



HOROWITZ COMPANY

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# October 2022 Update and Outlook

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# Webinar Outline

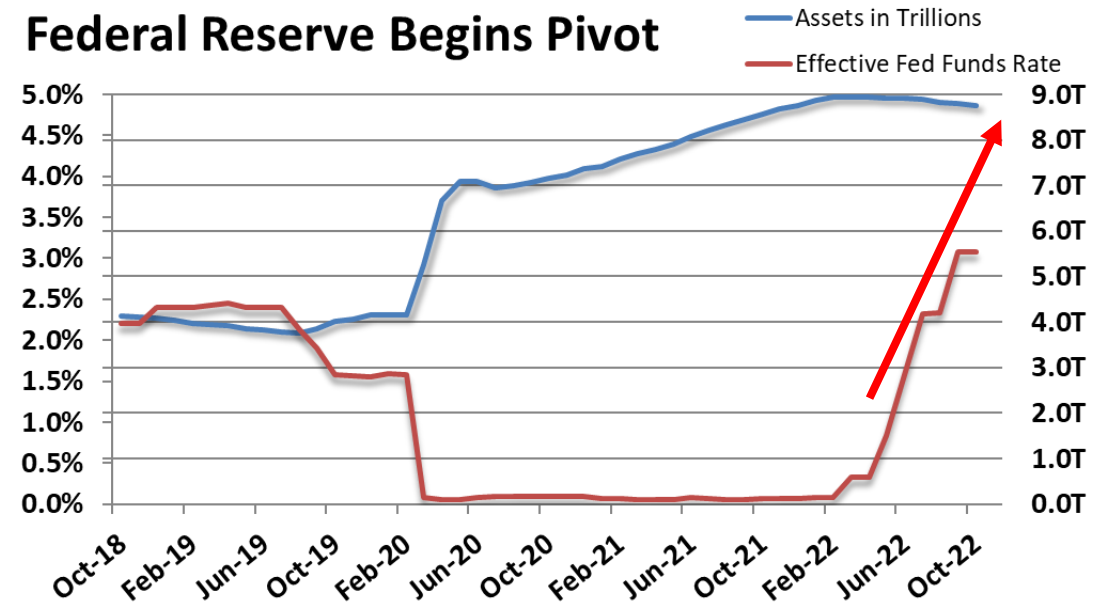
- The Hurricane that Wilted the Flower Garden
  - Federal Reserve
  - Inflation / Supply Chain Constraints
  - Russia's Disruption of Energy Abroad
  - U.S. Dollar Strength
- Where Do We Go From Here
  - Remain Diversified, Roots Remain Intact
  - Short-Term Thinking Only Brings Long-Term Losses
    - Emotions vs. Logic
  - Value Tilt or Reversion-to-Mean?
- Q&A



