

# The Year Ahead | 2019

Keep calm and build a stronger portfolio



## Overview

- Global economic growth momentum in 2019 is expected to ease from above-trend to trend growth, curbed by dwindling spare capacity, trade uncertainties and monetary policy normalization.
- Global monetary policy could see greater divergence, with the U.S. expected to lead in raising rates, China switching to more easing and Europe and Japan taking a wait-and-see approach.
- Uncertainty surrounding U.S.-China trade tensions could prompt companies to rethink their long-run supply chain strategies. Middle East geopolitics and European domestic politics could be additional sources of market volatility.
- With growth moderating, investors could become more sensitive towards weaker economic data, exacerbating market volatility.

## Building a stronger portfolio with Agility, Income and Resilience (A.I.R.)

- **Agility** - Not about timing the market, but monitoring fundamentals and, with a benchmark-agnostic approach, adjusting allocations accordingly—aided by active management and international diversification.
- **Income** - Using equity dividends or fixed income coupons to achieve a more consistent cash flow for investors amid higher volatility in asset prices.
- **Resilience** - Making the most of the benefits of diversification, such as the often negative relationship between bonds and equities, as well as considering long/short strategies.

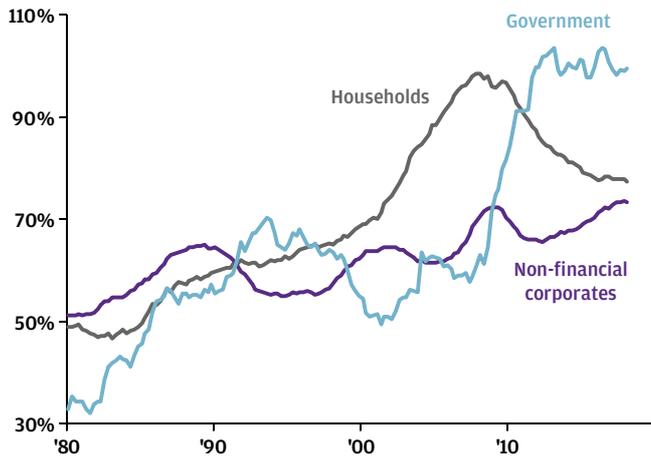
## Asset class implications

- **Equities** - Seek international diversification, with a greater emphasis on income and dividends. Emerging markets and Asia offer an ample selection of high dividend companies across cyclical and defensive sectors.
- **Fixed income** - Steady global growth continues to benefit high yield corporate debt and hard-currency emerging market debt. Sustained slowdown in growth momentum in the medium term would warrant an investor rotation towards long duration U.S. government bonds.
- **Alternatives** - A broad spectrum of assets, such as real assets, provide opportunities to diversify the portfolio mix.
- **Cash** - Real returns are still unattractive for Asian investors as cash underperforms equities in the growth phase of the economic cycle, and underperforms government bonds in bear markets.

## The global economy: From great to good

Developed economies' growth should peak in 2018, according to the International Monetary Fund (IMF). We do not expect that recession is imminent, but some factors supportive of strong economic growth could slowly fade. The U.S. fiscal stimulus that helped push growth to around 3% in 2018 will likely ebb in early 2019, reducing growth to about 2%. Meanwhile, rising interest rates in the U.S., which we expect will continue in 2019, should also gradually lower corporate spending, given companies' relatively high levels of leverage. As spare capacity to facilitate growth becomes scarce, U.S. economic growth would depend on greater productivity, which is more difficult to achieve. Consumers will likely remain a bright spot, supported by healthy household balance sheets and a strong job market (**Exhibit 1**).

High leverage to pressure capex<sup>1</sup>, less of a threat to consumption  
**EXHIBIT 1: U.S. DEBT-TO-GDP RATIOS**  
 % OF NOMINAL GDP

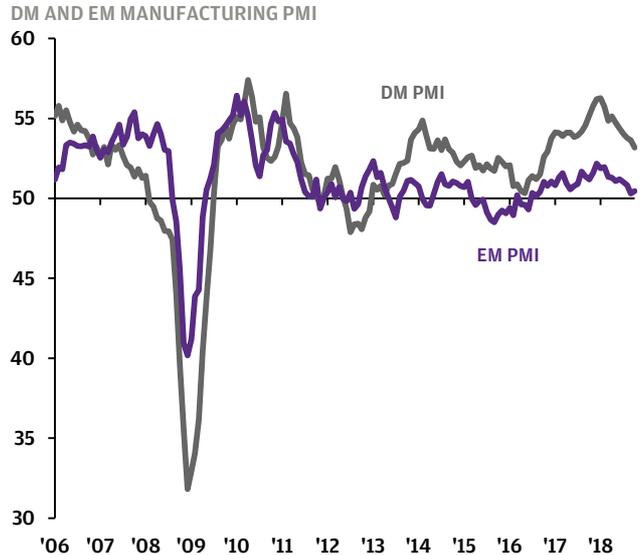


Source: Bank for International Settlements, FactSet, J.P. Morgan Asset Management. Data are as of November 8, 2018.

