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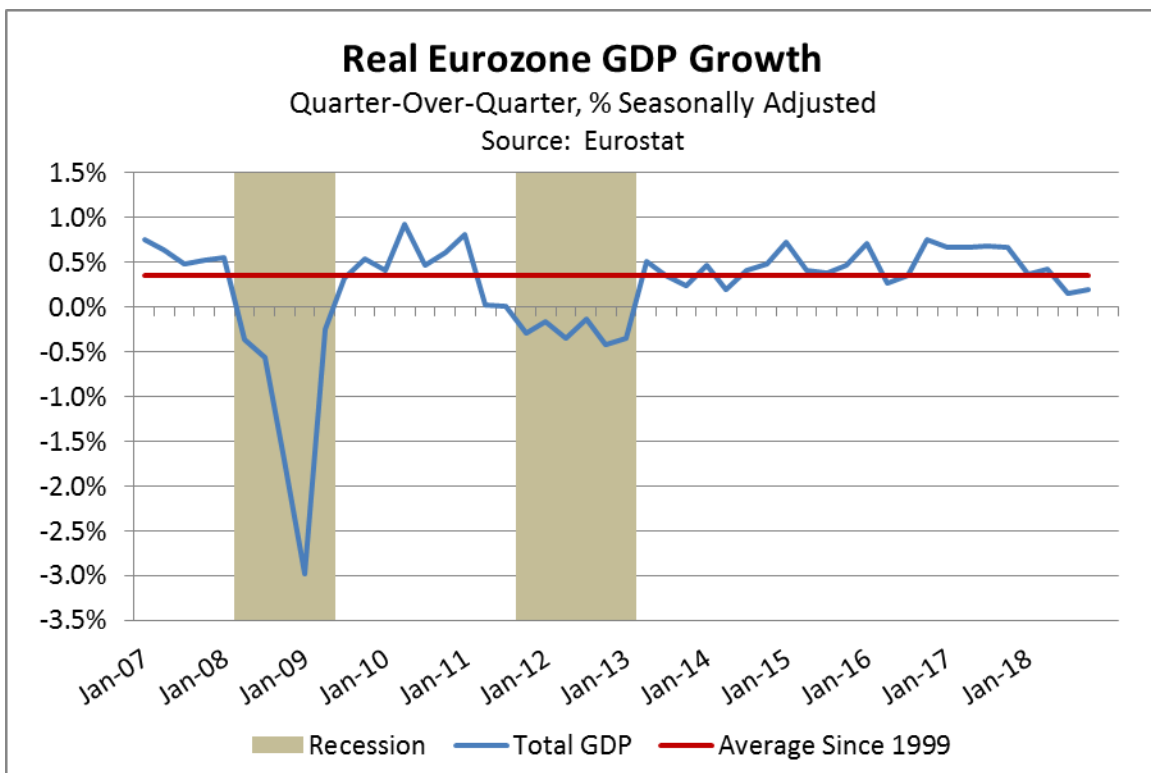
Proactive Investment Management & Financial Planning

Economic Chart of the Week February 20, 2019

Even though the stock market continues to rebound, helped in large part by the Federal Reserve's apparent pause on further interest-rate hikes, we continue to see a risk that the inflation and rate hikes to date may have already done their damage and economic growth could now keep slowing. We've also noted that protectionist trade policies and slower growth overseas could weigh on the U.S. economy.

This week's chart provides a bit more detail on the economic slowdown in Europe. The European Union's off-and-on recovery from the Global Financial Crisis was frustrating and discouraging, but as shown in the chart, gross domestic product (GDP) was finally able to consistently grow faster than average from late 2016 through the end of 2017. Since then, however, growth has slowed to a below-average rate again. Along with the EU's long-standing structural challenges, the biggest problem in 2018 was a sharp slowdown in merchandise exports. That slowdown stemmed in part from weakening demand in China and trade disputes with the United States. The second major problem was a moderation in consumer demand, perhaps reflecting concern about the international trade outlook. The EU is also facing more idiosyncratic problems, such as a possibility that Britain will crash out of the trade bloc with no replacement trade deal in place. As we've mentioned before, our main concern with continued weak growth in Europe is that it could have a negative impact on U.S. companies' foreign sales. While we're trying to keep our exposure to stocks and other riskier assets high enough to take advantage of the current market rebound, we do plan to continue reducing our stock exposure in the coming months.

Patrick Fearon, CFA
Lead Portfolio Manager



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