GM360

Global Macro 360

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Weekly Note: Risks of Recessions

15-February-2018

Financial conditions tightened sharply over the last week, raising concerns about the global economic outlook. But we see three reasons to suggest we are not near to a slowdown in global growth.

TABLE 1 THIS WEEK IN MARKETS

Name	YTD %	MTD %	WTD %
DOW JONES	-0.48%	-5.92%	1.05%
S&P 500	-0.66%	-5.94%	0.27%
RUSSELL 2000	-2.90%	-5.33%	-0.01%
NASDAQ COMPOSITE	1.14%	-5.80%	0.21%
Euro Stoxx 50	-4.37%	-6.93%	-1.06%
FTSE 100	-6.53%	-4.62%	0.62%
DAX 30	-5.19%	-7.15%	-1.18%
NIKKEI 225	-6.68%	-6.78%	-6.34%
HANG SENG	-0.27%	-5.32%	-2.47%
S&P/ASX 200	-3.45%	-5.22%	0.39%
EUR-USD X-RATE	2.66%	-8.02%	-0.43%
EUR-GBP X-RATE	-0.11%	-9.27%	-0.21%
Gold Spot $/Oz	2.01%	-3.01%	0.36%
Crude Oil	-1.62%	-11.48%	-6.23%

First, this week's tightening in global financial conditions is minor compared with the substantial easing seen since early 2016. This is because the sell-off was concentrated in equity prices (with very little spill-over into other asset classes) and the US (with smaller moves in other countries where equities are less important). The FCI growth impulses have therefore diminished somewhat but remain strongly positive. History suggests that a more substantial and more broad-based tightening in financial conditions would be required to erase the positive global growth impulse for 2018.

FIGURE 1 UNITED STATES FINANCAIL CONDITIONS

Second, the current global growth data has remained very strong despite the market turmoil, with global current activity up 0.2pp from December. Although the Q4 real GDP numbers have been a bit softer, the high-frequency growth data has generally come in ahead of expectations in recent weeks.

Third, global recession risk remains low despite the market turmoil. Our research shows that tightening in financial conditions has had very little impact on the risk of recession, and real-economy growth momentum is currently a more important driver. As longs as the economic backdrop remains robust the global economy should be able to absorb the current tightening in FCI.

Our results are consistent with our markets team's assessment that this week's sell-off was mostly technical, not fundamental in nature. The history of market corrections during times of strong economic data suggests that this correction will more likely be short and shallow than long and protracted.