NEX ADVISORS

August 2024

NEX NEWS

Keen monthly insights on both the economy and the markets

THE ECONOMY

Headlines on the US economy remained a ‘mixed bag’ in July, with personal/retail focused indicators holding firm, while the more traditional business cycle metrics came in much weaker. The ‘surprises’ in July were a little more balanced as well, which was a big improvement from the consistent drumbeat of disappointments endured by Bloomberg’s Economic Surprise Index during 2Q’24.

Of particular concern to us has been the ‘message of the markets’ over the past few months. Specifically, both interest rates and commodities have been quite weak, and both directly reflect the market’s view of the health of the US economy. This is particularly concerning to us given the US yield curve has been enduring the most severe – and nearly the longest – inversion in history.

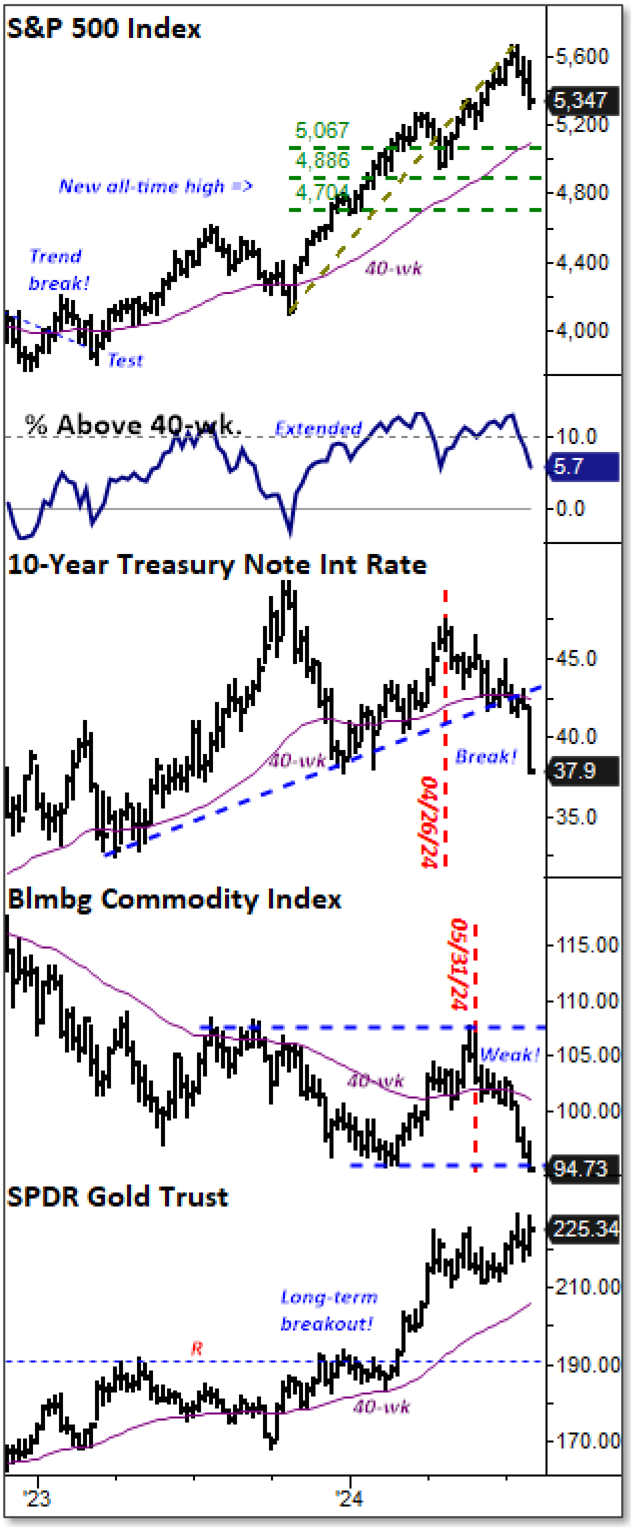
THE MARKETS

Regarding stocks, we’ve noted the past several months that the S&P has gotten extended, as defined by trading more than 10% above its 40-wk. moving avg. While not an indicator which marks short term tops with precision, it does do a good job of highlighting areas from which corrections often start. It has indeed worked again, and over the last 3 weeks the S&P has given back half the distance it was trading above its 40-wk moving average.

Going forward, we’re not convinced the correction has run its course. The break in 10-yr. yields represents a big change in market psychology, and the risk of recession here in the US is indeed real. A key line of defense for the bulls is that 40-wk avg, particularly given it represents a 38% retracement of the rally from the Oct’23 lows.

Finally, gold remains firm and one of our very favorite holdings. It has historically been a good asset to own during both times of inflation and geopolitical instability, and we believe it is a ‘must’ in the current environment.

Mike Hurley, CMT
Chief Investment Officer



Charts courtesy of TradeStation, as of August 2, 2024

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.

ABOUT NEXADVISORS

NexAdvisors is a privately owned, independent wealth manager located in Dallas, Texas, comprised of professionals with over 100 years of combined experience in the industry. We provide both traditional investment strategies along with forward-thinking approaches to help our clients meet their goals. Please visit www.nexadvisors.com or call us at 214-550-8350 to learn more.

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The Conference Board Leading Economic Index® (LEI) and Coincident Economic Index® (CEI) are comprised of multiple independent indicators which are designed to signal peaks and troughs in the US business cycle. The CEI reflects current economic conditions and is highly correlated with real GDP. The LEI is a predictive tool that anticipates turning points in the business cycle by ~7 months. The S&P 500 a market-capitalization-weighted index that tracks the market performance of the 500 largest U.S. publicly traded companies.

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