



Week of May 29, 2017

Stocks Push Higher as Fed's Future Plans Become Clearer

Global equity markets continued their advance last week, as economic data generally remained supportive of stock prices and interest rates traded in a relatively tight range. Meanwhile, OPEC approved a plan to maintain its oil production cuts through March 2018 in a widely-anticipated move. Oil and energy stocks sold off on the news, but oil remains rangebound between \$40-\$60—a Goldilocks-like level the markets can easily deal with.

Minutes from the Federal Reserve Board's latest meeting released last week indicated Board members' likely plan for reducing the Fed's balance sheet, which stands at around \$4.5 trillion. Rather than sell those assets, the Fed will shrink the balance sheet by ending their policy of reinvesting the principal of securities as they mature. They are likely to end that reinvestment slowly and in stages, instead of all at once.

We agree with several of our outside research partners' analysis that this methodology and pace will have little to no impact on the direction of interest rates over the next five years. This point is very important, as many proclamations of doom have been raised over the past several years about what will happen "when the Fed starts to sell its holdings." Predictions have ranged from just a rise in interest rates to outright hyperinflation. Based on what is now known about the Fed's plan to shrink its balance sheet, these scenarios appear to be highly unlikely.

GAIN: Active Asset Allocation

Stocks rebounded nicely last week. U.S. indices outpaced international equity markets as volatility fell, and growth stocks (which we currently favor in the portfolios) continued to outperform value stocks. The overall market trend remains positive. With new assets flowing into the markets, higher equity prices may be the norm.

In the fixed-income market, bonds were flat overall. Areas of the bond market that we favor—such as high-yield bonds, preferred stocks and other credit-sensitive securities—outperformed other bond market sectors such as Treasuries.

continued on next page >

PROTECT: Risk Assist

Global equity market indices hit or approached new all-time highs last week, as did all the Risk Assist portfolios. Volatility (as measured by the CBOE Volatility Index, or VIX) fell back to levels that are among their lowest in decades, as investors were heartened by the Fed's plan to shrink its balance sheet and by strong corporate earnings. The Risk Assist portfolios have not had any hedging in place since June 2016, which has contributed positively to performance.

SPEND: Real Spend

Equities outperformed fixed-income again last week, which contributed positively to the performance of the Real Spend portfolios. If interest rates move higher during the coming months, as many investors expect they will, income-producing strategies that place a greater emphasis on bonds could struggle relative to our equity-centric approach. We believe global stocks remain the best way to grow principal over the long term.

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