A snapshot of last week's market performance and what to watch in the week ahead from Chadd Mason, Cabana CEO and co-founder.

We have spent the past several weeks discussing the positives seen in the U.S. economy, coupled with the divergence in our markets and international markets. To summarize, strong earnings growth in the United States is consistent with rising GDP domestically. Interest rates are trending upward, albeit in fits and starts. This is very good news and has resulted in significant strengthening of the U.S. dollar relative to other currencies around the world. The downside to this good news is that the rest of the world is losing ground rapidly. Because the U.S. dollar is the world's reserve currency, many other countries borrow in dollar denominated terms. When the dollar strengthens versus another currency, it becomes more and more difficult to repay debt, thereby further weakening the underlying currency-and the country's stock market. This event has potential to become the metaphoric viscous circle and can have catastrophic impacts. The classic example is the Asian currency crisis of 1997. The Thai currency became so devalued that it nearly caused the collapse of multiple neighboring countries that were exposed to Thailand's financial system. As panic set in, investors around the world began withdrawing money from the exposed countries, which caused all related assets to fall. Ultimately the World Bank had to step in and inject billions of dollars into the troubled areas. While I am not suggesting that such an event is inevitable, or even likely, I do think it is very important that international markets show strength when the U.S. shows strength. World markets are interrelated and what happens in one corner of the world eventually affects us all. This is true when that corner of the world is as small as Thailand. Right now, the entire world is lagging far behind the U.S. and the problem is worsening due to the perfect storm of rising rates, threats of a trade war with China, the near collapse of the Turkish currency and nationalist policies around the globe.

The divergence between U.S. markets and international markets is currently the greatest we've seen in the past fourteen (14) years according to Bespoke. For reference, I have included two charts that visually depict this phenomena courtesy of www.stockcharts.com on the following page. Click here if you would like to review these relationships in more detail and over the past decades. Upon review, you will quickly recognize the strong correlation between global markets. At present, we are the only country moving up - and that is a lot of weight pulling in the opposite direction. I am hopeful that with midterm elections around the corner we will see a favorable resolution of the trade war situation and a strong rebound in foreign markets. We remain moderately bullish.


G. Chadd Mason
CEO, Cabana Asset Management

For more information about Cabana, including its services, portfolio performance, expert opinion articles and industry news, visit **www.cabanaportfolio.com**.

