



Quarterly Newsletter

Winter 2018



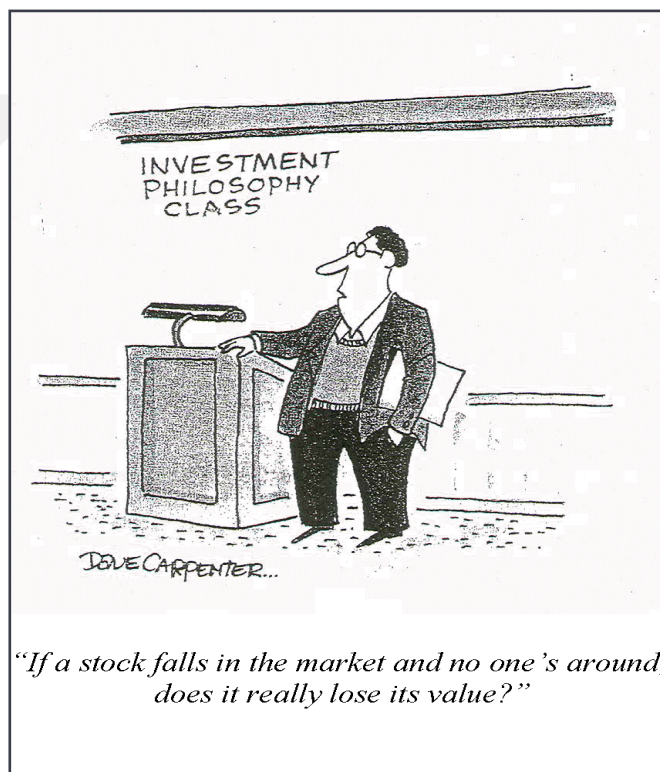
Tabled Outcomes

Mr. Market

Another quarter is in the books, yet the same questions are still unanswered. What will come from this trade war? How will the global markets react from a rising rate environment in the US? The market's reaction was mixed, so we sit and wait in the moment of unclarity.

US equity markets posted large gains of 7.7% in the third quarter, which were driven upward by strong earnings in numerous large and mega cap stocks. Other developed markets generated more modest returns primarily due to a stronger US Dollar and political strife, as the MSCI EAFE was up only 1.4%. Meanwhile, in emerging markets, equities declined by 1.1% (represented by the MSCI Emerging Markets index), largely reflecting the uncertainties related to China.

In the domestic fixed income and credit markets, government bonds decreased -0.6% reflecting the negative price impact from an increase in yields across the US Treasury curve. Across the credit spectrum, lower quality bonds outperformed higher quality bonds, with AAA returning -0.3% and High Yield returning 2.4%. We believe High Yield Corporate bonds had strong support on both the supply and demand side; with high appetite for market exposure and low issuance. Additionally, the spread narrowed within the investment-grade corporate bond market. This was a result of a decrease in the supply within the credit market.



