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Spring 2018...Where Are We Now?

Since the summer of 2016, the major economies of the globe began to achieve growth that appeared to be in unison. This was a change from the choppiness across geographies that prevailed for most of the post-Global Financial Crisis era. A market narrative developed around this attainment of a global synchronized growth, as it was accompanied by positive returning markets. All of this was in part likely aided by significant amounts of sustained monetary policy support rendered by the hands of central bankers. As we enter the summer, we are pushing a full two years on from the beginning of this upward global trend. It is natural to ask at this juncture: Where do things around the world stand now?

For starters, it is not abnormal for growth to change or fade and accelerate or decelerate in certain corridors throughout a cycle. As previously stated, global growth has been quite good for the last few years. Slowdowns and pauses don't necessarily need to mean an end is near. It is likely that growth reached an "as good as it gets" state in some places and a period of "catch your breath" is in order.

In the United States, Q1 GDP grew at a rate of annualized growth of 2.3%. This real rate of growth encompasses a core inflation rate now running around 1.9%. This is very close to the Federal Reserve's target of 2% for this measure and the unemployment rate is under 4%, which indicates that we are possibly on the verge of a period of some labor market tightness should a reasonable level of growth be maintained. As of mid-May, the Atlanta Fed's GDPNow model is estimating growth for Q2 2018 to be around a fairly robust 4%. The U.S. economy is showing some persistence in its growth engine.

In Europe, growth is fading somewhat more noticeably, but this very large developed market has been performing quite well for some time. Policy support is still very accommodative, though oil has strengthened beyond the $70/barrel mark creating higher cost inputs for business and the euro currency has also strengthened which makes the Eurozone's exports more expensive to the world. This is a double whammy of sorts. The EuroStoxx 600 YTD return of 0.70% is trailing the S&P 500 YTD return of 2.4% as the markets digest the changing dynamic.

Japan is passing through a similar softening period. Q1 GDP has not been released yet, though it is expected to be on the softer side and it looks as though it will show near zero growth quarter over quarter. This will likely be the softest quarterly rate seen in two years. As in Europe, consensus views appear to acknowledge the softening in growth, but they do not appear ready to cite the current phase as something more than a pause in growth that will likely pick up steam again later in the year.

The Emerging Market economies seem to perpetually hold that spot of “developing nations” which provide much of the world’s growth contribution yet still are beholden to a global system where they are not generally in the driving seat position. Where they are in the driving seat, as it relates to the stewardship of their own economic systems, there sometimes is a tendency to “crash the car”. Of course, market and growth outcomes are highly dependent upon the specific developing nation to which we are referring. China, the mother of all developing nations, is acknowledged to be entering a period of managed slowdown following massive credit stimulus created in prior periods.

In many ways, the world is as it ever was. It is differentiated, competitive, inconstant and sometimes causal with different effects. The global synchronicity of late is heading towards a summer of 2018 where Bulls and Bears will likely begin to observe the world’s engines firing at different speeds again.

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