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The Top 10 Things We Learned About The Economy And Markets In 2014



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REUTERS/Brendan McDermid

Jordan Kessler, son of trader Glenn Kessler, uses his father's mobile phone and badge on the floor of the New York Stock Exchange November 28, 2014.

Sometimes the best way to understand the future is to look to the past.

US Trust's Chief Market Strategist [Joseph P. Quinlan](#) has put together a list of the top 10 macroeconomics lessons from 2014 in order to show what investors should watch next year.

"We thought it might be instructive to look back, not forward, at some of the lessons of 2014," Quinlan said. "It helps to understand the twists and turns of the past when peering into the future."

Check them out.

1. America is back.

After all the warnings, the US economy ended up emerging as one of the strongest in the world in 2014. It saw a rebound in housing, a "rip-roaring" automobile industry, surging exports, and the adoption of game changing technologies such as 3D printing.

What to watch in 2015: The biggest question is whether the US can maintain its force while there is sluggish European growth and decreasing demand in emerging markets.

Source: US Trust



Kevin C. Cox/Getty

2. The US dollar is not dead yet.

The dollar's going great. Since the beginning of 2014, it has increased by 8% on a nominal trade weighted basis. And on top of that, many structural factors — such as America's capital markets — underpin the dollar.

What to watch in 2015: The dollar might actually be *too* strong next year, which could hurt exports and corporate profits.

Source: US Trust



Getty Images/Jamie McDonald

3. Geopolitics matter.

The global order is changing — and not always in the way the US and the West had envisioned. Major geopolitical episodes such as Putin's annexation of Crimea, ISIS's advances in the Middle East, and Ebola have all contributed to market fears this year.

What to watch in 2015: Geopolitical uncertain going to continue, so US Trust analysts are long US defense companies and US agricultural commodities.

Source: US Trust



Itar Tass - Reuters

4. The US energy revolution is for real.

US oil and gas production skyrockets over the last few years — but 2014 was when investors really started to take notice. The oil supply shock this year is directly related to US shale.

What to watch in 2015: There are questions about how low oil prices will go in the short term, and whether or not other major oil exporters will create more economic stress for the capital markets.

Source: US Trust



Andrew Burton/Getty Images

5. There's nothing linear about China.

"...on key takeaway of 2014: China is not an unstoppable, world-beating economic juggernaut destined for global domination. To the contrary, China now finds itself at an economic crossroads, with real growth headed for a range of 5%-6% over the next half decade," writes US Trust's Joseph P. Quinlan.

What to watch in 2015: "Look for real GDP growth below 7% next year," Quinlan writes, "a prospect that will inflict more damage on the world's commodity exporters."

Source: US Trust



Reuters

6. Deflation remains a clear and present danger.

In the past, inflation was the big problem for most economies.

But "the battle is now against deflation, a pernicious trend that, among other things, exacerbates demand weakness by incentivizing slower consumption and slower investment in anticipation of lower prices," writes Quinlan.

What to watch in 2015: The diverging directions of rates could lead to more volatility in currency markets and wider dispersions in fixed income returns.

Source: US Trust



Robert Couse-Baker / Flickr

7. Fed tapering was not the end of the world.

By the time Q3 ended, investors had way more confidence in the US economy. And the Fed hasn't yet raised rates.

What to watch in 2015: Monetary policy divergence amongst major economies. And until the rest of the world also starts to grow, the US dollar will continue to get stronger.

Source: US Trust



Charles Dharapak/AP

8. Corporate animal spirits are alive and well.

M&A activity was finally up in 2014, and global deal volumes were at their highest levels since 2007. The increase was underpinned by large cash holdings, record low borrowing costs, and a drive to grow.

What to watch in 2015: The next year should continue to see "relatively robust" deal making, with greater participation in the emerging markets.

Source: US Trust



Peter MacDiarmid/Getty Images

9. The commodity supercycle is over.

"As the commodity markets now enter their fifth consecutive year of price declines, it is clear that the supercycle is well and truly over. Relative softness in global demand has helped deflate the commodity boom, but over the course of 2014, the end of the supercycle was also underscored from the supply side, most spectacularly in the energy market," writes Quinlan.

What to watch in

2015: Commodity prices should stay low in the near term, but there could be some major differences among prices. Agriculture looks the most favorable, and oil should finally stabilize.

Source: US Trust



Reuters

10. Emerging markets are not created equal.

Emerging markets saw "contrasting fortunes" in 2014, partially due to macro factors that impacted economies differently. Indonesia and the Philippines delivered the strongest returns, while Russia and Colombia were the biggest losers.

What to watch in 2015: EMs shouldn't be considered as a single asset class, and global macro events could continue to impact countries differently.

Source: US Trust



REUTERS/Romeo Ranoco

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