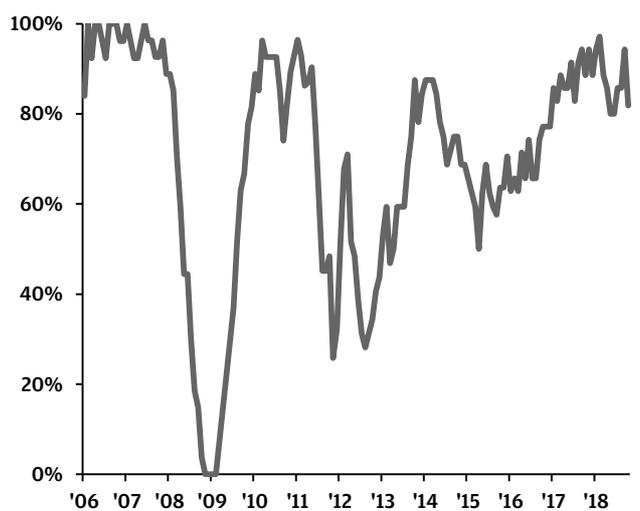
In China, the latest switch in policy priorities, from de-leveraging to more easing, should lead to a rebound in fiscal spending on infrastructure. However, it is less clear whether corporate investment will accelerate as well. Bank lending remains cautious despite the authorities' encouragement, and companies' appetites for borrowing to invest is still soft. Additional pressure on the Chinese yuan (CNY), from the narrowing interest rate differential between the U.S. dollar (USD) and CNY, could also limit the extent of monetary easing in China. Consumption should remain resilient. While demand for big ticket items, such as cars, softened in 2018, Chinese consumers are still embracing a broad range of services such as education, healthcare, financial services and tourism. We expect growth in 2019 will not deviate significantly from 2018's official target of 6.5%. The Central Financial Work Committee, scheduled to take place in December, should set the tone for policy over the next 12 months.

For the rest of the global economy, manufacturing purchasing managers' indices continue to paint a respectable picture entering 2019 (**Exhibits 2A & 2B**). Some 82% of surveyed economies were still in expansion territory as of mid-November, even though developed market (DM) and emerging market (EM) headline numbers have been rolling over in 2018. The eurozone has posted a steady recovery in recent years but that positive growth momentum is being tested by politics, including the standoff between Italy and the European Union over the Italian budget and fears of potential spillover from a messy Brexit.

The global economy enters 2019 with respectable momentum  
**EXHIBIT 2A: GLOBAL PURCHASING MANAGERS' INDEX (PMI): MANUFACTURING**  
 DM AND EM MANUFACTURING PMI



**EXHIBIT 2B: GLOBAL MANUFACTURING ACTIVITY**  
 % OF MARKETS IN EXPANSIONARY TERRITORY\*



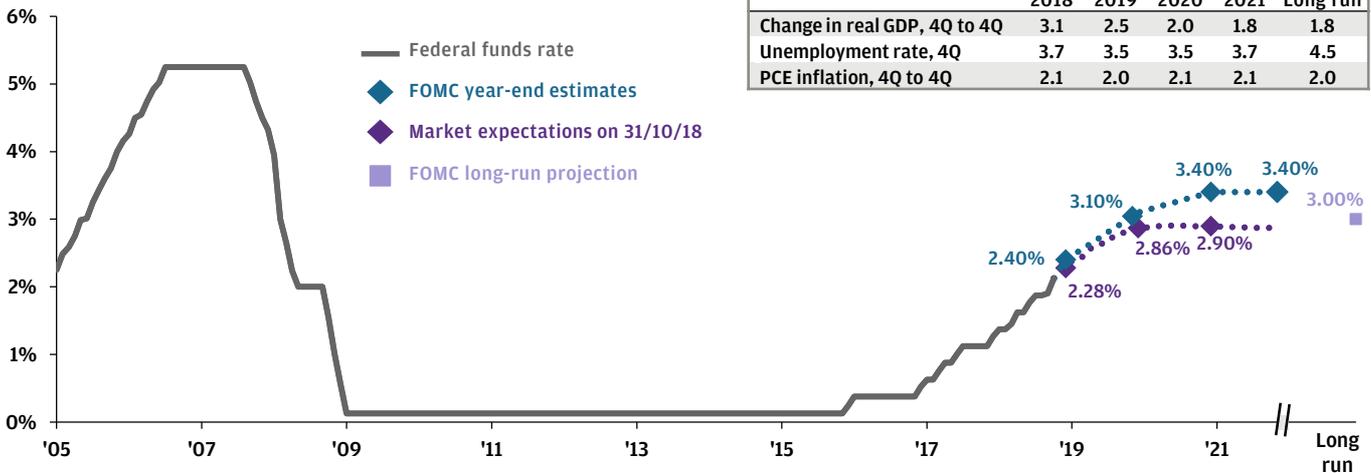
Source: Australian Industry Group, J.P. Morgan Economic Research, Markit, J.P. Morgan Asset Management. PMIs are relative to 50, which indicates contraction (below 50) or expansion (above 50) of the sector. \*% of countries available with a manufacturing PMI above 50. Data are as of November 8, 2018.

<sup>1</sup>Capex: capital expenditure.

U.S. policy rates could shift into restrictive territory in 2H 2019

**EXHIBIT 3: FEDERAL FUNDS RATE EXPECTATIONS**

FOMC AND MARKET EXPECTATIONS FOR THE FED FUNDS RATE



Source: Bloomberg Finance L.P., FactSet, Federal Reserve, J.P. Morgan Asset Management.

Market expectations are the federal funds rates priced into the Fed Fund futures market as of 31/10/18. Federal Reserve projections shown are median estimates of FOMC participants. Data are as of November 8, 2018.

