Introduction

Following a year like 2017, in which most asset classes did very well, 2018 was a down year for virtually all major asset classes globally. At the end of 2017, the best way to describe the global macroeconomic backdrop was "synchronized global growth." Fast-forward a year and the world's economy is still growing, but a better term for the current situation is "decelerating global growth." The major themes of 2018 were U.S. tax reform that boosted the U.S. economy, a prolonged U.S./China trade dispute that caused uncertainty, an active Federal Reserve that raised interest rates 4 times, and the return of a higher, and more normal, volatility environment that startled investors in the fourth quarter.

Most stocks declined in 2018, and U.S. bonds were flat or down for the year. In fixed income, the Bloomberg Barclays U.S. Aggregate Index traded with a loss through most of the year but finished essentially breakeven (+0.01%) after a strong flight to quality move in December. U.S. High Yield declined 3% after the December rout. In stocks, the S&P 500 finished down 4.38% for the year, and international markets suffered deeper losses. The MSCI ACWI Ex-USA lost 14.20% in 2018, and the MSCI EM declined 14.58% (both in USD terms). As we outline in the following sections, 2018 was marked by diverging yet decelerating growth, decreased liquidity, and recurring headline risks.

The United States and China remain the two global growth engines, while the Euro area and Japan tend to provide lower growth on a relative basis. The U.S. likely grew over 3% in 2018 and China 6.5%. The Euro area and Japan grew under 2%. In some de-synchronization, Germany and Italy contracted in Q3 2018. Emerging market countries with high debt loads, such as Turkey and South Africa, also suffered. The chart below shows the Organization for Economic Cooperation and Development's (OECD) estimates for calendar year GDP growth by region.

2019 Outlook

As we enter a new year, Sage’s outlook is that U.S. economic growth will decelerate, but that a recession is not imminent. Congressional elections in the U.S. ended up being a non-event from an investment perspective. The U.S. consumer remains strong, and the labor market has recently been friendly to workers, as evidenced through low unemployment and higher wage gains. Euro-area growth offers less promise due to political instability, but growth overall, though slower in recent quarters, remains positive, and inflation remains moderate. Growth for emerging markets, while unsteady in the first half of 2018, seems to have stabilized somewhat. China’s economy has been hit by the uncertainty of the U.S./ China trade tariffs, but its government is providing fiscal stimulus, and the transition of a manufacturing economy to service economy is continuing apace.

However, the risk is rising that financial markets could begin to price in a U.S. recession even if the economy is not yet in recession. This is, in our view, the chief risk in 2019. In the U.S., cyclical industries have shown signs of weakness due to higher rates (e.g., housing, automobiles, semiconductors). The decline in global trade has caused business uncertainty in China and Europe, which has dented sentiment and led to declines in spending. Further, political unrest in Europe (e.g., Brexit, French “Yellow-Vest” protests over financial reform) is likely to continue for the foreseeable future. The tide of central bank liquidity is in the rearview mirror, and a higher volatility, lower growth environment is upon us. After two years of gradual rate hikes, the Federal Reserve is likely in 2019 to pause its quarterly interest rate hiking campaign. Oil price direction remains unclear, but OPEC seems determined to cut production to balance the market supply of crude oil.

