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HWP

HORIZON WEALTH PARTNERS

2023

Year End Report

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MESSAGE FROM THE TEAM

The Horizon Wealth Partners Team

As we reflect on the past few years, we recognize that it has been a period of significant economic fluctuation, impacting all of us in various ways.

The past few years have been a rollercoaster ride to nowhere, as markets remain relatively flat since the end of 2021. Times have been tough, but we want you to know that we're here to help you through it.

We are acutely aware of the pressures you face as consumers – with mortgage rates at their highest in decades, car loans becoming increasingly costly, and the sustained high prices of food and energy. These realities of the current environment are a significant concern for us all.

However, it is also a time of opportunity. New income sources and investment options are emerging, presenting potential avenues to better meet your cash flow needs and long-term financial objectives. Our commitment is to guide you through these options, ensuring that your investment strategy remains tailored to your unique personal and financial circumstances.

We strongly believe in the power of a long-term perspective. It is not just about weathering current storms, but also about positioning for future growth and stability. Your investment journey is unique, and our role is to provide the expertise and guidance needed to navigate it successfully.

As we look towards the coming year, we remain dedicated to supporting you in these endeavors. Our focus is unwavering: to help you build and maintain a robust financial plan and investment strategy that aligns with your life goals and adapts to changing market conditions.

We are grateful for your continued trust in our services and look forward to helping you navigate any challenges that we may face in the coming years.

Wishing you a healthy and prosperous New Year.

Your Financial Planning & Investment Team

MACRO OVERVIEW

On the surface, 2023 was an outstanding year for equity investors, with the S&P 500 up around 20%. Looking more closely under the surface, we see that the 'magnificent 7' accounted for the vast majority of those gains, on the back of the A.I. trend, while the other 493 stocks were virtually flat. The Barclays AGG, a key bond benchmark, was flat in 2023.

While inflation has come down substantially, and central banks appear to be nearing the end of their rate-hiking cycle, we believe that an asymmetric risk-reward profile favors caution.

The unemployment rate has increased to 3.9% from a 3.4% low, and leading indicators have been declining for the past 14 months (a near record). These signs have historically indicated that trouble could be on the horizon.

