A Long-Range Economic Look at the Year 2018
Economy

POSITIVES
- No recession tripwires triggered
- James macro indicators are favorable
- Tax cuts historically boost economy
- Regulatory environment improved

NEGATIVES
- Record federal and consumer debt
- Multiple asset bubbles
- Trade agreements in peril
- Optimism too high

We believe the trend has turned and gains are likely in 2018.

Stocks

POSITIVES
- Momentum remains strong
- Solid earnings growth
- Long-term benefit of lower taxes

NEGATIVES
- Valuations near extremes
- Too much optimism
- Tax cuts initially disappointment
- E-commerce mania

The stock market is in a topping phase as evidenced by extreme valuations and too much optimism. We find the typical large-capitalization stock is at record highs according to Price-to-Sales® ratios. Likewise, euphoria reigns. Investors Intelligence recently reported the highest level of net bullishness in decades.

Bonds

POSITIVES
- Accommodating future Fed leadership
- Moderate inflation
- Lower interest rate trend intact
- Worldwide demand strong

NEGATIVES
- Quantitative Tightening
- Lower quality at risk
- Extreme low unemployment

The Federal Reserve Bank (Fed) will look different in 2018 with four empty seats and a new Chair, Jerome Powell. He has voted in line with Chairwoman Yellen and is likely to maintain his dovish stance while returning rates to a more "normal" position. Quantitative Tightening could push rates higher, however if the economy slows, this would be put on hold.

Eight years of low rates have encouraged more risk-taking, even in the bond market. As a result, investors are no longer being adequately compensated for investment in lower quality bonds. The recent high-yield bond sell-off suggests focusing more on higher quality bonds.

Tax law changes may impact municipal bonds.

International

POSITIVES
- Global economy growing with little inflation
- Euro-zone leadership increasingly pro-business
- Manufacturing nations experiencing growth
- Improved outlook for pro-business commodity exporters

NEGATIVES
- China’s huge debt problems may hurt growth
- Middle East risks heating up
- Bitcoin bubble may impact economies

Many punters are raising their global Gross Domestic Product (GDP) growth forecasts for 2018. Inflation is currently benign. Deflation seems vanished in Japan which may lead to better growth.

Focus on the level of net bullishness in decades.

We believe the trend has turned and gains are likely in 2018.

We see reasonable opportunities in some Euro-zone countries: India, South Korea, Vietnam, Peru and Chile.