	More Adverse	2019 BASE CASE	More Positive
United States	• Rising rates cause economic growth to stall and credit to contract. • A strengthening labor market, already near full employment, leads to significant wage increases that hurt profit margins. • Aggressive U.S. foreign policy causes geo-political tremors that worry global markets. • Budget negotiations in the U.S. lead to uncertainty surrounding the debt ceiling (Summer 2019). • Dollar rebounds to 2016 highs, protectionist trade policy imposed, and exports stall, hurting corporate profits. • Equity valuations decline as interest costs rise due to concerns about Trump administration's fiscal and trade policy, and/or concerns about slowing rowth.	• Economy continues to grow at a modest pace between 1.75% and 2.5%. Wages rise but consumer spending levels off as interest rates rise and effects from tax reform fade, reducing corporate earnings and business spending (capex). • Unemployment moves lower as the labor market tightens, likely ending the year between 3.5% and 4.0%. • U.S. / China trade relations continue to be tense, but do not deteriorate further. A trade middle ground is reached that is neutral for global markets. • Core fixed income returns are weak after inflation, as rates remain at historical lows and the Fed is likely to continue monetary contraction via hikes (0-2 times) and quantiative tightening, and inflation expectations increase modestly but growth slows. • High yield taxable bonds underperform core fixed income due to high valuations and decelerating economic growth. • Unconstrained strategies have less duration risk than core bonds, and thus supplement them. • Stock market volatility remains elevated and piqued at times, as share buybacks decrease and valuations contract.	• The market shrugs off rate hikes and slower growth, and puts in a double-digit return as valuations and earnings improve; financials may lead the way. • A strengthening labor market and near full employment leads to modest wage increases and greater consumption. • U.S. / China reach a trade deal that causes positive sentiment to return to global markets. • Oil prices remain stable, gasoline and other costs subdued as inflation expectations moderate, and a more confident consumer accelerates spending. • Congress passes fiscal stimulus package including infrastructure reform, which along with recent tax reform helps to catalyze economic growth, and the market responds favorably. • Equity valuations return to cycle highs as trade, political, and profit concerns wane.
Europe	• Activist and nationalist parties make gains in places like the U.K., France, Spain, or Italy, pushing for exit from the EU and creating greater economic uncertainty. • Brexit negotiations break down prior to the deadline, Italy/E.U. relations worsen, and European equities are volatile due to heightened political uncertainty. • Weak international growth, unfavorable global trading environment, or stronger than anticipated Euro hurts European exports and economic growth loses steam. • The ECB mishandles continuation or reduction of policy stimulus and markets are disappointed.	• Economic growth remains positive but lower and challenged due to Brexit concerns, French protests, political nationalism (including conflicts between states like Italy and governing bodies like the European Commission). 2019 GDP estimated to be between 0.75% and 1.75% amid more consumption and growing exports due to a weak Euro on an historical basis. • Brexit details get resolved in some way ahead of the March deadline, which itself could also be delayed. • European Central Bank phases out stimulus measures, including sovereign bond purchases, and provides additional uncertainty to asset prices. • European equities underperform U.S. equities as the easy monetary policy begins to end, economic growth continues to decelerate, and the risk of populism weighs on sentiment.	• Markets cheer the relatively smooth path and terms of Brexit; Euro-skeptic or activist parties fail to win greater political influence, and France protests die out. • Absence of other political drama and greater confidence in democratic stability spur return of inflows to Eurozone assets. • Economic growth closes the gap with the U.S., and Eurozone equities provide double-digit returns to investors. • Steeper yield curves, or just higher rates, help banking sector, which lifts broad market valuations higher.
China & Emerging Markets	• In China, social unrest and political resistance (e.g., from state-owned enterprises), and reduced or haphazard government policy foment "hard-landing" economic downturn; GDP growth falls below 5%. • U.S. / China trade relations further deteriorate and the knock-on effects cause businesses investment to decline and growth to fall. • Commodity prices move downwards to 2015 levels, which hits countries like Brazil, Russia, and other net-exporters. • U.S. dollar strengthens significantly and emerging market currencies experience additional losses.	• China's growth continues to stabilize in the 5.5%-6.5% range as the government maintains economic support. • Generally strong growth across EM countries (est. 4%-6%) remains higher than in developed markets (est. 1%-2%). • EM equity returns outperform international DM in 2019 as investors are attracted to valuation discounts and attractive growth relative to the developed world. • Bond returns positive but more moderate due to currency moves and the "prove it" stage of expansion.	• Economic growth is higher than expected. In particular China's growth remains stronger than expectations from the weaker currency improving exports, and the government unleashes additional stimulus. • The Fed delays hiking rates or moves slower than expected; EM currencies jump, fueling bond and stock returns. • Valuations close the gap with U.S. stocks and deliver double-digit equity returns.

