Economic and Market Insights

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Economic Success Continues for the United States While Most Other Countries Lag Behind

While global economies generally advanced or declined in lock-step during the past decade, we are currently witnessing divergences between the outlooks for major regions of the world. And regional geography becomes more and more a determining factor for investors' portfolios.

Among the major economic regions of the world, the United States certainly enjoys one of the brightest outlooks at the moment. After addressing our debt issues several years ago, the United States has reached a modest but sustained economic expansion. Despite recent equity market ups and downs, consumer confidence is high, driven by lower gasoline prices, an improving employment picture and rising wages.

Business confidence also remains a bright spot with lower commodity pricing leading to improved profitability for most American businesses. Given the positive outlook in the United States, domestic stocks have a more favorable appeal compared to their international counterparts.

Contributing to this scenario is the fact that economic regions outside the United States are not faring as well. Europe and Japan are increasing liquidity within their economies (quantitative easing) in an attempt to spur growth and avoid deflation. China recently lowered its expected growth to 7% from 7.5%; however, recent economic data leads some economists to speculate on growth closer to 3%, a dramatic drop if it materializes. As a result, most Emerging Markets that feed into the macro-economies then shrink. The domino effect of lower commodities prices (for producers) and slower end-markets cramp economic activity.

In addition to variances in economic growth, we also see differences in expectations for interest rates around the world. Specifically, the U.S. Federal Reserve has suggested raising interest rates later in 2015 while other countries hold rates near zero. The combined factors (rising rates when others are easing and better economic growth) have led to a sharp rise in the value of the U.S. dollar.

Over the past year, the U.S. dollar is up 20% versus the euro, 10% versus the British pound, 25% versus the Brazilian real, and 15% versus the Japanese yen.* The sharp rise hits U.S.-based multinational companies especially hard as revenue generated in foreign countries is less when translated back to dollars. If this trend persists, there could be increasing risk of a currency crisis in countries that have seen their currency depreciate significantly -- with countries like Venezuela leading the list of candidates.

This global climate naturally focuses investors back on the safe haven of the United States, with its positive economic momentum. Looking forward, tailwinds of lower gasoline prices, and improving employment should continue to push a prosperous U.S. Consumer sector. Positive demographic trends and the influence of national health care insurance have propelled the Health Care sector to the top-performing sector year-to-date. Investors will continue to be mindful of the risk a sharp rise in interest rates would do to yield-oriented industries, but clearly, growth favors the U.S. region of the global economy as it decouples from the rest of the world -- for now.

*Source: www.oanda.com