

### Our Fundamental View:

August was yet another month dominated by headlines of political and diplomatic turmoil. A clear beneficiary of the chaos has been the US Dollar and despite its recent pause, strength in the greenback has put tremendous pressure on the emerging markets. Neither Argentina nor Turkey have seen any relief whatsoever, and concerns are growing that Brazil, Indonesia or (our belief) South Africa, are next.

So far, developed markets have largely side-stepped the carnage. That being said, the DAX Index in Germany and Nikkei 225 in Japan are testing support which goes back several years, and markets in general appear spring loaded to react to any major news on tariffs, or the slightest whiff of a loss in economic momentum.

### Our Technical View:

Technically speaking, August was a good month for stocks. Not only did many of the broad market averages close the month at a new all-time high, but the weak market internals which we have been lamenting, improved nicely. More specifically, leadership (or the number of net new 52-week highs) is at the highest level since early June, with the question now being whether (or not) it can improve enough to break its down trend.

On the other side of the coin however, has been the punishing selling in the emerging markets. Price trends in many of these markets are quite bearish, with the EEM ETF down over 20% (from peak to trough) since its February high. Only time will tell if the weakness these markets have endured spreads to developed ones such as ours. If so, the DAX or Nikkei will likely be the next dominoes in the chain.

### Consensus Call of the Month:

According to the futures markets, is increasingly likely that the Federal Open Market Committee (FOMC) will raise short term interest rates for the 6<sup>th</sup> time this cycle at their September 26<sup>th</sup> meeting. We continue to agree, and believe this will most likely lead to a *further* flattening of the yield curve here in the US.

### Contrarian Call of the Month:

A major source of the stress in the emerging markets has been due to a strong US Dollar. We believe that after its recent brief pause, the greenback reasserts its uptrend, particularly against the Euro.

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Charts courtesy of TradeStation, current as of August 31, 2018

## About NexBank Wealth Management

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