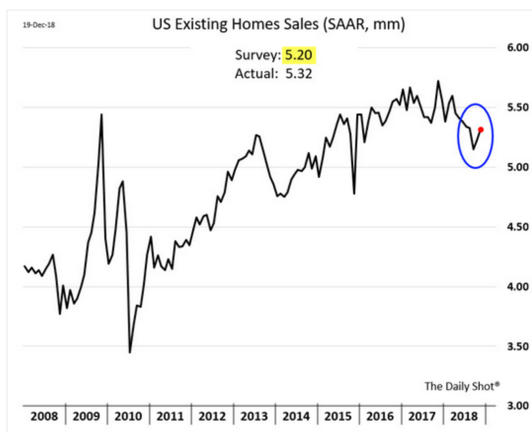
The U.S. Economy

The U.S. economy grew at an above-trend 3.1% (est.) in 2018. Following the Tax Cuts and Jobs Act (TCJA) of 2017, consumer spending growth was robust, and businesses bought back stock, raised wages, and spent on capital expenditures (capex). That activity and optimism buoyed stock prices through the first 9 months of 2018. Consumer confidence gained throughout the year, and it remains near cycle-highs, although it did moderate towards the end of the year.

We believe that 2019 will see additional, if more limited, improvement in the labor market and consumer spending, and some moderation in business spending. Our base case is that unemployment will decline further, and wage growth will modestly accelerate in a way that will help consumers without significantly disrupting profit margins. Consumer confidence may decline from current levels, but it is likely to remain near cycle-highs. We expect GDP growth to decelerate in 2019 when compared to 2018's above-trend 3% growth. However, a more modest 1.75-2.50% GDP growth target still signifies a strong economy, and consumer sentiment and spending remain strong.

Consumer spending represents more than two-thirds of the U.S. economy and remains robust. Unemployment is at 50-year low levels. Wage growth has strengthened, but it is not so strong that it is hampering corporate profit margins. Further, low oil prices and continued tax benefits should continue to boost consumption as 2019 gets underway. Further, consumer sentiment remains near cycle highs (graph nearby). All of these factors should be tailwinds for the consumer and therefore the U.S. economy.

Some cracks have appeared in cyclical sectors (e.g. housing, automobiles), but the declines have been modest in nature. The graph nearby shows how the housing sector looks compared to past years. While higher interest rates certainly dampened the outlook for the housing sector, the data does not suggest a steep drop. Also, the recent decrease in bond yields due to investor risk aversion has spurred some additional demand for mortgages.



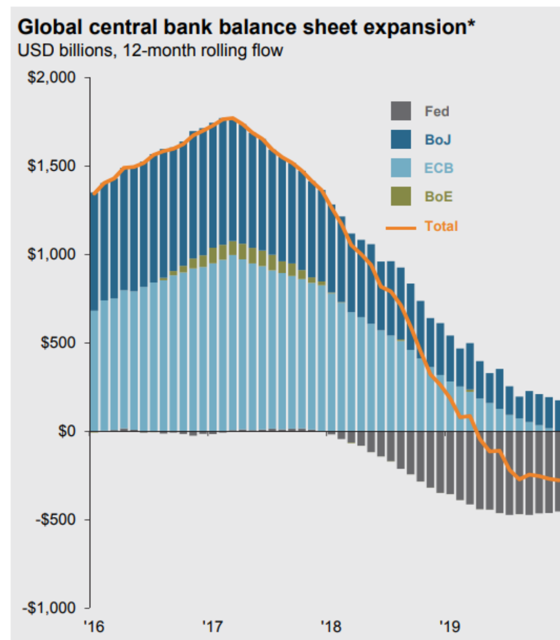
However, while rates climbed throughout the first three quarters, global growth concerns caused rates to decline rapidly. For example, in August bank mortgage rates had climbed above 5% for the first time since 2013 but are now back down below the psychologically significant level.

Overall, while not every sector is booming, the consumer is in good shape, jobs are plentiful, and businesses continue to benefit from increased spending. We expect economic growth to moderate from an above-trend 3% in 2018 to a range of 1.75%-2.5%.

