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SHENKMAN

Reverse Course

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The worst December S&P 500 performance since 1931 quickly flipped to the best January performance since 1987. In late 2018, mounting investor pessimism over higher rates, a partial U.S. government shutdown, trade tensions with China, and fears of a U.S. recession traumatized the global markets. Suddenly, as the calendar turned, investor optimism blossomed. As a result of the Federal Reserve's telegraphed shift in monetary policy toward patience and their reversal on the normalization of its balance sheet, the economic and credit cycles should be extended. The Fed's new cautious policy is more related to global, rather than U.S., economic growth. Elevated concerns over a significant slowdown in China, weakness in the European economies, and Brexit drama still cast a shadow over the markets. Although the outlook for the U.S. economy appears favorable, GDP and earnings may grow at a slower pace in 2019. In a benign interest rate environment, the credit markets should attract new inflows as investor sentiment reverses course from the gloom of 2018.

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