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Markets and Trends 2019: Global economy in the gym

- Increasing divergence between major economic areas
- Germany and euro area to see higher growth in the course of 2019
- First rate hike in the euro area
- End of year forecast for DAX: 13,200 points

Helaba's economic and capital market outlook this year is based on the theme of the "gym". 2019 will be an exhausting year, so fitness will be essential. The challenges can only be met with a certain level of performance. Helaba's economists are therefore sending the global economy to the gym. Because many countries will work up a sweat, some will even be able to chalk up their first successes over the course of the year.

Baseline scenario: “Global economy in the gym“ (70 percent)

At 3.4 percent, global economic growth in 2019 will be almost as strong as in the previous year. However, the most important economic areas will diverge. While the US and China are likely to lose momentum, the situation in the euro area and Germany will pick up over the course of 2019. The economic situation will stabilise in emerging markets.

The boom in the US economy was mainly the result of massive tax cuts and strong spending increases. This effect will taper off and growth will slow to 2.6 per cent in 2019 (2018: 2.9 per cent). "In the euro area, how-ever, there will be more fiscal stimulus. The moderate oil price in combination with a stronger euro will also have a supportive effect. In addition, major economic conflicts such as Brexit, the trade dispute with the United States and disagreements over the Italian budget, will subside," explains Dr. Gertrud R. Traud, Helaba's Chief Economist.

In Germany, consumption will make a significant contribution to economic growth and compensate for headwinds from foreign trade and the on-going reluctance to invest. Overall, economic growth will reach 1.5 per cent (2018: 1.6 per cent) and thus remain above the employment threshold. Employment growth is expected to slow somewhat, partly due to skills shortages. At around 2 per cent, the inflation rate will be slightly higher than in 2018. The study contains a total of 16 country analyses and brief summaries on the German federal states of Hesse, Thuringia, North Rhine-Westphalia and Brandenburg.

Inflation and monetary policy

In view of full employment and rising core inflation, the US Federal Reserve is likely to hike the key interest rate further to between 3 and 3.25 per cent in 2019 and then take a break. However, the ECB will be in a position to push ahead with its strategy of exiting monetary policy crisis mode by raising interest rates thanks to an accelerating euro economy and inflation close to its target. The refinancing rate is expected to rise to 0.25 per cent and the deposit rate to -0.2 per cent in the second half of 2019.

The strength of the US dollar will recede. With weaker cyclical tailwinds for the US currency, its yield ad-vantage over the euro will diminish as a result of the ECB's first rate hike. “On balance, Trump's fiscal and trade policies are proving to be a burden on the greenback. The euro-dollar exchange rate will rise to 1.25”, says Traud.

Prospects for investors

A higher repo rate in the euro area, higher US yields and mounting inflation expectations should then propel 10-year Bund yields to around 1 percent. The yield on US Treasuries of the same maturity will also pick up, but will remain well below the 4 per cent mark. The spread between US and German government bond yields will narrow, having diverged sharply in 2018.

Following the end of quantitative easing by the major central banks, competition will intensify both between and within asset classes. In the case of equities, US stocks are not well placed to add to their relatively high valuation. Euro equities, in contrast, are only moderately valued. In the course of 2019, they are once again likely to benefit from an economic tailwind. This will result in a fundamentally derived range of 11,000 to 14,000 points for the DAX. Towards the end of the year, it should reach 13,500 points.

On many real estate markets, low interest rates, solid economic growth and moderate construction activity will ensure a sustained upward trend in rents and purchase prices. However, the existing overvaluation on certain submarkets will continue to increase.

Negative alternative scenario: “Emergency room” (20 per cent)

In the negative alternative scenario, countries refuse to work on their fitness. Historically high debt levels, the failure to pursue a fiscal policy that is geared towards investment and sustainable growth and a severely restricted range of monetary policy remedies lead to a collapse. Investors take flight and seek refuge in safe asset classes. In times of heightened uncertainty, gold and the US dollar live up to their reputation as crisis currencies. The euro-dollar exchange rate drops significantly to 0.95. The DAX plunges into the range around 9,000-points.

Positive alternative scenario: “Relaxing spa” (10 per cent)

In contrast, the situation in the positive alternative scenario is altogether different. Here, the economic environment resembles a relaxing spa. Everything feels very laid-back and a sense of ease spreads throughout the world. Sentiment improves. The US economy booms. The German and euro area economies expand by around 3 per cent. The strong global economy fuels inflation. The Fed raises interest rates sharply and the ECB executes the first rate hike earlier than expected. The euro-dollar exchange rate rises to 1.35. The DAX surpasses the 15,000-point mark.

In addition to a hard copy, we have also made a PDF version of the annual outlook available:

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