

Keen monthly insights on both the economy and the markets

THE ECONOMY

Economists are finally starting to find current data on the health of the economy, after the rather long shutdown in the US government. The potential for a weakening labor market remains the chief concern, something that has not yet come to pass.

We prefer the market's opinion over the economists' and the headlines. Reason being, the charts typically lead the news. Right now, the strength in commodities and the steepening yield curve suggest the US economy is on much stronger footing than many of the pundits realize.

THE MARKETS

As mentioned above, we view a rising 10-yr. US Treasury yield as a good thing. This is because the market dictates longer term yields, which rise in response to inflation expectations.

We don't like inflation when it's caused by printing too much money. That being said, we do like a little inflation when it's concentrated on raw materials, as the strong demand for them implies a healthy economy.

Stocks remain in good shape technically and continue to digest their recent gains in a healthy and orderly manner. The main difference in the markets over the past month has been the outperformance of the small cap shares.

The green line to the right is the ratio of the Russell 2000 Index to the S&P 500 Index. When this line is declining it means small caps are underperforming – as was the case going into 2025. This trend now appears to be reversing, suggesting small caps may finally get their day in the sun.

Mike Hurley, CMT
 Chief Investment Officer



Charts courtesy of TradeStation, as of December 12, 2025

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.

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