Strong economic drive, with risks lurking on the horizon

High global growth. The latest indicators being published for Q1, including some GDP figures, confirm that the momentum of economic activity remains high. The indications are that Q1 2018 will have closed with strong global growth of around 4% (2.6% in the developed markets and 5% in the emerging markets). This start to 2018 supports CaixaBank Research's growth prediction for the year as a whole of 3.9% (similar to the 3.7% of 2017), which is similar to the forecast recently published by the IMF. With regards to the support factors, there are few new developments. Despite the normalisation process initiated by the Fed in the US, the continuation of accommodative monetary policies in the advanced economies continues to be the main driver of growth. There are not many new developments regarding the major countries that are driving the growth either. In the US, 2018 has started on a good footing (2.9% year-on-year growth). Although the pace of growth was slightly lower than in the previous quarter, it has been better than the market expected. This reaffirms the positive outlook for 2018 as a whole, with a growth rate that will continue to be supported by monetary policy which remains accommodative and on the high inertia of domestic demand, but also on the fiscal expansion which has been announced. China, meanwhile, grew by 6.8% in Q1, slightly above expectations. However, since this growth was partly due to one-off factors and doubts persist regarding the gap between the growth officially published and the true pace of the economy, we expect that the trend remains one of gradual deceleration.

The financial markets acknowledge the deterioration in political and geopolitical risks. Although the macroeconomic indicators are positive, the fluctuation of the markets in April reinforces the view that the period of very low volatility we have witnessed in recent years is now a thing of the past. To a large extent, this is the result of the change of tone that the monetary policy of the major central banks are beginning to adopt. Added to this factor are fears of a protectionist shift at a global level and the increase in geopolitical tensions. As such, the financial conditions have tightened slightly in recent months (more so in the US than in Europe), while volatility is clearly higher than the average for 2017. After years of being kept afloat by an environment of low interest rates, the stock markets are now seeing an increase in volatility and, in April, suffered further sessions of losses (albeit less marked than in previous months). Sovereign interest rates, meanwhile, continued to rebound, slightly more notably in the US than in the euro area.

Things are going well for Europe, and even better for Spain and Portugal. The euro area continues to go through a positive phase. This is evident in both the rate of growth (in Q1 it remained at around 2.5%) and the high degree of cyclical synchronisation, with the major countries growing at rates of over 2% (with the familiar exception of Italy). Furthermore, despite the upturn in growth in 2017 and 2018, and unlike the US economy, the European economy still has a considerable margin for cyclical growth. In this favourable context, the Portuguese and Spanish economies remain in good shape. In Portugal, the slight slowdown that is estimated to have occurred in Q1 does not detract from the favourable outlook for 2018 as a whole (expected growth of 2.4%). In addition, the good performance of the Portuguese economy, which is making a significant contribution to correct the macroeconomic imbalances, has been ratified by a new upward revision of the country's credit rating and by the risk premium being kept at very low levels. The Spanish economy, meanwhile, has been growing at around 3.0% for three years now. This growth has been supported by the country's internal strengths, the recovery of its international competitiveness and a healthier macro environment, as well as some external tailwinds which, although losing intensity, continue to provide more sustained growth than anticipated. This is evident, for example, in the encouraging GDP figure for Q1 2018, which according to Spain's National Statistics Institute remained at a solid 0.7% quarter-on-quarter (2.9% year-on-year), very similar to the figure for Q4 2017. The strength of the economy is also helping to correct the fiscal imbalances. In 2017, the public deficit stood at 3.1% of GDP, 1.2 pps less than in 2016. This is a good starting point, which makes the deficit target of 2.2% of GDP in 2018 achievable. This balancing of the public finances is also in line with the gradual reduction of household and company debt, an important trend to underpin the economy's capacity for growth in the medium term as the tailwinds subside and the headwinds gather strength.