

Mitch on the Markets

Could A Global Growth Upswing Be Underway?



By Mitch Zacks
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Global economic growth appears to be in a broad-based, modest uptrend. The key words here, that have arguably been missing for a few years, are “broad-based.” Global growth in aggregate has been positive since 2009, but it’s largely been uneven. The U.S. has posted growth lower than our long-term average, China has been pushing forward close to 7%, while Europe and Japan have been stubbornly hovering in the 0-1% range for years. Emerging Markets, apart from China, have stalled.

That is, until now. Signs are pointing to a slight – and I mean slight – acceleration in global growth from all corners. Even Brazil and Russia, whose economies have been mired in commodity-driven recessions for some time, appear poised to grow again this year. Taken together, 2017 could end up being the first year since 2010 that the developed world and the developing world grow in sync. A rising tide may be lifting all ships.

Let’s take a deeper look into the synchronized global growth we could be

seeing for the first time in a few years. In Q1, data from most regions and particularly Europe was stronger than observed six months ago. For the first time in nearly four years, none of the 19 Eurozone’s economies experienced deflation, a sign that extraordinary monetary policy strategies may be wielding some positive results. The European Commission’s economic-sentiment index is running at its highest level since 2011, and the unemployment rate in the euro currency bloc is at its lowest point since the global expansion got underway in 2009.

Global trade also reached a seven-year high, even as protectionist sentiment has started to creep into the political discourse. Global trading hubs such as Taiwan and South Korea are seeing solid activity. While it’s true that President Trump lambasted NAFTA, the Trans-Pacific Partnership, and China’s trade surplus with the U.S. (amongst others), but the president appears to have retreated slightly from those positions in his first few months in office. Fears of a trade war are subsiding, and confidence abroad is returning. Global manufacturing orders are growing at the fastest rate since 2014 (though this is admittedly not a particularly high

benchmark given the weakness observed over the past two years).

Bottom Line for Investors

Perhaps the most talked about story right now is Emerging Markets. Developing nations have been feeling the sting of the global financial crisis ever since it took place. Financing is already difficult for a country with budding capital markets and relatively low economic output (though high growth rates in many cases), and inflation is a constant battle. There is evidence, however, that current account deficits are coming down and that currencies in a few key countries are starting to strengthen. Again, these are early signs, but they're good ones.

-Mitch

About Mitch Zacks

Mitch is a Portfolio Manager at Zacks Investment Management. Mitch has been featured in various business media including the Chicago Tribune and CNBC. He wrote a weekly column for the Chicago Sun-Times and has published two books on quantitative investment strategies. He has a B.A. in Economics from Yale University and an M.B.A in Analytic Finance from the University of Chicago.



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