**Monetary policy and the U.S. dollar reach a crossroads**

We expect 2019 will be an important year for monetary policy in the U.S. and other major economies around the world. The Federal Reserve (Fed) will likely hike rates by 25 basis points (bps) again in December, and two more times in the first half of 2019 (**Exhibit 3**). This would bring the policy rate to 2.75%-3.00%, achieving the Federal Open Market Committee's (FOMC) long-term projection. The U.S. economy is operating at full capacity with the jobless rate at a multi-decade low, which could continue to drive inflation in the medium term, especially if the government introduces more fiscal stimulus. Such a combination would require the Fed to continue gently tapping the brakes. In our view, tightening beyond the 2.75%-3.00% level would imply that monetary policy in the U.S. has entered restrictive territory, putting more pressure on growth.

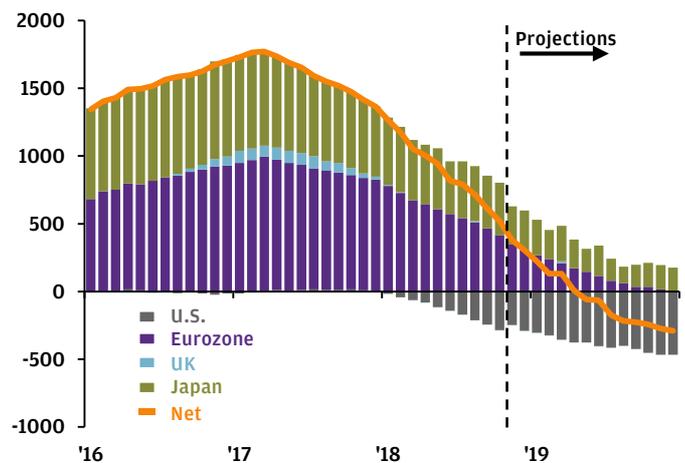
For major central banks, 2019 may be the year when the great monetary experiment, quantitative easing (QE), enters a new phase in which QE is very gradually unwound. The Fed has been reducing its balance sheet since 2017. The European Central Bank (ECB) is scheduled to end asset purchases by the close of 2018, although it has not yet clarified how it plans to reinvest funds from maturing assets. The ECB has hinted that it could raise policy rates, a decision complicated by the region's political uncertainties and benign core inflation.

Should the ECB end its purchases, it would leave the Bank of Japan (BoJ) the only major economy central bank still buying government bonds in 2019, but the magnitude of its QE will be constrained by its already-sizeable holdings of Japanese government bonds (JGBs), which are currently around 40% of the face value of total JGBs outstanding. For the first time since the global financial crisis (GFC), the three central banks, taken together, appear poised to turn in early 2019 from a net buyer to a net seller of assets (**Exhibit 4**). This reduction in liquidity would drive risk-free rates higher, very likely leading to an adjustment of valuations across asset classes.

G4 central banks set to be combined net seller of assets in early 2019

**EXHIBIT 4: CENTRAL BANK ASSET PURCHASES**

12-MONTH ROLLING BOND PURCHASES BY G4 CENTRAL BANKS\*, USD BILLIONS



Source: Bloomberg Finance L.P., J.P. Morgan Asset Management.

\*New purchases of assets are based on monthly holdings as reported by each respective G4 central bank (the Bank of England, the Bank of Japan, the European Central Bank and the U.S. Federal Reserve), announced purchase plans of these central banks and J.P. Morgan Asset Management projections. Data are as of November 8, 2018.

The U.S. dollar continues to be a critical driver of asset performance, especially in emerging markets and Asia. Following a year of USD strength in 2018—due to the outperformance of the U.S. economy and corporate earnings as well as higher USD interest rates—we believe the currency’s risk in 2019 is on the downside. U.S economic growth is likely to converge with the rest of the world’s as fiscal stimulus fades, while rising current account and fiscal deficits should pressure the currency to adjust. A persistent trade deficit could prompt U.S. President Donald Trump to tout the benefits of currency depreciation, though it is not clear what impact rhetoric alone would have on the dollar.

### Risks to watch out for: Trade war, geopolitics and technicals

Geopolitics remains at the top of the list of concerns that could upset our benign view of the global economy in 2019. The ongoing U.S.-China trade confrontation could persist. However, instead of an unrelenting conflict we expect Beijing and Washington to go through intermittent rounds of threats over tariffs and export restrictions. The potential for further damage to their economies should help deter the countries from taking their threats too far. But the uncertainty emanating from trade tension is likely to lead the global business community to reconsider its long-term strategy for structuring its global supply chain.

Tensions in the Middle East could generate a spike in energy prices, at a time when the U.S. shale oil industry is constrained by infrastructure bottlenecks, causing it to struggle to expand to provide additional supply. And political developments in Europe could continue to challenge that region’s unity. While we do not expect any member of the eurozone to leave the bloc, tensions could spark financial stress for countries on the periphery, such as Italy.

Investor sentiment could also turn more skittish as market participants shift their focus to growth and inflation data. The year 2018 can be seen as a period in which the investor mood beat fundamentals, with equity valuations suffering significant de-rating even as earnings remained respectable. Investors may also turn their attention to more technical factors, such as market liquidity, as well as the potential impact of financial innovations and regulatory change on market volatility.

### The prescription for your portfolio? Agility, income and building resilience

With global economic growth probably coming off its peak and central banks continuing with normalization, investing in 2019 is likely to be marked by higher volatility and lower expected returns. For Asian investors seeking to construct stronger portfolios, our theme is: Improve agility, generate more income and take steps to build greater resilience.