Capital Market Assumptions

Leading Indicators

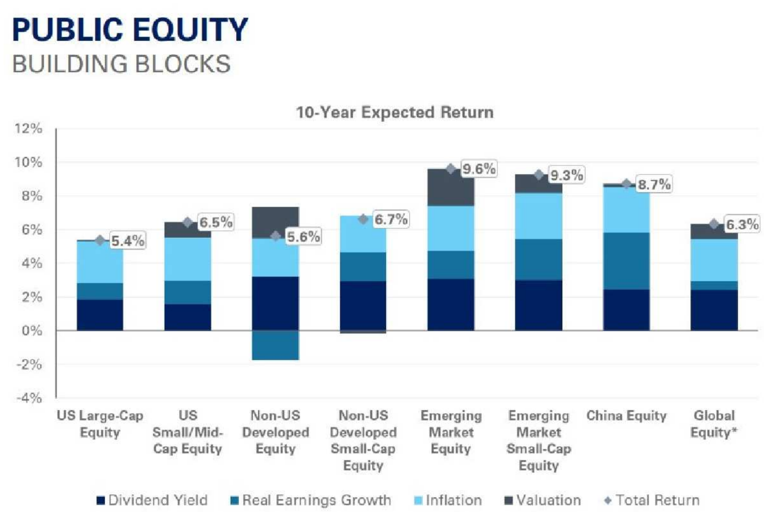
Inflation

Employment

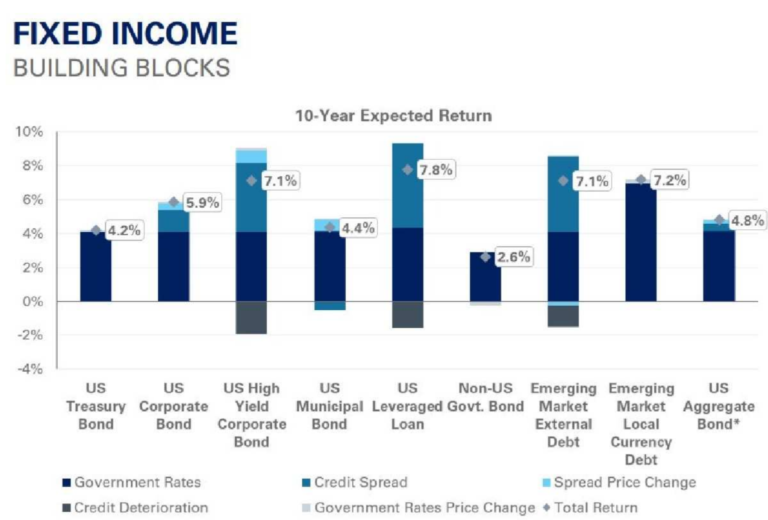
CAPITAL MARKET ASSUMPTIONS

10 Year Capital Market Expectations underscore a re-emergence of fixed income as a meaningful driver of returns going forward

10 Year Public Equity assumptions highlight the importance of global diversification, as faster growth rates, better starting valuations, and a potentially weaker dollar in the medium term may benefit Non-US equity markets.



10 Year Fixed Income assumptions highlight the most meaningful opportunity for portfolio construction in our view, namely the re-emergence as a return driver that, according to these assumptions, could possibly rival those of more volatile U.S. Equity Markets.

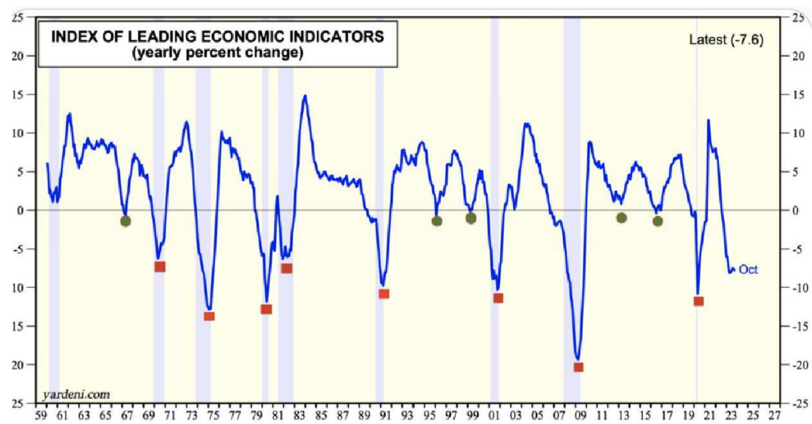


Source: NEPC

LEADING INDICATORS

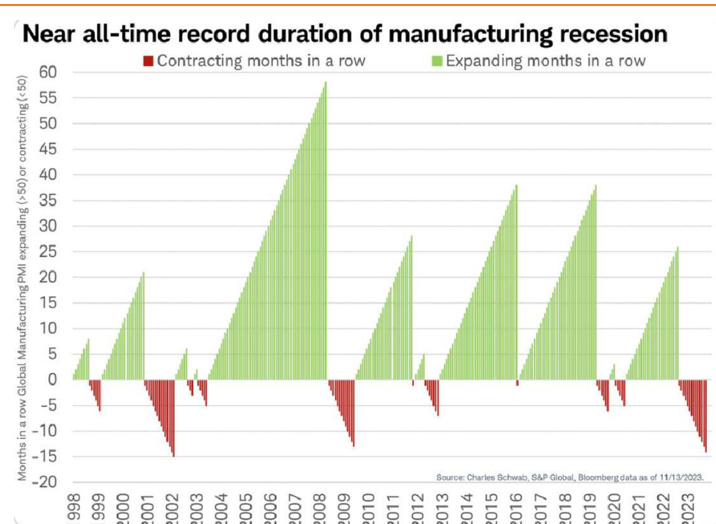
While markets continue to rise in 2023 some underlying fundamentals continue to deteriorate

The Conference Board Leading Economic Index (LEI) is one of the most closely watched leading economic indicators. When the LEI falls below -5% YoY, it has historically been a reliable predictor of a recession. For example, the LEI fell below -5% YoY in 1990, 2000 and 2008. Currently we stand at -7.6%.



Note: Shaded areas are recessions according to the National Bureau of Economic Research.

Near record duration of recession in manufacturing worldwide - contacting 14 months in a row. The 2000 and 2008 recession this stood at 15 months.



