2019 Top-10 List

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2018 was a year for investors that rhymed a lot with 1994 – *nothing worked*. The US economy did well, but the combination of Fed concerns, trade & tariff headlines and worries about the future of the global economy held stocks, bonds, commodities and gold down. The only area of return has been the US stock market, and those returns were single digits.

One area that did improve in 2018 was for savers. With the anticipated four rate hikes by the Fed this year, savers saw yields move noticeably positive for the first time in nine years. Good news for many Americans.

For 2019, our thoughts turn to 1995. *Could markets and the economy repeat what occurred in 1995 when the Fed stopped its tightening cycle, the economy slowed, the US Dollar moved lower and stocks, bonds, commodities and gold all saw noticeable positive returns?*

Here is our Top-10 List for 2019:

1. Short-term European bond yields move positive for the first time in five years as the ECB stops its bond-buying program and slowly starts to normalize policy rates from the zero level.
2. The Fed stops at 2.75% in its tightening cycle as inflation stays in the low 2% range and the US economy grows in the 2.5% range before inflation.
3. The S&P 500 has a double-digit return in the 10-20% range from a combination of earnings growth and PE multiple expansion back to the 18x range for trailing earnings (…from the 16x range at the end of 2018).
    a. NOTE: If the Fed would go above 3%, and we are wrong in #2 above, the S&P 500 will struggle for single-digit returns.
4. The US bond market sees corporate spreads widen to the 10-year average (1.64% vs. the current 1.34%), but overall treasury yields only rise to the 3.3% range for the 10-year.
5. US conglomerates continue to spin-off unrelated or non-strategic units to unlock shareholder value. This comes from a combination of activist investors and slowing earnings growth. Corporate bondholders will need to be on the lookout for the unit that ends up with the most debt.
6. The US Dollar Index moves back towards the 90 level from a combination of the Fed tightening cycle ending and the ECB/BoJ tightening cycles slowly beginning.
7. Washington stays divisive, but US companies and the US consumer move on. Corporate profits grow in the 5% range (national income accounts) while US consumer spending improves by 3%.
    a. NOTE: We expect S&P 500 earnings per share to grow 9%.
8. China continues to be a risk to the global economy as their own economic growth slows to the 6% range and the size, scope and solvency levels around debt continue to be debated.

9. US capital spending picks up pace as companies struggle to find labor while looking to boost productivity and right years of underinvestment.
10. Labor mobility in the US increases, with the Labor Participation Rate rising as jobs available are plentiful in the US. American workers go to the sectors, geographies and companies that welcome them. This could help the Great Lakes states with their lower cost of living and higher quality of life in many areas.