Selected indicators to monitor economic growth for determining asset allocation mix  
**EXHIBIT 5: U.S. BUSINESS CYCLE INDICATORS**

	2016			2017												2018								
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	AUG	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	AUG	Sep
Real consumer spending (y/y)	2.7%	2.8%	2.8%	2.8%	2.0%	3.0%	2.6%	2.5%	2.3%	2.4%	2.3%	2.4%	2.6%	2.8%	2.7%	2.5%	2.4%	2.2%	2.5%	2.6%	2.7%	3.0%	3.2%	3.0%
Light vehicle sales (mil.)	17.6	17.4	17.9	17.3	17.3	16.8	16.8	16.8	16.8	16.7	16.5	18.1	17.9	17.5	17.3	17.1	16.9	17.2	17.2	17.2	17.2	16.7	16.7	17.4
Housing starts (mil.)	1.33	1.15	1.28	1.23	1.29	1.18	1.17	1.12	1.23	1.19	1.17	1.16	1.27	1.30	1.21	1.33	1.29	1.33	1.28	1.33	1.18	1.18	1.27	1.20
ISM Mfg.	51.8	53.4	54.3	55.6	57.6	56.6	55.3	55.5	56.7	56.5	59.3	60.2	58.5	58.2	59.3	59.1	60.8	59.3	57.3	58.7	60.2	58.1	61.3	59.8
ISM Non-mfg.	54.6	56.2	55.9	56.5	57.6	57.7	57.3	57.1	57.2	54.3	55.2	59.4	59.8	57.3	56.0	59.9	59.5	58.8	56.8	58.6	59.1	55.7	58.5	61.6
Durable goods orders (y/y)	2.7%	-2.2%	0.9%	-1.5%	2.1%	5.4%	1.1%	3.0%	16.9%	3.4%	4.8%	10.8%	1.3%	8.4%	10.5%	5.6%	11.3%	11.2%	8.5%	9.5%	3.1%	10.0%	12.1%	7.8%
Unemployment rate (%)	4.9%	4.6%	4.7%	4.8%	4.7%	4.5%	4.4%	4.3%	4.3%	4.3%	4.4%	4.2%	4.1%	4.1%	4.1%	4.1%	4.1%	4.1%	3.9%	3.8%	4.0%	3.9%	3.9%	3.7%
Avg. hourly earnings (y/y)	2.4%	2.4%	2.5%	2.3%	2.4%	2.2%	2.2%	2.3%	2.3%	2.2%	2.3%	2.6%	2.2%	2.3%	2.4%	2.4%	2.5%	2.6%	2.6%	2.7%	2.8%	2.8%	2.9%	2.8%
S&P 500 EPS (NTM est.)	20.6%	21.4%	22.9%	23.1%	20.8%	22.2%	23.6%	22.0%	22.7%	23.2%	21.1%	22.4%	22.8%	23.8%	25.2%	32.7%	31.0%	32.6%	34.8%	30.9%	31.4%	32.1%	27.1%	27.5%
S&P 500 net margin (%)	9.5%	9.4%	9.4%	9.4%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.6%	9.6%	9.6%	9.5%	9.6%	9.6%	9.8%	9.7%	9.7%	9.9%	10.0%	10.0%	10.3%	10.3%
Headline CPI (y/y)	1.6%	1.7%	2.1%	2.5%	2.8%	2.4%	2.2%	1.9%	1.6%	1.7%	2.0%	2.2%	2.0%	2.2%	2.1%	2.1%	2.3%	2.4%	2.4%	2.7%	2.8%	2.9%	2.7%	2.3%
Core CPI (y/y)	2.2%	2.1%	2.2%	2.3%	2.2%	2.0%	1.9%	1.7%	1.7%	1.7%	1.7%	1.7%	1.8%	1.7%	1.8%	1.8%	1.9%	2.1%	2.1%	2.2%	2.2%	2.3%	2.2%	2.2%

Source: BEA, BLS, Department of Labor, FactSet, Institute for Supply Management, Standard & Poor’s, U.S. Census Bureau, J.P. Morgan Asset Management. S&P 500 EPS (earnings per share) is expected earnings growth over the next 12 months. Heatmap colors are based on each indicator’s deviation from its own most recent five-year history. Values displayed are year-over-year change. Data are as of November 8, 2018.

**Agility:** Even as recession risk remains low, in our view in 2019, approaching the end of the current cycle, market sentiment is likely to be more cautious, leading to higher volatility. Greater agility is not about timing the market but paying more attention to macroeconomic data, observing potential changes in trends (**Exhibit 5** on the previous page) and adjust asset allocation accordingly. Investors should enter 2019 with a pro-risk tilt, still emphasizing equities, corporate credit and EM debt. Yet this bias may need to be reviewed and revised to a more balanced, or even defensive, portfolio allocation as growth momentum eases further. Investors should also consider taking a more benchmark-agnostic approach, especially in fixed income.

**Income:** Investors often neglect income during bull markets, such as 2017's, as they enjoy strong capital gains from equities. With expected returns potentially challenged in 2019, income from bonds and high-dividend equities can make important contributions to portfolio returns, while generating steady cash flow.

