# Macro Insight

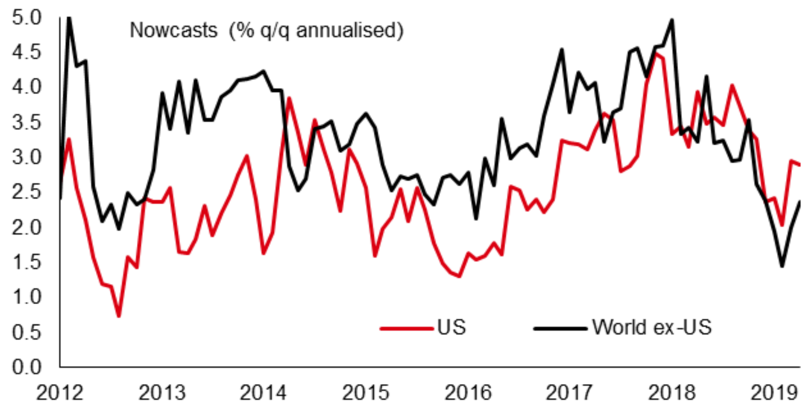
15 May 2019
For Client Use

# Global economy: spring in the air?

**According to our Nowcast, global growth began to slow in early 2018**

According to our Nowcast, or “big data” approach to tracking the economic cycle, global growth began to slow in early 2018, particularly outside of the US (Figure 1).

**Figure 1: Nowcasts**




*Source: HSBC Global Asset Management, data as of 14 May 2019.* ***Past performance is not indicative of future performance.***

**We believe a range of factors explain the slowdown**

Figure 2 below summarises some of the potential factors behind the slowdown.

**Figure 2: potential factors behind the 2018-19 global economic slowdown**

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|---|---|
| | The relationship between the **US and China** deteriorated through 2017, culminating in the US imposing **tariffs** during 2018-19 and China retaliating accordingly.<br>Models suggest the direct economic impact can only explain part of the slowdown. However, these models may understate the adverse impact of weaker confidence. |
| | In 2015-18, the **US Federal Reserve (Fed)** raised rates by 200bp. In early 2018, US bond yields and the US dollar rose sharply, putting some emerging markets under pressure. |
| | In 2017, authorities in **China started to clamp down on credit growth** amid increasing risks associated with the rapid accumulation of corporate debt.<br>From late 2017, the flow of new non-bank or “shadow” credit began to fall sharply and almost dried up during 2018, weakening domestic demand. |
| | Helped by a wave of new product launches, **semiconductor sales** increased by around 60% from April 2016 to October 2018.<br>Since then, however, they have fallen by around 25%, reflecting lengthening replacement cycles and overcapacity, in addition to softer cyclical demand |
| | In the **auto sector**, the impact of much weaker Chinese demand has been amplified by tighter emissions regulations and changing consumer preferences (a move away from diesel to petrol/electric hybrids or electric vehicles). |

*Source: HSBC Global Asset Management, as of 14 May 2019*

## Our views

In our view, global growth will run around its trend pace in the second half of the year and into 2020. This is likely to be a relatively supportive environment for risk assets

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Activity indicators have recently strengthened, including in China

We believe the recent upturn can persist amid a dovish Fed, and proactive Chinese authorities

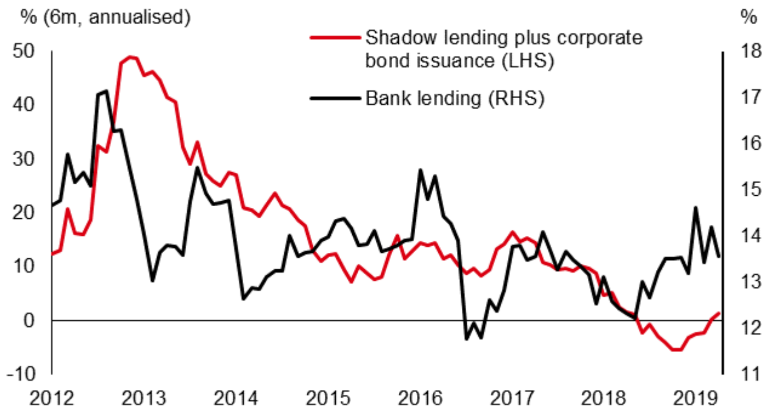
In our view, an outlook of decent growth is likely to be relatively supportive for risk assets

**The picture is changing**

Importantly, the picture is beginning to change on a number of fronts. The latest Nowcasts for March and April have shown an improvement (Figure 1 again), while imports by China and other Asian economies have bounced-back.

More widely, China's activity data have, on average, surprised to the upside of late. The first sign of this was in the credit numbers (Figure 3).

**Figure 3: China credit growth (6-month growth, annualised)**




*Source: HSBC Global Asset Management, data as of 14 May 2019*

Other indicators have also strengthened, most notably China's manufacturing PMI Index. This is important because China has tended to lead the global manufacturing cycle. Given global service sector activity remains solid, an upturn in global manufacturing would put the global economy back on track.

Better activity data have not been confined to China. US personal consumption surged in March amid continued above-average levels of consumer confidence. Elsewhere, Q1 eurozone GDP showed signs of life. We expect eurozone growth to run around the rate seen in Q4 and Q1 through 2019, while China's recovery should benefit Japan too.

Additionally, there are some tentative signs that the tech and auto cycle headwinds are fading. Orders of semiconductor manufacturing equipment picked up strongly in Japan in March while the Taiwanese PMIs for the electronic and optical industry rose in each of the three months to April. Auto sales in China also look to have stabilised.

**Policy and political backdrop more supportive**

While in its early stages, we believe the recent upturn in global growth indicators will persist for two main reasons:

1. The Fed will remain dovish on the back of subdued core inflation and signals that even if inflation picks up, it is prepared to accept a period of above-target inflation.

2. If the recent improvement in Chinese data proves to be a false dawn, the authorities are likely to deliver further policy easing. However, it is important to remember that the authorities are not trying to engineer a strong Chinese upturn for fear of reflating the corporate debt bubble, so the recovery is unlikely to be as pronounced as in 2016-2017.

Although the US/China trade conflict has recently escalated, the adverse economic impact is likely to be manageable. Chinese authorities can ease policy further and the Fed could cut rates. Ultimately, it remains in both sides' interests to eventually strike a deal. We continue to monitor developments closely.

Overall, we see global growth running around its trend pace in the second half of the year and into 2020. The mix of growth by country is likely to change, with the US slowing gradually while China sees some further improvement. Stronger Chinese growth plus a dovish Fed should also support growth in the rest of the world.

**Market Considerations**

In our view, an outlook of decent growth is likely to be relatively supportive for risk assets, given inflation pressures remain largely subdued and central banks are more dovish.

Recent macro developments are thus consistent with our overweight call on global equities, especially in the context of still-low developed market yields, where we are not being compensated for taking risks related to unexpected changes in interest rates or inflation.

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