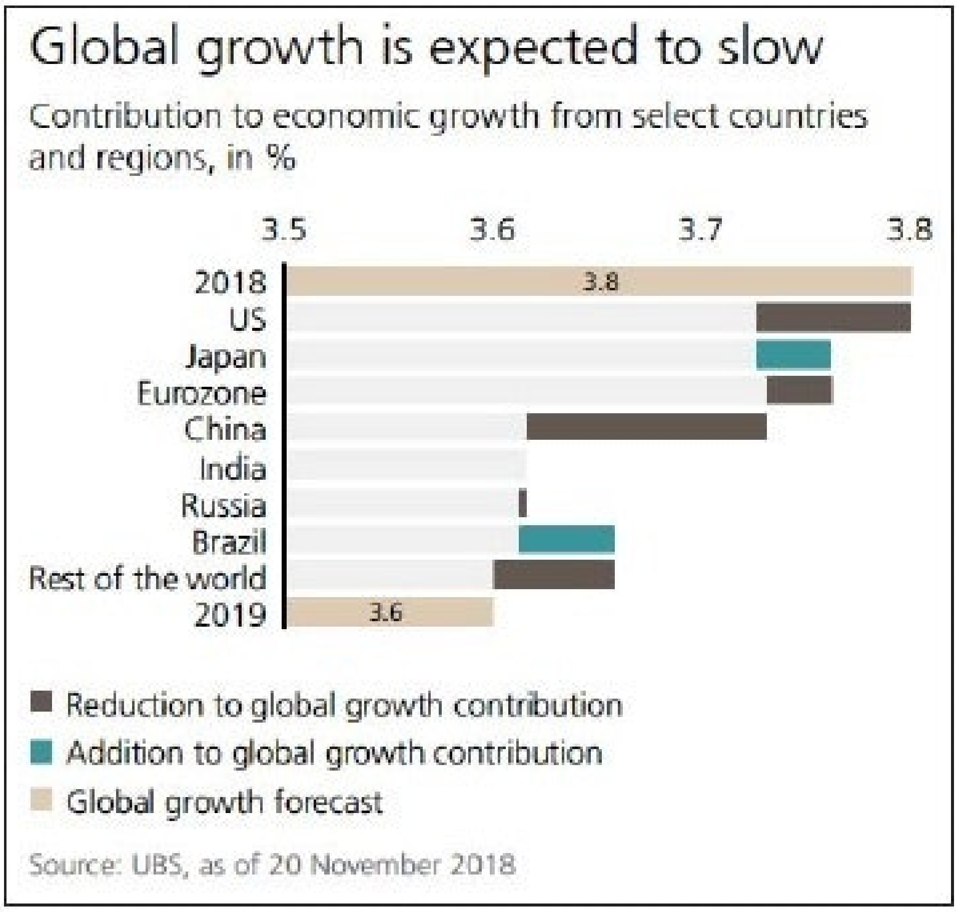
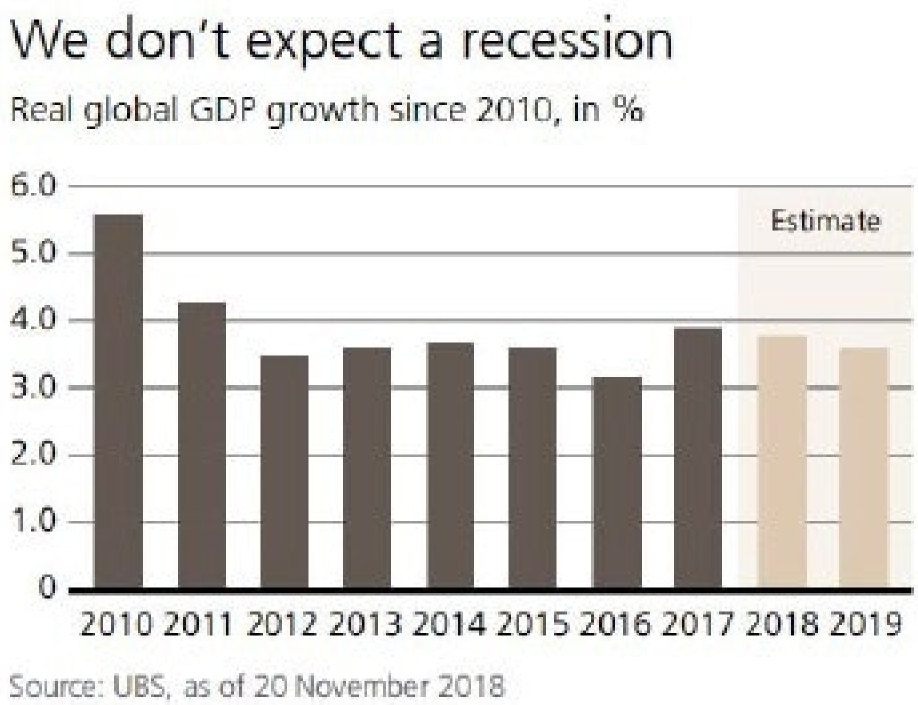
Global economic growth to slow in ’19, but no recession

