### MACRO VIEWS

**World**
- The global economy is in a severe recession. We now see global GDP remaining below its pre-virus levels through most of next year.
- Although the shock will fall well short of the Great Depression, it will still result in immense rises in unemployment, putting pressure on national treasuries for some time to come.
- Significant risks around this forecast remain both to the downside (a second wave would put further downward pressure on activity) and upside (a vaccine is developed and social distancing subsides).

**US**
- The US will experience a record contraction in Q2, and rebound only slowly beyond that. We forecast GDP will shrink by 7.1% this year, followed by growth of just 2.6% in 2021.
- However, broad-based rising case growth in recent weeks raises the risk that the current re-openings could be rolled back, as has happened in Texas.
- We expect the Fed to transition to a more outcome-based version of forward guidance and reinforce this language with the adoption of front-end yield curve control.

**Europe**
- Eurozone GDP will fall by 12.0% in 2020, before growing by 5.0% in 2021.
- The shock is asymmetric: Germany (-9.0%) shows the smallest deterioration while France (-14.0%) and Italy (-14.0%) perform worse.
- Risks remain that partial unemployment turns permanent, increasing the amount of long-term scarring for the economy.
- We think the ECB could look at an adjustment of tiering as well as future TLTROs by year-end.

**Germany**
- For Germany, we see a -9.0% contraction in 2020, followed by growth of 4.0% in 2021. However, upside risks to our forecast for this year have somewhat increased.
- We have increased our 2020 fiscal deficit projection moderately to 9.5% of GDP.
- On July 1, Germany will take over the rotating EU presidency.

**China**
- We have upgraded our 2020 growth forecast for China to 1.1%, and see 8.4% growth in 2021.
- Given the robust economic recovery and stronger-than-expected exports, we have lowered our expectations for further stimulus. Unless the economic outlook changes, we do not expect the PBoC to cut policy rates further.

**Emerging Markets**
- The major emerging markets will contract this year, including Russia (-5.7%) India (-5.8%) and Brazil (-6.6%).
- LatAm has been the heaviest hit region and the most vulnerable, especially Brazil and Mexico.
- In CEEMEA, South Africa’s budget, GCC gaps and Turkey’s reserves are most concerning.
- However, Asia has been ahead of the curve in terms of an economic rebound.
- In emerging markets, Covid-19 risks are not easing as in developed markets. In fact, the epidemic is becoming EM-centred.

### Key downside risks

- A second wave of Covid-19 – If a second wave were to materialise, that would have further negative implications for growth, preventing a meaningful recovery for some time as countries are forced to re-impose lockdown measures and fearful consumers are reluctant to go out.
- Increased protectionism – There remains the risk of a further trade dispute between the US and China, particularly as we approach the US presidential election in November. Global trade...
MARKET VIEWS

Market sentiment
- Future performance will depend on the path of the pandemic, with downside risks prevalent if a second wave led to further economic turmoil.
- The equity rally so far has seen mega-cap growth stocks trend to new highs, but the rest of the stocks have been largely stuck in a range for the last 2 months and are not pricing in a cyclical rebound yet.
- In the second half, attention will focus on the US election, which has historically meant a range bound market till the uncertainty is resolved, followed by a strong rally into year-end regardless of who won.

Equities
- We see yields on 10-year USTs at 0.7% by year-end, with those on 10-year bunds rising to -0.2%.
- We expect that the Fed will transition to a more outcome-based version of forward guidance and reinforce this language with the adoption of front-end yield curve control.
- We think the ECB could look at an adjustment of tiering as well as future TLTRs by year-end.
- We think the BoJ will adjust the volume of their special fund-supplying operation and JGB purchasing pace in accordance with fiscal policy.
- We expect no change in the policy rate for the next 2 years, but the risks to further QE are high in late Q4.
- We do not expect a further policy rate cut.

Rates
- We see yields on 10-year USTs at 0.7% by year-end, with those on 10-year bunds rising to -0.2%.
- We see EUR/USD rising to 1.15 by year-end and 1.20 by end-2021. The first stage is the removal of the dollar risk premium, which has been the most important driver of the dollar so far.
- The second stage of the dollar sell-off should see a rotation away from the dollar correlation to risk appetite and a greater focus on economic differentiation. On this front our view is that the US will struggle.

FX
- In the near term we are constructive, seeing credit spreads as likely to tighten over the summer.
- We remain cautious in the medium term and expect credit to be under pressure by year-end as poor fundamentals eventually assert themselves.

Credit
- Persistently high floating storage inventory suggests OPEC+ may need to extend its deepest cuts beyond July.
- Our year-end target for Brent is USD 40/bbl, and our 2021 year-average forecast is USD 45/bbl.

Oil
- Our year-end target for Brent is USD 40/bbl, and our 2021 year-average forecast is USD 45/bbl.

Key macro & markets forecasts

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<th>GDP growth (%)</th>
<th>Central Bank policy rate (%)</th>
<th>Key market</th>
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<td></td>
<td>Current</td>
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<td>Global 5.9</td>
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<td>US -7.1</td>
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<td>Eurozone -12.0</td>
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<td>Germany -7.0</td>
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<td>Japan -6.5</td>
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<td>UK -11.5</td>
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<td>China 1.1</td>
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<td>2020 Macro Events Calendar</td>
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2020 Macro Events Calendar

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<th>July</th>
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<td>UK Bank of England decision</td>
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Recent editions
- The long road to recovery 30 June 2020
- The House View: 2020 Macro events calendar (includes a calendar outlook update) 13 May 2020
- Covid-19: Health check on the global economy 12 May 2020
- The House View: Gaining Speed 16 January 2020