

Monthly Macro Insights



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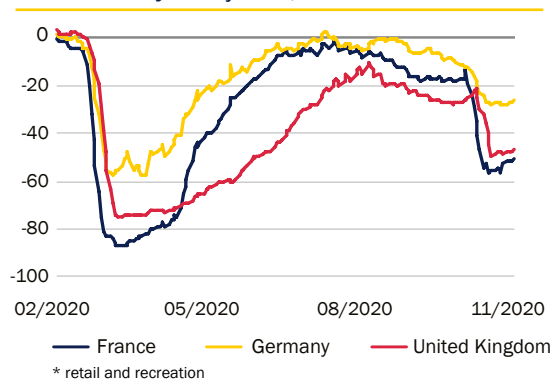
Renewed virus outbreaks in many economies and the reintroduction of containment measures have checked the pace of the global rebound since the output collapse in the first half of 2020. Confidence is still fragile, and further setbacks could deepen the scars already inflicted from the Covid-19 crisis. Yet, progress with vaccines and treatments, along with the US election result, boosted investor confidence as for the first time since the pandemic began, there is now hope for a brighter future.

Managing the pandemic will strain the economy for a few more months. The second wave of infections is now stressing health care systems and reversing mobility gains across the Northern Hemisphere, which are likely to result in further near-term output declines, particularly in Europe.

Consumer and business confidence, especially in the service sector, has receded. The collapse in employment has partially reversed, but large numbers of people remain underemployed. Most firms have survived the shock, albeit often financially weakened, and businesses in the sectors most exposed to continued containment measures may not survive much longer without additional support, raising the risk of further job losses and insolvencies that will hit the economy.

However, despite short term turbulences, the economic outlook has brightened as successful vaccine trials bolster confidence in the possibility of breaking the link between virus containment and mobility. Several vaccine options could be available early next year – UK regulators already granted emergency authorization to US pharmaceutical giant Pfizer and its German partner BioNTech, becoming the first Western nation to authorize a Covid-19 vaccine – and economic activity is expected to ramp up accordingly.

Europe - Google mobility index*
in % of usual journey time, ma 7d



* retail and recreation
Sources: Macrobond, Rothschild & Co Asset Management Europe, November 2020.

That said, the speed and magnitude of next year's expected growth acceleration remains uncertain, given the significant development and logistical challenges in deploying a vaccine around the world. Indeed, in order to fully break the link between the virus and economic activity, it is estimated that roughly 60% of the global population will need to be inoculated. As many of the vaccines being developed require two doses, and given the lack of global cooperation, mass vaccination will only occur gradually, preventing a full normalisation of mobility and cross-border flows for at least another year.

Moreover, fiscal policy is likely to act as a drag in 2021 after providing a powerful tailwind in 2020, although it will only offset part of the expected pickup in growth as the gradual vaccine rollout boosts mobility and activity.

In the US, the fiscal outlook is still unsettled and the shock from expiring emergency programmes in late December will almost certainly exceed the stimulus package projected – but still not agreed – for Q1 2021.

Former Fed chair Janet Yellen is President-elect Biden’s pick for Treasury secretary, meaning that this powerful cabinet position will be occupied by a vocal advocate for more fiscal stimulus. However, the Senate remains highly reluctant to sign on to another large package despite Fed officials continuing to highlight how the near-term downside risks reinforce the need for additional measures.

In China, the recovery continues on a nearly V-shaped path and the authorities are likely to renew focus on the country’s debt overhang and financial stability. Meanwhile, a number of Emerging Market economies face financial stability constraints that could force them to embrace more fiscal discipline.

The Eurozone’s deficit ratio is set to ease in 2021 on the back of the unwinding of pandemic-related emergency measures. Last summer, the European Council agreed on a financial package, consisting of the €750bn Next Generation EU/Recovery Resilience Facility (NGEU/RRF) in the hope that it would have a positive impact on the economy, although the effect will fall on multiple years. Yet, negotiations for the formal adoption of NGEU/RRF are still ongoing as Poland and Hungary have threatened to use their veto since the program draws a link between bloc funding and members’ adherence to democratic standards. Consequently, the positive impact might only start to be felt in late 2021.

Joe Biden’s victory in the US presidential election could mark the beginning of a dramatic shift in America’s attitude toward the world. Biden has promised to reverse some of President Trump’s more controversial policies, including those on climate change, and he is seeking to implement an ambitious Green new deal.

On China, Biden is expected to continue Trump’s tough line on trade, theft of intellectual property and coercive trade practices, yet his approach will likely centre around co-opting allies, rather than bullying them, as was Trump’s method.

On Iran, Biden has promised that the country can escape sanctions if it comes into compliance with the multinational nuclear deal he oversaw with Obama, but which Trump discarded.

US - Biden’s economic plan

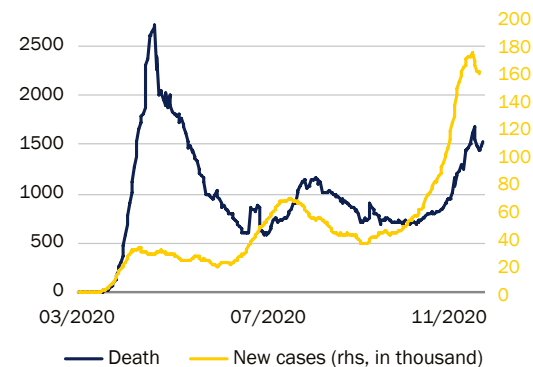
in bn USD

2021-2024	
Education	636
Healthcare	605
Social safety net	368
Infrastructure	2 338
Total spending	3 948

Sources: Rothschild & Co Asset Management Europe, November 2020.

