What to be on the lookout for in 2019

As we enter the last year of this decade we find ourselves in a familiar place to where we started the decade. In 2010 we were just recovering from the worst economic recession in US history that didn't lead to a depression. The US recession of 2008 was so vast that it lead to a global recession. Q4 has historically been a strong quarter for the markets and the US economy in general.

However, similar to the end of 2008 (starting Sept 15, 2008) when we saw a drop of 23.12% in the DJIA including 4 of the biggest top 10 drops in a single day in history, Q4 of 2018 saw a decline of 12.3% in the DJIA. For the year (2018) the DJIA finished -3.75%, the S&P500 finished -4.56 and the NASDAQ finished -4.36%. 2018 also saw 7 of the 13 biggest loss days in the history of the DJIA, including each of the top 4. In fact, January 3, 2019 also ranked in the top 13 biggest loss days in US history (www.wikipedia.org). Interestingly, 2018 also saw 6 of the top 10 biggest growth days in DJIA history. It comes as no surprise based on the massive swings 2018 brought us that volatility jumped dramatically in 2018 off its historical lows. We continue to expect heightened volatility in 2019.

First, we are not saying this means we are entering, or have entered, the "next 2008." We, on the contrary, are not saying this was "just a dip." What we are saying is that it is "to be determined." At Maverick Wealth Management we have been educating clients for the previous 18 months that it appeared to us that the bull market was on its proverbial last leg, and have forecasted a recession by the end of 2020. A premise we still believe we were right about, and is now appears to be the majority belief on Wall Street. However, it does not mean that 2019 will lead to a bear market or a recession (nor does it mean a recession will happen by the end of 2020).

It is our opinion that Q1 of 2019 could tell the majority of the story for 2019. Lets take a look at what major events will transpire before the end of March 2019:

- Jan 3, 2019 Democrats take control of the House and have promised radical progressive policies and impeachment filings.
- Jan 22, 2019 The World Economic Forum and Annual Meeting
- Jan 29, 2019 The Federal Reserve Q1 Meeting

- President and Trump and China have said they will meet sometime in January in regards to trade negotiations.
- March 29 The United Kingdom (UK) officially leaves the European Union (EU)

The World Economic Forum and Annual meeting is expected to have an attendance of over 100 different countries leaders, and in excess of 1,000 different executives from major global companies. This could be a very early tell on what some of the market makers and world leaders are preparing for. This could serve as an early self-fulfilling prophecy for 2019.

The Federal Reserve, often referred to "The Fed," surprised many analysts in Q4 of 2018 by raising rates to 2.5%. The Fed, during their December meeting, also implied that they expected to continue raising rates in 2019. If the markets continue to struggle and the government is still partially closed due to the President and Congress not reaching a funding agreement then we expect the Fed will not raise rates. This is a stark contrast to what many were predicting for 2019 just a few months ago. Most experts we researched predicted that the Fed would raise rates 3-4 times in 2019. Today, many of those same experts are lowering their expectations to less than twice for 2019. Despite the lowering of expectations, the fed not raising rates could potentially be a positive market move to help reduce added pressure of higher rates. Of course it could also produce a negative reaction with the perception that The Fed believes the economy is in need of help.

President Trump and his Chinese counterpart, Xi Jinping, are expected to reach a trade deal. We believe the details are mostly already agreed to with the US agreeing to export LNG (liquified natural gas) to China, while agreeing to import agricultural products from China. The big wild card in our minds is intellectual property rights agreements. China has historically not honored any US Intellectual Property rights, but President Trump has stated this is a must have in a trade deal with China. Will the two be able to reach an agreement? A US and China trade deal could work well for the markets in 2019. On the contrary, the lack of one could be harmful to global markets as the US and China are two of the largest economies in the world, if not the top two (as new statistics are not out yet).

How will the world react to the UK officially being on its own and separate from the EU? Most believe the market pricing has already been "priced in." However, there are significant uncertainties surrounding this move that could influence markets globally.

With the news of job reports growing in Dec of 2018 at a higher than expected level coupled with a split congress (historically this helps the market as people can more easily measure what legislation they expect will pass) and decent fundamentals we believe the US equities market could see some rally in 2019. It is our opinion that two of the most important things to watch for in Q1 is first, can President Trump work with Congress to fund the government and, secondly, can President Trump work a deal with China that gets some economic growth moving again.

To touch on the bond market, we continue to have low expectations for bond markets as raising rates typically have negative impacts on bonds. Furthermore, the dollar in our view appears to have peaked, and we are expected it to potentially fall back in 2019.

To conclude it remains our belief that we are towards the end of this (bull) market cycle. This does not mean that we will enter a recession or bear market in 2019, but it does suggest the odds are higher this year than they were last year.   As the addressed geopolitical and macroeconomic events mentioned above unfold over the next several weeks and months, their estimated impacts will become clearer. We believe now more than ever that proactive asset management is the key. Stay informed. Stay connected. Stay engaged. Meeting with your advisor will help you to be proactive rather than reactive in these uncertain times.