CABANA WEEKLY MARKET COMMENTARY — JUNE 3, 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.

The U.S. equity market selloff has continued for the third straight week. All major indexes are now below their 200-day moving averages. In just one month, the Dow and S&P 500 are down more than 7%, while the Nasdaq is down almost 12%. While all indexes remain positive for the year, the current decline is concerning to say the least.

In my opinion, this week is very important. We need to reclaim the 200-day moving average by week's end to prevent a more significant decline. Markets are approaching oversold levels and are due for a bounce, which may help. If we can't recover in short fashion, be prepared for further declines over the next weeks and months.

All this selling is blamed on the multiple trade wars that are now in the works. Mexico was added to China last week. Consumer discretionary stocks and technology stocks continue to see the worst of the selling. If China takes action against Apple, which is rumored, it will impact all major indexes in the United States.

Dividend payers, corporate grade bonds, treasuries and real estate are outperforming. The same can be said of consumer staples and utilities. Our readers should understand that this reflects a move away from risk by institutional traders. The big money is being reallocated to assets that do well in a weakening economy - assets that pay dividends and bond interest even if their price is no longer rising because of increased earnings. People need air-conditioning during the summer. The utilities ETF is a play on that. Additionally, people still need diapers and shampoo even in a recession. Tobacco and alcohol stocks are notoriously attractive when things get dicey. The consumer staples ETF is made up of a lot of these companies. All in all, investors are moving down the risk spectrum. Junk bonds are the next candidate likely to fall. These assets perform similarly to stocks and typically experience selling if the economy begins to slow.

Interestingly, foreign markets appear to have bottomed out at the end of May and are positive for the past week, just as the selling here has intensified. I read over the weekend that the world economy, outside the United States, has been in a recession for the past nine months and is now poised to come out of it. The price of developed and emerging markets over the past year certainly suggests this to be the case. It will be worth watching to see if the international economy begins to rebound despite the trade tariffs, while the U.S. falls into a recession induced bear market later in the year. The 10-year Treasury yield is now at levels not seen since 2017, and that is not a particularly good sign for growth going forward. Investors are currently willing to tie up their money for 10 years in return for a 2% annual yield. That is not a sign of confidence!

Last week's market commentary is available here.


G. Chadd Mason
CEO, Cabana Holdings

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

IMPORTANT DISCLAIMERS

CABANA