
**January 31, 2019**

**1:52 PM EST**

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## Fearless Forecast Intro

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What you are about to read has been compiled in bits and pieces over the past 5 weeks. My apologies if some of the information is a bit stale, but the overall themes still apply.

Each and every year, I spend some time collecting my thoughts about how I see the next 12 months unfolding in the financial markets. Given how much media I end up doing in December and January, almost all of my forecast is already in the public domain by the time I get around to sending this email.

While I do really enjoy looking into my crystal ball, I also know that it's a fairly futile exercise. First, we do not manage client portfolios according to my opinion in any time frame. And second, based on the evidence at hand, I am certainly not arrogant enough or dumb enough to dig my heels in on any forecast. Nevertheless, it's a fun issue to write and I always look forward to grading last year's forecast.
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# Grading Fearless Forecast 2018

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Let's start with the highlights and lowlights from my 2018 Fearless Forecast.

**Stock Market:**

The old presidential cycle says 2018 should not be a good year for investors with a significant low coming in Q3 or Q4. And after 2017's powerful performance, a repeat is unlikely in 2018.

Given all that, I am looking for Dow 27,000 in Q1 with the possibility of Dow 30,000 by Labor Day before the most significant correction of the year sets in.

Grade: B+ Stocks ran out of the gate, corrected more than 10% and then soared to new highs just below 27,000 before selling off hard into Christmas.

On the sector front, I favor utilities and consumer staples while steering clear of industrials, energy and financials.

Grade: A+ Utilities and staples were leading sectors while the others were under pressure most of the year
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**Bond Market:**

With the long-term bear market having started in July 2016, yields on the 10-year Treasury Note continue to climb but fall just short of 3% when all is said and done.


Grade: B+ Bond yields surged passed 3%, peaking at 3.25% before collapsing back under 2.70% as fears of an economic slowdown permeated in Q4.

**Federal Reserve:**

The arrogant and ignorant FOMC is dead set on over-tightening and choking the economy. I forecast 3.5 interest rate hikes in 2018 with the risk to the upside.

Grade: A The FOMC hiked rates in March, June, September and December.

**Economy:**

Juiced by tax cuts, repatriation of overseas profits and reduced regulations, the economy should see its strongest year since the Great Recession with the full year clicking right around 3%.

Grade: A Through the first three quarters, GDP growth average a robust 3.3% as we await Q4's release shortly.

**Energy:**

Oil has been behaving constructively for several years, basing, backing and filling for a big move. I have open upside projections to $100 a barrel although I don't think it gets there in 2018. $70 should be a layup and I think $50 will be the floor.


Grade: C+ While I hit the upside as crude rallied to $78, it also collapsed right through my floor at $50 before bottoming under $43.

**Gold:**

Gold continues to move sideways in a very broad trading range over the past four years. While the shiny metal is getting closer to the point where it begins its assault on $2000, I don't think that rally begins in 2018. $1400 should be the ceiling while $1100 should be the floor.


Grade: A For the most part gold remained in the broad trading range of the past few years. The big question is whether the August low was THE low.

**U.S. Dollar:**

I have been long-term bullish on the greenback since early 2008 and I remain that way as we begin 2018. The intermediate-term looks a little murky with the possibility of a move below 90 on the index. Not a single has changed in my thinking that before all is said and done, the dollar index will make new highs for this century above 120, but 2018 won't be a stellar year.

Grade: B- The greenback got the move below 90 and then it rallied strongly for the rest of the year. Given that gold and the dollar often move inversely, how can both intra-year lows be THE lows.

**Euro Currency:**

Conversely to the dollar, I am very bearish long-term on the Euro, but I think 2018 will be won by the bulls as the powers that be somehow hold Europe together and prevent disaster in Italy and with BREXIT.


Grade: C The Euro flew out of the gate in 2018 which helped global stock markets. However, like many of them, that was THE peak for 2018 as the bears ruled for the rest of the year.

**Japanese Yen:**

The Bank of Japan isn't done manipulating their bond market and the currency. Only a global calamity of systemic issue would create a major rally here. Long-term, I remain very negative, but 2018 should be a nothing year.


Grade: B The yen rallied strongly into the Q1 stock market low and then sold off very hard into mid-December. All in all, it really was a nothing year with a lot of movement in between.

**Politics:**

How many times will we hear that the 2018 mid-term elections will be the most important elections of our lifetime? President Trump and the GOP have a major headwind as almost every single incumbent has lost precious seats in the House and Senate. This time will be no different as the House flips to the left, but the Senate remains in Republican control by a thin margin.

Grade: A- It was another tumultuous year for Donald Trump with many peaks and valleys. The House did flip by a significant margin to the blue side while the Senate gained significant seats on the red side.

## Fearless Forecast 2019

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**U.S. Stock Market**:

2019 is the third year of Donald Trump's first term which was historically the strongest year of the 4 or 8 year presidential cycle. That was, until 2011 where Barack Obama saw the worst stock market year of his 8 year reign.

After the 20% collapse in Q4 2018, the bulls and bears are both out loudly proclaiming new bull and bear markets. Unless I am wrong about the economy holding on for a
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while longer, 2019 should be the year of the bull with volatility elevated but significantly lower than 2018.

Stocks saw a very rare "V" bottom at Christmas which is more characteristic of a bear market than bull, however the stock market also experienced a number of "thrusts" which usually occur at the beginning of new bull markets legs. I think the downside risk on the Dow Industrials is roughly 21,500 with the upside being well above 27,000.

