# The Year in Review

This year, the narrative in financial markets has been defined by the unexpected resilience of the US economy. This resilience has stood in stark contrast to Europe, China and Japan, where growth outcomes have frequently fallen short of expectations (see chart 1). These growth considerations have also yielded important consequences for inflation (chart 2) and monetary policy. But feedback loops via savings imbalances have been significant too for shaping financial markets, particularly as the US has continued to attract substantial capital inflows (chart 3). Those inflows have amplified US asset market performance and generated enthusiasm for alternative assets, such as Bitcoin, and safe assets, such as gold, at the same time (chart 4). In the background to this there has been heightened enthusiasm about the productivity-potential of AI, further supporting demand – via its technology leadership - for US assets (chart 5). However, there has equally, and more recently, been heightened concern about the potential trade policy consequences of a new US administration (chart 6). We will be discussing the outlook for the year ahead in more detail in next week's publication.

The growth consensus for 2024

One of the defining features of the global economic landscape this year has been the resilience of the US economy. The Blue Chip consensus for US GDP growth in 2024 has been steadily climbing for over a year, notwithstanding tight monetary policy from the Fed this year and a weakening global backdrop. To that last point, and in contrast to the US, growth expectations for Japan have steadily declined over the past 12 months while those for the euro area have remained notably lower compared with they stood through much of 2023. Finally, China's growth outlook has been lifted a little over the last few months but that follows a succession of downward revisions to its GDP forecasts during the course of last year as well.
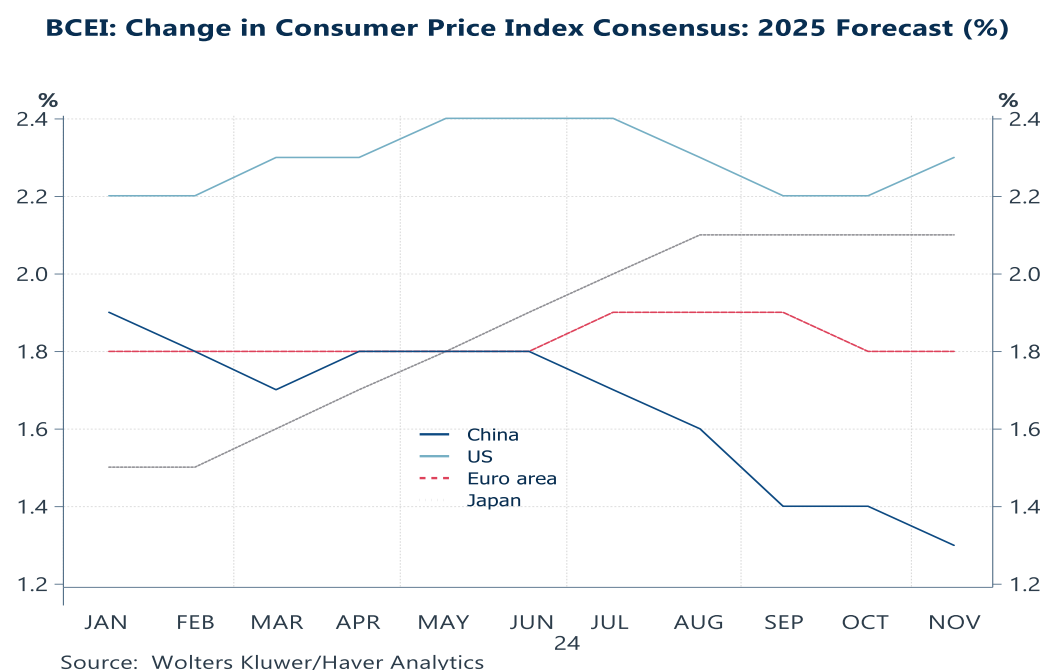
Chart 1: The evolution of the Blue Chip Consensus for GDP growth in 2024

BCEI: Change in Real GDP Consensus: 2024 Forecast (%)

