Whether it is the evident failure of “soft power” technique in China’s handling of Hong Kong, the apparent retreat from global engagement by the United States or any number of breakdowns in international affairs, the global outlook is not lacking for conflict and potential flashpoints.

Geopolitical risks and a number of longer trends, such as slower population growth and the rising prospect of a radical response to climate change, are established features in any global view. A less visible feature is the breakdown of economic certainty and rise of financial risk. Yet there are unmistakeable signs that clearly have financial authorities deeply worried.

At last count, more than $17trillion of bonds were priced to yield a negative return. To put this another way, fear among investors is such that they have driven up the price of more than a quarter of the total bonds on issue globally to a level where they pay to hold them.

Theoretically, this is an economic impossibility. There were no negative yields in 2014. Free money – in fact, money you are paid to borrow – should bring on investment of even the most marginal kind. Yet as rates have been driven down and down the tide of negative yield debt has risen, such that there are now 30-year Swiss bonds on negative yields.

The bulk of the negative yield bonds are in European and Japanese sovereigns, while the long-term yield on US Treasury paper has recently been below short-term rates – so the usual rate outlook is bent backwards. Inverted yield curves have preceded every recession since 1973. Usually they were accompanied by monetary tightening. But not this time.

When wild weather has voided the value of charts, sailors go to visual watch. In this financial outlook the hazards we are looking for may be in the form of a geopolitical event; a disruption to global oil supply, an accident in the South China Sea or a serious miscalculation of the UK-EU wrangle. Or it may be a spark among the piles of debt that have built up in this era of free money.

Of course, it’s often the risk we didn’t see that bursts a bubble or holes a hull. Even so, there are impressive hazards in plain view.

In the US, obscure debt instruments are again a worry in the reincarnation of CDOs (collateralised debt obligations) which sprang from nowhere and into common parlance when global finance went pear shaped in 2008. Now the talk is about CLOs – collateralised loan obligations – bank loans to firms that are heavily indebted and have high debt servicing costs.

While everyone official is at pains to emphasise differences between the CDOs that imploded in 2008 and today’s CLOs, parallels are hard to avoid. As the Bank of International Settlements noted in its September quarter review, “The rapid growth of leveraged finance and CLOs has parallels with developments in the US subprime mortgage market and CDOs during the run up to the GFC.” In the same month, corporate debt issuance set a new global record ($434 billion). Which may have prompted sharp language from the International Monetary Fund in its October Global Financial Stability Report: “corporate sector vulnerabilities are already high in several systemically important economies as a result of rising debt burdens and weakening debt service capacity. In a material economic slowdown scenario, half as severe as the global financial crisis, corporate debt-at-risk (debt owed by firms that cannot cover their interest expenses with their earnings) could rise to $19 trillion—or nearly 40 percent of total corporate debt in major economies, and above post-crisis levels.”

At the end of October PIMCO, the largest US bond investor, said it had backed out of US corporate bonds. Dan Ivascyn, PIMCO group chief investment officer, pointed to weaker credit quality and a lack of bondholder protection in US corporate debt. “The credit sector has been well behaved but if people begin to really fear recession, we can see underperformance quickly,” he said. “This is the sector most prone to overshooting on the downside.”

China's central planners are juggling the effects of a slowing economy on a credit system characterised more by patronage than principle. At the end of November, the People's Bank of China released its annual financial stability report, rating as "high risk" 586 of the nation's 4400 lenders. For some time, commentators have warned that corporate debt in China – estimated at 165% of GDP – was too high. The PBOC chose to highlight the fast-rising levels of household borrowing, which had risen to the equivalent of 100% of household income and 60% of GDP. Typically, Chinese households have most debt in mortgages over investment property. Chinese authorities have been cautious, taking only reactive steps to manage debt risk. So far, that has amounted to stemming runs on a couple of small banks and restructuring the debt of a large provincial corporation. Meanwhile it has taken steps to ease restrictions on household credit, effectively promoting domestic consumption and what is widely regarded as a risky domestic property market. But PBOC is not one for soft money. Publicly, it remains firmly opposed to the monetary easing that characterises most OECD finances, asserting that its priority is to maintain the value of the currency – and of China's popular savings.

Household debt is also a worry in a number of OECD countries, notably in Norway, Canada and Sweden. In Australia, household debt is equal to about 190% of household income – among the highest globally. While house prices have moderated, they remain very high by both historical and international standards.

PIMCO's decision to avoid US corporate bonds is one of very few signs of market response to what has been a substantial run up of asset prices on a persistent influence of cheap money. In fact, the current outlook suggests that even more monetary easing lies ahead. Yet, PIMCO's call notwithstanding, investors appear not to be demanding greater reward for the risks implied in what are in most cases high or very high asset prices.

Globally, financial authorities are cautioning that a "Minsky moment" may soon emerge. The phrase was coined by a PIMCO managing director to describe the 1998 Russian debt crisis and is named for an economist, Hyman Minsky, who described bankers, asset traders and financiers as arsonists who periodically set the economy ablaze. Of course, officials – such as this observation from the Reserve Bank of Australia's October financial stability review – use more gentle language:

"Asset prices are vulnerable to a destabilising correction if risk premiums were to rise suddenly. This could be triggered by a negative growth shock, geopolitical event, or a normalisation of term premiums. Large asset price falls could also be caused by an increase in risk-free (interest) rates from their very low levels, in a scenario where higher realised or expected inflation is not accompanied by stronger growth. Some asset holders may not be well prepared for such re-pricing, given a general increase in risk-taking in the low interest rate environment. This raises the prospect of large losses and reactive sales of assets, including by leveraged investors facing margin calls."

Moody's, one of the rating agencies accused of going missing in its duty in 2008, ended 2019 with a downgrade of the global credit outlook from "stable" to "negative". Pointing to the rise of sovereign debt in many countries and the increasing signs of destabilising forces in trade and politics, Moody's said that "In an unpredictable environment, growth and credit risks are tilted to the downside."

"There are few silver linings, and a rising risk of more negative outcomes," it added. "Unpredictable politics create an unpredictable economic and financial environment."

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