Global Macroeconomic Outlook
December 2020

Global Economic Outlook

The lock-down of the global economy to slow the spread of the COVID-19 pandemic led the IMF to materially alter expectations for economic growth.

- The IMF forecasts final global GDP to come in 3.5% lower in 2020, followed by a sharp 5.5% recovery in 2021.
- In advanced economies, GDP is projected to decline by 4.9% for 2020, and recover by 4.3% in 2021, as economies reopen and vaccination progress is made. The US was expected to fare slightly better, with an estimated 3.4% contraction in 2020 and a recovery of 5.1% in 2021. Actual figures for 2020 showed US growth came in above expectations, contracting only 2.5%.
- The euro-area was forecasted to take the greatest hit to growth, declining 7.2% in 2020 and recovering 4.2% in 2021. Actual numbers also came in above estimates declining only 5.1%. The Japanese economy is expected to decline by 5.1% in 2020, but only recover by 3.1% in 2021.
- Growth projections are also weak for many emerging economies (Brazil, Mexico, Russia, Saudi Arabia), with China being the notable exception with expected and actual growth both coming in at 2.3%. China is expected to see significant growth in 2021 of 8.1%. The growth expectations are due primarily to the Chinese government's ability to quickly impose aggressive distancing measures, largely isolate and contain the virus, and then quickly move to re-open their economy.
- Overall inflation is projected to be slightly below long-term averages in 2021, consistent with decreased economic activity, with inflation in most developed economies expected below 2.0%.

	Real GDP (%)[1]			Inflation (%)[1]		
	IMF 2020 Forecast	IMF 2021 Forecast	Actual 10 Year Average	IMF 2020 Forecast	IMF 2021 Forecast	Actual 10 Year Average
World	-3.5	5.5	3.7	3.2	3.4	3.5
Advanced Economies	-4.9	4.3	2.0	0.8	1.6	1.5
US	-3.4	5.1	2.3	1.5	2.8	1.8
Euro Area	-7.2	4.2	1.4	0.4	0.9	1.3
Japan	-5.1	3.1	1.4	-0.1	0.3	1.4
Emerging Economies	-2.4	6.3	5.1	5.0	4.7	5.2
China	2.3	8.1	7.6	2.9	2.7	2.5

[1] Source: IMF World Economic Outlook. Real GDP from January 2021 update. Inflation as of October 2020 Update. "Actual 10 Year Average" represents data from 2010 to 2019.

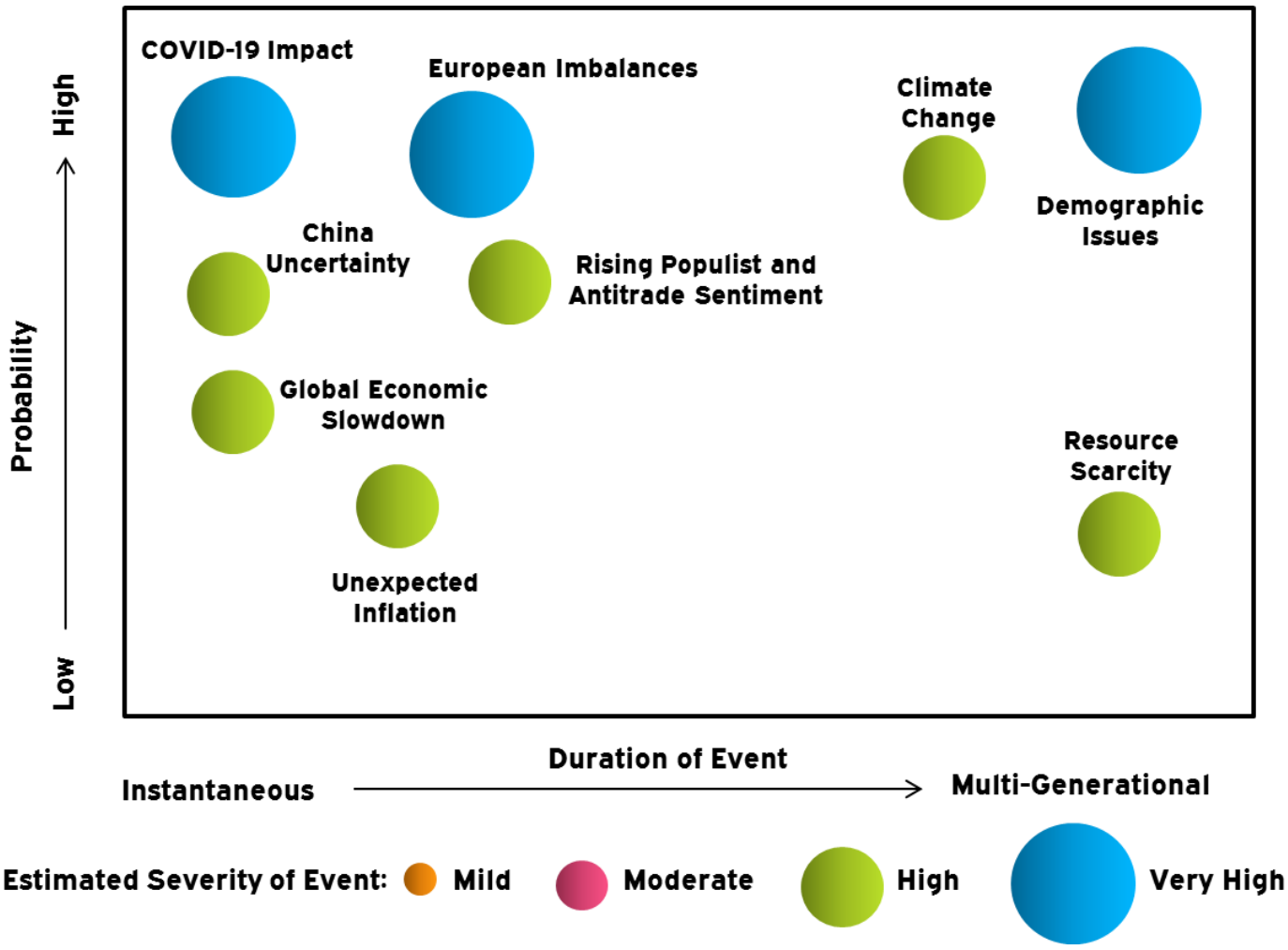
Global Economic Outlook (continued)

In an effort to stem the expected significant declines in economic activity, fiscal and monetary authorities across the globe responded with immediate and aggressive stimulus measures.

- US fiscal and monetary responses have been unprecedented. Fiscal authorities released over $3.5 trillion in directed stimulus and are discussing the next round of support, while monetary authorities cut policy rates effectively to zero, deployed trillions of dollars in stimulus measures, backstop liquidity, and funding programs to mitigate the economic deterioration. Monetary policymakers are actively considering additional measures, including yield curve targeting and maturity extension of QE purchases if conditions warrant.
- Japanese authorities took measures similar to those in the US, directing fiscal stimulus where needed most, including loans to small businesses and direct stimulus to consumers, while the central bank continued, and expanded, their quantitative easing purchase program. The Bank of Japan loosened collateral and liquidity requirements, and initiated 0% loans to businesses directly hit by the virus. They continue to keep short-term interest rates in negative territory (-0.1%) and target a 0% rate on the ten-year government bond.
- Countries in the euro-area launched stimulus packages targeting areas hit hardest by virus-related restrictions. The European Central Bank also took directed measures, with targeted long-term refinancing operations for small and medium sized business, keeping rates at historic lows, and launching a 750 billion euro emergency purchase program, which was subsequently expanded to include lower-quality corporate debt. The majority of funds from the program will be distributed to the countries and sectors most impacted by the virus, and will take the form of grants and loans.
- Fiscal and monetary policy in China was already accommodative prior to the onset of the COVID-19 crisis, but as the pandemic developed, policymakers took further steps to support the economy. Additional tax cuts, low-interest rate loans, and extra government payments to qualifying citizens represented the bulk of the fiscal response. On the monetary side, policy rates were cut, repo facilities were expanded, and reserve requirements were lowered further.

We acknowledge the wide breadth of new concerns being presented by the pandemic, and among those we are considering are the following: 1) Economies opening too soon from virus-related restrictions amid uncertainty regarding new virus variants and vaccine deployment challenges, and ultimately needing to re-deploy lockdown policies; 2) Consumers permanently, or for an extended period of time, changing economic behavior; 3) Persistently high unemployment due to a significant number of companies not surviving the economic downturn, and; 4) Virus-related fears affecting the future of globalization.

