NEXADVISORS

MAY 2024
NEX NEWS

Keen monthly insights on both the economy and the markets

THE ECONOMY

US economic data took a turn for the worse in April, with numerous surveys and business cycle indicators showing weaker than expected readings. While noteworthy in their own right, they become outright concerning when taken in context with the most severe inversion in the yield curve in over 40 years.

A new wrinkle in the economic picture is the potential for a 1970's era redo of 'stagflation'. While not front-page news, nor often discussed by commentators, it can be argued that an inverted yield curve alongside new highs in gold, indeed suggests both a weak economy <u>and</u> inflation. Let's all hope that's <u>not</u> the case.

THE MARKETS

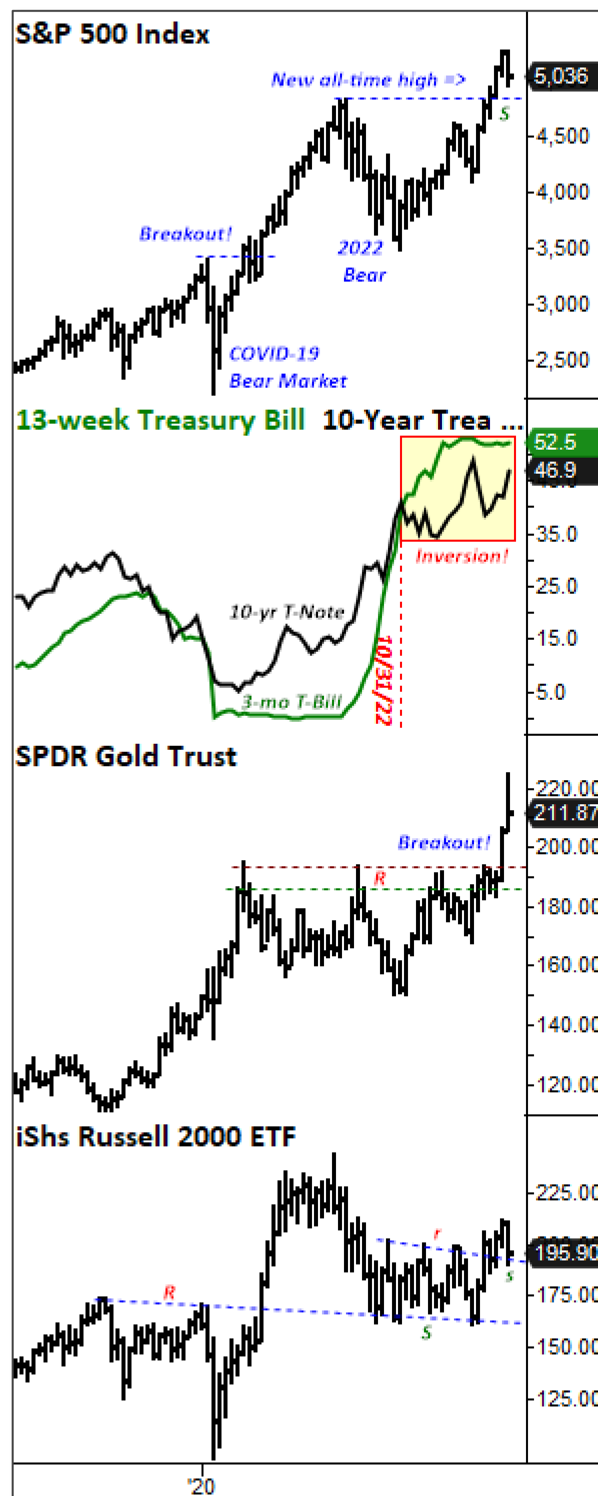
As for the markets, they have finally started to pull back. Our past several installments have discussed that while the strength in stocks is positive longer term, indices like the S&P 500 have gotten quite extended over the short term.

For example, the S&P closed out March roughly 13% above its 10-month moving average. While not the highest reading on record, this is a similar area from which the index began its 11% correction in July of 2023.

While only time will tell if stocks endure a similar weak patch the January 2022 highs at 4,800 are quite important. First in that decisively breaking through them was a bullish signal for stocks longer term. Also, and more timely now, is that this area should serve as support during a correction.

Finally, speaking of breakouts, gold is also holding its strong move to all-time highs. Like the S&P 500, any pullback to its former highs should prove to be support. Also like the S&P, it would be a huge signal should support fail, if tested.

Mike Hurley, CMT
Chief Investment Officer



Charts courtesy of TradeStation, as of April 30, 2024

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Traditional Strategies

We start our process with traditional, modern portfolio theory models, then adjust them based on our outlook. Specifically, we seek to:

1) Maintain higher cash levels when we're expecting a cyclical downturn, or 'bear' market
2) Add gold to portfolios during periods of inflation
3) Tilt fixed income positions based on credit conditions and the trends in interest rates

We offer Conservative, Moderate and Aggressive models, which use stock/bond ratios of 40/60, 60/40 & 80/20, as their starting points, respectively.

Adaptive Strategy

Our 'adaptive' model breaks from modern portfolio theory, based on the observation that markets typically become highly correlated when under stress.

This strategy applies momentum and risk parity to a universe of 10 ETFs, selecting a portfolio of 5. The portfolio is rebalanced monthly using the 60-day volatility to weight the top 5 ETFs. The goal being, to provide stock like returns with lower volatility.

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