

Weekly Market Commentary

June 27, 2016



The Dow Jones Industrial Average dropped 274 points to close the week down -1.6% at 17,401. The S&P 500 Index registered a loss of -1.6%, down 34 points to end the week at 2,037.

The Nasdaq Composite was down -1.9% to end the week at 4,708. The S&P MidCap 400 Index closed the week at 1,458 for a loss of -1.5%. The Russell 2000 was off -1.5%, ending the week at 1,128.

The ETF "EFA", the proxy for developed international equity markets, finished -5.0% lower for the week. Emerging markets, as represented by the ETF "EEM", closed out the week with a -1.9% loss.

Domestic high yield corporate bonds gained 0.1% for the week, as measured by the Bank of America Merrill Lynch US High Yield Master II Index.

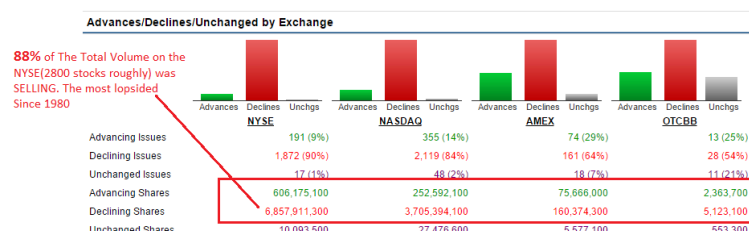
Global financial markets were blindsided by the result of Friday's "Brexit" vote, in which UK citizens narrowly elected to leave the European Union (EU), prompting Prime Minister David Cameron to tender his resignation. Prior to the vote, polling suggested that more citizens were leaning towards remaining in the EU, but in the end 52% of respondents voted in favor of leaving the union. Stocks in Europe cratered, with the FTSE 100 falling -8.7% at Friday's open. The British pound fell to a 30-year low against the dollar, hitting a low point of US \$1.3236. The US 10 Year Treasury Note yield fell as low as 1.43% before ending the week at 1.57%. German 10 Year Bunds hit a new all-time low of -0.17% before bouncing back to end the week at -0.04%. Oil prices failed to maintain gains above the \$50 level, falling back to \$47.59 for West Texas Intermediate and \$48.34 for Brent Crude. It was a major risk-off day, one of the largest ever globally, with some \$2 Trillion in asset values being wiped out.

In domestic high yield bond news, new issuance was on hold in advance of the Brexit vote, with just \$5.2 billion issued in the week ended June 17th. Investors dialed back high yield exposure, as high yield bond mutual funds and ETFs posted net outflows of \$766 million in the weekly period ended June 22nd. The Effective Yield on the Bank of America Merrill Lynch US High Yield Master II Index ended the week unchanged at 7.49%, falling to 7.19% prior to the Brexit vote but bouncing back up 30 bps in response to the result.

In US economic news, the turmoil in Europe led investors to dial back expectations for Federal Reserve interest rate policy changes, bringing the possibility of not an interest increase but instead now an interest rate cut back into the discussion. Federal funds futures now see zero chance of an interest rate increase until December, and a 10% chance that the Fed cuts rates in September or November. US Durable Goods orders in May were weaker than expected, falling -2.2% month-over-month and suggesting weaker than anticipated second quarter GDP, projected at 2.6% by the Atlanta Fed. Housing data pointed to continued strength in May, with existing home sales up 1.8% to an annualized rate of 5.53 million. New home sales fell 6% from the prior month but the annualized rate of 551k is still positive.

In international economic news, the Brexit result clearly caught markets by surprise. European markets had risen in the run-up to the Brexit vote, as polling and odds from bookmakers implied the UK would remain in the EU. The result raises a host of uncertainties and questions about the future of Europe, as this is an unprecedented event and no country has ever left the European Union since it was founded in 1993. The transition could take as long as 2 years as the details are worked out. The future of the UK is also in question, as the majority of voters in Scotland and Northern Ireland were in favor of remaining in the EU. Scotland held a 2014 referendum and elected to remain in the UK, but with the EU exit, a second referendum looks very likely. Bank of England Governor Mark Carney issued a statement pledging 250-billion pounds (\$343 billion) to support the banking system and suggested a willingness to implement rate cuts as needed.

Did You Know . . . 88% of The Total Volume on the NYSE last Friday was SELLING – the most lopsided since 1980. [Click here to enlarge chart](#)



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Low Risk

| | |
|--------------|---|
| HIM Model #7 | 100% short and intermediate-term bonds |
| HIM Model #2 | 95% municipal bonds/5% cash |
| HIM Model #1 | 100% invested (15% core high yield/85% ATCSX) |
| HIM Model #6 | 100% high yield |
| HIM Model #3 | 15% alternative bond strategies/14% high yield/14% cash |
| | 14% long treasuries/29% dividend equities/14% MLPs |
| HIM Model #4 | 100% invested |
| HIM Model #5 | 100% invested |

Current Model Allocations

Moderate Risk

| | |
|---------------|-----------------------------------|
| HIM Model #12 | 100% intermediate-term treasuries |
| HIM Model #9 | 60% cash/40% long S&P |
| HIM Model #8 | 100% cash |
| HIM Model #13 | 100% invested |
| HIM Model #14 | 100% cash |
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| HIM Model #15 | 100% invested |
| HIM Model #11 | 35% invested (7 stocks)/65% cash |

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Taking a comprehensive look at the overall current stock market, you can see the chart below representing eight major indices and their returns through the week ending June 24, 2016. In a truly diversified portfolio, the portfolio's total return is determined by the performance of all of the individual positions in combination – not individually.