# The Federal Reserve Issue

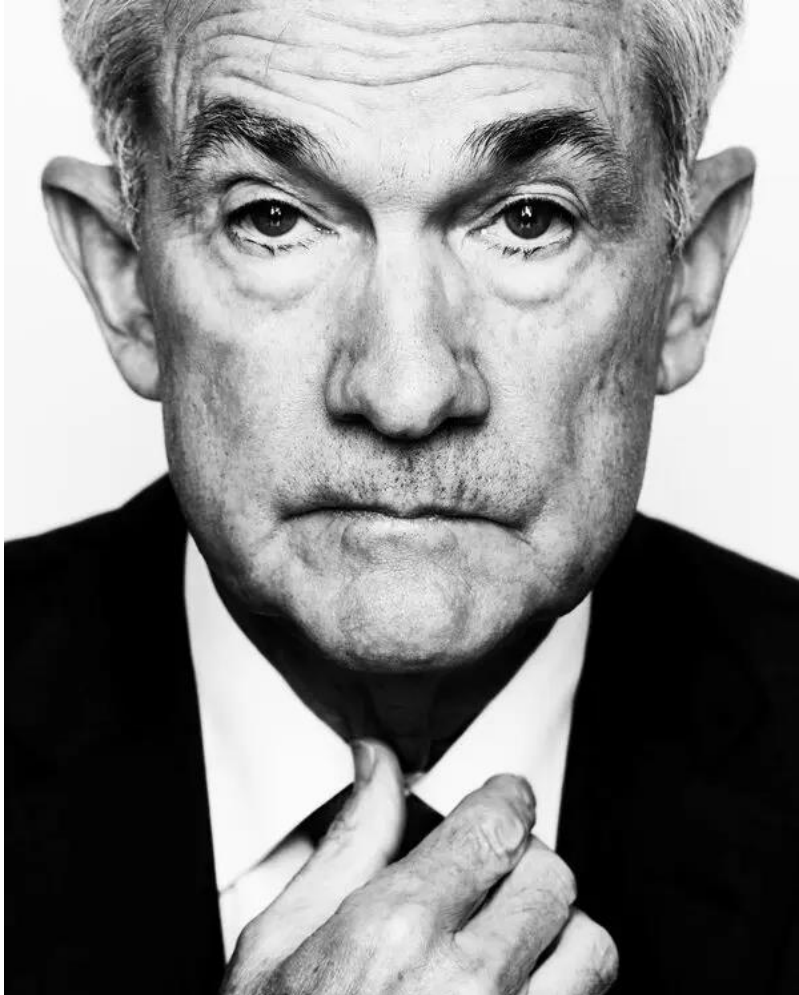
- Inflation Was Not “Transitory”
  - Supply Chain Effects Caused Fed to Believe Inflation Was Only Temporary
- Treasury Yields *Inverted*
  - 2Yr at ~ 4.48%
  - 10Yr at ~ 4.00%
  - 30Yr at ~ 3.99%
- Recent CPI & PPI Cause for Concern
  - Year End Fed Funds Rate ~ 4.50% to 4.75%
- The Fed Is Ready And Willing To Sacrifice Growth For Price Stability
  - But Perhaps They Are Wrong Again!

**Federal Reserve Begins Pivot**



Source: Federal Reserve/YCharts/Horowitz & Company

# The Federal Reserve – A Closer Look



*“Without price stability, the economy does not work for anyone. **The burdens of high inflation fall heaviest on those who are least able to bear them.**”*

*“While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But a failure to restore price stability would mean far greater pain.”*

-Fed Chair Jerome Powell

# The Federal Reserve - Outlook

FOMC Meeting Date and Rate Probabilities										
Meeting Date	3.00% - 3.25%	3.25% - 3.50%	3.50% - 3.75%	3.75% - 4.00%	4.00% - 4.25%	4.25% - 4.50%	4.50% - 4.75%	4.75% - 5.00%	5.00% - 5.25%	5.25% - 5.50%
November 2, 2022	0.0%	0.0%	4.0%	96.0%						
December 14, 2022	0.0%	0.0%	0.0%	0.0%	1.2%	32.1%	66.7%			
February 1, 2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	20.2%	53.3%	25.8%	
March 22, 2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	12.7%	40.6%	36.3%	9.9%
May 3, 2023	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	14.4%	40.3%	34.7%	9.3%
June 14, 2023	0.0%	0.0%	0.0%	0.0%	0.1%	2.1%	16.2%	40.0%	33.0%	8.6%

