SHEPHERD
FINANCIAL PARTNERS

Moving Beyond the Midterm Elections

The mid-term elections are finally behind us and the results came in about as expected. This is a big change from what happened in the 2016 elections where the markets were completely shocked by President Trump's upset victory. Now that we can move beyond uncertainties about the election, here are three key themes we are focusing on as we wrap up 2018 and head into the new year.

1. **Trade has been in the news almost daily this year** and with the upcoming G20 summit in Argentina, it continues to be top of mind for most investors. President Trump and China's President Xi will meet at some point during the summit. How long they meet and what comes from the meeting is anyone's guess. We hope the ground work will be laid for a more concrete deal that can come together at some point in 2019. While the summit will not put the trade debate to bed, we hope it will lead to a more productive dialogue that could put both countries on the path to a constructive long-term deal.

2. **2018's exceptional earnings growth in the U.S will be hard to repeat going forward.** The markets have been wringing their hands on what the earnings trajectory will look like going forward. We continue to believe that 2019 will still bring earnings growth, just not at the robust level we saw this year. Equity market valuations have come in as a result of the October correction and better reflect the lower level of profit growth for 2019 relative to 2018. With that being said, modest growth is better than zero or negative growth.

3. **The markets continue to debate how much longer the Fed has to hike interest rates in this cycle**. The Fed dot plots, a graphic representation of the projections of Fed policymakers for the next two years, say the Fed has at least five more hikes to come with one in December, three in 2019 and one in 2020. While we don't exactly know how many are left, we do know that we are closer to the end of this interest rate cycle than the beginning. Over the next six months, we probably will see three more hikes (December is pretty much a done deal). Beyond that, the data will have to continue to show either above trend GDP growth or rising inflation expectations for the Fed to continue down its hiking path. We have been positioned for higher rates moving forward but are keenly aware that the end might be near for this Fed hiking cycle.

While other issues like Brexit and the U.S. Government deficit are floating in and out of the news, we think the above three issues are the key concerns going forward. As always, we spend a great deal of time studying these issues and trying to understand if risks around these issues are properly priced into the markets. We view the key consideration to be to properly balance risk and return for optimal asset allocation.
If you have any questions on these issues or other matters to discuss, please do not hesitate to reach out.

Shepherd Financial Partners
1004 Main Street, Winchester, MA 01890
Tel 781.756.1804 Fax 781.729.4356