Broad Market Indices Reach All-Time Highs Again, This Time Paired with a Stronger Economy

Equity markets have begun the year in positive territory, continuing the move that started in early November. This is the result of investors projecting additional stimulus on the back of a Biden presidency and a Democrat-controlled Congress. We are seeing money move into cyclicals like transportation, industrials, and energy. This has occurred at the expense of big tech, which may be adversely impacted by tax increases going forward. Financials are also beginning to outperform because of rising interest rates.

We commented several months ago that we believed earnings were beginning to turn around and that we would be watching to see if the bull market would resume. Specifically, at that time we were looking for outperformance in the equal-weight S&P 500 index (RSP) versus the market-cap weighted index (SPY). We wanted to see sectors of the real-world economy get some money flow, after many months of serious underperformance. We also pointed out that we were looking for yields to rise and break out above 80 (see our Weekly Market Commentary from October 5, 2020) as a first sign of growth going forward. Finally, we have been watching for the financial sector to come back to life. It is hard for a bull market to exist without strong participation from the banks. We stated that new highs could not be reached on the back of big tech alone. Well, you can now check off every one of those criteria as having occurred. We are again at all-time highs by the broad indices and, more importantly, this time it is supported by stronger breadth across the economy. It appears that a new bull market in equities has begun in anticipation of corporate earnings turning positive. Implicit in what we are seeing is also the foreseeable end to COVID-19 as a major deterrent to our lives and activities. This currently seems like a far-fetched idea given the extent of the infection in the United States right now, but markets have an incredible ability to see the truth when it is otherwise hidden. The collective wisdom of millions of investors across the world is real.

The temporary downside to all this is that "safe" fixed income assets, including bonds, dividend payers and other interest-rate-sensitive sectors have taken it on the chin as interest rates have jumped 40 basis points in three short months. The 10-year Treasury yield jumped 20 basis points in the past 10 days alone! The big reset in rates causes those safe assets to sell off as investors look to new purchases at higher yields. Remember, bond prices and yields move opposite each other. As such, investors are getting a taste of the downside to investing in so called "conservative" portfolios. They don't seem nearly as conservative in a rapidly-rising-rate environment. This is one of the big benefits to having dynamic portfolio allocation. Dynamic allocation allows for reallocation in response to what really matters, which is changing economic fundamentals.

Ultimately, interest rates need to rise if we are going to return to economic growth and a semblance of normalcy. We don't make predictions, but we are hopeful that prices are reflecting what will come out of the next couple of earnings seasons. We will continue to take it a day at a time.

Last week's commentary can be found here.

IMPORTANT DISCLAIMERS

This material is prepared by Cabana LLC, dba Cabana Asset Management and/or its affiliates (together "Cabana") for informational purposes only and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed reflect the judgement of the author, are as of the date of its publication and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and nonproprietary sources deemed by Cabana to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by Cabana, its officers, employees or agents.

This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy. All investment strategies have the potential for profit or loss. All strategies have different degrees of risk. There is no guarantee that any specific investment or strategy will be suitable or profitable for a particular client. The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation. Investment involves risk including possible loss of principal.

Cabana LLC, dba Cabana Asset Management ("Cabana"), is an SEC registered investment adviser with offices in Fayetteville, AR and Plano, TX. The firm only transacts business in states where it is properly registered or is exempted from registration requirements. Registration as an investment adviser is not an endorsement of the firm by securities regulators and does not mean the adviser has achieved a specific level of skill or ability. Additional information regarding Cabana, including its fees, can be found in Cabana's Form ADV, Part 2. A copy of which is available upon request or online at www.adviserinfo.sec.gov/.

The Financial Advisor Magazine 2018 Top 50 Fastest-Growing Firms ranking is not indicative of Cabana's future performance and may not be representative of actual client experiences. Cabana did not pay a fee to participate in the ranking and survey and is not affiliated with Financial Advisor magazine. RIAs were ranked based on percentage growth in year-end 2017 AUM over year-end 2016 AUM with a minimum AUM of $250 million, assets per client, and growth in percentage assets per client. Visit www.fa-mag.com for more information regarding the ranking.

The Financial Advisor Magazine 2019 Top 50 Fastest-Growing Firms ranking is not indicative of Cabana's future performance and may not be representative of actual client experiences. Cabana did not pay a fee to participate in the ranking and survey and is not affiliated with Financial Advisor Magazine. Working with a highly-rated advisor also does not ensure that a client or prospective client will experience a higher level of performance. These ratings should not be viewed as an endorsement of the advisor by any client and do not represent any specific client's evaluation. RIAs were based on number of clients in 2018, percentage growth in total percentage assets under management from year end 2017 to 2018, and growth in percentage growth in assets per client during the same time period. Visit www.fa-mag.com for more information regarding the ranking.

Past performance is no guarantee of future results. All investment strategies have different degrees of risk and the corresponding potential for profit or loss. Asset allocation and diversification will not necessarily improve returns and cannot eliminate the risk of investment losses. "Target Drawdown" is merely a descriptive term used to describe the general strategy and objective of the portfolio, it is not a guarantee, nor should it be construed to suggest safety or protection from loss. There is no guarantee that portfolio performance will remain consistent with the targeted drawdown parameter. While risk tolerance and targeted "drawdown" are identified on the front end for each portfolio, Cabana's algorithm does not take any one client's situation into account and there is no guarantee that Cabana's strategies will be suitable for any investor. Investors and advisors should not simply rely on the name of any portfolio to determine what is suitable. It is the responsibility of investment advisors to determine what is suitable for their clients. Cabana manages assets on multiple custodial platforms. Performance results for specific investors will vary based upon differences in associated costs and asset availability.

Cabana claims compliance with the Global Investment Performance Standards (GIPS®). GIPS® is a trademark of the CFA Institute. The CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein. To receive a GIPS Report and/or a firm's list of composite/pooled fund descriptions please email your request to info@thecabanagroup.com.

The COVID-19 health epidemic has had substantial global economic impact on financial markets. As of March of 2020, restrictions to travel and business spanning the economy for activities not deemed essential have been imposed throughout the United States. These restrictions have caused unprecedented volatility and uncertainty in capital markets and have negatively impacted the economy. It is unknown how severe the impact to the economy and capital markets will be if the epidemic persists for an extended period of time. The epidemic may have a material adverse impact on Cabana's investment advisory business including, but not limited to, the performance of our portfolio strategies.

For additional information regarding our services, including performance disclosures, please visit https://thecabanagroup.com/disclaimers/.