



3 Key Economic Risks to Watch in 2015

Description

The growing interdependence of economies globally emphasizes the potential risk of an economic shock spreading from one economy to another. There are a number of signs that all is not well in the global economy and these singularly or in concert have the potential to stifle global economic growth while creating further volatility across global financial markets.

Let's take a closer look at these risks and the impact they could have.

1. China's declining economic growth

China's economy continues to show weakness and as the world's second largest economy this bodes poorly for the global economic outlook. For November 2014, its real estate market declined for the tenth straight month, while industrial activity for that period slumped for the fourth consecutive month.

Of further concern, economists expect China's 2015 GDP growth rate to slow to 7% or lower because of declining investment in the all-important real estate sector and weaker industrial activity. This is bad news for commodities miners like **Teck Resources Ltd.** (TSX: TCK.B)(NYSE: TCK) because both sectors are key drivers of global commodities demand, particularly for metallurgical coal as well as copper and zinc.

These factors also continue to create lower demand for crude, with China now the second single largest consumer of oil globally, certainly not boding well for a recovery in crude prices any time soon.

This is bad news for Canada's energy patch, which is already reeling from the global oil glut and the ensuing price crunch. It may also force heavily indebted operators like **Canadian Oil Sands Ltd.** (TSX: COS) to further cut dividends, with significantly lower crude prices now looking like they are here to stay.

2. Another Eurozone crash

The outlook for the world's largest combined economy, the European Union, remains bleak. While it may have avoided a triple dip recession, it is still riddled with economic problems. The region is caught

in a deep structural slump with declining economic activity in some of its largest economies, including Germany, Italy and France, driving significantly lower demand for commodities and a range of manufactured products.

This is another key driver of the global oil slump, and with any chance of an economic recovery appearing quite distant, it doesn't bode well for a recovery in oil prices any time soon. The end result is even greater pressure on oil companies globally to wind down uneconomic production and cut expenditures including dividends.

3. The failure of quantitative easing

The winding down of the Fed's much vaunted QE policy has created considerable anxiety, with many analysts claiming it has created another precariously placed asset bubble. As the Fed winds down QE, the fear is this asset bubble will burst precipitating another global economic crisis.

Former Fed chairman Alan Greenspan has also weighed in, claiming QE failed because it didn't deliver any tangible benefit to the real economy. This is because the asset purchase program and artificially low interest rates inflated asset prices while failing to boost consumer demand.

Greenspan claims gold is the best investment to weather the impending storm, and I agree it is the best way for investors to weather-proof their portfolio in an uncertain global macro-economic environment. One gold miner that stands out because of its fortress balance sheet, and low all-in-sustaining-costs is **Goldcorp Inc.** (TSX: G)(NYSE: GG). Not only has it built a fortress balance sheet but it holds a portfolio of high quality assets and continues to grow production, while offering leveraged exposure to the price of gold.

How can investors mitigate these risks?

Clearly the biggest impact these risks will have is on the commodities sector, painting a bleak outlook for commodities miners and oil companies. But these risks can also easily be mitigated by investing companies with strong balance sheets, wide economic moats, and defensive businesses. Two of my favourites are **Fortis Inc.** and **BCE Inc.**, which have a history of rewarding investors with consistent and steadily increasing dividend payments, despite the state of the global economy.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:TECK (Teck Resources Limited)
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