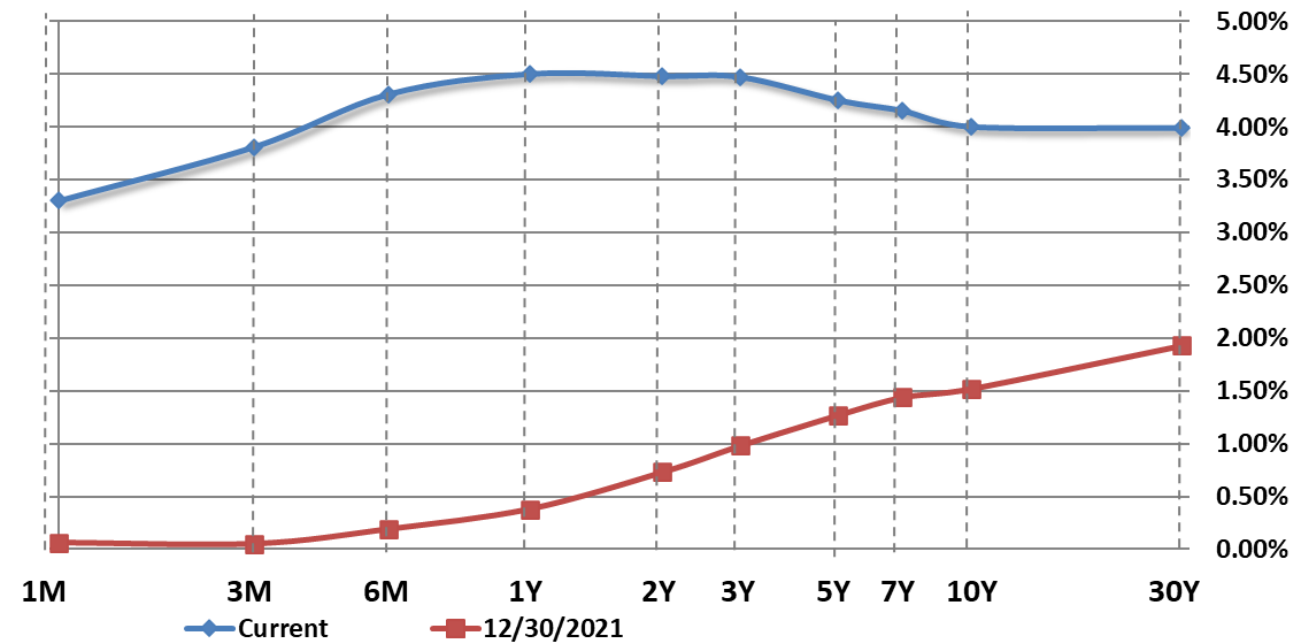
\*Source Chicago Mercantile Exchange as of 10/17/2022

