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

Weekly Economic Update

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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.

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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.

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CITATIONS:

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