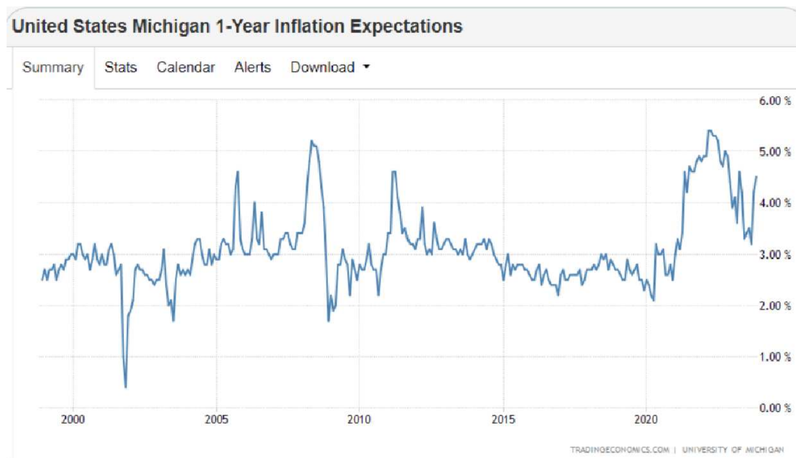
Source: Charles Schwab & Co

INFLATION

Inflation expectations are elevated and have not come down as much as measured inflation.

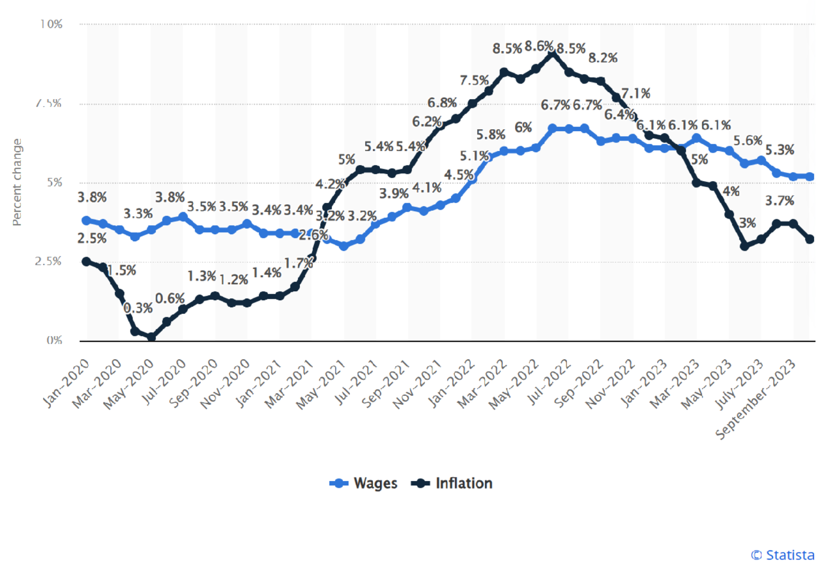
Elevated consumer inflation expectations despite disinflationary pressures (oil, cars, goods) adds evidence to the Fed's concern that inflation isn't "beat."

UMich and other surveys show expectations have not come down nearly as much as measured inflation.



A key reason behind elevated consumer inflation expectations and perhaps Jay Powell`s resilience that the fight against inflation is not over is wage growth still is not close to pre-COVID levels.

Wage growth still 1.5-2% higher than pre-COVID and stabilizing at an elevated level.



Source: University of Michigan/ Statistica

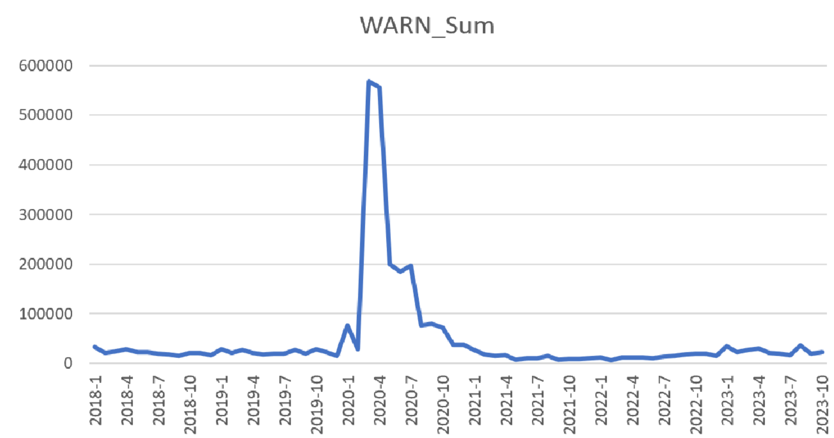
EMPLOYMENT

Leading employment indicators show that US labor market remains tight, although off its best levels.

