YAHOO! FINANCE

What could go wrong in 2018

By Rick Newman January 3, 2018

It might turn out to be a grand year. The newly enacted tax cuts should stoke financial markets and lift the economy in 2018. Job growth is strong, and wages are finally ticking up. It helps that most parts of the global economy are improving in sync, reinforcing the worldwide upswing.

But history has definitively demonstrated the danger of complacency, and investors seem too sanguine. There may be no flashing alerts right now, but there are plenty of currents that could form into a storm with little notice. Here are 7 things that could go wrong in 2018:

1. A Trumplosion. Will President Trump be intact at the White House a year from now? Maybe he will be, with competent leaders such as Chief of Staff John Kelly and Defense Secretary Jim Mattis continuing to manage his more disruptive impulses. Yet Trump is a kind of perpetual-chaos machine who routinely tests his own staying power. His new war with former campaign manager Steve Bannon could split Trump's alt-right base, at the same time special prosecutor Robert Mueller may be zeroing in on Trump's inner circle, and perhaps Trump himself. None of this means the House of Representatives, controlled by Republicans, would necessarily vote to impeach Trump. But Trump could be far more embattled in 2018 than he was in 2017, and no president is impervious to political pressure.

If Trump were to leave office for some reason, that wouldn't necessarily be terrible for markets. Vice President Mike Pence, in line to replace Trump if necessary, might be even friendlier toward businesses and markets than Trump is. The worst-case scenario for investors might be a scandal-plagued year in which Trump fights corruption charges, loses allies and burrows into a political bunker, a la President Nixon in pre-resignation 1974—but doesn't leave. For Trump critics wondering if Trump could become even more controversial and divisive—yes, he could.

2. An outburst of protectionism. Trump is still working to revamp the North American Free Trade Agreement, and he is beginning to revive promises (or threats, if you prefer) of slapping trade sanctions on China. Economists have always worried most about Trump's trade agenda, since the Cold War-era protectionism he favors involves tariffs and other measures that would raise prices and reduce efficiency, and probably harm growth. Trump might impose nominal trade protections on China and Mexico, while declaring victory, moving on and not changing much in reality. Markets would be fine with that. But if Trump followed through on his pledges to disband NAFTA and slap imports on Chinese tariffs, markets would shudder; they're not used to bad news.

3. Interest-rate shocks. Investors expect the Fed to hike rates three times in 2018, for a total increase of less than 1 percentage point. So even though the Fed is tightening, it's pulling back on the reins gently. If fresh signs of inflation forced the Fed to act more aggressively, that would be a negative surprise. And rising rates are one factor that can hasten the end of a business-cycle expansion.

4. A bitcoin collapse. Bitcoin and other cryptocurrencies still probably represent too small a market to harm the broader financial system if there's a wipeout, as some analysts think is inevitable. But economist **Bernard Baumohl of the Economic Outlook Group** in Princeton, N.J., believes there's a 30% chance bitcoin crashes in 2018, with a selloff spreading to other risky assets such as stocks. The higher the value of bitcoin and its ilk go—and the more people who buy in—the greater the risk of fallout if there's a correction or a crash.

5. A China slowdown. This has become something of a perennial concern, with China always finding a way to manage excessive debt and prevent the kind of overleveraged blowout that kicked off the US financial crisis in 2008. But one of these years, China might miscalculate, or simply run out of controls. It almost happened in late 2015 and early 2016.

6. War in Korea. This would be a catastrophe, with hundreds of thousands dead and potential consequences that include the first use of nuclear weapons since World War II. Maybe that grim outlook helps explain why this hasn't happened yet.

7. Some of the above. This is probably the biggest risk for 2018—a confluence of problems occurring in a way nobody really foresaw. This is usually how crises develop, since the things that are easiest to predict are usually the easiest to prevent. It's the unexpected mingling of forces that tends to produce turmoil undetected by regulators, computer models or investors—until it's too late.

It's possible, for instance, that bitcoin collapses at the same time inflationary forces intensify and the Fed amps up its rate increases, producing a triple jolt of anxiety. Or Trump could miscalculate the negative impact of new protectionist measures and impose new tariffs on Chinese and Mexican imports, just as the the Chinese economy catches cold and something not on this list amplifies the illness. Or everything might go swimmingly in 2018, which would be just fine. ###