Source: Wolters Kluwer/Haver Analytics
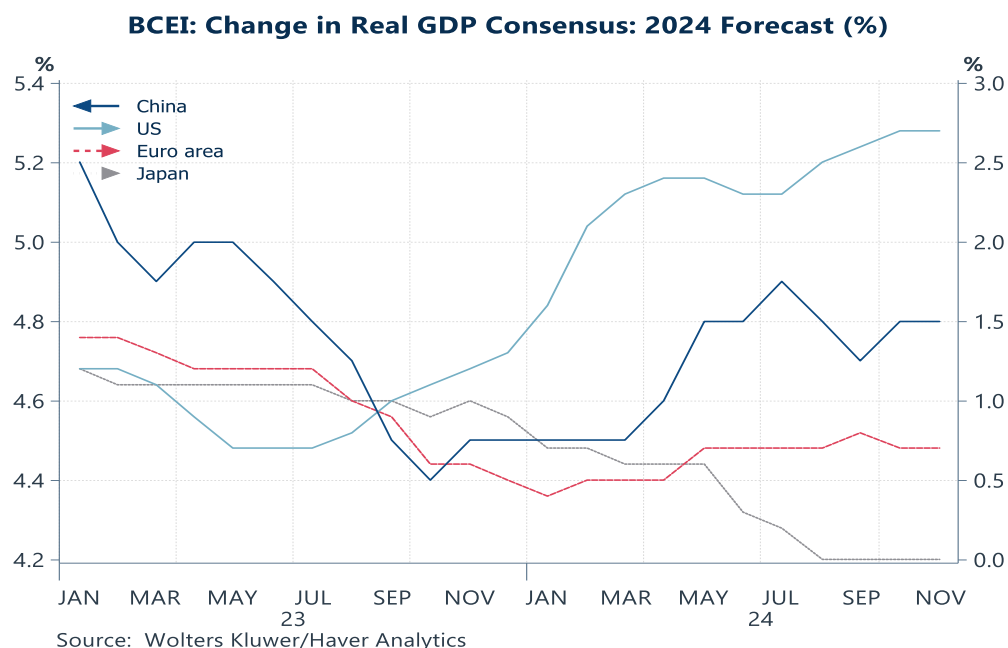
The inflation consensus for 2025

Just as growth expectations for 2024 for the world's major economies diverged, inflation expectations for 2025 have diverged as well. Against a backdrop of resilient growth and a still-tight labour market, US inflation forecasts for 2025 have remain fairly elevated. That's clearly now generating some uncertainty about the leeway for the Fed to further ease monetary policy next year. Meanwhile, China's inflation outlook has declined sharply, reflecting weak domestic demand and deflationary pressures stemming from property market instability and high levels of indebtedness. The euro area, in the meantime, has seen relatively stable and more subdued inflation forecasts for next year, consistent with its sluggish pace of economic growth. Finally Japan's inflation expectations, while increasing, have remained modest. This too has generated some uncertainty about the scope for the BoJ to further normalise monetary policy next year, not least as growth expectations, as noted, have been declining in recent months as well.

Chart 2: The evolution of the Blue Chip Consensus for CPI inflation in 2024

BCEI: Change in Consumer Price Index Consensus: 2025 Forecast (%)