- Signifies the Current Interest Rate

- Signifies the Most Likely Scenario

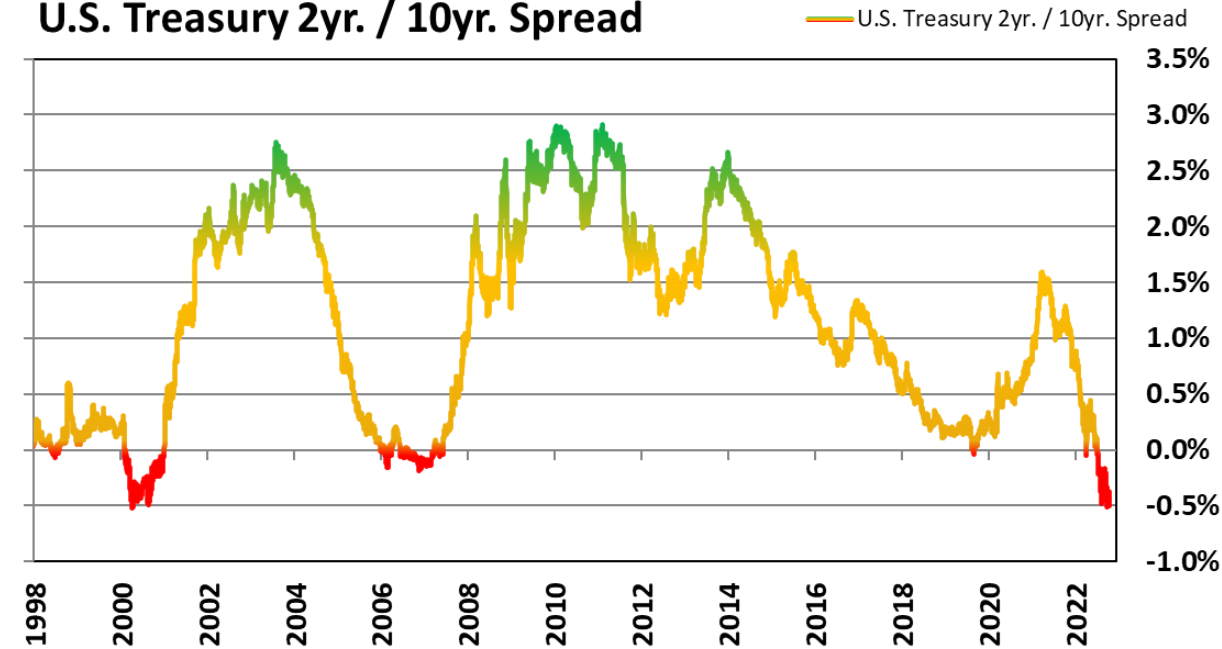
# The Federal Reserve – Blunt Tools

## US Treasury Yield Curve



Source: Federal Reserve/Horowitz & Company

## U.S. Treasury 2yr. / 10yr. Spread



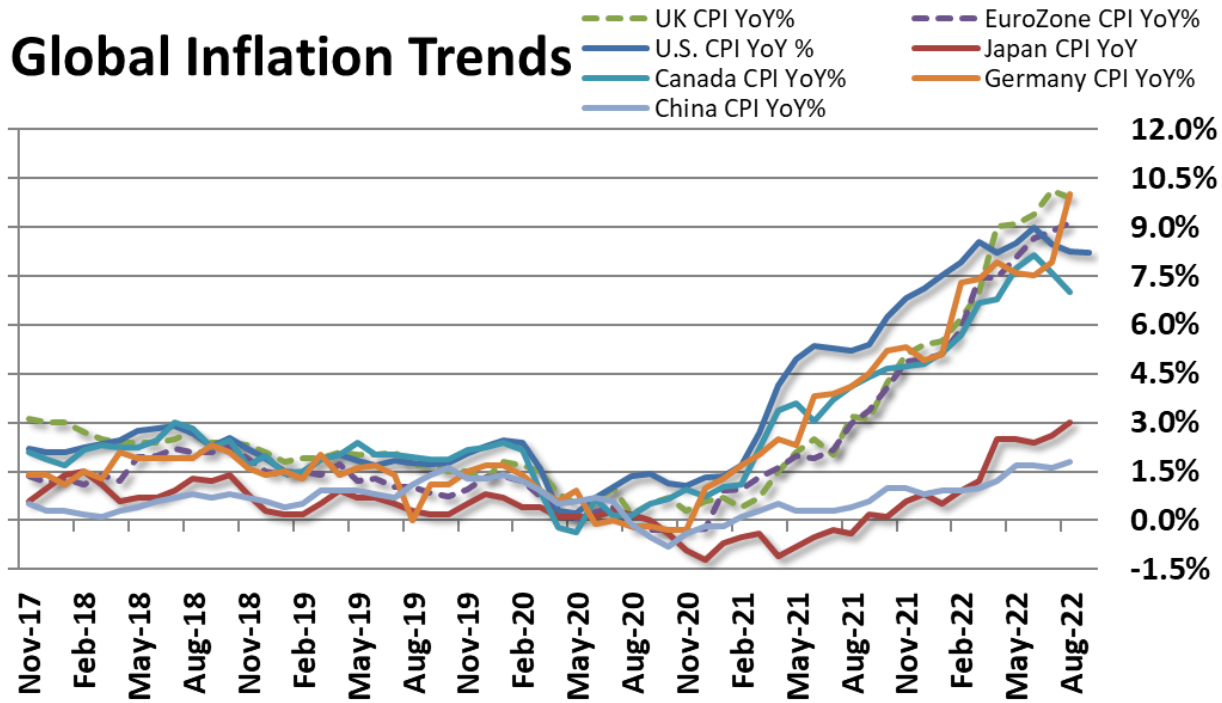
Source: Federal Reserve / Horowitz & Company

