This year’s mid-way point coincides with the 2018 World Cup, and Neil Dwane’s mid-year outlook assesses the world’s economic performance through a sporting lens. Global trade is the key, and it could be swayed by US protectionism, China’s rebalancing, Brexit negotiations and clashes in the Middle East.

As we predicted in our outlook six months ago, the first half of 2018 was marked by rising geopolitical tensions, major fiscal and political changes, and diverging monetary policy. These factors created a rise in volatility that was made more pronounced by the global economy nearing the end of its “Goldilocks” period – a time of sustained growth and low inflation.

As it happens, the mid-year point of 2018 matches up with the FIFA World Cup in Russia, where dozens of countries will engage in friendly competition for football’s ultimate prize. So how are these economies likely to fare as 2018’s halftime approaches?

First-round fixtures of the FIFA World Cup
Group A: Egypt, Russia, Saudi Arabia, Uruguay

Russia and Saudi Arabia are the oil giants of the world. Thanks to OPEC’s efforts, they’re enjoying higher oil prices and improving economies, yet they’re also struggling with demanding populations and with unreformed non-oil industries. Both are also engaged in serious conflicts around their borders that may distract their representative football teams at the World Cup. This could leave Uruguay, a heritage footballing nation, to be one of this grouping’s more likely winners.

Key takeaways

- The global economy is fragmenting as the synchronisation of 2017 wanes
- Each World Cup team has to use its own talent to combat challenges on the pitch. The same holds true economically, since each country must now rely on its own structural reforms instead of monetary policy to drive growth.
- Global trade – the world’s largest economy – remains under threat as key decisions from the US and from Brexit emerge in the second half
- In the short term, the US and China still hold the keys to the global economy’s prospects – though political turmoil in Italy, conflict in the Middle East and rising oil prices could draw red cards
Half-time report: global trade under threat

Group B: Iran, Morocco, Portugal, Spain
Spain and Portugal recently endured difficult economic years, yet both are recovering well – and both should advance in World Cup play. Portugal made good economic progress after its banking crisis – and Portugal’s team won the European trophy two years ago without their best player, Ronaldo. Spain’s economy recovered from its real-estate crisis only to see Catalonia make a push to secede; in the same vein, Spain’s football team is fierce but may be riven with factions. Iran may be outclassed in sport this summer, but its real-world focus will be on US sanctions, and on growing its influence in Syria and throughout the Middle East – ensuring a headline role in the second half of 2018.

Spain and Portugal have had difficult economic years, yet both are recovering well – and both should advance in World Cup play

Group C: Australia, Denmark, France, Peru
France is enjoying President Emmanuel Macron’s economic magic, but political protest and reform fatigue could make this a tough summer. Still, the French football team will be hard to beat in the early stages. Australia’s economy has suffered from expensive domestic real estate and China’s “rebalancing” efforts, but it can also rely on its strong public pension schemes. Peru has been buffeted by flexing commodity prices, and Denmark has been badly affected by slowing global trade and negative interest rates at the European Central Bank.

Group D: Argentina, Croatia, Iceland, Nigeria
With superstar Lionel Messi on the team, Argentina could be a World Cup winner, but they need to show better coordination and determination. Argentina’s government needs to do the same as it asks the IMF for help avoiding yet another financial crisis. Croatia is a strong competitor in football, and it hopes to strengthen its economy with more investment. Nigeria’s football heritage is deep, as are the country’s oil revenues – although corruption has long been an issue. Tiny Iceland should never be overlooked: the team showed great resilience in the European championships two years ago, as did the country’s economy after its post-financial-crisis collapse.

Tiny Iceland should never be overlooked: its team and economy have shown great resilience

Group E: Brazil, Costa Rica, Switzerland, Serbia
Global football powerhouse Brazil will feel pressure to play to its potential despite the country’s economic malaise and political struggles; reform is proving elusive and corruption stains linger. Serbia will be full of hopes – both on the football pitch and in its dreams of accession to the EU. Switzerland’s economy always shows discipline and rigour, even without much flair – much like the country’s football team. Serbia could give Brazil a run for its money in match play.