Source: Wolters Kluwer/Haver Analytics

US outperformance and global imbalances

A resilient US economy has had a number of broader implications for the world economy, not least via savings and investment imbalances, and capital flows. As chart 3 below suggests, heightened optimism about the prospects for the US economy have accompanied forecasts suggesting that current account balances in other major economies – the gap between their investment and savings – will be larger than had been previously assumed. With most major economies already running large current account surpluses that implies larger reservoirs of global savings that need to be re-channelled, either for domestic investment purposes, or, more likely, into global – and particularly US - financial markets.
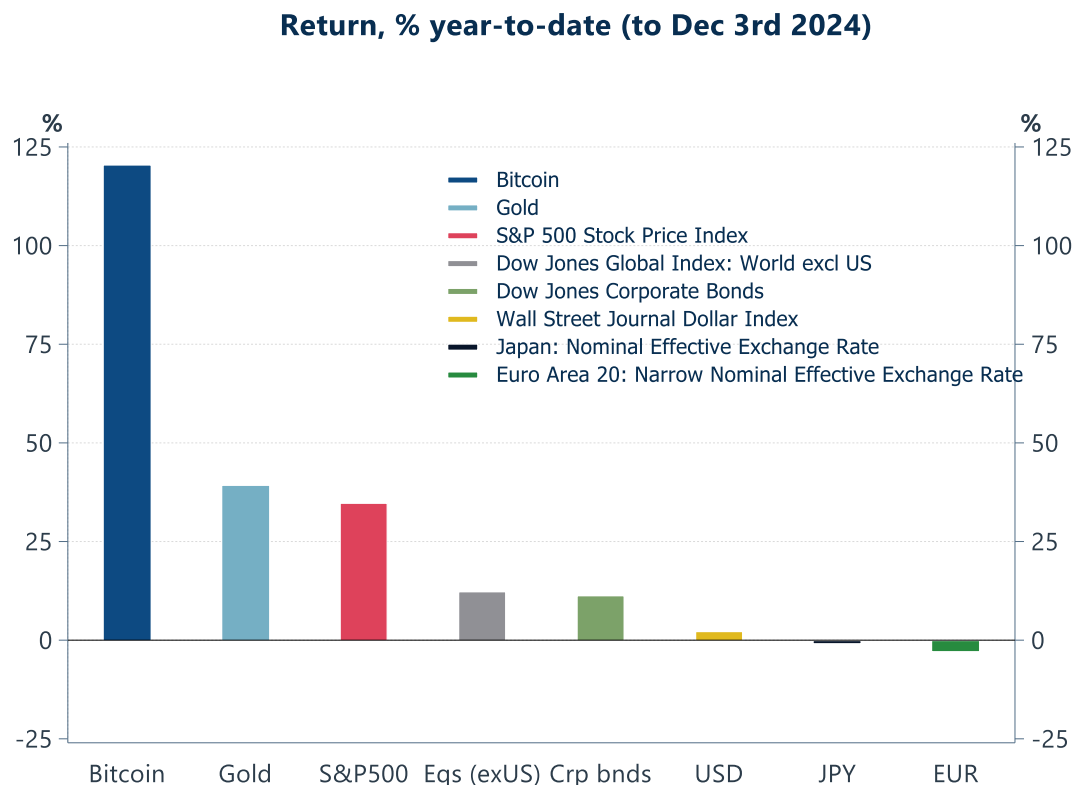
Chart 3: The evolution US consensus growth and the (non-US) current account balance in 2024