Regardless of whether stocks need to revisit the Christmas lows, the bulls should easily tack on another 10%+ year with the risk being to the upside and new all-time highs achieved during the second half of 2019.

On the sector side, I usually struggle with cutting my list down. For 2019, I am having a tough time finding potential winners and losers. It's much less clear cut than last year. I initially chose banks and energy to lead in 2019 as they were both taken out and shot last year, priced for the perfect storm. The more I read, the more people who were looking at the exact same thing which made me wonder if it looked too easy.

I am going with REITs and technology on the bullish side with healthcare and industrials on the lagging side. If banks and/or energy end up leading, we will know that I was too cute in my forecast.

**International Stock Markets:**

After an awful decade relative to the U.S. market, the developed stock markets see a fleeting ray of hope as the Euro currency temporarily gains against the dollar. This strength is best viewed as a selling opportunity for long-term investors.

Even worse than the developed markets outside the U.S., emerging markets have been significantly challenged since 2011 against the U.S. That tide has turned and the emerging markets complex not only fairs well against the U.S. but has a very strong year in absolute terms, closing up by more than 20%. I am going out on a limb to say that the Chinese stock market somehow reg

**Bond Market:**

With global growth clearly slowing and Jay Powell and the Fed doing an about face on interest rates, I forecast 2019 to be a trading range year for yields on the 10-year Treasury Note. I do not believe yields will hit anywhere neat 3.5% and the floor could be pushed even below 2.5% earlier than later in 2019.

**Federal Reserve:**

I forecast a single FOMC rate hike in 2019 which comes later than sooner in 2019. Jay Powell & Company have their arrogant and ignorant hands full. For years I have berated them for trying to raise interest rates AND sell assets (bonds) from their balance sheet. It's misguided and idiotic, effectively both serving to tighten monetary conditions and choke off growth.

**Economy:**

Q1 could end up being the low point for economic growth in 2019 or it could be a barbell year with Q1 and Q4 showing softer conditions than Q2 and Q3. I do see the economy growing more strongly in the middle of the year than earlier in the year. However, I stand by my proclamation made on CNBC's Squawk Box after Q2 2018 GDP printed 4.2% that any acceleration from that point would be almost impossible.

**Inflation:**

The core inflation scare has passed for this cycle, even though wage growth has finally upticked. With bond yields in a range and global growth slowing, I do not believe we will see any worrisome inflation until the other side of the next recession. When that happens, I think we will significant concerns.

**Unemployment:**

With the economy at full employment and weekly jobless claims at historic lows, it's not a stretch to forecast a reversal in 2019. If my thesis is correct about a mild recession coming by the 2020 election, we should see higher initial jobless claims and then higher unemployment long before it starts. That means that the historic unemployment rate should begin to tick up in the first half of 2019.

**Energy:**

That was some collapse from $77 to $42 during the second half of 2018. I don't see a repeat of that in 2019. Crude oil needs to repair itself from the carnage and that takes time. I expect to see sideways action during the first half of the year with the bulls having an opportunity to see the mid $60s during the second half of the year.

**Gold:**

The shiny metal rallied smartly from its mid-2018 bottom right into year-end. While I believe a major, long-term bull market is close to beginning where gold sees above $2000 an ounce, I am not yet convinced that the true rally has begun. $1400 is going to be a formidable ceiling, yet there is very strong support all the way down to $1100. Ultimately, patience should be rewarded in spades once the 2020s hit.

**U.S. Dollar:**

2019 could be the year where the greenback readies itself for the final assault higher to end the 10+ year old bull market which I was lucky enough to call in early 2008. I don't think the dollar has already started that last leg higher. I won't be surprised if the dollar index sees both 90 and 100 in 2019.

**Euro:**

The Euro is definitely ready for a big move. The odds favor the upside and at least 120, but if the momentum gets going to the downside, a significant decline towards 104 should be in the cards. With BREXIT and the Italian banking problem still in play along with weakening economic growth, it's hard to believe the currency the rally. But, perhaps that's already been priced in. Ultimately, I still have projections to 100, all-time lows at 78 and then lower in the 2020s as the whole European experiment struggles to survive.

**Japanese Yen:**

I do not have a strong opinion on the Yen in 2019. While the Bank of Japan continues to manipulate their bond market which has a direct impact on the currency, I think the Yen stays in between its 2018 high and low in 2019. Ultimately, it certainly has the look and feel of a final collapse when the BoJ ends up owning almost 100% of its own sovereign debt, but that moment should not come in 2019.

**Politics:**

Here we go. The race to the 2020 election has officially begun and you can obviously expect the candidates on the left to dominate the conversation. There should be a noticeable split among the Democrats with one group falling over themselves to get lefter than the others while the other group jogs towards the center to attract centrists.

As I mentioned last year, I fully expect the far left candidates to run on a platform that includes universal basic income, universal healthcare and an annual tax on wealth instead of income.

Don't be surprised to see a number of independents consider entering the field as the alternative to mainstream politics. That will include Democrats and even a Republican!

Another Fearless Forecast in finally on paper. As always it will be interesting to see how this one plays out, the good, the bad and the downright ugly.

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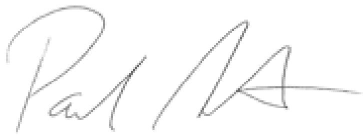

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