



## Is Another Financial Crisis Emerging?

### Description

It has been over 10 years since the global financial crisis — the worst recession since the Great Depression. The crisis was triggered by a U.S. housing market collapse that turned into a rout and spread like wildfire through a series of major financial institutions, because of the widespread ownership of collateralized mortgage backed debt securities.

The calamity brought the U.S. financial system close to collapse and caused global credit markets to freeze. This triggered a global rout across financial markets, which gained further momentum as stocks cascaded lower.

There are fears that the current downturn will acquire greater momentum, which has created concern that cascading stock prices will spark [another crisis](#). Markets across the globe fell sharply at the start of December 2018, but in recent days they have recovered; the **S&P 500** is down by 7% over the last year, although the **S&P TSX Composite Index** has fallen by almost double, losing 13% for the same period.

There are fears that this decline could become a full-blown rout and trigger a broader financial crisis, which would lead to a prolonged recession.

### Data indicates that the economy is growing

While a market correction can be an indicator whether a recession is looming, the current pullback is in stark contrast to current economic indicators. Third-quarter 2018 U.S. gross domestic product (GDP) expanded by 3.5% compared to the previous quarter, and while it was lower than the second quarter's 4.2%, it still signifies that the economy is growing at a healthy clip.

The unemployment rate for November 2018 was 3.7%, which was its lowest level in a decade. Growing consumption as well as record consumer and business confidence all point to an extremely optimistic outlook for the economy.

Meanwhile, Canada's GDP growth for the third quarter slowed to a disappointing 2%, which can be

attributed to a sharp decline in spending by oil and gas companies as well as deteriorating household consumption. The November unemployment rate fell by 20 basis points compared to the previous month to 5.6%, highlighting a growing demand for labour as businesses invest in expanding their operations.

While Canada's latest economic data was mixed, it is clear the U.S. economy is firing on all cylinders, indicating that a full-blown recession is some way off.

News that the U.S. and China are in the process of negotiating trade barriers could see the brewing trade war averted, which removes a key economic risk that had the potential to trigger a global economic downturn.

Substantially weaker crude, which is bad news for the energy sector, is a boon for the global economy given the dependence on petroleum products to fuel economic activity. With the international benchmark Brent trading at around US\$50 per barrel, it will reduce operating costs for many businesses.

Even signs of a slowing Chinese economy doesn't pose the significant threat that some analysts believe, because the declining threat of a trade war coupled with Beijing's willingness to engage in fiscal stimulus means that growth should improve.

For these reasons, it is unlikely that another financial crisis or recession will emerge anytime soon.

## Uncertainty is rising

There is, however, considerable uncertainty surrounding the global economy. This is being driven by a range of risks, including the erratic nature of Trump's policy and the potential for another emerging markets crisis, which is being exacerbated by lower commodity prices.

Higher interest rates, rising inflation, and spiraling business costs will also impact corporate profits, which, when coupled with a trade war erupting between the world's two largest economies, the U.S. and China, could trigger a crisis. It is for those reasons that gold has soared since the end of November to be trading at over US\$1,278 an ounce.

## How to hedge against rising risk

Now is the time for investors to hedge against growing uncertainty and emerging risk by bolstering their exposure to gold by investing in **Barrick Gold** ([TSX:ABX](#))(NYSE:ABX). The proposed merger between Barrick and Randgold Resources will create a world leading miner with a diversified portfolio of quality operational and exploration assets.

When this is coupled with Barrick's low all-in sustaining costs, which were US\$785 per gold ounce for the third quarter 2018, and enhanced capability to expand production, the combined entity's stock should soar as gold appreciates. That makes it a [solid hedge](#) against the growing uncertainty fueling volatility in financial markets.

## CATEGORY

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2. Metals and Mining Stocks

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