

The uncertainty rocking the markets

El País (Spain)

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The high volatility and sharp falls in stock markets which have been dominating global markets these past few days leave a bitter year-end taste and raise quite a few questions for 2019.

This past year 2018 was never going to be easy, with the environment of abundant liquidity and low interest rates drawing to a close. In fact, the year had barely started when we saw a bout of sharp falls and volatility in the markets. And the first victims did not take long to appear: the emerging markets, which suffered significant turbulence, in some cases even crisis, following the Fed's rate hikes and the dollar's appreciation.

The tensions spread to the developed economies, as a result of factors of a more political and geopolitical nature, prominent among which was the trade war unleashed by the US on its main trading partners - from Mexico and Canada, through Europe to, of course, China. The threat of escalating protectionism hung over the markets all year and has without doubt been weighing negatively on investor sentiment.

In Europe, the uncertainty associated with the tensions between the Italian government and the EU authorities - a kind of re-run of the debt crisis, and the chaotic negotiation of Brexit - just a few months before the UK is due to leave the EU, led to sustained falls in stock markets, refuge in German debt and depreciation of the euro. Not to mention the substantial outflows of capital from Europe that have been observed since last spring.

In the last part of the year the US, which had seemed immune to the adjustment, ended up experiencing its own correction. The environment was already one of caution: analysts were starting to question the sustainability of the US growth cycle, to assess the risk of recession and to worry about trends in certain market segments such as corporate debt which were showing alert signals. But the trigger was the uncertainty about economic policy unleashed by the US administration on several fronts (government shutdown, declarations of the Secretary of the Treasury and criticism of the Federal Reserve).

This review will serve as a guide to understanding the uncertainty that will continue to stalk the markets: it does not make good travelling company. Uncertainty usually precedes slowdowns. Firstly, as to what will happen with the trade war, in particular the issue of intellectual property with China and the automotive sector with Europe. Secondly, by how much world growth, and especially US growth, will slow. Thirdly, how the Brexit predicament will be resolved. And fourthly, and most critically in the short term, how this bout of market correction will end. There is no room for errors in economic policy.

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