CABANA WEEKLY MARKET COMMENTARY — DECEMBER 3, 2018

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

Last week markets (both equity and bond) responded positively to remarks from Federal Reserve Chairman Jerome Powell, which indicated that rates are close to "neutral". Investors took that to mean that we are nearing the end of the Central Bank's push to normalize rates by raising borrowing costs. The continued raising of interest rates here in the U.S. has caused our dollar to rise precipitously, thereby putting pressure on commodities (what it is intended to do), foreign equities and foreign currencies. This dynamic further weakened those markets throughout the year. Rising rates have also resulted in concerns that our own economy will be unable to withstand the increased costs associated with borrowing and servicing interest payments. The past several months of volatility can be directly attributed to these fears. We needed the Fed to take its foot off the gas to allow foreign markets to catch up and the dollar to pull back. It appears that the message was heard and we saw a bit of daylight last week.

Interestingly, inflation has been well contained and energy prices in particular are low. Since these are the elements that warrant raising rates, it seems the rate increases really have been directed at a normalization of monetary policy, so that when the next recession comes we have some ability to lower rates and stimulate growth. I have shared many times over the year that normalization of interest rates was needed and appropriate given the growth we have seen domestically. I have also suggested that the process would be painful at times as we return to a true market economy, following a decade of government hand holding. With that said, it is important that we don't throw international economies under the bus while we do it. We live in a world economy and everyone needs to participate for our growth to continue. Along these lines, we got a boost after President Trump's dialogue with China's Premier Xi. The trade war with China has been another headwind to equities this year and the agreement to delay additional tariffs is a much appreciated holiday gift from our leaders.

Major indices are still trying to reclaim their 200- and 50-day moving averages and we need to see a close above those for us to move higher. Right now it looks like we have stepped back from the edge of a big drop and the October lows have held. Major U.S. indices are back in positive territory for the year and we have a shot at a meaningful rally into years end.

Last week's market commentary is available for download here.

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