



Week of August 14, 2017

Nuke Fears Hit Stocks Hard, Boost Bonds as Volatility Spikes

Rising geopolitical tensions between the U.S. and North Korea over North Korea's potential nuclear capabilities dominated the markets last week, pushing down global stock prices in every major region of the world and sending market volatility sharply higher.

In that uncertain environment, investors flocked to the perceived safety of government bonds. Treasury bond yields fell as strong demand pushed bond prices higher.

In the U.S., wholesale prices in July fell for the first time in nearly a year and were slightly lower than expected—a sign that inflation remains under control and perhaps even somewhat weak. Likewise, consumer inflation (as measured by the CPI) was softer than expected in July and remained lower over the past 12 months than the Fed's targeted rate for inflation. These two developments may reduce the likelihood of the Fed raising short-term interest rates soon.

Core CPI

Percentage change from year ago, seasonally adjusted



Meanwhile, initial jobless claims in early August were slightly higher than expected but remained near their recent low levels.

Second-quarter earnings season is now nearly over, with 90% of the companies in the S&P 500 index having reported their financial results for the quarter. Overall, results have been strong, with nearly 80% of the companies reporting better-than-expected earnings growth. That said, department store retailers posted weak numbers overall, hurting the stock prices of companies

continued on next page >

such as Kohl's and Macy's last week.

Overseas, China's consumer inflation unexpectedly slowed in July.

GAIN: Active Asset Allocation

Global markets declined sharply last week in the wake of geopolitical concerns regarding North Korean nuclear capabilities and the U.S.'s reaction to that situation. For example, the UK stock market on Thursday suffered its biggest one-day percentage loss since April, while the S&P 500 index in the U.S. ended the week down 1.4%. Ultimately, the eurozone market and broad emerging markets were hardest hit by the uncertainty.

Growth stocks underperformed value shares later in the week—a reversal of the recent trend of growth's market leadership. In addition, small-cap stocks sold off more than large-caps due to increased market stress.

The North Korea-U.S. tensions also prompted investors to flock to areas of the market they perceived to be relatively safe. As a result, bond yields across the board fell, with longer-duration Treasuries benefitting the most. The yield on the 10-year U.S. Treasury note fell below 2.2% for the first time in more than a month. Other, riskier segments of the bond market suffered losses—including high-yield bonds, investment grade corporates and preferred stocks.

In addition, the price of gold spiked—a common occurrence during periods of rising stock market volatility and uncertainty.

PROTECT: Risk Assist

The low-volatility market environment of recent months was interrupted last week as tensions flared between the U.S. and North Korea over nuclear weapons. The CBOE Volatility index (VIX)—the so-called "fear gauge" of Wall Street—soared by more than 40% on Thursday alone, hitting its highest level since last November. The last time the VIX approached that level was back in May when controversy erupted after the firing of FBI Director James Comey.

As we see volatility coming back into the market, remember that the Risk Assist strategy was designed to allow for short-term market fluctuations in order to help avoid hedging too aggressively, and missing out on upside returns if the markets bounce back quickly.

SPEND: Real Spend

Bond yields fell significantly last week, pushing bond prices higher, as geopolitical tensions between the U.S. and North Korea sent investors scrambling for the perceived safety of fixed-income securities.

continued on next page >

Longer-duration bonds benefited most from the flight to safety.

International equity holdings in the Real Spend portfolios suffered the worst losses last week, and U.S. dividend-paying stocks also lost ground. The short-duration fixed-income holdings that make up Real Spend's spending reserve held up relatively well, while small positions in higher-yielding bonds suffered losses.

Inflation expectations, which were already low, crept even lower last week on the heels of falling producer prices and a weaker-than-expected increase in consumer prices.

Call **866.371.2399** to put this research to work for you.

www.horizoninvestments.com

Nothing contained herein should be construed as an offer to sell or the solicitation of an offer to buy any security. This report does not attempt to examine all the facts and circumstances that may be relevant to any company, industry or security mentioned herein. We are not soliciting any action based on this document. It is for the general information of clients of Horizon Investments, LLC ("Horizon"). This document does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any analysis, advice or recommendation in this document, clients should consider whether the security in question is suitable for their particular circumstances and, if necessary, seek professional advice. Investors may realize losses on any investments.

Past performance is not a guide to future performance. Future returns are not guaranteed, and a loss of original capital may occur. This commentary is based on public information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed herein are our opinions as of the date of this document. We do not intend to and will not endeavor to update the information discussed in this document. No part of this document may be (i) copied, photocopied, or duplicated in any form by any means or (ii) redistributed without Horizon's prior written consent.

Other disclosure information is available at www.horizoninvestments.com.

©2017 Horizon Investments LLC