

Investment Solutions – Market Commentary – November 2017

Are we in the midst of a Goldilocks Economy?

A Goldilocks Economy is usually defined as an economy that is not too hot that it causes inflation and not too cold that it causes a recession. Such an economy is normally characterised as having low unemployment, increasing asset prices (such as shares and property) low interest rates, low inflation and steady economic growth.

Global View

Some feel that most world economies could be experiencing such a phenomenon at present. On the whole the global economic backdrop remains positive. The Organisation for Economic Cooperation & Development (OECD)'s latest interim economic report had a positive outlook. The report noted that the global economy had picked up momentum, as expanding investment, employment and trade synchronised growth across most countries, albeit at a steady pace.

Growth has picked up in the Emerging Markets, Japan, and the Euro zone. Although a slowdown in monetary expansion could dampen these positive returns.

UK

In the UK, growth has slowed in 2017 compared to 2016. However there is positive news with export orders of British Manufacturers surging to their strongest growth rate since the mid 1990s, which have been helped by the weak pound.

Inflation in the UK does continue to creep up which might discount the Goldilocks theory. CPI is currently 3.0% and the Bank of England appears to be making noises about a rate increase shortly.

Europe

In Germany Angela Merkel continues to try to put together a coalition government following the most recent election. The European Economy as a whole has been gradually improving, after some lacklustre growth over the last few years. Germany continues to shine in this region with growth increasing to 2.1% year on year to Q2 2017 and France trailing a little behind with Growth at 1.8%.

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USA

Economic growth remains steady and the OECD thinks this will pick up as we move into 2018. Inflation is close to the US target and unemployment continues to nudge down. The positive news from this region means the government will continue to withdraw its monetary stimulus.

Asia

In Japan real GDP has now increased for six consecutive quarters, although inflation remains low in the country. The monetary stimulus in Japan does not appear to have been as effective as other countries so far. China's growth continues and exports have recovered from declines a year ago. China is the world's biggest emerging market and purchaser of commodities which should help this asset class if trade increases.

In Conclusion

The growth in the main stock markets over the last 12 months coupled with low overall inflation and unemployment do indicate that we could be in the midst of a Goldilocks economy. John Greenwood of Invesco Perpetual thinks the current expansion will be an extended one in the US which continues to influence the world economy. The main risk to this will be the tapering of monetary stimulus and whether this halts the growth and returns we have seen.

The value of investments can fall as well as rise and past performance is not a guide to the future. This publication is for guidance only and is not a recommendation of any investment or financial promotion.

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