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## A YEAR OF RESOLUTIONS

I was asked recently for my opinion on what will be the most important stories in 2019. In an instant, my mind was clear on the topic – the most important stories in 2019 will be positive resolutions to the negative stories that drove investor fear in 2018.

### 2018 in Context

The S&P 500 index posted a total return of -4.4% in 2018, its first down year since 2008. Putting this in context, the cumulative return of the S&P 500 index from 2009 to 2017 was 259%. The 2018 return represents a modest retreat comparatively. As we look forward, we remain positive on the economy and the stock market as we anticipate resolutions in 2019.

### BREXIT

The U.K.'s exit from the European Union (EU) is scheduled to occur on March 29, and, true to the form of U.K. politics, the process to final U.K. parliamentary approval has been contentious. Prime Minister Theresa May survived a December no-confidence vote, and the U.K. Parliament's vote was delayed to January. The first vote may fail. Parties may need to compromise.

But we expect compromise and resolution...with Brexit occurring with an agreement.

### U.S.-China Trade

Throughout 2018 we read about U.S.-China trade tensions and tariffs, both threatened and real. Each party seemed unwilling to negotiate, choosing instead to volley threats back and forth through social media and public statements. Market participants dislike such public exchanges. Then President Trump and President Xi held a dinner meeting on

December 1, establishing a framework and timetable to negotiate a new trade agreement. And we've seen progress since then, with interim concessions and positive statements from both sides. Might there be more tensions and tariff threats? Perhaps.

But we expect compromise and resolution...with a new U.S. and China trade agreement.

### Figure 1.

#### Resolutions in 2019

- Brexit occurs on schedule, with an agreement.
- The U.S. and China form a new trade agreement.
- The Fed is thoughtfully measured and does not overshoot.
- The federal government collaborates on key issues.
- Animal Spirits improve, fueled by resilience and innovation in the U.S.

*Source: Stifel Investment Strategy as of January 2, 2019*

## Fed Policy

We wrote It's [All About the Fed](#) at the end of 2018, highlighting the continued influence of Federal Reserve (Fed) policy on the economy and markets. Volatility in the fourth quarter of 2018 was driven by fear of Fed missteps, jump-started by a comment from Chairman Powell that rates may “go past neutral.” Over the course of the quarter, the Fed signaled more clearly its intention to monitor conditions in the U.S. and abroad as a key input to policy.

So we expect resolution...with the Fed increasingly data dependent and slow to raise rates.

## U.S. Politics

With the Democrats taking control of the House of Representatives in January and a partial shutdown of the federal government in effect, there is much worry about gridlock in Washington. And given the divided nature of U.S. politics in recent years, concern is warranted. But we see reason for some optimism. We expect negotiation and compromise on the budget and border security, ending the partial shutdown. We see glimpses of a willingness to engage across party lines, an important foundation for negotiation and compromise as the divided government takes hold.

So we expect resolution...with the end of the shutdown and potential for cross-aisle collaboration.

## Animal Spirits

These negative stories weighed on the markets in 2018, increasing volatility and weakening optimism and confidence that is so supportive of markets...shaking our “Animal Spirits.” But let’s reflect on where we are as a nation and an economy. The U.S. represents 24% of global GDP, and remains a, if not “the,” dominant economic power globally. Transformative innovation is happening at breakneck speed, with new businesses and real improvements within established businesses, being formed to the benefit of customers and shareholders alike. The economy remains strong. Inflation is at the Fed’s target level. Earnings are expected to grow. There is reason for optimism.

So we expect resolution...we expect optimism to return, strengthening our Animal Spirits.

## Conclusion

We expect the negative stories of 2018 to turn positive in 2019 through resolutions. While volatility will inevitably remain, these resolutions will create tailwinds supportive of continued growth in the economy and stock market.

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