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Economic Highlights

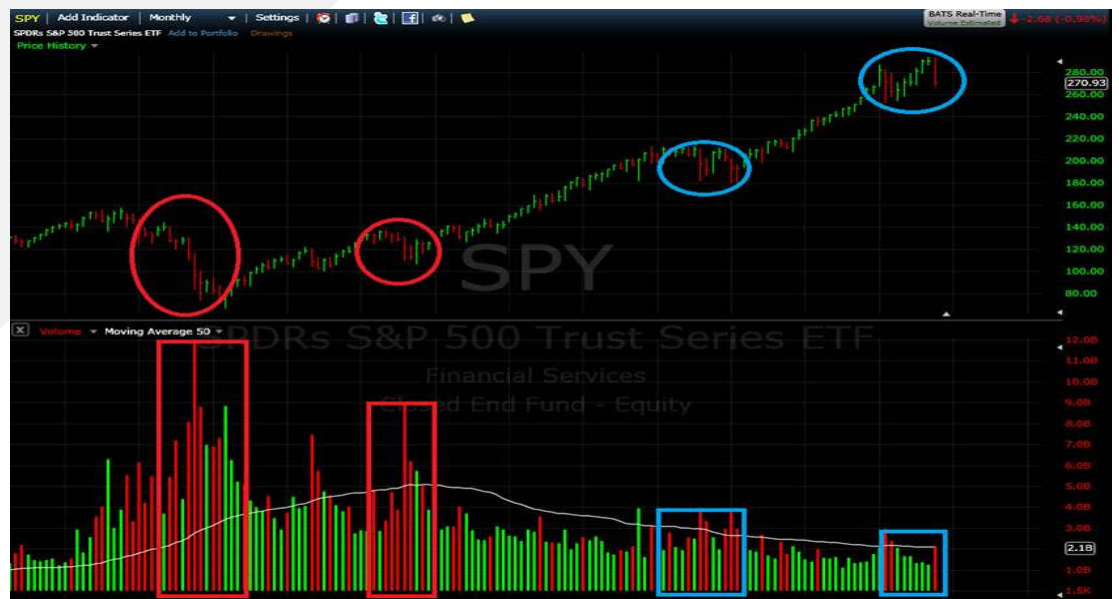
Regarding the health of our domestic economy, the third quarter showed positive signs of growth. The US GDP, the primary indicator of economic growth, expanded at an annual rate of 4.2%, increasing the pace from the past quarter's results of 3.0%. Also, domestic Consumption grew by 3.8%, which was a drastic increase from last quarters numbers. Our economy also benefited from net trade, as exports increased 9.1% and imports declined -0.3%.

A main indicator of inflation, the CPI-U, showed a trailing inflation rate of 2.7%, revealing that domestic inflation slowed moderately. Other notable movers and shakers this quarter were oil (30.9%) and gasoline (+20.3%), while other indicators like food, autos, and apparel remained relatively flat.

According to the Department of Labor, the US economy added 134,000 jobs in septemblers, and our unemployment rate (3.7%) dropped to its lowest level since 1969. Our job market seems to be healty for the most part, but everyone continues to wait for significant signs of wage growth.

More on the Stock Market

From the chart to the right, we can see the example of the Financial Sector ETF in drastic market selloffs. The bottom portion of the chart shows the spikes in trading volume and the upper portion reflects what happens during the magnitude of those



Source: Bloomberg



spikes. We have one primary takeaway from this chart: volatility is mean-reverting and markets bounce back strong from periods of time where there is plenty of negative price momentum. Additionally, we can observe that in (in the two blue circles) 2015 and 2018 so far the returns have shown relatively flat performance. 2008 and 2011 (the two red circles) were high volume, but in 2008 the trading volume was high and the performance was highly negative. With this evidence at hand, we would like to leave you with some final thoughts below.

Final Thoughts

We encourage everyone to stay put in the next coming months. The Nexus Capital believes we are in a good position to protect our clients' capital should there be any market correction. Valuations remain high in our US equities, but we believe we have strong positioning across portfolios reducing exposure to "the expensive areas" of the market and increasing cash levels. Also, please remember that our holistic approach to wealth management helps to guide us to what we believe to be a solid balance of capital growth, downside protection, and liquidity management.

Tying things together, the Nexus Capital team would like to reiterate that we do anticipate a bumpy ride in the near-term (although many individuals have been saying this for a while). Through the market lense, it appears that many indicators are starting to line up. We see that the equity market valuations and the instability of certain areas of the credit market are a potential source of a short-term correction. Should there be any sort of market correction, we must all remind ourselves of the philosophy held by one of the greatest investors of all-time, Warren Buffett: "The Stock Market is a device for transferring money from the impatient to the patient."

Firm Updates

There are no firm updates at this time, but please stay tuned for next quarter's newsletter as we anticipate a lot of news to report.

Thank you for keeping up to date with our quarterly newsletters. As always, please feel free to reach out to us if you have any questions, comments or feedback. We are happy to discuss!

Sincerely,

The Nexus Capital Team



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