Allianz Global Wealth Report 2019

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A sad premiere: in 2018, financial assets in industrial and emerging countries declined simultaneously for the first time; even in 2008, at the height of the financial crisis, this was not the case. Worldwide, savers were in a bind: On the one hand, the escalating trade conflict between the US and China, the endless "Brexit saga" and increasing geopolitical tensions, on the other hand, the tightening of monetary conditions and the (announced) normalization of monetary policy. Stock markets reacted accordingly: Global equity prices fell by around 12% in 2018. This had a direct impact on asset growth. Global gross financial assets of households fell by 0.1% and remained more or less flat at EUR 172.5 trillion.

Convergence between poorer and richer countries comes to a halt

In 2018, gross financial assets in emerging markets not only declined for the first time, but the decline of -0.4% was also more pronounced than in the industrialized countries (-0.1%). The weak development in China, where assets fell by 3.4%, played a key role in this. However, other important emerging markets such as Mexico and South Africa also had to absorb significant losses in 2018.

This is a remarkable trend reversal. Over the last two decades, the growth gap between poorer and richer regions of the world still stands at an impressive 11.2 percentage points on average. It seems that the trade disputes have set an abrupt stop sign for the catching-up process of the poorer countries. Industrialized countries, however, did not benefit either. Both Japan (-1.2%), Western Europe (-0.2%) and North America (-0.3%) had to cope with negative asset growth.

The price of low yields

At the same time, fresh savings set a new record. They increased by 22% to more than EUR 2,700 billion. The increase in the flow of funds, however, was solely driven by US households, who – thanks to the US tax reform – upped their fresh savings by a whopping 46%; two thirds of all savings in industrialized countries thus originated in the US. But the analysis of fresh savings in 2018 reveals another peculiarity: Savers seemed to turn their backs on the asset class of insurance and pensions. Its share in total fresh savings has fallen from more than 50% before and immediately after the crisis to a mere 25% in 2018. And while US households increased in return their demand for securities, all other house-holds preferred bank deposits (and sold securities): In Western Europe, for example, two thirds of fresh savings ended up in bank coffers; worldwide, bank deposits remained the most popular destination for fresh savings, for the eighth year in a row. This penchant for liquid and supposedly safe assets costs savers dearly, however: Losses suffered by households as a result of inflation are expected to have risen to almost EUR 600 billion in 2018.

It is paradox savings behavior. Many people save more because they expect a longer and more active life in retirement. At the same time, they shun exactly those products that offer effective old-age protection, namely life insurances and annuities. Seemingly, the low yield environment undermines the willingness for long-term saving. But the world needs nothing more than long-term savers and investors to deal with all the upcoming challenges.

Growth in liabilities stabilize at high level

Worldwide household liabilities rose by 5.7% in 2018, just below the previous year's level of 6.0%, but also well above the long-term average annual growth rate of 3.6%. The global debt ratio (liabilities as a percentage of GDP), however, remained stable at 65.1%, thanks to still robust economic growth. Most regions saw a similar development in that respect. Asia (excluding Japan) is a different story. In the last three years alone, the debt ratio jumped by almost ten percentage points, driven mainly by China (+15 percentage points).

Debt dynamics in Asia and particularly in China are concerning. With a debt ratio of 54%, Chinese households are already relatively as indebted as, German or Italian ones. The last time, we witnessed such a rapid increase in private indebtedness was in the USA, Spain and Ireland shortly before the financial crisis. Compared to most industrialized countries, debt levels in China are still markedly lower. Supervisory agencies, however, should no longer stand by and watch. Debt-fueled growth is not sustainable – even China is not immune against a debt crisis.

Because of the strong growth in liabilities, net financial assets i.e. the difference between gross financial assets and debt fell by 1.9% to EUR 129.8 trillion at the close of 2018. Emerging countries in particular suffered a drastic decline, net financial assets shrank by 5.7% (industrialized countries: -1.1%).