Global Central Banks

As the global economy sank into recession in 2008, the largest global central banks started to engage in what became known as quantitative easing (or "QE" for short). The Federal Reserve, Bank of Japan (BoJ), European Central Bank, and Bank of England all purchased bonds in an effort to ease financial conditions for companies and consumers. It worked, at least in the short-term. Interest rates came down, stocks rose, and both businesses and consumers began to spend again.

Slowly the global tide of central bank liquidity began to turn at the end of 2017 when the Federal Reserve began its quantitative tightening (QT) program. The ECB's bond buying program ended as of January 1, 2019, and the BoJ has shown signs of decreasing its activity. Many economists expect the ECB to raise rates later this year, but that could be delayed. On a rolling 12-month basis, central bank balance sheets are contracting for the first time since the recession. In our view, this shift in central bank policy has contributed to the elevated volatility in the market, but its contribution largely goes unseen because it has no immediately visible effects as with interest rate hikes.



Source: J.P. Morgan Asset Management;

We expect this trend of quantitative tightening by central banks to continue throughout 2019, and it will likely contribute to a higher, and more normal, level of market volatility along with modestly higher interest rates. It also seems likely to us that this tightening policy lever becomes a more discussed topic as the liquidity tide shifts, especially after Federal Reserve Chairman Jerome Powell mentioned at his December press conference that the balance sheet runoff was on "autopilot." We expect Chairman Powell to continue to downplay these comments and express flexibility given the volatility in global financial markets, as he began to do the first week of January.

Fixed Income and the U.S. Federal Reserve

The U.S. Federal Reserve raised its benchmark Fed Funds rate by 0.25% each quarter in 2018. Those increases brought its total number of 0.25% rate hikes to 7 since the beginning of 2017. The world's most influential central bank also continued to shrink its balance sheet through quantitative tightening (QT), which, as just noted above, further tightened financial conditions.

As 2018 began we expected 3-4 hikes, which proved to be accurate as the FOMC hiked rates four times. However, in part because of QT, the degree that financial conditions have actually tightened on the ground has exceeded our expectations. The Goldman Sachs U.S. Financial Conditions Index shows that conditions have tightened considerably since the beginning of the year (shown below).

Three major components of financial conditions are interest rates, credit spreads, and equity prices. Higher interest rates were expected by many, but higher credit spreads and lower equity prices were not. Each of these three developments make it more difficult for companies to access capital markets. Higher interest rates and credit spreads increase the cost for companies to issue debt, which can eat into profits. Lower equity prices mean companies would have to issue more shares of stock to raise the same amount of capital. Many of the factors for tighter financial conditions have been external, including slower growth in Europe and China.

As we think about 2019, we think that the Federal Reserve has realized that the economy has become increasingly fragile and will only hike rates 0-2 times. In our view, the first potential hike may (if there is one) be in June, meaning the FOMC will likely skip a quarterly rate hike in March.

The current ongoing government shutdown is not an event that matters in the context of equity or fixed income markets, but what could matter is the deadline to raise the debt ceiling sometime in the summer. If a budget deal or extension is not reached, the U.S. government would default on its debt for the first time in history. This is very unlikely to happen, even given the divide in the political parties because elected officials would all wish to avoid the significant consequences of a default. However, just the minute possibility of a debt default could mean additional interest rate volatility during 2019.

In our view, this more modest path of interest rate increases by the Fed in the context of divided government will likely translate into higher yields overall from where they ended 2018, but there may be some wider fluctuations in yields across the curve.

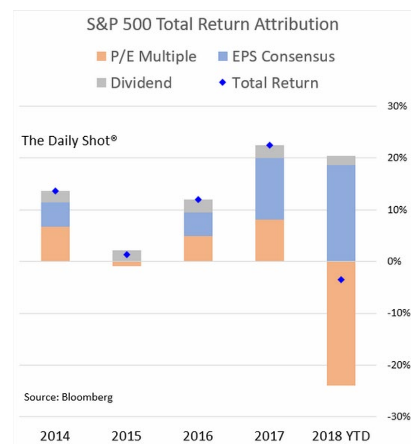
Equity Outlook

2018 ended up being a bit of a roller coaster for global stock markets. While markets were resilient in the face of geopolitical noise through the first nine months of 2018, asset prices began to factor in additional risk in early-October. An abundance of headlines (Federal Reserve policy, trade disputes, oil prices, etc.) kept risk concerns alive, but the underlying anxiety has been centered on global growth. In our view, uncertainties brought about by trade concerns, coupled with a late-cycle economy, have been the main drivers. Some progress was made on the trade front following the G20 summit; however, the U.S. and China still have many details to work out in the current trade negotiations despite the apparent "truce" reached at that summit.