Employers of 100 or more workers must give at least 60 days advance notice of plant closing or layoff to affected workers.

Cleveland Fed has found that WARN lead other prominent labor market indicators such as jobless claims and change in unemployment rate.

WARN Notices have risen from a low of 10,000 in June 2022 to a high of 35,000 in August 2023 and have averaged around 25,000 in 2023.
This coincides with the unemployment rising from 3.4% to 3.9%.



Source: Advance Layoff Notice Data from the WARN Act. Pawel Krolikowski, Federal Reserve Bank of Cleveland; Kurt Lunsford, Federal Reserve Bank of Cleveland

Initial claims remain near lows of the year printing around 200,000.

In summary, the US labor market remains tight.

The job market to continues to be strong , and leading indicators have not yet signaled that this will be changing in the short term.

MARKET PERFORMANCE

Large Cap Growth Outperformance

A moderation of interest rate hikes and he markets bet on rate cuts for 2024 have contributed to the outperformance in the mega-cap tech names in 2023. It has been a bid for all things AI that have largely driven the massive divergence between the "magnificent 7 ", up over 80% on the year vs. the rest of the market.

Value Underperforming

Value stocks have largely underperformed in 2023, driven in large part by softness in the consumer staples, health care and energy sectors. These three sectors ended the year in the red.

Fixed Income Steady

Fixed income has been relatively steady in 2023 with the Barclays AGG flat for the year. Long duration government bonds underperformed short duration government bonds. On the credit side, short duration high yield has underperformed longer duration, with the market pricing in a soft landing for 2024.

International Markets

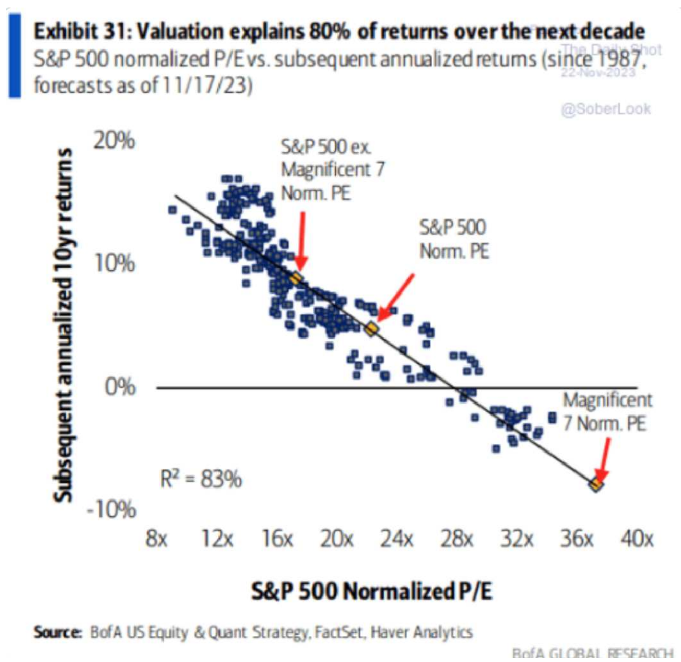
International markets have largely been positive contributors to overall performance, with stronger performance coming from developed markets than emerging markets. Emerging Markets equities now trade at a 50-year low valuation relative to US equities.

Valuations

While current S&P 500 valuations are slightly elevated, emerging markets valuations look attractive.

