

2012 Forward

HORIZON
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Twelve Forward Looking Investment Themes for 2012

DOMESTIC: Obama or Nobama?

› Obamacare

Obamacare is going to be heard by the Supreme Court beginning March 26, 2012 and any dismantling would lead to a win for Health Care, Pharmaceuticals and similar sectors.

iShares Dow Jones U.S. Healthcare (IYH)

› US Politics

Romney scores a narrow victory over Obama and the prospect of an overturn of regulatory initiatives and other business-unfriendly accords gives a boost to domestic equity market as we head into the 4th quarter of 2012. Statistically, election years are positive for US markets, however, look for more volatility as the election approaches in November; specifically in September and October. **iShares S&P 500 (IVV)**

› Housing

The U.S. real estate market is through the worst, but without improving employment there is no reason for it to get meaningfully better (shadow inventories are too high). Still, stability is vastly better than deterioration and equities associated with the general housing market should perform well. **SPDR Homebuilders (XHB)**

› Banks

We expect U.S. banks to perform well in 2012 as many of the probes and lawsuits get settled and banks continue to raise capital through sale of non-core assets. As the financial system adjusts to Dodd Frank legislation, banks will continue to increase their distance from the woes of 2008. **iShares Dow Jones U.S Regional Banks (IAT)**

GLOBAL: Awakening the Old Man of Europe

› EURO Zone

The market is going to demand some form of printing of Euros by the ECB. If the ECB prints money to solve the crisis as the US did to avert its problems, the European equities markets might be the surprise winner of 2012. Think "March 9th" and look for an entry point. For example, on December 28, 2011, Italy sold 6% bonds due in 2014 to yield 5.62% down 227bps (29%) from 7.89% at the previous sale on November 29.*

MSCI EMU Index (EZU)

› EURO Zone

On the other hand, if the ECB doesn't print their way out, the European debt and equity markets will undergo severe stress. Problematically, both outcomes are reasonable. **ProShares Short MSCI EAFE (EFZ)**

› China

China could be in for a hard landing as Chinese banks' balance sheets come under pressure from bad real estate loans (sound familiar, US and Japanese historians?). Watch the European situation. If it weakens, this all but ensures a hard landing for China; if Europe goes on a printing spree that may be enough to keep China in a reasonable situation. **ProShares Short FTSE China 25 (YXI)**

› Russia

Mother Russia is once again a mess. Political instability and corruption finally take hold in 2012 as Putin does not have the Russian people behind him for the first time in his career. Mass unrest is not good for equity markets. **Direxion Daily Russia Bear 3x (RUSS)**

FIXED INCOME: Fixed for Now?

➤ U.S. Treasuries

U.S. Treasury prices may soften somewhat after phenomenal 2011 performance. Global investors will slowly reallocate assets out of U.S. Treasuries as global risk appetite gradually rises. However, don't look for a large sell-off in Treasuries this year. The Fed has the short end stuck at 0.25-0.35% for the entire year and the long end will be dominated by the ebbs and flows of fear and greed in Europe, but the Fed has shown it wants to keep 10 year rates below 3%. Look for 10-year rates to creep from 2% to 3% as the year progresses and markets prepare for Fed tightening in 2013. **ProShares UltraShort 20+ Year Treasury (TBT)**

About Horizon

Horizon Investments, LLC is an SEC-registered investment advisory firm headquartered in Charlotte, NC. From our beginnings as an investment advisor in 1995, we have developed into a multi-discipline investment management think tank that also provides asset management and manufactures investment products.

Our high ratio of investment professionals and our views and capabilities make us uniquely able to deliver on our goal of developing solutions to the most critical challenges facing investors today and tomorrow.

COMMODITIES: Gas and Go!

➤ Precious Metals

Precious metals will begin the topping process in 2012 as global markets push interest rates higher. Buffered by negative short-term interest rates, gold and other commodities (which at least yield zero) will stabilize around the \$1400- \$1500 level and trade in a range in 2012. If the European situation deteriorates, gold spot prices could approach \$2,000. The upside in gold is only if Europe fails. **iShares Gold Trust (IAU)**

➤ Natural Gas

Natural Gas will end 2012 meaningfully higher off current historic lows as the confluence of higher demand from an improving economy, prospects of increase usage for electricity generation vs. coal, potential use for transportation (cars & trucks), and announcement of results from an impending EPA investigation that could curtail supply due to restrictions on fracking. **United States Natural Gas Fund (UNG)**

➤ Oil

The Iranian regime has hinted that they may play politics with the world's oil market. Currently, an Iranian Navy drill near the Strait of Hormuz illustrates the regime's general defiance. Oil traders are keeping a close watch on Iran and further disruptive plans could send oil north of \$150/barrel. **United States Oil (USO)**

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*Source: Bloomberg

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