

Mitch on the Markets

4 Market Fears to Watch in 2019



By Mitch Zacks
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The S&P 500 appears to have stabilized slightly following the December rout that culminated with a day in bear market territory, on December 24th.¹ Though the depths of the selling pressure appear to be behind us for now, investors would be wise to stay mentally prepared for continued volatility in the weeks ahead.

The fears and uncertainties driving the volatility, in my view, have yet to fade.

But there's also good reason for hope in the current environment, in my opinion. Here's why: if these 'fears' holding down the market fade away – or if they don't turn out to be as bad as everyone expects – then I believe stocks can use that cleared air to recover fully, and even go on to reach new highs.

The question is, how quickly and convincingly can these uncertainties/fears get resolved? There's no clear answer for that question, but I do believe that signs

point to resolutions being reached and conditions being improved from where they are today.

There are four 'fears' in particular that I think carry the most weight, and that I think investors should watch closely in the new year:

- 1) **The U.S.-China Trade Dispute** – negotiations between the United States and China restarted this week, with China hawk Robert Lighthizer leading talks. Lighthizer faces the delicate task of rebalancing the trade relationship between the two nations while avoiding any further escalation in the form of tariffs, but his hardline approach is perhaps what worry the markets most. Lighthizer is notoriously skeptical of China and the failed talks with them in the past, and he will want big concessions – reducing the possibility that a smaller deal would be viewed as satisfactory. President Trump has set a March 2 deadline to cut a deal.²
- 2) **The U.S. Government Shutdown** – with Democrats taking control of the House of Representatives on January 3, it seems increasingly unlikely that President Trump will get the ~\$5 billion of border wall funding he seeks. Senate Republicans have indicated that they

will likely not vote on any House resolution that does not include border wall funding. The result: an impasse. The question is, how long will this really last?³

3) **Monetary Policy in the U.S. and Abroad** – Federal Reserve Chairman Jerome Powell is obviously aware of the market volatility and global sell-off, but the question is whether that volatility may influence the Fed’s path of rate increases going forward. Economic data in the U.S. remains solid – at least for now – and it still appears likely that the Fed has another rate increase or two on tap for 2019. But softening global growth could mean a pause in the second half of 2019 for the Federal Reserve and a delay in European Central Bank plans to start dialing back its monetary stimulus. Any pause or delay in monetary tightening, in my view, would equal a positive for the equity markets.

4) **Brexit** – the key date to watch in 2019 for Brexit is March 29. If the UK fails to reach a deal with the European Union by that date, it will automatically trigger a “hard Brexit” which means leaving the EU with no trade deal in place – the worst possible outcome. As it stands today, Prime Minister Theresa May has negotiated a deal with the EU that does not have the votes required to pass Parliament, with an official vote set to take place in the second week in January. The options are bleak and time is running out. Of the four fears listed above, this one to me carries the most uncertainty.⁴

Bottom Line for Investors

If economic uncertainty is a catalyst for downside market volatility – which I believe it is – it should also follow that subsiding uncertainty can be a catalyst for market recovery. As readers likely gathered from the four market ‘fears’ listed above, however, it is far from certain that each of these fears will be resolved in a timely and effective manner. But I do think they will be resolved one way or another, with the worst-case scenarios being avoided each time.

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.

¹ Google Finance, January 2, 2019.

² The New York Times, January 1, 2019.

<https://www.nytimes.com/2019/01/01/us/politics/robert-lighthizer-president-trump.html>

³ The Wall Street Journal, January 2, 2019.

https://www.wsj.com/articles/shutdown-shapes-up-as-day-one-test-for-new-congress-11546425000?mod=hp_lead_pos6

⁴ The Guardian, December 28, 2018.

<https://www.theguardian.com/politics/2018/dec/28/eu-nationals-deride-cheery-home-office-uk-settlement-video>

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