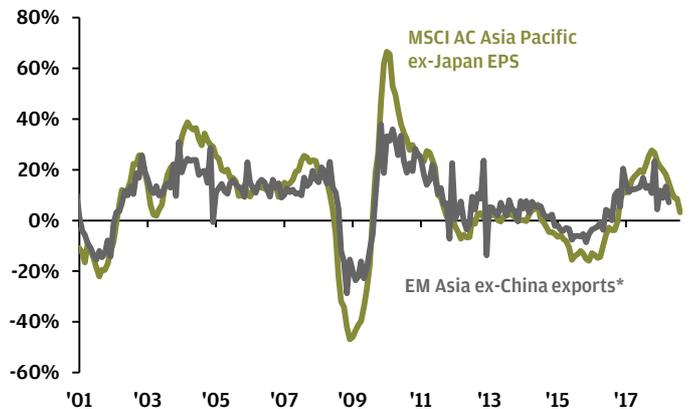
**Resilience:** Volatility is expected to rise, so investors will need to adopt strategies that can help build a more resilient portfolio. That means more than just raising the fixed income component within asset allocation. Investors will also need to take full advantage of diversification's benefits. For example, corporate credit spreads often react early to the threat of an economic downturn. At the same time, the implications of regulatory changes since the global financial crisis may lead to potential liquidity challenges in the secondary market for corporate credit. For a broad range of asset classes, adopting long/short strategies offers the possibility of helping improve portfolio resilience and generating returns in a down market.

### Equities – Benefits of international diversification and income

As global growth decelerates, earnings growth momentum is likely to ease in 2019—a phenomenon that should be particularly obvious for U.S. headline earnings growth, as the windfall from the 2018 corporate tax cut fades. Moreover, inflationary pressure could also squeeze profit margins, currently at a cyclical high of 12%<sup>2</sup>, a shift that would lead U.S. corporate earnings to converge with those in the rest of the world.

Earnings in Asia and emerging markets will likely still be driven primarily by the global trade cycle (**Exhibit 6**). We expect global trade to continue to expand, albeit at a moderating pace. Uncertainties stemming from trade tensions between China and the U.S. are expected to remain a concern for these equity markets, especially given the integrated supply chain between China and other Asian economies. Economic stimulus in China would also strongly influence investor sentiment on emerging markets and Asia, partly due to China's dominant weighting in regional Asian and EM indices. More importantly, China's demand for commodities and consumer products continues to drive the export performance of other Asian economies.

The trade cycle is a key driver for Asian earnings  
**EXHIBIT 6: GROWTH IN NOMINAL EXPORTS AND EARNINGS PER SHARE USD, YEAR-OVER-YEAR CHANGE**

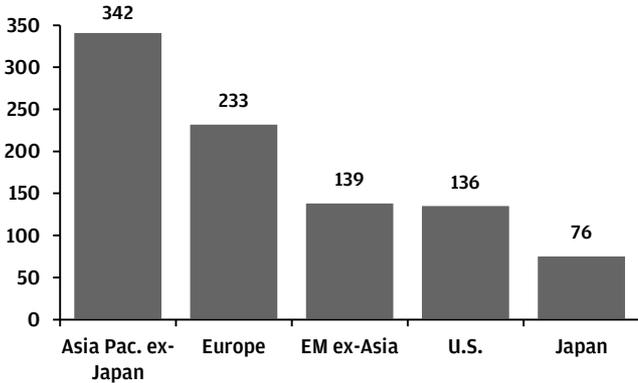


Source: CEIC, FactSet, MSCI, national statistics agencies, J.P. Morgan Asset Management. Earnings per share (EPS) used is next 12 months' aggregate estimate. MSCI stands for Morgan Stanley Capital International. \*EM Asia ex-China includes Hong Kong, Korea, Malaysia, Singapore, Taiwan, Thailand and Vietnam. Overall exports aggregate is GDP-weighted. Past performance is not a reliable indicator of current and future results. Data are as of November 8, 2018.

As we note in discussing our themes of agility, income and resilience, 2019 could see more investors rotating into more defensive sectors that may provide opportunities for higher dividends, including in Europe, emerging markets and Asia. A significant number of Asian and EM companies (more than 450) pay dividends of 3% or higher (**Exhibit 7** on the next page), for example, in sectors including utilities, telecommunication, healthcare and consumer staples—all typically less sensitive to the swings in economic cycles. Tapping into this opportunity will, for many investors, call for greater international diversification in their equity allocation. The likelihood that earnings performance will converge between the U.S. and the rest of the world further supports such a shift. Relative valuations also support the case for not investing solely in the U.S.

<sup>2</sup>On average, for the S&P 500 Index.

Look for high dividend in emerging markets, Asia and Europe  
**EXHIBIT 7: NUMBER OF COMPANIES YIELDING GREATER THAN 3% BY REGION**  
 CONSTITUENTS OF MSCI AC WORLD INDEX



Source: FactSet, MSCI, J.P. Morgan Asset Management. Data are as of November 8, 2018.

