

Cap Alert

L A T E S T D E B T M A R K E T I N F O R M A T I O N

November 22, 2019

A Window of Opportunity

It is to be expected that most owners and investors in commercial real estate are concerned about the current level of economic uncertainty and the potential for continued softening in the economy. But Federal Reserve Chairman Jerome Powell, who testified on the outlook for the economy and monetary policy before the House Budget Committee on November 13 and 14, is striking an optimistic tone.

With continued low unemployment, steady consumer confidence, minimal inflation and renewed activity in the housing sector, the Fed anticipates sustained expansion of economic activity, Mr. Powell said. We are the strongest country, we have the best institutions and we have the best labor force. I think possibly the day of reckoning could be quite far off.

“We are the strongest country, we have the best institutions and we have the best labor force. I think possibly the day of reckoning could be quite far off. --Federal Reserve Chairman Jerome Powell

Chairman Powell tempered his optimism a bit, adding that the economy is facing noteworthy risks, including sluggish growth abroad and trade tensions, which have weighed on exports and manufacturing. But overall, Mr. Powell appeared to indicate that the Fed’s recent interest-rate cuts have done their job in bolstering the eleven-year economic expansion. If you look at today’s economy, there’s nothing that’s really booming now that would want to bust, he said. In other words, it’s a pretty sustainable picture. Further, any concerns about rising deficits have been offset by the strength of the U.S. dollar and its status as a global financial haven.

The U.S. economy is the envy of nations around the globe and appears quite stable. It is true that weaker demand from overseas, higher import costs and the uncertainty of a presidential election could indeed pose a challenge to growth. But, the risk of a recession seems low in the short term. As such, the current situation offers an ideal window of opportunity for investors to re-evaluate their strategies and take action. That might mean repositioning current assets or diversifying one’s portfolio and moving into sectors that are more recession-proof. It might also be a good time to consider investing in geographies with more robust job and wage growth. On the debt side, investors should take this time to evaluate the appropriate levels of leverage for their portfolio, or refinance existing loans to take advantage of more favorable rates, durations and recourse provisions.

As one Wall Street advisor noted, investors should be aware of what’s happening with trade, global economic trends and politics. But they should remain invested in the data. At the moment, the data is quite favorable. Savvy owners and investors will make the most of this window of opportunity to develop a well thought out investment strategy or the economy could surprise the naysayers and continue to perform well long into the future. Either way, it’s smart to evaluate your balance sheet, shore up your finances and to be prepared for either outcome.