

November 15, 2022

BIG NUMBER | -9.1%

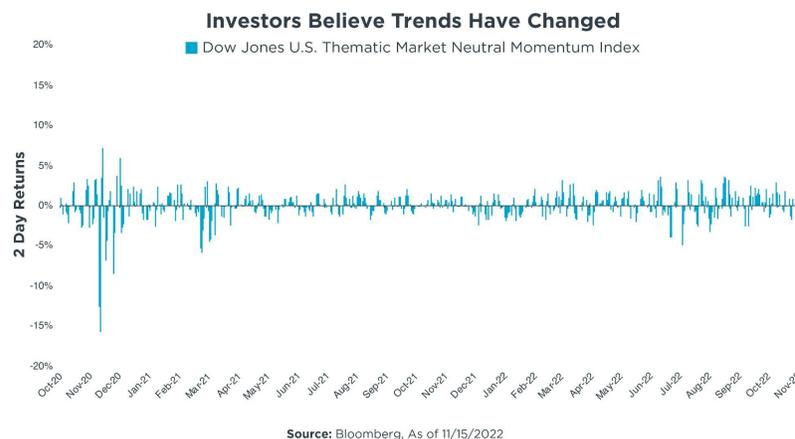
When It's Time to Change...

Investors appear to be shifting gears in the wake of good inflation news. Will it last?

The tide is turning—maybe.

Following last week's news of lower-than-expected inflation, investors staged a massive rotation out of market sectors with strong recent performance and into sectors suffering in the high inflation/higher interest rate environment.

This sentiment shift was displayed in the Dow Jones U.S. Thematic Market Neutral Momentum Index—a benchmark consisting of long positions in positive-momentum stocks (strong recent performers) and short positions in negative-momentum stocks (recent weak performers). The index plummeted 9.1% over Thursday and Friday, as seen in the chart.



We view this price change as indication investors were encouraged by the latest data and believe it will prompt the Fed to slow its inflation-fighting efforts. They decided to sell recent winners (health care, utilities, energy, and consumer staples) and scoop up the laggards (such as technology and communication services). A closer look reveals that the recent underperformers drove most of the index's big move—with the negative-momentum “short side” of the index rallying 14% in just two days.

The obvious question: Are investors right? Was last week the turning point that will lead to continued lower inflation, a more dovish Fed, and a new trend in market leadership?

At Horizon, we're encouraged but not yet convinced that those outcomes are locked in based on one month's inflation data. For some perspective:

- The last time we saw such a momentous shift in market winners and losers was in November 2020—right after Pfizer announced its coronavirus vaccine was found to be more than 90% effective in preventing Covid-19. Back then, investors sold the “stay-at-home” stocks that had been soaring and bought sectors that would benefit from economies opening back up.
- This latest 14% two-day move in the short side of the index is more extreme than the short side’s reaction to the Covid vaccine back then.

The upshot: Investors appear to be reacting more strongly to one surprisingly good inflation report than they did to the announcement of the coronavirus vaccine—a situation that we think demands some caution.

As we opined in our **3rd Quarter Report**, “one month of positive news on inflation will not be adequate.” Instead, we believe the Fed will want to see at least three months in which the month-over-month inflation rate (adjusted on an annualized basis) comes in at around the Fed’s long-term target of 2%.”

Going forward, we’ll be looking for more evidence that the Fed can feel confident easing off the gas. For now, as the data shows, we may be moving in the right direction.

This commentary is written by Horizon Investments’ asset management team.

Past performance is not indicative of future results.

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.

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. These opinions may not be reflected in all of our strategies. 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. Forward-looking statements cannot be guaranteed. References to indices or other measures of relative market performance over a specified period of time are provided for informational purposes only. Reference to an index does not imply that any account will achieve returns, volatility, or other results similar to that index. The composition of an index may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change. Individuals cannot invest directly in any index.

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

Horizon Investments and the Horizon H are registered trademarks of Horizon Investments, LLC

©2022 Horizon Investments LLC