Source: Wolters Kluwer/Haver Analytics
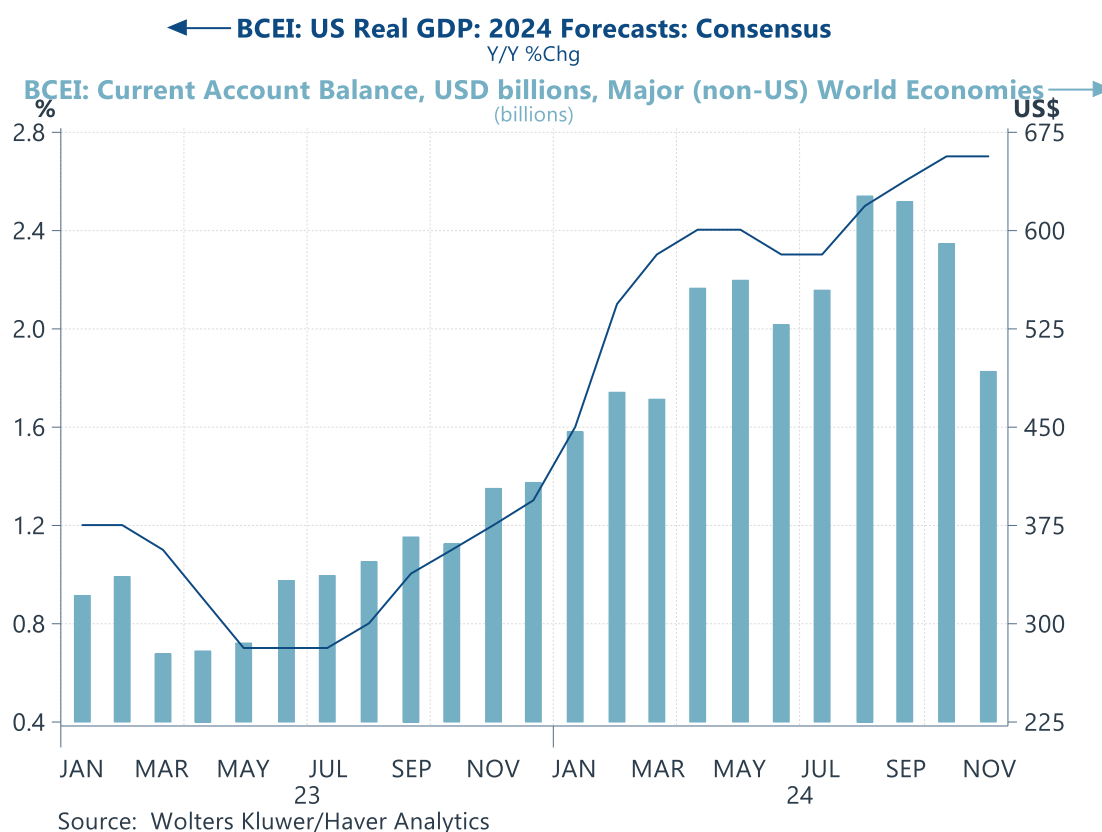
Safety, alternatives and US assets outperform

That widening imbalance between savings and investment in other (non-US) economies offers a good explanation for why US financial assets – including the US dollar – outperformed non-US assets in 2024. The US dollar's role as a reserve currency and the relative liquidity and stability of US financial markets are key considerations for this. That gold also posted solid gains was possibly a reflection of its appeal as a safe-haven asset against a backdrop of persistent uncertainty in most major economies. However, as chart 4 below also suggests, the cryptocurrency Bitcoin experienced even more impressive gains so far this year, thanks to growing interest in decentralized finance and possibly because of its role as an additional hedge against macroeconomic uncertainty as well.

Chart 4: Asset markets returns in 2024 for a range of financial market instruments

Return, % year-to-date (to Dec 3rd 2024)

Legend:
- Bitcoin
- Gold
- S&P 500 Stock Price Index
- Dow Jones Global Index: World excl US
- Dow Jones Corporate Bonds
- Wall Street Journal Dollar Index
- Japan: Nominal Effective Exchange Rate
- Euro Area 20: Narrow Nominal Effective Exchange Rate

Categories: Bitcoin, Gold, S&P500, Eqs (exUS), Crp bnds, USD, JPY, EUR

Sources: BCDC, WSJ, SP, DJ, BOJ, ECB/Haver

AI optimism

The US equity market also delivered robust returns this year because of heightened enthusiasm for technology stocks, particularly in the artificial intelligence sector. US leadership in the AI space is certainly suggested by the IMF's readings for its AI Preparedness Index (AIPI), as evidenced in chart 5 below. The AIPI is, for the record, derived from assessments about four key dimensions deemed to be relevant for smooth AI adoption and specifically digital infrastructure, human capital, technological innovation, and legal frameworks.

