CABANA WEEKLY MARKET COMMENTARY

MAY 20, 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.

Domestic and International equity markets continue to digest the impact of the U.S. and Chinese tariffs on GDP across the world. After dropping more than 5% during the first few weeks of May, there was a three-day bounce at the beginning of last week. Hope of a quick rebound was promptly dashed on Friday when stocks gave back almost all of those gains. Consumer discretionary stocks and technology have seen the worst of it. This is logical given those sectors' exposure to U.S./China trade. If all the proposed tariffs from both sides go into effect, it will be interesting to see where the supply chain moves. Rumors of shifting manufacturing away from China to Vietnam and other Asian countries continue to abound. President Trump suggests that it will return to the U.S. I commented on this some last year and I will state it again - it is hard to believe that workers in the U.S. will be excited about minimum wage manufacturing jobs. If that were the case, I don't believe those jobs would have left in the first place. Moreover, our workers don't want to perform the minimum wage jobs that still remain in this country. That is a big part of why we have the influx of immigrants from Mexico and Central America. There is a huge supply of work that we don't want to do. Maybe the Trump Administration will solve several problems at once by allowing all the illegal immigrants into the country and assign them the jobs previously performed in China. I am only slightly kidding…

Markets are also on edge due to threats of military confrontation with Iran. This all stems from the nuclear arms pact previously reached between Iran and the U.S., as well as other countries. Iran is allegedly not complying and continues to enrich uranium. As we have all seen, becoming actively involved in conflict in the Middle East is a slippery slope. Let's hope that cooler heads prevail and a diplomatic resolution is reached.

Some money has moved into safe haven assets like Treasuries, but the U.S. dollar has been the biggest winner so far. We are not seeing buying in gold, which would be expected if a real crisis was imminent. Additionally, all major U.S. equity indexes remain above their 200-day moving average. This important technical line in the sand acts as support in a bull market and as resistance in a bear market. That is why it was so important when we broke back above it after the plunge during the fourth quarter of 2018. With all these circling problems, we will watch closely to see whether we can stay above it. Some caution here is likely warranted.

Last week's market commentary is available here.

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