CABANA WEEKLY MARKET COMMENTARY — OCTOBER 8, 2018

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

The first 10 days of October feel a lot like the first 10 days of February. The Federal Reserve just raised its federal funds rate and interest rates have jumped 20 basis points on the 10-Year Treasury note, causing a sell-off in all assets except the U.S. dollar, which has continued to march forward. The strength in the dollar is likewise pressuring international markets, commodities and gold. For those who would like a more in depth analysis, I wrote a blog post on these circumstances in February, which you can access here. The point I tried to make then and will re-emphasize now is that the rising rates are in response to strength in our economy. We have year over year corporate earnings in excess of 20%, record low unemployment and mild inflation. It's hard to imagine that things could get much better economically in the United States. The rising rates are not the result of a credit risk or systemic panic. In sum, we are seeing a normalization of monetary supply and interest rates, after a decade of hand holding by our Central Bank. We are now being asked to stand on our own as a real market economy. This may seem scary but it is fundamentally a very good thing. In hindsight we can see why 2017 was as strong as it was for domestic and international equity markets. As always, investing is a forward looking business. So, where do we go from here? I can say that the yield curve just got steeper, which is good - especially for banks; earnings continue to grow (whether at a 20% rate remains to be seen) and inflation by all measures is in check. Finally, interest rates are still historically low. All these things do not suggest an imminent recession. There may be a correction as we sort through the necessary re-pricing of assets, but I don't foresee a bear market here in the U.S. under these conditions. There is however a significant disparity between our equity markets and the rest of the world. Our relative strength coupled with the ongoing trade dispute have compounded a slow down in growth in Europe and emerging markets (China). This is concerning to me and needs to be resolved for our markets to improve. Despite all rhetoric to the contrary, we live in a world economy and need other countries to be at their best. The length and depth of our next correction may very well depend on it. We remain moderately bullish.

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