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Stock markets in 2018 – market activity dominated by politics and volatility

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2018 was a year of politics in the stock markets. First and foremost, three major topics dominated international market activity: the trade dispute between the USA and China, the Brexit, and Italy, with the focus initially on the formation of a new government and later on the budget dispute with the EU Commission.

During the course of the year, fear about a world-wide economic slowdown emerged additionally. Initial concerns were raised as early as February, following new US labour market data. January data showed a stronger increase in hourly wages than expected, fuelling expectations of higher inflation. This in turn triggered concerns that the US Federal Reserve might raise interest rates sooner and thereby slow US economic growth.

At the time of writing, the Fed has raised interest rates a total of four times, starting at 1.25 to 1.50 percent at the beginning of 2018, and currently ranging at 2.25 to 2.50 per cent. So far, however, the US economy has remained robust despite losing momentum throughout the year. In Q3, the US economy grew by 3.5 per cent taken over the year as a whole, compared with 4.2 per cent in Q2.

However, higher interest rates indirectly caused disturbances in the emerging markets, as the higher interest range provided a significant boost to the US dollar and thus put numerous currencies in the emerging markets under pressure. Exacerbated by local economic policy problems, the Turkish lira, the Indian rupee, the Brazilian real and the Argentine peso in particular saw sharp drops.

In addition, economic concerns caused oil prices to drop significantly in the fourth quarter. Within just a few weeks, the prices of the two foremost oil grades Brent and WTI dipped by more than 20 per cent, forcing a reaction from the expanded oil cartel OPEC+, which agreed in December to cut its production by 1.2 million barrels a day until June 2019. Whether this will be sufficient to stabilise the oil market is still uncertain; however, Brent and WTI are clearly leaving the year weaker than they entered it: Brent currently lies at around 53 and WTI at around 45 dollars per barrel (159 litres). At the start of the year, prices lay at 66 and 60 dollars respectively.

Stock markets see shares drop throughout the year

The stock markets have had little to cheer about in 2018, although losses on the US exchanges are comparatively moderate. The Dow Jones is currently down by around seven and a half per cent, and the S&P 500 has already lost 7.7 per cent over the year. The Japanese leading index Nikkei-225 recorded a loss of around twelve per cent so far in 2018. By comparison, the European markets were hit harder. The Euro-Stoxx-50 is ending the year with a minus of around 15 per cent, the Frankfurt DAX is likely to lose around 18 per cent. The Viennese ATX is heading towards a 20 per cent drop.

In 2019, politics will likely continue to have a strong impact on the market, especially since neither the trading dispute nor the Brexit have been resolved so far. Concerns about global economic development also remain, as growth forecasts for the coming year point to a world-wide loss of momentum. Market experts therefore expect the markets to remain volatile in the 2019.

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