CRAIN'S DETROIT BUSINESS

August 25, 2019 12:01 AM

Recession? Not in this year's forecast, financial advisers say

TOM HENDERSON

- Familiar worries in the economic forecast about trade, tariffs and how long the bull market can last
- Despite recent market turmoil, financial advisers like the fundamentals of the U.S. economy
- Most tend to agree that economic expansion has at least another year to go

Despite some recent market turmoil, wealth advisers still like the fundamentals of the U.S. economy, and they tend to agree that the economic expansion that hit 122 months in August has at least another year to go.

MORE IN THIS REPORT

- 17 investment advisers offer likes, dislikes and insights

A year ago, metro Detroit financial advisers interviewed for Crain's annual wealth management report were worried about the inevitable end of a long bull market, Chinese tariffs and possible trade wars, Brexit and interest-rate changes by the U.S. Federal Reserve. Today, financial advisers are focused on the inevitable end of a long bull market, Chinese tariffs and trade wars, Brexit and interest-rate changes by the Fed.

"It's Groundhog Day," said Anne MacIntyre, a financial adviser based in Sterling Heights, referring to the movie where Bill Murray kept living the same day over and over. But instead of a TV weatherman experiencing deja vu, financial advisers feel like they are living a familiar set of concerns and issues.

Even recent turmoil on the market has triggered a sense of history repeating.

On Aug. 1, President Donald Trump shocked markets with the surprise announcement that he would hit Chinese goods with another $300 million in tariffs in September, causing the market to swing wildly. The Dow lost 300 points on Aug. 1, 760 points on Aug. 5 and 800 points on Aug. 14 — losses that were sandwiched around big climbs on hopes a trade war would be averted.

It brought back memories of last Oct. 10, when, after threats of Chinese tariffs, the Dow lost more than 800 points, and the next day lost 546 points before resuming its upward climb. Also contributing to market instability this month was a temporary negative yield curve, where 10-year yields on U.S. Treasuries fell below yields on short-term treasuries. A similar short-term negative yield curve triggered a sell-off last December.

But wealth advisers still like the fundamentals of the U.S. economy and find plenty of good things to invest in, and they still think an all-out trade war with China will be averted, with Trump needing a strong domestic economy to win reelection in 2020. They also tend to agree that the economic expansion that hit 122 months in August has at least another year to go.

"We'll have economic growth for the next 12 months and potentially 18 months," said David Sowerby, managing director and portfolio manager in the Bloomfield Hills office of Ancora Advisers LLC.

While he said he didn't think saber-rattling over trade would lead to a recession, it has had a detrimental effect on stock prices for the last year and a half.

"The trade issue has been lingering since March of 2018," Sowerby said. "It has been an on-and-off issue that has prompted uncertainty in the market. In that 18 months, the median stock in the S&P 500 is flat because of the uncertainty."

Peter Schwartz, a principal in the Bloomfield Hills firm of Gregory J. Schwartz & Co., describes himself as "a short-term skeptic and a long-term optimist." While he said fears of tariffs and actual tariffs have created economic headwinds, he said a recession is very unlikely next year and a restrained bull market could continue into 2021 or even 2022, despite recent market volatility.

Schwartz said he expects Trump to announce an agreement with the Chinese sooner rather than later.

"It will be like the new trade agreement with Mexico and Canada, which was basically the same as NAFTA. It's NAFTA 2.0. This will be China 2.0, something like they already had agreed to," Schwartz said. "Something to calm the markets and let everyone know a trade war is off the table."

He said his prediction for growth hasn't changed in recent weeks. "It's not a feeling of euphoria, no one is going to be spiking the ball or taking a victory lap. There's not a go-go feel to this economy like in the 1980s or 1990s, but given regulatory relief, tax reform and lower interest rates, we ought to be in an awfully good stretch."

Anne MacIntyre also expects a resolution to the situation with China.

"There have been a lot of headwinds over tariffs, but ultimately there will be a solution, which is in the self interest of China and the U.S. Each side will declare itself the winner," MacIntyre said.

"Keep politics and all the noise out of it and focus on the fundamentals," said Reuben Rashty, managing director and head of private banking in Michigan in the Birmingham office of Fifth Third Bank. When he does that, what does he see? "We're talking 12-18 months of economic growth."

"There will be a resolution of the trade issues with China. Both countries have too much to lose in an all-out trade war," said Michael Dzialo, president and chief investment officer of Rochester-based Managed Asset Portfolios LLC. "Donald Trump is looking at 2020, and the best argument to get reelected is the economy. If we get into an all-out trade war, that pushes the economy into recession, and the Trump administration wants to avoid that."

Leon LaBrecque, the CEO of LJPR LLC in Troy, says it's a case of when, not if, a recession comes, China or no China. But even when it does, the sky won't be falling. "A recession is going to happen sooner or later, probably sooner," he said, "sooner" meaning probably at least 12 months out. "That we are going to have a recession is the bad news. The good news? It's probably not going to be a bad one."

Wealth managers didn't like Trump resuming his fighting words this month, but they liked that the U.S. Federal Reserve Bank cut the prime interest rate by 25 basis points the day before and hinted more cuts were to come, mostly as a way to help support other central banks, who have been cutting rates.

"Cuts in interest rates by the Fed will be a boost to markets," said Lyle Wolberg, a partner in Telemus Capital LLC of Southfield. "Assuming no major surprises or geopolitical events, I don't see financial instability on the horizon."

John Augustine, the Columbus, Ohio-based chief investment officer for Huntington Bank, said one major reason for his relatively rosy economic outlook is Congress agreeing to a two-year deal to lift the U.S. debt ceiling, a deal Trump signed in July. Had partisan politics made that more of a bargaining chip to negotiate other political issues, all bets would have been off, he said.

Now? "A lot of risk went away. They took it off the table as an issue before they went on recess and the markets responded," said Augustine, who rates the chances of the U.S. entering a recession in the next 12 months at 30 percent.

But he said that he is advising clients to take some gains by selling off some of their better-performing stocks. "The S&P 500 is up 50 percent in the last four years. Take some profits from those gains and put them into dividend paying stocks," he said.

"We feel really good about the economy. There is still some room to run, and that's coming off the best first half since 1997," said Aubrey Lee Jr., a first vice president of Merrill Lynch Wealth Management in Farmington Hills.

Jeffrey Fratarcangeli, principal of Fratarcangeli Wealth Management in Birmingham, agrees with Schwartz that this bull market can go on a long time, yet. He said there isn't any law of economics dictating when it must stop.

"This economy can continue to expand for years to come. Just because the economy has expanded for 10 years doesn't mean we have to have a recession," he said, citing strong consumer sentiment, record low unemployment and wage inflation for the first time in years. Buttressing those bullet points, he said, is the decision by the Fed to cut rates.

"Our view is we don't expect a recession. Our probability doesn't cross 50 percent until we get out three years," said Peter Sorrentino, the chief investment officer of Comerica Asset Management in Dallas.

"For years people have been saying, 'It's time for a recession, it's time for a recession.' This bull market has a way to run," said Kevin Granger,senior investment adviser of PNC Wealth Management in Troy. "Personally, I think as Trump looks to the 2020 election, he'll be doing everything he can to keep this market going."

"I don't see a recession coming any time soon," said Jim Robinson, CEO of Robinson Capital LLC of Grosse Pointe.

Inline Play

Source URL: *https://www.crainsdetroit.com/finance/recession-not-years-forecast-financial-advisers-say*