**Chart 5: The IMF's AI Preparedness Index for some major developed and developing economies**

AI Preparedness Index

Categories: US, Japan, UK, EA, China, Asia, India, Latam, Africa
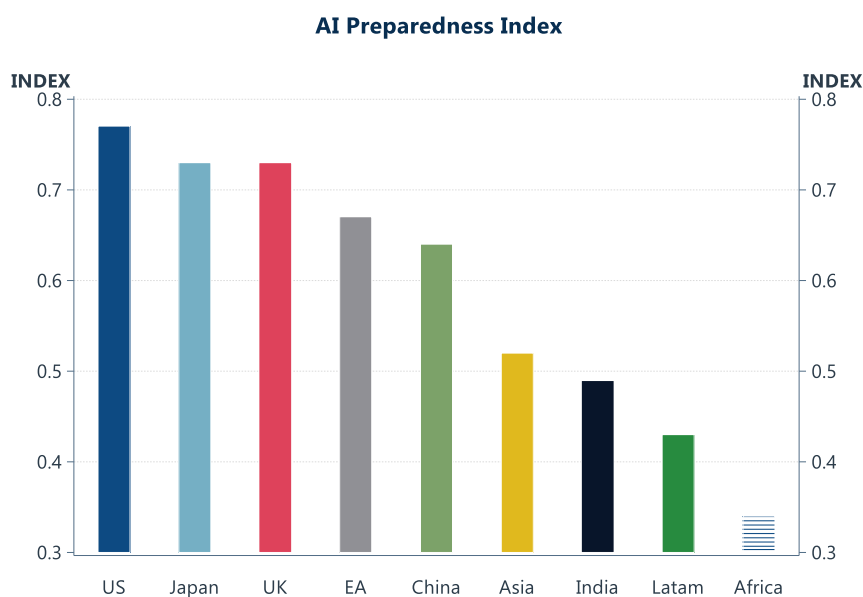
Source: International Monetary Fund/Haver Analytics

Global trade concerns

Optimism about AI, however, clearly contrasts at present with growing uncertainty about the prospects for the world economy next year. Potential shifts in US trade policy could, in particular, have amplified anxiety. That's certainly the suggestion in chart 6 below by the sharp increase of late in an index for world trade uncertainty. If that increase foreshadows disruptions in world trade flows and broader global supply chain challenges that could clearly destabilise the world economy and threaten financial stability over the next few months. We will focus more on the key global macroeconomic issues and themes for 2025 in our publication next week.

Chart 6: World trade uncertainty versus world trade volumes
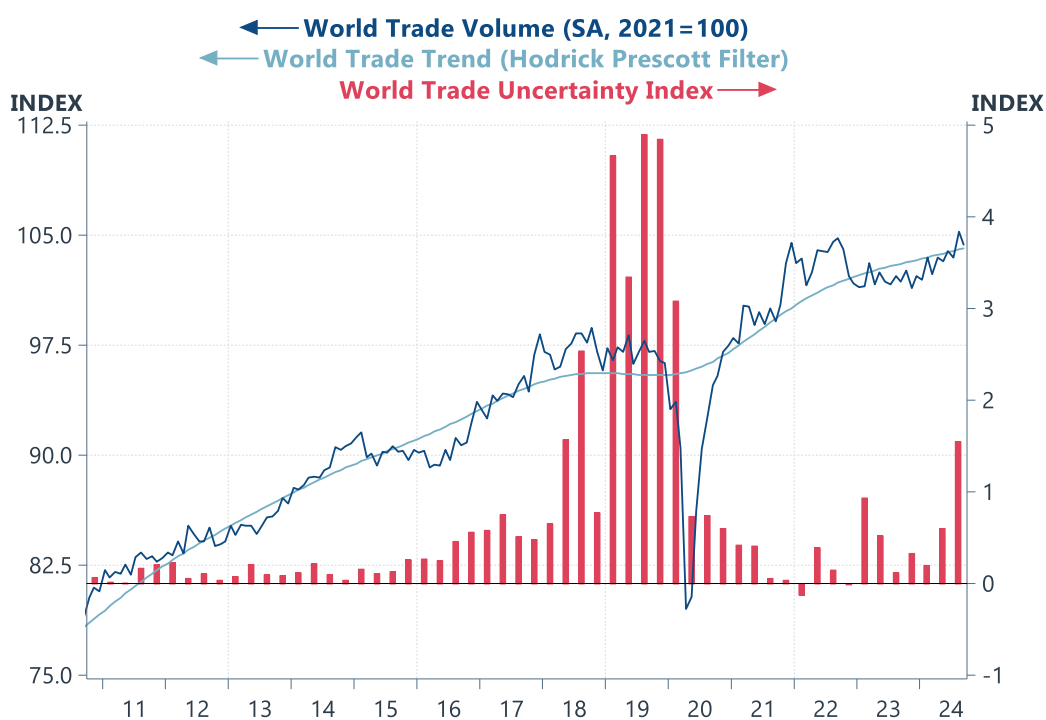
Sources: CPB, WUI/Haver