So, understanding the combined overall performance of the indices below, simply average the 8 indices (excluding the BofA Merrill Lynch US High Yield Master II Index) to get a better overall picture of the market. The combined average of all 8 indices is -1.60% year to date.

Market Perspectives (through 6/24/2016)

60/40 Allocation: 1.70% YTD

(60% S&P 500/40% Barclays US Aggregate Bond Index)

S&P 500: -.32% YTD Barclays Agg: 4.74% YTD

Weekly Update for the Week Ending June 24, 2016

| Index | Last Week | | | One Month | | Year-to-Date | |
|------------------------------------|-----------|------------|----------|------------|----------|--------------|----------|
| | Close | Net Change | % Change | Net Change | % Change | Net Change | % Change |
| Dow Jones Global Index | 299.88 | -4.68 | -1.54% | -6.90 | -2.25% | -8.09 | -2.63% |
| Dow Jones Industrial Average | 17400.75 | -274.41 | -1.55% | -305.30 | -1.72% | -24.28 | -0.14% |
| S&P 500 Index | 2037.41 | -33.81 | -1.63% | -38.65 | -1.86% | -6.53 | -0.32% |
| Nasdaq Composite Index | 4707.98 | -92.36 | -1.92% | -153.07 | -3.15% | -299.43 | -5.98% |
| S&P MidCap 400 Index | 1457.59 | -22.36 | -1.51% | -13.90 | -0.94% | 59.01 | 4.22% |
| Russell 2000 Index | 1127.54 | -17.16 | -1.50% | -7.77 | -0.68% | -8.35 | -0.74% |
| MSCI EAFE Index (EFA) | 53.66 | -2.80 | -4.96% | -4.29 | -7.40% | -5.06 | -8.62% |
| MSCI Emerging Markets Index (EEM) | 32.64 | -0.63 | -1.89% | 0.16 | 0.49% | 0.45 | 1.40% |
| BAML US High Yield Master II Index | 1084.37 | 1.45 | 0.13% | 9.39 | 0.87% | 84.85 | 8.49% |

Above returns exclude dividends.
Data Source: Investors FastTrack

For a complete report on all the indices, we recommend that you go to www.HanlonInvest.com and click on the Financial Professionals tab, then click on Index Performance Report on the left-hand side under the Resources section.

QUOTE OF THE WEEK

"It is not in the stars to hold our destiny, but in ourselves." - William Shakespeare

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Summary

In utilizing an approach that seeks to limit volatility, it is important to keep perspective of the activity in multiple asset classes. At Horter Investment Management we seek to achieve lower risk with higher returns. More specifically, we seek to achieve superior risk-adjusted returns over a full market cycle to a traditional 60% equities / 40% bonds asset allocation. We do this by implementing global mandates of several tactical managers within different risk buckets.

For those investors who are unwilling to stomach anything more than minimal downside risk, our goal is to provide a satisfying return over a full market cycle compared to the Barclays Aggregate Bond Index.

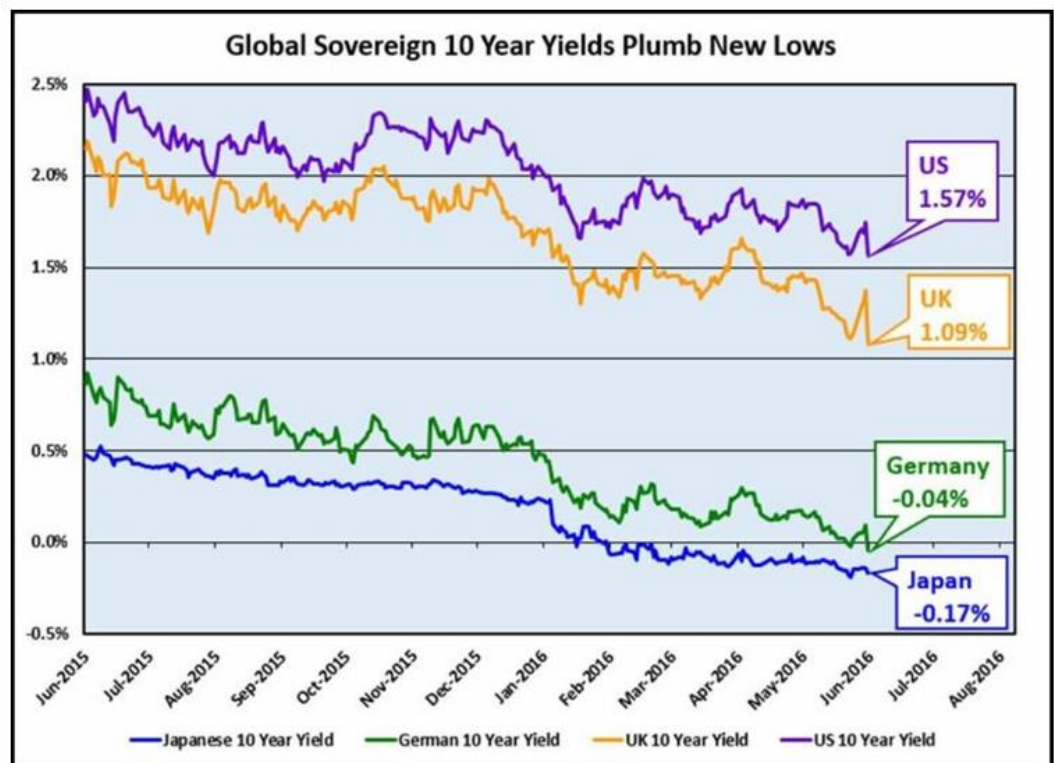
At Horter Investment Management we realize how confusing the financial markets can be. It is important to keep our clients up-to-date on what it all means, especially with how it relates to our private wealth managers and their models.