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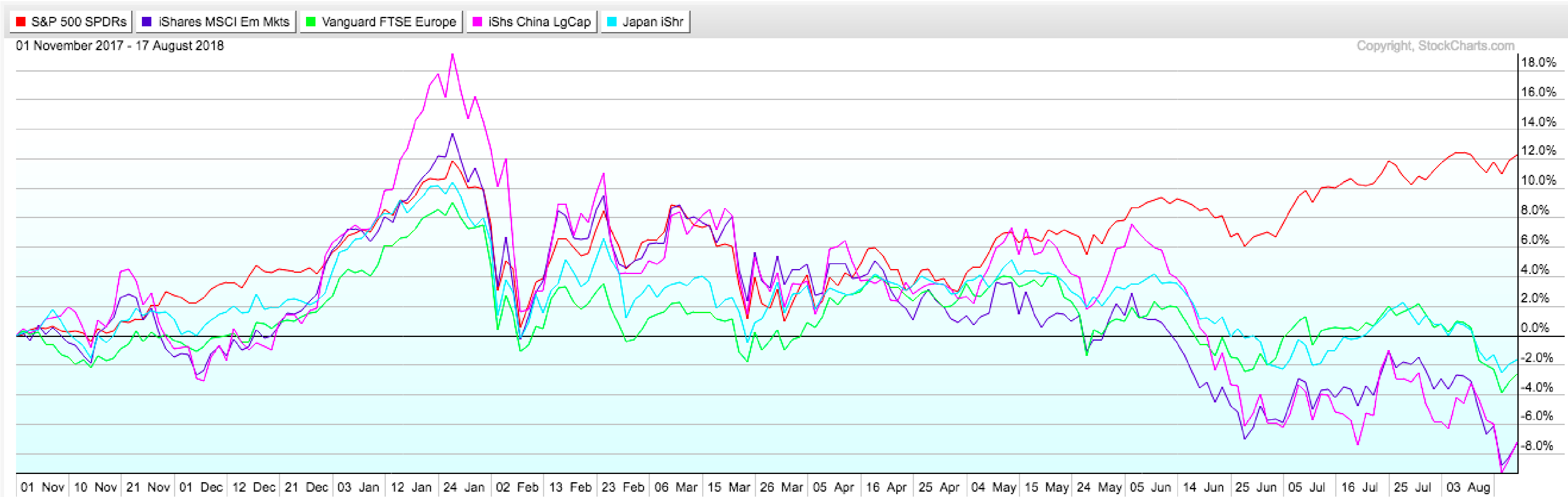
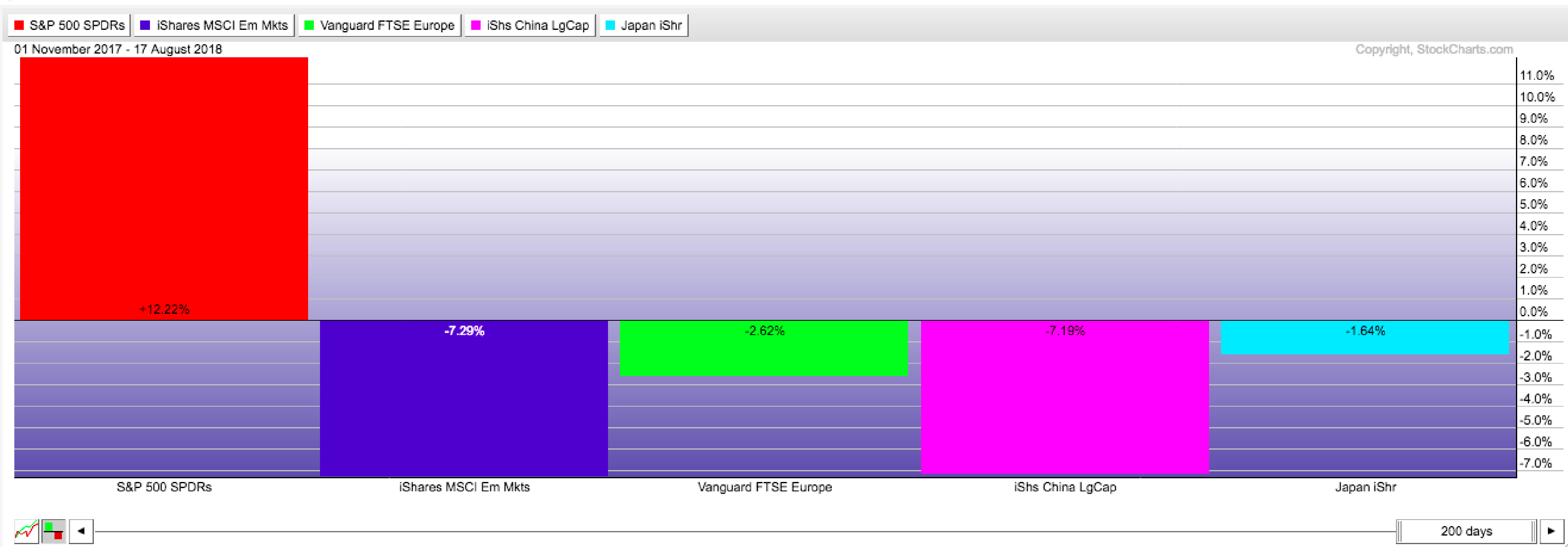
Divergence between U.S. and international markets over the past 200 days.





Source: www.stockcharts.com

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