Fasten Your Seat Belts

Given the acceleration of important developments in the U.S. and abroad, it's no wonder that investors have been girding themselves against the impact of nonstop breaking news. Although over time the stock market is primarily a reflection of changes in underlying fundamentals, day-to-day price action tends to be more of a psychological response than a well-considered thought process. For that reason, it would be reasonable to expect a continuation, if not an increase, in the high level of volatility that's been experienced since last February.

The positive side of the equation includes this year's rapid expansion of profits, certainly helped by a leaner tax bite. And even though interest rates are climbing, they are still well below typical levels.

The less encouraging items, however, include the prospect of a moderating rate of earnings growth in 2019, and what at the moment appears to be further hikes in interest rates. The latter, though, is not at all assured. Indeed, there are already economic indicators pointing toward a slowdown. One prime indicator is the yield curve, which continues to flatten, a happenstance that's akin to hitting the brakes on a car.

There already are voices being heard suggesting that a potential business deceleration will prompt the Fed to do an about-face and start cutting rates again. At this juncture, that scenario still seems to be a bit iffy, but in view of the considerable aging of the current economic recovery, one could make a meaningful case for a significant pause in growth.

With all the balls that are now in the air and in view of the weakness that often impacts Wall Street during the summer season, the prudent investor would be well advised to stay alert, prune questionable holdings, and take the long view when making decisions.