The global stock market, as measured by the MSCI ACWI, was up 3.65% through September, but it dropped approximately 13% in the year's final quarter. International stock markets sold off first and then were followed by the more trade-insulated U.S. Global trade declined during the quarter, which affects different regions to different degrees, but estimates of 2019 earnings anticipate a decline materially across the globe.

United States Equity

Through the first three quarters of 2018 the S&P 500 was up double-digits. However, as global growth concerns increased, price to earnings multiples (i.e., the stock price divided by the company's earnings per share) contracted significantly, and 2019 earnings estimates came down. Technology stocks fell precipitously due to worries about decelerating global growth and increased regulation. Technology stocks receive more than half of their revenue from sources outside of the U.S. The S&P 500 Index of large-cap stocks finished the year down just over 4%. We expected price-to-earnings ratios to contract coming into 2018 because of the one-time boost in earnings from tax cuts, but they contracted by more than expected (as shown in the chart nearby).



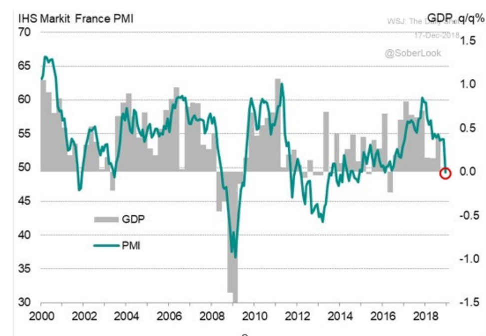
Sage's base case is that U.S. equity markets deliver positive returns in 2019. Sentiment surrounding markets is at a multi-year low, which tends to be a contrarian indicator. When the outlook of a vast majority of investors is negative and that negativity is palpable, a bottom in prices can form. At the end of 2018, the CNN Fear & Greed Index calculated that there is "extreme fear" in the markets. Despite this level of skepticism, the economic situation in the United States remains, of the major economies, among the strongest in the world. Consumers are still in good spirits given the strong jobs market and improving

wage growth. Cyclical industries such as housing and automobile related companies have suffered some weakness due to higher interest rates, but that has at least temporarily subsided, and some positive trends have returned.
As with any calendar year, there are risks. Some companies have cited slowing global economic trends as the reason for downward revisions to 2019 earnings guidance. U.S. stocks are increasingly global in nature. According to J.P. Morgan Asset Management, the 500 largest U.S. companies derive 44% of their revenue from international sources. A recent example of this is FedEx. It receives about half of its revenue from non-U.S. sources. In its most recent earnings report, FedEx management cited "declining trends in revenue growth in our international operations, particularly in Europe and Asia." The pace and potential effect of further technology regulation in the U.S. and Europe will also be a key story as data privacy has increasingly come under government microscopes. Overall, we think that the strength of the U.S. economy will outweigh global softness, and U.S. stock markets will post modest positive returns in 2019.

Europe and Developed Market Stocks

2018 was a year in which many headwinds blew across Europe. Some were old problems resurfacing with greater vigor (e.g., Brexit), and others were newly created (e.g., Italy's budget crisis). Trade conflicts between the E.U. and U.S., as well as China and the U.S., also challenged the heavily export-dependent European economy.

Our outlook regarding developed international markets is mixed. Europe's GDP growth and corporate earnings likely peaked in 2017, and political uncertainty remains high in many regions. International trade is creating additional uncertainty. The trade tariffs themselves are decidedly negative, but the lingering uncertainty around future tariffs prompts businesses to delay spending, and that hurts the economy. International developed markets are affected the most because the overall economy is dependent on exports.