# Inflation & Supply Chain Constraints

- U.S. Inflation Continues to Run Hotter than Expectations
  - Slowing, but Not Nearly as Fast as the Fed Would Like \*
  - PPI YoY at 8.54%
  - CPI YoY at 8.22%
- European Union Inflation Even Worse
  - PPI YoY at 29.54% (Mostly Due to Energy)
  - CPI YoY at 10.15%
- Supply Chain Constraints Remain
  - China's Zero-COVID Policy Not Helping
- Basic Goods Showing Extreme Price Fluctuations Since 2021
  - Wheat +100%, Aluminum +94%, Corn +65%

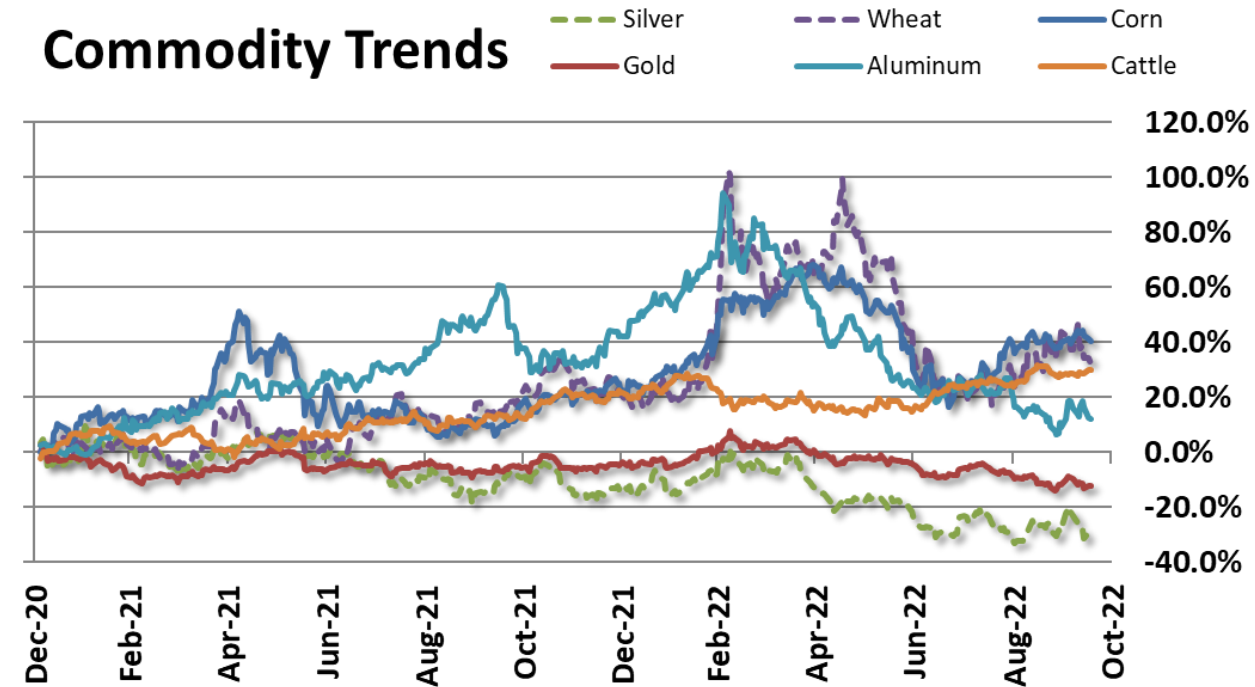
# Inflation and Deflation

## Global Inflation Trends



Source: YCharts/Horowitz & Company

## Commodity Trends

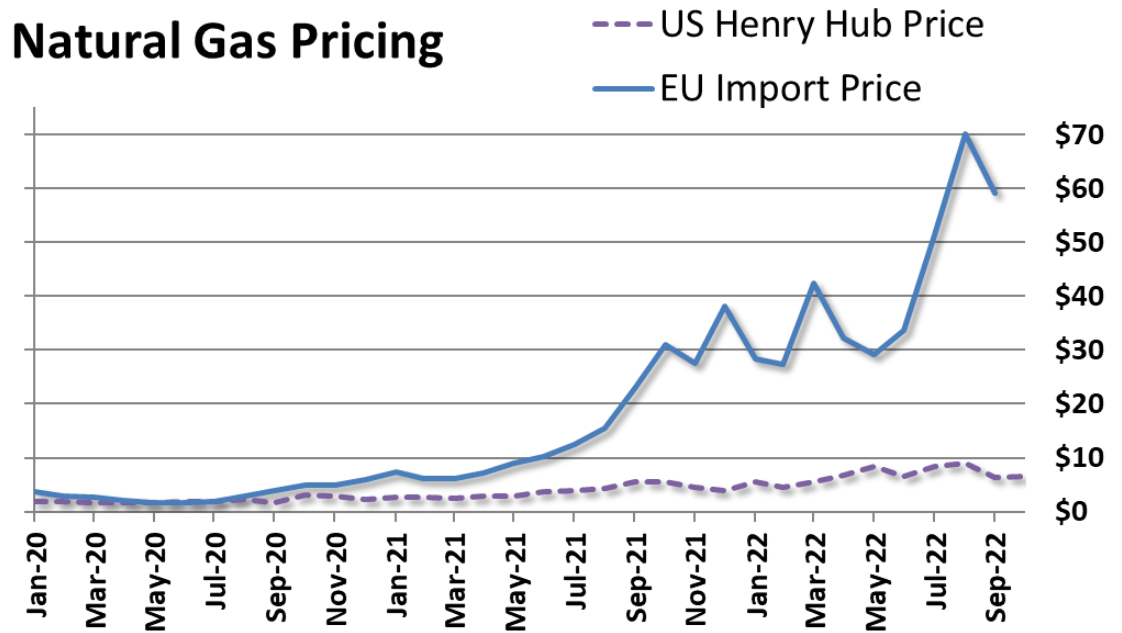


Source: YCharts/Horowitz & Company

# Russia's Disruption of Energy

- Natural Gas Prices Have Skyrocketed Abroad
  - Nord Stream Pipeline “Burst” - Act of Terrorism?
  - Difficult Product to Export
  - Shipping Rates Only Recently Have Subsided
- Europe Has Long Relied on Russia for Energy – BIG Problems

