

Bullish for Now, Just My Take

My readings offer four reasons for the recent selloff:

- Midterm election cycle history
- The October effect
- Trade war
- Federal Reserve “taking the punch bowl away from the party”

My take is, “Blame it on the Federal Reserve.” Here is why. The Federal Reserve has two mandates; stable prices (inflation) and full employment. We have reached full employment and several board members are concerned about inflation risk due to what I refer to as the “sugar buzz” of a tax cut and economic stimulus passed last December and January.

The economy as measured by GDP – Gross Domestic Product – is robust; some say, too robust, leading to inflation. Now, some economist believe that the Federal Reserve will become “restrictive” and soon raise interest rates too high too fast, potentially causing a recession in late 2019.

My personal view (for the time being, as I do not know the future, but I rigorously read conflicting and changing forecasts) is as follows:

- Inflation stays low. 2%, not 4%, is the “new normal.”
- Real GDP drops naturally from its current rate down to 2% – a sustainable level. As the recent stimulus created only an economic “sugar buzz.”
- Corporate earnings and stock buybacks continue, but at a slower rate.
- The USA transitions into a mature economic phase.
- The Federal Reserve has transitioned from “accommodative” to neutral, but not “restrictive.” You might call this “removing the punch bowl” from the party.
- International central bankers, however, continue to stimulate economies that are still in an early stage of recovery.
- This makes international stocks even more attractive.

Most people we speak with fear a 2008 “hard landing” recession. A “soft landing” is more likely, if at all. The energy industry experienced this in 2015, creating an “earnings recession” for US stocks. Most portfolios lost a little money in 2015, but the selloff was mild and short-lived. Most likely, you have already forgotten about it. This can always happen again. In 2019? In 2020?

A 2008 recession fear is misguided, in my view. Let our talented wealth managers continue to take care of you as they help you allocate your assets to meet your liabilities; both short-term and long-term. Your financial life is more important and longer lasting than any market cycle. Just my take.

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