
WHAT CAN PUSH THE MARKETS FORWARD IN 2019?

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In last week's episode of the "Behind the Markets" podcast, I was joined by Gene Goldman, director of research and CIO of Cetera Investment Management. Our discussion ranged from Goldman's role at Cetera to recent trends in emerging markets and macro data that might portend a U.S. recession.

After graduating from an engineering school, Goldman switched into finance and pursued an MBA, but his engineering background provides a strong foundation for analyzing numbers and market trends. Spending his early career working at two independent broker-dealer firms in Boston, Goldman then found his way to Cetera Investment Management.

Directing research while serving as CIO, Goldman believes Cetera's strong value proposition stems from its 7,700 advisors and its \$250 billion of assets under advisement. Cetera provides an extensive network of tools that allows the team to be proactive in helping clients reach their long-term financial goals. It emphasizes financial planning when formulating investment strategy, and from there Goldman's team offers research on the markets, portfolio optimization and security analysis.

Goldman describes Cetera's general economic sentiment as "cautiously optimistic," mentioning that despite the [correction](#) last December it remains confident there will not be a trade war, an upcoming [recession](#) or further [rate hikes](#) in 2019. With the [S&P 500](#) up 13% when we had our discussion, Goldman sees all of those factors being entirely priced into the market, and he is interested to see what forces will drive it going forward.

Goldman sees few forces to push the market forward in 2019, coupled by 3% expected earnings growth, weak manufacturing and consumer data reports and weakening auto and housing markets. Goldman is thus keeping a close eye on recession indicators. Traditionally, surges in oil prices and large amounts of corporate debt have sent the economy down. Goldman notes, however, that oil prices have been down year-over-year while his corporate debt indicators are below their longer-term averages.

In current market conditions, Goldman likes that the U.S. market has decoupled from weaker global markets and is ratcheting down growth exposure by getting out of sectors analogous with growth. In fixed income, Cetera is generally under-weight in [credit](#) as it doesn't believe the narrow [spreads](#) justify the risk. Likewise, the recent flattening of the [yield curve](#) and subsequent inversion between the 3-Month bill and 10-Year bond leaves no incentive for [duration](#). This has led Cetera into [U.S. Treasuries](#).

On a global front, Goldman believes the issues with the markets, economies and demographics in both China and the U.S. will force a trade agreement. In an attempt to diversify, he likes developed global markets such as the EU and Japan because the negative performance and outlook are already priced in. This has led to undervaluation of the more promising sectors in Europe and Japan.

Goldman is hesitant about emerging markets, noting the belief that the positive performance of many emerging economies is a result of their status as an input to the Chinese economy. Furthermore, emerging markets' high vulnerability to a strong U.S. dollar is worrisome, and Cetera prefers active strategies that can navigate around these

risks.

This was a great conversation with Goldman; please listen to the full discussion below.

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DEFINITIONS

Correction : A drop of 10% or greater in an Index or stock from a recent high.

Recession : two consecutive quarters of negative GDP growth, characterized generally by a slowing economy and higher unemployment.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

Credit : A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future.

Spread : Typically refers to a difference between a measure of yield for one asset class and a measure of yield for either a different subset of that asset class or a different asset class entirely.

Yield curve : Graphical Depiction of interest rates on government bonds, with the current yield on the vertical axis and the years to maturity on the horizontal axis.

Duration : A measure of a bond's sensitivity to changes in interest rates. The weighted average accounts for the various durations of the bonds purchased as well as the proportion of the total government bond portfolio that they make up.

Treasury : Debt obligation issued by the U.S. government with payments of principal and interest backed by the full faith and credit of the U.S. government.