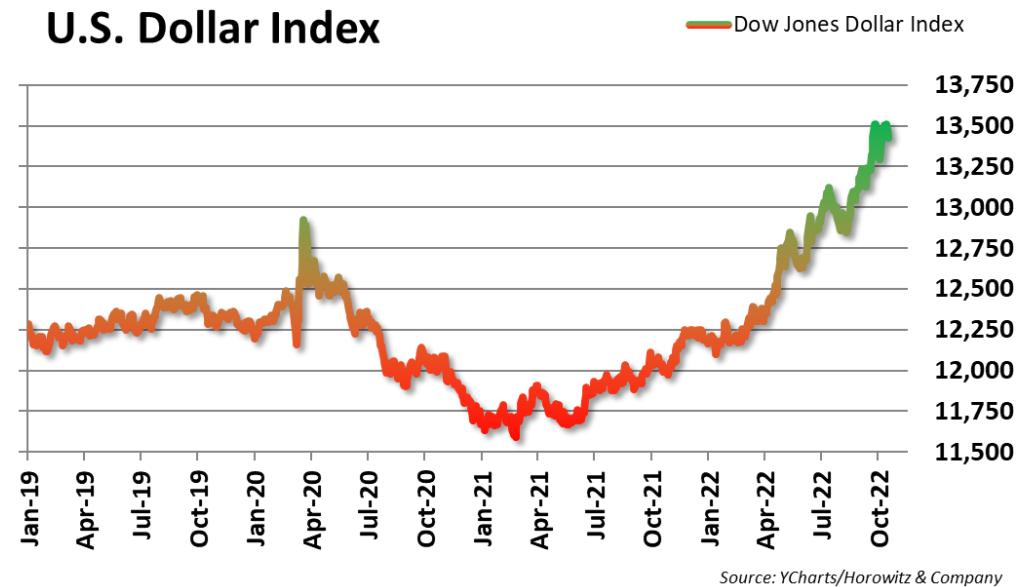
**Natural Gas Pricing**



Source: YCharts/Horowitz & Company

# U.S. Dollar Surging

- Rising Rates = Strong Dollar
- U.S. Taking an Iron Fist Approach
- Inflation is Typically Dollar Weakening
  - Comparison is the Key Differential
- Imports Are Cheaper (Still Remain Difficult to Obtain)
- Exports Expensive
- Now is the Time to Travel Abroad



# Where To Now?



Charlie Bilello  
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A 60/40 Portfolio of US Stocks/Bonds is down 21.6% in 2022, on pace to become the 2nd worst year in history after 1931.

60/40 Portfolio: S&P 500/US 10-Year Treasury (Total Returns, 1928 - 2022)									
Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	26.6%	1947	3.5%	1966	-4.8%	1985	29.0%	2004	8.2%
1929	-3.3%	1948	4.2%	1967	13.6%	1986	20.8%	2005	4.0%
1930	-13.3%	1949	12.8%	1968	7.8%	1987	1.5%	2006	10.2%
1931	-27.3%	1950	18.7%	1969	-7.0%	1988	13.2%	2007	7.4%
1932	-1.7%	1951	14.1%	1970	8.8%	1989	26.0%	2008	-13.9%
1933	30.7%	1952	11.8%	1971	12.4%	1990	0.7%	2009	11.1%
1934	2.5%	1953	0.9%	1972	12.4%	1991	24.1%	2010	12.3%
1935	29.8%	1954	32.9%	1973	-7.1%	1992	8.2%	2011	7.7%
1936	21.2%	1955	19.0%	1974	-14.7%	1993	11.7%	2012	10.7%
1937	-20.7%	1956	3.6%	1975	23.6%	1994	-2.4%	2013	15.6%
1938	19.3%	1957	-3.6%	1976	20.7%	1995	31.7%	2014	12.4%
1939	1.1%	1958	25.4%	1977	-3.7%	1996	14.2%	2015	1.3%
1940	-4.2%	1959	6.2%	1978	3.6%	1997	23.8%	2016	7.3%
1941	-8.5%	1960	4.9%	1979	11.4%	1998	23.0%	2017	14.1%
1942	12.4%	1961	16.8%	1980	17.8%	1999	9.2%	2018	-2.5%
1943	16.0%	1962	-3.0%	1981	0.5%	2000	1.2%	2019	22.6%
1944	12.4%	1963	14.2%	1982	25.4%	2001	-4.9%	2020	15.3%
1945	23.0%	1964	11.3%	1983	14.7%	2002	-7.1%	2021	15.3%
1946	-3.8%	1965	7.7%	1984	9.2%	2003	17.2%	2022*	-21.6%



COMPOUND

\*As of 10/14/22

@CharlieBilello

- Correlations Remain High (Panic Trade)
- The Year Of The Anomaly
- Act On Logic - Not On Emotion
- Remain Diversified, The Garden Is Damaged, But Roots Are Intact
- Value Tilt As Rising Rates Tend To Hurt Growth
- Bonds Skewed Toward Short End Of The Curve
- Cash Starting To Pay, Potentially Viable Asset Class