Macroeconomic Risk Matrix



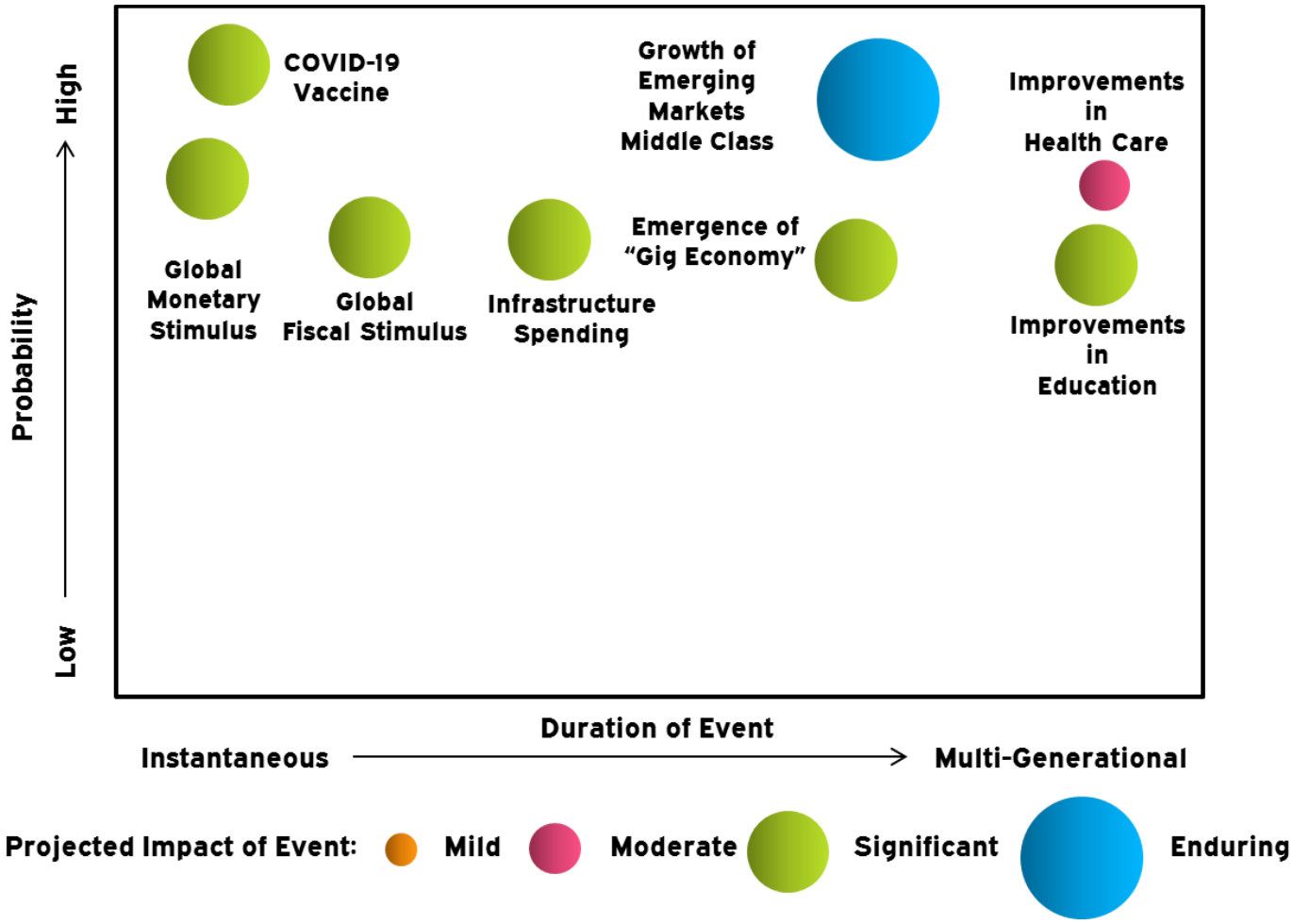
Macroeconomic Risk Overviews

China Uncertainty	The process of transitioning from a growth model based on fixed asset investment by the government to a model of consumption-based growth will be difficult. Some progress was made on trade tensions with the US by the passing of a phase-one trade deal with the prior administration, but many issues still need to be resolved with uncertainties related to the next administration's approach toward China. As China tries to manage a smooth economic transition through fiscal and monetary policies, heightened financial risks exist.
Climate Change	The earth's average temperature has been increasing since preindustrial times with the pace accelerating over the last 35 years. Increased levels of greenhouse gases like carbon dioxide have been the main cause of higher temperatures as they trap heat in the atmosphere. Warmer temperatures have led to the melting of glaciers and polar ice and increased precipitation in wet regions and reduced it in dry regions. The economic impacts of climate change are many, including declining crop yields, effects on livestock health, shifts in tourism, damage to infrastructure (rising sea levels and more extreme weather), and higher levels of disease and malnutrition.
COVID-19 Impact & Response Risks	Developments with the COVID-19 pandemic are of principal and immediate concern. Clarity on how the vaccines will be rolled out and accessibility for some countries will be the greatest factor impacting when the global economy may fully re-open and begin to meaningfully rebuild from the record job losses and the significant decline in global GDP. Relatedly, market participants are also discussing the potential risk across major sovereign debt markets amidst the significant increase in debt issuance necessary to fund the various stimulus measures. While appetite for safe-haven assets remains given all the uncertainty, as economies begin to recover and demand for these assets wane, selling pressures on the back of the record issuance could push yields higher than expected and put pressure on government debt servicing requirements. Asset price inflation could also be a risk, as the record easing from monetary policy prompts increased (and potentially excessive) demand for risk assets.
Demographic Issues	In Japan and Europe, birth rates have declined for decades while life expectancies have increased with improvements in healthcare, resulting in populations becoming older and smaller relative to the rest of the world. In China, their so-called "one child" policy helped to reduce population growth, but has created other issues for the government. As life expectancy increases, the prior policy creates complications with a low working base left to support a relatively large and aging population. These demographic trends will have negative long-term impacts on GDP growth and fiscal budgets, amplifying debt problems. In the US, an increase in savings rates by age cohorts that are traditionally biased to spending is also impacting respective economic growth rates.
European Imbalances	Structural issues persist in the Eurozone, related to the combination of a single currency and monetary authority with 17 separate fiscal authorities. Within the European Union, tensions exist, as highlighted by political changes in some countries and the prior UK referendum, related to policies on immigration, laws, and budgetary issues. The UK officially left the EU in January 2020, and finalized trade agreements at the end of the year. Changes in 2021 between the EU and the UK include increased travel documentation for respective citizens, changes to immigration policies, and more complex trade policies.

Macroeconomic Risk Overviews (continued)

Global Economic Slowdown	COVID-19 restrictions have significantly weighed on economic activity globally and led to many countries entering recessions for parts of 2020. The question now with the announcement of the vaccine is how quickly can countries vaccinate their populations and reopen their economies. Still elevated case levels in some areas, and recent virus mutations, could lead to continued restrictions and the slowing of the reopening process, further delaying recovery.
Resource Scarcity	The growing world population, urbanization, and a growing middle class, particularly in emerging economies, could all lead to a scarcity of resources, including food, water, land, energy, and minerals. As natural resource demand continues to grow, rising commodity prices may hurt the living standards of many and increase the risk of geopolitical conflicts.
Rising Populist and Antitrade Sentiment	Tariffs started by the US against China and some of its allies, along with elections/votes in Europe, UK, and Latin America highlight growing populist/antitrade sentiment. Stagnant wages, growing inequality, and the perception of jobs being lost abroad are key contributors to ongoing unrest. Reducing trade and imposing tariffs will likely lead to higher prices, reduced efficiencies, and heightened tensions between countries. As economies begin to recover from the COVID-19 crisis, the risk remains for certain areas to be blamed for the outbreak and the emergency measures taken disproportionally benefiting some, further increasing tensions.
Unexpected Inflation	Developed countries across the world are struggling to generate inflation despite record low (or negative) interest rates and monetary and fiscal stimulus. Most traditional measures of inflation remain near or below central bank targets. With expectations for a significant increase in inflation low, an unexpected rise could be disruptive, leading to higher interest rates and lower growth and valuations. Further, the inability of monetary authorities to meaningfully impact the direction of inflation could prove problematic should deflationary-forces take hold.

Positive Macroeconomic Trends Matrix



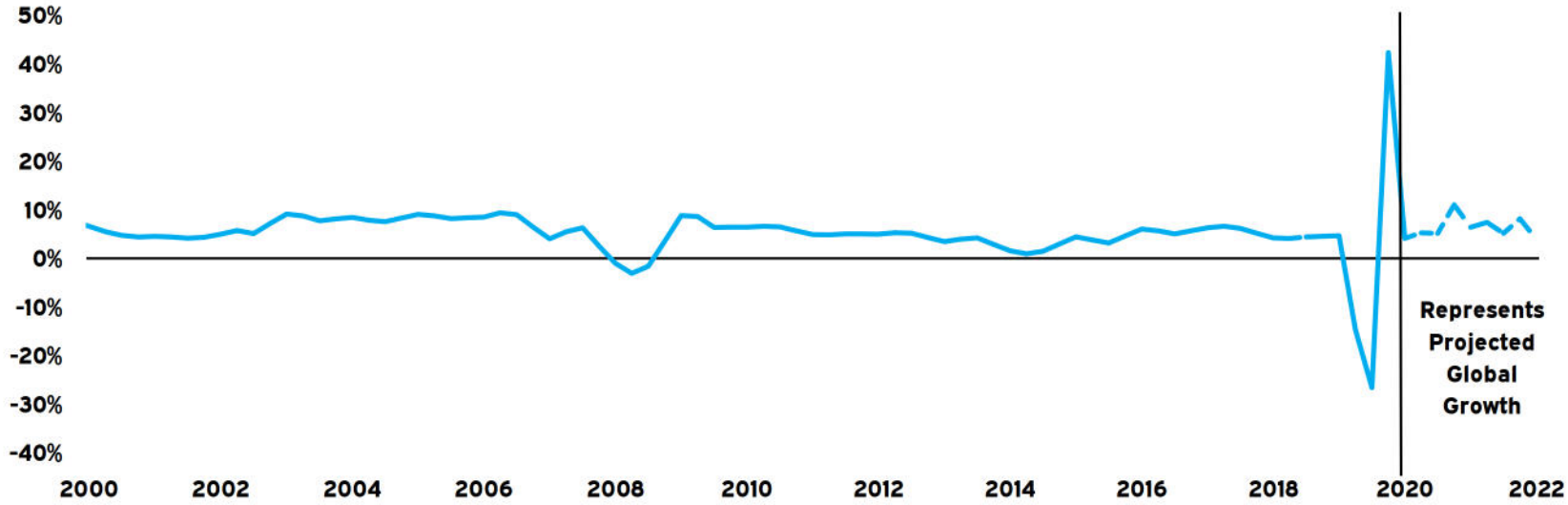
Positive Macroeconomic Trends Overviews

COVID-19 Vaccine	Several vaccines have been developed and started to be distributed in the US including one from Pfizer-BioNTech and another from Moderna. Recently, an additional vaccine from Johnson & Johnson was announced that is being reviewed. It has the added benefit of only requiring one shot and not requiring storage at very low temperatures. Outside the US, vaccines have also been developed by China, Russia, India, and the UK. Now that highly effective treatments for COVID-19 have been developed, people should slowly be able to return to previous activities, driving economic growth, employment, and particularly benefiting industries like travel and tourism that have been hard hit by the pandemic. Key issues will include the pace of the rollout, access to the vaccine for some countries, and the track of new variants.
Emergence of "Gig Economy"	The "gig economy" has taken a material hit due to the virus-related economic shut-down, but should ultimately rebound once the recovery is meaningfully underway. The new structure allows workers flexibility in the jobs they take, their schedules, and offers the ability to work outside of a traditional office. For companies, it has led to lower labor and overhead costs (more employees are working remotely), flexibility in hiring workers temporarily, and lower recruiting and training costs.
Global Monetary Stimulus	The record stimulus measures taken by global central banks have provided a meaningful support to financial markets. With policymakers openly stating their strategy to keep policy extremely accommodative until the COVID-19 induced crisis has passed with a measured degree of confidence, easy financial conditions should provide support for riskier and higher-yielding assets, and support broad economic growth.
Global Fiscal Stimulus	Consistent with the emergency measures taken by monetary authorities, fiscal policy turned notably accommodative amidst the COVID-19 crisis. A number of countries, including the world's largest, unleashed record levels of direct stimulus to support their respective economies. Measures have taken many forms, including direct cash disbursements to consumers, extension of unemployment benefits, and loans and grants to small- and mid-sized businesses. In the US a $900 billion package was announced at the end of the year with a much larger package in discussions now. EU stimulus measures, which represents a broadly positive development for the Union that has historically resisted reaching coordinated agreements, suggests a more positive and cordial relationship going forward which should help the overall economic picture for the area.
Growth of Emerging Markets Middle Class	In emerging economies, the middle class is projected to grow significantly over the next twenty years. This growing middle class should increase consumption globally, which in turn will drive GDP growth and create jobs.