The two biggest examples at the end of the year of how political uncertainty can rattle investors are from the U.K. (Brexit) and France (continued "Yellow-Vest" protests). Leading economic indicators in Europe have turned weaker in recent months, including certain measures of production. For example, the nearby chart shows that the French PMI (Purchasing Managers Index of business activity) recently dipped below 50, which signals contraction in the manufacturing portion of the economy. Italy experienced economic contraction in the third quarter in the face of budget negotiations with the E.U. that have since passed. Germany's GDP also contracted partly due to lower global auto sales and declining global trade.

It is possible for European equities to post a positive return in 2019, despite several currently outstanding headline topics. The single biggest event will be Brexit, for which the deadline is 3/29/2019. It seems to us that the two most likely outcomes are that there will be either (1) a deal passed through the U.K. Parliament, or (2) a second referendum that is in favor of staying in the E.U. that delays any actual exit. However, a “hard Brexit,” or leaving with no deal and reverting back to World Trade Organization guidelines, is still on the table if a deal cannot be reached and/or a new referendum cannot be passed. This hard Brexit scenario would likely be a significant hit to U.K.’s GDP growth and corporate earnings.

Further, France’s economy has been disrupted by the Yellow-Vest protests, which have started to die down (though discontent has not). The French economy is the 6th largest in the world and the 3rd largest in the E.U. behind the U.K. and Germany. If the economic reform package President Macron announced in December can quell the protests, a French economic and market rebound may be in store for Q1 2019.

China and Emerging International Stocks

2018 was a tough year for emerging markets (EM) in general and for China in particular. The MSCI EM Index was down 15% during the calendar year, after having posted a solid 38% gain in 2017. From an economic perspective, EM fundamentals are still relatively sound on the whole, despite pockets of trouble such as Venezuela or South Africa. Sage’s base case is that EM stocks bounce back in 2019 after a down year in 2018, reflecting high relative growth when compared to a decelerating U.S., and a challenged Europe.

In China’s case, the world’s second-largest economy experienced problems that come with trying to become the top superpower. Its Belt and Road Initiative (BRI) hit roadblocks from the global community. The U.S. prioritized two issues, its trade imbalance and intellectual property theft, which had previously occurred without much scrutiny or repercussions.

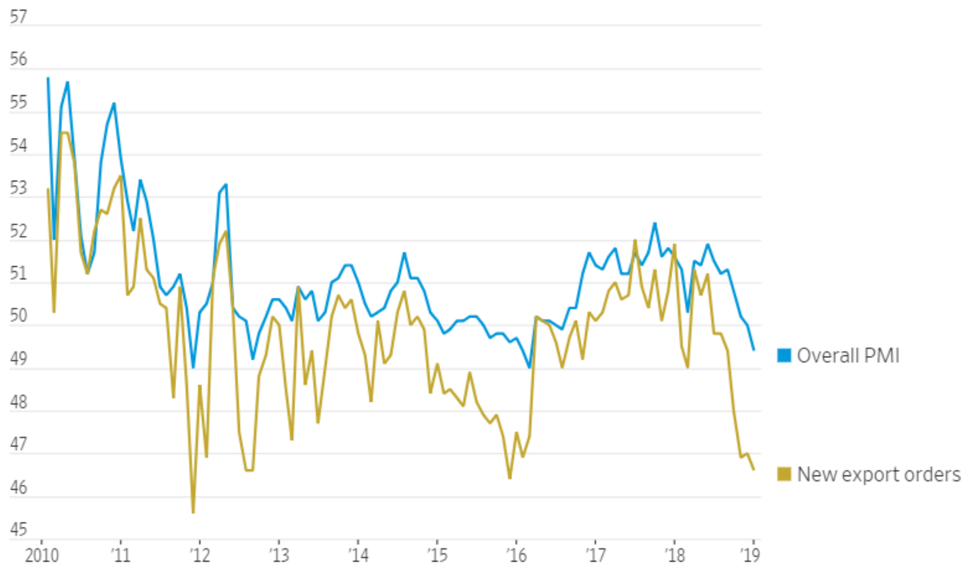
The GDP growth differential remains wide between emerging markets (EM) and developed markets (chart on the left below). Further, as shown below, overall foreign currencies have been stabilizing after the precipitous drop from April through September. Higher growth and stable currencies should be tailwinds for emerging markets in 2019.