About the author

Haver Analytics is pleased to bring Andy Cates's commentaries on the state of the global economy to its clients.

Andy has more than 25 years of experience forecasting the global economic outlook and in assessing the implications for policy settings and financial markets. He has held various senior positions in London in a number of Investment Banks including as Head of Developed Markets Economics at Nomura and as Chief Eurozone Economist at RBS. These followed a spell of 21 years as Senior International Economist at UBS, 5 of which were spent in Singapore. Prior to his time in financial services Andy was a UK economist at HM Treasury in London holding positions in the domestic forecasting and macroeconomic modelling units.

He has a BA in Economics from the University of York and an MSc in Economics and Econometrics from the University of Southampton.

Data featured in this commentary:

Chart 1: The evolution of the Blue Chip Consensus for GDP growth in 2024
Series 1: ACND24@BLUECHIP
  ACND24@BLUECHIP   [BCEI: Change in Real GDP: China: Consensus: 2024 Forecast (%)]
Series 2: AAAD24@BLUECHIP
  AAAD24@BLUECHIP   [BCEI: US Real GDP: 2024 Forecasts: Consensus (Y/Y %Chg)]
Series 3: AEZD24@BLUECHIP
  AEZD24@BLUECHIP   [BCEI: Change in Real GDP: Euro area: Consensus: 2024 Forecast (%)]
Series 4: AJPD24@BLUECHIP
  AJPD24@BLUECHIP   [BCEI: Change in Real GDP: Japan: Consensus: 2024 Forecast (%)]

Chart 2: The evolution of the Blue Chip Consensus for CPI inflation in 2024
Series 1: DCND25@BLUECHIP
  DCND25@BLUECHIP   [BCEI: Change in Consumer Price Index: China: Consensus: 2025 Forecast (%)]
Series 2: DAAD25@BLUECHIP
  DAAD25@BLUECHIP   [BCEI: US Consumer Price Index: 2025 Forecasts: Consensus (Y/Y %Chg)]
Series 3: DEZD25@BLUECHIP
  DEZD25@BLUECHIP   [BCEI: Change in Consumer Price Index: Euro area: Consensus: 2025 Forecast (%)]
Series 4: DJPD25@BLUECHIP
  DJPD25@BLUECHIP   [BCEI: Change in Consumer Price Index: Japan: Consensus: 2025 Forecast (%)]