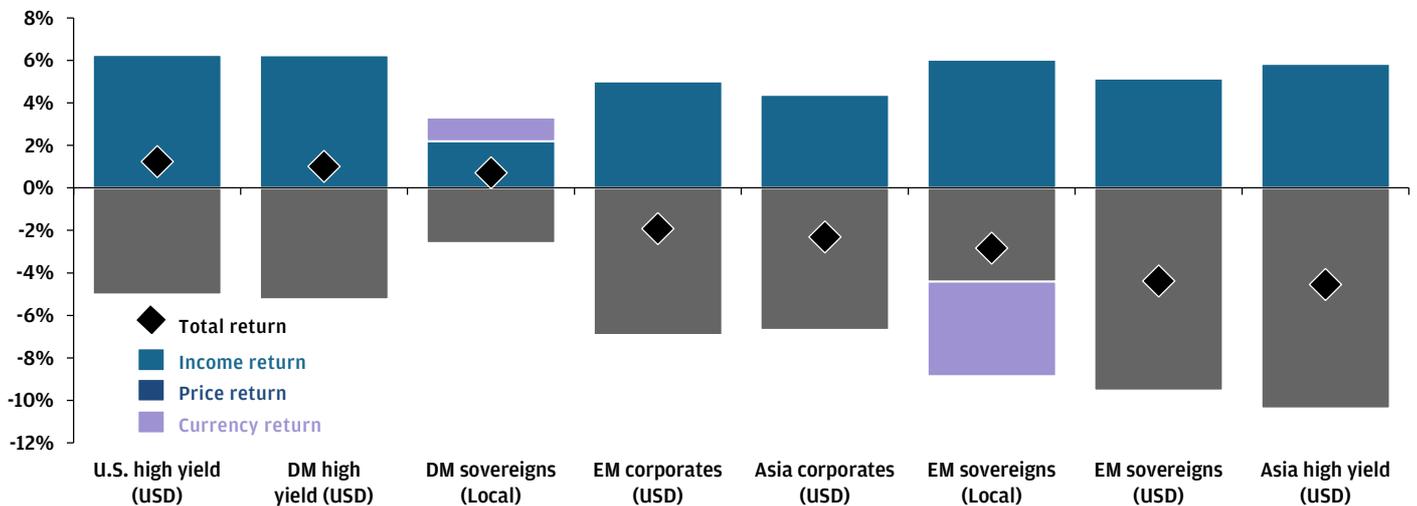
### Fixed income – A time for agility

It's possible that 2019 may be a turning point in fixed income. Investors could take a more conservative turn in allocation, and a more flexible, agile approach marked by diversification among different types of fixed income assets.

The current economic momentum continues to favor DM corporate credit, especially high yield debt (**Exhibit 8**). Steady economic growth is keeping default rates at a low level, protecting corporate credit spreads from widening. As in 2018, the main source of returns from corporate credit holdings would be the coupon. With credit spreads already tight, room for further compression is limited. Taking into account relative credit spreads, and the fact that BBB-rated bonds make up a rising share of the investment grade bond segment, high yield corporate debt, in our view, still offers a better risk-reward trade-off than investment grade debt.

EM debt, particularly corporate bonds, could be challenged by ongoing Federal Reserve policy tightening, making it important to differentiate among EM assets. State-owned EM companies, or those with strong links to state sectors, are likely to enjoy stronger support if they need USD liquidity. EM sovereign debt should be more resilient generally, especially from issuing countries with strong current account positions and ample foreign exchange reserves (**Exhibit 9** on the next page). Their central banks should be under less pressure to raise interest rates to protect their currencies, in the event there is another bout of U.S. dollar strength.

Income is still a key source of fixed income return  
**EXHIBIT 8: DEBT RETURN COMPOSITION**  
 LAST 12 MONTHS



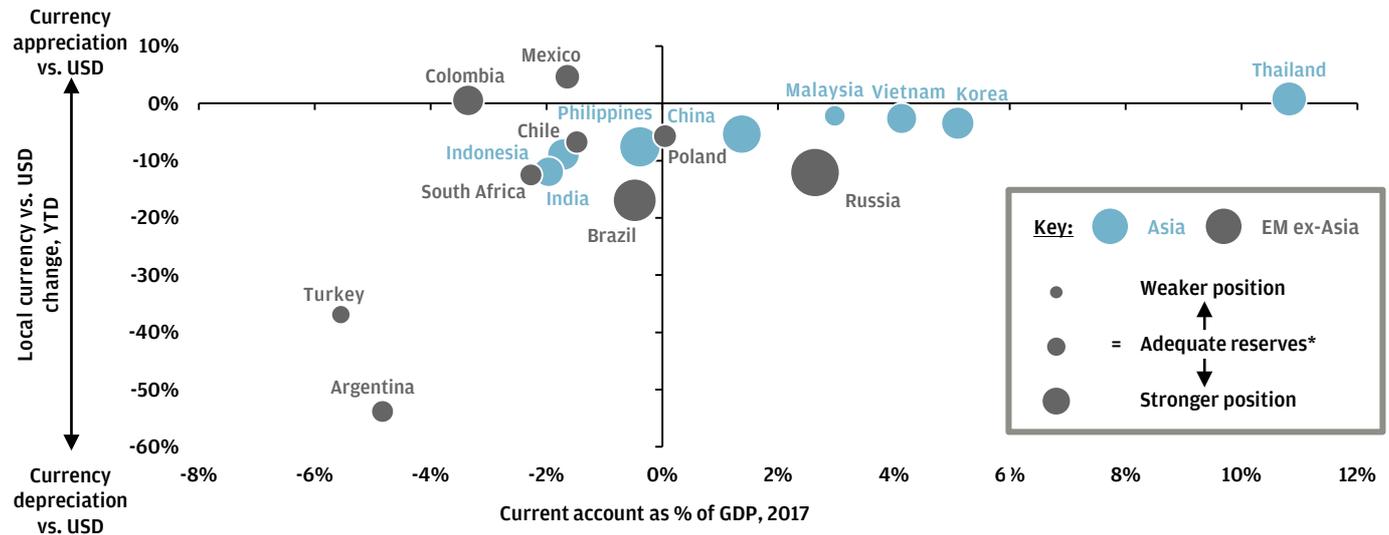
Source: J.P. Morgan Economic Research, J.P. Morgan Asset Management. Based on J.P. Morgan Developed Market HY (DM USD high yield), J.P. Morgan Domestic High Yield (U.S. USD high yield), J.P. Morgan EMBIG (EM USD sovereigns), J.P. Morgan CEMBI (EM USD corporates), J.P. Morgan Asia Credit High Yield Index (Asian USD high yield), J.P. Morgan GBI-EM (EM local cur. sovereigns), J.P. Morgan Asia Credit Corporates Index (Asian USD corporates), J.P. Morgan GBI-DM (DM local cur. sovereigns). Past performance is not a reliable indicator of current and future results. Data are as of November 8, 2018.

