

<http://blog.en.erste-am.com/2017/01/27/higher-growth-vs-increased-political-uncertainty/>

Higher growth vs. increased political uncertainty

Gerhard Winzer



© © iStock.com

The first weeks of the new year have already picked up from where the trends that started in 2016 and the hypotheses for 2017 left off: higher growth, normalisation of inflation, increased uncertainty with regard to the effects of Trumponomics, and a gradual end of the loose monetary policy.

The estimates for economic growth are now not subject to upward revisions anymore, in contrast to previous years. This also applies to those by the International Monetary Fund, which in January left its previous estimate of October for real global economic growth unchanged at 3.4%, after 3.1% for 2016.

Higher growth

In addition, some of the important cyclical economic indicators are still on the rise, such as the global purchasing managers index of the manufacturing sector. The preliminary estimate for this index, which is based on the preliminary data for the USA, the Eurozone, and Japan, increased yet again in January. This suggests a further increase of growth in global industrial production and a continued growth of the global economy above the value expected for the medium term (i.e. potential).

Normalisation of inflation

The growth of the global economy above potential reduces deflation pressure. In the countries that have already achieved full employment (i.e. USA; Germany), the risk of inflation is rising. Global consumer price inflation increased to 2.0% y/y in December from 1.8% in November. This change can be explained by the increase in inflation in the industrialised nations from 1.1% to 1.6%, which was due to the so-called base effect. Energy prices have stabilised after the drastic slump in previous years. As a result of the year-on-year analysis of inflation, the indicator has increased temporarily. The crucial question is whether the so far stable underlying inflation will also begin to rise. The market has in fact started to price in such an eventuality.

In contrast to the developed economies, inflation declined from 3.3% to 3.1% in the emerging markets in December, which was due to three remarkable developments. First, these rates are based in important countries with elevated inflation (Brazil: 6.3%; India: 3.4%; Russia: 5.4%) in a falling trend. Second, the rates of inflation in countries with generally low inflation (CEE and China) are on the rise. In China, this does not affect consumer prices, but it does affect producer prices. And third,

countries with weak currencies have experienced a rise in inflation (Mexico: 3.4%; Turkey: 8.5%).

“The Wall“

In addition to higher government spending, lower taxes, and measures aimed at deregulation, the main tenet of the new US government is protectionism. The announced building of a wall on the border of Mexico is a strong symbol to this effect. Trump’s advisors have called it the Trump Trade Doctrine: every agreement has to boost economic growth, cut the trade deficit, and strengthen the manufacturing sector. This is a modern version of the well-known economic policy of mercantilism.

Other fact(or)s remaining equal, such measures translate into a stronger currency (given that the trade deficit falls) and a higher level of interest rates (given that real economic growth and inflation increase). That being said, a protectionist policy tends to imply a weak currency (in order to support exports and limit imports). This could be achieved by a situation where the central bank increases interest rates at levels below the rate of increase of inflation, which would in turn cause real interest rates to decline and the US dollar to depreciate. Assuming a combination of both arguments (strong vs. weak US dollar), the benefits for the USA (higher growth) will probably outweigh the disadvantages (only moderate appreciation of the US dollar).

“Nasty surprises“

In a recent speech, US Fed chairwoman Yellen said that it made sense to dial down the monetary support gradually towards a neutral level. Otherwise, one might be at the risk of nasty surprises. This statement came after an earlier, different sort of opinion, according to which excessively fast rate hikes were risky. The US central bank clearly prefers to continue in its cycle of interest rate increases. In the most likely scenario, the US Fed funds rate will be stepped up three times this year at 0.25 percentage points each.

By contrast, EZB president Draghi said at his most recent press conference in January that substantial monetary support was needed in order to achieve the inflation target of the Eurozone. However, within the ECB the pressure to reduce (“taper”) the bond purchase programme has been building. Draghi has mentioned four criteria for this to happen: 1) the inflation target of close to 2% applies in the medium term; 2) the increase in inflation has to be of a substantial nature; 3) once inflation has reached the target, it has to be able to remain at that level without monetary support; 4) the inflation target applies to the entire Eurozone. The latter point is relevant, because in Germany inflation increased from 0.8% in November to 1.7% in December. The risk of the ECB launching discussions on tapering earlier than expected has increased.

