NEXBANK NOTES

November 2018

Our Fundamental View:

Stocks were roughed up in October by equal doses of political headlines and real-life economics. While earnings have been strong and valuations are still attractive, there is growing concern within the investment community that we are now seeing ‘peak earnings’ for this economic cycle. Combine this with what appears to be an uptick in inflation and you have a potentially lethal cocktail for stocks.

Another very valid reason investors may be selling stocks is that there is finally a viable alternative. As of this writing, a 2-year US Treasury Note is yielding 2.90%, while a 5-year US Treasury yields over 3%. Again, these are very viable alternatives given stocks appear to be in the later innings of the current market cycle.

Our Technical View:

For several months now we have been comparing market cycles to the changing of the seasons, with the decline in Feb. being the first hint that winter was closer than investors realized. October has defended its reputation as being one of the worst months for stocks, with the broad market indices posting steep losses, with weak internals. Going forward, support around the Feb. lows (2,600 on the S&P 500) will clearly be key.

Additionally, markets beyond our shores were also weak in October, with the German DAX Index decisively breaking the critical 12,000 level. This puts a major, cyclical, top in place, and confirms that the weakness which originated in the emerging markets is spreading to the developed ones. This also makes the MSCI Emerging Markets ETF (symbol: EEM) a key ‘canary in the coal mine’, going forward.

Consensus Call of the Month:

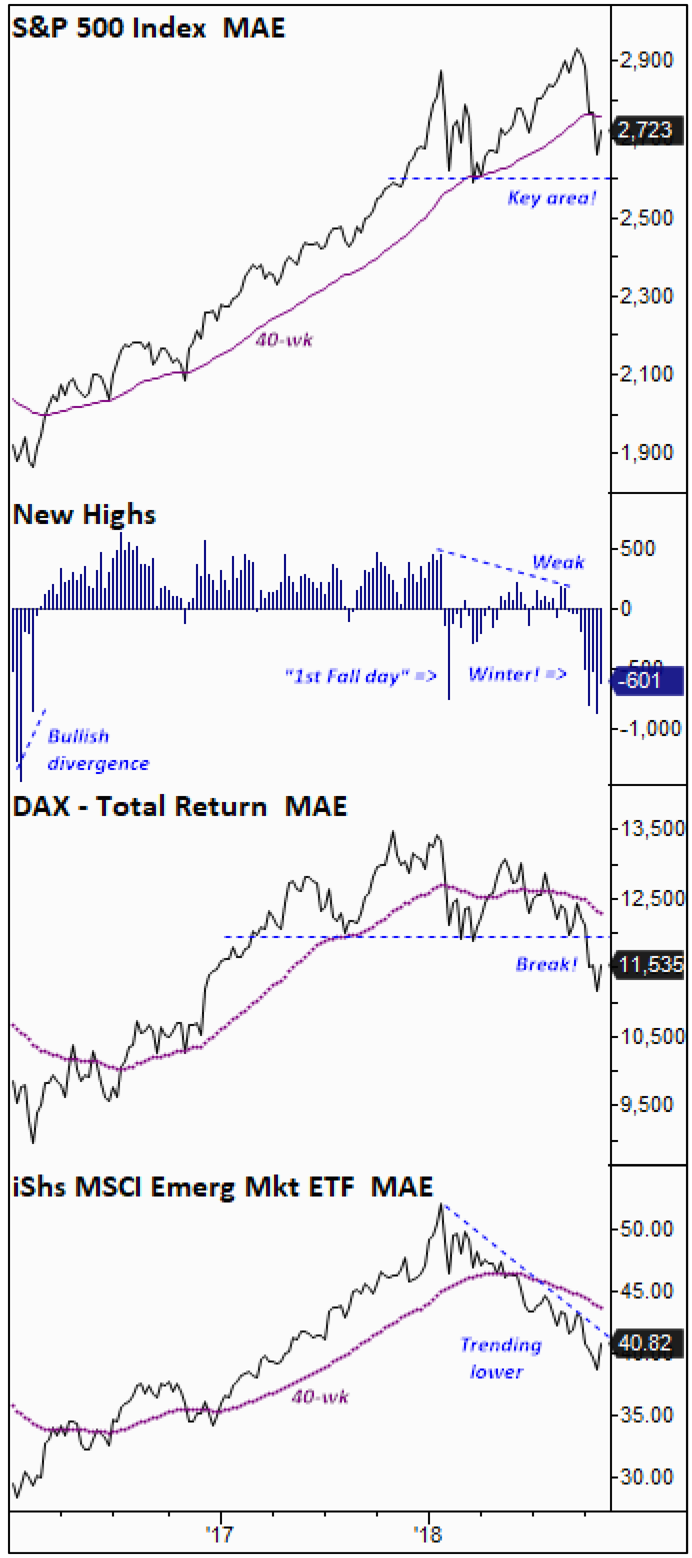
Like many, we believe the Federal Open Market Committee (FOMC) will raise short term interest rates for the 7th time this cycle at their meeting Dec 19th. We also believe this will most likely lead to a *further* flattening of the yield curve here in the US, which would put a wind at the back of the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

Contrarian Call of the Month:

As we have discussed previously, we believe the Chinese economy is under meaningful stress and that investors don’t fully appreciate the impact on major trading partners such as Germany & Japan. Now that the DAX has broken key support in the 12,000 area, we believe there is an additional 10% of risk in the index from current levels.

James Dondero, CFA
Portfolio Manager

Mike Hurley, CMT
Portfolio Manager



Charts courtesy of TradeStation, current as of November 2, 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

The Bloomberg Commodity Index is a broadly diversified commodity price index distributed by Bloomberg Indexes.