Positive Macroeconomic Trends Overviews (continued)

Improvements in Education/Health Care	Literacy rates and average life spans have increased globally, particularly in emerging economies. Higher literacy rates will drive future growth, helping people learn new skills and improve existing skills. Longer lives increase incentives for long-term investments in education and training, resulting in a more productive work force and ultimately more growth.
Infrastructure Spending	The incoming Biden administration plans to make a significant investment in infrastructure (~$2 trillion) with the goal of increasing economic growth, adding jobs, and reducing climate change. The plan focuses on improving roads, bridges, transportation (trains/auto industry), and broadband. It includes a focus on having public transportation and freight transitioning to running on clean energy or electricity, as well as encouraging increased production of energy efficient cars. Incentives would also be introduced to make buildings and homes more prepared to withstand harsh weather and be more energy efficient.

Global Nominal Gross Domestic Product (GDP) Growth[1]

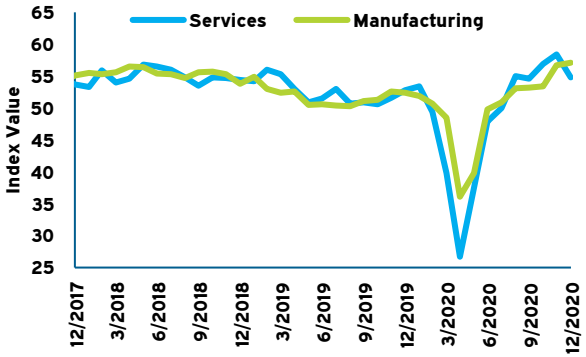


- Global GDP experienced a historic decline in the second quarter of 2020 due to the COVID-19 pandemic and the severe economic restrictions to stem the spread.
- After a historic recovery in the third quarter, fourth quarter growth was positive but much lower. Holiday gatherings and colder weather led to a resurgence of COVID-19 cases and renewed lockdown measures consequently weighed on growth. Still, markets continued to signal optimism as positive vaccine developments drove risk assets higher.
- Looking forward, a rise in infections and the emergence of more highly contagious strains of the virus, increases the risk that governments will be forced to extend lockdowns as national vaccination campaigns progress, which could dampen the economic rebound in 2021.

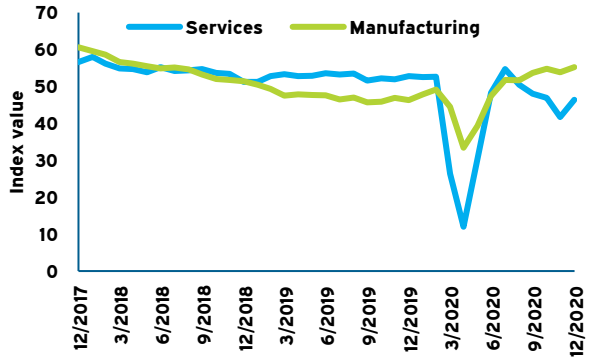
[1] Source: Oxford Economics (Nominal world GDP, US$ prices & PPP exchange rate, % annualized q/q). Updated December 2020.

Global PMIs

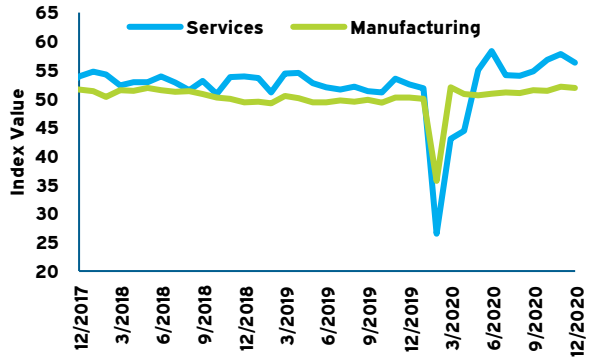
US PMI[1]



Eurozone PMI[2]



China PMI[3]

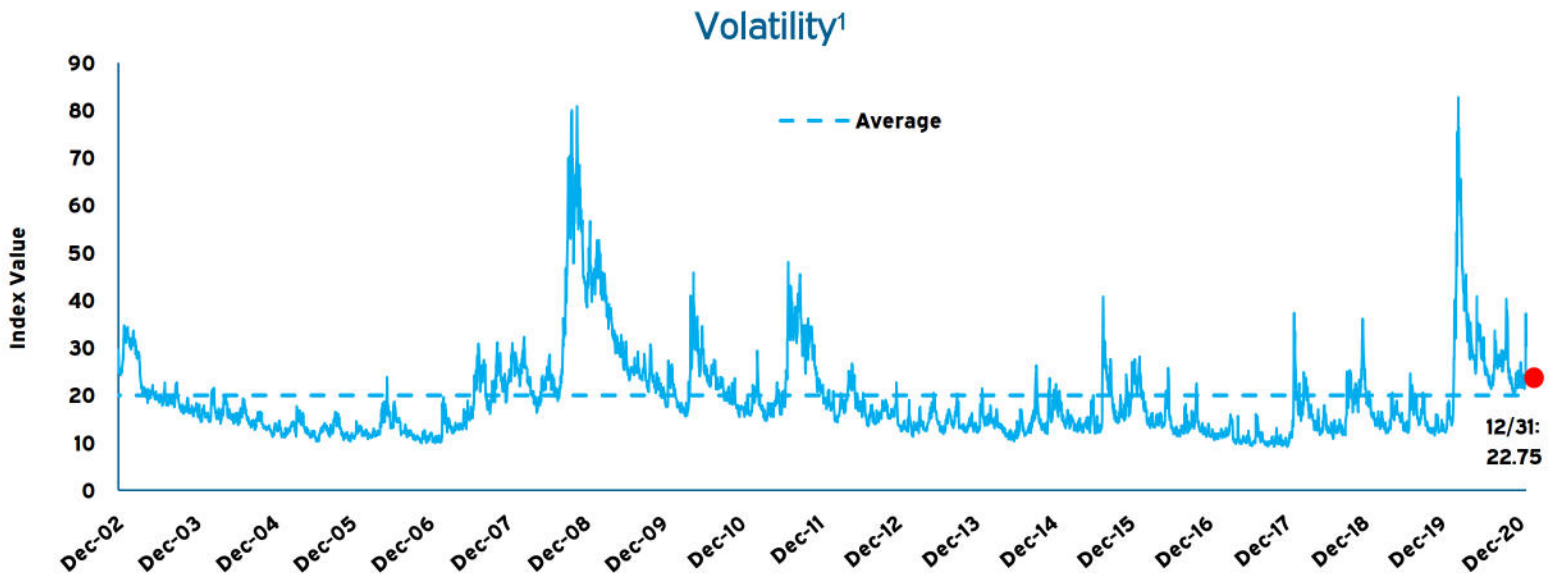


- Purchasing Managers' Indices (PMI), based on surveys of private sector companies, initially collapsed across the world to record lows, as closed economies depressed output, new orders, production, and employment. The service sector was particularly hard-hit by stay-at-home restrictions in many places.
- Readings below 50 represent contractions and act as a leading indicator of economic activity, including the future paths of GDP, employment, and industrial production.
- As the Chinese economy reopened, their PMIs, particularly in the service sector, recovered materially. In the US, the indices have also improved from their lows to above contraction levels. In Europe, manufacturing has largely recovered, but services continue to show weakness due to increased lockdowns.

[1] Source: Bloomberg. US Markit Services and Manufacturing PMI. Data is as of December 2020.

[2] Source: Bloomberg. Eurozone Markit Services and Manufacturing PMI. Data is as of December 2020.

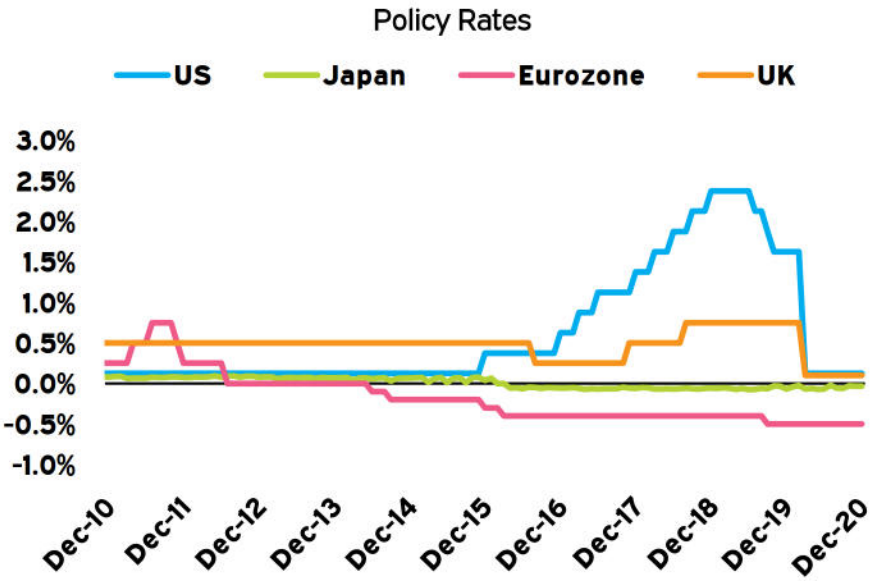
[3] Source: Bloomberg. Caixin Services and Manufacturing PMI. Data is as of December 2020.

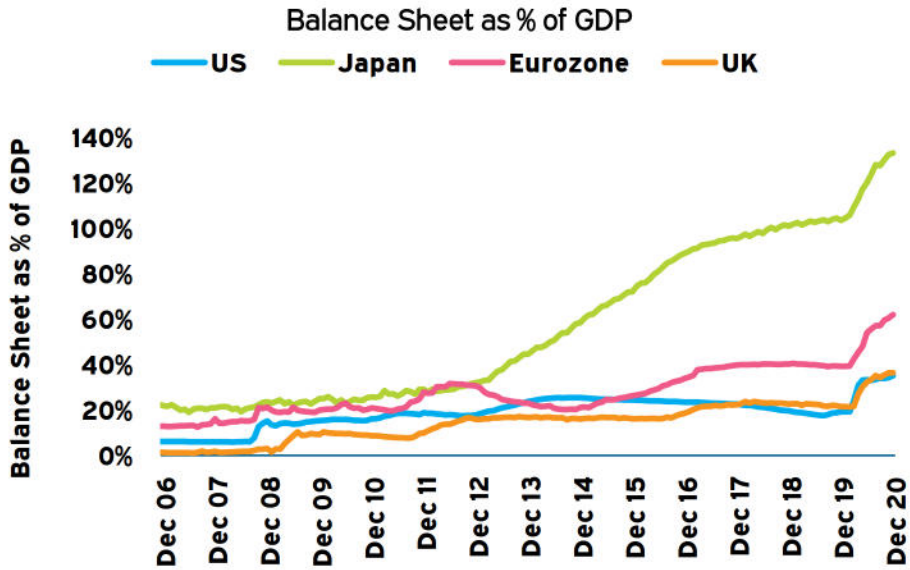


- With the fiscal and monetary support and corresponding improvement in investor risk sentiment, expectations of short-term volatility, as measured by the VIX index, declined relatively quickly from record levels. They have remained somewhat elevated though perhaps due to uncertainty around the new COVID-19 virus strains and the progress of vaccinations.
- At the recent height, the VIX index reached 82.7, surpassing the pinnacle of volatility during the GFC, showing the magnitude of the crisis, and of investor fear.
- With the completion of the US presidental election and an additional round of consumer stimulus late in the fourth quarter, volatilty expectations continued to decline to post-March lows.
- Going forward, there remains the risk of additional spikes in volatility (as seen in the continued elevated index level), as investors process the impacts of COVID-19 and the effectiveness of the policy response.

