



Cautious Optimism

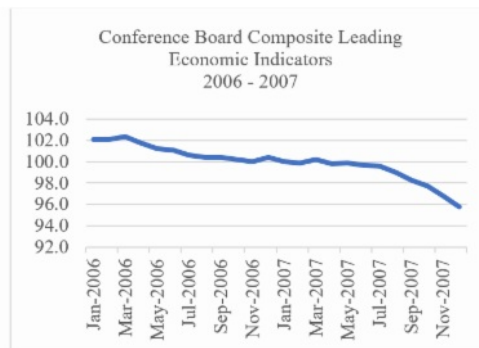
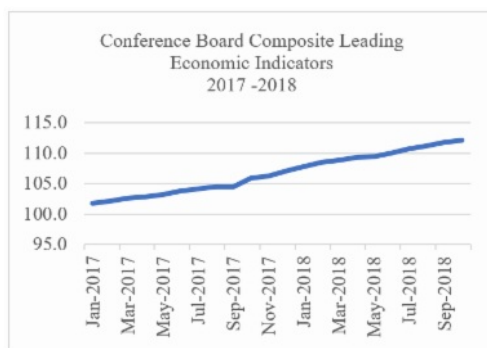
By [Adam J Reinert CFP®, CFA®](#)

What a stark contrast 2018 has been compared to the impervious market investors enjoyed last year. No matter the news or how high valuations seemed in 2017, markets found a way to move ahead. Frankly, at one point, it seemed stock markets forgot risk existed and events mattered.

Today, sentiment has shifted, events matter again and risks are seemingly everywhere, but that isn't what this note is about. There are already plenty of media sources that are happy to explain how this, that or the other, will knock the economy into the economic abyss. Rather, we'll focus on economic indicators that, for some, may provide reason for cautious optimism.

Economic indicators take many forms, but our focus is on those considered leading. Leading economic indicators are factors that are thought to provide early signals of turning points in the economy. An often-used comparison is that leading indicators are like looking through the windshield of a car, rather than its rearview mirror.

One widely followed composite of leading economic indicators is published by The Conference Board and includes factors such as initial unemployment claims, manufacturing new orders and stock prices. Below, we've summarized the data into two charts, January 2017 to current (left) and January 2006 to December 2007, the start of the last recession (right).



One important takeaway, as it relates to the charts above, is the slope of the two lines - the 2006 chart (right) displays the slow deterioration of the composite leading into the start of the last recession, while the current composite (left) continues to slope upward. Although this upward trend doesn't guarantee we won't enter a recession at some point over the coming years, it does, for some, suggest it is somewhat less likely that a recession is imminent and the current expansion has turned.

Our investment department continues to monitor many factors, such as leading indicators. Over the past few years, we've continued to communicate the importance of diversified investing. For investors that have taken this approach, it can make market swings, like those experienced over the past week, easier to endure.

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