Top 10 Investment Predictions for 2018

Huntington | PRIVATE BANK

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What investors should expect in the year ahead, from tax reform to global expansion

2017 was a good year for many investors, especially those who diversified into global stocks. Strong equity returns was the year's biggest highlight, with some stocks offering double-digit gains. Just one example is the average balanced mutual fund, which returned more than 13 percent, marking the third-best return since 2009.

So what should investors expect in 2018? John Augustine, Huntington's chief investment officer, shares the Private Bank's top 10 list of predictions for the year.

1. **Global GDP soars:** Synchronized economic expansion around the world pushes global GDP over 3.5 percent. Growth has been accelerating in Europe, Japan, China and the U.S. — and it doesn't appear it's slowing any time soon.

2. **Artificial intelligence grows as governments debate it:** Artificial Intelligence (A.I.) spending is forecasted to reach $58 billion by 2021, growing more than twice as fast as other high-growth tech sectors. As governments grapple with A.I.'s impact on labor, taxes and privacy, regulation could pose risks to tech-focused investors.

3. **Global markets are watching world events:** A geopolitical crisis or terrorist incident has the potential to sway how global markets and economies perform this year — and in years to come.

4. **U.S. economy starts to get some 'animal spirits' back:** Expect an uptick in consumer confidence, thanks to the tax reform act that bolsters corporations and small businesses, as well as three consecutive quarters of at least 3 percent GDP growth. Inflation in services will hold, while prices of goods accelerate. We see wage growth topping 3 percent, while skilled labor shortages will be common, pointing to increased consumer spending.

5. **It's the year of the actives:** With abnormally low volatility and relatively high returns in stocks, we've seen an exodus from actively managed mutual funds, which have decreased in number by 3 percent, while the number of exchange-traded funds (ETFs) increased 37 percent. We suspect market volatility will rise mid-year, driving a resurgence in actively managed mutual funds.

6. **Markets are a "first half, second half" story:** Stocks run up in the first half of the year, then stumble in the second against harder year-over-year earnings comparisons. Bonds stay low in the first half and rise in the second, when the European Central Bank relaxes its bond-buying.

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7. **U.S. stocks see subdued gains by the end of the year:** Because we see subdued growth for stocks starting mid-year, oil staying above $50 a barrel and U.S. treasury yields steepening in the second half, our equity team is looking to these areas for growth:
    - Banks in summer as the yield curve steepens
    - Travel stocks to capture consumer spending
    - Industrials growing from synchronized global economic expansion
    - Health care and energy stocks with sustainable earnings-per-share growth estimates
    - Tech's torrid growth pace slows in the second half under government scrutiny and harder earnings-per-share comparisons

8. **Which market will be right: bonds, stocks or commodities?** Synchronized global growth could be a catalyst for the commodity market, given higher prices of lumber, commodities like crude oil, and base metals like copper and palladium.

9. **Corporate and municipal bond supply shrink:** The tax reform law will inhibit the issuance of corporate and tax-free muni bonds by capping the corporate interest deduction and eliminating the tax-exempt status of advance refunding, the ability to refund bonds prior to the call date.

10. **It's the year of the Midwest economy:** We see a good year for the Great Lakes region, which is closely aligned with the auto industry, agriculture, exports and transportation. These areas could see relief after several challenging years, buoyed by tax reform incentives as the global economy heads into its second year of synchronized expansion.

What else could be in store for this year? We see double-digit earnings growth on the S&P 500, the Fed Funds Rate hitting 2 percent then holding, while the Dow soars beyond 25,000 and the S&P 500 Index closes the year at 2,800. However, these projections may change if global growth speeds up (taking inflation with it), if central banks are slow to react, if the tax package doesn't spur enough economic growth, or if geopolitics spark volatility.

Our team will keep a close eye on global markets to help our clients navigate this year and beyond.