[1] Bloomberg. Represents daily VIX data and is as of December 31, 2020.

Central Bank Response[1]

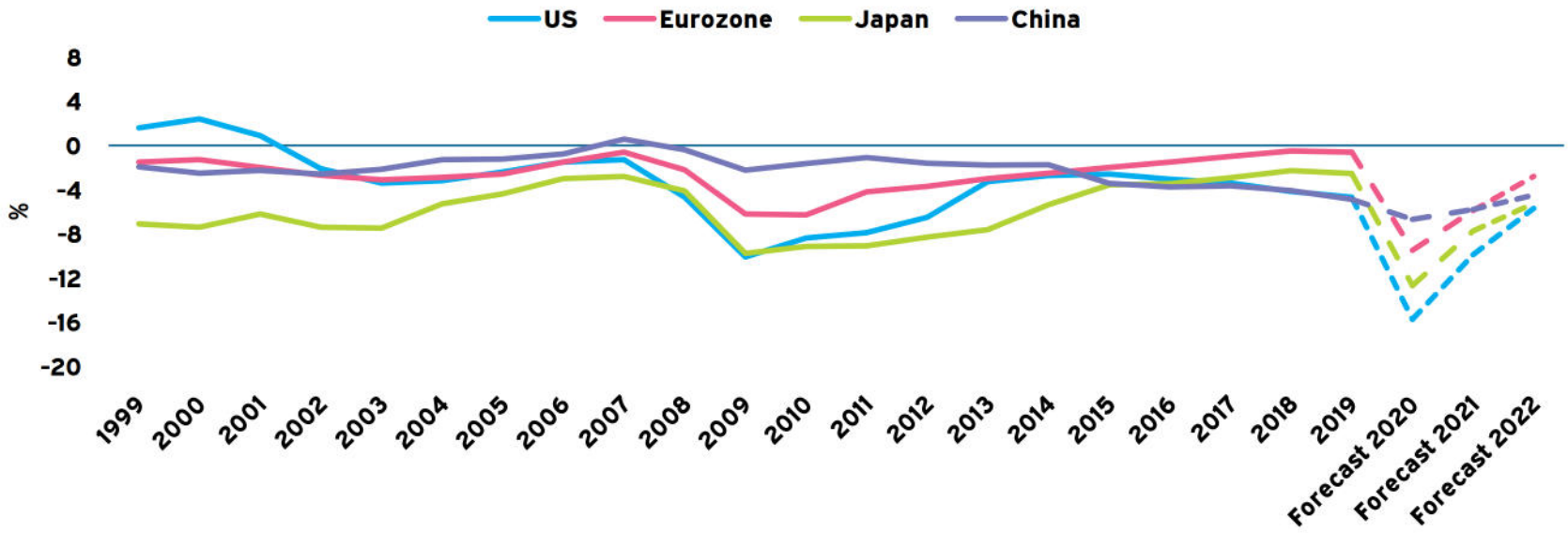




- Global central banks took aggressive policy actions as signs of economic deterioration emerged due to the restrictions put in place to stop the spread of COVID-19.
- Measures include the cutting of policy rates, deploying emergency stimulus through expanded quantitative easing, liquidity programs to support funding markets, targeted refinancing operations, and outcome-based forward guidance commitments to keep monetary policy accommodative until the pandemic is thoroughly under control.
- Monetary stimulus measures, including asset purchases, will likely stay in place for some time, but uncertainties remain regarding the effectiveness of monetary policy supporting the economy through COVID-19, and the potential inflationary impacts of the response.

[1] Source: Bloomberg. Data is as of December 31,, 2020.

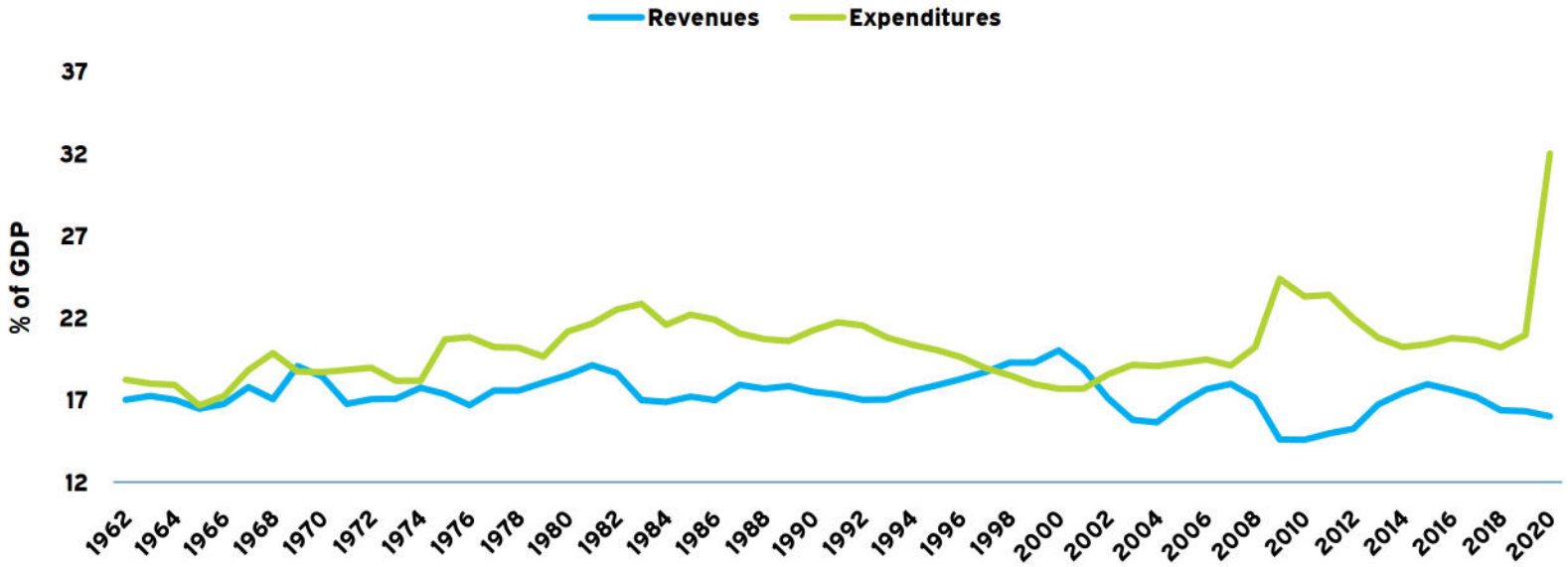
Budget Surplus / Deficit as a Percentage of GDP[1]



- Budget deficits as a percentage of GDP are deteriorating meaningfully for the major world economies due to the massive fiscal support and the severe economic contraction's effect on tax revenue.
- Thus far, fiscal and monetary policy stimulus measures have supported the recovery of asset prices, but may prove less effective in generating real economic growth sufficient to increase employment and government revenues over the long-term.
- If policy efforts fail to produce real economic growth, deficits could remain historically high and require additional sovereign debt issuance to cover the shortfall, increasing solvency and interest rate risks.

[1] Source: Bloomberg. Data is as of December 31, 2020. Projections via Bloomberg Forecasts December 2020.

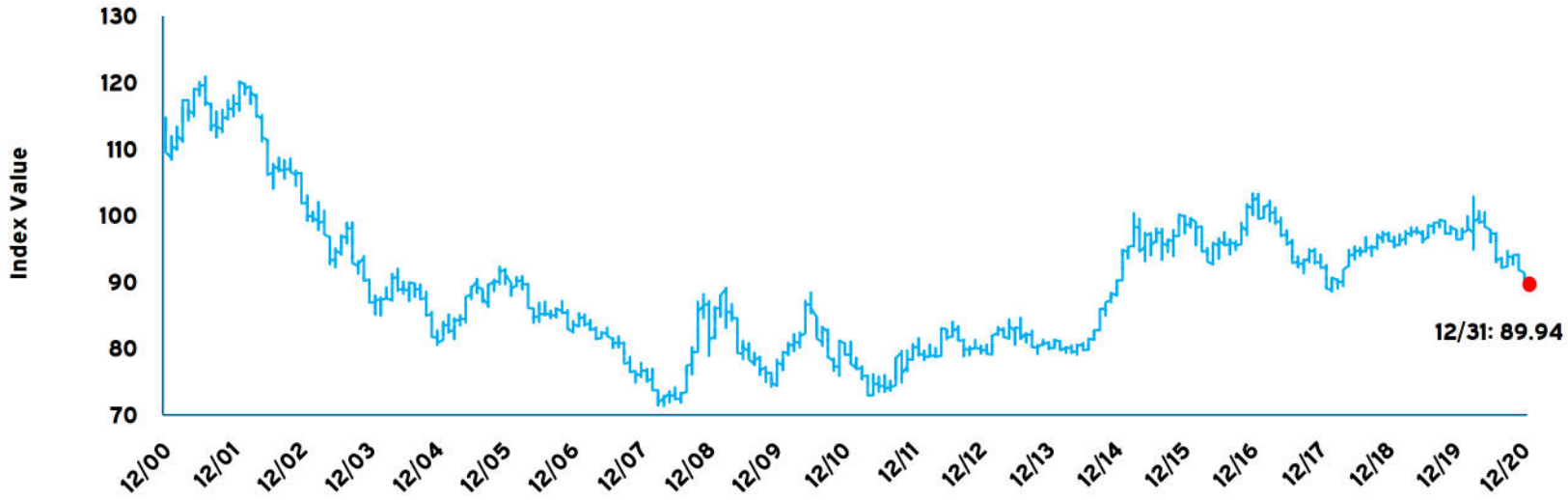
US Fiscal Stimulus so far in Context[1]



- The spread between federal spending and receipts was relatively narrow from the 1960s until the Global Financial Crisis.
- With a few exceptions, the US government has spent more than it has taken in.
- The pandemic pushed expenditures as a percentage of GDP to above 30%, far exceeding revenues.
- Going forward, the pace of economic growth and potential changes to US tax policy will likely impact the degree to which this issue becomes a risk for US borrowing costs over the long-run.

[1] Source: Congressional Budget Office. Most recent data is as of September 30, 2020.

