

In this week's recap: A look back at 2018.



Weekly Economic Update

December 31, 2018

YEAR-END SPECIAL EDITION: A LOOK BACK AT 2018

The close of the year provides an opportunity for investors to step back and consider the wider financial landscape. This week, we're reviewing some key issues that defined 2018, as well as some factors that may influence financial markets in the coming year.

YEAR IN REVIEW

Wall Street began 2018 in rally mode, as enthusiasm for the 2017 Tax Cuts and Jobs Act spilled over into the New Year. Strong economic news encouraged investors, who put aside fears that rising inflation may lead to higher interest rates. What Wall Street did not see coming were the spring and summer trade disputes with China, Canada, Mexico, and the European Union. Fear of a global economic slowdown contributed to a sharp decline in stock prices in October. U.S. economic growth forecasts were tempered in November for 2019, with bulls and bears engaged in a fierce tug-of-war as the year came to a close.¹

ECONOMIC GROWTH

After expanding at a middling 2.2% pace in the first quarter, the Gross Domestic Product (GDP) rose 4.2% in Q2 and 3.5% in Q3. The Federal Reserve Bank of Atlanta forecast a 2.8% increase for Q4, which will be released on January 30, 2019 by the Bureau of Economic Analysis. The Congressional Budget Office expects GDP growth in 2019 to slow to 2.4% "as growth in business investment and government purchases slows."^{2,3,4,5}

INTEREST RATES

At the close of its September 2018 meeting, the Federal Reserve raised the federal funds rate to 2.25%, a full percentage point higher than it was a year earlier. Federal Reserve Chair Jerome Powell appeared to change his stance on monetary policy, saying interest rates were "just below" a neutral level. Prior to that, he indicated rates were a "long way" from neutral.⁶

CONSUMER PRICES AND WAGE GROWTH

The number of future interest rate hikes by the Fed may largely depend on its reading of inflation. An uptick in consumer prices or an increase in wage growth may prompt the Fed to consider additional hikes in 2019.⁶

TRADE TALK PROGRESS

Tariffs were a highlight of 2018 news. On July 10, the Trump administration announced a list of tariffs on \$200 billion in Chinese goods. The escalating trade dispute between the U.S. and China is an enormous overhang on the financial markets. The continuing impasse may affect economic growth and push consumer prices higher.⁷

2018 also was a year in which a major trade pact started to come together. The United States-Mexico-Canada Agreement (USMCA) was approved in principle in October. However, the agreement must be approved by Congress and the legislative bodies of Mexico and Canada before it can take effect.⁸

U.S. DOLLAR

Rising interest rates and robust domestic growth in 2018 lead to a strengthening of the U.S. dollar. A strong U.S. dollar may negatively affect profits of U.S.-based multinational companies, since it may make their products more expensive to overseas buyers. This will also be something to watch in the coming year.^{1,2,3}

REAL ESTATE

The trend of higher interest rates in 2018 was also felt in the real estate market. The average rate on a 30-year conventional home loan stood at 3.95% in January 2018. At year's end, it was hovering near 5% according to Freddie Mac.⁹

We hope you enjoyed this special edition newsletter! Next week, we'll be back to covering the market numbers. Best wishes to you for a prosperous New Year.

THE WEEKLY RIDDLE



The Weekly Riddle returns next week.

LAST WEEK'S RIDDLE: It is known for its aggressive styling and performance, yet its name contains the name of a gentle mammal. What make of car is it?

ANSWER: Lamborghini.

Richard J. Falck, CFP®, CLU, ChFC
509 Professional Drive · P.O. Box 530 Northfield, MN 55057
Phone ~ 507-645-2993 · Toll Free ~ 800-601-6638
www.falckfinancial.com · rfalck@falckfinancial.com

Securities offered through **First Heartland Capital, Inc.** Member FINRA/SIPC.
Advisory Services offered through First Heartland Consultants, Inc.
1839 Lake St. Louis Blvd., Lake St. Louis, Missouri 63367. (636) 625-0900
Falck Financial Services is not affiliated with First Heartland Capital, Inc.

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. The information herein has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All market indices discussed are unmanaged and are not illustrative of any particular investment. Indices do not incur management fees, costs, or expenses. Investors cannot invest directly in indices. All economic and performance data is historical and not indicative of future results. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. The NASDAQ Composite Index is a market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System. The Standard & Poor's 500 (S&P 500) is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. NYSE Group, Inc. (NYSE:NYSE) operates two securities exchanges: the New York Stock Exchange (the "NYSE") and NYSE Arca (formerly known as the Archipelago Exchange, or ArcaEx®, and the Pacific Exchange). NYSE Group is a leading provider of securities listing, trading and market data products and services. The New York Mercantile Exchange, Inc. (NYMEX) is the world's largest physical commodity futures exchange and the preeminent trading forum for energy and precious metals, with trading conducted through two divisions – the NYMEX Division, home to the energy, platinum, and palladium markets, and the COMEX Division, on which all other metals trade. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. MarketingPro, Inc. is not affiliated with any person or firm that may be providing this information to you. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. The content is developed from sources believed to be providing accurate information. The information in this material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. The opinions expressed and material provided are for general information and should not be considered a solicitation for the purchase or sale of any security. Investing involves risks, and investment decisions should be based on your own goals, time horizon and tolerance for risk. The return and principal value of investments will fluctuate as market conditions change. When sold, investments may be worth more or less than their original cost. The forecasts or forward-looking statements are based on assumptions, may not materialize and are subject to revision without notice.

CITATIONS:

- 1 - cnbc.com/2018/11/20/jp-morgan-sees-a-slowdown-coming-with-economy-growing-at-less-than-2-percent-in-2019.html [11/20/18]
- 2 - tradingeconomics.com/united-states/gdp-growth [11/6/18]
- 3 - frbatlanta.org/cqer/research/gdpnow.aspx [12/3/18]
- 4 - bea.gov/news/schedule [2018]
- 5 - cnbc.com/2018/08/14/us-economy-seen-strong-in-2018-to-slow-in-2019-cbo.html [8/14/18]
- 6 - marketwatch.com/story/seemingly-dovish-powell-says-interest-rates-are-just-below-level-where-they-wont-stimulate-economy-2018-11-28 [11/28/18]
- 7 - cnbc.com/2018/07/10/white-house-releases-list-of-goods-hit-by-200-billion-in-tariffs.html [7/10/18]
- 8 - businessinsider.com/us-canada-mexico-trade-deal-usmca-nafta-congress-vote-block-2018-10 [10/2/18]
- 9 - freddiemac.com/pmms/archive.html [11/7/18]