US - COVID-19

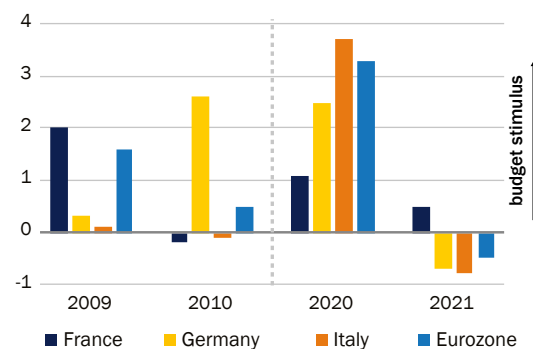
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Sources: Macrobond, Rothschild & Co Asset Management Europe, November 2020.

Eurozone - Fiscal impulse

in % of GDP, cyclically adjusted



Sources: E.C., Rothschild & Co Asset Management Europe, November 2020.

However, executing team Biden’s foreign policy vision won’t be simple due to how, for the last four years, American allies endured a scattershot US foreign policy strategy that undermined traditional alliances.

On the environment, Biden will face a divided Congress that is unlikely to allow him to spend billions on green technology and infrastructures. Therefore, the risk of dashed hopes looms large.

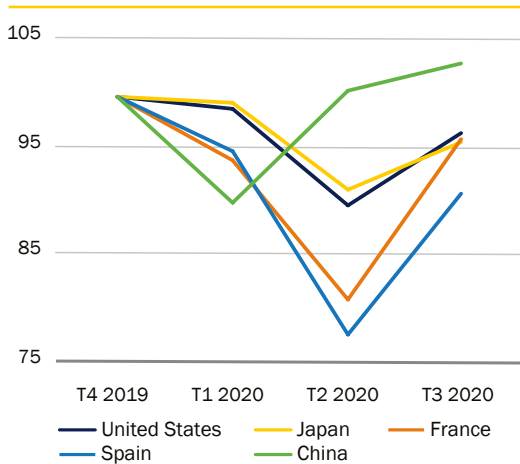
Overall, although the global recovery remains partial and uneven, prospects for an eventual path out of the crisis have improved, with encouraging news of effective vaccines. However, the outlook continues to be exceptionally uncertain, with both upside and downside risks. On the former, faster herd immunity would reduce uncertainty which, combined with high levels of household savings rates in many countries, would point the way towards a stronger recovery, thanks to a more sustained pick-up in investment and consumer spending. Bank deposits of households have increased at a faster rate than in previous years.

According to OECD estimates, while these excess deposits are relatively small relative to private consumption, both household deposits and consumption are large relative to GDP, implying a potentially significant impact on aggregate demand.

On the other hand, growth would be weaker if virus outbreaks were to intensify more widely or if the challenges in ensuring widespread deployment of a vaccine proved to be greater than currently expected.

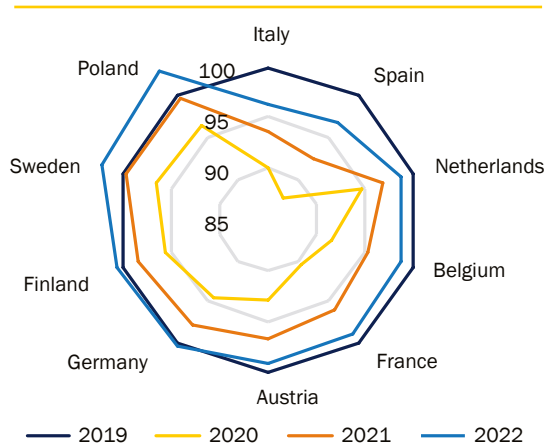
Furthermore, while high savings rates provide scope to finance additional spending, a significant proportion of the gain has accrued to higher-income households with a lower marginal propensity to consume, while survey evidence suggests that precautionary saving could remain elevated if labour market improvements were to remain subdued. ■

World - GDP
level, Q4 2019 = 100



Sources: Macrobond, Rothschild & Co Asset Management Europe, November 2020.

Europe - GDP during Covid-19 crisis
100 = 2019



Sources: E.C., Rothschild & Co Asset Management Europe, November 2020.

Performance of the indices and interest rate levels

	Price as of 11/30/2020	1 month % change	2020 % change
Equity markets			
CAC 40	5 519	20.1%	-7.7%
Euro Stoxx 50	3 493	18.1%	-6.7%
S&P 500	3 622	10.8%	12.1%
Nikkei 225	26 434	15.0%	11.7%
Currencies			
EUR/USD	1.19	2.4%	6.4%
EUR/JPY	124.42	2.0%	2.2%

	Price as of 11/30/2020	1 month bp	2020 bp
Interest rates			
3 M	Eurozone	-0.69%	-2
	United States	0.07%	-2
10 Y	Eurozone	-0.57%	6
	United States	0.84%	-3

Source: Bloomberg, data as of 30/11/2020. Performances in local currency.
(1) Basis point.

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