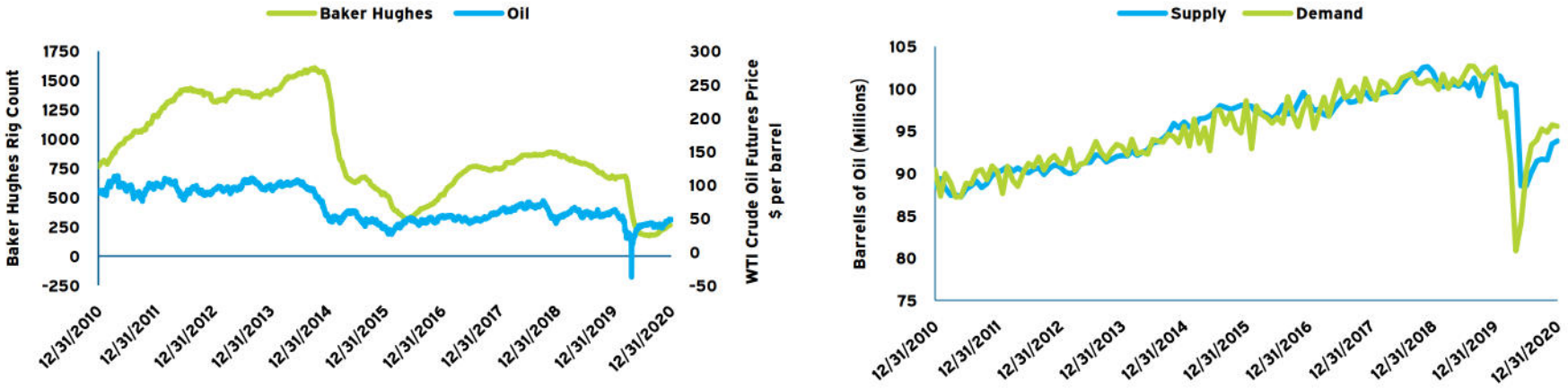
US Dollar versus Broad Currencies[1]



- When financial markets began aggressively reacting to COVID-19 developments, the US dollar came under selling pressure as investors sought currencies, like the Japanese yen, with the highest perceived safe-haven qualities.
- As the crisis grew into a pandemic, investors' preferences shifted to holding US dollars and highly liquid, short-term securities like US Treasury bills.
- Toward the end of last year, we saw some weakness in the dollar as the US struggled with containing the virus and investors sought higher growth non-US assets, particularly in emerging markets. This created pressures on already stressed export-focused countries.
- Going forward, the dollar's safe haven quality and the relatively higher interest rates in the US could provide support.

[1] Source: Bloomberg. Data is as of December 31, 2020.

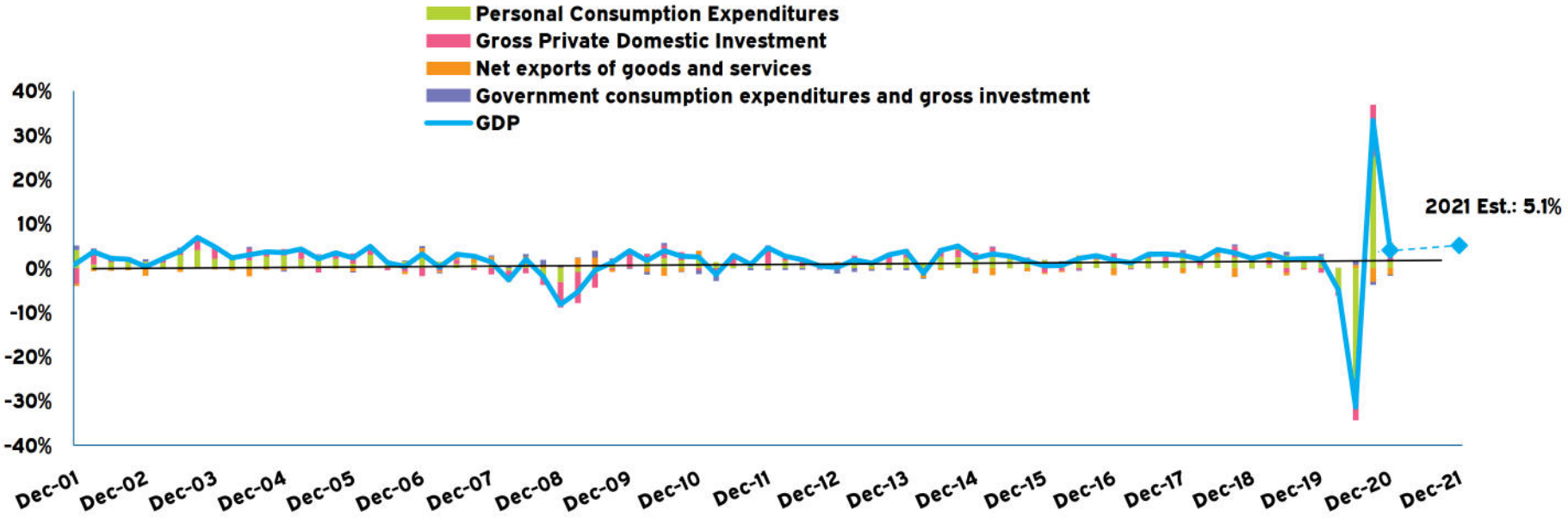
Oil Price and Rig Activity[1]



- Oil prices at year-end nearly recovered from the COVID-19 related disruptions, and from the brief price war that occurred between Saudi Arabia and Russia after the latter declined to participate in the proposed OPEC+ supply cuts.
- Supply and demand imbalances are likely to persist as the global economy continues to recover, while at the same time total active rig counts remain at multi-year lows due to the shuttering of less profitable production facilities.

[1] Source: Bloomberg. Rig count data is weekly and oil price data is daily. Data is as of December 31, 2020.

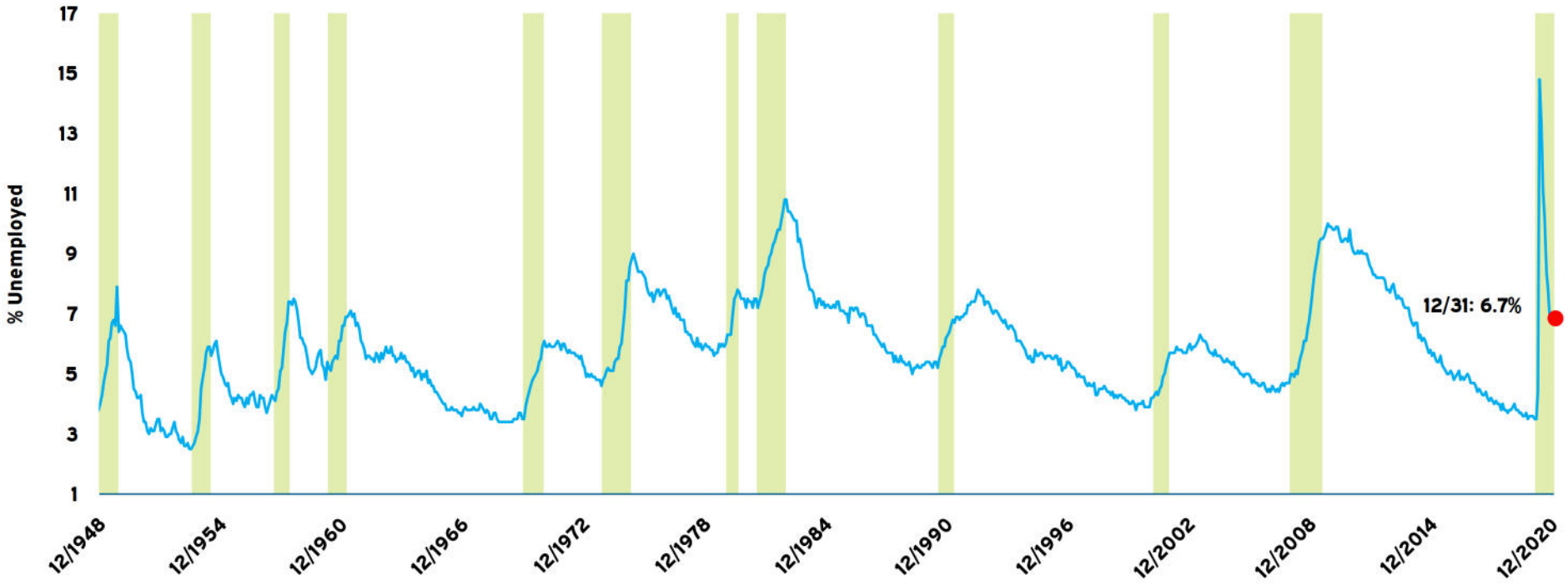
US Real Gross Domestic Product (GDP) Growth[1]



- After a record decline in GDP during the second quarter (-31.4% annualized), the US economy experienced a record gain (+33.4 annualized) in the third quarter as the economy slowly reopened. For the fourth quarter, real GDP rose by 4.0% annualized, resulting in a decline of 2.5% for the full year.
- A recovery in consumption was the main driver of the historic growth, given significant pent-up demand from pandemic related restrictions earlier in the year.
- US growth is forecasted to rebound by 5.1% annually in 2021, as the economy normalizes. The risk remains that the recent COVID-19 spike may drive renewed restrictions and that the vaccination process could be slow, both leading to consumers delaying returning to their prior spending and consumption preferences.

[1] Source: US Bureau of Economic Analysis. Data is as of the fourth quarter of 2020 and represents the first estimate. Annual projection for 2021 via IMF World Economic Outlook January 2021.

US Unemployment Rate[1]

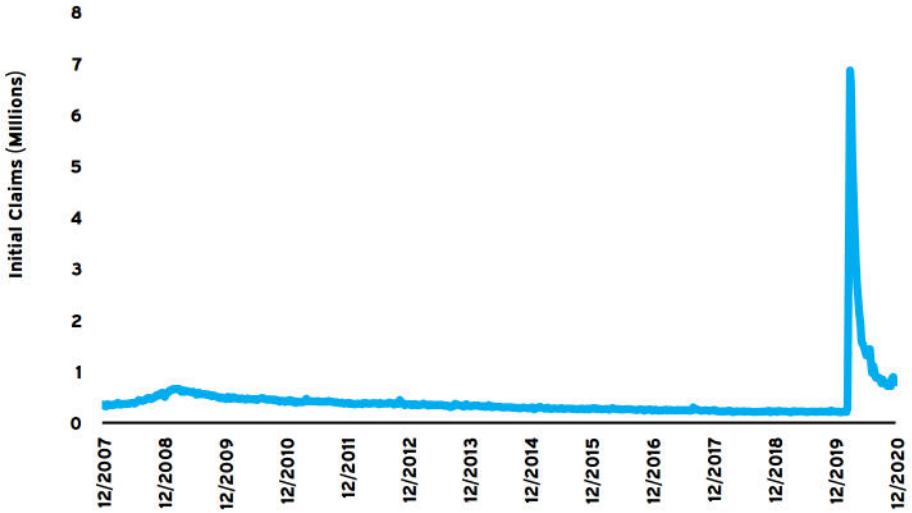


- In December, the unemployment rate continued its decline from the April 14.7% peak, falling to 6.7%.
- Despite the improvement, unemployment levels remain well above pre-virus readings and are likely higher than reported, as some workers appear misclassified. According to the Bureau of Labor Statistics, absent the misclassification issue, the December unemployment rate would be higher by 0.6%.

