TFA Monthly Newsletter

January 2019

Trends to Watch in 2019

by Kristi Jackson

Happy New Year! 2018 was gone in a flash… we are back in the saddle and starting the new year with a clean desk and fresh outlook for the year ahead. Below, we share our view of trends to watch in 2019:

Slowing Economic Growth:

Most forecasters and economists agree that the domestic economy is still expanding, but the rate at which it is expanding is beginning to slow considerably. In other words, while the economic cycle is still on an upward trajectory, it is trending toward a peak. The likelihood of a recession is increasing – a December 2018 Reuters poll of economists suggests the risk of a U.S. recession in the next two years is 40% – though sentiment is that this is unlikely to occur in 2019. Fueling the concerns of a downturn is the flattening of the U.S. yield curve. That is, the additional interest rate on a 10-year U.S. Treasury Note as compared to a 2-year U.S. Treasury Note is only a tenth of 1%. Aside from the yield curve, however, the catalyst for a recession doesn't appear present in the economy today: we don't have a particularly loose credit environment, consumers are not over-leveraged and no housing or other "bubble" appears on the verge of bursting. <u>Strategies for operating a business or budget under this outlook involve caution: keep costs in check and conservatism will be rewarded</u>.

Rising Interest Rates:

The Fed has signaled, and most economists tend to agree, that there are likely to be two more rate hikes in 2019, following four increases in 2018. This would bring the key federal funds rate to 3.0%, up from nearly zero percent for the six years following the start of the financial crisis in 2008. This will be another factor leading to slower growth in 2019 as rate increases affect the housing mar-

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IN THE NEWS

MGM Resorts International Retains TFA Capital Partners As strategic Advisor For Development Of Key Tribal Sports Betting Partnerships

12/4/2018 – MGMResorts.com

Quapaw Nation Gets Nod To Operate Proposed Casino In Arkansas

12/9/2018 – WorldCasinoNews.com

Mark Trahant: Indian Country Impacted By A Government Shutdown

12/12/2018 – Indianz.com

Arkansas Embraces Legal Gambling

12/18/2018 – GGBMagazine.com

Hatch, Schumer Introduce Bill That Would Regulate Sports Betting

12/19/2018 – MarketWatch.com

Pamunkey Tribe Finds Welcoming Host Community For Potential Casino

12/19/2018 – Indianz.com

Winnebago Tribe Wins Round In Lawsuit To Defend Its Sovereignty

12/19/2018 – Indianz.com

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ket, consumer discretionary spending as well as impact corporate balance sheets and flexibility. Rising interest rates will also directly affect Tribes and their Tribal Gaming operations that borrow using LIBOR (a floating rate that resets every 30 days). There are myriad strategies that can address minimizing interest rate risk – it may be time to explore these if you haven't yet considered one. <u>Always remember one of the simplest ways to reduce interest rate risk is having an effective debt reduction strategy in place.</u>

Continuing Volatility:

Sources suggest a future with intermittent volatility. Driven by certain domestic factors (i.e., rising interest rates and uncertain economic growth prospects), international factors (i.e., demand from China had a huge impact on a particularly large company's earnings forecast and the stock market as whole) or international political change (i.e., announcement of tariffs on international trade), 2019 most definitely will involve increased volatility similar to what we've witnessed over the past few months. Mohamed El-Erian, Chief Economic Advisor to Allianz, an expert on global economies and markets, suggest that "…the real aberration is not what is going on in the markets now, but rather that we are coming from a period of repressed volatility." The market has been lulled into thinking that continual increases in asset prices are normal because of the sustained bull market we've all been enjoying, effectively since 2009. The past six months of swings in equity markets are in fact less worrisome, as they may signal a return to a more normal period of behavior. Whether your portfolio is large or small – just being in an environment of 24/7 news feeds leads to the inevitable contact with media who love to announce major shifts or swings as headlines – <u>expect that this volatility will be part of the "new normal" and don't overreact</u>.

Despite the headwinds noted above, we do see an underlying economy that remains in very good shape. Corporate earnings remain healthy, many consumers are buoyed by the new tax law impact and unemployment is lingering at a level that is effectively full-employment. All of these factors provide balance and lead us to believe that 2019 is a year to plan for slower growth and higher costs – but expect that we can still see positive trendlines.

TFA spends a lot of time with sensitivity modeling related to economic impacts on businesses. We always welcome a discussion to offer our insight into how your businesses and operations can be protected. We wish you all the best in the year ahead – here's to a prosperous and happy 2019!

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