Investors Rush to Safety as Market Declines Continue

World equity markets remain volatile following the steep selloff that began at the end of July. There was a drop of more than 7% in the S&P 500, followed by a rebound of nearly 5%, followed immediately by a decline of 2%. That broad U.S. index currently sits 4.63% below its late July high. The VIX (volatility index) closed today above 20 and remains elevated. This index tracks the amount of put (insurance buying) by professional investors and suggests that there is fear of further selling ahead. This is consistent with falling bond yields, which are now at the lowest levels we've seen since the beginning of 2016. The 10-year Treasury yield continues to drop and is now trading at 1.63%. The precipitous fall in yields is pushing bonds prices higher as investors reallocate to safety. The low yields are also causing dividend payers and REITs to outperform the broader equity markets. Defensive sectors such as utilities, consumer staples and healthcare are much stronger than other cyclical and/or growth type investments. Investors are clearly defensive and current asset allocation reflects this.

The good news is that all three major U.S. indexes survived a test of their respective 200-day moving average. That very important line in the sand has held yet again - at least for now. On the other hand, markets bounced right up to their 50-day moving average and were promptly met by another round of selling. This type of price action is often referred to as a "dead cat bounce". I won't make predictions, but we are prepared for another leg down over the next weeks. Absent some positive trade news out of the ongoing tit-for-tat trade war with China, that scenario is likely in my view.

At Cabana, we reallocated our Target Drawdown Portfolios to more defensive positions last week, particularly those with lower target drawdown numbers. We are in Cabana's Cautiously Bullish Scene… for now.

Key terms:

A **dead cat bounce** is a short-term recovery in a declining trend.

Last week's market commentary can be found here.

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