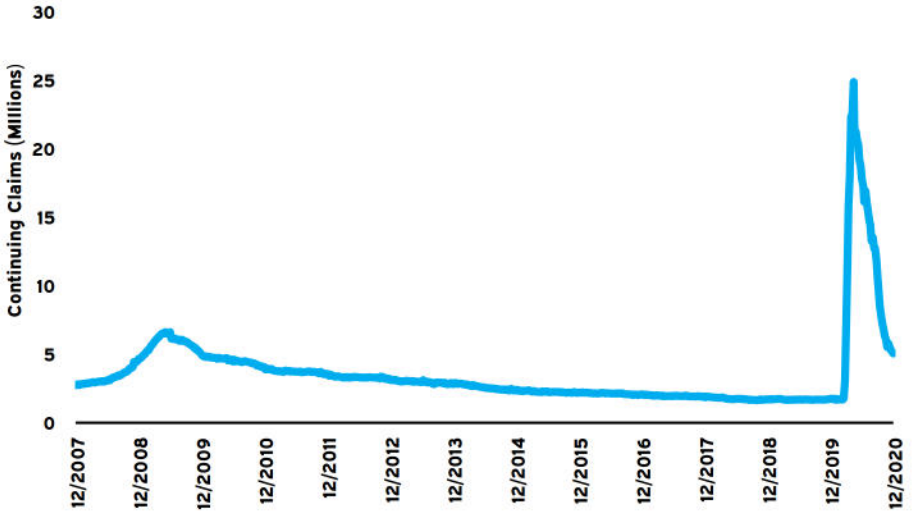
[1] Source: Bloomberg. Data is as of December 31, 2020. Bars represent recessions.

US Jobless Claims

US Initial Jobless Claims[1]



Continuing Claims[2]

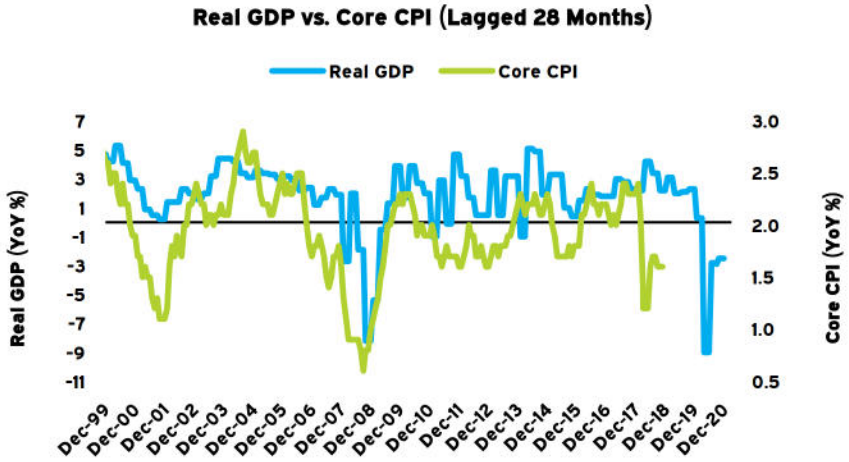


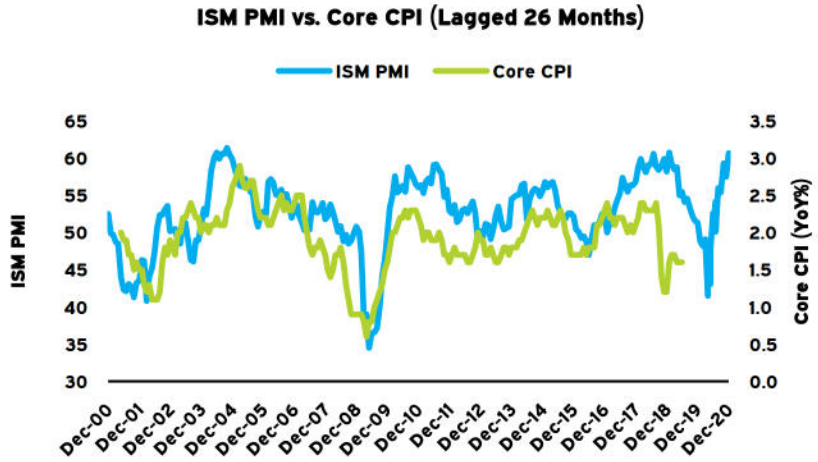
- Over the last 41 weeks, roughly 73 million people filed for initial unemployment. This level is over triple the 22 million jobs added since the GFC, highlighting the unprecedented impact of the virus.
- Despite the continued decline in initial jobless claims to below one million per week, levels remain many multiples above the worst reading during the Global Financial Crisis.
- Continuing jobless claims (i.e., those currently receiving benefits) have also declined from record levels, but remain elevated at 5.1 million.

[1] Source: Bloomberg. First reading of seasonally adjusted initial jobless claims. Data is as of December 25, 2020.

[2] Source: Bloomberg. US Continuing Jobless Claims SA. Data is as of December 25, 2020.

US Inflation[1, 2]





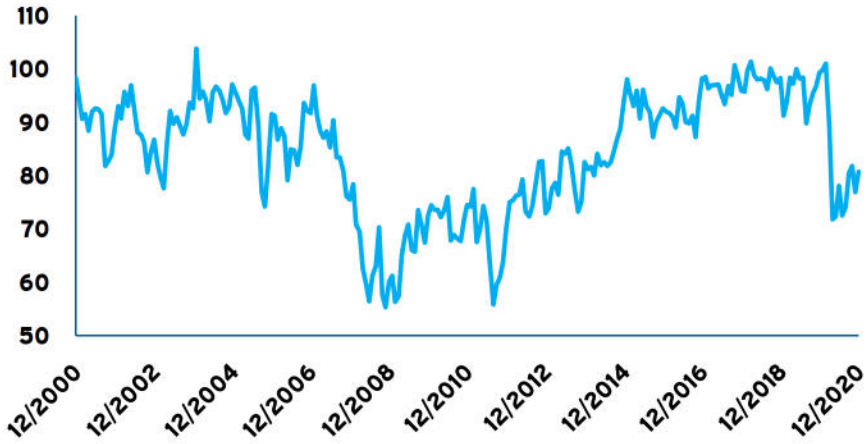
- Inflation is considered a lagging indicator, reflecting past economic conditions.
- This leads to today's economic conditions being a means of forecasting future inflation levels.
- Real GDP and manufacturing indicators, like the ISM Purchasing Managers' Index, have historically been useful indicators of future inflation.
- Initially, manufacturing data and GDP declined dramatically from their peaks. This led to aggressive fiscal and monetary responses in the US (and globally) to help mitigate the impact of the pandemic on the global economy resulting in corresponding improvements in data.
- As fiscal and monetary policy measures stimulate the economy, we could ultimately see increases in growth and inflation.

[1] Source: Bloomberg. Data is monthly and as of December 31, 2020 for Core CPI. Data for US Real GDP is annual and as of the fourth quarter (first estimate). It is compared to each monthly CPI data point for the respective quarter for illustrative purposes.

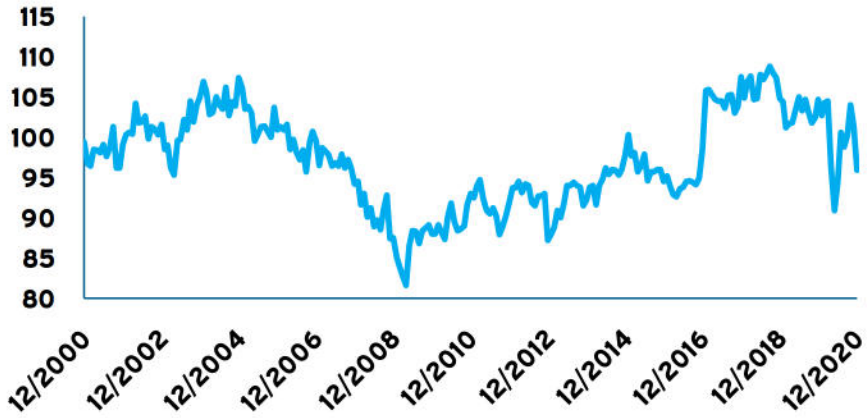
[2] The last data point for ISM PMI and Core CPI represents the December 31, 2020 value.

Sentiment Indicators

University of Michigan Consumer Sentiment[1]



Small Business Confidence[2]

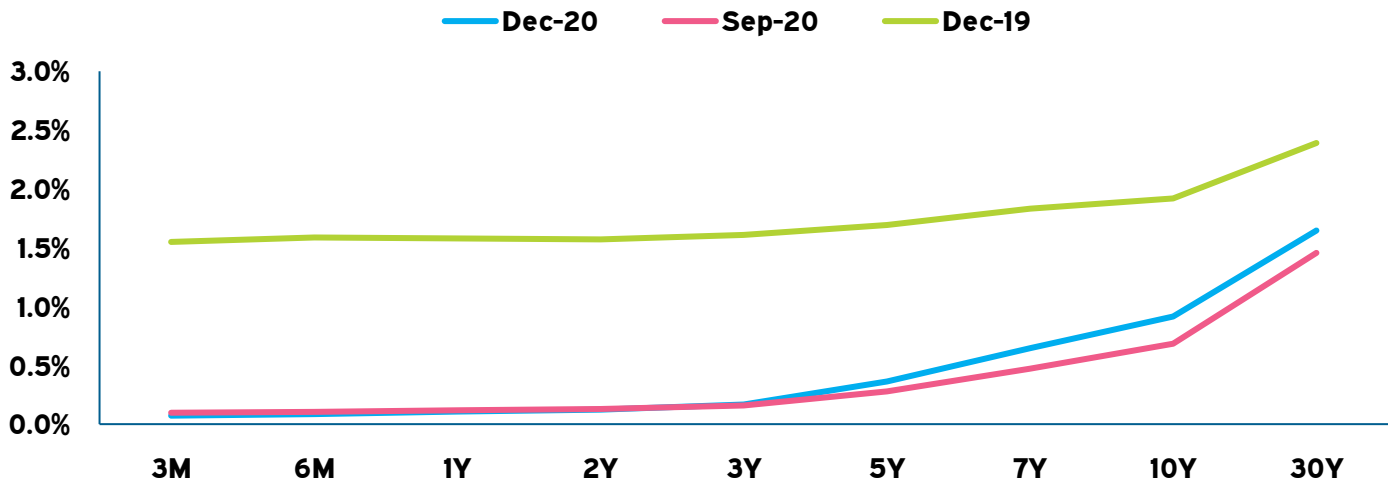


- A strong indicator of future economic activity are the attitudes of businesses and consumers today.
- Consumer spending comprises close to 70% of US GDP, making the attitudes of consumers an important driver of economic growth. Additionally, small businesses generate half of US GDP, making sentiment in that segment important.
- Sentiment indicators showed improvements as the economy re-opened, but recently stalled likely due to concerns over the vaccine rollout and the discovery of new virus strains.

