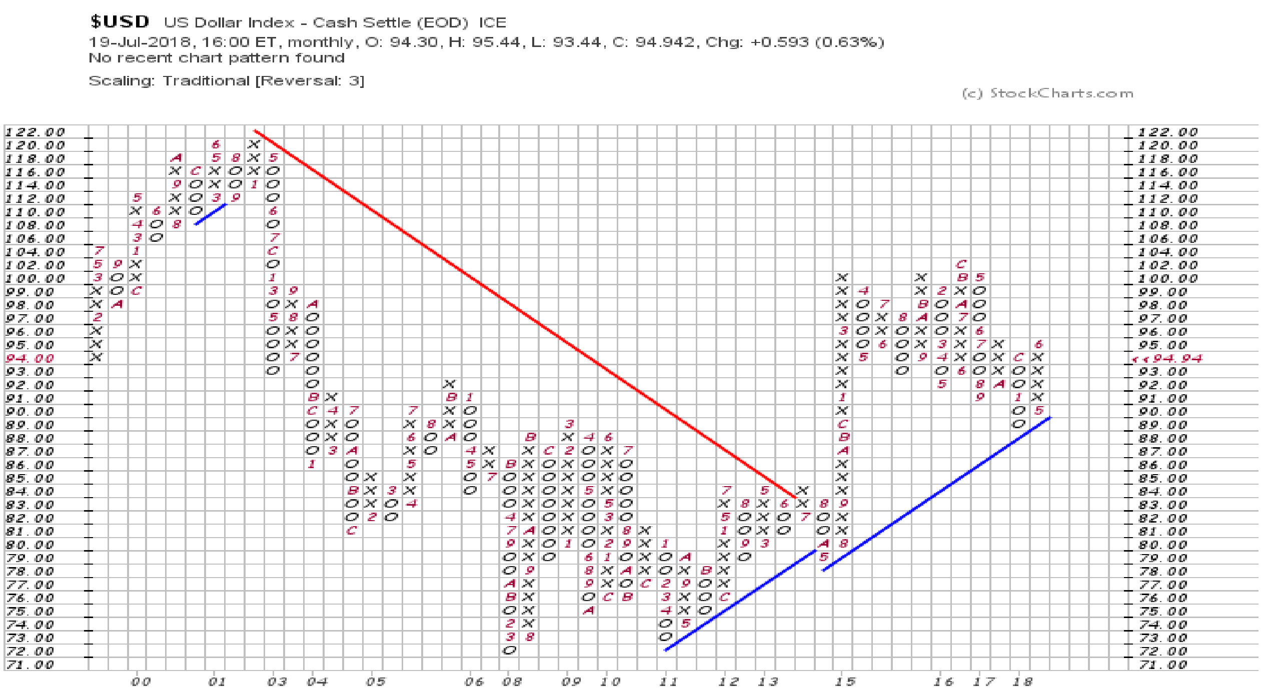
Starboard Asset Management

Risk Management for nagivating your future.

Starboard Weekly Report Ending July 20, 2018
Charts of the Week



The top monthly candlestick chart from StockCharts.com is a relative strength comparison of the 2-Year US Treasury Yield versus the 10-Year US Treasury Yield (UST). The bottom monthly Point & Figure Chart is on the US Dollar Index (USD). Both provided by Stock Charts.com.

TECHNICAL

The top chart relationship is what is referred to as the yield curve. When short term rates exceed long term then the curve is said to be inverted. Inverted yield curves have predicted all but one of the US recessions since 1950. Since 2014 the curve has seen short term 2 year rates go from 0.10 to 0.92 of the 10 year; above 1.00 will be an inversion. Without it being a substantial increase, one more FED rate increase in the 10 year will likely give us an inverted yield curve. This week Trump came out twice against the FED raising rates because obviously he is being advised about the consequences of an inversion. The FED should not listen to him but he will have a scapegoat if the economy and markets react to an inversion. Given the momentum strength of the 2 year in the top chart and the long term history of the FRED chart (email attachment), recession appears closer than most analysts are predicting. Please note how the dollar dropped from the 2000-2003 recession. Another comment from Trump this week was that higher interest rates have caused a higher dollar and that is not good for the economy. Viewing the recent series of lower lows on the Point and Figure Dollar Chart above, I do not believe our president has much to worry about. In the short term, despite the recent oversold rally, the dollar looks like it will decline further; especially if it breaks the blue support line at 89 on the bottom chart. A breakout above 96 would indicate the higher dollar Trump is concerned about.

FUNDAMENTAL

Chairman Powell of the Federal Reserve Bank gave a *don't worry be happy* presentation to Congress this week that is not consistent with this week's top chart picture for the strong possibility of an inverted yield curve. When asked about the possibility of an inverted curve Powell talked about real interest rates; whatever they are. However, I think that they are a *this time it's different* approach to rates inverting. Our president knows that the direction of interest rates and the dollar will be vitally important to the economy and thus his political future. The momentum of this inversion chart is telling us that the best he can hope for is a time delay. Unless it breaks 96, the supply/demand dynamics of the Point & Figure Chart on the Dollar is also telling us that a recession is near. When a breakdown occurs at 88 it will confirm the dollar's direction for several years to come.

ASIDE

"The Fed's ability to raise and lower short-term interest rates is its primary control over the economy". Alex Berenson, Reporter/Author

Let's hope the president does not take this power away from the FED by trying to exert public opinion pressure because an independent FED is vital to the country even though it is a tacit independence.

.

Please note:
It's the client's responsibility to notify Starboard of any changes that would in any way influence their financial requirements.