Forecasting the economy in 2019

International trade disputes, the continuing effect of the 2017 tax breaks and Amazon's imminent expansion all will influence the 2019 economic outlook for New York City as well as the country at large. In combination, these factors make it difficult to anticipate how events may unfold in the New Year.

To get a sense of what to expect, Crain's Custom turned to City National Bank, a full-service banking and investment company with three offices in New York City. We spoke with Brandon Williams, City National's eastern regional manager of private banking.

Brandon Williams
Eastern Regional Manager
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Q *Crain's:* What is the economic outlook for 2019, and how will it impact the U.S. stock market?

A *Williams:* We are in the latter stages of an extremely long economic growth cycle, so we anticipate a slowdown in global and U.S. GDP going forward, but not a recession in the U.S.

U.S. employment, the American consumer and corporate profits are all strong, but market volatility is likely to continue. We view the current pullbacks in the market as a correction, rather than the beginning of a more severe and prolonged downturn. S&P 500 earnings should slow from more than 20% growth in 2018 to 5% growth in 2019 as the tax stimulus wears off and other factors contribute. We estimate that U.S. GDP growth will slow to about 2%, possibly slightly higher, assuming an inflation rate of 2.2%.

Based on our outlook for economic growth and improving corporate earnings, we remain bullish on equities in general and continue to see attractive prospects in the opportunistic fixed income class. Bear markets outside recessions are rare. Still, we believe investors should prepare for more moderate returns in the months ahead and perhaps greater volatility. Patience and discipline will be more important than ever. The investment landscape is growing more challenging as investors adjust to more typical late-stage expansion conditions of higher inflation, rising interest rates and less accommodative monetary policy.

Meanwhile, concerns over global growth, rising trade tensions, midterm elections, and other geopolitical risks mean markets will likely continue to be subject to periodic swings in sentiment and potential pullbacks. All of this clearly highlights the value of experienced advisers with a focus on active management and the need for investors to become more selective.

Q *Crain's:* How do you expect the trade disputes to affect economic performance, corporate earnings and other economic indicators?

A *Williams:* Trade tensions are headwinds to the market, but we believe their impact on corporate profits should be manageable. Our base forecast for earnings-per-share growth is 5%. Certain sectors are reporting a delay in investments, slowdowns in hiring and even layoffs, some of which are directly attributable to the current and foreseeable trade environment. Although the real economic effect thus far has been fairly muted, escalating trade tensions have the potential to be considerably more impactful—as much as 1% of U.S. GDP, in our view, so it is something we are keeping a close eye on.

Q *Crain's:* What do you expect in terms of future increases in interest rates? How should businesses prepare?

A *Williams:* We expect to see one or two rate increases in fiscal 2019. We see the 10-year Treasury note in the 2.90 to 3.40% range for 2019. In the face of rising interest rates, we recommend businesses and individuals secure the financing they need while rates are still relatively low. For floating rate borrowers, explore locking in fixed-rate financing. Although rates overall have increased, they remain low from an historical perspective. Meanwhile, the yield curve remains quite flat, which means longer-term fixed rate financing—either from a bank or through the capital markets in the form of an interest rate swap—will require a relatively low premium over shorter-term financing.

Related to excess liquidity, many wealthy families, business leaders and nonprofit boards are actively seeking short-term investments while they wait for long-term opportunities. We recommend speaking with their bank advisers to ensure they are maximizing cash management strategies; high net worth individuals should explore various taxable and tax-exempt liquidity management strategies available in the market.

Q *Crain's:* Given these economic factors, should investors be diversifying into alternative investments?

A *Williams:* Diversification is a critically important risk-management tool in any environment, but particularly now as the global economy appears to be softening and diverging, and volatility and risk are on the rise. Alternative investment strategies come in many forms, including private equity, venture capital, hedge funds, real estate investment trusts and various commodities. At City National Bank, we are focused on delivering solutions around many of these areas and have a specific focus on reinsurance, capital leasing and structured credit as alternatives to the traditional investment options. Many of these assets have a low correlation to the traditional stock and bond markets, making them attractive options for investors looking to diversify.

Most alternative investment assets are held by institutional investors, accredited investors or qualified purchasers. They trade with little regulatory oversight, often are not fully transparent to the investor and can be quite complicated. We recommend you work with an experienced investment adviser when considering alternative investments.

Q *Crain's:* How do you expect the Amazon deal to affect New York City?

A *Williams:* There are many positives about this expansion into New York City. For starters, the move is expected to bring thousands of jobs, with Amazon highlighting average wages around $150,000 annually.

This influx of people should benefit the local economy, as we expect existing businesses to expand and new ones to spring up to serve the needs of these workers and new residents. This growth should generate jobs for residents, particularly in the service industry, and bring additional spending and tax revenue to the area.

Recent reports state that 700 people will be hired in 2019 at Amazon's Long Island City location, growing to about 3,000 people in 2020. Long Island City currently has sufficient space for growth and the ability to expand over the long term. But of course this sort of expansion will have an impact on housing costs, pushing rents and real estate up. Despite some concern that has been expressed about the impact on transportation and potential impacts to the quality of life for LIC residences, I think Amazon's expansion is positive for NYC and specifically Long Island City. ■