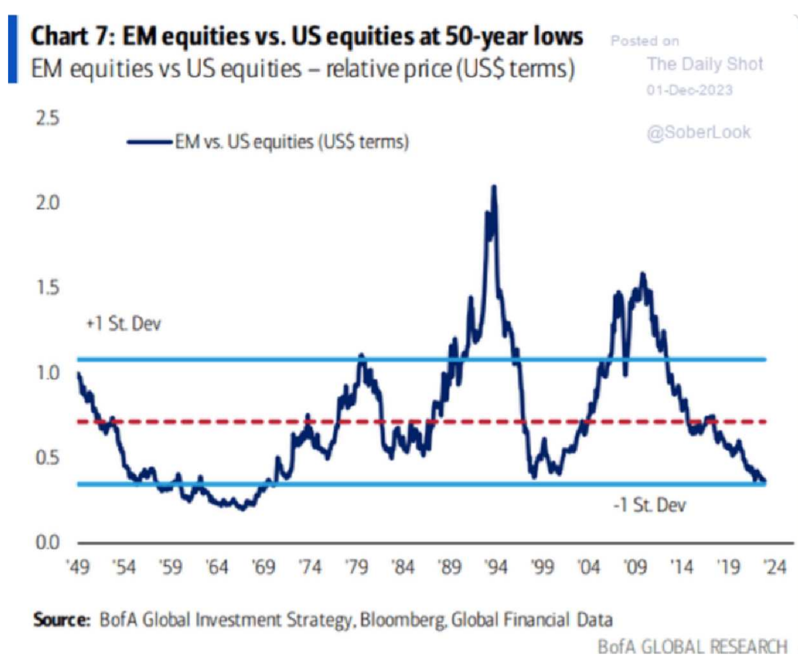
A major story of 2023 was the meteoric rise of the "magnificent 7" over the past year, up over 80%. While the rest of the 493 stocks of the S&P 500 where virtually flat.

Excluding the magnificent 7 the rest of the market seems fairly valued. In total long term 10-year annualized returns for the S&P 500 imply about a 5% return going forward.



Emerging Market (EM) stocks are at 50-year lows relative to US stocks dating back to the early 70s.

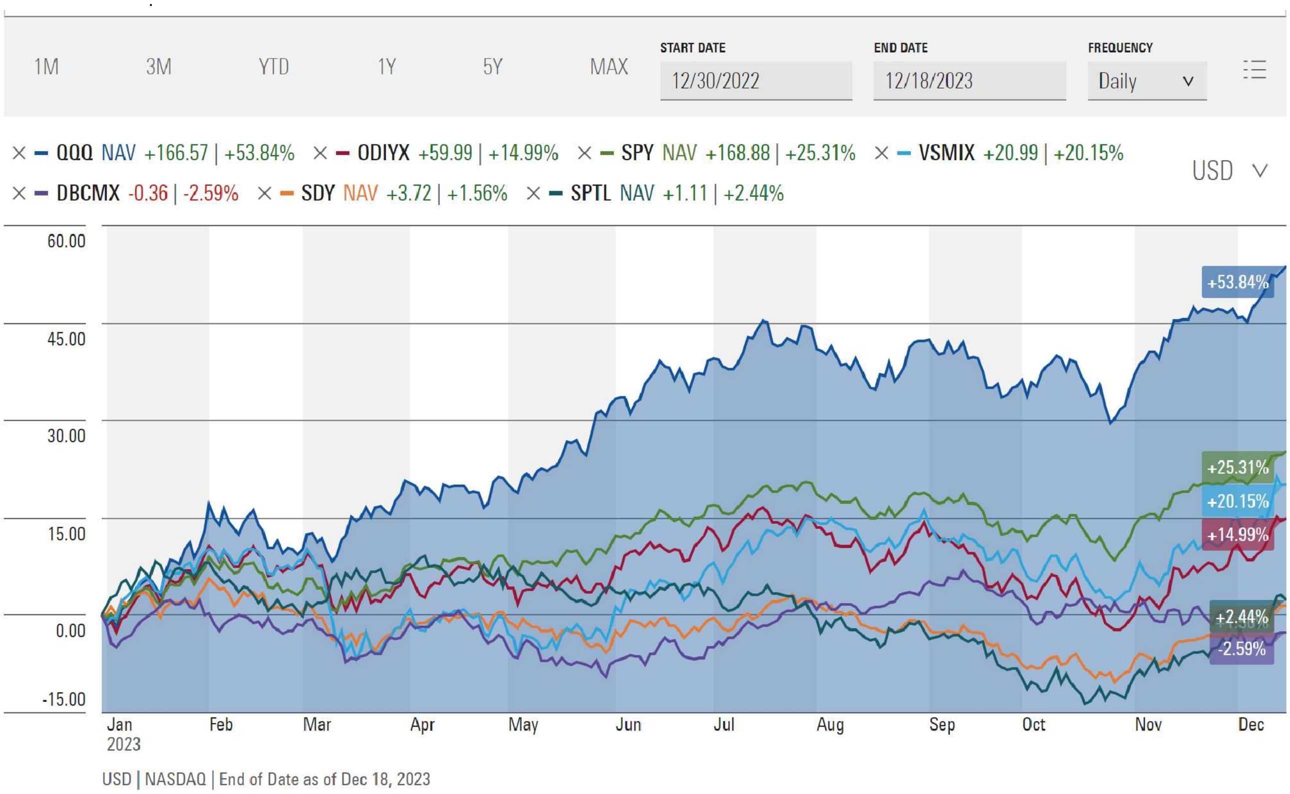
Over any short time, these divergences won't necessarily close, but if you are saving over a longer-term horizon, it seems that there's a lot more value is in EM versus US.