Chart 3: The evolution US consensus growth and the (non-US) current account balance in 2024
Series 1: AAAD24@BLUECHIP
  AAAD24@BLUECHIP   [BCEI: US Real GDP: 2024 Forecasts: Consensus (Y/Y %Chg)]
Series 2: ((((((((((((SGBD24@BLUECHIP + STWD24@BLUECHIP) + SRUD24@BLUECHIP) + SMXD24@BLUECHI
  SGBD24@BLUECHIP   [BCEI: Current Account: United Kingdom: Consensus: 2024 Forecast (Bil.$)]
  STWD24@BLUECHIP   [BCEI: Current Account: Taiwan: Consensus: 2024 Forecast (Bil.$)]
  SRUD24@BLUECHIP   [BCEI: Current Account: Russia: Consensus: 2024 Forecast (Bil.$)]
  SMXD24@BLUECHIP   [BCEI: Current Account: Mexico: Consensus: 2024 Forecast (Bil.$)]
  SJPD24@BLUECHIP   [BCEI: Current Account: Japan: Consensus: 2024 Forecast (Bil.$)]
  SIND24@BLUECHIP   [BCEI: Current Account: India: Consensus: 2024 Forecast (Bil.$)]

Chart 4: Asset markets returns in 2024 for a range of financial market instruments Series 1: FH924TB@USINT
Series 1: diff%(PBTCUS@CRYPTO,341)
  PBTCUS@CRYPTO   [Bitcoin: Market Price (USD/BTC)]
Series 2: diff%(P111GIJ@INTDAILY,341)
  P111GIJ@INTDAILY   [Gold: Engelhard Industrial bullion price ($/troy oz.)]
Series 3: diff%(S111SP5@INTDAILY,341)
  S111SP5@INTDAILY   [Standard & Poor's 500 Stock Price Index (1941-43=10)]
Series 4: diff%(S001DJX@INTDAILY,341)
  S001DJX@INTDAILY   [Dow Jones Global Index: World excl U.S. (Dec-31-91=100)]
Series 5: diff%(FDJTCT@DAILY,341)
  FDJTCT@DAILY   [Dow Jones Corporate Bonds: Total Return (Dec-31-96=100)]
Series 6: diff%(FXWSJ@DAILY,336)
  FXWSJ@DAILY   [Wall Street Journal Dollar Index (Jun-6-01=100)]
Series 7: diff%(X158JPX@INTDAILY,341)
  X158JPX@INTDAILY   [Japan: Nominal Effective Exchange Rate [Yen Index] (Jan-04-99=100)]
Series 8: diff%(X025EFN@INTDAILY,341)
  X025EFN@INTDAILY   [Euro Area 20: Narrow Nominal Effective Exchange Rate [EER-12] (Q1-99=100)]

Chart 5: The IMF's AI Preparedness Index for some major developed and developing economies
Series 1: A111IA@ESG
  A111IA@ESG [United States: AI Preparedness Index (0 to 1)]
Series 2: A158IA@ESG
  A158IA@ESG [Japan: AI Preparedness Index (0 to 1)]
Series 3: A112IA@ESG
  A112IA@ESG [United Kingdom: AI Preparedness Index (0 to 1)]
Series 4: A023IA@ESG
  A023IA@ESG [Euro Area: AI Preparedness Index (0 to 1)]
Series 5: A924IA@ESG
  A924IA@ESG [China: AI Preparedness Index (0 to 1)]
Series 6: A505IA@ESG
  A505IA@ESG [Asia and Pacific: AI Preparedness Index (0 to 1)]
Series 7: A534IA@ESG
  A534IA@ESG [India: AI Preparedness Index (0 to 1)]
Series 8: A205IA@ESG
  A205IA@ESG [Latin America and the Caribbean: AI Preparedness Index (0 to 1)]
Series 9: A605IA@ESG
  A605IA@ESG [Sub-Saharan Africa: AI Preparedness Index (0 to 1)]

Chart 6: World trade uncertainty versus world trade volumes
Series 1: S001IQXM@G10
  S001IQXM@G10 [World Trade Volume (SA, 2021=100)]
Series 2: HPF(S001IQXM@G10)
  S001IQXM@G10 [World Trade Volume (SA, 2021=100)]
Series 3: sa(N001VWUT@G10)
  N001VWUT@G10 [World Trade Uncertainty (Equally Weighted Average Index)]

For more info on our data products please email sales@haver.com