[1] Source: Bloomberg. University of Michigan Consumer Sentiment Index. Data is as of December 31, 2020.

[2] Source: Bloomberg. NFIB Small Business Optimism Index. Latest data is as of December 31, 2020.

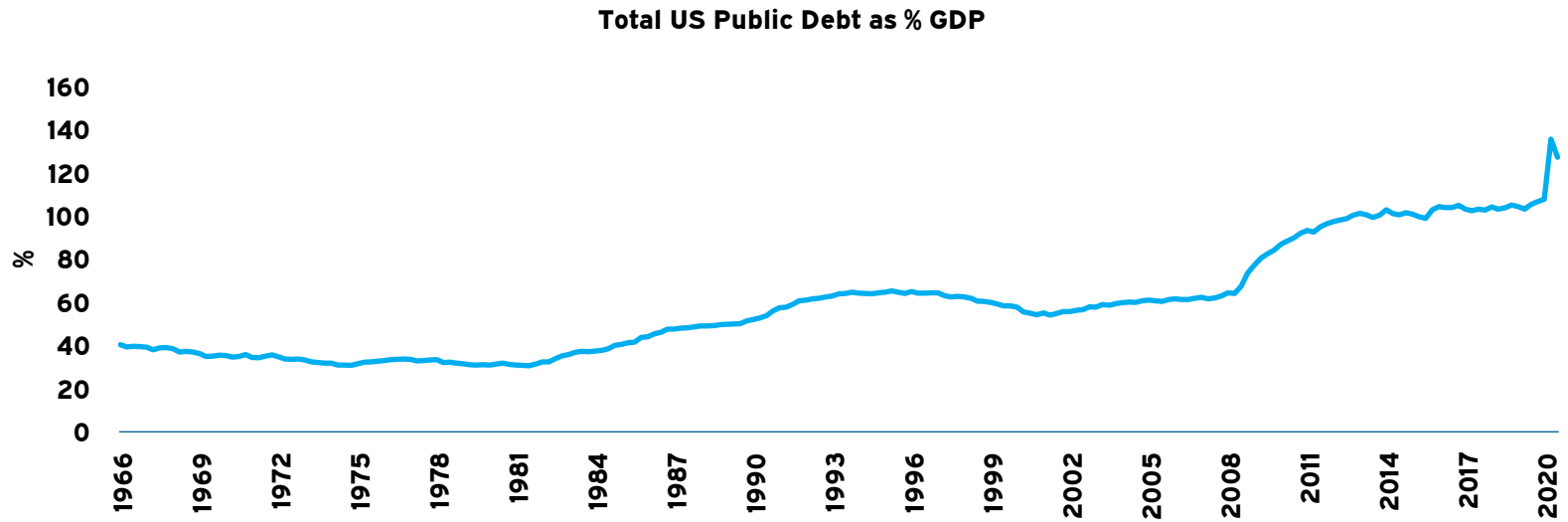
US Yield Curve Declines[1]



- The US Treasury yield curve declined materially during 2020, driven by safe-haven demand, Federal Reserve polices (policy rate cuts and the quantitative easing program), and weak US economic fundamentals.
- Over the last few months, the curve steepened on gradual signs of economic improvement, vaccine developments, and expectations for longer-dated Treasury issuance to support additional fiscal stimulus in the coming months.
- Higher yields than other developed countries and the Fed potentially extending the duration of their purchases could counterbalance steepening trends.

[1] Source: Bloomberg. Data is as of December 31, 2020.

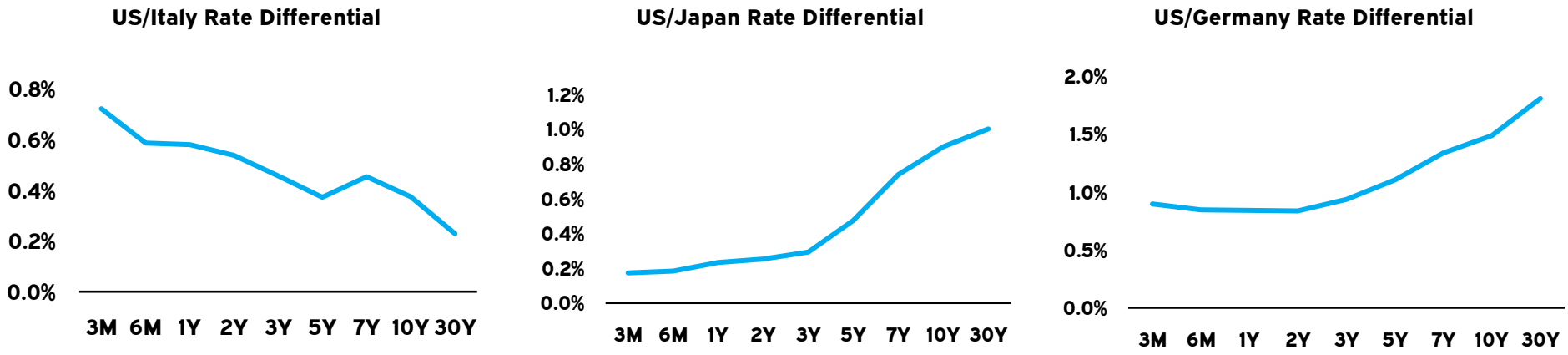
Treasury Issuance Continues to Increase[1]



- Treasury issuance continues to increase as the government raises funds to pay for programs related to supporting the economy during the pandemic.
- Many are becoming more concerned about the rising debt service as the debt level is around 130% of GDP.
- However, the Federal Reserve's purchase program is acquiring a significant portion of outstanding Treasury debt. The government needs to worry less about those interest or principal payments as the Fed's interest payments are remitted back to the Treasury. Further, for an advanced economy like the US with domestic denominated debt, high levels of debt can often be supported for some time, as has been the case in Japan.

[1] Source: Federal Reserve Bank of St. Louis. Latest data is as of September 30, 2020.

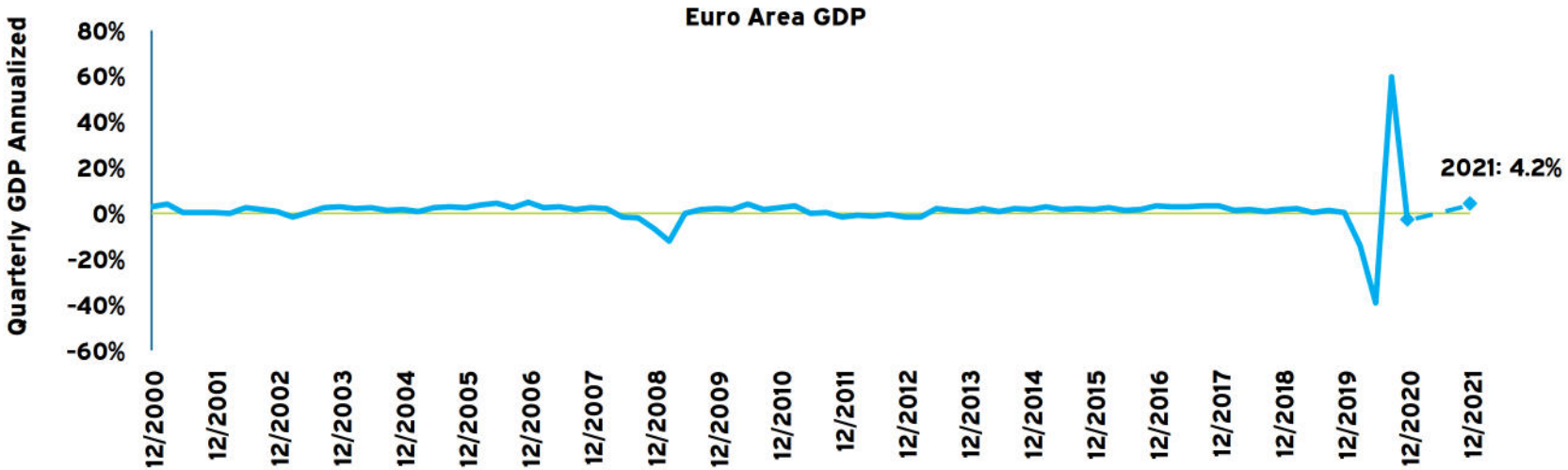
Government Sovereign Debt Curves[1]



- Although the US yield curve declined dramatically in 2020, interest rates in the US remain higher than many other countries.
- Compared to Japanese, Italian, and German sovereign debt, US rates are higher across the yield curve.
- Higher rates in the US could attract capital and ultimately keep borrowing costs low.

[1] Source: Bloomberg. Data is as of December 31, 2020. Rate differential data represents the differences in the yield for a US Treasury at each maturity versus the respective similar bond for each country.

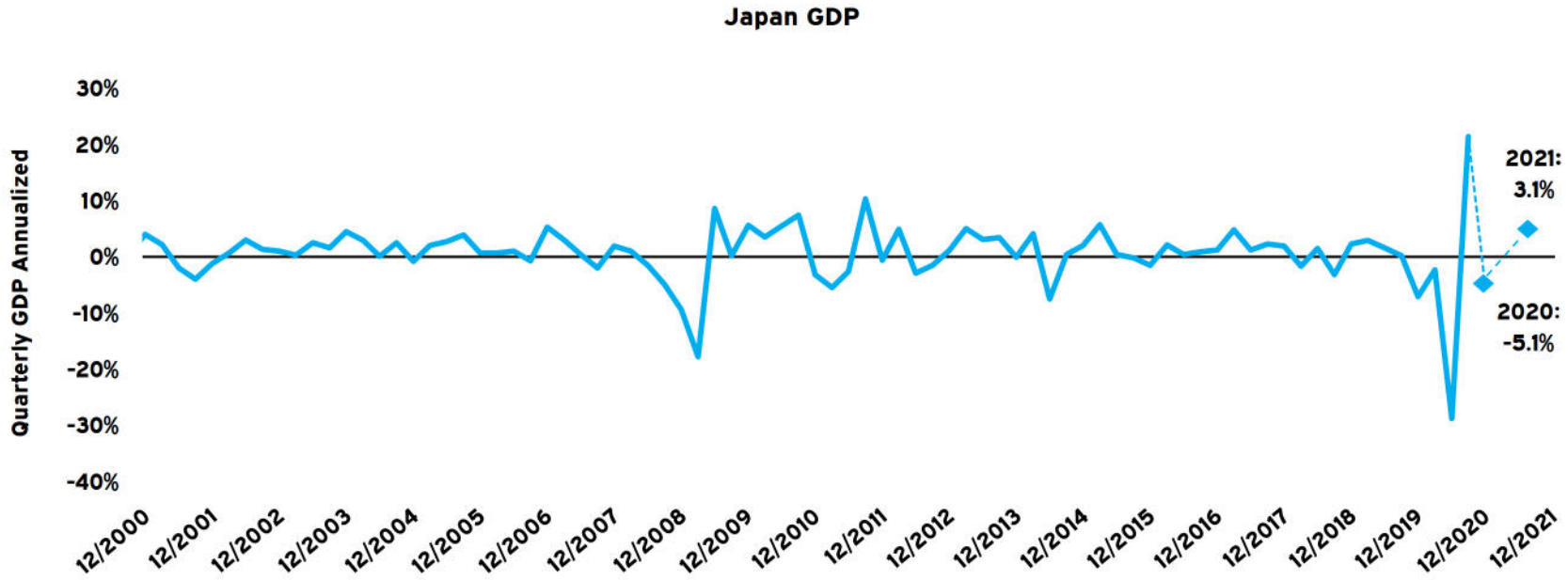
European Economic Conditions[1]



