that those that weren't. As such, the bears contend the major indices are destined to move lower as the year progresses.

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"There is nothing wrong with change, if it is in the right direction" -Winston Churchill

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)	▲	1.03%
iShares US Agg Bond ETF (AGG)	▲	3.19%
DoubleLine Total Return Bond Fund (DBLTX)	▲	3.42%
40/60 SPY / iShares AGG	▲	4.34%
60/40 SPY / iShares AGG	▲	4.92%
Vanguard Balanced Index Fund (VBINX)	▲	5.19%

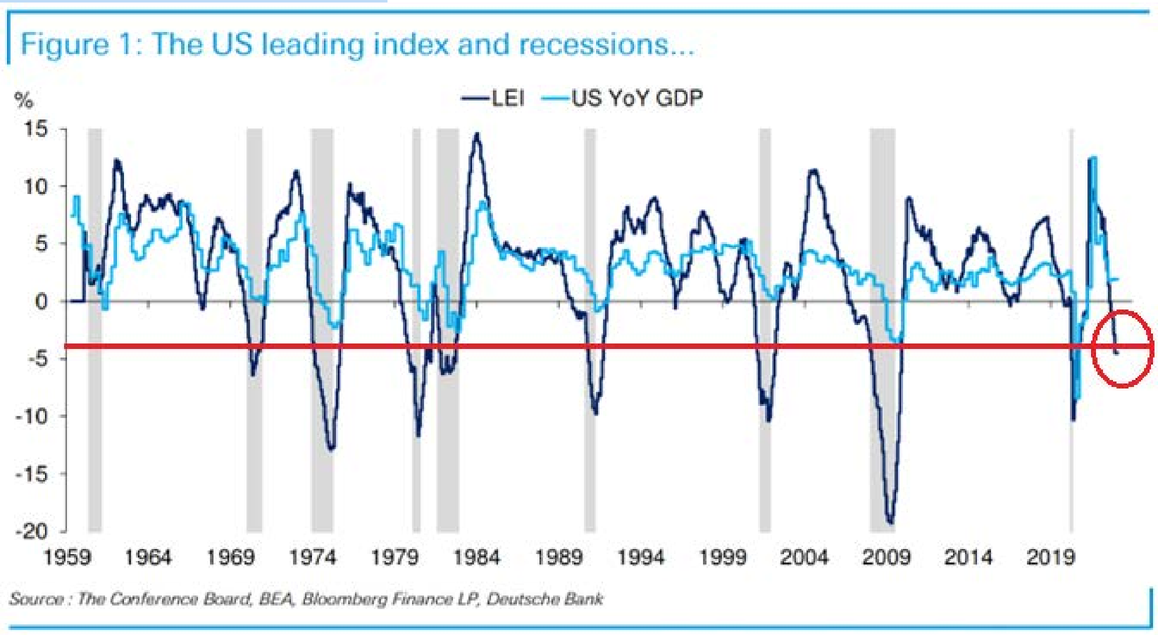
The chart above illustrates the performance of funds and ETF's designed to track major indices, including 2 Bond indices (DBLTX and AGG), 1 S&P500 Equity index (SPY), 1 Balanced index (VBINX), and 1 Multialternatives index (MSTVX).

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 3.68% year to date.

Chart of the Week

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



Dow Jones - Week Ending

WEEKLY MARKET SUMMARY

Global Equities: Earnings and inflation data were the focus during a positive week for stocks that saw the S&P 500 up 2.5%. The Dow Jones Industrial Average gained 1.8% while the Nasdaq led the major domestic indices with a 4.3% gain. Year-to-date the Nasdaq is now up 10.7%. Developed International stocks lagged domestic indices with a 0.8% gain while Emerging Markets were up 1.4%.

Fixed Income: 10-Year Treasury yields remained at 3.5% as investors await the next Fed interest rate decision. High yield bonds traded flat during the week. While defaults have been very benign so far, news that Bed Bath and Beyond could file for imminent bankruptcy after missing its debt payment caused some concern that the economic cooldown could soon start to impact corporate bonds. High yield bond mutual funds and ETFs posted outflows of $1.28 billion during the weekly period ended January 25th.

Commodities: Oil prices slipped back under $80 a barrel on Friday after reports of a 50% increase in Russian oil exports in January, driven by strong demand from China. OPEC+ meets next week, with no change to production levels anticipated.

WEEKLY ECONOMIC SUMMARY

More Good Inflation News: The latest inflation data point was the Personal Consumption Expenditure (PCE) Index, which the Fed uses as its official gauge of pricing pressure in the economy. The Fed is particularly focused on the Core PCE measure, excluding food and energy. In December, annualized PCE came down from 5.5% to 5.0%, while Core PCE decreased from 4.7% to 4.4%. While inflation is not quite at the Fed's 2% target, the most recent monthly readings have been extremely encouraging and if we extrapolate the most recent quarter, headline PCE is trending at just 0.4% and Core PCE would be 3.2%.

GDP Stronger than Expected: Fourth quarter GDP rose at an annualized rate of 2.9%, exceeding economist expectations and bringing 2022 annual GDP to 2.1%, reversing the first half of the year's shrinking GDP readings. Market reaction was muted, as the strength of the economy gives the Fed additional wiggle room to be aggressive in its rate hikes, despite increasing concerns from investors and economists that the Central Bank may be overly hawkish in not waiting for inflation data to catch up.

Earnings Season: Most big tech companies report this upcoming week, but we got a preview from Microsoft (MSFT) which posted solid earnings but also cautious guidance that triggered a mid-week pullback in markets. Also making headlines was the always-volatile Tesla (TSLA), which blew away estimates to send shares surging. On the negative side, Intel (INTC) missed badly, sending shares down around -10% at the open on Friday.

Stock Market Score Card
January 30th, 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	Neutral	-4.6%
Momentum Analysis			
Short-Term Momentum Model	Buy	Positive	25.0%
Int-Term Momentum Model	Hold	Positive	11.9%
Long-Term Momentum Model	Buy	Positive	15.2%
Fundamental Analysis			
Economic Model	Hold	Neutral	-4.2%
Earnings Model	Hold	Neutral	11.9%
Monetary Model	Sell	Neutral	-13.0%
Inflation Model	Buy	Positive	13.0%
Valuation Model	Sell	Neutral	-1.9%
Overbought/Oversold Analysis			
Short-Term Signal	Sell	Neutral	NA
Int-Term Signal	Sell	Negative	-2.7%
Long-Term Signal	Sell	Negative	NA
Investor Sentiment Analysis			
Short-Term Sentiment Model	Sell	Negative	-6.8%
Int-Term Sentiment Model	Sell	Negative	-12.3%
Long-Term Sentiment Model	Buy	Positive	9.8%
		Current Scores Average Gain/Annum:	3.17%
		S&P 500 average gain/annum from 12/28/1979*:	8.79%

*(*Source: Ned Davis Research)*

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