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The stock market is at 'a crossroads' and on course for a 'reckoning' in 2019, investors say

By Dion Rabouin   November 16, 2018

The current downturn in U.S. stocks could be a sign that the slowing global growth theme, which has seen economic pullbacks in China, Japan, Europe and emerging markets around the globe so far this year, is finally be coming to the United States.

The warning sign this time around may be commodities, which are sinking, led by crude oil in the midst of its worst sell-off since 2014 and now in a bear market, down more than 25%.

“There seems to be a reckoning occurring or beginning in the U.S. equity market,” Wasif Latif, a portfolio manager and head of global multi-assets at USAA, told Yahoo Finance. “The rest of world is telling us that things may not be as rosy and as good in terms of the outlook and U.S. large-cap equity … has yet to catch on to that. It may be catching on now with the price action we’ve seen so far this November.”

It’s not just a glut of supply from the United States and Russia that’s tanking oil prices. The market is sounding the alarm of a looming growth reversal around the world, analysts warn.

In addition to commodities prices and slower growth than in 2018, stocks will also be fighting an uphill battle against higher U.S. interest rates, a pullback in earnings for American companies, the increasing U.S. debt and annual budget deficits as well as complacency from equity investors.

“I think U.S. markets really are at a crossroads,” said John Linehan, chief investment officer, equity, at T Rowe Price, during a briefing this week in New York. “There are very significant reasons to be confident about the market but some real reasons to see that there’s some risks that pose a very clear and present danger.”

Linehan predicts that as the Federal Reserve continues to raise U.S. overnight interest rates, currently at 2.00% – 2.25%, more money will move out of stocks and into bonds. He also worries that investors who have nearly a decade of experience but have never seen a bear market will panic once stocks do sink by 20%, and worsen the selloff.

This is all happening as the U.S. dollar is strengthening, making it more difficult for American companies to make money overseas and pulling down U.S. exports. A strong dollar also adds to the weakness in commodities prices, as commodities like oil, copper and gold – all of which are down notably this year – are priced in dollars.

Add to that the fact that even though the S&P 500 is still positive for 2018, much of the index, and particularly cyclical sectors like financials, industrials, energy and materials, have shown losses for the year.

“The entire message of the stock market has been one that global growth is going to weaken,” said Jim Paulsen, chief investment strategist at the Leuthold Group. “The commodity market has the same message of economic weakness coming.”

Adding to the uncertainty is the increasingly likelihood of an unexpected shock from the U.S. trade war with China or growing discord in Europe or rising nationalism and opposition to immigration across the world or the always volatile Middle East.

“That is my greatest concern,” said **Bernard Baumohl, chief global economist at The Economic Outlook Group.** “What will derail the U.S. and international economy most will be one of these exogenous kind of shocks, these black swan events.”

Baumohl, a renowned economist and author of the popular book, “The Secrets of Economic Indicators,” says he expects investor psychology to be negative for much of next year.

While few of the economists and portfolio managers interviewed said they foresee a recession in 2019, many predicted overall slower growth for the United States and much of the world, leading to potentially negative returns for global stocks.

“U.S. growth has peaked this year and there is disappointment that we’re not seeing greater growth in Europe given that short-term rates there are negative,” **Baumohl** said. “But there are lots of other problems that Europe and China are experiencing. Investors will be aware of that, and react to it, so I suspect you will not be seeing stock markets rise anywhere near the level we saw in 2018.”

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