JEDDAH — After 3.8% in 2018, global economic growth is expected to slow to 3.6% in 2019, UBS House View report entitled “Year revealed. “Our outlook is that US growth will be constrained by ebbing fiscal stimulus and higher interest rates. In the Eurozone, solid domestic demand will not be sufficient to offset reduced export growth. China, meanwhile, faces the twin pressures of US tariffs and economic rebalancing. The decline in global growth will mean a weaker tailwind for global markets, which could begin to anticipate an end of the economic cycle as 2019 progresses.”





The report further said the coming year will represent the first time since the global financial crisis when central bank balance sheets are on track to end the year smaller than they were at the start of it. “We expect US rates to end the year 100bps higher than today, and for the European Central Bank to have ended quantitative easing by the time 2019 begins. Low and falling unemployment rates also increase the risk of higher inflation, which could spark even faster rate rises. Tighter monetary policy will focus market attention on debt serviceability. Potential hotspots include US and Chinese corporate leverage and Italian government debt.”

Moreover, the report expects profit growth in the US market, which comprises more than half of the global equity market, falling off to roughly 4% in 2019 from an eight-year high of 21% in 2018. The one-off boost from corporate tax cuts will not be repeated, and tariffs will begin to have a negative impact. We anticipate 9% earnings growth in emerging markets and around 5% in the Eurozone.

Besides, the world faces key political turning points. US-China tensions run deeper than disagreements about trade: the US National Security Strategy labels China “a revisionist power... shaping a world antithetical to US values and interests,” and so economic considerations may be given less priority in future policy setting. As such, investors should prepare for relations between the two powers to continue affecting markets. Meanwhile, elections of note include those in India, South Africa, Greece, Canada, and Argentina. Europe will also vote for the EU parliament, US presidential campaigning will begin, while instability could provoke a return to the polls for citizens in Italy, Germany, and the UK. Polarized electorates make political outcomes even more uncertain than normal.

The world continues to use resources in an unsustainable way, which is becoming an issue for financial markets as much as for the environment and society. Social media means corporate behavior is more closely scrutinized than ever, and companies have come to appreciate that consumers can vote with their wallets, UBS report said. Corporate valuations are now increasingly tied to intangible assets, brand reputation, and environmental and social performance, which are inherently more vulnerable than hard assets. After a decade in which stock market returns have vastly outperformed economic growth and central banks have provided unprecedented support for bonds, investors will have to temper their expectations in the coming years.

“All that said, we consider it possible to steer through the hazards posed by the changing environment.” However, a recession looks unlikely, the report noted. Current rates of consumption, investment, and employment growth are not historically consistent with an impending recession, and “we think the typical causes of a downturn look unlikely to materialize in 2019. Our base case is for inflation to stay contained, allowing central bankers to remain sensitive to growth. We don’t foresee a major fiscal policy shift or a commodity price shock. Consumer balance sheets are in solid shape and improvements in banking sector capitalization since the financial crisis reduce the risk of a global credit crunch.”

There are growth opportunities and pockets of value. Economic and earnings growth are waning in aggregate. But this slowdown will not be felt uniformly by every country, sector, or company. We expect robust growth in firms exposed to secular trends like population growth, aging, and urbanization. Meanwhile, some assets have already begun to factor in a more challenging backdrop.

Most political risks will prove idiosyncratic. Individual issues, including but not limited to Brexit, North Korea, the Eurozone, and the Middle East, will inevitably surface at some point in the coming year. While some risks, like a global trade war, require close monitoring, concerns about individual countries usually don’t upset global markets as a whole.

“We also shouldn’t discount the possibility of positive developments, like a sustained reduction in trade tensions, even if such a scenario is unlikely,” UMS report said. Sustainability solutions for investors. Investors can play a role in reducing sustainability challenges while earning returns commensurate with equivalent traditional investments. For example, investors could take advantage of the fact that a wealthier world is willing to spend more on ecological goods such as better air quality for its children. There is now ample evidence that sustainable investing does not hurt your portfolio. Building a clear financial plan can assist investors in dealing with heightened uncertainty and limited long-term return potential, and is particularly valuable as the bull market ages. “Understanding the implications of volatility for your portfolio and goals can help you avoid making rash and costly decisions,” the report added. — SG