We anticipate that the G3 (the U.S., eurozone and Japan) central banks will continue policy normalization in 2019. As such, we view those countries' government bond yields as likely to rise, suggesting that it still makes sense for investors to maintain a short duration bias. However, if yields continue their probable rise and economic data moderates further over the next 18-24 months, the relative valuation between bonds and equities would no longer be tilted in favor of equities. Gradually increasing exposure to government debt, and moving from short duration to neutral and long duration, would help buffer investors against growth concerns and bouts of risk aversion.

### Cash is still not king

Though no major economic or financial disaster occurred thus far in 2018, cash still outperformed a number of major asset classes. This rise in cash's return challenged the popular notion that there is no alternative to equities. We expect cash's exceptional performance to change in 2019. In most Asian economies, cash's real return (after taking inflation into account) continues to be low (**Exhibit 10**). Following the correction in equities in 2018, equity valuations are more appealing, even in the U.S. For fixed income, the expected rise in yields is likely to be less pronounced than in 2018, which implies that potential losses from duration exposure should also be more limited, improving the return proposition for a combination of fixed income assets (corporate credit, EM debt, government bonds).

The market favors EM countries with strong current account and FX reserve  
**EXHIBIT 9: EMERGING MARKET EXTERNAL POSITIONS**  
 CURRENT ACCOUNT POSITIONS, CURRENCY MOVEMENTS AND RESERVE ADEQUACY

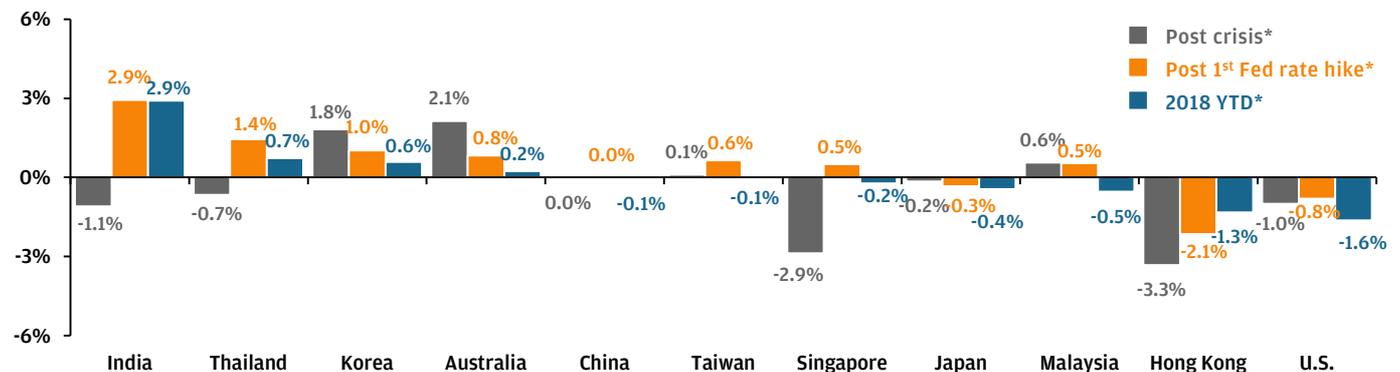


Source: FactSet, IMF, J.P. Morgan Asset Management.

\*Adequate reserves are stocks of a country's foreign exchange reserves that can cover 3 months of imports (the amount of times available reserves can cover 3 months' worth of imports) and cover short-term debt due in the next year (the amount of times available reserves can pay off debt maturing in the next 12 months and any payments on longer-term debt due in the next 12 months). The larger the bubble, the larger the amount of reserve coverage. Data are as of November 8, 2018.

The cash return has risen, but still fails to provide real return to Asian investors

**EXHIBIT 10: AVERAGE ANNUAL REAL DEPOSIT RATE**  
 BASED ON RESPECTIVE MARKETS' DEPOSIT RATE, LESS YEAR-OVER-YEAR INFLATION



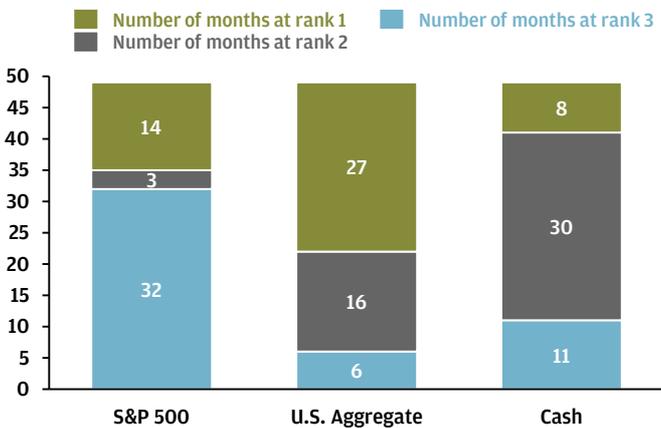
Source: FactSet, IMF, various central banks, J.P. Morgan Asset Management.

\*Post crisis time period defined as 2008-2014. Post 1st Fed rate hike defined as 2015-2017. Year-to-date average annual real deposit rates are as of 31/8/18. Past performance is not a reliable indicator of current and future results. Data are as of November 8, 2018.

