CABANA WEEKLY MARKET COMMENTARY

FEBRUARY 4, 2019

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

U.S. and international equity markets closed out January up more than 5% for the month. The rebound from the December 24th low is now close to 10%. Sharp rallies from oversold conditions are common. In fact, they are a hallmark of bear markets. In the fourth quarter of 2018, U.S. markets dropped right to the bear market threshold of 20%, while international markets crossed that line in the sand earlier in the year. We have discussed ad nauseum the difficulties faced by investors of all types last year. Suffice to say, no major asset classes finished in the black (other than cash). This circumstance is unprecedented and, in my opinion, suggests an overall repricing of assets in response to rising interest rates for the first time in more than a decade. A **lot** of money left bonds and equities during 2018 and landed in the U.S. dollar. This pressured international equities, commodities and domestic companies with international distribution.

So, then what happened? The rest of the world pulled the U.S. down. The crack began in early October and the bottom fell out in December. There were similar pullbacks during 2013 and 2015/2016. Those turned out to be no more than steep corrections in the continuing bull market. Those were also in response to the threat of rising interest rates in the face of a still weak economy. The potential difference here is that in 2018 we actually saw rising rates, and they rose rapidly. Whether this makes a difference remains to be seen.

Markets are now attempting to reclaim the all-important 200-day moving average. This technical area will dictate whether markets can resume the bull market and reach new highs, or a bear market has begun. Many institutional investors (with large amounts of assets) have investment policies, which dictate that they must be invested in equities when markets are above the 200-day moving average. This fact alone can propel markets higher as these investors are forced to redeploy cash into stocks. Moreover, all the money that has been sitting on the sideline since the 2018 crash, will return to equities in an attempt to not be left behind. The 200-day moving average may be just that important. We will have an answer soon.

Last week's market commentary is available here.

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