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Submitted by Michael R. DeWitt on 02/26/2019 - 11:21

Despite the continuing buzz about slowing economic growth in 2019, most economists are not predicting a US recession this year. In fact, for long-term investors, there are plenty of reasons to be optimistic. Here are six potential surprises that should give investors a respite from some of the dire predictions and help guide your investment decisions this year:

Continued Economic Growth. The US economy produced strong gains in 2018, chugging along at four percent in mid-year before slowing to closer to three percent near the end of 2018. While many experts predict a slowing rate of growth in 2019, the economy should continue to expand, which could be a good sign for investors.

Good News from the Federal Reserve. The Fed may decide to hold its target federal funds rate steady at its current level of 2.25 - 2.5 percent; in effect, pausing any further rate increases for the foreseeable future. It may also decide to stop reducing its balance sheet, which was expanding significantly during the last recession. The Fed currently is allowing $50 billion each month to run off its balance sheet. Either one of these moves could help stimulate the economy and be viewed as a good sign for the stock market.

Impact of the US-China Trade War. While the outcome here is hard to handicap, it is likely that the U.S. and China will reach at least a temporary agreement that prevents a full-blown trade war in the near term. The U.S. is in a stronger negotiating position than China. President Trump’s threat to place some $200 billion in tariffs on goods coming from China is clearly hurting China’s economy more than the U.S.

Continued Corporate Earnings Growth. Corporate earnings grew by a blistering average of 25 percent through the first three quarters of 2018 (S&P 500). While we expect this rate of growth to slow, earnings should still grow strong enough in 2019 to help lift stock prices. In the long run, stock prices are tied closely to earnings growth. The pullback in stock prices in late 2018 also helped valuations become more attractive.

Fear is Ebbing. After several weeks in late 2018 of wild swings in the stock market, with the commonly followed Dow Jones Industrial Average often dropping hundreds of points each day, volatility is beginning to subside. This isvgood news for investors that have stuck with their investment strategy during a difficult period. For those waiting for stock prices to ‘settle down’ before re-entering the market, it’s a different story. The stock market usually doesn’t ‘settle down’ after a volatile period. Instead, prices usually ‘settle up’, which means a lost opportunity for investors sitting on the sidelines.

The Result: A Goldilocks Environment? Despite a slowing economy, there’s a good chance we’ve hit a sweet spot: The economy is running hot enough to produce solid economic growth and boost stock prices, while staying cool enough to keep inflation and interest rates in check. Just like Goldilocks, if this turns out to be the case, the temperature for investors could be just right for their portfolios in 2019.

To watch a video on this topic, click here [1].

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