Volatility returns to the fore

Strong global growth, albeit slightly slower. According to the latest available indicators, the growth of the global economy has slowed slightly, although it remains strong. This is reflected in our global growth forecasts, which have been revised down slightly, to 3.7% for 2018 and 3.6% for 2019. After all, the downside risks that we have been pointing out in recent months continue to take shape. In the sphere of trade, the tensions between the US and China are taking their toll on the global climate of confidence. At the macrofinancial level, the normalisation of US monetary policy continues to put pressure on the bloc of emerging countries and is causing volatility spikes in the markets. On the other hand, the slowdown in the growth rate of the Asian giant, although slight, is not without its uncertainties. The combination of these trends is weighing on the climate of global confidence, and both the advanced and the emerging economies are feeling the effects.

Differing performance among the advanced economies. The latest growth data for the US indicate that the economy is continuing to grow at a vigorous rate and above its potential. In this environment of high growth and a labour market close to full employment, the risk of the US economy overheating remains ever-present. This suggests that the Fed will continue with its policy of rate hikes, as foreseen in the scenario by CaixaBank Research, which forecasts one more rate rise this year and two for next year. In contrast, political tensions and the worsening of external demand continue to weigh on the performance of the euro area economy. In particular, the tensions between the European Commission and the Italian Government, after the latter raised its deficit forecast to 2.4% for 2019, has pushed the country's risk premium above 300 bps. This has also had a limited knock-on effect on the risk premiums of the other countries of the euro area periphery. Furthermore, negotiations continue between the United Kingdom and the EU to try and reach a deal that will ensure an orderly departure from the Union. However, the political constraints that arise from the weakness of the British Government's position at home suggest that an agreement is unlikely to be reached until sometime after November.

The markets feel the effects of the heightened uncertainty. Following a September in which some calm returned to the markets, volatility once again left its mark in October. On this occasion, and despite the positive macroeconomic data, the corrections began in the US stock markets, with the S&P falling by 6.9% in the month of October as a whole, before being transmitted to the other international markets. In Europe, for instance, the climate of greater risk aversion was exacerbated by the aforementioned political tensions, and the Eurostoxx 50 index fell by 5.9%. In the emerging bloc, meanwhile, performance was uneven. The largest declines were concentrated in the Asian markets, while the Latin American indices showed slight growth.

Gentle, but expected, slowdown of growth in Spain. The latest available data confirm that the Spanish economy is shifting gears and that its growth is stabilising at more sustainable levels than those registered in recent years. This easing of growth has come as a surprise, not because it has occurred, but because of its composition. Whereas CaixaBank Research expected a gradual slowdown of growth in domestic and external demand, the latest data show that domestic demand continues to grow at a steady rate, while most of the reduction is coming from external demand. Uncertainty surrounding global trade flows, the slowdown in the tourism sector and the surge in imports caused by strong domestic demand have all weighed down the positive performance of external demand, which will probably end the year with a negative contribution to growth. Finally, the budget submitted by the Government to Brussels is an important development. It includes measures to increase expenditures, which will be more than offset by measures to increase revenues. Therefore, the deficit is expected to continue to fall from the 2.7% forecast for this year down to 1.8% in 2019, if the budget is finally approved.

Encouraging, albeit slightly slower, growth in the Portuguese economy. Following the upturn in economic activity in Q2 (2.4% year-on-year growth), the economic activity and confidence indicators suggest that growth will continue to slow down over the coming quarters. All in all, the performance of the Portuguese economy remains strong, as demonstrated by the trend in the unemployment rate, which now lies below 7%. Also of note is the narrowing of the gap between the country's sovereign risk premium and that of other peripheral economies. This is a result of Moody's upgrading Portugal's credit rating, a move underpinned by the positive trend in the public accounts and the greater diversification of the sources of growth. The budget submitted by the Portuguese Government, which envisage a reduction of the deficit down to 0.2% in 2019, support this revision.