CABANA WEEKLY MARKET COMMENTARY — OCTOBER 21, 2019

Improvements at Home and Abroad

Relatively strong earnings reports over the past week in the U.S. helped push our major stock indexes back within reach of their all-time highs. Banks and other financial firms brought in stellar reports. This has caused the financial sector to take the lead among equity components of the S&P 500. The Sector SPDR Index (XLF) is up more than 6% in the last nine trading days. The leadership in finance also coincides with a steepening of the yield curve. The 10 Year Treasury Bond is currently yielding 1.70%, while the 2 Year is yielding 1.60%. While this may not seem like a big difference, it is a vast improvement from what we have seen the past several months. A steep yield curve is good for banks, and ultimately increases money supply within the system. Make no mistake, it is a good sign when banks are doing well and consumers (and businesses) have access to loans.

On the international front, the United Kingdom’s exit (aka Brexit), from the European Union is down to the wire. October 31 is the deadline for a compromise on trade and immigration to be reached within the British Parliament and approved by the rest of Europe. A disorderly exit is not in anyone’s best interest, so you have to believe a deal will eventually be cut despite the constant back and forth by England’s leadership. Investors appear to feel the same way, seeing as the major European stock index (FEZ) is at an all-time high. Finally, China just reported the weakest growth since records have been published—going back to the early 1990’s. Chinese GPD came in at 6% and is expected to fall to 5.8% by the end of the year. The trade war with the U.S. is taking a toll on manufacturing and exports, as is a general cooling off of Chinese consumers. Chinese equity markets have been weak for the past two years and the data supports it. Given that China’s economy is not purely market driven (free), it is likely that their government will intervene at some point to try and stimulate growth. The low GDP numbers out of China also suggest they are eventually going to want to resolve the trade issues with the U.S. Just this morning, President Trump indicated that China is on track to complete a trade deal in November. Of course, it is sometimes hard to know what is substance and what is just talk.

Commodities, including energy, are still weak and evidence a lack of global demand. The transportation index (IYT) has also underperformed, but is improving, and is up 9% in the past two weeks. We are watching for a breakout in U.S. equity indexes (SPY) just above current levels, along with some buying of commodities and transportation stocks. If all this can come together, we just might have a rally in the cards for the fourth quarter.

Last week’s commentary can be found here.

RIA SURVEY & RANKING 2019

Cabana Asset Management
Ranked #2 Fastest-Growing Firm in the U.S. in *Financial Advisor* magazine’s 2019 ranking and survey.

RIA SURVEY & RANKING 2018

Cabana Asset Management
Ranked #1 Fastest-Growing Firm in the U.S. in *Financial Advisor* magazine’s 2018 ranking and survey.

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