Equities preferred

We have translated the tendency of higher nominal economic growth (i.e. real economic growth plus inflation) in our asset allocation accordingly: underweighting of credit-safe government bonds, overweighting of equities. However, in doing so, we remain cautious, seeing that the elevated level of political uncertainty is dampening the risk appetite of investors.

Wichtige rechtliche Hinweise

Hierbei handelt es sich um eine Werbemitteilung. Sofern nicht anders angegeben, Datenquelle ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Erste Asset Management GmbH, RINGTURM Kapitalanlagegesellschaft m.b.H. und ERSTE Immobilien Kapitalanlagegesellschaft m.b.H. Unsere Kommunikationssprachen sind Deutsch und Englisch.

Der Prospekt für OGAW-Fonds (sowie dessen allfällige Änderungen) wird entsprechend den Bestimmungen des InvFG 2011 idGF erstellt und im „Amtsblatt zur Wiener Zeitung“ veröffentlicht. Der vereinfachte Prospekt der ERSTE Immobilien Kapitalanlagegesellschaft m.b.H. wird entsprechend den Bestimmungen des ImmoInvFG 2003 idjF erstellt und im „Amtsblatt zur Wiener Zeitung“ veröffentlicht. Für die von der ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H., Erste Asset Management GmbH, RINGTURM Kapitalanlagegesellschaft m.b.H. und ERSTE Immobilien Kapitalanlagegesellschaft m.b.H. verwalteten Alternative Investment Fonds (AIF) werden entsprechend den Bestimmungen des AIFMG iVm InvFG 2011 „Informationen für Anleger gemäß § 21 AIFMG“ erstellt.

Der Prospekt, die „Informationen für Anleger gemäß § 21 AIFMG“, der vereinfachte Prospekt sowie die Wesentliche Anlegerinformation/KID sind in der jeweils aktuell gültigen Fassung auf der Homepage www.erste-am.com bzw. www.ersteimmobilien.at abrufbar und stehen dem interessierten Anleger kostenlos am Sitz der jeweiligen Verwaltungsgesellschaft sowie am Sitz der jeweiligen Depotbank zur Verfügung. Das genaue Datum der jeweils letzten Veröffentlichung des Prospekts bzw. des vereinfachten Prospekts, die Sprachen, in denen die Wesentliche Anlegerinformation/KID erhältlich ist sowie allfällige weitere Abholstellen der Dokumente sind auf der Homepage www.erste-am.com bzw. www.ersteimmobilien.at ersichtlich.

Diese Unterlage dient als zusätzliche Information für unsere Anleger und basiert auf dem Wissensstand der mit der Erstellung betrauten Personen zum Redaktionsschluss. Unsere Analysen und Schlussfolgerungen sind genereller Natur und berücksichtigen nicht die individuellen Bedürfnisse unserer Anleger hinsichtlich des Ertrags, steuerlicher Situation oder Risikobereitschaft. Die Wertentwicklung der Vergangenheit lässt keine verlässlichen Rückschlüsse auf die zukünftige Entwicklung eines Fonds zu.

Da es sich hierbei um einen Blog handelt, werden die in den jeweiligen Einträgen angegebenen Daten und Fakten sowie Hinweise nicht aktualisiert. Diese entsprechen dem Redaktionsstand zum oben angeführten Datum. Die jeweils aktuellen Daten und Hinweise in Bezug auf Fonds entnehmen Sie bitte den Angaben unter dem Menüpunkt „Fondssuche“ auf www.erste-am.at.



Gerhard Winzer

Gerhard Winzer has worked at Erste Asset Management since March 2008. Up until March 2009, he was Senior Fund Manager in Fixed Income Asset Allocation; he has been Head Economist since April 2009.

He holds a degree from a polytechnical college and studied economics and business at Vienna University with a special focus on financial markets. He holds a CFA charter and participated from 2001 to 2003 in the doctoral programme for finance at the Center for Central European Financial Markets in Vienna.

From July 1997 to June 2007, he worked in research at CAIB, Bank Austria Creditanstalt, and UniCredit Markets & Investment Banking. His last position was as Executive Director for Fixed Income / FX Research and Strategy. He was responsible for research on asset allocation at Raiffeisen Zentralbank (RZB) in Vienna from July 2007 to February 2008.