# 10 Year Typical Correlation

10Yr Correlation Matrix

Ticker	Name	^SPX	^NDX	^RUT	^DJUSRE	^BC	^MSEAFE	^MSEM	^BBUSATR	^BBGATR	^BBUSCOHYTR	^BBUTISTR
^SPX	S&P 500	1.00										
^NDX	Nasdaq-100	0.92	1.00									
^RUT	Russell 2000	0.87	0.76	1.00								
^DJUSRE	Dow Jones US Real Estate Index	0.74	0.63	0.65	1.00							
^BC	Bloomberg Commodity Index	0.42	0.29	0.42	0.31	1.00						
^MSEAFE	MSCI EAFE	0.87	0.79	0.78	0.66	0.46	1.00					
^MSEM	MSCI Emerging Markets	0.70	0.65	0.65	0.53	0.49	0.80	1.00				
^BBUSATR	Bloomberg US Aggregate	0.26	0.35	0.15	0.50	-0.09	0.26	0.27	1.00			
^BBGATR	Bloomberg Global Aggregate	0.40	0.43	0.27	0.50	0.18	0.47	0.52	0.84	1.00		
^BBUSCOHYTR	Bloomberg US Corporate High Yield	0.78	0.70	0.76	0.70	0.52	0.80	0.72	0.44	0.56	1.00	
^BBUTISTR	Bloomberg US TIPS (Series-L)	0.38	0.43	0.27	0.61	0.20	0.40	0.40	0.85	0.78	0.55	1.00

# Asset Classes Highly Correlated YTD

YTD Correlation Matrix

Ticker	Name	^SPX	^NDX	^RUT	^DJUSRE	^BC	^MSEAFE	^MSEM	^BBUSATR	^BBGATR	^BBUSCOHYTR	^BBUTISTR
^SPX	S&P 500	1.00										
^NDX	Nasdaq-100	0.97	1.00									
^RUT	Russell 2000	0.93	0.94	1.00								
^DJUSRE	Dow Jones US Real Estate Index	0.91	0.84	0.80	1.00							
^BC	Bloomberg Commodity Index	0.51	0.38	0.39	0.50	1.00						
^MSEAFE	MSCI EAFE	0.96	0.87	0.89	0.89	0.59	1.00					
^MSEM	MSCI Emerging Markets	0.71	0.59	0.65	0.64	0.63	0.79	1.00				
^BBUSATR	Bloomberg US Aggregate	0.77	0.76	0.80	0.60	0.21	0.77	0.62	1.00			
^BBGATR	Bloomberg Global Aggregate	0.82	0.79	0.81	0.62	0.35	0.84	0.67	0.97	1.00		
^BBUSCOHYTR	Bloomberg US Corporate High Yield	0.91	0.87	0.90	0.78	0.51	0.92	0.65	0.78	0.83	1.00	
^BBUTISTR	Bloomberg US TIPS (Series-L)	0.80	0.76	0.84	0.75	0.55	0.83	0.69	0.85	0.84	0.84	1.00

# Other Risks Still Remain

## ■ NO CHANGE SINCE MAY 2022 WEBINAR:

- COVID Lockdowns in China
- Further Escalations in the Russia/Ukraine Conflict
- Recessionary Fears
- Supply Chain Disruptions
- Continued Political Divide In the U.S.

## ■ NEW RISKS:

- Central Bank Policy Mistakes
- China/Taiwan
- UK Fiscal Policy Errors/Pension System Collapse
- Consumer Sentiment Destruction

# Outlook and Plan

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- Global Allocations – Value Tilt, Alternative Blend, Lower Duration Bonds. Bring Risk Back To Neutral From Under-risk Position.
- eNVESTOLOGY – Rebalance Back To The Model, Value Tilt, And Continue Lower Duration/Maturity Bonds.
- TDIMGS – Cash Buffer, Increase Criteria For Stocks, Rotate And Rebalance, Seek Opportunities.



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## Q&A



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