Weekly Market Summary

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Is the Global Economy Cold, Hot or Just Right?? Really Depends on Who You ask!!

Fadi Nasser - Deputy Chief Investment & Treasury Officer

Last December, we noted that 2018 was fast drawing to an end, with a big bang! At that time, resignations/firing of senior White House officials, a partial US government shutdown that followed Democrats' refusal to give in to the President demand for $5 billion of funding for his "*beautiful*" wall, as well as mounting uncertainties in relation to US-China trade negotiations and aimless Brexit deliberations had all conspired to wildly depress consumer and business sentiment - resulting in an epic end-of-year equity/commodity market meltdown! Not to mention at that time a stubborn US Federal Reserve keen on reverting back to neutral rates & showing its independence - away from political interference and presidential pressures.

Mark Twain – a famous American writer (best-known for his novels "*The Adventures of Tom Sawyer*" and its sequel, "*The Adventures of Huckleberry Finn*"), humourist, entrepreneur, publisher and lecturer – once said "*It ain't what you don't know that gets you into trouble… It's what you think you know for sure that just ain't so!*" Applying Twain's quote to financial markets, one would assume that over the course of this year the biggest economic risks will emerge in those areas where investors think recent patterns are unlikely to change: That includes further growth slowdown in Europe and a possible recession in China, a rise in global long-term real interest rates on the back of further quantitative tightening in the US, possibly joined by Europe's ECB later in 2019, and a crescendo of populist economic policies that undermine the credibility of central bank independence and re-ignite old conflicts between nations – all resulting in weakening market sentiment and risk-off trading .

And whilst recent developments do confirm that few of those investors' adverse expectations are already happening - be it the significant Chinese slowdown witnessed earlier this year, or worrisome industrial and manufacturing production data releases in Germany and the rest of Europe – other major concerns/constraints have in effect partially/fully dissipated. Those include fears of a hawkish Fed – solely focused on raising short term US benchmark rates and further reducing the size of its balance sheet - a sudden breakdown in Brexit talks resulting in a troublesome & rushed no-deal exit from the EU, and a rapid increase in tariffs to be imposed by the US administration on Chinese and European goods that sooner or later would backfire, hurting the US economy too!

So, does the above imply investors ought to be more bullish or bearish on future growth prospects? That - to a large extent - depends on who you ask!

Take for example the latest IMF report: On Tuesday, the International Monetary Fund ("IMF") cut its outlook for global growth to the lowest since the financial crisis amid a bleaker outlook in most major advanced economies and signs that higher tariffs are weighing on trade. The world economy will grow 3.3% this year, down from the 3.5% the IMF had forecast for 2019 in January, the Fund said in its latest World Economic Outlook (that was the third time the IMF has downgraded its outlook in six months! At least one could give them an A* for being consistent ☺). The 2019 growth rate would be the weakest since 2009, when the world economy shrank, though global economic growth would recover in the second half of this year, before plateauing at 3.6% from next year, according to the Washington-based Fund. The IMF's warning that risks are skewed to the downside is largely based on a range of threats menacing the global economy, including the possible collapse of negotiations between the U.S. and China to end their trade war, and the departure of Britain from the European Union without a transition agreement, known as the "no-deal" Brexit scenario.

"*Amid waning global growth momentum and limited policy space to combat downturns, avoiding policy missteps that could harm economic activity needs to be the main priority*," the IMF report noted. IMF Managing Director Christine Lagarde also warned that the world economy faces a "*delicate moment*" as finance ministers and central bankers prepare to gather in the U.S. capital this week for the spring meetings of the IMF and World Bank.

To my mind, global economic growth is expected to decelerate in 2019, and that should not a big secret! The slowdown will mostly be due to softer dynamics among developed economies, which are approaching the tail-end of their current stretched economic cycles. Nevertheless, the global economy can and will surely continue benefiting from tight labour markets, still accommodative monetary policy globally and renewed fiscal stimulus in some countries/places like China and Europe.

So maybe, just maybe, one would better – at least for now – focus more on what New York Fed President John Williams had to say yesterday; After all it is not easy to outsmart a gentleman that earned an A.B. with high distinction from the University of California at Berkeley in 1984; a Master's of Science with distinction in economics from the London School of Economics in 1989, and completed a Ph.D. in Economics at Stanford University in 1994! In a keynote address at the Association for Neighbourhood & Housing Development's 2019 annual conference held in New York yesterday, Williams noted that "*we're closing in on the longest economic expansion on record, unemployment is at historically low levels, and inflation is close to our 2% target ... From a pure monetary policy perspective, this is a very healthy economy… The signal I get is that worries about the economy that maybe we had -- I had -- several months ago, that the economy may be slowing much more sharply than I expected, those worries have receded somewhat." "But I'm acutely aware that not everyone is feeling the benefits of the economy's good performance,*" Williams added. "*Since the early 1980s wage inequality has increased in the United States, but that increase in inequality has been particularly sharp in large urban areas like this one*".

Talking about widening social and wage inequality over the past years, I am reminded of this week's interesting exchange of words between Representative Nydia Velazquez (D- NY) and Citigroup CEO Michael Corbat on the discrepancy between CEO's & the average worker's salary (during a Q&A session on Capitol Hill between members of the House Financial Services Committee and Bank's CEOs). Part of that conversation is reproduced below, but our dear readers can always check the full display on Youtube:

Rep Velazquez: The Citigroup Board awarded you more than $24 Million in compensation for 2018! According to the Bank's 2019 proxy statement, the median compensation for employees at Citi was $49,766. As a result, Citigroup has the dubious distinction of having the largest discrepancy between CEO compensation and median employee salary of any of the institutions present here today, a remarkable 486 to 1 ratio. Does this ratio seems fair to you?

Citigroup CEO Micheal Corbat: My compensation is decided by a Board voted on by our shareholders!

Rep Velazquez: Ok, I understand that you don't set your own salary, few people do. But we do set it for the people that work underneath of us. So if you're not happy with the pay ratio at your firm, there are two ways to correct it, because believe me it doesn't look good, either lower your salary or raise the salary of others!!! (☺☺☺☺)

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