

Our Fundamental View:

While normally associated with the 4th of July, fireworks *really* started the 4th of August courtesy of a major escalation in the trade war between the US and China. Tensions which may prove to be a serious challenge for markets in the days ahead.

That being said, we are not expecting a replay of the train wreck stocks saw during 4Q'18. In aggregate, there has been no fall off in company earnings, and (as of Aug 7th) the yield on the S&P 500 was more than that of a 10-yr US Treasury Note – a very supportive factor.

Finally, as many expected, the Federal Reserve cut short term interest rates at their July 31st meeting for the first time this cycle. While it can be argued they were tardy, we are encouraged they are now moving (what we believe to be) the right direction.

Our Technical View:

Technically speaking, stocks are starting to look vulnerable. This is particularly true on the NASDAQ, where internals have been weaker than the NYSE. Breadth for example, is clearly diverging, meaning that as the NASDAQ Composite Index has made 'higher highs' the number of stocks advancing each week has not kept pace.

Additionally, as we have noted before, yield curves around the globe remain a huge concern. Here in the US, a 3-mo T-Bill now yields nearly 30bp more than a 10-yr T-Note. A very unhealthy situation, and one which often foreshadows an economic recession.

Finally, gold continues to benefit from the geopolitical turmoil. We noted the shiny yellow metal's 'breakout' last month, which is why we added it to our model portfolio in June.

Consensus Call of the Month:

As we noted last month, we continue to be among the majority of investors who believe gold moves higher from here. Our initial target is in the \$1,550 to \$1,600 area, which now appears within sight.

Contrarian Call of the Month:

We also continue to believe that the US/China trade war will at some point come to an end, and when it does there will be a globally synchronized round of monetary stimulus from the signatories. A minority view to be sure, but one which is optimistic about what nations can accomplish when the stakes are so incredibly high.

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Charts courtesy of TradeStation, as of August 7, 2019

