

## Global markets: 3 things to watch in 2019

12-20-2018

- **Global liquidity** Global financial conditions have tightened the most since the euro-area debt crisis, with Chinese monetary growth its lowest on record and broader U.S. monetary growth declining on ongoing Fed balance-sheet shrinking. A shrinking monetary base is rarely good for growth or equities, particularly when the explosion of passive investing means roughly 80% of trading volume is driven by algorithms, exacerbating 1-way moves in the markets.
- **Global recession** An extremely flat yield curve is feeding recession fears in the U.S., while overseas, euro-area data have been decidedly soggy—Germany’s economy actually contracted in the third quarter—and China’s economy is looking as bad as Evercore ISI has seen it in 20 years. A Chinese hard landing or at the least continued currency devaluation could put some hurt on the global economy, particularly if oil’s slide continues and trade tensions worsen.
- **Global trade war** Its indirect impact arguably has done more harm than the actual tariffs so far, as large exporters have put off investment decisions, causing a sharp slowdown in capital spending and world trade. An International Monetary Fund analysis said in a most extreme scenario that includes large-scale tariffs on China and Europe, all major economies would suffer deeply, with projected U.S. growth alone halved in 2019. That said, there are signs a China-U.S. deal could come by the February deadline. This would help pull China out of its funk and allow President Trump to declare victory—and potentially avoid recession in the coming re-election year—even if he kicks the “theft of intellectual property battle” can down the road.

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Yield Curve: Graph showing the comparative yields of securities in a particular class according to maturity. Securities on the long end of the yield curve have longer maturities.

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