China's growth continues to decelerate in an organized and planned fashion as part of the transition that its economy is moving to a service-based economy. However, the ongoing trade war has raised uncertainty about potentially "faster deceleration," and that worry has hit its stock market. China's manufacturing economy in particular has been negatively affected due to the uncertainty. The official measure of manufacturing productivity turned negative by the end of the year. We expect fiscal policy support to continue to increase in the coming months. This would at least partially offset damage done by the U.S./China trade conflict and keep GDP growth near 6% annualized.

Overall, the emerging economy remains strong, although there are increasing divergences that have led to negative ripple effects in select countries. Fewer rate hikes in the U.S. may lead to a less strong dollar, which would also likely support EM.

Trade

U.S. and China trade tensions and the uncertainty that these tensions introduced have put a strain on global economic growth. In the U.S., regional indicators have started to show weakness in Q4. Europe, which had been weakening since summer 2018, has turned negative particularly in export-dependent countries (e.g., Germany automobiles). Foreign investment in China has declined, its PMI has dipped into negative territory, and new export orders declined to their lowest levels since 2015.



Similar to late 2015 and early 2016, it is possible that a confluence of events is making the outlook seem gloomier than the reality will be. In Q4 2015, the Federal Reserve raised interest rates, oil prices plunged, corporate credit spreads widened, and stock prices fell. At that time, China's growth was disappointing expectations to the downside. In the months that followed, the slowdown proved to seem worse than it actually was. Oil prices eventually rebounded due to OPEC production cuts and moderating U.S. oil supply. The Fed responded to fiscal conditions by not raising interest rates again until the end of 2016. Outside the U.S., fiscal stimulus in China was able to stabilize growth above 6%, further supporting the case for a "soft-landing." In our view, it is possible that a similar situation is occurring today. While global economic momentum has slowed, there are few signs of economic imbalances.

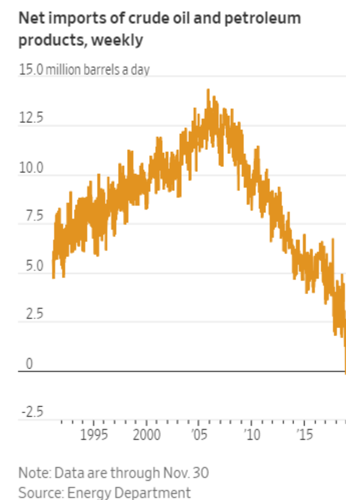
Momentum can snap back following a catalyst serving to clear up uncertainty. Right now, those major uncertainties are U.S./China trade tensions and weakening economic data. In today's global economy, without a resolution on trade it seems unlikely that data can rebound. Businesses around the world are waiting for the U.S. and China to either make a deal or rachet up the trade war before making major business decisions. European businesses are heavily dependent on exports to China, and the same is true with China exporting to the U.S. If the trade deal gets done, China's 2019 fiscal stimulus should prove effective in turning the tide on growth, which would filter out to the rest of the world.

The risk to the above view is two-fold. Either a trade deal does not get done, or it gets done and economic momentum has slowed to the point where it does not reverse course. If a trade agreement is not reached, China's stimulus may not be effective. Under 25% tariffs, China's goods cost more to American companies. These companies will look elsewhere for their supply chain needs, which reduces investment in China, jobs, and the like. Further, many market participants may be waiting for the Fed to show that it is truly data dependent after a (perhaps) misguided statement regarding unwinding the balance sheet

on "autopilot." Chairman Powell has seemingly begun to alter his communicative tone and reassure markets, as he did on the first Friday of the month.
Overall, we think both China and the U.S. are motivated to reach a deal. The two sides recently met in Beijing on Jan. 7-8, and the Federal Reserve's next policy decision is at the end of January.

Energy and Oil

The oil market and related energy sectors have continued to be volatile. Supply has recently outpaced demand, which has led to an oversupplied global oil market.