Moreover, from a long-term perspective, cash’s performance relative to other asset classes is mediocre, at best. During times of strong economic growth, equities and corporate credit typically outperform cash, with earnings generating returns to investors. During recessions, DM government bonds have historically outperformed cash, as falling yields help provide positive price returns. For example, during the last two bear markets, of 2000 and 2007, U.S. government bonds outperformed cash and equities more than half the time, on a monthly basis (**Exhibit 11**). A diversified portfolio of bonds and equities should still offer a better balance between risk and reward. Adjusting the allocation between bonds and equities could be the key.

U.S. government bonds have outperformed cash in the past two U.S. equity bear markets

**EXHIBIT 11: ASSET CLASS PERFORMANCE OVER THE DOT COM BUST AND GLOBAL FINANCIAL CRISIS PERIODS**  
NUMBER OF MONTHS AT RANKING



Average Total Return	S&P 500	U.S. Aggregate	Cash
Dot Com Bust (31 months)	-44%	29%	10%
Financial Crisis (18 months)	-47%	8%	2%

Source: FactSet, MSCI, J.P. Morgan Asset Management. Returns are price returns based on S&P 500 Index, Bloomberg Barclays U.S. Aggregate Index and Bloomberg Barclays U.S. Treasury Bills (1-3 Months) Index. Data are as of November 8, 2018.

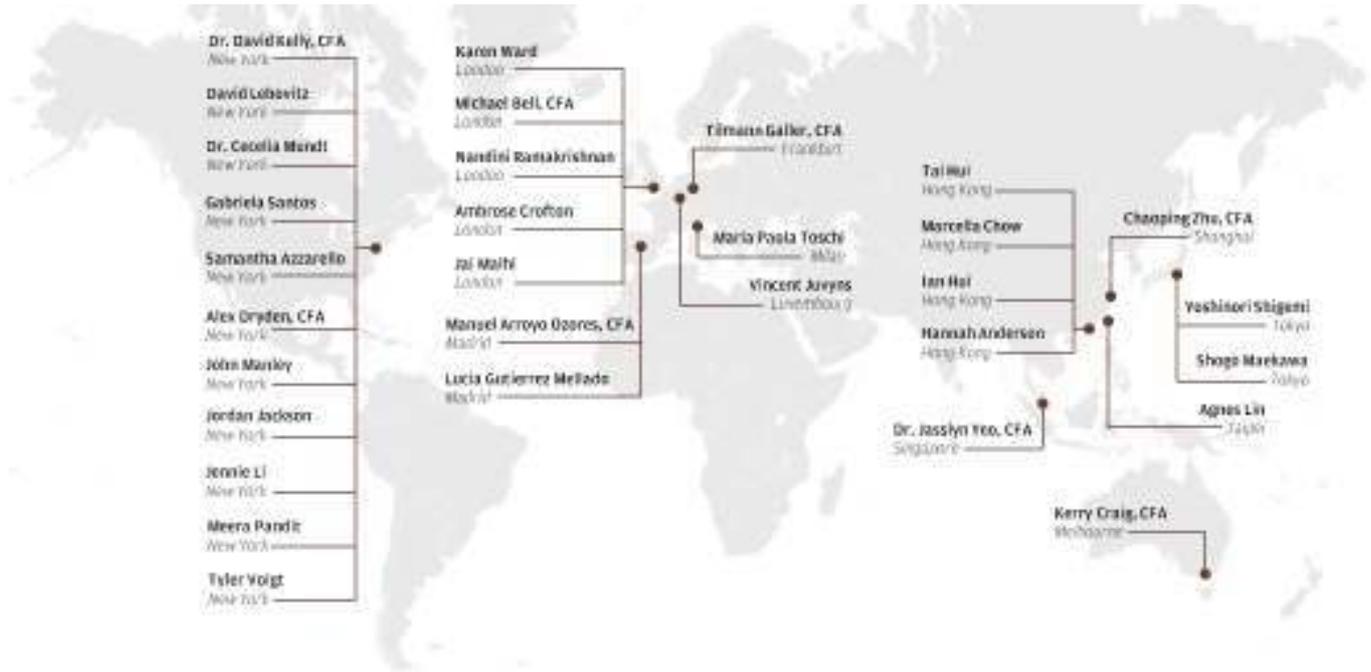
### Alternatives - Opportunities for return and greater portfolio resiliency

Alternative assets and strategies, in our view, should play a greater role in 2019, in potentially lifting risk-adjusted returns and increasing portfolio resiliency at a time when the bull market in both equities and bonds in the past decade has left less room for traditional assets to drive portfolio returns. Heading into 2019, despite a respectable global growth rate, inflation pressures have remained benign. However, tighter labor markets, rising energy prices and the impact of tariffs could heat up inflation pressures. Alternative assets—which include real assets such as private real estate, infrastructure and transport—offer a potential inflation hedge, as the cash flows from these assets have historically moved in line with rising prices.

### Conclusion - Remember the key investment principles

Expectations for 2019 are for a year of rising volatility and greater variation in asset returns. Late cycle in the U.S. economy is typically associated with respectable equity returns and resilient corporate credit performance. Still, investors will need to watch for signals of a worsening economy and increasing caution among market participants—and be mindful of the implications: the need to build greater resilience in their portfolios. The principles of staying invested and maintaining a diversified portfolio to achieve your financial objectives holds true in all phases of the cycle. In 2019, investors will want to place greater emphasis on agility in responding to trends in economic data, but not to market noise. Income generation should continue to be central to portfolio construction and to improving the risk-reward profile.

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