

Understanding What Drives the Market

Written by Rob Copeland

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The stock and bond markets don't move up and down over time for no reason. When they advance or decline, you can be sure that unseen catalysts are at work: Think of the wind hitting the sail of a ship.

Catalysts can be short-term. When President Trump has taken swipes at tech companies, the sector has dipped, at least for short periods. A surprisingly good quarter of earnings can send a company's stock soaring.

More important for most investors, though, are long-term catalysts. A healthy economy like the current one is a powerful catalyst. It can create higher bond yields and push stocks consistently higher. The Federal Reserve raising interest rates in a slowing economy would typically be a negative catalyst; it's one reason that stocks have been volatile over the past few weeks.

So what kind of catalysts will shape the markets in the coming months? I believe they're likely to be positive ones. There's a strong possibility, in my view, that the U.S. and China will reach a trade agreement in the coming months, and that would undoubtedly drive the market higher. I also see stronger-than-expected corporate earnings for at least the next few of quarters, as the lower taxes save businesses money and consumers find they have more money to spend.

Our government will be divided as a result of the midterm elections, which makes it unlikely either party will be able to enact radical legislation capable of moving the market in one direction or the other.

There are risks to any outlook, including this one. There's a chance, for instance, that the Federal Reserve will raise interest rates too high, too fast, and touch off a recession. The trade war with China could worsen, creating more drag on both countries' economies. But right now the likelihood of positive catalysts outweighs the risks.

Of course, single catalysts don't often drive markets up or down on their own. A complex web of factors are always at work. This is why it's important to work with an experienced investment advisor. A good advisor can cut through the daily barrage of financial information to pinpoint catalysts and calculate the opportunities and risks they pose for different types of investments.

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Now approaching my 20th year as a professional investor, I've navigated through recessions, rising and falling interest rates, wars and political shifts. There isn't a catalyst, positive or negative, that I haven't seen. And I believe that with a thoughtful approach, patient investors can make money in any environment. If you'd like to discuss the market and your investments, don't hesitate to get in touch.