5 Reasons to Be Concerned About Another Financial Crisis

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Retirement Rehab

With the most recent financial crisis in our hindsights, many Americans are sighing with relief. We made it through.

And if you're in your 50's, maybe you're thinking:

There won't be another recession before I retire. I'll be fine.

Maybe. I don't mean to ruin your optimistic outlook, but there are some worrying signs that a global recession could happen, and soon.

Sputtering Growth in the US

The last financial crisis has been over for 7 years, yet growth in the US still hasn't kicked into high gear. In fact, from January-March 2016, America saw an abysmal 0.5 percent annual growth rate. That's barely a 0.1 percent increase over the last quarter of 2015.

Rather than moving onward and upward from the financial crisis, the numbers suggest US growth is starting to stall. The possibility of slipping back into a recession is a real one, which will have big lasting global impacts.

Europe has long-suffered from their own economic stagnation and Japan is currently in recession. For years the world has seen the US as the only real gem of the global economy. What will happen if America falls in with the rest of the crowd?

China

China's influence on the global economy has grown considerably in recent years. Today, it's impact is so big that the International Monetary Fund (IMF) warned that an economic crisis in China could trigger a worldwide recession.

And it should worry you how easily this possibility could become a reality. Turmoil in China at the beginning of 2016 gave global trading the worst start of a year since the last financial crisis. The FTSE 100 index fell 5% the first week of January, losing almost £81 bn of value, all thanks to Beijing.

And the fact that China is not particularly transparent with the rest of the world about their policies and economic strategies means that we know very little of what the repercussions could be.

Government debt

Maybe you're saving to buffer against the next financial crisis, but I can tell you one thing for sure:

Your government is not.

Global debt has grown by $57 trillion since 2007, making the debt to GDP ratio to rise by 17 percentage points.

Needless to say, this kind of excess spending is unsustainable, and few policy options exist to get around the fact

that the developed world is beyond broke. Individual governments see few incentives to resolving their own sovereign debt (Why should I do it if no one else is?), making another financial crisis a probability.

Central Banks

After the Great Recession, central banks started offering ultra-low interest rates to help stimulate growth. Some (ECB and Bank of Japan, for example) even pushed interest rates below zero.

The trick seemed to work in the short term to stimulate growth, but not any longer. Financial markets have begun to lose faith in central bankers and their low interest rate tactics that undermine the idea of traditional banking.

Guess what happened last time financial markets felt that way?

The global depression.

Trump

At this moment there is a lot of political and economic uncertainty. There is speculation from all sides about what President-elect Trump will do when he is in office. While his plain talk and independent direction is welcome by many, there is a clear danger of unintended consequences in a very complex global economy.

Slapping 30% tariffs on imported goods could trigger a tariff war where US companies, many of which now garner a very substantial portion of their revenue from exports and operations in foreign markets, would face headwinds they never anticipated. The price inflation caused by tariffs could cause consumers to curtail spending, which is the life blood of the US and other Western economies.

At this point, it's all speculation. We know there are a lot of different ways a global recession could happen. But don't worry, it's not the end of the world. There's plenty you can do now to protect you and your family from financial crisis, even if you're close to retirement.

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