NEXBANK NOTES

October 2018

Our Fundamental View:

September continued to see a parade of headlines surrounding the developing trade war between the US & China. We believe China is in a precarious position, given their structural headwinds of declining labor force, and productivity, growth rates. Couple these with their efforts to deleverage their high debt load, and we believe stress is building both economically, and potentially politically, inside China.

While only time will tell how well the Xi Jinping regime handles these challenges, it is likely that the stress will directly impact China's major trading partners, such as Germany & Japan. We believe the US will be more insulated, and that a strong US Dollar coupled with a weak Chinese economy could lead to major problems for emerging markets.

Our Technical View:

While investors may be getting numb to trade war headlines, the markets are not – and we believe it's always wisest to trust the markets. Specifically, as the S&P 500 moved to a new all-time high last month, the number *of stocks* making new all-time highs was far less than in January.

This weakness in Leadership is particularly important given it comes after the surge in new lows in February. Summer does not change to winter overnight, and in similar fashion February can be considered the 'first fall day' for this stock market cycle. The reading of 480 net new lows on the NYSE last week may well mark the start of the first real winter storm.

Consensus Call of the Month:

Like many, we believe the Federal Open Market Committee (FOMC) will raise short term interest rates for the 7th time this cycle at their meeting December 19th. We also believe this will most likely lead to a *further* flattening of the yield curve here in the US, which would put a wind at the back of the US Dollar – and in the face of the emerging markets.

Contrarian Call of the Month:

As noted above, we believe there is indeed some meaningful stress on the Chinese economy, and that investors don't fully appreciate the impact on major trading partners such as Japan & Germany. Accordingly, we worry that the DAX Index is more likely than not to break key support in the 12,000 area, and to become the next major market to fall victim to the current emerging market contagion.

James Dondero, CFA
Portfolio Manager

Mike Hurley, CMT
Portfolio Manager

Charts courtesy of TradeStation, current as of October 5, 2018

NEXBANK WEALTH ADVISORS

About NexBank Wealth Management

NexBank Wealth Management is a privately owned, independent wealth manager located in Dallas, Texas. The team is led by award-winning investment professionals, with an average of 25 years of experience working with some of the world's most distinguished institutional clients and financial institutions. NexBank Wealth's actively-managed approach guides clients through complex and evolving markets. Contact our Client Services Team for more information.

Contact Information

NexBank Wealth Management
300 Crescent Court
Suite 700
Dallas, Texas 75201
www.nexbankwealth.com
info@nexbankwealth.com
972-419-2500