CABANA WEEKLY MARKET COMMENTARY — DECEMBER 10, 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.

Just when I thought the October lows in equity markets had held and we were in for a shot at a Christmas rally, bond yields collapsed, sending stocks diving back to the late November lows. To me, bond yields are a much more important indicator of economic weakness than anything else. I commented a few weeks ago that we had yet to see a flight to bonds as a safe haven, even in the face of steep selloffs in stocks during the year. That fact gave me some hope that the market volatility was due to more transient political issues, coupled with the much needed normalization of monetary policy. Things took a turn for the worse last week. The bond market forecast a significant slowdown in economic growth going forward. This is evidenced by the 10 Year Treasury Bond dropping from 3.24% to 2.88% in a matter of days. If the Federal Reserve follows through with its planned rate hike this month, the 2-10 year yield curve will invert. This will likely produce more selling of stocks, as there is a common belief that such an inversion presages a recession. All recessions since 1960 have occurred after a yield curve inversion. However, not all inversions have resulted in a recession. I read an article last week from Ned Davis Research, which suggested that across all asset classes, 2018 has been the worst year since President Nixon was in office. While equity markets have seen steeper declines, they haven't done so while all other assets were underwater as well. For reference, consider this: the S&P 500 and Dow U.S. stock indexes are down for the year (previously the only bright spot in the world), Developed World Stock Indexes are down 12%, Emerging Market Stock Indexes are down 13%, commodities are down 6% (oil is down 32% in the last two months), Treasuries are down 6.4%, corporate bonds are down 1.6%, and even gold is down 5.6% - all as of Friday, December 7. The only winner is cash. The U.S. dollar is up 8.1%. Unfortunately, cash doesn't pay anything - and it sure doesn't keep up with low long term inflation. As such, all the money coming out of all other asset classes has to eventually get deployed somewhere. Right now it is looking more and more like its going into bonds, and particularly safe haven U.S. Treasuries. That is not a good sign for our economy or stocks.

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

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