We are now in year eight of the most recent bull market, one of the longest bull markets in U.S. history. At this late stage of the market cycle, it is extremely common for hedged managers to underperform, as they are seeking to limit risk. While none of us know when a market correction will come, even though the movement and volatility sure are starting to act like a correction, our managers have been hired based on our belief that they can accomplish a satisfying return over a full market cycle, -- while limiting risk in comparison to a traditional asset allocation approach.

At Horter we continue to monitor all of the markets and how our managers are actively managing their portfolios. We remind you there are opportunities to consider with all of our managers. Hopefully this recent market commentary is helpful and thanks for your continued trust and loyalty.

Chart of the Week:

The Chart of the Week below shows global sovereign 10-year yields hit new lows following the "Yes" vote on Brexit. These low yields pose a problem for investors, particularly retirement investors, seeking high current income.



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Articles of Interest

The British are Frantically Googling What the E.U. Is, Hours After Voting to Leave It

The whole world is reeling after a milestone referendum in Britain to leave the European Union. And although leaders of the campaign to exit Europe are crowing over their victory, it seems many Britons may not even know what they had actually voted for.

Awakening to a stock market plunge and a precipitous decline in the value of the pound that Britain hasn't seen in more than 30 years, voters now face a series of economic shocks that analysts say will only worsen before they improve. The consequences of the leave vote will be felt worldwide, even here in the United States, and some British voters say they now regret casting a ballot in favor of Brexit.

"Even though I voted to leave, this morning I woke up and I just — the reality did actually hit me," one woman told the news channel ITV News. "If I'd had the opportunity to vote again, it would be to stay."

[Click here to read more](#)

There is a Small but Real Possibility That Brexit Will Never Happen

For all that Brexit's vote was a historic rebuke of the European Union, nothing is actually different the day after. Britain is still a member of the EU, and will be for some time. And while there's probably too much political momentum to stop this process now that it's rolling, there's a small, but not trivial, chance that the Brexit might not happen at all.

The referendum wasn't legally binding, just advisory. Technically, the British government doesn't have to do anything, though it's obviously under an enormous amount of political pressure to get things moving.

[Click here to read more](#)

Bank of England Will Provide £250 Billion of New Capital to Prop Up Markets

Bank of England governor Mark Carney has moved to try and soothe the markets, reassuring investors and UK citizens that the Bank is ready to deal with the "volatility" following the UK's vote to leave the European Union overnight.

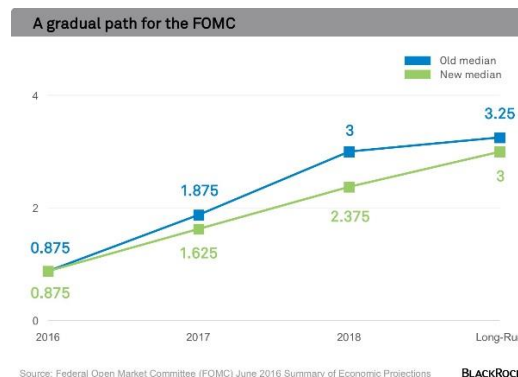
Speaking from the Bank of England on Friday morning, Carney said that the Bank is "ready to provide more £250 billion of additional capital to its normal operations." Essentially the BoE is ready to prop up the UK's financial system to protect it from the direct impacts of Brexit.

[Click here to read more](#)

Why the Fed's Job is All the More Complicated

The Federal Reserve's latest meeting revealed the central bank's more dovish path to further normalizing interest rates.

The Fed revealed in its latest statement that it will take a more dovish approach to normalizing its federal funds rate, but still left the door open to some degree that an increase could happen later this year. It's a night-and-day juxtaposition from the central bank's stance in December, both as a result of domestic considerations and international concerns.



[Click here for an enlarged graph and to read more](#)

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