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Economic and Investment Forecast
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As we reach the half-way point in what has been a strong year in the financial markets, the Jay Powell led Federal Reserve is considering an important change in interest rate policy. After raising interest rates on four different occasions in 2018, the Fed is now pivoting to an easier monetary stance, citing weak inflation readings of below 2% together with signs of slowing economic growth around the world. These decelerating business trends observed in many corners of the economy (manufacturing, housing, trade) should not come as much of a surprise, as this economic expansion now registers as the longest on record at ten years and counting.

Falling interest rates are typically welcomed by investors, as lower rates can stimulate the broader economy by way of cheaper loans for businesses and more affordable borrowing for the consumer (i.e., lower mortgage rates). However, stock market bears see things differently and associate lower interest rates with the dawn of the next economic downturn. What we know for sure is that the 3% plus GDP growth achieved over the last twelve months will be difficult to sustain, thus making 2% to 2.5% GDP growth for the remainder of the year an optimistic prediction.

This historically long and uninterrupted expansion in the economy has culminated in record equity prices around the world. For example, the Dow Jones Industrial Average has established several new highs on its climb to 27,000. Encouragingly, many of the supporting factors that have propelled stocks to date are still in place, including tame inflation, solid corporate earnings growth, relatively low interest rates, and the strongest job market in fifty years.

Looking ahead, market direction will be influenced by key geopolitical outcomes that currently weigh in the balance. We will be primarily focused on the upcoming U.S. – China trade talks taking place at the G-20 summit in Japan, the ongoing Brexit negotiations serving as a referendum on the European Union, as well as the provocative Iranian behavior that could risk escalating into a broader military conflict in the Middle East. For investors, each of these situations are difficult to handicap as they could evolve in unpredictable ways. As has always been the case, being diversified with a long-term investment time horizon should continue to be a winning approach when facing the uncertainty inherent in financial markets.