Group F: Germany, South Korea, Mexico, Sweden
As a grouping of football-mad nations, this is a tough bunch. As a collection of economies, however, all but Sweden are threatened by global trade wars and changing US policies. Germany’s team are the reigning World Cup champions and could ultimately prevail this year too. Economically, as well as in football, this is a competitive and reliable nation, though its exports may feel pressure in the current political climate. South Korea’s football team may be riding high after the country’s successful Winter Olympics and ongoing rapprochement with North Korea, yet its economy is threatened by trade tensions with the US and its ageing economy. Mexico is grappling with uncertainty about NAFTA’s future and a divisive upcoming election, so the country may not play to its potential.

Group G: Belgium, England, Panama, Tunisia
With Brussels the home of the EU’s headquarters, and with the UK heading toward the EU exit, Group G may come to be known as the Brexit Battle group. And here, the parallels between sport and economics are intriguing: Belgium (representing the EU) boasts a collection of great individual footballers but has not played well as a team, while England, burdened by high expectations and strong self-esteem, regularly under delivers. Regardless of what happens at the World Cup, the EU will continue playing a hardball Brexit game while the UK suffers from growing economic uncertainty and a weakening currency. Panama’s fortunes will be tied to the ebb and flow of trading through its canal, while Tunisia is still recovering from the Arab Spring.

Brussels vs England is like the Brexit Battle: the EU will play hardball while the UK suffers from economic uncertainty

Group H: Colombia, Japan, Poland, Senegal
These countries make a good group for World Cup competition, but their economies face several key challenges – including ageing populations and geopolitical disruption. Japan’s economy is well-resourced but needs further reform, less sovereign leverage, and younger and more diverse employment talent. Colombia and Poland are growing and becoming more independent, yet they have clear geopolitical issues: Colombia’s neighbour Venezuela is collapsing, and Poland is trying to assert its own brand of democracy with Russia not far from its doorstep. The emerging-market nations of Colombia and Senegal should progress into the knock-out rounds.

The US and China still dominate the global stage – just not the football pitch
The world’s two largest economies – the US and China – find themselves locked out of World Cup play this year, yet these two giants are still the teams to beat in economic terms. (Italy is another nation that famously failed to qualify for the World Cup this year, but the country’s political turmoil presents a bigger problem.)
The world's largest economies – the US and China – are locked out of World Cup play but are still the teams to beat in economic terms

The US started 2018 on fairly solid footing, with high hopes that President Donald Trump's tax-reform legislation would further buoy economic growth – but it hasn't yet provided the anticipated amount of stimulus. The markets watched as news ebbed and flowed about trade, sanctions and inflation, but what should be most concerning are the coming effects of more-aggressive monetary policy on an over-leveraged economy. Potential positives for the second half of 2018 are improving economic performance and post-election clarity after the mid-terms in November. US equity and bond markets may not have much left to offer: earnings momentum is peaking, valuations are high and yields are retracting towards normal levels.

Under the direction of President Xi Jinping, China continues its "rebalancing" away from an export-based economy to one powered by consumption and services. As ever, China's policy priorities are clear: the country is emphasising employment and education, focusing on R&D and technology, and realigning industries along essential lines. This should drive better resource allocation, improve profitability and help reduce excessive use of debt while encouraging better environmental results. With China closely following its latest Five-Year Plan, we know what to expect in the second half of 2018: more of the same.

Our halftime recap for 2018

As entertaining as the World Cup can be, global economic growth is a much more serious affair – and the financial markets will be paying close attention to the second half of 2018. We expect to see a continuation of the divergence and fragmentation that are the result of central banks globally embarking upon different paths towards monetary-policy normalisation. Given the rising costs of servicing debt, economic growth will be driven less by borrowing and more by individual countries' ability to enact successful reforms and competitive policies.

In the second half, we expect more divergence and fragmentation from central banks taking different paths towards normalisation

All eyes will be on China as it rebalances and on the US as it wrestles with late-cycle fiscal stimulus and additional political uncertainty. The financial markets will also be watching how trade is affected by strategic decisions around sanctions, China's "One Belt, One Road" investments, Brexit negotiation, Italy's new government and clashes in the Middle East. After all, the World Cup-bound nations may feel like second-stringers when compared with the US and China – but global trade is the biggest game around.