- Like the US, euro area GDP fell at a historic annualized rate in the second quarter (-39.2%) only to post a historic gain (+60.0%) in the third quarter as economies reopened.
- In the fourth quarter, growth declined at an annualized rate of 2.8% given higher virus cases and renewed restrictions. For the full year the euro area economy declined by 5.1%. Economic growth is expected to be around 4.2% in 2021, but with the same risks as in the US of potentially reopening economies too soon.
- Major economies such as France, Spain, and Italy have been materially impacted by distancing measures and the recent spike in cases, with declines of 5.0% (France), 9.1% (Spain), and 6.6% (Italy) for the year; recovery estimates for 2021 are 5.5%, 5.9%, and 3.0% respectively.

[1] Source: Bloomberg. Data is as of the fourth quarter of 2020. Annual projection for 2021 via IMF World Economic Outlook January 2021. Euro Area figures are annualized by Meketa.

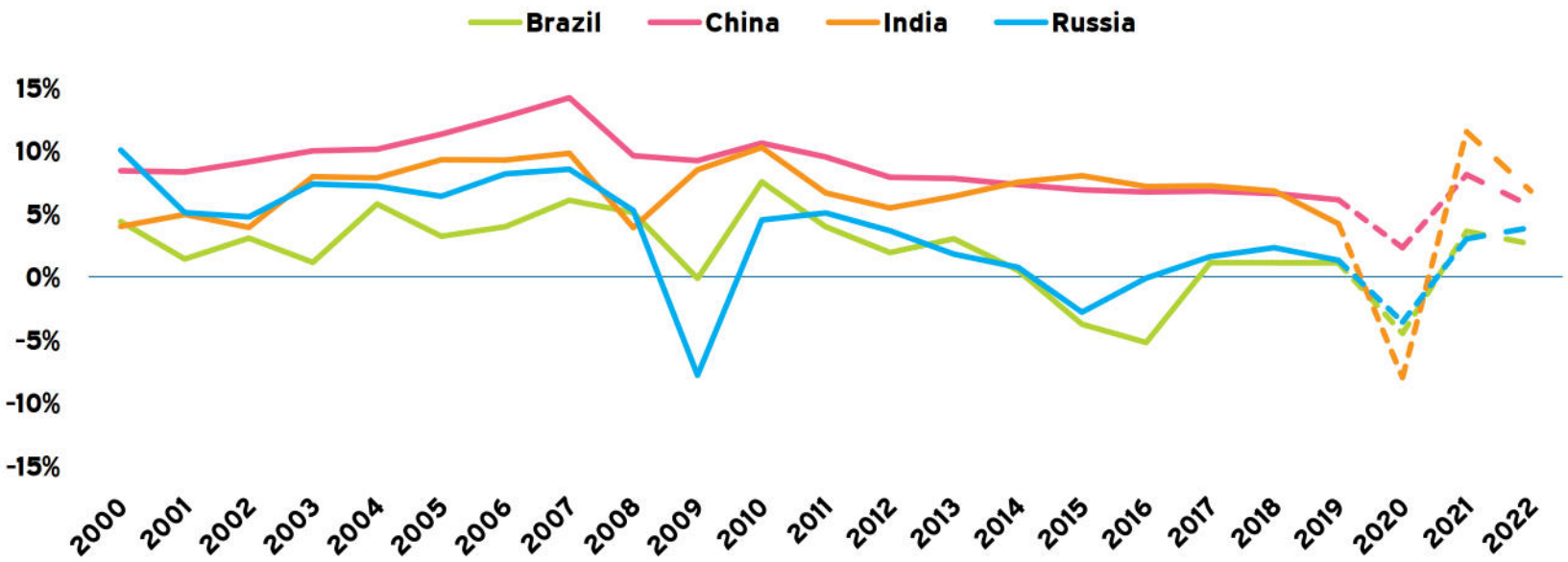
Japanese Economic Conditions[1]



- In the third quarter, GDP increased at a 22.9% annualized rate following the 29.2% record decline in the prior quarter. For the fourth quarter, GDP is expected to increase by 4.1% on an annualized basis.
- Of all the major economies, Japan's central bank had the largest stimulus in place coming into the crisis that they, like others, expanded to offset the economic impact of restrictions.
- Similar to other major economies, the Japanese economy is expected to recover in 2021.

[1] Source: Bloomberg. Most recent data is as of the third quarter of 2020. Annual projection for 2021 via IMF World Economic Outlook January 2021.

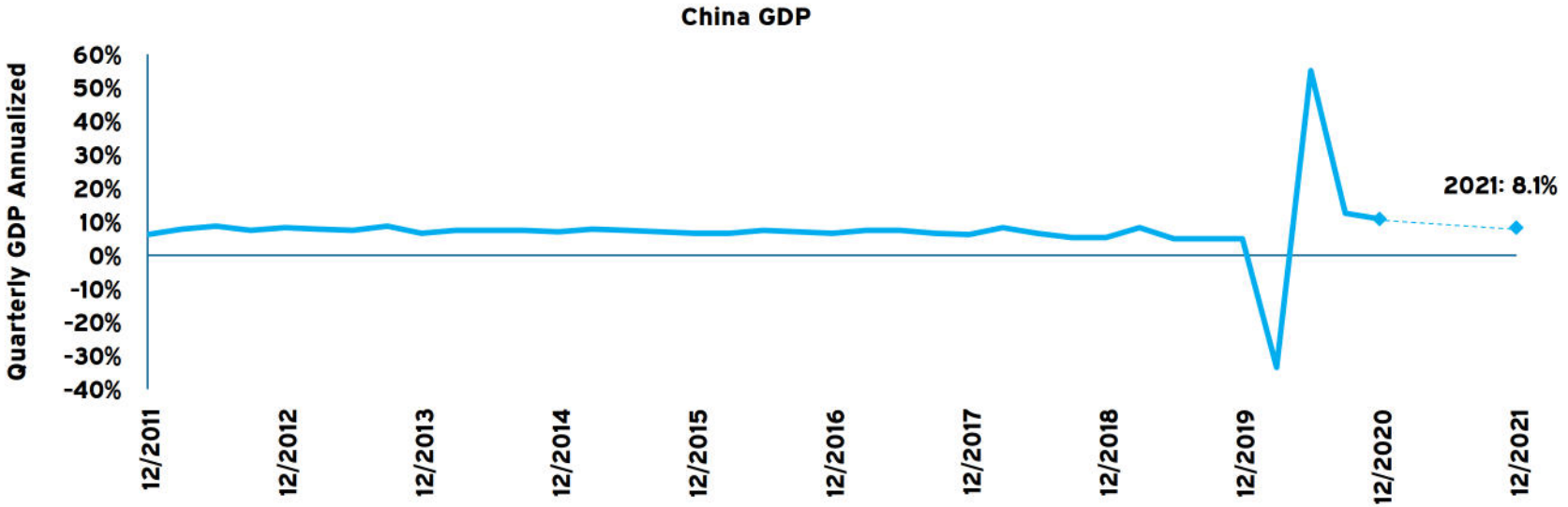
Emerging Market GDP[1]



- Emerging markets, broadly, are expected to see economic deterioration and recoveries similar to developed economies.
- Emerging economies like India, Brazil, Russia, and Mexico have struggled with managing the virus, given relatively weaker healthcare systems, often close living conditions, and generally poor populations. The distribution of vaccines should benefit some of these harder hit countries, but questions remain about access.
- By contrast, China is expected to experience less impact, largely due to aggressive societal measures taken to mitigate the spread of the virus, which allowed authorities to re-open sooner than other economies.

[1] Source: IMF. World Economic Outlook. January 2021 update. Estimates start after 2019.

China Economic Conditions[1]



- China was one of the few major economies with double-digit positive annualized growth in Q4 (+10.8%) given their ability to quickly contain the virus and reopen their economy. They are projected to continue to have strong growth in 2021 with the IMF forecasting an expansion of 8.1%.
- Positive growth expectations are largely due to the Chinese government's ability to quickly impose aggressive distancing measures, largely isolate and contain the virus, and then quickly move to re-open their economy.

[1] Source: Bloomberg. Data is as of the fourth quarter of 2020. Figures are annualized by Meketa. Annual projection for 2021 via IMF World Economic Outlook January 2021.

Summary

Several issues are of primary concern going forward:

1) Economies opening too soon from virus-related restrictions amid uncertainty regarding new virus variants and vaccine deployment challenges, and ultimately needing to re-deploy lockdown policies.

- A number of countries, including the US, whose policies allowed for greater flexibility in social distancing experienced spikes in infections, and cases of new virus variants that appear to be more transmissible. Additionally, supply dynamics and logistical challenges with the vaccine are driving a slower pace of inoculation than expected. This confluence of challenges could move governments to re-impose distancing measures which would likely depress employment and economic growth.

2) Consumers permanently, or for an extended period of time, changing economic behaviors.

- The COVID-19 pandemic resulted in an immediate change to societal norms that could last beyond the actual virus. Changing consumer spending and work-environment preferences could limit large events including concerts and sports, dining out, travel, and leisure activities. As consumers make up a large portion of developed economy GDPs, this could drive many companies to failure, with lasting impacts on the economy.

3) Persistently high unemployment due to a significant number of companies not surviving the downturn.

- Persistently high unemployment due to the failure of companies (and potentially entire sectors) and changing consumer preferences could hurt the growth of economies and, subsequently, government spending on mandatory and discretionary services going forward.

4) Virus-related fears affecting globalization.

- Appetite for globalization was waning before the pandemic, as seen in the increase in populist and anti-trade sentiment over the last few years. This has been perhaps most evident in the trade wars initiated by the prior US administration against a number of its trading partners, including China and Europe. With an increase in rhetoric regarding other countries not doing enough to limit the spread of the virus outside their borders, as well as restrictions on transportation and sanitation concerns, many countries could elect to advance policies that limit trade and globalization.

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