On the supply side, the U.S. became a net exporter for the first time since the oil embargo in 1973. Lifting the energy export ban has allowed energy production companies to send oil tankers to Europe and Asia, and they have done so in droves. Through November, U.S. oil exports reached 3.2 million barrels per day, which was more than the amount of oil imported. The U.S. oil sector has remained much more versatile than most observers expected. When oil dips below $40/bbl, many producers are able simply to slow pumping, and when it rises above $60/bbl they then turn the spigots back on. This has created a relatively reliable trading range for the price of crude oil, although prices are again testing the lower end of that range.

Outside of the U.S., Saudi Arabia has been posting record production numbers. President Trump has been pressuring the Kingdom to increase production (and lower oil prices) in an attempt to help U.S. consumers spend their money at places other than the pump. This campaign, though, has created concerns that Saudi Arabia and other OPEC member nations might destabilize the global energy and economic balance through aggressive policy measures. Further, the murder of veteran anti-Saudi journalist Jamal Khashoggi put crown prince Mohommad Bin Salman under the microscope of U.S. authorities. Still, OPEC and Russia showed resolve by agreeing to cut production by 1 million barrels per day and may end up cutting more if oil prices continue to fall.

There have been other concerns in the headlines as well, such as increased electric vehicle use, but demand growth has continued to steadily climb (table below).

Change in production and consumption of liquid fuels
Production, consumption and inventories, millions of barrels per day

Production	2015	2016	2017	2018*	2019*	Growth since '15
U.S.	15.1	14.8	15.7	17.8	19.5	28.6%
OPEC	38.4	39.4	39.3	39.1	38.8	1.1%
Russia	11.0	11.2	11.2	11.4	11.6	4.9%
Global	**96.6**	**97.0**	**97.7**	**100.1**	**102.1**	**5.7%**
Consumption						
U.S.	19.5	19.7	20.0	20.5	20.7	5.9%
China	12.4	12.9	13.4	13.9	14.3	15.8%
Global	**95.4**	**97.0**	**98.6**	**100.1**	**101.5**	**6.4%**
Inventory Change	1.2	0.0	-0.8	0.0	0.6	

Source: J.P. Morgan Asset Management; EIA

While we think the oil markets will continue to be volatile, the U.S. energy renaissance remains firmly on track. Oil tends to be the most discussed part of the energy sector, but natural gas exports are a major source of revenue growth in the sector as well, and something that we continue to watch.

Concluding Thoughts

The more volatile market activity that began in October and then continued in November/December may suggest something of a market change. Positively, one result is that equity valuations are now less pricey in the U.S. and in Europe than they had been. We can still say that valuations in EM countries are quite low and attractive, a viewpoint confirmed by portfolio managers of Asian stock funds in particular with whom we have spoken. So, there is potential upside from the lower levels reached at year-end 2018. On the other hand, the largest lingering questions relate to global growth, Chinese financial stimulus, Fed policy and communications, global trade tensions, geopolitical ramifications, and general investor sentiment amid fading fiscal boosts in the U.S. from tax reform. If businesses like Apple, FedEx, and others are having trouble making money in the current backdrop, investors might not think those challenges are temporary as they look to a now very late inning expansion. The risk continues to be, then, that financial markets further price in a recession that is still some quarters or year in the economic future. But if a trade agreement between the U.S. and China is made, the Fed continues to communicate flexibility and data-dependency, something less than a disorderly "no-deal" Brexit occurs, and geopolitical risks remain muted, investor anxiety about a potential recession would likely subside and animal spirits might increase.

No one can predict how the markets will behave, or what political and world events will unfold. What we can do is to be mindful of our clients' long-term goals so that we can position their portfolios for a wide range of potential present-day economic outcomes. Despite the risks associated with any particular 12-month time period, Sage allocates an appropriate portion of client portfolios to stocks and other more aggressive investments not because we know precisely that 2019 will produce good results, but because over a multi-year perspective stocks and other related investments are still likely to be the highest returning asset class, just with a series of mostly unpredictable ups and downs along the way.

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