NEXBANK NOTES

December 2018

Our Fundamental View:

Stocks had another very volatile month in November, again being batted about by alternating headlines of potential resolutions – and then escalations – in the evolving trade tensions between the US & China. Combine this with what has clearly been slowing economic growth around the globe (i.e. 'peak earnings'), and there is real cause for concern for markets fundamentally.

As we discussed last month, we also believe rising short term interest rates in the US are finally providing investors an attractive 'risk-free' alternative. As of this writing, US Treasuries in the one to five year range all yield roughly 2¾%. Again, very viable alternatives given the volatility stocks have been suffering.

Our Technical View:

Stocks remain weak technically, as defined by internal measures such as breadth & leadership. We have been using these indicators to describe what 'season' the market is in, and they did a great job of spotting the recent cyclical top in stocks. Going forward, we will be watching for a clear 'bullish divergence' similar to that seen in early 2016 as an indication that we may be entering Spring.

Markets overseas also had another rough month, with many seeing new 52-wk. lows last week. The German DAX Index remains the poster child, as it continues to trend lower after forming a major, cyclical, top. Emerging markets such as China led the way lower, making the down trendline on the EEM a key canary going forward.

Consensus Call of the Month:

Despite the recent market turmoil, we continue to believe the Federal Open Market Committee (FOMC) will raise short term interest rates for the 7th time this cycle at their meeting Dec 19th. As discussed last month, we also believe this will likely lead to a *further* flattening of the yield curve in the US, and potentially 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 began discussing over summer, we continue to believe that meaningful economic (and potentially political) stress is building within China, and that investors don't fully appreciate the impact on major trading partners such as Germany & Japan. Accordingly, we reiterate our view from last month that the DAX Index is likely to achieve its technical target of 10,500 in the weeks ahead.

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Portfolio Manager

Charts courtesy of TradeStation, current as of December 7, 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.

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