Source: J.P. Morgan - Guide To Markets

STRATEGY PERFORMANCE

A look at 2023's Biggest Contributors vs. Biggest Detractors



Biggest Contributors*

- Invesco QQQ: 52.87%
- Invesco Discovery: 14.99%
- SPDR S&P 500: 24.75%
- Invesco Small Cap Value: 20.15%

*As of 12/18/2023

Biggest Detractors*

- Doubleline Commodity: -2.59%
- S&P Dividend ETF: 1.43%
- SPDR Long Treasury: 3.12%

*As of 12/18/2023

Source: Morningstar Direct

INVESTMENT OUTLOOK

As we turn towards 2024, four important questions will help shape our future outlook.

<u>How aggressively will the Fed cut rates in 2024?</u>

Traders are pricing a 50% chance of a 50bp cut as early as June next year and 100bp by year end. Will the Fed shift from its hawkish stance to meet market expectations?

<u>Soft landing or possible mild recession?</u>

How much of a slowdown will we experience in 2024, if any?

<u>Will market breadth improve?</u>

So far, the market rally has been led by seven (7) stocks. Will we see an expansion of market breadth in 2024?

<u>2024 Elections</u>

What impact will the 2024 US Presidential elections have on markets?

TACTICAL TILTS

Our year end 2023 tactical tilts are reflective of a move from the various strategic asset allocations we actively analyze & monitor.

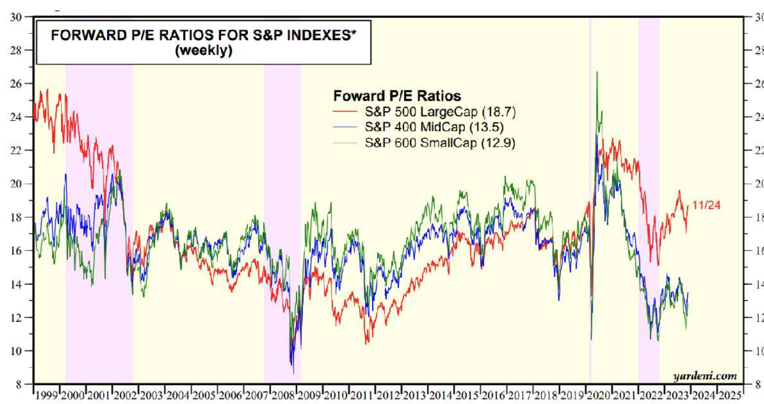
Most notably, major changes to strategic asset allocation targets towards our tactical tilts were as follows:

- Diversify duration exposure for wider range of potential outcomes - Reduce short and long duration in favor of intermediate duration
- Maintain emerging market equity exposure overweight, but diversify to reflect change in global supply chain trends , particularly in Mexico and India
- Maintain overweight to mid and small cap stocks given favorable valuations vs. large cap stocks
- Decrease economically sensitive commodity exposure, but increase Gold exposure as a hedge against U.S. Central Bank policy
- Replace some equity exposure with high yield bond exposure to increase total return and reduce equity like risk

Technical Supporting Tilts

Mid & Small Caps remain at historical low valuations

Forward P/E Ratios of Mid-Cap and Small-Cap stocks continue to show a meaningful discount to Large Cap stocks, especially after the magnificent 7 massive outperformance in 2023.



* Price divided by 52-week forward consensus expected operating earnings per share.
Note: Shaded red areas are S&P 500 bear market declines of 20% or more. Yellow areas show bull markets.
Source: I/B/E/S data by Refinitiv.

The technicals throughout Q4 support continued positioning of a smaller cap stocks, which are not only more attractive from a valuation standpoint, but also now have support from the technicals.

iShares Russell 2000 ETF (IWM, $166.47)
Weekly Bar Chart + 40-week MA + TD Sequential® Model + Stochastic Oscillator + Relative Strength

Source: Yardeni / Fairlead Strategies

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